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SYNTHETICA AD

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CORPORATE CREDIT RATING	Preliminary	Review	Review	Preview
Rating Committee date:	30.06.2016	06.10.2022	17.02.2023	**13.12.2023**
Publication date:	01.07.2016	07.10.2022	17.02.2023	**15.12.2023**
Long-term rating:	BBB-	BBB-	BBB-	**BBB-**
Outlook:	stable	stable	stable	**in development**
Short-term rating:	A-3	A-3	A-3	**A-3**
Long-term national-scale rating:	A (BG)	A (BG)	A (BG)	**A (BG)**
Outlook:	stable	stable	stable	**in development**
Short-term national-scale rating	A-1 (BG)	A-1 (BG)	A-1 (BG)	**A-1 (BG)**

1) See the table at the bottom of the document for the full rating history;
2) Prior to this publication, the credit rating and rating outlook were disclosed to the rated entity or related third party;
3) During the last 2 years, BCRA Credit Rating Agency AD did not provide ancillary services to the rated entity or a related third party.

BCRA – CREDIT RATING AGENCY (BCRA) is the third qualified rating agency in the EU, registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council. The credit ratings, assigned by BCRA, are recognized throughout the EU and are entirely equal to the other ratings, recognized by the European Securities and Markets Authority (ESMA), without any territorial or other restrictions.

At a session held on **13.12.2023**, the Rating Committee of BCRA discussed a report on the review of the rating of **Synthetica AD**. Dr. Kiril Grigorov headed the session in his capacity as Chairman of the Rating Committee. The members of the Rating Committee discussed the impact of numerous credit rating factors in the review period and **took the following decision**:

BCRA **affirms** the assigned ratings to **Synthetica AD** and **changes the outlook** related to them as follows:

- Long-term rating: **BBB-**
  Outlook: **In development**
  Short-term rating: **A-3**
- Long-term national-scale rating: **A (BG)**
  Outlook: **In development**
  Short-term national-scale rating: **A-1 (BG)**

BCRA's decision reflects the Company's stable financial position after incurring a significant amount of new debt. The last has been related to investments made and significant changes in the structure of the managed businesses, including the activities in the Energy sector (through participation in companies engaged in PV plant construction and maintenance).

BCRA considers that this change will lead to a diversification of risks in operating activities and an overall improvement in the holding company's financial condition, including in its liquidity and financial performance.

The outlook change reflects BCRA's view of the company's current restructuring, also regarding its unprepared consolidated financial statements to fully reflect the changes made and its ongoing analysis of the quality of new investments and all aspects of their impact on the overall financial state of Synthetica Group in the medium term.

The official BCRA Methodology for assigning a corporate credit rating (effective from February 2023) was used:
https://bcra.eu/files/corporate_methodology_2023_en.pdf

The rating users can find information about each rating category, including the definition for default in the Global Scale published at the site of BCRA:
https://bcra.eu/files/global_scale_bg.pdf

The rating review process used information from the rated company, the BCRA database and other public information sources.

Table 1: General information about the entity

NAME:	SYNTHETICA AD
Address registration	Sofia 1592, 43 Christopher Columbus Blvd.
UIC	201188219
Registered capital	BGN 3 000 000 (paid-in capital)
Ownership structure	100% private capital, divided into 3 million dematerialised, registered, non-privileged shares, with the right to one vote.

Operational environment

The development of economic processes in the country is analysed in detail by BCRA - Credit Rating Agency. A Rating Rationale of the Sovereign Rating assigned by BCRA to the Republic of Bulgaria is available at our official website:
https://bcra.eu/files/rating_republic_of_bulgaria_oct_2023_en.pdf

SYNTHETICA AD

Synthetica AD is a holding company, established in 2010, headquartered and managed at the address: Sofia, 43 Christopher Columbus Blvd. (changed during the review period from Sofia, 47 N.Y. Vaptsarov Blvd.). The company's UIC is 201188219, and the subjects to activity encompass: acquisition, management, evaluation, and sale of participations in Bulgarian and foreign companies and bonds; evaluation, sale and assignment of licenses for the use of patents in which the holding company participates; financing of companies in which the company participates; other activity not prohibited by law.

