

Telelink Business Services Group AD

Consolidated Management Report and

Consolidated Financial Statements

For the year ended 31 December 2019

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Supervisory Board (SB)

Hans van Houwelingen – Chair of SB, independent member

Ivo Evgeniev Evgeniev – member of SB;

Bernard Jean Luc Moscheni – member of SB, independent member.

Management Board (MB)

Ivan Zhitiyanov – Chair of MB and Executive Director;

Teodor Dobrev – member of MB;

Paun Ivanov – member of MB;

Nikoleta Stanailova - member of MB;

Gojko Martinovic - member of MB

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CONSOLIDATED ANNUAL ACTIVITY REPORT

OF TELELINK BUSINESS SERVICES GROUP AD

FOR THE FINANCIAL YEAR 2019

THIS ACTIVITY REPORT HAS BEEN PREPARED IN ACCORDANCE WITH THE PROVISIONS OF ARTICLE 39 OF THE ACCOUNTANCY ACT, ARTICLE 100N, PARAGRAPH 7 AND 8 OF THE PUBLIC OFFERING OF SECURITIES ACT ("THE POSA") AND APPENDIX NO 10 TO ARTICLE 32, PARAGRAPH 1, ITEM 2 OF ORDINANCE NO 2 FROM 17 SEPTEMBER 2003 REGARDING THE PROSPECTUSES FOR PUBLIC OFFERING AND ADMISSION TO TRADE ON THE REGULATED SECURITIES MARKET AND REGARDING THE DISCLOSURE OF INFORMATION.



DEAR SHAREHOLDERS,

We, the members of the Management Board of TELELINK BUSINESS SERVICES GROUP AD ("the Company"), prepared this consolidated activity report ("the Report"), driven by the aspiration to manage the Company in the interest of the shareholders, as well as on the grounds of the requirements of Article 33 of the Accountancy Act, Article 100n, Paragraph 7 of the POSA and Appendix No 10 to Article 32, Paragraph 1, Item 2 of Ordinance No. 2 from 17 September 2003 regarding the Prospectuses for public offering and admission to trade on the regulated securities market and regarding the disclosure of information from public companies and other securities issuers. The Report presents a commentary and analysis of consolidated financial and non-financial key performance indicators related to the business activity of the Company and its subsidiaries ("the Group"), including information on issues related to ecology and employees. The Report contains an objective review, which presents the correct and fair development and results of the Group's activities, as well as its condition, together with a description of the main risks it faces.

The Company's Corporate management declaration prepared in compliance with the provisions of Article 100n, Paragraph 8 of the POSA is enclosed in this Report.



I GENERAL INFORMATION ABOUT THE COMPANY AND THE GROUP

I.1 Establishment of the Company and formation of the Group

Telelink Business Services Group AD ("TBS Group", "the Company") was established on 12 July 2019 as a sole proprietorship joint stock company with owner Telelink Holdings BV (the Netherlands).

As at the date of incorporation of the Company, Telelink Holdings BV (the Netherlands) is the sole owner of Telelink Bulgaria EAD as well. For its part, the latter has investments in subsidiaries operating in the field of information and communication technologies in three main fields – Business Services, Infrastructure Services and Product Development. Together, Telelink Bulgaria EAD and its subsidiaries form the joint group Telelink existing at the time.

The objective of the Company is the spinoff of investments in the subsidiaries of the Telelink group specialized in the Business Services division in a separate company, group and corporate structure independent from Telelink Bulgaria EAD.

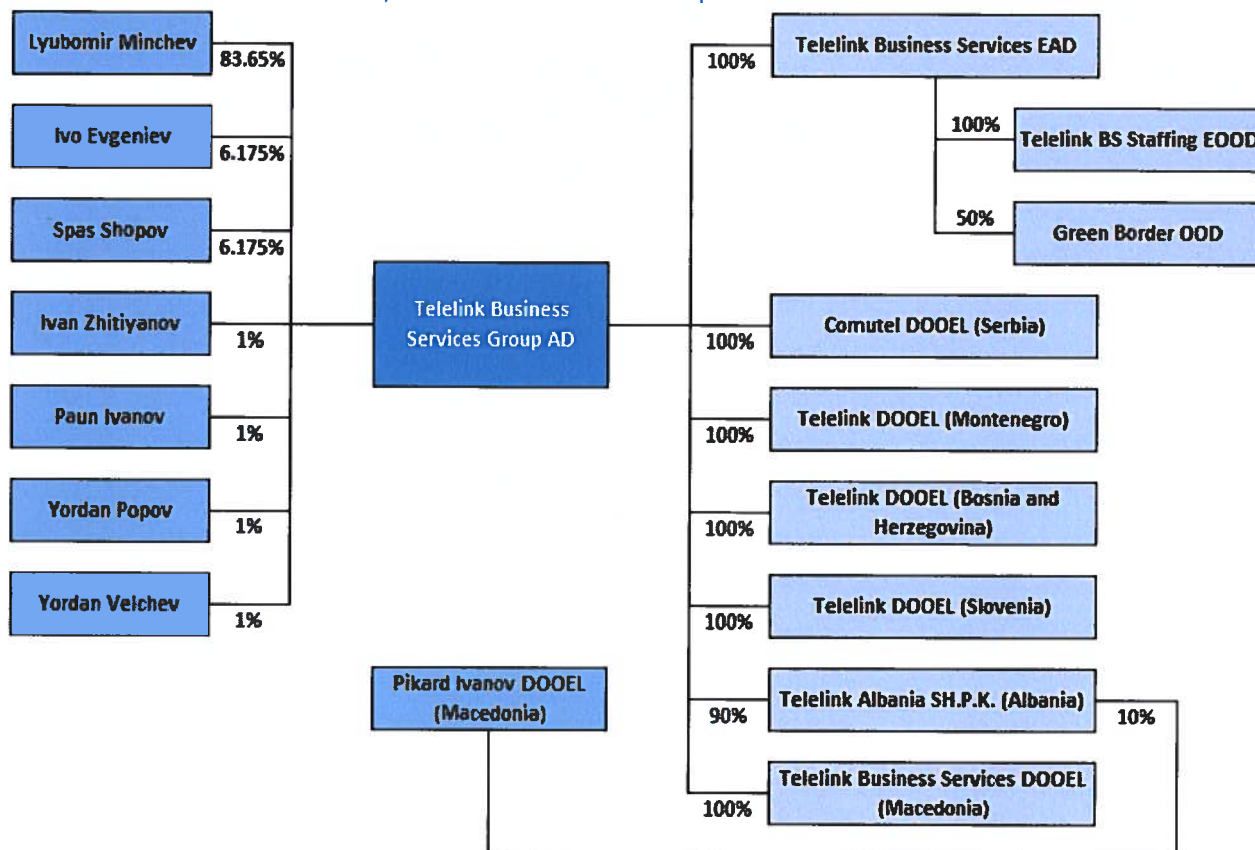
With a decision by the sole owner Telelink Holdings BV (Netherlands), Telelink Bulgaria EAD was restructured by separating Business Services as an independent activity within the meaning of Article 262c of the Commerce Act, whereby part of the property of Telelink Bulgaria EAD, consisting of all assets, rights and obligations related to the Separate Activity (including assets, liabilities, contracts and employees), was transferred to Telelink Business Services Group EAD (in its capacity of an accepting company) ("the Reorganization", "the Spinoff"), in exchange for shares in the capital of the Accepting Company issued to Telelink Holdings BV (the Netherlands). The Reorganization was entered into the Trade Register and became effective on 14 August 2019.

Pursuant to this Spinoff, as of this date, the Company consolidated the investments in the Telelink Group companies, specialized in the Business Services domain, including Telelink Business Services EAD (Bulgaria) (TBS EAD), Comutel DOO (Serbia) (Comutel), Telelink DOO – Podgorica (Telelink Montenegro), Telelink DOO (Bosnia and Herzegovina) (Telelink Bosnia), Telelink DOO (Slovenia) (Telelink Slovenia) and the newly established in 2019 Telelink Albania SH.P.K. (Telelink Albania). In September 2019, Telelink Business Services D.O.O.L. (Macedonia) (TBS Macedonia), newly established by the Company, also became a member of the Group.

In August 2019, all shares of the Company were transferred from Telelink Holdings BV (the Netherlands) to new shareholders, directly or indirectly representing the ultimate owners of Telelink Holdings BV (the Netherlands), with direct majority owner – the co-founder of Telelink Group Lyubomir Minchev, in his capacity of a natural person. As a result of the transfer, the Company changed its legal form to AD and ceased to be a direct part of the Telelink economic group.

As of 31 December 2019, the founder of the Group Lyubomir Minchev directly owns 10,456,250 shares, with a nominal value of BGN 1 each, representing 83.65% of the total capital of the Company. The remaining persons holding over 5% of the capital of the Company are Ivo Evgeniev and Spas Shopov, each one holding directly 771,875 shares with par value of BGN 1 each, respectively 6.175% of the total capital of the Company.

I.2 Structure and composition of the Group



As of 31 December 2019, the Company has direct participations in seven subsidiaries and indirect participations in two companies controlled by TBS EAD, listed in the table below, each one managed in the country in which it is incorporated. Together with the Company, the companies listed above form the TBS Group economic group ("the Group").

Subsidiary	Country of incorporation and management	Shareholding participation of TBS Group
<i>(direct)</i>		
Telelink Business Services EAD	Bulgaria	100%
Comutel DOO	Serbia	100%
Telelink DOO – Podgorica	Montenegro	100%
Telelink DOO	Bosnia and Herzegovina	100%
Telelink DOO	Slovenia	100%
Telelink Albania SH.P.K.	Albania	90%
Telelink Business Services DOOEL	Macedonia	100%
<i>(indirect)</i>		
Telelink BS Staffing EOOD	Bulgaria	100%
Green Border OOD	Bulgaria	50%

As of 31 December 2019, the Company is the sole owner of all companies directly owned by it, with the exception of Telelink Albania, in which it holds a majority stake of 90%, and as of this date the remaining



10% is owned by Pikard Ivanov DOOEL (Macedonia), itself controlled by Paun Ivanov, a member of the Management Board of the Company.

As of 31 December 2019, all directly controlled companies carry out active commercial operations. The indirectly owned Telelink BS Staffing EOOD incorporated by TBS EAD with a view to carrying out potential joint operations with a leading consultancy organization in the field of finance, has not yet developed significant business activity. In turn, the project objective of the joint venture Green Border OOD, co-founded by TBS EAD, has been exhausted with the realization of the respective project and is not expected to have significant future effects on the activity and the financial position of the Group.

1.3 Public status and public offering of the Company

Pursuant to a decision by the sole owner from 15 August 2019, the Company has taken steps to acquire public status with a view to the admission of its shares to trading on the Bulgarian Stock Exchange ("the BSE").

As of 31 December 2019, the Financial Supervision Commission ("the FSC") has approved a Prospectus for admission to trading on a regulated stock market of the Company's shares ("the Prospectus") pursuant to a decision of 28 November 2019 and an Appendix thereto pursuant to a decision of 23 December 2019, but the shares of the company have not yet been admitted to trading on the BSE.

As of the date of this Report, the Financial Supervision Commission has approved a new Appendix to the Prospectus with a decision from 26 March 2020, resulting in the Company's shares being admitted to trading on the BSE with a decision from 8 April 2020, with a planned entry date 1 June 2020.

II REVIEW OF THE ACTIVITY AND THE FINANCIAL POSITION OF THE GROUP

The main activity of the Company includes the management of its investments and the provision of corporate management services to its subsidiaries specialized in the field of information and communication technologies ("ICT"). The Company on its own does not carry out direct commercial operations in the field of ICT with regard to end customers outside the Group.

The main activity of the Group involves the operating activities of the subsidiaries in its composition and includes the selling of products and services and the implementation of complex solutions in the ICT field, including, but not limited to:

- delivery, warranty and post-warranty support of equipment and software produced by third-party technology suppliers, and applications and services developed for clients upon request;
- system integration covering system design, configuration, installation, setup and commissioning of the supplied equipment, software or integrated ICT systems, functionally combining two or more types of products;
- consultancy services covering analysis of the condition, needs, transformation and future development of the client's ICT systems, processes and infrastructures;
- managed services through which the client transfers management and responsibility for a certain ICT function or complex of functions to the Group and the Group guarantees their maintenance at a certain level.

Part of the performed managed services include the provision of equipment and software as a service that presents the client with a flexible alternative to their own investments in these assets.

The products and services offered by the Group include seven technological groups and various types of technologies and services, united in four main categories – Data Networks, Data Centres, Office Productivity and Information Security.

Product categories	Technology groups	Types of technology
Data Networks	Specific solutions for telecoms (Service Provider Specific)	Transmission networks, access networks, optical networks, cable networks, network functions virtualization (NFV), audio & video headend, customer-premises equipment (CPE), etc.
	Enterprise Connectivity	Corporate networks, network security, firewall, data center networking, virtualization, collaboration systems, contact center, etc.
Data Centers	Private Cloud	Computing equipment, disk systems, backup and business continuity solutions, virtualization, orchestration, application monitoring and performance, Public Cloud Infrastructure (IaaS) and more.
	Platform-based ("Lean") Infrastructure	Container infrastructure, infrastructure optimized for application development automation (DevOps), infrastructure based on cloud platforms (PaaS), etc.
	Application Services	Software development, program interface integration (API), program interface gateways (API Proxy), data processing and presentation etc.
Office Productivity	Modern Workplace	Microsoft (Windows, Office 365, Enterprise Mobility, etc.), multi-factor authentication, management of end-user devices, computers, peripherals, etc.
Information Security	Information Security	Data encryption systems, data leakage prevention, vulnerability analysis, database protection, security analysis and monitoring as a service (Advanced Security Operation Center), etc.

As of 31 December 2019, the Group carries out active commercial operations through the Company and all subsidiaries directly owned by it and reports positive net worth amounting to BGN 7,784 thousand.

The financial position and the factors for the formation of the assets, liabilities and equity of the Group are presented in the Statement of Financial Position included in the Consolidated Financial Statements and are analysed below.

II.1 Main financial indicators

Financials (BGN thousand)	2019	2018	change
Net sales revenue	110,328	115,889	-5%
Cost of Sales	-90,469	-97,328	-7%
Gross Profit	19,859	18,561	7%
Sales and Marketing Expenses	-5,498	-4,962	11%
General and Administrative Expenses	-4,589	-4,541	1%
Other Operating Income/(Expenses) (net)	30	170	-82%
Operating Profit	9,802	9,228	6%
Financial Income/(Expenses) (net)	-659	-460	43%
Income Tax Expense	-991	-1,104	-10%
Net Profit	8,152	7,664	6%
Depreciation & Amortization Expenses	-2,148	-919	134%
Interest Income/(Expenses) (net)	-362	-181	100%
Earnings before Interest, Tax, Depreciation & Amortization (EBITDA)	11,653	9,868	18%
One-off and Extraordinary Income/(Expenses) (net)	-176	8	-23.0x
Normalized EBITDA	11,829	9,860	20%
Total Assets	53,389	55,458	-4%
Non-current Assets	13,235	6,618	100%
Current Assets	40,154	48,840	-18%
Equity	7,784	8,469	-8%
incl. Retained Earnings and Profit for the Year	9,631	7,360	31%
Total Liabilities	45,605	46,989	-3%
Non-current Liabilities	7,238	3,524	105%
Current Liabilities	38,367	43,465	-12%
Cash & Cash Equivalents	2,199	3,313	-34%
Total Financial Debt*	6,361	6,740	-6%
Net Financial Debt**	4,162	3,427	21%
Net Cash Flow from Operating Activities	3,090	4,920	-37%
Net Cash Flow from Investment Activities	4,656	-6,870	-168%
Net Cash Flow from Financing Activities	-8,818	-2,152	310%
Number of Employees as of Period End	226	163	39%
* Incl. loans and finance lease contracts			
** Total Financial Debt - Cash & Cash Equivalents			
Ratios	2019	2018	change
Gross Margin	18.0%	16.0%	2.0%
Operating Margin	8.9%	8.0%	0.9%
Net Margin	7.4%	6.6%	0.8%
EBITDA margin	10.6%	8.5%	2.0%
Current Ratio	1.05	1.12	-0.1
Equity / Total Assets	15%	15%	-1%
Financial Debt / Total Assets	12%	12%	0%
Non-current Assets / Total Assets	25%	12%	13%
Equity and Non-current Liabilities / Non-current Assets	1.1	1.8	1.0
Net Financial Debt / EBITDA	0.4	0.3	0.0
Average Return on Assets (ROA)	15.0%	-	-
Average Return on Equity (ROE)	100.3%	-	-

II.2 Business development and revenue trends

In spite of the 30% growth achieved by TBS EAD and additions from new activities started in Macedonia and Albania, the Group's consolidated revenues of BGN 110,328 thousand reported for 2019 marked a decrease of 5% as compared to the previous 2018, as a result of the more sizeable 38% decrease in the overall revenues of Comutel (Serbia) and Telelink Montenegro, Telelink Bosnia and Telelink Slovenia.

Leading contributors to the sales growth at TBS EAD are the products and services from the categories Enterprise Networks, Private Cloud and Office Productivity, in which the company implements a wide range of projects of various scale both in the private and the public sector. Corporate clients are also responsible for the majority of the overall revenue growth in Bulgaria and on the international markets serviced by TBS EAD as a whole. The continuing expansion of recurring revenues from multinational clients based on contracts for Managed Services stands out as a promising contributor to the sales in this segment.

The general revenue drop in Serbia, Montenegro, Bosnia and Slovenia noted last year is mainly due to transitional factors related to the introduction of new generations and categories of equipment in the networks of the main serviced clients from the telecommunication sector. These factors mainly affected the sales of customer-premises equipment traditionally characterized by lower complexity and added value. Despite this decrease, the Group's respective companies retain their key partnerships and continue to realize significant turnovers from these clients.

Structurally, the diverse trends in 2019 promote Bulgaria as the leading territory in terms of generated sales with a share of 62% in consolidated annual revenues (compared to 45% in 2018) vs. 36% for combined revenues from Serbia, Montenegro, Bosnia and Slovenia (compared to 55% in 2018). As they were launched as late as the fourth quarter of the year, sales in the newly established companies in Albania and Macedonia play a positive but still limited role in the formation and growth of total Group revenues with a total share of 3% in 2019.

II.3 Profitability, expenses and profit

II.3.1 Gross profit

Despite the reported decrease of the consolidated revenues, the consolidated gross profit of BGN 19,859 thousand for 2019 increased by 7% as compared to 2018 as a result of the improving average sales profitability (the increase of the gross margin) from 16% in 2018 to 18% in 2019.

The reported improvement of the average gross profitability can be attributed to the growing share of typically more profitable sales at TBS EAD, which continue to stand out with their significantly higher share of solutions and services with high added value compared to the subsidiaries in the Western Balkans. The improvement of the company's gross margin from 22% in 2018 to 23% for 2019 also has a positive impact on the background of a decline from 11% in 2018 to 10% in 2019 for the companies in Serbia, Bosnia, Montenegro and Slovenia.

With an average margin of 15%, the revenues from sales in Macedonia and Albania started during the year also exceeded the profitability levels from the Group's traditional activities in the Western Balkans.

II.3.2 Marketing and sales expenses

The consolidated sales and marketing expenses of BGN 5,498 thousand reported for 2019 increased by 11% as compared to 2018, reaching 5.0% of consolidated revenues as compared to 4.3% in 2018.



The main factor for the reported increase continues to be the hiring and allocation of additional staff in connection with the expansion of the activity of TBS EAD, the preparation for the introduction of an extended portfolio of products and services in the Western Balkans and the strategic market goals of the Group as a whole.

II.3.3 General & administrative expenses

The consolidated general and administrative expenses of BGN 4,589 thousand reported for 2019 increased by 1% as compared to 2018, reaching 4.2% of the consolidated revenues as compared to 3.9% in 2018.

Despite the continuing increase of remuneration expenses, 2019 marked a significant decrease of the total expenses from previous years as a result of the discontinuation of expenses for corporate management consultancy services provided by Telelink Bulgaria EAD, after the date of spinoff of the separate Business Services activity of TBS Group.

II.3.4 Operating profit and earnings before interest, taxes, depreciation, and amortization (EBITDA)

The advanced growth of the gross profit as compared to the amount of the marketing and sales expenses and the general and administrative expenses is reflected in the increase by 6% of the consolidated operating profit of BGN 9,802 thousand reported in 2019 as compared to 2018 and in the concurrent increase of the operating margin from 8.0% in 2018 to 8.9% for 2019.

In turn, the increase in the share of depreciation and amortization expenses in the total operating expenses of the Group relative to the formation of right-of-use assets from rental contracts and operating leases pursuant to the new IFRS 16 and the increasing set of equipment, provided as a service, contributes to accelerated growth of the reported consolidated EBITDA of BGN 11,653 thousand by 18% compared to 2018 and the concurrent increase in the margin reported at this level from 8.5% in 2018 to 10.6% in 2019.

II.3.5 Financial income and expenses

Consolidated financial income reported during the period includes the interest income from loans granted.

Consolidated financial expenses reported during the period comprise interest expenses, including bank fees and other direct expenses on loans, finance lease contracts and expenses accounted in connection with rental contracts and operating leases under the new IFRS 16, net negative exchange rate differences from foreign exchange transactions for the year and other financial costs, including charges for bank guarantees and fees and commissions for other banking services.

The net financial expenses of BGN 659 thousand reported in 2019 marked an increase of 43% as compared to 2018.

The main factor is the increase in interest expenses, which reflects both the higher average level of withdrawn revolving credit during the year and the expenses reported for the first time in relation to rental and operating lease contracts in accordance with the new IFRS 16. The Group also reports an increase in the expenses for bank guarantees and services, resulting mainly from the expansion of the operations in Bulgaria.

Regardless of this trend, net financial expenses maintained a moderate ratio of 0.6% relative to revenues, close to the 0.4% reported for 2018.

II.3.6 Net profit

In the context of a decreasing effective tax rate (10.8% compared to 12.6% for 2018) and maintaining relatively low levels of net financial expenses, the consolidated net profit of BGN 8,152 thousand reported for 2019 follows a trend similar to the profitability at the operational level, rising by 6% compared to the previous year with a concurrent increase in the net margin from 6.6% in 2018 to 7.4% in 2019.

