

**CONSOLIDATED
FINANCIAL STATEMENTS
•
CONSOLIDATED ANNUAL
REPORT**

TELELINK BUSINESS SERVICES GROUP AD

**FOR THE YEAR ENDED
DECEMBER 31 2020**

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1. Corporate information

Incorporation

Telelink Business Services Group EAD (the Company) was incorporated on 12 July 2019 as a sole-shareholder joint stock company with an owner Telelink Holdings BV (The Netherlands), registered with the Trade Register of the Registry Agency under UIC 205744019. The registered office of the Company is: Vitosha region, v.a. Malinova dolina, 6 Panorama Sofia Str., Business Center Richhill, Block B, 2nd floor, 1766 Sofia, Bulgaria.

Telelink Business Services Group EAD is a public company, registered with Financial Supervision Commission on 28 November 2019.

Company shares are traded on the Bulgarian Stock Exchange.

Shareholders

At 31 December 2019, the founder of the Group, Lyubomir Minchev, held directly 10,456,250 shares with nominal value of BGN 1 each, representing 83.65% of the Company's total capital. The other individuals holding more than 5% of the Company's capital are Ivo Evgeniev Evgeniev and Spas Toshev Shopov, each one of them holding directly 771,875 shares with nominal value of BGN 1 each, respectively 6.175% of the Company's total capital.

The first tranche of the Company's planned offering on the BSE was carried out between 08 and 11 June 2020, whereby selling shareholders Lubomir Minchev, Spas Shopov and Ivo Evgeniev realised a total of 982,487 shares or 7.86% of the existing 12,500,000 shares in the Company's total capital at a price of BGN 7.60 per share.

The second tranche of public offering on the BSE was carried out between 21 and 23 September 2020, whereby Lubomir Minchev, Spas Shopov and Ivo Evgeniev realised further sales of a total of 767,513 shares or 6.14% of the Company's existing shares at a price of BGN 11.10 per share.

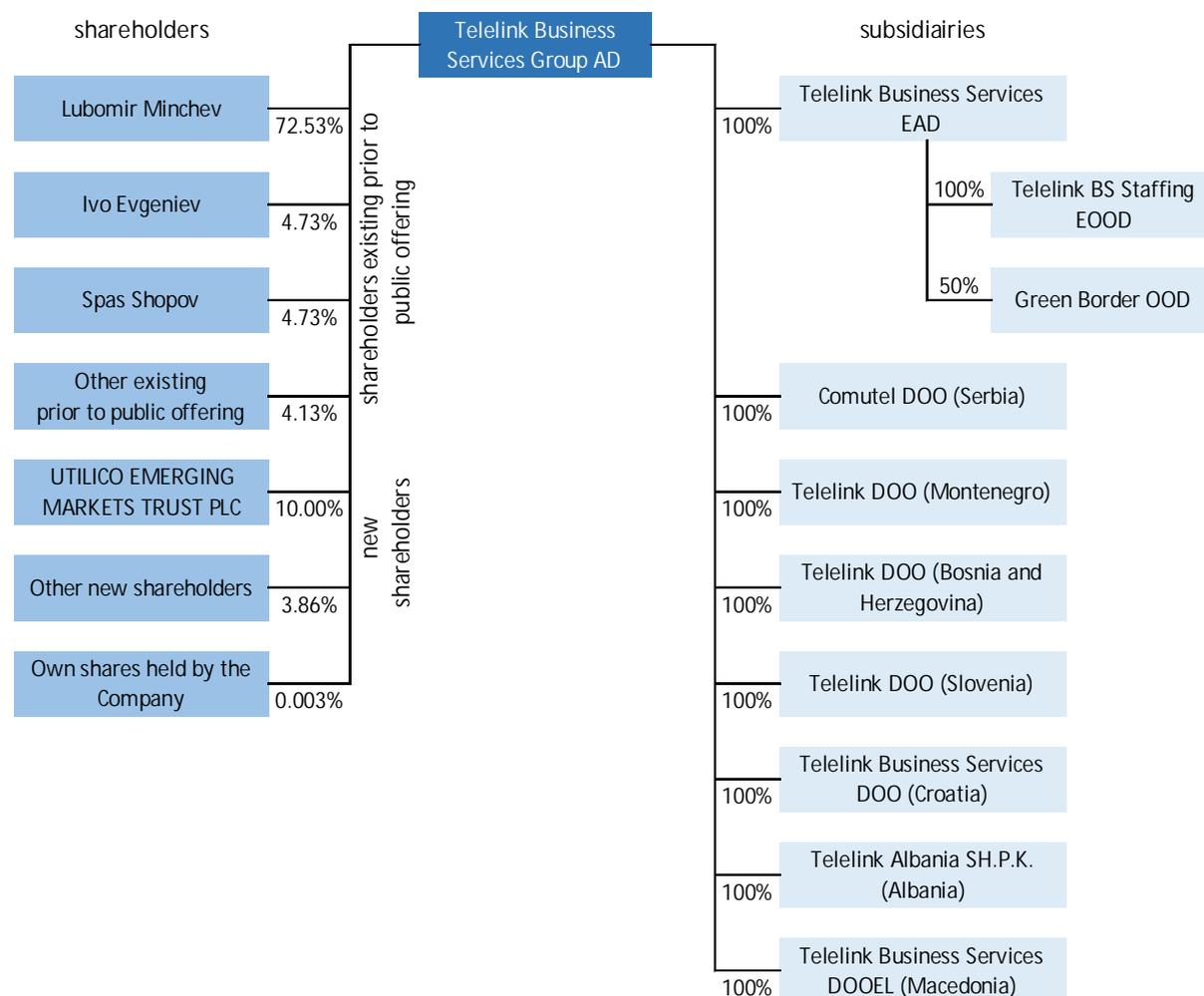
The conducted offerings were limited strictly to existing shares and did not involve any capital increase, nor any proceeds to the Company and the Group.

Ownership structure and Group structure as at 31 December 2020 are presented below:

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1. Corporate information (continued)



Business

Telelink Business Services Group specializes in providing services related to systems integration and maintenance of customers' information and communication systems in the three main market segments: mobile telecommunications service providers, fixed telecommunications service providers, and large and mid-sized public and private organizations within the area of the group's territorial presence and globally.

The consolidated financial statements present financial information of Telelink Business Services Group AD and its subsidiaries - Telelink Business Services EAD (Bulgaria), Comutel DOO (Serbia), Telelink DOO (Montenegro), Telelink DOO (Bosnia and Herzegovina), Telelink DOO (Slovenia), Telelink Business Services DOOEL (North Macedonia), Telelink Albania SH.P.K. (Albania), Telelink Business Services DOO (Croatia), all of them jointly the "Group".

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2. Basis of preparation

These consolidated financial statements have been prepared on a historical cost basis except for investment properties measured at fair value and defined benefit obligations measured at the present value of the obligations. The financial statements are presented in Bulgarian leva (BGN), which is the Group's functional currency. All values are rounded off to the nearest thousand (BGN' 000), except when otherwise stated.

The consolidated financial statements for the year ended 31 December 2020 were authorised for issue by decision of the Management Board dated 23 April 2021.

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union (EU). The reporting framework "IFRS, adopted by EU" in its essence is the national accounting basis IAS, adopted by EU, settled in the Accountancy Act and defined in p.8 in its Additional Provisions.

3. Basis of consolidation

The consolidated financial statements comprise the financial statements of Telelink Business Services Group AD and its subsidiaries as at 31 December 2020.

Subsidiaries are all entities over which the Group has control. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its return. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Non-controlling interests (NCI) are measured at the proportionate share of the acquiree's identifiable net assets at the date of the acquisition. Changes in the Group's ownership interest in a subsidiary that do not result in the loss of control are accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets and liabilities of the subsidiary, and non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained in a former subsidiary is recognised at fair value at the time the control is lost.

All intra-group balances and transactions, unrealised income and expenses, resulting from intra-group transactions, are eliminated. Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of impairment.

Telelink Business Services Group AD is a newly incorporated entity established in 2019. After its registration, an activity is separated from an existing entity, comprising companies which were under common control, but did not form a legal group as of 31 December 2018.

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3. Basis of consolidation (continued)

Business combinations between entities under common control are accounted for using predecessor value method. Under this method, the newly established company, Telelink Business Services Group AD, incorporates the assets and liabilities of the entities acquired in 2019 using the acquiree's values from the consolidated financial statements of the previous parent entity. The acquired entity's results are included in the consolidated financial statements retrospectively: the financial statements reflect full year's results of Telelink Business Services EAD, Comutel DOO (Serbia), Telelink DOO (Montenegro), Telelink DOO (Bosnia and Herzegovina), Telelink DOO (Slovenia) for 2018, even though the business combination occurred in 2019. In addition, the corresponding amounts for 2018 reflect the combined results of the new group structure, even though the transformation occurred in 2019. Intragroup balances and unrealized gains and losses on transactions within the Group are eliminated.

Telelink Business Services Group AD has prepared its first consolidated financial statements for the year ended 31 December 2019, which include comparative data from the financial statements of Telelink Bulgaria EAD for previous years.

The Group has not identified reporting segments and does not disclose segment information in accordance with IFRS 8 Operating Segments.

4. Summary of significant accounting policies

Foreign currency translation

The consolidated financial statements have been prepared in Bulgarian leva, which is the Group's functional and reporting currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency at the rate of exchange ruling at the reporting date. Any differences are taken to the statement of profit or loss and other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the exchange rate as at the date of the initial transaction (acquisition).

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. Summary of significant accounting policies (continued)

Business combinations under common control

Business combinations between entities under common control are accounted for as if the acquisition had taken place at the beginning of the earliest comparative period presented or, if later, on the date on which joint control existed, and for the purpose, the comparative information is restated. Assets and liabilities are recognised at the carrying amounts previously reported in the consolidated financial statements of the shareholder exercising control over the Group ('predecessor value method'). The acquirees' results are included in the consolidated financial statements retrospectively, i.e. the comparative date for previous years reflect summarised results of the new structure of the Group, even though the transformation occurred in the current year. Intragroup balances and unrealized gains and losses on transactions withing the Group are eliminated.

Joint Arrangements

A participation in joint arrangements is determined within contractual relations, which entitle the parties to joint control over the agreement. Joint arrangements are either joint operations or joint ventures. The Group analyses its participation in joint arrangements by considering its rights and obligations, as well as the structure and legal form of each arrangement, and the contractual terms agreed to in the arrangement. In respect of its participation in a joint venture, the Group recognises the assets, liabilities, revenue from the sale of the products of the joint arrangement, expenses, including those incurred jointly and accounted for in the assets, liabilities, income and expenses associated with their participation in the joint arrangement in compliance with IFRSs applicable to the specific assets, liabilities, income and expenses.

Assets held for sale

The Group classifies non-current assets (or disposal group) as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition and its sale is highly probable. For the sale to be highly probable, management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except when events or circumstances beyond the Group's control may extend the period and if there is evidence that management is still committed to its plan to sell the asset.

Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

4. Summary of significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost, net of any accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the machinery and equipment when that cost is incurred, if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the machinery and equipment as a replacement if the recognition criteria are satisfied. Any other repair and maintenance costs are recognised in the statement of profit or loss in the period in which they were incurred.

Property, plant and equipment (continued)

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets, as follows:

<u>Type of the asset</u>	<u>Useful life in years</u>
Computers	2 years
Machinery and equipment	3.33 years
Motor vehicles	4 years
Managed services hardware	in accordance with the duration of the contract for the provision of such services - usually 4/7 years
Furniture and fixtures and fittings	6.67 years
Other assets	6.67 years

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income in the year the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if the expectations differ from the previous accounting estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

4. Summary of significant accounting policies (continued)

Investment property

Investment property is property held to earn rental income or for capital appreciation or both. Investment property is measured initially at cost, including transaction costs.

Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment property are recognized in profit or loss in the period in which they arise.

Investment property is derecognised on disposal of or when the investment property is permanently retired and no future economic benefits are expected from its disposal. Gains or losses arising from the retirement or disposal are recognized in the statement of profit or loss and other comprehensive income in the period of retirement or disposal.

Transfers from or to investment properties are made only in case of change of their use. For a transfer from investment property carried at fair value to owner-occupied property or inventory, the deemed cost for subsequent accounting under IAS 16 or IAS 2 is the fair value at the date of change in use. If an owner-occupied property becomes an investment property, the Group applies IAS 16 up to the date of change in use.

Borrowings costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Government grants

Government grants are recognised initially where there is reasonable assurance that the grant will be received and all attached conditions will be complied with by the Group. Subsequently, they are recognized in profits and losses on a systemic basis over the asset's useful life.

Government grants that compensate the Group for expenses incurred are recognized in profits and losses on a systemic basis in the periods, in which the expenses were incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

4. Summary of significant accounting policies (continued)

Intangible assets

Non-current intangible assets acquired separately are measured initially at cost. The cost comprises the purchase price, including any import duties and non-refundable purchase taxes, and any directly attributable expenditure on bringing the asset to its intended use.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Subsequent expenditure on an intangible asset after its purchase or its completion is recognized as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these two conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

Internally generated intangible assets, excluding development costs, are not capitalised and expenditure is reflected in the statement of profit or loss in the year in which the expenditure is incurred.

Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use. To assess whether an internally generated intangible asset meets the criteria for recognition, the Group classifies the generation of the asset into a research phase and a development phase.

If the Group cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the Group treats the expenditure on that project as if it were incurred in the research phase only. Development costs are recognised for assets if the Group has control and expects future economic benefits from it.

The useful life of the intangible assets is assessed to be finite.

Amortisation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

<u>Type of asset</u>	<u>Useful life in years</u>
Software	2 years
Managed services software	in accordance with the duration of the contract years - usually 4/7 years
Other assets	Within the contract period

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

4. Summary of significant accounting policies (continued)

Intangible assets (continued)

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is classified by function in the statement of profit or loss and other comprehensive income, depending on the use of the intangible asset.

Any gain or loss arising on derecognition of an intangible asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the statement of profit or loss and other comprehensive income for the year in which the asset is derecognised.

Inventories

Inventories include materials, goods for trading, and work in progress. Inventories are measured at the lower of cost or net realisable value. The cost of inventories reflects their purchase price plus any other costs necessary to bring them to their present location and condition and is determined using the weighted average method. Net realisable value for goods for trading and finished products is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Work in progress includes cost of direct materials and labour but excluding borrowing costs.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, an appropriate valuation model is used.

Impairment losses on continuing operations are recognised in the statement of comprehensive income in expense categories consistent with the function of the impaired asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

4. Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

For all non-financial assets excluding goodwill, the Group assesses whether there are indications that the impairment loss on an asset other than goodwill recognized in prior periods may no longer exist or may have decreased. If such indications exist, the Group determines the recoverable amount of the asset or cash-generating unit. An impairment loss is reversed only when there has been a change in the estimates used to determine the recoverable amount of the asset after recognition of the last impairment loss. If that is the case the carrying amount of the asset is increased to its recoverable amount. The reversal of an impairment loss is limited so that the carrying amount of the asset does not exceed its recoverable amount nor exceed the carrying amount, after deduction of amortization, that would have been determined had no impairment loss been recognized for asset in previous periods. The reversal of an impairment loss is recognized in the statement of profit or loss and other comprehensive income for the year.

Cash and cash equivalents

Cash and short term deposits comprise cash in bank accounts and on hand, and short-term deposits with an original maturity of three months or less.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

4. Summary of significant accounting policies (continued)

Financial assets (continued)

Initial recognition and measurement (continued)

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using effective interest rate method and are impaired. Gains and losses are recognized in profit or loss statement when the asset is derecognised, modified or impaired.

Financial assets at amortised cost of the Group include trade receivables and loans to third parties.

Financial assets at fair value through other comprehensive income (debt instruments)

The Company measures debt instruments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

4. Summary of significant accounting policies (continued)

Financial assets (continued)

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group may choose to classify irrevocably as equity instruments at fair value through other comprehensive income when they meet the equity requirements under IAS 32 Financial Instruments: Presentation and when they are not held for trading. The classification is determined on the basis of an individual instrument.

Gains and losses on these financial assets are never "recycled" into profit or loss. Dividends are recognised as other income in the income statement when the right to payment is established, except when the Group benefits from such income as a refund of part of the cost of the financial asset, in which case the gains are recognized in other comprehensive income. Equity instruments designated at fair value through other comprehensive income are not tested for impairment

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss and other comprehensive income.

Derecognition

A financial asset is derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

4. Summary of significant accounting policies (continued)

Financial assets (continued)

liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments at fair value through OCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument.

The Group considers a financial asset in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

4. Summary of significant accounting policies (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss and other comprehensive income.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

The Group has not designated any financial liabilities as at fair value through profit or loss.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss and other comprehensive income.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to note 26, "Interest-bearing loans and borrowings".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

4. Summary of significant accounting policies (continued)

Financial liabilities (continued)

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss and other comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits include salaries, interim and annual bonuses, social security contributions and paid annual leave of current employees expected to be settled wholly within twelve months after the end of the reporting period. They are recognised as an employee benefit expense in the profit or loss or included in the cost of an asset when service is rendered to the Group. Short-term employee benefits are measured at the undiscounted amount of the expected cost of the benefit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

4. Summary of significant accounting policies (continued)

State social security plan

All employees of the Group are members of the Bulgarian Social Security Plan. In the normal course of business, the Group makes payments to the National Social Security Fund and National Health Insurance Fund based on employee's remuneration, at rates determined by the Bulgarian Social Security Code. The share of the Group in the social security contributions is treated as payments made under a defined contribution plan and is recognized as expense at the time when incurred. Under the State Social Security Plan, all related risks are assumed by the employees. The Group bears no other obligation.

Retirement benefits

The Group operates a defined benefit plan arising from the requirement of the Bulgarian labour legislation to pay two or six gross monthly salaries to its employees upon retirement, depending on the length of their service. If an employee has worked for the Company for 10 years, the retirement benefit amounts to six gross monthly salaries upon retirement, otherwise, two gross monthly salaries. These retirement benefits are unfunded. The cost of providing benefits under the retirement benefit plan is determined by the Group using the actuarial projected unit credit method. Re-measurements, comprising of actuarial gains and losses, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods. Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognises restructuring-related costs

Interest expense is calculated by applying the discount rate to the retirement benefit liability. The changes in the defined benefit obligation are recognised by the Group in profit or loss for the period and are presented as follows:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements within "Employee benefit expense";
- Net interest expense or income within "Finance costs".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

4. Summary of significant accounting policies (continued)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in note 5.

Sale of goods/equipment

Revenue from sale of goods and equipment is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment. The normal credit term is 30 to 90 days upon delivery.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties). In determining the transaction price for the sale of equipment, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

Significant financing component

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Warranty obligations

The Group provides also an extended warranty beyond fixing defects that existed at the time of sale. These service-type warranties are sold either separately or bundled together with the sale of fire prevention equipment.

Contracts for bundled sales of equipment and a service-type warranty comprise two performance obligations because the promises to transfer the equipment and to provide the service-type warranty are capable of being distinct. Using the relative stand-alone selling price method, a portion of the transaction price is allocated to the service-type warranty and recognised as a contract liability. Revenue is recognised over the period in which the service-type warranty is provided based on the time elapsed.

Installation services

The Group provides installation services that are either sold separately or bundled together with the sale of equipment to a customer. The installation services can be obtained from other providers and do not significantly customise or modify the equipment. Contracts for bundled sales of equipment and installation services are comprised of two performance obligations because the promises to transfer equipment and provide installation services are capable of being distinct and separately identifiable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

4. Summary of significant accounting policies (continued)

Revenue from contracts with customers (continued)

Installation services (continued)

Accordingly, the Group allocates the transaction price based on the relative stand-alone selling prices of the equipment and installation services.

The Group recognises revenue from installation services over time by considering the stage of completion of installation services. Usually, these services are carried out shortly after the delivery of the equipment. The sales revenue of the equipment is recognized at a point in time, upon the delivery of the equipment.

Provision of services related to licensing and software, developed by third parties

The Group provides services related to the transfer of software licenses under contracts with customers, which is fulfilled by downloading and activating a license key. An integral part of the contracts is the provision of consultancy services to the customers regarding the choice of an optimal package of software products and offering them assistance with the implementation of the licensing system.

As for the customer contracts that involve a combination of consultancy services and licensing, developed by third party, revenue is recognized at the time of delivery of the software product.

Provision of managed services

These services include long-term customer contracts (typically between five and seven years) to support and manage the customer's IT infrastructure, which includes ongoing proactive surveillance, remote management, and on-site support. Under the majority of the contracts, the Group provides network and/or voice communications equipment for use as part of its contractual obligation. Revenue under managed service contracts is recognized over the term of the contract on a monthly basis.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

4. Summary of significant accounting policies (continued)

Revenue from contracts with customers (continued)

Interest

Interest income is recognised as the interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Dividends

A liability to make cash or non-cash distributions to the equity owners of the parent company is recognised when the distribution is authorised (ie authorised by the shareholders) and is no longer at the discretion of the Company. A corresponding amount is debited directly to equity.

Lease

The determination of whether an arrangement is, or contains, a lease is made at inception date. And namely, whether the arrangement conveys a right to use the asset for a certain period of time.

The Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases (i.e. leases with a lease contract term of less than 12 months) and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date, an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Plant and machinery 3.33 years
- Motor vehicles and other equipment 4 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section Impairment of non-financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

4. Summary of significant accounting policies (continued)

Lease (continued)

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in- substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the group and payments of penalties for terminating the lease, if the lease term reflects the entity exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses borrowing interest rate based on interest rate statistics because the interest rate implicit in the lease is not at any time readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low- value assets are recognised as expense on a straight-line basis over the lease term.

The Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of statement of comprehensive income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

4. Summary of significant accounting policies (continued)

Taxes

Current tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date.

Deferred tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss and other comprehensive income for the year.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

4. Summary of significant accounting policies (continued)

Taxes (continued)

Value Added Tax

Revenue, expenses and assets are recognised net of the amount of sales tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Share capital and reserves

Telelink Business Services Group is a shareholding company and is obliged to register with the Trade register certain level of share capital that will act as a collateral to the creditors. Shareholders meet obligations of the Company up to their own shareholding and can claim refund of their shareholding only during liquidation or insolvency proceedings. The share capital is presented as the nominal value of the issued and paid shares.

According to the Commercial act regulations the Group is obliged to set aside Legal reserves.

Shares bought back are presented in the statement of financial position at cost and are deducted from the Group equity. The net effect of the shares bought back and their transfer to employees within the share-based payments plans in the Group is presented directly in the Other components of equity.

Share-based payments

Employees and members of the Managing board of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions). Equity instruments transferred are measured by their fair value at grant date. The fair value of the share-based payment considerations under conditions, that have not vested, is measured to reflect the conditions and to exclude any differences between expected and actual results. The cost of equity-settled transactions is recognised, together with the corresponding increase in the equity over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). More details are provided in Note 37.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

5. Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of the contingent liabilities at the date of the statement of financial position, as well as on the income and expenses reported for the period. However, uncertainty about these assumptions and estimates could result in outcome that requires a material adjustment to the carrying amount of the asset or liability in subsequent reporting periods.

Judgements

In the process of applying the adopted accounting policies, the Group's management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

COVID-19 coronavirus epidemic

The spread of the virus and the adoption measures for its mitigation encompasses, to one or another extent, all countries of registration of Group subsidiaries. Potentially relevant to their activities is also the impact of similar factors on their suppliers and clients in third countries.

