

**NOTES**  
**to the Notification of the Financial Position**  
**of ALLTERCO JSCo**

**fourth quarter of 2020**  
**consolidated basis**



**Pursuant to Art.100o1, Para 1 in conjunction with Para 4, Item 2 of the Public Offering of Securities Act and Art. 33a1, item 2 in relation to Art. 33a2 of Ordinance No. 2 dated 17.09.2003 on the prospectuses for public offering and admission to trading on a regulated securities market and on the disclosure of information**

These Notes to the Notification of the Financial Position of Allterco JSCo on an consolidated basis present information about the company, relevant to the fourth quarter of 2020 for the period 01.01.2020 – 31.12.2020 (the “reporting period”).

## 1. INFORMATION ABOUT THE GROUP

Allterco JSCo is a public listed joint stock company, established in 2010 in the city of Sofia and entered in the Commercial Register at the Registry Agency on 11.02.2010 under UIC (unified identification code): 201047670 and LEI code (identification code of the legal entity ) 8945007IDGKD0KZ4HD95 and is established for an unlimited period. Its name is written in Latin: ALLTERCO JSCo.

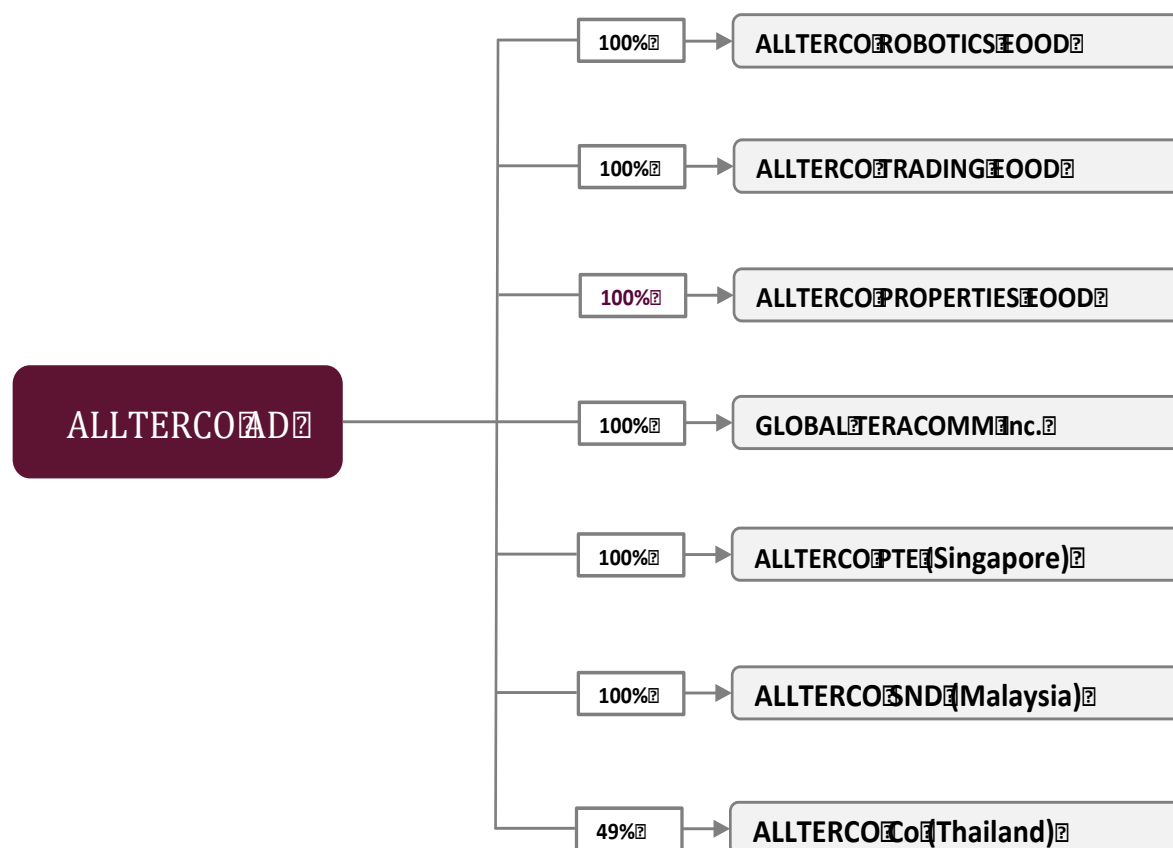
The company has its registered office and address of management: Republic of Bulgaria, Sofia County, Sofia Municipality, Sofia 1407, 103CherniVrah Blvd. The address for correspondence is the same; tel: +359 2 957 12 47. The website of the Company is [www.allterco.com](http://www.allterco.com).

The Company is public listed within the meaning of the Public Offering of Securities Act and is registered as a public company in the register kept by the FSC with Decision 774 - PD of November 14, 2016 as a result of successfully completed initial public offering of shares from the Company’s capital increase.

The company operates according to Bulgarian legislation.

The Issuer is part of an economic group, which consists of the parent company Allterco JSCo and its subsidiaries:

### 1.1. Structure of the economic group at the end of the reporting quarter for 2020



During the reporting period there was no change in the economic group of Allterco JSCo.

The scope of business of the Company, according to Art. 4 of the Articles of Association is: Acquisition, management, evaluation and sale of share participations in Bulgarian and foreign companies; acquisition, management and sale of bonds; acquisition, evaluation, sale and assignment of licenses for the use of patents and other intellectual and industrial property rights; financing of companies in which Allterco JSCo participates; purchase of goods and other items for resale in their original, manufactured or processed form; sale of goods of own production; foreign trade transactions; commission, forwarding, warehousing and leasing transactions; transport transactions in the country and abroad; transactions of commercial representation and intermediation of local and foreign individuals and legal entities; consulting and marketing transactions; providing management and administration services to local and foreign legal entities; as well as any other commercial transactions not prohibited by law.

As a result of strategic deals, corporate changes and decisions in 2019, the core business of the Issuer's Group remains the development, production and sale of IoT devices.

Since 2015, the Group has grown organically in the IoT sector through the development and implementation of two main product categories - tracking devices under the brand MyKi and home automation systems under the brand Shelly.

## **1.2. Management**

During the reporting period no changes were made in the composition of the Board of Directors of the company.

As of 31.12.2020 the Board of Directors is as follows:

- Dimitar Stoyanov Dimitrov;
- Svetlin Iliev Todorov;
- Nikolay Angelov Martinov;

By virtue of decision of the General Meeting of Shareholders dated 21.09.2020, the mandate of the Board of Directors in the said composition was extended for a new 5-year term.

## **1.3. Capital structure**

As of the end of the reporting period the issued, subscribed, paid-in and registered capital of the Company amounts to BGN 17 999 999 (seventeen million nine hundred ninety-nine thousand nine hundred ninety-nine), is divided into 17 999 999 (seventeen million nine hundred ninety-nine thousand nine hundred ninety-nine) dematerialised ordinary registered voting shares, with a par value of 1 (one) BGN each share.

