

Parent company accounts of  
8706516 - Scale Focus Ltd  
(Pg 41)

**Scale Focus AD**

**CONSOLIDATED ANNUAL FINANCIAL STATEMENTS**

**31 December 2018**

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

THURSDAY



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SCALE FOCUS AD

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## **SCALE FOCUS AD**

### **GENERAL INFORMATION**

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#### **Board of Directors**

Ivan Atanasov Ashminov  
Ivaylo Grishev Guenov  
Viktor Miroslavov Bilyanski  
Plamen Stilyanov Tsekov

#### **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“

#### **Servicing banks**

UBB AD  
Unicredit Bulbank 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 2018**

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**MANAGEMENT REPORT**

The management presents its annual management report and consolidated financial statements as at 31 December 2018 prepared in accordance with the International Financial Reporting Standards (IFRS) endorsed by the European Union.

**DESCRIPTION OF THE GROUP 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.

The Group consists of the Parent company Scale Focus AD and four subsidiaries Scale Focus Ltd, Great Britain, Scale Focus GmbH, Germany, Logical Factor Bulgaria EOOD, Bulgaria, and Upnetix EAD, Buglaria. The shareholding of Scale Focus AD in each of the subsidiaries is 100%.

Scale Focus AD ("Scale Focus", "the Company") is Bulgarian high-tech company focused on the supply and integration of contemporary innovative solutions in the areas of Digital, Data, and Cloud. The company is a main supplier of solutions for implementation of IT services through providing technology and business consultancy for multiple European and North American clients. Scale Focus's team offers a wide spectrum of specialized software solutions and integrations of existing products of global leaders such as SAP, IBM, Amazon, Oracle, Microsoft etc. The company develops and leads the entire process of the digital transformation of its clients.

Scale Focus Ltd., Great Britian 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 Buglaria EOOD, Bulgaria is a company, which develops customized software solutions for clients.

Upentix 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.

**REVIEW OF THE ACTIVITIES AND PLANNED DEVELOPMENT**

Scale Focus AD provides innovative technology services and develops software solutions for clients in **Bulgaria** and in **25** other countries across Europe, North America 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 Group's teams.

- E-commerce Solutions
- Custom Solutions Development
- Enterprise Systems Integration
- Mobile and Web Engineering
- Software Quality Engineering
- FinTech Services and Solutions
- Cyber security solutions
- Software Infrastructure Reengineering
- Robotic Process Automation
- Legacy Systems Transformation
- Customer analytics
- Business and operational analytics
- Compliance and risk reporting
- Enterprise Insights – Actions Platform

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**REVIEW OF THE ACTIVITIES AND PLANNED DEVELOPMENT (CONTINUED)**

The Parent company was founded in March 2012 as a joint stock company. As at the end of 2018, 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 2018, the Group constitutes of five companies: Parent company Scale Focus AD (Bulgaria) and four 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) and the newest Upnetix EAD (acquired on 21st September 2018).

Since the establishment of Parent company and during the past seven 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 team of the company consists 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 Java, 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. Not of less importance are the people with whom we work, the motivation of the team, because each company constitutes of people and that is the other important factor. With such an approach and selected specialists, the Group accomplishes flexibility in work with companies of different size and organization.

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.

At the beginning, the Parent company started out quickly with a couple of projects for European and US-based clients and a team of over 10 highly qualified specialists in April 2012. At the end of 2018, the number of employees working for the company increased more than **60 times** and the team delivers dozens of valuable projects for internationally recognized companies.

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, Scale Focus AD develops software solutions mainly for the financial services, insurance, telecommunications, logistics, e-commerce, 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.

For the first seven years of its existence, Scale Focus AD succeeded in developing a highly qualified team of more than 600 specialists, and opened offices in **Sofia** (in 2012), in **London** (in 2013), in **Plovdiv** (in 2014), in **Munich** (in 2015), **Zurich, Washington** (in 2016), **Athens and Tel Aviv** (in 2017), **Burgas** (in 2018), **Varna** (2018), **Skopje** (in 2018).

The consolidated statement of comprehensive income indicates the dynamic development of Scale Focus. In 2018, there was a **52%** growth compared to 2017. The growth of the revenues in 2017 compared to 2016 was 21%.

In 2018 the Parent company acquired Upnetix EAD (one of the fifty Google Developers Certified Agencies). This fact provides an excellent opportunity for the Group to increase the added value it creates to its customers, as well as to accelerate the growth and transformation of Scale Focus 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.

**SCALE FOCUS AD  
CONSOLIDATED MANAGEMENT REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**REVIEW OF THE ACTIVITIES AND PLANNED DEVELOPMENT (CONTINUED)**

In the past year, the Parent company has become an honorary member of ELITE Growth – the London Stock Exchange program, which is essentially a training program for the Group's management aiming at reaching capital and attracting public funding on the international stock exchange.

In 2018 we launched ScaleCamp campaign, a young talents training programme in Java and SAP ABAP technologies. We selected 24 highly motivated young people who started their career in the technology world and became part of the large family of Scale Focus.

Scale Focus is a full member of one of the most reputable associations in the industry – the Bulgarian Outsourcing Association (BOA). Together we cooperate to promote Bulgaria as an outsourcing hub in Eastern Europe. Since 14 March 2013 the Group 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 Group 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 Group became part of the ICT Cluster Burgas with the aim of improving and developing the IT environment in Burgas.

Scale Focus has made great progress and achievements to be proud of, since the targets set in 2017 for the next 2-3 years were reached as early as the middle of 2018. Scale Focus takes great pride in the acquisition of Google Developers Certified Agency – Upnetix EAD. Thus, the targets set for the next 2-3 years and those for a period of 3 to 5 years are growing in scale.

One of our goals for the coming 2019 is to increase the number of people, who work for and are engaged in the company's projects, to 650-700 people. The projected financial results for the next year amount to EUR 25 million generated from product sales, technology development, and consultancy services. For a period of 2-3 years, we plan to expand our team to 1000 people and reach over EUR 50 million in sales.

In 2018, the Group had a profit of BGN 2 939 thousand, which is a 52% increase compared to 2017's profit of BGN 1 921 thousand. The larger profit is due to the larger revenues in 2018 compared to 2017. The accrued expenses for personnel and social securities for 2018 amounts to BGN 21 706 thousand, while the amount for 2017 was BGN 15 333 thousand.

In 2018 the 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 into one of the major companies in the field of digital transformation (European Union-based companies).

The consolidated revenue forecast for 2019 is approximately BGN 60 million with approximately BGN 9 million EBITDA (taking into consideration the acquisition).

During the 7-year dynamic development Scale Focus has won more than 50 Bulgarian and international awards, among which are:

- The International Business Awards "Stevie" for 2015 – **Gold Stevie winner** in the category "The fastest growing company in Europe";
- Scale Focus has won a total of 14 Forbes Business Awards in the categories: Business Development, Client Policy, Human Resources Development and Service Quality;
- At the 2015 German Economy Awards, the Company was awarded for the third consecutive year, this time with **gold** in the SME category (an initiative undertaken by the German Bulgarian Chamber of Industry and Commerce);

For 2016 the company was the winner in the "Global Service Provider: SME" category – awards organized by the Global Sourcing Association;

- National champion of Bulgaria for winning European Business Awards;
- The most innovative workspace of the year;
- Research and Development Center of the Year (BOA awards);
- National Digital Award winner in the EBA (European Business Awards);
- The most innovative company Silver winner at the Bulgarian Chamber of Commerce and Industry awards; Technological employer for 2017;

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**REVIEW OF THE ACTIVITIES AND PLANNED DEVELOPMENT (CONTINUED)**

- Best Nearshore team for 2017;  
Three Forbes Bulgaria awards (Forbes Business Awards 2018) in the categories: Employee of the Year, Human Resources Development, Client Policy.

**RESEARCH AND DEVELOPMENT ACTIVITIES**

Ever since it was founded, the Parent company 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. During the last years, the Parent company won a project for financing from European development funds. The project is in partnership with the Balkan Institute of Labor and Social Policy (BILSP) and 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.

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.

For two years now, the 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.

**POSSIBLE FUTURE DEVELOPMENT OF THE GROUP**

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 honorary member of LondonStockExchange's "ELITE Growth" programme;
- opening of new centers for software development and technological solutions;
- investing in information and cyber security infrastructure to engage in remote / near-shore projects;
- developing innovative platforms for elastic applications in cloud or public cloud along with solutions to meet the requirements of the General Data Protection Regulation (GDPR);
- taking on long-term commitments and establishing effective and solid partnerships (managed services and result-oriented priced engagements);
- expanding consultancy services as well as creating innovative products;
- providing innovative developments related to process improvements and technologies that accelerate the Company'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 cyber security (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.

In pursuing the above goals, we will also try to be in line with the planned earnings forecast for the end of this period, namely generating EUR 50 million in sales and approximately BGN 7.5 million EBITDA.

The main strategy we adopt is an effective and timely identification of the need for additional human resources. Following the practice of seeking people closest to our culture will help us further improve our teams and leaders. We will preserve our open-mindedness and the ability to generate new ideas through our internal initiatives (Scale Focus Innovation and Robotics Challenges).

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FOR THE YEAR ENDED 31 DECEMBER 2018**

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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 in our Group by attracting new international talents. At this point we have the privilege of working with specialists who come from Cuba, Turkey, Macedonia and Albania.

**CAPITAL STRUCTURE AND MANAGEMENT OF GROUP'S PARENT COMPANY**

The shares 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	77 480	23.60
Galina Ivanova Guenova	100	0.03
Grisha Ivanov Guenov	77 380	23.57
Zhivko Zlatkov Radev	3 681	1.12
Ivan Atanasov Ashminov	77 480	23.60
Ivan Peychev Ivanov	3 681	1.12
Lyubomira Todorova Mihaylova	3 681	1.12
Plamen Stilyanov Tsekov	81 161	24.72
Tsvetelina Petrova Kovacheva - Ivanova	3 681	1.12
<b>TOTAL</b>	<b>328 325</b>	<b>100,00</b>

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

In November 2018, 3 681 ordinary shares with nominal value BGN 1 per share were transferred from Krum Emilov Daskalov to Plamen Stilyanov Tsekov.