As technological companies with an advanced IT infrastructure, Group subsidiaries have assured technologically and introduced successfully teleworking arrangements for their employees, allowing for the continuity of internal and external services and processes realizable on a remote basis. Key external processes such as the signing of contracts and meetings with customers have also been digitalized. Considering the implemented communication and collaboration tools, utilization and efficiency monitoring systems and the high average level of IT literacy of employees, the Company does not expect teleworking to result in substantial reduction of the Group's productivity. With regard to the performance of fieldworks involving activities outside company offices, employees have been provided with personal safety apparel, and the realization of such works on territories under travelling and access restrictions has been assured with the involvement of qualified local subcontractors.

As of the date of this Report, the Company is not aware of any actual or planned interruptions or significant delays in the workflow and deliveries from US, Chinese and other equipment vendors of key importance to the Group.

As of the date of this Report, governments in the countries of relevance to the Group maintain active positions in the sense of supporting private businesses and assuring premises for the continuity of public procurement tendering and implementations.

As of the date of this Report, the development of the epidemic remains dynamic and difficult to forecast. On the other hand, Group companies continue to operate successfully under the circumstances and the Company's management has not established substantial deviations in key processes on the part of main vendors and accounts. At the same time, independent market sources and the observations of the Company's management point out both risks of a general slowdown in economic growth and temporary limitations of the investment potential in certain private sector industries, and expectations for a significant acceleration of investments by key client groups in technologies related to their digitalization, virtualization and collaboration capacity in a teleworking environment, including various products, services and complex solutions offered by the Group.

The management, taking into account the above-mentioned facts, has concluded that there are no material uncertainties that may cast significant doubt in the Group's entities ability to continue to operate as a going concern.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

5. Significant accounting judgements, estimates and assumptions (continued)

Judgements (continued)

Joint Arrangements

The Group assesses its participation in each consortium, where joint control is present as joint arrangements. Management analysed the rights and obligations by considering the structure and legal form of each arrangement, the contractual terms agreed to by the parties to the arrangement and all other relevant facts and circumstances, in order to determine the type of Joint Arrangement it is involved in – Joint Operations or Joint Venture. The analysis performed by management has determined that the participation in all the consortiums meets the criteria of recognition as Joint Operations.

Revenue from contracts with customers

The reporting of revenue from contracts with customers requires significant judgments to be made by the Group's management to determine the individual performance obligations under contracts with customers, which significantly affect the amount of revenue recognized in the reporting period. Key judgements include an analysis of the economic nature and commercial context of contracts with customers to identify individual performance obligations, as well as an assessment of their progress at the end of the reporting period, including estimates and assumptions about the volume of services, activities and inventories that are required for satisfaction of the performance obligations; the expected total contract costs; the remaining costs of completing the contract; the total revenue from the contract, as well as the risks under the contracts, including technical, regulatory and legal risks.

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

- Identifying performance obligations in a bundled sale of equipment and installation services

The Group provides installation services that are bundled together with the sale of equipment to a customer. The installation services are a promise to transfer services in the future and are part of the negotiated exchange between the Group and the customer. The Group has determined that both the equipment and installation services are capable of being distinct. The Group has also determined that the promises to transfer the equipment and to provide installation services are distinct within the context of more contracts. The equipment and installation are not inputs to a consolidated item in the contract. The Group is not providing significant integration services because the presence of the equipment and installation services together in the contract does not result in any additional or consolidated functionality. In addition, the equipment and installation services are not highly interdependent or highly interrelated, because the Group would be able to transfer the equipment even if the customer declined installation services and the customer itself, would be able to ensure installation services in relation to products offered by other distributors. Consequently, the Group allocates a portion of the transaction price to the equipment and the installation services based on relative stand-alone selling prices.

- Principal versus agent considerations

The Group enters into contracts with its customers for the sale of equipment/goods and licenses/software produced by produced by various suppliers. The Group has determined that it controls the goods before they are transferred to customers, and it has the ability to direct the use of the equipment or obtain benefits from the equipment. The following factors indicate that the Group controls the goods before they are being transferred to customers. Therefore, the Group has determined that it acts as a principal in these contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

5. Significant accounting judgements, estimates and assumptions (continued)

Judgements (continued)

Revenue from contracts with customers (continued)

- The Group is primarily responsible for fulfilling the promise to provide the specified equipment.
- The Group bears the inventory risk before or after the specified equipment has been transferred to the customer as it purchases equipment and holds it in a warehouse.
- The Group has discretion in establishing the price for the specified equipment.

In addition, the Group has concluded that it transfers control over its services at a point in time, upon completed tests of functioning equipment and acceptance by the customer.

- Determining the timing of satisfaction of services

Judgment is required to determine the degree of satisfaction of the performance obligation.

The Group determined that the cost-plus-margin method of inputs is the best method in measuring progress of services provided.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of property, plant and equipment, and intangible assets

Financial reporting of plant and equipment, and intangible assets involves estimates as to their expected useful lives and residual values, based on management assessments. Further details about the useful lives of property, plant and equipment, and intangible assets are provided in Note 4 „Summary of significant accounting policies“.

Revaluation of investment property

The Group measures its investment property at fair value with any changes in the fair value being recognised in profit or loss. The Group engages an independent valuer to determine the fair value at the reporting period-end or at the date of change in use. The key assumptions used to determine the fair value of investment property and sensitivity analyses are provided in Note 19 „Investment property“.

Provision for expected credit losses of trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

5. Significant accounting judgements, estimates and assumptions (continued)

Estimates and assumptions (continued)

Provision for expected credit losses of trade receivables and contract assets (continued)

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Write down of inventories

In general, inventories are written down to net realisable value. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. Estimates of net realisable value also take into consideration the purpose for which the inventory is held.

Income tax

Current income tax liabilities are for the current and prior periods and are measured at the amounts expected to be paid to the taxation authorities, using the tax rates that have been enacted by the balance sheet date. Provision for income taxes reported in the respective income tax returns includes an estimate of the potential additional tax assessments that may be imposed by the tax authorities upon settlement of the open tax years. Accordingly, the final settlement of the income taxes might differ from the income taxes that have been accounted for in the financial statements.

Fair value measurement

The Group measures financial instruments, such as, derivatives and non-financial assets, such as, investment property at fair value at each reporting date. The fair values of financial instruments and investment properties are disclosed in note 34 "Fair value measurement".

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

5. Significant accounting judgements, estimates and assumptions (continued)

Estimates and assumptions (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's management determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The management, in conjunction with the valuation experts, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

6. Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3: Definition of a Business

The amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments clarify the minimum requirements for a business and narrow the definition of a business. The amendments also remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive and introduce an optional fair value concentration test. These amendments had no impact on the financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

6. Changes in accounting policies and disclosures (continued)

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. These amendments have no impact on the financial statements of the Group.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. The amendments also specify that materiality will depend on the nature or magnitude of information. These amendments have no impact on the financial statements of the Group.

Conceptual Framework for Financial Reporting

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018, which is effective for annual periods beginning on or after 1 January 2020. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The main amendments introduced in the revised Conceptual framework for financial reporting are related to measurement, including factors, which should be considered when choosing measurement basis, and to presentation and disclosure, including income and expenses which should be classified in other comprehensive income. The Conceptual framework also provides updated definitions for asset and liability and criteria for their recognition in the financial statements. These amendments had no impact on the financial statements of the Group.

Annual Improvements to IFRSs 2015-2017 Cycle

In the 2015-2017 annual improvements cycle, the IASB issued amendments to standards which are effective for annual periods beginning on or after 1 January 2019. Summary of amendments and related standards are provided below:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – clarifying previously held interest in a joint operation;
- IAS 12 Income taxes – clarifying income tax consequences of payments on financial instruments classified as equity;

IAS 23 Borrowing costs - clarifying borrowing costs eligible for capitalization.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

7. Standards issued but not yet effective and not early adopted

Standards issued but not yet effective and not early adopted up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt those standards when they become effective.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic.

As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. Lessees apply the practical expedient retrospectively, recognising the cumulative effect of initially applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment. In the reporting period in which a lessee first applies the amendment, the lessee is not required to disclose the amount of the adjustment for each financial statement line affected and earnings per share required by paragraph 28(f) of IAS 8. The Group will analyze and assess the impact of the new amendments on its financial position or performance.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
 - A simplified approach (the premium allocation approach) mainly for short-duration contracts
- IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The standard has not yet been endorsed by the EU. The standard is not applicable for the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7. Standards issued but not yet effective and not early adopted (continued)

IFRS 17: Insurance Contracts (Amendments), IFRS 4: Insurance Contracts (Amendments)

The amendments to IFRS 17 are effective, retrospectively, for annual periods beginning on or after January 1, 2023, with earlier application permitted. The amendments aim at helping companies implement the Standard. In particular, the amendments are designed to reduce costs by simplifying some requirements in the Standard, make financial performance easier to explain and ease transition by deferring the effective date of the Standard to 2023 and by providing additional relief to reduce the effort required when applying IFRS 17 for the first time. The amendments to IFRS 4 change the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments, so that entities would be required to apply IFRS 9 for annual periods beginning on or after January 1, 2023. The Amendments to IFRS 17 have not yet been endorsed by the EU. It is not expected that the amendments would impact the financial position or performance of the Group.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The amendments have not yet been endorsed by the EU. The Group will analyze and assess the impact of the new amendments on its financial position or performance.

Amendments to IFRS 3 Business combinations

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The amendments have not yet been endorsed by the EU. The Group will analyze and assess the impact of the new amendments on its financial position or performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7. Standards issued but not yet effective and not early adopted (continued)

Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods. The Group will analyze and assess the impact of the new amendments on its financial position or performance.

Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments have not yet been endorsed by the EU. The Group will analyze and assess the impact of the new amendments on its financial position or performance.

Amendments to IAS 37: Onerous Contracts – Costs of Fulfilling a Contract

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The amendments have not yet been endorsed by the EU. The Group will analyze and assess the impact of the new amendments on its financial position or performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

7. Standards issued but not yet effective and not early adopted (continued)

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The amendment has not yet been endorsed by the EU. It is not expected that the amendments would impact the financial position or performance of the Group.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The amendment has not yet been endorsed by the EU. The Group will analyze and assess the impact of the new amendments on its financial position or performance.

IAS 41 Agriculture – Taxation in fair value measurements

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted. The amendment has not yet been endorsed by the EU. The standard is not applicable for the Group.

IAS 1 — Presentation of Financial Statements IFRS Practice Statement 2: Disclosure of Accounting Policies (Amendments):

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. The guidance assists entities on making materiality judgements in disclosing accounting policies. In particular the changes to IAS 1: a) explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material; b) clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial; c) clarify that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements; and d) clarify that if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. The amendment has not yet been endorsed by the EU. The Group will analyze and assess the impact of the new amendments on its financial position or performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

7. Standards issued but not yet effective and not early adopted (continued)

IAS 8 — Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments):

The amendments are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. The changes to IAS 8 focus entirely on accounting estimates and clarify the following: a) the definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”; b) entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty; c) a change in accounting estimate that results from new information or new developments is not the correction of an error; and d) a change in an accounting estimate may affect only the current period’s profit or loss, or the profit or loss of both the current period and future periods. The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. The amendment has not yet been endorsed by the EU. The Group will analyse and assess the impact of the new amendments on its financial position or performance.

