INTERIM REPORT
for the First Half of 2026

I. Information on significant events that occurred during the reporting period and cumulatively from the beginning of the financial year to the end of the respective six-month period, and their impact on the results presented in the financial statements

Detailed information on the significant events that occurred from the beginning of the financial year to the end of the first half of 2026 relating to M+S Hydraulic Plc, as well as any other information that may be relevant to investors, has been regularly disclosed by the Company in accordance with the applicable regulatory requirements through its designated information service provider, X3 News.

The first half of 2026 was characterized by a dynamic and challenging international economic environment in which moderate economic growth was accompanied by heightened geopolitical uncertainty, significant volatility in energy markets, and persistent structural challenges facing the global economy. Despite the resilience demonstrated by a number of major economies, global economic activity remained below its historical long-term growth rates, while growth prospects continued to be constrained by geopolitical conflicts, tensions in international trade, and increased uncertainty regarding the investment environment.

During the reporting period, the economies of the United States and China remained the principal drivers of global economic growth, while economic activity in Europe continued to be comparatively weak. Industrial production and investment remained constrained by high production costs, subdued domestic demand, and the declining competitiveness of European industry.

A major factor shaping the international economic environment during the first half of the year was the escalation of the conflict in the Middle East, which led to a sharp increase in energy prices, temporary disruptions to global supply chains, and heightened uncertainty in financial markets. Although tensions gradually eased during June and oil prices declined from their peak levels, geopolitical risk remained elevated, while its impact on inflationary pressures and production costs continued to affect the global economy.

Against this backdrop, international financial institutions revised their economic growth expectations. The International Monetary Fund (IMF) projects global economic growth of approximately 3.1% in 2026, emphasizing that the global economy remains resilient but continues to face significant downside risks related to geopolitical instability, energy markets, and international trade. Similarly, the European Central Bank (ECB) revised downward its growth forecast for the euro area and raised its inflation projections in response to higher energy and food prices, while the World Bank noted that the global economy is expected to expand in 2026 at one of its slowest rates outside periods of global recession.

Despite the gradual improvement in global supply chains towards the end of the second quarter and some stabilization in energy markets, the international economic environment remains highly dependent on geopolitical developments, the dynamics of international trade, and the monetary policy decisions of the major central banks. These factors continue to create conditions of elevated uncertainty for the industrial production of export-oriented enterprises during the second half of 2026.

The General Meeting of Shareholders of M+S Hydraulic Plc, held on 21 May 2026, resolved to distribute a total amount of EUR 5,914,980 as dividends to the Company's shareholders.

There were no other significant events during the reporting six-month period or from the beginning of the financial year that had an impact on the results presented in the financial statements.

II. Description of the principal risks and uncertainties facing the issuer during the remainder of the financial year

Risk represents the uncertainty associated with the occurrence of a particular event. Deviations between actual results achieved and planned or benchmark results can be measured and used to assess the level of risk. The risks associated with the operations of an economic entity are the result of the combined effect of two distinct categories of risk. The first is systematic risk, which arises from the economy as a whole and reflects fluctuations in key macroeconomic indicators. The second is unsystematic risk, which is related to the specific nature of the Company's business activities.

Systematic risk includes political risk, foreign exchange risk, interest rate risk, inflation risk, tax risk, and the risk arising from changes in the economic environment.

Unsystematic risk is associated with the specific characteristics of the Company's operations and the particular environment of the industry in which the issuer operates. It includes industry (sector) risk and company-specific risk.

General Macroeconomic Risk: Macroeconomic conditions, market trends and the broader economic environment in which the Company operates constitute a systematic risk that cannot be managed or controlled by the Company's management, yet they have a significant impact on its operations. Macroeconomic factors such as inflation, uncertainty regarding the price and security of energy supplies, weak demand, geopolitical tensions and economic challenges driven by elevated interest rates continue to have a material effect on business processes and the global economic outlook.

According to the European Central Bank's Economic Bulletin published in June 2026, the ECB staff baseline projections foresee average economic growth of 0.8% in 2026, 1.2% in 2027, and 1.5% in 2028. This represents a downward revision for both 2026 and 2027, reflecting the more pronounced impact of the war in the Middle East on commodity markets, real incomes and economic confidence. The outlook remains uncertain, with upside risks to inflation and downside risks to economic growth. The medium-term impact of the war in the Middle East on inflation and economic growth will depend on the magnitude and persistence of the energy price shock, as well as on the scale of indirect and second-round effects.

Looking ahead, ECB staff expect domestic demand to remain weaker than projected in March 2026, as the war continues to weigh on confidence while higher energy costs reduce real household incomes. Elevated energy costs and weaker confidence are expected to dampen private investment in the short term; however, this effect should be partly offset by business investment in new digital technologies. Increased government expenditure on defense and infrastructure is expected to continue supporting public investment. Together, these factors are expected to provide a partial buffer against the economic consequences of the war in the Middle East.

The Governing Council of the European Central Bank has emphasized the urgent need to strengthen the euro area economy while maintaining sound public finances. Fiscal sustainability remains a key prerequisite for broader economic stability. Fiscal measures introduced in response to the energy price shock should be temporary, targeted and tailored to specific needs.

According to the European Commission's Spring 2026 Economic Forecast, published on 21 May 2026, expectations for economic growth in the European Union have been revised downward following the renewed energy shock triggered by the conflict in the Middle East, which has accelerated inflationary pressures and weakened economic activity. The forecast projects EU GDP growth of 1.1% in 2026, compared with 1.5% in 2025, representing a downward revision of 0.3 percentage points compared with the Commission's Autumn Forecast. For 2027, the European Commission expects growth to accelerate to 1.4%, compared with 1.5% projected in the Autumn 2025 Forecast. The outlook for the euro area has likewise been revised downward, with GDP growth expected at 0.9% in 2026 and 1.2% in 2027, compared with 1.2% and 1.4%, respectively, in the Autumn 2025 Forecast.