The capital is fully paid in five contributions:

- Non-monetary contribution representing 100% of the shares of Teravoice EAD, with an appraised monetary value of BGN 50,000 (fifty thousand);
- Non-monetary contribution representing 69.60% of the shares of Terra Communications JSCo, with an appraised monetary value of BGN 5,438,000 (five million four hundred and thirty-eight);
- A combination of non-monetary and cash contributions amounting to BGN 8,012,000 (eight million and twelve thousand).
- Cash contributions of a total value of BGN 1,500,000 (one million and five hundred thousand) compared to 1,500,000 (one million and five hundred thousand) subscribed and paid. dematerialised ordinary registered voting shares with a par value of BGN 1 as a result of a procedure for Initial Public Offering of a new issue of shares.

- Cash contributions in total amount of 2,999,999 (two million nine hundred ninety-nine thousand nine hundred ninety-nine) against 2,999,999 subscribed and paid. (two million nine hundred and ninety-nine thousand nine hundred and ninety-nine) dematerialized ordinary registered voting shares with a nominal value of BGN 1 each as a result of a procedure for Initial Public Offering of a new issue of shares. The public offering of shares from the capital increase of Allterco JSCo was carried out in the period 28.09.2020 - 30.10.2020, on the basis of a Prospectus, together with the supplements thereto, confirmed by the Financial Supervision Commission with Decision № 148- F of 18.02.2020, Decision № 405-E of 11.06.2020, Decision № 601-E of 13.08.2020 and Decision № 791-E of 29.10.2020.

As of December 31, 2020 the capital structure of ALLTERCO JSCo is as follows:

NAME OF SHAREHOLDER	CAPITAL PERCENTAGE
SvetlinTodorov	32,48 %
Dimitar Dimitrov	32,48 %
Viktor Atanasov	6,23 %
Other individuals and legal entities	28,81 %

\* After the end of the reporting period the Company has received a notification from the shareholder Viktor Atanasov for reduction of its shareholding to 2.09%, as of 12.01.2021, on the basis of which a change should be reported and a change in the share of minority shareholders - a total of 32.95%

#### 1.4. Development and research activities

The company has not carried out activities in the area of research and development and does not plan such in the near future. One of the subsidiaries of Allterco JSCo has carried out such activity during the reporting period, namely: Allterco Robotics Ltd.

## 2. IMPORTANT EVENTS FOR ALLTERCO JSCo

Detailed information about the important events that occurred during the reporting period for ALLTERCO JSCo, as well as other information that could be important for investors is regularly disclosed by the company in accordance with regulatory requirements. In accordance with the requirement of Art.43a et seq. of Ordinance No. 2 of FSC, in conjunction with Art. 100t, Para 3 of the POSA, the Company discloses the regulated information to the public through selected information media. All information provided to the media in full unedited text is available at: <http://www.x3news.com/>. The required information is submitted to the FSC - through the unified system for submission of information electronically, developed and maintained by the FSC - e-Register. The information is also available on the Company's website at: <https://allterco.com/en/INVESTORS>.

The announced important events that occurred during the reporting period did not have a significant impact on the financial results of the company on an consolidated basis.

### 3. DEVELOPMENT OF THE ACTIVITY DURING THE REPORTING PERIOD AND FINANCIAL POSITION

#### 3.1. Operating income

At the end of the reporting period ALLTERCO JSCo reported on consolidated basis a net profit of BGN 13 934 thousand compared to a net profit of BGN 7 169 thousand for the same reporting period of the previous year. The main part of the profit for the previous year is due to the sale of 5 subsidiaries, while significant part of the profit for the current year is due to positive differences from operations with financial assets

As of the end of the reporting period the sales revenue on consolidated basis has increased with 39,81 % compared to the same period of the previous year.

The revenue from sale of goods has increased by 88,24% while the revenue from sale of value added services (telecommunication services) has decreased by 48,24%.

Financial revenues for 2020 have decreased by 56,22% compared to the previous year. In 2020, the main part of the financial revenues is formed by positive differences from operations with financial assets, while in 2019 financial revenues are formed mainly by gains from the sale of investments in subsidiaries.

REVENUE	12 months of 2019	%	<i>in thousand BGN</i> 12 months of 2020
A. Operating revenue			
I. Revenue from sale of:			
1. Production	0	0%	639
2. Goods	21 039	88.24%	39 604
3. Services	12 279	-48.24%	6 355
4. Other	142	28.87%	183
<b>Total for Group I</b>	<b>33 460</b>	<b>39.81%</b>	<b>47 370</b>
II. Income from Financing including government financing	0 0		589 589
<b>Total for Group II</b>	<b>0</b>		<b>589</b>
III. Financial income			
1. Interest income	0	0%	0
2. Dividend income	0	0%	0
3. Gains from operations with financial instruments	8 475	-59.33%	3447
4. Gains from foreign exchange rate differences	40	602.50%	281
5. Other	0	0%	0
<b>Total for Group III:</b>	<b>8 515</b>	<b>-56.22%</b>	<b>3 728</b>
<b>B. Total Operating Income</b>	<b>41 975</b>	<b>21.73%</b>	<b>51 098</b>

#### 3.2. Operating expenses

At the end of the reporting period the expenses by nature of ALLTERCO JSCo increased by 4,37 % compared to the same reporting period of the previous year. At the end of 2020, the Company reported impairment of its investment in one of its subsidiaries operating on the Asian market at the amount of BGN 480 thousand and impairment of receivables at the amount of BGN 41 thousand, which is a decrease of 90,56% compared to the impairments recognised during the previous year. External services decreased by 25,27% which is directly related to the lowers revenue from value added services (telecommunication services). The remunerations have increased by 85,29% compared to the previous year due to the increase of the number

of employees during the year and the lower amount of capitalized remuneration expenses related to research and development activities.

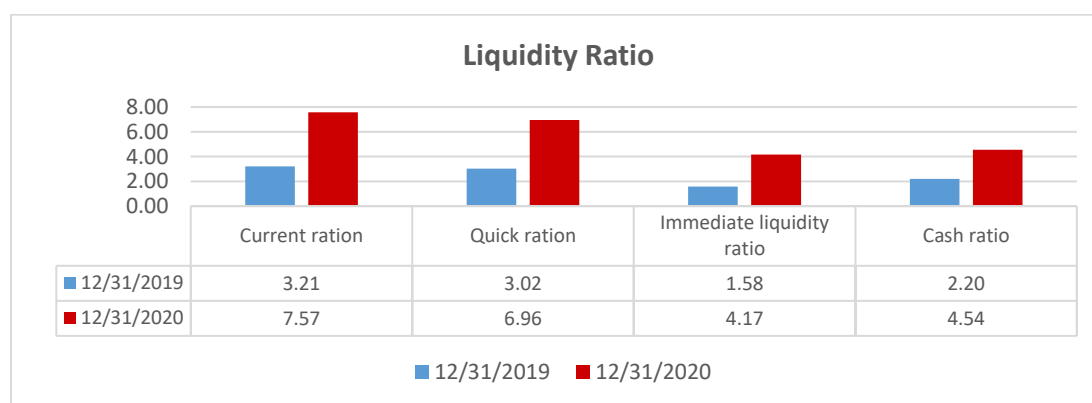
The book value of goods sold represents the biggest part in the total reported expenses with 42,62% share, followed by external services with 28,16% share and by remunerations and social securities with 17,59% share.