IFRS 16 — Leases (Amendments):

The amendments a) permit a lessee to apply the practical expedient regarding COVID-19-related rent concessions to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022 (rather than only payments originally due on or before 30 June 2021); b) require a lessee applying the amendment to do so retrospectively, recognising the cumulative effect of initially applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment; and c) specify that, in the reporting period in which a lessee first applies the amendment, a lessee is not required to disclose the information required by paragraph 28(f) of IAS 8. The amendment has not yet been endorsed by the EU. The Group will analyze and assess the impact of the new amendments on its financial position or performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. Revenue from contracts with customers

Set out below, is the disaggregation of the revenue from contracts with customers:

	<i>2020</i>	<i>2019</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Revenue from contracts with customers		
Geographical markets		
Bulgaria	81,807	64,083
Other European countries	50,517	44,242
Other non-European countries	3,171	2,003
	<u>135,495</u>	<u>110,328</u>
Timing of revenue recognition		
Transferred at a point in time	113,072	88,352
Transferred over time	22,423	21,976
	<u>135,495</u>	<u>110,328</u>

The geographical information on revenue from the sale of products and provision of services is based on the customer's location.

Contract balances

	<i>2020</i>	<i>2019</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Trade receivables (note 22)	24,106	24,120
Contract assets (note 22)	2,863	1,700
Contract liabilities (note 29)	11,653	7,927

Trade receivables are non-interest bearing and are generally on terms of 30 to 60 days.

Contract assets are initially recognised for obligations fulfilled, which have not yet been invoiced to the customer, as well as payments withheld by the customer as warranties. When the payment becomes due, the amounts recognised as contract assets are reclassified to trade receivables.

Contract liabilities include advances from customers. They are recognized as revenue when the performance obligation is satisfied.

Performance obligations

Sale of equipment /goods

The performance obligation is satisfied upon delivery of the equipment / goods and payment is generally due within 30 to 90 days from delivery.

Extended maintenance

Contracts which provide for an extended warranty for new equipment or equipment owned by the customer. Maintenance is accounted for as a separate performance obligation and part of the transaction price is allocated to it. The performance obligation with regard to the extended warranty is satisfied over the maintenance period (one, three, five years) based on based on the expired period of time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

8. Revenue from contracts with customers (continued)

Installation services

The performance obligation is satisfied over time and payment is generally due upon completion of installation and its acceptance by the customer.

Managed services

Long-term contracts for a period of three to five years for managing the customers' IT infrastructure where the performance obligation is satisfied over time.

Services related to licensing and software, developed by third parties

As for the customer contracts that involve a combination of consultancy services and licensing of third party software, revenue is recognized at a point in time of delivery of the software product.

Revenue recognised over the current year from amounts included in contract liabilities at 1 January 2020 amounts to BGN 4,863 thousand (at 1 January 2019: BGN 10,112 thousand).

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are, as follows:

	2020 <i>BGN'000</i>	2019 <i>BGN'000</i>
Within one year	8,408	4,829
More than one year	3,085	3,462
	<u>11,493</u>	<u>8,291</u>

9. General and administrative expenses

	2020 <i>BGN'000</i>	2019 <i>BGN'000</i>
Employee benefit expenses	(3,912)	(2,580)
Depreciation & amortisation	(222)	(141)
Consulting services	(500)	(776)
Office rent and utilities	(222)	(452)
Representative expenses	(106)	(126)
Other	(559)	(514)
	<u>(5,521)</u>	<u>(4,589)</u>

Accrued during the year services rendered by registered auditors are as follows:

- Fee for obligatory audit on the separate and consolidated financial statements at the amount of BGN 104 thousand (2019: BGN 99 thousand)
- Fee for audit on combined financial statements at the amount of BGN 45 thousand for 2019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10. Sales and marketing expenses

	2020 <i>BGN'000</i>	2019 <i>BGN'000</i>
Employee benefit expenses	(4,855)	(3,169)
Depreciation & amortisation	(267)	(159)
Consulting and agency services	(352)	(242)
Marketing and advertisement	(958)	(1,093)
Other	(506)	(835)
	<u>(6,938)</u>	<u>(5,498)</u>

11. Expenses by nature

Expenses by nature, included in the cost of sales, administrative expenses and sales and marketing expenses are as follows:

	2020 <i>BGN'000</i>	2019 <i>BGN'000</i>
Changes in inventories of finished goods and work in progress	251	597
Capitalised development costs and contract costs	236	162
Raw materials and consumables	(309)	(1,346)
Hired services	(34,348)	(20,869)
Employee benefit expenses (note 14)	(13,769)	(9,821)
Depreciation and amortisation (note 18, 20)	(2,631)	(2,148)
Other, including Cost of goods sold	(70,653)	(67,131)
	<u>(121,223)</u>	<u>(100,556)</u>

12. Other operating income / (expenses)

	2020 <i>BGN'000</i>	2019 <i>BGN'000</i>
<u>Other operating income</u>		
Gain on disposal of property, plant and equipment	-	8
Gain on disposal of intangible assets	-	30
Government grants	493	236
Rental income	15	29
Other	15	61
	<u>523</u>	<u>364</u>
	2020	2019
<u>Other operating expenses</u>	<i>EUR'000</i>	<i>EUR'000</i>
Loss on disposal of assets held for sale	(36)	(78)
Penalties	(15)	(1)
Other	(64)	(100)
	<u>(115)</u>	<u>(179)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

13. Finance income and finance costs

	2020	2019
	<u>BGN'000</u>	<u>BGN'000</u>
<i>Finance costs</i>		
Interest on financing	(252)	(364)
Net foreign exchange loss	(114)	(42)
Other financial costs	(197)	(234)
	<u>(563)</u>	<u>(640)</u>

	2020	2019
	<u>BGN'000</u>	<u>BGN'000</u>
<i>Finance income</i>		
Interest income - loans granted	13	2
	<u>13</u>	<u>2</u>

14. Employee benefit expenses

	2020	2019
	<u>BGN'000</u>	<u>BGN'000</u>
Salaries	(11,484)	(8,576)
Social security contributions	(1,667)	(1,234)
Expenses related to defined benefit plans	(17)	(11)
Share-based payments	(601)	-
	<u>(13,769)</u>	<u>(9,821)</u>

Additional information related to the share-based payments is presented in note 37.

The average full-time staff number and its breakdown by function are presented below:

	2020	2019
	<u>Number</u>	<u>Number</u>
Management	7	10
Operations	139	118
Sales	43	24
Administration	39	38
	<u>228</u>	<u>190</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

15. Income tax

The major components of income tax expenses are as follows:

	2020 <i>BGN'000</i>	2019 <i>BGN'000</i>
<i>Current income tax</i>		
Current income tax charge	(1,740)	(870)
Relating to origination and reversal of temporary differences	117	(121)
Income tax reported in the statement of comprehensive income	<u>(1,623)</u>	<u>(991)</u>

The reconciliation between income tax expense and the product of accounting profit multiplied by the statutory tax rate for the Group for the years 2020 and 2019 is as follows:

	2020 <i>BGN'000</i>	2019 <i>BGN'000</i>
Accounting profit before income tax	14,223	9,143
Income tax rate	10%	10%
At parent's corporate income tax rate 10% (2019: 10%)	(1,422)	(914)
Tax effects of profits from subsidiaries taxed at different rate	(119)	(45)
Tax effect of non-deductible expenses	(92)	(51)
Tax effect in relation to applying double tax treaties	10	19
	<u>(1,623)</u>	<u>(991)</u>
At the effective income tax rate of:	11%	11%
Income tax reported in the statement of comprehensive income	<u>(1,623)</u>	<u>(991)</u>
	<u>(1,623)</u>	<u>(991)</u>

Deferred taxes of the Group as at 31 December 2020 and 2019 relate to the following items:

	Statement of financial position		Statement of comprehensive income	
	2020 <i>BGN'000</i>	2019 <i>BGN'000</i>	2020 <i>BGN'000</i>	2019 <i>BGN'000</i>
<i>Deferred income tax assets / (liabilities)</i>				
Accrued expenses	291	185	106	62
Employee benefits	166	120	46	53
Property, plant and equipment/Intangible assets	(186)	(137)	(49)	(79)
Impairment losses on financial and contract assets	323	330	(7)	(103)
Share-based payments	21	-	21	-
Impairment losses on investment	18	18	-	(54)
Deferred income tax asset / (liability)	<u>633</u>	<u>516</u>		
Movement in deferred taxes			<u>117</u>	<u>(121)</u>

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31 DECEMBER 2020

15. Income tax (continued)

The reconciliation between the movement in deferred tax assets / liabilities for 2020 and 2019 is as follows:

	<i>2020</i>	<i>2019</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Opening balance as of 1 January	516	637
Tax expense during the year recognised in profit or loss	117	(121)
Closing balance 31 December	<u>633</u>	<u>516</u>

The Group's tax liabilities are based on the tax returns submitted to the tax authorities and are determined finally after being verified by the national tax authorities or after the expiry of a five-year term following the year of submission, as the case may be.

16. Assets classified as held for sale

In previous period, Telelink Business Services EAD acquired apartments located in town of Aheloi against its trade receivables from a customer as a result of a public sale procedure.

In October 2018, Telelink Business Services EAD acquired apartments in Serbia as collateral on a loan. The apartments were sold to Comutel DOO in 2019 and in 2019 and 2020 partial sale of the assets was realised.

The apartments have been classified as held for sale as management is committed to a plan for their sale.

At the end of 2020 and 2019, an external valuer was engaged to assess the market value of the properties. The assessment showed no indications of impairment of these assets.

17. Prepayments

	<i>2020</i>	<i>2019</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Balance on 1 January	8,630	6,877
Accrued during the year	9,841	10,993
Released to profit and loss	(9,617)	(9,240)
Balance on 31 December	<u>8,854</u>	<u>8,630</u>
Current	5,143	5,013
Non-current	<u>3,711</u>	<u>3,617</u>
	<u>8,854</u>	<u>8,630</u>

Prepayments comprise mainly prepaid extended maintenance in addition to the standard warranty provided by the suppliers of the equipment.

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18. Property, plant and equipment

	Right-of-use assets	Machinery & equipment	Computers	Motor Vehicles	Furniture and Fittings	Managed Services assets	Total
<u>Book value</u>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Balance as of 1 January 2020	7,468	1,292	1,418	26	702	1,313	12,219
Additions	501	409	267	-	77	607	1,861
Disposals	-	(122)	(223)	-	(79)	(1)	(425)
Transferred from inventory	-	26	12	-	-	215	253
Transferred to inventory	-	-	-	-	-	(1)	(1)
Balance as of 31 December 2020	<u>7,969</u>	<u>1,605</u>	<u>1,474</u>	<u>26</u>	<u>700</u>	<u>2,133</u>	<u>13,907</u>
<u>Accumulated depreciation:</u>							
Balance as of 1 January 2020	(1,476)	(917)	(1,111)	(10)	(440)	(99)	(4,053)
Depreciation for the year	(1,463)	(178)	(300)	(7)	(66)	(333)	(2,347)
Disposals	-	122	201	-	79	1	403
Balance as of 31 December 2020	<u>(2,939)</u>	<u>(973)</u>	<u>(1,210)</u>	<u>(17)</u>	<u>(427)</u>	<u>(431)</u>	<u>(5,997)</u>
Net book value as of 1 January 2020	<u>5,992</u>	<u>375</u>	<u>307</u>	<u>16</u>	<u>262</u>	<u>1,214</u>	<u>8,166</u>
Net book value as of 31 December 2020	<u>5,030</u>	<u>632</u>	<u>264</u>	<u>9</u>	<u>273</u>	<u>1,702</u>	<u>7,910</u>

