



Sirma Group

INTERIM CONSOLIDATED
MANAGEMENT REPORT OF
SIRMA GROUP HOLDING JSC
FOR Q4 2018



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1 STATEMENT BY THE BOARD OF DIRECTORS OF SIRMA GROUP HOLDING JSC

The present annual consolidated report of the management of SIRMA GROUP HOLDING JSC covers the period, ending on 31 December 2018 and was prepared in accordance with the provisions of Article 39 of the Accountancy Law and Art. 100o, para. 2 and 5 of the the Public Offering of Securities Act (POSA), including also the established events, occurring after the balance sheet date. The structure of this report is in accordance with Appendix 9, 10 and Appendix 11 to Article 32a (2) of Ordinance No. 2 of the Financial Supervision Commission (FSC).

The board of directors of the holding confirms that:

- there were no irregularities in which managers or employees were involved, which may be material to the consolidated financial statements;
- all material transactions are duly accounted for and reflected in the annual financial statements as at 31 December 2018;
- there is no actual or potential breach of laws and (or) other regulatory provisions which would have a material impact on the consolidated financial statements or could serve as a basis for reporting contingent loss;
- there are no legal or other restrictions on the flow of funds;
- there are no known trends, requests, commitments, events or occasional circumstances for which there is reason to expect that they may affect the company as a whole.

This management report contains estimates and information based on our beliefs and assumptions, using currently available information about them. Any statements contained in this report which are not historical facts are predictions. We have based these statements on the future of our current expectations, assumptions and predictions about future conditions and events. As a result, our predictions and information are exposed to uncertainties and risks, many of which are beyond our control. If one or more of these uncertainties or risks materialize or if the underlying management assumptions prove to be incorrect, our actual results may differ materially from those described in the report. We describe these risks and uncertainties in the report in the Risk Section.

This report includes IT industry statistics and global economic trends which come from information published

by sources including International Data Corporation (IDC), a market information and information technology consultant, telecoms and consumer technology markets; Gartner, the European Central Bank (ECB); and the International Monetary Fund (IMF). This type of data is only the forecasts of IDC, the ECB, the IMF and other data sources for the global economy and industry. SIRMA does not guarantee any statistical information provided by sources such as IDC, Gartner, ECB, IMF, or other similar sources cited in this report. In addition, although we believe that information from these sources is generally reliable, this type of data is inaccurate. We warn readers not to create unnecessary dependence on this data.

In our Annual Consolidated Management Report, we analyze our business activities for the reporting financial period as well as the current situation of Sirma Group Holding. Starting from a description of our business, economic environment and strategy, we present our financial system and explain in detail our results and operations as well as our financial position and net assets. We also report on the various aspects of financial sustainability of Sirma Group Holding and the expected development of possible risks.

The financial information presented in the Sirma Group Holding JSC report includes our separate financial statements, our report to the Board of Directors and some financial aspects derived from our management accountability. The non-financial data presented in the report includes aspects of intellectual, human and social rights and relationships derived from our materiality assessment.

Our annual consolidated financial statements have been prepared in accordance with IFRSs. Internal control over financial reporting ensures the reliability of the information presented in the separate financial statements. Our Board of Directors has confirmed the effectiveness of our internal financial reporting.

All financial and non-financial data and information for the reporting period is collected and / or reported by the responsible business units.

The reporting period is the financial period ending on 31.12.2018. The report includes Sirma Group Holding JSC and all subsidiary companies of the group without Flash Media, EngView Systems Systems USA, Engview Systems Systems Latin America, Sirma Sha - Albania, e-Dom and GMG Systems, which are excluded from consolidation due to lack of relevance.



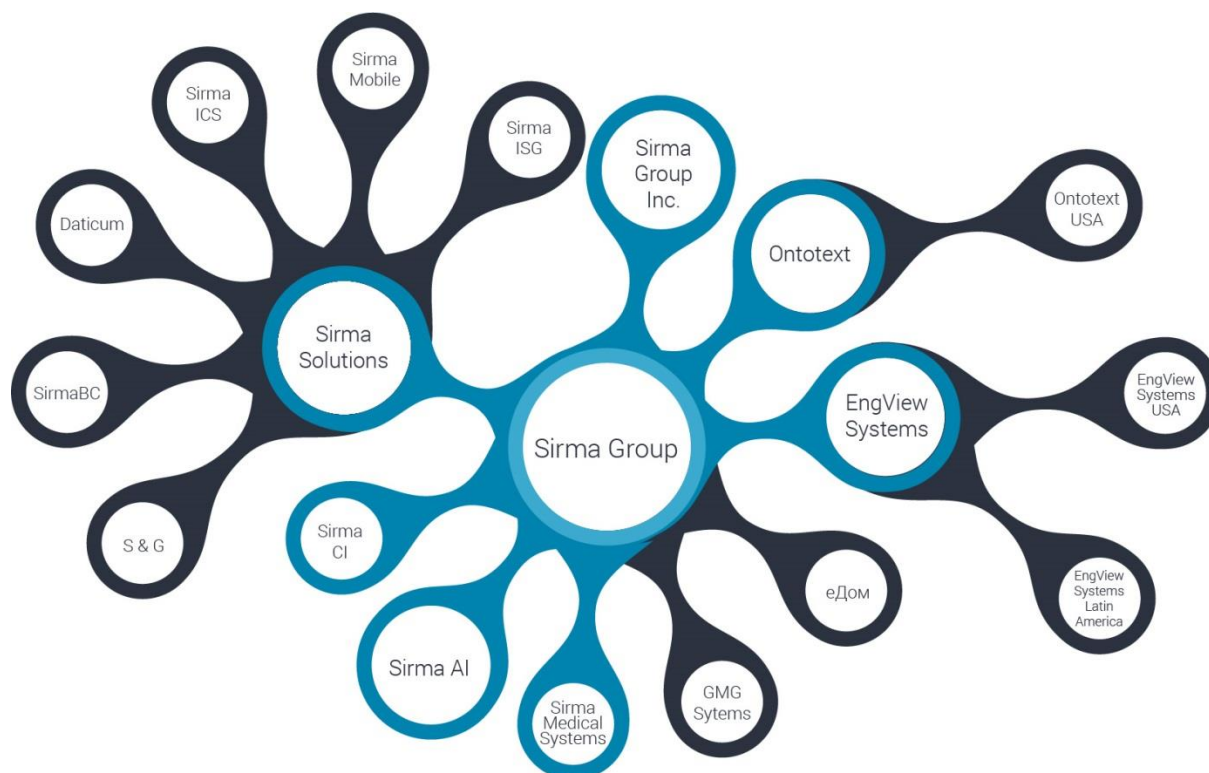
2 ORGANIZATION AND WAY OF PRESENTATION

Sirma Group Holding JSC is a holding company which invests in technological businesses, manages them strategically and operationally, provides its subsidiaries with administrative, marketing and financial services.

Over the years, Sirma has created over 20 companies, investing in them a tremendous financial and human capital.

Generating robust growth, cost-effectiveness and consistent business results are among the top priorities for all companies in the group.

The reports of Flash Media AD, EngView Systems USA, EngView Systems Latin America, Sirma Sha - Albania, e-Dom and GMG Systems are not included due to lack of relevance to the consolidated statements of Sirma Group Holding JSC.



2.1.1 History and development of the company

"Sirma Group Holding" JSC is a holding company registered on 25.04.2008 at the Registry Agency with UIC 200101236, with head office: BULGARIA, Sofia (capital), Sofia municipality, City Sofia 1784, Mladost area, bul. Tsarigradsko Shosse, No 135. The name of the company changed on 23.03.2009 from "SGH" JSC to "Sirma Group Holding" JSC.

The object of the company is: ACQUISITIONS, MANAGEMENT, EVALUATION AND SALE OF

PARTICIPATION IN BULGARIAN AND FOREIGN COMPANIES, ACQUISITION, EVALUATION AND SALE OF PATENTS, CESSION OF LICENSES TO USE PATENTS OF COMPANIES WHICH THE COMPANY HOLDS, FINANCE OF COMPANIES IN WHICH THE COMPANY PARTICIPATES, ORGANIZATION OF ACCOUNTING AND COMPILING FINANCIAL STATEMENTS UNDER THE LAW OF ACCOUNTING. THE COMPANY MAY PERFORM INDEPENDENT BUSINESS ACTIVITIES WHICH ARE NOT PROHIBITED BY LAW.

2.1.2 Changes in the statement of activity:

At the time of its incorporation, the company operated under the following business activities: design, development, marketing, sales, implementation, training and support of software products and complete solutions, including software project management, information and communication technology consultancy services, accounting services, as well as any other activity not prohibited by law.

