M+S HYDRAULIC Plc

PUBLIC NOTICE
ON THE FINANCIAL STANDING

EXPLANATORY NOTES
for the fourth quarter of 2025
(on a consolidated basis)

The consolidated financial statements include the accounts of M+S Hydraulic PLC (the "Parent Company") and its controlled subsidiaries (collectively, the "Group"): Lifam Hidravlika d.o.o., Serbia; M+S Hydraulic GmbH, Germany; Oleotecno Hydraulic Components S.r.l., Italy.

Profit. For the fiscal year 2025, the Group's consolidated gross profit amounted to BGN 12 510 thousand (EUR 6 396 thousand), representing a 10.71% increase compared to the 2024 consolidated gross profit.

Revenue. Consolidated sales revenue as of December 31, 2025, amounts to BGN 152 710 thousand (EUR 78 079 thousand), showing an increase of 5.45 % compared to the consolidated revenue of the previous year.

I. Information on significant events that occurred from the beginning of the financial year to the end of the respective quarter, and their impact on the financial results

The General Meeting of Shareholders of M+S Hydraulic Plc, held on May 20, 2025, resolved to distribute an amount of BGN 10 252 632 (ten million two hundred fifty-two thousand six hundred thirty-two) for dividend payments under the following parameters:

1.1. Gross amount per share: BGN 0.26; Net amount after 5% tax deduction – BGN 0.247 per share.

1.2. Dividend payment start date: July 15, 2025;

1.3. Dividend payment period – six months;

1.4. Method of payment: via Central Depository AD and International Asset Bank AD.

There are no other significant events that occurred during the reporting period since the beginning of the financial year that have impacted on the results in the financial statement.

Detailed information regarding significant events that occurred from the beginning of the financial year to the end of 2025 for M+S Hydraulic Plc, as well as other information that could be of importance to investors, is regularly disclosed by the company in accordance with regulatory requirements through the selected information media, X3News.

In 2025, the operations of M+S Hydraulic Plc continued to be shaped by the impact of negative factors exerting a strong influence on global trade and economic relations. Global economy remained heavily affected by the complex geopolitical situation, which continues to generate uncertainty and volatility in international markets. Key factors impacting the business include US trade policy, tensions between leading economic powers, and regional conflicts that directly affect global supply chains, raw material prices, and demand dynamics. The tariffs introduced by the administration of the President Trump, covering a wide range of goods, continued to create uncertainty for long-term contracts, particularly in the mechanical engineering sector. In parallel, the military conflict between Russia and Ukraine and the escalating tensions in the Middle East exerted additional pressure on energy markets, leading to periodic increases in fuel and metal prices.

The ongoing uncertainty regarding economic development trends is also reflected in the Manufacturing PMI, with data for December 2025 showing that in the Eurozone, the index fell to 48.8 compared to 49.6 points in November, marking the fastest rate of contraction since March. These data reflect declines in production and new orders, with Germany registering the sharpest deterioration and its weakest performance since February 2025. Italy and Spain also remained in the contraction zone, while France bucked the trend, marking its strongest expansion since June 2022. Data remains concerning for the leading European economies of Italy and Germany, where manufacturing PMI values fell to 47.9 points for Italy and 47.0 points for Germany – the lowest levels in Europe after Switzerland. In Germany, production recorded a decline for the first time after nine months of growth, while new orders decreased for the third time in four months, with export sales falling at their fastest rate since December 2024. The US Manufacturing PMI for December 2024 stood at 51.8 points, also declining compared to the previous month, indicating a drop in new orders for the first time in the past year and a decrease in exports for the seventh consecutive month, primarily linked to trade disputes resulting from President Donald Trump's trade policies. India's index also reported a decline from the previous month to a value of 55.0, remaining at a significantly higher level compared to Europe and the US. In China, the manufacturing PMI increased to 50.1 points, signaling a slight uptick in production activity supported by a larger influx of new orders, despite a modest decline in new export sales.

On a global scale, the Manufacturing PMI towards the end of 2025 showed a continued but weakening global economic expansion, reaching a six-month low in December with diminished business confidence despite some regional resilience. A further expansion of the global economy was indicated by S&P Global Market Intelligence's PMI surveys in December, albeit with the rate of growth slowing to the weakest since June. Historical comparisons indicate that the latest PMI is broadly consistent with global GDP growing at an annualized rate of 2.4% in December, with a 2.8% expansion signaled for the fourth quarter as a whole.

The state of the German economy, which is a major trading partner of M+S Hydraulic Plc, remains a cause for concern. According to preliminary data from the German Federal Statistical Office, Destatis, after two consecutive years of recession, the German economy returned to growth in 2025, with the country's GDP increasing by 0.2 %. In 2023, Germany's GDP decreased by 0.9 % and in 2024 - by 0.5%. Despite the reported minimal growth in 2025, the challenges facing the country remain historic in scale. German industrial production contracted for the third consecutive year, with the automotive and mechanical engineering sectors suffering significant declines. Contributing to the poor results are higher US tariffs and the appreciation of the Euro, which makes exports less competitive. German exports to the US fell by 7.8%, and car sales plummeted last year. For 2026, forecasts are more optimistic, though growth is unlikely to return to significantly higher levels yet. The German central bank, the Bundesbank, forecasts a growth rate of 0.6% in 2026.

The trend of a continued decline in Bulgarian industry is confirmed by data from the National Statistical Institute (NSI), which indicate that in December 2025, the calendar-adjusted industrial production index, which measures changes in the output of Bulgarian industrial enterprises and estimates the average change in production between two time periods, reported an 0.3 % increase compared to the previous month but compared to November 2024 was reported e 6.7 % decrease. After more than two years of the index showing negative year-on-year values, with growth recorded only in September and November 2024, the industrial production index in Bulgaria has continued to report a downward trend for a thirteen consecutive month.

