

Scale Focus AD
Consolidated management report and
Consolidated annual financial statements

31 December 2020

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

SCALE FOCUS AD

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SCALE FOCUS AD

GENERAL INFORMATION

Board of Directors

Ivan Atanasov Ashminov
Viktor Miroslavov Bilyanski
Plamen Stilyanov Tsekov
Ivan Peychev Ivanov

Seat and registered address

1784 Sofia
Mladost district
Mladost, 90 Tsarigradsko Shose blvd,
Capital Fort, building A, floor 24

Legal consultants

Law firm „Sabev and Partners“
CasePro OOD
WolffTheiss
Law Company – Andreev, Kashleva and Partners
Law firm – Manev and Slavov
Dunlap, Bennett & Ludwig, PLLC
Attorney Nikolcho Lazarov, Skopje

Servicing banks

UBB AD
Unicredit Bulbank AD
УниБанка Скопие
KBC Bank NV, Niederlassung Deutschland
KBC Bank NV, London
KBC Bank NV, New York Branch
International Card Services BV
Lloyds Bank Corporate Card Services
PayHawk EOOD
Eurobank Bulgaria AD

Register and registration number:

UIC 201996987

Auditors

Ernst & Young Audit OOD
Polygraphia Office Center
47A, Tsarigradsko Shosse Blvd, fl.4
1124 Sofia

**SCALE FOCUS AD
CONSOLIDATED MANAGEMENT REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020**

The management presents its consolidated management report and consolidated annual financial statements as at 31 December 2020 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 2020 the Group consists of the Parent company Scale Focus AD and six subsidiaries Scale Focus Ltd, Great Britain, Scale Focus GmbH, Germany, Logical Factor Bulgaria EOOD, Bulgaria, Upnetix EAD, Bulgaria, Scale Focus DOOEL, North Macedonia., Scale Focus Inc., the USA, Delaware. 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.

Scale Focus Inc., the USA 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

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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 2020, 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 2020, the Group constitutes of seven companies: Parent company Scale Focus AD (Bulgaria) and six 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), Scale Focus Inc., the USA, Delaware (founded at the end of 2020).

Since the establishment of Parent company and during the past nine 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.

For the first nine 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 2020**

REVIEW OF THE ACTIVITIES AND PLANNED DEVELOPMENT (CONTINUED)

The consolidated statement of comprehensive income indicates the dynamic development of Scale Focus. In 2020, there was a 8% growth compared to 2019. The growth of the revenues in 2019 compared to 2018 was 59%.

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 2020 the Group earned two prestigious awards given by ForbesBusinessAwards – CEO of the year and Company of the year. Scale Focus AD was included in the Deloitte 2019 Technology Fast 500 ranking as one of the fastest growing technology companies in Europe, the Middle East and Africa. The Company also received the recognition of the independent B2B ranking platform – Clutch and was evaluated as a leader in consultancy services for the cloud platform AmazonWeb Services.

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 2020, the Group had a profit of BGN 36 thousand, in 2019: profit of BGN 3 177 thousand. The accrued expenses for personnel and social securities for 2020 amounts to BGN 48 497 thousand, while the amount for 2019 was BGN 39 675 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.

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.

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.

ETRMe 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 2020 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.

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 Group will start the implementing a project funded by the Bulgarian National Science Fund (BNSF) – “Climate and Covid-19”, which will focus on the impact of climate conditions on human health. A platform will be developed that will warn people with chronic diseases, who belong to a specific vulnerable group, about the occurrence of climate changes. The platform will also announce the risk of pandemics spreading.

In 2021 internal and external trainers will provide training and improve the qualifications of 299 of our employees through the project “Skills on Focus” funded by OP HRD.

In 2021 the Group will develop a software application dDnevnik, which will help monitor the daily health of patients with Type 2 diabetes in the Republic of Northern Macedonia.

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.

**SCALE FOCUS AD
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POSSIBLE FUTURE DEVELOPMENT OF THE COMPANY (CONTINUED)

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.

The Group has prepared 12-month financial projections starting from the date of the approval of these financial statements, taking into account the estimates of the continuing effects of the COVID-19 pandemic on business. The Management has concluded that there is no material uncertainty that could cast significant doubt on the Company's ability to continue as a going concern and, accordingly, that it is appropriate to prepare the financial statements based on the going concern assumption. The conclusion is arrived at taking into account the financial projections as well as the following:

- The servicing banks continue to provide ongoing support to the Group. As a result, as of 31 December 2020 the Company has access to unutilized overdrafts and other revolving credit lines in the amount of BGN 10 417 thousand, an investment loan in the amount of BGN 1,600 thousand, bank guarantees in the amount of BGN 775 thousand, as well as to cash and cash equivalents in the amount of BGN 5 840 thousand.
- As of 31 December 2020 the Group has fulfilled its financial commitments.
- In connection with the COVID-19 pandemic, the Group has introduced measures to strengthen its liquidity position and to ensure availability of cash.

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	79 178	24,116
Zhivko Zlatkov Radev	3 125	0,951
Ivan Atanasov Ashminov	79 279	24,147
Ivan Peychev Ivanov	3 764	1,146
Plamen Stilyanov Tasekov	79 279	24,147
Scale Focus AD	4 320	1,315
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.

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.

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

In 2018 Krum Daskalov sold to Plamen Tsekov his 3 681 shares. 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. In 2020 Scale Focus AD repurchased 3,681 shares held by Tsvetelina Petrova Kovacheva-Ivanova and 639 shares owned by Zhivko Zlatkov Radev. The treasury shares were acquired at BGN 95.08 per share and have a nominal value of BGN 1 each. In addition, in 2020 Scale Focus AD entered into a share repurchase agreement for the remaining 3,125 shares owned by Zhivko Zlatkov Radev. According to the minutes of a meeting of the Board of Directors held on 1 March 2021, the shares were repurchased at BGN 95.08 per share and have a nominal value of BGN 1 each.

As at 31 December 2020 the Chief Executive Officer of Scale Focus AD is Plamen Stilyanov Tsekov. By Decision of the Board of Directors of Scale Focus AD dated 6 January 2021 a new Chief Executive Officer was elected – Ivan Peychev Ivanov.

The Members of the Board of Directors of the 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%)
- Ivan Peychev Ivanov – 3 764 shares (1,146%).

The Members of the Board of Directors of the 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:

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;
- member of the Board of Directors of Bulgarian Association of Software Companies (BASSCOM) since 25 June 2020.

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;
- sole owner and CEO of Eclipse Cars EOOD;
- member of the Board of Directors of EnduroSat AD;
- shareholder in ProCount OOD since 15 December 2020.

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

- CEO of Scale Focus Plus DZZD Partnership until 7 January 2021;
- 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.

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

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

	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>
Short-term remuneration (including social security)	1 878	953
	1 878	953

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.

EVENTS AFTER THE REPORTING PERIOD

By Decision of the Board of Directors of Scale Focus AD dated 6 January 2021, a new Executive Director was elected – Ivan Peychev Ivanov.

Scale Focus Plus Partnership was removed from the register on 7 January 2021.

Scale Focus AD repurchased 3,125 shares owned by Zhivko Zlatkov Radev. The treasury shares were acquired at BGN 95.08 per share and have a nominal value of BGN 1 each.

Scale Focus AD participated in the establishment of a non-profit organization which is a public service body and is named "Varna Digital Innovation Hub".

Except for the above, there are no other significant events, which have occurred between 31 December 2020 and the date on which the financial statements were authorized for issue, that require additional adjustments and/ or disclosures in the Company's financial statements for the year ended 31 December 2020.

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 Company 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 2020.

