1. INFORMATION FOR THE COMPANY

Seat and management address: city of Sofia, 43, Hristofor Kolumb Blvd.

The scope of business activity of Specialized Logistic Systems AD is related to the management of the owned subsidiaries IT Soft EOOD, GSP Control EAD, Profonica EOOD, SLS Realty ADSITS and Smartnet EAD - until 22.04.2019.

Main activity: during the reporting period, the main activity of the company is related to operations with financial instruments and management of subsidiaries.

The company has issued two issues of bonds, which are registered for trading on the Bulgarian Stock Exchange.

Registration: The company was established in 1996 and is registered in the Commercial Register at the Registry Agency with UIC 122022915.

Capital: BGN 535 000 /five hundred thirty five thousand leva/ divided into 535 000 /five hundred thirty five thousand/ ordinary bearer's shares, with nominal value of BGN 1 each.

As of 30.09.2019, the Company has no employees.

As of the date of the preparation of this report, the shareholders of the company are:

- Ilian Zafirov Dinev – holder of 444 050 shares being 83% of the capital;
- Vanyo Stoyanov Ivanov – holder of 90 950 shares being 17% of the capital.

The following subsidiaries form the structure of Specialized Logistic Systems AD.:

IT SOFT EAD – production and sale of electronic elements for localization and monitoring of objects, development and maintenance of specialized software, research and development.

GPS CONTROL EAD – design, construction and introduction of information and telecommunication networks and systems for monitoring of objects, freights and motor vehicles for the purposes of control and localization thereof.

PROFONIKA EOOD – development, introduction and offering software products as service. Implementation of innovations and consultations in the field of information technologies.

SMARTNET EAD - until 22.04.2019. All activities in the field of media, communications and the Internet related to information, marketing, advertising and publishing.

BALKAN TELECOMMUNICATIONS COMPANY EOOD was established in 1998, the main activity of the company is related to the construction of telecommunication networks (without carrying out telecommunication activity or other activities requiring the issuance of a relevant license by the Communications Regulation Commission, except when issuing relevant license), providing consultations related to the realization of projects and activities in the field of telecommunications, information and telecommunication technologies.

SENTINEL ADVISORS S.A. - In May 2018, Specialized Logistic Systems AD acquires 99.538% of the capital of the Romanian company, whose main business activity is consulting services and asset management.

Management: The company has one-stage system of management - Board of Directors, which consists of three members: Ilian Zefirov Dinev, Vanyo Stoyanov Ivanov and Diana Todorova Valentinova. The company is represented and managed by the executive director Ilian Zefirov Dinev.

Audit Committee: An audit committee has been established and operates in the Company as part of the corporate governance system. It includes activities covering independent monitoring and supervision of the process of creating and presenting reliable and reliable financial information about the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY

2.1. Basis of preparation of the financial statements

The Individual financial statements of Specialized Logistics Systems have been prepared in accordance with all International Financial Reporting Standards (IFRS), which comprise: Financial Reporting Standards and Interpretations

Committee interpretations (IFRIC) interpretations approved by the International Financial Reporting Interpretations Committee International Accounting Standards (IASB) and International Accounting Standards and Standing Interpretations Committee (SIC) interpretations adopted by the International Accounting Standards Committee (IASB) effective since January 1, 2019 and adopted by the Commission of the European Union. IFRS adopted by the EU is the common name of the general purpose accounting framework equivalent to the framework introduced by the definition under § 1 (8) of the Additional Provisions of the Accountancy Act under the name International Accounting Standards (IAS).

Management is responsible for the preparation and fair presentation of the information in these financial statements.

The financial statements are prepared in BGN, which is the functional currency of the Company. All amounts are presented in BGN thousand (BGN thousand) (including comparative information for 2018), unless otherwise stated.

This Financial Statement is an Separate Statement The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) developed and published by the International Accounting Standards Board (IASB) and adopted by the EU, in which investments in subsidiaries are accounted for and disclosed in accordance with IFRS 10 "Consolidated Financial Statements".

2.2. Changes in accounting policy

New standards, amendments and Interpretations to IFRS that came into effect on January 1, 2019

The Company applies the following new standards, amendments and interpretations to IFRS developed and published by the International Accounting Standards Board, which have an impact on the Company's financial statements and are mandatory for annual periods beginning on or after January 1, 2019:

IFRS 16 "Leases" (amended) effective from January 1, 2019, adopted by the EU
IAS 16 Leases replaces IAS 17 Leases, as well as three clarifications: IFRIC 4 Determining Whether an Arrangement Contains a Lease, Standing Interpretation Committee (SIC) 15 - Operating Leases - Incentives and SIC 27 - Evaluating the substance of transactions involving the legal form of a lease.
The adoption of this new standard will result in the Company recognizing the leased asset and its related leasing obligations in relation to all previous operating leasing contracts, with the exception of those identified as low value asset or leasing asset less than 12 months from the date of initial application.
At the date of transition to the new standard, the Company has recognized certain leases that have previously been recognized as operating leases and have a residual lease term of less than 12 months or they are for the lease of low value assets, to benefit from a simplified transition to the new standard that does not recognize eligible assets but records the lease expense on a straight-line basis over the remaining contract term. On the date of transfer, the Company is a party to a lease agreement for office rent, which was previously reported as an operating lease and has a term that expires in 2019, due to which it is not recognized as an asset with the right of use, but are reported lease costs.
For those leasing contracts previously classified as finance leases, the leased asset and the lease obligation are valued at the same amount as at the date of initial application of the standard with which they were in accordance with IAS 17 immediately before the date of initial application.
As of 31.12.2019, The company has no concluded lease agreements in force.

IFRS 9 "Financial Instruments" (amended) - Prepayment Features with Negative Compensation, effective from January 1, 2019, adopted by the EU
The amendments allow companies to measure certain financial assets that can be paid in advance with negative compensation, at amortized cost or at fair value in other comprehensive income, rather than as financial assets at fair value through profit or loss. In order to account for the financial asset at amortized cost, the negative consideration must be "reasonable compensation for early termination of the contract" and the asset should be "held to collect the contractual cash flows".

IAS 19 "Employee Benefits" (as amended) - Change in plan, termination or settlement - in effect from January 1, 2019, not yet adopted by the EU

These changes clarify the accounting for specific changes to the defined benefit plan, redundancy or settlement plan. They confirm that undertakings should:

- calculate current and probation costs so that the pension obligation is presented for the remaining period after the date of change, reduction or settlement of the plan, using updated assumptions after the date of change;
- to recognize in profit or loss as part of past service cost or as a gain/loss on settlement of the obligation any reduction in the excess, even if that excess has not been recognized before due to the use of an asset's upper limit.

IAS 28 Investments in Associates and Joint Ventures - Long-term Investments in Associates and Joint Ventures effective from January 1, 2019) - adopted by the EU

The changes make it clear that:

- IFRS 9 should only apply to those long-term interests in associates or joint ventures that are not accounted for using the equity method.
- in applying IFRS 9, an entity shall not take into account the losses of the associate or joint venture or the impairment losses on net investment recognized as adjustments to the net investment in the associate or joint venture arising from the application of IAS 28 Investments in associates and joint ventures.

IFRIC 23 "Uncertainty about reporting income tax" effective from January 1, 2019 adopted by the EU

The Interpretation provides the following guidance for applying IAS 12 recognition and measurement requirements when there is uncertainty about income tax reporting:

- the entity should reflect the effect of uncertainty in accounting for income tax when it is unlikely that the tax authorities will accept the accounting and tax treatment performed by the entity
- either the most probable amount of the liability or the expected value method should be used for valuation of the uncertainty, whichever method better foresees the resolution of the uncertainty;
- the estimates made and the assumptions made should be revised when circumstances have changed or there is new information affecting the estimates made.

Annual improvements to IFRS 2015-2017, in force since January 1, 2019, adopted by the EU

These amendments include minor changes to:

- IFRS 3 Business Combinations - the company should reassess its previous share in a jointly controlled activity when it acquires control of the business.
- IFRS 11 Joint ventures - the company should reassess its previous share in a jointly controlled activity when it acquires joint control of the business.
- IAS 12 Income Taxes - the company accounts for all effects on income tax resulting from dividends (including payments on financial instruments classified as equity) in accordance with transactions that generate distributable profit - ie. in profit or loss, other comprehensive income or equity;
- IAS 23 Borrowing Costs - the Company considers each loan originally taken to develop an asset as part of total loans when the asset is ready for the intended use or sale.