Against this backdrop, according to data from the National Statistical Institute (NSI) for 2025, Bulgaria's trade turnover with its main trading partners from the EU and third countries has contracted for another consecutive year. In 2025, Bulgaria's total exports amounted to BGN 83,894.5 million, representing a 3.2 % decrease compared to 2024, when a decline of 0.2% was recorded, following a 6.5 % drop in 2023. One of the reasons for this downturn is the impact of the war in Ukraine on the markets. Of particular concern is that during the past 2025, exports to European Union countries - Bulgaria's leading trade partners - contracted to a greater extent. Meanwhile, in 2025, total imports into the country reached BGN 105,605.1 million (at CIF prices), or 6.1% more compared to 2024. The total foreign trade balance (exports FOB - imports CIF) for 2025 is negative, amounting to BGN 21,710.6 million. In December 2025, the total foreign trade balance (exports FOB - imports CIF) was also negative, standing at BGN 2,909.1 million.

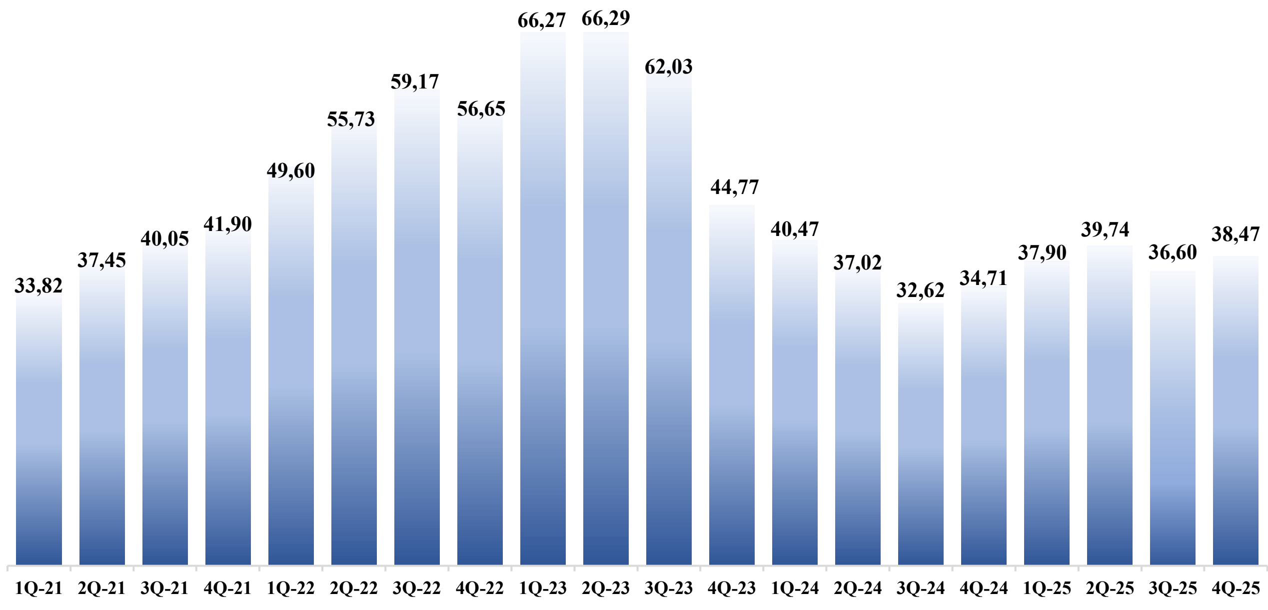
For Bulgaria, the European Commission's Autumn Economic Forecast projects real GDP growth to be 3.0% in 2025, 2.7% in 2026, and 2.1% in 2027, following a growth of 3.4% in 2024. In 2026 and 2027, private consumption growth is expected to slow down. Private investment is projected to continue supporting GDP growth as business expectations improve in the context of the Euro adoption. The acceleration in the absorption of EU funds, which began in 2025, is expected to continue throughout the forecast period. The inflation forecast for Bulgaria is 3.5% for 2025, 2.9% for 2026, and 3.7% for 2027, respectively.

Meanwhile, earlier in December 2025, the international credit rating agency Fitch Ratings announced that it maintained Bulgaria's credit rating unchanged at 'BBB+', while noting that 'Bulgaria's fiscal position has deteriorated in recent years due to increased social spending, significant public sector wage hikes, and delays in implementing reforms.' Fitch forecasts an increase in the budget deficit to 3.2% in 2026 and to 4.3% in 2027 (including Bulgaria's commitment to higher defense spending). "More broadly, institutional constraints and political instability have slowed progress in structural reforms compared to peer countries, despite the successful completion of the Eurozone accession process. Bulgaria is lagging in the absorption of EU funds under the Recovery and Resilience Facility (RRF), as well as under the regular cohesion funds. These delays may pose challenges to payments, as the implementation deadline is the end of August 2026."

In its December macroeconomic forecast, the Bulgarian National Bank (BNB) expects Bulgaria's real GDP growth to reach 3.2% in 2025, before slowing slightly to 3.1% in 2026 and 2027. In the BNB's June 2025 forecast, the central bank had expected real GDP to amount to 2.9% in 2025 and 2.7% in 2026 and 2027. In 2025, domestic demand components made a positive contribution to economic activity, whereas net exports had a negative contribution.

