telelink business services

30.06.2024

Consolidated Interim Management Report

TELELINK BUSINESS SERVICES GROUP AD

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DEAR SHAREHOLDERS,

We, the members of the Managing Board of TELELINK BUSINESS ERVICES GROUP AD (the Company), guided by our commitment to manage the Company in the best interest of its shareholders and in accordance with the provisions of art. 100o, par. (5) of the POSA and art. 13 of Ordinance 2 from November 09 2021 regarding the initial and subsequent disclosure of information upon the public offering of securities and the admission to trading on a regulated market, prepared the present Consolidated Management Report (the Report). The Report presents commentary and analysis of key financial and non-financial indicators and an objective overview, providing a true and fair representation of the development and operating results of the Company and its subsidiaries (the Group), as well as of its condition, together with a description of the main risks thereto.

THIS MANAGEMENT REPORT IS PREPARED IN ACCORDANCE WITH PROVISIONS OF ART. 100O, PAR. (5) OF THE PUBLIC OFFERING OF SECURITIES ACT (POSA) AND ART. 13 OF ORDINANCE № 2 FROM NOVEMBER 09 2021 REGARDING THE INITIAL AND SUBSEQUENT DISCLOSURE OF INFORMATION UPON THE PUBLIC OFFERING OF SECURITIES AND THE ADMISSION OF SECURITIES TO TRADING ON A REGULATED MARKET (ORDINANCE 2)

I GENERAL INFORMATION ABOUT THE COMPANY AND THE GROUP

I.1 Business profile

Telelink Business Services Group AD (TBS Group, the Company, the Issuer) was established on July 12 2019 with the purpose of consolidation, foundation and management of investments in subsidiaries operating in the field of information and communication technologies (ICT), together with which it constitutes the economic "Group TBS" (the Group).

The main activity of the Company comprises the provision of administrative and financial services and services relative to the management and support of the business development, marketing and sales of Group subsidiaries. The Company itself does not carry out direct commercial activities in the field of ICT or other areas addressing end customers outside the Group.

The main activity of the Group consists of the operating activities of the subsidiaries making part thereof and comprises the sale of products and services and the implementation of complex solutions in the field of ICT, including, but not limited to:

- delivery, warranty and post-warranty support of equipment and software produced by third-party technology suppliers, and applications and services developed at the client's request;
- system integration covering system design, configuration, installation, setup and commissioning of the supplied equipment, software or integrated ICT systems, combining functionally two or more product types;
- consultancy services comprising the analysis of the situation, requirements, transformation and future development of the client's ICT systems, processes and infrastructures;
- managed services whereby the client transfers the management and responsibility for a certain ICT function or group of functions to the Group, and the latter undertakes to maintain them on a certain level.

A part of delivered managed services include the provision of equipment and software as a service presenting the client with a flexible alternative to their own investments in such assets.

As of June 30 2024, the products and services offered by the Group cover a broad range of technologies organized in 5 product categories – IT Infrastructure, Digital Transformation, Cybersecurity, End User Hardware and Software and Internet of Things.

The correspondence of the above product categories with the technology groups applied in the Group's reporting as of the end of 2023 (Service Provider Solutions, Enterprise Connectivity, Private Cloud, Public Cloud, Modern Workplace, Computers and Peripherals, Application Services, Hyperautomation, Information Security and Internet of Things) is established in section II.2.1 of this Report.

I.2 Governance

The Company has a two-tier board system.

As of June 30 2024, The Company's Managing Board (the MB) features five members, including:

- Ivan Zhitianov – Chairman of the MB and Executive Director;
- Teodor Dobrev – member of the MB;
- Orlin Rusev – member of the MB;
- Iordanka Klenovska – member of the MB (elected in this capacity in place of Nikoleta Stanailova by resolution of the SB from March 25 2024);
- Desislava Torozova – member of the MB.

As of June 30 2024, the Company's Supervisory Board (the SB) features three members, including:

- Wolfgang Ebberman – Chairman of the SB;
- Florian Huth – Vice-chairman of the SB;
- Hans van Houwelingen – independent member of the SB;
- William Anthony Bowater Russell – independent member of the SB;
- Ivo Evgeniev – member of the SB.

I.3 Share capital and ownership structure

The Company has a registered capital in the amount of BGN 12,500 thousand divided in 12,500,000 common shares with a nominal value of BGN 1.00 each.

As of June 30 2024, the persons holding over 5% of the Company's capital were Lubomir Minchev with a stake of 6,263,624 shares or 50.11%, SEET INVESTMENT HOLDINGS SARL (Luxembourg) with a stake of 2,872,380 shares or 22.98% and Utilico Emerging Markets Trust PLC (UK) with a stake of 1,733,837 shares or 13.78%.

Pursuant to share buybacks and transfers for the purposes of incentive programs for the employees and the MB (including 1,516 shares transferred to a former member of the MB in the first quarter of 2024 in accordance with an incentive plan from 2020), as of June 30 2024, the Company held 562 own shares representing 0.004% of its registered capital.

By GMS resolution from June 19 2024, the MB was authorized for the buyback of up to 25,000 shares within a price range of BGN 7.40 to 20.00 per share with regard to the implementation of incentive programs for the employees and the MB and/or other investment purposes until the end of 2024. As of June 30 2024, the Company was yet to purchase any shares pursuant to the above resolution.

I.4 Investment portfolio

Subsidiary	Country of incorporation and management	Capital share held by TBS Group
(direct)		
Telelink Business Services EAD	Bulgaria	100%
Comutel DOO	Serbia	100%
Telelink DOO	Bosnia and Herzegovina	100%
Telelink DOO	Slovenia	100%
Telelink Business Services DOO	Croatia	100%
Sedam IT DOO	Croatia	100%
Telelink Business Services DOOEL	Macedonia	100%
Telelink Albania SH.P.K.	Albania	100%
Telelink Business Services SRL	Romania	100%
Telelink Business Services Germany GmbH	Germany	100%
Telelink Business Services, LLC	USA	100%
(indirect)		*(through TBS EAD)*
Telelink BS Staffing EOOD	Bulgaria	100%
Green Border OOD	Bulgaria	50%

As of June 30 2024, the Company held shares in 11 subsidiaries, including:

- Telelink Business Services EAD (Bulgaria) (TBS EAD), Comutel DOO (Serbia) ("Comutel"), Telelink DOO (Bosnia and Herzegovina) ("Telelink Bosnia"), Telelink DOO (Slovenia) ("Telelink Slovenia") and Telelink Albania Sh.p.k. („Telelink Albania"), the participations in which were transferred into Company pursuant to a reorganization by means of spinoff of the Business Services activities of Telelink Bulgaria AD in August 2019;
- Telelink Business Services DOOEL (North Macedonia) ("TBS Macedonia"), established by the Company in September 2019;
- Telelink Business Services DOO (Croatia) ("TBS Croatia"), established by the Company in November 2020;
- Telelink Business Services, LLC (USA) ("TBS USA"), established by the Company in January 2021;
- Telelink Business Services SRL (Romania) ("TBS Romania"), established by the Company in November 2021;
- Telelink Business Services Germany GmbH (Germany) ("TBS Germany"), established by the Company in January 2022;
- Sedam IT DOO (Croatia) ("7IT"), acquired by the Company by means of a share purchase in March 2024.

In accordance with an SB resolution from April 30 2024, on June 25 2024, a Share purchase agreement for the sale of 100% of the shares in the capital of Telelink Albania was signed between the Company (seller) and Erton Graceni, holding the position of administrator of Telelink Albania as of the same date (purchaser), for a committed consideration of EUR 10 thousand. As disclosed in section VII of this Report, the transfer of the shares was entered in the National Business Register of the Republic of Albania on July 12 2024, with TBSG AD continuing to own 100% of the shares in Telelink Albania until that date.

Considering the above, as of June 30 2024, the Company was the sole owner of all of the above subsidiaries (including Telelink Albania), each governed in their respective countries of incorporation and conducting active commercial operations.

Besides the above direct shareholdings, the Company held indirect interests in two more companies controlled by TBS EAD, Telelink BS Staffing EOOD and Green Border OOD. As of June 30 2024, Telelink BS Staffing EOOD, which had been established with a view to potential cooperation with a leading financial advisory firm, was yet to deploy material business activities, while joint venture Green Border OOD has exhausted its purpose with the completion of the project it was established for and is not expected to have a material impact on the Group's future results and financial position.

I.5 Public Information

In accordance with the requirements of art. 27 and the subsequent provisions of Ordinance 2 of the FSC, with regard to art. 100t, par. 3 of the POSA, the Company discloses regulated information to the public through a selected media service. All of the information provided to that media, is available in full and unredacted form on http://www.x3news.com/. The required information is presented to the FSC through the unified e-Register system for the electronic presentation of information, developed and maintained by the FSC.

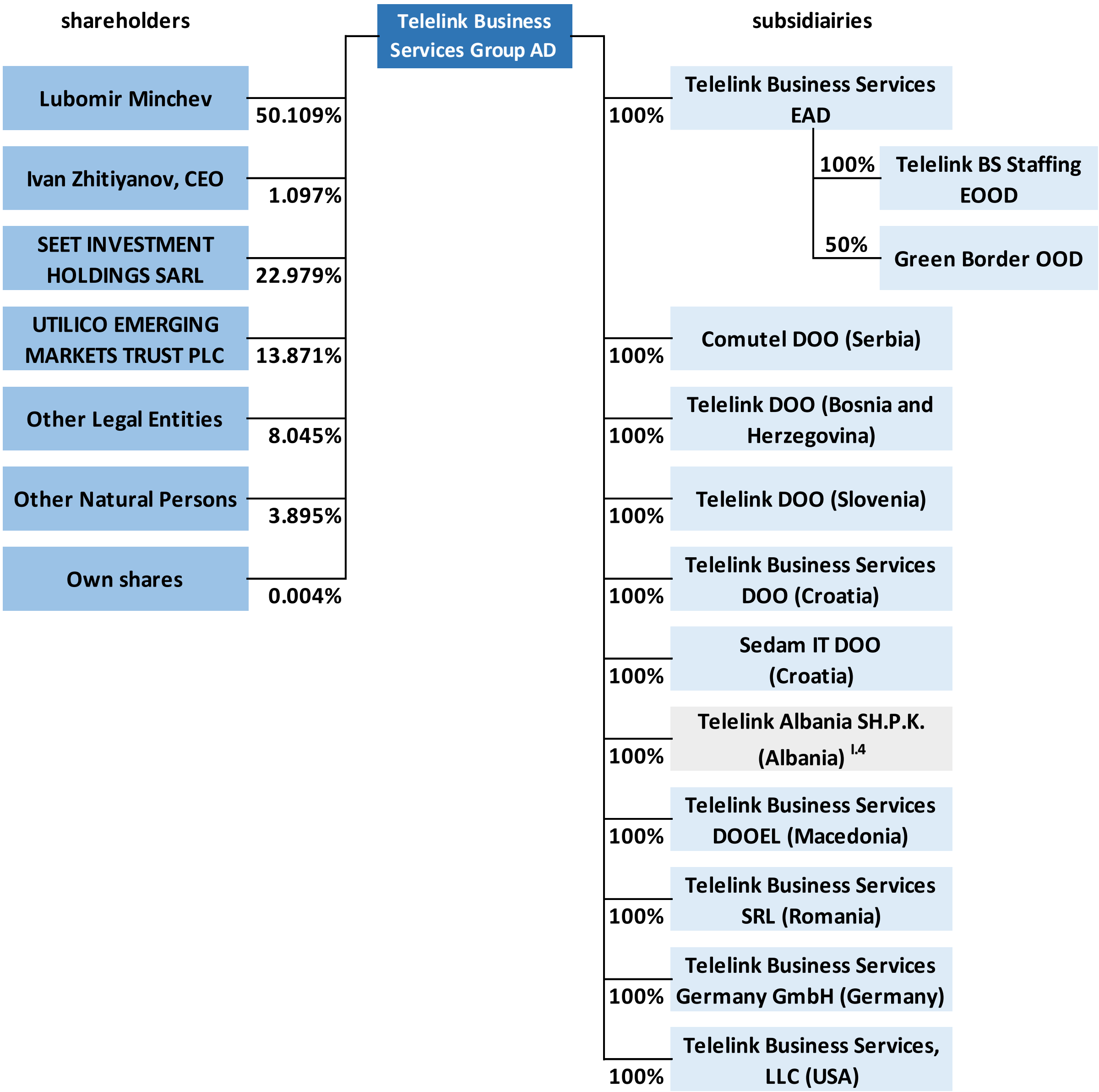
The above information is also available on the Company's investor web page, https://www.tbs.tech/investors/https://www.tbs.tech/investors/.

Telelink Business Services Group AD has fulfilled its obligation as per art. 89o of the POSA, pursuant to which it has obtained a legal entity identification (LEI) code 894500RSIIEY6BQP9U56.