As at 31st December 2018, the Chief Executive Office of Scale Focus AD is Plamen Stilyanov Tsekov.

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

As at 31 December 2016 the Parent company owns 49 578 of its own shares, which account for 15,10% of the share capital. In September 2016 the Parent company purchased 49 578 of its shares, owned by Stanimir Georgiev Boychev (member of the Board of Directors until 23 March 2016). The shares were purchased at BGN 7.80 per share and had a par value of BGN 1.00 per share. In 2017, Scale Focus AD sells 49 578 repurchased own shares to existing shareholders.

As at 31 December 2018 the Chief Executive Officer of Scale Focus AD is Plamen Stilyanov Tsekov.

The Members of the Board of Directors (BoD) of the Group own shares of the Parent company as follows:

- Plamen Stilyanov Tsekov – 81 161 shares (24,72%)
- Viktor Miroslavov Bilyanski – 77 480 shares (23,60%)
- Ivan Atanasov Ashminov – 77 480 shares (23,60%)
- Ivailo Grishev Genov (member of the Board of Directors) does not own shares of the Group.

In November 2018, 3 681 ordinary shares with nominal value BGN 1 per share were transferred from Krum Emilov Daskalov to Plamen Stilyanov Tsekov.

The Members of the Board of Directors (BoD) of the Parent company do not own bonds of the Group or rights of share or bond purchase in the Group.

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

The members of the Board of Directors own more than 25% of the share capital or participate in the management of other companies as follows:

Viktor Miroslavov Bilyanski, member of the BoD of the company:

- shareholder and CEO of Integritex OOD;
- CEO of Logical Factor Bulgaria EOOD;
- sole owner and CEO of Beronto EOOD;

Ivan Atanasov Ashminov, member of the BoD of the company:

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

Plamen Stilyanov Tsekov, member of the BoD of the company:

- CEO of Scale Focus Plus DZZD Association;
- member of the Board of Directors of the Bulgarian Outsourcing Association.

The member of the Board of Directors Grishev Guenov does not own more than 25% of the share capital of other entities and do not participate in the management of the companies.

Information with regard the participation in the management of other Bulgarian Companies of the members of the Board of Directors is publicly available in the Bulgarian Trade Registry.

**Remuneration to the key management personnel**

	<u>2018</u>	<u>2017</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Short-term remuneration (including social security)	590	694
	<u>590</u>	<u>694</u>

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

The main financial liabilities of the Group include financial lease liabilities and trade and other payables. The main purpose of these financial instruments is to finance Group activities. The Group has financial assets such as loans provided, trade and other receivables, cash and cash equivalents and short-term deposits, which are result of the activities of the Group and investments in companies where the Group does not have control.

The main risks arising from the financial instruments used by the Group are interest risk, liquidity risk, foreign exchange risk and credit risk. The policies which the management applies in managing these risks as well as the exposure of the Group to these risks is summarized in Note 16 of this report.

**BRANCHES OF THE GROUP**

The Group does not have any branches.

**SCALE FOCUS AD  
CONSOLIDATED MANAGEMENT REPORT  
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**EVENTS AFTER THE REPORTING PERIOD**

On 3 May 2019 Scale Focus AD transferred the ownership of its 10 (ten) shares, representing 1% of the capital of Cloud Analytics OOD. The sell price of the shares in Cloud Analytics OOD, owned by Scale Focus AD, is BGN 10.

No other events occurred between 31 December 2018 and the date of completion of the consolidated financial statement which require additional adjustments and/or disclosure in the consolidated financial statements of the Group for the financial year ended 31 December 2018.

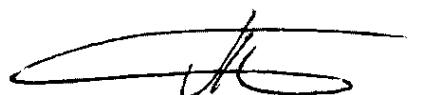
**MANAGEMENT'S RESPONSIBILITIES**

According to the Bulgarian law, the management of the Group prepares the consolidated financial statement for each financial year to present fair view of the financial affairs of the Group as at the end of the year.

The management confirms that the accounting policies were consistently applied in the preparation of the annual financial statements as at 31 December 2018 and reasonable assumptions and estimations were applied.

The management also confirms that it has complied with the accounting standards applicable and the consolidated financial statement is prepared under the going concern assumption.

The management is responsible for the proper keeping of the accounting records, for the proper management of the assets and for taking the necessary measures to avoid and detect possible abuses and other irregularities.



Chief Executive Officer:  
Plamen Stilyanov Tsekov

Sofia, 15 May 2019





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# 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 2018, 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 2018, 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' *Code of Ethics for Professional Accountants (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.

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

A member firm of Ernst & Young Global Limited

Ernst & Young Audit OOD,  
seat and address of management in Sofia  
Polygraphia Office Center  
47A, Tsarigradsko Shose Blvd., floor 4  
UIC: 130972874, VAT #: BG130972874  
BGN IBAN: BG48 UNCR 7000 1520 6686 91  
BIC: UNCRBGSF 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 for the Consolidated Financial Statements**

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

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

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

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

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

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

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



## Report on Other Legal and Regulatory Requirements

### *Additional Matters to be Reported under the Accountancy Act*

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

### *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:



Daniela Petkova  
Legal Representative and  
Registered Auditor in charge of the audit

Sofia, Bulgaria

19 June 2019

**SCALE FOCUS AD  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2018**

In BGN'000

	Notes	2018	2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	5.1	2 638	2 488
Plant and equipment	5.2	1 030	674
Non-controlling investments	5.3	191	225
Trade and other receivables	6	-	45
Goodwill	20	4 411	-
Deferred tax assets	13	92	85
		<b>8 362</b>	<b>3 517</b>
<b>Current assets</b>			
Trade and other receivables	6	9 498	7 065
Receivables for income taxes		50	1
Inventory	7	79	62
Prepaid expenses		174	81
Cash and cash equivalents	8	1 819	333
		<b>11 620</b>	<b>7 542</b>
<b>TOTAL ASSETS</b>		<b>19 982</b>	<b>11 059</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	9.1	328	328
Legal reserves	9.2	26	26
Share premium reserve	9.3	281	281
Retained earnings		8 107	5 168
		<b>8 742</b>	<b>5 803</b>
Non – controlling interest		-	-
		<b>8 742</b>	<b>5 803</b>
<b>Non-current liabilities</b>			
Finance lease liabilities	11	47	63
Bank loans	18	2 383	-
Investment liabilities	20	2 231	-
Government grants	15	879	393
Trade and other payables	10	528	-
		<b>6 068</b>	<b>456</b>
<b>Current liabilities</b>			
Trade and other payables	10	4 426	3 606
Bank loans	18	504	312
Income tax liability		45	-
Finance lease liabilities	11	14	14
Government grants	15	183	868
		<b>5 172</b>	<b>4 800</b>
<b>TOTAL LIABILITIES</b>		<b>11 240</b>	<b>5 256</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>19 982</b>	<b>11 059</b>

Chief Executive Officer:  
Plamen Stilyanov Tsekov



Prepared by:  
Zhivka Zdravkova Chechkova

The consolidated financial statements were authorized in accordance with a resolution of the Board of Directors on 15 May 2019. The notes on page 9 to page 50 are an integral part of these consolidated financial statements.

Translation in English of the official financial statements issued in Bulgarian

Financial statements on which our auditors' report was issued dated:	
<b>EY</b>	<b>19-06-2019</b>
Ernst & Young Audit OOD	
EY Representative and Registered Auditor:.....	

**SCALE FOCUS AD**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

<i>In BGN'000</i>	Notes	2018	2017
Revenue from contracts with customers		37 600	
Revenue from services		-	24 053
Revenue from sale of goods		-	359
Revenue fro sale of royalties		-	400
		<b>37 600</b>	<b>24 812</b>
Other income	12.2	715	1 368
Personnel expenses	12.3	(21 706)	(15 333)
Hired services expenses	12.4	(8 666)	(5 597)
Cost of goods sold		(492)	(335)
Materials expenses	12.5	(480)	(418)
Depreciation and amortization	5.1; 5.2	(1 539)	(1 284)
Other expenses	12.6	(2 089)	(1 020)
<b>Operating profit</b>		<b>3 343</b>	<b>2 139</b>
Financial income	12.7	169	92
Financial expenses	12.8	(240)	(178)
<b>Profit before tax</b>		<b>3 272</b>	<b>2 107</b>
Income tax expense	13	(333)	(186)
<b>Profit for the year</b>		<b>2 939</b>	<b>1 921</b>
Other comprehensive income		-	-
<i>Other comprehensive income due to be reclassified to profit/loss in following periods net of taxes</i>			
Foreign exchange differences due to conversion of foreign financial statements		-	7
<b>Total comprehensive income for the year</b>		<b>2 939</b>	<b>1 928</b>
<b>Attributable to:</b>			
Equity holders of the parent		2 939	1 928
Non-controlling interest		-	-
		<b>2 939</b>	<b>1 928</b>

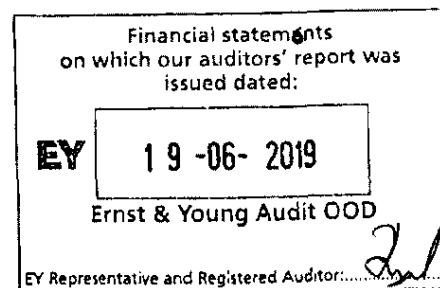
Chief Executive Officer:  
Plamen Stilyanov Tsekov



Prepared by:  
Zhivka Zdravkova Chechkova

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 15 May 2019. The notes on page 9 to page 50 are integral part of these consolidated financial statements.