According to the National Statistical Institute, the overall Business Climate Indicator declined by 1.3 percentage points in June 2026 compared with May, decreasing from 17.4% to 16.1%. A deterioration in business sentiment was recorded in the industrial and construction sectors, while improvements were observed in retail trade and services. The Industrial Business Climate Indicator fell by 2.3 percentage points, from 18.4% to 16.1%, reflecting more moderate assessments by industrial managers of the current business situation of their enterprises. At the same time, their expectations regarding production activity over the following three months also became less favourable. An uncertain

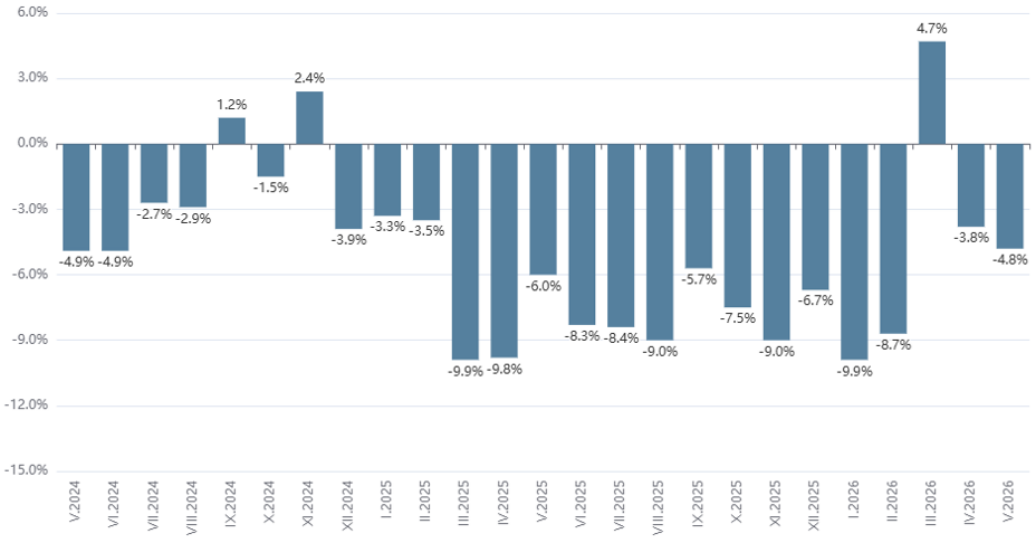
economic environment and labour shortages continue to be identified as the main constraints on business development, cited by 46.9% and 32.4% of enterprises, respectively.

According to the baseline scenario of the Bulgarian National Bank's June 2026 Macroeconomic Forecast, Bulgaria's real GDP growth is expected to slow to 2.8% in 2026 and 2.7% in 2027, before accelerating to 2.9% in 2028. Growth in private consumption is projected to moderate during the second half of 2026 and throughout 2027, reflecting the adverse impact of higher inflation on households' real disposable income. Nevertheless, private consumption is expected to remain the principal contributor to economic growth throughout the forecast horizon.

On 11 June 2026, the International Monetary Fund revised downward its forecast for economic growth in the euro area and raised its inflation projections, identifying the war in the Middle East and the resulting increase in energy commodity prices as the principal factors behind the deterioration of the economic environment. In its regular assessment of the economies of the 21 euro area member states, the IMF projected economic growth of 0.9% in 2026, down from the 1.1% forecast published in April. At the same time, its inflation forecast was revised upward to 2.8%, compared with the previously expected 2.6%. The IMF noted that the euro area economy is facing new challenges arising from the escalation of the conflict in the Middle East and the subsequent increase in energy prices. According to the Fund, these shocks are compounding existing structural challenges, including population ageing, weak productivity growth and limited medium-term growth prospects.

The continuing downward trend in Bulgarian industry is also confirmed by the preliminary seasonally adjusted data published by the National Statistical Institute, according to which the Industrial Production Index, measuring changes in the output of Bulgarian industrial enterprises, declined by 4.8% in May 2026 compared with May 2025, while decreasing by 0.2% compared with the previous month. The negative performance reflects both the substantial decline in the mining and quarrying sector and the 3.9% year-on-year decrease in manufacturing output. These data indicate persistent weakness in the industrial sector and considerable differences in performance across individual industries. Despite growth recorded in certain export-oriented and technology-intensive sectors, overall industrial activity remains under pressure from the uncertain external environment, subdued external demand and persistently high production costs.

Change in the Industrial Production Index compared with the corresponding month of the previous year (calendar-adjusted)



Source: NSI

Interest Rate Risk: Interest rate risk is associated with changes in market interest rates, which could lead to a reduction in investment activity in general, an increase in interest expenses and, consequently, a deterioration in the Company's financial performance.

At its meeting held on 11 June 2026, the Governing Council of the European Central Bank (ECB) decided to increase all three key ECB interest rates by 25 basis points. This was the first change in the ECB's policy rates in one year and the first increase since September 2023. Accordingly, the interest rates on the deposit facility, the main refinancing operations, and the marginal lending facility were increased

to 2.25%, 2.40%, and 2.65%, respectively, with effect from 17 June 2026. The ECB justified the rate increase by referring to renewed inflationary pressures in the euro area resulting from the sharp rise in energy prices following the escalation of the conflict in the Middle East.

According to the ECB Economic Bulletin of June 2026, financing conditions have remained broadly unchanged since the Governing Council's meeting on 30 April 2026, although they continue to be tighter than before the outbreak of the war. The cost of market-based debt issuance increased to 4.0% in April from 3.9% in March. The average interest rate on bank loans to non-financial corporations remained at 3.6% in April, while the average mortgage lending rate stood at 3.4%. The annual growth rate of bank lending to enterprises increased to 3.4% in April from 3.2% in March, while the annual growth rate of corporate bond issuance rose to 4.6%. Mortgage lending also continued to expand, recording annual growth of 3.0% in April.

Inflation Risk: Inflation risk is associated with the possibility of a significant increase in the prices of goods and services, which may reduce real incomes, weaken consumer demand and constrain the country's economic growth.

According to data published by the National Statistical Institute (NSI), the monthly inflation rate measured by the Harmonized Index of Consumer Prices (HICP) was -0.5% in June 2026, while annual inflation (June 2026 compared with June 2025) amounted to 5.2%. Inflation since the beginning of the year (June 2026 compared with December 2025) reached 3.5%. The average annual inflation rate for the period July 2025 – June 2026, compared with July 2024 – June 2025, was 3.9%. Cumulative inflation, measured by the HICP, amounted to 11.5% over the last three years (June 2026 compared with June 2023) and 37.6% over the last five years (June 2026 compared with June 2021).

According to Eurostat, annual inflation in the euro area slowed to 2.8% in June 2026, down from 3.2% in May, signaling a gradual easing of price pressures following the sharp increase in energy prices recorded during the preceding months. In Bulgaria, harmonized inflation also moderated, declining to 5.3% from 6.3% in May. However, it remained significantly above the euro area average and among the highest rates in the European Union. This indicates that cost pressures on businesses and households continue to remain relatively elevated despite signs of a gradual normalization in price dynamics.

According to the European Central Bank's June 2026 Euro system staff macroeconomic projections, headline inflation in the euro area is expected to average 3.0% in 2026, 2.3% in 2027, and 2.0% in 2028. Core inflation, excluding energy and food, is projected to average 2.5% in both 2026 and 2027, before easing to 2.2% in 2028. Compared with the ECB staff macroeconomic projections published in March 2026, the inflation outlook for 2026 and 2027 has been revised upward, primarily reflecting the higher projected path of energy prices. These higher energy costs are expected to pass through, to some extent, into food, goods and services inflation.