The company's **share capital** did not change during the analysed period and as of 20.11.2023, amounted to BGN 3 000 000 (three million), distributed in the same number of shares with a par value of BGN 1.00, all publicly **traded on the Bulgarian Stock Exchange,** segment Standard, stock code **SYN, ISIN: BG1100008132**. The total capital of the company is paid in cash. As of the date of preparation of this document, no capital increase procedure of the company has been initiated.

The **downtrend in the share of the leading shareholder** - Kamalia Trading Ltd, Cyprus, has continued - from 24.27% at the end of 2021 to below 5.0% as of 30.09.2023 (after majority levels of 50+% until the end of 2019). As of the last-mentioned date, there was not a direct majority shareholder, as SLS Holding AD owned 13.73%; EF Asset Management - 10.43% through its funds; ZAD Euroins - 9.01%, etc. Seven companies own minority shares in the range of 6-14%, and a total of 34.73% of the shares are owned by shareholders below 5%. The fragmentation of the ownership of the company is evaluated negatively from the rating point of view, due to the difficulty of the decision-making process for the implementation of key management policies in the company as well as enhancing the risks of its reliable management.

The company has a one-tier management system with a Board of Directors (BoD). One change in its three-member composition during the review period occurred (entry in the Commercial Register on 13.07.2022), where Plamen Patev was dismissed and replaced by Lyubomir Krasimirov Kolchev as Chairman of the BD, and as of 30.09.2023, the composition of BoD included:

- Lubomir Kolchev - Chairman of the BoD;
- Iva Garvanska-Sofiyanska – Executive member of the BoD and CEO;
- Nikolay Dachev – Deputy Chairman of the BoD.

The activities of the Board of Directors are supported by an Audit Committee, the composition of which has not changed.

After the restructuring of the group of companies in Synthetica AD in 2019 - including the sale of the 51% shareholding in Union Ivkoni OOD and the acquisition of 100% in Bluehouse Accession Project V Ltd. (and in its only subsidiary - Vaptsarov Business Center EOOD, respectively) - until the end of 2021, investments had not changed. During the current review period, several **new participations in subsidiaries and associated enterprises were acquired, which caused significant changes to the structure and business lines** developed by the rated holding company. These included:

- In April 2022, a contract was signed for the **acquisition of 100%** of the capital of **ESCO Bulgaria EOOD** by its owner at that time - CEZ Bulgarian Investments B.V., the Netherlands. The acquisition transaction was finally closed at the end of June 2022. The capital of the acquired company amounts to BGN 170 thousand, divided into 1 700 shares of BGN 100 each. The investment of

Synthetica is BGN 489 thousand, and the company's subject of activity encompass: the provision of energy solutions to third parties, including the design and commissioning of projects for energy efficiency, remediation, reduction of energy costs, outsourcing of services related to energy infrastructure, risk management, as well as any other activity not prohibited by law.

Thus, Synthetica confirms its interest in **investments in the Energy sector**, manifested at the beginning of the same year when it established a new subsidiary (January 2022) - **S Solar Ltd**. with a capital of BGN 1 000 and the subject of activity: investment activity; construction and maintenance of photovoltaic power plants; trade in solar panels and accessories; real estate transactions, as well as any other activity not prohibited by law.

- In May 2022, Synthetica established a new subsidiary - **Solars Energy AD**, with a capital of BGN 50 000, divided into the same number of shares and the subject of activity: investment activity; construction and maintenance of photovoltaic power plants; trade in solar panels and accessories; real estate transactions, as well as any other activity not prohibited by law.

By the end of September 2022, Synthetica had fully sold S Solar EOOD to Solars Energy AD, then, on 06.10.2022, it also sold 50.01% participation in Solar Energy AD. The investment in the latter (totalling BGN 25 thousand or 49.99% of its capital) was reported as such in an associated enterprise as of end-2022 and by September 2023.