**SCALE FOCUS AD
CONSOLIDATED MANAGEMENT REPORT
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MANAGEMENT'S RESPONSIBILITIES (CONTINUED)

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 Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The management report for 2020 of the Scale Focus AD Group was approved by the Board of Directors on 27 September 2021.

Chief Executive Officer:



Ivan Psychev Ivanov

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

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 2020, 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 2020, 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.



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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
SWIFT/BIC: UNCRBG6F with Unicredit Bulbank AD

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

Management is responsible for the other information. The other information comprises the consolidated management report, prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

We have nothing to report in this regard.

Responsibilities of Management and 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.


2

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.

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

Proxy of the General Manager Nikolay Garnev and
Registered auditor in charge of the audit

29 September 2021

Sofia, Bulgaria

SCALE FOCUS AD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

In BGN'000

	Notes	2020	2019 (restated)
ASSETS			
Intangible assets	5.1	4 733	4 519
Plant and equipment	5.2	1 731	1 712
Investments in non-controlled entities	5.3	12	97
Right-of-use assets	21	5 670	8 789
Goodwill	22, 19	3 023	3 023
Deferred tax assets	12	478	226
		15 647	18 366
Trade and other receivables	6	11 738	11 901
Receivables for income taxes		189	236
Inventory	7	275	104
Prepaid expenses		592	310
Government grants	14	443	-
Cash and cash equivalents	8	5 840	4 686
		19 077	17 237
TOTAL ASSETS		34 724	35 603
EQUITY AND LIABILITIES			
Equity			
Share capital	9.1	328	328
Repurchased own shares	9.2	(4)	-
Legal Reserves	9.3	26	26
Share premium reserve	9.4	-	281
Foreign exchange reserve	9.5	(9)	13
Retained earnings		11 129	11 219
		11 470	11 867
Non-controlling interest		-	-
		11 470	11 867
Non-current liabilities			
Finance lease liabilities	21	3 698	6 298
Bank loans	17	1 427	1 862
Investment liabilities	19	-	1 747
Pension provisions	23	107	26
Government grants	14	1 598	1 064
Trade and other payables	10	739	1 089
		7 569	12 086
Current liabilities			
Trade and other payables	10	10 499	8 001
Bank loans	17	714	620
Deferred tax liability	12	101	80
Income tax liability		18	13
Investment liabilities	19	1 832	225
Liabilities under lease contracts	21	2 207	2 648
Government grants	14	314	63
		15 685	11 650
TOTAL LIABILITIES		23 254	23 736
TOTAL EQUITY AND LIABILITIES		34 724	35 603

The notes on page 9 to page 62 are an integral part of these consolidated financial statements.
The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 27 September 2021.

Ivan Peychev Ivanov
Chief Executive Officer

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

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

EY

29-09-2021

Ernst & Young Audit OOD

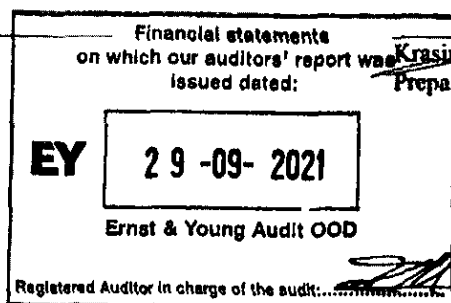
Registered Auditor in charge of the audit:.....

SCALE FOCUS AD
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

<i>In BGN'000</i>	Notes	2020	2019 (restated)
Revenue from contracts with customers	11.1	64 812	59 979
		64 812	59 979
Other income	11.2	1 969	782
Personnel and social security expenses	11.3	(48 497)	(39 675)
Hired services expenses	11.4	(8 485)	(8 993)
Cost of goods sold		(1 194)	(592)
Materials expenses	11.5	(530)	(994)
Depreciation and amortization	5.1; 5.2; 21	(5 184)	(4 179)
Other expenses	11.6	(1 613)	(2 248)
Operating profit		1 278	4 080
Financial income	11.7	11	4
Financial expenses	11.8	(1 230)	(524)
Profit before tax		59	3 560
Income tax expense	12	(23)	(383)
Profit for the year		36	3 177
Other comprehensive income			
<i>Other comprehensive income due to be reclassified to profit or loss in following periods net of taxes</i>			
Foreign exchange differences due to conversion of foreign financial statements		(22)	13
Total comprehensive income for the year		14	3 190
Attributable to:			
Equity holders of the parent		14	3 190
Non-controlling interest		-	-
		14	3 190

The notes on page 9 to page 62 are an integral part of these consolidated financial statements.
The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 27 September 2021.


Ivan Peychev Ivanov
Chief Executive Officer



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

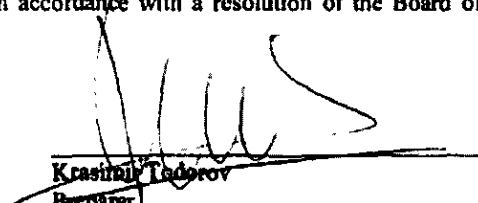
SCALE FOCUS AD
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

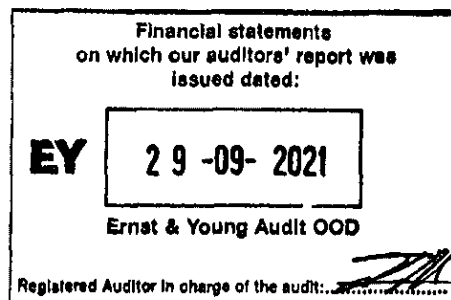
Restated

In BGN thousand	Attributable to the equity holders of the parent						Non-controlling interest	Total equity
	Share capital	Repurchased own shares	Legal reserves	Share premium reserve	Foreign exchange reserve	Retained earnings		
As at 1 January 2019	328	-	26	281	-	8 042	8 677	8 677
Profit for the period	-	-	-	-	-	3 177	3 177	3 177
Other comprehensive income	-	-	-	-	13	-	13	13
Total comprehensive income	-	-	-	-	13	3 177	3 190	3 190
As at 31 December 2019	328	-	26	281	13	11 219	11 867	11 867
As at 1 January 2020	328	-	26	281	13	11 219	11 867	11 867
Profit for the period	-	-	-	-	-	36	36	36
Other comprehensive income	-	-	-	-	(22)	-	(22)	(22)
Total comprehensive income	-	-	-	-	(22)	36	14	14
Repurchased own shares	-	(4)	-	(281)	-	(126)	(411)	(411)
As at 31 December 2020	328	(4)	26	-	(9)	11 129	11 470	11 470

The notes on page 9 to page 62 are an integral part of these consolidated financial statements.
The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 27 September 2021.