	Right-of-use assets	Machinery & equipment	Computers	Motor Vehicles	Furniture and Fittings	Managed Services assets	Total
<u>Book value</u>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
at 31 December 2019							
Balance as of 1 January 2019	-	1,019	1,223	143	513	1,855	4,753
Adjustment on transition to IFRS 16	5,217	-	-	(63)	-	(1,691)	3,463
Additions	2,251	347	262	7	216	1,150	4,233
Disposals	-	(86)	(74)	(61)	(27)	(1)	(249)
Transferred in reorganization	-	12	8	-	-	-	20
Transferred from inventory	-	-	4	-	-	-	4
Transferred to inventory	-	-	(5)	-	-	-	(5)
Balance as of 31 December 2019	<u>7,468</u>	<u>1,292</u>	<u>1,418</u>	<u>26</u>	<u>702</u>	<u>1,313</u>	<u>12,219</u>
<u>Accumulated depreciation:</u>							
Balance as of 1 January 2019	-	(892)	(905)	(120)	(425)	(279)	(2,621)
Adjustment on transition to IFRS 16	(310)	-	-	53	-	257	-
Depreciation for the year	(1,166)	(95)	(280)	(4)	(42)	(78)	(1,665)
Disposals	-	70	73	61	27	1	232
Transferred in reorganization	-	(1)	(4)	-	-	-	(5)
Transferred to inventory	-	-	4	-	-	-	4
Exchange adjustment	-	1	1	-	-	-	2
Balance as of 31 December 2019	<u>(1,476)</u>	<u>(917)</u>	<u>(1,111)</u>	<u>(10)</u>	<u>(440)</u>	<u>(99)</u>	<u>(4,053)</u>
Net book value as of 1 January 2019	-	127	318	23	88	1,576	2,132
Net book value as of 31 December 2019	<u>5,992</u>	<u>375</u>	<u>307</u>	<u>16</u>	<u>262</u>	<u>1,214</u>	<u>8,166</u>

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19. Investment property

	2020 <i>BGN'000</i>	2019 <i>BGN'000</i>
Opening balance at 1 January	362	342
Net result from a fair value remeasurement	10	20
Closing balance at 31 December	<u>372</u>	<u>362</u>
	2020 <i>BGN'000</i>	2019 <i>BGN'000</i>
Rental income derived from investment properties	<u>15</u>	<u>29</u>
Net profit arising from investment properties carried at fair value	<u>15</u>	<u>29</u>

Description of valuation techniques and key assumptions used in determining the fair value of the investment property

	Valuation technique (DCF method)
Significant unobservable inputs	Range
- Estimated rental value per sqm per month	EUR 8,50 – 7,10
- Rent growth p.a.	1%
- Discount rate	9%

20. Intangible assets

	Software <i>BGN'000</i>	Development Costs <i>BGN'000</i>	Other <i>BGN'000</i>	Total <i>BGN'000</i>
<u>Book value:</u>				
Balance as of 1 January 2020	2,921	264	185	3,370
Additions	3	236	102	341
Disposals	(10)	-	(3)	(13)
Transfers	468	(468)	-	-
Balance as of 31 December 2020	<u>3,382</u>	<u>32</u>	<u>284</u>	<u>3,698</u>
<u>Accumulated amortization:</u>				
Balance as of 1 January 2020	(2,747)	-	(49)	(2,796)
Amortisation for the year	(236)	-	(48)	(284)
Disposals	10	-	3	13
Balance as of 31 December 2020	<u>(2,973)</u>	<u>-</u>	<u>(94)</u>	<u>(3,067)</u>
Net book value as of 1 January 2020	<u>174</u>	<u>264</u>	<u>136</u>	<u>574</u>
Net book value as of 31 December 2020	<u>409</u>	<u>32</u>	<u>190</u>	<u>631</u>

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20. Intangible assets (continued)

	Software	Development Costs	Other	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<u>Book value:</u>				
Balance as of 1 January 2019	2,417	700	10	3,127
Additions	-	162	70	232
Disposals	(31)	(63)	-	(94)
Transfers	535	(535)	105	105
Balance as of 31 December 2019	<u>2,921</u>	<u>264</u>	<u>185</u>	<u>3,370</u>
<u>Accumulated amortization:</u>				
Balance as of 1 January 2019	(2,316)	-	(9)	(2,325)
Amortisation for the year	(462)	-	(21)	(483)
Amortisation for the year	-	-	(19)	(19)
Disposals	31	-	-	31
Balance as of 31 December 2019	<u>(2,747)</u>	<u>-</u>	<u>(49)</u>	<u>(2,796)</u>
Net book value as of 1 January 2019	<u>101</u>	<u>700</u>	<u>1</u>	<u>802</u>
Net book value as of 31 December 2019	<u><u>174</u></u>	<u><u>264</u></u>	<u><u>136</u></u>	<u><u>574</u></u>

The Group invests considerable resources in the development of new products - software solutions in areas, such as, next generation communications, information and cyber security, integrated security, Internet of Things.

The Group carried out an annual impairment testing as at the end of 2020. There were no indicators that the carrying amount of the intangible assets exceeded their recoverable amount and, as a result, no impairment loss was recognized in the financial statements.

21. Inventories

	<i>2020</i> <i>BGN'000</i>	<i>2019</i> <i>BGN'000</i>
Materials	147	72
Goods	5,427	3,182
Dispatched goods	798	690
Work in progress	1,477	1,226
	<u>7,849</u>	<u>5,170</u>

Write-down allowance for inventories

	<i>2020</i> <i>BGN'000</i>	<i>2019</i> <i>BGN'000</i>
At 1 January	62	62
At 31 December	<u>62</u>	<u>62</u>

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22. Trade and other receivables and contract assets

Trade and other receivables

	2020	2019
	<u>BGN'000</u>	<u>BGN'000</u>
Trade receivables from related parties, gross (note 31)	1,916	2,143
Trade receivables from third parties, gross	22,661	22,448
Loss allowance	<u>(471)</u>	<u>(471)</u>
Trade receivables	<u>24,106</u>	<u>24,120</u>
Dividend and other receivables from related parties	60	2
Other receivables	<u>969</u>	<u>749</u>
Trade and other receivables	<u><u>25,135</u></u>	<u><u>24,871</u></u>

Trade receivables are non-interest bearing and are generally on terms of 30 to 60 days.

The Group has established registered pledge over current and future trade receivables under individual contracts of Telelink Business Services EAD in order to secure the funds utilised under an overdraft facility and additional pledges of current and future receivables of Telelink Business Services EAD under the projects financed by the revolving credit facility. The funds utilized by Telelink Business Services EAD under the contract amounted to zero as at 31 December 2020 (as at 31 December 2019: BGN 1,623 thousand).

Under the conditions of the loan agreement signed between Comutel DOO and Raiffeisen AD Beograd, the respective loan funds are utilized against a pledge of at least equal amounts of the receivables from a key account. As at 31 December 2020, the funds utilized amounted to BGN 1,817 thousand 2020 (as at 31 December 2019: BGN 2,501 thousand).

Contract assets

As at 31 December 2020, the Group had contract assets amounted BGN 2,863 thousand (31 December 2019: BGN 1,700 thousand). The Group does not expect credit losses on contract assets.

Set out below is the movement in the allowance for expected credit losses of trade receivables:

	2020	2019
	<u>BGN'000</u>	<u>BGN'000</u>
Loss allowance at 01 January	471	317
Amounts written off	-	72
Net impairment losses	<u>-</u>	<u>82</u>
Loss allowance at 31 December	<u><u>471</u></u>	<u><u>471</u></u>

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22. Trade and other receivables and contract assets (continued)

The ageing analysis of trade receivables and contract assets as at 31 December 2020 and 31 December 2019 is presented in the following table:

31 December 2020	Current BGN'000	Days past due					Total BGN'000
		< 30 days BGN'000	31-60 days BGN'000	61 - 90 days BGN'000	91 - 180 days BGN'000	> 181 days BGN'000	
Receivables from related parties, gross	1,213	628	22	32	17	4	1,916
Receivables from third-party customers, gross	21,284	307	160	45	344	521	22,661
Contract assets, gross	999	-	427	-	1,437	-	2,863
Loss allowance of trade receivables and contract assets	-	-	-	-	-	(471)	(471)
Total trade receivables and contract assets	23,496	935	609	77	1,798	54	26,969

31 December 2019	Current BGN'000	Days past due					Total BGN'000
		< 30 days BGN'000	31-60 days BGN'000	61 - 90 days BGN'000	91 - 180 days BGN'000	> 181 days BGN'000	
Expected credit loss rate	0%	0%	0%	0%	0%	0%	
Receivables from related parties, gross	1,998	16	32	8	88	1	2,143
Receivables from third-party customers, gross	20,530	930	117	190	121	560	22,448
Contract assets, gross	1,700	-	-	-	-	-	1,700
Loss allowance of trade receivables and contract assets	-	-	-	-	-	(471)	(471)
Total trade receivables and contract assets	24,228	946	149	198	209	90	25,820

23. Loans granted

Current	Maturity	2020	2019
		BGN'000	BGN'000
Third parties	2017	1,055	1,148
Loss allowance		(1,055)	(1,148)
		-	-

As at 31 December 2020, the Group have not granted loans, besides the USD loans that are fully impaired as at 31 December 2017. The revaluation of the impaired loans for 2020 amounts to BGN 93 thousand.

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24. Cash and cash equivalents

	<i>2020</i>	<i>2019</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Cash and cash equivalents in hand	11	6
Cash and cash equivalents in current accounts	11,627	2,095
Short-term deposits	124	98
	<u>11,762</u>	<u>2,199</u>

Cash in bank accounts bear floating interest rates based on the daily interest rates on bank deposits. Short-term deposits are made for various periods between one week and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates. The fair value of cash and short-term deposits at 31 December 2020 and 31 December 2019 equals their carrying amount.

25. Government grants

In 2017, Telelink Business Services EAD entered into a contract with the Ministry of Economic to receive a grant under the project "Implementation of Innovative Services" as part of the Operational Program "Innovation and Competitiveness" 2014-2020, that ends in 2020.

Under the contract, the grants were utilised for the purchase of certain items of property, plant and equipment and intangible assets, as well as for the provision of hired services under the 2017 contract. There are no unfulfilled conditions concerning the contracts. In 2018, the Company received the financing under the contract from 2017 of BGN 373 thousand.

In 2019, Telelink Business Services EAD, being part of a Consortium, in which more than 30 partners from various European countries participate, received the first tranche from financing under the Operational Program ECHO European network of Cybersecurity centres and competence Hub for innovation and Operations. The funds of BGN 464 thousand under the Program was provided and utilized to cover personnel costs. In 2020 the Group received second tranche of funds under the Program at the amount of BGN 383 thousand.

The amount of government grants recognized in the financial statements corresponds to the useful life of the acquired items of property, plant and equipment, and intangible assets, and the hired services used:

	<i>2020</i>	<i>2019</i>
	<i>BGN'000</i>	<i>BGN'000</i>
At the beginning of the reporting period	400	172
Received during the year	383	464
Released to profit and loss (note 12)	(493)	(236)
At the end of the reporting period	<u>290</u>	<u>400</u>
Current	290	328
Non-current	-	72
	<u>290</u>	<u>400</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26. Interest-bearing loans and borrowings

	Interest rate %	2020 <i>BGN'000</i>	2019 <i>BGN'000</i>
Current			
Revolving credit facilities	1M LIBOR + 1.6%	1,817	2,501
Bank loans	1M EURIBOR+1.5%	-	1,623
	0%	186	
		<u>2,003</u>	<u>4,124</u>

In May 2020, TBS EAD signed an Annex for the extension of the availability period under the Agreement for undertaking credit commitments under an overdraft credit line with Unicredit Bulbank AD from May 31 2020 to June 30 2020.

On June 29 2020 the company also signed an Annex for the annual renewal of the same agreement with an availability period until May 31 2021.

The provisions of the latter Annex regarding the limits for the effective drawing of cash funds and the undertaking of contingent commitments under the agreement included:

- an unchanged overdraft limit of up to EUR 3,000 thousand for the general funding of working capital needs;
- an increase of the revolving credit limit for the partial financing of specific projects up to 80% of the difference between their total value and advances received, subject to utilization on the basis of separate requests and approvals by project, from EUR 2,000 thousand to EUR 10,000 thousand;
- an increase of the limit for issuing bank guarantees and letters of credit from EUR 10,000 thousand to EUR13,000 thousand, as well as of the total credit amount, including utilized overdraft, revolving credit and issued bank guarantees and letters of credit – from EUR 11,000 thousand to EUR 13,000 thousand.