The Company's issued shares have been registered with an ISIN code: BG1100017190 and, as of the date of this Report, are being traded on the Standard Equities Segment of the BSE under the ticker of TBS.

The Company's Investor Relations Director is Ivan Daskalov, with the following contact details: telephone number +359 2 9882413, e-mail address ir-tbs@tbs.tech.

I.6 Summarized shareholding structure of the Company and the Group



II REVIEW OF THE GROUP'S ACTIVITIES AND FINANCIAL POSITION

As of June 30 2024, the Group continued to conduct active commercial operations and had a positive net worth of BGN 29,056 thousand.

The Group's financial position and the factors behind the formation of its assets, liabilities and equity are presented in the Statement of Financial Position included in the Consolidated Financial Statements and analyzed below.

II.1 Key financial indicators

Financials (BGN thousand)	(period end)		change
	30.6.2024	*30.6.2023*	
Net sales revenue	**72,675**	**59,813**	**22%**
Cost of Sales	-53,701	-47,043	14%
Gross Profit	**18,974**	**12,770**	**49%**
Sales and Marketing Expenses	-9,249	-6,131	51%
General and Administrative Expenses	-6,933	-4,576	52%
Other Operating Income/(Expenses) (net)	308	248	24%
Operating Profit	**3,100**	**2,311**	**34%**
Financial Income/(Expenses) (net)	-570	-588	-3%
Income Tax Expense	-550	-426	29%
Net Profit	**1,980**	**1,297**	**53%**
Depreciation & Amortization Expenses	-2,382	-1,982	20%
Interest Income/(Expenses) (net)	-442	-224	97%
Earnings before Interest, Tax, Depreciation & Amortization (EBITDA)	**5,354**	**3,929**	**36%**
	30.6.2024	*31.12.2023*	**0%**
Total Assets	**138,253**	**136,483**	**1%**
Non-current Assets	49,249	26,770	84%
Current Assets and Assets Held for Sale	89,004	109,713	-19%
Equity	**29,056**	**27,013**	**8%**
incl. Retained Earnings and Profit for the Period	28,906	26,898	7%
Total Liabilities	**109,197**	**109,470**	**0%**
Non-current Liabilities	27,163	12,875	111%
Current Liabilities	82,034	96,595	-15%
Cash & Cash Equivalents	**7,584**	**14,091**	**-46%**
Total Financial Debt*	**33,152**	**4,217**	**686%**
Net Financial Debt**	**25,568**	**-9,874**	**35,442**
	30.6.2024	*30.6.2023*	**0%**
Net Cash Flow from Operating Activities	**-16,610**	**-15,597**	**-1,013**
Net Cash Flow from Investment Activities	**-13,495**	**-2,223**	**-11,272**
Net Cash Flow from Financing Activities	**23,598**	**7,231**	**16,367**
	30.6.2024	*31.12.2023*	**0%**
Number of Employees as of Period End	**482**	**354**	**36%**

** Incl. loans and finance lease contracts; ** Total Financial Debt - Cash & Cash Equivalents*

Ratios	(period end)		change
	30.6.2024	***30.6.2023***	
Gross Margin	26.1%	21.3%	4.8%
Operating Margin	4.3%	3.9%	0.4%
Net Margin	2.7%	2.2%	0.6%
EBITDA margin	7.4%	6.6%	0.8%
	30.6.2024	***31.12.2023***	
Current Ratio*	1.1	1.1	-0.1
Equity / Total Assets	21%	20%	1%
Financial Debt / Total Assets	24%	3%	21%
	30.6.2024	***30.6.2023***	
Annualized Average Return on Assets (ROA)	2.9%	2.4%	0.5%
Annualized Average Return on Equity (ROE)	14.1%	11.6%	2.5%

** Current Assets and Assets Held for Sale / Current Liabilities*

II.2 Revenues

Growing 22% or BGN 12,862 thousand against the same period of 2023, consolidated net sales revenue for the first half of 2024 reached BGN 72,675 thousand.

The leading factor behind the registered increase were sales realized by TBS EAD, which grew by 30% (BGN 11,202 thousand)[1] as a whole and marked positive developments in all main sectors as a result of the growing number of large and medium projects observed both in the public sector and among the company's corporate clients, as well as of bigger sales to its key telecom account. Maintaining its leading role in the formation of Group revenues, the company also registered a growing share of 66%, as compared to 62% in the first half of 2023.

Substantial contributions to the Group'c growth for the period were also made by business in Croatia, which registered a nearly double combined increase of 94% or BGN 2,967 thousand[1] and a growing share of 8% as a result of the acquisition of 7IT at the end of March, region South-Western Balkans, where the revival of sales in Albania prevailed over their slight decrease in TBS Macedonia to the effect of a combined increase of 24% or BGN 487 thousand[1] and a growing share of 4%, as well as by TBS Romania, TBS Germany and TBS USA, showing a combined increase of BGN 2,149 thousand[1] against the just launched sales preceding the deployment of business in these new subsidiaries in the second half of 2023, with shares of 1% each.

Counterpointing to the above trends, the main factor limiting the Group's growth for the period were revenues realized by the business pool of Comutel, TBS Montenegro, Telelink Bosnia and Telelink Slovenia, which registered an overall decrease by 23% or BGN 3,938 thousand[1] and a decreasing combined share of 19% of consolidated sales as a result of a continuing slowdown in sales to traditional clients in the regional telecom sector and the much lower complementary revenues from dealings with other corporate accounts as compared to the first half of 2023.

[1] (Growth in) revenues from clients other than Group companies.

II.2.1 Revenues by main categories of products and services

Product Group	Correspondence with Product Group 2022-2023	Net Sales Revenue (BGN thousand)				
		30.6.2024	30.6.2023	change	share 30.6.24	share 30.6.23
T Infrastructure	Service Porivder Solutions, Enterprise Connectivity, Private Cloud, Public Cloud, part of Modern Workplace	52,252	42,441	23%	72%	71%
)igital Transformation	Application Services, Hyperautomation	1,961	332	491%	3%	1%
:ybersecurity	Information Security, part of Enterprise Connectivity	3,705	2,366	57%	5%	4%
End User Hardware and Software	Computer & Peripherals, Modern Workplace	13,842	14,145	-2%	19%	24%
oT	no change	239	326	-27%	0.3%	0.5%
)ther	no change	676	201	235%	0.9%	0.3%
Total		**72,675**	**59,813**	**22%**	**100%**	**100%**

Favored by all Group markets that registered positive trends in sales with the leading contribution of large and medium clients in Bulgaria, revenue in the IT Infrastructure category registered 23% or BGN 9,811 thousand of growth, reaching a total of BGN 52,252 thousand and remaining the number one contributor in consolidated revenues for the period with a share of 72% close to the corresponding ratio of 71% for the first half of 2023.

Continuing their positive evolution in the Bulgarian public sector and favored by emerging sales on the Croatian market both as a result of the acquisition of 7IT in March 2024 and in TBS Croatia, revenues from Cybersecurity increased by 57% or BGN 1,339 thousand, reaching a total of BGN 3,705 thousand and growing share of 5% (as compared to 4% in the same period of 2023).

Material contributions to the Group's overall growth also included the Digital Transformation category, which registered a nearly sixfold increase of 491% or BGN 1,630 thousand as a result of new projects starting in the Bulgarian public sector, the deployment of recurring sales in Germany since the second half of 2023 and the acquisition of 7IT in March 2024. Notwithstanding the still relatively limited size of recorded sales (BGN 1,961 thousand), this line of business attained a growing share of 3%, as compared to only 1% in the first half of 2023.

While showing a slight decrease of 2% or BGN 304 thousand as a result of lower sales in TBS Croatia and Macedonia, deliveries of End User Hardware and Software continued to rank second in the Group's product portfolio with a revenue of BGN 13,842 thousand and a decreasing but nonetheless substantial share of 19% (comparing to 24% for the first half of 2023).

In spite of some newly launched projects, sales in the developing line of Internet of Things registered a 27% decrease due to lower revenues from existing clients and remained of minimal importance to the Group with an amount of BGN 239 thousand and a share of only 0.3%.

Favored mostly by the launch of collateral non-core activities on a digitalization-related project in the Macedonian public sector, revenues from Other products and services registered a substantial relative increase by 235%, but also remained of a relatively insignificant size of BGN 676 thousand and share of 0.9% in consolidated sales.

II.2.2 Revenues by geographic markets

Country/Region*	Net Sales Revenue (BGN thousand)				
	30.6.2024	30.6.2023	change	share 30.6.2024	share 30.6.2023
Bulgaria	43,320	32,791	32%	60%	55%
Croatia	6,703	3,491	92%	9%	6%
Serbia	6,279	10,483	-40%	9%	18%
Slovenia	2,672	3,312	-19%	4%	6%
Germany	2,183	1,384	58%	3%	2%
Bosnia and Herzegovina	2,175	2,372	-8%	3%	4%
North Macedonia	1,704	1,611	6%	2%	3%
United States of America	1,272	1,047	22%	2%	2%
Albania	874	278	214%	1%	0%
Romania	854	102	739%	1%	0%
Montenegro	150	111	35%	0.2%	0.2%
Other	4,489	2,830	59%	6%	5%
Bulgaria	43,320	32,791	32%	60%	55%
Mid-Western Balkans	17,979	19,770	-9%	25%	33%
South-Western Balkans	2,613	1,943	35%	4%	3%
Other Balkan Markets	2,361	716	230%	3%	1%
Central & Eastern Europe	5,103	3,505	46%	7%	6%
Other Markets	1,300	1,088	19%	2%	2%
Total	**72,675**	**59,813**	**22%**	**100%**	**100%**

** By registration of the client.*

In correspondence with the positive evolution of revenues at TBS EAD described in II.2 above, the Group registered 32% (BGN 10,529 thousand) of growth in sales realized on the territory of Bulgaria (totaling BGN 43,320 thousand), which maintained their number one position in the territorial structure of consolidated revenues with a growing share of 60% (comparing to 55% in the first half of 2023).

Compensating to large extent the slowdown of revenues from Serbia, Slovenia and Bosnia and Herzegovina with a nearly double increase in sales to Croatia, the acquisition of 7IT in March helped to mitigate the decrease in overall revenues from region Mid-Western Balkans (BGN 17,979 thousand) to 9% or BGN 1,791 thousand, pursuant to which the region continued to account for a decreasing but nonetheless significant share 25% (comparing to 33% in the same period of 2023). In itself, the Croatian market ranked as the Group's third largest in the first half of 2024 with revenues of BGN 6,703 thousand and a growing share of 9% (comparing to 6% for the same period of 2023).

In correspondence with the positive turnaround of sales in Albania described in section II.1, combined sales to region South-Western Balkans (BGN 2,613 thousand) increased by 35% (BGN 670 thousand) and accounted for a growing share of 4% of consolidated revenues (comparing to 3% for the first half of 2023).

In contrast with the other traditional clients making part of the leading regional telecom group serviced by the business pool of Comutel, Telelink Bosnia, TBS Montenegro and Telelink Slovenia, sales to subsidiaries of that group in Greece registered significant growth as compared to their temporary slowdown in 2023. Together with growing sales in Romania, the above development lead to a more than triple increase by BGN 1,644 thousand) of total sales to Other Balkan Markets (BGN 2,361 thousand) to 3% of consolidated revenues (comparing to just 1% in the first half of 2023).

Summing up continuing cross-border deliveries from TBS EAD and the local sales launched in the second half of 2023 in TBS Germany, revenues from markets in Central and Western Europe (BGN 5,103 thousand) registered a 46% (BGN 1,598 thousand) increase and a growing share of 7% (as compared to 6% for the first six months of 2023).

Adding sales to clients on Other markets (growing by 19% to BGN 1,300 thousand at a maintained share of 2% mostly in connection with local and cross-border deliveries by TBS USA and TBS EAD to the USA), a growing portion of 9% of consolidated revenues for the ended six-months period was generated from deliveries outside the Balkan region (comparing to 8% for the same period of 2023).

II.3 Expenses and profitability

II.3.1 Gross profit

Reflecting the substantially higher consolidated gross margin of 26.1% realized in the current period (comparing to 21.3% in the first half of 2023), consolidated gross profit exhibited much stronger relative growth of 49% as compared to revenues and an absolute increase of BGN 6,204 thousand, reaching BGN 18,974 thousand.

Overall, the observed gross margin improvement was supported by positive changes in all main markets, stemming from both structural factors such as the lower share of the inherently less profitable sales of End User Hardware and Software, the addition of 7IT, which exhibited significantly higher than the Group's average profitability for the period after its acquisition at the end of March, and the recovery and attainment of profitable sales volumes in Albania and developing subsidiaries in Romania, Germany and the USA, and margin improvements within the other product categories and revenue streams of the Group.

II.3.2 Sales and marketing expenses

In total, consolidated sales and marketing expenses (BGN 9,249 thousand) registered a significant increase by 51% or BGN 3,118 thousand and implied a growing ratio of 12.7% of revenues for the period (comparing to 10.3% for the first half of 2023).