Ivan Psychev Ivanov
Chief Executive Officer


Krasimir Todorov
Preparer



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 2020

<i>In BGN '000</i>	Notes	2020	2019 Restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		59	3 560
Adjustments to reconcile profit before tax to net cash flows:			
Non-cash:			
Depreciation and amortization	5.1, 5.2, 21	5 184	4 179
- incl. Depreciation of right-of-use assets	21	3 056	2 508
Impairment of intangible assets	5.1	536	81
Impairment of investments	5.3	85	94
Loss on disposal of assets	5.2	-	15
Effect from COVID-19-related rent concessions	11.4, 21	(185)	-
Effect from derecognition of right-of-use assets	11.2, 21	(67)	-
Expenses for impairment and derecognition of receivables	11.6, 11.2	(381)	330
Revenue from government grants	11.2, 14	(1 413)	(525)
Dividend income	11.2	-	(2)
Interest income	11.7	(2)	(4)
Interest expenses	11.8	485	417
- incl. interest expenses on right-of-use assets		278	262
Expenses for pension provisions		81	26
Working capital adjustments			
Increase in inventory		(171)	(25)
Increase in prepaid expenses		(282)	(136)
Increase in trade and other receivables		676	(2 716)
Increase in trade and other payables		2 289	3 979
Interest paid		(417)	(342)
Interest income		2	4
Corporate income tax paid		(192)	(755)
Net cash flows from operating activities		<u>6 287</u>	<u>8 180</u>
CASH FLOWS FOR INVESTMENT ACTIVITIES			
Purchase of plant and equipment and intangible assets		(2 900)	(3 204)
Payments related to investments		(215)	-
Government grants	14	1 755	590
Repaid loans		-	2 878
Loans provided		-	(2 615)
Dividends received		-	2
Net cash flows used in investment activities		<u>(1 360)</u>	<u>(2 349)</u>
CASH FLOWS FOR FINANCING ACTIVITIES			
Repurchase of own shares	9	(411)	-
Loans received	18	303	167
Repaid loans	18	(644)	(572)
Finance lease payments	18, 21	(2 716)	(2 376)
Loans repaid by physical persons	18	(283)	(183)
Net cash flows used in financing activities		<u>(3 751)</u>	<u>(2 964)</u>
Net increase in cash and cash equivalents		1 176	2 867
Net foreign currency translation differences		(22)	-
Cash and cash equivalents at the beginning of the period		<u>4 686</u>	<u>1 819</u>
Cash and cash equivalents at the end of the period	8	<u>5 840</u>	<u>4 686</u>

The notes on page 9 to page 62 are an integral part of these consolidated financial statements.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 27 September 2021.

Ivan Peychev Ivanov
Chief Executive Officer

Krasimir Todorov
Preparer

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

EY

29 -09- 2021

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

Ernst & Young Audit OOD

SCALE FOCUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

1. CORPORATE INFORMATION

The consolidated financial statement of the Group for the year ended 31 December 2020 was authorised for issue in accordance with resolution of the Board of Directors on 27 September 2021.

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 2020, the Board of Directors has the following members:

- 1) Plamen Stilyanov Tsekov – Chief Executive Officer and Company representative until 6 January 2021;
- 2) Ivan Atanasov Ashminov;
- 3) Viktor Miroslavov Bilyanski;
- 4) Ivan Peychev Ivanov – Chief Executive Officer and Company representative from 6 January 2021;

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.

As at 31 December 2020 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	3 125	0,951
Ivan Atanasov Ashminov	79 279	24,147
Ivan Peychev Ivanov	3 764	1,146
Plamen Stilyanov Tsekov	79 279	24,147
Scale Focus AD	4 320	1,315
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 2020

2.1 BASIS OF PREPARATION (CONTINUED)

Going concern

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

The Group has prepared 12-month financial projections starting from the date of the approval of these financial statements, taking into account the estimates of the continuing effects of the COVID-19 pandemic on business. The Management has concluded that there is no material uncertainty that could cast significant doubt on the Group's ability to continue as a going concern and, accordingly, that it is appropriate to prepare the financial statements based on the going concern assumption. The conclusion is arrived at taking into account the financial projections as well as the following:

- The servicing banks continue to provide ongoing support to the Group. As a result, as of 31 December 2020 the Group has access to unutilized overdrafts and other revolving credit lines in the amount of BGN 10 417 thousand, an investment loan in the amount of BGN 1 600 thousand, bank guarantees in the amount of BGN 775 thousand as well as to cash and cash equivalents in the amount of BGN 5 840 thousand.
- As of 31 December 2020 the Company has fulfilled its financial commitments.
- In connection with the COVID-19 pandemic, the Group has introduced measures to strengthen its liquidity position and to ensure availability of cash.

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, Scale Focus Inc., the USA for the year ended 31 December 2020.

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 in negative value.

Changes in the shareholdings of the subsidiaries which do 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 2020 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 27 September 2021.

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

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

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.

SCALE FOCUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Plant, equipment and intangible assets (continued)

Plant and equipment (continued)

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.

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 -5 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;

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Inventory (continued)

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.

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

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial Instruments – Initial recognition and subsequent measurement (continued)

• Financial assets (continued)

Financial assets at amortised cost (debt instruments) (continued)

- 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.

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.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

• Financial assets (continued)

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.

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.

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 liabilities (continued)

Subsequent measurement

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

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 2020 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
FOR THE YEAR ENDED 31 DECEMBER 2020

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
FOR THE YEAR ENDED 31 DECEMBER 2020

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1) 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.

Relief to lessees under lease contracts arising as a consequence of the COVID-19 pandemic

The Group has applied the practical expedient, in accordance with the amendments to IFRS 16, issued by the International Accounting Standards Board, related to rent concessions arising from the COVID-19 pandemic. According to the practical expedient the Group has elected not to report a Covid-19 related rent concession from a lessor as a lease modification. The practical expedient may be applied for rent concessions arising directly as a consequence from the COVID-19 pandemic, when the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

The Group has applied the practical expedient for all contracts under which it has received rent concessions and which meet the conditions above.

In the absence of specific guidelines on how the lessee should account for rent concessions when applying the practical expedient, the Company has developed and follows a policy according to which it reports rent concessions that meet the above conditions. Rent concessions are reported as lease obligation revaluation based on the changed lease consideration with a corresponding adjustment in profit or loss, in the period in which the rent concession is granted. Additional information is provided in Note 21.

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.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. When the government grant is related to an asset, it is presented as deferred income and is included in the income in equal amounts for the expected useful life of the related asset.

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.

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.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Fair value measurement (continued)

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 2020 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.

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.

r) 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.

s) 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.

t) 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.

According to Bulgarian labour legislation, the Group as an employer is obliged to pay two or six gross monthly salaries to its employees upon retirement, depending on the length of their service. If an employee has worked for the same employer for 10 years, the retirement benefit amounts to six gross monthly salaries upon retirement, otherwise, two gross monthly salaries. The retirement benefits are unfunded. The Group determines its obligations for payment of post-retirement benefits using an actuarial method – projected unit credit method. Re-measurements, comprising of actuarial gains and losses, are recognised immediately in the statement of financial position with a corresponding debit or credit to a separate equity component "Retained earnings" through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods. Past service costs are recognised in profit or loss on the earlier of:

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

Interest expense is calculated by applying the discount rate to the defined benefit liability. The Group recognises the following changes in the defined benefit obligation in profit or loss for the period:

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2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Employee benefits (continued)

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements within "Employee benefits expense"
- Interest expense within "Finance costs".

As at 31 December 2020 the Group accrued provision for pensions at the amount of BGN 107 thousand in 2020 based on an actuarial valuation performed. At 31 December 2019 the Group accrued provision for pensions at the amount of BGN 26 thousand. Additional information is provided in Note 11.3 and Note 23.

u) 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.

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.

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

u) Business combinations and goodwill (continued)

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.

v) Share-based payment

The Group recognizes the expenses related to the acquisition of shares on the basis of an employee incentive plan. The right to cash payment, determined on the basis of the future value of the Group's shares, is gained provided that certain conditions have been satisfied. At the end of each reporting period, the Group makes judgements related to the time at which the conditions set out are met in order to determine the term of the incentive plan. The fair value of the shares is determined on the basis of a model, the main assumptions of which are disclosed in Note 3.

Expenses for share-based payment plans are determined based on the fair value of the shares at the end of the reporting date. The Group recognizes consideration expenses, net of the expected number of lost share purchase rights, which represent monetary compensations determined on the basis of the fair value of shares that are expected to be allocated on a straight-line basis over the term of the plan.

The Group estimates the percentage of the expected lost share acquisition rights based on historical experience. Changes in the estimated percentage of lost acquisition rights are recognized through a cumulative adjustment over the period of the change and are reflected in the current expenses for share-based payments.

Share acquisition costs are reported as part of personnel costs as a share-based payment obligation.