II.4 Assets, liabilities and equity

II.4.1 Assets

The consolidated assets of BGN 53,389 thousand reported at the end of 2019 showed a moderate decrease by 4% as compared to the end of 2018.

The consolidated non-current assets of BGN 13,235 thousand reported as of 31 December 2019 increased by 100% as compared to 31 December 2018, reaching 25% of the Group's total assets as compared to 12% as of the end of the previous year. The main contributors to this growth are continued investments in equipment provided to clients under long-term contracts for managed services and the application of the new IFRS 16, according to which the Group's companies classify as non-current assets the rights of use under long-term rental and operating lease contracts. As of period end, the total carrying amount of the assets for managed services is BGN 3,402 thousand, or 6% of the total assets of the Group, and the value of the rights of use (excluding assets for managed services) is BGN 3,804 thousand, or 7% of the total assets of the Group, with major sources of the latter including the office rental contracts active in TBS from December 2018 and at Comutel from December 2019 and the vehicles used by the two companies under operating leases. The expenses for future periods, mainly related to the cost of equipment support contracts with a duration of over 1 year, continue to play a significant role in the formation of non-current assets.

The consolidated current assets of BGN 40,154 thousand reported as of 31 December 2019 registered a reduction of 18% as compared to 31 December 2018, but nevertheless retained a predominant share of 75% in the Group's total assets. The main factors for the indicated decrease are the recovery (repayment to the Group) of a loan amounting to BGN 6,426 thousand granted by TBS EAD to Telelink Bulgaria EAD as of 31 December 2018 and the decrease of the cash amount by BGN 1,114 thousand reported in spite of this. In parallel, the Group registered a total decrease of the trade and other receivables and contract assets by BGN 3,559 thousand, which is only partially compensated by the increase in the inventories by BGN 1,305 thousand as compared to the end of the previous year. The indicated decrease of BGN 204 thousand in the value of the assets classified as held for sale reflects the sale of part of these assets that was carried out and does not include any impairments.

II.4.2 Liabilities

Similarly to the assets reported at the end of 2019, the consolidated total liabilities of BGN 45,605 thousand registered a decrease of 3% as compared to the end of 2018.

The consolidated non-current liabilities of BGN 7,238 thousand reported as of 31 December 2019 increased by 105% as compared to 31 December 2018, reaching 14% of the total assets and 16% of the total liabilities of the Group, compared to 6% and 7% as of the end of the previous year. This growth can be mainly attributed to both the increasing payables under financial leasing contracts funding investments in equipment for managed services, and the liabilities accounted in connection with the application of the new IFRS 16, according to which the Group's companies report liabilities reflecting discounted future and deferred initial payments for the use of assets under long-term rental and operating lease contracts. As of period end, the total carrying amount of the non-current portion of the liabilities under financial leasing

contracts amounts to BGN 1,297 thousand, and that of the liabilities under rental and operating lease contracts to BGN 2,871 thousand. Deferred income relative mainly to equipment support fees for a term of over 1 year also continue to play a significant role in the formation of non-current liabilities.

The consolidated current liabilities of BGN 38,367 thousand reported as of 31 December 2019 registered a reduction of 12% as compared to 31 December 2018 and nevertheless retained a predominant share of 84% in the total liabilities and a ratio of 72% to the total assets of the Group. The main factor for the observed decrease is the reduction of trade and other payables and contract liabilities by BGN -5,303 thousand, mainly due to significantly lower advances received by clients compared to the end of the previous year. A decrease of BGN 827 thousand is also reported in the current financial debt obligations, within which the decrease of the balances on credit lines used by the Group's companies exceeds the increase of the current liabilities under financial leasing contracts. As of period end, the current portion of the liabilities under rental and operating lease contracts reported in connection with the application of the new IFRS 16 amounts to BGN 942 thousand.

II.4.3 Financial debt

Summing up the liabilities under loan and financial leasing contracts, the consolidated financial debt of BGN 6,361 thousand present as of 31 December 2019 decreased by 6% as compared to the end of 2018, maintaining ratios of 12% relative to total assets and 14% relative to total liabilities.

In view of the decrease in cash and cash equivalents, consolidated net financial debt (the difference between the financial debt and the cash and cash equivalents) increased by 21% from the end of 2018, reaching BGN 4,162 thousand as of 31 December 2019.

The lease obligations formed under the new IFRS 16 in relation to the rights of use of assets under long-term rental and operating lease contracts do not represent actual credit relationships and should not be considered a part of the Group's financial debt.

II.4.4 Liquidity

As of 31 December 2019 the Group reported a ratio between consolidated current assets and liabilities (current liquidity ratio) of 1.05. The reported moderate decrease as compared to the same indicator's value of 1.12 reported at the end of 2018 is a reflection of the decrease of the Group's current assets ahead of current liabilities, including the observed decrease in the available cash and cash equivalents as of the end of 2019.

Regardless of the latter, the Group continues to report a significant excess of current assets over current liabilities in the amount of BGN 1,787 thousand.

II.4.5 Equity

TBS Group was established in July 2019 with a share capital of BGN 50 thousand. The share capital available as of 31 December 2019 amounting to BGN 12,500 thousand was reached as a result of the Reorganization of Telelink Bulgaria EAD, whereby the Company allocated the net assets attributable to the separate 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. Together with the available reserves of TBS EAD, the Group's total legal reserves as of 31 December 2019 amount to BGN 317 thousand.

In accordance with the rules for reporting a business combination under common control, upon the Reorganization of TBS Group AD other negative reserves were formed in the consolidated statements of the



Group in the amount of BGN -14,127 thousand, corresponding to the difference between the total value of the Company's investments in subsidiaries (BGN 15,718 thousand) and the amount of the portion of their fixed capital held by TBS Group AD (BGN 1,590 thousand). The indicated operation is a major factor in the reported consolidated other reserves amounting to BGN -14,108 thousand.

Notwithstanding the considerable dividends allocated to former parent company Telelink Bulgaria EAD in 2019, the higher profit for the year contributes to a total increase of the retained earnings from the current and previous years (amounting to a total of BGN 9,631 thousand as of period end) by BGN 2,271 thousand as compared to the end of 2018.

In total, consolidated equity as of 31 December 2019 amounts to BGN 7,784 thousand, or 15% of the consolidated total assets of the Group.

II.5 Cash flows

II.5.1 Operating cash flows

In spite of the positive trends in operating profit before depreciation, the net cash flow from operating activities of BGN 3,090 thousand reported by the Group for 2019 registered a decrease of 37% as compared to the previous year. The main reason for this decrease is the change in net working capital and especially the decrease in trade and other payables and contract liabilities ahead of trade and other receivables and contract assets, which is largely due to the significantly lower advances received on projects compared to the end of the previous year. A part of the cash outflows in 2019 is also the one-off payment of liabilities to Telelink Holdings BV, undertaken as a part of the Business Services activity after the Reorganization of TBS Group from 14 August 2019.

As a result of the above and other factors, the net operating cash flow realized in 2019 amounts to 26% of the operating profit adjusted to reconcile the cash flow, as compared to 50% in 2018.

II.5.2 Investment cash flow

In 2019, the Group continued to increase its investments in non-current tangible assets mainly through equipment provided to clients under long-term contracts for managed services. Although the latter are funded mainly with finance lease contracts limiting the respective cash outflow, payments for non-current assets, including other machinery and equipment, registered a significant increase as compared to 2018.

Despite the above trend, the Group reported a positive net investment cash flow for 2019 amounting to BGN 4,656 thousand as compared to a negative value of BGN -6.870 thousand for 2018. The main factor for the reported positive value is the repayment of the loan amounting to BGN 6,426 thousand granted by TBS EAD to Telelink Bulgaria EAD as of 31 December 2018 under a contract for financial assistance between the two companies that was effective at that date. The Group also continues to report increasing proceeds from funding under the EU development programs amounting to BGN 464 thousand.

II.5.3 Financial cash flow

Total short-term debt financing decreased, as the reduction of utilized funds under a revolving credit line in Comutel exceeded the net utilization under working capital financing limits at TBS EAD. In view of the above, the increasing payments under financial leasing contracts and interest payments as a whole, the Group reports a net negative flow from credit financing in 2019 as part of its cash flow from financial activities compared to a positive value in 2018.



Prior to the Reorganization of TBS Group AD of 14 August 2019, upon which the shares in their capital were separated from Telelink Bulgaria EAD, the Group's subsidiaries paid to the latter dividends totalling BGN 5,881 thousand compared to similar payments of BGN 4,348 thousand in 2018.

In combination, the above factors lead to a growing negative consolidated net cash flow from financial activities amounting to BGN -8,818 thousand as compared to BGN -2,152 thousand in 2018.

II.5.4 Net cash flow

Summarizing the above factors, in spite of the reported growth in operating profit and EBITDA and the approximate offset of dividends paid to former parent company Telelink Bulgaria EAD with the loan repaid by the latter, in 2019 the Group reported a net decrease in cash by BGN 1,114 thousand as a result of the increase of the net working capital, growing investments and the net repayment of the financial debt during the period.

III MAIN RISKS FOR THE GROUP

The risks related to the activity of the Group can be generally divided into system (common) and non-system (related specifically to the activities of the companies included in its composition and the sector in which they operate).

Separately, the investors in the financial instruments of the Company are exposed to risks related to the investments in securities (derivative and underlying). These risks are described in detail in the Document for the offered securities – Part II of the Prospectus for admission to trading on a regulated stock market of the Company's shares and the amendments thereto, published by TBS Group.

III.1 System risks

The common (system) risks are those that relate to all economic entities in the country and are the result of external factors to the Group that cannot be influenced by the companies included in its composition. The main methods for limiting the impact of these risks are the reporting of the current information and the formation of estimates for the future development by separate and general indicators and their impact on the activity and the financial results of the Group.

III.1.1 Political risk

The political risk is mainly related to the possibility of a change of government or a sudden change in its policy, the occurrence of internal political instability and unfavorable changes in the European and/or national legislation, as a result of which the economic and investment climate and the general environment in which local business entities operate may change negatively and investors may suffer losses.

The international political risks for Bulgaria and the Western Balkans include the challenges related to the commitments undertaken to implement major structural reforms in the country, the increase of social stability and the reduction of inefficient expenses in their capacity of candidate members or members of the EU. These challenges are not only the result of ongoing reforms as part of the community integration process, but also of the dynamics of the development of the integration processes in the EU itself. There is no guarantee that these processes will be successfully completed in the foreseeable future. There is also no guarantee that the UK's exit from the EU will not exacerbate anti-integration moods in other countries of the Union and, consequently, cause serious political and economic turmoil for all Member States.

A source of potential negative effects is also the acute destabilization of the countries in the Middle East, the increasing threats of terrorist attacks in Europe, refugee waves and the instability of key countries, neighbouring Bulgaria. Bulgaria, as well as the other EU member states from the region, continues to be severely affected by the problem of the refugee wave from the Middle East.

At present, the political situation in Bulgaria and the other countries in which the Group operates is relatively stable. However, there is no certainty that no factors will emerge that cause social and political tensions as well as significant and abrupt change in political and economic conditions, which could have a significant adverse effect on the Group's activities.

III.1.2 Total macroeconomic risk

Various macroeconomic factors and trends, including, but not limited to, recession, trade barriers, currency changes, inflation, deflation and other factors affecting consumer purchasing capacity would have an impact on the activity of the company. A slowdown in the economy of the EU, Bulgaria and other markets in which the Group companies operate, or any other uncertainty about economic development, can make consumers cautious and, thus, will affect their willingness and ability to buy the Group's products and services.

Most analysts expect the slowdown in growth and even contraction of the economies of developed Western European countries, a process that is expected to reach, albeit at a slower and milder rate, Bulgaria and the Western Balkan countries. The slowdown in economic growth in the region and the associated constraints on the expenses of private companies and their insufficient compensation with countercyclical measures by national and supranational government bodies could have a negative impact on the Group's sales and profitability.

III.1.3 Currency risk

Exposure to currency risk means the dependence and effects of fluctuations in exchange rates. Systematic currency risk involves the probability of a change in the currency regime of the country (including the currency board in Bulgaria), which would lead to either devaluation or appreciation of the local currency with regard to leading and other foreign currencies and to respective changes in the ratios of local and international prices of production factors and sold and purchased goods and services.

III.1.4 Interest rate risk

Interest rate risk is related to possible negative changes in interest rates, minimum required reserves and other policies and instruments established by the financial institutions of the countries in which the Group companies operate in relation to financing used by them, such as overdraft limits, revolving credit lines and financial leases.

Similar risks are created by the policies of leading global financial institutions, their implemented policies and the key interest rates quoted by them, as well as the dynamics of internationally accepted floating interest indices such as EURIBOR and USD LIBOR and the average credit or deposit indices of the creditor banks.

III.1.5 Credit risk

The credit risk of the countries in which the Group companies operate is related to their ability to repay their liabilities on a regular basis. The most important effect of improving a credit rating is the lowering of its risk premiums on loans, which leads (*ceteris paribus*) to more favorable interest rates. For this reason, the potential increase of the credit rating of the country would have a favorable impact on the Company's activity and more specifically on its financing. On the other hand, a downgrade of Bulgaria's credit rating

would have a negative impact on the cost of the financing of the Company unless its loan agreements have fixed interest rates. This risk is identified and measured by specialized international credit agencies.

III.1.6 Risk of adverse changes in tax legislation and practices

A change in the tax legislation of the countries in which the Group companies are incorporated towards an increase of the chargeable tax bases and/or the applicable rates, may result in increased income tax expenses.

The taxation system in Bulgaria and the Western Balkans as a whole is still evolving, resulting in conflicting tax practices at both the state and local levels. Due to different interpretations of tax laws, the risk associated with local tax laws may be larger than in other tax jurisdictions in developed countries. Tax authorities may take a more challenging approach in interpreting legislation and tax audits. This, coupled with the intensification of efforts to collect taxes as a result of budgetary needs may increase the scope and frequency of tax audits. In particular, the tax authorities may challenge transactions and activities that have not been challenged so far. This can result in significant additional taxes, fines and interest.

III.1.7 Risks related to the imperfections of the legal system

Although Bulgaria has introduced a number of significant legal and constitutional reforms since 2007 and most of the Bulgarian legislation has been harmonized with EU legislation, the country's legal system is still undergoing reform. This is even truer for the countries of the Western Balkans, which have not yet been accepted in the EU, and the laws and practices have not been fully harmonized.

Case law and administrative practice remain problematic and individuals who rely on local courts to effectively resolve property disputes, violations of laws and contracts, etc., find such resolution difficult to obtain. As a consequence, the risk of deficiencies in the legal infrastructure, which may result in uncertainty arising from corporate conduct, supervision and other issues, can be identified.

III.2 Risks specific to the Company, its subsidiaries and the sector in which they operate

III.2.1 Risk, related to the business strategy and growth potential

III.2.1.1 Inappropriate business strategy

Choosing an inappropriate business strategy, as well as a failure to adapt it in a timely manner can lead to losses and missed benefits for the Group. Management of strategic risk through constant supervision and periodic tracking of fluctuations in the market and key indicators and constant cooperation among all levels in the organization in order to identify potential problems and implement the needed measures in a timely manner is vital for the Company. Although this process has been recognized as of high priority and importance, it is possible that the management and the employees of the Group prove unable to fully and correctly implement this strategy due to a lack of experience, timely information, or manpower.

III.2.1.2 Lack of capacity and increased expenses for the management of growth

Although the members of the MB, the Supervisory Board (SB), and the senior management team have significant experience and competence and are sufficient for the management of the Company in its current business scope and scale, the goals in place for expansion across new markets and new segments of existing markets will require additional management. The policy of the Group is to form such a team through promoting employees with sufficient experience and highly estimated hierarchy growth potential. However, the number of employees meeting the above criteria is limited and it is possible that some of them do not live up to expectations on a managerial level. In turn, attracting externally management personnel with

proven experience, especially in developed markets, can prove to be costly, which could negatively affect profitability.

III.2.1.3 Lack of capacity and increased expenses for the assurance of growth

The Group's expansion on both existing and new markets is strongly dependent on attracting and integrating successfully new personnel, in addition to central and local teams of sales and marketing specialists in and resource hubs for project management and technical engineering personnel.

Identifying and attracting appropriate marketing and sales specialists for the purpose of attracting new clients can prove to be difficult, slow, or lead to an increase in expenses, a slowdown of growth or a decrease in the profitability of sales. Accounting for the overall trend of increasing demand for technical engineering and project personnel in the ICT sector, the expansion of old resource hubs or the creation of new ones can also be delayed or costly. The lack of experience of the subsidiaries of the Group on new markets, the lack of and the increased competition for the attraction of personnel can lead to an increase in the turnover of the personnel due to attracting unsuitable specialists or the solicitation of personnel by competitors offering salaries which the Group cannot profitably match.

All of the aforementioned factors can lead to missed opportunities due to the inability to take on new projects, services, and clients, as well as to a decrease or an elimination of the competitive advantages of the Group, based on its quality of service, scale and cost of human resources.

III.2.1.4 Lack of access to and increase in costs for external resources and subcontractors

Insofar as there is an increase in demand on the ICT market for them as well, the aforementioned risks are also applicable of the potential attraction of external specialists on a temporary basis and of subcontractors for supplementing the internal capacity of the Group.

III.2.2 Risks related to human resources and senior management

Other than to the growth of the Group, the senior management and human resources are also key for maintaining its current activities. Accordingly, the Group is exposed to certain risks related to the retention, increased turnover and costs of such personnel.

III.2.2.1 Loss of, insufficiency and increase in costs for senior management and key personnel

The Group's operations and business growth management is greatly dependent on the level of contribution of a limited number of individuals, managing the key subsidiaries and the Group as a whole, executing key roles in administration, sales and operations and/or with key, for those functions, certificates, experience, and other knowledge, which could be difficult to substitute by similarly qualified personnel. The potential withdrawal of these individuals from the respective structures or their potential inability to perform for a significant period of time could prove to have unfavorable effects on the results of the Group's activities in that period of time or in the period of time needed for their substitution and the training of their substitutes, their adequate integration into the organization and the specifics of the business and their full functional deployment. The potential measures that would have to be taken in order to retain these individuals could lead to an increase in expenses, related to their motivation through raises in salary, bonuses, and other benefits at the expense of the Group.

III.2.2.2 Loss of, insufficiency and increase in costs for implementation personnel

Accounting for the dynamic development and the increase in demand for human resources on the ICT market, the Group is exposed to the risk of an increase in the turnover of and an increase in expenses to retain or substitute technical engineering, marketing and sales specialists and other business-specific

personnel. The potential departure of a significant number of employees in a short amount of time could have an adverse effect on the results of the Group's activities in the period of time needed for their substitution, the training of their substitutes, their adequate integration into the organization and the specifics of their activities and their full functional deployment. The potential measures that would have to be taken in order to retain these individuals could lead to an increase in expenses, related to their motivation through a raises in salary, bonuses, and other benefits at the expense of the Group.

III.2.3 Risks related to the market and the competitive environment

III.2.3.1 Delay or unfavorable development of demand

Despite the observed positive development and the growth forecasted by key expert organizations for the Group's key market segments and the ICT market as a whole, there is no guarantee that the future development of the market will confirm these predictions and will continue to be positive or that the respective growth in demand will not slow down significantly compared to expectations for certain periods of time. The demand for ICT is influenced by trends and circumstances specific to the different economic sectors and clients, determining their motivation and financial means to purchase the Group's products and services, which could deviate in both directions from overall market trends. These include the possibility of the Group's target customer groups on one or more markets not showing the predicted amount of interest in the Group's products and services or for a delay in their adoption. The aforementioned factors could lead to slower growth of sales and to an adverse effect on the results of the Group in terms of lower prices and gross profitability as well as delayed returns on operating and investment expenditures on business development.

III.2.3.2 Legislative changes unfavourable to market demand

The Group generates a significant portion of its revenues from regulated sectors or sectors influenced by governmental policies and market segments such as telecommunications, banking, utilities, national security, healthcare, etc. Hence, demand for the products and services of the Group, thus, its revenues and operating results, could be significantly influenced by potential unfavorable changes in local and national legislature, including potential reduction or shift to other areas of community or other structural funds, which its current and target customers are eligible to utilize.

III.2.3.3 Intense competition

The Group operates in an industry with intense competition from both local and international companies. Local competitors are characterized with established market presence in key segments, which limits the possibilities for new entries or expansion of the Group in these segments and could be the basis for the competitors' position improvement at the expense of the Group. Large international competitors are characterized with widely recognizable brands, a leading role in promoting innovative solutions, a diversified client base and market presence, and large organizational and financial capacity, which determine their greater possibilities to impose and resist competitive pressure. The potential increase in competitive pressure from existing or newly entering market players, as well as the potential adverse reaction to the Group entering new segments and markets, could lead to a decrease in the results of the Group and a delay or failure to achieve the planned business expansion.

III.2.3.4 Unfair competition

As a part of the competitive pressure imposed by other players on the market, the Group could be exposed to different types of unfair competition, which could lead to a decrease in the results of the Group and limit its opportunities for growth. These could include soliciting key personnel with the purpose of decreasing its technical and organizational capacity, imposing a negative image in front of certain clients and the market as

a whole, secret lobbying to the advantage of the competition, use of legal and contractual mechanisms in order to impede or delay the execution of public procurements, competitive offers based on unprofitable prices or concealed reduction in offered utility, resulting in client choices deviating from the actual ratio of the costs and benefits offered by the Group and its competitors.

III.2.4 Risks related to public procurements

III.2.4.1 Tendering and implementation delays

The implementation of public procurement projects depends on their timely definition, budget and program funding approval, announcement, tender rollout, contract signing and acceptance of performed works by the respective state-owned enterprises or local and central authorities. Failed or delayed execution of any of these steps could lead to a decrease in or delay in revenues and a decrease in the results or a delay in the growth of the Group.

Factors that can lead to a delay at the aforementioned key stages include the current and future changes in managerial and expert staff in connection to holding local and/or central elections, the appointment of temporary authorities and other factors, which lead to a delay in decision making and executive at the contracting organization.