The increase in energy prices is expected to continue accelerating inflation during the summer and to keep it well above the ECB's target during the first half of 2027. It is also expected to exert upward pressure on food, goods and services prices. Thereafter, during the second half of 2027, inflation is projected to return gradually towards the target level, supported by declining energy prices and more moderate increases in other prices. Nevertheless, the war in the Middle East remains a major source of uncertainty. The longer energy prices remain elevated, the greater the likelihood that they will generate broader inflationary pressures through indirect and second-round effects.

The International Monetary Fund's updated projections, published in June 2026 and incorporating the effects of more prolonged disruptions to energy supplies, forecast headline inflation of 2.8% in 2026 and 2.3% in 2027. These projections are less favorable than those published prior to the outbreak of the conflict and reflect the expectation of more persistent tensions in global energy supply.

The Bulgarian National Bank has also revised its inflation expectations for Bulgaria upward for the current year. According to the BNB's June 2026 Macroeconomic Forecast, average annual inflation, measured by the Harmonized Index of Consumer Prices (HICP), is projected to accelerate to 5.0% in 2026, with year-end inflation expected to reach 5.9%, primarily reflecting higher energy prices. Average annual inflation is subsequently projected to moderate to 3.5% in 2027 and 2.9% in 2028, while year-end inflation is expected to decline to 2.7% and 2.6%, respectively.

Compared with the BNB's March 2026 Macroeconomic Forecast, the projections for average annual inflation have been revised upward for 2026 and 2027, while the forecast for 2028 has been revised downward.

Systematic foreign exchange risk arises from changes in exchange rates driven by factors affecting the overall economic environment, including changes in the monetary policies of major central banks, inflation, interest rates, geopolitical developments and global financial markets. As this risk originates from external market factors, it cannot be fully controlled or eliminated by an individual enterprise and may have a material impact on its financial performance and the value of its investments.

On 1 January 2026, Bulgaria officially joined the euro area, thereby participating directly in the formulation of the European monetary policy through its representation within the European Central Bank (ECB). Following a one-month dual-circulation period during January 2026, the euro became the sole legal tender in the country. Bulgaria's accession to the euro area has effectively eliminated foreign exchange risk for Bulgarian companies with respect to their euro-denominated exposures. Given the long-standing operation of the currency board arrangement and the fixed exchange rate of the Bulgarian lev to the euro, the immediate effect on the Company's foreign exchange exposure has been limited. Nevertheless, the adoption of the single European currency has eliminated the residual risk associated with a potential change in the exchange rate regime.

The currency conversion was carried out at the irrevocably fixed exchange rate of EUR 1 = BGN 1.95583. Consequently, there is no longer any risk of depreciation of the Bulgarian lev against the euro. However, exposure remains to fluctuations in the value of the euro against other major currencies, including the US dollar, Swiss franc, British pound sterling, and other internationally traded currencies.

According to an ECB analysis, Bulgaria's transition from the lev to the euro has so far had only a limited and largely one-off impact on consumer prices. Estimates indicate that the inflationary effect of the introduction of the single European currency on 1 January 2026 amounted to between 0.3 and 0.4 percentage points. The observed price increases were concentrated mainly in the services sector, with part of the adjustment having already taken place before the official changeover.

Given the Company's export-oriented business model, fluctuations in foreign exchange rates continue to represent a relevant risk factor. Exchange rate movements may affect export revenues and the cost of imported raw materials. However, as the substantial majority of both export sales and import purchases are denominated in euro, the Company's exposure to foreign exchange risk has been significantly reduced.

Political risk refers to the possibility of significant domestic political developments that could lead to adverse changes in the Government's economic program and its priorities for economic development, thereby negatively affecting the business environment in which companies operate and resulting in losses for investors. The level of political risk depends on the likelihood of unfavorable changes in the Government's long-term economic policy that could adversely affect investment decisions.

As of the date of this Report, there are indications that the prolonged period of political instability experienced in Bulgaria in recent years is being overcome. For an extended period, political instability had been regarded as one of the principal factors adversely affecting not only economic activity and the business environment, but also the effective functioning of the country's public institutions. The results of the eighth early parliamentary elections, held on 19 April 2026 - the eighth such election since 2021 - led to the formation of a government with the prospect of stable governance, which is expected to bring an end to the country's prolonged political uncertainty.

In mid-May 2026, the international credit rating agency S&P Global Ratings revised the outlook on Bulgaria's sovereign credit rating from "Stable" to "Positive", while affirming the country's long-term and short-term sovereign credit ratings at 'BBB+/A-2'. This decision was widely regarded as a strong signal to international markets and investors of the improving economic and political environment in Bulgaria. According to S&P Global Ratings, the revision was primarily driven by strengthened political stability, the Government's planned reform agenda, and the expected acceleration in the disbursement of European Union funds.

Against this backdrop, as of 30 June 2026, the balance under Bulgaria's Consolidated Fiscal Program showed a deficit of approximately EUR 2.4 billion, according to preliminary data and estimates published by the Ministry of Finance, representing around 1.9% of projected GDP. At the same time, the 2026 State Budget proposed by the new Government envisages record-high public expenditure and a

fiscal deficit of 5.7% of GDP, representing a significant deviation from the 3% reference value under the European Union's fiscal framework. As a consequence, the European Commission proposed the opening of an Excessive Deficit Procedure against Bulgaria. International institutions, including Fitch Ratings, have also warned that the envisaged pro-cyclical fiscal expansion, combined with postponed structural reforms and rising permanent expenditure, increases the risks to the long-term sustainability of public finances and may exacerbate existing macroeconomic imbalances.

The Fiscal Council issued a strongly critical opinion on the Draft State Budget Act for 2026 and the updated Medium-Term Budgetary Forecast (2026–2028). While considering the principal macroeconomic assumptions for 2026 to be broadly realistic - including real GDP growth of 2.8% and average annual inflation of 2.9% - the Council concluded that the proposed fiscal policy creates significant medium-term risks to the sustainability of public finances. The Fiscal Council noted that the level of public expenditure remains above the limits envisaged by the Public Finance Act, while the State continues to expand its role in the economy instead of gradually rebuilding fiscal buffers. According to the Council, the planned reduction of the fiscal deficit to 3.8% in 2027 and 3.0% in 2028 relies primarily on favorable macroeconomic assumptions rather than on concrete structural reforms or sustainable expenditure restraint measures.

The Bulgarian National Bank (BNB) also expressed serious concerns regarding the proposed 2026 State Budget, noting that the planned fiscal deficit represents a further deterioration rather than a reversal of the country's negative fiscal trend. The BNB emphasized that the planned increase in public expenditure is not accompanied by sufficient structural reforms aimed at improving productivity and the competitiveness of the economy. As a result, there is a risk of a continued deterioration in the macroeconomic environment and a weakening of fiscal sustainability.