2.3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

New and amended standards and interpretations

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Company has early adopted the Amendments to IFRS 16 Covid-19 Related Rent Concessions as specified below. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

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

2.3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

Amendments to IFRS 16 Covid-19 Related Rent Concessions (continued)

The Group applied the amendments to IFRS 16 with a date of initial application of 1 January 2020. No adjustments to the opening balance of equity as of 1 January 2020 were necessary as a result of the early adoption as no Covid-19 related rent concessions meeting the requirements of the amendment were granted to the Group prior to 1 January 2020. Additional disclosures on the effect of the application of the amendments on the current accounting period is presented in Note 21.

Amendments to IFRS 3: Definition of a Business

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

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

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

Amendments to IAS 1 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 materiality and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. The amendments also specify that materiality will depend on the nature or magnitude of information. These amendments have no impact on the financial statements of the Group.

Conceptual Framework for Financial Reporting

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

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2.4 ERROR CORRECTION

In 2020 the Group corrected an error related to contracts concluded at the end of 2018 with members of the management and administration staff. The subject-matter of the contracts is additional remuneration payment and granting of privileges upon occurrence of an event – a change in the ownership of the parent Company. Due to the short-term character of the duration of the contracts concluded in 2018, the Group has determined that the identified error has no significant effect on retained earnings as of 31 December 2018. This is the reason why a third balance sheet was not disclosed as of 1 January 2019. The error was corrected by recalculating each of the affected lines by items in the financial statements for the previous period – personnel and social security costs are increased by BGN 500 thousand, finance costs are increased by BGN 4 thousand, trade and other payables are increased by BGN 504 thousand, deferred tax asset is increased by BGN 51 thousand, retained earnings are decreased by BGN 453 thousand.

In 2020 the Group corrected an error related to contracts concluded at the end of 2019 with members of the management and administration staff. The subject-matter of the contracts is additional remuneration (a share-based payment – „Cash-settled transactions“) upon occurrence of an event – a change in the ownership of the parent Company. The error was corrected by recalculating each of the affected lines by items in the financial statements for the previous period – personnel and social security costs are increased by BGN 279 thousand, trade and other payables by BGN 279 thousand, deferred tax asset by BGN 28 thousand, retained earnings are decreased by BGN 251 thousand.

Reclassifications

The Group has made some reclassifications concerning the presentation of certain items in the statement of financial position for the previous period.

Trade and other payables from third parties in the amount of BGN 180 thousand as of 31 December 2019 have been reclassified to trade and other payables to related parties, within the item “Trade and other payables”.

Current liabilities – trade and other payables in the amount of BGN 26 thousand as of 31 December 2019 have been reclassified to non-current liabilities – retirement benefits.

Outstanding liabilities for remuneration of key management personnel in the amount of BGN 310 thousand as of 31 December 2019 have been reclassified from personnel payables to trade and other payables to related parties – natural persons – key management personnel.

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.

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

Judgments (continued)

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

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.

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 2020 and 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.

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

Judgments (continued)

Determining the timing of the satisfaction of obligations for software product development (continued)

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 2020, 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 2020 Scale Focus Plus Partnership did not carry out any business operations. Scale Focus Plus Partnership was closed down on 7 January 2021.

Government grants

As of 31 December 2020 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 1 413 thousand. The income is disclosed in Note 11.2. and Note 14.

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.

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

Estimates and assumptions (continued)

Provision for expected credit losses of trade receivables (continued)

The impact of the COVID-19 pandemic on recoverability of receivables was analyzed. While the methodologies and assumptions used in the expected credit losses (ECLs) estimates remain unchanged in comparison to those applied in the previous financial year, the Group has included estimates, assumptions and judgments specific to the impact of the Covid-19 pandemic. In making these estimates, the Group has taken into account the business sector in which it operates, the aging structure of its receivables and their comparability with those from the previous period, which indicates a lack of significant deterioration in the liquidity position of the Group's customers and a lack of extended credit terms in comparison to the previous period. No significant recoverability problems were identified

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. As at 31 December 2020 the amount of the retirement benefit obligation is BGN 107 thousand. Additional information is presented in Note 23.

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).

Impairment of intangible assets

Impairment exists when the carrying value of an asset or cash generating unit (CGU) or group of CGU exceeds its recoverable amount, defined as the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on data available from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow model (DCF model). The cash flows are derived from the budget for the next five years and do not include restructuring activities to which the Group has not yet committed or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as to expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to internally developed software. The main assumptions used in calculating the value in use are: a time horizon of 3 to 5 years, a discount rate of 17.84% and the cash flows determined on the basis of the expected cash flows that the respective asset will generate for the period under review. The growth rate assumption in the terminal period is 5%.

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.

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

Goodwill impairment testing (continued)

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.

Share-based payment

The estimates of the fair value of share-based payment transactions require the determination of the most appropriate valuation technique, which depends on the terms and conditions upon which these equity instruments were granted. These estimates also require the most appropriate inputs to the valuation technique, including the expected life of the stock option, volatility and dividend yield, and the assumptions made about them. The Group initially measures the value of cash-settled transactions with employees using a binomial model to determine the fair value of the liability incurred. For cash-settled share-based payment transactions, the liability shall be remeasured at the end of each reporting period up to the settlement date and the changes in fair value shall be recognized in profit or loss. This requires the estimates used to be revised at the end of each reporting period.

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

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

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

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The standard has not yet been endorsed by the EU. It is not expected that the standard would impact the financial position or performance of the Group.

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

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

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

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

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

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

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

Amendments to IFRS 3 Business combinations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IAS 41 Agriculture – Taxation in fair value measurements

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

5. NON-CURRENT ASSETS

5.1. Intangible assets

	Software	Customer base	Software under development	Total
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
Balance as at 1 January 2020	1 879	832	1 808	4 519
Additions	183	-	1 563	1 746
Transfers	899	-	(899)	-
Impairment	(531)	-	(5)	(536)
Amortization	(693)	(303)	-	(996)
Balance as at 31 December 2020	1 737	529	2 467	4 733
As at 31 December 2020				
Book value	5 582	1 211	2 472	9 265
Impairment	(612)	-	(5)	(617)
Accumulated amortization	(3 233)	(682)	-	(3 915)
Balance as at 31 December 2020	1 737	529	2 467	4 733

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

As at 31 December 2020 the carrying amount of the intangible assets included in the “Software under development” category acquired through financing granted for the project “SAAM” is BGN 1 258 thousand.

As at 31 December 2020 the carrying amount of the intangible assets included in the “Software under development” category acquired through financing granted for the project “Soundvision” is BGN 864 thousand.

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5. NON-CURRENT ASSETS (CONTINUED)

5.1. Intangible assets (continued)

As at 31 December 2020 the carrying amount of the intangible assets included in the "Software under development" category for the project "SalesForce CRM" is BGN 165 thousand.

As at 31 December 2020 the carrying amount of the intangible assets included in the "Software under development" category for the project "Cybersecurity" is BGN 76 thousand.

As at 31 December 2020 the carrying amount of the intangible assets included in the "Software under development" category for the project "SPF" is BGN 21 thousand.

The carrying amount of intangible assets under "Software under development" category also includes the expenses incurred for the implementation of own software at the amount of BGN 83 thousand.

Impairment of intangible assets

The Company conducted impairment testing of intangible assets at 31 December 2020. There were indications that the carrying amount of the assets exceeded their recoverable amount. As at 31 December 2020 the Group recognized impairment of intangible assets amounting to BGN 536 thousand from which no future economic benefits were expected.

As at 31 December 2020 no assets were derecognized (2019: BGN 15 thousand).