*in thousand BGN*

EXPENSES	12 months of 2019	%	12 months of 2020
A. Operating expenses			
I. Expenses by economic elements			
1. Materials	862	10.09%	949
2. External services	13 113	-25.27%	9 799
3. Depreciation and amortization	819	28.45%	1 052
4. Remuneration	3 005	85.29%	5 568
5. Social security	289	89.97%	549
6. Cost of goods sold (excluding production)	9 042	64%	14 825
7. Change in production and work-in- process inventories	0	0%	0
8. Other, including:	6 199	-67.04%	2 043
impairment of assets	5 521	-90.56%	521
provisions	0	0%	0
<b>Total for Group I:</b>	<b>33 329</b>	<b>4.37%</b>	<b>34 785</b>

### 3.3. Financial indicators

#### Liquidity ratios on consolidated base



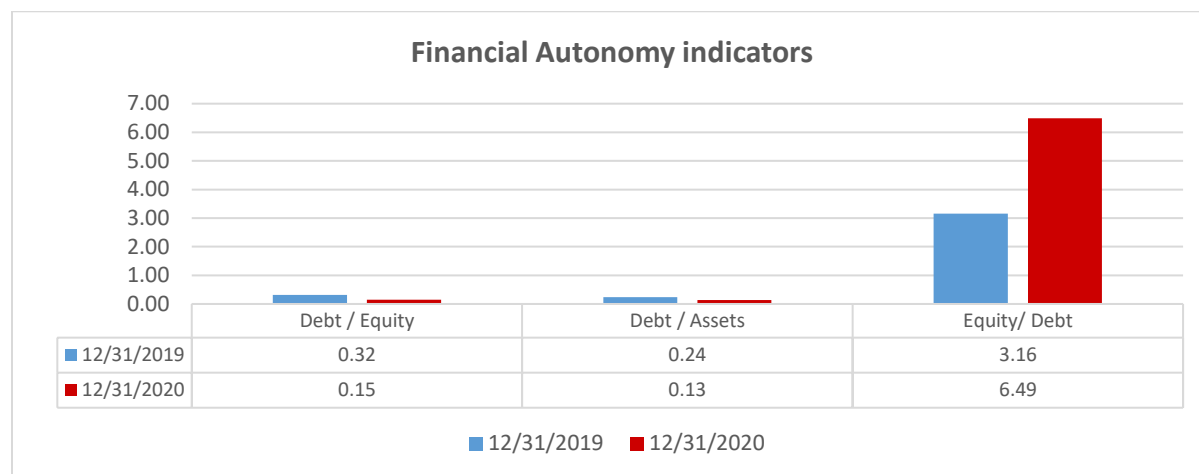
**The total liquidity ratio at the end of the reporting period increased due to the following:** the current assets increased by 113,15% compared to the end of 2019, while the current liabilities decreased by 9,71%.

**The quick liquidity ratio at the end of the reporting period increased due to the following:** the inventories have increased by 194,55% compared to the end of 2019, while the current assets increased by 113,15 % and the current liabilities decreased by 9,71%.

**The absolute liquidity ratio at the end of the reporting period increased due to the following:** the current liabilities decreased by 9,71% compared to the end of 2019, while cash increased by 138,48% as a result of the capital increase that was finalised during the fourth quarter.

**The immediate liquidity ratio at the end of the reporting period increased due to the following:** The cash increased by 138,48%, while the short-term financial assets decreased by 44,99 %.

### Financial autonomy ratio



**The change in the debt ratio at the end of the reporting period is due to the following:** the Company's liabilities decreased by 7,80 % compared to the end of 2019, and equity increased by 89,20%.

**The change in the debt/assets ratio at the end of the reporting period is due to the following:** the Company's total assets increased by 65,34% compared to the end of 2019, while the Company's liabilities decreased by 7,80%.


**The change in the financial autonomy ratio at the end of the reporting period is due to the following:** the liabilities of the Company have decreased by 7,80% compared to the end of 2019, and the equity has increased by 65,34 %.

#### 4. DESCRIPTION OF THE MAIN RISKS AND UNCERTAINTIES

The risks associated with the core business of the Company can generally be divided into systemic (general) and non-systemic (related specifically to its business and the industry in which it operates). Relevant for the Company are also the similar categories of risks inherent in the company business and the industry in which its subsidiaries operate, insofar as they are the main source of the Company’s income. Separately, investors in the Company’s financial instruments are also exposed to risks related to the investments in securities themselves (derivative and underlying)

##### 4.1. SYSTEMIC RISKS

Systemic risks are related to the market and the macro environment in which the Company operates, which is why they cannot be managed and controlled by the Company’s management team. Systemic risks are: political risk, macroeconomic risk, inflation risk, currency risk, interest rate risk, tax risk and unemployment risk.

Type of risk	Description
POLITICAL RISK	<p>Political risk is the likelihood of a change of Government, or of a sudden change in its policy, of occurrence of internal political turmoil and adverse changes in European and/or national legislation, as a result of which the environment in which local businesses operate will change negatively, and investors will incur losses.</p> <p>Political risks for Bulgaria internationally are related to the commitments undertaken to implement serious structural reforms in the country in its capacity as an equal member of the EU, increasing social stability, limiting inefficient spending, on the one hand, as well as the strong destabilization of the countries of The Middle East, the increasing threat of terrorist attacks in Europe, refugee waves and instability of key countries in the immediate vicinity of Bulgaria.</p> <p>Other factors that also affect this risk are the possible legislative changes and in particular those concerning the economic and investment climate in the country.</p>
GENERAL MACROECONOMIC RISK	<p>According to the National Statistical Institute, in December 2020 the <i>total business climate indicator</i> decreased by 1.7 percentage points compared to the previous month as a result of the improved opinions of business managers in retail sector. A decrease in the indicator is observed in the retail trade and in the services sector, in the construction sector it maintains its level since November, and in the industry an increase is registered.</p> <p>.</p> <div style="text-align: center;"> <p><b>Business climate - total</b></p>  <p>Source: NSI<sup>1</sup></p> </div> <p>In the fourth quarter of 2020, the European Central Bank reported that the global economy experienced a strong recovery, followed by a sustained momentum for growth</p>

<sup>1</sup>[https://www.nsi.bg/sites/default/files/files/pressreleases/Economy2020-09\\_OKD068S.pdf](https://www.nsi.bg/sites/default/files/files/pressreleases/Economy2020-09_OKD068S.pdf)



