Translation from Bulgarian

NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENT
of SPECIALIZED LOGISTIC SYSTEMS AD
AS OF DECEMBER 31, 2020

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 EAD, GPS Control EAD, Prophonica EOOD and Balkan Telecommunication Company EOOD, Sentinel Advisors s.r.l. - Romania 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 31.12.2020, 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 2019), unless otherwise stated.

This Financial Statement is a 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".

Management has assessed the applicability of the going concern principle as a fundamental principle for the preparation of the financial statements. This estimate covers the period up to 31.12.2020 and at least 12 months in the future. Based on this assessment, no factors and / or events have been identified that would cast doubt on the application of this principle as a basis for preparing the financial statements.

The financial statements have been prepared in accordance with the going concern principle and taking into account the possible effects of the continuing impact of the Covid-19 coronavirus pandemic.

In early March 2020, the country was hit by a pandemic of an infectious disease caused by a virus /SARS-CoV-2/. On March 13, 2020, by a decision of the National Assembly, a state of emergency was declared, and on March 24, 2020, the Law on Measures and Actions during the State of Emergency came into force, which introduces a number of extraordinary measures concerning business: extension and / or suspension of administrative terms, termination of procedural terms and limitation periods, changes in the labour legislation, introducing new modes of working hours, suspension of work and use of leave.

The pandemic has caused a significant reduction in economic activity and raises significant uncertainty about future macroeconomic processes in 2020 and beyond.

The activity of Specialized Logistics Systems AD was also seriously affected by the economic crisis caused by the COVID-19 pandemic, with a profit of only BGN 503 thousand compared to BGN 2,795 thousand for the previous year. The main reasons for this are both the significant decline in the price of financial instruments held for trading and the impairment of receivables related to the application of IFRS 9.

The risks and uncertainties for the company, as a result of the imposed state of emergency, as well as the created difficulties and uncertainties in the economic activity not only in the country, but also in Europe and the whole world, are related to volatility of held exchange traded financial instruments and the possibility for normal collection of held debt instruments.

The ongoing development of the pandemic, as well as the effect of the restrictive measures taken at national and European level, outline uncertainty for the future regarding the value of financial assets and the collection of debt instruments.

In these circumstances, the Management of the Company made an analysis and assessment of the ability of the Company to continue its activities as a going concern based on the available information for the foreseeable future, and management expects that the Company has sufficient financial resources to continue its operational activities in the near future and continues to apply the going concern principle in preparing the separate financial statements.

2.2. Changes in accounting policy

New standards, amendments and Interpretations to IFRS that came into effect on January 1, 2020

The Company has applied the following new standards, amendments and interpretations to IFRSs, developed and published by the International Accounting Standards Board, which are binding for the period beginning on or after January 1, 2020 but do not have a material effect on their financial results. and the financial position of the Company:

IAS 1 and IAS 8 (amended) - Definition of materiality, effective January 1, 2020, adopted by the EU

The purpose of the amendments is to use the same definition of materiality within the International Financial Reporting Standards and the Conceptual Framework for Financial Reporting. According to the amendments:

- the vague presentation of essential information or the mixing of essential information with non-essential information has the same effect as the omission of important information or its incorrect presentation. Entities decide for themselves which information is material in the context of the financial statements as a whole; and
- "primary users of general purpose financial statements" to which these financial statements are addressed, defining them as "existing and potential investors, lenders and other creditors" who have to rely on general purpose financial statements for a large portion of the financial information they need.

Amendments to the Financial Reporting Conceptual Framework, effective since January 1, 2020, adopted by the EU

The IASB has issued a revised Conceptual Framework, which will enter into force immediately. This Framework does not lead to changes in any of the existing accounting standards. However, entities that rely on the conceptual framework in determining their accounting policies for transactions, events or operating conditions not specifically addressed in a specific accounting standard will be able to apply the revised framework from January 1, 2020. These entities will need to assess whether their accounting policies are still appropriate under the revised conceptual framework. The main changes are:

- in order to achieve the objective of financial reporting, focus on the role of management that should serve the main users of the financial statements;
- reiterates the precautionary principle as a necessary component in order to achieve a neutral presentation of information;
- defined is what is an entity, and it is possible to be a separate legal entity or part of the entity;
- asset and liability definitions are revised;
- the recognition of assets and liabilities eliminates the likelihood of inflows or outflows of economic benefits and supplements the write-off guidelines;
- provide further guidance on the different valuation bases, and;
- or loss is determined as the primary indicator of an entity's operations and it is recommended that the income and expenses of other comprehensive income be recycled through profit or loss when this enhances the appropriateness or fair presentation of the financial statements.