Standards, amendments and interpretations to existing standards that are not yet effective and are not applied by the Company from an earlier date

As of the date of approval of these financial statements, new standards, amendments and interpretations to existing standards have been published but have not entered into force or been adopted by the EU for the financial year beginning on January 1, 2019 and have not been applied from an earlier date by the Company. They are not expected to have a material effect on the financial statements of the Company. The management expects all standards and amendments to be adopted in the Company's accounting policies for the first period beginning after the date of their entry into force.

The changes are related to the following standards:

- IAS 1 and IAS 8 (revised) - Definition of materiality, effective January 1, 2020, adopted by the EU
- Amendments to the Financial Reporting Conceptual Framework as of January 1, 2020, adopted by the EU
- IFRS 3 (revised) - Definition of Business effective January 1, 2020, not yet adopted by EU

- Amendments in IFRS 9, IAS 39 and IFRS 7: Reference rate reform, in force since January 1, 2020, not yet adopted by EU
- IFRS 14 "Deferred Accounts at Regulated Prices" effective from January 1, 2016, not yet adopted by the EU
- IFRS 17 "Insurance contracts" effective from January 1, 2021, not yet adopted by the EU

2.3. Accounting policy - general considerations

The most significant accounting policies applied in the preparation of these separate financial statements are presented below.

The financial statements are prepared in accordance with the valuation principles for each type of asset, liability, revenue and expense in accordance with IFRSs. The valuation bases are disclosed in detail in the accounting policy for the separated financial statements.

The presentation of the financial statements in accordance with International Financial Reporting Standards requires management to make the best estimates, accruals and reasonably reasonable assumptions, which have an effect on the reported values of assets and liabilities, income and expenses, and the disclosure of contingent liabilities and liabilities at the reporting date. Such estimates, accruals and assumptions are based on the information available as of the financial statement date and therefore the future actual results might be different therefrom (with uncertainties greater in times of financial crisis).

2.4. Presentation of the financial statements

The financial statements are presented in accordance with IAS 1 "Presentation of Financial Statements".

The Company presents the statement of comprehensive income in a single statement.

In the statement of financial position, there are two comparative periods when the Company applies accounting policy retrospectively, restates retrospectively positions in the financial statements; or reclassifies positions in the financial statements, and this has a material effect on the information in the statement of financial position at the beginning of the prior period.

2.5. Transactions in foreign currency

Foreign currency transactions are reported in the functional currency of the Company at the official exchange rate for the day of the transaction (the Bulgarian National Bank's fixed exchange rate). Foreign exchange profit and losses arising from the settlement of these transactions and the revaluation of foreign currency monetary items at the end of the period are recognized in the Profit or Loss Statement.

Non-monetary items valued at historical cost in foreign currency are reported at the exchange rate at the date of the transaction (they are not revalued). Non-monetary items evaluated at fair value in foreign currency are reported at the exchange rate as at the date when the fair value is determined.

The Bulgarian lev is pegged to the euro at rate of BGN 1.95583

2.6. Income

To determine whether and how to recognize revenue, the Company applies the following 5 steps:

1. Identification of contract with customer
2. Identifying performance liabilities in contracts
3. Determining the transaction price
4. Allocation of the transaction price to the liabilities to be executed

Revenue recognition when the liabilities to be executed have been met.

Revenue shall be recognized either at a given time or over the time when, or until the Company has satisfied its performance liabilities by delivering the promised goods or services to its clients.

The Company recognizes a consideration as a liability under a contract received in respect of unmet payments that are enforceable and presents them as "other liabilities" in the statement of financial position. Similarly, if the Company satisfies a payment to be executed before receiving the remuneration, it recognizes it in the statement of financial position either as an asset under the contract or as a receivable, depending on whether or not something other than a specified time is required of the remuneration.

In any event, the total transaction price for a given contract should be distributed among the various payments to be executed on the basis of the relative standalone sales prices of the individual products and services. The transaction price under the contract excludes all amounts collected in the name and on behalf of third parties.

Interest income

Interest income is related to loans provided by the company. They are reported on a daily basis using the effective interest method.

Income from dividends

Dividend income is recognized when the entitlement to such dividend is established.

Assets and liabilities under contracts with customers

The Company recognizes assets and/or liabilities under contract when one of the parties to the contract has fulfilled its liabilities depending on the relationship between the business of the enterprise and the payment by the customer. The Company recognizes as separate one any unconditional right to remuneration as a receivable. Receivable is the unconditional right of an enterprise to receive remuneration.

Liabilities under a contract are recognized in the statement of financial position if a client pays a fee or the company has the right to remuneration that is unconditional before the ownership of the good or service is transferred.

The Company recognizes them as assets under contract when the liabilities to be executed have been satisfied and the payment is not due on the part of the customer. An asset under contract is the entity's right to receive remuneration in exchange for the goods or services that the enterprise has transferred to a customer.

Subsequently, the Company determines the amount of impairment for an asset under contract in accordance with IFRS 9 "Financial Instruments".

2.7. Expenses

Operating expenses

Operating expenses are recognized in profit or loss on the use of the services or at the date of their occurrence. The Company recognizes two types of costs related to the execution of contracts with customers for the delivery of services/goods: expenses of signing/reaching the contract and expenses of execution of the contract. When costs are not eligible for deferral under IFRS 15, they should be recognized as current expenses at the time they are incurred, such as not expected to be reimbursed or the re-routing period is up to one year.

The following operating costs are always reflected as current expense when they occur:

- Common and administrative expenses (unless they are at the client's expense);
- Expenditure dedicated to scrapping on inventories;
- Expenditure related to payment execution;
- Costs for which an entity can not determine whether it is related to a satisfied or unsatisfied payment to be executed.

Warranty costs are recognized and deducted from the related provisions when recognizing the related revenue.

Interest and borrowing expense

Interest expense is accounted on a regular basis using the effective interest method. Borrowing costs are mainly the corresponding interest on the borrowings of the Company. All borrowing costs that may be directly attributable to the purchase, construction or production of a qualifying asset are capitalized during the period in which the asset is expected to be completed and ready for use or sale. Other borrowing costs should be recognized as an expense for the period in which they arise are included in the profit or loss/profit or loss account and other comprehensive income in the line "Financial expenses".

Where loans have been assigned without a specific purpose and are used to acquire a qualifying asset, the amount of borrowing costs that may be capitalized is determined by applying a capitalization rate to the cost of that asset. The capitalization rate is the weighted average of borrowing costs attributable to the Company's borrowings that are outstanding during the period, excluding loans received specifically for the purpose of acquiring a qualifying asset.

2.8. Property, machines, facilities and equipment

Property, machines, facilities and equipment (fixed tangible assets) are presented at cost, less accrued depreciation and impairment losses.

Initial acquisition

Upon initial acquisition of property, machinery and equipment, they are valued at cost, which includes the purchase price, customs fees and all other direct costs necessary to bring the asset into working condition. Direct expenses mainly are as follows: expenses for preparation of the object, expenses for initial supply and processing, expenses for installation, expenses for project related persons' fees, non-refundable taxes, etc.

Subsequent measurement

The approach chosen for the subsequent balancing evaluation of property, machinery and equipment is the recommended approach under IAS 16 - acquisition price reduced by accrued amortization and accumulated impairment losses.

Subsequent expenses

Subsequent expenditures relating to property, machinery and equipment that have the nature of replacement of certain components, key parts and aggregates, or of improvements and reconstruction are capitalized to the carrying amount of the respective asset. At the same time, the unamortized part of the replaced components is written off from the carrying amount of the assets and is recognized in the current expense for the reorganization period.

Interest expenses

Expenses on interest on loans/loans that relate specifically to the property which is under construction are capitalized in the value of the property.

Depreciation Methods

A straight-line method of amortization of intangible assets is used Land shall not be depreciated. The expiry date by individual assets is determined taking into account: physical wear and tear, specifics of the equipment, future intentions for use and the assumed obsolescence. The expiry date by asset group is as follows:

- machinery, facilities and equipment - from 3 to 4 years
- computers, peripheral devices, software - 2 years
- cars - 4 years
- others - 6 to 7 years old

The specified periods of useful lives of the fixed assets are reviewed at the end of each period under review and if significant deviations are identified with respect to future expectations about the period of use of assets, the same is corrected prospectively.

