

NOTES
to the Notification of the Financial Position
of ALLTERCO JSCo

first quarter of 2021
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 first quarter of 2021 for the period 01.01.2021 – 31.03.2021 (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.

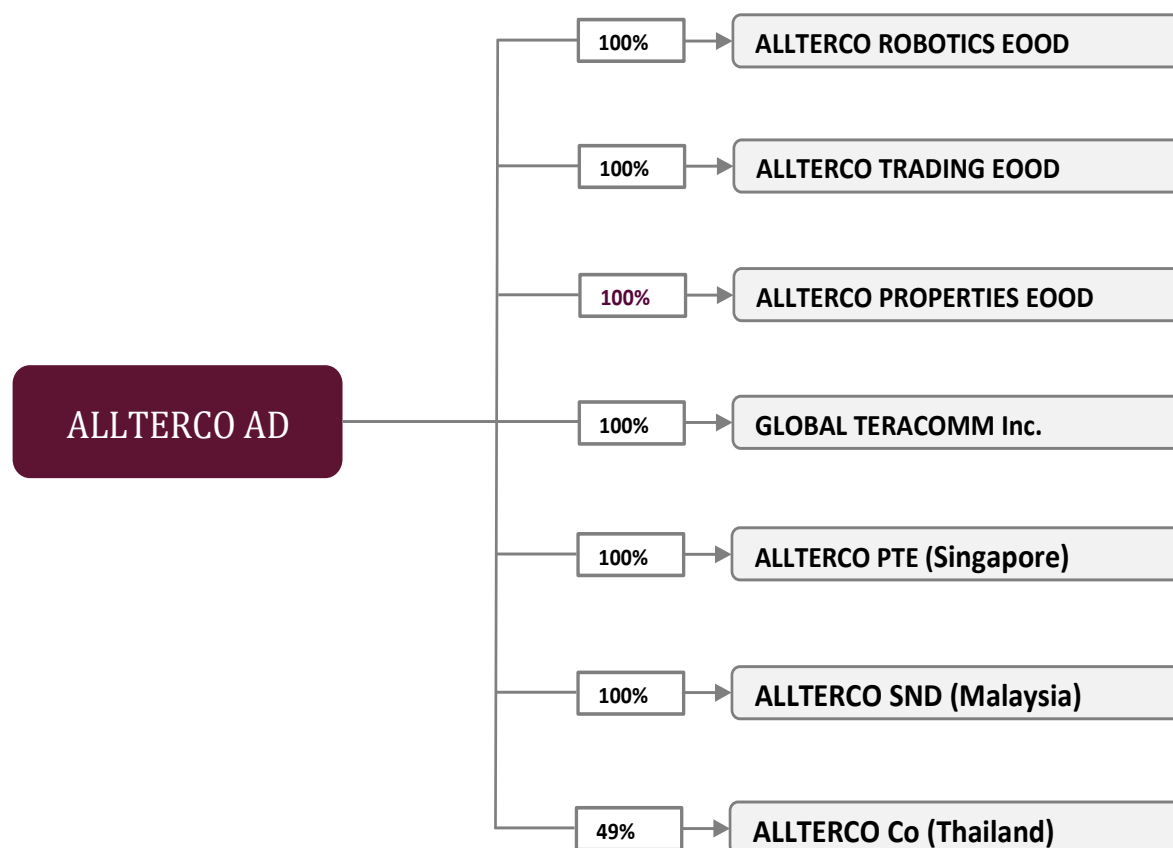
The company has its registered office and address of management: Republic of Bulgaria, Sofia County, Sofia Municipality, Sofia 1407, 103CherniVrah Blvd. The address for correspondence is the same; tel: +359 2 957 12 47. The website of the Company is www.allterco.com.

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 2021



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

Allterco JSCo has established a subsidiary in China, Allterco Asia Ltd. with headquarters and registered office in Shenzhen, Guangdong Province. The capital of the new company is CNY 100 000, as the participation of Allterco JSCo is 30% with the possibility to acquire additional up to 50% and reach a controlling stake of up to 80% at the discretion of the holding in case of good development of the project.