Besides the acquisition of 7IT, which accounted for 40% of the above increase by virtue of the expenses recorded for the period since its initial consolidation, additional costs included significant amounts recorded by TBS Germany and TBS USA against the zero levels of the same costs preceding the deployment of their activities in the second half of 2023 and, mostly, the continuing trend of general expansion in sales and marketing personnel and activities in Bulgaria in conjunction with the growing volume of current and targeted sales and various processes and initiatives directed towards securing the capacity for fulfillment of the Group's strategic market goals.

II.3.3 General and administrative expenses

Similarly to sales and marketing expenses, consolidated general and administrative expenses (BGN 6,933 thousand) registered a significant increase by 52% or BGN 2,357 thousand and implied a growing ratio of 9.5% of revenues for the period (comparing to 7.7% for the first half of 2023).

There was also a similar combination of factors behind the observed growth, including the effect of acquiring 7IT (expenses recorded by the latter for the period since its initial consolidation accounting for 38% of the above increase) and the deployment of local administrative personnel and services in developing subsidiaries, as well as the general expansion of personnel and external service costs in conjunction with the organizational assurance of the Group's current and targeted growth by TBSG AD and TBS EAD.

II.3.4 Operating profit and earnings before interest, taxes, depreciation, and amortization (EBITDA)

Reflecting the similar growth rate and the bigger amount of the increase in gross profit as compared to sales and marketing and general and administrative expenses, consolidated operating profit registered a substantial increase of 34% or BGN 789 thousand, reaching BGN 3,100 thousand at an improving operating profit margin of 4.3% (comparing to 3.9% for the first half of 2023).

Favored additionally by growth in operating expenses stemming from depreciation and amortization (increasing by BGN 400 thousand to BGN 2,382 thousand) and the net foreign exchange gain realized during the period (BGN 51 thousand, representing a positive change by BGN 321 thousand against the net loss from the same in the first half of 2023), consolidated EBITDA registered an even stronger increase by 36% or BGN 1,425 thousand, reaching BGN 5,354 thousand at improved corresponding margin of 7.4% (comparing to 6.6% for the first half of 2023).

II.3.5 Financial income and expenses

Compensating the nearly double increase in interest expenses and other bank charges and fees as a result of the growing average exposures under credit lines for overdraft, working capital and bank guarantees involved in securing its expanding operating activities, the growing rights of use from rental and operating lease contracts as per IFRS 16 and the starting service of the investment loan for the acquisition of 7IT described in section II.4.2.1 with the above-mentioned positive change in the net result from foreign currency operations, the Group maintained a stable level of net finance costs of BGN 570 thousand, showing a slight decrease in the latter by 3% or BGN 18 thousand against the same period of 2023.

II.3.6 Net profit

Accounting for the increase in operating profit at a roughly unchanged level of net finance costs and the slight reduction in the Group's effective tax rate for the period, consolidated net profit registered a faster (as compared to operating profit) growth rate of 53% and an absolute increase of BGN 683 thousand against the first half of 2023, reaching BGN 1,980 thousand with a respective net margin improvement from 2.2% to 2.7%.

II.4 Assets, liabilities and equity

II.4.1 Assets

Reaching a total of BGN 138,253 thousand, the consolidated assets reported as of June 30 2024 registered a moderate increase by BGN 1,770 thousand or 1% from the end of 2023 entirely as a result of the acquisition of 7IT on Match 29 2024, while decreasing by 17% or BGN 22,535 thousand in the Group's scope prior to this acquisition.

Regarding its term structure, the above increase stemmed entirely from non-current assets, which grew by 84% or BGN 22,479 thousand, reaching BGN 49,249 thousand mostly as a result of the recognition of goodwill in the amount of BGN 15,922 thousand and other effects from the acquisition of 7IT. Excluding the latter, non-current assets increased by 15% or BGN 4,059 thousand due mostly to the tangible fixed assets derived from the furniture, improvements and fit-out works on new office areas for TBS EAD and the recognition of right of use assets as per IFRS 16 from the respective rental agreements and other contracts at TBS EAD.

Notwithstanding the significant effects from the consolidation of 7IT as of period end, current assets decreased by 19% or BGN 20,709 thousand, ending the period at BGN 89,004 thousand. Excluding the acquisition of 7IT, current assets in the preceding scope of the Group decreased by 24% or BGN 26,594 thousand, mainly as a result of the decrease in trade receivables and contracts assets from the peak levels attained in the aftermath of exceptionally strong sales at the end of 2023 and the negative net cash flow (decrease in cash and cash equivalents) recorded in the context of the much bigger decrease in trade payables and contract liabilities, the participation with own funds in the preliminary upfront payment on the acquisition of 7IT and other capital expenditures.

II.4.2 Liabilities

While maintaining a level close to December 31 2023 (safe for a minor decrease of BGN 273 thousand after the acquisition of 7IT, similarly to assets, consolidated liabilities (BGN 109,197 thousand) decreased by 21% or BGN 23,103 thousand in the Group's pre-acquisition scope.

In parallel with long-term assets, non-current liabilities exhibited an overall increase by 111% or BGN 14,288 thousand, reaching BGN 27,163 thousand mostly as a result of the long-term loan utilized as of period end under the Investment bank loan agreement with UniCredit Bulbank AD from March 19 2024 described in section II.4.2.1, including a non-current part of the respective obligations (instalments due in more than 12 months from the end of the reporting period) in the amount of BGN 5,902 thousand and conditional long-term obligations for future consideration payments in the amount of BGN 5,192 thousand in accordance with the disclosures made in section V.2.2 of this Report. Excluding the effects of acquiring 7IT, non-current liabilities registered a moderate increase by 16% of BGN 2,093 thousand mainly as a result of growing long-term deferred income from equipment and software support services spanning over 1 year and lease obligations recognized with regard to operating lease and rental contracts as per IFRS 16 parallel to the growth in respective assets noted in section II.4.1. As of June 30 2024, the Group had no long-term obligations from finance leases or other lease contracts representing financial debt.

Notwithstanding the significant effects from the consolidation of 7IT and the short-term part of the long-term loan utilized as of period end under the Investment bank loan agreement with UniCredit Bulbank AD (BGN 1,389 thousand), current liabilities decreased by 15% or BGN 14,561 thousand, ending the period at BGN 82,034 thousand. Excluding the acquisition of 7IT, current liabilities in the preceding scope of the Group decreased by 26% or BGN 25,196 thousand mainly as a result of the decrease in trade receivables and contract liabilities from the peak levels attained in conjunction with the assurance of intense current and forthcoming sales towards the end of 2023, as well as of the seasonally typical decrease of other payables, including obligations towards employees and the state budget and recorded provisions, from the end of the previous fiscal year.

Balancing partly the above decreases within current liabilities and the significant growth in net working capital stemming from their faster change as compared to receivables from clients and suppliers, the Group registered substantial growth in short-term financial debt along the lines of funds utilized under credit lines in Bulgaria, as well as moderate increases of the latter in Slovenia and Croatia, whereby, together with the similar obligations of 7IT, consolidated obligations from short-term borrowings reached BGN 25,845 thousand. Besides the latter, the Group recorded growing lease obligations including mostly liabilities recognized with regard to operating lease and rental contracts as per IFRS 16 and BGN 16 thousand of outstanding obligations from finance lease agreements representing financial debt.

II.4.2.1 Investment loan agreement with UniCredit Bulbank AD

With regard to the acquisition of 7IT, on March 19 2024, Investment bank loan agreement № 00044/730/19.03.2024 was signed between TBSG AD as borrower, TBS EAD as co-debtor and UniCredit Bulbank AD with the purpose of financing the acquisition of 100% of the company shares in the capital of SEDAM IT d.o.o., Croatia, a total limit of EUR 7,000,000 but not more than 70% of the consideration paid, subject to utilization in three tranches in accordance with the conditions of determination and payment of the consideration established in the Share Purchase Agreement, and repayment of each tranche in equal monthly or quarterly instalments, a regular interest rate of 3m. EURIBOR + 2.2% and a global repayment deadline of July 31 2030. Securities stipulated in the agreement include:

- Pledge over 50% of all receivables of the Company for dividends distributed by its subsidiaries, on the condition that the Company will be authorized to dispose without limitations with such receivables and the cash proceeds therefrom unless if and while there is a substantial breach or default declared by the Bank under the agreement;
- Pledge over all current and future receivables of the Company from Sedam IT d.o.o.;
- Pledge over 100% of the company shares in the capital of Sdeam IT d.o.o. and respective dividend receivables;
- Pledge under the Law on financial collateral agreement (LFCA) over all receivables from accounts opened with the lending bank by the Company and TBS EAD.

On April 10 2024, TBSG AD signed Annex № 1 to the agreement, establishing a schedule for the repayment of the amount of EUR 3,568,730 utilized on March 28 2024 with the purpose of financing the provisional upfront payment for the acquisition of 100% of the shares in the capital of 7IT in 65 equal monthly instalments from May 01 2024 to September 01 2029.

With regard to the additional financing of EUR 277,590 utilized to fund the equalization amount paid upon the final determination of the upfront payment for the acquisition, on April 30 2024, TBSG AD signed Annex № 2 to the agreement, whereby the total amount and the amount of the monthly principal installments in the repayment schedule were updated to reflect the amount of credit attained as of April 30 2024 (EUR 3,846,320).

As of June 30 2024, the Company's outstanding payables from the agreement amounted to a total of BGN 7,291 thousand, BGN 1,389 thousand of which represented short-term and BGN 5,902 thousand – long-term financial debt.

II.4.2.2 Financial debt

Summing the above loan obligations (totaling BGN 33,136 thousand) and finance lease liabilities (totaling BGN 16 thousand), consolidated financial debt as of June 30 2024 amounted to BGN 33,152 thousand, showing a nearly eightfold increase by 686% or BGN 28,935 thousand and growing ratios of 24% of total assets and 30% of total liabilities (as compared to just 3% and 4% at the end of 2023).

Accounting for the substantially lower value (BGN 7,584 thousand) and sharp decrease (by BGN 6,507 thousand) in cash and cash equivalents, consolidated net financial debt (the difference between financial debt and cash and cash equivalents) exhibited a faster increase by BGN 35,442 thousand, switching to a positive value (excess of financial debt over cash and cash equivalents) of BGN 25,568 thousand from the still negative value (surplus of cash and cash equivalents over financial debt) observed at the end of 2023.

The lease obligations accounted under the IFRS 16 in force since January 01 2019 with regard to right-of-use assets arising from long-term rental and operating lease contracts do not represent actual credit relationships and should not be considered as a part of financial debt.

II.4.3 Liquidity

As of period end, the Group recorded a decreasing but nonetheless substantial surplus of current assets and assets held for sale over current liabilities in the amount of BGN 6,970 thousand (comparing to BGN 13,118 thousand at the end of 2023).

Accounting for the faster decrease in receivables and contract assets, the Group registered a decrease in the quick liquidity ratio of from 0.9 at the end of 2023 to 0.7 as of June 30 2024, while maintaining current and cash liquidity at 1.1 and 0.1.

II.4.4 Equity

In the absence of dividend distributions out of the Group, consolidated equity registered 8% or BGN 2,043 thousand of growth from the end of 2023 reflecting mostly current profit for the reporting period, reaching BGN 29,056 thousand.

As of period end, the Company maintained unchanged its registered share capital of BGN 12,500 thousand and its Reserve Fund (which reached the maximum requirement of 10% of the registered capital or BGN 1,250 thousand as per art. 246 of the Commercial Code in 2022), with the latter and similar funds in its subsidiaries, included BGN 39 thousand added with the acquisition of 7IT, totaling BGN 1,391 thousand of consolidated legal reserves.

Showing an immaterial decrease by BGN 4 thousand, the rest of the Group's capital reserves and components of equity reached a total value of (-) 13,741 thousand, which continued to include mostly the negative effect of BGN (-) 14,127 thousand accounted according to the rules of reporting business combinations under common control upon the Company's Reorganization from August 14 2019, specialized currency translation reserves and effects from share-based incentive programs and plans.

Together with retained earnings as of December 31 2023, accumulated earnings from the current and previous periods making part of equity as of June 30 2024 reached BGN 28,906 thousand.

Accounting for the faster growth in equity as compared to total assets, the Group registered a slight improvement in its balance sheet capitalization (ratio of equity to total assets) to 21% (comparing to 20% at the end of 2023).

II.5 Cash flows

II.5.1 Cash flow from operating activities

Accounting for the faster decrease in trade and other payables and contract liabilities as compared to trade and receivables and contract assets, as well as parallel growth inventories in conjunction with forthcoming deliveries and projects in the process of implementation, the Group registered a substantial increase in net working capital exceeding by far the profit before tax, depreciation and other reconciliations to net cash flow realized during the period. As a result, the net cash flow from operating activities recorded for the ended six-months period had an increasingly negative value of BGN (-) 16,610 thousand as compared to the amount of BGN (-) 15,597 thousand for the first half of 2023, when the Group registered a similarly negative but less sizeable change in net working capital.