	<p>in the early fourth quarter. According to Eurosystem experts' macroeconomic forecasts from December 2020, real GDP worldwide (excluding the euro area) will shrink by 3.0% this year and increase by 5.8% in 2021 before growing by 3.9% and 3.6% in 2022 and 2023, respectively. World trade (excluding the euro area) contracted more sharply than real GDP in 2020, but is expected to recover more strongly in 2021.</p> <p>After a sharp contraction in the first half of 2020, real euro area GDP recovered sharply, rising 12.5% in the fourth quarter compared to the previous quarter, although it remained well below pre-pandemic levels. The Eurosystem experts' euro area forecasts from December 2020 forecast annual GDP growth in real terms of -7.3% in 2020, 3.9% in 2021, 4.2% in 2022. and 2.1% in 2023</p> <p>Compared to the ECB's macroeconomic forecasts of September 2020, the outlook for economic activity has been revised downwards in the short term, but in the medium term is generally expected to recover to the level projected in the baseline scenario of the September forecasts <sup>2</sup></p>																																							
<p><b>INTEREST RATE RISK</b></p>	<p>The interest rate risk is related to possible, eventual, adverse changes in the interest rates established by the financial institutions of the Republic of Bulgaria.</p> <p>At its meeting on December 10, 2020, the Board of Directors of the ECB, on the basis of an assessment of the prospects for economic development and inflation in the euro area and taking into account the latest macroeconomic forecasts of Eurosystem experts, decided to leave unchanged the ECB's key interest rates. The forecasts are that they will remain at current or lower levels until the prospect of inflation is steadily approaching a level close to but below 2% over the forecast horizon, and this convergence is reflected respectively in the core inflation dynamics.</p> <table border="1" data-bbox="735 1136 1170 1612"> <thead> <tr> <th>Year</th> <th>Month</th> <th>TIR</th> </tr> </thead> <tbody> <tr><td>2020</td><td>I</td><td>0.00</td></tr> <tr><td>2020</td><td>II</td><td>0.00</td></tr> <tr><td>2020</td><td>III</td><td>0.00</td></tr> <tr><td>2020</td><td>IV</td><td>0.00</td></tr> <tr><td>2020</td><td>V</td><td>0.00</td></tr> <tr><td>2020</td><td>VI</td><td>0.00</td></tr> <tr><td>2020</td><td>VII</td><td>0.00</td></tr> <tr><td>2020</td><td>VIII</td><td>0.00</td></tr> <tr><td>2020</td><td>IX</td><td>0.00</td></tr> <tr><td>2020</td><td>X</td><td>0.00</td></tr> <tr><td>2020</td><td>XI</td><td>0.00</td></tr> <tr><td>2020</td><td>XII</td><td>0.00</td></tr> </tbody> </table> <p style="text-align: center;">*Source:BNB</p>	Year	Month	TIR	2020	I	0.00	2020	II	0.00	2020	III	0.00	2020	IV	0.00	2020	V	0.00	2020	VI	0.00	2020	VII	0.00	2020	VIII	0.00	2020	IX	0.00	2020	X	0.00	2020	XI	0.00	2020	XII	0.00
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<p><b>INFLATION RISK</b></p>	<p>Inflation risk is a general rise in prices in which money depreciates and there exists a probability of loss to households and firms.</p> <p>The consumer price index (CPI) is an official measure of inflation in the Republic of Bulgaria. It estimates the total relative change in the prices of goods and services used by households for personal (non-production) consumption and the index is calculated by</p>																																							

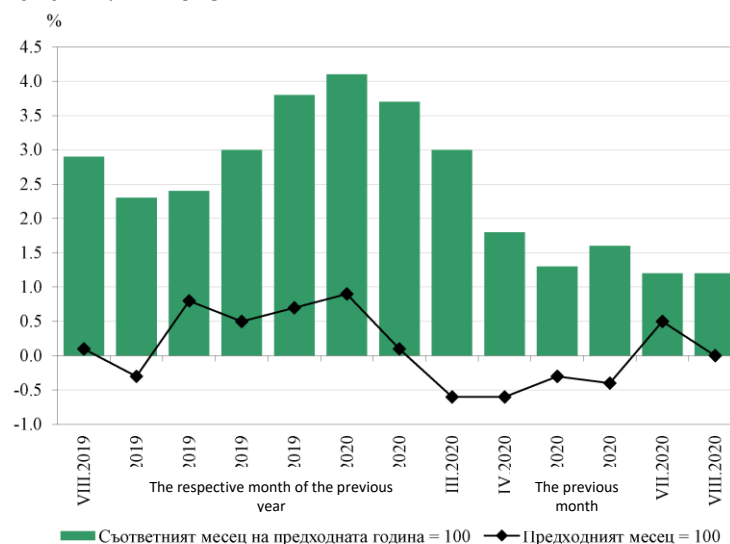
<sup>2</sup>[https://www.bnb.bg/bnbweb/groups/public/documents/ecb\\_publication/publications\\_ecb\\_mb\\_202008\\_bg.pdf](https://www.bnb.bg/bnbweb/groups/public/documents/ecb_publication/publications_ecb_mb_202008_bg.pdf)

applying the structure of the final cash consumer expenditure of Bulgarian households. The consumer price index for December 2020 compared to November 2020 is 100.5%, i.e. monthly inflation is 0.5%. The annual inflation for December 2020 compared to December 2019 is 0.5%. The average annual inflation for the period January -December 2020 compared to the period January -December 2019 is 1.7%<sup>3</sup>

The harmonized index of consumer prices (HICP) is a comparable measure of inflation in EU countries. It is one of the criteria for price stability and for Bulgaria’s accession to the euro area. The HICP, like the CPI, measures the overall relative change in the price level of goods and services.

The harmonized index of consumer prices for December 2020 compared to November 2020 is 100.5%, i.e. monthly inflation is 0.5%. The annual inflation for December 2020 compared to December 2019 is 0.0%. The average annual inflation for the period January 2020 - December 2020 compared to the period January 2019 - December 2019 is 1.2%.<sup>4</sup>

ECB experts’ macroeconomic projections for the euro area in November 2020 for the annual HICP inflation remain unchanged 0.3%. This assessment is generally reflected in the baseline scenario of the December 2020 macroeconomic forecasts of the euro area by Eurosystem experts, which forecast annual HICP inflation of 0.2% in 2020, 1.0% in 2021, 1, 1% in 2022 and 1.4% in 2023 .<sup>5</sup>



\*Source: NSI

**CURRENCY RISK**

Exposure to currency risk is the dependence and effects of changes in exchange rates. Systemic currency risk is the probability of a possible change in the currency regime of the country (currency board), which would lead either to BGN devaluation or to BGN appreciation compared to foreign currencies.