Delays could also be the result of an appeal coming from competitors against the announced tender procedures or the results thereof. Even though the merit of such appeals may be redundant as, by virtue of the applicable statutory hearing terms can lead to a delay in tender rollouts and the signing contracts for their implementation.

III.2.4.2 Public procurement competition

Accounting for the large volume and attractiveness of the market for public ICT procurements, the latter are the subject of relatively more intense and unfair competition when compared to sales to the private sector. Among the often used instruments for unfair competition is the unscrupulous use of legal options for appeals against tender procedures or the announced results thereof with competitors aiming to procure more time to prepare or deteriorate the financial results of the Group by delaying the project's implementation and the realization of respective revenues and profits.

III.2.5 Risks related to concentration

III.2.5.1 Adverse development in the relationship with key clients

By virtue of its specialization in technological solutions and premium professional services, targeted mostly at large and medium sized organizations and projects, the Group is exposed to a concentration risk related to key clients and client groups. Such counterparties with substantial portions of the Group's revenues for the past three financial years and/or with potential significance to future development include telecommunication operators, public organizations, banks, multinational clients and other enterprises from the private sector. In spite of the Group's progress towards growing revenue diversification, the potential loss of, a drastic decrease in sales or a deterioration in the terms of cooperation with such clients could have an adverse effect on the volume and results from operations in the short term, as well as a potentially negative reputational effect on the Group in perspective.

III.2.5.2 Adverse development in the relationship with key technological partners

Accounting for the significant role of innovative and large-scale technologies offered by leading global vendors for the offered products and services, the Group is exposed to a concentration risk regarding its key technological partners. Such counterparties accounting for substantial portions of the Group's purchases for



the past three financial years include four leading vendors in the fields of networking, data center and office productivity solutions. Although the Group's vendor policy is flexible and open to various technological partners, a potential termination or a deterioration in key terms of such partnerships, such as requirements for the maintenance of technological specializations, levels of discounts, terms of payment, etc., could have an adverse effect on the costs and volume of the Group's operations.

III.2.6 Risks related to changes in technology and technological choices

III.2.6.1 Time and costs to adapt to new technologies

The ICT sector is characterized by its fast-paced changes in technology, which shortens the lifespan of the products and requires the constant update of the Group's technological specializations with regard to the trends in market demand and the opportunities to generate profits from the introduction of new products and services. Despite the Group's systematic policy and openness to introduce new and expand existing technological partnerships, in some cases they could prove to involve additional time and/or resources allocated to researching and establishing relationships with new vendors.

III.2.6.2 Loss of clients due to transition to different technologies

Despite the wide scope of the technologies and technological partnerships offered by the Group and its open approach and broad experience in the establishment of new partnerships with equipment and software vendors, it is possible that clients prefer to change their current technologies and vendors with others, which the Group does not have and cannot establish partnerships assuring the respective competence and attractive delivery terms. Because of the existence of competition with better positioning with a given technological partner and better conditions for the delivery of its products, it is possible for the Group to not be favored by the client as a supplier despite the existence of a partnership with the same manufacturer. Similar circumstances could also lead to substantial decreases in revenues and results from the Group's operations.

III.2.6.3 Delayed adoption of new technologies by the clients

The main geographical markets, in which the Group operates, are falling behind in the adoption of many innovative ICT products and services. In spite of the market segmentation applied by the Group in accordance with the clients' technological maturity, it is possible for the target client groups to also react more conservatively than expected, delaying significantly the implementation of the strategy and planned growth of the Group.

III.2.6.4 Delayed or unsuccessful positioning of own products and services

To tap identified market opportunities within given market segments, the Group may continue to invest in the development of proprietary complex solutions and services adapted to the needs and specifics of the respective markets and client groups. Despite this adaptation, there exists a risk that the new products and services will not meet the actual requirements or that they will not be adopted fast enough or at all by the current target customers of the Group, which could lead to a delayed, limited or negative return on the investments made.

III.2.7 Risks related to long-term contracts

III.2.7.1 Regular servicing and maintenance commitment costs

Many contracts signed by the Group contain the commitment to a warranty and post-warranty servicing and maintenance of hardware, software and complex systems and infrastructure or providing managed and other services in exchange for a fixed lump sum or subscription fee. It is possible for the expenses for the execution of such commitments to exceed revenues, without the Group being able to compensate the

additional costs at the expense of the client or the respective primary suppliers and technological partners, with the respective negative consequences for operating results.

III.2.7.2 Early termination

Mid- and long-term contracts for multiple deliveries or regular service in the form of maintenance, managed and other services can be terminated unilaterally and early at the client's initiative. Despite the existence of respective provisions limiting that risk and respective losses for the Group, such as penalties, buyout commitments etc. embedded in similar contracts, they can prove insufficient to cover missed opportunities or the incurred additional costs. The earlier termination of such contracts could have a direct consequence of decreasing the recurring revenues of the Group, which may not be compensated with new sources of revenue and may lead to an overall decrease in revenues and results from operations.

III.2.7.3 Specific risks related to the provision of Equipment-as-a-service

Depending on changes in the IT policies of certain clients or other factors, the long-term contracts signed by the Group for managed services including the provision of equipment-as-a-service can be terminated unilaterally and prior to the contract's end date. Despite the provisions enforcing preliminary notifications and compensations for expenses incurred up to that point, the potential termination could be a factor for a decrease in the recurring revenues of the Group and sales as a whole.

Under certain circumstances of termination, some contracts provide a possibility for the leased equipment to remain the property of the Group instead of being bought out by the client. This could lead to additional costs for dismantling, transportation, etc., as well as delayed or non-materializing resale of the equipment to other clients.

Some contracts provide the option to expand their scope on the client's initiative through the delivery and integration of additional equipment, provided as a service, based on prices or conditions, identical to or subject to limited indexation compared to the initial ones. If, meanwhile, the market price of the equipment has risen, and/or there has been a significant rise in the expenses for the provisioning of respective services, this could lead to an uncompensated increase in the Group's expenses and an overall decrease in the Group's profitability from similar operations.

III.2.8 Financial risks

III.2.8.1 Currency risk

The Group operates on different markets and in currencies different from its functional currency, hence, it is exposed to transaction and translation currency risks. The main source of transaction-driven currency risk is the purchase of equipment from global technological partners denominated in US dollars and financed with credit limits in the same currency. Despite mechanisms of currency indexation in some contracts and the practice of voluntary forward hedging of larger purchases at the discretion of respective Group companies, such transactions continue to generate net results (including losses) from foreign currency operations for the subsidiaries of the Group. Accounting for the pegged BGN and Bosnia and Herzegovina convertible mark to the Euro and the adoption of the latter as the national currency in Slovenia and Montenegro, the Group is exposed to a translation risk relative mainly to the floating Serbian Dinar, as well as to the Macedonian Denar and the Albanian Lek, considering the newly established subsidiaries in the respective countries.

III.2.8.2 Liquidity risk

The Group's cash flows can undergo significant momentary fluctuations as a result of various factors such as peaks in net working capital, increased investment activity, payment of dividends, etc., which may result in the Company's cash and cash equivalents being insufficient to meet its due obligations. In spite of the signed

financing contracts providing significant limits for funding working capital and the financing of a significant portion of investments with finance lease contracts, there is a risk that these limits may be insufficient at certain moments or periods. Such deficits may result in the Group's temporary inability to service its obligations to third parties in a timely manner with a variety of adverse effects on its reputation and financial position.

III.2.8.3 Insufficient financial capacity to implement projects

In addition to their impact on the company's current liquidity, possible instances of cash shortages may also lead to the impossibility of committing the required working capital to start new projects or implement ongoing ones leading to delayed revenues, penalties for delayed execution and, ultimately, damage to the Group's reputation. In the event that it is not possible to prove sufficient financial resources in front of potential clients or in accordance with the requirements of public and private tenders for large projects, the Company may not be able to negotiate sufficient supplementary financing and miss the opportunities to secure the relevant projects and the benefits of their implementation.

III.2.8.4 Credit risk

Although the Group's core clients are well-established and solvent companies and institutions with a clean credit history, the Group remains, in principle, exposed to risks of significant delays or non-payment of receivables due to various factors related to internal processes, financial condition and current cash flow trends at these and other clients. Delays in substantial amounts of receivables may have an impact on the Group's cash flows and immediate liquidity and its ability to timely service its liabilities to third parties with a variety of adverse effects on its reputation and financial position.

III.2.8.5 Impairment risk related to the assets of the Group

Certain circumstances (provisioning and write-offs of receivables, impairment of intangible assets, investment property, inventories, held-for-sale assets, etc.), it is possible for the Group to record substantial expenses and reductions in the book value of the assets.

III.2.8.6 Interest rate risk

The Group is exposed to a risk of increase of market interest rates in relation to the use of overdraft limits, revolving credit lines and finance leases in Bulgaria and Serbia, which are or could be based on the base interest rate (BIR) of the Bulgarian National Bank, floating EURIBOR and USD LIBOR indices and/or the periodically updated average deposit index (ADI) of the creditor bank. Due to the dynamic nature of overdraft and credit line exposures and the low effective variation of BIR and EURIBOR in recent years, which is limited by the application of fixed minimum interest rates corresponding to zero market interest rates by financing banks, the Group has no current practice of hedging interest rate risk and a potential sharp rise in market indices could have a negative effect on its results.

III.2.9 Operational risks

III.2.9.1 Deviations in the processes and quality of services

Group companies are exposed to the risk of loss or unforeseen costs related to improper or inoperative internal processes, human errors, external circumstances, administrative or record keeping errors, operating violations, fraud, unauthorized transactions and damage to assets. Any failure to identify or adjust the operational risk by the risk management system may have a substantial adverse effect on the Group's reputation and results.



III.2.9.2 Ineptitude or malfunction of specific IT equipment and systems

To carry out its core business, the companies within the Group use specific IT equipment and systems the failure, misuse or unsuitability of which would significantly affect the ability of Group companies to fulfil their commitments to counterparties or lead to unforeseen technical, legal and other costs that would affect its reputation and results from operations.

III.2.9.3 Compliance with standards and norms

Certain Group clients require from their contractors that their competencies and rules for the organization of processes and activities comply with a number of international quality management standards, procedures for handling confidential information, etc. Despite the certification of TBS EAD regarding a number of such standards and norms, the occurrence of such requirements in any other of the Group's companies that do not have similar certifications, or a change in the current requirements and the inability of the Group to meet them in timely manner could have a negative impact on the Group's revenues and results.

III.2.9.4 Leakage of personal and/or sensitive information related to employees and clients

In conducting its business, the Group stores and processes personal and sensitive data related to its employees, customers and third parties. The possible loss or misuse of external and internal access and misuse of such data could have a variety of adverse effects on the competitiveness, reputation and results of the Group, including lawsuits or out-of-court cases and proceedings against the companies concerned and serious cash penalties by regulatory authorities.

III.2.10 Other risks

III.2.10.1 Litigation risk

The companies within the Group are, in principle, exposed to the risk of litigation, including collective claims, filed against them by their clients, employees, shareholders, and others by initiating civil actions, initiating actions by competent authorities, administrative, enforcement and other types of judicial and extrajudicial proceedings. Some of these proceedings may be accompanied by restrictive and enforceable measures against the assets and activities of the Group that would limit its ability to carry out part or all of its activities for an indefinite period of time. Plaintiffs in these types of cases against the Group may seek refund of large or undetermined amounts or other damages that could significantly deteriorate the Group's financial position. The defense costs in future court cases can be significant. The disclosure of such events or their negative business impact may impair the reputation of the respective companies and the Group as a whole, whether or not the underlying claims and negative definitions are well founded. The potential financial and other consequences of such proceedings may remain unknown for an extended period of time.

III.2.10.2 Related party transaction risk

The companies within the Group carry out transactions and make commitments to each other as well as to related parties outside its membership. In spite of its good practices and its commitment to comply with the applicable provisions of the POSA and other applicable regulations, it is possible for reasons of ignorance, negligence of employees and other reasons that one or more such transactions may be concluded under conditions that differ substantially from the market conditions, which can lead to an adverse effect on the results of the Group's operations and financial position.

III.2.10.3 Cyber attacks

In addition to unauthorized access to the Group's data and its counterparties' data, possible attacks against the Group and its counterparties could be targeted at or result in a malfunction or inability to use

information and communication systems, including specialized IT systems to provide services. The Group specializes in information security and has advanced competencies in preventing, limiting, monitoring and recovering systems and data after such attacks, however, as the latter may take some time, effects of these attacks may adversely affect performance, as well as compromise the reputation of the TBS Group.

III.2.10.4 Force majeure events

Like all business entities, the Group is exposed to a risk of natural disasters, hostilities, terrorism, political, public and other events beyond its control and not subject to insurance, which could have a substantial adverse effect on the results of Group's activities and prospects in one or more territorial and other business areas.

The risks related to the activity of the Company can generally be divided into system (common) and non-system (related specifically to its activity and the sector in which it operates). Separately, the investors in the financial instruments of the Company are exposed to risks related to the investments in securities (derivative and underlying).

IV INFORMATION ON ENVIRONMENTAL ISSUES

Overall, the Group's operations are not related to activities that have a significant direct environmental impact.

Physical activities related to system integration, delivery and maintenance are limited to the transportation, installation and setup, replacement or repair of on-site ICT equipment and materials, and do not include construction activities for the construction or conversion of infrastructures, facilities and complex sites. By their nature and scope, the transport, installation and repair activities performed do not pose significant environmental risks.

If the legislation contains rules for recycling and disposal of wasted ICT equipment and materials, the respective liabilities and risks for the Group arise to the extent that such equipment is owned by the Group companies or they have entered into contractual commitments for the performance of the respective operations on behalf of and at the expense of the client.

In the case of delivery services, system integration on a project basis and maintenance of the property, the risks and obligations associated with the operation, disposal and recycling of the delivered equipment are transferred to the client at the time of delivery of the project or integration activity under the project.

When providing Managed Services, including the provision of Equipment as a Service, the equipment remains the property of the Group. In this sense, the Group companies providing such services undertake contractual and legal obligations to safely operate, remove and dispose of or recycle the relevant ICT equipment and materials.

Insofar as the nature and scope of the use of ICT equipment does not pose significant environmental risks, the likelihood of environmental problems arising that may affect the use by the Issuer of its own ICT equipment to provide services or for internal purposes, is insignificant.

V INFORMATION ON EMPLOYEE-RELATED MATTERS

V.1 Headcount and staff development trends

As of 31 December 2019 the total number of employees under employment and management contracts in the Group's companies reached 226, rising by 63 in number or 39% as compared to 2018.

Factors for the reported growth are both the companies newly-founded in 2019, TBS Group, Telelink Albania and Telelink Macedonia, employing a total of 16 employees as of the end of the year, and the increase of the staff in the companies operating during the entire reporting period and the previous period in relation to the expansion of the activity and the development strategy of the Group. The main contribution to this trend can be attributed to TBS EAD, which had a staff increase by 33 employees or 23% as compared to 2018, reaching 177 employees as of 31 December 2019.

As a result of the above trends, despite the increasing number and relative share of the employees in the Western Balkans region, 82% of the Group's total composition as of the end of the period (compared to 88% as of the end of 2018) continues to be formed by the employees on the territory of Bulgaria, representing both the majority of the services provided and the main strategic functions related to the business development of the Group as a whole.

Functionally, the marked growth encompasses all main categories, including significant increases of both operational and administrative and management staff. On average for 2019, the employees engaged in direct performance of the operational activities and marketing and sales functions accounted for 74% of the Group's total composition (compared to 82% in 2018), as the relatively more accelerated growth of administrative and management staff reflects the formation of TBS Group and the assurance of the public status and the planned strategic development of the Group as a whole.

V.2 Organizational policy and human resources management

In view of the resource provision and the efficient implementation of the planned strategic development, in 2019 the Group laid the foundation of a matrix organizational structure, integrating the available human resources of the Group's companies into a seamless international service organization. The planned structure is based on establishing interactions between all functional levels, including technical staff, project management, marketing and sales, relationships with suppliers, human resources, finance and general administration with each of the Group's product lines.

By nature, the business activity of the Group's companies is connected to a relatively limited scope of field activities posing substantial risks to the health and safety of employees. In spite of the above, the Group Companies apply an occupational health and safety policy, which includes providing working conditions and appropriate instructions to the employees according to the characteristics of their work.

The management of TBS Group considers the key importance of human capital as a key factor for the competitive advantages of the Group and the potential for taking advantage of its market opportunities, both in terms of innovation and quality of the offered solutions and services and in terms of the administrative and management assurance of its development strategy. In consideration of the above factors, the Group intends to maintain its general policy for human capital development based on systematic updating and qualification improvement, promotion of career development and motivation, retention and loyalty of key personnel.

VI SIGNIFICANT EVENTS AFTER THE DATE OF COMPILATION OF THE ANNUAL FINANCIAL STATEMENTS

On 28 January 2020 an Annex was signed for the extension of a Loan facility contract signed between Comutel DOO (Serbia) – a subsidiary of Telelink Business Services Group AD and Raiffeisen Banka AD Beograd (Serbia), with a revolving credit limit for effective utilization of working capital financing of up to USD 5,000 thousand with a utilization term until 27 January 2021, subject to annual renewal.

On 31 January 2020 a decision was made by the Managing Board and the Supervisory Board of Telelink Business Services Group AD for the Company to conclude a contract with Pikard Ivanov DOOEL for the purchase of 1 (one) share of the capital of Telelink Albania SH.P.K., which represents 10% of the company's capital, at a total purchase price of EUR 1,000 (one thousand). The contract was signed on 25 February 2019, with the price paid in full on 26 February 2020.

On 20 February 2020 a Short-Term Financing Contract was signed between the subsidiary Telelink Albania and First Investment Bank – ALBANIA SA, with a limit of EUR 500 thousand, which finances invoices issued to the client TELEKOM ALBANIA SH.A.

On 21 February 2020 an Annex to the Short-term financing contract was signed between the subsidiary Telelink Business Services EAD and Unicredit Bulbank AD pursuant to which the conditional commitment for establishment of pledges on the commercial enterprises of Telelink Business Services EAD and Telelink Business Services Group AD, in case the procedure for listing the shares of the latter on the Bulgarian Stock Exchange was not completed by 14 February 2020, was amended by extending the above term to 30 April 2020. With Annex No. 2 signed on 21 April 2020, the above term was extended to 31 July 2020.

On 27 February 2020 a decision was made by the Managing Board of Telelink Business Services Group AD for the subsidiary Telelink Business Services EAD to conclude a contract with Consortium SysTel DZZD for the execution of a public procurement for design, construction and commissioning of a state hybrid private cloud (SHPC) and a secure internet node for public e-government services. The value of the contract signed on 19 February 2020 between the State Agency for Electronic Management and Consortium SysTel DZZD for execution of the public procurement was BGN 28,283 thousand, VAT exclusive, with the subsidiary Telelink Business Services EAD undertaking to supply equipment and services of no more than BGN 14,141 thousand, VAT exclusive.

At a meeting of the Board of Directors of BSE held on 8 April 2020 reflected in Minutes No. 20 of 8 April 2020, in connection with an application filed under Article 18, Paragraph 1, Part III Rules for admission to trading, a decision was made for the shares issued by Telelink Business Services Group AD to be admitted to trading on the "Standard" Equities Segment of the BSE Main Market. The date set for the issue to be admitted to trading is 1 June 2020.

VI.1 COVID-19 coronavirus epidemic

In February 2020, the COVID-19 epidemic erupted in China and spread globally, affecting an increasing number of European countries. As of 8 March 2020 it was confirmed that it has spread to Bulgaria and on 13 March 2020 a State of Emergency was announced in the country imposing anti-epidemic measures and restrictions on the freedom of movement and the work regime of the population, the state and private organizations.



At the date of this Report, the spread of the virus and the adoption of measures to limit it in one way or another are in place in all other countries where subsidiaries of the Issuer are registered. Similar factors impacting their suppliers and clients from third countries and regions are also relevant to their activities.

As of the date of preparation of the report, there are no registered cases of employees of the Group's companies, infected with COVID-19, no deliveries of goods and services significant for their operational assurance have been terminated and they continue to perform their activity without interruption.

The management teams have taken all recommended measures to limit the spread of the infection, including informing the employees about the implementation of certain measures, providing protective equipment and disinfectants, limiting business trips, limiting the access of external persons and encouraging working from home with the respective technological means and infrastructure provided.

As of the date of this Management Report, there are no known or planned interruptions or major delays in the work and deliveries by the key manufacturers of equipment from the USA, China and other countries.

As technology companies with a highly developed IT infrastructure, the Group's members have technologically ensured and successfully introduced a remote work mode for the employees, allowing the continuity of external and internal services and processes in a home-based environment. Key external processes and interactions such as signing contracts and meeting clients have also been digitalized. In view of the implemented means of communication and collaboration, systems for tracking workload and efficiency and the high average IT literacy of employees, the Company does not expect remote operation to be associated with a significant decrease in productivity. The employees are provided with personal protective equipment for performing field activities related to work outside the offices of the companies, while for work in areas, travelling and access to which is limited, the services of qualified local subcontractors are employed.

As of the date of this Report, the Bulgarian government has taken an active position aimed at supporting the private business and providing conditions for continuous implementation of the process of awarding and executing public procurement. There is no information about the suspension of significant projects by key and other private sector clients in connection with the epidemic.

In view of the above, the Company's Management considers the spread of the epidemic to be an event that does not require adjustment of the balance sheet, as due to the early stage and the dynamic development of the epidemic at the date of this Report, the Company has not established and made a quantitative assessment of specific consequences of the epidemic with significant impact on the Company's financial position. Nevertheless, the management teams of the Group's companies will continue to monitor the development of the situation in view of the timely identification of actual and potential effects by undertaking all possible measures to limit their impact in a timely manner.

VII RESEARCH AND DEVELOPMENT ACTIVITIES

In the past year, TBS EAD allocated resources to the development of a software system for collection, monitoring, presentation and analysis of data from devices in the field of Internet of Things (IoT). In general, the expenses of BGN 162 thousand reported by the company for the formation of fixed assets from development activities were reduced significantly as compared to 2018 when it made 70% higher investments in developments in the same and other areas, such as integrated security and a platform for managed security.



Except for the above, there are no other companies in the Group that performed research and development activities during the reporting period and the previous period.