IFRS 3 (amended) - Definition of a Business, effective from January 1, 2020, adopted by the EU

The amended definition of business requires acquisition to include an input and an essential process, which together contributes significantly to the ability to create results. The definition of ‘production’ is amended to focus on goods and services provided to customers, generating investment income and other income. The definition excludes the return in the form of lower costs and other economic benefits. The amendments will probably lead to more acquisitions that are recorded as asset acquisitions.

Amendments in IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (issued on September 26, 2019), effective January 1, 2020, adopted by the EU

The proposed amendments include elements reflecting the new disclosure requirements introduced by the amendments to IFRS 9, IAS 39 and IFRS 7.

Amendments to IFRS 16 Covid-19-Related Rent Concessions, effective from June, 1 2020, adopted by the EU

The amendments apply only to lessees under leases who have received a rental concession or do not owe rent for a certain period of time as a result of the Covid-19 coronavirus pandemic. In this case, lessees may not consider the reduced rental amounts or simplified rental amounts for the periods before or before June 30, 2021 as a modification of the lease, whether or not the rental amounts have subsequently been increased after June 30, 2021.

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, 2020 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:

- Amendment to IAS 1 Presentation of Financial Statements: Classification of liabilities as current and non-current, effective from January 1, 2023, has not yet been adopted by the EU
- Amendments to IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, effective from January 1, 2022, have not yet been adopted by the EU
- Annual improvements 2018-2020, effective from January 1, 2022, have not yet been adopted by the EU
- Amendments to IFRS 4 Insurance Contracts - Deferral of IFRS 9, effective from January 1, 2021, have not yet been adopted by the EU
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform - Phase 2, effective from January 1, 2021, have not yet been adopted by the EU
- IFRS 14 "Deferred Accounts at Regulated Prices" effective from January 01, 2016, not yet adopted by the EU

IFRS 17 "Insurance contracts" effective from January 1, 2023, 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. Revenue

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 recognised 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 cannot 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, plant, 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.

Profits 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 return 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. Other long-term capital investments

Other long-term capital investments are non-derivative financial assets in the form of capital shares and units of other companies (minority interest) held with a long-term perspective.
Other equity investments held by the company are reported at fair value through profit or loss according to the model presented in IFRS 9. The fair value is determined by quoted prices in an active market or by using valuation techniques in the absence of such an active market.

2.14. 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.

2.15. Lease

2.15.1. Leased assets

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.

2.16. Share capital and reserves

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 insolvency.

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.

2.17. Income tax

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.

2.18 Financial instruments

2.18.1. Recognition and derecognition

Financial assets and financial liabilities are recognised 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.

2.18.2. 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.

2.18.3. 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/financial means provided, loans, trade and other receivables.

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.

This category also includes investments in equity instruments. The Company recognizes these investments at fair value through profit or loss and has not made an irrevocable choice to report investments at fair value through other comprehensive income.

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 recognises 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.

2.18.4. 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 an 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 an 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 is 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 is 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.

2.18.5. 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.

2.18.6. 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 .

2.19. 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 2.20.

2.19.1. 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.

2.19.2. 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.

2.19.3. 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 Company undertakes 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.

2.19.4. 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.

2.19.5. 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.

2.20. 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.

2.20.1. 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.

2.20.2. 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.