5.2. Plant and equipment

	Hardware and equipment	Motor vehicles	Furniture and fittings	Leasehold improvements	Total
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
Balance as at 1 January 2020	957	12	474	269	1 712
Additions	542	-	374	250	1 166
Disposals	(115)	-	(8)	-	(123)
Depreciation	(844)	(2)	(135)	(151)	(1 132)
Written-off depreciation	106	-	2	-	108
Balance as at 31 December 2020	646	10	707	368	1 731
At 31 December 2020					
Book value	3 706	85	1 003	627	5 421
Accumulated depreciation	(3 060)	(75)	(296)	(259)	(3 690)
Balance as at 31 December 2020	646	10	707	368	1 731

SCALE FOCUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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 2020. No indications were found that the carrying amount of the assets exceeded their recoverable amount. As at 31 December 2020 the Company did not recognize impairment of plant and equipment (2019: nil).

5.3 Investments in non-controlled entities

	<u>Country</u>	<u>Carrying amount</u>		<u>Interest</u>	
		<u>31.12.2020</u>	<u>31.12.2019</u>	<u>31.12.2020</u>	<u>31.12.2019</u>
		<u>BGN'000</u>	<u>BGN'000</u>	<u>%</u>	<u>%</u>
Cloud analytics OOD	Bulgaria	-	-	-	-
Imagefinity OOD	Bulgaria	-	-	1	1
AVIQ Systems AG	Switzerland	12	97	7	7
		<u>12</u>	<u>97</u>		

The investment in Imagefinity OOD, Bulgaria, as of 31 December 2020 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 2020 and 31 December 2019 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 2020 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 2020 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 12 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.

SCALE FOCUS AD
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6. TRADE AND OTHER RECEIVABLES

	As at 31 December 2020	As at 31 December 2019
Trade receivables	5 860	7 289
Trade and other receivables from related parties (Note 13)	113	10
Contract assets	5 723	4 400
Provision for doubtful debts	(253)	(663)
Trade receivables, net of impairment	11 443	11 036
Receivables from personnel for loans and advances provided	2	34
Advances to suppliers	66	296
Withholding tax	43	25
Other receivables	184	510
	11 738	11 901
Short-term receivables	11 738	11 901

Based on an analysis made regarding the collectability of receivables, the management of the Company has concluded that as at 31 December 2020 there are impaired trade receivables.

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 2020, is presented in the table below using a provisional matrix.

Impairment of receivables on a collective basis is applied to trade receivables only, excluding contract assets which fall into the category "current".

	Trade receivables from third parties and contract assets					
	Days past due					
	Current (neither past due nor impaired up to 30 days)	31-90 days	91-270 days	271-360 days	> 360 days	Total
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Expected credit loss rate on collective impairment	0.7%	15.5%	0%	0%	96.8%	
Total gross carrying amount	11 054	207	123	10	189	11 583
Total amount of impairment on a collective basis	(38)	(32)	-	-	-	(70)
Total amount of impairment on an individual basis from contract assets from third parties	-	-	-	-	(183)	(183)
Net carrying amount	11 016	175	123	10	6	11 330

SCALE FOCUS AD
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6. TRADE AND OTHER RECEIVABLES (CONTINUED)

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					
	Days past due					
	Current (neither past due nor impaired up to 30 days)	30-60 days	61-180 days	181-360 days	> 360 days	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Expected credit loss rate on collective impairment	0.4%	24.3%	34.3%	43.2%	100%	
Total gross carrying amount	11 042	27	-	4	616	11 689
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	11 000	24	-	2	-	11 026

7. INVENTORY

	As at 31 December 2020	As at 31 December 2019
	BGN'000	BGN'000
Licenses	275	104
TOTAL	275	104

8. CASH AND CASH EQUIVALENTS

	As at 31 December 2020	As at 31 December 2019
	BGN'000	BGN'000
Cash at bank	5 821	4 671
Cash in hand	19	15
TOTAL	5 840	4 686

Cash at bank earns floating interest based on the daily interest rate on bank deposits. As at 31 December 2020 the fair value of cash and short-term deposits is BGN 5 840 thousand (2019: BGN 4 686 thousand).

SCALE FOCUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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 2020 and 31 December 2019 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 2019	328	328
At 1 January 2020	328	328
At 31 December 2020	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 2020	Number of shares as at 31 December 2020	% Interest as at 31 December 2019	Number of shares As at 31 December 2019
Viktor Miroslavov Bilyanski	24,147	79 279	24,147	79 279
Galina Ivanova Guenova	0,031	101	0,031	101
Grisha Ivanov Guenov	24,116	79 178	24,116	79 178
Ivan Atanasov Ashminov	24,147	79 279	24,147	79 279
Plamen Stilyanov Tsekov	24,147	79 279	24,147	79 279
Zhivko Zlatkov Radev	0,951	3 125	1,146	3 764
Ivan Peychev Ivanov	1,146	3 764	1,146	3 764
Scale Focus AD	1,315	4 320	-	-
Tsvetelina Petrova Kovacheva-Ivanova	-	-	1,12	3 681
	100	328 325	100	328 325

9.2. Repurchased own shares

In 2016 the Company redeemed 49 578 of its own shares with par value of BGN 1 each. The total nominal value of all shares is BGN 50 thousand. The shares were redeemed at BGN 7.80 per share. As per Article 187a of the Commerce Act, the Company shall suspend the exercise of the rights in its own redeemed shares until their transfer. In 2017, the Company sold all the redeemed shares to its existing shareholders for BGN 11.34 each. The difference of BGN 512 thousand between the nominal value and the issue price was accounted for as an increase in the Company's reserve fund. In 2020 the Company redeemed 4 320 of its own shares with par value of BGN 1 each. The shares were redeemed at BGN 95.08 per share. The difference of BGN 407 thousand between the nominal price and the issue price is accounted for as a decrease in the share premium reserve until its exhaustion, and the remaining amount of BGN 126 thousand is reported as a decrease in retained earnings.

9.3. Legal reserve

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 2020 legal reserves amount to BGN 26 thousand (2019: BGN 26 thousand). As at 31 December 2020 legal reserves are less than one tenth of the Company's capital and are to be revised in 2021.

SCALE FOCUS AD
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9. SHARE CAPITAL AND RESERVES (CONTINUED)

9.4. Share premium reserve

Any difference between the nominal value and the issue price of shares is accounted for as share premium. The share premium reserve is used to cover losses and to increase share capital after the legal reserve threshold has been reached pursuant to Article 246 of the Commerce Act of the Republic of Bulgaria. Share premium reserve at 31 December 2020 is nil (2019: BGN 281 thousand).

9.5 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 2020	As at 31 December 2019 restated
	BGN'000	BGN'000
Trade payables and advances received	3 157	2 110
Loan liabilities to individuals	264	547
Trade and other payables to related parties (Note 13)	1 963	1 273
Personnel payables	3 695	2 888
Unused paid leave	473	209
Social security payables	707	713
Tax payables	866	1 283
Other payables	113	67
	11 238	9 090
Up to 1 year	10 499	8 001
Over 1 year	739	1 089

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;
- Information about payables to related parties included under item "Trade and other payables" is presented in Note 13.3.

As at 31 December 2020 long-term liabilities at the amount of BGN 20 thousand (31 December 2019: BGN 306 thousand) 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.