Translation in English of the official financial statements issued in Bulgarian



**SCALE FOCUS AD  
CONSOLIDATED STATEMENT FOR CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2018**

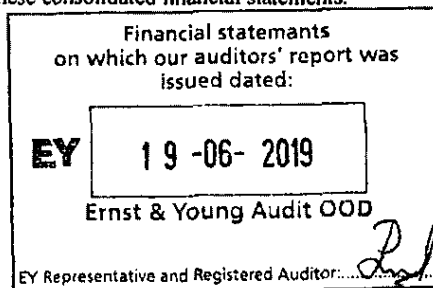
<i>in BGN thousand</i>	Attributable to the equity holders of the parent								Non-controlling interest	Total equity
	Share capital	Repurchased own shares	Legal reserves	Share premium reserves	Foreign exchange translation reserve	Other reserves	Retained profit	Total		
As at 1 January 2017	328	(50)	26	(231)	(7)	(47)	3 247	3 266	-	3 266
Profit for the period	-	-	-	-	-	-	1 921	1 921	-	1 921
Other comprehensive income	-	-	-	-	7	-	-	7	-	7
<b>Total comprehensive income</b>	-	-	-	-	-	-	1 921	1 928	-	1 928
Repurchased own shares	-	50	-	512	-	-	-	562	-	562
Discontinued operations	-	-	-	-	-	47	-	47	-	47
<b>As at 31 December 2017</b>	<b>328</b>	<b>-</b>	<b>26</b>	<b>281</b>	<b>-</b>	<b>-</b>	<b>5 168</b>	<b>5 803</b>	<b>-</b>	<b>5 803</b>
As at 1 January 2018	328	-	26	281	-	-	5 168	5 803	-	5 803
Profit for the period	-	-	-	-	-	-	2 939	2 939	-	2 939
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
<b>Total comprehensive income</b>	-	-	-	-	-	-	2 939	2 939	-	2 939
<b>As at 31 December 2018</b>	<b>328</b>	<b>-</b>	<b>26</b>	<b>281</b>	<b>-</b>	<b>-</b>	<b>8 107</b>	<b>8 742</b>	<b>-</b>	<b>8 742</b>

Chief Executive Officer:  
Plamen Stilyanov Tsekov



Prepared by:  
Zhivka Zdravkova Chechkova

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 15 May 2019. The notes on page 9 to page 50 are integral part of these consolidated financial statements.



Translation in English of the official financial statements issued in Bulgarian

**SCALE FOCUS AD  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**I. CORPORATE INFORMATION**

The consolidated financial statements of the Group for the year ended 31 December 2018 were authorised for issue in accordance with resolution of the Board of Directors on 15 May 2019.

**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.

The General Assembly of the Shareholders elected a new Board of Directors (registered in the Commercial Registry at the Registry Agency on 23 March 2016) as follows:

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

The management of the Company includes its Board of Directors. The Members of the Board of Directors applies a supervision of the processes related to financial reporting of the Company. There is no change in the composition of the Board of directors in 2018.

As at 31 December 2018 the shareholders of the Company are as follows:

<b>Shareholder</b>	<b>Number of shares</b>	<b>Interest %</b>
Viktor Miroslavov Bilyanski	77 480	23.60
Galina Ivanova Guenova	100	0.03
Grisha Ivanov Guenov	77 380	23.57
Zhivko Zlatkov Radev	3 681	1.12
Ivan Atanasov Ashminov	77 480	23.60
Ivan Peychev Ivanov	3 681	1.12
Lyubomira Todorova Mihaylova	3 681	1.12
Plamen Stilyanov Tsekov	81 161	24.72
Tsvetelina Petrova Kovacheva - Ivanova	3 681	1.12
<b>TOTAL</b>	<b>328 325</b>	<b>100,00</b>

**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 14.

**2.1 BASIS OF PREPARATION**

The consolidated financial statements have been prepared on a historical cost basis, except for investments in unquoted equity instruments that are measured at fair value in other comprehensive income without recycling.

The consolidated financial statements are presented in Bulgarian leva (BGN) and all amounts are rounded to the nearest thousand (BGN thousand) unless otherwise stated.

**SCALE FOCUS AD  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**2.1 BASIS OF PREPARATION (CONTINUED)**

**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.

**Going concern**

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

**Basis of consolidation**

The consolidated financial statements include the financial statements of Scale Focus AD and its subsidiaries Scale Focus Ltd, Great Britain, Scale Focus GmbH, Germany and Logical Factor Bulgaria EOOD, Bulgaria as at 31 December 2018, as well as the annual results of Upnetix EAD (a subsidiary since 30 September 2018).

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 that this control no longer exists. The financial statements of the subsidiaries are prepared for the same reporting period as those for the Parent company, applying consistent accounting policies. All intercompany balances, revenue and expenses, unrealized gains and losses and dividends arising from intercompany transactions are eliminated.

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

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

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

Scale Focus AD prepared its separate financial statement for the year ended 31 December 2018 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 15 May 2019.

**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).

**SCALE FOCUS AD  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 profit or loss.

**c) Plant, equipment and intangible assets**

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 is 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 the basis of the straight-line method over the useful life of the assets, as follows:

Machines and equipment	5 years
Transport vehicles	4 years
Fittings	7 years

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain and loss arising on derecognition of the asset (representing the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the statement of comprehensive income .

At the end of each financial year a review of the residual values, useful lives and methods of depreciation is performed and, if expectations differ from previous estimates the latter are modified.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost reduced with the accumulated amortization and accumulated impairments losses.

Intangible assets with limited useful life are amortized over their useful life and are tested for impairment when indications exist that their value is impaired.

The useful life of the intangible assets determined as limited is as follows:

Software	2 years
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The amortization period and method of amortization of intangible assets with limited useful life are reviewed at least once a year at the end of the financial year. Changes in the expected useful life or model of consumption of the future economic benefits from the intangible assets are recognized through change in the amortization period or method and are treated as change in the accounting estimates.

Amortization expense for intangible assets with limited useful life are classified according to economic elements in the statement of comprehensive income.

Profits or losses arising from the derecognition of intangible assets, representing the difference between net disposal proceeds from the sale and the carrying amount of the asset are included in the statement of comprehensive income, when the asset is derecognised.

Software development expenses, which can be directly attributed to the design and testing of distinct software products and which are under the control of the Group are recognized as intangible assets if it is likely that the Group will receive the expected future benefits attributed to the asset and the value of the asset can be reliably determined.

Amortization is charged using the straight-line method with the aim of distributing the difference between the carrying amount and the remaining amount over the useful life of the assets. Amortization of intangible assets begins when the assets are at a location and in a state necessary for their usage in the manner expected by the management. At the end of each financial year the remaining value, the useful life and applied amortization methods are reviewed and if there are significant differences to the previous estimations, those are adjusted accordingly.

**SCALE FOCUS AD  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**d) Inventories**

Inventories are valued at the lower of acquisition cost and net realizable value. The acquisition cost comprises the purchase price and all costs attributable to bringing the inventories to a state ready for use. The expenses, incurred in connection with the delivery of inventory are recorded, as follows:

Goods – delivery value determined based in the weighted average cost method

The net realizable value of inventories is the estimated sales price in the ordinary course of business, less the estimated costs of completion of the production cycle and those that are 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 b) 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 and financial assets designated as such at fair value through other comprehensive income.

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

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**SCALE FOCUS AD  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**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 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.

**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 12)

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

**SCALE FOCUS AD  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

• **Financial assets (continued)**

**Impairment of financial assets (continued)**

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

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

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.

**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 15.

**SCALE FOCUS AD**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

• **Financial liabilities (continued)**

**Derecognition**

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

***Accounting policies for initial recognition and subsequent measurement of financial instruments prior to 1 January 2018***

As disclosed in Note 2.3 *Changes in Accounting policy and Disclosures* below, the Group has adopted IFRS 9 for the first time effective 1 January 2018 without restating the comparative information for the year 2017 presented in this consolidated financial statements. As a result, the Group's financial instruments for the year 2017 are reported and presented in accordance with the requirements of IAS 39. Given the fact that the most significant financial instruments of the Group are trade receivables and trade payables, there are no material changes in the Group's accounting policies prior to and after 1 January 2018, including the impairment of trade receivables which is immaterial in amount.

**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.

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 2017 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. 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.

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**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

• **Financial liabilities (continued)**

**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**

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.

**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 the fixed-price contracts, the work carried out is subject to acceptance and approval by the customer. Group 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 goods or services do not meet the agreed specifications. 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.

## **2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **j) Revenue (continued)**

#### **Sale of maintenance subscriptions**

The Group provides services, which are sold separately, i.e. maintenance abonaments. The Group recognizes the services as a single obligation for performance and recognizes the revenue from them over time, as the client simultaneously receives and uses the benefits provided by the Group. The Group has applied practical measures, in accordance with IFRS 15, in order to evaluate the realized revenue

#### **Sale of licences and equipment purchase for resale**

The revenues from the sale of the licenses is recognized when the control over the asset is transferred to the client, which is usually upon the delivery of the license or the equipment. The normal credit timeframe is from 30 to 60 days from the delivery.

#### **Sale of rights**

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).

#### **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 in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of finished goods/equipment provide customers with a right of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

#### ***Warranty obligations***

In certain non-standard contracts for the sale of finished goods/equipment, the Group gives warranties that provide something additional to the 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 Company allocates part of the transaction price.

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**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**j) Revenue (continued)**

**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). Please 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.

**Revenue from sales (accounting policy adopted for 2017 in compliance with IAS 18)**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or due based on the agreed payment terms, excluding discounts, rebates, and other sales taxes or customs duties. The Group analyses its selling arrangements against specific criteria to determine whether it acts as a principal or as an agent. It has concluded that it acts as principal in all such arrangements. The following specific recognition criteria must also be met before revenue is recognised:

*Sale of goods*

Revenue from sales of goods is recognized when all the significant risks and rewards associated with the sale of goods (licenses) have been transferred to the buyer, generally on the delivery of the goods to the buyer. Goods include licenses purchased for resale.