In October 2023, the capital of **Solars Energy AD** was increased to BGN 1 300 000, while the share of Synthetica remained at 49.99% (respectively, the amount of capital investment in the company increased). One share or 0.002% was owned by Bozhidar Pechev, and the remaining 50% - by **Starcom Holding AD** and related parties (respectively: Starcom Holding AD - 24.0%, Arkont-Invest EOOD - 20.0% and Velislav Christov - 6.0%).

Synthetica's substantial share in Solars Energy AD (49.99% as of mid-November 2023) as well as the significant investments directed to it and its subsidiaries and joint ventures in 2023 (until November), largely altered the structure of the participations of the rated company and led to change in the key ones for the rating (in accordance with the methodology applied by BCRA). **Thus, companies of key importance become: 1) S Solar EOOD - wholly owned** by Solars Energy and **2) Solaris Holding AD - in which the owned share is 50%.**

- Additionally, in June 2023, Synthetica signed a contract for the acquisition of 225 thousand shares (**90% of the capital**) of **CERDIOS SE** traded on the open market of the Dusseldorf Stock Exchange (**code: FU0**). The company is registered in Germany (RCN[1]: HRB 97836) and its subject of activity is: strategic management, control and coordination of subsidiary companies, within holding structures, as well as third-party companies, with the aim of long-term increase in their value, through the provision of remunerative administrative, financial, commercial and technical services; provision of services in the field of corporate consulting. CERDIOS SE has been in the portfolio of Synthetica since 07.07.2023, representing **a new business line** - providing **financial services**.

- At the beginning of September 2022, Synthetica acquired **100% of IB Medica EAD** (UIC 175249326) – company solely owned at that time by Plamen Patev (Chairman of BoD of Synthetica), with a subject of activity: production and trade of capillaries for hemodialyzers, hemolines, fistula needles and other disposable medical devices (i.e. analogous with that of the subsidiary Etropal AD). As of the end of 2022, a presence of conditions for the impairment of the investment in the acquired company was declared, and it has been charged in the amount of BGN 465 thousand. Thus, the book value of the investment went to zero at the end of 2022 (and remains the same at the end of September 2023).

After adding the new subsidiaries during the review period, the business lines being developed by Synthetica now cover five economic sectors:

1) Production;
2) Trade;
3) Energy;
4) Finance;
5) Real Estate Management.

A) The **activity of managing investment properties** has remained leading for the rated company (carried out through Bluehouse Accession Project V Ltd. and its **subsidiary Vaptsarov Business Center EOOD**, which owns and let office buildings (blocks 1 and 2) with showroom, service, underground garages, other buildings and substation, located at Sofia, 43

[1] RCN - Registry court number.

Christopher Columbus). **This business line and the results achieved in it mainly determine the ability of the rated company to service its obligations,** and Vaptsarov Business Centre EOOD has been also a key company in assessing the credit rating drivers of Synthetica in accordance with the evaluation methodology applied by BCRA. The total assets amounted to BGN 35.1 million at the end of 2022, with the above-mentioned investment property remaining the main asset (a share of 96.7%). Liabilities remain largely composed of loans granted by related parties at BGN 22.3 million at the end of 2022 (down from BGN 25.8 million a year earlier), out of a total of BGN 24.0 million (BGN 26.5 million). The last year included in the analysed period (2018-2022) was the second in a row with high revenue growth - by 20.8% YoY (10.3% in 2021) to BGN 5.6 million. This led to an improvement in the net financial result and the achieved EBITDA. The latter represented the company's results more realistically as it excluded the influence of the very high depreciation costs. The 2022 EBITDA amounted to BGN 4.1 million (BGN 3.2 million in 2021), increasing by 30.9% YoY and has been currently the main source of financial income to support the service of obligations in the Group of Synthetica.

During the review period, a conversion **by merger** is underway between the receiving company, Synthetica, and its subsidiary Bluehouse Accession Project V Ltd., Cyprus (company number: 193905). It was approved by FSC (Re.437/06.04.2023) and entered in the Commercial Register on 11.12.2023. With this, Synthetica becomes the sole owner of Vaptsarov Business Center EOOD.