Currency risk will have an impact on companies with market shares, the payments of which are made in a currency other than BGN and EUR. Since, according to the current legislation in the country the Bulgarian lev is fixed to the euro in the ratio EUR 1 = BGN 1.95583, and the Bulgarian National Bank is obliged to maintain a level of Bulgarian levs in circulation equal to the bank’s foreign exchange reserves, the risk of devaluation of the BGN compared to the European currency is minimal and consists in the eventual early

<sup>3</sup>[https://www.nsi.bg/sites/default/files/files/pressreleases/Inflation2020-08\\_MUBNRLA.pdf](https://www.nsi.bg/sites/default/files/files/pressreleases/Inflation2020-08_MUBNRLA.pdf)

<sup>4</sup>[https://www.nsi.bg/sites/default/files/files/pressreleases/Inflation2020-08\\_MUBNRLA.pdf](https://www.nsi.bg/sites/default/files/files/pressreleases/Inflation2020-08_MUBNRLA.pdf)

<sup>5</sup>[https://www.bnb.bg/bnbweb/groups/public/documents/ecb\\_publication/publications\\_ecb\\_mb\\_202006\\_bg.pdf](https://www.bnb.bg/bnbweb/groups/public/documents/ecb_publication/publications_ecb_mb_202006_bg.pdf)

	<p>abolition of the currency board in the country. At this stage, this seems unlikely, as the currency board is expected to be abolished upon the adoption of the EUR in Bulgaria as an official unit of payment.</p> <p>Theoretically, currency risk could increase when Bulgaria joins the second stage of the European Exchange Rate Mechanism (ERM II). This is a regime in which the country must maintain the exchange rate compared to the EUR within +/- 15% on the background of the central parity. In practice, all countries currently in this mechanism (Denmark, Estonia, Cyprus, Lithuania, Latvia, Malta) are witnessing fluctuations that are significantly less than the allowed ones of <math>\pm 15\%</math>.</p> <p>On July 10, 2020, Bulgaria joined the ERM II exchange rate mechanism, known as the 'euro area's waiting room'. The central rate of the Bulgarian lev is fixed at EUR 1 = BGN 1.95583. Around this central exchange rate of the BGN, the standard range of plus or minus 15 percent will be maintained. Bulgaria joins the exchange rate mechanism with its existing currency board regime, as a unilateral commitment and without additional requirements to the ECB.<sup>6</sup> At the same time, our country must enter into close cooperation with the unified banking supervision. The fixed exchange rate of the BGN to the EUR does not eliminate for the Bulgarian currency the risk of unfavourable movements of the euro exchange rate against other major currencies (US dollar, British pound, Swiss franc) on the international financial markets, but at present the company does not consider that such a risk would be material to its business. The company may be affected by currency risk depending on the type of cash flow currency and the type of currency of the company's potential loans.</p> <p>The Allterco JSCo Group companies operate in Bulgaria as well as in EU countries and fourth countries, mainly in the USA and the Asia-Pacific region. At present, the main revenues from the Group's IoT business are in BGN or EUR, and the costs of delivery of goods in this segment are mainly in US dollars and are largely tied to the Chinese yuan, which is why the appreciation of the US dollar or Chinese yuan would have an adverse effect on the business performance. In terms of US dollar exposure, the Group companies are expected to have significant US dollar sales revenue in the US and other non-EU markets in the future, which to some extent balances the Group's net exposure to this major currency.</p> <p>Additionally, the Group companies are exposed to currency risk in relation to the Asian telecommunications business (income and expenses in this business are in Singapore dollars, Thai baht and Malaysian ringgit).</p> <p>To limit the effects of the currency risk, the Issuer has introduced a system for planning the deliveries from countries inside and outside the EU, as well as procedures for daily monitoring of the movements in the exchange rates of the foreign currencies and control over the forthcoming payments. Currently, the Issuer does not use derivative instruments for hedging the currency risk, but if necessary, the management is ready to enter into such transactions.</p>
Credit risk of the state	<p>Credit risk is the probability of deterioration of Bulgaria's international credit ratings, caused by the government's inability to repay its liabilities regularly. Low credit ratings of the country can lead to higher interest rates, more difficult financing conditions, both for the state and for individual economic entities, including the Issuer. Credit ratings are prepared by specialized credit rating agencies and serve to determine and measure a country's credit risk. Bulgaria's credit rating is presented in the following table:</p> <p>Table 1: Credit risk of Bulgaria</p>

<sup>6</sup> <https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200710~4aa5e3565a.en.html>

	<b>Credit agency</b>	<b>Date of last change</b>	<b>Long-term rating</b>	<b>Prospects</b>
	Standard & Poor's	28.11.2020 <sup>7</sup>	BBB	Stable
	Moody's	09.10.2020 <sup>8</sup>	Baa2	Positive
	Fitch	21.08.2020 <sup>9</sup>	BBB	Stable
	Source: Ministry of Finance			
	<p>On August 21, 2020, the international credit agency Fitch confirmed the long-term and short-term credit rating of Bulgaria in foreign and local currency. The level is maintained BBB with a stable outlook. The stable outlook reflects the degree of economic sustainability against the coronavirus pandemic due to long-term fiscal stability, significant international foreign exchange reserves and the possibility of significant transfers from the EU over the projection period. The country's entry into the Exchange Rate Mechanism II (ERM II) and the gradual process of preparation for the adoption of the euro will also help maintain macroeconomic and fiscal stability in the context of negative risks to growth and growing political uncertainty.<sup>10</sup> On November 28, 2020, the credit rating agency Standard &amp; Poor's reaffirmed Bulgaria's long-term and short-term foreign and local currency credit ratings of 'BBB / A-2'. The outlook remains stable. The summary report notes the improvement in expectations for the development of the Bulgarian economy, as domestic demand is more resilient to the impact of the pandemic than the agency's preliminary estimates. The stable outlook reflects the agency's expectations for a rapid recovery of the Bulgarian economy after the pandemic, with no imbalances in the foreign and financial sectors over the next two years.</p>			
Unemployment risk	<p>As a major factor influencing consumers' purchasing power, rising unemployment would reduce demand for IoT products. Unemployment in most of the markets in which the Group operates, including in Bulgaria and the European Union, is at historically low levels since the 2008 global financial crisis. On the other hand, the demand for staff by the business remains extremely active, so that such a risk appears to be negligible within the next year.</p> <p>In addition to the above, the crisis caused by the new coronavirus pandemic has radically changed the labour market situation. Eurostat estimates that 15.933 million men and women in the EU-27, of whom 13.609 million in the euro area (EA-19), were unemployed in November 2020. Compared with October 2020, the number of persons unemployed decreased by 222 000 in the EU and by 172 000 in the euro area. Compared with November 2019, unemployment rose by 1.795 million in the EU and by 1.425 million in the euro area. In November 2020, the euro area seasonally-adjusted unemployment rate was 8.3 %, down from 8.4 % in October 2020 and up from 7.4 % in November 2019. The EU unemployment rate was 7.5 % in November 2020, down from 7.6 % in October 2020 and up from 6.6 % in November 2019.<sup>11</sup></p>			

<sup>7</sup><https://www.minfin.bg/bg/news/11191>

<sup>8</sup><https://www.minfin.bg/bg/news/11147>

<sup>9</sup><https://www.minfin.bg/bg/69>

<sup>10</sup> <https://www.minfin.bg/bg/news/11106>

<sup>11</sup> [https://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment\\_statistics#Unemployment\\_in\\_the\\_EU\\_and\\_the\\_euro\\_area](https://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_statistics#Unemployment_in_the_EU_and_the_euro_area)

Risk associated with the legal system	Although Bulgaria has introduced a number of significant legislative changes since joining the EU and most of the Bulgarian legislation has been harmonized with EU legislation, the legal system in the country is still in the process of reform. Judicial and administrative practices remain problematic and it is difficult to effectively resolve property disputes, breaches of laws and contracts and other. Deficiencies in the legal infrastructure can result in uncertainties arising from the implementation of corporate actions, the implementation of supervision and other issues.
TAX RISK	It is essential for the financial performance of the companies to maintain the current tax regime. There is no guarantee that the tax legislation, which is directly relevant to the core business of the Company, will not be changed in a direction that would lead to significant unforeseen expenses and, accordingly, would adversely affect its profit. The taxation system in Bulgaria is still developing, as a result of which a contradictory tax practice may arise.