SCALE FOCUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>
Market 1 (Bulgaria)	18 007	23 321
Market 2 (Great Britain)	1 054	1 611
Market 3 (Europe – other countries)	8 273	5 570
Market 4 (Canada)	1 079	361
Market 5 (the USA)	28 503	22 360
Market 6 (Other)	247	505
Market 7 (Germany)	7 649	6 251
Total revenue from contracts with customers	64 812	59 979

Timing of revenue recognition	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>
Goods (equipment and licenses) transferred at a point in time	2 691	1 226
Software solutions with an agreed hourly rate and subscription transferred over time	56 569	50 601
Software solutions with fixed price transferred over time	5 552	8 152
Total revenue from contracts with customers	64 812	59 979

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

	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>
Government grant income (Note 14)	1 413	525
Dividend income	-	2
Income from reversal of impairment of receivables (Note 6)	410	-
Effect from write-off of payables under lease contracts	67	-
Reversal of receivables/ payables written-off	30	-
Training	13	108
Other	36	147
Other income	1 969	782

11.3. Personnel expenses

	2020	2019
	<i>BGN'000</i>	<i>Restated BGN'000</i>
Salaries	(43 456)	(35 460)
Social security contributions	(4 960)	(4 189)
Retirement benefit expenses (Note 23)	(81)	(26)
	(48 497)	(39 675)

SCALE FOCUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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11. REVENUE AND EXPENSES (CONTINUED)

11.4. Expenses for hired services

	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>
Consultancy services	(4 881)	(5 607)
Accounting, tax and legal services	(365)	(322)
Rent	(203)	(483)
Effect from COVID-19-related rent concessions	185	-
Training and certificates	(144)	(239)
Marketing and seminars	(229)	(353)
Insurance	(113)	(139)
Phones, internet, postal and courier services	(237)	(162)
Software subscriptions	(1 586)	(681)
Vacancy notices	(382)	(358)
Office repairs and maintenance	(66)	(171)
Partnerships and memberships	(35)	(61)
Other	(429)	(417)
	<u>(8 485)</u>	<u>(8 993)</u>

11.5. Costs of materials

	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>
Utilities expense	(148)	(196)
Stationery and office supplies	(78)	(151)
Assets below capitalisation threshold	(160)	(452)
Fuel	(10)	(23)
Promotional materials	(131)	(163)
Other	(3)	(9)
	<u>(530)</u>	<u>(994)</u>

11.6 Other expenses

	2020	2019
	<i>BGN'000</i>	Restated <i>BGN'000</i>
Travel expenses	(373)	(1 092)
Loss on sale / impairment of investment (Note 5.3)	(85)	(94)
Impairment losses on receivables (Note 6)	(11)	(240)
Losses from asset derecognition (Note 5.1)	-	(15)
Receivables written off	(18)	(90)
Impairment of fixed intangible assets (Note 5.1)	(536)	(81)
Representative expenses	(385)	(478)
Donations	(53)	(55)
Other	(152)	(103)
	<u>(1 613)</u>	<u>(2 248)</u>

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

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11. REVENUE AND EXPENSES (CONTINUED)

11.7. Financial income

	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>
Interest income from loans provided	2	4
Other financial income (foreign exchange differences)	9	-
	<u>11</u>	<u>4</u>

11.8. Financial expenses

	2020	2019
	<i>BGN'000</i>	Restated <i>BGN'000</i>
Interest expenses	(485)	(421)
- incl. interest expense related to right-of-use assets (Note 21)	(278)	(262)
Fees and commissions, foreign exchange differences	(745)	(103)
	<u>(1 230)</u>	<u>(524)</u>

12. INCOME TAX

As at 31 December 2019 the Group has recognized income tax amounting to BGN 23 thousand.

Major components of the income tax expense for the years ended 31 December 2020 and 2019 are as follows:

	2020	2019
	<i>BGN'000</i>	Restated <i>BGN'000</i>
Current income tax expense	(254)	(542)
Deferred tax benefit	231	159
Income tax expense reported in profit or loss	<u>(23)</u>	<u>(383)</u>

The reconciliation of income tax expense and accounting profit multiplied by the applicable rate for the years ended 31 December 2020 and 31 December 2019 is presented below:

	2020	2019
	<i>BGN'000</i>	Restated
Accounting profit before taxes from continuing operations	59	3 560
Income tax expense at statutory tax rate of 10% for 2020 (2019: 10%)	(6)	(355)
Effect of higher tax rates abroad	-	(17)
Other	(2)	-
Permanent differences	(15)	(11)
Current income tax expense	<u>(23)</u>	<u>(383)</u>

SCALE FOCUS AD
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12. INCOME TAX (CONTINUED)

The applicable income tax rate in Bulgaria in 2020 is 10% (2019: 10%). The income tax rate remains 10% in 2021 as well.

Deferred income taxes at 31 December 2020 and 31 December 2019 relate to the following:

	Statement of financial position		Profit or loss	
	2020	2019	2020	2019
		Restated		Restated
	BGN'000	BGN'000	BGN'000	BGN'000
<i>Deferred tax liabilities</i>				
Accelerated depreciation for tax purposes	(90)	(69)	(21)	32
Other consolidation adjustments	(11)	(11)	-	(7)
	(101)	(80)		
<i>Deferred tax assets</i>				
Unused personnel leaves	51	21	30	8
Provision for pensions	11	3	8	3
Provisioned receivables	25	66	(41)	23
Receivables written off	11	9	2	9
Impairment of intangible assets	62	8	54	8
Impairment of investment	18	9	9	9
Payable for outstanding salaries and wages	67	31	36	(5)
Legal disputes	2	-	2	-
Payment obligations	167	79	88	79
Provision for taxes – central budget	5	-	5	-
Right-of-use assets	24	-	24	-
Tax losses	35	-	35	-
	478	226		
Deferred tax benefit			231	159

Reconciliation of deferred taxes, net

	2020	2019
		(restated)
	BGN'000	BGN'000
At 1 January	146	(13)
Deferred taxes recognized in profit or loss for the period	231	159
At 31 December	377	146

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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	
		31.12.2020	31.12.2019
		%	%
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	100
Scale Focus Inc. USA	The USA	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..

Scale Focus Inc., the USA, develops customized software solutions for clients and is established at the end of 2020.

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 24.147% of the shares and Ivan Atanasov Ashminov who owns 24.147% of the shares.

Other related parties

Trading 212 EOOD is a related party of Scale Focus AD and is owned by Ivan Atanasov Ashminov (member of the Board of Directors).

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

MindVectors EOOD is owned by Grisha Ivanov Genov, shareholder who owns 24.116% of the shares.

Joint operation

The Company 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. Scale Focus Plus Partnership was closed down on 7 January 2021.

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

13.1. Sale of goods, services and tangible fixed assets

	2020	2019
	BGN'000	BGN'000
Trading 212 OOD	86	-
	<u>86</u>	<u>-</u>

13.2. Purchase of goods, services and tangible fixed assets

	2020	2019
	BGN'000	BGN'000
Beronto EOOD	12	35
MindVectors EOOD	786	768
	<u>798</u>	<u>803</u>

13.3. Trade payables to related parties

	As at 31 December 2020	As at 31 December 2019
	BGN'000	BGN'000
Beronto EOOD	2	-
MindVectors EOOD	108	180
Physical persons – key management personnel (remuneration)	1 853	1 093
	<u>1 963</u>	<u>1 273</u>
Short-term	<u>1 244</u>	<u>490</u>
Long-term	<u>719</u>	<u>783</u>

13.4 Trade payables from related parties

	As at 31 December 2020	As at 31 December 2019
	BGN'000	BGN'000
Trading 212 OOD	103	-
Beronto EOOD	10	10
	<u>113</u>	<u>10</u>

As of 31 December 2020 deferred expenses for in the amount of BGN 51 thousand represent prepaid services to MindVectors EOOD.

SCALE FOCUS AD
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13. RELATED PARTY DISCLOSURES (CONTINUED)

13.5 Sales to joint operation

Pursuant to a termination agreement concluded between the partners, Scale Focus Plus DZZD Partnership was removed from the Bulstat Register. The change was entered into the register on 7 January 2021. In 2020 and 2019 no transactions were conducted between Scale Focus AD and Scale Focus Plus DZZD Partnership.