*Rendering of services*

The Group recognises revenue from services rendered in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is defined based on the number of man-hours worked as at the reporting date as a percentage of the total contracted hours.

The Group has two main types of service contracts: fixed-price contracts and 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. As for the fixed-price contracts, 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.

When the outcome of the transaction (contract) cannot be reliably estimated, contract revenue is recognised only to the extent that contract costs incurred are expected to be recoverable.

*Revenue from sale of license rights*

The Group recognizes revenue from the sale of license rights according to the terms and conditions of the related agreement unless it is more appropriate to recognize the revenue on systematic or rational basis. 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.

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**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**j) Revenue (continued)**

**Revenue from sales (accounting policy adopted for 2017 in compliance with IAS 18) (continued)**

*Interest income*

Interest income is recognised using the effective interest rate method, i.e. the interest rate that discounts exactly the estimated future cash outflows over the estimated useful life of the financial instrument, or a shorter period where appropriate, to the carrying amount of the financial asset. Interest income is included in the finance income in the statement of comprehensive income.

*Dividend income*

Dividend income is recognised in profit or loss on the date on which the Group's right to receive payment is established.

**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.

**l) Taxes**

*Current income tax*

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

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**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**l) Taxes (continued)**

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.

*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 determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

*The Group as a lessee*

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

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

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

**n) Investments in subsidiaries, associated companies and joint operations**

*Associated companies*

These are investments in companies in which the Group owns between 20% and 50% of the share capital and/or has significant influence but no control. Associates with significant influence are recognized in the financial statement of the company, in the consolidated financial statement the carrying amount is increased or reduced to reflect the share of the investor in the profit or loss of the associated company after the acquisition date.

The Group's management performs impairment tests of the investments in associates at the end of each reporting period.

*Joint control companies*

At joint control activities the following is included in the financial statements of the companies:

- The respective share of assets participating in the joint activity;
- The respective share of liabilities
- The revenues as a share of the joint activity
- The expenses as a share of the joint activity

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**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. When the grant is related to an asset, it is recognized as a deferred income and is included in the revenues in equal amounts over 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 17.

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

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

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

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

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

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

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

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. As at 31 December 2017 the Group does not recognize assets or liabilities measured at fair value. 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.

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**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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. Information on short-term employee benefits is disclosed in Note 12.2.

Long-term employee benefits include retirement benefit obligations in accordance with the statutory requirements and are disclosed when a constructive obligation arises. The retirement benefit obligation is estimated on the basis of an analysis made related to age profile and employee turnover, future salary growth, discount rate assumptions and mortality rate. Due to the long-term nature of the retirement benefit obligations, these assumptions are subject to significant uncertainty and are disclosed only if material.

**u) Business combination 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.

If a business combination is realized in stages the fair value at the date of acquisition of early acquired shares by the acquiring company should be revaluated to the fair value at the date of acquisition in profit or loss for the period.

Conditional consideration which should be transferred by the acquiring company is presented at fair value at the date of acquisition. The subsequent changes in the fair value of the conditional consideration which is classified as asset or liability is presented according the IFRS 9 Financial Instruments: Recognition and Measurement through profit or loss or statement of other comprehensive income. If the conditional consideration is classified as instrument of equity it will not be revaluated until it is finally settled at the equity.

The Goodwill is initially recognized at acquisition price which is the excess of the consideration transferred over identifiable net assets and liabilities assumed acquired by the Group. If the consideration is less than the fair value of the net assets of the acquired company the difference is presented in profit or loss.

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**2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**u) Business combination and goodwill (continued)**

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

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

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

**2.3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES**

**New and amended standards and interpretations**

The Group applies IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes resulting from the adoption of these new accounting standards are described below.

For the first time in 2018 some other amendments and clarifications are applied, but they have no impact on the financial statements of the Group. The Group has not adopted standards, clarifications or amendments that have been published but have not yet entered into force.

***IFRS 9 Financial Instruments: Classification and Measurement***

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group applied IFRS 9 prospectively, with an initial application date of 1 January 2018. The Group has not restated the comparative information, which continues to be reported under IAS 39. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings and other components of equity.

***(a) Classification and measurement***

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through other comprehensive income. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

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**2.3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)**

**New and amended standards and interpretations (continued)**

**IFRS 9 *Financial Instruments: Classification and Measurement* (continued)**

**(a) *Classification and measurement* (continued)**

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

Since the Group's debt instruments are trade receivables and loans granted to related party, the adoption of IFRS 9 did not have a significant impact on their classification and measurement.

There are no changes in classification and measurement for the Group's financial liabilities as a result of the adoption of IFRS 9, given the fact that the most significant part of them represents trade receivables.

**(b) *Impairment***

The adoption of IFRS 9 requires changes in the accounting for the losses from impairment of financial assets. The approach of accrued losses of IAS 39 in IFRS 9 is replaced with more forward orientated model of expected credit losses. IFRS 9 requires from the Group to recognize a provision for expected credit losses for all credit instruments, which are not valued at fair value in profit or loss and the assets per contracts with clients.

Upon adoption of IFRS 9 the Group has not recognised additional impairment since the analysis made by the management does not indicate the need for recognizing additional impairment for expected credit losses of trade receivables.

**IFRS 15 *Revenue from Contracts with Customers***

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue and related Interpretations* and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard only to contracts that are not completed as at 1 January 2018.

The cumulative effect of initially applying IFRS 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. The Group has not reported an adjustment to the opening balance of retained earnings because it estimated that the first-time adoption of the standard has not affected the previous year results. Therefore, the comparative information was not restated and continues to be reported under IAS 18 and related Interpretations.

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**2.3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)**

**New and amended standards and interpretations (continued)**

**IFRS 15 Revenue from Contracts with Customers (continued)**

Set out below, are the amounts by which each financial statement line item is affected as at and for the year ended 31 December 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 did not have a material impact on other comprehensive income or the Group's operating, investing and financing cash flows. The first column shows amounts prepared under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted:

**Income statement  
for the year ended 31  
December 2018**

	<b>Amounts prepared under</b>		<b>Increase/ (decrease)</b>
	<b>IFRS 15</b>	<b>Previous IFRS</b>	
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Revenue from contracts with customers	37 600	-	37 600
Sale of services	-	36 485	(36 485)
Sale of goods	-	593	(593)
Other income	715	1 237	(522)
Personnel expenses	(21 706)	(19 822)	-
Expenses for hired services	(8 666)	(8 475)	-
Cost of goods sold	(492)	(492)	-
Expenses for materials	(480)	(469)	-
Depreciation and amortization	(1 539)	(1 503)	-
Other operating expenses	(2 089)	(1 874)	-
<b>Profit from operations</b>	<b>3 310</b>	<b>3 310</b>	-
Finance costs	169	152	-
Finance income	(240)	(233)	-
<b>Profit before tax</b>	<b>3 229</b>	<b>3 229</b>	-
Income tax expense	(322)	(322)	-
<b>Profit for the year</b>	<b>2 897</b>	<b>2 897</b>	-

Upon adoption of IFRS 15, the Group accounts for revenue from re-invoiced travel expenses for the year ended 31 December 2018 as part of „Revenue from contracts with customers“. In accordance with IAS 18, revenue from re-invoiced travel expenses was presented under „Other income“.

**IFRIC 22 Foreign Currency Transactions and Advance Consideration**

This interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The amendments have no effect on the financial position or performance of the Group.

**IFRS 2 Share-based Payment (Amendments): Classification and Measurement of Share based Payment Transactions**

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments have no effect on the financial position or performance of the Group.

### 2.3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

#### New and amended standards and interpretations (continued)

##### **IFRS 4 Insurance Contracts (Amendments): Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**

The objective of these amendments is to address issues arising from the different effective dates of IFRS 9 Financial Instruments and the upcoming new insurance contracts standard IFRS 17 Insurance Contract. Entities issuing insurance contracts will still be able to adopt IFRS 9 on 1 January 2018. The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9. The overlay approach allows an entity applying IFRS 9 from 2018 onwards to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before IFRS 17 is applied. They are not relevant for the Group.

##### **IAS 40 Investment Property (Amendments): Transfers of Investment Property**

The amendments clarify transfers of property to, or from, investment property when there is a change in the use of such property which is supported by evidence. Only a change in the intentions of the management is not a sufficient proof for change in the use. The amendments have no effect on the financial position or performance of the Group.

##### **Annual Improvements to IFRSs 2014-2016 Cycle**

Summary of amendments and related standards are provided below:

- IAS 28 Investments in Associates and Joint Ventures - measuring an associate or joint venture at fair value.

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

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's 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:

##### **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 14.4.

##### **Government grants**

As of 31 December 2018 the Group estimated that all the terms and conditions related to the received government grants have been fulfilled and has recognized income from financing for 2018 amounting to BGN 671 thousand (see Note 12.2).

##### **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:

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

**Judgments (continued)**

*Revenue from contracts with customers (continued)*

**Warranty obligations**

The Group provides warranties for software solutions and equipment. These service-type guarantees are sold together with the sale of the equipment or software solutions.

The contracts for bundled sales of software product development or equipment and for service-type warranties include two performance obligations, as the promises for transferring the software product development and for providing the service-type warranty can be separated. Using the relative sales value method, part of the transaction price is allocated to the service-type warranty and is recognized as a contract liability. Revenue is recognized for the period in which the service-type warranty is provided based on the period of time elapsed. In 2018 an equipment warranty provision is agreed upon. The Group has determined that the value of this warranty is insignificant and the obligation to provide the warranty is informally arranged and accordingly has not allocated part of the income and has not recognized a contract liability for that obligation.