The scope of business of the Allterco JSCo, according to Art. 4 of its 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 31.03.2021 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 21.09.2021, 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 March 31, 2021 the capital structure of ALLTERCO JSCo is as follows:

NAME OF SHAREHOLDER	CAPITAL PERCENTAGE
SvetlinTodorov	32,48 %
Dimitar Dimitrov	32,48 %
Other individuals and legal entities	35,04 %

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 profit of BGN 4 047 thousand compared to BGN 1 472 thousand for the same reporting period of the previous year.

The revenues from sales amount to BGN 14 993 thousand, which is 68,80% more compared to the revenues from sales for the same period in the previous year amounting to BGN 8 882 thousand. The largest portion of the revenues from sales belongs to the revenues from sale of goods – BGN 13 651 thousand, which is 90,60% more compared to the reported the revenues from sale of goods for the same period of the previous year amounting to BGN 7 162 thousand. During the reporting period there is no registered sales revenue, whereas the sales revenue for the same period in the previous year is BGN 1 thousand. During both periods Allterco JSCo has not provided and following has not reported revenue from management services to its subsidiaries.

	thousand BGN		
REVENUE	3 months of 2020	%	3 months of 2021
A. Operating revenue			
I. Revenue from sale of:			
1. Production	0	0%	108
2. Goods	7162	90.60%	13651
3. Services	1701	-28.98%	1208
4. Other	19	36.84%	26
Total for Group I	8882	68.80%	14993
II. Income from Financing including government financing		0%	
		0%	
Total for Group II	0	0%	0
III. Financial income			
1. Interest income	1	-100.00%	0
2. Dividend income	0	0%	0
3. Gains from operations with financial instruments	0	0%	0
4. Gains from foreign exchange rate differences	59	577.97%	400
5. Other	0	0%	0
Total for Group III:	60	566.67%	400
B. Total Operating Income	8942	72.14%	15393

3.2. Operating expenses

At the end of the reporting period the expenses by nature of ALLTERCO JSCo increased by 48,98 % compared to the same reporting period of the previous year and the increase is mainly due to the increase of the book value of the goods sold and of the expenses for remunerations and social securities.

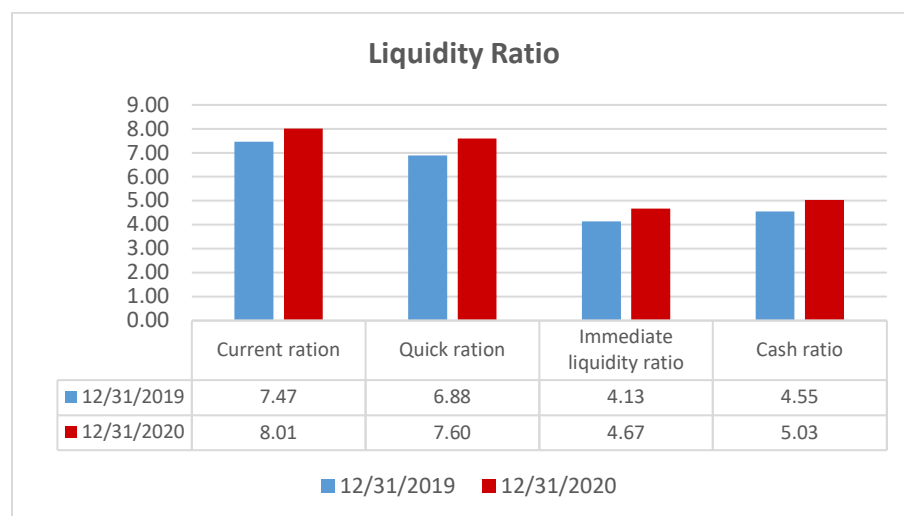
The biggest share of the operating expenses represents the book value of the goods sold with 60%, followed by the expenses for external services with 17,56% and the remunerations and social securities with 15,24%.

thousand BGN

EXPENSES	3 months of 2020	%	3 months of 2021
A. Operating expenses			
I. Expenses by economic elements			
1. Materials	117	279.49%	444
2. External services	2361	-20.63%	1874
3. Depreciation and amortization	270	1.11%	273
4. Remuneration	853	70.69%	1456
5. Social security	93	82.80%	170
6. Cost of good sold (excluding production)	3235	98%	6397
7. Change in production and work-in- process inventories	0	0%	0
8. Other, including:	233	-75.97%	56
impairment of assets	0	-99.98%	1
provisions	0	0%	0
Total for Group I:	7162	48.98%	10670

