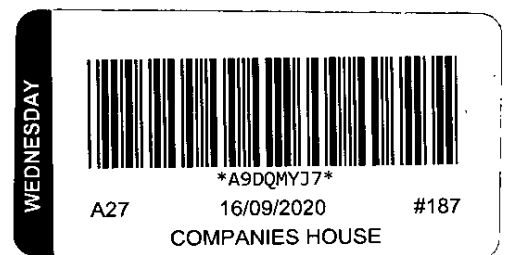


Scale Focus AD
Consolidated management report and
Consolidated annual financial statements
31 December 2019



Translation in English of the Company's official consolidated financial statements and management report
issued in Bulgarian language

SCALE FOCUS AD

GENERAL INFORMATION

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SCALE FOCUS AD

GENERAL INFORMATION

Board of Directors

Ivan Atanasov Ashminov
Viktor Miroslavov Bilyanski
Plamen Stilyanov Tsekov

Seat and registered address

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Mladost district
Mladost, 90 Tsarigradsko Shose blvd,
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Legal consultants

Law firm „Sabev and Partners“
Anton Petrov - Attorney
CasePro OOD

Servicing banks

UBB AD
Unicredit Bulbank AD
UniBanka Skopje
KBC Bank NV, Niederlassung Deutschland
KBC Bank NV, London

Register and registration number:

UIC 201996987

Auditors

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**SCALE FOCUS AD
CONSOLIDATED MANAGEMENT REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

The management presents its consolidated management report and consolidated annual financial statements as at 31 December 2019 prepared in accordance with the International Financial Reporting Standards (IFRS) endorsed by the European Union.

DESCRIPTION OF THE ACTIVITY

The companies consolidated by Scale Focus AD (“Scale Focus”, “the Group”) are based in Bulgaria and Europe, with a solid international recognition whose vision is to create valuable and innovative solutions for its clients by offering software that serves their needs and contributes to the optimization and development of their business.

As at 31 December 2019 the Group consists of the Parent company Scale Focus AD and five subsidiaries Scale Focus Ltd, Great Britain, Scale Focus GmbH, Germany, Logical Factor Bulgaria EOOD, Bulgaria, Upnetix EAD, Bulgaria and Scale Focus DOOEL, North Macedonia. The shareholding of Scale Focus AD in each of the subsidiaries is 100%.

Scale Focus AD („Scale Focus“, „the Company“) is a Bulgarian high-tech company focused on the delivery and integration of modern, innovative technology solutions. Scale Focus AD provides technological innovations and software solutions that enable businesses to prosper today and to be sustainable in the future. The Company is a major provider of IT service implementation solutions delivered as technology and business consulting to many European and North American customers. The teams of Scale Focus AD offer a wide range of specialized software solutions and integration of existing products of global leaders such as Google, SAP, IBM, Amazon, Oracle, Microsoft, Salesforce, Apttus and others. The Company develops and manages the whole process of digital transformation of its customers.

Scale Focus Ltd., Great Britain is a company, which develops customized software solutions for clients.

Scale Focus GmbH, Germany is a company, which develops customized software solutions for clients.

Logical Factor Bulgaria EOOD, Bulgaria is a company, which develops customized software solutions for clients.

Upnetix EAD, Bulgaria is a company, which develops customized software solutions for clients. As first and only Google Developers Certified Agency in Bulgaria and being among the 50 certified companies at global level, Upnetix EAD follows the latest trends in the IT sector and applies best practices in the development of software solutions.

Scale Focus DOOEL, North Macedonia, is a company, which develops customized software solutions for clients.

REVIEW OF THE ACTIVITIES AND PLANNED DEVELOPMENT

The Group provides innovative technology services and develops software solutions for clients across North America, Europe and the Middle East.

The Group has an extensive and diversified portfolio of products and professional technology services. The experience gained in different industries and business lines allows us to always provide the best and optimal solutions for our partners.

The Group provides a wide range of diverse software services that vary according to the level of engagement and responsibility of the Company’s teams.

- E-commerce Solutions
- Custom Solutions Development
- Enterprise Systems Integration
- Mobile and Web Engineering
- Software Quality Engineering
- FinTech Services and Solutions
- Cybersecurity solutions

**SCALE FOCUS AD
CONSOLIDATED MANAGEMENT REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

REVIEW OF THE ACTIVITIES AND PLANNED DEVELOPMENT (CONTINUED)

- Software Infrastructure Reengineering
- Robotic Process Automation
- Legacy Systems Transformation
- Customer analytics
- Business and operational analytics
- Compliance and risk reporting
- Enterprise Insights – Actions Platform

The Parent company was founded in March 2012 as a joint stock company. As at the end of 2019, Scale Focus had BGN 328 325 of fully subscribed and paid-in capital. The top management of the company is comprised of proven specialists in the field of project management, development and integration of software systems and consultancy services. Every team member has more than 15 years of experience in the IT industry both in Bulgaria and abroad.

As at the end of 2019, the Group constitutes of six companies: Parent company Scale Focus AD (Bulgaria) and five subsidiaries – Logical Factor Bulgaria EOOD (Bulgaria, acquired in February 2014), Scale Focus Ltd. (Great Britain, founded in September 2013), Scale Focus GmbH (founded in Germany in April 2015), Upnetix EAD (acquired on 21 September 2018) and Scale Focus DOOEL (North Macedonia, founded on 26 November 2019).

Since the establishment of Parent company and during the past eight years of dynamic growth, Scale Focus has distinguished itself on the market as an innovative company, striving to provide the best and most suitable solutions to meet the different needs of customers. The teams of the company consist of specialists with rich technological and consulting experience in various industries. Our consultants and software developers are highly qualified and certified by leading technology companies such as Google, Microsoft, SAP, Amazon, IBM, Oracle, TIBCO and Microsoft. We have extensive experience in developing sustainable IT solutions for small and medium-sized businesses, as well as for large international corporations across Europe and North America.

The clients of the Group are not only companies with global presence (Fortune 500) but also small and medium-size companies, as well as start-ups. Every member of the Group's teams is aware of the importance of the client – being aware of the particular business and the specific needs of our partners is of paramount importance. We always strive to fully understand the business specifics in order to be able to address customers' needs in the best and most innovative way, providing state-of-the-art technology solutions.

Our team believes in close cooperation – effective communication, complex services, transparency in relations and trust are the foundation of success as well as building long-term partnerships in different geographic and cultural contexts.

The Group has an extensive and diversified portfolio of products and offers professional technology services. The experience gained in different industries and business lines allows us to always provide the best and optimal solutions for our partners.

In terms of sectors and industries, the Group develops software solutions mainly for the e-commerce, e-health, insurance, energy industry, telecommunications, governmental and non-governmental organizations and others. The Group is export-oriented and a major part of its revenue is generated abroad – in Europe, North America, and the Middle East.

At the beginning, the Group started out quickly with a couple of projects for European and US-based clients and a team of over 10 highly qualified specialists in April 2012. At the end of 2019, the number of employees working for the Company increased more than **80 times** and the team delivers dozens of valuable projects for internationally recognized companies.

For the first **eight** years of its existence, the parent-company succeeded in developing a highly qualified team of more than 850 specialists, and opened offices in **Sofia, London, Plovdiv, Munich, Zurich, Washington, Burgas, Varna and Skopje**.

**SCALE FOCUS AD
CONSOLIDATED MANAGEMENT REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

REVIEW OF THE ACTIVITIES AND PLANNED DEVELOPMENT (CONTINUED)

The consolidated statement of comprehensive income indicates the dynamic development of Scale Focus. In 2019, there was a 59% growth compared to 2018. The growth of the revenues in 2018 compared to 2017 was 52%.

In 2018 the parent-company acquired Upnetix EAD (one of the fifty Google Developers Certified Agencies). This fact provides an excellent opportunity for the Company to increase the added value it creates to its customers, as well as to accelerate the growth and transformation of Scale Focus AD into one of the major companies in the field of digital transformation (European Union-based companies).

The Group pays particular attention on the provision of excellent solutions and their high quality. Every year the Group is granted recertification for its quality management systems in accordance with the requirements of international standards for IT service management and environmental management.

For its excellent performance and achievements over the years, the Group has won more than 100 awards granted by a number of independent local and international organizations. In the past year the Group earned two prestigious awards given by ForbesBusinessAwards – CEO of the year and Company of the year.

In 2019 we launched the initiative “ScaleFocusAcademy” – the first IT academy in Bulgaria which is completely free of charge, aiming to assist motivated talents to acquire practical IT education through trainings and work on real-world projects. The first academy was launched in Burgas in October 2019, and we plan the academy to expand in other major Bulgarian cities such as Plovdiv, Varna and Sofia.

Scale Focus has been a full member of one of the most reputable associations in the industry – the Association for innovations, business excellence, services and technologies (AIBEST) since February 2013. Since 14 March 2013 the Company has been a member of the German Bulgarian Chamber of Industry and Commerce (GBCIC). We do our best to contribute to the strengthening of the German Bulgarian business relations. Through the successful management of our London office and by establishing close partnership with the British Bulgarian Business Association (BBBA), Scale Focus AD has continued to support business relations between Bulgaria and Great Britain for more than 5 years. The Company continues its long-lasting partnership with the members of ICT Cluster Plovdiv, Bulgarian Association of Software Companies (BASSCOM), Bulgarian-Swiss Chamber of Commerce (BSCC) and London Chamber of Commerce and Industry. After the opening of an office in Burgas, the Company became part of the ICT Cluster Burgas with the aim of improving and developing the IT environment in Burgas.

Scale Focus AD has made great progress and achievements to be proud of, since the targets set in 2018 for the next 2-3 years were reached as early as the middle of 2019. Scale Focus AD takes great pride in the launching of the initiative ScaleFocusAcademy, as well as in our development and innovations plan in North Macedonia.

In 2019, the Group had a profit of BGN 3 881 thousand, which is a 35% increase compared to 2018's profit of BGN 2 874 thousand. The larger profit is due to the larger revenues in 2019 compared to 2018.

The accrued expenses for personnel and social securities for 2019 amounts to BGN 38 896 thousand, while the amount for 2018 was BGN 21 706 thousand.

RESEARCH AND DEVELOPMENT ACTIVITIES

Ever since the parent-company was founded, Scale Focus has continued to develop and encourage innovative thinking to come up with technological solutions of the future.

In 2019 the focus of the research and development activities was on creating a solutions platform for SmartCities. We aim to improve life through digital transformation of cities and communities.

The Group carries out activities related to research and development in the field of IT technologies. In the last years Scale Focus succeeded in winning a EU funded project. The project is in partnership with the Balkan Institute of Labor and Social Policy (BILSP) together with a consortium of eight other partners, including universities and institutions from all over Europe. The project is called „Supporting Active Ageing through Multimodal Coaching“ (SAAM) and is funded by the EU Framework Program for Research and Innovation "Horizon 2020". The aim of the project is to help elderly people over 60 to live actively and independently in their own homes while maintaining good physical, emotional and mental health and still keeping social contacts with their relatives and friends as long as possible.

**SCALE FOCUS AD
CONSOLIDATED MANAGEMENT REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

RESEARCH AND DEVELOPMENT ACTIVITIES (CONTINUED)

Another project that attracted funding is the innovative and integrated physiotherapy/kinesiotherapy system "SoFit". The application is innovative and aims at spreading key practical knowledge in the field of ICT solutions in personal medicine and individual therapy, providing an opportunity to enhance the quality of life and health status of patients with disabilities and traumas of musculoskeletal system and joints.

The parent-company has organized an internal competition „Innovation Challenge“ to voice and to popularize the ideas of colleagues. In 2017 the winners of the competition created a prototype of wireless device "SoundVision", which aims to help people with visual disturbances navigate through their surroundings by including special features such as differentiating colors, the light levels in the room, and recognizing different currencies.

The Group continues to carry out research and development activities in the IT technologies field and as a partner in a consortium won a second project under the EU Framework Program for Research and Innovation "Horizon 2020" – FNSCloud /Food Nutrition Security Cloud/. The aim of the project is to resolve the fragmentation problems by integrating existing data, which is essential for highly effective, EU-wide research on healthy eating and consumer behavior, as well as on the sustainable agriculture and bioeconomy.

The SoundVision project, funded by the Financial Mechanism of the European Economic Area – Innovation Norway, is based on research and development activities aimed at developing a novel/ innovative technology to help blind and visually impaired people to live more independently and actively using devices for different applications. Within the framework of the project a discreet, innovative, multifunctional device will be developed at a low price to serve the needs of visually impaired people. Additionally, SoundVision will become a platform and ecosystem for creating applications that use embedded sensors.

ETRM is a platform for energy trading and risk management, market data analysis and other analyses. Near-real-time segmentation of infrared images and classification with specifically designed machine learning models, fault-tolerant data pipelines, allowing analyses on electricity production with less than a one hour delay, as well as forecast results for electricity production from power plants.

ScaleFocus has developed an application for automated data collection and insured event and insurable risk assessment, including assessment of local damages after insured event affecting a lot of people at the locality level and automated damage analysis using specialized unmanned aircraft (drones) for data collection and artificial intellect solutions; Collection of information about a locality with specialized unmanned aircraft and automatic identification of potential insurable risks – trees near or leaning over buildings, parking lots under tower cranes, etc.

A self-diagnosis solution has been implemented, allowing for an initial classification of symptoms and then getting in touch with an appropriate health care specialist, which helps to make efficient use of the time of the medical staff in relation to the provision of remote clinical services, i.e. telemedicine.

In 2019 the Group actively participated in and developed Cybersecurity projects:

- Thorough vulnerability scanning and penetration testing of a large system giving access to all subsequent systems used by the customer (a large global beverage manufacturing company) to achieve their business objectives. The service provided gives the customer a clear picture of the current state of the application security and insight into the risks and potential damages that would have been caused to the business integrity.