Impairment of assets

The net book values of property, machinery and equipment are subject to impairment review when events or change in circumstances have occurred, indicating that the net book value might be permanently different from their recoverable amount. If such indications exist showing that the estimate recoverable amount is less than their net book value, the latter is derecognised up to the assets' recoverable amount. The recoverable amount of tangible fixed assets is the higher of the both: net market price or value in use. For the determination of the value in use of assets, the future cash flows are discounted to their present value by applying a discount factor before tax which reflects the current market conditions and estimates of the time value of the money and the risks specific to the asset. Impairment losses shall be recognized in Statement income, unless if for respective asset is not formed a revaluation reserve. Then the impairment shall be treated as a reduction of that reserve, unless it is not exceeding its amount, and the excess is included as an expense in income statements.

2.9. Intangible assets

An asset is classified as an intangible asset when it is an identifiable non-financial resource that is acquired and controlled by the entity that has no physical substance (although the asset may be a physical substance); which is essential for the enterprise's business; the acquisition could be reliably estimated and has a value of not less than BGN 700, as well as an economic benefit is expected from its use.

Intangible assets acquired from an external supplier are initially measured at cost. Assets created in the enterprise are initially valued at cost, which is determined in a manner identical to the method of determining the cost of production produced in the enterprise.

Research and development costs are recognized in the cost of an asset only if the company can demonstrate the technical feasibility of the asset's completion that it will be available for use or sale and that the intangible asset will generate probable future economic benefits. Otherwise, costs should be recognized at the moment they are incurred.

Following initial recognition, intangible assets are carried at cost less any accumulated depreciation and accumulated impairment losses

The useful life of intangible assets is defined as limited, as follows:

Software	from 2 to 5 years
Licenses	from 1 to 3 years
Trademarks	from 1 to 10 years

Intangible assets with definite useful 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 definite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the intangible asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expenses of intangible assets with definite useful lives are classified as per their function in the statement of comprehensive income, in accordance with the use (purpose) of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

2.10. Investment properties

Investment properties are those properties that are held for rental income and / or an increase in their value. As at the end of the period under review, the Company does not own investment property.

2.11. Investments in subsidiaries

Subsidiaries are all enterprises that are under the control of the Company. Control exists when the Company is exposed, or has rights to variable returns from its involvement in the establishment in which the investee and has the ability to affect this returns through its power over the entity in which it has invested. Investments in subsidiaries should be reported at cost value.

The Company recognizes a dividend from a subsidiary in profit or loss in its separate financial statements when the right to receive the dividend is established.

2.12. Investments in associated enterprises

Associates are those entities over which the Company is able to exercise significant influence but which are neither subsidiaries nor jointly controlled entities. Investments in associated enterprises are reported at acquisition cost.
The Company recognizes a dividend from an associate in profit or loss in its financial statements when its right to receive the dividend is established.

2.13. Inventory

Inventories include materials, work in progress and goods. The cost of inventories includes direct costs of purchase or production, processing and other direct costs associated with their delivery, as well as part of total production costs determined on the basis of normal production capacity. Financial costs are not included in the value of inventories. At the end of each reporting period, inventories are measured at the lower of the two values - their cost and their net realizable value. The amount of any impairment of inventories to their net realizable value is recognized as an expense for the period of impairment.
Net realizable value is the estimated selling price of inventories, reduced by the expected costs of the sale. In the event that inventories have already been impaired to their net realizable value, and in a subsequent accounting period, it appears that the conditions that led to the impairment are no longer present, then their new net realizable value is assumed. The amount of the refund may only be up to the carrying amount of inventories before impairment. The amount of any reversal of any write-down of inventories, shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.
The Company determines the cost of inventories using the weighted average method.
In the case of the sale of inventories, their carrying amount shall be recognized as an expense in the period in which the revenue is recognized.

2.14. Leasing

2.14.1. Leased assets

2.14.2. Accounting policy applicable after January 1, 2019

The Company as a lessee

For the new contracts, which are concluded on or after January 1, 2019, the Company assesses whether a contract is or contains a lease. A lease is defined as "a contract or part of a contract that confers the right to use an asset (the underlying asset) for a specified period of time in exchange for remuneration." In order to be able to apply this definition, the Company makes three main judgments:

- whether the contract contains an identified asset that is either explicitly stated in the contract or is specified by default at the time the asset is made available for use
- The Company has the right to receive, in essence, all economic benefits from the use of the asset during the entire period of use, within the defined scope of its right to use the asset, according to the contract
- The Company has the right to manage the use of the identified asset throughout the period of use.

The Company assesses whether it has the right to manage "how and for what purpose" the asset will be used throughout the period of use.

Valuation and recognition of leasing by the company as a lessee

At the starting date of the lease agreement, the Company recognizes in the statement of financial position the asset with the right of use and the lease liability. The asset with the right of use is valued at acquisition cost, which consists of the amount of the initial valuation of the lease liability, the initial direct costs incurred by the Company, an estimate of the costs that the lessee will incur for dismantling and relocating the underlying asset at the end. of the lease agreement, as well as any lease payments made before the date of commencement of the lease agreement (minus the received leasing incentives).
The Company depreciates the asset with the right of use using the straight-line method from the date of commencement of the lease to the earlier of the two dates: the end of the useful life of the asset with the right of use or upon expiration of the lease agreement. When such indicators are available, the Company also reviews the assets with the right to use for impairment.
At the starting date of the lease, the Company measures the lease liability at the present value of the lease payments not paid as of that date, discounted at the interest rate set in the lease, if this percentage can be determined directly, or by the differential interest rate of the Company.
In order to determine the differential interest rate, where possible, the Company uses the applicable interest rate from the last financing from third parties, adjusted to reflect the changes in the financing conditions that have occurred since the last financing.

The lease payments included in the measurement of the lease liability consist of fixed payments (including substantially fixed), variable payments based on an index or percentage, amounts expected to be due from the lessee under the residual guarantees and options arising from options, if sufficient it is certain that the Company will apply these options.
After the starting date, the lease liability decreases with the amount of payments made and increases with the amount of interest. Lease liability is revalued to reflect revaluations or changes in the lease or to reflect substantially adjusted lease payments.
When the lease liability is revalued, the corresponding adjustment is reflected in the asset with the right to use or recognized in profit or loss if the carrying amount of the asset used is reduced to zero.
The Company has decided to account for short-term leases and leasing of low-value assets, using the practical benefits provided in the standard. Instead of recognizing assets with a right of use and liabilities under leases, payments made in connection therewith are recognized as an expense in profit or loss on a straight-line basis over the term of the leasing contract.
In the statement of financial position, the assets with the right of use are included in property, plant and equipment, and the liabilities under leasing contracts should be presented on a separate line.
The Company is not a lessee under lease agreements.

The Company as a lessor
The accounting policy of the Company, according to IFRS 16, has not changed compared to the comparative period.
As a lessor, the Company classifies its leasing contracts as operating or finance leases.
A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership of the underlying asset, and as an operating lease if it does not substantially transfer all the risks and rewards of ownership of the underlying asset. assets. The Company is not a lessor under lease agreements.

<u>2.15. Share capital and reserves</u>

The Company is a shareholder company and is required to register with the Commercial Register a certain amount of share capital that serves as collateral for the claims of creditors to them. The shareholders are responsible for the liabilities of to the amount of the share capital and may claim returning of this share only in liquidation or bankruptcy.
Pursuant to the requirements of the Commercial Law and the Articles of Association, the company is obliged to form a reserve - the "Reserve Fund", which is formed on behalf of:

- at least one tenth of the profit which is set aside until the funds in the fund reach one tenth of the share capital or a larger part determined by decision of the General Meeting of Shareholders;
- the funds received over the nominal value of the shares upon their issuance (premium reserve;
- other sources provided by decision of the General Meeting.

Resources from the reserve fund can only be used to cover annual loss or losses from previous years. When the resources in the fund reached the determined in the Articles of Association minimum amount, the exceeding resources can be used to increase of the share capital.

<u>2.16. Income tax</u>

Taxes recognized in profit or loss include the amount of deferred and current taxes, which are not recognized in other comprehensive income or directly in equity.
Current tax assets and/or liabilities represent these liabilities to or receivables from the tax institutions, relating to current or prior reporting periods that were not paid at the date of preparation of the financial statements. Current tax is payable on taxable income that is different from profit or loss in the financial statements. The calculation of the current tax is based on the tax rates and tax laws in force at the end of the reporting period.
Deferred tax is calculated using the passive method for all temporary differences between the carrying amount of assets and liabilities and their tax base. Deferred tax is not provided for when the asset or liability is initially recognized, unless the transaction concerned affects tax or accounting profit.
Deferred tax assets and liabilities are not subject to discounting. In their calculation, tax rates that are expected to be applicable for the period of their realization are used, provided they have entered into force or are certain to become effective at the end of the reporting period.
Deferred tax liabilities are recognized in full amount.