2.20.3. Useful life of depreciable assets
Management reviews the useful lives of depreciable assets at the end of each reporting period.
As of December 31, 2020, management determines the useful life of assets, which represents the expected useful life of the Company's assets. The carrying amount and assets are analysed 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	31.12.2020 *BGN thousand*	31.12.2019 *BGN thousand*
Financial revenues, by types		
Interest income on financial assets at amortized cost	3,717	3,683
Income from cessions with financial assets at amortized cost	2,548	-
Change in the fair value of financial assets, recognized at fair value through profit or loss, net*	1,992	3,069
Income from operations with financial assets	1,142	383
Dividend income from equity instruments reported as financial assets at fair value through profit or loss	1	156
Revenues from foreign exchange differences	-	419
Total financial income	**9,400**	**7,710**
Financial expenses, by types		
Interest expense on loans, reported at amortized cost:	(3,791)	(3,729)
- Interest on bank loans	(3,137)	(2,951)
- Interest on bond loans	(408)	(434)
- Interest on loans with related parties	(237)	(342)
- Interest on loans from unrelated parties	(9)	(2)
Interest expense on REPO transactions in equity instruments reported as financial assets at fair value through profit or loss	(927)	(528)
Expenses from operations with financial assets	(1,013)	(343)
Exchange rate differences	(1,224)	(5)
Impairment of credit losses on receivables on granted trade loans, receivables on cessions and from transactions with financial assets	(2,003)	(315)
Recovered impairment of credit losses on granted trade loans, receivables on cessions and from transactions with financial assets	145	412
Net change in the impairment of loans granted, receivables on cessions and from transactions with financial instruments	*(1,858)*	*97*
Total financial expenses	**(8,813)**	**(4,508)**
Outcome from financial activity	**587**	**3,202**
Expenses for external services by types:		
Consultancy, Auditing, Legal fees	(11)	(7)
Commissions	(221)	(234)
Rents*	-	(102)
Bond costs	(9)	(8)
Bank fees and commissions	(2)	(7)
Other external services	(20)	(39)
Total	**(263)**	**(397)**
Financial result before tax	**324**	**2,805**
(Expenses)/saving of deferred corporate taxes	179	(10)
Total taxes:	**179**	**(10)**
TOTAL COMPREHENSIVE INCOME, NET OF TAXES	**503**	**2,795**

* Income from operations with financial instruments for 2020 include: BGN 1,142 thousand of trading income and BGN 1,992 thousand of revaluation of financial instruments, compared to BGN 383 thousand of trading income and BGN 3,069 thousand of revaluation income of financial assets for 2019.

* Deferred taxes include the amount of income tax charged on temporary tax differences. A 10% tax rate was used to determine the deferred tax, which is a corporate income tax for 2020 and 2019.

4. PROPERTY, MACHINES, FACILITIES AND EQUIPMENT	Machinery, facilities, equipment	**Total**
	BGN thousand	*BGN thousand*
Reporting value:		
Balance as of January 1, 2019	**2**	**2**
Amounts received	-	**-**
Written-off	-	**-**
Balance at December 31, 2020	**2**	**2**
Depreciation:		
Balance as of January 1, 2020	**-**	**-**
Accrued	(1)	**(1)**
Written-off	**-**	**-**
Balance at December 31, 2020	**(1)**	**(1)**
Book value as of January 01, 2020	**2**	**2**
Book value as of December 31, 2020	**1**	**1**

5. INVESTMENTS IN SUBSIDIARIES	**Share in capital**	31.12.2020	31.12.2019
		BGN thousand	BGN thousand
IT Soft EAD	100.00%	5	5
GPS Control EAD	100.00%	855	855
Prophonica EOOD	100.00%	150	150
Balkan Telecommunication Company EOOD	100.00%	8	8
Sentinel Advisors s.a.	99.54%	7,823	7,823
Total Investments in subsidiaries		**8,841**	**8,841**

5. INVESTMENTS IN ASSOCIATED COMPANIES

		31.12.2020	31.12.2019
		BGN thousand	BGN thousand
SAL Real Estate REIT	29.44%	-	81
Eurosys OOD	10.00%	-	-
Associated and minority participations		**0**	**81**

5. OTHER LONG-TERM CAPITAL INVESTMENTS, VALUED AT FAIR PRICE

		31.12.2020	31.12.2019
		BGN thousand	BGN thousand
SAL Real Estate REIT	17.32%	1,386	-
Associated and minority participations		**1,386**	**-**
Total long-term investments		**10,227**	**8,922**

In 2020 Specialized Logistics Systems AD reduced its share in SLS Properties REIT from 29.44% to 17.32% by selling part of the shares in the capital of the company. As of the date of preparation of the financial statements, 2,390 shares have been purchased. The management of the Company has decided to reclassify the investment in the capital of SLS Properties REIT as equity investments at fair value through profit or loss. The investment is measured at fair value based on the exchange traded price as of the reporting date.