3.3. Financial indicators

Liquidity ratios on consolidated base



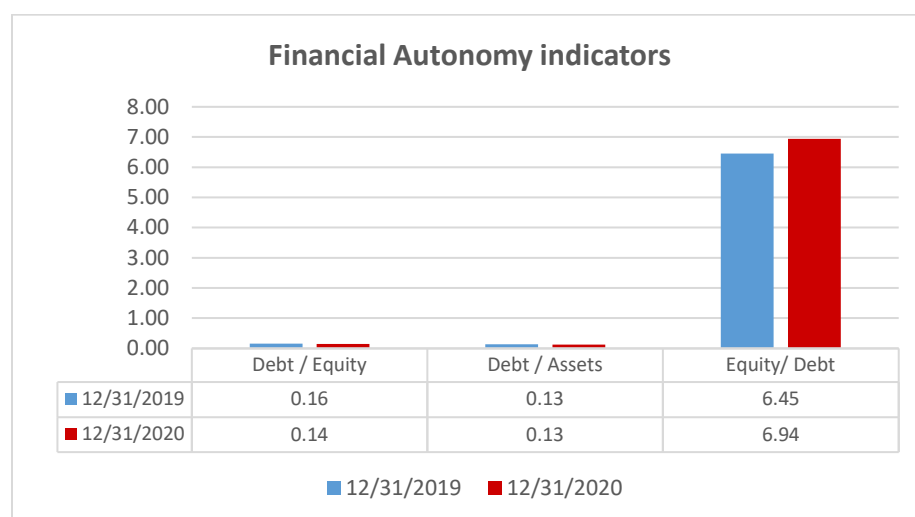
The total liquidity ratio at the end of the reporting period increased due to the following: the current assets increased by 9,33% compared to the end of 2020, while the current liabilities increased by 1,92%.

The quick liquidity ratio at the end of the reporting period increased due to the following: the inventories have increased by 9,33% compared to the end of 2020, while the material assets decreased by 28,61%.

The absolute liquidity ratio at the end of the reporting period increased due to the following: the current liabilities increased by 1,92%, compared to the end of 2020, while cash has increased by 15,24% .

The immediate liquidity ratio at the end of the reporting period increased due to the following: The cash increased by 15,24%, while the short-term financial assets decreased by 12,83%

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 0,61% compared to the end of 2020, and equity increased by 7,00%.

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 5,97% compared to the end of 2020, while the Company's liabilities decreased by 0,61%.

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 0,61% compared to the end of 2020, and the equity has increased by 7,00 %.

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. On April 4, 2021, the country held elections for the Ordinary National Assembly, as a result of which for the political party ruling in last 12 years lost its position in the state governance and a new government is expected to be formed, and in case of impossibility - early parliamentary elections shall be held.</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 March 2021 the <i>total business climate indicator</i> increased by 2.1 percentage points compared to February as a result of the improved indicator in all observed sectors - industry, construction, retail and services.</p> <p>.</p> <div data-bbox="711 1438 1182 1753" style="text-align: center;"> <p>Source: NSI¹</p> </div> <p>In the first quarter of 2021, the European Central Bank reported that following the strong rebound in growth in the third quarter of 2020, euro area real GDP declined by 0.7% in</p>

¹https://www.nsi.bg/sites/default/files/files/pressreleases/Economy2020-09_OKD068S.pdf