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

The Group has concluded that revenue from the development of software solutions under hourly rate contracts is to be recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group. In addition, an asset is created, as a result of the Group's performance. The customer has a control over the asset in the course of its creation and the Group has an enforceable right to payment for the performance completed as at the respective date. With respect to revenue from the development of software solutions under fixed price contracts, the Group concluded that the control was transferred at a certain point in time and this point in time coincides with the signing of the delivery and acceptance protocol. This conclusion is made on the basis of the following facts:

- customer acceptance is agreed upon in the contracts; and
- contract provisions related to the acceptance of software products by the customers allow the customers to withdraw from the contract or require the Group to take corrective actions if the goods or services do not meet the agreed specifications;
- the Group is not entitled to a payment for the performance completed before the finished software product is accepted by the customer.

**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.

In addition, the Group reports a specific impairment on the basis of the increased credit risk on certain exposures. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 6.

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

***Retirement benefit obligation***

The Group recognizes retirement benefit obligation for employee service in accordance with IAS 19 which is disclosed when a constructive obligation arises. As at 31 December 2018 the management of the Group considers the retirement benefit obligation to be immaterial and as a result, no disclosure was made in the financial statements as at 31 December 2018. The estimate of the management is based on an analysis of age profile of employees and of turnover rates.

**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 16 Leases***

IFRS 16 was published in January 2016 and replaces IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases—Incentives*, SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 sets out the principles for recognition, measurement, presentation and disclosures of leases and requires lessees to account all lease contracts based on uniform balance method, which is similar to the accounting treatment of finance lease in accordance with IAS 17. The Standard provides two exemptions from recognition of lease contracts – leases of low value assets (e.g. laptop computers) and short-term leases (e.g. lease with a lease term of 12 months or less). At the commencement date of the lease the lessee recognizes a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset (i.e. the right-of-use asset). The lessees will be required to recognize separately interest expenses on the lease liability and depreciation expense on the right-of-use asset.

The lessees will be also required to remeasure the lease liability when there is a lease modification (e.g. change in lease term, change in future lease payments resulting from a change in an index or a rate used to determine those payments). In general, the lessee will recognize the amount of remeasurement of the lease liability as correction in the right-of-use asset.

According to IFRS 16 the lessor accounting remains substantially unchanged from current accounting in accordance with IAS 17. Lessors will classify all leases using the same classification principle as in IAS 17 and distinguish between operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to provide more extensive disclosures from the ones required by IAS 17.

***Transition to IFRS 16***

The Group plans to apply IFRS 16 by electing the modified retrospective approach. The Group will apply the Standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. Hence, the Group won't apply the Standard to contracts that were not previously identified as leases applying IAS 17 and IFRIC 4.

At the date of issuing its 2018 financial statements, the Group is in the process of finalizing the analysis of the effects from initial application of IFRS 16. The assessment of the possible impact that application of IFRS 16 will have on the financial statements in the period of initial application is presented below in summary. As such the disclosed below information may be subject to further changes in 2019 as a result of the finalization of the analysis related to initial application of IFRS.

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

##### ***IFRS 17: Insurance Contracts***

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

##### ***Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognized when a transaction involves a business or a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. It is not expected that these amendments would impact the financial position or performance of the Group.

##### ***IFRIC 23 Uncertainty over Income Tax Treatments***

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The Group is in the process of assessing the impact of the new interpretation on its financial position or performance.

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

The Amendments, effective for annual periods beginning on or after 1 January 2019 with earlier application permitted, propose a change to IFRS 9 for particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a negative prepayment feature. Specifically, for a financial asset that contains a prepayment option that may result in the payment of a reasonable negative compensation amount, the Amendments require the financial asset to be measured at amortised cost or at fair value through other comprehensive income, subject to the assessment of the business model in which it is held. It is not expected that these amendments would impact the financial position or performance of the Group.

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

The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied. An entity applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. It is not expected that these amendments would impact the financial position or performance of the Group.

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

The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These amendments have not yet been endorsed by the EU. The Group is in the process of assessing the impact of these amendments on its financial position or performance.

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

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

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

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

The amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. The amendments also specify that materiality will depend on the nature or magnitude of information. These amendments have not yet been endorsed by the EU. The Group is in the process of assessing the impact of these amendments on its financial position or performance.

***The Conceptual Framework for Financial Reporting***

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018, which is effective for annual periods beginning on or after 1 January 2020. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The main amendments introduced in the revised Conceptual framework for financial reporting are related to measurement, including factors, which should be considered when choosing measurement basis, and to presentation and disclosure, including income and expenses which should be classified in other comprehensive income. The Conceptual framework also provides updated definitions for asset and liability and criteria for their recognition in the financial statements. The Conceptual framework for financial reporting has not yet been endorsed by the EU. The Group is in the process of assessing the impact of these amendments on its financial position or performance.

***Annual Improvements to IFRSs 2015-2017 Cycle***

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

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

The improvements to IFRSs 2015 – 2017 Cycle have not yet been endorsed by EU. The Group is in the process of assessing the impact of the amendments on its financial statements.

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**5. NON-CURRENT ASSETS**

**5.1. Intangible assets**

	<b>Software</b>	<b>Software under development</b>	<b>Total</b>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<b>Net book value as at 1 January 2017</b>	<b>837</b>	<b>197</b>	<b>1 034</b>
Additions	818	1 347	2 165
Disposals	-	-	-
Transfers	228	(228)	-
Amortization	(711)	-	(711)
<b>Net book value as at 31 December 2017</b>	<b>1 172</b>	<b>1 316</b>	<b>2 488</b>
<b>At 31 December 2017</b>			
Cost	2 212	1 316	3 528
Accumulated amortization	(1 040)	-	(1 040)
<b>Net book value as at 31 December 2017</b>	<b>1 172</b>	<b>1 316</b>	<b>2 488</b>
<b>Net book value as at 1 January 2018</b>	<b>1 172</b>	<b>1 316</b>	<b>2 488</b>
Acquired through the business combination (Note 20)	37	-	37
Additions	14	1 185	1 199
Disposals	-	(132)	(132)
Transfers	299	(299)	-
Amortization	(954)	-	(954)
<b>Net book value as at 31 December 2018</b>	<b>568</b>	<b>2 070</b>	<b>2 638</b>
<b>As at 31 December 2018</b>			
Cost	2 562	2 070	4 632
Accumulated amortization	(1 994)	-	(1 994)
<b>Net book value as at 31 December 2018</b>	<b>568</b>	<b>2 070</b>	<b>2 638</b>

As at 31 December 2018 the carrying amount of the intangible assets under the "Software" category acquired through financing granted for the project "Technology in focus" is nil.

As at 31 December 2018 the carrying amount of the intangible assets under the "Software" category acquired through financing granted for the project "Leadership in focus" BGN 154 thousand.

As at 31 December 2018 the carrying amount of the intangible assets under the "Software" category acquired through financing granted for the project "Innovations in focus" is BGN 60 thousand.

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

As at 31 December 2018 the carrying amount of the intangible assets included in the "Software under development" category acquired through financing granted for the project "SAAM" is BGN 432 thousand.

As at 31 December 2018 the carrying amount of the intangible assets included in the "Software under development" category acquired through financing granted for the project "So fit" is BGN 301 thousand.

*Impairment of intangible assets*

The Group conducted impairment testing of intangible assets at 31 December 2018. No indications were found that the carrying amount of the assets exceeded their recoverable amount. As at 31 December 2018 the Group recognized impairment of intangible assets and derecognised assets amounting to BGN 132 thousand from which no future economic benefits were expected (2017: nil).

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**5. NON-CURRENT ASSETS (CONTINUED)**

**5.2. Plant and equipment**

	Hardware and equipment BGN'000	Motor vehicles BGN'000	Furniture and fittings BGN'000	Leasehold improvements BGN'000	Assets under construction BGN'000	Total BGN'00
<b>Net book value as at 1 January 2017</b>	<b>500</b>	<b>430</b>	<b>73</b>	<b>19</b>	-	<b>1 022</b>
Additions	394	-	110	-	-	504
Transfers	-	-	-	-	-	-
Disposals	(21)	(353)	(24)	-	-	(398)
Depreciation	(443)	(86)	(31)	(13)	-	(573)
Written-off amortization	17	78	24	-	-	119
<b>Net book value as at 31 December 2017</b>	<b>447</b>	<b>69</b>	<b>152</b>	<b>6</b>	-	<b>674</b>
<b>At 31 December 2017</b>						
Cost	1 630	111	207	21	-	1 969
Accumulated depreciation	(1 183)	(42)	(55)	(15)	-	(1 295)
<b>Net book value as at 31 December 2017</b>	<b>447</b>	<b>69</b>	<b>152</b>	<b>6</b>	-	<b>674</b>
<b>Net book value as at 1 January 2018</b>						
Acquired through the business combination (Note 20)	150	-	-	-	-	150
Additions	491	10	133	157	-	791
Transfers	-	-	-	-	-	-
Disposals	(3)	-	-	-	-	(3)
Depreciation	(483)	(29)	(43)	(30)	-	(585)
Written-off depreciation	3	-	-	-	-	3
<b>Net book value as at 31 December 2018</b>	<b>605</b>	<b>50</b>	<b>242</b>	<b>133</b>	-	<b>1030</b>
<b>At 31 December 2018</b>						
Cost	2 268	121	340	178	-	2 907
Accumulated depreciation	(1 663)	(71)	(98)	(45)	-	(1 877)
<b>Balance as at 31 December 2018</b>	<b>605</b>	<b>50</b>	<b>242</b>	<b>133</b>	-	<b>1030</b>

As at 31 December 2018 the carrying amount of the non-current tangible assets (hardware and equipment) acquired through financing granted for the project "Technology in focus" is nil.

As at 31 December 2018 the carrying amount of the non-current tangible assets (hardware and equipment) acquired through financing granted for the project "Innovations in focus" is BGN 60 thousand.

Motor vehicles with carrying amount of BGN 36 thousand as at 31 December 2018 were acquired through a finance lease.