6. RECEIVABLES FROM RELATED COMPANIES

	31.12.2020	31.12.2019
	BGN thousand	*BGN thousand*
Non-current receivables from related companies		
Non-current receivables from related companies, gross amount before impairment	46,472	44,844
Expected credit losses from impairments	*(1,230)*	*(510)*
Non-current receivables from related companies value after impairment, incl.	**45,242**	**44,334**
IT Soft EAD	40,622	41,115
Prophonica EOOD	2,008	2,123
Balkan Telecommunication Company EOOD	120	108
Smart IT Solutions EOOD - under common control	2,492	988
Total on-current receivables from related companies	**45,242**	**44,334**

Receivables from related parties are on loans granted, maturing on 31.12.2024, at 3.2% annual interest. Part of the receivable from IT Soft EAD in the amount of BGN 1,015 thousand is under a contract for purchase and sale of securities.

6. RECEIVABLES FROM RELATED COMPANIES (CONTINUED)

	31.12.2020	31.12.2019
	BGN thousand	*BGN thousand*
Current receivables from related companies		
Current receivables from related companies, gross amount before impairment	2,374	7,292
Expected credit losses from impairments	*(27)*	*(51)*
Current receivables from related companies value after impairment, incl.	**2,347**	**7,241**
GPS Control EAD	1,899	5,522
Prophonica EOOD	178	114
IT Soft EAD	211	1,597
Balkan Telecommunication Company EOOD	4	-
Smart IT Solutions EOOD - under common control	55	8
Total current trade and other receivables	**2,347**	**7,241**

The receivables from GSP Control EAD is under a contract for the purchase and sale of securities. Maturity date 31.12.2021.

The receivables from IT Soft EAD, Profonica EOOD, Balkan Telecommunication Company and Smart IT Solutions EOOD represent interest under a loan contract.

7. TRADE AND OTHER RECEIVABLES

	31.12.2020	31.12.2019
	BGN thousand	*BGN thousand*
Non-current trade and other receivables		
Non-current trade and other receivables, gross amount before impairment	56,493	52,451
Expected credit losses from impairments	*(1,521)*	*(599)*
Non-current trade and other receivables, value after impairment, including:	**54,972**	**51,852**
Receivables from loans granted	38,616	30,136
Receivables on cessions	16,356	21,716
Total trade and other receivables	**54,972**	**51,852**
Current trade and other receivables		
Current trade and other receivables, gross amount before impairment	20,469	21,542
Expected credit losses from impairments	*(578)*	*(341)*
Current trade and other receivables, value after impairment, including:	**19,891**	**21,201**
Receivables from loans granted	4,211	1,003
Interest receivables	863	3,116
Receivables on cessions	8,621	8,302
Receivables from securities transactions	6,196	8,773
Trade receivables	-	7
Total trade and other non-current receivables	**19,891**	**21,201**

The terms of the loans granted are as follows:

Borrower	Maturity	Interest %	31.12.2020 BGN thousand
Loan 1	29.5.2024	3.00%	266
Loan 2	26.3.2024	3.00%	476
Loan 3	31.12.2022	5.00%	6,267
Loan 4	31.12.2024	3.20%	3,879
Loan 5	31.12.2024	3.20%	5,593
Loan 6	31.12.2024	3.20%	15,106
Loan 7	31.12.2024	3.00%	7,029
Total non-current receivables on loans granted			**38,616**
Loan 8	11.12.2021	5.00%	124
Loan 9	Unlimited period	1.50%	3,293
Loan 10	31.3.2022	3.20%	795
Total current receivables on loans granted			**4,211**

Receivables under assignments amount to BGN 24,977 thousand, of which BGN 19,558 thousand are interest-bearing, with interest rates ranging from 3.2% to 7.5%. The interest related to receivables under cessions amounts to BGN 4,117 thousand.