The principal concerns expressed by the business community regarding the Draft State Budget Act for 2026 and the updated Medium-Term Budgetary Forecast (2026–2028) relate to the absence of a coherent policy aimed at strengthening competitiveness and ensuring fiscal sustainability. According to the Bulgarian Industrial Association (BIA), the draft budget envisages an excessively high fiscal deficit and a rapid increase in current public expenditure without adequate structural reforms. It fails to introduce sufficient measures to stimulate investment, productivity growth and industrial competitiveness, while also lacking meaningful reforms in the public sector to reduce inefficient expenditure. Particular concern has been expressed regarding the increase in administrative spending and the insufficient support for energy-intensive industries in an environment characterized by persistently high energy prices and intensifying international competition. In the opinion of the BIA, sustainable economic growth should be based on improving the business environment, encouraging investment and enhancing productivity, rather than on the continued expansion of public consumption, which increases macroeconomic risks for the Bulgarian economy and undermines its long-term competitiveness.

At the same time, on 15 July 2026, the European Commission published its 2026 Rule of Law Report, which, despite acknowledging limited progress in certain legislative and institutional initiatives, concluded that Bulgaria had made no progress on four of the six recommendations issued by the Commission in 2025. The Commission noted that a number of recommendations from previous reports remain only partially implemented and that shortcomings persist with regard to the effectiveness and independence of the judiciary, the track record in combating high-level corruption, the transparency and predictability of the legislative process, and the safeguarding of media pluralism. The Report emphasizes that sustained progress in these areas remains essential for strengthening the institutional framework and ensuring legal certainty. The continued existence of unresolved structural deficiencies contributes to increased regulatory uncertainty and may adversely affect perceptions of the investment climate, the predictability of the business environment and investor confidence. Although the Report does not call into question Bulgaria's membership of the euro area, it highlights that improving institutional quality and the effective enforcement of legislation remain key prerequisites for enhancing the competitiveness of the economy and attracting long-term investment.

In addition, in June 2026, the Institute for Management Development (IMD), Switzerland, published the 38th edition of the World Competitiveness Ranking, in which Bulgaria improved by one position, ranking 56th among 70 economies. Despite this modest improvement, the country continues to rank among the least competitive economies in the European Union. The IMD assessment indicates that structural weaknesses related to the effectiveness of public administration, the institutional environment,

productivity, shortages of skilled labor and innovation capacity continue to constrain the country's potential to accelerate economic growth and improve the competitiveness of Bulgarian enterprises. The findings underline the need for consistent structural reforms aimed at improving the business environment, strengthening institutional quality and stimulating investment, which remain essential prerequisites for the sustainable development of both the economy and industry.

A positive development for Bulgaria should also be noted. In June 2026, the Financial Action Task Force (FATF) officially concluded that Bulgaria had substantially fulfilled all commitments under its Action Plan and granted in-principle approval for the country's removal from the "grey list". The final decision remains subject only to the successful completion of an on-site assessment confirming the sustainability and irreversibility of the implemented reforms. FATF's positive assessment represents an important signal of restored confidence in Bulgaria's financial system and is expected to contribute to an improved investment climate, facilitate access to international financing and reduce the administrative burden associated with cross-border financial and commercial transactions. At the same time, the country's formal removal from the enhanced monitoring process remains an important prerequisite for reducing the reputational risk facing the Bulgarian economy.

As of mid-2026, the implementation of Bulgaria's National Recovery and Resilience Plan (NRRP) remains one of the country's key risk factors, despite the progress achieved over the past year. Following a prolonged delay, Bulgaria received the second payment under the Plan amounting to EUR 438.6 million, as well as a partial third payment of EUR 1.47 billion, with part of the third tranche being temporarily withheld due to outstanding reform commitments. In April 2026, Bulgaria submitted its fourth payment request, amounting to approximately EUR 900 million, and in June, the European Commission issued a positive assessment for the majority of the agreed milestones and targets, enabling the disbursement of nearly EUR 1 billion. Nevertheless, a number of structural reforms—primarily in the areas of energy, public governance, the anti-corruption framework and certain legislative measures—remain subject to ongoing monitoring. The timely completion of the Plan continues to be constrained by the short implementation deadline until August 2026 and the requirement that all investments be completed by the end of the year. Consequently, the associated risk extends beyond the potential loss of European funding and also includes the possibility of delays in public investment, slower implementation of infrastructure and digital projects, weaker investment growth, and additional pressure on the state budget, which may have to provide alternative financing or abandon part of the planned investment program.

At the same time, according to actual electricity market trading data from the European Union's power exchanges, electricity prices in Bulgaria continue to rank among the highest in Europe, while electricity prices across Europe remain significantly higher than those in Asia and North America. This places European industry—and, consequently, Bulgarian businesses—at a competitive disadvantage in international markets. At the European level, the long-standing structural divisions between Eastern, Central-Western and Northern Europe continue to constrain electricity transmission capacity and cross-border market integration. As a result, efforts to improve interconnection and accelerate the integration of national electricity networks into a more efficient European energy market remain essential. Another major challenge is the European Green Deal, which requires substantial review within a relatively short timeframe to ensure that it supports rather than constrains Europe's industrial development. At the same time, the implementation of the EU Emissions Trading System (EU ETS) and the Carbon Border Adjustment Mechanism (CBAM) is creating significant additional challenges for European industry. According to numerous European industrial organizations, these measures increase regulatory costs and competitive pressures and are regarded as posing material risks to the long-term competitiveness of European manufacturing and the wider European economy.

The introduction of the Carbon Border Adjustment Mechanism (CBAM) is intended to facilitate the gradual phase-out of the free emission allowances that have so far provided protection for energy-intensive industries. As a result, European companies will progressively bear the full cost of the CO_2 emissions embedded in their products. On 7 April 2026, the European Commission officially established the first reference price for CBAM certificates at EUR 75.36 per ton of CO_2. Market expectations suggest that certificate prices may increase further over time, which, according to industry analyses, could materially raise production costs for certain products and sectors.

A significant limitation of the current CBAM framework is that, while it imposes a carbon adjustment on imports into the European Union, it does not provide a corresponding mechanism to compensate European exporters. Consequently, when European companies export goods to countries without comparable carbon pricing mechanisms - such as the United States, China, India or Türkiye - they continue to bear the additional carbon costs incurred within the EU, placing them at a competitive disadvantage relative to local producers. As steel and aluminium are essential inputs for many manufacturing industries, CBAM increases the cost of imported metals to levels comparable with European-produced materials, whose prices are already elevated due to the EU Emissions Trading System (EU ETS). As a result, downstream industries that rely on steel, aluminium or cement as production inputs face higher raw material costs, while many of their finished products remain outside the scope of CBAM protection when imported into the European Union. Consequently, although imported raw steel is subject to the carbon adjustment mechanism, many finished manufactured products imported from jurisdictions without carbon pricing are not subject to an equivalent adjustment. This may create competitive distortions by allowing imported finished products to remain more price-competitive than comparable products manufactured within the European Union using higher-cost, low-carbon materials.