**SCALE FOCUS AD
CONSOLIDATED MANAGEMENT REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

RESEARCH AND DEVELOPMENT ACTIVITIES (CONTINUED)

- Implementation of various security measures in the software development life cycle (SDLC) of various applications by a large customer developing enterprise-class software. Technical controls and methods are implemented in the systems managing the continuous integration and the continuous delivery (CI/CD – Continuous Integration & Continuous Delivery) guaranteeing the high security of the developed applications.
- Providing 24/7 SOC monitoring. Analysis of (SIEM) alarms and their raw logs, correlated by different network security technologies (Firewalls, email security, IDS/IPS, windows/linux security logs, end point protection, network traffic, etc.).
- Engineering activity consisting in automation of SOC processes to reduce work and increase efficiency; creation of SIEM correlations for detection of anomalies and network attacks (additional use of BigData technologies for preliminary analysis of logs with AI/MachineLearning); Implementation/further development of network security technologies and collecting the respective logs from them for analysis in SIEM systems.
- Carrying out a technical security audit in order to identify the current state of the technical infrastructure and its readiness to meet the requirements coming from the GDPR regulation.

POSSIBLE FUTURE DEVELOPMENT OF THE COMPANY

With respect to our future development for the next period (3-5 years) we will focus on:

- maintaining stable growth rates for the team and the Company as a whole;
- asserting the Company's positions as an innovative technology partner on global markets;
- expanding our service portfolio with a focus on (RPA, AI, ML);
- investing in information and cyber security infrastructure to engage in remote projects;
- developing innovative platforms for elastic applications in cloud or public cloud;
- taking on long-term commitments and establishing effective and solid partnerships;
- expanding consultancy services as well as creating innovative products;
- providing innovative developments related to process improvements and technologies that accelerate the Group's core business activity and support quality and timing of service provision;
- providing specialized outsourced services with elements for automation aimed at comprehensive IT support, including surveillance of operational stability IT systems (Network Operations Center – NOC) and cybersecurity (Security Operations Center – SOC) in 24x7 and 8x5 mode.

We will continue to show that today's fast-growing IT industry offers excellent opportunities to deliver high-quality technology solutions, regardless of the geophysical environment and location of the IT specialists.

The main goal of the Group is to become a trusted and long-term technology partner. We measure our success in terms of the success of our customers.

By broadening the knowledge and developing the abilities of our teams, we will make new acquaintances and grasp new partnership opportunities. We plan to create diversified working environment by attracting new international talents. At this point we have the privilege of working with specialists who come from Cuba, Turkey, Macedonia and Albania.

**SCALE FOCUS AD
CONSOLIDATED MANAGEMENT REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

CAPITAL STRUCTURE AND MANAGEMENT OF GROUP'S PARENT COMPANY

The capital structure of the Parent company of the Group "Scale Focus" AD is as follows:

Total number of shares:	328 325
Par value per share (BGN):	BGN 1,00
Share capital (BGN):	BGN 328 325,00

The shareholders of "Scale Focus" AD are:

Shareholder's name	Number of shares	Interest %
Viktor Miroslavov Bilyanski	79 279	24,147
Galina Ivanova Guenova	101	0,031
Grisha Ivanov Guenov	79178	24,116
Zhivko Zlatkov Radev	3 764	1,146
Ivan Atanasov Ashminov	79 279	24,147
Ivan Peychev Ivanov	3 764	1,146
Plamen Stilyanov Tsekov	79 279	24,147
Tsvetelina Petrova Kovacheva - Ivanova	3 681	1,12
TOTAL	328 325	100,00

The management of the parent company of the Group "Scale Focus" AD includes its Board of Directors. The members of the Board of Directors supervise the processes related to the financial performance of the parent company.

In November 2018, 3 681 ordinary shares with nominal value BGN 1 per share were transferred from Krum Emilov Daskalov to Plamen Stilyanov Tsekov. In 2019 Plamen Tsekov sold the shares bought from Krum Daskalov to the rest of the shareholders. At the end of 2019 Lyubomira Mihaylova sold her 3 681 shares to the rest of the shareholders.

As at 31 December 2019 the Chief Executive Officer of Scale Focus AD is Plamen Stilyanov Tsekov.

INFORMATION PURSUANT TO ART. 187E AND ART. 247 OF THE COMMERCE ACT

As at 31 December 2016 the parent company of the Group Scale Focus AD ("The Company") owned 49 578 of its shares, which accounts for 15,10% of the share capital. In September 2016 the Company redeemed 49 578 of its shares, owned by Stanimir Georgiev Boychev (member of the Board of Directors until 23 March 2016). The own shares were redeemed at BGN 7.80 per share and the shares have par value of BGN 1.00 each. In 2017 Scale Focus AD sold all of the redeemed shares (49 578 shares) to the existing shareholders.

As at 31 December 2019 the Chief Executive Officer of Scale Focus AD is Plamen Stilyanov Tsekov.

The Members of the Board of Directors of the parent company who own shares of the Company are as follows:

- Plamen Stilyanov Tsekov – 79 279 shares (24,147%)
- Viktor Miroslavov Bilyanski – 79 279 shares (24,147%)
- Ivan Atanasov Ashminov – 79 279 shares (24,147%)

In November 2018, 3 681 ordinary shares with nominal value BGN 1 per share were transferred from Krum Emilov Daskalov to Plamen Stilyanov Tsekov. In 2019 Plamen Tsekov sold the shares bought from Krum Daskalov to the rest of the shareholders. At the end of 2019 Lyubomira Mihaylova sold her 3 681 shares to the rest of the shareholders.

The Members of the Board of Directors of the parent company do not own bonds of the Company or have rights to purchase shares or bonds of the Company.

The information concerning the members of the Board of Directors with regard to the possession of more than 25% of the capital of another company, as well as of their participation in the management of other companies is as follows:

**SCALE FOCUS AD
CONSOLIDATED MANAGEMENT REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

INFORMATION PURSUANT TO ART. 187E AND ART. 247 OF THE COMMERCE ACT (CONTINUED)

Viktor Miroslavov Bilyanski, member of the Board of Directors of the Company:

- shareholder and CEO of Integritex OOD;
- CEO of Logical Factor Bulgaria EOOD;
- sole owner and CEO of Beronto EOOD;
- shareholder in Profai OOD;
- shareholder in CEO Business Angels OOD.

Ivan Atanasov Ashminov, member of the Board of Directors of the Company:

- sole owner of the capital and CEO of Eclipse Invest EOOD;
- sole owner of the capital and CEO of Azimut Software EOOD;
- shareholder in IT Talanti OOD;
- shareholder in Credit Garant BG OOD;
- shareholder in Netcredit OOD;
- shareholder in Engage Lab OOD;
- member of the Board of Directors of Financial Marketplace AD;
- CEO of Porsche Club-BG Association.

Plamen Stilyanov Tsekov, member of the Board of Directors of the Company:

- CEO of Scale Focus Plus DZZD Partnership
- member of the Board of Directors of Bulgarian Outsourcing Association as of 12 April 2018 which has changed its name to AIBEST association since 4 November 2019.

Information as to whether the members of the Board of Directors of the Company participate in the management of other Bulgarian companies is publicly available in the Bulgarian Trade Registry.

Remuneration to the key management personnel

	<u>2019</u>	<u>2018</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Short-term remuneration (including social security)	<u>953</u>	<u>736</u>
	<u>953</u>	<u>736</u>

FINANCIAL INSTRUMENTS USED BY THE GROUP AND ANALYSIS OF THE RISKS ASSOCIATED WITH THEM

The financial liabilities of the Group include trade and other payables and finance lease payables. These financial instruments are primarily intended to finance the Group's activity. The Group owns financial assets, such as loans granted, trade receivables, cash and short-term deposits which arise directly from its operations as well as investments in other companies.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and credit risk. The objectives and policies that the Group's management applies to manage these risks and the Group's exposure to them are summarized in Note 15 of these financial statements.

BRANCHES OF THE GROUP

The Group does not have any branches.

**SCALE FOCUS AD
CONSOLIDATED MANAGEMENT REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

EVENTS AFTER THE REPORTING PERIOD

The global challenge – COVID-19, marked the beginning of 2020. To support the fight against the pandemic, the parent-company has developed a specialized mobile application ViruSafe, which allows its users residing on the territory of the Republic of Bulgaria to join voluntarily by entering their health indicators and symptoms. ViruSafe aims to assist healthcare institutions to do better planning and track locations with potentially infected people.

The close interdependence between the Bulgarian economy and the economies of the other EU member states presupposes a contraction in exports, shrinking domestic consumption and, as a consequence, a GDP decrease. The restrictive measures introduced, as part of the declared nationwide state of emergency, temporarily (but not for long) disrupted the ordinary business operations of the Company. As a result, the Group was forced to take a number of measures to ensure business continuity and enhance the Company's competitiveness on the badly affected markets in North America and the EU. The measures can be grouped in the following way:

- Measures implemented inside the Group – the Group has successfully switched to "work from home" mode without interrupting the workflow. Processes related to the new business operation mode have been reviewed and streamlined.
- Measures implemented outside the Group – actively exploring the market for new opportunities and establishing stable partnerships;
- A key part of the management strategy for dealing with changes in business environment is transforming the Group from one providing services to one providing ready-made solutions and products in the field of e-commerce, cybersecurity and others. The solutions offered are a combination of a product and a service. This transformation imposes a different team demography, a much stronger business and market focus, including a geographic focus. As part of the restructuring of the Group a certain number of employees have been dismissed.
- The business plan and budgets for 2020 have been revised. Both awareness and commitment of the employees to the new organizational structure are ensured.

COVID-19 has necessitated urgent digitization in many sectors. Scale Focus AD has successfully devised a strategy for ensuring digital transformation of existing and new customers.

The management considers that the COVID-19 pandemic does not affect the Group's liquidity and does not create conditions that may cast significant doubt on the Group's ability to continue as a going concern.

Except for the above, there are no other significant events, which have occurred between 31 December 2019 and the date on which the financial statements were authorized for issue, that require additional adjustments and/or disclosures in the Group's financial statements for the year ended 31 December 2019.

**SCALE FOCUS AD
CONSOLIDATED MANAGEMENT REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

MANAGEMENT'S RESPONSIBILITIES

The Management is required by Bulgarian law to prepare financial statements each financial year that give a true and fair view of the state of affairs of the Group as at the year-end and of the profit or loss and cash-flows for the year then ended.


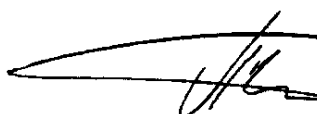
The Management confirms that suitable accounting policies have been used and applied consistently. Reasonable and prudent judgments and estimates have been made in the preparation of the financial statements for the year ended 31 December 2018.

The Management also confirms that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The Management is responsible for keeping proper accounting records, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The management report for 2019 of the Scale Focus AD Group was approved by the Board of Directors on 3 August 2020.

Chief Executive Officer:
Plamen Stilyanov Tsekov





Building a better
working world

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Independent auditor's report To the shareholders of Scale Focus AD

WEDNESDAY



Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

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

Management is responsible for the other information. The other information comprises the management report, prepared by management in accordance with Chapter Seven of the

Translation in English of the official Auditor's report issued in Bulgarian.

A member firm of Ernst & Young Global Limited

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BGN IBAN: BG48 UNCR 7000 1520 6686 91
BIC: UNCRBGSF with Unicredit Bulbank AD

Accountancy Act, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

We have nothing to report in this regard.

Responsibilities of Management and for the Consolidated Financial Statements

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and

appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

Report on Other Legal and Regulatory Requirements

Additional Matters to be Reported under the Accountancy Act

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

Translation in English of the official Auditor's report issued in Bulgarian.

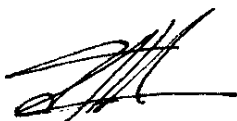


Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

- a) The information included in the consolidated management report referring to the financial year for which the consolidated financial statements have been prepared is consistent with those consolidated financial statements.
- b) The consolidated management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Audit Firm Ernst & Young Audit OOD:



Danail Gecev
Authorized Representative and
Registered Auditor in charge of the audit
Ernst & Young Audit OOD

Sofia, Bulgaria
3 August 2020

**SCALE FOCUS AD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019**

In BGN'000

	Notes	2019	2018 (restated)
ASSETS			
Non-current assets			
Intangible assets	5.1	4 519	3 783
Plant and equipment	5.2	1 712	1 047
Investments in non-controlled entities	5.3	97	191
Right-of-use assets	21	8 789	-
Goodwill	19	3 023	3 023
Deferred tax assets	12	147	92
		18 287	8 136
Current assets			
Trade and other receivables	6	11 901	9 425
Receivables for income taxes		236	55
Inventory	7	104	79
Prepaid expenses		310	174
Cash and cash equivalents	8	4 686	1 819
		17 237	11 552
		35 524	19 688
TOTAL ASSETS			
EQUITY AND LIABILITIES			
Equity			
Share capital	9.1	328	328
Legal Reserves	9.2	26	26
Share premium reserve	9.3	281	281
Foreign exchange reserve	9.4	13	-
Retained earnings		11 923	8 042
		12 571	8 677
Non-controlling interest			
		-	-
		12 571	8 677
Non-current liabilities			
Finance lease liabilities	21	6 298	47
Bank loans	17	1 862	2 383
Investment liabilities	19	1 747	1 896
Government grants	14	1 064	879
Trade and other payables	10	306	528
		11 277	5 733
Current liabilities			
Trade and other payables	10	8 027	4 427
Bank loans	17	620	504
Deferred tax liability	12	80	105
Income tax liability		13	45
Investment liabilities	19	225	-
Liabilities under lease contracts	21	2 648	14
Government grants	14	63	183
		11 676	5 278
		22 953	11 011
TOTAL LIABILITIES		35 524	19 688
TOTAL EQUITY AND LIABILITIES		35 524	19 688

Plamen Stilyanov Tsekov
Chief Executive Officer

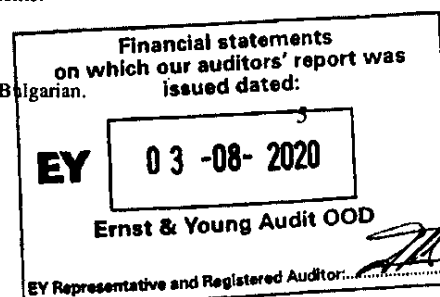


Zhivka Zdravkova Chezhkova
Preparer

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 3 August 2020.

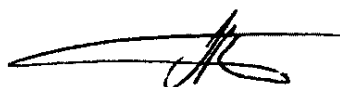
The notes on page 9 to page 58 are an integral part of these consolidated financial statements.

Translation in English of the official financial statements issued in Bulgarian.