VIII POTENTIAL FUTURE DEVELOPMENT OF THE GROUP

VIII.1 Group Development Strategy

In line with the identified market trends, competitive positions and opportunities, the Group's strategy targets expansion on both the current key markets in Bulgaria, Serbia, Bosnia and Herzegovina and Slovenia, and across the rest of the Western Balkans and Romania, Western Europe, Northern America and the global market of multinational companies. The focus is on attractive and innovative products in the Data Center, Information Security, Office Productivity categories and Managed Services. Vital preconditions for achieving these goals are a segmented approach to the target customer groups and the assurance of operations with human resources, combined with a flexible and efficient organizational structure.

VIII.1.1 Products and services

VIII.1.1.1 Data Centers

The Group will focus on developing solutions for the transition from traditional data centers to flexible Private Cloud systems that can be easily extended to Hybrid Cloud Solutions. Additional areas in focus will include Platform-based Infrastructure solutions, as well as Application Services aimed at integrating applications in a cloud environment, which are regarded as a channel for entry or expansion into multinational clients and developed markets. They are also expected to be a factor in generating additional sales from products in the Enterprise Networks and Information Security groups as well as Managed Services.

VIII.1.1.2 Information Security

The Group sees the propagation and further development of products and services in this division as a competitive advantage and a means of penetrating digitally developed clients in Eastern European markets, as well as a complementary offering to developed market clients with an emphasis on relevant Managed Services.

VIII.1.1.3 Office Productivity

The Group intends to take advantage of its established partnership with Microsoft to expand the market penetration of Office 365 and other products in this category as a channel to attract digitally immature clients on Eastern European markets.

VIII.1.1.4 Data Networks

The group intends to use its traditionally strong positioning in this category and the introduction of Software-Defined Networks (SDNs) and services to absorb the expected additional demand in this area, generated by the penetration of cloud-based systems and Office 365, the consolidation of the Balkan telecommunications sector and the penetration of 5G.

VIII.1.2 Market segmentation

Accounting for the different characteristics of the markets and customer target groups by the degree of competitive saturation, development and penetration of IT, the Group intends to implement a differentiated product expansion strategy, applying the following as guiding principles:

- entry and/or expanding into clients with digital development potential based on popular and easy-to-implement Office Productivity solutions and the gradual implementation of products in other categories as the clients make their transition to digital maturity;
- entry and/or expansion into digitally developed clients based on innovative and competitive products in the categories of Data Centers, Information Security and Networks and/or Managed Services according to the degree of development of the relevant market.

VIII.1.3 Geographic markets

Summarizing its product strategy and applied market segmentation, the Group aims to expand its sales and client base by countries and regions as follows:

VIII.1.3.1 Bulgaria

expansion in existing developed enterprise clients based on sustainable quality of service, ICT infrastructure modernization and innovative Private Cloud, Application Services and Security Solutions;

- entries and expansion across digitally immature enterprise clients with popular Office Productivity solutions and subsequent up-sales of products from other categories along their transition to digital maturity;
- expansion in the telecom sector on the basis of projects related to the consolidation of operators in capital and operationally integrated groups, the adoption of 5G and new operator services.

VIII.1.3.2 Serbia, Montenegro, Bosnia and Herzegovina, Slovenia, Croatia, Romania

- entries and expansion across digitally immature enterprise clients with popular Office Productivity solutions and subsequent up-sales of products from other categories along their transition to digital maturity;
- expansion in digitally mature clients based on innovative and competitive Information Security offerings previously unavailable on the respective market;
- expansion in existing clients and penetration of new clients in the telecom sector on the basis of projects relative to their consolidation in capital and operationally integrated groups, the adoption of 5G and new operator services.

VIII.1.3.3 Macedonia, Albania

- entries and expansion across digitally immature enterprise clients with popular Office Productivity solutions and subsequent up-sales of products from other categories along their transition to digital maturity;
- expansion in digitally mature enterprise clients based on innovative and competitive Information Security offerings previously unavailable on the respective market, as well as on solutions of the Networking and Data Center categories, with regard to which these markets are yet to reach competitive saturation in this sector;
- expansion in existing clients and penetration of new clients in the telecom sector on the basis of projects relative to their consolidation in capital and operationally integrated groups, the adoption of 5G and new operator services.

VIII.1.3.4 Western Europe, the USA and multinational clients

- expansion in existing multinational clients through the extension of the product and territorial scope of provided managed services, including Equipment as a Service, and up-sales of innovative and competitive Platform-based Infrastructure, Application Services and Information Security solutions;
- replication of the successfully established model of Managed Services and up-sales across other multinational clients, targeting as a priority such with points of presence in Bulgaria and other existing markets;
- utilization of the market presence established through multinational clients in Western Europe and the USA, where their head offices are based, for attracting local clients based on similar remote delivery of products and services in the medium term.

VIII.1.4 Human Resources

In addition to the established matrix organizational structure described in Item V.2 above, the Group has planned on:

- the profiling and allocation of human resources by marketing and sales functions in accordance with the goals for entering new clients and expanding existing ones;
- the expansion of the existing and formation of new resource hubs for engineering and technical staff in Balkan countries to assure appropriate capacity for the servicing of targeted growth.

The deployment of this organizational structure is expected to contribute to the most efficient implementation of the strategic goals of the Group through the generated opportunities for dynamic allocation and ample utilization of resources by clients and projects, regardless of the territory of implementation.

VIII.1.5 Expected effects upon successful strategy implementation

In line with the aforementioned objectives, initiatives and approaches for their achievement, the successful implementation of the Group's strategy would have the following effects on its financial position and the results from operations:

- significant growth and diversification of revenues as a result of expansion in both existing clients and markets and new ones;
- significant growth in the number of employees and respective expenses along the lines of opening additional positions in technical resource hubs, project management, sales, marketing and other necessary to assure the management and administrative support of planned expansion;
- increase of investments, respectively non-current tangible assets and related depreciation as a result of the growing supply of Equipment as a Service, as well as of the finance lease liabilities, as long as the latter is expected to continue to be the main source of their financing;
- gradual gross margin improvement as a result of:
 - the growing share of revenues from developed markets, characterized by higher price levels compared to the current markets of the Group, while maintaining staff costs at the relatively lower levels characteristic for Eastern Europe, to the extent that the Group's strategy provides for these markets to be served mainly by resource hubs on the Balkans;

- the growing share of innovative solutions and services bearing typically higher added value, including Platform-based Infrastructure, Application Services and Managed Services;
- operating efficiency improvement as a result of the flexible allocation of resources and economies of scale within the implemented matrix organization structure;
- accelerated increase of earnings before interest, taxes, depreciation, and amortization (EBITDA) as a result of the increasing share of depreciation expenses from non-current tangible assets in cost of sales, in relation to provided Equipment as a Service.

VIII.1.6 Possible deviations and risks for the future development of the Group

It is possible that the actual development of the Group deviates in one or more aspects in the implementation of the aforementioned objectives, initiatives and effects under the influence of various factors, subject or not to the Group's control.

The risks related to the Group's strategy, the operations of its subsidiaries and the overall economic and political environment in which they operate are described in section III above.

VIII.2 Potential acquisitions

As of the date of this Report, the Company and the Group's subsidiaries have no immediate plans and specific expectations for establishing or acquiring shares or stocks in new companies. However, the management remains open to considering potential future capital investments and acquisitions with the potential for positive synergies which could support or accelerate the implementation of the Group's local and international development and growth strategy.

VIII.3 Public offering

In view of the Lockup Agreement signed among the current shareholders of the Company and to the admission of its shares to trading on the BSE, the management expects the planned public offering to be carried out at the beginning of June 2020 and new shareholders to be attracted with a total share of up to 30% of the shares in the Company's capital.

According to the target distribution ratio of realized profit, the possibilities for approval of an interim dividend provided for in the current Articles of Association and the expectations for dividend announced publicly on 10 January 2020, the Company plans to distribute to its shareholders a dividend of BGN 4,000 thousand in 2020.

IX INFORMATION ABOUT OWN SHARES REQUIRED UNDER ARTICLE 187e OF THE COMMERCE ACT

The Company and the subsidiaries of the Group have not acquired or transferred own shares during the reporting period and the previous period.

As of 31 December 2019 the Company and the Group's subsidiaries do not hold any treasury stock.



X INFORMATION REQUIRED UNDER ARTICLE 247 OF THE COMMERCE ACT

X.1 Total remunerations received by Board Members during the year

The remunerations received from the Company during the year by the members of the management and supervisory boards of the Company and the Group's subsidiaries are summarized in section XIV.17 of this Report.

No other remunerations or compensations have been paid to the aforementioned persons, including benefits in kind.

X.2 Shares and bonds of the company, acquired, owned and transferred by the members of the boards during the year

During the reporting period, members of the Managing Board of TBS Group acquired shares of the Company's capital as follows:

- Ivan Zhitiyanov – 1.000%;
- Paun Ivanov – 1.000%.

During the reporting period, members of the Supervisory Board of TBS Group acquired shares of the Company's capital as follows:

- Ivo Evgeniev – 6.175%.

X.3 Rights of the Board Members to acquire shares and bonds of the company

The Articles of Association of Telelink Business Services Group AD do not impose limitations on the right of the members of the Management and Supervisory Boards (MB and SB) to acquire shares of the company, except as stipulated by the applicable legislation.

As of 31 December 2019 and the date of this Report, there are no agreements establishing rights of members of the Boards of the Company to acquire its shares.

X.4 Participation of members of the boards in commercial entities as partners with unlimited liability, ownership of more than 25% of the capital of another company, as well as participation in the management of other companies or cooperatives as procurators, managers or members of boards

Ivan Zhitiyanov – Chairman of the Managing Board and Chief Executive Officer (CEO)

Participation in commercial companies as a person with unlimited liability	NONE
Owner of 25% of the capital of another company	NONE

Participation in the management of other companies	<ul style="list-style-type: none"> • Telelink Business Services EAD, UIC 130545438 – member of the Board of Directors and Executive Director; • Secnet AD, UIC 131357407 – member of the Board of Directors • Telelink BS Staffing EOOD, UIC: 205334618 – Manager • Comutel, UIC 100271670 – member of the Supervisory Board
Teodor Dobrev – member of the Managing Board	
Participation in commercial companies as a person with unlimited liability	NONE
Owner of 25% of the capital of another company	NONE
Participation in the management of other companies	<ul style="list-style-type: none"> • Telelink Business Services EAD, UIC 130545438, member of the Board of Directors
Paun Ivanov – member of the Managing Board	
Participation in commercial companies as a person with unlimited liability	NONE
Owner of 25% of the capital of another company	<ul style="list-style-type: none"> • Pikard Ivanov DOOEL Skopje, North Macedonia
Participation in the management of other companies	<ul style="list-style-type: none"> • Telelink Infra Services EAD, UIC 204856684, member of the Board of Directors and CEO; • Pikard Ivanov DOOEL Skopje, North Macedonia – manager;
Nikoleta Stanailova – member of the Managing Board	
Participation in commercial companies as a person with unlimited liability	NONE
Owner of 25% of the capital of another company	NONE
Participation in the management of other companies	<ul style="list-style-type: none"> • INTELIMIYL OOD, UIC 203626770 – Manager
Gojko Martinovic – member of the Managing Board	
Participation in commercial companies as a person with unlimited liability	NONE
Owner of 25% of the capital of another company	NONE
Participation in the management of other companies	<ul style="list-style-type: none"> • Comutel, UIC 100271670 – Executive Director • Telelink Slovenia – Executive Director
Hans van Houwelingen – Chairman of the SB; Independent member	
Participation in commercial companies as a person with unlimited liability	NONE

Owner of 25% of the capital of another company	<ul style="list-style-type: none"> • ACTIAM NV, the Netherlands – Chief Executive Officer, until 10 February 2020. • ACTIAM (L) SICAV, the Netherlands – Chairman of the Board of Directors, until 10 February 2020. • Telelink Holdings BB, Netherlands – Member of the Board of Directors, until 10 February 2020.
Participation in the management of other companies	<ul style="list-style-type: none"> • Telelink Investments EOOD, UIC: 205964645 from 10 February 2020.
Ivo Evgeniev – member of the Supervisory Board	
Participation in commercial companies as a person with unlimited liability	NONE
Owner of 25% of the capital of another company	<ul style="list-style-type: none"> • ALEXANDREA INVEST GROUP LTD, UIC 130922584 – owner and Manager • ALEXANDREA INVEST EOOD, UIC 203119652 – owner and Manager • METSANIN INVEST EOOD, UIC 202831999 – owner and Manager • AZIRA FOOD HOLDING EAD, UIC 204093210
Participation in the management of other companies	<ul style="list-style-type: none"> • ALEXANDREA INVEST GROUP LTD, UIC 130922584 – owner and Manager • ALEXANDREA INVEST EOOD, UIC 203119652 – owner and Manager • ROSSLYN DEVELOPMENT AD, UIC 204271951 – member of the Board of Directors • METSANIN INVEST EOOD, UIC 202831999 – owner and Manager • TALAR FOODS EOOD, UIC 130146503 – Manager • K-EXPRESS EOOD, UIC 131165677 – Manager • ENDEAVOR BULGARIA, UIC 176958985 – member of the Managing Board • ARMADA CAPITAL AD – in liquidation, UIC 203994586 – member of the Board of Directors • AZIRA FOOD HOLDING EAD, UIC 204093210, natural person representing a legal person – member of the Managing Board Alexandria Invest Group OOD • KUNINO ENERGY AD, UIC 106620443 – natural person representing a legal person – member of Managing Board Alexandria Invest Group OOD • INSTITUTE FOR AGROSTRATEGY AND INNOVATION ASSOCIATION, UIC 176612093 – Member of the

Managing Board

- BECAUSE CHARITIES AID FOUNDATION, UIC 121029426 – member of the Managing Board
- GORUN ENERGY EOOD, UIC 175460825 – Manager from 22 January 2020
- VETS HUBAVENE AD, UIC 175293874 – Member of the Board of Directors

Bernard Moscheni – member of the Supervisory Board

Participation in commercial companies as a person with unlimited liability	NONE
Owner of 25% of the capital of another company	NONE
Participation in the management of other companies	NONE

X.5 Contracts concluded with the members of the boards or their related parties that go beyond the Company's ordinary operations or significantly deviate from market conditions

In 2019, the Group's Companies did not have contracts with the members of the Supervisory Board and the Managing Board or their related parties that go beyond their usual activity or significantly deviate from the market conditions.

XI PRESENCE OF BRANCHES OF THE GROUP'S COMPANIES

As of 31 December 2019 and the date of this Report, the Company has no registered branches in the country or abroad.

As of 31 December 2019 TBS EAD has a registered branch in Romania which has not yet started active commercial operations.

Except for the above, there are no other subsidiaries of the Group with registered branches in the countries in which they are incorporated or in other countries.

XII FINANCIAL INSTRUMENTS USED

XII.1 Financial risk management objectives and policies, including hedging

Due to the formation of its revenue and expenses mainly or entirely in the local currency (BGN) or EUR in the conditions of a currency board and the use of a fixed interest rate loan, the Company is not exposed directly to significant currency and interest rate risk and does not use financial instruments.

In their activities and in connection with their funding, the Group's subsidiaries are exposed to the currency and interest rate risks described in sections III.2.8.1 and III.2.8.6 of this Report.

XII.1.1 Currency risk management

In the first place, Group companies aim to minimize transaction-based currency risks from the purchase of equipment in USD and its resale in local currency or EUR by negotiating mechanisms for currency indexation

of sale prices and/or synchronization of the maturities and currencies of receivables and liabilities, as far as possible. Significant exposures not covered in the aforementioned ways are hedged through forward purchases of USD at the discretion of the respective companies.

XII.1.2 Interest rate risk management

In view of the floating nature of the exposures on overdraft and revolving credit limits depending on the daily dynamics of the net working capital, the applicable minimum interest rate clauses in case of negative interest rate indices and such levels systematically observed during the reporting period and prior periods, Group companies do not practice hedging of the interest rate risk on credit line agreements. The current changes and the forecasts for the development of regularly updated and floating indices remain subject to continuous monitoring in view of the timely renegotiation of interest rates on credit lines and the possible fixing or hedging of interest rates on long-term finance lease contracts in cases of significant actual or expected unfavorable changes in market interest rates.

XII.2 Exposure to price, credit and liquidity risks and cash flow risks

XII.2.1 Price risk exposure and management

XII.2.1.1 Risk of changes in the prices under concluded contracts

The majority of the Group's sales are realized under contracts and/or orders with one-off implementation within a limited term, the prices of which are fixed when signing the contract and are not subject to change.

To the extent that there are framework contracts or projects with phased implementation over a longer period of time, the Group's companies aim to incorporate appropriate price indexation mechanisms in them in case of significant changes in market conditions, exchange rates and other factors.

In their business operations, the Group's companies are exposed to risks of long-term price fixing under some long-term contracts for maintenance and managed services described in Item III.2.7 of this Report. The policy for limiting these risks is based on setting higher reserves for long-term variation of costs when negotiating the respective prices.

XII.2.1.2 Risk of unfavorable changes in market prices

In their activities, the Group's subsidiaries are exposed to the risks related to the market and competitive environment, described in item III.2.3 of this Report, which may result in lower market prices of their products and services.

The business activity profile and strategy of the Group are focused on limiting the consequences of these risks for the prices and gross profitability of the offered fundamental products and services by their integration into complex solutions and services with high added value, development of specific solutions without direct market analogues, the policy of sustainable increase of the share of such solutions and services in the Group's revenues as a whole. The strategic focus of the company on establishing an optimal organization for the provision of services and maintaining the quality of service on the highest level also plays an essential role.

The awareness of the Group's clients of the above benefits in the overall usefulness of the solutions offered by the Group as compared to competitive offers is a prerequisite for limiting price competition as a factor for the client's final choice and its potentially unfavorable consequences for the financial position and operating results.

In particular, the strategic partnerships of the Group's companies with leading global manufacturers contribute significantly to limiting the impact of the reduction of resale prices of equipment and software. Through the policy of preferential pricing integrated in them and their support for the implementation of large projects, these partnerships are a prerequisite for achieving the highest discount levels ensuring the Group's profitability in conditions of fierce competition and decreasing market prices.

XII.2.2 Exposure and credit risk management

In their activities, the Group's subsidiaries are exposed to the credit risks described in Item III.2.8.4 of this Report.

The Group's companies aim to trade only with established and solvent counterparties. The balances and maturities of receivables are subject to continuous ongoing monitoring both reactively and preventively, aimed at the timely identification of any potential risk of non-payment or significant delay in view of the client's development and status. Therefore, the Group's exposure to credit risk is considered to be relatively insignificant.

Although some of the main clients account for significant shares in the consolidated sales and receivables, these clients are usually established and solvent companies and institutions, including leading telecom operators, government and municipal organizations and leading multinational or government enterprises and/or long-term partners with proven payment history.

For and towards the end of 2019, there was only one client with a share of over 10% in the Group's total sales and trade receivables (as per Item XIV.2.2 of this Report).

XII.2.3 Exposure and management of liquidity and cash flow risks

In their activities, the Group's subsidiaries are exposed to the liquidity risks and cash flow risks described in Item III.2.8.2 III.2.8.3 of this Report.

The Group's companies manage the liquidity risk and the cash flow risk through systematic monitoring of the quality and maturities of their receivables and payables and timely planning of the incoming and outgoing cash flows.

In order to meet cash deficits arising from the current variation of net working capital, the Group's leading companies negotiate credit limits with renowned local banks providing sufficient liquidity reserves for specific and general purposes. If necessary, similar needs of the remaining Group's companies are met through intra-group funding in the form of loan contracts with one-off or multiple drawdown and the option for current repayment of the withdrawn funds.

The management of TBS Group considers the credit limits currently agreed under contracts between TBS EAD and Unicredit Bulbank AD in Bulgaria and between Comutel and Raiffeisen Banka A.D. Beograd in Serbia as sufficient to secure the activity towards the end of the reporting period, and is ready to initiate negotiations for their increase and/or the signing of new bank credit contracts in case of an increase in the working capital financing needs in 2020.

XIII Description of the main characteristics of the issuer's internal control and risk management systems in relation to the financial reporting process

The internal control system of the financial reporting of the Group companies is based on the current experience of the staff, studies of good reporting and control practices, compliance with the legal requirements for ensuring the effective functioning of the reporting and information disclosure systems. The system is constantly under a process of further development, improvement and monitoring by the management.

The management teams of the Group Companies are responsible for the preparation of the annual activity reports and the financial statements which provide a true and fair view of the Group's financial position in accordance with the applicable accounting policy. The responsibility of the management teams also includes the application of an internal control system for preventing, detecting and correcting errors and misstatements made as a result of the accounting system's actions. In this regard, in the process of financial reporting the management teams follow the key principles below:

- Compliance with the accounting policy, completeness and accuracy of the accounting information disclosed in the financial statements;
- Reporting of all operations in compliance with the laws and regulations;
- Timely reporting of transactions and events, with their exact amount, in the prepared financial statements;
- Compliance with the precautionary principle in the measurement of assets, liabilities, revenue and expenses, detection and termination of fraud and errors;
- Preparation of reliable financial information in compliance with international financial reporting standards and compliance with the principle of a going concern basis

XIV ADDITIONAL INFORMATION AS PER SECTION IV A OF APPENDIX NO. 10 TO ORDINANCE NO. 2 OF THE FSC

XIV.1 Revenues by main categories of products and services

Technology Group		Net Sales Revenue (BGN thousand)				
		2019	2018	change	share 2019	share 2018
Service Provider Specific	(1)	31,015	55,711	-44%	28%	48%
Enterprise Connectivity	(2)	35,441	22,528	57%	32%	19%
Hybrid Cloud	(3)	22,145	19,503	14%	20%	17%
Platform-based ("Lean") Infrastructure	(4)	2	0	-	0%	0%
Application Services	(5)	2,303	2,457	-6%	2%	2%
Modern Workplace	(6)	14,308	9,383	52%	13%	8%
Information Security	(7)	4,086	5,279	-23%	4%	5%
Other	(8)	1,030	1,036	-1%	1%	1%
Data Networks	(1+2)	66,456	78,239	-15%	60%	68%
Data Center	(3+4+5)	24,450	21,960	11%	22%	19%
Office Productivity	(6)	14,308	9,383	52%	13%	8%
Information Security	(7)	4,086	5,279	-23%	4%	5%
Others	(8)	1,030	1,036	-1%	1%	1%
		110,328	115,889	-5%	100%	100%

Reflecting the trend of slowdown in revenues from the telecommunications sector in the Mid-Western Balkans region described in item II.2 of this Report, consolidated sales in the Service Provider Specific group registered a significant decrease of 44% compared to 2018, reaching BGN 31,015 thousand or 28% of the Group's consolidated revenues compared to 48% in 2018.