The implications are particularly significant for the mechanical engineering sector, which is often described in industry analyses as occupying the "mid-value-chain trap". Unlike primary producers of steel or aluminium, which receive direct protection through CBAM's border adjustment mechanism, engineering companies consume these materials as production inputs, while their finished products frequently remain outside the scope of equivalent protective measures. According to numerous European industrial organizations, this situation increases the risk of further constraining export competitiveness and accelerating deindustrialization within Europe. These concerns appear inconsistent with the European Commission's stated objective of reducing administrative burdens and regulatory obstacles for European manufacturers in order to strengthen industrial competitiveness. For the European mechanical engineering industry, CBAM effectively operates as an additional cost on production inputs, reducing competitiveness both within the internal market and in export markets. Moreover, uncertainty regarding the future price of carbon allowances may encourage companies to relocate production capacity outside the European Union and may influence major international investors to favor new industrial investments in regions with lower regulatory costs and greater cost predictability.

Regulatory risk relates to the impact of the existing legal and regulatory framework at both the national and European levels, as well as to future regulatory changes and the potential imposition of sanctions resulting from non-compliance with applicable legislation and regulatory requirements.

In recent years, Bulgarian and European businesses have continued to be increasingly affected by the expanding scope and complexity of European and national regulation across a wide range of areas, including the growing emphasis on sustainability-related requirements. At the same time, the continued increase in administrative burdens, without corresponding and proportionate regulatory simplification, has significantly increased the compliance costs associated with new regulatory obligations and reporting requirements. As a consequence, Europe continues to lag behind its principal global competitors, particularly the United States and China, in terms of economic growth, innovation, advanced technologies and demographic development. The deterioration of the business environment within the European Union - characterized by persistently high energy prices, an expanding regulatory framework that substantially increases administrative burdens on businesses, and new geopolitical challenges— continues to discourage entrepreneurial activity, contribute to capital outflows from Europe, weaken competitiveness and constrain economic growth.

Against this background, on 17 March 2026, the nationally representative employers' organizations and trade union confederations in the Republic of Bulgaria jointly expressed their serious concern regarding the growing risks to the competitiveness of both European and Bulgarian industry arising from increasing regulatory burdens, high energy costs and the instability of the carbon market. Through their Declaration in Support of Bulgarian Industry for a Predictable and Fair Climate Policy in Europe, they urged the Bulgarian Government to support the joint initiative launched by the Ministers responsible for industry from Austria, Croatia, Czechia, France, Germany, Italy, Luxembourg, Poland, Portugal,

Romania, Slovakia, Slovenia and Spain, calling for decisive action to strengthen the competitiveness of European industry and to promote a more balanced and investment-oriented regulatory framework.

The Declaration also called upon the Government to support a comprehensive reform of the EU Emissions Trading System (EU ETS) aimed at ensuring the long-term competitiveness of European industry, enhancing market predictability, reducing price volatility and providing effective protection against carbon leakage. Furthermore, it urged the Government to defend the interests of Bulgarian industry and its workforce by advocating policies that combine climate objectives with competitive energy markets, economic resilience and industrial development, while also supporting faster permitting procedures for industrial investments, reducing administrative barriers and creating a more favorable environment for the development of European industrial value chains. As a result, on 18 March 2026, the Minister of Economy and Industry officially joined the joint ministerial initiative. The Ministry's position is that the green transition should be implemented in a manner that safeguards Europe's industrial capacity, encourages investment and preserves employment within the European Union.

At the national level, the absence of comprehensive structural reforms aimed at achieving sustainable fiscal consolidation could lead to an increase in the tax and social security burden on businesses and employees in the private sector. Such developments could place additional pressure on economic activity, alongside the expected effects of ongoing global geopolitical developments. According to analyses by Bulgarian business organizations, the country's tax and social security burden remains above the European average despite Bulgaria's relatively broad tax base and comparatively low statutory tax rates. In their view, higher taxation would not necessarily result in increased budget revenues but could instead weaken economic growth and reduce investment activity.

In addition to the systematic risks described above, the Company's operations are also exposed to unsystematic risks, including industry risk, relating to the condition and development trends of the sector in which the Company operates, and company-specific risk, arising from the particular characteristics of the Company's business. The Management does not expect these risks to have a material adverse effect on the Company's operations.

III. Information on Material Related Party Transactions

1. There were no material related party transactions entered into during the reporting period of the current financial year that had a material effect on the Company's financial position or results of operations during the period.

2. There were no related party transactions disclosed in the Annual Report that had a material effect on the Company's financial position or results of operations during the reporting period of the current financial year.

IV. Additional Information

a) Information on changes in the accounting policies during the reporting period, the reasons for such changes, and their effect on the issuer's financial performance and equity

M+S Hydraulic Plc applies the International Financial Reporting Standards (IFRS). The interim financial statements are prepared in accordance with the International Financial Reporting Standards issued or revised by the International Accounting Standards Committee (IASC) and the International Accounting Standards Board (IASB), as endorsed by Council of Ministers Decree No 207 of 2006.

The interim financial statements are not audited by a registered auditor and have not been subject to an independent auditor's review. Further information on the Company's accounting policies is provided in the Explanatory Notes to the interim financial statements.

With effect from 1 January 2026, in accordance with the requirements of the Law on the Introduction of the Euro in the Republic of Bulgaria, the Company maintains all accounting records and current financial reporting in euro. All interim reports and public disclosures concerning the Company's financial position, as well as all forecasts issued after the date of introduction of the euro, 1 January 2026, are prepared and submitted in euro to the Financial Supervision Commission (FSC), the regulated securities market and investors.

b) Information on Changes in the Issuer's Economic Group

No such changes occurred as of 30 June 2026.

c) Information on the Results of Organizational Changes within the Issuer, Including Restructurings, Disposal of Companies within the Economic Group, Contributions in Kind by the Company, Leasing of Assets, Long-term Investments and Discontinued Operations

During the reporting six-month period, there were no developments resulting from organizational changes within the issuer, such as corporate restructuring, disposal of companies within the economic group, contributions in kind by the Company, leasing of assets, or long-term investments.

The Board of Directors of M+S Hydraulic Plc resolved to discontinue the business operations of its subsidiary LIFAM HIDRAVLIKA d.o.o., Stara Pazova, Republic of Serbia, effective as of 1 August 2026. Upon completion of all actions required under Serbian legislation, the company will proceed with the liquidation of the subsidiary.