	<p>the fourth quarter. Looking at the full year, real GDP is estimated to have contracted by 6.6% in 2020, with the level of economic activity for the fourth quarter of the year standing 4.9% below its pre-pandemic level at the end of 2019. Incoming economic data, surveys and high-frequency indicators point to continued economic weakness in the first quarter of 2021 driven by the persistence of the pandemic and the associated containment measures. As a result, real GDP is likely to contract again in the first quarter of the year.²</p> <p>The baseline scenario of the March 2021 ECB staff macroeconomic projections for the euro area foresee annual real GDP growth at 4.0% in 2021, 4.1% in 2022 and 2.1% in 2023. Compared with the December 2020 Eurosystem staff macroeconomic projections, the outlook for economic activity is broadly unchanged.³</p> <p>In its spring forecast, the European Commission (EC) increased its expectations for Bulgaria's GDP growth this year from 2.7% to 3.5%. For 2022, the EC expects growth of 4.7%. The main contribution to GDP growth in 2021 will be made by exports of goods, supported by higher external demand.⁴⁵</p>												
<p>INTEREST RATE RISK</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 March 11, 2021, 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. They are expected to remain at their present or lower levels until the inflation outlook robustly converges to a level sufficiently close to, but below, 2% within the projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.⁶</p> <table border="1" data-bbox="735 1052 1170 1199"> <thead> <tr> <th>Year</th> <th>Month</th> <th>TIR</th> </tr> </thead> <tbody> <tr> <td>2021</td> <td>I</td> <td>0.00</td> </tr> <tr> <td>2021</td> <td>II</td> <td>0.00</td> </tr> <tr> <td>2021</td> <td>III</td> <td>0.00</td> </tr> </tbody> </table> <p style="text-align: center;">*Source:BNB</p>	Year	Month	TIR	2021	I	0.00	2021	II	0.00	2021	III	0.00
Year	Month	TIR											
2021	I	0.00											
2021	II	0.00											
2021	III	0.00											
<p>INFLATION RISK</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 applying the structure of the final cash consumer expenditure of Bulgarian households.</p> <p>The consumer price index for March 2021 compared to February 2021 is 100.1%, i.e. monthly inflation is 0.1%. The inflation from the beginning of the year (March 2021 compared to December 2020) is 0,9% and the annual inflation for March 2021 compared to March 2020 is 0,6%. The average annual inflation for the period April 2020 – March 2021 compared to the period April 2020 – March 2020 is 0,8%⁷</p>												

²https://www.bnb.bg/bnbweb/groups/public/documents/ecb_publication/publications_ecb_mb_202102_bg.pdf

³ https://www.bnb.bg/bnbweb/groups/public/documents/ecb_publication/publications_ecb_mb_202102_bg.pdf

⁴ <https://www.minfin.bg/bg/news/11352>

⁵ https://ec.europa.eu/economy_finance/forecasts/2021/spring/ecfin_forecast_spring_2021_bg_en.pdf

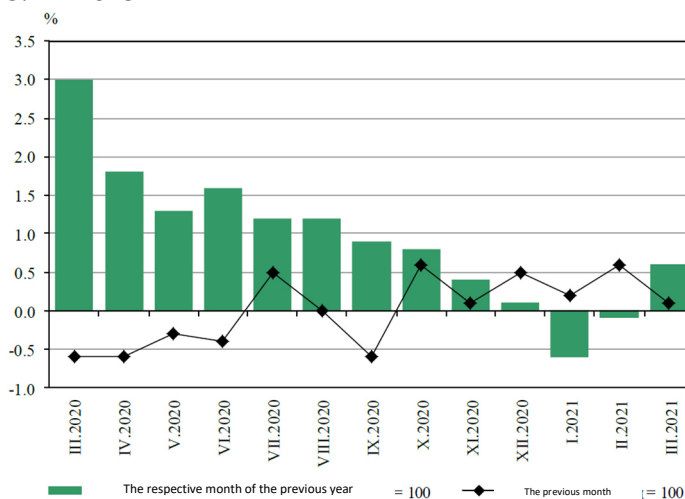
⁶ https://www.bnb.bg/bnbweb/groups/public/documents/ecb_publication/publications_ecb_mb_202102_bg.pdf

⁷https://www.nsi.bg/sites/default/files/files/pressreleases/Inflation2021-03_ZYX3M1D.pdf

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 March 2021 compared to February 2021 is 100.2%, i.e. monthly inflation is 0.2%.⁸

The baseline scenario of the March 2021 ECB staff macroeconomic projections for the euro area foresees annual inflation at 1.5% in 2021, 1.2% in 2022 and 1.4% in 2023. Compared with the December 2020 Eurosystem staff macroeconomic projections, the outlook for inflation has been revised up for 2021 and 2022, largely due to temporary factors and higher energy price inflation, while it is unchanged for 2023. HICP inflation excluding energy and food is expected to be 1.0% in 2021 and 1.1% in 2022, before increasing to 1.3% in 2023.⁹



*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 leva 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 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.