## 4.2. NON-SYSTEMIC RISKS

### Risks related to the industry in which the Group operates

Such risks are: risk of shortage of key personnel, risk of strong competition, risk related to personal data security and hacker attacks, risk of technology change.

#### Risk of shortage of key personnel

One of the biggest challenges for technology companies, such as the companies of the Group, as well as given the specific scope of their business in the field of telecommunications and engineering and software development, is the shortage of skilled personnel. According to the Council of European Professional Informatics Societies in Europe, including Bulgaria, there is a shortage of such staff, and by the end of 2020 the shortage at the European level is expected to reach 756 thousand people<sup>12</sup>. Insufficient availability of suitable staff in the subsidiaries could adversely affect the future development of the Group due to delays in the development of new products/services or the maintenance of established ones. On the other hand, low competition in this sector raises the cost of labour. Thus, the financial position and market share of the Issuer would suffer.

#### Risk of strong competition

After the sale of most of the telecommunications business of the group, the Group companies operate mainly in the segment of the Internet of Things (IoT). This segment is one of the most modern and promising sectors of the industry, which attracts the interest of many technology giants and start-up companies. The loss or inability to gain market share and the fall in final product prices due to increased competition may have a negative effect on revenue, profit and profit margins. Maintaining a competitive position requires investment in the creation of devices with new utilities, improvement of existing solutions and expansion of market share and it cannot be taken for granted that new developments will be established among the competing ones on the market.

#### Risk related to personal data security and hacker attacks

<sup>12</sup>Europe's widening ICT skills gap | <https://www.cepise.org/media/CEPISe-CFBackgrounder1.pdf>

The technology industry is characterized by digital transmission of information that could be strictly confidential, containing personal data of users of products, financial information of companies, information about new products and other. The protection of such information is a critical factor for the normal operation of companies in the industry, including of the Group. The sales of the devices and the use by the users of the accompanying mobile applications and cloud services provided by the Group are related to the exchange and storage of personal data. Potential breaches in information security can lead to: i) Loss of customers and/or partners and their migration to competing companies; (ii) Imposing sanctions and lawsuits related to breaches of applicable data protection and privacy laws; (iii) Lost or delayed orders and sales; (iv) Adverse effects on reputation, business, financial position, profits and cash flows.

### **Risk of regulatory and specific technical requirements**

The supply of IoT devices is related to *regulation regarding the certification of products* for sale in the respective country. In the European Union, products are required to bear the 'CE' marking, which indicates that the product has been evaluated and meets the requirements of safety, health and environmental protection. In the US, the equivalent is 'UL' certification. For certification purposes, accredited laboratories are assigned compliance tests, which involve significant costs. In addition, specifics in the requirements of local regulators and contractors (especially mobile operators) may require additional tests and certification to be performed, which increases the cost of entering a particular market or particular distribution channel.

Sales of the Group companies' products cover an increasing number of markets, which often have local regulation regarding the certification of similar products in the respective country. Meeting the requirements of local regulation is related to time and resources and may delay the Company in entering new markets or require additional costs in order to meet different standards.

The change in regulatory requirements for devices may involve additional costs for making them compliant with the new requirements, including costs for withdrawing products from the market to making them compliant with these requirements. The Issuer and its local partners regularly monitor planned changes in the legislation and take timely measures to ensure the compliance of products with them.

The telecommunications sector, in which some of the companies in the Group operate, is directly related and depends on the telecommunications services sector, which is characterized by strong regulation at the level of the respective country where the service is provided, as well as frequent change of these regulations. Very often these regulations lead to a ban on the provision of certain types of services, which has a negative impact on the development of the industry and the results achieved by the companies operating therein. Specific regulation in the different jurisdictions in which the Issuer's companies operate is exercised by a local regulator, equivalent to the Bulgarian Communications Regulation Commission.

In consideration of the sale of the telecommunications companies of Allterco JSCo in Europe and the relatively small share of this business in Asia, the impact of the changes in the regulations in the telecommunications business is decreasing. Following the implementation of the planned sale of the Asian telecommunications business by the Issuer, the impact of this risk factor is expected to be minimal.

Regarding the IoT business of the Issuer's companies, the impact of the changes in the regulation of the telecommunication services is also limited. The devices developed and sold by the companies in the IoT Group use Internet-based technology and can work with the services of any Internet provider. To that effect, the Group is now less dependent on regulations in the field of telecommunications, insofar as the companies in its structure are not providers of telecommunication services and mobile operators are only one of the channels for trade and distribution of IoT devices.

## **Risk of technology change**

The Issuer and its subsidiaries operate in an extremely dynamic segment, in which technologies have a significant impact and are a source of competitive advantage. To that effect, there is a risk of delayed adaptation to new technologies due to lack of knowledge, experience or sufficient funding, which may have a negative impact on the Issuer. The slow adaptation to the new realities may lead to a loss of competitive positions and market shares, which in turn will lead to a deterioration of the Group's performance.

## **Risks related to the Group's business**

Such risks are: operational risk, risk related to business partners, risks arising from new projects, risk associated with the decision of the Board of Directors to sell the Group's telecommunications business in Asia, liquidity risk.

### **Operational risk**

Operational risk can be defined as the risk of loss as a result of inadequate or non-functioning internal management procedures. Such risks may be caused by the following circumstances:

- Adoption of wrong operational decisions by the management staff related to the management of current projects;
- Insufficient amount of skilled personnel needed for the development and implementation of new projects;
- Leaving key employees and inability to replace them with new ones;
- Risk of excessive increase in management and administration costs, leading to a decrease in the overall profitability of the Issuer;
- Technical damages leading to prolonged interruption of the provided services may lead to termination of contracts with clients.

The effects of such circumstances would be a decrease in the Issuer's revenues and deterioration of its business performance.

### **Risk associated with business partners**

Production activities in the IoT segment is outsourced, mainly to China, concentrated in several manufacturers. Potential risks associated with key subcontractors are related to the accurate and timely execution of deliveries or termination of business relationships. Although management believes that there is a wide range of alternative suppliers, the possible transfer of production to new partners and diversification of subcontractors may lead to delivery delays and additional costs, which may affect the ability of the Group companies to perform agreed orders from customers and adversely affect the Group's reputation and financial performance.