Deferred tax assets are recognized only if they are probable that they will be accrued through future taxable profits.
Deferred tax assets and liabilities are offset only when the Company has the right and intent to offset the current tax assets or liabilities from the same tax institution.
Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss unless they are related to items recognized in other comprehensive income or directly in equity, where the relevant deferred tax is recognized in other comprehensive income or in equity.

2.17 Financial instruments

2.17.1. Recognition and derecognition

Financial assets and financial liabilities are recognized when the Company becomes a party to contractual arrangements involving financial instruments.
Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or when the financial asset and all the risks and assets are transferred.
Financial liabilities are derecognised when the liability, specified in the contract, have been fulfilled, derecognised or expires.

2.17.2. Classification and measurement of financial assets

Financial assets are initially measured at fair value, adjusted by transaction costs, except for financial assets at fair value through profit or loss and trade receivables that do not contain a significant financial component. The initial measurement of financial assets at fair value through profit or loss is not adjusted by transaction costs that are reported as current expenses. The initial measurement of trade receivables that do not contain a significant financial component is the transaction price under IFRS 15.

Depending on the method of subsequent accounting, financial assets are classified into one of the following categories:

- Financial assets, debt instruments measured at depreciated value
- Financial assets at fair value through profit and loss;
- financial assets at fair value through other comprehensive income, with or without reclassification in profit or loss, depending on whether they are debt or equity instruments.

The classification of financial assets is determined on the basis of the following two conditions:

- the business model for managing the financial assets of the Company;
- the characteristics of the contractual cash flows of the financial asset.

All income and expense associated with financial assets recognized in profit or loss should be included in financial expenses, financial income or other financial items, except for the impairment of trade receivables, which is presented under 'Other expenses' in the profit or loss statement and other comprehensive income.

2.17.3. Subsequent measurement of financial assets

Financial assets, debt instruments measured at depreciated value

Financial assets are measured at amortized cost if the assets meet the following criteria and are not designated for fair value through profit or loss:

- the company manages assets in a business model that aims to hold financial assets and to collect contractual cash flows;
- under the contractual terms of the financial asset, on specific dates cash flows arise, which represent only principal and interest payments on the outstanding amount of the principal.

This category includes non-derivative financial assets such as loans and receivables with fixed or determinable payments that are not quoted in an active market. After initial recognition, they are measured at amortized cost using the effective interest rate. Discarding is not performed when its effect is inessential. The Company classifies in this category cash and cash equivalents / cash, loans, trade and other receivables that were previously classified as held-to-maturity financial assets in accordance with IAS 39.

Financial assets at fair value through profit and loss;

Financial assets for which the business model "Held for the collection of contractual cash flows" or business model "Held for collection and sale" is not applicable, as well as financial assets whose contractual cash flows are not only principal and interest payments shall be reported at fair value through profit or loss. All derivative financial instruments are accounted in this category except for those that are designated and effective as hedging instruments and for which hedge accounting requirements apply.

Changes in the fair value of assets in this category are accounted in profit or loss. The fair value of financial assets in this category is determined by quoted prices in an active market or by using valuation techniques in the absence of such an active market.

Financial assets measured at fair value through other comprehensive income

The Company recognizes financial assets at fair value in other comprehensive income if the assets meet the following conditions:

- The Company manages assets in a business model that aims to hold the financial assets to collect contractual cash flows and sell them; and
- under the contractual terms of the financial asset, on specific dates cash flows arise, which represent only principal and interests payments on the outstanding amount of the principal.

Financial assets measured at fair value through other comprehensive income includes:

- Equity securities that are not held for trading and which the company irrevocably has chosen at initial recognition to be recognized in this category.
- Debt securities where the contractual cash flows are only principal and interest and the purpose of the holding company's business model is achieved both by collecting contractual cash flows as well as by selling the financial assets.

For the disposal of equity instruments in this category, any value recognised in the revaluation reserve of the instruments is reclassified to retained profit.

For the disposal of debt instruments in this category, any value recognised in the revaluation reserve of the instruments is reclassified to profit or loss for the period.

2.17.4. Impairment of financial assets

Impairment requirements under IFRS 9 use forward-looking information to recognize expected credit losses - the “expected credit loss” model.

Instruments that fall within the scope of the new requirements, include loans and other debt financial assets measured at amortized cost and at fair value through other comprehensive income, trade receivables, assets under contracts recognized and measured under IFRS 15, and credit commitments and certain financial guarantee contracts (with the issuer), which are not recognized at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the occurrence of a event with credit loss . Instead, in assessing credit risk and assessing expected credit losses, the Company considers a wider range of information, including past events, current conditions, reasonable and supporting forecasts that affect the expected future cash flow of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments whose credit quality did not deteriorate significantly compared to the time of initial recognition or have a low credit risk (Stage 1) and
- financial instruments whose credit quality has deteriorate significantly compared to the time of initial recognition or or where the credit risk is not low (Stage 2)
- "Stage 3" covers financial assets that have objective evidence of impairment at the accounting date.

12-month expected credit losses are recognized in the first category while the expected loss for the full term of the financial instruments are recognized in the second category. Expected credit losses are determined as the difference between all contractual cash flows that are due to the Company and the cash flows it is actually expected to receive ("cash deficit"). This difference is discounted at the original effective interest rate (or the adjusted effective interest rate against the credit).

The calculation of expected credit losses is determined on the basis of the probability-weighted measurement of credit losses during the expected period of the financial instruments.

Trade and other receivables, assets under contracts and receivables under leasing contracts
In accounting for trade and other receivables as well as contract assets, the Company uses a simplified approach and recognizes impairment losses as expected credit losses over the entire period. They represent the expected deficit in contractual cash flows, given the possibility of default at any time during the term of the financial instrument. The company uses its accumulated experience, external indicators and information in the long run to calculate the expected credit losses by dividing customers into 4 main groups according to their specific characteristics and using a matrix of provisions.

Financial assets measured at fair value through other comprehensive income
The Company recognizes the expected 12-month credit losses for financial assets measured at fair value through other comprehensive income. At each reporting date, the Company measures whether there is a significant increase in the credit risk of the instrument.
In measuring these risks, the Company relies on available available information such as credit ratings issued by the major credit rating agencies for the asset concerned. The company holds only simple financial instruments for which are usually available which specific credit ratings. If there is no information or information on the factors affecting the rating of the available asset is limited, the Company shall aggregate similar instruments in a portfolio to assess whether there is a significant increase in credit risk.
In addition, the Company considers other indicators such as adverse business changes, economic or financial conditions that may affect the ability of the issuer of the equity instrument/borrower to satisfy its debt payments or unexpected changes in the issuer/borrower's operating results.
If any of these indicators results in a significant increase in the credit risk of the instruments, the Company shall recognize these instruments or class of these instruments as expected credit losses for the entire life of the instrument.

2.17.5. Classification and measurement of financial liabilities

The financial liabilities of the Company include borrowings, trade and other financial liabilities.
Financial liabilities are initially measured at fair value and, where applicable, shall be adjusted in respect of transaction costs.
Financial liabilities are subsequently measured at amortized cost using the effective interest method.
All costs related to interest and, if applicable, changes in the fair value of the instrument that are recognised in profit or loss are included in financial expenses or financial income.

2.17.6. Contracts for sale and redemption of securities

Securities may be leased or sold with a repurchase commitment (repo-transaction). These securities continue to be recognized in the statement of financial position when all material risks and rewards of ownership remain at the expense of the Company. In this case, a liability to the other party to the contract is recognized in the statement of financial position when the Company receives the cash consideration.
Similarly, when the Company leases or purchases securities with a reverse repurchase commitment but does not acquire the risks and rewards of ownership, the transactions are treated as provided secured loans when the cash consideration is paid. Securities are not recognized in the statement of financial position.
The difference between the sale price and the redemption price is recognized over the life of the contract using the effective interest method. The leased securities continue to be recognized in the statement of financial position. Securities lent are not recognized in the statement of financial position unless they are sold to third parties where the repurchase liabilities is recognized as a trading liability at fair value and the subsequent gain or loss is included in the net operating result .