II.5.2 Cash flow from investing activities

Including the upfront payment of EUR 5,495 thousand (BGN 10,747 thousand), as well as growing investments in the fit-out of new office areas, equipment provided to clients under managed service agreements and other assets related to the Group's operating activities, the negative net cash flow from investing activities of BGN (-) 13,495 thousand recorded in the ended six-months period exhibited a more than sixfold increase of BGN (-) 11,272 thousand from the first half of 2023.

II.5.3 Cash flow from financing activities

Funding 70% of the upfront payment on the acquisition of 7IT and a substantial part of the growth in net working capital with an investment loan and cash limits under credit lines, the Group registered net proceeds from borrowings exceeding by far payments on the service of finance lease obligations, interest and other financial expenses. Considering the ensuing net increase in financial debt and the far bigger amount of the cash outflows financed thereby, the net cash flow from financing activities reached an increasingly positive value of BGN 23,598 thousand, representing more triple growth over the corresponding indicator of BGN 7,231 thousand for the first half of 2023.

II.5.4 Net cash flow

Summing the above factors, the Group registered a negative interim net cash flow of BGN (-) 6,507 thousand representing a positive change of BGN 4,082 thousand from the corresponding result of BGN (-) 10,589 thousand for the first half of 2023.

III MAIN RISKS FACED BY THE GROUP

The risks associated with the Company and the Group's activities can be generally divided into systemic (common) and non-systemic (related specifically to their activities and the sector, in which they operate).

III.1 Systemic Risks

Common (systemic) risks are those that relate to all economic entities in the country and are the result of factors, which are external to the Group and cannot be influenced by the companies included in its composition. The main methods for limiting the impact of these risks are the reporting and analysis of current information and the forecasting of future developments by common and specific indicators and their impact on the activities and financial results of the Group.

III.1.1 Political risk

Political risk is the possibility of a sudden change in the country's policy pursuant to a change of the government, the occurrence of internal political instability and adverse changes in European and/or national legislation, as a result of which the economic and investment climate and the overall environment in which local business entities operate may change adversely and investors may suffer losses.

The international political risks for Bulgaria and the Western Balkans include the challenges related to undertaken commitments to implement structural reforms, improve social stability and the standard of living, reduce inefficient expenses and follow common policies in their capacity of candidate members or members of the EU, as well as to the threats of terrorist attacks in Europe, the acute destabilization of countries in the Middle East, military interventions and conflicts in the region of the former Soviet Union, the refugee waves driven by these factors and the potential instability of other key countries near the Balkans.

Other factors relevant to this risk include potential legislative changes, and particularly those affecting the economic and investment climate in the region.

III.1.2 Macroeconomic risk

The general macroeconomic risk is the probability of various economic factors and trends, including, but not limited to recession, trade barriers, currency changes, inflation, deflation and other factors, affecting negatively demand and purchasing power in the countries where Group companies carry out their activities, as well as in the countries where cross-border counterparties thereof operate.

In spite of slowing down in 2023 and during the reporting period, inflation remains substantial and most European economies remained exposed to the risks of growth slowdown or recession of the economies in the context of implemented anti-inflationary measures, which may lead to limitations in private sector spending and remain insufficiently compensated with countercyclical measures by national and supranational authorities.

III.1.3 Currency risk

The systemic currency risk is the probability of changes in the currency regimes or exchange rates of foreign to the local currencies in the countries where Group companies operate affecting adversely the costs, profitability, international competitiveness and general stability of economic agents and the local and regional economy as a whole.

Presently, Bulgaria maintains a currency board system, based on a fixed Euro / Lev exchange rate, and a course of accession to the Eurozone. The Euro has also been adopted as a benchmark for managed floating, fixing base or local currency in Croatia, Bosnia and

Herzegovina, Montenegro and Slovenia. The above factors limit substantially the systemic currency risk relevant to the Group. However, the countries in which it operates, as well as European economies as a whole remain exposed to the effects of the exchange rate dynamics of other leading global currencies, including mostly the US dollar.

III.1.4 Interest risk

The Systemic interest risk relates to possible changes in the interest rate levels, established by the financial institutions and markets of the countries where Group companies operate, the world's leading economies the EU, affecting adversely the accessibility of financing, funding costs, investment returns and economic growth.

In the context of the anti-inflationary measures applied by the leading global economies and the EU, 2023 was marked by a general trend of significant increases in all main local and international interest indexes. In spite of the deceleration of their growth towards the end of 2023 and during the reporting period, the attained high levels thereof and the possibility of further raises in case of a new wave of accelerated inflation continue to portend increased levels of systemic interest risk.

III.1.5 Credit risk

Systemic credit risk is the probability lowering the credit ratings of the countries in which Group companies or key counterparties thereof operate, or other countries important to their economies, affecting adversely the accessibility and cost of debt financing, the stability and attractiveness of their economies. This risk is determined and measured by specialized international credit agencies.

III.1.6 Risk of adverse changes in tax legislation and practices

Changes in tax legislation towards increasing tax rates, the adoption of new taxes or adverse changes in double tax treaties may lead to increased or unforeseen costs of the economic agents.

Similar risks may also arise from unforeseen or controversial tax practices in Bulgaria and/or other countries, in which Group companies operate.

III.1.7 Risks related to imperfections of the legal system

Although since 2007 Bulgaria has introduced a number of significant legal and constitutional reforms and most of its legislation has been harmonized with EU law, the country's legal system is still in the process of reformation. The above concern is all the more relevant to the countries of the Western Balkans, which are yet to join the EU.

Judiciary and administrative practices remain problematic and local courts are often inefficient in resolving property disputes, violations of laws and contracts, etc. Consequently, identified risks of legal infrastructure deficiencies may result in uncertainties arising from corporate conduct, the supervision thereof and other matters.

III.2 Risks specific to the Group and the sector in which it operates

III.2.1 Risks relative to the business strategy and growth

III.2.1.1 Inappropriate business strategy

The choice of an inappropriate development strategy, as well as a failure to adapt it in a timely manner to the changing conditions of the environment can lead to losses and missed benefits for the Group. The management of strategic risk through the constant supervision and periodic tracking of fluctuations in the market environment and key performance indicators and the interaction among all levels in the organization in order to identify potential problems and implement the appropriate measures in a timely manner are of essential importance. Although this process has been recognized as of high priority and importance, it is possible that the Group's management and employees prove limited in the implementation of the above practices due to a lack of experience, timely information or insufficiency of human resources.

III.2.1.2 Insufficient management capacity and increased growth management costs

Notwithstanding the availability of managerial staff with significant experience and competence sufficient to manage the Group in its current business size and scale, targeted expansion can require additional management. It is part of the Group's policy to cultivate such staff by promoting employees with sufficient experience and highly esteemed aptitude to grow in hierarchy. However, the number of suitable employees is limited and some of them may not meet the expectations on a managerial level. In turn, recruiting management staff with proven track record externally, especially on developed markets, can be difficult and may entail high costs with a potentially negative impact on profitability.

III.2.1.3 Insufficient capacity and increased costs for the operational assurance of growth

The Group's expansion on both existing and new markets is highly dependent on the recruitment and successful integration of additional staff, including centralized and local teams of marketing and sales specialists and resource hubs for project management, engineering and technical personnel.

Identifying and recruiting appropriate marketing and sales professionals with the aim to attract new customers can be difficult, slow, or involve additional costs, which may slow growth or reduce sales profitability. Considering the overall growth trend and increased demand for engineering, technical and project staff in the ICT sector on the Group's markets and globally, the expansion of existing and the development of new resource centers may also be slowed down or may require higher costs. The lack of experience at group companies on new markets and segments, the shortage and increased price competition for the recruitment of personnel, can also result in high staff turnover due to recruitment of unsuitable specialists or solicitation by competitors that offer levels of remuneration, which the Group cannot afford to profitability match.

All of the above factors can lead to both missed benefits due to the impossibility to win and secure the implementation of new projects, services and customers, and the erosion or loss of the Group's competitive advantages based on the quality of service, number and cost of human resources.

III.2.1.4 Insufficient access and increased cost of external resources and subcontractors

As far as external experts and subcontractors are also subject to increased demand on the ICT market, the risks outlined above also apply to the recruitment of such on a temporary basis to complement the Group's internal capacity.

III.2.1.5 Risks stemming from potential acquisitions

While aimed at accelerating the development and growth of the Group on existing and new markets and/or complementing its marketing and operational capacity with valuable technological specializations, client and vendor partnerships and human resources and notwithstanding the Company’s endeavor to negotiate such transactions in accordance with best practices, basing their valuation with the realistic potential I risk profile of acquired companies and their past, present and future financial results, retaining key personnel and including in the respective agreements protective mechanisms, undertakings and warranties by the the seller to the maximum achievable extent, the acquisition of shares in other companies bears risks, which could delay or limit the achievement of desired financial and business results and/or have a negative impact on the Company. Among these, the integration of acquired companies in the operational structure of the Group may be delayed or prove to be incomplete, the established control mechanisms – insufficient, the planned preservation and/or expansion of the personnel, client base and sales as a whole may not realize in the expected timeline, size, scope and range of revenues, costs and profitability, planned synergies – realized only in part or not achieved, and the established pricing mechanisms and warranties of the seller – insufficient to compensate such and other delays, underperformance or negative effects. As a result of the above and other factors, the actual return on investment may deviate substantially from the expectations and goals of the management, proving lower or even negative over time.

III.2.2 Risks relative to human resources and managerial staff

Besides their importance to the Group’s growth, management staff and human resources are also essential to the assurance of its ongoing operations, and the Group is therefore exposed to various risks relative to the retention, increased turnover and costs of such personnel.

III.2.2.1 Loss, deficit and increased costs of management staff and key personnel

The Group's operational management and business development depend to a large extent on the contribution of a limited number of individuals managing key subsidiaries and the Group as a whole, playing key roles in the administration, sales and operations and/or possessing key certifications, experience and other knowledge essential to these functions that could be difficult to replace with similarly qualified personnel. A possible withdrawal of those persons from the relevant structures or their inability to fulfil their obligations over a long period of time could have adverse effects on the operating performance depending on the time of their absence or the time needed for their substitution and the training of their substitutes, their adequate familiarization with the organization and the specifics of the business and their full functional deployment. Possible retention measures could result in the increase of respective costs relative to their motivation through raises in base salaries, bonuses and benefits at the expense of the Group.

III.2.2.2 Loss, deficit and increased costs of implementation staff

Considering the dynamic development and high demand for human resources in the ICT sector, the Group is exposed to the risk of high turnover and costs of retaining or replacing engineering and technical staff, marketing and sales specialists, and other personnel specialized in this field. A possible withdrawal of those persons from the relevant structures or their inability to fulfil their obligations over a long period of time could have adverse effects on the operating performance contingent on the time of their absence or the time needed for their substitution and the training of their substitutes, their adequate familiarization with the organization and the specifics of the business and their full functional deployment. Any possible retention measures could result in the increase of costs relative to their motivation through raises in base salaries, bonuses and benefits at the expense of the Group.

III.2.3 Risks relative to the market environment and competition

III.2.3.1 Slowdown or unfavourable trends in demand

Notwithstanding the observed positive development and positive growth forecasts by key expert organizations in the industry for key Group markets and the ICT market as a whole, there is no guarantee that future market developments will reaffirm these expectations and will continue to be positive or that the corresponding growth in demand will not slow down significantly compared to the expected growth rates for certain periods. The demand for ICT is also dependent on trends and circumstances specific to the various business sectors and customers that determine their willingness and ability to purchase the Group’s products and services, which may differ in one direction or another from the overall market trend. This may include the possibility that the Group's target customers in one or more markets may not demonstrate interest in the products and services being offered as they were expected to, or their adoption might take much longer than expected. The aforementioned factors can lead to both a slowdown in sales growth and a deterioration in operating performance due to lower prices and gross profitability, as well as delayed return on operating and investment expenditures on business development.

III.2.3.2 Regulatory changes unfavourable to market demand

The Group generates a substantial part of its revenue from regulated or government policy-influenced sectors and market niches such as telecommunications, banking, distribution companies, national security, healthcare, etc. In that sense, demand for the Group's products and services, respectively its revenue and operating results, can be significantly influenced by possible adverse changes in local and supranational regulations and policies, including possible reduction or redirection to other areas of the EU and other structural funds which its current and target customers are eligible to utilize.

III.2.3.3 Intense competition

The Group operates in a sector characterized by intense competition from both local and international companies. Local competitors have an established market presence in key segments, which limits the possibilities to enter or expand the Group’s operations in these segments and may serve as a basis for an expansion of the position of those competitors at the expense of the Group. Large international companies have widely recognized trademarks, a leading role in the implementation of innovative solutions and widely diversified customer base and market presence, as well as large-scale organizational and financial capacity that provides them with greater possibilities to exercise and withstand competitive pressures. A possible increase in competitive pressure on the part of existing or newly emerging market players in the current segments and markets, as well as any possible adverse reaction against the entry of the Group into new segments and markets, could result in decline in the performance and delays or failure of the planned expansion of operations.