8. Deferred tax assets

	31.12.2020 *BGN thousand*	31.12.2019 *BGN thousand*
Deferred taxes arise from temporary differences and unused tax losses and can be presented as follows:		
Unused tax losses	130	137
Receivables	336	150
Total	**466**	**287**

9. CURRENT FINANCIAL ASSETS

	31.12.2020 *BGN thousand*	31.12.2019 *BGN thousand*
Stocks traded on the stock exchange	31,797	35,019
Shares that are not traded on the stock exchange	-	698
Bonds traded on the stock exchange	42	59
Total:	**31,839**	**35,776**

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.

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 18,518 thousand were provided under the terms of REPO transactions with a closing date in 2021.

Amounts recognized in profit or loss

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

	31.12.2020	31.12.2019
	BGN thousand	*BGN thousand*
Change in the fair value of financial assets, recognized at fair value through profit or loss, net	1,992	3,069
Income from operations with financial assets	1,142	383
Dividend income from equity instruments reported as financial assets at fair value through profit or loss	1	156
Expenses from operations with financial assets	(1,013)	(343)
Total:	**2,122**	**3,265**

10. CASH AND SHORT-TERM DEPOSITS

	31.12.2020	31.12.2019
	BGN thousand	*BGN thousand*
Cash and cash equivalents, gross amount before impairment	808	37
Expected credit losses	*(2)*	-
Cash and cash equivalents, value after impairment, including	**806**	**37**
Funds in cash	14	14
Financial assets in bank accounts	792	23
Total cash and cash equivalents	**806**	**37**

11. EQUITY

	31.12.2020	31.12.2019
	BGN thousand	*BGN thousand*
Main share capital	535	535
Reserves	535	535
Undistributed profit from previous years	8,084	6,439
Current financial result profit/(loss)	503	2,795
Total:	**9,657**	**10,304**

12. PAYABLES TO RELATED PARTIES	31.12.2020	31.12.2019
	BGN thousand	*BGN thousand*
Non-current liabilities to related parties:		
GPS Control EAD	**3,640**	**4,533**
Current liabilities to related parties:		
Liabilities to owner for distributed dividend	63	1,660
Profonica	-	3
GPS Control EAD	35	69
Total current liabilities to related parties	**98**	**1,732**

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. The loan was renegotiated at 6% interest and maturity date 31.12.2024.

In December 2019, The management has decided to distribute a dividend among the shareholders.

13. LIABILITIES ON BORROWING LOANS	31.12.2020	31.12.2019
	BGN thousand	*BGN thousand*
Non-current:		
Bond ISIN: BG2100004105 - principal	2,152	2,543
Bond ISIN: BG2100004170 - principal	7,500	7,500
	9,652	**10,043**
Current:		
Bond ISIN: BG2100004105 - principal	391	391
Bond ISIN: BG2100004105 - interest	21	24
Bond ISIN: BG2100004170 - interest	72	72
	484	**487**

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 instalments 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	31.12.2020	31.12.2019
	BGN thousand	*BGN thousand*
Non-current:		
Bank loans	121,653	128,107
Total non-current liabilities	**121,653**	**128,107**
Current		
Bank loans	760	-
Total current liabilities	**760**	**-**

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%

The current liability is for interest paid in January 2021.

15. TRADE AND OTHER PAYABLES	31.12.2020	31.12.2019
	BGN thousand	*BGN thousand*
Current liabilities		
Trade payables	-	210
Liabilities on loans from third parties	1,075	27
Tax liabilities	-	100
Liabilities under REPO transactions - principals	18,518	14,005
Liabilities under REPO transactions - interests	254	104
Total current liabilities	**19,847**	**14,446**

The obligations under REPO transactions are concluded for a period of six months and have a closing date of 2021.

Liabilities from loans from third parties include principal for BGN 1,059 thousand and interest for BGN 16 thousand. The loans are due in 2021. The interest rate ranges from 3.1% to 7% annual interest.