2.18. Significant management's judgment when applying accounting policy

Significant management's judgment in applying the Company's accounting policies that have the most material effect on the financial statements is described below. The main sources of uncertainty in the use of approximate accounting estimates are described in explanatory note 2.19.

2.18.1. Deferred tax assets

The assessment of probability for future taxable income for the utilisation of deferred tax assets is based on the last approved budget forecast adjusted with regard to material untaxable income and expenses and specific restrictions for carrying forward unused tax losses or credits. If a reliable estimate for taxable income suggests the probable use of deferred tax asset, in particular in case the asset may be used without time limit, then the deferred tax asset is recognised in full. The recognition of deferred tax assets that are subject to specific legal or economic restrictions or uncertainty should be judged by the management on case by case basis on the grounds of specific facts and circumstances.

2.18.2. Debt instruments measured at depreciated value

The analysis and intentions of the management are confirmed by the business model of holding debt instruments, which meet the requirements for receiving payments only of principal and interest and holding assets until the collection of the agreed cash flows from loans to third parties, which are classified as debt instruments measured at amortized cost. This decision is consistent with the current liquidity and capital of the Company.

2.18.3. Term of leasing contracts

In determining the leasing contracts term, management takes into account all the facts and circumstances that create an economic incentive to exercise the option of extension or not to exercise the option of termination. Extension options (or periods after the termination options) are included in the lease term only if it is reasonably certain that the lease is extended (or not terminated).

The lease term is reassessed if the option is actually exercised (or not exercised) or whether the Companyundertakes to exercise (or does not exercise) the option. The assessment of reasonable security is only reviewed if a significant event or significant change in the circumstances affecting that assessment occurs and is under the control of the lessee.

2.18.4. Recognition of deferred taxes in connection with assets and liabilities arising from leasing contracts

When, as a result of a leasing contract, assets and liabilities arise that result in the initial recognition of a taxable temporary difference related to the asset with the right of use and equal to the value of the deductible temporary difference in the lease obligation, this results in a net temporary difference in the amount of zero. Therefore, the Company does not recognize deferred taxes in connection with these leasing transactions, to the extent that within the useful life of the asset and the maturity of the liability, the net tax effects will be equal to zero. However, deferred tax will be recognized when temporary differences arise in subsequent periods, provided that the general conditions for recognizing tax assets and liabilities in accordance with IAS 12 are met.

2.18.5. Impairment of investments in subsidiaries

At each statement of financial position date, management makes an assessment of whether there are any indicators of impairment of its investments in subsidiaries. The calculations are made by the management, with the assistance of independent licensed appraisers.

2.19. Uncertainty of Accounting Estimates

In the preparation of the financial statements, the management makes a number of assumptions, estimates and assumptions about the recognition and measurement of assets, liabilities, revenue and expenses.

Actual results may differ from management's assumptions, assessments and assumptions and, in rare cases, entirely in line with previously assessed results.

Information on the material assumptions, estimates and assumptions that have the most significant impact on the recognition and measurement of assets, liabilities, revenue and expenses is presented below.

2.19.1. Measurement of the expected credit losses

Credit losses are the difference between all contractual cash flows due to the Company and all cash flows that the Company expects to receive. Expected credit losses are a probability-weighted estimate of credit losses that require the Company's judgment.

2.19.2. Measurement at fair value

Management uses techniques to measure the fair value of financial instruments. When applying assessment techniques, the management uses, to the maximum extent, market data and assumptions, that market stakeholders would adopt upon assessing an instrument. When no applicable market data is available, management uses its best estimate of the assumptions that market participants would make. These estimates may differ from the actual prices that would be determined in a fair market transaction between informed and willing parties at the end of the reporting period.

2.19.3. Useful life of depreciable assets

Management reviews the useful lives of depreciable assets at the end of each reporting period.
As of December 31, 2019, management determines the useful life of assets, which represents the expected useful life of the Company's assets. The carrying amount and assets are analyzed in Notes 2.8 and 2.9. Actual useful life may differ from the assessment due to technical and moral degradation, mainly of software products and computer equipment.

3. Total comprehensive income	31.12.2019	31.12.2018
	BGN thousand	*BGN thousand*
Financial revenues, by types		
Interest income on financial assets at amortized cost	3 683	3 138
Dividend income from equity instruments reported as financial assets at fair value through profit or loss	156	92
Change in fair value of financial assets at fair value through profit or loss, net	3 069	2 002
Revenue from operations with financial assets[1]	383	252
Revenues from foreign exchange differences	419	398
Total financial income	**7 710**	**5 882**
Financial expenses, by types		
Interest expense on loans, reported at amortized cost:	(3,729)	(3,455)
Interest on bank loans	(2,951)	(2609)
Interest on bond loans	(434)	(454)
Interest on loans from related parties	(342)	(389)
Proceeds on loans from unrelated parties	(2)	(3)
Interest expense on REPO transactions in equity instruments reported as financial assets at fair value through profit or loss	(528)	(334)
Expenses from operations with financial assets[2]	(343)	(131)
Exchange rate differences	(5)	(669)
Impairment for credit losses on receivables on granted trade loans, receivables on cessions and from transactions with financial assets	(315)	(771)
Recovered impairment for credit losses on granted trade loans, receivables on cessions and from transactions with financial assets	412	308
Net change in the impairment of loans granted, receivables on cessions and from transactions with financial assets	97	(463)
Total financial expenses	**(4 508)**	**(5 052)**
Outcome from financial activity	**3 202**	**830**

3. Total comprehensive income (CONTINUED)	31.12.2019	31.12.2018
	BGN thousand	*BGN thousand*
Expenses for external services by types:		
Consultancy, Auditing, Legal fees	(7)	(53)
Commissions	(234)	(253)
Rents [3]	(102)	(245)
Bond costs	(8)	(11)
Bank fees and commissions	(7)	(6)
Other external services	(39)	(74)
Total	**(397)**	**(642)**

Financial result before tax	**2 805**	**188**
Expenses/(saving) of deferred corporate taxes	(10)	297
Total taxes:	**(10)**	**297**
Total comprehensive income, net of taxes	**2 795**	**485**

[1] Income from operations with financial instruments for 2019 include: BGN 383 thousand revenues from trading in financial assets, compared to BGN 252 thousand revenues from trading in financial assets for 2018.

[2] Expenses from operations with financial instruments for 2019 include: BGN 343 thousand from trading in financial instruments, compared to BGN 131 thousand for 2018.

[3] Rental expenses amounting to BGN 102 thousand are under lease agreements with a term of less than 12 months.

[4] Deferred taxes include the amount of income tax charged on incurred tax temporary differences, which is subject to refund in the next 5 reporting periods. A 10% tax rate was used to determine the deferred tax, which is a corporate income tax for 2019 and 2018.

4. PROPERTY, MACHINES, FACILITIES AND EQUIPMENT

	Machinery, facilities, equipment	**Total**
	BGN thousand	*BGN thousand*
Reporting value:		
Balance at January 1, 2019	**-**	**-**
Acquired	2	**2**
Balance at December 31, 2019	**2**	**2**
Depreciation:		
Balance at January 1, 2019	-	**-**
Balance at December 31, 2019	**-**	**-**
Book value as of January 1, 2019	**-**	**-**
Book value as of December31, 2019	**2**	**2**

5. INVESTMENTS IN SUBSIDIARIES

	Share in capital	31.12.2019 BGN thousand	31.12.2018 BGN thousand
<u>*Subsidiaries:*</u>			
IT Soft EAD	100.00%	5	5
GPS Control EAD	100.00%	855	855
Prophonica EOOD	100.00%	150	150
Smartnet EAD - until 22.04.2019	100.00%	-	50
Balkan Telecommunication Company EOOD	100.00%	8	8
Sentinel Advisors s.a.	99.54%	7 823	7 823
Total		**8 841**	**8 891**

In the previous 2018, Specialized Logistics Systems acquired 99.583% of the capital of the Romanian company Sentinel Advisors S.A.

On 22.04.2019 The company sells its investment in Smartnet EAD

5. INVESTMENTS IN ASSOCIATED COMPANIES AND MINORITY CO-PARTICIPATIONS	**Share in capital**	31.12.2019	31.12.2018
		BGN thousand	BGN thousand
SAL Real Estate REIT	29.44%	81	92
Eurosys OOD	10.00%	-	-
Associated and minority participations		**81**	**92**

In 2018. Specialized Logistics Systems AD acquires 10 shares from its subsidiary IT Soft EAD, which constitute 10% of the capital of Eurosys OOD.