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,

⁸https://www.nsi.bg/sites/default/files/files/pressreleases/Inflation2021-03_ZYX3M1D.pdf

⁹ https://www.bnb.bg/bnbweb/groups/public/documents/ecb_publication/publications_ecb_mb_202102_bg.pdf

Cyprus, Lithuania, Latvia, Malta) are witnessing fluctuations that are significantly less than the allowed ones of $\pm 15\%$.

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.¹⁰ 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.

The Allterco JSCo Group companies operate in Bulgaria as well as in EU countries and first 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.

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).

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.

Credit risk of the state

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 consolidated 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:

Table 1: Credit risk of Bulgaria

Credit agency	Date of last change	Long-term rating	Prospects
Standard & Poor's	28.11.2020 ¹¹	BBB	Stable
Moody's	09.10.2020 ¹²	Baa2	Positive
Fitch	19.02.2021 ¹³	BBB	Stable

Source: Ministry of Finance

¹⁰ <https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200710~4aa5e3565a.en.html>

¹¹ <https://www.minfin.bg/bg/news/11191>

¹² <https://www.minfin.bg/bg/news/11147>

¹³ <https://www.minfin.bg/bg/69>

	<p>On February 19, 2021, Fitch Ratings has upgraded the Outlook on Bulgaria's Long-Term Foreign- and Local-Currency Issuer Default Rating (IDR) to Positive from Stable The “BBB” rating is affirmed. The Positive Outlook reflects the dissipation of macroeconomic risks stemming from the Covid-19 pandemic, underpinned by a more resilient economy and a sound policy framework, as well as continued gradual progress towards euro adoption. According to the rating agency, short-term downside risks tied to the pandemic and an uncertain electoral outcome are largely offset by prospects of substantial funding for investment from the EU and commitment to macro and fiscal stability (anchored by the inclusion of the Bulgarian lev into Exchange Rate Mechanism II; ERMII). Bulgaria is set to be one of the main beneficiaries of EU transfers in the coming years, including EUR 16.6 billion (27% of 2020 GDP) in next 2021-27 Multi Annual Financial Framework and EUR 7.5 billion (12% of GDP) in grants from Next Generation EU (NGEU). Despite the challenge to absorb such a large amount of funds, Fitch believes this could lift growth from a projected 3% in 2021 to 4%–5% in 2022-25. The ratings are constrained by slightly lower income levels compared with the current “BBB” median and unfavourable demographics, which could hinder growth and weigh on government finances over the long term. Governance indicators are slightly above peers..¹⁴</p>
<p>Unemployment risk</p>	<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 15.520 million men and women in the EU-27, of whom 13.166 million in the euro area (EA-19), were unemployed in March 2021. Eurostat estimates that the unemployment rate in the EU-27 is 7,3% and in the European area the seasonally adjusted unemployment rate is 8,1%. Compared with February 2021, unemployment decreased by 237 000 in the EU and by 209 00 in the euro area. Compared with March 2020 the unemployment raised by 2.019 million in the EU and by 1.614 million in the European area¹⁵</p> <p>According to preliminary data of the National Statistical Institute, the number of employed persons in Bulgaria at the end of March 2021 increased by 34.4 thousand, or by 1.5%, compared to the end of December 2020, reaching 2.26 million.¹⁶</p> <p>In its spring forecast, the EC assesses the situation on the labor market as stable as a result of the implementation of measures to maintain employment and expects labor market indicators to improve further. In line with the economic recovery, the number of employed is expected to gradually increase by 0.6% in 2021 and 1.3% in 2022. The unemployment rate is expected to fall to 4.8% in 2021 and to fall below pre-crisis levels in 2022. Real remunerations will continue to rise.¹⁷¹⁸</p>

¹⁴ <https://www.minfin.bg/bg/news/11106>

¹⁵ https://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_statistics#Unemployment_in_the_EU_and_the_euro_area

¹⁶ https://www.nsi.bg/sites/default/files/files/pressreleases/EmplsSalary2021q1_J8DLS2Q.pdf

¹⁷ <https://www.minfin.bg/bg/news/11352>

¹⁸ https://ec.europa.eu/economy_finance/forecasts/2021/spring/ecfin_forecast_spring_2021_bg_en.pdf

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. 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

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). Currently there is one indicative offer received, but 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.