On 23.03.2009 Sirma Group Holding changed its scope of activity as follows: Acquisition, management, evaluation and sale of participations in Bulgarian and foreign companies, acquisition, evaluation and sale of patents, surrender of licenses for use of patents of companies in which the holding company participates, financing of the companies in which the holding company participates, organization of the

accounting and preparation of financial statements under the order of the Law for Accounting. The company may also carry out its own commercial activity, which is not prohibited by law.

From the establishment of the company until the date of this document, Sirma Group Holding JSC:

- is not the subject of consolidation;
- no transfer or pledge to the enterprise;
- No claims have been filed for the opening of insolvency proceedings of the company;
- There are no tenders from third parties to the Company or from the Company to other companies;

2.2 CAPITAL

The share capital of the company amounts to 59,360,518 BGN, divided into 59 360 518 dematerialized shares with nominal value of BGN 1.

2.2.1 History of Share Capital

History of changes in share capital

- The company was incorporated with BGN 50,000 of capital.

On 15.10.2008, after the adoption of three triple expert appraisals of experts, the share capital was increased from BGN 50,000 to BGN 77,252,478 through non-cash contributions and issuance of new 77,202,478 shares. Non-cash contributions are as follows:

- 1) 29 software modules worth 61,555,838 BGN;
 - 2) Non-monetary contribution representing real estate amounting to 3 911 660 BGN:
- Office building - offices, floor 3th and floor 5th of an office building, located in Sofia, 135 Tsarigradsko shose

On 22.10.2010. as a result of the decision of the regular annual general meeting of the Company's shareholders, a reduction of the capital of Sirma Group Holding JSC from 77,252,478 BGN to 73,340,818 BGN was recorded through the cancellation of 3,911,660 shares with a par value of one BGN each. The Company's capital was reduced on the basis of Art. 200, para. 2, in conjunction with Art. 187f, par. 1, item 2n of the Bulgarian Commercial Law.

Blvd., owned by "Sirma Group" AD, a company registered in the Commercial Register at the Registry Agency UIC 040529004, with headquarters and address of management in Sofia, Mladost district, 135 Tsarigradsko shose Blvd., accepted as shareholder in "SGH" AD by decision of the General Meeting of "SGH" JSC from 10.07.2008

3) Non-cash contribution representing shares of 11 734 980 BGN:

- A total of 81,690 shares of the total amount of 11,734,980 BGN (143.6526 BGN per share) of the capital of "Sirma Group" JSC, registered in the Commercial Register at the Registry Agency UIC, 040529004

During the transformation, entered in the Commercial Register on 23.10.2014, the Company's capital is reduced to 49 837 156 through the cancellation of 23 503 662 shares. This decrease is a result of the estimated fair value of the shares of Sirma Group Holding JSC by three independent appraisers. The shareholder structure of the Company does not change as the shareholder structures of the transforming and that of the newly established companies are mirrored.

On 30.10.2015, after a successful initial public offering, the capital was increased to 59 360 518 BGN by issuing 9 523 362 new shares with nominal value per share 1 BGN and issue value 1,20 BGN.

2.2.2 Structure of share capital and management bodies

SHAREHOLDER STRUCTURE

AS OF 31.12.2018 THE DISTRIBUTION OF THE SHARE CAPITAL OF SIRMA GROUP HOLDING IS AS FOLLOWS:

	31.12.2018		30.09.2018	
	BGN '000		BGN '000	
Share capital	59 361		59 361	
Number of shares (par value of 1.00 BGN)	59 360 518		59 360 518	
Total number of registered shareholders	1041		1046	
Including legal entities	48		54	
Including Individuals	993		992	
Number of shares held by legal entities	10 747 462		10 156 135	
% of capital of legal entities	18,11%		17,11%	
Number of shares held by individuals	48 613 056		49 204 383	
% of capital held by individuals	81,89%		82,89%	

Shareholders	Number of shares at 31.12.2018	Number of shares at 30.09.2018	Nominal VALUE (BGN)	Value (BGN)	% Shareholding	% shareholding with deducted repurchased own shares
Atanas Kostadinov Kiryakov	2 887 524	2 877 374	1	2 887 524	4,86%	4,90%
Veselin Kirov Antchev	4 700 786	4 700 786	1	4 700 786	7,92%	7,98%
Tsvetan Borisov Alexiev	4 865 753	4 865 753	1	4 865 753	8,20%	8,26%
Chavdar Velizarov Dimitrov	4 750 786	4 750 786	1	4 750 786	8,00%	8,07%
Yavor Liudmilov Djonev	1 392 746	1 392 746	1	1 392 746	2,35%	2,37%
Georgi Parvanov Marinov	5 269 748	5 269 748	1	5 269 748	8,88%	8,95%
Krasimir Nevelinov Bozhkov	2 596 821	2 871 314	1	2 596 821	4,37%	4,41%
Ognyan Plamenov Chernokozhev	3 741 620	3 741 620	1	3 741 620	6,30%	6,35%
Vladimir Ivanov Alexiev	2 177 583	2 177 583	1	2 177 583	3,67%	3,70%
Rosen Vasilev Varbanov	2 156 687	2 156 687	1	2 156 687	3,63%	3,66%
Peter Nikolaev Konyarov	1 271 910	1 271 910	1	1 271 910	2,14%	2,16%
Emiliana Ilieva Ilieva	2 343 985	2 303 495	1	2 343 985	3,95%	3,98%
Elena Yordanova Kozuharova	948 250	1 963 950	1	948 250	1,60%	1,61%
Ivo Petrov Petrov	835 800	983 550	1	835 800	1,41%	1,42%
Stanislav Ivanov Dimitrov	649 868	649 868	1	649 868	1,09%	1,10%
Expat Bulgaria SOFIX UCITS ETF	977 907	977 907	1	977 907	1,65%	1,66%
Foundation for Educational Transformation	1 301 855	368 555	1	1 301 855	2,19%	2,21%
"NN Universal Pension Fund"	2 434 539	2 434 539	1	2 434 539	4,10%	4,13%
UPF "Doverie" JSC	802 126	802 126	1	802 126	1,35%	1,36%
UPF "DSK Rodina"	747 036	747 036	1	747 036	1,26%	1,27%
UPF "Pension Insurance Institute"	664 190	627 000	1	664 190	1,12%	1,13%
"Mandjukov" Ltd.	960 000	960 000	1	960 000	1,62%	1,63%
Other	10 882 998	10 466 185	1	10 882 998	18,33%	18,48%
Total	59 360 518	59 360 518		59 360 518	100%	100%

As of 31.12.2018 "Sirma Group Holding" JSC possesses repurchased 474 724 own shares.

SHAREHOLDERS HOLDING MORE THAN 5% OF THE COMPANY'S CAPITAL ARE:

Shareholders	Number of shares at 31.12.2018	% of capital	% of capital with deducted repurchased own shares
Veselin Antchev Kirov	4 700 786	7,92%	7,98%
Tsvetan Borisov Alexiev	4 865 753	8,20%	8,26%
Chavdar Velizarov Dimitrov	4 750 786	8,00%	8,07%
Georgi Parvanov Marinov	5 269 748	8,88%	8,95%
Ognyan Plamenov Chernokozhev	3 741 620	6,30%	6,35%

Shareholders	Number of shares at 30.09.2018	% of capital	% of capital with deducted repurchased own shares
Veselin Antchev Kirov	4 700 786	7,92%	7,98%
Tsvetan Borisov Alexiev	4 865 753	8,20%	8,26%
Chavdar Velizarov Dimitrov	4 750 786	8,00%	8,07%
Georgi Parvanov Marinov	5 269 748	8,88%	8,95%
Ognyan Plamenov Chernokozhev	3 741 620	6,30%	6,35%

INsofar AS IT IS KNOWN TO THE COMPANY, INDICATE WHETHER THE COMPANY IS DIRECTLY OR INDIRECTLY OWNED OR CONTROLLED AND BY WHOM AND HOW THE NATURE OF THAT CONTROL AND THE MEASURES INTRODUCED ARE INTRODUCED TO AVOID ABUSING SUCH CONTROL.

The Company is not aware of any direct or indirect control over it, other than internal corporate governance and internal control bodies.

3 INFORMATION ON THE CONDITIONS OF EACH ACQUISITION RIGHTS AND / OR OBLIGATIONS FOR ESTABLISHED, BUT NOT EQUIVALENT CAPITAL

Sirma Group Holding JSC does not have information on the terms of any acquisition and / or obligations for statutory but unissued capital.