**SCALE FOCUS AD
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019**

<i>In BGN'000</i>	Notes	2019	2018 (restated)
Revenue from contracts with customers	11.1	59 979	37 600
		59 979	37 600
Other revenue	11.2	782	733
Personnel expenses	11.3	(38 896)	(21 706)
Hired services expenses	11.4	(8 993)	(8 666)
Cost of goods sold		(592)	(492)
Materials expenses	11.5	(994)	(480)
Depreciation and amortization	5.1; 5.2; 21	(4 179)	(1 620)
Other expenses	11.6	(2 248)	(2 052)
Operating profit		4 859	3 317
Financial income	11.7	4	169
Financial expenses	11.8	(520)	(288)
Profit before tax		4 343	3 198
Income tax expense	12	(462)	(324)
Profit for the year		3 881	2 874
Other comprehensive income		-	-
<i>Other comprehensive income due to be reclassified to profit/ loss in following periods, net of taxes</i>			
Foreign exchange differences due to conversion of foreign financial statements		13	-
Total comprehensive income for the year		3 894	2 874
Attributable to:			
Equity holders of the parent		3 894	2 874
Non-controlling interest		-	-
		3 894	2 874

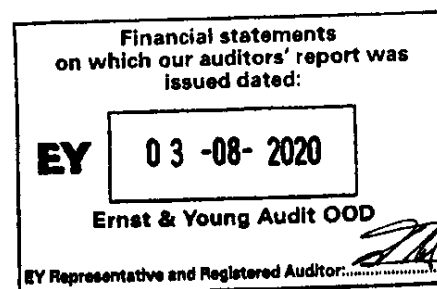

Plamen Stilyanov Tsekov
Chief Executive Officer




Zhivka Zdravkova Chechkova
Preparer

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 3 August 2020.

The notes on page 9 to page 58 are an integral part of these consolidated financial statements.



**SCALE FOCUS AD
CONSOLIDATED STATEMENT FOR CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

Restated

<i>in BGN thousand</i>	Attributable to the equity holders of the parent					Total	Non-controlling interest	Total equity
	Share capital	Legal reserves	Share premium reserve	Foreign exchange reserve	Retained earnings			
As at 1 January 2018	328	26	281	-	5 168	5 803	-	5 803
Net profit for the period	-	-	-	-	2 874	2 874	-	2 874
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	2 874	2 874	-	2 874
As at 31 December 2018	328	26	281	-	8 042	8 677	-	8 677
As at 1 January 2019	328	26	281	-	8 042	8 677	-	8 677
Net profit for the period	-	-	-	-	3 881	3 881	-	3 881
Other comprehensive income	-	-	-	13	-	13	-	13
Total comprehensive income	-	-	-	-	3 881	3 894	-	3 894
As at 31 December 2019	328	26	281	13	11 923	12 571	-	12 571



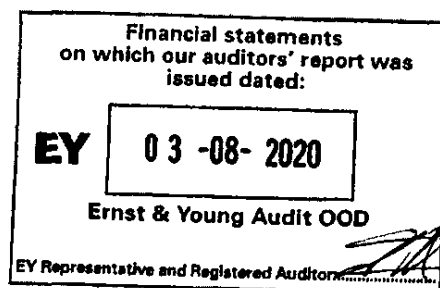
Plamen Stilyanov Tsekov
Chief Executive Officer




Zhivka Zdravkova Zhechkova
Preparer

The consolidated financial statements were approved by the Board of Directors on 3 August 2020.

The notes on page 9 to page 58 are an integral part of these consolidated financial statements.



SCALE FOCUS AD
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

<i>In BGN'000</i>	Notes	2019	2018 Restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		4 343	3 198
Adjustments to reconcile profit before tax to net cash flows:			
Non-cash:			
Depreciation and amortization	5.1,5.2, 21	4 179	1 620
- incl. Depreciation of right-of-use assets	21	2 508	-
Impairment of intangible assets	5.1	81	-
Impairment of investments	5.3	94	-
Loss on disposal of assets	5.2	15	132
Expenses for impairment and derecognition of receivables	11.6	330	705
Revenue from government grants	11.2, 14	(525)	(671)
Dividend income	11.2	(2)	(10)
Interest income	11.7	(4)	(41)
Interest expenses	11.8	417	85
- incl. interest expenses on right-of-use assets		262	-
Working capital adjustments			
Increase in inventory		(25)	(17)
Increase in prepaid expenses		(136)	(93)
Increase in trade and other receivables		(2 716)	(1 306)
Increase / (decrease) in trade and other payables		3 222	(14)
Interest paid		(342)	(66)
Interest income		4	41
Corporate income tax paid		(755)	(344)
Net cash flows from operating activities		8 180	3 219
CASH FLOWS FOR INVESTMENT ACTIVITIES			
Purchase of plant and equipment and intangible assets		(3 204)	(1 993)
Government grants	14	590	472
Payment for acquisition of a subsidiary, net of acquired cash	19	-	(2 852)
Repaid loans		2 878	118
Loans provided		(2 615)	(46)
Dividends received		2	10
Net cash flows used in investment activities		(2 349)	(4 291)
CASH FLOWS FOR FINANCING ACTIVITIES			
Loans received	18	167	2 887
Repaid loans	18	(572)	(312)
Finance lease payments	18	(2 376)	(17)
Loans repaid by natural persons	18	(183)	-
Net cash flows (used in)/ from financing activities		(2 964)	2 558
Net increase in cash and cash equivalents		2 867	1 486
Cash and cash equivalents at the beginning of the period		1 819	333
Cash and cash equivalents at the end of the period	8	4 686	1 819

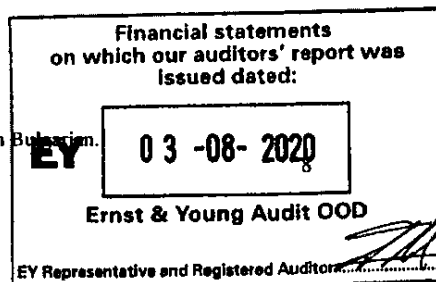
Plamen Stilyanov Tsekov
 Chief Executive Officer

Zhivka Zdravkova Zhechkova
 Preparer

The consolidated financial statements were authorized by the Board of Directors in accordance with a resolution of the Board of Directors on 3 August 2020.

The notes on page 9 to page 58 are an integral part of these consolidated financial statements.

Translation in English of the official financial statements issued in Bulgarian.



**SCALE FOCUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

1. CORPORATE INFORMATION

The consolidated financial statements of the Group for the year ended 31 December 2019 were authorised for issue in accordance with resolution of the Board of Directors on 3 August 2020.

1.1. Legal status

Scale Focus AD (the Company) – Parent company in Scale Focus Group, is registered in Bulgaria with a UIC 201996987 and started operations on 30 March 2012 with registered address Sofia, 90 Tsarigradsko Shose blvd., Capital Fort, building A, floor 24.

The financial year of the Company ends on 31 December.

As at 31 December 2019, the Board of Directors of the parent company has the following members:

- 1) Plamen Stilyanov Tsekov – Chief Executive Officer and Company representative;
- 2) Ivan Atanasov Ashminov;
- 3) Viktor Miroslavov Bilyanski;

The management of the parent company includes its Board of Directors. The Members of the Board of Directors exercise supervision of the processes related to financial reporting of the Company. No change was made in the composition of the Board of Directors in 2019.

As at 31 December 2019 the shareholders of the Company are as follows:

Shareholder's name	Number of shares	Interest %
Viktor Miroslavov Bilyanski	79 279	24,147
Galina Ivanova Guenova	101	0,031
Grisha Ivanov Guenov	79 178	24,116
Zhivko Zlatkov Radev	3 764	1,146
Ivan Atanasov Ashminov	79 279	24,147
Ivan Peychev Ivanov	3 764	1,146
Plamen Stilyanov Tsekov	79 279	24,147
Tsvetelina Petrova Kovacheva - Ivanova	3 681	1,12
TOTAL	328 325	100,00

1.2 Scope of activities

The Group is engaged in consulting, design, development, sale and maintenance of specialized software and information systems.

1.3 Scale Focus Group composition

Scale Focus Group includes Scale Focus AD (the Company) – Parent company in Scale Focus Group and its subsidiaries. Information about the subsidiaries is provided in Note 13.

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis.

The consolidated financial statements are presented in Bulgarian Leva (BGN) and all amounts are rounded to nearest thousand (BGN'000) except when otherwise indicated.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union (IFRS as endorsed by the EU). Reporting framework "IFRS as adopted by the EU" is essentially the defined national basis of accounting "IAS, as adopted by the EU", specified in the Bulgarian Accountancy Act and defined in paragraph 8 of its Additional provisions.

**SCALE FOCUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

2.1 BASIS OF PREPARATION (CONTINUED)

Going concern

The consolidated financial statement of the Group have been prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of Scale Focus AD and its subsidiaries Scale Focus Ltd, Great Britain, Scale Focus GmbH, Germany, Logical Factor Bulgaria EOOD, Bulgaria, Upnetix EAD, Bulgaria, Scale Focus DOOEL, North Macedonia for the year ended 31 December 2019.

The subsidiaries are fully consolidated from the date of their acquisition, defined by the date on which Scale Focus AD acquired control and continue to be consolidated until the date on which this control no longer exists. The financial statements of the subsidiaries are prepared for the same reporting period as those for the Parent company, applying consistent accounting policies. All intercompany balances, revenue and expenses, unrealized gains and losses and dividends arising from intercompany transactions are eliminated.

The profit or loss as well as every component of other comprehensive income are distributed between the shareholders of the Parent company and non-controlling interest in accordance with the effective shareholding. This distribution is made even if the non-controlling interest as at the reporting date results is negative value.

Changes in the shareholdings of the subsidiaries which does not lead to changes in control is recorded as shareholder equity transaction. If Scale Focus AD loses control over its subsidiaries, the company:

- writes off the assets (including goodwill) and liabilities of the subsidiary;
- writes off the carrying amount of non-controlling interest;
- writes off the cumulative foreign currency gains or losses, recognized in equity;
- recognizes the fair value of the remuneration received;
- recognizes the investment at fair value;
- recognizes the result of the loss in control in profit or loss for the period;
- reclassifies the share of the parent company in the components, which was previously recognized in other comprehensive income in profit and loss.

Scale Focus AD prepared its separate financial statement for the year ended 31 December 2019 where the investments in subsidiaries were presented at cost of acquisition. The stand-alone financial statements of Scale Focus were authorised for issue in accordance with resolution of the Board of Directors on 2 July 2020.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Functional currency

The Group's consolidated financial statements are presented in Bulgarian Lev, which is also the Parent company's functional currency. According to the Bulgarian legislation, the Group keeps its records and prepares its annual consolidated financial statements in the national currency of the Republic of Bulgaria - Bulgarian Lev, which since 1 January 1999 is fixed to the EUR at the rate of EUR 1 = 1.95583 BGN.

**SCALE FOCUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Foreign currency translation

Transactions in foreign currencies are initially recorded at their respective functional currency spot rates at the date the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange of the Bulgarian National Bank at the end of respective month. All exchange rate differences are recognized in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated in functional currency using the exchange rates at the dates of the initial transactions (acquisition).

Companies in the Group

The assets and liabilities of the foreign subsidiaries, including goodwill and fair value adjustments are translated into Bulgarian lev at the exchange rate of the reporting date and the statements of comprehensive income are translated at the exchange rate on the date of the transaction. Foreign exchange differences arising from the translations are recognized in other comprehensive income. When releasing the foreign operations the other comprehensive income component related to the foreign operations is reclassified in the statement of comprehensive income.

c) Plant, equipment and intangible assets

Plant and equipment

Machines and equipment are recorded at cost reduced by the accumulated depreciation and impairment losses, if any. The acquisition cost includes the cost of replacing parts of the machines and equipment and borrowing costs for long-term construction projects, if they comply with the asset recognition criteria. When a major inspection is performed, its costs are added to the carrying amount of the respective asset as repairs, should they comply with the asset recognition criteria. All other expenses for repairs and maintenance are recognized in the statement of comprehensive income on the period when they are incurred.

Management has adopted a materiality threshold of 700 BGN under which non-current assets are recognized as a current expense in the statement of comprehensive income.

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

Machinery, plant and equipment	5 years
Transport vehicles	4 years
Fixtures and fittings	7 years
Leasehold improvements	3-5 years

The Group has elected to present the leasehold improvements under "Machinery, plant and equipment" category. Leasehold improvements are related to the repairs made to the leased office.

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

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

**SCALE FOCUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Plant, equipment and intangible assets (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Internally generated intangible assets, with the exception of capitalized development costs, are not capitalized and the related costs are recognized in profit or loss for the period in which they are incurred. Research costs are recognized as an expense for the period in which they are incurred. Development expenditures on an individual project are recognized as an intangible asset only when the Group can prove the following:

- the intangible assets is technically and commercially feasible for completion so that it is available for use or sale
- the Company intends to complete the development, to use or sell the asset
- future economic benefits are probable
- the Company has sufficient resources to complete the asset
- the development expenditure can be reliably measured

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortizations and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the development period the Group annually tests the asset for impairment.

The useful lives of intangible assets are assessed to be finite, as follows:

Software	2 years
Customer base	4 years

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Gains and losses, which arise out of the derecognition of an intangible assets, being the difference between the net proceeds from the sale and the asset's carrying amount, are recognised in the profit or loss for the period when the asset is derecognised.

d) Inventory

Inventories are valued at the lower of cost and net realisable value. The cost of goods comprises of the purchase cost and all other direct costs incurred in bringing the goods to their present location. Costs incurred in bringing each product to its present location and condition, are accounted for as follows:

Materials and goods – at purchase cost determined on the basis of the weighted average cost method;

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to complete the production cycle and that necessary to make the sale.

**SCALE FOCUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial instruments – initial recognition and subsequent measurement

• **Financial assets**

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section j) Revenue from contracts with customers.

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

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

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

Subsequent measurement

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

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

The Group reports only financial assets at amortized cost.

Financial assets at amortised cost (debt instruments)

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

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

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include trade receivables.

Translation in English of the official financial statements issued in Bulgarian.

**SCALE FOCUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial instruments – initial recognition and subsequent measurement (continued)

• **Financial assets (continued)**

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

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the income statement when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity instruments designated at fair value through other comprehensive income are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments under this category.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's statement of financial position) when:

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

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

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

Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Disclosures for significant assumptions (Note 3)
- Trade receivables, including contract assets (Note 6)

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

**SCALE FOCUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial instruments – initial recognition and subsequent measurement (continued)

• **Financial assets (continued)**

Impairment of financial assets (continued)

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

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

At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

• **Financial liabilities**

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial instruments – initial recognition and subsequent measurement (continued)

• Financial liabilities (continued)

Subsequent measurement (continued)

Loans and borrowings

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

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

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 17 and Note 21.