16. DISCLOSURE OF RELATED PARTIES

Persons with controlling interest:

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

Subsidiaries

- JPS Control EAD - 835 000 pcs. shares - 100%
- IT Soft EAD - 5 000 pcs. shares - 100%
- Profonica EOOD - 485 050 pcs. shares - 100%
- Smartnet EAD - 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 Ilian Dinev.
- SLS Property REIT - Executive Director Ilian Dinev
- VI Properties EOOD - Manager Vanyo Ivanov.
- VI Lyulin EAD - Executive Director Ilian Dinev
- Cluster of European Experts Association - Member of the Management Board
- Fleet Management Association - in liquidation

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:

Related party transactions reported in the statement of comprehensive income		Revenue from interests *BGN thousand*	Expenses for interests *BGN thousand*	Income from securities trading *BGN thousand*	Income from recognized expected credit losses *BGN thousand*	Expenses on expected credit losses *BGN thousand*
IT Soft EAD	2019	1,293	-	-	41	21
IT Soft EAD	2020	1,282	-	-	13	630
GPS Control EAD	2019	-	342	-	3	-
GPS Control EAD	2020	-	237	1,380	17	-
Prophonica EOOD	2019	23	-	-	-	22
Prophonica EOOD	2020	68	-	-	-	34
BTC EOOD	2019	1	-	-	-	1
BTC EOOD	2020	4	-	-	-	2
Smart IT Solutions EOOD	2019	10	-	-	1	12
Smart IT Solutions EOOD	2020	49	-	-	-	-
TOTAL	**2019**	**1,327**	**342**	**-**	**45**	**56**
TOTAL	**2020**	**1,403**	**237**	**1,380**	**30**	**666**

Deals with related persons, recognized in Statement of financial position		Receivables from related parties *BGN thousand*	Payables to related parties *BGN thousand*
IT Soft EAD	2019	42,713	-
IT Soft EAD	2020	40,832	-
GPS Control EAD	2019	5,522	4,602
GPS Control EAD	2020	1,899	3,675
Prophonica EOOD	2019	2,237	3
Prophonica EOOD	2020	2,186	-
BTC EOOD	2019	108	-
BTC EOOD	2020	124	-

Smart IT Solutions EOOD	2019	996	-
Smart IT Solutions EOOD	2020	2,547	-
Liabilities to owners for dividends	2020	-	63
TOTAL	**2019**	**51,575**	**4,605**
TOTAL	**2020**	**47,589**	**6,438**

Related party transactions reported in the cash flow statement		Proceeds from loans	Payment on loans received	Dividend paid	Interest paid on loans	Interest received on loans granted	Amounts received from trading in financial assets
		BGN thousand	*BGN thousand*	*BGN thousand*	*BGN thousand*	*BGN thousand*	*BGN thousand*
GPS Control EAD	2019	-	2,113	-	363	-	147
GPS Control EAD	2020	3,870	3,407	-	248	-	3,640
IT Soft EAD	2019	10	574	-	-	-	6,736
IT Soft EAD	2020	7,152	7,289	-	-	2,681	-
Prophonica EOOD	2019	-	1,900	-	-	-	-
Prophonica EOOD	2020	84	-	-	-	-	-
BTC EOOD	2019	-	109	-	-	-	-
BTC EOOD	2019	-	14	-	-	-	-
Smart IT Solutions EOOD	2019	72	1,000	-	-	12	-
Liabilities to owners	2020	-	-	2,689	-	-	-
TOTAL	**2019**	**82**	**5,696**	**-**	**363**	**12**	**6,883**
TOTAL	**2020**	**11,106**	**10,710**	**2,689**	**248**	**2,681**	**3,640**

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.