4 FUNCTIONING OF THE GROUP

The economic group of SIRMA GROUP HOLDING includes the parent company and its subsidiaries and associates - all of them operating in the IT sector. The Group functions as a typical holding structure with the organization, coordination and subordination of the companies characteristic of a similar structure.

Group companies have a common strategic framework, corporate values, financial and accounting policies, a vision of good corporate governance and staff policy.



4.1 SUBSIDIARIES OF "SIRMA GROUP HOLDING" JSC

Company	Value of the investment at 31.12.2018 (in BGN'000)	Percentage of capital at 31.12.2018	Percentage of capital with adjusted repurchased own shares at 31.12.2018	Value of the investment at 30.09.2018 (in BGN'000)	Percentage of capital at 30.09.2018	Percentage of capital with adjusted repurchased own shares at 30.09.2018	Changes (in BGN'000)
Sirma Solutions	39 311	77,71%	82,43%	36 260	75,61%	80,62%	3051
Sirma AI	7 035	100,00%	100,00%	6 895	88,71%	90,13%	140
Sirma Medical Systems	66	66,00%	66,00%	66	66,00%	66,00%	0
Sirma Group Inc.	3 471	76,16%	76,16%	3 471	76,16%	76,16%	0
Sirma CI	106	80,00%	80,00%	0	0	0,00%	106
Ontotext	17 865	87,65%	90,44%	9 650	58,51%	58,51%	8215
Engview Systems	50	72,90%	72,90%	50	72,90%	72,90%	0
Total	67 904			56 392			11512

4.2 SUBSIDIARIES OF "SIRMA SOLUTIONS" JSC

Company	Value of the investment at 31.12.2018 BGN '000	Percentage of capital at 31.12.2018	Value of the investment at 30.09.2018 BGN '000	Percentage of capital at 30.09.2018	Changes BGN '000
Sirma Business Consulting	1 374	54,08%	1 374	54,08%	0
Daticum	1 394	60,50%	1 394	60,50%	0
Sirma Software Inc.	0	0%	16 714	97,57%	(16 714)
S&G Technology Services Ltd., UK	117	51,00%	117	51,00%	0
Sirma ISG	0	71%	0	71%	0
Sirma ICS	270	90,00%	270	90,00%	0
Total	3 155		19 869		(16 714)

4.3 SUBSIDIARIES OF "ONTOTEXT" JSC

Company	Value of the investment at 31.12.2018 BGN '000	Percentage of capital at 31.12.2018	Value of the investment at 30.09.2018 BGN '000	Percentage of capital at 30.09.2018	Changes BGN '000
Ontotext USA	30	100,00%	30	100,00%	-

4.4 SUBSIDIARIES OF "ENGVIEW SYSTEMS SOFIA" JSC

Company	Value of the investment at 31.12.2018 BGN '000	Percentage of capital at 31.12.2018	Value of the investment at 30.09.2018 BGN '000	Percentage of capital at 30.09.2018	Changes BGN '000
EngView Systems Latin America	7	95%	7	95%	0
EngView USA	9	100%	9	100%	0
Total	16		16		0



4.5 ASSOCIATED COMPANIES OF "SIRMA GROUP HOLDING" JSC

Company	Value of the investment at 31.12.2018 BGN '000	Percentage of capital at 31.12.2018	Value of the investment at 30.09.2018 BGN '000	Percentage of capital at 30.09.2018	Changes BGN '000
GMG Systems (IN LIQUIDATION)	150	19,93%	214	19,93%	(64)
E-DOM MANAGEMENT	7	35,00%	7	35,00%	0
Total	157		221		(64)

4.6 ASSOCIATED COMPANIES OF "SIRMA SOLUTIONS" JSC

Company	Value of the investment at 31.12.2018 BGN '000	Percentage of capital at 31.12.2018	Value of the investment at 30.09.2018 BGN '000	Percentage of capital at 30.09.2018
SEP Bulgaria	0	6,50%	0	6,50%
EYE BILL INTERACTIVE	0	34%	0	34%
EXCELL MANAGEMENT	0	34%	0	34%
Flash Media	0	50%	0	50%
Sirma Group Inc.	916	23,71%	916	23,71%
Sirma Mobile	15	40%	15	40%
Total	931		931	

For more information about the companies within Sirma Group see Appendix 1.

The Company is not aware of any arrangements the effect of which could lead to a change in the control of Sirma Group Holding JSC in the future.

5 DESCRIPTION OF ALL AGREEMENTS KNOWN TO THE COMPANY, THE ACTION OF WHICH MAY, ON ANY FOLLOWING DATE, MAKE A CHANGE IN THE CONTROL OF THE COMPANY

THE COMPANY IS NOT AWARE OF ANY ARRANGEMENTS THE EFFECT OF WHICH COULD LEAD TO A CHANGE IN THE CONTROL OF SIRMA GROUP HOLDING JSC IN THE FUTURE.

6 MANAGEMENT AUTHORITIES

Sirma Group Holding has a one-tier management system - Board of Directors.

The Board of Directors as of 31.12.2018 includes the following members:

Chavdar Velizarov Dimitrov
 Tsvetan Borisov Alexiev
 Atanas Kostadinov Kiryakov
 Georgi Parvanov Marinov
 Tsvetomir Angelov Doskov
 Sasha Konstantinova Bezuhanova - independent member
 Petar Borisov Statev - independent member
 Yordan Stoyanov Nedev - independent member

Method of determining the mandate of the Board of Directors: 2 years from the date of entry of their election.

Current term of the Board of Directors is until: 27.07.2019

6.1 COMPETENCE OF MANAGEMENT

The competences of the management are in line with these listed in the Commercial Law, the Statute and the POSA.

At the Annual General Meeting of the Shareholders of Sirma Group Holding JSC, a decision was taken for the buy-back of shares by Sirma Group Holding JSC, as follows:

Sirma Group Holding JSC to buy-back its own shares, the Board of Directors shall carry out the repurchase under the following conditions:

- The maximum number of shares subject to redemption is 1 000 000 shares;

- Minimum price of 0.50 BGN per share and a maximum price of 1.50 BGN per share;

- The buyout deadline is 31.12.2017;

- The buy-back method - through an investment intermediary.

As at 31.12.2017 474 724 own shares were re-purchased.

6.2 STOCK OPTIONS IN THE COMPANY

As of the date of this report, no options are available to the members of the Board of Directors on shares of the Company.

6.3 COMMITTEES TO THE BOARD OF DIRECTORS

Sirma Group Holding JSC creates the following internal committees, which are assigned to manage the respective activities at the operational level, as well as to propose decisions to the Board of Directors of the company:

1. Investment and Risk Committee, composed of:

*Yordan Nedev – chairman
Tsvetan Alexiev – member
Radka Peneva – member
Georgi Marinov – member*

3. Information Disclosure Committee, composed of:

*Tsvetan Alexiev – chairman
Radka Peneva – member
Stanislav Tanushev – member
Chavdar Dimitrov – member
Atanas Kiryakov - member*

2. Remuneration Committee, composed of:

*Georgi Marinov – chairman
Petar Statev – member
Yordan Nedev – member*

4. Audit Committee, composed of:

*Angel Petrov Kraychev - chairman
Alexander Todorov Kolev - member
Emilian Ivanov Petrov – member*

ADOPTED INTERNAL DOCUMENTS

In 2015 the company adopts the necessary internal documents related to the company's working and management processes and fulfillment of its obligations as a public company:

- Good Corporate Governance Program::
- Operating Rules of the Board of Directors:
- Instructions and clarifications on the obligations and responsibilities of internal insiders::
- Special code of conduct for financial and accounting positions.

All documents are publicly available on the company's website:

<https://www.sirma.bg/investors/корпоративно-управление/корпоративни-документи/>



THE PARTICIPATION OF MEMBERS OF THE BOARD OF DIRECTORS IN THE CAPITAL OF THE COMPANY IS AS FOLLOWS:

Shareholders	Number of shares at 31.12.2018	Number of shares at 30.09.2018	Nominal VALUE (BGN)	Value (BGN)	% Shareholding	% shareholding with deducted repurchased own shares
Atanas Kostadinov Kiryakov	2 887 524	2 877 374	1	2 887 524	4,86%	4,90%
Georgi Parvanov Marinov	5 269 748	5 269 748	1	5 269 748	8,88%	8,95%
Tsvetan Borisov Alexiev	4 865 753	4 865 753	1	4 865 753	8,20%	8,26%
Chavdar Velizarov Dimitrov	4 750 786	4 750 786	1	4 750 786	8,00%	8,07%
Petar Borisov Statev	10 100	10 100	1	10 100	0,02%	0,02%
Yordan Stoyanov Nedev	3 433	3 433	1	3 433	0,01%	0,01%
Total	17 787 344	17 777 194		17 787 344	29,96%	30,21%

During the period 30.09.2018 - 31.12.2018:

- the member of the Board of Directors Atanas Kostadinov Kiryakov acquired 10 150 shares of Sirma Group Holding JSC;

CEO of Sirma Group Holding is Tsvetan Borisov Alexiev.

REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS OF SIRMA GROUP HOLDING JSC

Board Member	Company	Sums for the period 01.01.2018 -31.12.2018 (BGN)
Atanas Kostadinov Kiryakov	EngView Systems Sofia	600
	Ontotext	149 660
	Sirma AI	100
	Sirma Group Holding	18 300
	Sirma Solutions	6 000
Georgi Parvanov Marinov	EngView Systems Sofia	102 888
	Sirma Business Consulting	10 500
	Sirma Group Holding	19 800
Yordan Stoyanov Nedev	Sirma Group Holding	72 480
	Sirma Medical Systems	1 200
	Sirma Group Holding	18 300
Petar Borisov Statev	Sirma Group Holding	18 000
Sasha Konstantinova Bezuhanova	Sirma Group Holding	240
Tsvetan Borisov Alexiev	Daticum	600
	EngView Systems Sofia	6 000
	Ontotext	100
	Sirma AI	21 000
	Sirma Business Consulting	139 500
Tsvetomir Angelov Doskov	Sirma Group Holding	126 027
	Sirma Solutions	166 258
	Sirma Business Consulting	18 300
Chavdar Velizarov Dimitrov	Sirma Group Holding	238
	Daticum	68 182
	EngView Systems Sofia	55 689
	Sirma Medical Systems	1 187
Total		1 021 149



6.4 INFORMATION ON THE CONTRACTS OF THE MEMBERS OF THE ADMINISTRATIVE, MANAGEMENT OR SUPERVISORY BODIES WITH THE COMPANY PROVIDING SEVERANCE PAY

In the contracts of the members of the board of directors, both with the Company itself and with subsidiaries of the Company, where such contracts are available to them, no benefits have been provided upon termination of their contracts.

7 INFORMATION ON THE COMPANY'S AUDIT COMMITTEE OR REMUNERATION COMMITTEE, INCLUDING THE NAMES OF THE MEMBERS OF THE COMMITTEE AND A MANDATE SUMMARY BY WHICH THE COMMITTEE FUNCTIONS

At the General Meeting of the Shareholders of the Company held on 14.06.2016 an Audit Committee was appointed (according to the requirements of paragraph 1, item 11, letter "a" of the FIA) consisting of:

Angel Petrov Kraychev - chairman
Alexander Todorov Kolev - member
Emilian Ivanov Petrov – member

The mandate of the Audit Committee is 3 (years).

On 15.06.2017 Sirma Group Holding JSC held its regular Annual General Meeting of Shareholders, based on article 20 from Regulation № 48/ 20.03.2013 regarding the remuneration requirements of FSC, the following members of the Remuneration Committee were appointed:

Georgi Parvanov Marinov – chairman

Yordan Stoyanov Nedev – member

Petar Borisov Statev- member

8 STATEMENT ON WHETHER THE COMPANY COMPLIES OR DOES NOT TO THE REGIME FOR CORPORATE GOVERNANCE

In view of the fact that Sirma Group Holding JSC is entered in the Register under Art. 30, para. 1, item 3 of FSCA, kept by FSC, the Company has implemented a Program prepared in accordance with internationally recognized standards for good corporate governance. In accordance with the provision of Art. 100n, para. 4, item 3 of POSA, the financial statements of Sirma Group Holding JSC comply with its Program for the application of internationally recognized standards for good corporate governance and maintains its accounting policy in accordance with International Accounting Standards.



9 OUR BUSINESS MODEL

In order to accompany our customers in their digital transformation and the massive transition of their business into a secure cyberspace, we took advantage of our technological advantages and skills. We have focused on preparing them for the intelligent enterprise era. An intelligent enterprise can model, bind, classify, and use data as a core asset for doing business. It has smart documents in an excellent collaborative environment, receives additional information to help make critical business decisions. This enhances customer satisfaction, performance and efficiency. We started creating virtual agents in the financial industry. We have entered a new niche in health care - the management of chronic diseases. We have achieved excellent cyber-security success using unique methods to protect the digital space. We have expanded our capabilities through a set of semantic technologies to provide our customers with better content management, knowledge detection, and semantic search. Our vision and mission unlock our ability to create a positive economic, environmental and social effect. By playing this role, we must

have the necessary capital. First, we rely on the financial capital provided by our investors. But what really increases our success is the intellectual and social capital - our employees. They are the gateway to our knowledge, experience and business relationships. For this reason, committed, highly qualified and flexible employees are at the center of our business model and success. Sirma Group Holding is a group of quasi-independent legal entities, holding directly or indirectly 50% to 100% of the capital of the group of companies. The holding usually controls the management, determining the development of the group's companies, their investments and their budgets. It also provides legal, financial and administrative services, coordinates marketing and HR policies. With this model, Sirma manages to develop a strong vertical and regional specialization, to concentrate knowledge on customers, environments and specifics. The group manages to combine technologies and products in different verticals, to build synergies between individual businesses, building a unified corporate culture and values.

10 SIRMA GROUP HOLDING IN Q4 2018

10.1 THE BUSINESS

Established in 1992, Sirma has become one of the largest IT companies in the region for 25 years, owning a range of proprietary, innovative technologies, a diverse product portfolio and growing market share in Europe and North America.

Sirma owns software solutions for a wide range of businesses with a focus on the development of cognitive technologies (AI). The Group has diversified market exposure exclusively to the private sector with a stable customer portfolio. Sirma's products are concentrated in the most promising and high-tech areas - financial technology, semantics, industrial software, IoT, computer vision, telemedicine. In 2017, as part of its renewed strategy, the group began a focused effort to build cross-selling capacity, updated its sales and marketing model in line with the global trends - Software as a Service model.

Sirma is a globally recognizable company in semantic technology and among the top 10 worldwide in the areas of Graph Databases (GpahDB), Text Analysis, Data Detection, and Federation (Bloor, 2016). One of Sirma's products - EngView Package Designer Suite CAD is part of the design and packaging solutions of world leaders in the printing industry. The Holding is one of the regional leaders of the IT market, with 60% of the operators in the financial sector being its clients. Sirma is a top class regional cloud service provider with Class 4 Data Center licensed to store data from the Bulgarian National Bank and other organizations requiring increased data security. Through one of its companies, the Holding is the leader in the SaaS delivery to insurance brokers. Sirma has a strong presence on the US market by running a huge number of IT consulting projects. The group has a broad partner and distribution ecosystem in over 50 countries around the world.

Some of Sirma's unique advantages are:

- The Best RDF Triplestore in the World;
- Top Text Analytics Engine for Business (used by BBC, AstraZeneca, Ministry of Defense, USA);
- Face recognition technology - among the top 10 worldwide;
- Extensive expertise in news and social media analysis;
- Extensive expertise in creating Chatbot and AI Assistant applications.

In 2017, the group developed its 5-year "Sirma 2022 Strategy". Sirma focuses on the process of transforming organizations into "intelligent organizations." We have technology and know-how for all stages of this transition - from data collection - internal, external, structured, unstructured, open, connected, "dark" etc., through the development of models and knowledge repositories, the development of analytical models and predictive models based on artificial intelligence, to the provision of "human" interfaces of the next generation.

The main elements of the Strategy are:

- Technological transformation through concentration of R&D and core cognitive technology in the SENPAI (Sirma ENTERprise Platform with AI) - a cloud based platform with a new level of artificial intelligence (cognitive computing), allowing the intelligent evolution of organizations in everything;
- Increasing the commercialization of technologies;
- Expansion and technological leap in Sirma's product portfolio through:



- o Cloud base;
- o Development of new products with a cognitive element;
- o Integration of the existing portfolio with the SENPAI cognitive platform.
- Complementing the sales model - from predominantly on premise to SaaS sales;
- Significant expansion of the distribution network and partner ecosystem to improve the sales model - in addition to direct sales and sales through a major affiliate distribution network, including increasing OEM partnerships;
- Organizational restructuring to implement the strategy.

The transition to the SaaS sales model, the increase of cognitive sales, combined with planned marketing and sales investments will ensure a smooth and steady growth of Sirma to a global level and an increase in the value of the Group.