Derecognition

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

f) Offsetting of financial instruments

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

g) Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits in local and foreign currency with an initial maturity of three months or less.

Cash in BGN is measured initially at nominal value, and those denominated in foreign currency – at the exchange rate of the Bulgarian National Bank (BNB) at the date of acquisition.

Transactions in foreign currencies (except for the purchase and sale of currencies) are measured at the exchange rate of the Bulgarian National Bank. Cash in foreign currency is revalued on an ongoing basis at the end of each year at the exchange rate of the Bulgarian National Bank; the differences arising are recognized as current income / loss from foreign currency transactions. At 31 December 2019 these funds are revalued at the closing exchange rate of BNB.

For the purposes of the statement of cash flows, cash and cash equivalents include cash and cash equivalents as defined above.

h) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

**SCALE FOCUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Provisions (continued)

The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

i) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing an asset's value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Recent market transactions are used, if any, in determining fair value less costs to sell. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by other valuation models or other available sources of information for the fair value of an asset or a cash-generating unit.

Impairment calculations are based on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognized in the statement of comprehensive income as other expenses.

An assessment is made by the Group at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income for the period.

j) Revenue from contracts with customers

The Group's business operations are related to the development of software solutions, software maintenance subscription and the sale of licenses and rights. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, except for re-invoicing expenses where this is expressly agreed in the contract, because it typically controls the goods or services before transferring them to the customer.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 3.

**SCALE FOCUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Revenue from contracts with customers (continued)

Development of software solutions

The Group develops software solutions, and the consideration is either at an agreed hourly rate or a fixed price.

Hourly rate contracts

With regard to hourly rate contracts, revenue is recognized periodically based on the actual hours of service provided and approved by the customer. The Group applies the practical expedient provided for in IFRS 15 and recognizes revenue directly associated with the value that the Group creates for the customer. The amount issued on the invoice by the Group, is recognized as revenue.

Fixed price contracts

As for fixed price contracts, the stage of completion is determined on the basis of an assessment of the services performed so far, in relation to the total services which are to be performed under the contract. When the outcome of the transaction (contract) cannot be reliably measured, revenue is recognized only to the extent that the costs incurred are recoverable. For each newly signed fixed price contract the Group carries out an analysis as to when the control over the services is transferred to the customer and depending on the specific terms and conditions of the contract recognizes the revenue over time or at a point in time.

As for the fixed-price contracts, the work carried out is subject to acceptance and approval by the customer. Contract provisions related to the acceptance of the asset by the customers allow the customers to withdraw from the contract or require the Group to take corrective actions, if the software solution does not meet the agreed specifications. Before the formal acceptance by the customer, the Group determines the time of transfer of control over the goods and services of such contracts, taking into account whether it can be objectively determined whether the goods or services provided to the customer are in accordance with the specifications agreed in the contract. Revenue is recognized at the time of signing the delivery and acceptance protocol and the actual acceptance and approval of the work carried out by the customer (at a point in time) or depending on the stage of completion of the transaction based on the man-hours performed so far as a percentage of the total man-hours (over time).

Providing maintenance subscription

The Group provides services that are sold separately, namely a maintenance subscription. The Group considers the services as a performance obligation and recognizes the revenue from them over time, because the customer simultaneously receives and consumes the benefits provided by the Group. The Group recognizes revenue as a proportion of the time passed in relation to the agreed maintenance subscription period.

Sale of licenses purchased for resale

Revenue from the sale of licenses is recognized at a point in time when the control over the asset is transferred to the customer, which usually happens when the license is delivered. The normal credit term is from 30 to 60 days from the delivery date.

Sale of rights – software licenses

Consideration for the grant of rights is accrued according to the terms and conditions of the agreement and is usually recognized when the customer receives access to the license unless it is more appropriate to recognize revenue on another systematic or rational basis in view of the content of the agreement. In cases where the Group does not take on a commitment to update the software or to provide subsequent maintenance services, the revenue from the sale of a software license is recognized with the actual granting of the right to use to the customer and with the signing of a delivery and acceptance protocol.

The Group considers whether there are other promises in the agreement that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties). Subscription is recognized as a separate performance obligation and revenue is recognized on a monthly basis. In determining the transaction price for the sale of finished goods/equipment, the Group considers the effects of variable consideration, the existence of significant financing components and consideration payable to the customer (if any).

**SCALE FOCUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Revenue from contracts with customers (continued)

Sale of finished goods/ equipment

Revenue from sale of finished goods/ equipment is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the finished goods/ equipment. The normal credit term is 30 to 60 days upon delivery.

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

Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal (reintegration) in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Warranty obligations

In certain non-standard contracts for the sale of finished goods/equipment, the Group gives warranties that provide something additional to other general repairs of defects that existed at the time of sale. These warranties are accounted for as service-type warranties and as separate performance obligations to which the Group allocates part of the transaction price.

Contract balances

Contract assets

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

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section e) Financial instruments – initial recognition and subsequent measurement.

Contract liabilities

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

k) Financial income and financial expenses

Financial income comprises interest income on funds invested and income from foreign currency transactions. Financial expenses include bank fees and commissions and transaction costs in foreign currency. Financial income and expenses are recognized in the income statement using the effective interest rate method.

**SCALE FOCUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Taxes

Current income tax

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

Management analyses the various items in the tax return, when the applicable tax provisions are subject to interpretation and recognises provisions where appropriate.

Current taxes are recognised directly in equity or other comprehensive income (and not in the profit or loss for the period) if the tax relates to items which have been directly recognised in equity or other comprehensive income for the period.

Deferred income tax

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

Deferred tax liabilities are recognised for all taxable temporary differences:

- except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- related to investments in subsidiaries, associates and interests in joint ventures to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

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

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

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

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

Deferred taxes related to items recognized outside of profit or loss are also recognized outside of profit or loss. Deferred taxes are recognized, depending on the transaction associated with them, either in other comprehensive income or directly in equity.

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

**SCALE FOCUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Taxes (continued)

Value added tax (VAT)

Revenue, expenses and assets are recognised net of VAT except:

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

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

m) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

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

Right-of-use assets

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

Commercial rental lease agreements	5 years
Motor vehicles	4 years

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

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

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

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

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2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Leases (continued)

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

Short-term leases

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

Accounting policy for lease reporting applicable until 1 January 2019 – Group as a lessee

Leases of property, plant and equipment that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised directly in the statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

n) Investments in other entities

Joint operations

With regard to joint operations the financial statements of the entities involved (i.e. joint operators) contain the following:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue as a share of the revenue from the sale of goods and services by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

o) Government grants and income from financing

A government grant is recognised only when there is reasonable assurance that the grant will be received and the entity will comply with any conditions attached to the grant. The management believes that these conditions are met upon receipt of the grant. Grants in recognition of specific expenses are recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. The grant is recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

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2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Government grants and income from financing (continued)

When the Group receives non-monetary grants, the asset and the grant are recognized at gross nominal value and are released to the profit or loss over the expected useful life and the pattern of consumption of the benefits of the underlying asset by equal annual amounts. When the government or related institutions provide loans or a similar aid at an interest rate, below the current applicable market rate, the effect of the preferential interest rate is considered as an additional government grant.

Grants are recognized at fair value where there is reasonable assurance that the grant will be received and the entity will comply with any conditions attached to the grant.

p) Fair value measurement

Fair values of financial instruments measured at amortised cost are disclosed in Note 16 and investments in unquoted equity instruments in Note 5.3.1.

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

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

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

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

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

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

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

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. As of 31 December 2019 the Group does not recognize assets or liabilities measured at fair value except for equity investments in non-controlled companies as disclosed in Note 5.3.1.

**SCALE FOCUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Fair value measurement (continued)

The Group's management determines the policies and procedures applied in relation to both recurring fair value measurement, for non-recurring fair value measurement, and held for sale assets.

q) Share capital

The share capital is presented at nominal value of the issued and paid in shares. Proceeds from issued shares below and above their nominal value are recorded as share premium reserve.

r) Cash dividends and non-cash distributions to shareholders

The Group recognises a liability to make cash or non-cash distributions to equity holders when the distribution is authorised and is no longer at the discretion of the Group. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the profit or loss for the period.

s) Employee benefits

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

Additional information on short-term employee benefits is disclosed in Note 11.3.

Long-term employee benefits include pension provisions in accordance with the statutory requirements and are disclosed when a constructive obligation arises. The retirement benefit obligation is estimated on the basis of an analysis made related to age profile and employee turnover, future salary growth, discount rate assumptions and mortality rate. Due to the long-term nature of the retirement benefit obligations, these assumptions are subject to significant uncertainty and are disclosed only if material. As at 31 December 2019 the Group accrued provision for pensions at the amount of BGN 26 thousand. In 2020 the Group will additionally assess the need to accrue a provision for the retirement benefit obligation based on an actuarial valuation.

t) Business combinations and goodwill

Business combinations are measured using the acquisition method. The acquisition price is measured as consideration transferred, measured at fair value at the time of acquisition and the value of the non - controlling interest in the acquired company. For each business combination the acquiring company measures a non-controlling interest in the acquired company at fair value or at proportional part of the identifiable net assets of the acquired company. The expenses regarding the acquisition are recognised in profit or loss for the period.

**SCALE FOCUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Business combinations and goodwill (continued)

When the Group acquires business it assumes whether the acquired financial assets and liabilities are properly classified and whether they are presented according the contractual terms and conditions, economic conditions and the respective conditions as at the date of acquisition. This includes the separation of the embedded derivatives from the underlying contracts from the acquiree.

Contingent consideration which should be transferred by the acquiring company is presented at fair value at the date of acquisition. If the contingent consideration is classified as instrument of equity it will not be revaluated until it is finally settled at the equity. Contingent consideration classified as an asset or liability that is a financial instrument and falls within the scope of IFRS 9 *Financial Instruments*, is measured at fair value and changes in fair value are recognized in the income statement in accordance with IFRS 9. Other contingent consideration that does not fall within the scope of IFRS 9 is measured at fair value through profit or loss, and the changes in fair value are recognized in profit or loss.

Goodwill is initially recognized at acquisition price (which is the excess of the total consideration paid and the amount recognized for non-controlling interests and any previously held interests over the acquired identifiable non-current assets or liabilities). If the fair value of the acquired assets exceeds the total consideration received, the Group makes an assessment whether the acquired assets and liabilities are identified correctly and reviews the procedures used to estimate the amounts to be recognized at the acquisition date. If, after this assessment, the fair value of the net assets acquired still exceeds the consideration received, then the difference is presented in profit or loss.

After the initial recognition the Goodwill is measured at cost reduced by the accumulated impairment losses. In order an impairment to be tested at the date of acquisition the Goodwill which is arisen by a business combination is distributed to each of the CGU-s of the Group which are expected to benefit from the combination regardless of whether other assets or liabilities of the acquiree are allocated to those company.

When the Goodwill arises a part of a CGU and part of the activities of this unit is being released the Goodwill related to the released activity is included to the net book value of the activity in order a profit or loss regarding its realisation to be estimated. The Goodwill recognized in such circumstances is measured on the basis of the relative values of the released business and the cash-generating unit.

If the initial accounting treatment of the Goodwill has not been finalized by the end of the fiscal year in which the combination had been arisen due to the fact that the fair values which should be determined for the acquiree's identifiable assets and liabilities assumed or the amount of the consideration transferred or the value of the non-controlling interest could be determined only provisionally the Group recognized the combination at those provisional amounts. The Group recognised corrections of those provisional amounts regarding the initial accounting treatment in twelve months of the date of acquisition and retrospectively as of this date.

**SCALE FOCUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

New and amended standards and interpretations

The Group applies IFRS 16 for the first time. The nature and effect of the changes resulting from the adoption of these new accounting standards are described below.

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

IFRS 16 Leases

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

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively and the cumulative effect of its adoption is recognized on the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The effect of adopting IFRS 16 (increase/(decrease) is, as follows:

	<u>BGN'000</u>
Assets	
Right-of-use assets	7 772
Plant and equipment	(36)
Total assets	<u>7 736</u>
Liabilities	
Lease liabilities	7 736
Total liabilities	<u>7 736</u>
Net effect on the equity:	-
Retained earnings	<u>-</u>

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases for which it is the lessee, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

- Leases previously classified as finance leases

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

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2.3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

New and amended standards and interpretations (continued)

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

The Group also applied the available practical expedients wherein it:

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

Based on the above, as at 1 January 2019:

- Right-of-use assets of BGN 7 772 thousand (carrying amount) were recognised and presented separately in the statement of financial position. As at 1 January 2019 the amount of machinery and equipment was reduced by BGN 36 thousand representing the carrying amount of assets held under finance leases.
- Additional lease liabilities of BGN 7 797 thousand (included separately in the statement of financial position) were recognised, including finance lease liabilities amounting to BGN 61 thousand existing at 31 December 2018.

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

	BGN'000
Operating lease commitments as at 31 December 2018	10 289
Weighted average incremental borrowing rate as at 1 January 2019	3.413%
Discounted operating lease commitments as at 1 January 2019	9 138
Less:	
Commitments relating to short-term leases	(444)
Commitments relating to leases of assets, where lease contracts were terminated as at 1 January 2019	(731)
Commitments relating to renewal options, which the Group believes that will not be exercised	(288)
Add:	
Commitments relating to leases previously classified as finance leases	61
Lease liabilities as at 1 January 2019	7 736

IFRIC 23 Uncertainty over Income Tax Treatments

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

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2.3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

New and amended standards and interpretations (continued)

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

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

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

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

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

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

Annual Improvements to IFRSs 2015-2017 Cycle

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

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – clarifying previously held interest in a joint operation;
- IAS 12 Income taxes – clarifying income tax consequences of payments on financial instruments classified as equity;
- IAS 23 Borrowing costs - clarifying borrowing costs eligible for capitalization.

The amendments have no effect on the financial position or performance of the Group.