With the objective of improving operational efficiency, optimizing costs, and enhancing the control and quality of the products previously manufactured by LIFAM HIDRAVLIKA d.o.o., Stara Pazova, production will continue at the manufacturing facilities of M+S Hydraulic Plc located at its two plants in Kazanlak, Bulgaria.

d) Statement of the Board of Directors on the Feasibility of Achieving the Published Forecasts for the Current Financial Year, Taking into Account the Results for the Current Six-month Period, and Information on the Factors and Circumstances That Are Expected to Affect the Achievement of the Forecast Results During at Least the Next Six-month Period

The analysis of the current business outlook provided by the Company's partners in Bulgaria, Europe and globally, together with the latest statistical data and macroeconomic forecasts, indicates that the global economy continues to face numerous challenges significantly affecting international trade and economic relations as a result of the ongoing military conflict in Ukraine and the continuing uncertainty in the Middle East. These factors continue to contribute to volatility in energy and raw material prices, fluctuations in demand and increased uncertainty in securing new orders.

According to the latest seasonally adjusted data published by Eurostat, industrial production in May 2026 declined by 1.2% year-on-year in the euro area and by 0.3% in the European Union. On a monthly basis (compared with April 2026), industrial production also decreased by 0.2% in the euro area and by 0.1% in the EU. The largest annual declines in May 2026 were recorded in Ireland (-19.7%), Bulgaria (-4.7%) and Estonia (-3.0%), once again placing Bulgaria among the Member States with the sharpest contraction in industrial production. The decline in Bulgaria's industrial production was almost four times deeper than the average decline in the euro area and nearly sixteen times greater than that recorded across the European Union as a whole.

Data available as of the end of June 2026 indicate that global manufacturing activity continued to recover during the second quarter, although with significant differences across regions. The strongest expansion was recorded in the United States, Italy and India, while the recovery in the euro area remained gradual and France continued to lag behind. European industry continues to face persistent challenges arising from higher energy costs, an increasingly demanding regulatory environment, insufficient investment and weaker external demand, all of which continue to constrain its international competitiveness.

According to S&P Global, the Eurozone Manufacturing PMI increased to 51.4 in June 2026, marking the sixth consecutive month of expansion in manufacturing activity. Growth was supported by increases in production and new orders, while inflationary pressures on manufacturing input costs continued to ease compared with the levels recorded during the first quarter of the year. Despite the improvement, business confidence remained cautious amid continuing geopolitical uncertainty. In Italy, the Manufacturing PMI declined to 52.2 in June 2026 from 52.9 in May. Although growth moderated, the index remained among the highest in the euro area, indicating continued expansion of the manufacturing sector, albeit at a slower pace of growth in output, new orders and employment. In Germany, the Manufacturing PMI was revised upwards to 50.3 in June 2026 from 50.1 in May, marking the second consecutive month of modest expansion in manufacturing activity. At the same time, the manufacturing sector in France remained under pressure, with the PMI continuing to hover around the 50-point threshold, signaling stagnation. Weak domestic investment activity, subdued external demand and the reduced competitiveness of certain industrial sectors continued to weigh on production levels and new orders.

Against this backdrop, the United States Manufacturing PMI was revised upwards to 53.9 in June 2026, indicating an acceleration in growth and the strongest expansion in manufacturing activity in recent months. The improvement was driven by stronger domestic demand, increased output and a recovery in new orders, although export activity remained constrained by international trade barriers. In India, the Manufacturing PMI declined to 54.5 in June 2026 compared with the higher readings recorded in previous months. Despite the moderation, the manufacturing sector continued to report solid growth, supported by domestic consumption and investment, although manufacturers remained exposed to pricing pressures and intensifying international competition.

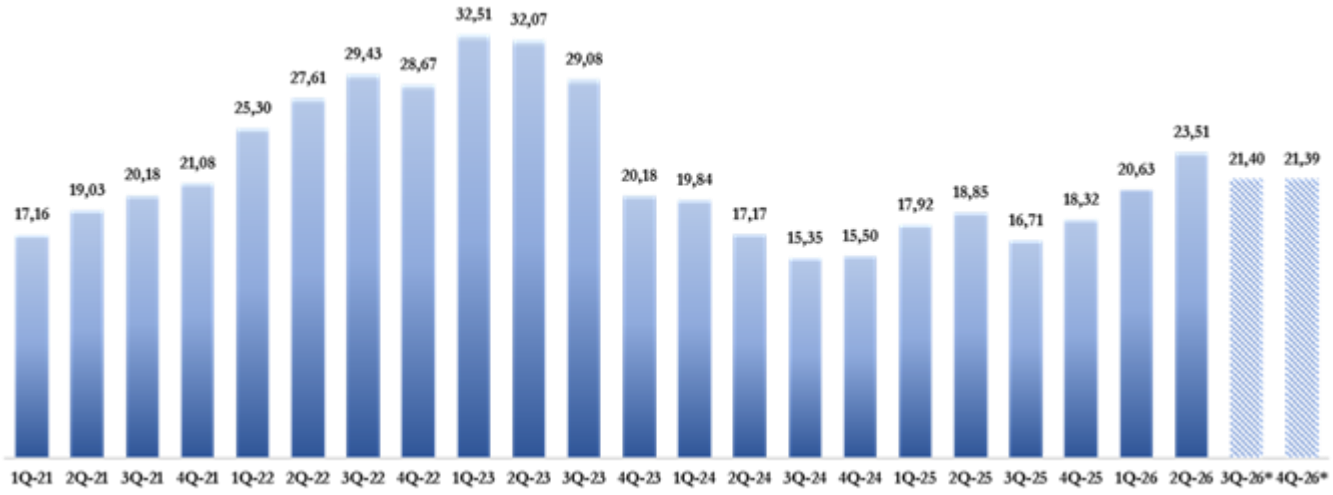
Manufacturing activity in China also maintained positive momentum. The Manufacturing PMI stood at 51.7 in June 2026, with both output and new orders continuing to increase at a moderate pace, supported by government stimulus measures and the gradual recovery in domestic demand, while external demand remained weaker due to international trade restrictions.

According to the preliminary data published by the National Statistical Institute on 10 July 2026, Bulgaria's foreign trade during the January–May 2026 period continued to demonstrate positive export performance, although import growth significantly outpaced exports. Total exports amounted to EUR 18.8 billion, representing a 7.4% year-on-year increase, while imports rose by 12.8% to EUR 24.2 billion. In May 2026 alone, exports increased by 7.8%, whereas imports grew by 17.4% compared with the same month of the previous year. These developments indicate that, despite the continued recovery in external demand for Bulgarian goods, domestic consumption, investment activity and demand for imported raw materials, intermediate goods and equipment continued to expand at a faster pace. The more rapid increase in imports relative to exports resulted in a widening of the foreign trade deficit, which reached EUR 5.4 billion during the period. This confirms the persistence of structural imbalances in Bulgaria's foreign trade and indicates that economic growth continues to be accompanied by a higher dependence on imported raw materials, energy resources, machinery, equipment and consumer goods.