B) Through **Etropal AD** and, respectively, through its subsidiary - Etropal Trade OOD, the Group is **engaged in the production and trade of medical devices.** In 2020 and 2021, the performance of Etropal largely deteriorated (under the direct strong negative effects of the covid-crisis and successive inflationary pressure). With the support provided by its majority owner and other related parties, the financial condition of the subsidiary has been stabilised. Etropal has concentrated assets of significant value (BGN 19.0 million as of the end of June 2023), with relatively low external financing (bank liabilities amounted to BGN 2 million, those to related parties - BGN 4.1 million, and the remaining BGN 6.2 million were general commercial liabilities). The company generates a significant part of the group's revenues (BGN 6.8 million in 2022 and BGN 4.9 million in H1 2023), regardless of the traditionally low financial results and their practically neutral impact until the end of 2020 on the consolidated Group's result. BCRA independently rates Etropal assessing its financial position on a regular basis and, accordingly, its impact on the Group of Synthetica.

C) The influence of **the newly acquired ESCO Bulgaria EOOD** on the general financial situation and, respectively, on the rating of Synthetica, through the value of the investment, the managed assets and liabilities were assessed in the BCRA's retrospective analysis of the enterprise's activity (for the period from its establishment in 2017 to the end of 2022). It demonstrated favourable and growing financial results of the activity. In 2022, the enterprise reported almost doubled revenues (reaching the amount of BGN 24.3 million) and nearly BGN 1.0 million in net profit, achieved with a relatively small decrease in assets (to BGN 21.3 million). The last followed the dynamics of cash and advances provided, while liabilities decreased by 9.4% YoY (to BGN 19.1 million by the end of the year). Interest coverage remains high, and the liquidity position is stable, despite declines in current and immediate liquidity metrics driven by reduced free cash. The levels of ROE have been high, and the revenue margins - satisfactory.

D) At the end of the first year of its existence (registration on 19.05.2022), **the associated company, Solars Energy AD,** owned assets worth BGN 24.6 million, mainly composed of loans granted to a group of enterprises (BGN 24.5 million). Against these assets, the company had liabilities for BGN 24.4 million under commercial loans granted by its shareholders and related parties (including Synthetica, Starcom Holding and Starcom Finance).

D1) As of end-2022, the entire amount of the stated receivables under granted loans was formed through **financing provided to the subsidiary company S Solar EOOD** to implement planned investments (acquisitions) in joint companies (50:50 with one partner) engaged in the construction and operation of solar parks for production of electricity.

The timely service of the loans granted to S Solar will depend entirely on the quality of future investments, which will be analysed and accordingly evaluated by BCRA in line with the monitoring of Synthetica's rating, through analysis

of business plans, financial reports, and other information regarding the operational development of the projects developed by S Solar.

D2) In order to expand its investments in the sector, Solars Energy AD registered the sole-owned **Solaris Holding EAD** at the end of 2022 (13.09). On 09.05.2023, a decision to increase the capital of the company was made with new 50 000 shares with a nominal value of BGN 1 each and an issue value of BGN 350 each. The whole new issue was purchased by Sunotec Investment EOOD (with ultimate owner – Sunotec Group GmbH[2]). At a total price of BGN 17.5 million, the new investor acquired 50% of the capital of Solaris Holding EAD, and the corresponding shares in its subsidiaries and joint ventures (10 in total as of mid-November 2023). Concurrently, two of these companies (Solar P 1 EOOD and Solar P 3 EOOD) have already received external bank financing for the implementation of their projects (construction and operation of a total of 5 photovoltaic plants of 5 MWp each) in the amount of a total of BGN 38.6 million (on investment loans and credit lines, with a final maturity in 2039, granted by DSK Bank), on which first in order special pledges of commercial enterprises were established.

The overall financial condition of Solaris Holding AD as an entity on which the quality of Synthetica's investment in Solars Energy AD will depend will be further analysed and assessed by BCRA in the process of Synthetica's rating monitoring.