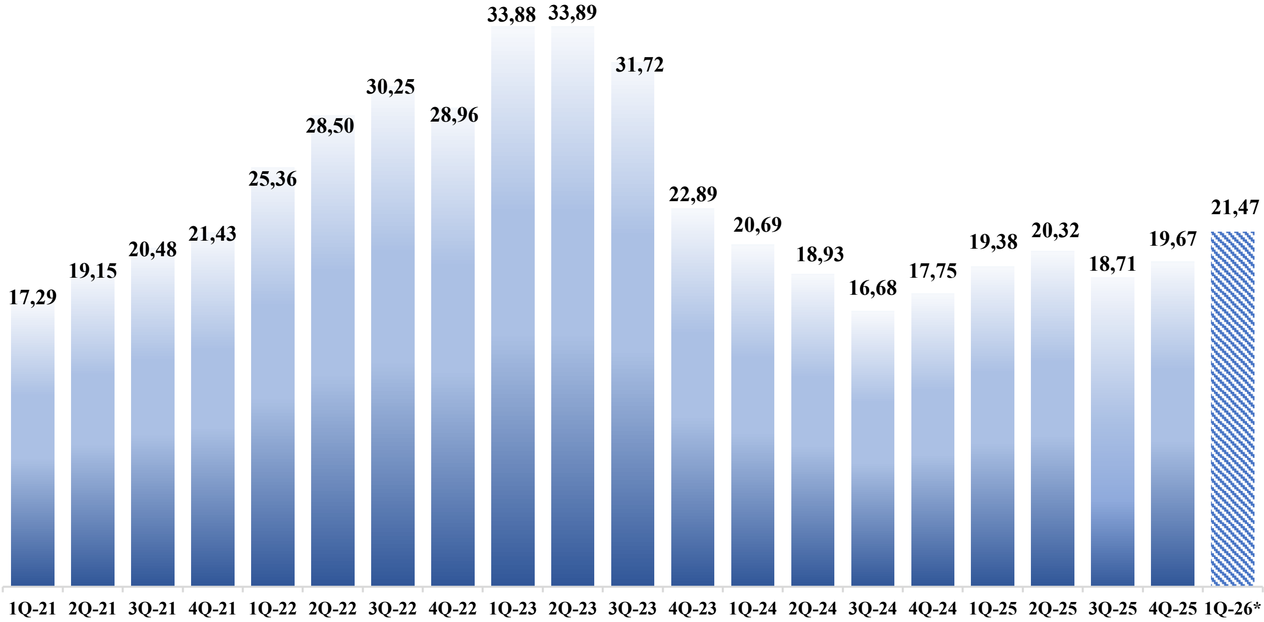
In this context, as of December 31, 2025, M+S Hydraulic Plc reports consolidated net sales revenue of BGN 152.71 million (EUR 78.08 million), representing an increase of 5.45% compared to the 2024 consolidated net sales revenue and a decrease of around 36% compared to those in 2023. Consolidated sales revenue only for the fourth quarter of 2025 shows an increase of 10.81 % compared to the same period in 2024 and a decrease of 14.09 % compared to consolidated revenue for the fourth quarter of 2023. The company continues to operate in a volatile market environment while maintaining stable positions in its main export markets – the USA, Canada, Asia, Australia, and the European Union.

**Consolidated Net Sales Revenue by Quarter
(BGN million)**



2025 consolidated gross profit stands at BGN 12.51million (EUR 6.4 million) and reports an increase of 10.71% compared to the gross profit for the previous financial year.

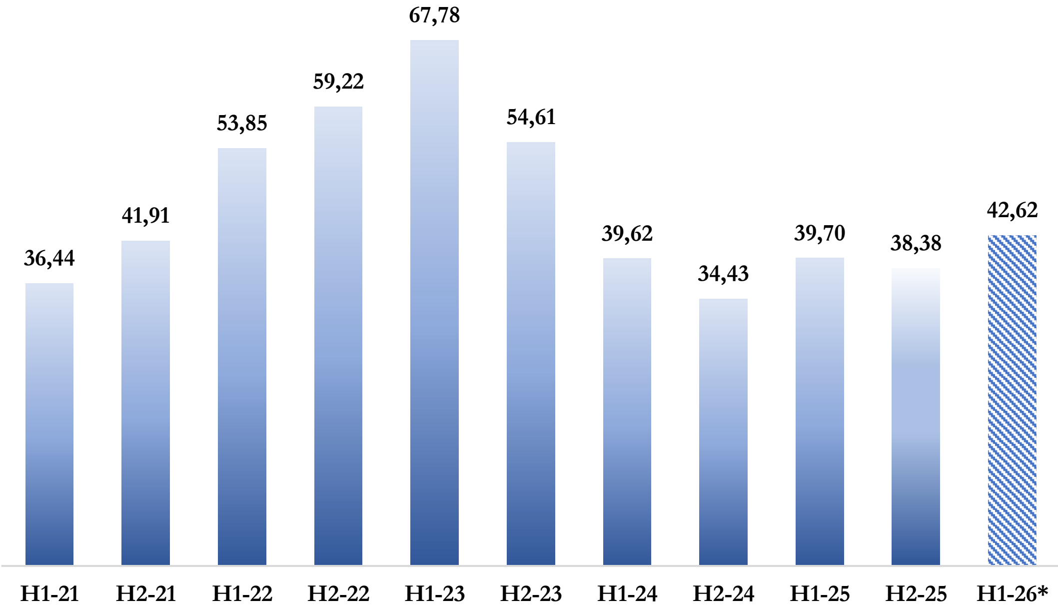
Consolidated net sales revenue by quarter (EUR million)
and forecast for the first quarter of 2026



**expected*

For the first quarter of 2026, we expect consolidated sales revenue to exceed EUR 21.4 million (approximately BGN 41.9 million), which would represent an increase of over 10% compared to the same period in 2025 and nearly 4 % compared to the first quarter of 2024. With the projected consolidated revenue for the first half of 2025, we expect to report growth of over 7 % compared to the first half of the previous two years.

Consolidated Sales by Half-Year
(EUR million) and forecast for the first half of 2026



**expected*

M+S Hydraulic Plc continues the construction of a new plant for the production of hydraulic motors in the city of Kazanlak. The investment project is being implemented on a land plot of 34,413 square meters, owned by the company. The construction of this new plant will expand the production capacity of M+S Hydraulic AD by over 30%, enabling the achievement of the company's long-term goals for market share expansion. This will be realized through the implementation of state-of-the-art technologies and CNC machines with a high degree of automation and robotization of production operations and processes. The new plant will house several production units for mechanical processing and coating processes (painting and manganese phosphating), a modern logistics center for shipping, auxiliary premises for the repair and maintenance of machinery and equipment, a wastewater treatment plant, and warehouses for raw materials and finished products.

Factors that will continue to influence operations throughout 2026 include the market prices of raw materials and production supplies, transportation of deliveries, regional labor market costs, energy resource prices, and the security of their supply. Given the ongoing military conflict in Ukraine and the uncertainty in the Middle East, as of the date of this report, we assess the risks associated with securing supplies of materials and energy, as well as the sale of finished products to partners linked to the affected regions, as elevated.

The country's macroeconomic development, the unstable political situation, fiscal policy, and geopolitical factors remain the most concerning circumstances that will continue to impact the business and may lead to adjustments in the expected business results.

There have been no other significant events during the quarter or since the beginning of the financial year that have impacted the results in the financial statement, other than the ongoing tensions regarding global trade policies, the military conflicts in Ukraine and the Middle East, and the resulting negative effects on economic activity, trade relations, and the prices of key raw materials and supplies, including energy sources and inflation.