Our philosophy about our strategic technologies and products is that we embody the sense of human thought - perception, interpretation, forecasting and decision making.

By adopting the 2018-2022 Strategy, we began preparing for its implementation. We provided debt finance to eliminate minority holdings in Ontotext - a key company for the Strategy implementation. We have developed detailed development plans for both the cognitive core (SENPAI) and the strategic verticals of the group. We have begun a process of organizational and technological restructuring.

Economic Trends

Macro frame

According to data from the National Statistical Institute in December 2018, the total business climate indicator decreased by 0.5 percentage points compared to the previous month as a result of the less favorable business climate in industry.

According to the data of the National Statistical Institute, the composite indicator "business climate in retail trade" increased by 3.2 percentage points, due to the optimistic assessments and expectations of the retailers for the business condition of the enterprises. At the same time, however, their expectations for both sales volumes and orders for suppliers over the next three months are less favorable. The most serious difficulty for business remains competition in the industry, cited by 57.0% of the enterprises. The last month has seen increasing of the negative impact of the "insufficient demand" factor, which shifts the uncertain economic environment factor third. Retailers expect sales prices in the sector to remain at their level in the next three months.

According to data from the National Statistical Institute in December, the composite indicator "business climate in the services sector" remains at its November level. In terms of service demand, the current trend is estimated to be declining and expectations for the next three months are more reserved. Competition in the industry and the uncertain economic environment continue to be the main obstacles to business. Regarding sales prices in the service sector, managers expect them to remain unchanged over the next three months.

According to the December 2018 macroeconomic projections of ECB, Euro area real GDP growth is projected to increase on an annual basis by 1.9% in 2018, 1.7% in 2019, 1.7% in 2020 and by 1.5% in 2021. Compared to the ECB's macroeconomic projections of September 2018, the real GDP growth outlook is revised slightly downwards in 2018 and 2019. The risks to growth prospects in eurozone can still be assessed as broadly balanced. However, the risk balance shifts to lower than expected results due to persistent uncertainty related to geopolitical factors, the threat of protectionism, vulnerabilities in emerging markets and fluctuations in financial markets.



Development of the global economy in 2018 and forecast for 2019

The global economic growth is weakening and is expected to be 3.7% in 2018, according to an analysis of the IMF [/IMF WEO, January 2019/](#). Growth will continue to slow down in the coming years and is anticipated to be 3.5% in 2019 and 3.6% in 2020. In the same time the growth is not evenly distributed around the Globe and hence the risks in perspective are also growing.

Global growth expectations were decreased in 2018 following the negative impact of the new trade tariffs adopted by USA and China. Global GDP is expected to slow its growth to 3.5% in 2019 following the relatively weak data for industrial production in the second half of 2018, which is anticipated to continue in the upcoming quarters. The growth in the developed economies is expected to be 2.3% in 2018 and to slow down to 2.0% in 2019 and 1.7% in 2020. The decline in growth is due to anticipated decrease in the growth in the Euro-area. The expectation for slower growth are also valid for USA, where a growth of 2.5% is expected in 2019 and 1.8% in 2020. The GDP of Japan is expected to grow by 1.1% in 2019 and to slow to a 0.5% growth in 2020. The developing markets are also expected to slow their growth - 4.6% in 2018 and 4.5% in 2019 and subsequent recovery to 4.9% growth in 2020.

The main risks to the global economy are the trade tensions, the slow-down of the economy in Europe and the uncertainty around Brexit.

Despite the slow-down, the growth of the global economy in the coming years will be beneficial to the expectations for development of the ICT industry, which is one of the key factors for the global growth.

The Industry of Sirma

The companies of Sirma Group Holding are specialized in the information technology (IT) industry. Industry data is typically combined with data for the "communications segment" as this segment is entirely IT-dependent. The industry, respectively, acquires the name "Information and Communication Technology" or abbreviated ICT. From the wide variety of ICT segments, the Sirma group of companies work mainly in the IT services (system integration segment, infrastructure as a service, software as a service, software maintenance, consulting) and business software (various software products targeted at different business verticals and custom software development). It is these segments, according to a [Gartner January 2019 study](#), which are expected to be the leading segments of growth in the IT industry over the next five years.

Global ICT Market 2018

According to the [Gartner study, revised in January 2019](#), during 2018 the rapid expansion of the ICT market, which started in 2017, continues. In 2018 the global spending for ICT grew with the formidable CAGR /compound annual growth rate/ 3.9% y/y, reaching USD 3.650 trillion in current prices. If the minimal growth of "Communication services" is subtracted, the growth of the remaining IT sector for 2018 is 5.1% with total spending on IT exceeding USD 2.251 trillion. The sustainable drivers of this growth are the segments "Enterprise Software" and "IT Services" with annual growth for 2018 of 9.3% and 5.6% respectively.

The record growth of IT spending in 2018 is mainly due to sustainable economic growth of the global economy. The process of reallocating IT spending from assets (CAPEX) to services (OPEX) continues, already covering almost all areas of the economy. "Cloud transformation is now almost over for some categories of software (CRM, e-commerce) and is just starting to be implemented in many others," said Andrew Bartels, VP of Forrester. Accordingly, the change in the methods of payment for the used software continues and, instead of significant capital advance payments, the cost is shifting to significantly lower, but recurring operating costs. This change in the mode of spending is also the reason for the relatively large increase (against the background of the more modest growth) of the "Enterprise software" and "IT services" segments, as described above.

Forecast for the Global ICT Market in 2018 and the period 2017 - 2022

Gartner's expectations for the development of the ICT market in the coming years remain optimistic, with an expected CAGR of 3.55% over the period 2017-2022. 2018 continues the trend that was started in 2017 of a boom in ICT spending in all segments, leading to a record 6.2% growth in 2018 over the previous year, reaching the record \$ 3.7 trillion for the past ten years.

In the coming years, there is no major change in the expenses for "**Communication Services**" and these will remain at levels of about \$ 1.4 trillion per year with a relatively low annual growth rate of CAGR of 1.50%. At the same time, they remain the largest single segment in ICT spending by 2022.

The most dynamically growing segments remain "**Enterprise Software**" with an annual CAGR of 8.53% and "**IT Services**" with an annual CAGR of 5.30% over the period 2017 - 2022. In 2018, the growth of "Enterprise software" and "IT Services" are expected to peak at 11.10% and 7.4%, respectively. In the following years, by 2022 both segments preserve their leading (though more moderate) growth among all other segments in the ICT sector.



Reasons for the Market Growth During in the Period 2018 – 2022

Gartner's expectations for 2018 are for growth in ICT spending at 6.2% at current prices or 3.0% at constant prices. The difference between the two percentages illustrates the impact of the declining US dollar in the first months of 2018, upon the industry (where prices are mainly denominated in dollars, and due to the fact that the United States is a major world IT hub). This influence began in 2017 and is expected to fade away in the coming years.

Leading growth over the period has the **"Enterprise Software"** segment. The segment is expected to grow by 11.10% in 2018 followed by another 8.4% in 2019 to reach \$ 424 billion. The reason for the growing demand for Enterprise software mirrors the growing demand for applications from companies which want to derive extra income from the digital business processes. The penetration of artificial intelligence (AI) into business applications (software and platforms) will also contribute strongly to the growth in the segment.

*"Businesses are increasingly relying on IT. Organizations are expected to increase their spending on business applications in 2018, with most of the budget shifting to software as a service (SaaS),"*said Lullock.

At the same time, the massive penetration of cloud technologies, software as a service and infrastructure as a service will catalyze demand in the **"IT Services"** segment.

Leading Consumers of IT in 2018

In their study, The International Data Corporation ([IDC, February 2018](#)), identifies organizations and businesses with 80% of IT spending as the primary consumer of ICT products and services, with end-users' spending only 20% of the total IT spending in 2018. The demand from individual users is expected to stagnate with CAGR of 0.3% in the coming years. Which means that corporate users are the main drivers behind the booming growth in the ICT market in the coming years.

The economic **sectors with the highest IT spending** in 2018 are "Financial Services" (Banks, Insurers and Investors) and "Industrial Production," according to the IDC's study. In total, the two sectors will generate over 30% of IT spending in 2018, investing in new technologies to advance their digital transformation. Telecoms, the public sector and professional services are also expected to invest significantly during the year. The fastest growth in IT spending for the period up to 2020 is expected from "Professional Services", "Healthcare", "Finance" and "Media", according to the IDC forecast.