The remaining two business lines in the Group have a lower overall effect on its financial position currently and, accordingly, do not have a significant impact from the point of view of its rating assessment, updated in the current review.

Financial Analysis

On a stand-alone basis, during the review period, the **downward trend in the assets** in 2020-2021 **was interrupted** and they increased by 23.3% (to BGN 73.7 million) as of end-2022 and by another 17.6% in Q1-Q3 2023 (18.2% YoY) to BGN 86.7 million by the end of September 2023.

Concurrently, during 2023 (according to data as of 30.09.2023), the gradual decrease in the equity that lasted for four consecutive years (2018-2022), driven by the permanent annual losses of the company on a stand-alone basis was reversed. The interruption of the negative trend resulted from a relatively high positive current financial result for the first nine months of 2023 (BGN 4.1 million). In the entire five-year period of analysis, the registered capital of Synthetica has not been increased.

The asset dynamics have been determined entirely by the **strong increase in the company's financial assets** held for trading and **receivables from related enterprises** (formed by loans granted to subsidiaries and associated enterprises). The funds for the asset growth were borrowed through **commercial financing** from three unrelated companies while **the company's exposure to borrowed funds on bank and bond loans was significantly reduced**.

Despite some decrease, the **investments in subsidiaries** retained the largest share in assets, and their value at the end of September 2023 increased to BGN 44.4 million (BGN 43.0 million at the end of 2022 and BGN 42.5 million a year earlier). As already stated, the investment in Solars Energy is not included in this sum, as it is accounted for as an investment in an associated enterprise (worth BGN 25 thousand at the end of September 2023). The total value of **investments in associated enterprises** barely changed over the review period, amounting to BGN 1.8 million at the end of September 2023 (BGN 2.0 million at the end of 2021).

The trading assets booked at fair value owned by Synthetica (corporate shares and bonds) grew significantly during the review period, reaching BGN 10.2 million at the end of September 2023 (BGN 8.3 million at the end of 2022 and BGN 0.3 million a year earlier).

The stand-alone **liabilities** have been mostly generated by **bank and bond loans,** amounting to BGN 27.0 million as of the end of September 2023, with a pronounced decrease in the review period (compared to BGN 30.1 million by the end of 2022 and BGN 35.5 million at the end of 2021), and formed a share of 37.3% in the total liabilities as of 30.09.2023. This represented a significant decline (from 77.9% at the end of 2021) driven mainly by the notable **increase in short-term commercial loans and repo transactions with financial instruments,** that have been observed since the beginning of 2022 and have led to a change in the structure of liabilities as well.

The achieved renegotiation of the terms on the bond issue and the extension of the duration of the

[2] The Group has implemented over 500 solar park construction projects in 18 countries, and installed capacities of over 7.2 GWp - HRB: 192205B; *https://sunotec-group.com/*

main investment loan led to a **decrease in the liquidity pressure** on the company (very strong as of end-2022). With the takeover of Bluehouse Accession Project V by Synthetica, the rated company will exclude an external jurisdiction from the cash flows ensuring the current servicing of external credit obligations (on the bank investment and bond loans), which is evaluated positively for the rating purposes.

The 2022 net financial result of Synthetica (on a stand-alone basis) remained **negative** (for the fifth consecutive financial year) with a significant increase in the generated loss, reaching BGN 3.7 million (after BGN 1.0 million in 2021 and BGN 1.3 million a year earlier). The result was affected by larger YoY negative differences from operations with investments and financial assets, impairment of financial assets and a significant rise in interest expenses on commercial loans from unrelated entities.

The opposite effect from operations with investments is seen during the first nine months of 2023 - high income from positive differences from operations with investments and financial assets (BGN 7.2 million, with a negative difference of BGN 1.1 million, or a net effect of 6.1 million BGN). This led to a **high current profit for the nine months** of BGN 4.1 million. Interest expenses remained significantly higher YoY.

During the review period, volatile movements in the main **financial indicators** under consideration have been observed - with a negative direction in 2022 and a positive one in the nine months of 2023. **The levels of indebtedness and credit dependence remain high**. The interest coverage was reported negative in 2022, but in the nine months of 2023, the trend reversed.