II. Description of the principal risks and uncertainties the issuer faces for the remainder of the financial year

Risk represents the uncertainty of a given event. Deviations of actual results compared to planned and baseline figures can be calculated and used as a measure of risk. The risk associated with the operations of an economic entity is the result of the overlay of two distinct types of risk. The first is systematic risk, which is related to the risk generated by the economy as a whole due to fluctuations in key macroeconomic indicators, while the second type — unsystematic risk — is related to the specific nature of the company's activities.

Systematic risk includes political risk; currency exchange rate risk; interest rate risk; inflation risk; tax risk; and risk of changes in the economic environment.

Unsystematic risk is related to the risks arising from the specific character of the company's business and the particular industry environment to which the issuer belongs. It includes sector (industry) risk and company-specific risk.

Overall Macroeconomic Risk: Macroeconomic conditions and trends in market development and the macro-environment in which companies operate constitute a systematic risk that cannot be managed or controlled by the company's corporate management yet exerts a significant impact on the business operations and financial results of the enterprises.

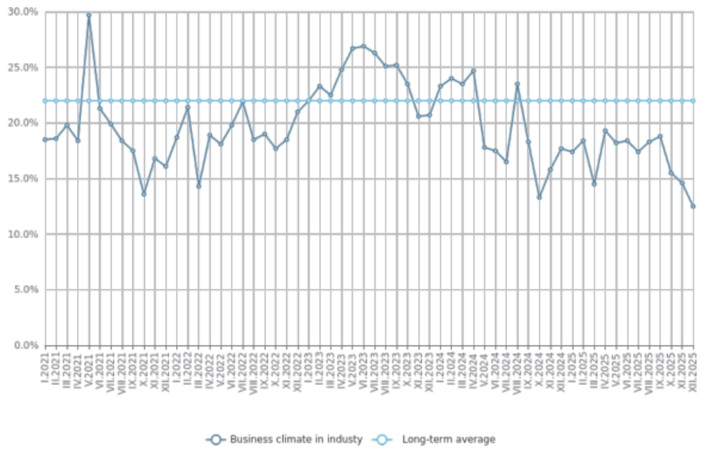
As of the end of 2025, global economy is in a state of moderate but unstable growth, characterized by a high degree of uncertainty and structural changes in global economic and trade relations. International financial institutions – the IMF, the World Bank, the OECD, and the UN – confirm that the world economy is entering a new stage where growth remains limited, and geopolitical and fiscal risks continue to exert a significant impact on the business climate and international markets.

According to the ECB Economic Bulletin from December 2025, experts now expect average annual real GDP growth in the Eurozone to be 1.4% in 2025, 1.2% in 2026, 1.4% in 2027, and 1.4% in 2028. Compared to the September 2025 projections, GDP growth has been revised upwards for the entire forecast horizon, reflecting better-than-expected data, reduced trade policy uncertainty, stronger external demand, and lower energy commodity prices. Domestic demand is expected to remain the main driver of growth in the Eurozone, stimulated by rising real wages and employment, amid stable labor markets with record-low unemployment rates. The additional government spending on infrastructure and defense announced in 2025, specifically in Germany, along with more favorable financing conditions due to the reduction of key interest rates since June 2024, are also expected to support the domestic economy. Regarding the external environment, although competitiveness challenges persist, including those of a structural nature, exports are expected to accelerate in 2026.

The ECB Governing Council emphasizes the need for urgent measures to strengthen the Eurozone and its economy within the current geopolitical context. It supports the European Commission's call for governments to prioritize sustainable public finances, strategic investments, and growth-enhancing structural reforms. It is of crucial importance to leverage the full potential of the Single Market.

According to National Statistical Institute (NSI) data, in December 2025, the total business climate indicator decreased by 3.1 points compared to the previous month (from 16.1% to 13.0%), with a decline registered across all observed sectors – industry, construction, retail trade, and services. The composite indicator 'business climate in industry' fell by 2.1 points (from 14.6% to 12.5%) as a result of the unfavorable assessments and expectations of industrial entrepreneurs regarding the business condition of their enterprises. Current production activity is assessed as diminished, while activity expectations for the next three months are more favorable. The uncertain economic environment, labor shortages, and insufficient demand from abroad and domestically continue to be the main obstacles to business development.