All cash limits remain available for drawing in Leva, Euro or US dollars at respectively applicable interest rates of BIR + 1.357%, 1m. EURIBOR + 1.5% and 1m. LIBOR + 1.5%, but no less than 1.5% (regardless of the currency of utilization).

As of December 31 2020, TBS EAD did not have any utilized and outstanding overdraft and revolving credit funds. (as at 31 December 2019 the utilized amounts are as follows: BGN 392 thousand and BGN 1,231 thousand).

On January 28 2020, Comutel signed an Annex for the annual renewal of its Credit facility agreement with Raiffeisen Banka AD Beograd (Serbia) from 2015 with limit up to USD 5,000 thousand. The interest rate applied under the agreement remained unchanged at 1m. LIBOR + 1.6%. The loan is fully secured by a pledge of receivables from a key account. As of December 31 2020, funds utilized amounted to an equivalent of BGN 1,817 thousand (31 December 2019: BGN 2,501 thousand).

On February 20 2020, Telelink Albania signed a Short-term financing agreement with First Investment Bank – Albania with a limit of EUR 500 thousand for the financing of receivables as per invoices issued to a specified telecom account of the company. As of December 31 2020, funds utilized by Telelink Albania under the agreement amounted to an equivalent of BGN 186 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

26. Interest-bearing loans and borrowings (continued)

Reconciliation of the movement of liabilities to cash flows from financing activity:

	2020	2019
	<u>BGN'000</u>	<u>BGN'000</u>
Interest-bearing loans and borrowings at 01 January	4,124	5,312
Proceeds from borrowings	9,876	49,307
Repayments of borrowings	(11,997)	(50,494)
Interest expense	109	258
Interest paid	(109)	(259)
Interest-bearing loans and borrowings at 31 December	<u>2,003</u>	<u>4,124</u>

27. Leases

The Group has leases for offices, vehicles, and managed services assets used in the business. Leases for managed services assets have lease terms between 3 and 4 years, vehicles - 4 years, and rented offices 5 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets and some contracts require the Group to maintain certain financial ratios.

There are no lease contracts that include extension and termination options and variable lease payments.

The Group also has certain leases of premises or equipment with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Buildings	Motor Vehicles	Managed Services assets	Total
	<u>BGN '000</u>	<u>BGN '000</u>	<u>BGN '000</u>	<u>BGN '000</u>
Balance at 1 January 2020	3,385	419	2,188	5,992
<i>incl. under Lease contracts with transfer of ownership by the end of the lease term</i>	-	1	2,188	2,189
Additions	34	467	-	501
<i>incl. under Lease contracts with transfer of ownership by the end of the lease term</i>	-	93	-	93
Depreciation	(813)	(188)	(462)	(1,463)
<i>incl. under Lease contracts with transfer of ownership by the end of the lease term</i>	-	(12)	(462)	(474)
Exchange differences	-	-	-	-
Balance at 31 Dec 2020	<u>2,606</u>	<u>698</u>	<u>1,726</u>	<u>5,030</u>

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27. Leases (continued)

	Buildings	Motor Vehicles	Managed Services assets	Total
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Balance at 1 January 2019	3,045	427	1,434	4,906
<i>incl. under Lease contracts with transfer of ownership by the end of the lease term</i>	-	11	1,434	1,445
Additions	966	121	1,164	2 251
<i>incl. under Lease contracts with transfer of ownership by the end of the lease term</i>	-	-	1,164	1 164
Depreciation	(626)	(127)	(410)	(1,163)
<i>incl. under Lease contracts with transfer of ownership by the end of the lease term</i>	-	(10)	(410)	(420)
Exchange differences	-	(2)	-	(2)
Balance at 31 Dec 2019	<u>3,385</u>	<u>419</u>	<u>2,188</u>	<u>5,992</u>

Expenses for short-term lease (included in cost of sales) are BGN 28 thousand in 2020 (2019: BGN 97 thousand).

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	<i>2020</i>	<i>2019</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Balance at 01 Jan	6,009	1,428
Adjustment on transition to IFRS 16	-	3,372
Adjusted balance at 1 January 2019 (restated)	-	4,800
Additions	499	2,629
Accretion of interest	134	114
Payments	(2 052)	(1 536)
Exchange differences	-	2
Balance at 31 December	<u>4,590</u>	<u>6,009</u>
Current	1,819	1,841
Non-current	2,771	4,168

The Company had total cash outflows for leases of BGN 2,080 thousand in 2020, including BGN 28 thousand related to short-term leases (2019: BGN 1,633 thousand, including BGN 97 thousand related to short-term leases).

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27. Leases (continued)

Set out below are the lease related amounts recognised in profit and loss:

	2020 <i>BGN '000</i>	2019 <i>BGN '000</i>
Depreciation expense of rights-of-use assets	(1,463)	(1,165)
<i>incl. under Lease contracts with transfer of ownership by the end of the lease term</i>	(474)	(420)
Interest expenses on lease liabilities	(134)	(114)
<i>incl. under Lease contracts with transfer of ownership by the end of the lease term</i>	(30)	(18)
Expenses relating to short-term leases	(28)	(97)
Total amount recognised in profit or loss	<u>(1,625)</u>	<u>(1,376)</u>

28. Trade and other payables

	2020 <i>BGN'000</i>	2019 <i>BGN'000</i>
Trade payables to related parties (note 31)	2 659	274
Trade payables to third parties	21,569	20,100
Accrued expenses	3,079	1,943
Trade payables	<u>27,307</u>	<u>22,317</u>
Tax and other statutory liabilities	3,718	2,785
Other payables	<u>2,234</u>	<u>1 694</u>
Trade and other payables	<u>33,259</u>	<u>26,796</u>

Trade payables are non-interest bearing and are normally settled on 30-60-day terms.

Tax liabilities are non-interest bearing and are settled within the statutory deadlines.

Other payables are non-interest bearing and have an average term of 30 days. Other liabilities are mainly formed by short-term payables to personnel and accrued unused paid leave.

29. Contract liabilities

	2020 <i>BGN'000</i>	2019 <i>BGN'000</i>
Contract liabilities to related parties	-	23
Advances received	3 643	341
Deferred income	8,010	7,563
Total contract liabilities	<u>11,653</u>	<u>7,927</u>
Current	8,565	4,939
Non-current	<u>3,088</u>	<u>2,988</u>
	<u>11,653</u>	<u>7,927</u>

Following the initial application of IFRS 15, Advances received from clients and Deferred income represent customer billed amounts in advance of performance are classified within Contract liabilities.

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30. Retirement benefit liability

	2020 <i>BGN'000</i>	2019 <i>BGN'000</i>
Balance on 1 January	10	8
Accrued for the year	6	2
Balance on 31 December	16	10

Major assumptions used for accounting purposes:

<u>Major assumptions</u>	<u>2020</u>	<u>2019</u>
Discount Rate	0,40%	2,36%
Future Salary Increases	5,00%	5,00%
Personnel Retention Rate (depending on the age)	80,14%	80,14%

There have been no reasonably possible changes in key assumptions that could have a significant impact on the retirement benefit liability as of year-end.

The average duration of the retirement benefit obligation is 27.79 years.

31. Related party disclosure

Group related parties

Name	Nature of relationship	Affected Group companies
Telelink Business Services EAD (Bulgaria)	Subsidiary of	Telelink Business Services Group AD – 100%
Comutel DOO (Serbia)	Subsidiary of	Telelink Business Services Group AD – 100%
Telelink DOO – Podgorica (Montenegro)	Subsidiary of	Telelink Business Services Group AD – 100%
Telelink DOO (Bosna and Herzegovina)	Subsidiary of	Telelink Business Services Group AD – 100%
Telelink DOO (Slovenia)	Subsidiary of	Telelink Business Services Group AD – 100%
Telelink Albania SH.P.K. (Albania)	Subsidiary of	Telelink Business Services Group AD – 100%
Telelink Business Services DOOEL (Macedonia)	Subsidiary of	Telelink Business Services Group AD – 100%
Telelink Business Services DOO (Croatia)	Subsidiary of	Telelink Business Services Group AD – 100%

Other related parties

Name	Nature of relationship
Telelink Bulgaria EAD (Bulgaria)	Under common control
Telelink Infra Services EAD (Bulgaria)	Under common control
Telelink City Services EAD (Bulgaria)	Under common control
Telelink Labs EOOD (Bulgaria)	Under common control
Secnet AD (Bulgaria)	Under common control
Telelink Services Romania SRL (Romania)	Under common control
Telelink Infra Services SH.P.K. (Romania)	Under common control
Telelink MK DOOEL (Macedonia)	Under common control
Telelink UK LTD. (United Kingdom)	Under common control
Telelink GmbH (Germany)	Under common control
Marifons Holdings Limited (Cyprus)	Under common control
V_investment Holdings B.V. (The Netherlands)	Under common control
V_investment Bulgaria EOOD (Bulgaria)	Under common control
Field on Track OOD (Bulgaria)	Under common control
Develiot EOOD (Bulgaria)	Under common control
TOTAL TV B.V. (The Netherlands)	Under common control
V_Investments Cyprus Limited (Cyprus)	Under common control
Modeshift Inc, (USA)	Under common control

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31. Related party disclosure (continued)

Field on Track LTD. (United Kingdom)	Under common control
TOTALNA TELEVIZIJA DOO (Croatia)	Under common control
Modeshift Europe EAD (Bulgaria)	Under common control
Telelink Investments SARL (Luxembourg)	Under common control
Richhill EOOD (Bulgaria)	Under common control

Participation in joint arrangements

Name	Nature of Relationship	Group Companies Affected
Consortium SysTel (Bulgaria)	Participation	Telelink Business Services EAD - 50%
Green Border OOD (Bulgaria)	Participation	Telelink Business Services EAD - 50%
Consortium ATP Services (Bulgaria)	Participation	Telelink Business Services EAD
Consortium Telesec (Bulgaria)	Participation	Telelink Business Services EAD - 50%
Consortium Telelink Info (Bulgaria)	Participation	Telelink Business Services EAD - 78%
Consortium Telelink Group (Bulgaria)	Participation	Telelink Business Services EAD - 50%
Consortium TechnoLink (Bulgaria)	Participation	Telelink Business Services EAD - 59,10%
Consortium Bulgarian Basins (Bulgaria)	Participation	Telelink Business Services EAD - 15%
Consortium Green Border 3 (Bulgaria)	Participation	Telelink Business Services EAD - 75,91%
Consortium TeleSystems (Bulgaria)	Participation	Telelink Business Services EAD - 63,50%
Consortium Smart Transport (Bulgaria)	Participation	Telelink Business Services EAD - 20%

Set out below is the total amount of the transactions concluded with related parties throughout the respective financial year, as well as the outstanding balances as at the end of each financial year:

Trade	Sales to related parties		Purchases from related parties	
	2020	2019	2020	2019
Name	BGN'000	BGN'000	BGN'000	BGN'000
Other related parties (under common control)	4,872	3,030	2,429	2,974
	<u>4,872</u>	<u>3,030</u>	<u>2,429</u>	<u>2,974</u>
Interest	Charged to related parties		Charged by related parties	
	2020	2019	2020	2019
Name	BGN'000	BGN'000	BGN'000	BGN'000
Other related parties (under common control)	14	2	-	38
	<u>14</u>	<u>2</u>	<u>-</u>	<u>38</u>
Trade	Receivables from related		Payables to related parties	
	2020	2019	2020	2019
Name	BGN'000	BGN'000	BGN'000	BGN'000
Other related parties (under common control)	1,074	2 143	2 659	274
	<u>1,074</u>	<u>2 143</u>	<u>2 659</u>	<u>274</u>

Amounts due by related parties are included in trade and other receivables (Note 22). Amounts due to related parties are included in trade and other payables (Note 28).