Reciprocally, reflecting the positive business development trends in Bulgaria, the Group reported a significant increase of 57% in the consolidated sales of Enterprise Networks, which reached a top position in the product structure of revenues for 2019 with BGN 35,441 thousand, or 32% of the total Group sales, compared to 19% in 2018.

The expansion of TBS EAD's operations is also a key factor for the accounted growth in the Modern Workplace (by 52%) and Hybrid Cloud Solutions (by 14%) groups, contributing respectively 13% and 20% of consolidated sales for 2019, compared to 8% and 17% in 2018.

In spite of the relative decline in the Application Services (by 6%) and Information Security (by 23%) groups, both of them retained shares comparable to 2018, respectively at 2% and 4% in total Group sales.

Similar in amount to those reported in 2018, the Group's sales outside the aforementioned main product categories and groups remained within 1% of consolidated revenue for the reporting period.

XIV.2 Revenues by geographic market and significant counterparties

XIV.2.1 Revenues by geographic markets

Country/Region ⁺	Net Sales Revenue (BGN thousand)				
	2019	2018	change	share 2019	share 2018
Bulgaria	64,084	49,541	29%	58%	43%
Serbia	26,142	32,537	-20%	24%	28%
Slovenia	8,472	19,697	-57%	8%	17%
Bosnia and Herzegovina	4,387	10,392	-58%	4%	9%
Albania	1,667	0	-	2%	0%
Macedonia	1,498	9	157.9x	1%	0%
Montenegro	189	854	-78%	0%	1%
Other	3,892	2,868	36%	4%	2%
Bulgaria	64,084	49,541	29%	58%	43%
Mid-Western Balkans	39,189	63,491	-38%	36%	55%
South-Western Balkans	3,165	44	70.7x	3%	0%
Central & Eastern Europe	3,770	2,722	38%	3%	2%
Other Markets	123	99	23%	0%	0%
Total	110,328	115,889	-5%	100%	100%

⁺ By registration of the client.

The trends by companies and regions described in Item II.2 of this Report are reflected in the significant increase in the value and relative significance of revenues from clients registered in Bulgaria, which increased by 29% as compared to 2018, reaching BGN 64,084 thousand, or 58% of the Group's consolidated revenues for in 2019 compared to 43% in 2018.

Reciprocally, the Group recorded a significant decrease in revenue from customers registered in Serbia, Montenegro, Bosnia and Herzegovina. Altogether, sales in the regional group of the Mid-Western Balkans formed by these countries, declined by 38%, reaching BGN 39,165 thousand, or 36% of consolidated revenues for 2019, as compared to 55% in 2018.

Compensating a part of the aforementioned decline on the Group's domestic markets outside Bulgaria, sales in Albania and Macedonia, launched in the fourth quarter of 2019 and aggregated within the South-Western Balkans regional group, contributed BGN 3,165 thousand or 3% of consolidated sales for the year.

Relative to continuing growth in international sales to multinational clients, the Group also reported an increasing contribution of other European and global markets outside the countries where Group companies are registered. Altogether, sales on these markets increased by 38%, reaching BGN 3,770 thousand, or 3% of consolidated sales compared to 2% in 2018.

XIV.2.2 Significant clients

The Group identifies Serbia Broadband - Srpske kablovske mreže doo ("SBB") as a significant client with a share of over 10% in the Group's consolidated annual revenues for 2019. The Company is a leading alternative telecom operator in Serbia. Its share in the Group's consolidated sales for 2019 amounts to 23.4%. As of 31 December 2019 it is also the only client with a share of over 10% (17.8%) in the Group's consolidated trade receivables.



XIV.2.3 Significant suppliers

International manufacturers and local and regional distributors of ICT equipment and software are key sources of externally supplied elements of the goods and complex solutions, integrating goods and services, offered by the Group.

The Group identifies the following counterparties from the above categories as significant suppliers with purchases (credit turnovers in accounts for trade payables) exceeding 10% of the consolidated annual cost of sales for 2019:

- Cisco International Limited

The company is a leading global manufacturer and technology partner of the Group in the field of Data Networks, Managed Services, including Equipment as a service, etc. The ratio of respective purchases to the consolidated annual cost of sales for 2019 amounts to 18.6%.

- Solitron Bulgaria OOD

The company is a distributor and direct supplier of equipment manufactured by Cisco Systems, DellEMC, etc. The ratio of respective purchases to the consolidated annual cost of sales for 2019 amounts to 14.8%.

- Comtrade Distribution doo Beograd

The company is a distributor and direct supplier of the Cisco Systems Group and others for the Western Balkans region. The ratio of respective purchases to the consolidated annual cost of sales for 2019 is 11.7%.

- Technicolor Delivery Technologies SAS

The Company is a significant global manufacturer and leading partner of the Group in the field of specialized video solutions for telecom operators, including customer-premises equipment, for the Western Balkans region. The ratio of respective purchases to the consolidated annual cost of sales for 2019 is 11.6%.

- Microsoft Ireland Operations Ltd

The Company is a leading global manufacturer and technological partner of TBS EAD in the field of office productivity, integrated security systems and cloud services solutions. The ratio of respective purchases to the consolidated annual cost of sales for 2019 is 10.9%.

As of 31 December 2019 only two of the aforementioned suppliers (Cisco International Limited and Technicolor Delivery Technologies SAS) have shares of over 10% (28.2% and 18.7%, respectively) in the consolidated trade payables of the Group.

XIV.3 Large transactions and transactions of significance for the issuer's operations

The Company has assumed that significant transactions are transactions that lead or may be reasonably assumed to lead to a favorable or unfavorable change of 5% or more in the revenues or net profit. In 2019, no such transactions were concluded.

XIV.4 Transactions arranged between the issuer and the related parties for the reporting period

In connection with the performance of the main activity of Telelink Business Services Group AD (TBS Group), the following significant transactions with related parties were concluded in the financial year 2019:

- Agreement dated 14 August 2019 between TBS Group and TBS EAD, whereby the parties agree that the amount of BGN 5,696,952.95 transferred from Telelink Bulgaria EAD to Telelink Business Services Group EAD upon the Reorganization, representing the portion of the liabilities for utilized overdraft under a Loan contract between Bulgaria EAD and Unicredit Bulbank AD, corresponding to the receivables separated in TBS Group from TBS EAD for loans provided under a Financial Assistance Contract between Telelink Bulgaria EAD and TBS EAD, shall be construed as a loan granted by TBS Group to TBS EAD. The interest on the loan is 2.25% per year. As of 31 December 2019 the liability under the above Agreement has been repaid in full.
- Telelink Business Services Group EAD has concluded contracts with its subsidiaries for the performance of services related to the corporate and business development of the respective company, including, but not limited to, product positioning services, business planning, financial reporting and auditing, legal consultancy services and consultations and services relative to PR and marketing activities and the public promotion of business operations:
 - Contract dated 15 August 2019 between TBS Group and TBS EAD with services for BGN 58 thousand rendered for the reporting period;
 - Contract dated 15 August 2019 between TBS Group and Telelink Slovenia with services for BGN 2 thousand rendered for the reporting period;
 - Contract dated 15 August 2019 between TBS Group and Telelink Bosnia with services for BGN 2 thousand rendered for the reporting period;
 - Contract dated 15 August 2019 between TBS Group and Telelink Montenegro with services for BGN 2 thousand rendered for the reporting period;
 - Contract dated 15 August 2019 between TBS Group and Comutel with services for BGN 15 thousand rendered for the reporting period;
 - Contract dated 15 August 2019 between TBS Group and Telelink Albania with services for BGN 1 thousand rendered for the reporting period;
 - Contract dated 15 August 2019 between TBS Group and TBS Macedonia with services for BGN 1 thousand rendered for the reporting period;
- Loan contracts:
 - Loan contract dated 2 September 2019 between TBS EAD (lender) and TBS Group (borrower), with a limit of up to BGN 4,000 thousand, allowing for partial utilization and repayment, for the period until 31 December 2020 and at an interest of 2.25% per annum on the utilized part of the loan.
 - Loan contract dated 2 September 2019 between the subsidiaries TBS EAD (lender) and Telelink Albania (borrower), with a limit of up to EUR 100 thousand, allowing for partial utilization and repayment, for the period until 31 December 2020 and at an interest of 2.5% p.a. on the utilized part of the loan. In accordance with Annexes dated 5 November

2020 and 10 November 2020, the amount of the loan was increased to EUR 800 thousand.

- Loan contract dated 6 November 2019 between the subsidiaries TBS EAD (lender) and TBS Macedonia (borrower), with a limit of up to EUR 500 thousand, allowing for partial utilization and repayment, for the period until 31 December 2020 and at an interest of 2.5% p.a. on the utilized part of the loan

The above transactions are internal to the Group and do not form a part of its consolidated assets and liabilities.

During the reporting period Telelink Business Services Group AD has not performed any transactions that go beyond its usual business operations or that deviate significantly from the market conditions, nor have its subsidiaries been a party to such transactions.

XIV.5 Events and unusual indicators for the issuer with a significant impact on their operations

As of 31 December 2019 there are no events or indicators of unusual nature for the issuer.

XIV.6 Transactions carried out off balance sheet.

There are no transactions throughout the year that are kept off balance sheet.

XIV.7 Equity participations and main investments in the country and abroad

XIV.7.1 Equity participations in subsidiaries

As of 31 December 2019 TB Group reported total investments in directly owned subsidiaries in the amount of BGN 15,737 thousand, BGN 15,718 thousand of which were transferred to the Company by virtue of the Reorganization from 14 August 2019 as part of the property inherent to the Business Services activity, and BGN 19 thousand – reflecting the establishment of TBS Macedonia in September 2019. The shares held by the Company in the capital of subsidiaries are listed as a percentage by companies in item I.2 of this Report. The value of the reported investments by company as of 31 December 2019 is specified in Item 12 of the notes to the Consolidated annual financial statements of the Company.

With a Decision dated 30 October 2019 a dividend of BGN 386,183.21 was distributed to Telelink Business Services Group AD, sole owner of Telelink DOO (Telelink Bosnia), which was fully paid as of 31 December 2019.

The shares of TBS EAD in Telelink BS Staffing EOOD and Green Border OOD, which have been inactive during the period and as of the date of this Report, remain of a relatively insignificant balance sheet value. The reported investment in Telelink BS Staffing EOOD amounts to its authorized capital of BGN 2, and, in view of the project nature of Green Border OOD, the participation of BGN 10 thousand in it is reported in essence as a short-term asset.

XIV.7.2 Investments in intangible asset

As of 31 December 2019 the Group reported consolidated intangible assets of BGN 574 thousand, reflecting investments at TBS Group and TBS EAD.



The intangible assets held by TBS Group include an externally developed branding concept that has been transferred to the Company by virtue of the Reorganization as part of the property inherent to the separated Business Services activity. The initial value of the investment amounts to BGN 105 thousand. The balance sheet value of the asset as of 31 December 2019 amounts to BGN 78 thousand.

Intangible assets reported by TBS EAD are mainly related to the purchase and development of software. The initial value of capital expenditures for the acquisition or formation of these assets totals BGN 3,123 thousand. The balance sheet value of BGN 496 thousand reported as of 31 December 2019 is mainly formed by the development activities of the company in the fields of Information Security and the Internet of Things.

XIV.7.3 Real estate investments

As of 31 December 2019 the Group reported investment properties of BGN 362 thousand as part of its consolidated non-current assets.

The aforementioned amount was formed in accordance with the independent external appraisal of an office area owned by the subsidiary Comutel, which the latter rents out to third parties.

As of the end of the reporting period, TBS EAD and Comutel continue to own apartments in Bulgaria and Serbia acquired in previous periods as collaterals to loans granted and trade receivables. In accordance with the intentions of the management for their realization, these properties are classified as assets held for sale and are not regarded as investments of the Group.

XIV.7.4 Investments in financial instruments and other companies

As of 31 December 2019 Group companies have no investments in financial instruments, nor in equity securities of companies outside the Company's economic group.

XIV.8 Loan contracts concluded by the issuer, its subsidiary or the parent company in a capacity of a borrower

XIV.8.1 Loan agreements concluded by the Issuer

On 2 September 2019 TBS Group signed a Loan contract with subsidiary TBS EAD. The available limit is BGN 4,000 thousand and has a revolving nature, with the credit subject to multiple utilization and repayment within this limit. The loan has no specific purpose defined in the Contract and may be used freely for the Company's needs. No collaterals have been provided for in the Contract. The interest payable under the Contract is fixed at 2.25%. The term for repayment of all liabilities of the Company under the loan is 31 December 2020.

As of 31 December 2019 the liabilities of TBS Group under the loan amounted to BGN 2,892 thousand.

The above liabilities and the respective receivables of TBS EAD are internal to the Group and do not form a part of its consolidated assets and liabilities.

XIV.8.2 Guarantees provided and obligations undertaken by the Issuer

As of 31 December 2019, TBS Group has entered into a suretyship agreement and a pledge agreement for all held shares in the capital of TBS EAD, to secure the obligations of TBS EAD under an Agreement for the undertaking of credit commitments under an overdraft credit line between the latter and Unicredit Bulbank AD.



The Company's obligations undertaken in connection with the Reorganization from 14 August 2019 to secure liabilities under loan agreements between Telelink Bulgaria EAD and Unicredit Bulbank AD were terminated entirely in October and November 2019.

XIV.8.3 Loan contracts concluded by subsidiaries

XIV.8.3.1 TBS EAD

On 10 October 2019 TBS EAD concluded an Agreement for the undertaking of credit Overdraft loan commitments under an overdraft credit line with Unicredit Bulbank AD.

The limits for the effective utilization of working capital funds and contingent commitments under the contract include:

- up to EUR 3,000 thousand overdraft for general financing of working capital needs;
- up to EUR 2,000 thousand of revolving credit for the partial financing of specific projects up to 80% of the difference between their total value and advances received, subject to disbursement on the basis of individual requests and approvals for each project;
- up to EUR 10,000 thousand, but not more than EUR 11,000 thousand in total, together with the overdraft limit and revolving credit above, for issuing bank guarantees and letters of credit.

All limits are subject to utilization in BGN, EUR or USD, with respectively applicable interest rates of BIR + 1.357%, 1 m. EURIBOR + 1.5% и 1 m. LIBOR + 1.5%, but no less than 1.5% (regardless of the utilization currency).

The currently agreed utilization deadline is 31 May 2020, with corresponding deadlines for repayment of the overdraft utilization amounts up to 31 July 2020 and revolving credit facility – until payments from clients under each funded project are received, but no later than 31 May 2021. The contract is subject to annual renewal based on an annual review of the borrower and approval by the bank.

Collateral provided under the contract includes:

- pledge of bank account receivables;
- pledge of current and future receivables under individualized contracts of TBS EAD with a view to securing utilized overdraft funds and additional pledges on current and future receivables of TBS EAD from the projects financed by the revolving credit;
- a pledge over 100% of the shares in the capital of TBS EAD and related receivables;
- TBS Group's suretyship, including a commitment to maintain its participation in the capital of TBS EAD.

As of 31 December 2019 the funds utilized by TBS EAD under the contract amounted to BGN 1,623 thousand.

XIV.8.3.2 Comutel

On 21 January 2019 Comutel signed an annex for annual renewal of the Credit Facility Contract concluded in 2015 with Raiffeisen Banka AD Beograd (Serbia).



The limit for the effective utilization of funds under the contract is a revolving credit facility for working capital funds of up to USD 5,000 thousand, subject to drawing on the basis of separate requests up to the amount of respectively pledged receivables from clients.

The interest rate applicable under the Contract is 1 m. LIBOR + 1.6%.

On 28 January 2020 an Annex was signed for the extension of the Credit facility contract, signed between Comutel DOO (Serbia) – a subsidiary of Telelink Business Services Group AD and Raiffeisen Banka AD Beograd (Serbia), with a revolving credit limit for effective utilization of working capital funds of up to USD 5,000 thousand with a utilization term until 27 January 2021, subject to annual renewal.

The collateral provided under the contract include pledges on specific receivables from a particular major client from the telecommunications sector, presented at each individual drawdown.

As of 31 December 2019 the funds utilized by Comutel under the contract amount to BGN 2,502 thousand.

[XIV.8.3.3 Telelink Lebanon](#)

On 2 September 2019 Telelink Albania signed a Loan contract with TBS EAD. The main terms of the contract are listed in Item XIV.4 above.

As of 31 December 2019, the company's liabilities under the loan amount to BGN 498 thousand.

The above liabilities and respective receivables of TBS EAD are internal to the Group and do not form a part of its consolidated assets and liabilities.

[XIV.8.3.4 TBS Macedonia](#)

On 6 November 2019 TBS Macedonia concluded a Loan contract with the TBS EAD. The main terms of the contract are listed in Item XIV.4 above.

As of 31 December 2019, the company's liabilities under the loan amount to BGN 274 thousand.

The above liabilities and respective receivables of TBS EAD are internal to the Group and do not form a part of its consolidated assets and liabilities.

[XIV.9 Loan contracts concluded by the issuer, its subsidiary or the parent company in a capacity of a lender](#)

With a contract from 14 August 2019 TBS Group and TBS EAD agreed that the amount of BGN 5,697 thousand, corresponding to the receivables from TBS EAD undertaken by TBS Group with the Reorganization from the same date under a Financial Assistance Contract between TBS EAD and Telelink Bulgaria EAD, would be construed as a loan provided by TBS Group to TBS EAD. The interest on the loan is 2.25% per year. As of 31 December 2019 the loan and the due interest have been repaid in full.

On 2 September 2019 a Loan Contract was concluded between TBS EAD in its capacity of a lender and TBS Group with a limit of BGN 4,000 thousand. The main terms and conditions of the contract and its exposure values as of the end of the period are described in Item XIV.8.1 above.

On 2 September 2019 a Loan Contract was concluded between TBS EAD in its capacity of a lender and Telelink Albania with a limit of EUR 100 thousand. The main terms of the contract and the respective exposure as of the end of the period are described in Items XIV.4 and XIV.8.3.3 above.



On 6 November 2019 a Loan Contract was concluded between TBS EAD in its capacity of a lender and TBS Macedonia with a limit of EUR 500 thousand. The main terms of the contract and the respective exposure as of the end of the period are described in Items XIV.4 and XIV.8.3.4 above.

All aforementioned liabilities and respective receivables are internal to the Group and do not form a part of its consolidated assets and liabilities.

XIV.10 Utilization of funds from a new issuance of shares performed during the reporting period

Except for the capital of BGN 50 thousand paid pursuant to its incorporation, the Company has no proceeds from the issuance of shares during the reporting period. The way the additional share capital of BGN 12,450 thousand was formed upon the Reorganization of the Company is described in Item II.4.5 above.

With the exception of the capital of BGN 20 thousand paid pursuant to the incorporation of Telelink Albania and BGN 20 thousand – pursuant to the incorporation of TBS Macedonia, Group subsidiaries did not have proceeds from issuance of shares during the reporting period. The capital of Telelink Albania was paid in by Telelink Bulgaria EAD in its capacity of a parent company as of the date of its incorporation. The share capital of TBS Macedonia was paid in by TBS Group and does not constitute proceeds for the Group on a consolidated basis.

All aforementioned proceeds have been used by the respective Group companies for the purposes of their ordinary activities.

XIV.11 Analysis of the ratio between achieved financial results, reflected in the financial statements for the financial year and the forecasts for these results published previously

As of 31 December 2019 Group companies have not published forecasts of the financial results reported in the consolidated financial statements for 2019.

XIV.12 Financial resource management policy, debt service capacity, potential threats and measures for their elimination

With a view to the timely and due fulfilment of the obligations of Group companies, the financial resources management policy is based on the provision of available funds from the following main sources :

- revenue from sales to third parties, which are the main source for all subsidiaries of the Group carrying out direct operations in the ICT field;
- revenue from sales to other Group companies which are an ancillary source for the Group's subsidiaries carrying out direct operations in the ICT field and a main source for TBS Group on a standalone basis;
- revenue from dividends from direct participations in the capital of Group subsidiaries, which are a significant source for TBS Group on a standalone basis;
- funding of the shortage of funds to cover liabilities to third parties and other companies in the Group through overdraft and revolving credit limits under credit lines agreed with leading local banks, which are a significant ancillary source for the leading subsidiaries of the Group (TBS EAD and Comutel);

- funding of the shortage of funds to cover liabilities to third parties and other companies in the Group through loans from leading subsidiaries of the Group, which are a significant ancillary source for TBS Group and the other subsidiaries of the Group (other than TBS EAD and Comutel) on a standalone basis.

The aforementioned sources are expected to be sufficient to cover the need for working capital funds, the purchase of non-current assets of general nature in the course of the normal activity of the Group companies, as well as the payment of dividends by TBS Group. Nevertheless, the Company and the Group subsidiaries shall continue to perform continuous monitoring and planning of the financial resources with a readiness for the timely negotiation or renegotiation of existing and new credit facilities, if necessary.

XIV.13 Assessment of the opportunities for realization of investment intentions, available funds and possible changes in their funding structure

As of 31 December 2019 and the date of this Report, the investment intentions of the Group are mainly related to new equipment purchases planned by TBS EAD for provision to clients under extended current and new long-term contracts for managed services with multinational clients similar to those concluded during the period 2017-2019. In accordance with the established practice, TBS EAD intends to finance the above investments or re-finance them in a timely manner after their completion by means of financial lease contracts similar to those concluded during the period 2017-2019.

The Group intends to maintain its policy of using vehicles exclusively or predominantly under operating lease contracts without incurring investment expenses for their acquisition. To the extent that, as an exception to this policy, limited purchases of vehicles in TBS Macedonia have been planned, they should be made only in the case of secured funding with accordingly structured medium-term bank loans.