*Impairment of plant and equipment*

The Group conducted impairment testing of intangible assets at 31 December 2018. No indications were found that the carrying amount of the assets exceeded their recoverable amount. As at 31 December 2018 the Group did not recognize impairment of property plant and equipment (2017: nil).

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**5. NON-CURRENT ASSETS (CONTINUED)**

**5.3. Investments**

**5.3.1 Investments in non-controlled entities**

	Country	Carrying amount		Interest	
		31.12.2018	31.12.2017	31.12.2018	31.12.2017
		BGN'000	BGN'000	%	%
Cloud analytics OOD	Bulgaria	-	-	1	1
Tripsy International OOD	Bulgaria	-	34	-	6
Imagifinity OOD	Bulgaria	-	-	1	1
AVIQ Systems AG	Switzerland	191	191	7	7
		<b>191</b>	<b>225</b>	<b>9</b>	<b>15</b>

Investments in Cloud Analytics OOD, Bulgaria, and Imagefinity OOD, Bulgaria, as of 31 December 2018 are under BGN 1 000. In early May 2019 Scale Focus AD sold its shares in Cloud Analytics OOD.

In 2017 the investment in Tripsy International OOD was received in connection with a software development contract against the acquisition of an interest in the company. In 2018 the investment was sold for the amount of BGN 600, and the software subject to the aforementioned contract is now owned by Scale Focus AD.

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 companies are in equity instruments that are not quoted on an active stock market. Their carrying amounts at 31.12.2018 and 31.12.2017 is equal to the acquisition cost that management believes does not materially differ from the fair value of those unquoted and non-controlled investments. Additionally, at 31 December 2018, the management of the Group considers that there are no facts and circumstances requiring a revaluation to reduce the carrying amount of those investments as a result of a devaluation of their fair value. Prior to the adoption of IFRS 9 and as disclosed in note 2.3, as of 31 December 2017, the Group reported investments in non-controlled companies as available-for-sale investments at cost. For the financial year 2018, there are no effects as a result of classifying investments in unqualified companies as Financial assets designated as such at fair value in other comprehensive income without "recycling" cumulative gains and losses on disposal (equity instruments).

**5.3.2 Investments in associates**

In October 2016, Scale Focus AD acquired 20% stake in Nemesis Software Ltd. On April 28, 2017, Scale Focus AD transfers ownership of its 200 (two hundred) shares, representing 20% of Nemesis Software Ltd., and the rights and obligations corresponding to these shares are transferred to the buyer. The sale price of the shares of Scale Focus AD in Nemesis Software Ltd. amounts to BGN 100 thousand.

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**6. TRADE AND OTHER RECEIVABLES**

	As at 31 December 2018	As at 31 December 2017
	BGN'000	BGN'000
Trade receivables	9 678	6 727
Allowance for doubtful receivables	(423)	-
	<u>9 255</u>	<u>6 727</u>
Loans provided	31	39
Advances to suppliers	21	7
Other receivables	191	337
	<u>9 498</u>	<u>7 110</u>
Short-term receivables	9 498	7 065
Long-term receivables	-	45

Based on an analysis made regarding the collectability of receivables, the management of the Group has concluded that as at 31 December 2018 there are impaired trade receivables. A bank loan is received against pledge of receivables at the amount of BGN 2 887 thousand (Note 18).

Information about receivables from related parties, included under item "Trade and other receivables", is presented in Note 14.4.

	Trade receivables					Total BGN'000
	Days past due					
	Current (neither past due nor impaired up to 30 days)	30-60 days	61-180 days	181-360 days	> 360 days	
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	
Expected credit loss rate on collective impairment	1.28%	48.51%	68.50%	86.38%	100%	
Total gross carrying amount	9 187	-	-	-	42	9 229
Total gross value or individual impairment	-	-	-	-	449	449
Total amount of impairment on a collective basis	(122)	-	-	-	(42)	(164)
Total amount of impairment on an individual basis	-	-	-	-	(259)	(259)
Net carrying amount	9 065	-	-	-	190	9 255

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.

As at 31 December 2017, the ageing analysis of trade receivables which are not impaired is presented below:

Total BGN'000	Neither past due nor impaired BGN'000	Past due but not impaired					
		< 30 days BGN'000	30-60 days BGN'000	60-90 days BGN'000	90-120 days BGN'000	>120 days BGN'000	
2017	6 727	5 612	272	102	21	-	720

As at 31 December 2018, BGN 423 thousand of receivables are impaired as a result of Group's management analysis on their collectability.

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**7. INVENTORIES**

	As at 31 December 2018 <i>BGN'000</i>	As at 31 December 2017 <i>BGN'000</i>
Licenses	79	62
	<u>79</u>	<u>62</u>

Inventories as at 31 December 2018 include goods – licenses, which were sold to customers in 2019.

**8. CASH AND CASH EQUIVALENTS**

	As at 31 December 2018 <i>BGN'000</i>	As at 31 December 2017 <i>BGN'000</i>
Cash at bank	1 808	330
Cash in hand	11	3
	<u>1 819</u>	<u>333</u>

Cash at bank earns floating interest based on the daily interest rate on bank deposits. As at 31 December 2018 the fair value of cash and short-term deposits is BGN 1 819 thousand (2016: BGN 333 thousand).

**9. SHARE CAPITAL AND RESERVES**

**9.1. Share capital**

The share capital of the Parent company from the Group (Scale Focus AD or the Company) as at 31 December 2018 amounts to BGN 328 thousand, representing 328 325 ordinary shares with par value of BGN1 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 2017	328	328
Issued and paid shares	-	-
At 1 January 2018	<u>328</u>	<u>328</u>
At 31 December 2018	<u>328</u>	<u>328</u>

All ordinary shares are fully paid.

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

	% Interest as at 31 December 2018	Number of shares as at 31 December 2018	% Interest as at 31 December 2017	Number of shares As at 31 December 2017
Viktor Miroslavov Bilyanski	23.60	77 480	23,60	77 480
Galina Ivanova Guenova	0,03	100	0,03	100
Grisha Ivanov Guenov	23,57	77 380	23,57	77 380
Ivan Atanasov Ashminov	23,60	77 480	23,60	77 480
Plamen Stilyanov Tsekov	24,72	81 161	23,60	77 480
Zhivko Zlatkov Radev	1,12	3 681	1,12	3 681
Ivan Peychev Ivanov	1,12	3 681	1,12	3 681
Lyubomira Todorova Mihaylova	1,12	3 681	1,12	3 681
Tsvetelina Petrova Kovacheva-Ivanova	1,12	3 681	1,12	3 681
Krum Emilov Daskalov	-	-	1,12	3 681
	<u>100</u>	<u>328 325</u>	<u>100</u>	<u>328 325</u>

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**9. SHARE CAPITAL AND RESERVES (CONTINUED)**

**9.2. Legal reserves**

A reserve fund is set up pursuant to Article 246 of the Commerce Act of the Republic of Bulgaria stipulating reserve requirements for joint stock companies such as Scale Focus AD. According to the Commerce Act at least one-tenth of the profit shall be set aside until the fund's assets reach one tenth or more of the company's capital. The sources for setting up the reserve fund come from at least one-tenth of net profit, share premiums and other sources laid down in the Articles of association of the company or the General assembly of its shareholders. Disbursements from the reserve fund may be made only for covering current or prior year losses. As at 31 December 2018 legal reserves amount to BGN 26 thousand (2017: BGN 26 thousand).

**9.3. Share premium reserve**

The excess of the issue value of the shares of the Parent company of the Group (Scale Focus AD or the Group) is recorded as a premium reserve. The premium reserve as at 31 December 2018 amounts to BGN 281 thousand and remains unchanged compared to 2017. The premium reserve is used to cover losses and increase of the share capital after reaching the legal requirements under Art. 246 of the Commerce Act.

In 2016, the Group buys 49,558 own shares with a par value of BGN 1 per share. In 2017 the Group sells all of its own shares back to the existing shareholders. The excess of their nominal value was recorded as an increase in the issue reserve.

**9.4. Reserve of foreign currency conversion**

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 2018 <i>BGN'000</i>	As at 31 December 2017 <i>BGN'000</i>
Trade payables	558	631
Loan liabilities to individuals	730	-
Personnel payables	2 233	1 844
Unused paid leave	129	40
Social security payables	433	227
Tax payables	714	688
Other payables	157	176
	<b>4 954</b>	<b>3 606</b>
<b>Up to 1 year</b>	<b>4 426</b>	<b>3 606</b>
<b>Over 1 year</b>	<b>528</b>	<b>-</b>

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 14.3.

Long-term liabilities are liabilities for loans to individuals. On January 31, 2018, before being acquired by Scale Focus Group, Uptimex EAD received a loan of BGN 730.000 from its owners Moni Dochev and Dobroslav Dimitrov. The loan is to be repaid in 36 equal monthly installments from March 2019 to March 2022 and with an interest of 0.2% per annum.

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**11. FINANCE LEASE PAYABLES**

**Finance lease payables**

The Group has entered into a finance lease agreement for motor vehicles – cars.

	As at 31 December 2018	As at 31 December 2017
	<i>BGN'000</i>	<i>BGN'000</i>
Finance lease payables – non-current portion	47	63
Finance lease payables – current portion	14	14
	<b>61</b>	<b>77</b>

The future minimum lease payments under finance lease agreements together with the present value of the net minimum lease instalments are as follows:

	2018		2017	
	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Within one year	18	14	18	14
Between one and five years	67	47	83	63
Total minimum lease payments	85	61	101	77
Less the amount of financial expenses	(24)	-	(24)	-
<b>Present value of minimum lease payments</b>	<b>61</b>	<b>61</b>	<b>77</b>	<b>77</b>

**12. REVENUE AND EXPENSES**

**12.1. Revenue from contracts with customers**

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

<b>Geographical markets</b>	<b>2018</b>
	<i>BGN'000</i>
Market 1 (Bulgaria)	13 154
Market 2 (Great Britain)	2 019
Market 3 (Europe – other countries)	2 223
Market 4 (Canada)	1 700
Market 5 (the USA)	15 094
Market 6 (Other)	375
Market 7 (Germany)	3 035
<b>Total revenue from contracts with customers</b>	<b>37 600</b>

<b>Timing of revenue recognition</b>	<b>2018</b>
	<i>BGN'000</i>
Goods (equipment and licenses) transferred at a point in time	593
Software solutions and subscription transferred over time	32 736
Software solutions transferred at a point in time	4 271
<b>Total revenue from contracts with customers</b>	<b>37 600</b>

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**12. REVENUE AND EXPENSES (CONTINUED)**

**12.1. Revenue from contracts with customers (continued)**

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.