Against this backdrop, as of 30 June 2026, M+S Hydraulic Plc reported standalone net sales revenue of EUR 44.14 million, representing an increase of 20.04 % compared with the corresponding period of 2025 and of 19.25 % compared with the first half of 2024. The Company's separate net sales revenue for the second quarter of 2026 amounted to EUR 23.51 million, representing an increase of 24.73% compared with the corresponding period of 2025 and 39.91% compared with the second quarter of 2024. The Company continues to operate in a dynamic market environment while maintaining its strong positions in its principal export markets, including the United States, Canada, Asia, Australia and the European Union.

The Company's separate gross profit for the first half of 2026 amounted to EUR 4.58 million, representing an increase of 41.13% compared with the gross profit reported for the corresponding period of the previous financial year.

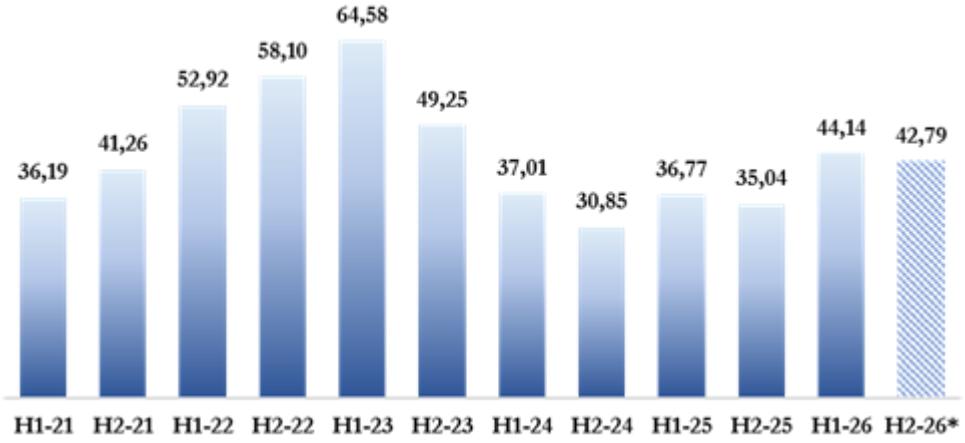
Separate Net Sales Revenue by Quarter (EUR million)
and Updated Forecast for 2026



**Forecast*

For the second half of 2026, the Company expects standalone net sales revenue to increase by approximately 22 % compared with the second half of the previous year and by nearly 39 % compared with the second half of 2024. Based on the information currently available, the Management considers it realistic to expect that the Company's separate net sales revenue for 2026 will increase by over 21% compared with the level reported for the previous financial year.

Separate Net Sales Revenue by Half-Year (EUR million) and Updated 2026 Forecast



**Forecast*

During the first half of 2026, material costs accounted for the largest share of the Company's total operating expenses, at 52.45%, followed by personnel expenses, at 33.62%. Material costs for the reporting period, adjusted for changes in work in progress and other relevant adjustments, expressed as a percentage of sales revenue from finished goods, decreased by 2.00% year on year.

The Company continues to implement its investment policy aimed at modernizing and expanding its machinery and equipment, broadening its product range, and improving productivity and product quality. As of 30 June 2026, total investments amounted to EUR 2,141 thousand, compared with EUR 6,868 thousand for the corresponding period of 2025.

M+S Hydraulic Plc continues the construction of a new hydraulic motor manufacturing plant in the town of Kazanlak. The investment project is being implemented on a Company-owned site with a total area of 34,413 sq. m. The new plant is expected to increase the Company's production capacity by more than 30%, thereby supporting the achievement of its long-term objective of expanding its market share. This objective will be pursued through the introduction of state-of-the-art technologies and CNC machinery, with a high degree of automation and robotization of production operations and processes. The new plant will include several production units for machining and surface-treatment processes, including painting and manganese phosphating, a modern logistics and dispatch center, auxiliary facilities for the repair and maintenance of machinery and equipment, a wastewater treatment facility, and warehouses for blanks and finished products.

In 2025, M+S Hydraulic Plc applied under grant award procedure BG16FFPR003-4.006 "Support for Manufacturing Investments in Large Enterprises in the Stara Zagora Region", implemented under the Regions in Growth Program 2021–2027. On 24 April 2026, M+S Hydraulic Plc officially commenced the implementation of Grant Agreement BG16FFPR003-4.006-0012-C01 under the project entitled "Production Investments in M+S Hydraulic Plc", with an implementation period ending on 24 October 2028. The total value of the agreement amounts to EUR 18,596,409.16, of which EUR 10,189,370.14 represents non-repayable grant financing. The co-financing to be provided by M+S Hydraulic Plc amounts to EUR 8,407,039.02. On 22 June 2026, in accordance with the signed grant agreement, the Company received an advance payment of EUR 4,000,000.

The primary objective of the Project is to create conditions for the Company's long-term growth in the context of the economic transition by introducing advanced manufacturing technologies and renewable energy solutions. The Project directly supports the Company's core business activity - the production of hydraulic motors. It provides for the acquisition and commissioning of state-of-the-art high-tech machinery and equipment, an automated packaging line, a robotic phosphating line with an integrated wastewater treatment facility, and other advanced production assets, ensuring a high level of automation and robotization.

The introduction of the new production equipment will reduce the manufacturing time per unit of output while also enabling the production of new products. As a result, the Company expects to increase its production capacity by more than 18%, while achieving significant technological renewal and modernization of its production facilities through the installation of next-generation machinery.

The Project also includes the construction of a high-capacity photovoltaic power plant (with an expected annual generation of more than 2,400 MWh), integrated with an energy storage system. This installation is expected to cover a substantial portion of the new plant's electricity demand, thereby reducing operating costs and the Company's carbon footprint.

The factors expected to continue affecting the Company's operations throughout 2026 include market prices of raw materials and production inputs, transportation costs and the reliability of supply chains, regional labor market conditions and labor costs, as well as energy prices and the security of energy supplies.

The military conflict that erupted in the Middle East between the United States/Israel and Iran in late February 2026 has further increased risks to the global economy. Its principal adverse effects include a sharp increase in energy commodity prices, disruptions to logistics and global supply chains.

Europe remains particularly vulnerable to rising natural gas prices, which have already increased significantly. At the same time, the European manufacturing sector faces renewed challenges, having already been burdened by substantially higher energy costs than manufacturers in the United States and China. Transportation and cargo insurance costs have also risen markedly as a result of the heightened regional risk, which could ultimately lead to production disruptions in key industrial sectors due to shortages of energy resources and raw materials.