6. RECEIVABLES FROM RELATED COMPANIES	31.12.2019	31.12.2018
	BGN thousand	*BGN thousand*
Non-current receivables from related companies		
Non-current receivables from related companies, gross amount before impairment	44 844	40 320
Expected credit losses and impairment losses	*(510)*	*(464)*
Non-current receivables from related companies value after impairment, incl.	**44 334**	**39 856**
IT Soft EAD	41 115	39 540
Prophonica EOOD	2 123	245
Balkan Telecommunication Company EOOD	108	-
Smart IT Solutions EOOD - under common control	988	71
Total on-current receivables from related companies	**44 334**	**39 856**

The non-current receivables from related parties are on granted loans, maturing on 31.12.2024, at 3.2% annual interest. Part of the liability of IT Soft EAD in the amount of BGN 1,017 thousand is under a contract for purchase and sale of securities, the amount being repaid as of the date of preparation of the report.

6. RECEIVABLES FROM RELATED COMPANIES (CONTINUED)	31.12.2019	31.12.2018
	BGN thousand	*BGN thousand*
Current receivables from related companies		
Current receivables from related companies, gross amount before impairment	7 292	13 884
Expected credit losses and impairment losses	*(51)*	*(86)*
Current receivables from related companies value after impairment, incl.	**7 241**	**13 798**
GPS Control EAD	5 522	5 666
IT Soft EAD	1 597	8 031

Prophonica EOOD	114	91
Smart IT Solutions EOOD - under common control	8	10
Total current trade and other receivables	**7 241**	**13 798**

The receivables from GSP Control EAD is under a contract for the purchase and sale of securities maturing on 31.12.2020.
The receivables from IT Soft EAD, Profonica EOOD and Smart IT Solutions EOOD represent interest under a loan contract.

7. TRADE AND OTHER RECEIVABLES	31.12.2019	31.12.2018
	BGN thousand	*BGN thousand*
Non-current trade and other receivables		
Non-current trade and other receivables, gross amount before impairment	52 451	29 063
Expected credit losses and impairment losses	*(599)*	*(334)*
Non-current receivables, value after impairment, including:	**51 852**	**28 729**
Receivables from loans granted	30 136	6 744
Receivables on cessions	21 716	21 985
Total trade and other receivables	**51 852**	**28 729**
Current trade and other receivables		
Current trade and other receivables, gross amount before impairment	21 542	44 547
Expected credit losses and impairment losses	*(341)*	*(708)*
Current receivables, value after impairment, including:	**21 201**	**43 839**
Receivables from loans granted	1 003	2 104
Interest receivables	3 116	2 975
Receivables on cessions	8 302	25 050
Receivables from securities transactions	8 773	13 689
Trade receivables	7	21
Total trade and other non-current receivables	**21 201**	**43 839**

The terms of the loans granted are as follows:

Borrower	Maturity	Interest %	31.12.2019
		%	BGN thousand
Loan 1	29.05.2024	3.00%	271
Loan 2	26.03.2024	3.00%	483
Loan 3	16.01.2021	1.50%	3 345
Loan 4	31.12.2022	5.00%	6 366
Loan 5	31.03.2021	3.20%	1 389
Loan 6	31.12.2024	3.20%	163
Loan 7	31.12.2024	3.20%	5 464
Loan 8	11.12.2021	5.00%	126
Loan 9	28.02.2021	3.50%	571

Loan 10	31.12.2021	3.20%	6 890
Loan 11	31.12.2024	3.00%	5 068
Total non-current receivables on loans granted			**30 136**
Loan 12	31.03.2020	3.20%	15
Loan 13	14.12.2020	3.00%	989
Total current receivables on loans granted			**1 003**

Receivables on cessions amount to BGN 30,018 thousand, of which BGN 28,341 thousand of which BGN 28,341 thousand are interest-bearing, with interest rates ranging from 3.2% to 7.5%. The interest related to receivables under cessions amounts to BGN 2,678 thousand.

The net carrying amount of trade and other receivables is considered a reasonable estimate of their fair value.

8. Deferred tax assets	31.12.2019	31.12.2018
	BGN thousand	*BGN thousand*
Tax losses	137	137
Receivables	150	160
Total	**287**	**297**

9. SHORT-TERM FINANCIAL ASSETS	31.12.2019	31.12.2018
	BGN thousand	*BGN thousand*
Stock exchange capital instruments	35 019	33 949
Unlisted capital instruments	698	-
Stock exchange debt instruments	59	1 189
Total:	**35 776**	**35 138**

During the reporting periods presented, current financial assets include exchange traded capital and debt instruments and unlisted stock exchange equity instruments, which are classified as financial assets at fair value through profit or loss.

Stock exchange-traded financial assets are measured at fair value, determined on the basis of stock exchange quotations as of the date of preparation of the financial statements. The fair value of stock exchange non-traded financial assets is determined by an independent appraiser.

Gains and losses are recognized in the income statement and other comprehensive income in the line of "Financial expenses" and the line "Financial income".

As of 31.12.2019, financial assets with a fair value of BGN 23,693 thousand were provided under the terms of REPO transactions with a closing date in 2020.

Amounts recognized in profit or loss
The following gains / (losses) were recognized in profit or loss during the year:

	31.12.2019	31.12.2018
	BGN thousand	*BGN thousand*
Change in the fair value of financial assets, reported at fair value through profit or loss, net	3 069	2 002
Income from operations with financial assets	383	252

Dividend income from equity instruments reported as financial assets at fair value through profit or loss	156	92
Expenses from operations with financial assets	(343)	(131)
Total:	**3 265**	**2 215**

10. CASH AND SHORT-TERM DEPOSITS	31.12.2019	31.12.2018
	BGN thousand	*BGN thousand*
Cash and cash equivalents, gross amount before impairment	37	280
Expected credit losses	-	*(5)*
Cash and cash equivalents, value after impairment, including	**37**	**275**
Funds in cash	14	8
Financial assets in bank accounts	23	267
Total cash and cash equivalents	**37**	**275**

11. EQUITY	31.12.2019	31.12.2018
	BGN thousand	*BGN thousand*
Main share capital	535	535
Reserves	535	535
Undistributed profit from previous years	6 439	7 954
Current financial result profit/(loss)	2 795	485
Total:	**10 304**	**9 509**

12. PAYABLES TO RELATED PARTIES	31.12.2019	31.12.2018
	BGN thousand	*BGN thousand*
Non-current liabilities to related parties:		
GPS Control EAD	**4 533**	**6 647**
Current liabilities to related parties:		
Liabilities to owners for distributed dividend	1 660	-
Prophonica EOOD	3	-
GPS Control EAD	69	90
Total current liabilities to related parties	**1 732**	**90**

The liability to JPS Control EAD is under a loan agreement signed on 10.01.2011 at a limit of BGN 8 000 thousand for a period of five years with 7.5% annual interest. The loan is not secured due to the fact that Specialized Logistic Systems JSC is the sole owner of the capital of GPS Control EAD. In case of principal or interests delayed payment, the borrower shall owe to the creditor the statutory interest for delay on the any overdue amounts. As of 01.10.2016, the loan was renegotiated at 6% interest and maturity date 31.12.2021.

13. LIABILITIES ON BORROWING LOANS	31.12.2019	31.12.2018
	BGN thousand	*BGN thousand*
Non-current:		
Bond ISIN: BG2100004105 - principal	2 543	2 933
Bond ISIN: BG2100004170 - principal	7 500	7 500
	10 043	**10 433**
Current:		
Bond ISIN: BG2100004105 - principal	391	196
Bond ISIN: BG2100004105 - interest	24	29
Bond ISIN: BG2100004170 - interest	72	72
	487	**297**

On 04 May 2010 the Company issued a bond loan amounting to BGN 2 000 thousand for a period of 5 years at 7.5% annual interest. The interest shall be paid every six months, and the principal is equal to two equal installments of 1 000 thousand euro together with the last two interest payments. On 19.11.2014 the company convened a meeting of the general meeting of the bondholders, where it was decided to change the bond parameters. The term of the bond is extended by another four years, namely until 04.05.2019. A new repayment plan is adopted and the fixed interest coupon is changed to 6% (six per cent) on an annual basis. On 03.12.2018, a general meeting of the bondholders took a decision to change the parameters of the bond loan. A new repayment plan has been adopted. The term of the bond is extended until 04.05.2019. The interest rate changes to 5.25% on an annual basis and will apply to the interest rate period beginning on 04.05.2019 to 04.05.2024 in respect of all interest payments.
On 22.03.2017, Specialized Logistic Systems AD issued a new bond loan amounting to BGN 7,500,000 (seven million five hundred thousand). The nominal and issue value of each bond is 1,000 (one thousand levs). The issue is maturing on 22 March 2022, the principal being payable once at maturity, together with the last interest payment. Interest on bonds is paid every six months. The nominal annual interest rate is fixed at 3.5%.