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2.4 RESTATEMENT OF COMPARATIVE INFORMATION

In 2018 the parent company purchased 100% of the shares of Upnetix AD. According to the purchase agreement, the payment is due in installments over a period of time. In 2019 Scale Focus AD finalized the reporting of the business combination and as a result the Group made adjustments in the provisionally determined fair values of the assets acquired and the liabilities assumed of Upnetix AD as well as in the amount of the consideration transferred. In order to finalize the accounting of the business combination in 2019, the Group has restated the comparative information concerning the acquired assets and liabilities assumed as well as the goodwill recognized as a result of the acquisition. The restatement did not affect the opening balances as of 1 January 2018. Additional information on the effect of the restatement is presented in Note 19 Business combinations.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

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

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Refer to Note 21 for more detailed information.

Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs, namely the interest rate on loans on the lease commencement date from the interest rate statistics of BNB.

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3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Judgments (continued)

Revenue from contracts with customers

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

Warranty obligations

The Group provides one year warranty for software products. These service-type guarantees are sold separately or together with the sale of the equipment or software product.

The contracts for bundled sales of software product development or equipment and for service-type warranties include two performance obligations, as the promises for transferring the software product development and for providing the service-type warranty can be separated. Using the relative sales value method, part of the transaction price is allocated to the service-type warranty and is recognized as a contract liability. Revenue is recognized for the period in which the service-type warranty is provided based on the period of time elapsed. In 2018 an equipment warranty provision was agreed upon. The Company has determined that the value of this warranty is insignificant and the obligation to provide the warranty is informally arranged and accordingly has not allocated part of the income and has not recognized a contract liability for that obligation. In 2019 no additional warranties were provided by the Group in relation to executed contracts with customers.

Determining the timing of the satisfaction of obligations for software product development

The Group has concluded that revenue from the development of software solutions under hourly rate contracts is to be recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group. In addition, an asset is created, as a result of the Group's performance. The customer has a control over the asset in the course of its creation and the Group has an enforceable right to payment for the performance completed as at the respective date.

With respect to revenue from the development of software solutions under fixed price contracts, the Group has analyzed the outstanding contracts as of 31 December 2019, including the existing clauses for acceptance of the product by the customer, and has admitted that it can objectively determine whether the product or service provided to the customer is in accordance with the specifications agreed in the contract, before the formal acceptance by the customer. Thus, the Group has estimated that the input resources method is the most appropriate for assessing the progress of software services, as there is a direct relationship between the efforts needed (i.e. hours worked) and the transfer of the service to the customer. The Group recognizes revenue based on the hours worked in relation to the total expected hours required to complete the service.

Joint operation

The Group considers Scale Focus Plus Partnership to be a joint operation in accordance with IFRS 11 as the two parties involved exercise joint control, i.e. consensus decision-making is required. In addition, the two parties that have joint control have obligations for the liabilities and rights to the assets of Scale Focus Plus Partnership depending on their shareholding. In these financial statements joint operations are disclosed in accordance with the accounting policy described in Note 2.2 n) and the respective revenue and expenses are disclosed in Note 13. In 2019 Scale Focus Plus Partnership did not carry out any business operations.

Government grants

As of 31 December 2019 the Group estimated that all the terms and conditions related to the received government grants have been fulfilled and has recognized income from financing amounting to BGN 525 thousand. The income is disclosed in Note 11.2. and Note 14.

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3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Estimates and assumptions

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

Provision for expected credit losses of trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 6.

Retirement benefit obligation

The Group recognizes retirement benefit obligation for employee service in accordance with IAS 19 in accordance with the statutory requirements. As at 31 December 2019 the amount of the retirement benefit obligation is BGN 26 thousand.

Useful lives of property, plant and equipment and intangible assets

Financial reporting of property, plant and equipment and intangible assets involves estimates as to their expected useful lives and residual values, based on management of the Group assessments. Further details about the useful lives of fixed tangible and intangible assets are provided in Note 2.2 c).

Finalization of the initial reporting of a business combination

On 21 September 2018, Scale Focus AD acquired 100% of Upnetix EOOD, Bulgaria. The main activity of Upnetix EOOD is related to the development of software solutions. The effective acquisition date for accounting purposes is 30 September 2018.

Until the end of the previous reporting period, the initial accounting of the acquisition was provisionally determined, since the identification and measurement of the fair values of the identifiable assets, liabilities and contingent liabilities of the acquired entity, as well as the determination of the fair value of the consideration due have not been finalized. As a result, the recognized net assets were provisionally determined on the basis of a preliminary internal measurement of their fair value. The Group revised the initial accounting of the business combination in 2019, following the completion of the purchase price allocation. As a result, the previously reported provisional amounts of the acquired identifiable assets, liabilities and contingent liabilities were adjusted retrospectively at the acquisition date (Note 19). The determination of the cash generating units as well as the allocation of goodwill acquired through the acquisition is described in Note 22. The finalization of the reporting of the business combination has been made in accordance with the requirements of IFRS 3 Business Combinations, i.e. before the end of the twelve-month measurement period. The comparative information for 2018 has been restated to reflect the new values.

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3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Estimates and assumptions (continued)

Goodwill impairment testing

Depending on how the Group's business operations are monitored and reported, for the purposes of goodwill impairment testing, the management considers the Group's business to be a cash-generating unit (CGU). The recoverable amount of the CGU is determined by estimating the value in use, which is based on the estimated cash flows, reflecting the most recent view of the management with regard to the Group's performance for the projection period.

The estimation of the value in use is based on the discounted cash flow model. Cash flows are calculated based on the budget for the next five years and do not include restructuring activities that the Group has not yet taken on as an irrevocable commitment, or significant future investments that will increase the performance of the asset belonging to the cash-generating unit that is subject of the testing. The recoverable amount is sensitive to the discount rate, used in the discounted cash flow model, as well as to the expected future cash inflows and the growth rate used for extrapolation purposes. The main assumptions used to determine the recoverable amount are additionally disclosed and explained in Note 22 Goodwill.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED

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

IFRS 17: Insurance Contracts

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

IFRS 3 Business combinations (Amendments): Definition of a business

The amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments clarify the minimum requirements for a business and narrow the definition of a business. The amendments also remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive and introduce an optional fair value concentration test. These amendments have not yet been endorsed by the EU. The Group is in the process of assessing the impact of these amendments on its financial position or performance.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material'

The amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. The amendments also specify that materiality will depend on the nature or magnitude of information. The Group is in the process of assessing the impact of these amendments on its financial position or performance.

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4. STANDARDS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED (CONTINUED)

The Conceptual Framework for Financial Reporting

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018, which is effective for annual periods beginning on or after 1 January 2020. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The main amendments introduced in the revised Conceptual framework for financial reporting are related to measurement, including factors, which should be considered when choosing measurement basis, and to presentation and disclosure, including income and expenses which should be classified in other comprehensive income. The Conceptual framework also provides updated definitions for asset and liability and criteria for their recognition in the financial statements. The Group is in the process of assessing the impact of these amendments on its financial position or performance.

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

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The Group is in the process of assessing the impact of these amendments on its financial position or performance.

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5. NON-CURRENT ASSETS

5.1. Intangible assets

	Software	Customer base	Software under development	Total
Balance as at 1 January 2018	1 172	-	1 316	2 488
Additions as a result of a business combination (Note 19) (as restated)	49	1 211	-	1 260
Additions	14	-	1 185	1 199
Disposals	-	-	(132)	(132)
Transfers	299	-	(299)	-
Amortization (as restated)	(956)	(76)	-	(1 032)
Balance as at 31 December 2018 (as restated)	578	1 135	2 070	3 783
At 31 December 2018.				
Book value (as restated)	2 574	1 211	2 070	5 855
Accumulated amortization (as restated)	(1 996)	(76)	-	(2 072)
Balance as at 31 December 2018 (as restated)	578	1 135	2 070	3 783
Balance as at 1 January 2019	578	1 135	2 070	3 783
Additions	58	-	1 621	1 679
Disposals	-	-	(15)	(15)
Transfers	1 868	-	(1 868)	-
Impairment	(81)	-	-	(81)
Amortization	(544)	(303)	-	(847)
Balance as at 31 December 2019	1 879	832	1 808	4 519
As at 31 December 2019				
Book value	4 500	1 211	1 808	7 519
Impairment	(81)	-	-	(81)
Accumulated amortization	(2 540)	(379)	-	(2 919)
Balance as at 31 December 2019	1 879	832	1 808	4 519

„Software under development“ category includes internally developed software, which will be used in the future operations of the Group. Labour costs for salaries for the employees engaged are capitalized in the value of the software.

As at 31 December 2019 the carrying amount of the intangible assets included in the “Software under development” category acquired through financing granted for the project “SAAM” is BGN 1 050 thousand.

As at 31 December 2019 the carrying amount of the intangible assets included in the “Software under development” category acquired through financing granted for the project “SoFit” is BGN 640 thousand.

In 2019 Scale Focus AD finalized the accounting of the business combination – the acquisition of Upnetix. As a result, as at 31 December 2018 the comparative information for the intangible assets has been restated. More detailed information is disclosed in Note 19.

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5. NON-CURRENT ASSETS (CONTINUED)

5.1. Intangible assets (continued)

Impairment of intangible assets

The Group conducted impairment testing of intangible assets at 31 December 2019. There were indications that the carrying amount of the assets exceeded their recoverable amount. As at 31 December 2019 the Group recognized impairment of intangible assets amounting to BGN 81 thousand from which no future economic benefits were expected. As at 31 December 2019 derecognized assets amount to BGN 15 thousand (2018: BGN 132 thousand).

5.2. Plant and equipment

	Hardware and equipment	Motor vehicles	Furniture and fittings	Leasehold improvements	Total
Balance as at 1 January 2018	447	69	152	6	674
New additions as a result of a business combination (Note 19) (as restated)	170	-	-	-	170
Additions	491	10	133	157	791
Disposals	(3)	-	-	-	(3)
Depreciation (as restated)	(486)	(29)	(43)	(30)	(588)
Written-off depreciation	3	-	-	-	3
Balance as at 31 December 2018 (as restated)	622	50	242	133	1 047
At 31 December 2018					
Book value (as restated)	2 288	121	340	178	2 927
Accumulated depreciation (as restated)	(1 666)	(71)	(98)	(45)	(1 880)
Balance as at 31 December 2018 (as restated)	622	50	242	133	1 047
Reclassification to right-of-use assets	-	(36)	-	-	(36)
Balance as at 1 January 2019	622	14	242	133	1 011
Additions	1 029	-	297	199	1 525
Disposals	(38)	-	-	-	(38)
Depreciation	(694)	(2)	(65)	(63)	(824)
Written-off depreciation	38	-	-	-	38
Balance as at 31 December 2019	957	12	474	269	1 712
At 31 December 2019					
Book value	3 279	85	637	377	4 378
Accumulated depreciation	(2 322)	(73)	(163)	(108)	(2 666)
Balance as at 31 December 2019	957	12	474	269	1 712

In 2019 Scale Focus AD finalized the accounting of the business combination – the acquisition of Upnetix. As a result, as at 31 December 2018 the comparative information for plant and equipment has been restated. More detailed information is disclosed in Note 19.

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5. NON-CURRENT ASSETS (CONTINUED)

5.2. Plant and equipment (continued)

Impairment of plant and equipment

The Group conducted impairment testing of fixed tangible assets at 31 December 2019. No indications were found that the carrying amount of the assets exceeded their recoverable amount. As at 31 December 2019 the Company did not recognize impairment of plant and equipment (2018: nil).

5.3 Investments in non-controlled entities

	<u>Country</u>	<u>Carrying amount</u>		<u>Interest</u>	
		<u>31.12.2019</u>	<u>31.12.2018</u>	<u>31.12.2019</u>	<u>31.12.2018</u>
		<i>BGN'000</i>	<i>BGN'000</i>	<i>%</i>	<i>%</i>
Cloud analytics OOD	Bulgaria	-	-	-	1
Imagefinity OOD	Bulgaria	-	-	1	1
AVIQ Systems AG	Switzerland	97	191	7	7
		97	191		

The investment in Imagefinity OOD, Bulgaria, as of 31 December 2019 is under BGN 1000.

At the beginning of May 2019 Scale Focus AD sold its interest in Cloud Analytics OOD. The sale value is under BGN 1000. The investment in AVIQ Systems AG was obtained by converting accounts receivable from AVIQ Systems AG amounting to BGN 191 thousand into capital of that company. Investments in non-controlled entities are in equity instruments that are not quoted in an active market. As at 31 December 2019 and 31 December 2018 their carrying amounts are equal to the costs of acquisition (with the exception of the investment in AVIQ Systems AG) which the management does not consider to be substantially different from the fair values of investments in unquoted and non-controlled entities.

As at 31 December 2019 the management of the Group considers that there are no facts and circumstances requiring a revaluation to be made with the aim of reducing the carrying amount of these investments as a result of the impairment of their fair values. In 2019 the Group made an analysis based on discounted expected future cash flows estimating that the fair value of the investment in AVIQ Systems AG is BGN 94 thousand. The main assumptions used for the fair value measurement are unobservable inputs and are based on a forecast of the Group's activities and a discount factor of 17.84%. The measurement is classified at Level 3 of the fair value hierarchy.

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6. TRADE AND OTHER RECEIVABLES

	As at 31 December 2019	As at 31 December 2018 restated
Trade receivables	7 299	7 144
Contract assets	4 400	2 461
Provision for doubtful debts	<u>(663)</u>	<u>(423)</u>
	11 036	9 182
Receivables from personnel for loans and advances provided	17	31
Advances to suppliers	296	21
Withholding tax	25	25
Receivables from personnel for loans and advances provided	17	48
Other receivables	<u>510</u>	<u>118</u>
TOTAL	<u>11 901</u>	<u>9 425</u>
	Short-term receivables	11 901
	Long-term receivables	-

Based on an analysis made regarding the collectability of receivables, the management of the Company has concluded that as at 31 December 2019 there are impaired trade receivables. A bank loan is received against pledge of receivables at the amount of BGN 2 482 thousand (Note 17).

Other receivables include mainly paid deposits.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity.

The ageing analysis of trade receivables and contract assets, as at 31 December 2019, is presented in the table below using a provisional matrix.