For 2017 sale revenue of the Group include the sale of services, goods and rights as presented on the face of the consolidated statement of comprehensive income. These are accounted for and presented in accordance with IAS 18 as the Group has adopted the modified retrospective approach when initially applying IFRS 15 as disclosed in Note 2.3 *Changes in accounting policy and disclosures* above.

**12.2. Other income**

	2018	2017
	<i>BGN'000</i>	<i>BGN'000</i>
Government grant income (Note 15)	671	970
Income from sale of non-current assets	-	14
Other income	44	384
<b>Other income</b>	<b>715</b>	<b>1 368</b>

In 2017 revenue from re-invoiced expenses is included under the item „Other income“ and, upon the adoption of IFRS 15 in 2018, revenue from re-invoiced expenses is presented in Revenues from contracts with clients. The comparative information is not reclassified because the Group has applied a modified retrospective approach when adopting IFRS 15 (Note 2.3).

**12.3. Personnel expenses**

	2018	2017
	<i>BGN'000</i>	<i>BGN'000</i>
Salaries	(19 595)	(13 704)
Social security contributions	(2 111)	(1 629)
	<b>(21 706)</b>	<b>(15 333)</b>

**12.4. Expenses for hired services**

	2018	2017
	<i>BGN'000</i>	<i>BGN'000</i>
Tax, accounting and legal services	(499)	(44)
Consultancy services	(4 940)	(2 696)
Rent and operating leases	(2 221)	(1 554)
Training and certificates	(145)	(40)
Marketing and seminars	(154)	(60)
Insurances	(76)	(59)
Phones, internet, postal and courier services	(90)	(72)
European projects expenses	-	(449)
Other	(541)	(623)
	<b>(8 666)</b>	<b>(5 597)</b>

**12.5. Materials expenses**

	2018	2017
	<i>BGN'000</i>	<i>BGN'000</i>
Utilities expense	(119)	(127)
Stationery and office supplies	(99)	(126)
Assets below capitalisation threshold	(174)	(113)
Other	(88)	(52)
	<b>(480)</b>	<b>(418)</b>

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**12. REVENUE AND EXPENSES (CONTINUED)**

**12.6. Other expenses**

	<u>2018</u>	<u>2017</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Travel expenses	(900)	(546)
Loss on sale of investment	-	(46)
Impairment losses on receivables (Note 6)	(423)	-
Receivables written off	(282)	-
Other	(484)	(428)
	<u>(2 089)</u>	<u>(1 020)</u>

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

**12.7. Financial income**

	<u>2018</u>	<u>2017</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Interest income from loans provided	6	1
Interest income related to enforcement proceedings	35	54
Other finance income (foreign exchange gains)	128	37
	<u>169</u>	<u>92</u>

**12.8. Financial expenses**

	<u>2018</u>	<u>2017</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Interest expenses	(37)	(50)
Fees and commissions, foreign exchange losses	(203)	(128)
	<u>(240)</u>	<u>(178)</u>

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**13. INCOME TAX**

As at 31 December 2018, the Group has recognized income tax amounting to BGN 313 thousand.

Major components of the income tax expense for the years ended 31 December 2018 and 2017 are as follows:

	2018	2017
	<i>BGN'000</i>	<i>BGN'000</i>
Current income tax expense	(340)	(236)
Deferred tax (expense)/benefit	7	50
<b>Income tax expense reported in profit or loss</b>	<b>(333)</b>	<b>(186)</b>

The reconciliation of income tax expense and accounting profit multiplied by the applicable rate for the years ended 31 December 2018 and 31 December 2017 is presented below:

	2018	2017
	<i>BGN'000</i>	<i>BGN'000</i>
Accounting profit before taxes	3 272	2 107
Loss from discontinued activities	-	-
Income tax expense at statutory tax rate of 10% for 2018 (2017: 10%)	(327)	(211)
Effect of higher tax rates abroad	(6)	-
Effect of deductible tax losses for which an asset has not been recognized in prior years	-	19
Others	-	6
<b>Current income tax expense at effective tax rate of 12.16% (2017: 12,16%)</b>	<b>(333)</b>	<b>(186)</b>

The applicable tax rate in Buglaria in 2018 is 10% (2017: 10%). The income tax rate remains 10% in 2019 as well. Deferred income taxes at 31 December 2018 and 31 December 2017 relate to the following:

	Statement of financial position		Profit or loss	
	2018	2017	2018	2017
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<i>Deferred tax assets</i>				
Unused personnel leaves	13	6	7	3
Provisioned receivables	43	-	43	-
Bonus payables	36	79	(43)	47
	<b>92</b>	<b>85</b>		
Deferred tax (expense)/benefit			<b>7</b>	<b>50</b>

**Reconciliation of deferred taxes, net**

	2018	2017
	<i>BGN'000</i>	<i>BGN'000</i>
At 1 January	85	35
Deferred taxes recognized in profit or loss for the period	7	50
<b>At 31 December</b>	<b>92</b>	<b>85</b>

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**14. RELATED PARTY DISCLOSURES**

*Composition of the Group*

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

	Country of domicile	Interest	
		<u>31.12.2018</u> %	<u>31.12.2017</u> %
Logical Factor Bulgaria EOOD	Bulgaria	100	100
Scale Focus Ltd	Great Britain	100	100
Scale Focus GmbH	Germany	100	100
Upnetix EAD	Bulgaria	100	-

In 2017, Scale Focus AD sells all its 1 000 shares of Scale Focus Amexis EOOD. Scale Focus Amexis EOOD changed its name to IT Fox EOOD. The change was registered in the Trade Register at the Registry Agency on 14.12.2017.

Scale Focus Ltd, UK provides customized software development. For the fiscal year ending 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 provides customized software development.

Logic Factor Bulgaria EOOD, Bulgaria provides customized software development.

Upnetix EAD, Bulgaria provides customized software development. The company was acquired on 21 September 2018. Further information on the acquisition is disclosed in Note 20.

*Controlling interest in the Group*

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

*Significant influence in the Group*

The shareholders who have significant influence in the Group are: Viktor Miroslavov Bilyanski who owns 23.60% of the shares, Grisha Ivanov Genov who owns 23.57% of the shares, Ivan Atanasov Ashminov who owns 23.60% of the shares, and Plamen Stilyanov Tsekov who owns 24.72% of the shares.

*Associated companies*

Nemesis Software EOOD was an associated company of Scale Focus AD. As at 31 December 2017 Nemesis Software EOOD is no longer an associated company of the Group. Additional information could be found in Note 5.3.2.

*Other related parties*

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

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

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

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

*Joint operation*

The Group has 70% stake in the Scale Focus Plus Partnership, a joint operation, designed to execute a public procurement contract for the delivery and implementation of Geographic Information System (GIS) to Bulgartransgaz EAD.

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

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**14. RELATED PARTY DISCLOSURES (CONTINUED)**

**14.1 Purchase of goods, services and tangible fixed assets**

	<u>2018</u>	<u>2017</u>
	<i>BGN'000</i>	<i>BGN'000</i>
- from other related parties		
Beronto EOOD	7	7
- from associated companies		
Nemesis Software EOOD	-	208
	<u>7</u>	<u>215</u>

**14.3 Trade payables to related parties**

	<u>As at 31</u>	<u>As at 31</u>
	<u>December 2018</u>	<u>December 2017</u>
	<i>BGN'000</i>	<i>BGN'000</i>
- to other related parties		
Beronto EOOD	-	1
	<u>-</u>	<u>1</u>

**14.4 Sales to joint operation**

	<u>2018</u>	<u>2017</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Partnership „Scale Focus Plus“	-	102
	<u>-</u>	<u>102</u>

**Terms and conditions of transactions with related parties**

The sales to and purchases from related parties are made at arm's length price. Outstanding balances at the year-end are unsecured, interest free (except for the loans) and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. As at 31 December 2018 the Group has not recorded impairment of receivables from related parties (2017: 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**

	<u>2018</u>	<u>2017</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Remuneration	574	682
Social security	16	12
	<u>590</u>	<u>694</u>

As of 31 December 2018 the unpaid remuneration to key management personnel amounting to BGN 288 thousand is presented as personnel payables (31 December 2017: BGN 663 thousand).

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**15. GOVERNMENT GRANTS**

	2018 <i>BGN'000</i>	2017 <i>BGN'000</i>
<b>At 1 January</b>	1 261	563
Funding received through new financing programmes	<b>472</b>	<b>1 668</b>
1) „Technology in FOCUS“	-	-
2) „Leadership in FOCUS“	226	154
3) „Innovations in FOCUS“	-	739
4) „SAAM“	-	775
5) “SoFit”	173	-
6) Investor „Class A“	73	-
Recognized in the statement of comprehensive income (Note 12.1)	<b>(671)</b>	<b>(970)</b>
1) „Technology in FOCUS“	(239)	(324)
2) „Leadership in FOCUS“	(185)	(92)
3) „Innovations in FOCUS“	(174)	(492)
4) “SAAM”	-	(62)
5) “SoFit”	-	-
6) Investor „Class A“	(73)	-
<b>At 31 December</b>	<b>1 062</b>	<b>1 261</b>
	2018 <i>BGN'000</i>	2017 <i>BGN'000</i>
Short-term portion	183	868
Long-term portion	879	393
	<b>1 062</b>	<b>1 261</b>

1) “Technologies in FOCUS”

The government donation was provided by the European Regional Development Fund through the Operational Program “Innovation and Competitiveness” 2014-2020 in connection with the “Technology in FOCUS” Project implemented in 2016.