III.2.3.4 Unfair competition

As a part of competitive pressure from other market players, the Group may be exposed to various forms of unfair competition that may impair the Group's performance and limit its expansion opportunities. Such actions may include soliciting key personnel with the aim to reduce its technical and organizational capacity, implying a negative image before certain customers or on the market as a whole, covert lobbying by and for the benefit of competitors, biased use of legal and contractual mechanisms with the aim to impede or delay the execution of public procurement and other activities, making competitive bids based on unprofitable prices or a hidden decrease in the utility offered, which may result in choices on the part of the Group’s counterparties that deviate from the actual cost-benefit ratio between the offerings of the Group and its competitors.

III.2.4 Risks relative to public procurement

III.2.4.1 Delayed tendering and implementation

The implementation of projects in the public sector depends on their timely definition, the approval of budget or program financing, announcement and tendering, contracting and acceptance of performed works by the relevant governmental entities or local and central government. The failed or late implementation of any of these steps may result in discarded or delayed revenues and a corresponding deterioration in the Group’s current performance or slowdown in its growth.

Factors that can lead to a delay at the aforementioned key stages include current and future changes in managerial and expert staff in the context of local and/or central elections, the appointment of temporary authorities and other factors, which may result in the postponement of decisions and executive action at the contracting organizations.

Delays may also arise as a result of appeals filed by competitors against tendering procedures announced or the results thereof. Regardless of their merits, considering the applicable statutory hearing terms, appeals result in more or less significant delays in tenders and the award of contracts for their implementation.

III.2.4.2 Competition for public procurement

Due to the large volume and attractiveness of the public ICT market, public procurement is subject to relatively more intensive and unfair competition compared to sales to the private sector. Commonly employed instruments of unfair competition include the unscrupulous use of legal means to appeal tendering procedures or the results thereof, with competitors aiming to procure more time for their own preparation or to affect negatively the Group’s financial results by delaying the project’s implementation and the realization of respective revenues and profits.

III.2.5 Concentration risks

III.2.5.1 Adverse changes in key client relationships

By virtue of its specialization in high-grade technological solutions and professional services targeted mostly at large and medium organizations and projects, the Group is inherently exposed to a concentration risk with regard to key clients and client groups. Such counterparties with substantial portions of the Group's revenues for the past three financial years and/or with potential significance to future development include telecommunication operators, public organizations, banks, multinational clients and other private enterprises. In spite of the Group's progress towards growing revenue diversification, the potential loss, a drastic decrease in sales or a deterioration in the terms of cooperation with such clients could have an adverse effect on the volume and results from operations in the short term, as well as a potentially negative reputational effect on the Group in perspective.

III.2.5.2 Adverse changes in relationships with key technological partners

Accounting for the significant importance of innovative and large-scale technologies offered by leading global vendors to the offered products and services, the Group is exposed to a concentration risk with regard to its key technological partners. Such counterparties accounting for substantial portions of the Group's purchases for the past three financial years include several leading vendors in the fields of networking, data center and office productivity solutions. Although the Group's vendor policy is flexible and open to various technological partners, a potential termination or a deterioration in key terms of such partnerships, such as requirements for the maintenance of technological specializations, levels of discounts, terms of payment, etc., could have an adverse effect on the cost and volume of operations.

III.2.6 Risks relative to changes in technology and technological choices

III.2.6.1 Time and cost of adpating to new technologies

The ICT sector is characterized by a fast pace of technological innovation, reducing the life cycle of products and requiring a constant update of the Group's technological specializations in accordance with trends in market demand and opportunities for generating revenue from the introduction of new solutions and services. Despite the Group's consistent practices in this respect and its open approach to establishing new and extending the scope of existing technological partnerships, in some cases they may require additional time or costs for researching and establishing relationships with relevant suppliers.

III.2.6.2 Loss of clients due to their transition to alternative technologies

Notwithstanding the wide range of technologies and technological partners offered by the Group and its open approach and extensive experience in establishing new partnerships with equipment and software vendors, customers may still opt to change current technologies and vendors with others with whom the Group does not have and cannot establish partnerships providing the respective competences and attractive delivery terms. Due to the presence of competitors with better positioning in respect of a technological partner and better delivery terms for their products, it is possible for the Group to not be preferred as a supplier by the client in spite of having an established partnership with the same vendor. Such circumstances could also lead to substantial decreases in revenues and operating results.

III.2.6.3 Delayed adoption of new technologies by the clients

The main geographical markets, in which the Group operates, are lagging behind in the adoption of many innovative ICT products and services. In spite of the market segmentation applied by the Group in accordance with the clients' technological maturity, it is possible for the target client groups to also react more conservatively than expected, delaying significantly the implementation of the Group's strategy and growth targets.

III.2.6.4 Delayed or unsuccessful positioning of propriatary products and services

To tap identified market opportunities in given market segments, the Group may continue to invest in the development of proprietary complex solutions and services adapted to the needs and specifics of the respective markets and client groups. Despite this adaptation, there is a risk that the new products and services will not meet the actual requirements or that they will not be adopted fast enough or at all by the Group's current and targeted clients, which could lead to a delayed, limited or negative return on the undertaken investments.

III.2.7 Risks relative to long-term contracts

III.2.7.1 Cost of commitments for regular service and support

Many contracts signed by the Group include commitments for warranty and post-warranty servicing and maintenance of hardware, software and complex systems and infrastructures, or the provision of managed and other services against fixed one-off or subscription fees. The costs of fulfilling these commitments may exceed the amount of revenue without the Group being able to compensate additional costs at the expense of the customer or the respective primary suppliers and technological partners, having an accordingly negative impact on results from operations.

III.2.7.2 Early termination

Medium and long-term contracts for multiple deliveries or regular service in the form of maintenance, managed and other services can be terminated unilaterally and early at the client's initiative. While some of these contracts include provisions limiting the above risk and respective losses for the Group, such as penalties, buyout commitments etc., they can prove insufficient to cover missed benefits or the incurred additional costs. The earlier termination of such contracts could lead to a decrease in the Group's recurring revenues, which may not be compensated with new sources of revenue and may lead to an overall decrease in sales and results from operations.

III.2.7.3 Specific risks relative to the provision of equipment as a service

Depending on changes in the IT policies of respective clients or other factors, the long-term contracts signed by the Group for managed services including the provision of equipment-as-a-service can be terminated unilaterally and prior to their expiry. Despite the provisions enforcing preliminary notifications and compensations for expenses incurred up to that point, a potential termination could be a factor for a decrease in the Group's recurring revenues and overall sales.

Under certain circumstances of termination, some contracts provide a possibility for respectively leased equipment to remain the property of the Group instead of being bought out by the client. This could lead to additional costs for dismantling, transportation, etc., as well as delayed or non-materializing resale of the equipment to other clients.

Some contracts provide the option to expand their scope at the client's initiative through the delivery and integration of additional equipment provided as a service based on prices or conditions identical to or subject to limited indexation compared to the initial ones. If, in the meantime, the market price of the equipment has increased, and/or there has been a significant rise in the expenses for the provision of respective services, this could lead to an uncompensated increase in the Group's expenses and an overall decrease in the profitability of similar operations.

III.2.8 Financial risks

III.2.8.1 Currency risk

The Group operates on different markets and in currencies different from its functional currency and is accordingly exposed to transaction and translation currency risks. The main source of transaction-driven currency risk is the purchase of equipment from global technological partners denominated in US dollars and financed with credit limits in the same currency. Despite the presence of mechanisms of currency indexation in some contracts and the practice of voluntary forward hedging of larger purchases at the discretion of respective Group companies, such transactions continue to generate net results (including losses) from foreign currency operations Group subsidiaries. Accounting for the fixed exchange rates of the Bulgarian Lev and the Bosnia and Herzegovina Convertible Mark to the Euro and the adoption of the latter as the national currency in Croatia, Slovenia and Montenegro, the Group is exposed to a translation risk relative mainly to the floating Serbian Dinar, the Macedonian Denar, the Albanian Lek, the Romanian Lei and the US dollar.

III.2.8.2 Interest rate risk

The Group is exposed to the risk of increase in market interest rates mainly with regard to the use of overdraft limits, revolving credit lines and investment loans based on floating interest indexes, including but not limited to EURIBOR, USD LIBOR / SOFR, reference and short-term interest rates (RIR, SIR) and average deposit indexes (ADI) of lending banks based on the variable yields on retail / household and/or non-financial enterprise deposits in Bulgaria, as well as of finance leases based on ADI and EURIBOR.

Due to the dynamic nature of overdraft and credit line exposures, their hedging with the financial instruments usually offered for that purpose, which are based predominantly or entirely on predetermined amounts over time, can involve significant deviations between the actual and hedged principals and expenses. Therefore, the Group does not resort to their hedging with financial instruments and assumes the risk of fluctuations in the applicable floating interest indexes, managing it mostly by the monitoring and of market trends and the negotiation and/or renegotiation of the best possible interest terms. As of the date of this Report, this risk exhibits a mixed development, with market interest rates reflecting substantially the tendencies described in section III.1.4, while the interest rates of lending banks applicable to drawdowns in BGN remain in the range of 0.0-0.1%.

Considering the slowdown in inflation and economic growth and the reversal in interest rate growth starting from the second quarter of 2024 in the EU, as of the date of this Report, the Company's management deems the interest risk of investment bank loan exposures based on 3-month EURIBOR to be relatively limited and has not planned on the use of financial instruments for their hedging in the immediate term. Notwithstanding, it remains committed to the continuous monitoring of economic and credit market trends, maintaining its readiness for the potential hedging of exposures from tranches already utilized in their definitive amounts in case of an expected increase in this risk.

Interest risk can also manifest through increases in the contractual markups over the floating interest indexes making part of the total interest rates on utilized credit facilities subject to regular renewal, such as most of the overdraft limits and revolving credit lines used by the Group, at the initiative of the financing banks. Notwithstanding the efforts of the Company and relevant subsidiaries to negotiate and maintain most attractive terms with current creditors and the procurement of competitive offers from other banks, such increases are often inevitable within a certain period of time, in case of migration between incumbent and creditors, or as a whole, in case they reflect prevailing trends on the credit market. As of the date of this Report, this risk also exhibits a mixed development, with interest margins on some contracts and limits increasing substantially, while others remain unchanged or minimally different from previous periods.

III.2.8.3 Liquidity risk

The Group's cash flows can undergo significant momentary fluctuations as a result of various factors such as peaks in net working capital, increased investment activity, payment of dividends, etc., which may result in a given Group company's cash and cash equivalents being insufficient to meet its due liabilities. In spite of the signed financing contracts providing significant limits for funding working capital and the financing of a significant portion of investments with finance lease contracts, there is a risk that these limits may be insufficient in certain moments or periods. Such deficits may result in one or more Group companies' temporary inability to service its obligations to third parties in a timely manner with various adverse effects on its reputation and financial position.

III.2.8.4 Insufficient financial capacity for the implementation of big projects

Besides their impact on the current liquidity of respective Group companies, possible instances of uncovered cash deficits may also lead to the impossibility of committing the working capital need to start new projects or implement ongoing ones, resulting in delayed revenues, penalties for delayed implementation and respective damage to the Group's reputation. In the event that it is not possible to prove sufficient financial resources in front of potential clients or in accordance with the requirements of public and private tenders for large projects, the respective company may not be able to negotiate sufficient additional financing in due time and miss the opportunities to win the respective projects and the benefits of their implementation.

III.2.8.5 Credit risk

Although the Group's key accounts are well-established and solvent companies and institutions with proven payment track records, the Group remains generally exposed to the risk of significant delays or non-payment of receivables due to a variety of factors relative to internal processes, financial condition and current trends in the cash flows of those and other customers. Significant past-due receivables may affect the cash flows and immediate liquidity of one or more Group companies and its ability to service its obligations to third parties in due course with a various adverse effects on its reputation and financial condition.

III.2.8.6 Asset impairment risk

Under certain circumstances (such as impairment and write-off of receivables, intangible assets, investment property, inventories, held-for-sale assets, etc.), it is possible for the Group to record substantial expenses and reductions in the book value of its assets.

III.2.9 Operational risks

III.2.9.1 Deviations in processes and quality of service

Group companies are exposed to the risk of losses or unforeseen costs that may arise due to incorrect or inoperative internal processes, human errors, external circumstances, administrative or accounting errors, business interruptions, fraud, unauthorized transactions and asset damages. Any failure of the risk management system to establish or correct an operational risk may have a substantial adverse effect on the Group's reputation and operating results.