	Trade receivables from third parties and contract assets					Total
	Days past due					
	Current (neither past due nor impaired up to 30 days)	30-60 days	61-180 days	181-360 days	> 360 days	
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Expected credit loss rate on collective impairment	0.4%	24.3%	34.3%	43.2%	100%	
Total gross carrying amount	11 052	27	-	4	616	11 699
Total amount of impairment on a collective basis	(42)	(3)	-	(2)	(454)	(501)
Total amount of impairment on an individual basis from contract assets from third parties	-	-	-	-	(162)	(162)
Net carrying amount	11 010	24	-	2	-	11 036

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6. TRADE AND OTHER RECEIVABLES (CONTINUED)

The ageing analysis of trade receivables and contract assets, as at 31 December 2018, is presented in the table below using a provisional matrix.

	Trade receivables from third parties and contract assets					Total
	Days past due					
	Current (neither past due nor impaired up to 30 days)	30-60 days	61-180 days	181-360 days	> 360 days	
BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	
Expected credit loss rate (collective base)	1.28%	48.51%	68.50%	86.38%	100%	
Total gross carrying amount for collective impairment	9 114	-	-	-	42	9 156
Total gross carrying amount for individual impairment	-	-	-	-	449	449
Total amount of impairment on a collective basis	(122)	-	-	-	(42)	(164)
Total amount of impairment on an individual basis	-	-	-	-	(259)	(259)
Net carrying amount	8 992	-	-	-	190	9 182

In 2019 Scale Focus AD finalized the accounting of the business combination – the acquisition of Upnetix. As a result, as at 31 December 2018 the comparative information for trade and other receivables has been restated. More detailed information is disclosed in Note 19.

7. INVENTORIES

	As at 31 December 2019	As at 31 December 2018
Licenses	104	79
TOTAL	104	79

Inventories as at 31 December 2019 include licenses, which were sold to customers in 2020.

8. CASH AND CASH EQUIVALENTS

	As at 31 December 2019	As at 31 December 2018
Cash at bank	4 671	1 808
Cash in hand	15	11
TOTAL	4 686	1 819

Cash at bank earns floating interest based on the daily interest rate on bank deposits. As at 31 December 2019 the fair value of cash and short-term deposits is BGN 4 686 thousand (2018: BGN 1 819 thousand).

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9. SHARE CAPITAL AND RESERVES

9.1. Share capital

The share capital of the Group (Scale Focus AD or the Company) as at 31 December 2019 and 31 December 2018 amounts to BGN 328 thousand, representing 328 325 ordinary shares with par value of 1 BGN and with one vote each.

The changes in share capital are presented below:

	Number of ordinary shares (in thousand)	Registered and issued capital (BGN'000)
At 1 January 2018	328	328
At 1 January 2019	328	328
At 31 December 2019	328	328

All ordinary shares are fully paid in.

Ownership of the shares of the Company are as follows (% and number of shares):

	% Interest as at 31 December 2019	Number of shares as at 31 December 2019	% Interest as at 31 December 2018	Number of shares As at 31 December 2018
Viktor Miroslavov Bilyanski	24,147	79 279	23,60	77 480
Galina Ivanova Guenova	0,031	101	0,03	100
Grisha Ivanov Guenov	24,116	79 178	23,57	77 380
Ivan Atanasov Ashminov	24,147	79 279	23,60	77 480
Plamen Stilyanov Tsekov	24,147	79 279	24,72	81 161
Zhivko Zlatkov Radev	1,146	3 764	1,12	3 681
Ivan Peychev Ivanov	1,146	3 764	1,12	3 681
Lyubomira Todorova Mihaylova	-	-	1,12	3 681
Tsvetelina Petrova Kovacheva-Ivanova	1,12	3 681	1,12	3 681
	100	328 325	100	328 325

9.2. Legal reserves

A reserve fund is set up pursuant to Article 246 of the Commerce Act of the Republic of Bulgaria stipulating reserve requirements for joint stock companies such as Scale Focus AD. According to the Commerce Act, at least one-tenth of the profit shall be set aside until the fund's assets reach one tenth or more of the Company's capital. The sources for setting up the reserve fund come from at least one-tenth of net profit, share premiums and other sources laid down in the Articles of association of the Company or the General assembly of its shareholders. Disbursements from the reserve fund may be made only for covering current or prior year losses. As at 31 December 2019 legal reserves amount to BGN 26 thousand (2018: BGN 26 thousand).

9.3. Share premium reserve

Any difference between the nominal value and the issue price of shares of the parent company of the Group (Scale Focus AD or the Group) is accounted for as a share premium reserve. The share premium reserve as at 31 December 2019 amounts to BGN 281 thousand and remains unchanged compared to 2018. The share premium reserve is used to cover losses and to increase the share capital after the legal reserve threshold has been reached pursuant to Art. 246 of the Commerce Act.

In 2016, the Group bought 49 578 own shares with a par value of BGN 1 per share. In 2017 the Group sold all of its own shares back to the existing shareholders. The difference between the nominal value and the issue price of shares amounting to BGN 512 thousand was recorded as an increase in the share premium reserve.

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9. SHARE CAPITAL AND RESERVES (CONTINUED)

9.4 Foreign exchange reserve

Reserves from the translation of foreign subsidiaries' accounts are exchange rate differences from the translation of statements of companies with different functional currency from BGN and from the translation of net investments in foreign operations for the purpose of their inclusion in the consolidation. These reserves are reclassified to profit or loss in the period of exemption from investments in foreign subsidiaries.

10. TRADE AND OTHER PAYABLES

	As at 31 December 2019	As at 31 December 2018
Trade payables and advances received	2 290	558
Loan liabilities to individuals	547	730
Personnel payables	3 224	2 233
-incl. pension obligation	26	-
Unused paid leave	209	129
Social security payables	713	433
Tax payables	1 283	714
Other payables	67	158
	8 333	4 955
Up to 1 year	8 027	4 427
Over 1 year	306	528

The terms of the above payables are as follows:

- Trade payables are not interest bearing and are usually settled within 30 days;
- Other payables are not interest bearing and are usually settled within 30 days;

Long-term liabilities are liabilities for loans to individuals. On 31 January 2018 the subsidiary Upnetix EAD received a loan of BGN 730 thousand from its owners of Moni Dochev and Dobroslav Dimitrov. The loan is to be repaid in 36 equal monthly installments from March 2019 to March 2022 and has an interest of 0.02% per annum. The payables over 1 year are considered to be the long-term portion of the loan.

11. REVENUE AND EXPENSES

11.1. Revenue from contracts with customers

The following is a breakdown of the Company's revenue from contracts with customers in accordance with IFRS 15:

Geographical markets	2019	2018
	<i>BGN'000</i>	<i>BGN'000</i>
Market 1 (Bulgaria)	23 321	13 154
Market 2 (Great Britain)	1 611	2 019
Market 3 (Europe – other countries)	5 570	2 223
Market 4 (Canada)	361	1 700
Market 5 (the USA)	22 360	15 094
Market 6 (Other)	505	375
Market 7 (Germany)	6 251	3 035
Total revenue from contracts with customers	59 979	37 600

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11. REVENUE AND EXPENSES (CONTINUED)

11.1. Revenue from contracts with customers (continued)

Timing of revenue recognition	2019	2018
	<i>BGN'000</i>	<i>BGN'000</i>
Goods (equipment and licenses) transferred at a point in time	1 226	593
Software solutions with an agreed hourly rate and subscription transferred over time	50 601	32 736
Software solutions with fixed price transferred over time	8 152	4 271
Total revenue from contracts with customers	59 979	37 600

Information on the Group's performance obligations is disclosed in Note 2.2 and information on significant accounting estimates in relation to revenues from contracts with customers is presented in Note 3.

11.2. Other income

	2019	2018
Government grant income (Note 14)	525	671
Dividend income	2	10
Training	108	10
Other	147	42
Other income	782	733

11.3. Personnel expenses

	2019	2018
	<i>BGN'000</i>	<i>BGN'000</i>
Salaries	(34 707)	(19 595)
Social security contributions	(4 189)	(2 111)
	(38 896)	(21 706)

11.4. Expenses for hired services

	2019	2018
	<i>BGN'000</i>	<i>BGN'000</i>
Consultancy services	(5 607)	(4 940)
Accounting, tax and legal services	(322)	(499)
Rent	(483)	(2 221)
Training and certificates	(239)	(145)
Marketing and seminars	(353)	(154)
Insurance	(139)	(76)
Phones, internet, postal and courier services	(162)	(90)
Software subscriptions	(681)	(235)
Vacancy notices	(358)	(76)
Office repairs and maintenance	(171)	(10)
Partnerships and memberships	(61)	(36)
Other	(417)	(184)
	(8 993)	(8 666)

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11. REVENUE AND EXPENSES (CONTINUED)

11.5. Costs of materials

	2019	2018
	<i>BGN'000</i>	<i>BGN'000</i>
Utilities expense	(196)	(119)
Stationery and office supplies	(151)	(99)
Assets below capitalisation threshold	(452)	(174)
Fuel	(23)	(20)
Promotional materials	(163)	(57)
Other	(9)	(11)
	(994)	(480)

11.6 Other expenses

	2019	2018
	<i>BGN'000</i>	Restated <i>BGN'000</i>
Travel expenses	(1 092)	(900)
Loss on sale / impairment of investment (Note 5.3)	(94)	-
Impairment losses on receivables (Note 6)	(240)	(423)
Losses from asset derecognition (Note 5.1)	(15)	-
Receivables written off	(90)	(282)
Impairment of fixed intangible assets (Note 5.1)	(81)	-
Representative expenses	(478)	(352)
Donations	(55)	(8)
Other	(103)	(87)
	(2 248)	(2 052)

Other expenses include travel expenses, representative expenses and social expenses.

11.7. Financial income

	2019	2018
	<i>BGN'000</i>	<i>BGN'000</i>
Interest income from loans provided	4	6
Interest income related to enforcement proceedings	-	35
Other financial income (foreign exchange differences)	-	128
	4	169

11.8. Financial expenses

	2019	2018
	<i>BGN'000</i>	Restated <i>BGN'000</i>
Interest expenses	(417)	(85)
- incl. interest expense related to right-of-use assets (Note 21)	(262)	-
Fees and commissions, foreign exchange differences	(103)	(203)
	(520)	(288)

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12. INCOME TAX

As at 31 December 2019 the Group has recognized income tax amounting to BGN 413 thousand.
Major components of the income tax expense for the years ended 31 December 2019 and 2018 are as follows:

	2019	2018
	<u>BGN'000</u>	<u>Restated</u> BGN'000
Current income tax expense	(542)	(339)
Deferred tax benefit	80	15
Income tax expense reported in profit or loss	<u>(462)</u>	<u>(324)</u>

The reconciliation of income tax expense and accounting profit multiplied by the applicable rate for the years ended 31 December 2019 and 31 December 2018 is presented below:

	2019	2018
	<u>BGN'000</u>	<u>Restated</u> BGN'000
Accounting profit before taxes from continuing operations	4 343	3 198
Income tax expense at statutory tax rate of 10% for 2019 (2018: 10%)	(434)	(320)
Effect of higher tax rates abroad	(17)	(6)
Other	-	2
Permanent differences	(11)	-
Current income tax expense	<u>(462)</u>	<u>(324)</u>

The applicable income tax rate in Bulgaria in 2019 is 10% (2018: 10%). The income tax rate remains 10% in 2020 as well.

Deferred income taxes at 31 December 2019 and 31 December 2018 relate to the following:

	Statement of financial position		Profit or loss	
	2019	2018	2019	2018
	<u>BGN'000</u>	<u>Restated</u> BGN'000	<u>BGN'000</u>	<u>Restated</u> BGN'000
<i>Deferred tax liabilities</i>				
Accelerated depreciation for tax purposes	(69)	(101)	32	8
Other consolidation adjustments	(11)	(4)	(7)	-
	<u>(80)</u>	<u>(105)</u>		
<i>Deferred tax assets</i>				
Unused personnel leaves	21	13	8	7
Provision for pensions	3	-	3	-
Provisioned receivables	66	43	23	43
Receivables written off	9	-	9	-
Impairment of intangible assets	8	-	8	-
Impairment of investment	9	-	9	-
Payable for outstanding salaries and wages	31	36	(5)	(43)
	<u>147</u>	<u>92</u>		
Deferred tax benefit			<u>80</u>	<u>15</u>

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12. INCOME TAX (CONTINUED)

Reconciliation of deferred taxes, net

	2019	2018 (restated)
	<i>BGN'000</i>	<i>BGN'000</i>
At 1 January	(13)	85
Deferred taxes recognized in profit or loss for the period	80	15
Consolidation adjustments related to accelerated depreciation for tax purposes and other consolidation adjustments	-	(113)
At 31 December	67	(13)

13. RELATED PARTY DISCLOSURES

Composition of the Group

The Parent company of the Group is Scale Focus AD. It has the following subsidiaries whose main activity is related to software development, customized to clients:

	Country	Interest	
		31.12.2019	31.12.2018
		%	%
Logical Factor Bulgaria EOOD	Bulgaria	100	100
Scale Focus Ltd	Great Britain	100	100
Scale Focus GmbH	Germany	100	100
Scale Focus DOOEL	North Macedonia	100	-
Upnetix EAD	Bulgaria	100	100

Scale Focus Ltd, UK, develops customized software solutions for clients. For the fiscal years ending 31 December 2019 and 31 December 2018, the subsidiary Scale Focus Ltd, UK, took advantage of the opportunity to exempt from auditing the financial statements under section 479A of the 2006 Companies Act, which applies to small businesses.

Scale Focus GmbH, Germany, develops customized software solutions for clients.

Logic Factor Bulgaria EOOD, Bulgaria develops customized software solutions for clients.

Upnetix EAD, Bulgaria, develops customized software solutions for clients. The company was acquired on 21 September 2018. Further information on the acquisition is disclosed in Note 19 Business combinations.

Scale Focus DOOEL, North Macedonia, is a subsidiary established on 26 November 2019 r. and develops customized software solutions for clients..

Controlling interest in the Group

None of the shareholders of the parent company of the Group – Scale Focus AD has control over the parent company as none of the shareholders owns more than 50% of the share capital.

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13. RELATED PARTY DISCLOSURES (CONTINUED)

Significant influence in the Group

The shareholders who have significant influence in the Group are: Viktor Miroslavov Bilyanski who owns 24.147% of the shares, Grisha Ivanov Genov who owns 24.116% of the shares, Plamen Stilyanov Tsekov who owns 24.14% of the shares and Ivan Atanasov Ashminov who owns 24.147% of the shares.