The approved costs for the implementation of the project amount to BGN 1,120 thousand for the purchase of certain fixed tangible and intangible assets. The final amount of the grant amounts to BGN 649 thousand or 57.92% of the approved expenditures. As of 31 December 2018, there are no outstanding commitments or conditions under a recognized government grant. As of 31.12.2018 government grants were fully paid to the Group.

2) “Leadership in FOCUS”

The government donation was provided by the European Regional Development Fund through the Operational Program “Innovation and Competitiveness” 2014-2020 in connection with a “Leadership in FOCUS” in 2017.

The approved project implementation costs amount to BGN 549,000 for the purchase of an ICT-based software system for resource management and organization, product / service development processes and enterprise resource planning (ERP). The final amount of the grant amounts to BGN 384 thousand or 70% of the approved expenditures. As of 31 December 2018, there are no outstanding commitments or conditions under a recognized government grant. BGN 226 thousand of government donations were paid to the Group on 17 January 2018

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**15. GOVERNMENT GRANTS (CONTINUED)**

3) *„Innovations in FOCUS“*

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

The approved project implementation costs amounted to BGN 1,120 thousand and were used for the purchase of tangible fixed assets and intangible assets and rental of libraries for conducting testing fro 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 2018 there are no outstanding obligations or unfulfilled conditions with regard to the approved government grant. As at 31 December 2018 all government grants were paid in full to the Group.

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 2018 there are no outstanding obligations or unfulfilled conditions of the approved government grant. As of 31 December 2018 the unpaid part of the government grant to the Group amounts to BGN 267 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 2018 there are no outstanding obligations or unfulfilled conditions of the approved government grant. As of 31 December 2018 the disbursed amount of the grant is BGN 173 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 2018 the reimbursed amount by the Group is BGN 73 thousand.

**16. 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 loans granted, trade receivables, cash and short-term deposits which arise directly from its operations.

In both 2018 and 2017 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 and credit risk. The policy that the Group's management applies to managing these risks is summarized 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 is exposed to the risk of a change in market interest rates, mainly in relation to its floating rate floating financial liabilities.

The Group manages interest rate risk through negotiation of the terms and conditions for bank loans. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate loans and the basis of 12-month time horizon). There is no impact on the other components of the Group's equity.

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**16. FINANCIAL RISK AND CAPITAL MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

Financial year	Effect of interest rate change by $\pm 1\%$	
	Loans in EUR	
2018	$\pm$ BGN 29 thousand	
2017	-	

As of 31 December 2017 the Group had no financial liabilities with variable (floating) interest rate. As a result, the risk of a change in market interest rates was considered immaterial.

*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 2018**

	On demand	< 3 months	3-12	1-5	> 5	Total
	<u>BGN'000</u>	<u>BGN'000</u>	<u>months</u> <u>BGN'000</u>	<u>years</u> <u>BGN'000</u>	<u>years</u> <u>BGN'000</u>	<u>BGN'000</u>
Investments	-	-	-	2 231	-	2 231
Trade payables	-	558	-	-	-	558
Loans received from individuals	-	20	183	527	-	730
Bank loans	-	514	2 433	-	-	2 947
Finance lease payables	-	-	14	47	-	61
	-	1 092	2 630	2 805	-	6 527

**As at 31 December 2017**

	On demand	< 3 months	3-12	1-5	> 5	Total
	<u>BGN'000</u>	<u>BGN'000</u>	<u>months</u> <u>BGN'000</u>	<u>years</u> <u>BGN'000</u>	<u>years</u> <u>BGN'000</u>	<u>BGN'000</u>
Trade payables	-	631	-	-	-	631
Bank loans	-	312	-	-	-	312
Finance lease payables	-	-	14	63	-	77
	-	943	14	63	-	1 020

*Currency risk*

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

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

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**16. FINANCIAL RISK AND CAPITAL MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

*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 2017.

*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 2018 and 2017.

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

	2018	2017
	<i>BGN'000</i>	<i>BGN'000</i>
<b>Net profit in BGN'000</b>	<b>2 939</b>	<b>1 921</b>

No external capital requirements are imposed on the Group.

**17. FAIR VALUES OF FINANCIAL INSTRUMENTS**

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

	<i>Book value</i>		<i>Fair value</i>	
	2018	2017	2018	2017
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<i>Financial assets</i>				
Equity investments in non-controlled entities	191	225	191	225
Trade and other receivables	9 255	6 727	9 255	6 727
Cash and short-term deposits	1 819	333	1 819	333
<i>Financial liabilities</i>				
Trade payables	558	631	558	631
Investments	2 231	-	2 231	-
Loans from individuals	730	-	730	-
Finance lease payables	61	77	61	77
Bank loans	2 887	312	2 887	312

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, bank loans, trade payables, 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.

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**18. BANK LOANS**

	Effective interest rate %	Maturity	2018 <i>BGN'000</i>	2017 <i>BGN'000</i>
(1) United Bulgarian Bank AD – Contract 1310	2.3%	17.05.2020	-	312
(2) UniCredit Bulbank AD – Contract 323	1.7 %	30.06.2022	-	-
(3) UniCredit Bulbank AD – Contract 496	1.7%	30.06.2022	-	-
(4) UniCredit Bulbank AD – Contract 497	5%	15.05.2020	-	-
(5) United Bulgarian Bank AD – Investment loan	2,1%	30.12.2023	2 887	-
			<b>2 887</b>	<b>312</b>
		Short-term loans	504	312
		Long-term loans	2 383	-

(1) Overdraft with an agreed amount of BGN 1 800 thousand. The loan is secured by pledge of current and future receivables up to the amount of the loan. The maturity date is on 17 May 2020. It is a revolving credit facility. As at 31 December 2018 the loan amount is unutilized.

(2) Working capital loan with an agreed amount of BGN 2 200 thousand. The loan is secured by pledge of current and future receivables up to the amount of the loan. The maturity date is on 30 June 2021. The utilized part of the bank loan is in the form of bank guarantees issued to third parties with the amount of BGN 553 thousand. The remaining amount of the loan is not utilized as at 31 December 2018 (Note 20).

(3) Working capital loan with an agreed amount of BGN 1 000 thousand. The loan is secured by pledge of current and future receivables up to the amount of the loan. The maturity date is on 30 June 2022. As at 31 December 2018 the loan amount is unutilized.

(4) Contingent credit line containing loan commitments to be taken on by the Group in relation to conducting financial transactions with an agreed amount of EUR 180 thousand. The maturity date of the loan is on 15 May 2020. As of 31 December 2018 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 Upretix 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 Upretix EAD.

The amount of unutilized bank loans as at 31 December 2018 is BGN 5 843 thousand.

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**19. 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 2018:

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

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 2017:

	1 January 2017	Cash inflows	Cash outflows	Effect of exchange rate fluctuations	Accruals made using the effective interest rate method	New lease contracts	Interest paid	31 December 2017
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'00	BGN'00	BGN'000
Current interest-bearing loans and borrowings	460	312	(405)	-	28	-	(83)	312
Current finance lease payables	14	-	-	-	2	-	(2)	14
Sale of purchased own shares	-	562	-	-	-	(562)	-	-
Non-current finance lease payables	80	-	(17)	-	7	-	(7)	63
<b>Total liabilities arising from financing activities</b>	<b>554</b>	<b>874</b>	<b>(422)</b>	<b>-</b>	<b>37</b>	<b>(562)</b>	<b>(92)</b>	<b>389</b>

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**20. BUSINESS COMBINATIONS**

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

Detailed information on the notional amounts of net assets acquired and the transferred remuneration (all on a basis accepted for a 100% stake in Scale Focus AD) are presented below:

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

**Analysis of cash flows upon acquisition:**

	<b>BGN '000</b>
Transferred consideration on acquisition	(5 231)
Obligation to pay for the acquisition of subsidiaries Over 1 year	2 231
	<u>2 231</u>
<b>Cash flows related to the acquisition of subsidiaries</b>	<b>(3 000)</b>
<b>Cash flows of the acquired entity</b>	<b>148</b>
<b>Cash flows related to the acquisition of subsidiaries, net of cash flows of the acquired entity</b>	<b>(2 852)</b>

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**21. COMMITMENTS AND CONTINGENCIES**

**Legal claims**

There are no material legal claims brought against the Group.

**Guarantees**

The utilized amount of bank loans with regard to bank guarantees issued to third parties as at 31 December 2018 amounts to BGN 553 thousand (Note 18).

**Operating lease commitments**

The Group has concluded operating lease contracts for the use of office buildings. There are no any limits imposed on the lessee as a result of these lease contracts.

The minimum lease payments under irrevocable operating lease contracts at 31 December are as follows:

	<u>2018</u>	<u>2017</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Within one year	2 708	1 588
From one to five years	6 708	6 708
Over five years	795	795
	<u>10 211</u>	<u>9 091</u>

**Other**

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

The Group's management is of the opinion that there are not significant risks resulting from the dynamic fiscal and regulatory environment in Bulgaria, which might require adjustments in the financial statements for the year ended 31 December 2018.

**22. EVENTS AFTER THE REPORTING PERIOD**

On 3 May 2019 Scale Focus AD transferred the ownership of its 10 (ten) shares, representing 1% of the capital of Cloud Analytics OOD (Note 5.3.2). The sell price of the shares in Cloud Analytics OOD, owned by Scale Focus AD, is BGN 10.

No other events occurred between 31 December 2018 and the date on which the consolidated financial statements were approved for issue that would require additional adjustments and / or disclosures in the consolidated financial statements of the Group for the year ended 31 December 2018.