III.2.9.2 Inaptitude or malfunction of specific IT equipment and systems

In carrying out their principal activities, Group companies use specific IT equipment and systems, any potential malfunction, misuse or inaptitude of which would have a substantial impact on their ability to fulfil undertaken commitments to counterparties or which may result in unforeseen technical, legal and other costs affecting negatively the Group's reputation and operating results.

III.2.9.3 Assuring compliance with standards and norms

Certain Group require their suppliers to ascertain the compliance of their competence and rules for the organization of processes and activities with various international quality management standards, procedures for the handling of confidential information, etc. Notwithstanding the certification of TBS EAD under a number of such standards and norms, the imposition of similar requirements on other Group companies not having the corresponding certifications, or a change in the current requirements and the inability of the Group to respond thereto on a short notice could have a negative impact on the Group's revenue and operating results.

III.2.9.4 Leakage of personal and sensitive information of clients and employees

In the process of carrying out its activities, the Group stores and processes personal and sensitive data of its employees, customers and third parties. Any loss or unauthorized external and internal access and misuse of such data could have various negative consequences to the competitiveness, reputation and performance of the Group, including judicial or out-of-court proceedings and proceedings against respective subsidiaries and substantial pecuniary sanctions by the relevant authorities.

III.2.10 Other risks

III.2.10.1 Litigation risk

Group companies are generally exposed to the risk of litigation, including collective claims filed against them by clients, employees, shareholders, etc. by the initiation of civil actions, actions by competent authorities, administrative, enforcement and other types of judicial and extrajudicial proceedings. Some of these proceedings may be accompanied by restrictive and enforcement measures against the Group's assets and activities that could limit its ability to carry out a part or all of its activities for an indefinite period of time. Plaintiffs in similar cases against the Group may seek refund of large or undetermined amounts or other damages that could significantly deteriorate the Group's financial position. The defense costs in future court cases can be significant. Public information on such events or their negative business impact may impair the reputation of respective subsidiaries and the Group as a whole, regardless of whether or not the underlying claims and negative rulings are justified. The potential financial and other consequences of such proceedings may remain unknown for an extensive period of time.

III.2.10.2 Risks relative transactions with related parties

In the course of their business, Group companies carry out transactions and make commitments to each other as well as to related parties outside its membership. In spite of its endeavor to follow good practices in the implementation of such deals and the commitment to comply with the applicable provisions of the POSA and other applicable regulations, it is possible because of ignorance, employee negligence, etc. that one or more such transactions may be concluded under conditions deviating substantially from market terms, which could have an adverse effect on the results of the Group's operations and its financial position.

III.2.10.3 Cyber attacks

In addition to unauthorized access to data of the Group data and its counterparties, possible attacks against the Group and its counterparties could be targeted at or result in a malfunction or inability to use information and communication systems, including specialized IT systems for the provision of services. Although the Group specializes in information security and has advanced competences in preventing, limiting, monitoring and recovering systems and data in the aftermath of such attacks, the latter may take some time, during which the effects of these attacks may affect adversely operating results and compromise the Group's reputation.

III.2.10.4 Force majeure

Like all economic agents, the Group is exposed to the general risk of natural disasters, hostilities, terrorism, political, public and other acts and events beyond its control and not subject to insurance, which could have a substantial adverse effect on the results of its activities and prospects in one or more territorial and other business domains.

III.3 Military conflict between Russia and the Ukraine

Consequent to the military conflict between Russia and Ukraine, which escalated in February 2022, increased the world remains exposed to increased geopolitical tension and various economic repercussions, including restrictions or halt on the activities of many Ukrainian and Russian companies as a result of the military action and sanctions against Russia and decelerating but still significant inflation as a result of the growing prices of energy and key agricultural goods, affecting directly or indirectly the activities of many companies and industries in the European Union and the USA.

The Issuer and its subsidiaries have no direct exposure to related parties, clients and/or suppliers from the countries involved in the conflict. Therefore, the Group is not deemed to be directly exposed to risks arising from the above events.

Considering the uncertainty of the inherently dynamic development of the conflict and the complex nature of its direct and indirect repercussions, the Company's management is of the opinion that it lacks the premises and conditions to a reliable quantitative assessment of the potential indirect impact of respective changes in the micro- and macroeconomic environment on the Group's financial position and results. Nevertheless, it remains committed to the ongoing monitoring of the situation and analysis of the possible future consequences of the conflict results, with a view to the timely identification of potential and actual negative effects and the undertaking of all possible measures towards limiting their effect.

IV DISCLOSURE OF INTERNAL INFORMATION, AS REQUIRED BY ART. 12, PAR. (1), ITEM 2, PURSUANT TO ART. 13, PAR. (1) OF ORDINANCE 2 OF THE FSC

The Company publishes insider information as per art. 7 от Regulation (EC) № 596/2014 regarding the circumstances having occurred in the first six months of 2022 on its web site: https://www.tbs.tech/investors/.

All of the information has also been disclosed to the public via the selected media service available on the web address: http://www.x3news.com/.

V ADDITIONAL INFORMATION AS PER ART. 12, PAR. (1), ITEM 4, PURSUANT TO ART. 13, PAR. (1) OF ORDINANCE 2 OF THE FSC

V.1 Changes in the accounting policy during the reporting period, reasons therefor and effects thereof on the Issuer's equity and financial results

No changes were made to the accounting policies of the Issuer and the Group during the ended six months period.

V.2 Changes in the Issuer's group of companies under the terms of the Accountancy act

V.2.1 Voluntary liquidation of TBS Montenegro

In March 2024, TBSG AD adopted a resolution on the voluntary liquidation of TBS Montenegro and filed the applicable documentation for its entry into the Central Register of economic entities of the Republic of Montenegro. The actual entry of the subsidiary's deletion from the register was announced by the Company on April 24 2024.

As of June 30 2024, the Company has written off in full its investment in TBS Montenegro in the amount of BGN 123 thousand. The proceeds from the liquidation, which were paid back to TBSG AD as a positive difference after the collection and settlement of all receivables and payables of TBS Montenegro, amounted to BGN 95 thousand.

V.2.2 Acquisition of 7IT

On February 13 2024, TBSG AD signed a Share Purchase Agreement for the acquisition of 100% of the company shares of limited liability company SEDAM IT d.o.o. ("7IT"), registered under the law of the Republic of Croatia with a seat and management address in Zagreb, Koledovčina 2 under OIB: 95661305069 – a provider of IT, communication and software solutions and services with a long-standing presence on the Croatian IT market. The counterparty (seller) in the purchase and sale of the company's shares is an unrelated/non-interested third party. As of the date of signing the Agreement, the acquisition was subjected to the realization of pre-agreed conditions precedent, which had to be fulfilled within a mutually agreed period of time, and was yet to be closed.

On March 29 2024, TBSG AD acquired 100% of the shares in the capital of 7IT against a provisional upfront payment to a special (escrow) accounts in the amount of EUR 5,098,186, established on the basis of interim financial statements SEDAM IT, d.o.o. as of February 29 2024, and provided guarantees securing subsequent consideration payments. The effected payment was financed with a combination of own funds and long-term debt under the Investment bank loan agreement with Unicredit Bulbank AD from March 19 2024 in the amount of EUR 3,568,730.

Pursuant to the preparation of financial statements of 7IT as of the date of acquisition of 100% of the shares in its capital by TBSG AD (March 29 2024), the parties established:

- a final amount of the upfront payment due to the seller under the transaction of EUR 5,494,743, according to which TBSG AD was to transfer in addition to the payment of 5,098,186, which had been calculated on the basis of 7IT's interim statements as of February 29 2024, an equalization amount of EUR 396,557;
- a total equity value of the company as of the date of closing in the amount of EUR 8,848,194, taking into account that, besides the above upfront payment and in accordance with the Share purchase agreement:
    - EUR 698,994 of this amount was undertaken in the form of long-term obligations of the Company towards 7IT;
    - 2,654,458 of this amount are subject to conditional deferred payments, the final amount of which will be established in 2025 and 2026 depending on the financial results of 7IT for 2024 and 2025, and which represent the maximum total amount of these payments.

Pursuant to closing the acquisition, 7IT was included in the consolidated balance sheet of the Company effective from March 29 2024 and in the consolidated income statement and cash flow statement of the Company effective from April 01 2024.

Considering the circumstances pointed out in section I.4, notwithstanding the fact of a signed Share purchase agreement for 100% of the shares in the capital of Telelink Albania, as of June 30 2024, the respective change in the Issuer's group of companies was yet to occur.

V.3 Results from organizational changes within the Issuer, such as reorganization, disposal of subsidiaries, contributions in kind, leased-out assets, long-term investments and discontinued operations

During the ended six months period, the Issuer did not participate in any reorganization, make any contributions in kind to the capital of subsidiaries and other companies, leased out any of its assets or discontinued, in part or in full, any of its activities.

The results from the voluntary liquidation of TBS Montenegro are described in section V.2.1 of this Report.

The investments in shares in the capital of other companies (7IT) made during the period are described in section V.2.2 of this Report. During the ended six months period, the Issuer made no material investments in tangible or intangible non-current assets.

Taking into account that the consideration established in the Share purchase agreement for 100% of the shares in the capital of Telelink Albania referred to in section I.4 was equal to the balance sheet value of the Issuer's investment in the latter and was subject to subsequent payment, as well as that the entry of the transfer of company's shares was made after the end of the reporting period, as of June 30 2024, the above disposal of a subsidiary had no impact on the profit or loss, financial position and/or cash flows of the Issuer.

Except for the voluntary liquidation of TBS Montenegro, none of the Group's subsidiaries participated in any reorganization, made any disposals of shares in subsidiaries or contributions in kind to the capital of subsidiaries and other companies, leased out any of its assets or discontinued, in part or in full, any of its activities during the ended six months period.

During the period, Comutel continued to lease its investment property, consisting of an office building, to a third party outside the Group. Revenue realized from the latter contract for the period amounted to BGN 15 thousand.

Material investments of Group subsidiaries in non-current tangible and intangible assets are referred to in section II of this Report.

V.4 Opinion on the feasibility of published forecasts for the current financial year, taking into account results from the first six months and factors and circumstances relevant to the achievement of projected results

On Април 24 2024, the Issuer published a "Financial Overview – Preliminary Results 2023 and Outlook 2024-2028", featuring a budget of the consolidated financial results for the full financial year 2024 shown in column "Budget 2024" of the table below ("Budget 2024").

The ratios of achieved consolidated results as of June 30 2024 towards Budget 2024 are shown in section "Results as of Jun 30 2024" of the same table.

Financials	Budget 2024		Results as of Jun 30, 2024		
	EUR'T	BGN'T	EUR'T	BGN'T	% of Budget 2024
Net sales revenue	**125.5**	**245,457**	**37.2**	**72,675**	**30%**
Gross Profit	**25.0**	**48,896**	**9.7**	**18,974**	**39%**
Sales and Marketing Expenses	-11.5	-22,492	-4.7	-9,249	41%
General and Administrative Expenses	-7.5	-14,669	-3.5	-6,933	47%
EBITDA	**8.8**	**17,211**	**2.7**	**5,354**	**31%**
Operating Profit	**6.5**	**12,713**	**1.6**	**3,100**	**24%**
Net Profit	**5.0**	**9,779**	**1.0**	**1,980**	**20%**
Revenue by Invoicing Country/Region:					
Bulgaria	82.9	162,138	24.7	48,295	30%
Serbia, Montenegro, Bosnia and Herzgovina and Slovenia	14.4	28,164	6.9	13,450	48%
Croatia	20.2	39,508	3.1	6,110	15%
South-Western Balkans	4.3	8,410	1.3	2,558	30%
Romania	1.6	3,129	0.4	850	27%
Germany, UK and USA	2.1	4,107	0.7	1,412	34%
Revenue by Product Category:					
IT Infrastructure	98.0	191,671	26.7	52,252	27%
Digital Transformation	4.8	9,388	1.0	1,961	21%
Cybersecurity	8.4	16,429	1.9	3,705	23%
End User Hardware and Software	11.8	23,079	7.1	13,842	60%
Other	2.5	4,890	0.5	915	19%

As evidenced by the above calculations, consolidated total revenue and gross profit amounted to 30% and 39% of Budget 2024 at a gross margin exceeding by 6.3% the one budgeted for the full year, while, due to the higher such ratios on the levels of sales and marketing and general and administrative expenses, consolidated EBITDA, operating and net profit for the first half of the year amounted to lower ratios of 31%, 24% и 20% of the corresponding budgeted results for the full 2024.

In geographical perspective, as of June 30 2024, the Group realized nearly half of the combined sales budgeted for the full year from Serbia, Montenegro, Bosnia and Herzegovina and Slovenia, approximately one third of those targeted in Bulgaria, region South-Western Balkans and developing activities in Germany, UK and the USA and more than a quarter of those planned in Romania, but only 15% of those forecasted in Croatia.