Other related parties

Avus Capital OOD is a related party of Scale Focus AD and is owned by Ivan Atanasov Ashminov (member of the Board of Directors and shareholder).

Beronto EOOD is a related party of Scale Focus AD and is owned by Victor Miroslavov Bilyanski (member of the Board of Directors and shareholder).

Azimut Software EOOD is owned by Ivan Atanasov Ashminov (member of the Board of Directors and shareholder).

Netcredit OOD is owned by Ivan Atanasov Ashminov (member of the Board of Directors and shareholder).

Joint operation

The Group has 70% stake in the Scale Focus Plus Partnership, a joint operation, designed to execute a public procurement contract for the delivery and implementation of Geographic Information System (GIS) to Bulgartransgaz EAD. In 2019 the Scale Focus Plus Partnership did not carry out any business operations.

The following transactions with related parties took place during the reporting periods presented below:

13.1 Purchase of goods, services and tangible fixed assets

	2019	2018
	<i>BGN'000</i>	<i>BGN'000</i>
- from other related parties		
Beronto EOOD	35	7
	<u>35</u>	<u>7</u>

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at arm's length price. Outstanding balances at the year-end are unsecured, interest free (except for the loans) and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. As at 31 December 2019 the Group has not recorded impairment of receivables from related parties (2018: nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Remuneration to key management personnel

	2019	2018
	<i>BGN'000</i>	<i>BGN'000</i>
Remuneration	933	718
Social security	20	18
	<u>953</u>	<u>736</u>

As of 31 December 2019 the unpaid remuneration to key management personnel amounting to BGN 310 thousand is presented as personnel payables (31 December 2018: BGN 288 thousand).

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14. GOVERNMENT GRANTS

	Technology in Focus BGN'000	Leadership in Focus BGN'000	Innovations in Focus BGN'000	SAAM BGN'000	SoFit BGN'000	Investor „Class A“ BGN'000	FNS Cloud BGN'000	Total BGN'000
At 1 January 2018	239	62	247	713	-	-	-	1 261
Funding received through new financing programmes	-	226	-	-	173	73	-	472
Recognized in the statement of comprehensive income (Note 11.2)	(239)	(185)	(174)	-	-	(73)	-	(671)
At 31 December 2018	-	103	73	713	173	-	-	1 062
At 1 January 2019	-	103	73	713	173	-	-	1 062
Funding received through new financing programmes	-	-	-	94	-	237	259	590
Recognized in the statement of comprehensive income (Note 11.2)	-	(103)	(73)	-	(103)	(237)	(9)	(525)
At 31 December 2019	-	-	-	807	70	-	250	1 127

	2019 BGN'000	2018 BGN'000
Short-term portion	63	183
Long-term portion	1 064	879
	1 127	1 062

1) Technology in FOCUS

The government grant is provided by the European Regional Development Fund through Operational Programme "Innovations and Competitiveness" 2014-2020 in relation to a project „Technology in FOCUS“ realized in 2016.

The approved project implementation costs amounted to BGN 1,120 thousand and were used for the purchase of tangible fixed assets and intangible assets. The total amount of the government grant is BGN 649 thousand or 57.92% of the approved expenses. As at 31 December 2019 and 31 December 2018 there are no unfulfilled obligations and conditions with regard to the approved government grant. As at 31 December 2019 and 31 December 2018 all government grants were paid in full to the Group. As of 31 December 2019 the carrying amount of intangible assets from the category "Software products" purchased through funding under the project "Technology in Focus" is BGN 0 thousand. As of 31 December 2019 the carrying amount of non-current tangible assets (computer equipment) purchased through funding under the project "Technology in Focus" is BGN 0 thousand.

2) Leadership in FOCUS

The government grant is provided by the European Regional Development Fund through Operational Programme "Innovations and Competitiveness" 2014-2020 in relation to a project „Leadership in FOCUS“ realized in 2017.

Approved project implementation costs amount to BGN 549 thousand for the purchase of an ICT-based software system for resource management and organization, processes related to the development of products/services and the key business processes (ERP). The final amount of the grant amounts to BGN 384 thousand or 70% of the approved expenditures. As of 31 December 2019 and 31 December 2018 there are no outstanding obligations or unfulfilled conditions under the approved government grant. As at 31 December 2019 all government grants were paid in full to the Group. As of 31 December 2019 the carrying amount of intangible assets from the category "Software products" purchased through funding under the project "Leadership in Focus" is BGN 0 thousand.

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14. GOVERNMENT GRANTS (CONTINUED)

3) Innovations in FOCUS

The government grant is provided by the European Regional Development Fund through Operational Programme "Innovations and Competitiveness" 2014-2020 in relation to a project „Innovations in FOCUS“ realized in 2017.

The approved project implementation costs amounted to BGN 1,015 thousand and were used for the purchase of tangible fixed assets and intangible assets and rental of libraries for conducting testing for non-authorized access and malicious software. The total amount of the government grant is BGN 739 thousand or 72.85% of the approved expenditures. As at 31 December 2019 and 31 December 2018 there are no outstanding obligations or unfulfilled conditions with regard to the approved government grant. As at 31 December 2019 and 31 December 2018 all government grants were paid in full to the Group. As of 31 December 2019 the carrying amount of intangible assets from the category "Software products" purchased through funding under the project "Innovations in Focus" is BGN 0 thousand. As of 31 December 2019 the carrying amount of non-current tangible assets (computer equipment) purchased through funding under the project "Innovations in Focus" is BGN 0 thousand.

4) SAAM

Scale Focus AD has won a project for funding under European development funds in partnership with the Balkan Institute of Labor and Social Policy (BILSP) together with a consortium of 8 other partners, including universities and institutions from all over Europe. The project is called „Supporting Active Ageing through Multimodal Coaching" (SAAM) and is funded by the EU Framework Program for Research and Innovation "Horizon 2020". The aim of the project is to help elderly people over 60 to live actively and independently in their own homes while maintaining good physical, emotional and mental health and still keeping social contacts with their relatives and friends as long as possible. The final amount of the grant amounts to BGN 1,042 thousand. As at 31 December 2019 and 31 December 2018 there are no outstanding obligations or unfulfilled conditions of the approved government grant. As of 31 December 2019 the Group utilized the amount of BGN 94 thousand. As of 31 December 2019 the unpaid part of the government grant to the Group amounts to BGN 173 thousand. As of 31 December 2019 the carrying amount of intangible assets from the category "Software under development" purchased through funding under the project "SAAM" is BGN 1 050 thousand.

5) SoFit

Scale Focus AD has won a project for funding under European development funds in partnership with Prof. Dr. Asen Zlatarov University . The project is called „Development of an Innovative and Integrated Physiotherapy / Kinesiotherapy System" (SoFit) and is funded through Operational Programme "Innovations and Competitiveness". The maximum grant amount is BGN 414 thousand. As at 31 December 2019 there are no outstanding obligations or unfulfilled conditions of the approved government grant. As at 31 December 2019 the Group utilized the amount of BGN 173 thousand. As of 31 December 2018 the disbursed amount of the grant is BGN 173 thousand. As of 31 December 2019 the carrying amount of intangible assets from the category "Software under development" purchased through funding under the project "SAAM" is BGN 640 thousand.

6) Investor „Class A"

In the beginning of 2018, Scale Focus AD signed a contract with the Ministry of Economy of the Republic of Bulgaria to promote the implementation of an investment project "Investments in Focus" by obtaining a certificate class A for investment, issued by the Ministry. The funding is provided with the aim of reimbursing the mandatory social security contributions under the state social security system, the supplementary compulsory pension insurance and compulsory health insurance, paid on behalf of Scale Focus AD, for employees who have taken up new jobs for a period of up to six months from obtaining the relevant positions. The maximum eligible expenses recognized under the project amount to BGN 428 thousand. In 2019 the reimbursed amount by the Group is BGN 110 thousand. Uppnetix EAD has a contract concluded with the Ministry of Economy of the Republic of Bulgaria to promote the implementation of an investment project by obtaining a certificate class A for investment, issued by the Ministry. In 2019 the reimbursed amount is BGN 127 thousand.

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14. GOVERNMENT GRANTS (CONTINUED)

7) FNS Cloud

In 2019 Scale Focus AD won the project "FNS Cloud" (or "Food Nutrition Security Cloud") funded by the EU Framework Program for Research and Innovation "Horizon 2020". The aim of the project is to resolve the fragmentation problems by integrating existing data, which is essential for highly effective, EU-wide research on healthy eating and consumer behavior, as well as on the sustainable agriculture and bioeconomy. The duration of the project is 48 months. The maximum amount of the grant is BGN 671 thousand. In 2019 the Group utilized the amount of BGN 259 thousand.

15. FINANCIAL RISK AND CAPITAL MANAGEMENT OBJECTIVES AND POLICIES

The financial liabilities of the Group include trade payables and finance lease payables. These financial instruments are primarily intended to finance the Group's activity. The Group owns financial assets, such as trade receivables and cash and short-term deposits which arise directly from its operations.

In both 2019 and 2018 the Group neither owned, nor traded in derivative financial instruments.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, currency risk and credit risk. The management reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's policy is to manage its interest cost using a mix of financial instruments with fixed and floating interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short-term and long-terms financial liabilities with variable (floating) interest rate.

The Group manages interest rate risk through negotiation of the terms and conditions for bank loans. As of 31 December 2019, the Group had no financial liabilities with a variable (floating) interest rate and as a result the risk of change in market interest rates is insignificant.

Liquidity risk

The effective management of the Group's liquidity assumes sufficient working capital, mainly through maintenance of unused, but allowed credit lines, and short-term financing provided from banks.

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

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15. FINANCIAL RISK AND CAPITAL MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

As at 31 December 2019

	On demand	< 3 months	3-12 months	1-5 years	> 5 years	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Trade payables	-	2 290	-	-	-	2 290
Loans from individuals	-	61	183	303	-	547
Investments liabilities	-	-	225	1 747	-	1 972
Bank loans	-	155	465	1 862	-	2 482
Lease payables	-	747	1 901	6 298	-	8 946
	-	3253	2 774	10 210	-	16 237

As at 31 December 2018

	On demand	< 3 months	3-12 months	1-5 years	> 5 years	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Trade payables	-	558	-	-	-	558
Loans from individuals	-	-	183	547	-	730
Investments liabilities	-	-	-	1 896	-	1 896
Bank loans	-	-	504	2 383	-	2 887
Lease payables	-	-	14	47	-	61
	-	558	701	4 873	-	6 132

Currency risk

The Group makes purchases, provides and receives loans in foreign currencies – EUR, USD, GBP, CAD and RUB. The main part of these are performed in Euro. Since the exchange rate between euro and Bulgarian lev is fixed at 1.95583, the foreign exchange risk arising from the Group exposure to euro is minimal. The Group purchases services in USD, GBP and RUB, which account for less than 10% of the total volume of purchases, as well as sales in USD, GBP and CAD, which account for less than 10% of the total sales volume.

As a result, the exposure of the Group to the risk of changes in the exchange rate of USD, GPB, CAD and RUB is insignificant.

Credit risk

The Group trades only with well-established, solvent counterparties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade receivable balances are monitored on an ongoing basis with the result that the Group's exposure to doubtful and bad debts is not significant. There are no significant concentrations of credit risk within the Group. In terms of credit risk arising from other financial assets, such as cash and other financial assets, the Group's credit exposure equals the possibility of its contractors not paying their liabilities.

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15. FINANCIAL RISK AND CAPITAL MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

The maximum credit exposure of the Group related to the recognised financial assets equals their amount as stated in the statement of financial position as of 31 December 2019.

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, redeem its own shares, decrease or increase its share capital, upon a decision of the shareholders. No changes were made in the objectives, policies or processes during the years 2019 and 2018.

The Group monitors its share capital through the realised financial result for the reporting period, as follows:

	2019	2018
	<i>BGN'000</i>	<i>BGN'000</i>
Net profit in BGN'000	3 881	2 874

No external capital requirements are imposed on the Group.

16. FAIR VALUES OF FINANCIAL INSTRUMENTS

Set out below is a comparison by class of book values and fair values of all of the Company's financial instruments:

	<i>Book value</i>		<i>Fair value</i>	
	2019	2018	2019	2018
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<i>Financial assets</i>				
Equity investments in unquoted entities	97	191	97	191
Trade and other receivables	11 901	9 425	11 901	9 425
Cash and cash equivalents	4 686	1 819	4 686	1 819
<i>Financial liabilities</i>				
Trade payables	2 290	558	2 290	558
Investments	1 972	1 896	1 972	1 896
Loans from individuals	547	730	547	730
Lease payables	8 946	61	8 946	61
Bank loans	2 482	2 887	2 482	2 887

The fair value of the Group's financial instrument is the price that could be received on the sale of a financial asset or paid on the transfer of a financial liability between knowledgeable and willing parties in an arm's length transaction at the date of measurement. The following methods and assumptions are used when fair value measurement is performed: Cash and short-term deposits, trade receivables, trade payables, bank loans, and other current financial assets and liabilities – their fair value approximates to the relevant carrying amount due to the short-term maturities of these instruments. Additional information about the fair value of equity investments in unquoted companies is provided in Note 5.3.

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16. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair value of loans received from individuals and liabilities related to the acquisition of investments is determined using the discounted cash flow model (DCFM) using a discount factor based on interest rates on debt instruments with similar terms and conditions and remaining maturity. Their carrying amount does not differ significantly from their fair value. The fair value measurement is classified at Level 3 of the fair value hierarchy.

17. BANK LOANS

	Effective interest rate %	Maturity	2019 <i>BGN'000</i>	2018 <i>BGN'000</i>
(1) United Bulgarian Bank AD – Contract 1384	RIR + 1.8%	17.05.2020	-	-
(2) UniCredit Bulbank AD – Contract 323	ADI + 1.427%	30.06.2022	-	-
(3) UniCredit Bulbank AD – Contract 496	ADI + 1.427%	30.06.2022	-	-
(4) UniCredit Bulbank AD – Contract 497	5%	15.05.2020	-	-
(5) United Bulgarian Bank AD – Investment loan	2,1%	30.12.2023	2 482	2 887
(6) Credit card agreement with a limit of up to BGN 10 thousand			-	-
(7) Framework agreement for the issuance of bank guarantees		22.02.2021	-	-
(8) United Bulgarian Bank AD – Contract 19F-002262	RIR + 1.8%	20.05.2024	-	-
			2 482	2 887
	Short-term loans		620	504
	Long-term loans		1 862	2 383

(1) Overdraft with an agreed amount of BGN 1 800 thousand. The loan is secured by pledge of current and future receivables up to the amount of the loan and Innovfin guarantee. The maturity date is on 17 May 2020. It is a revolving credit facility. As at 31 December 2019 the loan amount is unutilized.