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 2020 the Group has not recorded impairment of receivables from related parties (2019: 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

	2020	2019
	BGN'000	BGN'000
Remuneration	1 848	933
Social security	30	20
	1 878	953

14. GOVERNMENT GRANTS

	SoundVision 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	Government funding BGN'000	Total BGN'000
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
At 1 January 2020	-	-	-	807	70	-	250	-	1 127
Funding received through new financing programmes	515	-	-	7	236	-	65	932	1 755
Recognized in the statement of comprehensive income (Note 11.2)	-	-	-	-	(38)	-	-	(1 375)	(1 413)
At 31 December 2020	515	-	-	814	268	-	315	(443)	1 469

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14. GOVERNMENT GRANTS (CONTINUED)

	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>
Short-term portion of the asset	(443)	-
Short-term portion of the liability	314	63
Long-term portion of the liability	1 598	1 064
	1 469	1 127

1) „SoundVision“.

Funding granted by Innovation Norway for the creation of 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 approved costs for the implementation of the project amount to BGN 1,174 thousand including costs for project-based remuneration, consumables and materials, consultancy services. As of 31 December 2020 there are no outstanding commitments or terms and conditions not met in relation to the grant. As of 31 December 2020 the amount paid to the Group is BGN 515 thousand. As of 31 December 2020 the carrying amount of intangible assets in the category "Software under development", financed under the SoundVision project, is BGN 864 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 2020 and 31 December 2019 there are no outstanding obligations or unfulfilled conditions under the approved government grant. As at 31 December 2020 all government grants were paid in full to the Group. As of 31 December 2020 the carrying amount of intangible assets from the category "Software products" purchased through funding under the project "Leadership in Focus" is BGN 0 thousand.

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 2020 and 31 December 2019 there are no outstanding obligations or unfulfilled conditions with regard to the approved government grant. As at 31 December 2020 and 31 December 2019 all government grants were paid in full to the Group. As of 31 December 2020 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 2020 the carrying amount of non-current tangible assets (computer equipment) purchased through funding under the project "Innovations in Focus" is BGN 0 thousand.

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14. GOVERNMENT GRANTS (CONTINUED)

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 2020 and 31 December 2019 there are no outstanding obligations or unfulfilled conditions of the approved government grant. As of 31 December 2020 the carrying amount of intangible assets from the category "Software under development" purchased through funding under the project "SAAM" is BGN 1 258 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 2020 there are no outstanding obligations or unfulfilled conditions of the approved government grant. As at 31 December 2020 the Group utilized the amount in full. As of 31 December 2020 the carrying amount of intangible assets from the category "Software under development" purchased through funding under the project "SAAM" is BGN 268 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 being 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. There were no expenses reimbursed in 2020.

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. In 2020 the Group utilized the amount of BGN 65 thousand.

8) „Government funding“

The Group has received government funding under a program according to which the state covers 60% of the social security income of employees (60/40 payroll support measure). This measure is regulated by decrees issued by the Council of Ministers. The Group reports the state aid under the 60/40 payroll support measure as income from financing which reflects the income for the periods during which the expenses for meeting the terms and conditions of the government grant are recognized. The Group has satisfied the application criteria for the 60/40 payroll support measure.

The Group has received state aid under the 60/40 measure for the following months: July, August, September, October, November and December 2020. The amount of the government funding is BGN 1,375 thousand. Financing in the amount of BGN 443 thousand was received in early 2021. There are no unfulfilled conditions or other contingent liabilities related to this grant.

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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 2020 and 2019 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-term 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 2020, 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 undiscounted payments.

As at 31 December 2020

	On demand	< 3 months	3-12 months	1-5 years	> 5 years	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Trade payables	-	3 458	971	719	-	5 148
Loans from individuals	-	61	183	20	-	264
Investments	-	-	2 000	-	-	2 000
Bank loans	-	178	536	1 427	-	2 141
Lease payables	-	626	1 725	3 819	-	6 170
	-	4 323	5 415	5 985	-	15 723

As at 31 December 2019

	On demand	< 3 months	3-12 months	1-5 years	> 5 years	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Trade payables	-	2 600	-	819	-	3 419
Loans from individuals	-	61	183	303	-	547
Investments	-	-	225	1 747	-	1 972
Bank loans	-	155	465	1 862	-	2 482
Lease payables	-	747	1 901	6 821	-	9 469
	-	3 563	2 774	11 552	-	17 889

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

Currency risk

The Group makes purchases, provides and receives loans in foreign currencies – EUR, USD, GBP. The Group is exposed to the risk of changes in exchange rates related mainly to its operating activities - almost 45% of revenues are denominated in US dollars. The Group also purchases services in GBP and US dollars, which are less than 10% of the total volume of purchases.

The following table shows the sensitivity to any reasonable change in the US dollar exchange rates when all other variables remain constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities, including undefined foreign currency and embedded derivatives. The Group's exposure to changes in exchange rates for all other currencies is not significant.

	Change in the USD exchange rate	Effect on profit before tax BGN'000
2020	5%	353
	-5%	(353)
2019	5%	145
	-5%	(145)

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.

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 2020.

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 2020 and 2019.

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

	2020 BGN'000	2019 BGN'000
Net profit in BGN'000	36	3 177

No external capital requirements are imposed on the Group.

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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>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<i>Financial assets</i>				
Equity investments in non-controlling entities	12	97	12	97
Trade and other receivables	11 443	11 036	11 443	11 036
Cash and cash equivalents	5 840	4 686	5 840	4 686
<i>Financial liabilities</i>				
Trade payables	3 157	2 110	3 157	2 110
Trade and other payables to related parties	1 963	1 273	1 963	1 273
Investments	1 832	1 972	1 832	1 972
Loans from individuals	264	547	264	547
Lease payables	5 905	8 946	5 905	8 946
Bank loans	2 141	2 482	2 141	2 482

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.

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.

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17. BANK LOANS

	Effective interest rate %	Maturity	2020 BGN'000	2019 BGN'000
(1) United Bulgarian Bank AD – Contract 1384	RIR + 1.8%	17.05.2023	-	-
(2) UniCredit Bulbank AD – Contract 323	ADI + 1.7%	-	-	-
(3) UniCredit Bulbank AD – Contract 496	ADI + 1.427%	15.06.2022	-	-
(4) UniCredit Bulbank AD – Contract 497	5%	15.05.2020	-	-
(5) United Bulgarian Bank AD – Investment loan	2,1%	30.12.2023	2 141	2 482
(6) Credit card agreement with a limit of up to BGN 10 thousand			-	-
(7) UniCredit Bulbank AD – Contract 00111/840	ADI + 1.54%	01.07.2023	-	-
(8) United Bulgarian Bank AD – Contract 20F-000623		20.05.2024	-	-
(10) United Bulgarian Bank AD – Contract 19262/02.10.2019	RIR + 1.8%	20.05.2024	-	-
			<u>2 141</u>	<u>2 482</u>
	Short-term loans		714	620
	Long-term loans		1 427	1 862

(1) Overdraft with an agreed amount of BGN 3 500 thousand. The loan is secured by pledge of current and future receivables up to the amount of the loan in accordance with Financial Collateral Arrangements Act and Innovfin guarantee. The maturity date is on 17 May 2023. It is a revolving credit facility reviewed annually. As at 31 December 2020 the loan amount is unutilized.

(2) Working capital loan with an agreed amount of BGN 3 700 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). As of 31 December 2020 the agreement is cancelled.

(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 Arrangements Act. The maturity date is on 15 June 2022. As at 31 December 2020 the loan amount is unutilized.

(4) Contingent credit line containing loan commitments to be taken on by the Company 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 Arrangements 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 2022. As of 31 December 2020 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.