The country's macroeconomic environment, the continuing political uncertainty, fiscal policy developments and geopolitical factors remain among the principal sources of uncertainty affecting the business environment and may require a revision of the Company's expected business results.

d) Information on Persons/Entities Directly or Indirectly Holding at Least 5% of the Voting Rights at the General Meeting of Shareholders as of the End of the Reporting Six-month Period, and Changes in Their Voting Rights Since the End of the Previous Six-month Reporting Period

Information on Legal Entities - Shareholders Holding More Than 5% of the Share Capital

Shareholder	Number of shares	% of capital	Number of shares	% of capital
	31.12.2025		***30.06.2026***	
Stara Planina Hold Plc	12073050	30.61	12073050	30.61
Industrial Capital Holding Plc	8739750	22.16	8739750	22.16
M+S 97 AD	9561191	24.29	9561191	24.29

There are no individual shareholders holding more than 5% of the Company's share capital as of 30 June 2026.

e) Information on Shares Held by the Members of the Management and Supervisory Bodies of the Issuer as of the End of the Reporting Six-month Period, and Changes in Their Shareholdings Since the End of the Previous Six-month Reporting Period, Presented on an Individual Basis

Member of the Board of Directors	**Number of shares**	**% of capital**	**Number of shares**	**% of capital**
	31.12.2025		**30.06.2026**	
Dimitar Bogomilov Tanovski	32 280	0.08	32 280	0.08
Ivan Delchev Delchev	36 243	0.09	36 243	0.09
Velev Invest Ltd.	100 000	0.25	100 000	0.25
Mang Ltd.	84 080	0.21	84 080	0.21
Sostra Engineering Ltd.	880	0.00	880	0.00
Stara Planina Hold Plc	12 073 050	30.61	12 073 050	30.61

f) Information on Pending Litigation, Administrative or Arbitration Proceedings Involving Liabilities or Receivables Amounting to at Least 10% of the Issuer's Equity; Where the

Aggregate Amount of the Issuer's Liabilities or Receivables Under All Pending Proceedings Exceeds 10% of Its Equity, Information Shall Be Provided for Each Proceeding Separately

As of 30 June 2026, M+S Hydraulic Plc was not a party to any pending litigation, administrative or arbitration proceedings and there were no court decisions or petitions for the dissolution or liquidation of the Company.

g) Information on Loans Granted, Security Provided or Commitments Assumed by the Issuer, Its Subsidiaries or Their Subsidiaries in Respect of a Single Person or Its Subsidiary, Including Related Parties, Specifying the Name and UIC of the Person, the Nature of the Relationship Between the Issuer or Its Subsidiaries and the Borrower, the Outstanding Principal Amount, Interest Rate, Date of the Agreement, Including Any Amendments Thereto, Final Maturity Date, Amount of the Commitment, Any Specific Terms Other Than Those Referred to Above, and the Purpose for Which the Loan Was Granted, Where It Constitutes a Purpose-specific Loan

On 25 June 2025, M+S Hydraulic Plc entered into a credit facility agreement with International Asset Bank AD (UIC: 000694329) for a maximum amount of BGN 10 million, with a final maturity date of 30 June 2030. The interest rate is equal to the six-month EURIBOR plus a contractual margin of 1.75 percentage points, subject to a minimum interest rate of 3.30%. The credit facility is secured by mortgages over two of the Company's production buildings located in the town of Kazanlak. The carrying amount of the pledged assets as of the date of the agreement is BGN 9.6 million. As of 30 June 2026, the Company does not have outstanding liabilities under the above-mentioned loan.

In connection with securing the advance payment for the implementation of the project entitled "Production Investments in M+S Hydraulic Plc" under Procedure BG16FFPR003-4.006 "Support for Production Investments in Large Enterprises in the Stara Zagora Region", financed under the Regional Development Program 2021–2027, Just Transition Priority Axis, M+S Hydraulic Plc and International Asset Bank AD (UIC: 000694329) entered into an agreement for the issuance of a bank guarantee and the provision of a contingent bank credit facility in the amount of EUR 4 million.

As collateral for the contingent bank credit facility, a security interest was created under the Special Pledges Act over 14 items of machinery and equipment owned by M+S Hydraulic Plc. The carrying amount of the pledged assets as of the date of the agreement amounted to EUR 3.7 million. As of 30 June 2026, the Company had no outstanding obligations under the above-mentioned credit facility.

As of 30 June 2026, the subsidiary M+S HYDRAULIC POWER TRANSMISSION GmbH has an outstanding liability of EUR 836 thousand under a bank loan obtained in December 2024 from VR Bank Dreieich-Offenbach eG, with a maximum principal amount of EUR 1.4 million, a final maturity date of July 2030, and a fixed annual interest rate of 4.5%.

V. Information Pursuant to Appendix No. 4 to FSC Ordinance No. 2

- Changes in the persons exercising control over the Company – None.
- Commencement of insolvency proceedings against the Company or any of its subsidiaries, and all material stages of such proceedings – None.
- Conclusion or performance of material transactions – None.
- Decision to enter into, terminate or rescind a joint venture agreement – None.
- Changes in the Company's auditors and the reasons for such changes – None.
- Commencement or termination of court or arbitration proceedings relating to liabilities or receivables of the Company or any of its subsidiaries, where the amount in dispute is at least 10% of the Company's equity – None.
- Acquisition, disposal or creation of security interests over equity interests in commercial companies by the Issuer or any of its subsidiaries – None.
- Any other circumstances which the Company considers may be of significance to investors in making an investment decision to acquire, sell or continue to hold publicly traded securities –

Such information has been disclosed as inside information under Article 7 of Regulation (EU) No 596/2014 and is presented in Section IV of this Interim Report.

The inside information of M+S Hydraulic AD within the meaning of 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, relating to events that occurred during 2026, has been published on the Company's corporate website in the About Us / Investors section https://www.ms-hydraulic.com/index.php?option=com_content&view=article&id=12&Itemid=251&lang=bg, as well as through X3News, the information service used by the Company for the public disclosure of inside information http://www.x3news.com/?page=Company&BULSTAT=123028180.

This Interim Report has been prepared in accordance with Article 100o, paragraph 4, items 2 and 4 of the Public Offering of Securities Act (POSA).

Procurator: Vladimir Valentinov Spasov

Digitally signed by Vladimir Valentinov Spasov
Date: 2026.07.23 16:18:30 +03'00'

This document contains information regarding the achievement of published forecasts, forward-looking statements relating to future periods, as well as information that constitutes inside information within the meaning of Article 7 of Regulation (EU) No 596/2014 on market abuse (Market Abuse Regulation – MAR). Such information may have a significant effect on the price of the Company's shares.