17. 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	**Explanatory note**	**2020 BGN thousand**	**2019 BGN thousand**
Debt instruments measured at depreciated value			
Receivables from related parties	6	47,589	51,575
Loans granted	7	42,827	31,139
Interest receivables	7	863	3,116
Receivables on cessions	7	24,977	30,018
Receivables for securities	7	6,196	8,773
Trade and other receivables	7	-	7
Money and short-term deposits	10	806	37
		123,258	**124,665**
Financial assets at fair value in the profit and loss			
Long-term capital instruments	5	1,386	-
Short-term capital instruments	9	31,839	35,776
Short-term capital instruments		**33,225**	**35,776**

17. CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Financial liabilities	**Explanatory note**	**2020 BGN thousand**	**2019 BGN thousand**
Financial liabilities accounted by amortized cost			
Payables to related parties	12	3,738	6,265
Bond loans	13	10,136	10,530
Bank loans	14	122,413	128,107
Loans from third parties	15	1,075	27
Liabilities for securities	15	18,772	14,108
Tax liabilities	15	-	100
Trade and other payables	15	-	210
		156,134	**159,347**

See explanatory note 2.18 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 2.18. A description of the Company's risk management policy and objectives regarding financial instruments is presented in Explanatory note 18.

18. 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 2.18. 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:

	2020 BGN thousand	2019 BGN thousand
Groups of financial assets - balance sheet values:		
Debt instruments measured at depreciated value	123,258	124,665
Financial assets at fair value through profit and loss;	33,225	35,776
Book value	**156,483**	**160,441**

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	48,846	-	-	-
Loans granted	44,011	-	-	-
Interest receivables	5,118	-	-	-
Receivables on cessions	21,427	-	-	-
Receivables for securities	6,375	-	-	-
Trade receivables	30	-	-	-
Money and short-term deposits	808	-	-	-
Expected credit losses	(3,357)	-	-	-
	123,258	**-**	**-**	**-**

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, 2020, 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 31.12.2020 in BGN thousand	Up to 1 month	2 - 12 months	1 - 5 years	Total
Assets				
Cash and short-term deposits	806	-	-	**806**
Receivables from related companies	-	2,347	45,242	**47,589**
Receivables from loans granted	-	4,211	38,616	**42,827**
Interest receivables	-	4,834	-	**4,834**
Receivables on cessions	-	4,650	16,356	**21,006**
Receivables from securities transactions	-	6,196	-	**6,196**
Financial assets	-	31,839	1,386	**33,225**
Total assets:	**806**	**54,077**	**101,600**	**156,483**
Liabilities				
Payables to related parties	-	98	3,640	**3,738**
Bond loans	-	484	9,652	**10,136**
Bank loans	-	760	121,653	**122,413**
Loans from third parties	-	1,075	-	**1,075**
Liabilities for securities	-	18,772	-	**18,772**
Total liabilities	**-**	**21,189**	**134,945**	**156,134**
Net maturity difference	**806**	**32,888**	**(33,345)**	**349**

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 31.12.2019 in BGN thousand	Up to 1 month	2 - 12 months	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**
Bond loans	-	487	10,043	**10,530**
Bank loans	-	-	128,107	**128,107**
Loans from third parties	-	27	-	**27**
Liabilities for securities	-	14,109	-	**14,109**
Trade and other payables	-	310	-	**310**
Total liabilities	**-**	**16,664**	**142,683**	**159,348**
Net maturity difference	**37**	**47,554**	**(46,497)**	**1,093**

19. 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	**31.12.2020**	**31.12.2019**
Debt	156,134	159,348
Cash and cash equivalents	806	37
Net debt	**155,328**	**159,311**
Total equity	9,657	10,304
Total capital	**164,985**	**169,615**
Debt ratio	**0.94**	**0.94**

20. EVENTS AFTER THE **O**REPORTING DATE

After 31.12.2020, no events have occurred that require adjustments or additional disclosures in these financial statements.

Executive Director */illegible signature/*
Iliyan Zafirov Dinev

Prepared by: */illegible signature/*
Nikolay Atanasov Dachev

Round seal of Specialized Logistics Systems AD

I, the undersigned Savina Hadzhieva, certify the accuracy of the translation from Bulgarian to English of the attached document – Notes to the Separate Annual Financial Statement of Specialized Logistic Systems AD AS OF DECEMBER 31, 2020. The translation consists of 28 pages.

Translator: ____________________Savina Hadzhieva