Group companies expect moderate purchases of other non-current assets, including computer equipment, machinery, equipment and software for the general assurance of employees, the internal IT infrastructure and other common requirements of the business. Funds available as of 31 December 2019 and cash flows generated in the course of next year are expected to be sufficient to cover these capital expenditures without resorting to credit instruments for their funding.

As of 31 December 2019 and the date of this Report, Group companies have not planned and are not expecting any need for material investment expenses other than the above.

The Company's Management recognises that any future acquisition of interests in companies and other investments exceeding the financial resources available to the Company shall be undertaken only after the timely provision in advance of additional funds from intra-group loans, debt financing by third parties and/or capital increases.

XIV.14 Information about any changes that occurred during the reporting period in the main governance principles of the issuer and its economic group

During the reporting period there was no change in the main management principles of Group companies. With regard to obtaining a public company status, new Articles of Association were adopted, which came into force upon the approval of the Prospectus of the Company.

XIV.15 Information about the main characteristics of the internal control system and risk management system applied by the issuer in the process of preparing the financial statements

The information is reviewed in Item 3 of the Corporate management declaration under Article 100n, Paragraph 8 of the POSA, which is a separate report published together with the activity report.

The management of the company exercises control that includes policies and procedures to keep the risks within reasonable and acceptable limits.

Financial control is performed in the following aspects:

- Disclosing and ensuring transparency of the results, finances, processes and strategies that contribute to achieving high efficiency of the activity of the Group's companies;
- Coordination of objectives, budgets and accounting in the system of internal reporting
- Ensuring the reliability of the necessary financial and non-financial information;
- Ensuring efficient cash flow management and monitoring;
- Ensuring the efficient management of assets;
- Information access control.

XIV.16 Information about changes in the managing bodies of the company

As of 24 September 2019 Lyubomir Minchev has been replaced as a member of the Supervisory Board by Bernard Jean Luc Moscheni.

During the current financial year there were no other changes in the management and supervisory bodies of the Company.

XIV.17 Information about the amount of the remunerations, awards and benefits of each of the members of the management bodies for the reporting year

The amounts and non-monetary remunerations paid to members of the Supervisory and Managing Boards of the Company and its subsidiaries during the reporting period are as follows:

	Remuneration (issuer)	Remuneration (related companies)	Under employment contracts (issuer)	Under employment contracts (related companies)	Total
	BGN	BGN	BGN	BGN	BGN
Ivan Zhitiyanov	-	205 195.03	-	-	205 195.03
Teodor Dobrev	-	-	-	112 288.61	112 288.61
Paun Ivanov	-	-	-	-	-
Nikoleta Stanailova	-	-	20 373.59	-	20 373.59
Gojko Martinovic	-	-	-	166 222.04	166 222.04

Hans van Houwelingen	-	-	-	-	-
Ivo Evgeniev Evgeniev	-	-	-	-	-
Bernard Jean Luc Moscheni	-	-	-	-	-

The remunerations of the members of the Supervisory Board and the Managing Board incurred by the Company and its subsidiaries for the period are as follows:

	Remuneration under management and control contracts (issuer)	Remuneration under management and control contracts (related companies)	Under employment contracts (issuer)	Under employment contracts (related companies)	Total
	BGN	BGN	BGN	BGN	BGN
Ivan Zhitiyanov	5 000	336 720	-	-	341 720
Teodor Dobrev	2 000	-	-	162 691	164 691
Paun Ivanov	2 000	-	-	-	2 000
Nikoleta Stanailova	2 000	-	41 840	-	43 840
Gojko Martinovic	2 000	-	-	201 554	203 554
Hans van Houwelingen	2 500	-	-	-	2 500
Ivo Evgeniev Evgeniev	2 500	-	-	-	2 500
Bernard Jean Luc Moscheni	8 158	-	-	-	8 158

The difference between the remunerations incurred and paid for the period arises from their usual payment during the month (for bonuses – the year) following the month (respectively the year) for which they are due. During the reporting period no contingent or deferred remunerations have arisen for the members of the Supervisory Board and the Managing Board of the Company.

XIV.18 Shares of the Issuer held by the members of the management boards, procurators and senior management

As of 31 December 2019 the members of the managing and controlling bodies and senior management of the Company holding shares in its capital include:

- Ivo Evgeniev, Member of the Supervisory Board, holding a share of 6.175%;
- Ivan Zhitiyanov, CEO and Chairman of the Managing Board, holding a share of 1%;
- Paun Ivanov, member of the Managing Board, holding a share of 1%.

As of 31 December 2019 and the date of this Report, the Company has not issued and none of the members of its managing and controlling bodies and senior management have options on shares in its capital or other securities issued by it.

XIV.18.1 Shares of the issuer owned by members of its managing bodies

As of 31 December 2019 the members of the managing and controlling bodies and senior management of the Company owning shares in its capital include:

- Ivo Evgeniev, Member of the Supervisory Board, holding a share of 6.175%;
- Ivan Zhitiyanov, CEO and Chairman of the Managing Board, holding a share of 1%;
- Paun Ivanov, member of the Managing Board, holding a share of 1%.

As of 31 December 2019 and the date of this Report, the Company has not issued and none of the members of its managing and controlling bodies and senior management have options on shares in its capital or other securities issued by it.

XIV.18.2 Shares of the Issuer held by members of subsidiaries' managing bodies

As of 31 December 2019 the following members of the managing and controlling bodies and senior management of subsidiaries of the Issuer, other than the above persons, hold shares in its capital:

- Lyubomir Minchev, Chairman of the Supervisory Board of Comutel, holder of 83.65% of the Issuer's shares;
- Yordan Popov, a member of the Board of Directors of TBS EAD and the Supervisory Board of Comutel, holding 1% of the Issuer's shares.

As of 31 December 2019 and the date of this Report, the Company has not issued and none of the members of its subsidiaries' managing and controlling bodies and senior management have options on shares in its capital or other securities issued by it.

XIV.19 Agreements known to the company that may result in changes in the relative share held by current shareholders

XIV.19.1 Contracts for intermediary and consultancy services

On 22 October 2019 the Company entered as a party into a Consultancy services contract among Lyubomir Minchev, Spas Shopov, Ivo Evgeniev and the Investment Intermediary Elana Trading AD with the subject of providing services for acquiring a public company status, admission to trading at a regulated market and the sale of up to 30% of the Company's capital on the BSE. With a view to the planned offering, individual Contracts for brokerage services have also been concluded between Lyubomir Minchev, Spas Shopov and Ivo Evgeniev and Elana Trading AD.

XIV.19.2 Agreement on the prohibition of the disposal of shares

On 17 December 2019 the Company and Lyubomir Minchev, Spas Shopov, Ivo Evgeniev, Ivan Zhitiyanov, Paun Ivanov, Yordan Velchev and Yordan Popov in their capacity of shareholders signed an Agreement on the prohibition of the disposal of shares ("Lockup Agreement"), determining the shareholders entitled to sell shares and the maximum number of shares they are entitled to offer within the planned public offering in 2020. Under the Agreement, the current shareholders intend to sell up to 30% (3,750,000 shares) of the existing shares of the Company on the BSE until the end of 2020, including:

- Lyubomir Minchev shall have the right to sell up to 23.825% (2,978,126 shares);
- Spas Shopov and Ivo Evgeniev shall have the right to sell up to 3.0875% (385,937 shares) each;
- the remaining four current shareholders of the Company shall not have the right to sell shares within the specified period.

Additionally, according to the Agreement, Lyubomir Minchev shall have the right to offer up to 6.175% (771,874 shares) additionally to the effect of the offering up to a total of 30%, in case Spas Shopov and Ivo Evgeniev do not exercise or exercise only in part their option to sell shares on the BSE, as mentioned in the paragraph above. At the same time, Lyubomir Minchev undertakes to retain a share of no less than 51% (6,375,000 shares) in the Company's capital by the end of 2021.



XIV.19.3 Performance Shares Plan

As per the Company's Prospectus, the management and the majority shareholder envision the preparation and adoption of a long-term Performance Shares Plan ("PSP") involving the allocation of shares and/or options, under which employees and managers of the Company shall acquire between 10 and 20% of the Company's capital in the course of the next five years. It has been stated that the shares required for this purpose shall be provided through the repurchase of existing shares from the market with no issuance of new shares and no capital dilution expected in connection with the PSP.

As of the date of this Report, there are still no established contractual mechanisms, corresponding or similar to the aforementioned ones, for the participation of employees of the Company and the Group in the capital of Telelink Business Services Group AD.

XIV.20 Information about pending lawsuits, administrative proceedings or arbitrations concerning liabilities or payables of the issuer in the amount of minimum 10% of their equity.

As of the date of this Report there are no pending court, administrative or arbitration proceedings relating to liabilities or receivables of Telelink Business Services Group AD and/or receivables and liabilities exceeding 10% of the Company's equity.

XIV.21 Information about the Investor Relations Director

As of 31 December 2019 the Investor Relations Director of the company is Ivan Daskalov, tel. +359 2 9882413 and e-mail IR-TBS@telelink.com.

XV ADDITIONAL INFORMATION AT THE COMPANY'S DISCRETION

The Company considers that there is no information about the Group other than that included in this Report, the Corporate management declaration and the information under Appendices 10 and 11 of Ordinance No. 2 of the Financial Supervision Commission, which has not been publicly disclosed and which would be essential for the informed investment decisions of shareholders and potential investors in the Company.

XVI NON-FINANCIAL STATEMENT

As of 31 December 2019 and the date of this Report, neither the Company, nor the Group, exceeded on a consolidated basis the criterion under Article 19a and Article 29a of Directive 2014/95/EU of the European Parliament and of the Council and Article 41 of the Accountancy Act regarding the average number of 500 employees during the financial year. Therefore, no obligation arises for the Company and the Group as a whole to include a non-financial statement in the consolidated activity report.

Date of compilation:

14 May 2020



Ivan Zhltiyanov,

TELELINK BUSINESS SERVICES GROUP AD

Independent auditor's report

To the shareholders of

Telelink Business Services Group AD

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Telelink Business Services Group AD and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the consolidated financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Emphasis of Matter

We draw attention to Note 38 Events after the reporting date to the consolidated financial statements which discloses significant non-adjusting event related to coronavirus pandemic (COVID-19). The disruption of the normal economic activity in Bulgaria resulting from COVID-19 may affect adversely the operations of the Group, in particular, its business operations in their usual functional, product and territorial scope, fulfillment of contractual obligations of the Group and realizable value of its assets and liabilities, including its trade and other receivables and contract assets and liabilities. Due to the unpredictable dynamic of COVID-19, it is not practicable to provide a reliable estimate of the potential effects of the pandemic. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Recognition of revenue from contracts with customers The Group's disclosures about revenue from contracts with customers are included in Note 5 Significant accounting judgements, estimates and assumptions and Note 9 Revenue from contracts with customers to the consolidated financial statements.	
In the consolidated financial statements for the year ended 31 December 2019 the Group reports revenue from contracts with customers at the amount of BGN 110,328 thousand. The Group has a variety of contracts with customers with specific conditions, duration and nature of performance obligations. The Group has developed an accounting policy for recognizing revenue from	In this area our audit procedures, among other, included: <ul style="list-style-type: none"> - Obtained an understanding of the Group's internally established methods, processes and control mechanisms for project management in the initial and execution phases of contracts with customers. - Evaluated the reasonableness of management's key accounting estimates

contracts with customers in accordance with IFRS 15 Revenue from contracts with customers, as disclosed in Note 5. The application of this policy requires the Group's management to make significant judgments in order to determine the separate performance obligations under contracts with customers, which significantly affect the amount of revenue recognized in the reporting period. The key judgements include an analysis of the economic nature and commercial context of contracts with customers to identify separate 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.

Due significance of revenue from contracts with customers and the significant judgements and assumptions made by management in their accounting, we consider this area to be a key audit matter.

and assumptions for recognition of revenue from contracts with customers based on a risk-based selection of a sample of contracts with customers.

- For a sample contracts with customers, we analysed their general terms and conditions, termination rights, penalties for delay and breaches, as well as the related contract assets and liabilities reported in the statement of financial position.
- Assessed whether the separate performance obligations under contracts with customers were determined by the Group's management in accordance with the requirements of IFRS 15. For a risk-based sample of contracts with customers, we focused on obtaining audit evidence from external sources for the progress of the separate performance obligations as of the reporting date through inspection of acceptance protocols, agreed general terms and conditions, and obtaining representations from the Group's lawyers regarding alleged breaches of contract and claims asserted.
- Applied data analytics procedures to identify anomalies in profit margin development throughout the projects' execution.
- Reviewed and assessed the completeness, appropriateness and adequacy of the Group's disclosures in the consolidated financial statements regarding the revenue from contracts with customers, including management's significant accounting judgements, estimates and assumptions.



Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information, which we have obtained prior the date of our auditor's report, comprises the consolidated management report, including the corporate governance statement prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and presentation of the consolidated financial statements that give a true and fair view in accordance with IFRS, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves true and fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Additional Matters to be Reported under the Accountancy Act and the Public Offering of Securities Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the *Information Other than the Consolidated Financial Statements and Auditor's Report Thereon* section, in relation to the consolidated management report, including the corporate governance statement of the Group, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines on New and Expanded Auditor's Reports and Auditor's Communication of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming opinions about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act (Art. 100m, paragraph 10 of the POSA in conjunction with Art. 100m, paragraph 8(3) and (4) of the POSA) applicable in Bulgaria.



Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

- a) The information included in the consolidated management report referring to the financial year for which the consolidated financial statements have been prepared is consistent with those consolidated financial statements.
- b) The consolidated management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(m), paragraph 7 of the Public Offering of Securities Act.
- c) The corporate governance statement of the Group referring to the financial year for which the consolidated financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8 of the Public Offering of Securities Act.

Opinion in connection with Art. 100(m), paragraph 10 in conjunction with Art. 100 m, paragraph 8(3) and (4) of the Public Offering of Securities Act

Based on the procedures performed and the knowledge and understanding obtained about Group's activities and the environment in which it operates, in our opinion, the description of the main characteristics of Group's internal control and risk management systems relevant to the financial reporting process, which is part of the consolidated management report (as a component of the corporate governance statement) and the information under Art. 10 paragraph 1(c), (d), (f), (h) and (i) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on Takeover Bids, do not contain any material misrepresentations.



Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- Ernst & Young Audit OOD was appointed as a statutory auditor of the consolidated financial statements of Telelink Business Services AD for the year ended 31 December 2019 by the general meeting of shareholders held on 27 November 2019 for a period of one year.
- The audit of the consolidated financial statements of the Group for the year ended 31 December 2019 represents first total uninterrupted statutory audit engagement for that group carried out by us.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the management board of Telelink Business Services Group AD, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Group.

Audit Firm Ernst & Young Audit OOD:



Nikolay Garnev

Legal Representative

Registered Auditor in charge of the audit

Sofia, Bulgaria

15 May 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December

	Notes	2019 BGN'000	2018 BGN'000
Revenue	9	110,328	115,889
Cost of sales	12	(90,469)	(97,328)
Gross profit		19,859	18,561
Other operating income	13	364	323
General and administrative expenses	10	(4,589)	(4,541)
Selling and marketing expenses	11	(5,498)	(4,962)
Other operating expenses	13	(179)	(161)
Net impairment losses on trade receivables and contract assets	23	(155)	8
Operating profit		9,802	9,228
Finance income	14	2	1
Finance costs	14	(640)	(461)
Net impairment losses on other financial assets		(21)	-
Profit before tax		9,143	8,768
Income tax expense	16	(991)	(1,104)
Profit for the year from continuing operations		8,152	7,664
Discontinued operations			
Loss after tax for the year from discontinued operations	8	-	(1,629)
Profit for the year		8,152	6,035
Other comprehensive income			
Exchange differences on translation of foreign operations		9	8
Total comprehensive income for the year, net of tax		8,161	6,043
Attributable to:			
Owners of the company		8,161	6,043
Non-controlling interests		-	-
		8,161	6,043
Normalised EBITDA			
Operating profit		9,143	8,768
Interest expenses (net)		362	181
Depreciation / amortisation expenses		2,148	919
EBITDA (earnings before interest, taxes, depreciation and amortisation)		11,653	9,868
Net impairment of receivables and contract assets		155	(8)
Normalised EBITDA		11,808	9,860
Net profit on share		0.652	-

Ivan Krasimirov Zhitiyanov
Executive Director

Jordanka Lyubchova Klenovska
Deputy Financial Director

The financial statements were approved for issue by decision of the Management Board dated 14 May 2020.

The accompanying notes from 1 to 38 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December

	Notes	2019 BGN'000	2018 BGN'000
ASSETS			
Non-current assets			
Property, plant and equipment	19	8,166	2,132
Investment properties	20	362	342
Intangible assets	21	574	802
Prepayments	18	3,617	2,704
Non-current receivables		-	1
Deferred tax asset	16	516	637
		<u>13,235</u>	<u>6,618</u>
Current assets			
Inventories	22	5,170	3,865
Trade and other receivables	23	24,871	26,384
Contract assets	9,23	1,700	3,746
Loans granted	24	-	6,426
Prepayments	18	5,013	4,173
Cash and cash equivalents	25	2,199	3,313
Income taxes receivable		472	-
Assets classified as held for sale	17	729	933
		<u>40,154</u>	<u>48,840</u>
TOTAL ASSETS		<u>53,389</u>	<u>55,458</u>

Continued to page 11

CONSOLIDATED STATEMENT OF FINANCIAL POSITION **as at 31 December**

Continued from page 10

		2019	2018
		BGN'000	BGN'000
EQUITY AND LIABILITIES			
Share capital	33	12,500	1,574
Legal reserves	33	317	100
Other reserves		(14,108)	-
Retained earnings		1,479	1,325
Profit for the year		8,152	6,035
Equity		8,340	9,034
Foreign currency translation reserve		(556)	(565)
Total equity		7,784	8,469
Non-current liabilities			
Lease liabilities	28	4,168	890
Employee benefits	31	10	8
Government grants	26	72	42
Contract liabilities	9,30	2,988	2,584
		7,238	3,524
Current liabilities			
Interest-bearing loans and borrowings	27	4,124	5,312
Lease liabilities	28	1,841	538
Trade and other payables	29	26,796	27,038
Government grants	26	328	130
Contract liabilities	9,30	4,939	10,000
Income tax payable		339	447
		38,367	43,465
Total liabilities		45,605	46,989
TOTAL EQUITY AND LIABILITIES		53,389	55,458

Financial statements
on which our auditors' report was
issued dated:

EY

15 -05- 2020

Ernst & Young Audit OOD

EY Representative and Registered Auditor

Ivan Krasimirov Zhitiyanov
Executive Director



Jordanka Lyubchova Klenovska
Deputy Financial Director



The financial statements were approved for issue by decision of the Management Board dated 14 May 2020.

The accompanying notes from 1 to 38 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

as at 31 December

	Share Capital BGN'000	Legal reserves BGN'000	Other reserves BGN'000	Retained earnings BGN'000	Equity attributable to the owners BGN'000	Foreign currency translation reserve BGN'000	Total equity BGN'000
Balance at 01 January 2018	1,574	100	-	6,191	7,865	(573)	7,292
Profit for the year	-	-	-	6,035	6,035	-	6,035
Other comprehensive income	-	-	-	-	-	8	8
Total comprehensive income	-	-	-	6,035	6,035	8	6,043
Issue of share capital	-	-	-	-	-	-	-
Dividends distributed (note 34)	-	-	-	(4,866)	(4,866)	-	(4,866)
Balance at 31 December 2018	1,574	100	-	7,360	9,034	(565)	8,469
Balance at 01 January 2019	1,574	100	-	7,360	9,034	(565)	8,469
Profit for the year	-	-	-	8,152	8,152	-	8,152
Other comprehensive income	-	-	-	-	-	9	9
Total comprehensive income	-	-	-	8,152	8,152	9	8,161
Increase in capital reserves (note 33)	10,926	217	-	-	11,143	-	11,143
Dividends distributed (note 34)	-	-	-	(5,881)	(5,881)	-	(5,881)
Transfers	-	-	15	-	15	-	15
Restructuring	-	-	(14,123)	-	(14,123)	-	(14,123)
Balance at 31 December 2019	12,500	317	(14,108)	9,631	8,340	(556)	7,784

Financial statements
on which our auditors' report was
issued dated:

EY

15 -05- 2020

Ernst & Young Audit OOD

EY Representative and Registered Auditor

Ivan Krasimirov Zhitiyanov
Executive Director

Jordanka Lyubchova Klenovska
Deputy Financial Director

The financial statements were approved for issue by decision of the Management Board dated 14 May 2020.

The accompanying notes from 1 to 38 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December

	Notes	2019 BGN'000	2018 BGN'000
Operating activities			
Profit before income tax from continuing operations		9,143	8,768
Adjustment to reconcile profit before tax to net cash flows			
Non-cash transfers:			
Net finance costs		596	373
Movements in retirement benefits obligations and government grants	26,31	(234)	(198)
Impairment losses on trade receivables and contract assets		155	(8)
Write off of trade payables		-	(5)
Impairment losses on loans granted		21	-
Fair value measurement of investment properties	20	-	(10)
(Gain) on disposal of property, plant and equipment	13	(8)	(48)
Loss on disposal of assets held for sale		78	-
Depreciation & amortisation	19,21	2,148	919
Working capital adjustments			
(Increase) / decrease in inventories		(1,307)	93
Decrease /(Increase) in trade and other receivables, contract assets		2,316	(3,466)
Decrease in trade and other payables, contract liabilities		(8,134)	(803)
Bank charges paid		(234)	(192)
Income taxes paid		(1,450)	(503)
Net cash flows from from operating activities		3,090	4,920

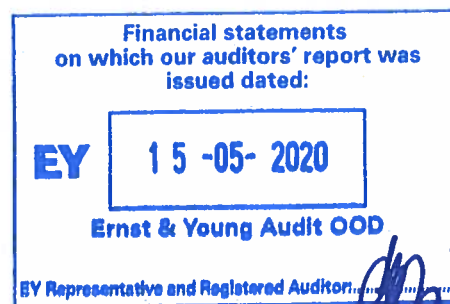
Continued to page 14

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December

Continued from page 13

		2 019 BGN'000	2 018 BGN'000
Investing activities			
Purchase of property, plant and equipment	19	(2,072)	(223)
Purchase of intangible assets	21	(232)	(688)
Proceeds from sale of property, plant and equipment		88	98
Receipt of government grants	26	464	372
Loans granted	24	(21)	(6,429)
Proceeds from loans	24	6,426	-
Interest received		3	-
Net cash flows from / (used in) investing activities		4,656	(6,870)
Financing activities			
Proceeds from capital		50	-
Proceeds from borrowings	27	49,307	23,566
Repayment of borrowings	27	(50,494)	(20,749)
Payments on finance leases		(1,426)	(387)
Dividends paid	33	(5,881)	(4,348)
Interest paid		(259)	(234)
Interest paid on leases		(115)	-
Net cash flows used in financing activities		(8,818)	(2,152)
Net change in cash and cash equivalents		(1,072)	(4,102)
Net foreign exchange difference		(42)	7
Cash and cash equivalents at 1 January		3,313	7,408
Cash and cash equivalents at 31 December	25	2,199	3,313



Ivan Krasimirov Zhitiyanov
Executive Director



Jordanka Lyubchova Klenovska
Deputy Financial Director



The financial statements were approved for issue by decision of the Management Board dated 14 May 2020.