Business Climate in Industry



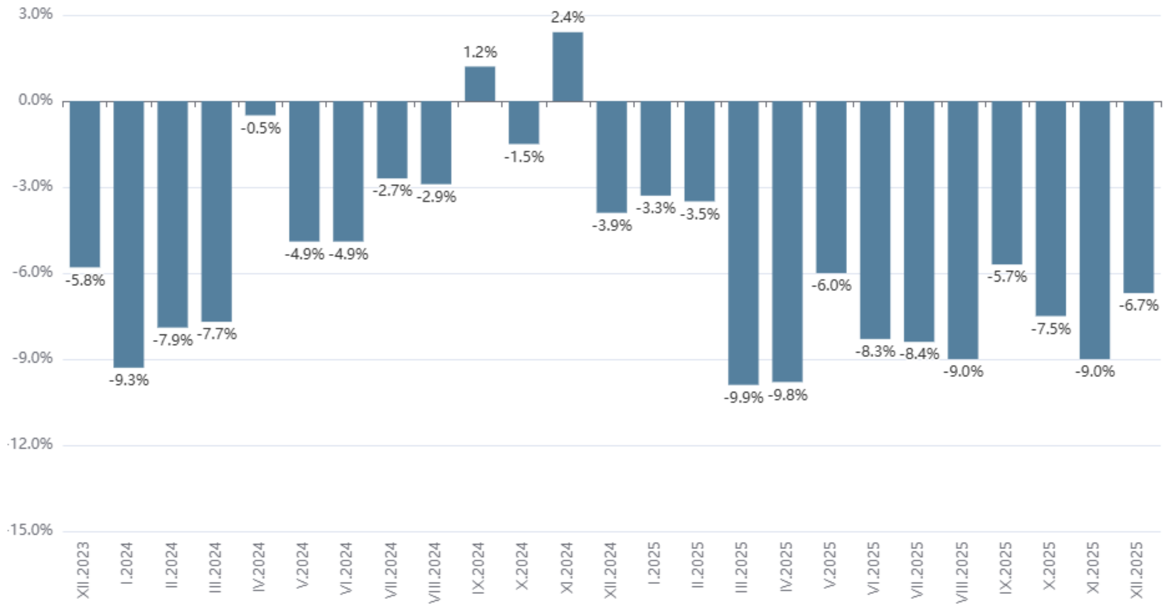
Source: NSI

In its latest World Economic Outlook update from January 2026, the IMF forecasts global economic growth to remain resilient at 3.3% in 2026 and 3.2% in 2027. For the past year, 2025, global growth is expected to have reached 2.9%, while growth in the Eurozone is estimated at 0.9%. The IMF notes that the United States and China are the primary contributors to the upward revision of the 2026 estimate, while warning that an escalation of the tariff war and new geopolitical shocks could rapidly deteriorate the outlook and unsettle financial markets. Regarding the United States, the IMF has raised its forecast by 0.3 percentage points, projecting growth of 2.4% in 2026 and a slowdown to 2.0% in 2027. For the Eurozone, which Bulgaria joined on January 1st, the outlook remains more moderate due to unresolved structural issues, weak domestic demand, and ongoing pressure from higher energy prices following the Russian invasion of Ukraine. The IMF projects a growth rate of 1.7% for the current year (an increase of 0.1 percentage points compared to October) and 1.3% for 2027 (unchanged from the October forecasts). As for the Eurozone's largest economy, the IMF expects the German economy to grow by 1.0% in 2026 and 1.5% in 2027. Among the forecasts for other major economies, the IMF expects China's growth to reach 4.5% in 2026 - lower than the 5.0% expected in 2025, but 0.3 percentage points higher than the October estimates. The IMF emphasizes that the outlook remains tilted to the downside. A continuing trade war could increase uncertainty and weigh on economic activity. Furthermore, an escalation of geopolitical tensions could disrupt supply chains and lead to higher volatility in financial markets. At the same time, larger budget deficits and high levels of public debt could put upward pressure on interest rates. Policies to promote stability and sustainably improve medium-term growth prospects require a strong emphasis on rebuilding fiscal buffers, maintaining price and financial stability, reducing uncertainty, and implementing structural reforms without further delay, the IMF highlights.

The manufacturing sector in Europe shows signs of recovery, but growth is too fragile due to structural economic and geopolitical difficulties on the one hand, and due to intense competition, high energy regulatory costs, and heavy global pressure on the other. Overall, the main risks remain the dependence on energy imports, as high energy prices increase production costs and inflation, especially in industry. The US - China trade relations, and especially the customs tariffs on Chinese goods in the US, intensify the Chinese supply in Europe, which in turn reduces the competitiveness of European manufacturers.

Against this backdrop in Bulgaria, according to National Statistical Institute (NSI) data, the industrial production index in December 2025 increased by 0.3 % compared to the previous month, while a decline of 6.7% was recorded compared to December 2024 of the calendar adjusted industrial production index. On an annual basis, a decline in industrial production was recorded in the mining and quarrying industry by 22.3 %, in the production and distribution of electricity, heating, and gas by 14.1 %, and in the manufacturing industry by 1.4 %.

Change in the Industrial Production Index compared to the same month of the previous year (calendar adjusted)



Source: NSI

Interest rate risk is associated with changes in market interest rate levels, which could lead to an increase in interest expenses and a corresponding decrease in the financial result of the group companies.

At its monetary policy meetings on September 11, 2025, and October 30, 2025, the Governing Council decided to keep the three key ECB interest rates unchanged, as inflation remains close to the 2% medium-term target and its assessment of the inflation outlook remains broadly unchanged. The Council noted that the outlook remains uncertain, particularly due to ongoing global trade disputes and geopolitical tensions.

Following the ECB Governing Council meeting in October 2025, market interest rates rose. Bank lending rates for firms have remained generally stable since the summer, after falling in response to the Council's key rate cuts during the previous year. In October, they stood at 3.5%, unchanged from

September. Bank lending to firms grew by 2.9% year-on-year in October, also unchanged from September. Mortgage lending strengthened, growing by 2.8% following 2.6% in September.

At its meeting on December 18, 2025, the Governing Council again decided to leave the three key ECB interest rates unchanged. The interest rates on the deposit facility, the main refinancing operations, and the marginal lending facility remain at 2.00%, 2.15%, and 2.40%, respectively.

According to Bulgarian National Bank (BNB) data, the base interest rate recorded a consistent and gradual decrease within the range of 2.95 percentage points as of 01.01.2025 to 1.81 percentage points as of 01.12.2025.

Inflation risk is associated with the probability of a significant increase in the purchase prices of goods and services, leading to reduced income, contraction in consumer demand, and restricted economic growth in the country. Inflation can directly affect the real return on an investment because, under high inflation, even high nominal incomes can result in a negative real return.

In 2025, inflationary pressure gradually eases but remains above the target levels of central banks. Average inflation in OECD countries is expected to be around 4.2%, with significant regional variations remaining. The World Trade Organization reports a moderate recovery in international trade in goods, forecasting growth of about 2.4% for 2025, with emerging markets in Asia and Africa being the main drivers, while transatlantic flows between Europe and North America remain unstable.

According to the ECB macroeconomic projections of December 2025, annual inflation in the Eurozone, measured by the Harmonized Index of Consumer Prices (HICP), has fluctuated within a narrow range since the spring of 2025 and remained at 2.1% in November. Energy prices were 0.5% lower compared to November 2025, following a more significant decline recorded in October. According to ECB staff, most indicators of long-term inflation expectations remain at around 2%, supporting the stabilization of inflation around the target level set by the Governing Council.

Inflation is projected to slow from 2.1% in 2025 to 1.9% in 2026, and further to 1.8% in 2027, before rising to the Governing Council's medium-term target of 2% in 2028. The expected decline in headline inflation in early 2026 reflects downward base effects related to energy prices, while inflation for non-energy components is expected to continue slowing throughout 2026. The contribution of energy inflation to headline inflation is expected to remain low until the end of 2027, before increasing significantly in 2028 as a result of the anticipated introduction of the EU Emissions Trading System 2 (ETS2), which is expected to accelerate headline inflation by 0.2 percentage points. HICP inflation excluding energy is projected to slow from 2.5% in 2025 to 2.2% in 2026 and to 2.0% in both 2027 and 2028.