Liquidity indicators remain low.

As was already stated several times, the results and financial condition of the company on a consolidated basis are key to the company's rating.

The analysis of **consolidated** reporting data of Synthetica was performed **based on the last presented 2022 consolidated statement**, which should be treated as preliminary, insofar as there is no audit certification at the time of preparation of this report.

For the review, **the stand-alone reports of all key companies** of the Synthetica economic group **were analysed**: Etropal AD, Vaptsarov Business Center EOOD and ESCO Bulgaria EOOD, as well as the reports of the associate Solaris Energy AD and currently increasing in importance enterprises of its structure: S Solar EOOD (incl. Belozem Solar Park 2 OOD and Dupnitza Solar AD with its subsidiaries: Belozem Solar Park 3 EOOD and Verila Solar Park 3 OOD) and Solaris Holding AD (incl. Solaris Park EAD and its subsidiaries: Solar V EOOD, Solar P 1 EOOD and Solar P 3 EOOD).

Regarding the ongoing monitoring of the company's credit rating assignment, BCRA will conduct an additional review of Synthetica's financials, immediately after the presentation of current consolidated reports in 2023, as well as an ongoing analysis of the quality of the investments made from Solars Energy AD. If circumstances affecting the company's rating assessment are found, it will be corrected immediately.

The data from the unaudited consolidated report for FY 2022 show a **significant increase in the total assets of Synthetica's economic group**, which at the end of the year reached BGN 185.8 million, compared to BGN 80.5 million a year earlier (up by 130.7% YoY, or over BGN 105 million in absolute value).

The amendment was mainly owed to:

1) increased receivables from related parties (outside the scope of consolidation) concerning: a) granted commercial loans (about BGN 37.5 million) and b) transactions for the sale of company shares (BGN 21.4 million);

2) new investments in associated, mixed and other enterprises (BGN 11.2 million);

3) acquired financial assets at fair value through profit/loss (BGN 8.4 million);

4) recorded positive goodwill from the acquisition of a company (BGN 4.6 million).

Opposite to this asset growth, the **increases in the Group's liabilities** (on a consolidated basis) were realised mainly through:

1) received bank loans - increased by the end of the year by nearly BGN 24.0 million (including a bank investment loan granted to a joint venture - S Solar in the amount of BGN 19.6 million; absorbed loans from subsidiaries ESCO Bulgaria of BGN 4.2 million and IB Medica of BGN 6.3 million, and a reduction of the investment loan currently serviced by the parent company by BGN 3.6 million);

2) commercial loans: a) received from the joint company Solars Energy, in the amount of BGN 21.2 million; b) received from the parent company, in the amount of BGN 14.5 million, and from other

companies in the group, users of smaller commercial financing;

3) obligations of Synthetica under repo transactions worth BGN 18.6 million. The main part of these obligations matures at the end of 2023, which will also lead to additional restructuring of the debt;

4) incurred liabilities of a joint venture (S Solar) for investments in other joint ventures of BGN 22.4 million.

The newly emerged BS receivables and liabilities largely resulted from a significant restructuring of the Synthetica Group taking place in 2022-2023 (which is still ongoing) and the inclusion of the Energy business in it. By the end of 2023, many of these estimates are expected to be substantially revised.

However, the observed changes lead to **the following generalised conclusions**:

In the period 2022-2023, Synthetica implements a policy of expanding its business interests in the Energy business (generally, in the development of projects for the construction and operation of solar power plants for electricity production), using substantial support from another shareholder in Solars Energy - Starcom Holding. In total, the two mentioned companies create equal associations (participation 50:50) with other (third) companies interested in the development of this activity.

As for the rated company, the main part of the obligations incurred were mainly stemming from commercial financing for investing in the construction and operation of solar parks, through an established joint venture (Solars Energy and its subsidiaries and joint ventures). I.e. funds were largely provided by the shareholders of this joint venture. As of the end of 2022, the bank financing used for these investments amounted to BGN 19.6 million and included the above-mentioned investment bank loan (EUR 10.0 million), which was withdrawn by the joint venture S Solar (and is secured by a pledge on this commercial enterprise).