In product terms, the sales attained in the ended six months period amounted to more than half of their budget for the full 2024 in the End User Hardware and Software group, while the comparable ratios for the other categories fell mainly in the range of 20% to 30% of forecasted sales for the year.

Considering the typical concentration of the Group’s revenues, operating and net profit and EBITDA in the second half of the year and the substantially higher gross profitability observed as of June 30 2024, the Company’s management continues to regard the forecasted consolidated financial results for the year as achievable as a whole, regardless of possible deviations in revenues by geographies and product categories, and will nevertheless continue to monitor and analyze regularly the relevant factors and circumstances, maintaining its readiness to adopt and disclose a potential update, if and when such revision may be deemed justified by the established degree of probability and significance of possible deviations.

V.5 Persons owning directly and/or indirectly at least 5% of the votes in the General Meeting as of the end of the first six months of the year and changes in the number of votes held during the reporting period

As of June 30 2024, the persons know by the Company to own directly or indirectly at least 5% of the rights to vote in the GMS net of the 562 own shares held by the Company, i.e. 12,499,438, were:

- Mr. Lubomir Minchev, holding directly 6,263,624 shares with a nominal value of BGN 1 each, representing 50.109% of the Company's total capital and 50.111% of the rights to vote in the GMS;
- SEET INVESTMENT HOLDINGS SARL (Luxembourg), holding directly 2,872,380 shares with a nominal value of BGN 1 each, representing 22.979% of the Company's total capital and and 22.980% of the rights to vote in the GMS;
- Utilico Emerging Markets Trust PLC (UK), holding directly 1,733,837 shares with a nominal value of BGN 1 each, representing 13.871% of the Company's total capital and 13.871% of the rights to vote in the GMS.

Taking into account the minimal changes in the above shares, which reflected the reduction in the number of own shares held by the Company during the period referred to in section I.3, and the absence of changes in the number of shares held thereby, no material changes occurred in the shares of the persons holding owning directly at least 5% of the rights to vote in the GMS during the reporting period.

V.6 Shares owned by the Issuer's managing and controlling bodies towards the end of the first half of the year and changes thereto over the reporting period

As of June 30 2024, the members of the MB held a total of 148,038 shares representing 1.18% of the Company registered capital.

Number of shares held	Owned as of				Movements during the period				
by members of the MB	30.06.24	%*	31.12.23	%*	Received	Transf.	Membership	Change	%*
Ivan Zhtiyanov	137,084	1.10%	137,084	1.10%	0	0	-	0	0.00%
Teodor Dobrev	6,526	0.05%	6,526	0.05%	0	0	-	0	0.00%
Orlin Rusev	1,924	0.02%	1,924	0.02%	0	0	-	0	0.00%
Desislava Torozova	611	0.00%	611	0.00%	0	0	-	0	0.00%
Iordanka Klenovska**	1,893	0.02%	-	-	0	0	1,893	1,893	0.02%
Nikoleta Stanailova***	-	-	4,882	0.04%	0	0	-4,882	-4,882	-0.04%
Total	**148,038**	**1.18%**	**151,027**	**1.21%**	**0**	**0**	**-2,989**	**-2,989**	**-0.02%**

** % of the registered share capital*

*** not a member as of 31.12.2023*

**** not a member as of 30.06.2024*

The change in the above ratios from December 31 2023 was due entirely to the replacement of Nikoleta Stanailova as a member of the MB with Jordanka Klenovska.

Pursuant to the transfer of all 900 shares owned by Hans van Houvelingen as of December 31 2023, as of June 30 2024, there were no members of the SB holding Company shares.

Number of shares held by members of the SB	Owned as of 30.06.24	%*	31.12.23	%*	Movements during the period Received	Transf.	Membership	Change	%*
Wolfgang Ebberman	0	0.00%	0	-	0	0	-	0	0.00%
Florian Huth	0	0.00%	0	-	0	0	-	0	0.00%
William Russell	0	0.00%	0	-	0	0	-	0	0.00%
Hans van Houvelingen	0	0.00%	900	0.01%	0	-900	-	-900	-0.01%
Ivo Evgeniev	0	0.00%	0	-	0	0	-	0	0.00%
Total	**0**	**0.00%**	**900**	**0.01%**	**0**	**-900**	**0**	**-900**	**-0.01%**

** % of the registered share capital*

V.7 Information on pending court cases, administrative and arbitration proceedings concerning receivables or payables equal or greater than 10% of the Issuer's equity

As of June 30 2024 and the date of this Report, there are no pending court, administrative or arbitrary proceedings to which the Company or a subsidiary thereof is party concerning receivables or payables equal or greater than 10% of the Company's equity.

V.8 Loans granted by the Issuer or a subsidiary thereof, provided guarantees or undertaking of obligations towards a person or a subsidiary thereof, including related parties

V.8.1 Loans granted by the Company

V.8.1.1 Agreement signed with TBS EAD

During the reporting period, the Company (lender) maintained its Cash loan agreement with TBS EAD (UIN 130545438) (borrower) from July 05 2023 with a limit of BGN 3,000,000 subject to revolving utilization and repayment, a tenor until December 31 2024 and an interest rate of 4% p.a. over the utilized part of the loan. The obligations of TBS EAD from the agreement are not secured. Interest income from the agreement for the period was equivalent to BGN 10 thousand. As of June 30 2024, TBS had no outstanding obligations from the agreement.

V.8.1.2 Agreement signed with Comutel

On January 25 2024, the Company (lender) signed with Comutel (UIN 07554133) (borrower) a Cash loan agreement with a limit of BGN 500,000 subject to revolving utilization and repayment, a tenor until December 31 2024 and an interest rate of 5% p.a. The obligations of Comutel from the agreement are not secured. During and as of the end of the reporting period, the Company did not realize any interest income and had no outstanding receivables from the agreement.

V.8.1.3 Agreement signed with Telelink Bosnia

During the reporting period, the Company (lender) maintained its Cash loan agreement with Telelink Bosnia (UIN 4201745520006) (borrower) from December 29 2023 with a limit of BGN 500,000 subject to revolving utilization and repayment, a tenor until December 31 2024 and an interest rate of 5% p.a. The obligations of Telelink Bosnia from the agreement are not secured. During and as of the end of the reporting period, the Company did not realize any interest income and had no outstanding receivables from the agreement.

V.8.1.4 Agreement signed with TBS Croatia

During the reporting period, the Company (lender) maintained its Cash loan agreement with TBS Croatia (UIN 081341811) (borrower) from September 21 2021 with a limit of BGN 2,000,000 subject to revolving utilization and repayment, a tenor until December 31 2024 and an interest rate of 5% p.a. The obligations of TBS Croatia from the agreement are not secured. Interest income from the agreement for the period was equivalent to BGN 60 thousand. As of June 30 2024, the Company's outstanding receivables from the agreement amounted to EUR 1,233 thousand (BGN 2,412 thousand).

V.8.1.5 Agreement signed with TBS Romania

During the reporting period, the Company (lender) maintained its Cash loan agreement with TBS Romania (UIN J40/19800/2021) (borrower) from February 21 2021 with a limit of BGN 1,000,000 subject to revolving utilization and repayment, a tenor until December 31 2024 and an interest rate of 5% p.a. The obligations of TBS Romania from the agreement are not secured. Interest income from the agreement for the period was equivalent to BGN 30 thousand. As of June 30 2024, the Company's outstanding receivables from the agreement amounted to EUR 824 thousand (BGN 1,612 thousand).

V.8.1.6 Agreements signed with TBS Germany

During the reporting period, the Company (lender) maintained the following agreements with TBS Germany (UIN 299685098) (borrower):

- a Cash loan agreement from July 10 2023 with a limit of EUR 500,000 subject to revolving utilization and repayment, a tenor of December 31 2024 and an interest rate of 5% p.a. The obligations of TBS Germany from the agreement are not secured. As of June 30 2024, the Company's outstanding receivables from the agreement amounted to EUR 353 thousand (BGN 690 thousand).
- a Cash loan agreement for a maximum from August 24 2023 with a limit of EUR 290 thousand, subject to one-time utilization for the purpose of purchasing equipment to be provided to clients under contracts for managed services, a tenor of 5 years from the date of drawdown and an interest rate of 5% p.a., subject to change in case of significant variance in EURIBOR. The obligations of TBS Germany from the agreement are not secured As of June 30 2024, the Company's outstanding receivables from the agreement amounted to EUR 293 thousand (BGN 573 thousand).

In total, interest income from the two agreements for the reporting period was equivalent to BGN 30 thousand.

V.8.2 Provided security and undertaking of liabilities by the Company

As of June 30 2024, the Company maintained its commitments of a guarantor, respectively pledgor under the following contracts signed to secure the obligations of TBS EAD (UIN 130545438) under an Agreement for the undertaking of credit commitments under an overdraft credit line with Unicredit Bulbank AD from October 10 2019 and the annexes thereto:

- a suretyship agreement with Unicredit Bulbank AD, including a commitment to maintain the Company's participation in the capital of TBS EAD;

- a share pledge agreement with Unicredit Bulbank AD over the Issuer's 100% stake in the capital of TBS EAD and related receivables.

In accordance with Annex № 15 to the agreement signed on June 28 2024, as of June 30 2024, the overall credit limit amounted to EUR 20,000,000, available for utilization as overdraft credit up to EUR 4,000,000, revolving credit up to EUR 6,000,000 and bank guarantees, in leva, euro or US dollars at respective interest rates on effectively utilized funds of ADI + 2.35%, 1m. EURIBOR + 1.5% and 1m. LIBOR + 1.5%, with a general availability deadline until May 31 2025 and repayment deadlines until July 31 2025 for overdraft and May 31 2026 for revolving credit.

As of June 30 2024, the Company also maintained the following commitments undertaken thereby by way of guarantees issued in previous periods and extended and/or issued during the reported period:

- bank guarantees:
    - a counter-guarantee for the amount of EUR 664,163.28 securing the good performance of TBS EAD (UIN 130545438) under a contract with NCI Agency – NATO with regard to a contract for the delivery of equipment and services valid until November 15 2025, issued on October 24 2023;
    - a bank guarantee for the amount of RON 74,510.71, securing the good performance of TBS Romania (UIN J40/19800/2021) under a contract with BUCHAREST MUNICIPALITY valid until December 31 2024, issued on October 30 2023;
    - a counter-guarantee for the amount of EUR 26,000 securing a performance guarantee issued by Raiffeisen banka a.d. Beograd with regard to a delivery contract between Comutel (UIN 07554133) and REPUBLIC FUND FOR PENSION AND DISABILITY INSURANCE – Serbia valid until February 28 2025, issued on November 16 2023;
    - a bank guarantee for the amount of EUR 100,000 securing trade payables of TBS Romania (UIN J40/19800/2021) towards MB DISTRIBUTION SRL valid until February 15 2025, issued on February 19 2024;
    - a counter-guarantee for the amount of EUR 300,000 securing the participation of TBS EAD (UIN 130545438) in a tender procedure by NCI Agency – NATO valid until April 30 2025, issued on April 08 2024;
- corporate guarantees:
    - a corporate guarantee in favor of Citi Bank and Cisco Systems International B.V. (the Netherlands) securing the capacity of Comutel (UIN 07554133) and Telelink Slovenia (UIN 6596240000) to make high-volume equipment purchases under contracts with Cisco Systems International B.V. on deferred payment terms, up to the amount of USD 5,100 thousand, issued on July 01 2020;
    - a corporate guarantee for the amount of EUR 56,554.95 securing the obligations of TBS Croatia (UIN 081341811) from operating lease agreements with Unicredit Leasing Croatia d.o.o., issued on February 15 2022;
    - a corporate guarantee securing the obligations of Telelink Slovenia (UIN 6596240000) under Framework loan agreement № 5074/2022 with Unicredit Banka Slovenia d.d. for the amount of EUR 1,500,000, issued on March 16 2022;
    - a corporate guarantee securing the obligations of TBS Croatia (UIN 081341811) under Frame agreement for issuing bank guarantees № 0200126236 from June 27 2022 with Zagrebacka Banka d.d. and the annexes thereto for the amount of EUR 900,000, issued on April 07 2023;

- a corporate guarantee in favor of MB Distribution S.R.L. (Romania), securing the capacity of TBS Romania (UIN J40/19800/2021) to make high-value equipment purchases on deferred payment terms up to the amount of USD 20,488, issued on November 15 2023;
- a corporate guarantee in favor of INGRAM MICRO DISTRIBUTION S.R.L (Romania), securing the capacity of TBS Romania (UIN J40/19800/2021) to make high-value equipment purchases on deferred payment terms up to the amount of USD 152,000, issued on November 17 2023;
- a corporate guarantee in favor of Comtrade (Serbia) securing the capacity of Comutel (UIN 07554133) to make high-value equipment purchases on deferred payment terms up to the amount of USD 3,000,000 valid until December 31 2024, issued on November 20 2023;
- a corporate guarantee, securing the obligations of TBS Croatia (UIN 081341811) under a Frame overdraft agreement from December 18 2023 with Zagrebacka Banka d.d. and the annexes signed thereto up to the amount of EUR 1,200,000, issued on June 26 2024.