The business activity of the Group is also related to the business of mobile operators. The services in the telecommunications segment and some of the products of the Group companies in the IoT segment are offered through mobile operators, as the share of this sales channel is gradually decreasing. The possible loss of a partnership with a certain mobile operator and the consolidation processes in the mobile operator sector may lead to negative consequences for the revenues and financial position of the Group. Following the sale of the telecommunications business and the diversification of sales channels in the IoT segment, this risk is becoming less significant.

### **Risks arising from new projects**

The main business activity of Allterco JSCo is related to investments in subsidiaries. There is a risk that some of the subsidiaries will not be able to meet their goals, which will lead to lower or negative return on investment.

The development of new products and services by the subsidiaries of Allterco JSCo is related to the investment in human resources, software, hardware, materials, goods and services. Should new products and services fail to be marketed, such investments would be unjustified. This in turn would have a negative impact on the costs and assets of the Company, as well as on the performance of its business activities. In order to manage the risk arising from new projects, the Group companies perform a market analysis, prepare a financial analysis containing different scenarios, and in some cases discuss with potential customers the concept of the new service/product.

### **Risk related to the decision of the Board of Directors to sell the Group's telecommunications business in Asia**

In December 2019, the Board of Directors took a strategic decision to sell the Issuer's stake in the capital of the following companies: 100% of the capital of Allterco Pte Ltd. (Singapore), 100% of the capital of Allterco SDN Bhd. (Malaysia) and 49% of the capital of Allterco Co. Ltd. (Thailand). At the moment, no specific parameters of the transaction have been established and no binding commitments have been made by potential buyers. The implementation of such a transaction is uncertain, as there are no guarantees that the transaction will take place. On the other hand, there is a lack of certainty about the achievement of specific conditions for its implementation, respectively for their potential effect on the results of the Group.

### **Liquidity risk**

The expression of the liquidity risk in relation to the Group is associated with the possibility of lack of timely and/or sufficient available funds to meet all current liabilities. This risk may appear both in case of significant delay of the payments by the debtors of the Company, as well as in case of insufficiently effective management of the cash flows from the operation of the Company.

A part of the Group companies use bank financing in the form of an investment loan, overdraft or revolving credit line, which can be used in case of liquidity problems. Also, one of the companies has a factoring contract, which it uses to advance large payments with a significant deferred payment period.

The company pursues a conservative liquidity management policy, through which it constantly maintains an optimal liquidity cash reserve and good ability to finance its business activities. In order to control the risk, the Company monitors the timely payment of incurred liabilities. The company monitors and controls the actual and projected cash flows for periods ahead and maintains a balance between the maturity limits of the assets and liabilities of the company.



## 5. TRANSACTIONS WITH RELATED OR INTERESTED PARTIES

For the reporting period the Company has not entered into transactions with interested parties.

The Group companies have not entered into any transactions with each other that fall beyond their scope of regular business or that significantly deviate from the market conditions. The transactions falling in the scope of the regular business activities of the subsidiaries are disclosed with the Notification of the individual financial statements of the company for the fourth quarter of 2020 and these transactions were eliminated for the purposes of the consolidation.

## 6. INFORMATION ON NEWLY INCURRED SIGNIFICANT RECEIVABLES AND/OR LIABILITIES FROM THE BEGINNING OF THE YEAR TO THE END OF THE REPORTING QUARTER

The Company has no new significant receivables during the reporting quarter

## 7. INFORMATION ON THE TRADING IN THE SHARES OF ALLTERCO JSCo DURING THE REPORTING PERIOD

### Historical data on trade

Date	Volume	Turnover	Highest value	Lowest value	Opening value	Closing value
30.12.2020	77451	535386.30	7,250	6,100	6,100	6,950
30.11.2020	128097	750999.95	6,250	5,100	5,100	6,050
30.10.2020	82329	394926.30	5,450	3,700	3,960	4,980
30.09.2020	30903	118805.54	4,000	3,740	3,880	3,960
28.08.2020	15818	60522.96	3,920	3,720	3,820	3,880
31.07.2020	11673	43981.70	3,880	3,640	3,800	3,780
30.06.2020	27058	104677.66	4,000	3,680	3,680	3,780
28.05.2020	17698	58736.32	3,760	3,020	3,040	3,760
30.04.2020	17124	52373.62	3,180	3,000	3,020	3,080
30.03.2020	92982	274522.94	3,800	2,700	3,700	3,040
28.02.2020	17337	64579.14	3,920	3,420	3,860	3,520
31.01.2020	53960	209647.86	4,180	3,400	3,920	3,880

Source: Investor.bg

## 8. EVENTS AFTER THE END OF THE REPORTING PERIOD

After the end of the reporting period, Allterco JSCo submitted to the FSC, the BSE and the public additional information.

Date	NOTIFICATION
14.01.2021	<p>The Company has disclosed to the FSC and the Public the following information:</p> <p>We hereby inform you that in 2021 ALLTERCO JSCo is starting a registration process of ALLTERCO JSCo shares for trading on the Frankfurt Stock Exchange. The reason behind the company's decision is the great investor interest from consumers, partners and institutional investors abroad. The listing aims to make the shares of ALLTERCO JSCo accessible for more investors outside Bulgaria, as well as to provide the company with access to more opportunities for financing and business development. ALLTERCO JSCo envisages the process to be completed within the next 12 to 18 months, taking into account that the registration is associated with a long and complex administrative and organizational process. Consultants of the listing are Expat Capital SA.</p>

14.01.2021	<p>The Company has disclosed to the FSC and the Public the following information:</p> <p>In accordance with Art. 148b in relation to Art. 100t POSA, we hereby inform you that the following notification for significant share participation has been received in the office of Allterco JSCo: Notification under Art. 145 of the POSA by the shareholder Viktor Georgiev Atanasov, regarding a change of his share participation from the thresholds under Art. 145, para. 1 of the Public Offering of Securities Act (falling of his voting right below 5 per cent), namely - to 2.09%, as a result of disposition (sale) of 744 000 shares of the 1 120 500 shares held by him in the capital of Allterco JSCo, ISIN BG1100003166, done on 08.01.2021 and registered with the Central depository on 12.01.2021</p>
26.01.2021	<p>The Company has published Notification of the Financial Position of ALLTERCO JSCo fourth quarter of 2020 on individual basis</p>
02.02.2021	<p>The Company has disclosed to the FSC and the Public the following information:</p> <p>Herewith and within the legally established term we inform you that the following notifications under Art. 19, para. 1 of Regulation (EU) № 596/2014 of the European Parliament and of the Council were received at the office of Allterco JSCo: Notification by Allterco Robotics EOOD of a transaction performed by the company on 28.01.2021 outside the regulated market – through the investment intermediary Karoll AD and namely – disposal of 3 883 shares (ISIN BG1100003166) of Allterco JSCo - additional remuneration of employees of Allterco Robotics EOOD, at average price of BGN 6.925 per share. The notification was submitted by Allterco Robotics EOOD as a person closely associated with a person discharging managerial responsibilities and namely – Mr. Svetozar Iliev, who is a manager of Allterco Robotics EOOD and CFO of Allterco JSCo; Notification by Mr. Svetozar Iliev, as a person discharging managerial responsibilities, of a transaction performed by him on 28.01.2021 outside the regulated market – through the investment intermediary Karoll AD and namely – acquisition of 652 shares (ISIN BG1100003166) of Allterco JSCo - additional remuneration in his capacity as an employee – general manager of Allterco Robotics EOOD, at price of BGN 6.90 per share.</p>

## **9. OTHER INFORMATION AT THE DISCRETION OF THE COMPANY**

Based on a Prospectus for capital increase (the Prospectus), confirmed by decision No. 143 of 18.02.2020, the Financial Supervision Commission together with the Supplements thereto confirmed with Decisions 405-E dated 11.06.2020, No. 601-E dated 13.08.2020 and № 791-E of 29.10.2020, respectively. Based on a request for notification made by the company, the public offering was carried out on the territories of Bulgaria, the Federal Republic of Germany and the Italian Republic.