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32. Related party disclosure (continued)

Receivables and payables from and to related parties cannot be set-off. Outstanding balances of trade receivables and trade payables at the year-end are unsecured, interest-free and settlement occurs in cash.

Joint arrangements

The interests of Telelink Business Services EAD in joint arrangements are regulated by consortium agreements. Telelink Business Services EAD and the other parties agree, based on mutual cooperation, to combine their efforts in the form of consortium to implement certain projects where no party holds control. The partners participate with assets, liabilities, income and expenses corresponding to their share in the consortium. The consortiums generate no profit or loss.

Set out below are the interests of Telelink Business Services EAD – income, expenses, assets and liabilities in the consortiums:

Trade	Sales to joint operations		Purchases from joint operations	
	2020	2019	2020	2019
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
<i>Name</i>				
Consortium ATP Services (Bulgaria)	329	403	-	-
Consortium Telesec (Bulgaria)	4	2,636	-	-
Consortium Telelink Group (Bulgaria)	3,612	-	-	-
Consortium TechnoLink (Bulgaria)	10	1,897	-	-
Consortium SysTel	5,489	-	-	-
Consortium TeleSystems	1,513	-	-	-
Consortium Bulgarski porechiya	60	-	-	-
Consortium Telelink Smart Transport	39	-	-	-
Consortium Green Border 3 (Bulgaria)	-	3,711	1	-
	<u>11,056</u>	<u>8,647</u>	<u>1</u>	<u>-</u>

Trade	Trade receivables from		Trade payables to	
	2020	2019	2020	2019
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
<i>Name</i>				
Consortium ATP Services (Bulgaria)	28	109	-	-
Consortium Telelink Group (Bulgaria)	227	-	-	-
Consortium TeleSystems	587	-	-	-
Consortium Bulgarski porechiya	-	-	-	7
	<u>842</u>	<u>109</u>	<u>-</u>	<u>7</u>

Remuneration of key management personnel

	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>
Short-term employee benefits	803	901
Share-based payments	49	-
	<u>852</u>	<u>901</u>

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32. Share capital and reserves

	<i>2020</i>	<i>2019</i>
<u>Registered capital</u>	<u>shares</u>	<u>shares</u>
Ordinary shares of BGN 1 each	12,500,000	12,500,000
	<u>12,500,000</u>	<u>12,500,000</u>
Ordinary shares issued, fully paid-in	<u>shares</u>	<u>shares</u>
At 31 December, issued and fully paid-in	<u>12,500,000</u>	<u>12,500,000</u>

Telelink Business Services Group AD was established in July 2019 with a share capital of BGN 50 thousand. The share capital available as of 31 December 2020 amounting to BGN 12,500 thousand was formed as a result of the Reorganization of Telelink Bulgaria EAD, whereby Telelink Bulgaria EAD allocated the net assets attributable to the separated Business Services activity amounting to BGN 12,667 thousand and the latter amount was allocated to the formation of additional share capital amounting to BGN 12,450 thousand and general reserves amounting to BGN 217 thousand.

Legal reserves

Legal reserves are formed from retained earnings in accordance with the statutory requirements and can be used to offset future losses. Pursuant to article 246 of the Commercial Act, legal reserves should be set aside until they reach one tenth or more of the company's registered capital. The sources of funding these reserves may be at least one tenth of the net profit, share premiums upon share issuing, and other sources provided for by the statutes of the Company or by resolution of the General Meeting of Shareholders.

Legal reserves are formed from the retained earnings of Telelink Business Services Group AD (2020: BGN 239 thousand and 2019: BGN 217 thousand), Telelink Business Services EAD (2020 and 2019: BGN 100 thousand) and Telelink Business Services Macedonia (2020: BGN 2 thousand).

The Group's legal reserves as at 31 December 2020 were BGN 341 thousand (2019: BGN 317 thousand).

Other reserves

Other reserves were formed after applying the predecessor method upon the acquisition of the companies under common control, and represent the difference between the investment in acquirees and the share capital of these entities.

The Group's other reserves formed following the acquisition as at 31 December 2020 and 31 December 2019 were BGN (14,123) thousand.

In 2020 the Group establishes *one-off share-based payments incentive Procedure for employees (the Procedure)*, *long-term share-based payment incentive Programme for management and key personnel (the Programme)* and *share-based payment incentive Scheme for members of the Managing board (the Scheme)*. (Note 37)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32. Share capital and reserves (continued)

The increase in Other reserves equals the expense at the amount of BGN 60 thousand related to the Scheme and BGN 151 thousand related to the Programme.

Other components of equity

	<i>Number of shares</i>	<i>Other components of BGN '000</i>
At the beginning of the reporting period		
Shares bought back on market	(28 964)	(302)
Share -based payments	28 608	343
Buy-back transaction costs	-	(1)
At the end of the reporting period	<u>(356)</u>	<u>40</u>

On 21 December 2020, the Company implemented *the Procedure*, transferring 28,608 shares to 137 persons without limitations to further disposal. In accordance with the respective decisions of the General Meeting of Shareholders ("GMS") from 10 September 2020 and the MB from 27 November 2020, the program was implemented entirely on the basis of own shares bought back by the Company.

In total, 28,964 own shares were bought back in 2020 for the purposes of employee incentive plans. After the implementation of the above-mentioned one-time share incentive program, as of 31 December 2020, the Company held 356 shares in treasury stock.

Translation reserves

Translation reserves are formed from the restatement of the subsidiaries' operating results and financial performance in the Group's presentation currency.

The translation reserves as at 31 December 2020 were BGN (560) thousand (2019: BGN (556) thousand).

33. Dividends distributed

Set out below are the dividends distributed by the Group companies to the parent company in 2020 and 2019:

<i>Name</i>	<i>2020 BGN'000</i>	<i>2019 BGN'000</i>
Comutel DOO	450	3,445
Telelink DOO - Podgorica	160	436
Telelink DOO (Bosnia and Herzegovina)	270	386
Telelink DOO (Slovenia)	606	-
Telelink Business Services EAD	7,002	2,000
	<u>8,488</u>	<u>6,267</u>

At 31 December 2020 and 31 December 2019 all dividends are fully paid.

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33. Dividends distributed (continued)

The General meeting of the shareholders by resolution from 10 September 2020 approved the 2019 net profit of the Group amounting to BGN 195 thousand and the amount of BGN 6,000 thousand based on the 6-month interim financial statements for 2020 to be distributed as cash dividend to the shareholders.

	<i>2020</i>	<i>2019</i>
	<i>BGN'000</i>	<i>BGN'000</i>
At the beginning of the reporting period	-	-
Final dividend for 2019: 0,016 per share	195	-
Interim dividend for 2020 : 0,480 per share	6,000	-
Net dividend distributed	(5,924)	-
Tax withheld	(271)	-
At the end of the reporting period	<u>-</u>	<u>-</u>
Dividend per share for 2019	0,016	-
Dividend per share for 2020	<u>0,480</u>	-
Dividend per share	0,496	-

34. Fair value measurement

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities. If carrying amounts approximate fair values of financial assets and liabilities not measured at fair value, no information on the fair values is shown.

		Fair value measurement			
	Date of valuation	Total <i>BGN'000</i>	Quoted prices in active markets (Level 1) <i>BGN'000</i>	Significant observable inputs (Level 2) <i>BGN'000</i>	Significant unobservable inputs (Level 3) <i>BGN'000</i>
Year ended at 31 December 2020					
Assets measured at fair value:					
Investment properties:					
	31.12.2020	372	-	-	372
		<u>372</u>	<u>-</u>	<u>-</u>	<u>372</u>
Total assets measured at fair value					
		Fair value measurement			
	Date of valuation	Total <i>BGN'000</i>	Quoted prices in active markets (Level 1) <i>BGN'000</i>	Significant observable inputs (Level 2) <i>BGN'000</i>	Significant unobservable inputs (Level 3) <i>BGN'000</i>
Year ended at 31 December 2019					
Assets measured at fair value:					
Investment properties:					
	31.12.2019	362	-	-	362
		<u>362</u>	<u>-</u>	<u>-</u>	<u>362</u>
Total assets measured at fair value					

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35. Commitments and contingencies

Litigations and claims: There are no significant litigation or claims against the Group.

Guarantees: Bank guarantees under contracts with clients and participation in tenders, issued by the Group servicing banks at 31 December 2020, amounted to BGN 9,750 thousand (at 31 December 2019: BGN 2,197 thousand).

Capital commitments: The Group had no capital commitments as at 31 December 2020 and 2019.

Commitments to the benefit of related parties

As of 31 December 2020 and during the reporting period, the Issuer maintained its commitments as a guarantor, respectively pledgor under the following contracts as security to Telelink Business Services EAD's obligations under an Agreement for the undertaking of credit commitments under an overdraft credit line with Unicredit Bulbank AD:

- a suretyship agreement with Unicredit Bulbank AD, securing all receivables of the bank from Telelink Business Services EAD stemming from the above credit agreement and annexes thereto until their final repayment, wherein, pursuant to the increase of the maximum credit amount referred to in section XII.8.2.1, the designated total credit limit available for utilization by Telelink Business Services EAD as of the agreement's date was raised from EUR 11,000 thousand to EUR 13,000 thousand;
- a share pledge agreement with Unicredit Bulbank AD over the Issuer's 100% stake in the capital of Telelink Business Services EAD, securing all receivables of the bank from Telelink Business Services EAD stemming from the above credit agreement and annexes thereto until their final repayment, with the initial pledge agreement featuring a designated principal amount as of the agreement's date of EUR 11,000 thousand having been replaced with a new pledge agreement featuring a corresponding value of EUR 13,000 thousand pursuant to the increase of the maximum credit amount referred to in section XII.8.2.1.

On July 01 2020, the Company established a corporate guarantee in favour of Citi Bank and Cisco Systems International B.V. (the Netherlands), securing the possibility for Comutel and Telelink Slovenia to make high-volume equipment purchases under contracts with Cisco Systems International B.V. up to the amount of USD 5,100 thousand on deferred payment terms.

On December 29 2020, the Company issued a corporate guarantee in favour of Telelink Business Services Macedonia in the amount of USD 730,000 securing future liabilities towards TBS Europe BVBA, Belgium with regard to the supply of high-value equipment on deferred payment terms.

As of 31 December 2020, TBS EAD has provided guarantees securing third-party obligations with regard to the implementation of projects and tax payables of Telelink Slovenia.

36. Financial risk management objectives and policies

The Group's principal financial liabilities comprise interest-bearing loans and borrowings, and trade payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include trade receivables, loans granted, and cash and short-term deposits that derive directly from its operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36. Financial risk management objectives and policies (continued)

In 2020 and 2019, the Group neither owned nor traded in derivative financial instruments.

The Group is exposed primarily to interest rate risk, liquidity risk, currency risk, and credit risk. The Group's policies for managing each of these risks are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's revolving credit lines for current financing of working capital and to a lesser extent, to finance lease contracts bearing floating (variable) interest rates.

The Group's policy is to manage its interest expenses by employing financial instruments bearing fixed and floating interest rates and assuming the risk relating to revolving credit lines due to the inherently variable nature of exposures thereto; moreover, the Group keeps track of changes in periodically updated floating and variable indices with a view to possibly fixing or hedging interest rates on financial leases.