Geographic Distribution of the IT Spending and Regional Growth in 2018

IT expenses remain very diverse in the various geographic regions. The strong two-digit growth in 2018 is expected in South East Asia, namely India, China, Malaysia and Thailand. At the same time, they occupy a relatively small share of the world market. North America is the undisputed leader, contributing about 40% of the Global market growth, with a relatively strong expansion of 5.5% in 2018. Europe, the second-largest IT market in the world, continues to suffer from the uncertainty surrounding BREXIT, and expects growth of around 4% (slightly below average) with diversity among the individual European states. The smallest growth of less than 2%, as well as a modest contribution to world growth, is expected in 2018 in Japan and South Korea.

IT spending in the US is expected to reach USD 920 billion in 2018. While IT services such as software development, deployment, and system integration are leading US spending in 2017 (275 billion), Software costs will grow faster (CAGR 7.9%) and will outperform IT services until 2020 according to the IDC estimates.

The Bulgarian IT market in 2018

A survey by [BASSCOM from 2018](#) suggest anticipated growth of revenue of IT companies for 2018 to be almost 16% on a y/y basis, reaching BGN 2.9 billion or EUR 1.5 billion. The sales reached in 2018 are already three times as high as these from 2011. The ratio „IT revenues to GDP“ has also more than doubled in this period. The anticipated share of the IT industry in the GDP is 2.4% in 2017.



10.2 SEGMENTS

THE GROUP DEFINED OPERATION IN SEVERAL SEGMENTS:

STRATEGIC VERTICALS



Finance

Sirma Business Consulting

Leading integrator and implementer of Oracle FlexCube™

S&G Technology Services

Leading integrator and implementer of Temenos core banking software.

Sirma ICS

Leading provider of insurance broker platform.



Healthcare and Life Sciences

Sirma Medical Systems

Software applications for management and control of chronic diseases; leading product Diabetes-M.

Ontotext

Data integration, text analysis and semantic search. Analyze reports from clinical trials of medicines, patient records and scientific papers for pharmaceutical companies and health insurers.



Industrial Solutions

Eng View

Leader in the provision of products and solutions for the measurement industry; OEM partner of QVI – the world's second biggest manufacturer of machines for the measurement industry.



Market Intelligence and Publishing

Ontotext

Global leader in semantic solutions for data integration and content analysis for media, business and investment information agencies, and scientific publishers.

Sirma Group Inc

Provider of software solutions and services for galleries, museums, archives and libraries (GLAM).



Retail and Utility

Sirma Solutions

Among the leading providers of face recognition solutions; Solutions and services based on algorithms for machine learning;

Sirma USA

Developer of an innovative solution for Cyber Security.

Sirma CI

(Customer Intelligence)

Cognitive software solutions for omnichannel retail and communications.



Cross-Industry Solutions

Sirma Solutions

Possesses the full scope of solutions for outsourcing the IT departments of enterprises; Among the best system integrators in Bulgaria;

Daticum

Leading provider of cloud services and infrastructure with a certified data center;

Sirma Group Inc

Leader in the provision of strongly customized scalable solutions;

Provider of open code platform for intelligent management of organizations and documents with LOW CODE personalization.



10.2.1 Segment Core technologies / SENPAI

WHAT WE DID UNTIL THE END OF Q4 2018?

Ontotext has launched two new versions of GraphDB - 8.7 and 8.8. GraphDB 8.7 offers vector-based concept matching and better scalability, performance and data governance. The latter version offers integration with MongoDB for metadata on a large scale, new semantic search for similarity based on graph integration, and faster and more flexible fulltext search (FTS) connectors. Ontotext signed a deal with Fujitsu Technology Solutions SA, Madrid, which bought licenses for GraphDB Enterprise Cluster Configuration, and joined the group of three other top 10 IT service providers using GraphDB as part of their AI platforms: InfoSys, Atos Origin and NTT Data.

FINANCIAL RESULTS OF THE SEGMENT

			31.12.2018	31.12.2017
Segment	Indicator	Detailed indicator	BGN '000	BGN '000
Core Technologies	Revenues	Revenues from sales of services	5 606	5 257
		Revenue from financing	119	-
	Revenues Total		5 725	5 257
	Expenses without depreciation	Other expenses	(272)	(40)
		Material expenses	(9)	(36)
		Expenses for external services	(1 378)	(4 527)
		Wage expenses (wages)	(1 565)	(3 215)
		Social Security expenses	(176)	(339)
	Expenses without depreciation Total		(3 399)	(8 157)
	Capitalization 613	Expenses for external services	332	4 292
		Wage expenses (wages)	542	865
		Social Security expenses	59	85
	Capitalization 613 Total		933	5 243
	Unfinished production 611	Depreciation and amortization expenses	18	9
		Expenses for external services	64	8
		Wage expenses (wages)	177	411
		Material expenses	0	1
		Social Security expenses	15	42
	Unfinished production 611 Total		274	471
	Depreciation and amortization	Depreciation and amortization expenses	(1 779)	(1 465)
	Depreciation and amortization Total		(1 779)	(1 465)
Result			1 754	1 349

In Q4 2018 the revenues of the segment grew by 8,91%, and the result increased by 30,07% or 406 thousand BGN compared to Q4 2017.



10.2.2 Segment Cross industry solutions

This is Sirma's largest segment. It includes consulting, system integration, and public sector. Companies of Sirma Group operating in the Cross-industry segment are: Sirma Solutions JSC, Sirma USA, Datium JSC.

SIRMA GROUP PRODUCTS, SERVICES AND SOLUTIONS IN THE CROSS INDUSTRY SEGMENT:

Vertical	Product, Solution, Service	Application
Cross-Industry Solutions	Sirma Enterprise Intelligent Platform	Intelligent processes and documents
	Computer vision	Finance management
	E-services and e-government	Human Resources
	Cyber security for applications	Marketing and sales
	DevOps	Managing and developing products and services
	Tiimz	Information security
	Mobile Parental Control/Bipper;	Cloud Services, Data Center
	Digital Signature Solution;	
	GoDigital	
	Manage "DevOps" processes	
	System integration	
	IT consulting services;	
	Sirma Enterprise Solutions;	
	Cloud services/IaaS	
	Daticum Cloud Platform	
	Sirma Complete Cloud	
	VipCloud	
	Cloud infrastructure as a service (IaaS)	
	Managed services	
	Backup as a service (BaaS)	
	Disaster Recovery as a service (DRaaS)	
	Leased servers and equipment	
	Colocation of hardware equipment	
	Construction and operation of backup data centers	
	Custom Software Development	



WHAT WE DID UNTIL THE END OF Q4 2018?

Sirma Solutions started the project for the development and upgrading of the information system for reimbursement of medicines prices. The company completed Phase I of the FMO project. Sirma USA has continued the successful implementation of the project with MascomaBank, to create "Bank Statement Printing" management software. We have carried out Phase 3 of AXCESS project, which includes improvements to the bid platform, for California-based client. For KOUNT project we have successfully completed the implementation of a "velocity engine" for financial transactions risk assessment. Datium JSC was certified under ISO / IEC 9001: 2015q as well as ISO / IEC 27001: 2013. Another audit has been successfully completed under an additional ISO / IEC 27018: 2014 standard, which refers to the implementation of personal data protection measures (GDPR). The company established a strategic partnership with DGM, through which DGM's customers will be served by DATICUM cloud platform.

FINANCIAL RESULTS OF THE SEGMENT

			31.12.2018	31.12.2017
Segment	Indicator	Detailed indicator	BGN '000	BGN '000
Cross Industry	Revenues	Other operating revenue	2 239	322
		Revenues from sales of goods	21 376	11 361
		Revenues from sales of services	17 449	22 060
		Revenues from sales of FA	2	-
		Revenue from financing	171	179
	Revenues Total		41 236	33 922
	Expenses without depreciation	Other expenses	(1 503)	(614)
		Book Value of Goods Sold	(19 399)	(10 141)
		Expenses for external services	(3 786)	(4 974)
		Wage expenses (wages)	(8 248)	(7 158)
		Material expenses	(1 225)	(7 885)
		Social Security expenses	(883)	(719)
	Expenses without depreciation Total		(35 044)	(31 492)
	Capitalization 613	Depreciation and amortization expenses	710	643
		Expenses for external services	868	3 062
		Wage expenses (wages)	830	1 497
		Social Security expenses	117	198
	Capitalization 613 Total		2 524	5 401
	Unfinished production 611	Other expenses	56	270
		Wage expenses (wages)	548	4
		Social Security expenses	83	-
	Unfinished production 611 Total		688	274
	Depreciation and amortization	Depreciation and amortization expenses	(1 663)	(1 687)
	Depreciation and amortization Total		(1 663)	(1 687)
Result			7 741	6 419

In Q4 2018, the segment posted result growth by BGN 1 1323 thousand or 20,60% compared to Q4 2017.