In the period 28.09.2020 - 30.10.2020 on the basis of the Prospectus confirmed by the Financial Supervision Commission together with the supplements there was performed a public offering of 3 million new dematerialized ordinary shares from the capital of Allterco JSCo.

Within the term for subscription of shares from the capital increase the issue value of 2,999,999 (two million nine hundred ninety-nine thousand nine hundred ninety-nine) number of new shares from the increase of the capital of the Company has been subscribed and paid to the accumulation account of the Company. In view of this, the capital increase of the Company and the Public Offering are considered to have been successfully completed.

The capital increase is registered with the Commercial Register at the Registry Agency. The capital of Allterco JSCo after the increase is BGN 17,999,999, representing 17,999,999 ordinary, dematerialized, registered voting shares with a nominal value of BGN 1 each.

### **Sale of the shares owned by Allterco JSCo in the capital of Link Mobility Group Holding ASA**

In reference to the Share Purchase Agreement (SPA) signed between Allterco JSCo ("the Company") and Link Mobility Group AS ("Link Group") on 29.07.2020 for the sale of the telecommunication business of Allterco JSCo in Europe, we hereby inform you that the Company has achieved the opportunity to sell part of its shares of the capital of the sole owner of Link Mobility Group AS - Victory Partners VIII Norway Holding AS (currently Link Mobility Group Holding ASA, "Link Holding") received as part (20%) of the transaction price. Link Holding has taken actions for an initial public offering of new shares of its capital, as well as for secondary public offering of part of the existing shares owned by individual shareholders, according to the Prospectus for public offering dated 12.10.2020, published on the website of Link Holding.

As a selling shareholder in a public offering of existing shares of Link Holding according to prospectus for public offering dated 12.10.2020 and a Placing Agreement signed with the manager of the offering ABG Sundal Collier ASA Allterco JSCo sold 588 599 of its shares in the capital of Link Holding (including 120 600 shares subject to an over-allotment option) at a price of NOK 47 per share. The sale is expected to bring before transaction fees proceeds of 27 664 153 NOK (Norwegian kroner) or 4 955 784.03 BGN according to the foreign exchange rate of the Bulgarian National Bank as of October 23, 2020 (last published exchange rate as of the date of this announcement). The said amount is gross and subject to transaction fees. The sold 588 599 shares represent part of total 1 345 180 shares owned by Allterco JSCo, and following the sale the Company holds 0.28% in the capital of Link Holding, which according to the terms of the public offering are subject to lock-up for a period of 180 days as of the first date of conditional trading on regulated market.

In relation to the Share Purchase Agreement (SPA) concluded between Allterco JSCo and Link Group dated June 29, 2019 for the sale of the telecommunications business of Allterco JSCo in Europe, in July 2020 the Company disclosed information in connection with an out-of-court claim filed against the Company by Link Mobility Group AS. Although according to the preliminary assessment of the Company the claim is unfounded and is not expected to affect the financial results and stability of the company, at requirement

of the Financial Supervision Commission, this circumstance is reflected in the supplement to the Prospectus, confirmed by FSC Decision № 601 – 13.08.2020 within the already completed procedure for capital increase, for the purposes of clarity and completeness towards the investors. At the end of the reporting period, as well as at the date of preparation of these notes, no new circumstances have arisen in connection with the said claim.

## **Dividend**

At its regular annual general meeting held on 21.09.2020, the General Meeting of Shareholders decided to distribute and pay dividends to shareholders with the following parameters:

- Total amount for distribution as dividend: BGN 450,000
- Dividend per share: BGN 0.03 per share
- Term for payment of the dividend - 60 days from the date of the General Meeting of Shareholders, at which the decision for payment of dividend was taken;
- Manner of payment - through Central Depository AD and in accordance with the requirements of the Public Offering of Securities Act and Ordinance No. 8 dated 12 November 2003 on the Central Depository, issued by the FSC;
- The right to receive a dividend have the persons entered in the registers of the Central Depository as such entitled to a dividend on the 14th day after the day of the General Meeting of the Shareholders at which the annual report was adopted.

The General Meeting of the Shareholders has authorized the Board of Directors to take all judicial and practical steps regarding the payment of the dividend to the shareholders, including but not limited to the selection of a commercial bank, setting the initial and final deadline for payment of the dividend.

## **COVID-19 related measures**

On March 13, 2020, the National Assembly of the Republic of Bulgaria declared a state of emergency in the country due to the coronavirus epidemic (COVID-19) and intensified anti-epidemic measures and restrictions were introduced. The state of emergency was lifted on 13 May 2020, but some of the anti-epidemic measures remained in force, as their gradual abolition started. This trend continued until 27 November 2020, when stricter anti-epidemic measures and restrictions were reintroduced due to the development of the epidemic.

In the view of the dynamics with which the pandemic develops, it is practically impossible to make a reliable assessment and measure the possible effects of the pandemic on the business activity, assets and economic development of the Company and its subsidiaries, especially in the long run.

As early as March 2020, the Company has taken measures to limit the impact of this situation on business and ensure the continuity of work and production processes and the supply chain in the subsidiaries.

In order to prevent the reduction of revenues and limit the possible effects of reducing the purchasing power of some countries in Europe, the companies from the Group of Allterco JSCo have taken the necessary measures to maintain sales levels, such as:

- Launch of new products, some of them related to reducing the risk of infection and improving air purity, remote diagnosis of patients with Covid 19, as well as personal diagnostic tools;
- Successful registration of the subsidiary of Allterco JSCo - Allterco Trading Ltd. in the Bulgarian Drug Agency as a wholesaler of medical devices;

- Active pursue of the work on the medical certification of products from the MyKi Care series;

Based on the actions taken and observations on the business so far, the management of the Company does not expect the pandemic of COVID-19 and the measures introduced in this regard on an international and national level to have a significant unfavorable impact on the activities and financial position of Allterco JSCo and the Group companies.

The company considers that there is no other information that has not been publicly disclosed by the company and which would be important for shareholders and investors in making an informed investment decision.

Date: March 1, 2021

For ALLTERCO JSCo:

Dimitar Dimitrov