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.

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.

5. TRANSACTIONS WITH RELATED OR INTERESTED PARTIES

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

The Company has not entered into any transactions with other Group companies that fall beyond their scope of regular business or that significantly deviate from the market conditions.

For the purposes of the consolidation all transactions with other Group companies within the regular scope of business are eliminated.

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
31.03.2021	150097	1 477 504,850	11,100	9,000	9,200	10,900
26.02.2021	131599	1 190 116,700	9,450	8,750	8,850	9,200
29.01.2021	1040688	7 017 515,900	9,250	6,500	6,850	8,700

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
05.04.2021	<p>The Company has announced to the FSC and to the Public the following information:</p> <p>Based on preliminary consolidated data for the first quarter of 2021, we hereby inform you of the following: As of the end of the first quarter of 2021, Allterco JSCo reports on a consolidated basis revenue from sale of devices in the amount of BGN 13.8 million, which is an increase of 91% compared to the same period in 2020. The data are based on sales of IoT devices by the subsidiary companies and do not include revenue from sale of telecommunications services in the Asian market. The main part of this revenue is formed by sale of devices from the product line for home automation Shelly, which reported an increase of 114% compared to the same period in the previous year. The brand registered sales of in total 610 664 devices worldwide, of which 594 251 in the European and 16 413 in the American market, amounting to a total of 12 696 thousand BGN. The company is to announce its final results for the first quarter of 2021 on a consolidated basis within the statutory period - by the end of May 2021</p>
21.04.2021	<p>The Company has announced to the FSC and to the Public the following information:</p> <p>Herewith and within the legally established term we inform you that at the office of Allterco JSCo there was received a notification under Art. 19, para. 1 and para.8 of Regulation (EU) № 596/2014 of the European Parliament and of the Council, from Albena Ilieva about transactions performed on 16.04.2021 personally by her and on her own account on a regulated market – Bulgarian Stock Exchange and namely – purchasing of 759 shares (ISIN BG1100003166) of Allterco JSCo at average price of BGN 13.10 per share. The notifying person is a person closely associated with a person discharging managerial responsibilities and namely – Mr. Svetozar Iliev, CFO of Allterco JSCo.</p>
29.04.2021	<p>The Company has announced to the FSC and to the Public the Notification of the Financial Position of the Company on an individual basis for the first quarter of 2021.</p>
05.05.2021	<p>The Company has announced to the FSC and to the Public the annual consolidated financial report of the Company for 2020.</p>
27.05.2021	<p>The Company has announced to the FSC and to the Public the publishing of an Invitation for the Ordinary Annual General Meeting of the Shareholders together with agenda and materials.</p>

9. OTHER INFORMATION AT THE DISCRETION OF THE COMPANY

Indicative offer for acquisition of the telecommunications business of Allterco JSCo in Asia

On March 26, 2021 the Company has received a Letter of Intent for the acquisition of the 3 Asian subsidiaries of Allterco JSCo: ALLTERCO PTE (Singapore), ALLTERCO SDN (Malaysia) и ALLTERCO Co., Ltd. (Thailand). This offer was sent by the Singaporean company Skylight Venture Capital Pte. Ltd whereas the proposed indicative price is EUR 2 100 000 and it is subject to due diligence and consequent negotiations

Measures related to COVID 19

The management of Allterco continues successfully to apply a number of stabilization measures by which to limit the possible negative impact of the situation on the personnel and the financial state of the Company. As a result of those measures (introduction of hybrid ways of work for the employees within the Group, timely resource provision with key components for production) during the reported period there are no signs for worsening of Group's financial position and the Company anticipates this trend to be kept for the next quarters.

The successful increase in the capital of the Company in the last quarter of 2020 further increased the financial stability of the group. In addition, the shareholders of the company increased significantly and this led to the inclusion of the company's shares in the SOFIX index of the BSE, as of March 2021.

During the reporting period Allterco JSCo has increased its share capital through a public offering of new shares, which in addition will improve the financial stability of the Group.

Date: May 28, 2021

For ALLTERCO JSCo:

Dimitar Dimitrov
CEO