(7) Overdraft with an agreed amount of BGN 5 000 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 1 July 2023. It is a revolving credit facility reviewed annually. As at 31 December 2020 the loan amount is unutilized.

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17. BANK LOANS (CONTINUED)

(8) Framework agreement for issuance of bank guarantees in the amount of BGN 1 000 thousand with a maturity date on 20 May 2025. The active guarantees as of 31 December 2020 amount to BGN 225 thousand. The loan is secured by pledge of current and future receivables from counterparties in accordance with Financial Collateral Arrangements Act.

(9) As of 31 December 2020 pursuant to a contract concluded with Unicredit Bulbank the active guarantees and letters of credit amount to BGN 541 thousand.

(10) Loan agreement with a total credit limit for working capital and issuance of bank guarantees with an agreed amount of BGN 1 million. The active bank guarantees, which have not expired as of the date of preparation of the financial statements, amount to BGN 445 thousand.

As of 31 December 2020 the Company has unutilized amounts on bank overdrafts and other revolving credit facilities in the amount of BGN 10 417 thousand, an investment loan amounting to BGN 1600 thousand and bank guarantees in the amount of BGN 775 thousand.

As of 31 December 2020 the Company 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 year ended 31 December 2020:

	1 January 2020	Cash inflows	Cash outflows	Accruals made using the effective interest rate method	Interest paid	Other – new and written-off lease contracts	31 December 2020
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Interest-bearing loans and borrowings	2 482	303	(644)	107	(107)	-	2 141
Loans from individuals	547	-	(283)	-	-	-	264
Lease liabilities	8 946	-	(2 716)	278	(278)	(325)	5 905
Total liabilities arising from financing activities	11 975	303	(3 643)	385	(385)	(325)	8 310

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 2019:

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

	1 January 2020	Cash inflows	Cash outflows	Accruals made using the effective interest rate method	Interest paid	Other – new and written-off lease contracts	31 December 2020
	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

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 will finalize 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 over. Therefore, following the requirements of IFRS 3 Business Combinations, the Group has recognized the business combination in these consolidated financial statements 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 will be reflected in the 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 notional 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/ BGN'000
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 before the finalization of the reporting of the business combination, are as follows:

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19. BUSINESS COMBINATIONS (CONTINUED)

	Provisional 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.

	XIX. 26.
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:

	2020 BGN'000	2019 BGN'000
As at 31 January	1 972	1 896
Interest accrued	75	76
Payments made	(215)	-
As at 31 December	1 832	1 972
Current obligation	1 832	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 (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.

20. COMMITMENTS AND CONTINGENCIES

Legal claims

On 19 March 2021 the Group received a civil case claim amounting to BGN 162 thousand. The Group does not expect any outflow of cashflow as a result of the claim, therefore no provision has been accounted for as at 31 December 2020.

Guarantees

The utilized amount of bank loans in the form of bank guarantees issued in favour of third parties as at 31 December 2020 amounts to BGN 1 211 thousand (Note 17) including active bank guarantees in the amount of BGN 445 thousand, which have not expired as at the date of the preparation of the financial statements. As at 31 December 2020 the Group has unutilized amounts related to bank guarantees in the amount of BGN 775 thousand.

Other

At the end of 2020, Scale Focus AD was subject to a tax inspection under the VAT Act, covering the periods 2014-2017. As a result, a tax credit used with a principal in the amount of BGN 83 thousand was adjusted.

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
As at 1 January 2020	8 428	361	8 789
Additions	3 176	-	3 176
Disposals	(3 218)	(21)	(3 239)
Depreciation expense	(2 926)	(130)	(3 056)
As at 31 December 2020	5 460	210	5 670

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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:

	2020	2019
	BGN'000	BGN'000
As at 1 January	8 946	7 797
Additions	3 176	3 525
Disposals	(3 249)	-
Payments	(2 994)	(2 638)
Interest expense on lease liabilities (Note 11.8)	278	262
Effect from write-off of payables under lease contracts (Note 11.2)	(67)	-
Effect from COVID-19-related rent concessions (Note 11.4)	(185)	-
As at 31 December	5 905	8 946
Current	2 207	2 648
Non-current	3 698	6 298

	2020	2019
	BGN'000	BGN'000
Depreciation expense of right-of-use assets	3 056	2 508
Interest expense on lease liabilities (Note 11.8)	278	262
Effect from write-off of payables under lease contracts (Note 11.2)	(67)	-
Effect from COVID-19-related rent concessions (Note 11.4)	(185)	-
Expense relating to short-term leases (Note 11.4)	128	444
Total amount recognised in profit or loss	3 210	3 214

The Group had total cash outflows related to leases of BGN 3 122 thousand in 2020 (including BGN 128 thousand related to short-term leases).

The Group has several lease contracts that include extension and termination options and the Group 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 2020 the Group performed an annual review for impairment of goodwill acquired as a result of a business combination. As of 31 December 2020 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. RETIREMENT BENEFITS

According to the Bulgarian labour legislation the Company is obliged to pay from two to six gross monthly salaries to the employees upon retirement depending on the duration of their service. If an employee has worked for Scale Focus AD for 10 years, the retirement benefit amounts to six gross monthly salaries upon retirement, otherwise – two gross monthly salaries. The retirement benefit plan is unfunded.

Components of retirement benefit expenses recognised in the statement of income and expenses and the liabilities recognised in the statement of financial position as at 31 December 2020 and 2019 are summarised below:

Retirement benefit expense

	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>
Current service costs	21	-
Past service costs	60	26
Retirement benefit expense recognized in the income statement	<u>81</u>	<u>26</u>

Retirement benefit obligations

Changes in the present value of the retirement benefit obligations are as follows:

	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>
At 1 January	26	-
Current and past service costs	81	26
At 31 December	<u>107</u>	<u>26</u>

The principal assumptions used in determining retirement benefit obligations are shown below:

	2020	2019
Discount rate	0.34%	0.40%
Future increase of salaries per year	5%	-
Staff turnover	13	18

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23. RETIREMENT BENEFITS (CONTINUED)

The table below presents a quantitative analysis of the sensitivity of the retirement benefit obligation as of 31 December 2020 against key actuarial assumptions:

Assumptions	Discount rate		Future increase of salaries		Staff turnover	
	Increase by 0.5%	Decrease by 0.5%	Increase by 1%	Decrease by 1%	Increase by 1 year	Decrease by 1 year
Sensitivity level	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Effect on the retirement benefit obligation – increase/ (decrease)	(7)	7	8	(8)	(17)	19

There are no changes in key assumptions reasonably expected to occur that would have a material effect on the retirement benefit obligation at the end of the reporting period.

The average duration of the retirement benefit obligation is approximately 31.53 years.

24. EVENTS AFTER THE REPORTING PERIOD

By Decision of the Board of Directors of Scale Focus AD dated 6 January 2021, a new Executive Director was elected – Ivan Peychev Ivanov.

Scale Focus AD repurchased 3,125 shares owned by Zhivko Zlatkov Radev. The treasury shares were acquired at BGN 95.08 per share and have a nominal value of BGN 1 each.

Scale Focus Plus Partnership was removed from the Trade register on 7 January 2021.

Scale Focus AD participated in the establishment of a non-profit organization, which is a public service body and is named "Varna Digital Innovation Hub".

On 13 August 2021 the Group concluded a contract for special pledge of trade receivables with Unicredit Bulbank AD. The special pledge is established until the full repayment of any outstanding loan facility with agreed principle of BGN 2,200 thousand and an annual interest rate of ADI + 1.7%.

Except for the above, there are no other significant events, which have occurred between 31 December 2020 and the date on which the financial statements were authorized for issue, that require additional adjustments and/ or disclosures in the Company's financial statements for the year ended 31 December 2020.