(2) Working capital loan with an agreed amount of BGN 2 200 thousand. The loan is secured by pledge of current and future receivables up to the amount of the loan, collateral – a grant agreement with the Ministry of Economy under Operational programme “Innovation and Competitiveness” (2014-2020), pledge on fixed tangible assets, stationary electronic devices, guarantee under NGF, pledge under Financial Collateral Agreement Act. The maturity date is on 30 June 2022. The utilized part of the bank loan is in the form of bank guarantees issued to third parties with the amount of BGN 744 thousand. The remaining amount of the loan is not utilized as at 31 December 2019 (Note 20).

(3) Working capital loan with an agreed amount of BGN 1 000 thousand. The loan is secured by pledge of current and future receivables up to the amount of the loan and pledge under Financial Collateral Agreement Act. The maturity date is on 30 June 2022. As at 31 December 2019 the loan amount is unutilized.

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17. BANK LOANS (CONTINUED)

(4) Contingent credit line containing loan commitments to be taken on in relation to conducting financial transactions with an agreed amount of EUR 180 thousand. The loan is secured by pledge of current and future receivables up to the amount of the loan and pledge under Financial Collateral Agreement Act, as well as an agreement dated 18 July 2016 together with its current and future annexes and agreements between it, the pledgor and Shutterfly Inc. The maturity date of the loan is on 15 May 2021. As of 31 December 2019 the loan amount is unutilized.

(5) Investment loan amounting to EUR 2 010 thousand. The loan is granted for the acquisition and payment of shares in Upnetix EAD and the ancillary costs related to the acquisition. The maturity date of the loan is on 30 December 2023. The loan is secured by pledge of current and future receivables up to the amount of the loan and pledge of capital stock of Upnetix EAD.

(6) Framework agreement for issuance of bank guarantees in the amount of BGN 500 thousand with a maturity date on 22 February 2021. The active guarantees as of 31 December 2019 amount to BGN 206 thousand. The loan is secured by pledge of current and future receivables up to the amount of the loan and guarantee COSME in the amount of EUR 128 thousand.

(7) Overdraft with an agreed amount of BGN 1 000 thousand. The loan is secured by pledge of current and future receivables up to the amount of the loan. The maturity date is on 20 May 2024. It is a revolving credit facility. As at 31 December 2019 the loan amount is unutilized.

As of 31 December 2019 the Group has unutilized amounts on bank loans in the amount of BGN 7 811 thousand and bank guarantees in the amount of BGN 830 thousand.

As of 31 December 2019 the Group has no outstanding financial conditions under bank loan agreements which are regularly serviced without default.

18. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following table summarizes the changes in liabilities arising from financing activities, including both cash flow changes and non-monetary changes, and contains reconciliation between the opening and closing balances in the statement of financial position of the liabilities arising from financing activities for the yearended 31 December 2019:

	1 January 2019	Cash inflows	Cash outflows	Accruals made using the effective interest rate method	Interest paid	Other – new lease contracts	31 December 2019
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Interest-bearing loans and borrowings	2 887	167	(572)	62	(62)	-	2 482
Loans from individuals	730	-	(183)	-	-	-	547
Lease liabilities	7 797	-	(2 376)	262	(262)	3 525	8 946
Total liabilities arising from financing activities	11 414	167	(3 131)	324	(324)	3 525	11 975

The following table summarizes the changes in liabilities arising from financing activities, including both cash flow changes and non-monetary changes, and contains reconciliation between the opening and closing balances in the statement of financial position of the liabilities arising from financing activities for the year ended 31 December 2018:

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18. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES (CONTINUED)

	1 January 2018	Cash inflows	Cash outflows	Accruals made using the effective interest rate method	Interest paid	Other – new lease contracts	31 December 2018
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Interest-bearing loans	312	2 887	(312)	22	(22)	-	2 887
Current finance lease payables	14	-	-	2	(2)	-	14
Non-current finance lease payables	63	-	(17)	9	(8)	-	47
Total liabilities arising from financing activities	389	2887	(329)	33	(32)	-	2 948

19. BUSINESS COMBINATIONS

On 21 September 2018, Scale Focus AD has executed a 100% acquisition of Upnetix EOOD, Bulgaria. The main activity of Uptimex EOOD is the development of software solutions. For accounting purposes, effective date of acquisition is 30 September 2018.

As at 31 December 2018 Scale Focus AD has finalized the reporting of the business combination within the permissible 12-month period from the effective date of acquisition i.e. until 30 September 2019. The initial recognition of the business combination, and in particular the determination of the fair value of the consideration transferred, the identification and determination of the fair values of the identifiable assets and liabilities acquired, is not complete. Therefore, following the requirements of IFRS 3 Business Combinations, the Group has recognized the business combination in the consolidated financial statements as at 31 December 2018 on a pro-rata basis using the provisional values of the acquiree's assets and liabilities. The difference between the value of the transferred remuneration and the notional amounts of the acquired assets and liabilities is the recognized goodwill. The final reporting of the business combination is reflected in the current consolidated final financial statement for 2019, with the adjustments between the provisional and the final values being reflected retrospectively at the acquisition date.

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19. BUSINESS COMBINATIONS (CONTINUED)

Detailed information on the provisional amounts of net assets acquired and the transferred remuneration as well as of the final amounts of the fair values determined as a result of the finalization of the reporting of the business combination in 2019, is presented below:

	Provisional values at acquisition date /30 September 2018/ <i>BGN'000</i>
Equipment (Note 5.2)	150
Software (Note 5.1)	37
Cash	148
Trade receivables	1 879
Total assets	2 214
Trade payables	633
Loans to individuals (Note 10)	730
Income tax liability	31
Total liabilities	1 394
Acquired net assets at provisional value	820
Transferred consideration on acquisition	5 231
Goodwill	4 411

Fair values of the identifiable assets and liabilities of Upnetix EAD as at the acquisition date based on the finalization of the reporting of the business combination in 2019, are as follows:

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19. BUSINESS COMBINATIONS (CONTINUED)

	Fair values at acquisition date /30 September 2018/ BGN'000
Equipment (Note 5.2)	170
Software (Note 5.1)	49
Customer base (Note 5.1)	1 211
Deferred income tax assets	4
Deferred expenses	35
Other receivables	79
Cash	148
Trade receivables	1 626
Total assets	3 322
Trade payables	118
Advances received	36
Payables to employees	413
Deferred income tax liabilities	109
Other payables	37
Loans to individuals	692
Income tax liability	91
Total liabilities	1 496
Acquired net assets at fair value	1 826
Transferred consideration on acquisition	4 849
Goodwill	3 023

Goodwill amounting to BGN 3 023 thousand includes the expected synergy from the acquisition.

	<i>BGN'000</i>
Agreed consideration for the acquisition of the investment in Upnetix EAD	(5 231)
Effect of discounting at effective rate of 3.9%	382
Fair value of the agreed consideration	(4 849)
Interest accrued for the period of acquisition until 31 December 2018	(47)
Obligation related to the acquisition of the investment in Upnetix EAD as at 31 December 2018	1 896
Cash flows related to the acquisition of subsidiaries	(3 000)
Cash flows of the acquired entity	148
Cash flows related to the acquisition of subsidiaries, net of cash flows of the acquired entity	(2 852)

Information about the obligation related to the acquisition of the investment in Upnetix EAD is presented below:

	<i>BGN'000</i>
Obligation related to the acquisition of the investment in Upnetix EAD as at 31 December 2018	1 896
Interest accrued for 2019	76
Obligation related to the acquisition of the investment in Upnetix EAD as at 31 December 2019	1 972
Current obligation	225
Non-current obligation	1 747

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19. BUSINESS COMBINATIONS (CONTINUED)

The fair value of loans received from individuals and liabilities related to the acquisition of investments is determined using the discounted cash flow model (DCF) using a discount factor based on interest rates on debt instruments with similar terms and conditions and remaining maturity. Their carrying amount does not differ significantly from their fair value. The fair value measurement is classified at Level 3 of the fair value hierarchy.

20. COMMITMENTS AND CONTINGENCIES

Legal claims

There are no material legal claims brought against the Group.

Guarantees

The utilized amount of bank loans with regard to bank guarantees issued to third parties as at 31 December 2019 amounts to BGN 950 thousand (Note 17).

Other

Since the establishment of Scale Focus AD no tax audits have been carried out by the tax administration authorities.

The Group's management is of the opinion that there are not significant risks resulting from the dynamic fiscal and regulatory environment in Bulgaria, which might require adjustments in the consolidated financial statements for the year ended 31 December 2019.

21. RIGHT-OF-USE ASSETS

Group as a lessee

The Group has lease contracts for various items of property and motor vehicles used in its operations. Leases of buildings generally have lease terms between 4 and 5 years, while motor vehicles generally have lease terms between 3 and 4 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets.

The Group also has certain leases of office space with lease terms of 12 months or less. The Company applies the 'short-term lease' recognition exemptions for these leases.

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

	Property (leased)	Motor vehicles	Total
	BGN'000	BGN'000	BGN'000
As at 1 January 2019	7 520	252	7 772
Additions	3 298	227	3 525
Depreciation expense	(2 390)	(118)	(2 508)
As at 31 December 2019	8 428	361	8 789

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21. RIGHT-OF-USE ASSETS (CONTINUED)

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

	<u>2019</u> <u>BGN'000</u>
As at 1 January	7 797
Additions	3 525
Interest accrued (Note 11.8)	262
Payments	<u>(2 638)</u>
As at 31 December	<u>8 946</u>
Current	2 648
Non-current	6 298
	<u>2019</u> <u>BGN'000</u>
Depreciation expense of right-of-use assets	2 508
Interest expense on lease liabilities (Note 11.8)	262
Expense relating to short-term leases (Note 11.4)	<u>483</u>
Total amount recognised in profit or loss	<u>3 253</u>

The Group had total cash outflows related to leases of BGN 3 121 thousand in 2019 (including BGN 483 thousand related to short-term leases).

The Group has several lease contracts that include extension and termination options and the Company is certain that it will to great extent exercise the options with right to use. The aim of the management is to provide flexibility in managing the leased-asset portfolio by negotiating these options. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised. The management has not planned early termination of the contracts.

22. GOODWILL

Taking into consideration the synergies existing between the companies and the organization of business operations organization, the management of the Group has determined that Scale Focus AD and its subsidiaries represent one CGU. Therefore, the carrying amount of the goodwill recognized in 2018, amounting to BGN 3 023 thousand, is allocated to this CGU. As of 31 December 2019 the Group performed an annual review for impairment of goodwill acquired as a result of a business combination. As of 31 December 2019 the recoverable amount of goodwill is determined based on the value in use, which is calculated using the estimated cash flows from the budgets approved by senior management for a period of 5 years. Cash flows are discounted using a pre-tax discount rate of 17.84%, representing the weighted average cost of capital. The weighted average cost of capital indicator is determined based on the cost of equity (28.71%), the cost of debt capital after taxes (1.62%) and financial leverage (40.1%). The analysis made shows that there are no indications of impairment of goodwill. The management does not consider that there is a reasonably expected change in the key assumptions used in the impairment testing which can lead to the carrying amount of the cash-generating unit exceeding its value in use.

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22. GOODWILL (CONTINUED)

The discount rates represent the current market assessments of the risks specific to each CGU, in terms of the time value of money and the individual risks of the underlying assets, which are not included, and the estimated cash flows. The discount rate is determined based on the specific circumstances of the Group and its operating segments and is derived from the weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity represents the expected return on investment for the investors of the Group. The cost of debt is based on the interest-bearing borrowings that the Group is obliged to service. Segment-specific risk is included through the application of individual beta factors. Beta factors are assessed annually on the basis of publicly available market data. Adjustments to the discount rate are made to account for the specific amount and timing of future tax flows to reflect the pre-tax discount rate. The management does not expect a significant increase in the pre-tax discount rate.

23. EVENTS AFTER THE REPORTING PERIOD

The global challenge – COVID-19, marked the beginning of 2020. To support the fight against the pandemic, the parent-company has developed a specialized mobile application ViruSafe, which allows its users residing on the territory of the Republic of Bulgaria to join voluntarily by entering their health indicators and symptoms. ViruSafe aims to assist healthcare institutions to do better planning and track locations with potentially infected people.

The close interdependence between the Bulgarian economy and the economies of the other EU member states presupposes a contraction in exports, shrinking domestic consumption and, as a consequence, a GDP decrease. The restrictive measures introduced, as part of the declared nationwide state of emergency, temporarily (but not for long) disrupted the ordinary business operations of the Company. As a result, the Group was forced to take a number of measures to ensure business continuity and enhance the Company's competitiveness on the badly affected markets in North America and the EU. The measures can be grouped in the following way:

- Measures implemented inside the Group – the Group has successfully switched to "work from home" mode without interrupting the workflow. Processes related to the new business operation mode have been reviewed and streamlined.
- Measures implemented outside the Group – actively exploring the market for new opportunities and establishing stable partnerships;
- A key part of the management strategy for dealing with changes in business environment is transforming the Group from one providing services to one providing ready-made solutions and products in the field of e-commerce, cybersecurity and others. The solutions offered are a combination of a product and a service. This transformation imposes a different team demography, a much stronger business and market focus, including a geographic focus. As part of the restructuring of the Group a certain number of employees have been dismissed.
- The business plan and budgets for 2020 have been revised. Both awareness and commitment of the employees to the new organizational structure are ensured.

COVID-19 has necessitated urgent digitization in many sectors. Scale Focus AD has successfully devised a strategy for ensuring digital transformation of existing and new customers.

The management considers that the COVID-19 pandemic does not affect the Group's liquidity and does not create conditions that may cast significant doubt on the Group's ability to continue as a going concern.

Except for the above, there are no other significant events, which have occurred between 31 December 2019 and the date on which the financial statements were authorized for issue, that require additional adjustments and/or disclosures in the Group's financial statements for the year ended 31 December 2019.