According to the European Commission's Autumn 2025 Economic Forecast, inflation in the Eurozone is expected to continue decreasing to 2.1% in 2025 and to remain around 2% throughout the forecast period. Inflation in the EU is expected to stay slightly higher, falling to 2.2% in 2027. The inflation forecast for Bulgaria is 3.5% for 2025, 2.9% for 2026, and 3.7% for 2027, respectively.

The expectations of the IMF, set out in the 'World Economic Outlook' report from October 2025, are for global inflation to be 4.2 per cent this year and 3.7 per cent next year, with the changes compared to both the April report and the adjustments announced in July being minimal.

According to Eurostat data, annual inflation in the European Union slowed to 2.3% in December 2025, down from 2.4% in November. In the Eurozone, annual inflation in December stood at 1.9%, following 2.1% in November. According to preliminary data, Eurostat had initially estimated December's inflation at 2%. In Bulgaria, based on the Harmonized Index of Consumer Prices (HICP), the annual inflation rate slowed to 3.5% in December compared to 3.7% in November, a level that ranks the country sixth in the EU.

According to National Statistical Institute (NSI) data, monthly inflation in December 2025, measured by the Consumer Price Index (CPI), was 0.1%, while annual inflation for December 2025 compared to December 2024 was 5.0%. The average annual inflation for the period January 2025 – December 2025, compared to the period January 2024 – December 2024, was 4.6%. In December 2025, monthly inflation in Bulgaria measured by the HICP was 0.1%, and annual inflation for December 2025 compared to December 2024 was 3.5%. The average annual inflation measured by the HICP for the period January 2025 – December 2025, compared to the period January 2024 – December 2024, was 3.5%.

Currency risk is the probability of a possible change in the country's currency regime (currency board), which would lead either to a devaluation of the lev or an appreciation of the lev against foreign currencies. According to the current legislation in the country, the exchange rate of the Bulgarian lev is fixed at a ratio of EUR 1 = BGN 1.95583.

On 8 July 2025, Bulgaria received the final necessary approval for its accession to the Eurozone from 1 January 2026. Following the European Parliament's vote in favor of our country's transition to the Eurozone, the Economic and Financial Affairs Council (ECOFIN) adopted three legal acts finalizing the approval process: regarding the adoption of the euro by Bulgaria from 1 January 2026 pursuant to Article 140(2) of the TFEU; regarding the introduction of the euro in Bulgaria pursuant to Council Regulation (EC) No 974/98; and regarding the exchange rate of 1 euro = 1.95583 BGN for Bulgaria pursuant to Council Regulation (EC) No 2866/98. This successfully concluded the approval process for our membership application, and our country officially joined the Eurozone from 1 January 2026.

Currency conversion is carried out at the fixed rate of 1 euro = 1.95583 BGN; therefore, there is no risk of devaluation of the lev against the European currency. However, there is a risk of unfavorable changes in the euro's exchange rate against other major currencies, such as the US dollar, Swiss franc, British pound, etc.

According to an analysis by the Fiscal Council regarding the introduction of the single currency in Bulgaria, as of the date of this notification, available facts and indicators confirm that the transition to the euro from January 1, 2026, is proceeding smoothly and in an organized manner, with a high degree of institutional readiness and effective process management. The exchange of banknotes and coins is progressing according to plan, and as of mid-February, approximately 85 % of the Bulgarian leva in circulation have been withdrawn.

Given the export orientation of the company, changes in currency values have a certain effect and are a risk factor for their operations. Exchange rates influence revenues from foreign sales and costs for raw material imports; the main part of sales and imports are agreed upon in euros, which significantly reduces the impact of this risk on operations.

Political risk is the probability of serious domestic political upheavals that could lead to a negative change in the government's economic program and its priorities for economic development, resulting in a deterioration of the environment in which companies operate and potential losses for investors. The degree of political risk is determined by the likelihood of unfavorable changes in the long-term economic policy pursued by the government, which could have a negative impact on investment decisions.

As of the date of this notice, the political instability in the country over the past four years has not been overcome; on the contrary, it appears to be further deepening following the Government's resignation on December 11, 2025, and the upcoming new snap elections. This instability continues to be assessed as a primary factor negatively impacting not only economic activity but also all social systems in Bulgaria. The lack of substantive reforms has further deteriorated the business environment, and as a result, we continue to observe a deepening decline in industry, a slump in exports, and job losses.

Our country ended 2025 without an adopted 2026 State Budget or a public finance framework for the 2026–2029 period, higher-than-projected GDP but coupled with high inflation, weak revenues, bloated current expenditures, and unfulfilled investments. In a summary of its analysis of the 2025 budget execution published on February 13, 2026, the Fiscal Council of Bulgaria views this as a signal of lacking discipline and calls for serious reforms instead of 'innovations' that merely postpone problems. According to the Council, the 2025 budget forecasts were unrealistic and overly optimistic, while 'fiscal tricks' - such as 100 % dividends from state-owned enterprises, advance bank taxes, and the capitalization of the Bulgarian Development Bank in lieu of budget expenditures - circumvent rules and create long-term issues. The Council further notes that current expenditures (especially wages) undermine sustainability, arguing that given the healthy growth, the deficit should have been capped at 0.8% of GDP. The Fiscal Council once again appeals for structural reforms - limiting current spending and implementing administrative reform - to address pressures from defense, pensions, healthcare, and demographics, adding that failure to do so risks higher taxes or increased debt.

At the same time, according to the state budget for 2026 and the medium-term budgetary framework initially presented by the Ministry of Finance, public debt was projected to reach EUR 37.6 billion (31.3% of GDP) in 2026, EUR 43.5 billion (34.2% of GDP) in 2027, and EUR 49.0 billion (36.6% of GDP) in 2028. For 2026, new borrowings of BGN 20.5 billion (approximately EUR 10.5 billion) were planned, which would triple the interest expenses for debt servicing. The draft budget proposed a two-fold increase in the dividend tax and a 2-percentage-point hike in social security contributions for the 'Pensions' fund (resulting in a more than 10% increase in pension contribution costs). As a result, BGN 1.4 billion would be extracted annually from those employed in the real sector starting as early as 2026, with this amount growing progressively to finance inefficient spending in the public sector, including new double-digit wage increases in the 'Security and Defense' and 'Higher Education' sectors. Leading economists, including the Fiscal Council and the business community expressed firm disagreement with this fiscal policy and concern that it deepens the risk of an unsustainable fiscal spiral, threatening macroeconomic stability and the country's medium- and long-term economic growth. The Governor of the BNB, Dimitar Radev, also expressed concern that the 2026 budget faces serious difficulties, highlighting that debt accumulation should be offset by investments and economic growth, and wage increases should be matched by reforms. He noted that in systems where personnel costs account for 70-80%, or even over 90% of total expenditures, efficiency cannot be achieved.