The accompanying notes from 1 to 38 are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

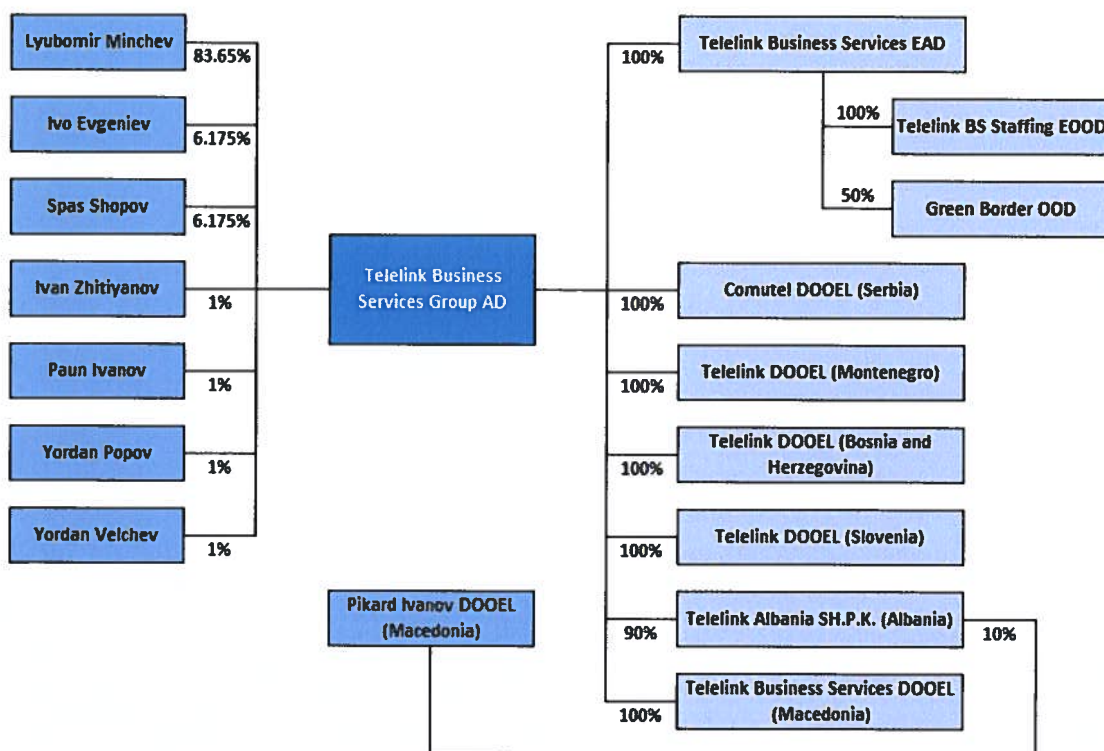
1. Corporate information

Incorporation

Telelink Business Services Group EAD 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.

Shareholders

As of 31 December 2019, the founder of the Group Lyubomir Minchev directly owns 10,456,250 shares, with a nominal value of BGN 1 each, representing 83.65% of the total capital of the Company. The remaining persons holding over 5% of the capital of the Company are Ivo Evgeniev and Spas Shopov, each one holding directly 771,875 shares with par value of BGN 1 each, respectively 6.175% of the total capital of the Company



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31 DECEMBER 2019****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), all of them jointly the "Group".

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 2019 were authorised for issue by decision of the Management Board dated 14 May 2020.

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.

Comparative data

The Group's accounting policies are consistent with those applied in the previous reporting period, except for the following changes:

For the purpose of more accurate presentation, the Group's management has deemed it necessary and changed the presentation of some items in the consolidated statement of profit or loss and other comprehensive income. The change concerns comparative data as follows:

- Reclassification of items of (BGN) 478 thousand from Revenue to Cost of sales;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31 DECEMBER 2019****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 2019.

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 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.

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 the previous year reflect the combined results of the new group structure, even though the transformation occurred in the current year. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31 DECEMBER 2019****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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31 DECEMBER 2019****4. Summary of significant accounting policies (continued)****Discontinued operation**

Discontinued operations comprise a component of the Group's business, transactions and cash flows that can be clearly distinguished from the other Group's activities and that:

- represent a separate major line of business or geographical area of operations;
- is part of a single coordinated plant to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to be resold.

The classification as a discontinued operation is made at the earlier derecognition or when the activity meets the criteria of being classified as held for sale.

When an operation is classified as a discontinued operation, the comparative statement of profit and loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

4. Summary of significant accounting policies (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31 DECEMBER 2019****4. Summary of significant accounting policies (continued)****Investment property (continued)**

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

4. Summary of significant accounting policies (continued)

Intangible assets (continued)

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 Group recognizes the incremental costs of obtaining a contract with a customer if the costs are expected to be recovered. The incremental costs of obtaining a contract are costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

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:

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31 DECEMBER 2019****4. Summary of significant accounting policies (continued)****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 and a proportion of overheads based on normal operating capacity 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31 DECEMBER 2019****4. Summary of significant accounting policies (continued)****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.

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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31 DECEMBER 2019****4. Summary of significant accounting policies (continued)****Financial assets (continued)**

- 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 2019

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 2019****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 2019****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 27 „Interest-bearing loans and borrowings“.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31 DECEMBER 2019****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.

Warranties

Provisions are recognized for expected warranty claims on products and services sold during the last year, based on experience of the level of repairs and returns. Assumptions used to calculate the provision for warranties were based on current sales level and information available about returns based on the three year warranty period for products sold.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31 DECEMBER 2019****4. Summary of significant accounting policies (continued)****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.

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 2019****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 typically provides warranties for general repairs of defects that existed at the time of sale, as required by law. These assurance-type warranties are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31 DECEMBER 2019****4. Summary of significant accounting policies (continued)****Revenue from contracts with customers (continued)*****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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31 DECEMBER 2019****4. Summary of significant accounting policies (continued)****Revenue from contracts with customers (continued)***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.

Costs to obtain a contract and costs to fulfil a contract

Incremental costs of obtaining a contract and certain costs to fulfil a contract may be recognised as an asset if certain criteria are met. Any capitalised contract costs assets are amortised on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer.

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.

Dividend income

Income is recognised when the Company's right (as a parent company) to receive the payment is established.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31 DECEMBER 2019****4. Summary of significant accounting policies (continued)****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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31 DECEMBER 2019****4. Summary of significant accounting policies (continued)****Lease (continued)**

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 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.

Accounting policy for leases before 1 January 2019 - Company as a lessee

A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31 DECEMBER 2019****4. Summary of significant accounting policies (continued)****Lease (continued)**

Assets acquired under finance leases are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31 DECEMBER 2019****4. Summary of significant accounting policies (continued)****Taxes (continued)**

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.

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.

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:

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

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

Judgements (continued)

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.

- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31 DECEMBER 2019****5. Significant accounting judgements, estimates and assumptions (continued)****Judgements (continued)*****Revenue from contracts with customers (continued)***

- 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 the statement of profit or loss and other comprehensive income. 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 20 „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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31 DECEMBER 2019****5. Significant accounting judgements, estimates and assumptions (continued)****Estimates and assumptions (continued)*****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.

Warranty provisions

Provisions are recognized for expected warranty claims on products and services sold during the year, based on experience of the level of repairs and returns. The determination of the provision for warranty service requires management to make estimate on the probability and the costs to cover these obligations. Further details are provided under the accounting policy for warranty provision under note 4 "Summary of significant accounting policies" to 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 35 "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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31 DECEMBER 2019****5. Significant accounting judgements, estimates and assumptions (continued)****Estimates and assumptions (continued)**

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.

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 applies IFRS 16 for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described below.

For the first time in 2019 some other amendments and clarifications are applied, but they have no impact on the financial statements of the Group. The Group has not adopted standards, clarifications or amendments that have been published but have not yet entered into force.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

6. Changes in accounting policies and disclosures (continued)

IFRS 16 Leases

IFRS 16 was published in January 2016 and replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases—Incentives, SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for recognition, measurement, presentation and disclosures of leases and requires lessees to account all lease contracts based on uniform balance method, that is similar to the accounting treatment of finance lease in accordance with IAS 17.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively and the cumulative effect of its adoption is recognized on the date of initial application.

The effect of adopting IFRS 16 as at 1 January 2019 is as follows:

	BGN'000
Assets	
Right-of-use assets	4,907
Property, plant and equipment	(1,444)
Total assets	3,463
Liabilities	
Lease liabilities	3,953
Trade and other payables	(490)
Total liabilities	3,463
 Total effect on the equity :	 -
Retained earnings	-

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets.

- Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

- Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised by the Group based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

6. Changes in accounting policies and disclosures (continued)

IFRS 16 Leases (continued)

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application of the standard
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at 1 January 2019:

- Right-of-use assets of BGN 4,907 thousand were recognised in the statement of financial position. This includes the lease assets recognised previously under finance leases of BGN 1,444 thousand that were reclassified from other type of Property, plant and equipment.
- Additional lease liabilities of BGN 3,953 thousand were recognised.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

Operating lease commitments disclosed as at 31 December 2018	4,110
Discounted operating lease commitments as at 1 January 2019	3,953
Add: Commitments relating to leases previously classified as finance leases	1,428
Less: Additional services provided for in the lease contract	(581)
Lease liabilities as at 1 January 2019	4,800

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31 DECEMBER 2019****6. Changes in accounting policies and disclosures (continued)****IFRIC 23 *Uncertainty over Income Tax Treatments***

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The adoption of the amendment had no impact on the financial position or performance of the Group.

IFRS 9 *Financial Instruments: Classification and Measurement (Amendments): Prepayment Features with Negative Compensation*

The amendments, effective for annual periods beginning on or after 1 January 2019 with earlier application permitted, propose a change to IFRS 9 for particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a negative prepayment feature. Specifically, for a financial asset that contains a prepayment option that may result in the payment of a reasonable negative compensation amount, the Amendments require the financial asset to be measured at amortised cost or at fair value through other comprehensive income, subject to the assessment of the business model in which it is held. The adoption of the amendments had no impact on the financial position or performance of the Group.

IAS 28 *Investments in associates (Amendments): Long-term Interests in Associates and Joint Ventures*

The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied. The Group applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The adoption of the amendments had no impact on the financial position or performance of the Group.

IAS 19 *Employee Benefits (Amendments): Plan Amendment, Curtailment or Settlement*

The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. The adoption of the amendments had no impact on the financial position or performance of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

6. Changes in accounting policies and disclosures (continued)

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.

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.

IFRS 17: Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not been yet endorsed by the EU. It is not applicable for the Group.

IFRS 3 Business combinations (Amendments): 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 have not yet been endorsed by the EU. The Group is in the process of assessing the impact of these amendments on its financial position or performance.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: 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. The Group is in the process of assessing the impact of these amendments on its financial position or performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31 DECEMBER 2019****7. Standards issued but not yet effective and not early adopted (continued)*****The 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.

Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). 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. The Group is in the process of assessing the impact of these amendments on its financial position or performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

8. Discontinued operations

Telelink Business Services Group AD was incorporated in 2019 in relation to the separation and management of its investments in subsidiaries involved in the Business Services business line. The spin-off of the designated activity from Telelink Bulgaria EAD was completed in August 2019 in compliance with the provision of Art. 262c of the Commercial Act. Strategically, the transformation of Telelink Bulgaria EAD is a continuation of the reorganization of Telelink Group, which began in 2017, aiming at establishing separate organizational structures optimally responding to the specifics and needs of the various areas of activity.

Until September 2017, the economic activity of the subsidiary Telelink Business Services EAD (renamed from Telelink EAD), which is part of the Group, covered operations in both business lines, namely Business services and Infrastructure Services.

In November 2017, Telelink Bulgaria EAD, in its capacity as a sole equity owner of Telelink EAD, took a decision for spun-off in accordance with Art. 262 of the Commercial Act to Telelink EAD. As a result, the activities under Infrastructure Services business line, as also the associated staff, assets and liabilities, had been separated from the Telelink EAD and transferred to the transferee Telelink Infra Services EAD, with the effective accounting date being 01 September 2017. Following the reorganization of Telelink EAD, the company was renamed to Telelink Business Services EAD and continued its activity in the Business Services business line.

The assets, liabilities, revenues and expenses of Telelink Business Services EAD which are not economically intrinsic and necessary for the Business Services business line are presented as discontinued operations in these consolidated financial statements. Including other operating expense (net impairment losses on investments), finance income and costs, as well as assets and liabilities that cannot be specifically separated between business lines.

Results from discontinued operations are set out below:

	2018
	BGN'000
Other operating expenses	(545)
Operating loss	(545)
Finance income	87
Finance costs	(48)
Net impairment losses on loans granted	(1,303)
Loss before taxes	(1,809)
Income tax expense	180
Loss	(1,629)

The discontinued operations had no impact on the Group's statement of financial position as at 31 December 2018 and 2019.

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9. Revenue from contracts with customers

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

	2019	2018
	BGN'000	BGN'000
Revenue from contracts with customers		
Geographical markets		
Bulgaria	64,083	49,541
Other European countries	44,242	65,988
Other non-European countries	2,003	360
	110,328	115,889
Timing of revenue recognition		
Transferred at a point in time	88,352	93,876
Transferred over time	21,976	22,013
	110,328	115,889

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

Contract balances

	2019	2018
	BGN'000	BGN'000
Trade receivables (Note 23)	24,120	25,422
Contract assets (Note 23)	1,700	3,746
Contract liabilities (Note 30)	7,927	12,584

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 the expired period of time.

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9. 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 2019 amounts to BGN 10,112 thousand (at 1 January 2018: BGN 11,246 thousand).

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

	2019	2018
	BGN'000	BGN'000
Within one year	4,829	9,886
More than one year	3,462	2,582
	8,291	12,468

10. General and administrative expenses

	2019	2018
	BGN'000	BGN'000
Employee benefit expenses	(2,580)	(2,292)
Depreciation & amortisation	(141)	(126)
Consulting services	(776)	(1,361)
Office rent and utilities	(452)	(202)
Representative expenses	(126)	(129)
Other	(514)	(431)
	(4,589)	(4,541)

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11. Sales and marketing expenses

	2019 BGN'000	2018 BGN'000
Employee benefit expenses	(3,169)	(2,005)
Depreciation & amortisation	(159)	(382)
Consulting and agency services	(242)	(404)
Marketing and advertisement	(1,093)	(1,602)
Other	(835)	(569)
	(5,498)	(4,962)

12. Expenses by nature

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

	2019 BGN'000	2018 BGN'000
Changes in inventories of finished goods and work in progress	597	(748)
Capitalised development costs and contract costs	162	533
Raw materials and consumables	(1,346)	(395)
Hired services	(20,869)	(24,170)
Employee benefit expenses (note 15)	(9,821)	(7,375)
Depreciation and amortisation (note 19, 21)	(2,148)	(917)
Other, including Cost of goods sold	(67,131)	(73,759)
	(100,556)	(106,831)

13. Other operating income / (expenses)

	2019 BGN'000	2018 BGN'000
<u>Other operating income</u>		
Gain on disposal of property, plant and equipment	8	48
Gain on disposal of intangible assets	30	-
Government grants	236	201
Rental income	29	29
Other	61	35
	364	323
	2019	2018
<u>Other operating expenses</u>	<u>EUR'000</u>	<u>EUR'000</u>
Loss on disposal of assets held for sale	(78)	-
Penalties	(1)	(118)
Other	(100)	(43)
	(179)	(161)

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14. Finance income and finance costs

	2019	2018
	BGN'000	BGN'000
<u>Finance costs</u>		
Interest on financing	(364)	(182)
Net foreign exchange loss	(42)	(87)
Other financial costs	(234)	(192)
	<u>(640)</u>	<u>(461)</u>
	2019	2017
	BGN'000	BGN'000
<u>Finance income</u>		
Interest income - loans granted	2	1
	<u>2</u>	<u>1</u>

15. Employee benefit expenses

	2019	2018
	BGN'000	BGN'000
Salaries	(8,576)	(6,453)
Social security contributions	(1,234)	(925)
Expenses related to defined benefit plans	(11)	3
	<u>(9,821)</u>	<u>(7,375)</u>

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

	2019	2018
	Number	Number
Management	10	4
Operations	118	105
Sales	24	22
Administration	38	24
	<u>190</u>	<u>155</u>

16. Income tax

The major components of income tax expenses are as follows:

	2019	2018
	BGN'000	BGN'000
<u>Current income tax</u>		
Current income tax charge	(870)	(1,215)
<u>Deferred income tax</u>		
Relating to origination and reversal of temporary differences	(121)	111
Income tax reported in the statement of comprehensive income	<u>(991)</u>	<u>(1,104)</u>

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16. Income tax (continued)

The reconciliation between income tax expense and the product of accounting profit multiplied by the statutory tax rate for the Group for the years 2019 and 2018 is as follows:

	2019 BGN'000	2018 BGN'000
Accounting profit before income tax	9,143	8,768
Accounting profit / (loss) before tax from discontinued operations	-	(1,809)
Accounting profit before income tax	9,143	6,959
Income tax rate	10%	10%
At parent's corporate income tax rate 10% (2018: 10%)	(914)	(696)
Tax effects of profits from subsidiaries taxed at different rate	(45)	(214)
Tax effect of non-deductible expenses	(51)	(14)
Tax allowances	19	-
	(991)	(924)
At the effective income tax rate of:	11%	13%
Income tax reported in the statement of comprehensive income	(991)	(1,104)
Income tax attributable to discontinued operations	-	180
	(991)	(924)

Deferred taxes of the Group as at 31 December 2019 and 2018 relate to the following items:

	Statement of financial position		Statement of comprehensive income	
	2019 BGN'000	2018 BGN'000	2019 BGN'000	2018 BGN'000
<u>Deferred income tax assets / (liabilities)</u>				
Accrued expenses	185	123	62	(9)
Employee benefits	120	67	53	(6)
Property, plant and equipment and intangible assets	(137)	(58)	(79)	(66)
Net impairment losses on financial and contract assets	330	433	(103)	130
Other	18	72	(54)	62
Deferred income tax asset / (liability)	516	637		
Movement in deferred taxes			(121)	111

The reconciliation between the movement in deferred tax assets / liabilities for 2019 and 2018 is as follows:

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16. Income tax (continued)

	2019	2018
	BGN'000	BGN'000
Opening balance as of 1 January	637	526
Tax expense during the year recognised in profit or loss	(121)	111
Closing balance 31 December	516	637

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.

17. Assets classified as held for sale

In 2016, 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 completed on 9 December 2016.

In October 2018, Telelink Business Services EAD acquired apartments in Serbia as collateral on a loan.

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

At the end of 2019 and 2018, an external valuer was engaged to assess the market value of the properties; the assessment showed no indications of impairment of these assets.

18. Prepayments

	2019	2018
	BGN'000	BGN'000
Balance on 1 January	6,877	7,477
Accrued during the year	10,162	9,674
Released to profit and loss	(8,409)	(10,274)
Balance on 31 December	8,630	6,877
Current	5,013	4,173
Non-current	3,617	2,704
	8,630	6,877

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

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19. Property, plant and equipment

	Right-of-use assets	Machinery & equipment	Computers	Motor Vehicles	Furniture and Fittings	Managed Services assets	Total
<u>Book value</u>	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
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	7,468	1,292	1,418	26	702	1,313	12,219
<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	(1,476)	(917)	(1,111)	(10)	(440)	(99)	(4,053)
Net book value as of 1 January 2019	-	127	318	23	88	1,576	2,132
Net book value as of 31 December 2019	5,992	375	307	16	262	1,214	8,166

	Right-of-use assets	Machinery & equipment	Computers	Motor Vehicles	Furniture and Fittings	Managed Services assets	Total
<u>Book value</u>	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Balance as of 1 January 2018	-	1,181	952	520	522	1,201	4,376
Additions	-	83	239	16	1	656	995
Disposals	-	(151)	(89)	(394)	(10)	(2)	(646)
Transferred from inventory	-	-	119	-	-	-	119
Transferred to inventory	-	(92)	-	-	-	-	(92)
Exchange adjustment	-	-	-	1	-	-	1
Balance as of 31 December 2018	-	1,021	1,221	143	513	1,855	4,753
<u>Accumulated depreciation:</u>							
Balance as of 1 January 2018	-	(1,020)	(806)	(448)	(378)	(70)	(2,722)
Depreciation for the year	-	(100)	(184)	(20)	(57)	(211)	(572)
Disposals	-	150	85	349	10	2	596
Transferred to inventory	-	78	-	-	-	-	78
Exchange adjustment	-	-	-	(1)	-	-	(1)
Balance as of 31 December 2018	-	(892)	(905)	(120)	(425)	(279)	(2,621)
Net book value as of 1 January 2018	-	161	146	72	144	1,131	1,654
Net book value as of 31 December 2018	-	129	316	23	88	1,576	2,132

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19. Property, plant and equipment (continued)

The Group has established registered pledges over all movable assets, machinery and equipment of Telelink Business Services EAD in favour of a creditor bank at 2018: BGN 648 thousand.