10.2.3 Financial Segment

THE COMPANIES FROM SIRMA GROUP WHICH OPERATE IN THE FINANCIAL SEGMENT: Sirma Business Consulting JSC, S&G Technology Services, Sirma ICS JSC.

PRODUCTS, SOLUTIONS AND SERVICES OF SIRMA GROUP FOR THE FINANCIAL SEGMENT

Vertical	Product, solution, service	Use
Finance	Implementation of Oracle FlexCube & Temenos	Automation of the back-office functions
	Software for insurance broker ICS Platform	Prevention of money laundering
	System for regulatory reporting RepXpress	Prevention of fraud
	UBX Central Credit Register	Risk assessment
	System for regulatory reporting CeGate	Compliance evaluation
	Card management and transactions as a service	Personalized services
	Migration of key financial systems, products and services to the cloud	Client service, improvement of client satisfaction and engagement using all communication channels and sales
	Multi-functional and multi-channel platforms	Client service, cross and up sales
	Chatbot and intelligent assistants	Customer knowledge, sales and behavior forecast

WHAT WE DID UNTIL THE END OF Q4 2018?

Sirma Business Consulting signed a new contract with a Bank of the Bahamas Bank of the Caribbean. The contract provides a full upgrade of all banking information systems to the latest version of Oracle FlexCube 12. The overall project duration is 18 months. The contract value is \$ 1.2 million.

S & G Technology Services enriched its portfolio of innovative projects. The company successfully completed a new fully integrated mobile application for UBB (part of the KBC Group), it also introduced Open Banking for T24 together with Temenos. Both projects will help S & G become a preferred European consultant, in the field of banking software, enabling clients to achieve digital transformation and compliance.



Financial results of the segment

			31.12.2018	31.12.2017
Segment	Indicator	Detailed indicator	BGN '000	BGN '000
Financial	Revenues	Other operating revenue	46	41
		Revenues from sales of services	7 573	6 220
		Revenues from sales of FA	18	-
	Revenues Total		7 637	6 261
	Expenses without depreciation	Other expenses	(220)	(269)
		Book Value of FA Sold	(11)	-
		Expenses for external services	(1 452)	(1 474)
		Wage expenses (wages)	(3 700)	(3 213)
		Material expenses	(260)	(72)
		Social Security expenses	(431)	(406)
	Expenses without depreciation Total		(6 074)	(5 434)
	Capitalization 613	Depreciation and amortization expenses	-	89
		Expenses for external services	-	324
		Wage expenses (wages)	12	241
		Social Security expenses	3	27
	Capitalization 613 Total		15	681
	Depreciation and amortization	Depreciation and amortization expenses	(311)	(543)
	Depreciation and amortization Total		(311)	(543)
	Result		1 267	965

In Q4 2018, the segment posted result growth of BGN 302thousand or 31,27% compared to Q4 2017.



10.2.4 Segment Market intelligence, Publishing and Cultural heritage

COMPANIES OF SIRMA GROUP WHICH OPERATE IN THE SEGMENT: **ONTOTEXT JSC**

PRODUCT, SERVICES AND SOLUTIONS OF SIRMA GROUP IN THE SEGMENT MARKET INTELLIGENCE, PUBLISHING AND CULTURAL HERITAGE

Vertical	Product, solution, service	Use
Market intelligence, Publishing and Cultural heritage	GraphDB	Extraction, linking, structuring and enriching of information from various sources
	Instrument for text analysis	Text analysis of unstructured data
	Platform for dynamic semantic publishing	Data base integration within big graphs of data
	Digital assistant for fact-checking - Hercule	Analysis of documents, extraction of information and meta-data generation, which link text with structured data
	Text and data management	Linking company knowledge, information extracted from text and public open data.
	Content management and collaboration	Content query and indexation
	Public Content Management	Context and personalized content suggestion.
	Sirma Enterprise Platform	Helps research various content, published on the Internet, such as news, video and publication in social networks.
	·Museum Space	Intelligent query, personalized content, suggestions, discovery of fake news, fact check, popularity ranking
	Collection Management	Intelligent transformation of every kind of organization
	SEIP	Creation of vertical business solutions based on specific areas of knowledge
	Data, Knowledge and Analytical services	Creation, storage and restoration of versions of important documents for cultural heritage objects
	Digital Asset Management	Safeguards important objects and digital archives of becoming victims of inadequate policies for protection of records, changes in the documents, accidents or disasters caused by man or nature.



WHAT WE DID UNTIL THE END OF Q4 2018?

We are working hard to expand partnerships with global IT service providers, consultants and system integrators. This is a vital part of Ontotext and Sirma's business development strategy, the approach we use in order to offer our cognitive business solutions for large businesses and governments around the world. Ontotext won € 1.4M funding and secured a total of € 3.1M for R&D in the field of AI.

FINANCIAL RESULTS OF THE SEGMENT

Segment	Indicator	Detailed indicator	31.12.2018	31.12.2017
			BGN '000	BGN '000
Market intelligence, Publishing and Cultural heritage	Revenues	Other operating revenue	9	9
		Revenues from sales of services	2 911	2 116
	Revenues Total		2 920	2 125
	Expenses without depreciation	Other expenses	(87)	(33)
		Expenses for external services	(942)	(612)
		Wage expenses (wages)	(962)	(807)
		Material expenses	(34)	(8)
		Social Security expenses	(90)	(75)
	Expenses without depreciation Total		(2 115)	(1 535)
	Depreciation and amortization	Depreciation and amortization expenses	(13)	(65)
	Depreciation and amortization Total		(13)	(65)
	Result		792	524

In Q4 2018, the segment recorded a increase in its result of 51,06% or BGN 268 thousand, compared to Q4 2017.



10.2.5 Segment Industrial solutions

The company within Sirma Group, which primarily operates in the Industrial segment: EngView Systems Sofia JSC.

PRODUCTS, SERVICES AND SOLUTIONS OF SIRMA GROUP IN THE INDUSTRIAL SEGMENT:

Vertical	Product, service, solution	Use
Industrial solutions	EngView Package & Display Designer Suite	CAD tools for design of packaging and displays
	packGate	Online portal for packaging and display manufacturing connecting customers with manufacturers
	e-Callipre	Electronic caliper
	ScanFit & Measure	Intelligent video measurement software.
	E-QMA	Quality management
	TurnCheck	Specialized software for the measurement of shafts and rotary parts, part of OEM solution for quality control in their production.

WHAT WE DID UNTIL THE END OF Q4 2018?

EngView Systems participated in all major exhibitions and trade events related to the packaging and aluminum industry (Brazil, Germany, Italy). The company has strengthened its partnership with its major Italian distributor – Viscom, and both companies took part in an important regional exhibition for the press, advertising, and packaging. It was presented the new cloud-based solution for online design and sales of packaging. The joint participation of SGIA's largest exhibition for the printing industry, with two of OEM's partners, Colex and MultiCam. Among the most famous trade exhibitions in which the company participated were FachPack2018 (Germany), Grafima2018 (Serbia), CorrugatedWeek2018 (USA), FASTSIGNS 2018 OUTSIDE SALES SUMMIT (USA), International Graphic Arts Show in Tokyo, Sign & Digital 2018 in Birmingham, UK, ISA Sign Expo 2018 (USA). EngView Systems has become a member of the Ghent Workgroup - GWG association, working to develop standards for describing packaging manufacturing processes. The measurement products were jointly presented to M-Tech Tokyo 2018 with a local partner.

FINANCIAL RESULTS FOR THE SEGMENT

			31.12.2018	31.12.2017
Segment	Indicator	Detailed indicator	BGN '000	BGN '000
Industrial solutions	Revenues	Other operating revenue	19	18
		Revenues from sales of goods	90	29
		Revenues from sales of services	2 919	2 850
	Revenues Total		3 028	2 897
	Expenses without depreciation	Other expenses	(127)	(119)
		Expenses for external services	(985)	(811)
		Wage expenses (wages)	(1 830)	(1 991)
		Material expenses	(49)	(66)
		Social Security expenses	(209)	(214)
		Book Value of Goods Sold	(54)	(29)
	Expenses without depreciation Total		(3 256)	(3 230)
	Capitalization 613	Expenses for external services	129	289
		Wage expenses (wages)	945	596
		Social Security expenses	101	62
	Capitalization 613 Total		1 175	946
	Depreciation and amortization	Depreciation and amortization expenses	(161)	(162)
		Depreciation and amortization Total	(161)	(162)
Result			787	451

In Q4 2018, the segment posted increase in its result of 74,40% or BGN 336 thousand compared to Q4 2017.