Furthermore, according to data published on February 10, 2026, in the 2025 Corruption Perceptions Index by the international organization Transparency International, Bulgaria recorded its worst result since 2012, ranking 84th out of 182 countries with a score of just 40 out of 100 points, remaining the worst-performing EU member state alongside Hungary. According to the Transparency International report, Bulgaria's score has deteriorated by five points in the last two years alone. The lack of progress on key reforms, unfulfilled international recommendations, and the ineffective enforcement of anti-corruption legislation place the country in an unfavorable position both within the EU and in the process of joining the Organization for Economic Co-operation and Development (OECD).

According to the "Economic Freedom of the World 2025" report by the Canadian Fraser Institute, Bulgaria ranks 56th in economic freedom globally among 165 countries, dropping 4 positions compared to the previous year's ranking. For another consecutive year, Bulgaria receives its lowest score regarding the legal system and property rights; in this category, which measures the rule of law, judicial independence, the work of law enforcement agencies, and the protection of property rights, our country lags behind all other EU member states. According to the report, Bulgaria also sees a decline in the size of government category, which includes indicators such as the share of redistribution through the budget, transfers and subsidies, the size of state assets, and taxes. Bulgaria receives a maximum score only for its flat tax. The two categories where Bulgaria receives its highest scores in the index are sound money and freedom to trade internationally, which are predetermined by the currency board and Bulgaria's EU membership, respectively. Meanwhile, in the remaining categories concerning current policies and the implementation of reforms, the scores remain low and freedom remains restricted.

At the same time, according to information from the website of the global supervisory body, the Financial Action Task Force (FATF), as of the end of 2025, Bulgaria remains on the "grey list" for money laundering and continues to be subject to increased monitoring. In June 2025, Croatia, Mali, and Tanzania were removed from the FATF "grey list", leaving Bulgaria as the only European country on it, alongside nations such as Burkina Faso, Cameroon, the Democratic Republic of the Congo, Haiti, Kenya, Nepal, etc.

An unsatisfactory level of the rule of law in our country was also noted in the European Commission's annual Rule of Law Report, presented on 8 July 2025. The European Commission reported that Bulgaria has made 'limited progress' in fulfilling its commitments. The Commission expressed serious concern regarding the state of the rule of law in Bulgaria in 2025, reminding that reforms have stalled since 2023, which calls into question the sustainability of key changes in the judicial system and the fight against corruption. One of the most serious problems outlined in the report is the exceptionally low level of trust in the judiciary among both citizens and businesses. According to the Commission's data, only 27% of citizens and companies rate the independence of the courts as 'good,' which is a slight increase compared to 2024 but represents a significant decline compared to 2021, when 32% of citizens and 43% of companies held such an opinion.

The severely compromised principle of the rule of law and the failure to meet reform commitments in this area led to a decision by the European Commission on October 6, 2025, to delay the transfer of EUR 214.5 million, representing part of the second payment for Bulgaria under the Recovery and Resilience Plan, due to the non-fulfillment of a key objective - the reform of the Anti-Corruption Commission. In early November, Bulgaria received a new tranche of EUR 438.6 million, bringing the total utilization to 29.5% of the agreed EUR 6.17 billion under the Recovery and Resilience Facility. At the end of the year, Bulgaria received EUR 1.47 billion under the third payment of the NRRP, while the European Commission again 'frozen' the transfer of EUR 152 million due to the stalled anti-corruption reform, clearly stating that the final release of the full amount will depend on the actual implementation of the remaining reforms.

According to the 37th edition of the 2025 World Competitiveness Ranking by the Institute for Management Development (IMD) – Switzerland, published on June 17, in 2025 Bulgaria ranks 57th out of 69 countries, marking an improvement of only one position compared to last year, when it was ranked 58th but out of 67 economies. Compared to the previous year 2024, our country marks a decline in terms of economic performance (from 45th to 50th place) and business efficiency (from 65th to 67th place). For comparison, since 2020 Bulgaria has seen a deterioration of a total of 9 positions, and since 2009 – by 19, which places it among the most uncompetitive economies in Europe.

Last but not least, electricity prices in Bulgaria continue to be among the highest in all of Europe, according to real-time data from electricity exchanges across the European Union, while electricity prices in Europe remain significantly higher compared to Asia and North America. This places European, and consequently Bulgarian business, in an unfavorable competitive position. At the European level, price disproportions in Southeast Europe are persistent; throughout 2024, the gap with Central Europe reached 30%, and in certain months exceeded 50%. This situation continues at present, and the war in Ukraine, along with its destroyed energy infrastructure and the limited interconnectivity at the borders of Hungary and Croatia, are factors suggesting that these imbalances will persist for a long time. Overcoming these imbalances requires the introduction of additional national regulations to adequately protect domestic consumers. In response to this need, the Electricity Cost Compensation Program proposed by the Council of Ministers is intended to apply to non-household end customers only when the weighted average base load price on the 'Day Ahead' segment of the 'Independent Bulgarian Energy Exchange' EAD for the respective six-month period (from 01.07.2025 to 31.12.2025 and from 01.01.2026 to 30.06.2026) exceeds BGN 240/MWh. According to calculations by the Bulgarian Industrial Capital Association, this effectively means that the program does not actually provide compensation for non-household electricity consumers, as the weighted average six-month price for the first period is below BGN 206/MWh, and for the following six-month period of January-June 2026, it is expected to be below BGN 200/MWh.

Internationally, in the context of the current geopolitical situation, the risks for Bulgaria are increasingly tied to European policies. On one hand, they stem from the failure to achieve sustainable results regarding our country's commitments to implement serious structural reforms in accordance with EU policies. On the other hand, the effectiveness of common European policies in the area of trade relations with the USA and other trade partners, reindustrialization through the reduction of over-regulation and bureaucratic costs, the recalibration of the 'Green Deal,' and the rapid creation of effective mechanisms for the equitable provision of energy resources at competitive prices for all participants in the European energy market, are fundamental to the possibility of preserving and increasing the competitiveness of the European and, specifically, the Bulgarian economy.