As at 31 December 2019, the net carrying amount of assets acquired under finance leases was BGN 2,189 thousand (2018: BGN 1,446 thousand).

20. Investment property

	2019	2018
	BGN'000	BGN'000
Opening balance at 1 January	342	332
Net result from a fair value remeasurement	20	10
Closing balance at 31 December	362	342
	2019	2018
	BGN'000	BGN'000
Rental income derived from investment properties	29	29
Net profit arising from investment properties carried at fair value	29	29

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

Valuation technique (DCF method)

Significant unobservable inputs

-Estimated rental value per sqm per month

-Rent growth p.a.

-Discount rate

Range
EUR 8,22 – 7,1
1%
9%

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21. Intangible assets

	Software	Development Costs	Other	Total
	BGN'000	BGN'000	BGN'000	BGN'000
Book value:				
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	2,921	264	185	3,370
Accumulated amortization:				
Balance as of 1 January 2019	(2,316)	-	(9)	(2,325)
Amortisation for the year	(462)	-	(21)	(483)
Transfers	-	-	(19)	(19)
Disposals	31	-	-	31
Balance as of 31 December 2019	(2,747)	-	(49)	(2,796)
Net book value as of 1 January 2019	101	700	1	802
Net book value as of 31 December 2019	174	264	136	574

	Software	Development Costs	Other	Total
	BGN'000	BGN'000	BGN'000	BGN'000
Book value:				
Balance as of 1 January 2018	2,283	167	67	2,517
Additions	155	533	-	688
Disposals	(21)	-	(57)	(78)
Balance as of 31 December 2018	2,417	700	10	3,127
Accumulated amortization:				
Balance as of 1 January 2018	(1,991)	-	(65)	(2,056)
Amortisation for the year	(346)	-	(1)	(347)
Disposals	-	-	-	-
Impairment charge for the year	21	-	57	78
Balance as of 31 December 2018	(2,316)	-	(9)	(2,325)
Net book value as of 1 January 2018	292	167	2	461
Net book value as of 31 December 2018	101	700	1	802

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 2019. 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.

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22. Inventories

	2019	2018
	BGN'000	BGN'000
Materials	72	48
Goods	3,182	2,425
Dispatched goods	690	763
Work in progress	1,226	629
	5,170	3,865

Write-down allowance for inventories

	2018	2018
	BGN'000	BGN'000
At 1 January	62	62
At 31 December	62	62

23. Trade and other receivables and contract assets

Trade and other receivables

	2019	2018
	BGN'000	BGN'000
Trade receivables from related parties, gross (note 32)	2,143	588
Trade receivables from third parties, gross	22,448	25,151
Loss allowance	(471)	(317)
Trade receivables	24,120	25,422
Dividend and other receivables from related parties	2	-
Other receivables*	749	962
Trade and other receivables	24,871	26,384

*On the initial application of IFRS 15, Revenue not invoiced and Warranty receivables were excluded from Trade and other receivables and classified as Contract assets.

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 BGN 1,623 thousand as at 31 December 2019.

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 2019, the funds utilized amounted to BGN 2,501 thousand.

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

Contract assets

As at 31 December 2019, the Group had contract assets amounted BGN 1,700 thousand (31 December 2018: BGN 3,746 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:

	2019 BGN'000	2018 BGN'000
Loss allowance at 01 January under IAS 39	317	325
Adjustment on initial application of IFRS 9	-	-
Loss allowance at 01 January under IFRS 9	317	325
Amounts written off	72	-
Net impairment losses	82	(8)
Loss allowance at 31 December	471	317

The ageing analysis of trade receivables and contract assets as at 31 December 2019 and 31 December 2018 is presented in the following table:

31 December 2019	Days past due						Total BGN'000
	Current 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

31 December 2018	Days past due						Total BGN'000
	Current 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	563	8	1	4	12	6	594
Receivables from third-party customers, gross	23,980	208	352	17	78	510	25,145
Contract assets, gross	3,746	-	-	-	-	-	3,746
Loss allowance of trade receivables and contract assets	-	-	-	-	-	(317)	(317)
Total trade receivables and contract assets	28,289	216	353	21	90	199	29,168

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24. Loans granted

	Maturity	2019 BGN'000	2018 BGN'000
Related parties (note 32)	2018/2019	-	6,426
		-	6,426

The loan to related parties represents amounts transferred to Telelink Bulgaria EAD under a cash management agreement. According to the contract terms and conditions, the interest rate is 0.50%.

25. Cash and cash equivalents

	2019 BGN'000	2018 BGN'000
Cash and cash equivalents in hand	6	2
Cash and cash equivalents in current accounts	2,095	3,282
Short-term deposits	98	29
	2,199	3,313

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 2019 and 31 December 2018 equals their carrying amount.

26. 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.

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 463 thousand under the Program was provided and utilized to cover personnel costs.

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26. Government grants (continued)

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:

	2019 BGN'000	2018 BGN'000
Balance on 1 January	172	1
Received during the year	464	372
Released to profit and loss (note 13)	(236)	(201)
Balance on 31 December	400	172
Current	328	130
Non-current	72	42
	400	172

27. Interest-bearing loans and borrowings

	2019 BGN'000	2018 BGN'000
Current		
Interest-bearing loans from related parties	-	4
Revolving credit facilities	2,501	5,308
Bank loans	1,623	-
	4,124	5,312

Interest-bearing loans from related parties

In December 2017, Telelink Business Services EAD signed contract for financial assistance with Telelink Bulgaria EAD. According to the agreement, an interest rate of 2.25% is applied. The outstanding amount as of 31 December 2018 was BGN 4 thousand. The loan was fully repaid as of 31 December 2019.

Overdraft loan facility

On 10 October 2019, Telelink Business Services EAD signed an agreement for underwriting commitments under an overdraft loan facility with Unicredit Bulbank AD; the limit for effective utilization of funds and taking contingent commitments is up to BGN 5,867 thousand as an overdraft for general financing of working capital needs. As of 31 December 2019, the funds utilized amounted to BGN 392 thousand. The loan is secured by a pledge of current and future receivables under individual contracts.

Revolving credit lines

The limit of Telelink Business Services EAD under the contract of 10 October 2019 is up to BGN 3,912 thousand as a revolving loan facility to finance partially specific projects in an amount capped to 80% of the difference between their total value and the advance payments received, which is subject to utilization on the grounds of specific requests and approvals on a case-by-case basis. The funds utilized as at 31 December 2019 amounted to BGN 1,231 thousand.

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27. Interest-bearing loans and borrowings (continued)

On 28 January 2018, Comutel DOO concluded with a bank a working capital short-term contract with an agreed amount of BGN 8,541 thousand (USD 5,000 thousand) and term of one year. The loan is fully secured by a pledge of receivables from a key account. The funds utilized as at 31 December 2019 amounted to BGN 2,501 thousand (31 December 2018: BGN 5,308 thousand)

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

	2019	2018
	BGN'000	BGN'000
Interest-bearing loans and borrowings at 01 January	5,312	15,280
Proceeds from borrowings	49,307	23,566
Repayments of borrowings	(50,494)	(20,749)
Set-off of borrowings	-	(12,780)
Interest expense	258	207
Interest paid	(259)	(212)
Interest-bearing loans and borrowings at 31 December	4,124	5,312

28. 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
	BGN '000	BGN '000	BGN '000	BGN '000
Balance at 1 January	3,045	427	1,434	4,906
incl. under Lease contracts with transfer of ownership by the end of the lease term	-	11	1,434	1,445
Additions	966	121	1,164	2,251
incl. under Lease contracts with transfer of ownership by the end of the lease term	-	-	1,164	1,164
Depreciation	(626)	(127)	(410)	(1,163)
incl. under Lease contracts with transfer of ownership by the end of the lease term	-	(10)	(410)	(420)
Exchange differences	-	(2)	-	(2)
Balance at 31 Dec 2019	3,385	419	2,188	5,992

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

28. Leases (continued)

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

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

	2019	2018
	BGN '000	BGN '000
Balance at 01 Jan 2019	1,428	1,043
Adjustment on transition to IFRS 16	3,372	-
Adjusted balance at 1 January 2019 (restated)	4,800	-
Additions	2,629	723
Accretion of interest	114	22
Payments	(1,536)	(360)
Exchange differences	2	-
Balance at 31 December	6,009	1,428
Current	1,841	538
Non-current	4,168	890

The amount of the liabilities under finance leases that forms part of the lease liabilities balance as at 31 December 2019 is BGN 2,237 thousand (at 31 December 2018: BGN 1,428 thousand)

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

29. Trade and other payables

	2019	2018
	BGN'000	BGN'000
Trade payables to related parties (note 32)	274	439
Trade payables to third parties	20,100	22,387
Accrued expenses	1,943	1,203
Trade payables	22,317	24,029
Tax and other statutory liabilities	2,785	1,590
Dividend and other payables to related parties (note 33)	-	508
Other payables	1,694	911
Trade and other payables	26,796	27,038

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

30. Contract liabilities

	2019	2018
	BGN'000	BGN'000
Contract liabilities to related parties	23	113
Advances received	341	5,821
Deferred income	7,563	6,650
Total contract liabilities	7,927	12,584
Current	4,939	10,000
Non-current	2,988	2,584
	7,927	12,584

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.

31. Retirement benefit liability

	2019	2018
	BGN'000	BGN'000
Balance on 1 January	8	5
Accrued for the year	2	3
Used for the year	-	-
Transferred in restructuring	-	-
Balance on 31 December	10	8

Major assumptions used for accounting purposes:

<u>Major assumptions</u>	2019	2018
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32. Related party disclosure

Name	Nature of relationship	Affected Group companies
Telelink Business Services Group AD (Bulgaria)		
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 – 90%
Telelink Business Services DOOEL (Macedonia)	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
Telelink Services Romania SRL (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
Secnet EAD (Bulgaria)	Under common control
Marifons Holdings Limited (Cyprus)	Under common control
V_investment Holdings B.V. (The Netherlands)	Under common control
Promiteria Enterprises LTD (Cyprus)	Under common control
Telelink Holdings B.V. (The Netherlands)	Under common control
Richhill EOOD (Bulgaria)	Under common control

Participation in joint arrangements

Name	Nature of Relationship	Group Companies Affected
Consortium EHealth (Bulgaria)	Participation	TeleLink Business Services EAD - 80%
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%

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

32. Related party disclosure (continued)

Trade		Sales to related parties		Purchases from related parties	
		2019	2018	2019	2018
<i>Name</i>		<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Other related parties (under common control)		3,030	1,540	2,974	1,896
		3,030	1,540	2,974	1,896
Interest		Charged to related parties		Charged by related parties	
		2019	2018	2019	2018
<i>Name</i>		<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Other related parties (under common control)		2	1	38	65
		2	1	38	65
Trade		Receivables from related		Payables to related parties	
		2019	2018	2019	2018
<i>Name</i>		<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Other related parties (under common control)		2,092	588	274	439
		2,092	588	274	439
Loans granted (Principal+Interest)		Receivables from related		Payables to related parties	
		2019	2018	2019	2018
<i>Name</i>		<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Other related parties (under common control)		-	6,426	-	4
		-	6,426	-	4

Amounts due by related parties are included in trade and other receivables (Note 23) and loans granted (Note 24). Amounts due to related parties are included in trade and other payables (Note 29) and interest-bearing loans and borrowings (Note 27).

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

32. Related party disclosure (continued)

Trade	Sales		Purchases	
	2019	2018	2019	2018
Name	BGN'000	BGN'000	BGN'000	BGN'000
Consortium Telesec	2,636	1,470	-	-
Consortium Green Border 3	3,711	-	1	-
Consortium ATP Services	403	201	-	-
Consortium Technolink	1,897	-	-	-
	8,647	1,671	-	-

Trade	Receivables		Payables	
	2019	2018	2019	2018
Name	BGN'000	BGN'000	BGN'000	BGN'000
Consortium Green Border 3	-	-	-	1,002
Consortium ATP Services	109	387	-	-
Consortium Bulgarian Basins	-	-	7	-
	109	387	7	1,002

Remuneration of key management personnel

	2019	2018
	BGN'000	BGN'000
Short-term employee benefits	901	947
Post-employment benefits	-	-
Termination benefits	-	-
	901	947

33. Share capital and reserves

	2019
	BGN
Ordinary shares of BGN 1 each	12 500 000
	12 500 000

All ordinary shares were paid in full.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

33. Share capital and reserves (continued)

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 2019 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 EAD (2019 and 2018: BGN 100 thousand) and Telelink Business Services Group AD (2019: BGN 217 thousand)

The Group's legal reserves as at 31 December 2019 were BGN 317 thousand (2018: BGN 100 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 as at 31 December 2019 were BGN (14,108) thousand.

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 2019 were BGN (556) thousand (2018: BGN (565) thousand).

34. Dividends distributed

Set out below are the dividends distributed by the Group companies in 2019 and 2018:

<i>Name</i>	2019 BGN'000	2018 BGN'000
Comutel DOO	3,445	3,129
Telelink DOO - Podgorica	436	219
Telelink DOO (Bosnia and Herzegovina)	386	211
Telelink DOO (Slovenia)	-	307
Telelink Business Services EAD	2,000	1,000
	6,267	4,866

The dividends from Telelink DOO, Bosnia and Herzegovina, and Telelink DOO, Slovenia, were not paid as at 31 December 2018. At 31 December 2019 there were no dividends unpaid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

35. 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	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Year ended at 31 December 2019		BGN'000	BGN'000	BGN'000	BGN'000
Assets measured at fair value:					
Investment properties:					
Office properties	31.12.2019	362	-	-	362
Total assets measured at fair value		362	-	-	362

		Fair value measurement			
	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Year ended at 31 December 2018		BGN'000	BGN'000	BGN'000	BGN'000
Assets measured at fair value:					
Investment properties:					
Office properties	18.01.2019	342	-	-	342
Total assets measured at fair value		342	-	-	342

36. 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 2019, amounted to BGN 2,197 thousand (at 31 December 2018: BGN 10,748 thousand).

Capital commitments: The Group had no capital commitments as at 31 December 2019 and 2018.

Commitments to the benefit of related parties

As of 31 December 2019, Telelink Business Services Group AD had entered into a guarantee agreement to secure the obligations of Telelink Business Services EAD under an agreement for underwriting commitments under an overdraft loan facility with Unicredit Bulbank AD, as well as a pledge agreement for all shares owned by the company in the capital of Telelink Business Services EAD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

37. 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.

In 2019 and 2018, 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:

	2019	2018
	BGN' 000	BGN' 000
Fixed rate instruments		
Financial assets	2,193	9,737
Loans granted (principal)	-	6,426
Cash and cash Equivalents	2,193	3,311
Financial liabilities	(597)	(663)
Finance leases	(597)	(663)
	1,596	9,074
	1,596	9,074
	2019	2018
	BGN' 000	BGN' 000
Variable rate instruments		
Financial liabilities	(5,764)	(6,073)
Interest-bearing loans and borrowings (principal)	(4,124)	(5,308)
Finance leases	(1,640)	(765)
	(5,764)	(6,073)
	(5,764)	(6,073)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

37. Financial risk management objectives and policies (continued)

Interest rate risk (continued)

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.

<i>Effect in thousands of BGN</i>	Profit or loss	
	1.00% increase	-1.00% decrease
31 December 2019		
Variable rate instruments	(44)	25
Cash flow sensitivity (net)	(44)	25
31 December 2018		
Variable rate instruments	(56)	53
Cash flow sensitivity (net)	(56)	53

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 relative to the floating exchange rates of Serbian Dinar (RSD).

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 and Slovenia.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

37. Financial risk management objectives and policies (continued)

Currency risk (continued)

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>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Interest-bearing loans and borrowings	(2,501)	-	-
Trade and other payables	(12,021)	(274)	(699)
Trade and other receivables	29,034	358	1,823
	14,512	84	1,124

	Effect on profit before tax	
	+5%	-5%
	<i>BGN' 000</i>	<i>BGN' 000</i>
Change in USD rate	726	(726)
Change in MKD rate	4	(4)
Change in RSD rate	56	(56)
	786	(786)

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

37. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

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	392	1,231	2,501	-	-	4,124
Lease liabilities	-	411	1,430	4,168	-	6,009
Trade and other payables	9,429	12,235	3,400	-	-	25,064
Contract liabilities	-	1,002	3,937	2,988	-	7,927

31 December 2018	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	-	4	-	5,308	-	5,312
Lease liabilities	-	136	409	911	-	1,456
Trade and other payables	4,809	20,964	391	-	-	26,164
Contract liabilities	-	432	9,570	2 582	-	12,584

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 2019 and 2018.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

37. Financial risk management objectives and policies (continued)

Capital management (continued)

	2019	2018
	BGN'000	BGN'000
Interest bearing loans and borrowings	4,124	5,312
Lease liabilities	6,009	1,428
Trade and other payables	26,796	27,038
Contract liabilities	7,927	12,584
Less cash and short term deposits	(2,199)	(3,313)
Net debt	42,657	43,049
Equity	8,340	9,034
Adjusted Equity	22,463	9,034
Capital and net debt	65,120	52,083
Gearing ratio	66%	83%

38. Events after the date of the consolidated financial statements

On 28 January 2020 an Annex was signed for the extension of a Loan facility contract signed between Comutel DOO (Serbia) – a subsidiary of Telelink Business Services Group AD and Raiffeisen Banka AD Beograd (Serbia), with a revolving credit limit for effective utilization of working capital financing of up to USD 5,000 thousand with a utilization term until 27 January 2021, subject to annual renewal.

On 21 February 2020 an Annex to the Short-term financing contract was signed between the subsidiary Telelink Business Services EAD and Unicredit Bulbank AD pursuant to which the conditional commitment for establishment of pledges on the commercial enterprises of Telelink Business Services EAD and Telelink Business Services Group AD, in case the procedure for listing the shares of the latter on the Bulgarian Stock Exchange was not completed by 14 February 2020, was amended by extending the above term to 30 April 2020. With Annex No. 2 signed on 21 April 2020, the above term was extended to 31 July 2020.

On 20 February 2020 a Short-Term Financing Contract was signed between the subsidiary Telelink Albania and First Investment Bank – ALBANIA SA, with a limit of EUR 500 thousand, which finances invoices issued to the client TELEKOM ALBANIA SH.A.

On 27 February 2020 a decision was made by the Managing Board of Telelink Business Services Group AD for the subsidiary Telelink Business Services EAD to conclude a contract with Consortium SysTel DZZD for the execution of a public procurement for design, construction and commissioning of a state hybrid private cloud (SHPC) and a secure internet node for public e-government services. The value of the contract signed on 19 February 2020 between the State Agency for Electronic Management and Consortium SysTel DZZD for execution of the public procurement was BGN 28,283 thousand, VAT exclusive, with the subsidiary Telelink Business Services EAD undertaking to supply equipment and services of no more than BGN 14,141 thousand, VAT exclusive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31 DECEMBER 2019****38. Events after the date of the consolidated financial statements (continued)**

On 31 January 2020 a decision was made by the Managing Board and the Supervisory Board of Telelink Business Services Group AD for the Company to conclude a contract with Pikard Ivanov DOOEL for the purchase of 1 (one) share of the capital of Telelink Albania SH.P.K., which represents 10% of the company's capital, at a total purchase price of EUR 1,000 (one thousand). The contract was signed on 25 February 2019, with the price paid in full on 26 February 2020.

At a meeting of the Board of Directors of BSE held on 8 April 2020 reflected in Minutes No. 20 of 8 April 2020, in connection with an application filed under Article 18, Paragraph 1, Part III Rules for admission to trading, a decision was made for the shares issued by Telelink Business Services Group AD to be admitted to trading on the "Standard" Equities Segment of the BSE Main Market. The date set for the issue to be admitted to trading is 1 June 2020.

In February 2020, the COVID-19 epidemic erupted in China and spread globally, affecting an increasing number of European countries. As of 8 March 2020 it was confirmed that it has spread to Bulgaria and on 13 March 2020 a State of Emergency was announced in the country imposing anti-epidemic measures and restrictions on the freedom of movement and the work regime of the population, the state and private organizations.

At the date of this Report, the spread of the virus and the adoption of measures to limit it in one way or another are in place in all other countries where subsidiaries of the Issuer are registered. Similar factors impacting their suppliers and clients from third countries and regions are also relevant to their activities.

As of the date of preparation of the report, there are no registered cases of employees of the Group's companies, infected with COVID-19, no deliveries of goods and services significant for their operational assurance have been terminated and they continue to perform their activity without interruption. The management teams have taken all recommended measures to limit the spread of the infection, including informing the employees about the implementation of certain measures, providing protective equipment and disinfectants, limiting business trips, limiting the access of external persons and encouraging working from home with the respective technological means and infrastructure provided.

As of the date of this Management Report, there are no known or planned interruptions or major delays in the work and deliveries by the key manufacturers of equipment from the USA, China and other countries.

As technology companies with a highly developed IT infrastructure, the Group's members have technologically ensured and successfully introduced a remote work mode for the employees, allowing the continuity of external and internal services and processes in a home-based environment. Key external processes and interactions such as signing contracts and meeting clients have also been digitalized. In view of the implemented means of communication and collaboration, systems for tracking workload and efficiency and the high average IT literacy of employees, the Company does not expect remote operation to be associated with a significant decrease in productivity. The employees are provided with personal protective equipment for performing field activities related to work outside

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**31 DECEMBER 2019****38. Events after the date of the consolidated financial statements (continued)**

the offices of the companies, while for work in areas, travelling and access to which is limited, the services of qualified local subcontractors are employed.

As of the date of this Report, the Bulgarian government has taken an active position aimed at supporting the private business and providing conditions for continuous implementation of the process of awarding and executing public procurement. There is no information about the suspension of significant projects by key and other private sector clients in connection with the epidemic.

In view of the above, the Company's Management considers the spread of the epidemic to be an event that does not require adjustment of the balance sheet, as due to the early stage and the dynamic development of the epidemic at the date of this Report, the Company has not established and made a quantitative assessment of specific consequences of the epidemic with significant impact on the Company's financial position. Nevertheless, the management teams of the Group's companies will continue to monitor the development of the situation in view of the timely identification of actual and potential effects by undertaking all possible measures to limit their impact in a timely manner.

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.