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was:

	<i>2020</i>	<i>2019</i>
	<i>BGN' 000</i>	<i>BGN' 000</i>
Fixed rate instruments		
Financial assets	11,751	2,193
Cash and cash Equivalents	11,751	2,193
Financial liabilities	(186)	-
Interest-bearing loans and borrowings (principal)	(186)	-
	<u>11,565</u>	<u>2,193</u>
Variable rate instruments		
Financial liabilities	(2,909)	(5,764)
Interest-bearing loans and borrowings (principal)	(1,817)	(4,124)
Finance leases	(1,092)	(1 640)
	<u>(2,909)</u>	<u>(5,764)</u>

A change of 100 basis points in interest rates at the date of the financial statements would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

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36. Financial risk management objectives and policies (continued)

Interest rate risk (continued)

<i>Effect in thousands of BGN</i>	Profit or loss	
	1,00% increase	-1,00% decrease
31 December 2020		
Variable rate instruments	(25)	18
Cash flow sensitivity (net)	(25)	18
31 December 2018		
Variable rate instruments	(44)	25
Cash flow sensitivity (net)	(44)	25

Due to the negotiation of minimal interest rates equal to either interest margin or total interest rate at the date of signature of the contract for certain instruments, the effects of an increase and decrease by the same change in interest rate are asymmetrical.

Currency risk

The Group trades in different markets and in local currencies that are different from its functional currency, as well as in third-party currencies, including mostly purchases in US dollars. Consequently, it faces transaction and translation exchange rate risks. The Group's exposure to changes in exchange rates of local currencies is substantially limited owing to the fixed EUR/BGN and EUR / BAM exchange rate maintained under the currency board systems operating in Bulgaria and Bosnia and Herzegovina, as well as by the adoption of the Euro as a National currency of Montenegro. Therefore, the total sales and profits generated in jurisdictions using or pegged to the Euro or BGN have the largest share in the consolidated results. The Group is exposed to translation currency risk in Serbia, Albania and North Macedonia relative to the floating exchange rates of the local currencies.

A significant part of revenue and cost of sales, including locally sourced goods and services, employee benefits and other fixed costs, are denominated in the local currencies of the operational subsidiaries.

Third-party currency risk relative to other trading is limited by existing contractual arrangements for the exchange rate indexation of receivables in Serbia, Albania and North Macedonia.

Outstanding risks from foreign currency trading are mitigated by Group companies by matching the timing and currencies of its trade receivables and payables, to the extent possible, as well as by occasional forward purchases of US Dollars for the payment of uncovered payables.

The tables below demonstrate the sensitivity to a possible changes on the following exchange rates:

	<i>USD</i>	<i>MKD</i>	<i>RSD</i>	<i>ALL</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Interest-bearing loans and borrowings	(1,817)	-	-	(187)
Trade and other payables	(16,906)	(768)	(255)	(2)
Trade and other receivables	3,193	684	2 183	2
Contract assets	-	-	-	11
	<u>(15,530)</u>	<u>(84)</u>	<u>1,929</u>	<u>(175)</u>

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36. Financial risk management objectives and policies (continued)

Currency risk (continued)

	Effect on profit before tax	
	+5%	-5%
	BGN' 000	BGN' 000
Change in USD rate	(776)	776
Change in MKD rate	(4)	4
Change in RSD rate	96	(96)
Change in ALL rate	(9)	9
	<u>(693)</u>	<u>693</u>

Credit risk

The Group trades generally with recognised, creditworthy third parties, such as, leading telecoms, public institutions and multinational companies, and long-lasting partners with proven credit history. The receivable balances and maturities are monitored on an ongoing basis. Therefore, the Group's credit risk exposure is very limited.

The credit risk that arises from other financial assets of the Group, such as cash and other financial assets, is related to the Group's credit exposure to default risks on the part of its counterparties.

The maximum credit exposure of the Group related to the recognised financial assets equals their carrying amount as stated in the balance sheet as of 31 December 2020 and as of 31 December 2019.

Liquidity risk

Liquidity risk is managed through the planning of cash flows and ensuring sufficient cash, as also by agreeing credit limits and financial support with renown local banks and strategically engaged partners.

The following table summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual discounted payments.

31 December 2020	On demand	< 3 months	3-12 months	1 - 5 years	> 5 years	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Interest-bearing loans and borrowings	-	-	2,003	-	-	2,003
Lease liabilities	-	424	1,389	2,777	-	4,590
Trade and other payables	772	21,670	9,032	-	-	31,474
31 December 2019	On demand	< 3 months	3-12 months	1 - 5 years	> 5 years	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Interest-bearing loans and borrowings	-	1,231	2,501	-	-	3,732
Lease liabilities	-	411	1,430	4,168	-	6,009
Trade and other payables	9,429	12,296	3,400	-	-	25,125

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36. Financial risk management objectives and policies (continued)

Capital management

The main objective of capital management of the Group is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value..

The Group manages its capital structure and adjusts it, where necessary, depending on the changes in the economic environment. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2020 and 2019.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents, excluding discontinued operations.

	<i>2020</i>	<i>2019</i>
	<i>BGN'000</i>	<i>BGN'000</i>
Interest bearing loans and borrowings	2,003	4,124
Lease liabilities	4,590	6,009
Trade and other payables	33,259	26,796
Contract liabilities	11,653	7,927
Less cash and short term deposits	<u>(11,762)</u>	<u>(2,199)</u>
Net debt	39,743	42,657
Equity	15,012	8,340
Less other reserves arising from Group restructuring	14,123	14,123
Adjusted Equity	<u>29,135</u>	<u>22,463</u>
Capital and net debt	68,878	65,120
Gearing ratio	58%	66%

37. Share-based payments

In 2020 the Group established one-off share-based payment incentive Procedure for employees (the Procedure). Under the Procedure employees with at least 24 months length of service in the Group and its preceding companies are eligible to receive one-off supplementary remuneration (bonus) in the form of shares without restrictions for subsequent disposal. The implementation of the Procedure took place on 21 December 2020. Telelink Business Services Group AD has transferred to employees of the Group 28 608 shares with nominal value of BGN 1 each and price at the day of the transfer of BGN 12 per share. The Group has measured the fair value of the services received by reference to the fair value of the shares transferred which is equal to the closing price of the Bulgarian Stock Exchange on the date of the grant. The Group accounts for the Procedure as an equity-settled share-based payments plan. The Procedure is implemented entirely at the expense of the shares bought back by the Company. The total expense of the shares transferred under the Procedure is at the amount of BGN 343 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37. Share-based payments (continued)

In 2020 the Group established long-term share-based payment incentive Programme for management and key personnel (the Programme). Under the Programme eligible employee is any employee who works at managerial position or is a key employee, nominated by resolution of the Managing Board, who has at least 365 days length of service at the Group. The supplementary remuneration under the Programme is conditional on the Group's performance for a period of three years 2020-2022 and personal performance of each employee with regard to financial and non-financial results. The final number of shares to be transferred is measured by reference to the Group's performance for a period of three years.

In 2020 the Group establishes share-based payment incentive Scheme for members of the Managing board (the Scheme). Granting conditions and final number of shares to be transferred are subject to the continuing employment of the members of the Managing board and the Group's performance for the three-year period 2020-2022.

According to the Programme and the Scheme shares will be transferred to employees in the year following the three-year period 2020-2022. The Group has estimated the fair value of the services received by reference to the fair value of the shares granted, but not yet vested, using the closing price of the Bulgarian Stock Exchange at 31 December 2020 adjusted with the present value of future dividend. The Group accounts for the Programme and the Scheme as an equity-settled share-based payments plans. The expense accrued according to the Programme and the Scheme is BGN 211 thousand.

38. Events after the date of the consolidated financial statements

On a meeting of the MB held on 06 January 2021, a resolution was adopted for the establishment of new Company subsidiaries on the territory of the USA, with a registered share capital up to USD 10 thousand, and Germany, with a registered share capital up to EUR 30 thousand.

On a meeting of the MB held on 15 January 2021 a resolution was adopted:

- to investigate the possibilities for the admission of the Company's shares for trading on a segment of the regulated market of the Frankfurt Stock Exchange;
- to authorize the Company's executive director for the undertaking of all necessary legal and factual steps to the implementation of the above resolution under such conditions that he may find appropriate in consideration of the Company's interests, including but not limited to the engagement of a specialist for the trading of Company shares on the Frankfurt Stock Exchange, as well as to take any other legal and practical action necessary and/or appropriate to the implementation of share trading on the Frankfurt Stock Exchange (including the filing of applications, letters, notifications and other documents to any authorities and institutions, domestically and abroad).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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38. Events after the date of the consolidated financial statements (continued)

Implementing the resolution adopted on 06 January 2021, the Company established in its capacity of sole owner a new subsidiary, limited liability company Telelink Business Services, LLC (USA) with a registered share capital of USD 10 thousand. As of the date of this Report, the new subsidiary's share capital has not been paid in.

On 29 January 2021, the Company provided a counter-guarantee securing a guarantee on behalf of TBS Macedonia, with regard to a contract for the hardware platform of a hybrid cloud, in favour of the Agency for electronic communications, Skopje, North Macedonia, for the amount of EUR 105,900, valid through 15 May 2022.

On a meeting of the MB held on 12 February 2021, approvals were granted for:

- the signing by Comutel of Annex No. 5 to Credit agreement No. 265-0000001624611-36 with Raiffeisen Banka AD, Serbia;
- the signing by Telelink Business Services EAD of a suretyship agreement, warranting the due execution of commitments by Comutel under the latter's Credit agreement No. 265-0000001624611-36 with Raiffeisen Banka AD, Serbia;
- the signing of a Cash loan agreement between Telelink Business Services EAD as lender and Telelink Business Services Albania as borrower;
- the signing of a Cash loan agreement between Telelink Business Services EAD as lender and Telelink Business Services Macedonia as borrower.

In accordance with an Managing Board resolution from 12 February 2021, an Annex was signed between Comutel and Raiffeisen Banka AD, Serbia to Loan agreement No. 265-0000001624611-36 signed with Raiffeisen Banka AD, Serbia, for the extension of the latter's term until 28 January 2022.

On 15 February 2021, a Cash loan agreement was signed between Telelink Business Services EAD (lender) and Telelink Business Services Macedonia (borrower), with a limit of up to EUR 2,000 thousand, interest rate of 2.5% and a repayment term until 31 December 2021.

On 15 February 2021, a Cash loan agreement was signed between Telelink Business Services EAD (lender) and Telelink Business Services Albania (borrower), with a limit of up to EUR 500 thousand, interest rate of 2.5% and a repayment term until 31 December 2021.

On 15 February 2021, a suretyship agreement was signed whereby Telelink Business Services EAD guaranteed the due performance of Comutel's obligations under the latter's Loan agreement No. 265-0000001624611-36 signed with Raiffeisen Banka AD, Serbia.

On a meeting of the Supervisory Board held on 12 March 2021, a resolution was adopted for the determination of variable remuneration in the form shares for 2021 for the members of the Managing Board, specifying the values of the ranges and the relative weights of the indicators of the Group's performance for the three-year period 2021-2023. The above and other parameters of the remuneration shall be submitted for approval to the General Meeting of Shareholders.

On 16 March 2021, Telelink Business Services EAD provided a counter guarantee securing a performance guarantee on behalf of Telelink Business Services Macedonia with regard to a contract with the Ministry of economy and environment of the republic of Kosovo for Hardware and assistance of national research networks in the amount of EUR 69,246.29, valid through 15 October 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

38. Events after the date of the consolidated financial statements (continued)

On 23 March 2021, Telelink Business Services EAD provided a counter guarantee securing an advanced payment guarantee on behalf of Telelink Business Services Macedonia with regard to a contract with the Ministry of economy and environment of the republic of Kosovo for Hardware and assistance of national research networks in the amount of EUR 69,246.29, valid through 15 October 2021.

On March 25 2021, the Managing Board of Telelink Business Services Group AD resolved upon the establishment of a fully owned subsidiary on the territory of Romania under the name of "Telelink Business Services", with a registered share capital up to EUR 10 thousand and managing director Orlin Rusev.

Except as described above, the Group's management declares that from the end of the reporting period to the date of approval of these financial statements no significant and / or materials events have occurred that have an impact on the results or affect the Group's operations, the non-disclosure of which would have an effect on the true and fair presentation of the financial statements.