Regulatory risk is associated with the impact of the existing legal framework at the national and European levels or its changes, as well as the potential for sanctions resulting from non-compliance with this framework.

In recent years, Bulgarian and European businesses continue to be increasingly affected by the intensifying European and national regulation in many directions, including an increased focus on sustainability issues. The trend of continuing growth in the administrative burden on business, in the absence of reasonable and adequate relief, significantly increases the costs required to comply with new regulations and their associated reporting requirements. The ongoing deterioration of the business environment in the European Union - manifested in high energy price levels and the imposition of numerous regulations that significantly increase the administrative burden on business, alongside new geopolitical challenges - continues to demotivate entrepreneurial activity and leads to capital outflows from Europe, reduced competitiveness, and hindered economic growth. Over the last five years, the European economy has lost 5 percentage points of its global share, with the EU's share of the world economy dropping from 21% to 16%.

Against this backdrop, data from the first monitoring report on the implementation of the 2024 Antwerp Declaration, published on February 11, 2026, highlight severe structural issues in Europe: 83% of competitiveness indicators show stagnation or decline, while energy prices remain significantly higher than in other leading economies. Over the past three years, the share of firms citing regulation as a major obstacle to investment has risen by 42 %. The EU remains fully dependent on imports for more than half of its critical raw materials, and internal barriers within the single market create costs equivalent to tariffs of approximately 65 % for goods and up to 100% for services. Furthermore, innovation lags behind China by 20 percentage points and the US by 15 points.

At the national level, the lack of serious structural reforms aimed at introducing strict fiscal consolidation measures could lead to an increase in the tax and social security burden on businesses and private sector employees. This would have an additional negative impact on economic activity, alongside the expected effects of global geopolitical shifts. According to business analyses, the tax and social security burden in Bulgaria is currently already higher than the European average, characterized by a broad tax base to which low rates are applied. A tax hike would not guarantee an increase in budget revenues; instead, it would lead to a decrease in economic growth and investment.

Unsystematic risks represent a part of the total investment risk and can be divided into two groups: sector-specific risk, which refers to the uncertainty in the development of the industry as a whole, and company-specific risk, arising from the particularities of the specific company.

Risk factors relevant to the mechanical engineering sector

Sector-specific risk arises from the impact of technological changes in the industry on the income and cash flows within that sector, management skills, intense competition in foreign and domestic markets, etc.

Company-specific risks

Market risk is associated with changes in market conditions. It includes risks related to revenue generation, risks related to profitability, interest rate risks, and currency risks.

Risks related to revenue generation require a serious analysis of the main factors causing uncertainty in the realization of sales of hydraulic products. This uncertainty can be measured by the volatility of revenues over time. To significantly reduce this risk, the company relies on an increased internal capacity for effective forecasting and planning, as well as maintaining stable relationships with customers.

Market risk manifests as a more rapid decline in sales revenues compared to the rate of cost reduction. Interest rate risk is related to changes in market interest rate levels, which could lead to an increase in interest expenses and a corresponding decrease in the company's financial result. Currency risk occurs in the event of an unfavorable change in the ratio between the currencies in which the company's revenues and/or expenses are denominated. The main operational risks are related to the adopted practices of operational management within the enterprise.

III. Information on transactions with related and/or interested parties

There are no transactions with related and/or interested parties concluded during the reporting period of the current financial year that have materially affected the financial standing or the results of the company's operations in that period.

IV. Information on newly arisen material receivables and/or liabilities for the reporting period

During the fourth quarter of 2025, no new significant receivables and/or liabilities have arisen for the company.

On 25 June 2025, M+S Hydraulic Plc concluded a credit line agreement with International Asset Bank AD, UIC: 000694329, for a maximum amount of BGN 10 million, with a maturity date of 30 June 2030 and an interest rate of 6-month EURIBOR plus a contractual margin of 1.75 (one point seventy-five) percentage points, but not less than 3.30 %. The credit line is secured by a mortgage on two of the production buildings located in the city of Kazanlak. The book value of the collateral amounts to BGN 9.6 million.

As of 31 December 2025, the company has liabilities under the aforementioned loan in the amount of BGN 150 thousand.

V. Information under Annex № 4 of Ordinance № 2 of the FSC

- Change in the persons exercising control over the company – None.
- Initiation of insolvency proceedings for the company or its subsidiary and all material stages related to the proceedings – None.
- Conclusion or execution of material transactions – None.
- Decision on the conclusion, termination and rescission of a joint venture agreement – None.
- Change of the company's auditors and reasons for the change – None.
- Initiation or termination of court or arbitration proceedings related to liabilities or receivables of the company or its subsidiary, with a claim value of at least 10 per cent of the company's equity – None.
- Purchase, sale or established pledge of equity interests in commercial companies by the issuer or its subsidiary – None.
- Other circumstances that the company considers could be of significance to investors in making a decision to acquire, sell, or continue to hold publicly offered securities. Specified in Section IV of this document.

Media

The company discloses regulated information to the public through the information media X3 News.

The inside information for M+S Hydraulic AD pursuant to Article 7 of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (OJ L 173/1, 12 June 2014) (Regulation (EU) No 596/2014) regarding the circumstances that occurred in 2025 has been published on the company's website in the 'About Us' section, 'Investors' subsection https://www.ms-hydraulic.com/index.php?option=com_content&view=article&id=12&Itemid=251&lang=bg, as well as in the X3News media, through which the company publicly discloses inside information http://www.x3news.com/?page=Company&BULSTAT=123028180.

This document was prepared in accordance with Art. 100o[1], para. 1 of the Law on Public Offering of Securities.

Vladimir Valentinov Spasov

Digitally signed by Vladimir Valentinov Spasov
Date: 2026.02.26 09:35:29 +02'00'

Procurator: Vladimir Spasov

This document contains information on the possibilities for realization of published forecasts as well as forecasts for future periods and also data representing inside information under Art. 7 Regulation (EU) No 596/2014 on market abuse (Market Abuse Regulation). This information could significantly affect the price of the shares issued by the company.