At the time of finalising the review of the rating, an analogous way of crediting the other joint company Solaris Holding AD was used - in September 2023, with a bank loan of EUR 15.0 million, with the same type of collateral - a pledge on the commercial enterprise.

BCRA will analyse the financial plans and reports on the construction and operation projects of the individual solar parks in the Solar Energy group on an ongoing basis in line with the monitoring of the rating of Synthetica. BCRA expects the investments, including the participation of Synthetica in them, to be significant and thus to have a significant impact on the financials of the company. Investments in RES projects are characterised by a long payback period, therefore the achieved financing methods and conditions, together with the operational results of the project management (including their possible sales), are expected to strongly influence the investments and the general financial condition of the rated company. The risk level associated with this type of investment has been assessed as relatively high, and the first years of the implementation of the projects are characterised by absent or low profits, which are expected to exert liquidity pressure, which can be transferred to their final shareholders (like Synthetica).

The assumption of new debt by the group of Synthetica during the review period led to **strong increases in the leverage** (from 66.9% at the end of 2021 to 86.0% at the end of 2022), as well as credit dependence[3] (from 1.80 to 2.95).

Interest coverage by EBITDA improved, reaching 1.22 in 2022, after a very low level of 0.07 in 2021.

The long-term maturity structure of the assumed new debt is reflected in a **significant rise in the current liquidity**, which at the end of June 2022 approached 1 (0.91) significantly increasing from 0.25 YoY (0.51 in 2020).

Profitability indicators remained negative throughout the period: 2018-2022 (excluding 2020), reflecting the Group's overall **negative net annual financial results.**

The negative financial result in 2022 on a consolidated basis was the most significantly affected by a **surge in interest expenses on the new debt assumed**, supplemented by the increased depreciation expenses. The generally positive changes in the 2022 results in the individual business lines in the Group should be noted, including realised positive gross results of the operational activity in all of them and the total gross profit of BGN 6 203 thousand (substantially higher than in for 2021 - BGN 41 thousand). In 2022, the new Energy business led to a significant increase in the Group's revenues, but in the final

[3] Only bank and bond loans used by enterprises in the group are included in the calculation of the indicator.

result, the profit from the management of real (investment) properties (BGN 4.1 million in 2022, after BGN 3.1 million in 2021) had still contributed the most.

Conclusion:

The credit rating review period was characterised by taking on a new Group debt and investing, that significantly changed the structure of its activities. A new, key for its financial condition, business line – Energy – was added (through participations / investments in enterprises for the construction and operation of photovoltaic plants).

It has been estimated that the revenues generated in Synthetica would successfully cover the repayment of all existing obligations of the company at the time of issuing the rating. However, the significant increase in operational risks regarding the successful implementation of investments and their management has been considered.

Due to the initial (project) phase of the new investments, BCRA cannot currently make a sufficiently categorical statement on their quality assessment and on all the aspects that could affect the overall financial situation of the Synthetica Group in the long term.

Despite the current increase in the Group's credit burden, BCRA expects an accelerated generation of revenues and financial results in parallel, thus, avoiding negative influence from deteriorating liquidity and further increase in indebtedness, which might be caused by the implementation of the investment projects different from the previously planned.

BCRA considers that the structural change in the Group of Synthetica AD will lead to the diversification of the risks of its operational activity, and in general, to an improvement of the financial position of the holding company in the medium term, based on significant growth in revenues and creation of productive fixed assets. The participation (as a shareholder in the investment projects) of Starcom Holding AD (majority owner of Eurohold Bulgaria and, respectively, of Electrohold Bulgaria) was also positively assessed, with which a strong synergy was formed from the united interests and businesses of the shareholders.

The following factors **would have a positive impact on the rating and/or its outlook:**

1) Implementation of investment projects in accordance with planning;

2) Substantial and permanent decrease in the levels of indebtedness and credit dependence;

3) Substantial improvement of financial results and liquidity.