14. LIABILITIES ON BANK LOANS	31.12.2019	31.12.2018
	BGN thousand	*BGN thousand*
Bank loans	128 107	136 908
Total	**128 107**	**136 908**

On 27.09.2017 The company has signed a long-term loan agreement with a European bank. The loan is for the amount of 50 million euro at 1.8% annual interest rate and is secured by pledge on bank accounts and securities accounts. The loan funds will be used to implement the Company's growth strategy by acquiring minority holdings in several European companies that will support and further develop the activities of the other companies in the Group as well as plans to expand its portfolio of investments in low risk and high liquid financial instruments. At the beginning of 2018 the limit was increased by EUR 20 million, and the interest rate was changed to 2.1% on an annual basis. As of 30.12.2019, EUR 4.5 million were repaid, with the interest negotiated at 2.5%

15. TRADE AND OTHER PAYABLES	31.12.2019	31.12.2018
	BGN thousand	*BGN thousand*
Liabilities under REPO transactions - principals	14 005	6 676
Liabilities under REPO transactions - interests	104	102
Trade payables	210	210
Liabilities on loans from third parties	27	43
Tax liabilities	100	-
Total current liabilities	**14 446**	**7 031**

The liability in the amount of BGN 210 thousand is to Formoplast AD under a contract dated 25.09.2006 at 7% annual interest and maturity 31.12.2020.
The liability in the amount of BGN 27 thousand is to Star Motors EOOD, under a debt replacement contract maturing in 2020.
The obligations under REPO transactions are concluded for a period of six months and have a closing date of 2020.

The tax liabilities are for tax on the distributed dividends to the shareholders.

15. DISCLOSURE OF RELATED PARTIES

Persons with controlling interest:

- Iliyan Zafirov Dinev - 444 050 pcs. shares - 83%
- Vanyo Stoyanov Ivanov - 90 950 pcs. shares - 17%

Subsidiaries

- JPS Control EAD - 835 000 pcs. shares shares - 100%
- IT Soft EAD - 5 000 pcs. shares - 100%
- Profonica EOOD - 485 050 pcs. shares - 100%
- Smartnet EOOD - 50 000 shares - 100% until 22.04.2019
- Balkan Telecommunication Company EOOD - 50 shares - 100%
- Sentinel Advisors -102 073 shares – 99,54%

Other related parties

- GPS Control R s.r.l. E- Romania - subsidiary of GPS Control EAD
- Eurosys OOD - an associate company of IT Soft EAD
- Smart IT Solutions EOOD - sole owner of the capital Vanyo Ivanov
- Delta Credit Management EAD - sole owner of the capital Iliyan Dinev.

Key management personnel

- Iliyan Dinev
- Vanyo Ivanov
- Diana Valentinova

The total amount of related party transactions and outstanding balances for the current and prior reporting periods are presented as follows:

Deals with related persons, recognized in Statement of comprehensive income		Income from interests *BGN thousand*	Expenses for iinterests *BGN thousand*
IT Soft EAD	2019	1 293	-
IT Soft EAD	2018	1 280	-
GPS Control EAD	2019	-	342
GPS Control EAD	2018	-	389
Prophonica EOOD	2019	23	-
Prophonica EOOD	2018	9	-
BTC EOOD	2019	1	-
Smart IT Solutions EOOD	2019	10	-
Smart IT Solutions EOOD	2018	-	-
TOTAL	**2019**	**1 327**	**342**
TOTAL	**2018**	**1 289**	**389**

Deals with related persons, recognized in Statement of financial position		Receivables from related parties	Payables to related parties
		BGN thousand	*BGN thousand*
IT Soft EAD	2019	42 712	-
IT Soft EAD	2018	47 571	-
GPS Control EAD	2019	5 522	4 602
GPS Control EAD	2018	5 666	6 737
Prophonica EOOD	2019	2 237	3
Prophonica EOOD	2018	336	-
BTC EOOD	2019	108	-
Smart IT Solutions EOOD	2019	996	-
Smart IT Solutions EOOD	2018	81	-
TOTAL	**2019**	**51 575**	**4 605**
TOTAL	**2018**	**53 654**	**6 737**

Related party transactions reported in the cash flow statement		Proceeds from loans	Payment on loans received	Dividends received	Interest paid on loans	Interest received on loans granted	Amounts received from trading in financial assets
		BGN thousand	*BGN thousand*	*BGN thousand*	*BGN thousan d*	*BGN thousand*	*BGN thousand*
GPS Control EAD	2019	-	2 113	-	363	-	147
GPS Control EAD	2018	1 200	1 498	-	414	-	-
IT Soft EAD	2019	10	574	-	-	-	6 736
IT Soft EAD	2018	15	14	1 150	-	670	3290
Prophonica EOOD	2019	-	1 900	-	-	-	-
Prophonica EOOD	2018	49	-	-	-	-	79
BTC EOOD	2019	-	109	-	-	-	-
Smart IT Solutions EOOD	2019	72	1 000	-	-	12	-
TOTAL	**2019**	**1 282**	**5 696**	**-**	**363**	**12**	**6 883**
TOTAL	**2018**	**1 264**	**1 512**	**1 150**	**414**	**640**	**3 369**

Conditions of the related party transactions

The sales and purchases are carried out at negotiated prices. Unsettled balances at the end of the year are unsecured, interest-free (excluding loans) and settled with cash. There have been no guarantees provided or received for any related party receivables or payables.

16. CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts of the financial assets and liabilities of the Company may be presented in the following categories:

Financial assets	**Note**	**2019 BGN thousand**	**2018 BGN thousand**
Debt instruments measured at depreciated value			
Receivables from related parties	6	51 575	53 654
Loans granted	7	31 139	8 848
Interest receivables	7	3 116	2 975
Receivables on cessions	7	30 018	47 035
Receivables for securities	7	8 773	13 689

Trade and other receivables	7	7	21
Money and short-term deposits	10	37	275
		124 665	**126 497**
Financial assets at fair value			
in the profit and loss			
Equity instruments	9	**35 776**	**35 138**

Financial liabilities	**Note**	**2019 BGN thousand**	**2018 BGN thousand**
Financial liabilities accounted by amortized cost			
Payables to related parties	12	6 265	6 737
Debenture loans	13	10 530	10 730
Bank loans	14	128 107	136 908
Loans from third parties	15	27	43
Liabilities for securities	15	14 108	6 778
Tax liabilities	15	100	-
Trade and other payables	15	210	210
		159 347	**161 406**

See explanatory note 2.17 for information on accounting policies for each category of financial instruments and prepaid income and expenses. The methods used to measure the fair values of financial assets and liabilities carried at fair value are described in Explanatory note 2.17. A description of the Company's risk management policy and objectives regarding financial instruments is presented in Explanatory note 17.

17. RISKS RELATED TO FINANCIAL INSTRUMENTS

Management's objectives and policy in terms of risk management

The Company is exposed to various types of risks with respect to its financial instruments. For more information on financial assets and liabilities by categories of the Company, see Explanatory note 16. The most significant financial risks to which the Company is exposed are market risk, credit risk and liquidity risk.

The risk management of the Company is performed by the Management of the Company. Management's priority is to ensure short- and medium-term cash flows by reducing its exposure to financial markets. Long-term financial investments are managed in a way that allows them to have long-term returns.

The company is not actively involved in the trading of financial assets for speculative purposes, nor does it issue options.

The most significant financial risks to which the Company is exposed are described below:

Market risk analysis

As a result of the use of financial instruments, the Company is exposed to market risk and in particular the exchange rate, interest rate risk and risk of changes in specific prices, which is due to the operating and investment activities of the Company.

Currency risk

The majority of the Company's transactions are executed in Bulgarian leva.

Specialized Logistic Systems JSC carries its operations in BGN. The management believes that under the conditions of Currency Board and fixed BGN/EUR exchange rate, the entity is not exposed to substantial unfavourable impacts of fluctuations in the BGN/EUR exchange rate.