V.8.3 Loans granted by subsidiaries

V.8.3.1 Agreement between TBS EAD and TBS Macedonia

During the reporting period, TBS EAD (lender) maintained its Cash loan agreement with TBS Macedonia (UIN 7385986) (borrower) from February 15 2021 with a limit subject to revolving utilization and repayment of EUR 2,000,000, tenor until December 31 2024 and an annual interest rate of 5%. The obligations of TBS Macedonia from the agreement are not secured. Interest income from the agreement for the period was equivalent to BGN 11 thousand. As of June 30 2024, outstanding receivables from the agreement amounted to EUR 272 thousand (BGN 532 thousand).

V.8.3.2 Agreement between TBS EAD and Telelink Albania

During the reporting period, TBS EAD (lender) maintained its Cash loan agreement with Telelink Albania (UIN L91803017J) (borrower) from December 15 2021. Until June 25 2024, the agreement's terms and conditions continued to include a limit subject to revolving utilization and repayment of EUR 500,000, tenor until December 31 2024 and an annual interest rate of 5%. The obligations of TBS Albania from the agreement are not secured. Interest income from the agreement for the reporting period was equivalent to BGN 11 thousand. As of June 30 2024, outstanding receivables from the agreement amounted to EUR 307 thousand (BGN 601 thousand).

Simultaneously with the signing of a Share Purchase Agreement for the sale of 100% of the shares in the capital of Telelink Albania referred to in section I.4 of this Report, on June 25 2024, an annex was signed to the above Cash loan agreement, whereby the loan's availability deadline was reduced to June 30 2024, the accrual of interest from the agreement was ceased effective from the date of signing the annex, the obligations of Telelink Albania from the agreement were established in the amount of outstanding principal as of the same date (EUR 292 thousand) and outstanding interest payables (EUR 15 thousand) and the right of revolving utilization and repayment of the limit was replaced with a fixed repayment schedule, according to which the outstanding interest of EUR 15 thousand and EUR 137 thousand of the outstanding principal shall be repaid no later than July 31 2025 and the remainder of the outstanding principal (EUR 154 thousand) – in a proportion in 20% until March 31 2025, 30% until March 31 2026 and 50% until December 31 2026.

V.8.3.3 Agreement between TBS EAD and TBS USA

During the reporting period, TBS EAD (lender) maintained its Cash loan agreement with TBS USA (UIN 87-3162431) (borrower) from April 28 2022 with a limit subject to revolving utilization and repayment of USD 2,000,000, a tenor until December 31 2024 and an annual interest rate of 5%. The obligations of TBS USA from the agreement are not secured. Interest income from the agreement for the reporting period was equivalent to BGN 68 thousand. As of June 30 2024, outstanding receivables from the agreement were equivalent to BGN 3,116 thousand.

V.8.4 Provided security and undertaking of liabilities by subsidiaries

As of June 30 2024, TBS EAD had extended the following bank guarantees securing obligations of third-parties with regard to the implementation of projects and the financing of subsidiaries making part of the Group:

Guarantee securing obligations of:	UIN	Obligation/Type	Amount (BGN)	End Date
Consortium Telelink Group DZZD	177239104	performance bond	66,239	17.01.2025
Consortium Systel DZZD	177424500	performance bond	710,000	01.09.2024
TBS Macedonia	7385986	performance bond	135,434	15.10.2024
Consortium Secure Borders Telesec DZZD	177158206	performance bond	39,152	30.12.2024
Consortium Digital Backpack DZZD	180705429	performance bond	258,369	30.09.2024
Consortium Secure Borders Telesec DZZD	177158206	performance bond	151,277	27.02.2026
CONSORTIUM TELESEC DZZD	180851327	performance bond	781,454	01.04.2028
CONSORTIUM TELELINK-INFO DZZD	177133772	performance bond	10,520	31.07.2024
Consortium TBS EAD - TBS Macedonia	n/a	bid bond	15,647	10.10.2024
Consortium Technolink DZZD	177359593	performance bond	125,640	29.01.2027
Consortium Systel DZZD	177424500	performance bond	732,070	17.12.2026
TBS Macedonia	7385986	credit limit	586,749	31.05.2025
TBS Macedonia	7385986	counter-guarantee	606,307	31.01.2026
TBS Romania	J40/19800/2021	performance bond	37,773	20.10.2024
TBS Romania	J40/19800/2021	performance bond	25,854	20.10.2024
CONSORTIUM TELESEC DZZD	180851327	performance bond	258,791	30.10.2028
TBS Romania	J40/19800/2021	performance bond	23,609	15.10.2024

Besides the above commitments, throughout the reporting period, TBS EAD:

- Maintained its commitments as guarantor securing the obligations of TBSG AD from the Overdraft agreement between TBSG AD and Raiffeisenbank (Bulgaria) EAD (now United Bulgarian Bank AD) from February 15 2022 with a credit limit of EUR 2,000,000 subject to utilization as overdraft credit and/or contingent bank credit securing the issuance of guarantees, availability and repayment deadlines until February 27 2027 for the drawdown of overdraft, January 28 2027 for utilization against issued guarantees and February 28 2027 for the repayment of any utilized amounts, and applicable interest rates consisting of the reference interest rate of the lending bank (RIR) + 1.5%, 1m. EURIBOR + 1.5% and 1m. LIBOR + 1.5%, but no less than 1.5% in any utilization currency;
- Signed in the capacity of co-debtor the Investment bank loan agreement № 00044/730 between TBSG AD and UniCredit Bulbank AD from March 19 2024 referred to in section III.2.1 of this Report;
- Signd the capacity of guarantor an annex to the Guarantee agreement with Raiffeisen banka a.d. Beograd securing the obligations of Comutel from its Credit Agreement with Raiffeisen banka a.d. Beograd from January 21 2016, with regard to an annex signed to the latter on

June 18 2024, establishing a credit limit of USD 2,500,000, applicable interest rates of 3m. SOFR + 2.60% for drawdown in US dollars, 3m. EURIBOR + 2.60% for drawdown in euro and 1m. BELIBOR + 3.00% for drawdowns in Serbian dinars, an extension of the contract's term until January 27 2025 and a repayment deadline for all obligations arising from the agreement until February 28 2025.

VI INFORMATION ON LARGE TRANSACTIONS WITH RELATED PARTIES AS PER ART. 12, PAR. (3), PURSUANT TO ART. 13, PAR. (1) OF ORDINANCE 2 OF THE FSC

VI.1 Transactions with related parties singed during the reporting period with a substantial impact on the Company's and the Group's financial condition or operating results for that period

On January 25 2024, a Cash loan agreement was signed between TBSG (lender) and Comutel (borrower) with a limit of EUR 500,000 subject to revolving utilization and repayment, a tenor of December 31 2024 and an annual interest rate of 5.00%.

On April 09 2024, a deal was signed between TBS EAD as contractor and Consortium TELESEC DZZD with partners TBS EAD and Sectron OOD as contracting party for the performance of deliveries and provision of services as per a Public Procurement Contract between the Ministry of Interior of the Republic of Bulgaria and "Consortium TELESEC" DZZD with the subject matter of "Modernization and expansion of the video surveillance system of the SDVR" with a total value up to BGN 3,041,673 and an implementation term up to 18 months from the date of signing the Public Procurement Contract.

Besides the above dealings made during the reporting period, the following contracts between the Company and related parties signed in previous periods remained in force:

- agreements for the provision of business services, including but not limited to assistance in the implementation and maintenance of ISO standards and Regulations (GDPR), the establishment of contacts and partnerships with key distributors and suppliers, business development and product positioning, PR and marketing activities and the popularization of the business of Group subsidiaries valid until December 31 2024 between the Company and TBS EAD, Comutel, TBS Montenegro (in force until the voluntary liquidation of the latter in March), Telelink Bosnia, Telelink Slovenia, TBS Croatia, TBS Macedonia, Telelink Albania, TBS Romania, TBS Germany and TBS USA, wherefrom the Company generated total revenues of BGN 566 thousand;
- contract for the rental of equipped workplaces between the Company and TBS EAD from December 31 2023 valid until January 16 2028, wherefrom the Company incurred expenses in the amount of BGN 64 thousand;
- the loans agreements described in sections V.8.1.1 and V.8.1.3- V.8.1.6 of this Report.

By resolutions of the GMS from June 19 2024, the following changes were made to the scope of authorization of the MB for entering into dealings with regard to related parties:

- extending the authorization of the MB for the signing of agreements with subsidiaries for the provision of corporate and business development and management services for a period of up to 3 years from the date of signing and up to a total amount of the receivables generated from provided services under all agreements of BGN 3,000,000;

- extending the authorization of the MB to provide guarantees by the Company for the due performance of obligations of subsidiaries towards third parties in the amount of up to BGN 20,000,000 for each guarantee and in total for all guarantees up to 3 years from the date of issuance.

Except for the contract with Consortium TELESEC DZZD, all of the above dealings are of an internal nature to the Group and have no impact on the Company's consolidated results.

VI.2 Changes in signed transactions with related parties reported in the annual financial statements with a substantial impact on the Company's and the Group's financial position or operating results during the reporting period

Except for the annex to the Cash loan agreement between TBS Ead (lender) and Telelink Albania (borrower) described in section V.8.3.2 of this Report, as of June 30 2024, there were no annexes or other agreements amending the contracts signed by the Company and Group subsidiaries and related parties disclosed in the annual report as of December 31 2023.

The new dealings with related parties made during the period and the changes in the general authorizations of the MB for entering into dealings with regard to related parties are described in section VI.1 of this Report.

VII IMPORTANT EVENTS AFTER THE DATE OF THE INTERIM FINANCIAL STATEMENTS

On July 09 2024, an annex was signed to Loan Agreement № 5302097953 from July 01 2022 between 7IT and Erste & Steiermarkische Bank dd, Rijeka with a limit of EUR 1,300,000, establishing an amended interest rate of 5.25% and a repayment deadline extension until July 01 2025.

Pursuant to an SB resolution from April 30 2024 authorizing the Executive Director of TBSG AD for the sale of 100% of the company shares of Telelink Albania and the Share Purchase Agreement for the sale thereof referred to in I.4, on July 12 2024, the National Business Register of the republic of Albania entered the transfer of all shares in the capital of Telelink Albania to Erton Graceni. While holding the position of administrator of the company, the purchaser did not represent a related / interest party vis-à-vis the shareholders / members of the MB and SB of TBSG.

By resolution of the MB from July 15 2024, TBSG AD approved in its capacity of single shareholder the annual financial statements of TBS EAD for 2023, released all members of the company's Board of Directors from liability for their activities in 2023 and resolved for the full amount of the company's profit for 2023 (BGN 12,427,861.06) to be carried forward as retained earnings.

With regard to the implementation of a Long-term plan for the motivation of employees with Company shares from 2021 and the adoption of the Annual consolidated financial statements of the Company for 2023 by GMS resolution from June 19 2024, on July 16 2024, the MB made an assessment of the achievement of the Group performance indicators applying to the three-year tracking period ended on December 31 2023 and determined the number of shares in the Company's capital to be transferred to each employee with maintained participation rights. The total number of shares to be transferred in accordance with the above and after the deduction of tax and social security contributions is 15,899 shares.

On July 23 2024, the SB adopted a resolution to convene an extraordinary GMS on September 18 2024 with the following substantive agenda:

- Electing a registered auditor for the performance of the independent financial audit for 2024;
- Increasing the remuneration of and determination of the governance guarantee amounts for certain members of the SB.

The invitation to the meeting and all relevant materials have been published on http://www.x3news.com/ and on the Company's web page at: https://www.tbs.tech/general-meetings-of-shareholders/.

On August 23 2024, an Agreement for the reverse factoring of obligations towards suppliers № 6500378003 was signed between 7IT and Raiffeisenbank Austria dd, Zagreb with a revolving credit limit of EUR 1,100,000, annual interest rate of 6m. EURIBOR + 1.80%, financing term up to 180 days from the date of payment to the supplier, availability period until July 31 2025 and repayment deadline for all obligations arising from the agreement until January 27 2026. Obligations from the agreement are secured up to the full amount of the credit limit and all collateral receivables of the bank with promissory note issued by 7IT.

Pursuant to the GMS resolution from June 19 2024, referred to in section I.3, between the end of the reporting period and the date of this Report, the Company bought back a total of 13,000 own shares. Together with the 562 shares held as of June 30 2024, the total number of own shares held by the Company as of the date of this Report reached 13,562 shares or 0.108% of the registered share capital.

29.08.2024

Sofia

IVAN KRASIMIROV ZHITIYANOV

Digitally signed by IVAN KRASIMIROV ZHITIYANOV
Date: 2024.08.30 09:28:34 +03'00'

Ivan Zhitiyanov, TELELINK BUSINESS SERVICES GROUP AD