Accordingly, changes in these factors in opposite directions, as well as negative evaluations of the quality of investment projects and an increase in the overall risk profile of investments, would have a **negative impact on the rating.**

APPENDIX

Table 2: Main financial indicators of Synthetica AD (consolidated basis): 2018 – 2022

BGN'000, %	*2022*	*2021*	*2020*	*2019*	*2018*
Assets	185 818	80 543	77 330	76 984	77 129
Change in assets	*+130.7%*	*4.2%*	*0.4%*	*-0.2%*	*5.6%*
Total income (operating + financial)	35 200	17 151	12 315	16 430	51 131
Change in income	*+105.2%*	*39.3%*	*-25.0%*	*-67.9%*	*-2.4%*
Net Financial Result	-13	-1 642	1 065	-3 704	-523
EBITDA	5 831	119	3 025	-682	6 259
Net profit margin*	-	-	8.65%	-	-
ROE*	-	-	5.13%	-	-
EBITDA Margin (EBITDA / Operating Income)	17.0%	0.7%	26.0%	-4.2%	12.5%
Leverage	0.86	0.67	0.73	0.74	0.66
Credit dependency (financial indebtedness)**	2.95	1.80	2.18	2.43	1.41
EBITDA / Interest expenses	1.22	0.07	1.84	-0.4	3.4
Current liquidity	0.91	0.25	0.51	0.63	0.79

** profitability indicators with negative values (due to negative financial results) lose their analytical value and therefore are not indicated in the table;*

*** calculated as a ratio of liabilities on loans from banks, non-credit financial institutions, and bonds to equity.*

Table 3: Rating history

CREDIT RATING	Rating Committee date	Publication date	Long-term rating	Outlook	Short-term rating	Long-term national-scale rating	Outlook	Short-term national-scale rating
Review	**13.12.2023**	**15.12.2023**	**BBB-**	**in development*****	**A-3**	**A (BG)**	**in development*****	**A-1 (BG)**
Review	17.02.2023	17.02.2023	BBB-	stable	A-3	A (BG)	stable	A-1 (BG)
Review	06.10.2022	07.10.2022	BBB-	stable	A-3	A (BG)	stable	A-1 (BG)
Review	28.09.2021	30.09.2021	BBB-	stable	A-3	A (BG)	stable	A-1 (BG)
Review	10.09.2020	15.09.2020	BBB-	stable	A-3	A (BG)	stable	A-1 (BG)
Review	10.09.2019	12.09.2019	BBB-	stable	A-3	A (BG)	stable	A-1 (BG)
Review	27.08.2018	04.09.2018	BBB-	stable	A-3	A (BG)	stable	A-1 (BG)
Review	25.07.2017	27.07.2017	BBB-	in development**	A-3	A (BG)	in development**	A-1 (BG)
Review	16.05.2017	18.05.2017	BBB-	stable	A-3	A (BG)	stable	A-1 (BG)
Review	06.01.2017	11.01.2017	BBB-	negative*	A-3	A (BG)	negative*	A-1 (BG)
Monitoring	05.07.2016	07.07.2016	BBB-	under review	A-3			
Initial rating	30.6.2016	01.07.2016	BBB-	stable	A-3			

** The 'negative' outlook is not a result of (expectations for) deterioration in the performance of Synthetica AD but is a consequence of the applicable rating ceiling, which is determined by the sovereign rating and respective outlook (as of the indicated date, the rating of the Republic of Bulgaria was as follow: long-term rating BBB- (ns), outlook: negative, short-term rating: nA-3 (ns); see:*

https://bcra.eu/files/rating_republic_of_bulgaria_sept_2014_en.pdf);

*** The change in outlook from 'stable' to 'in development' expresses BCRA's opinion that the changes in the structure and the results of the activity after the release of an investment in a leading enterprise from the holding structure have still been ongoing and bringing effects;*

**** The change of the outlook from 'stable' to 'in development' expresses BCRA's view of the ongoing restructuring processes of the Group, the effects of which could not assessed in full at the time of the rating review.*