Interest rate risk

The Company's policy is aimed at minimizing interest rate risk in long-term financing and for this reason, long-term loans are usually with fixed interest rates. All investments in the Company's bonds are paid on the basis of fixed interest rates.

Other price risks

The company is also exposed to other price risks in connection with the publicly traded shares, see Explanatory note 2.17. Publicly traded shares are classified as financial assets at fair value through profit and loss.

Credit risk analysis

Credit risk is the risk that a counterparty will not pay its liability to the Company. Specialized Logistics Systems AD is exposed to this risk in connection with various financial instruments - loans to related parties and third parties, the occurrence of receivables from customers, depositing funds and others. The Group's exposure to credit risk is limited to the carrying amount of financial assets recognized at the end of the reporting period as set out below:

	2019 BGN thousand	**2018 BGN thousand**
Groups of financial assets - balance sheet values:		
Debt instruments measured at depreciated value	124 665	126 497
Financial assets at fair value through profit and loss;	35 776	35 138
Carrying value	**160 441**	**161 635**

The Company regularly monitors the default of its customers and other counterparties, individually or in groups, and uses this information to control credit risk. When costs are not too high, credit rating data is obtained and used from external sources and/or financial statements of customers and other counterparties. It is the Company's policy to conduct transactions only with counterparties with a good credit rating.

In respect of trade and other receivables, the Company is not exposed to significant credit risk to any counterparty or group of counterparties having similar characteristics. Trade receivables consist of a small number of customers in one industry. Based on historical indicators, the company's management considers that the credit assessment of trade receivables whose maturity has not expired is good.
The credit risk on money and cash equivalents, money market funds, is considered insignificant, as the counterparties are banks with good reputation and high external credit rating.

The structure of financial assets by phases and the related impairment can be presented as follows:
Financial assets at depreciated value

	Stage 1	**Stage 2**	**Stage 3**	**Emerging or initially created assets with credit impairment**
Receivables from related parties	52 136	-	-	-
Loans granted	31 501	-	-	-
Interest receivables	3 152	-	-	-
Receivables on cessions	30 369	-	-	-
Receivables for securities	8 940	-	-	-
Trade receivables	31	-	-	-
Money and short-term deposits	37	-	-	-
Expected credit losses	(1,501)	-	-	-
	124 665	**-**	**-**	**-**

Liquidity risk analysis

Liquidity risk is the risk that the Company will not be able to meet its obligations. Specialized Logistics Systems AD satisfies its needs for liquid funds by closely monitoring the payments under the repayment plans of long-term financial liabilities, as well as the incoming and outgoing cash flows arising in the course of the operating activity. Liquidity funds needs are monitored for different periods of time - daily and weekly, and based on 30-day forecasts. The long-term liquidity requirements for 180 and 360 days are determined monthly. The need for cash is compared to the loans

that are available to be used to identify surpluses or deficits. This analysis determines whether the available loans will be sufficient to cover the needs of the Company for the period.
As of December 31, 2019, the maturities of the contractual obligations of the Company (comprising interest payments, where applicable) are summarized as follows: BGN thousand

Residual maturity of assets and liabilities as of 31.12.2019 in BGN thousand	**Up to 1 month**	**2-12 months**	**From 1 5 years**	**Total**
Assets				
Cash and short-term deposits	37	-	-	**37**
Receivables from related companies	-	7 241	44 334	**51 575**
Receivables from loans granted	-	1 003	30 136	**31 139**
Interest receivables	-	3 116	-	**3 116**
Receivables on cessions	-	8 302	21 716	**30 018**
Receivables from securities transactions	-	8 773	-	**8 773**
Trade and other receivables	-	7	-	**7**
Financial assets	-	35 776	-	**35 776**
Total assets	**37**	**64 218**	**96 186**	**160 441**
Liabilities				
Payables to related parties	-	1 732	4 533	**6 265**
Debenture loans	-	487	10 043	**10 530**
Bank loans	-	-	128 107	**128 107**
Loans from third parties	-	27	-	**27**
Liabilities for securities	-	14 108	-	**14 108**
Trade and other payables	-	310	-	**310**
Total liabilities	**-**	**16 664**	**142 683**	**159 347**
Net maturity difference	**37**	**47 554**	**(46,497)**	**1 094**

In the previous reporting period, the maturities of the contractual obligations of the Company are summarized as follows:

Residual maturity of assets and liabilities as of 31.12.2018 In thousands of BGN	**Up to 1 month**	**2-12 months**	**From 1 5 years**	**Total**
Assets				
Cash and short-term deposits	275	-	-	**275**
Receivables from related companies	-	13 798	39 856	**53 654**
Receivables from loans granted	-	2 104	6 744	**8 848**
Interest receivables	-	2 975	-	**2 975**
Receivables on cessions	-	25 050	21 985	**47 035**
Receivables from securities transactions	-	13 689	-	**13 689**
Trade and other receivables	-	21	-	**21**
Financial assets	-	35 138	-	**35 138**
Total assets	**275**	**92 775**	**68 585**	**161 635**
Liabilities				
Payables to related parties	-	90	6 647	**6 737**
Debenture loans	-	297	10 433	**10 730**
Bank loans	-	-	136 908	**136 908**
Loans from third parties	-	43	-	**43**
Liabilities for securities	-	6 778	-	**6 778**
Trade and other payables	-	210	-	**210**
Total liabilities	**-**	**7 418**	**153 988**	**161 406**
Net maturity difference	**275**	**85 357**	**(85,403)**	**229**

18. CAPITAL MANAGEMENT POLICY AND PROCEDURES

The Company's objectives in relation to capital management are:

- to ensure the Company's ability to continue as a going concern; and
- to ensure adequate profitability for the owners, determining the price of its services in accordance with the level of risk.

The company monitors capital based on the ratio of equity to net debt.

The Company determines the capital on the basis of the carrying amount of the equity presented in the Statement of financial position. Net debt is calculated as total debt less the carrying amount of cash and cash equivalents.

The Company's objective is to maintain the ratio of capital to net debt within limits that provide a relevant and conservative funding ratio. The Company manages the capital structure and makes the necessary adjustments in line with the changes in the economic environment and the risk characteristics of the respective assets. In order to maintain or adjust the capital structure, the Company may change the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce its liabilities.

The capital for the reporting periods presented can be presented as follows:

Type	31.12.2019	31.12.2018
Debt	159 348	161 406
Cash and cash equivalents	37	275
Net debt	**159 311**	**161 131**
Total equity	10 304	9 509
Total capital	**169 615**	**170 640**
Ratios of indebtedness	**0,94**	**0,94**

19. EVENTS AFTER THE PREPORTING DATE

No corrective events or significant non-adjusting events occurred between the date of preparation of the annual financial statements and the date of its authorization for issue, except for the following non-adjusting events:

- On 30.01.2020, at a meeting of the Extraordinary Annual General Meeting of Shareholders, a decision was made to distribute a dividend in the amount of BGN 1,150 thousand.

- At the end of 2019, news of a new coronavirus (Covid-19) appeared for the first time, which quickly spread worldwide, and Europe was also severely affected. After cases of the new strain were reported in 114 countries in a short period of time, the World Health Organization declared the epidemic of the new Covid-19 a pandemic. In view of the developing situation in the country and worldwide as a whole, on March 13, 2020, the National Assembly of the Republic of Bulgaria declared a state of emergency and a number of health measures were introduced in order to preserve the health of citizens.

Management is closely monitoring the situation and looking for ways to reduce its impact on the Company's operations, but the decline in stock prices on global stock exchanges could affect the fair value of the Company's investments if the negative trend continues. Management will continue to monitor the potential impact and will take all possible measures to mitigate the potential effects.

The management believes that this force majeure will not call into question the possibility of Specialized Logistics Systems AD to continue to operate as a going concern.

- In the second quarter of 2020, the Board of Directors made a decision and concluded a contract for the sale of not less than 52,060 shares from the participation of Specialized Logistics Systems AD in the Romanian subsidiary Sentinel Advisors s.r.l. The purchase price of the above shares is EUR 39.37 (EUR thirty-nine and 0.37) per share, and the exact number of shares will be specified in an additional annex.

There are no other events occurring after the reporting period that require additional disclosure or adjustments in the financial statements as of the end of the reporting year 2019.

Executive Director .... Iliyan Zafirov Dinev

Prepared by: …... Nikolay Atanasov Dachev