10.2.6 SEGMENT RETAIL & UTILITY

Companies in Sirma Group, which operate in the segment Retail: Sirma Solutions, Sirma USA.

Vertical	Product, service, solution	Use
Retail & Utility	Comprehensive solution for in-store marketing – MarketVidia	Facial recognition with high precision
	Platform for management of loyalty programs LOYAX	Demographic identification
	Marketing and forecast analytics for consumer behaviour	Automated data collection
	Mobile OCR	Heatmap analysis in stores
	Chatbot, intelligent assistants	Improvement of customer experience
		Multi-channel communication
		Security – national, corporate

WHAT WE DID UNTIL THE END OF Q4 2018?

Sirma Solutions signed a long-standing contract with a large international retailer. The company has delivered consulting IT services, implementation and delivery of software and hardware for lottery management, games and promotional activities nationwide. We have just finished the details of the long-term partnership with one of the leading telecoms in Bulgaria for distribution of a software platform as VAS (value-added service) of a cloud solution, targeting the SMB segment. The project will start at the beginning of Q2 2019.

FINANCIAL RESULTS OF THE SEGMENT

			31.12.2018	31.12.2017
Segment	Indicator	Detailed indicator	BGN '000	BGN '000
Retail & Utility	Revenues	Revenues from sales of services	158	1 321
	Revenues Total		158	1 321
	Expenses without depreciation	Other expenses	(0)	(20)
		Expenses for external services	(1)	(250)
		Wage expenses (wages)	(44)	(749)
		Material expenses	-	(7)
		Social Security expenses	(6)	(88)
	Expenses without depreciation Total		(51)	(1 113)
	Capitalization 613	Depreciation and amortization expenses	-	4 031
		Wage expenses (wages)	-	450
		Social Security expenses	-	55
	Capitalization 613 Total		-	4 536
	Depreciation and amortization	Depreciation and amortization expenses	-	(4 036)
	Depreciation and amortization Total		-	(4 036)
Result			107	708

In Q4 2018 the segment result decreased by BGN 601thousand compared to Q4 2017.



10.2.7 SEGMENT HEALTHCARE & LIFE SCIENCES

The company within Sirma Group, which mainly operates in the segment Healthcare: Sirma Medical Systems JSC.

PRODUCTS, SERVICES AND SOLUTIONS OF SIRMA GROUP IN THE SEGMENT HEALTHCARE:

Vertical	Product, service, solution	Use
Healthcare & Life sciences	Intelligent mobile application for control of diabetes – Diabetes: M	Diabetes management
	Platform for comprehensive monitoring of chronic diseases	Process optimization in various clinics and hospitals
	Software platform for management of healthcare institutions	Collection, access and sharing of information for health or sickness
	Personal health terminal – electronic patient file	

WHAT WE DID UNTIL THE END OF Q4 2018?

MPI2 was presented on the annual congress of the American Speech and Hearing Association, at the ASHA Convention 2018 / Boston, Massachusetts. MPI2 is the only software application validated by clinical trials of the Food and Drug Administration in the United States. Ontotext, in collaboration with 20 researchers from all over Europe, won funding for a research project ExaMode, under the Horizon 2020 framework. ExaMode is a Big Data project for Healthcare. By using artificial intelligence algorithms, the project revolutionizes pathological diagnosis.

FINANCIAL RESULTS OF THE SEGMENT

			31.12.2018	31.12.2017
Segment	Indicator	Detailed indicator	BGN '000	BGN '000
Healthcare & Life sciences	Revenues	Other operating revenue	12	-
		Revenues from sales of services	383	252
	Revenues Total		395	252
	Expenses without depreciation	Other expenses	(19)	(3)
		Expenses for external services	(13)	(186)
		Wage expenses (wages)	(394)	(347)
		Expenses for materials	(2)	-
		Social Security expenses	(33)	(32)
	Expenses without depreciation Total		(461)	(568)
	Capitalization 613	Depreciation and amortization expenses	12	21
		Wage expenses (wages)	103	290
		Social Security expenses	11	27
	Capitalization 613 Total		126	339
	Depreciation and amortization	Depreciation and amortization expenses	(12)	(21)
		Depreciation and amortization Total	(12)	(21)
	Result		48	2

In Q4 2018 the segment result decreased by BGN 46 thousand compared to Q4 2017.



11 INVESTMENTS BY COMPANIES

For information on company investments, please see Appendix 4.

12 MAIN MARKETS

Consolidated earnings of Sirma Group Holding for the historical period under review are of different nature and geographic origin. Traditionally, revenues from services and goods have the highest share. At the same time, Europe, North America and the United Kingdom are at the forefront of geographic distribution of earnings. Revenues by region and countries are presented in the following table.

REVENUE BY REGIONS AND COUNTRIES:

Region	31.12.2018	31.12.2017	Change	Change
	BGN '000	BGN '000	BGN '000	%
Australia	3	71	(68)	-95,77%
Asia	232	760	(528)	-69,47%
Africa	39	38	1	2,63%
Europe	40 558	32 825	7 733	23,56%
United Kingdom	8 701	8 157	544	6,67%
South America	12	33	(21)	-63,64%
North America	11 555	10 152	1 403	13,82%
Total	61 100	52 036	9 064	17,42%

"Sirma Group Holding" JSC and the companies from the Group realize their production and services without geographical restrictions. However, traditionally the highest sales Group generates in Europe and North America. These, together with United Kingdom revenues, occupy traditionally 99,53 % of the total amount of consolidated revenue. Nevertheless, due to the exceptional diversification of its products and services, which are applied in many different sectors and customers, we can not talk about any dependence of the Group on individual clients or on particular service

13 INFORMATION

13.1 IMPACT OF EXCLUSIVE FACTORS

The information in this report is not affected by the presence of exceptional factors.

13.2 SUMMARY INFORMATION RELATING TO THE STATE OF WHICH THE COMPANY DEPENDS ON PATENTS OR LICENSES, INDUSTRIAL, COMMERCIAL OR FINANCIAL CONTRACTS OR FROM NEW PRODUCTION PROCESSES

Sirma Group Holding is not dependent on patents or licenses, industrial, commercial or financial contracts, as well as new production processes.

For all employees of the Company, it has the appropriate licenses for operating systems and application software for PCs and servers required for the normal workflow.



13.3 INFORMATION CONCERNING SIGNIFICANT FACTORS INCLUDING NON-ORDINARY OR RARE EVENTS OR NEW DEVELOPMENTS WHICH DETERMINE THE INCOME OF THE COMPANY'S ACTIVITY

There are no significant factors, including unusual or rare events or new developments that materially affect the Company's revenue and future investments.

13.4 SIGNIFICANT CHANGES IN NET SALES OR REVENUES DISCLOSED IN THE ACCOUNTS

Significant changes in net sales or earnings as reported in the Company's statements and detailed in Section 14.1 of this Report are observed during the period considered.

13.5 INFORMATION ON GOVERNMENTAL, ECONOMIC, FISCAL, MONETARY POLICY OR POLITICAL COURSE OR FACTORS WHICH HAVE INFLUENCES SIGNIFICANTLY OR MAY INFLUENCE SIGNIFICANTLY, DIRECTLY OR INDIRECTLY THE ACTIVITY OF THE COMPANY

During the period under review, there were no factors of government, economic, fiscal, monetary or political factors which had a significant impact on the company's operations.

The main factors that may affect the Company's operations and how it manages the risk are described in the Risk Factors of this document.

13.6 SUMMARY INFORMATION RELATING TO THE STATE OF WHICH THE COMPANY DEPENDS ON PATENTS OR LICENSES, INDUSTRIAL, COMMERCIAL OR FINANCIAL CONTRACTS OR FROM NEW PROCESSING PROCESSES

In the economic group of Sirma Group Holding there are currently no activities dependent on foreign patents. In their product development, Ontotext and Sirma Enterprise Systems have integrated and developed software components that are based on open source software but are under licensing regimes (LGPL - "General public right GNU Free Software Foundation, BSD License - Berkeley Software Distribution Licensing Software, USA, Apache License, Apache Software Foundation, US), which do not restrict commercial use or otherwise to restrict their freedom by

ordering them Nittel comprehensive software solutions, including transfer copyright on them.

For the jobs of all employees in the Company's economic group, all companies have the appropriate licenses for operating systems and application software for PCs and servers required for the normal workflow in each particular company.

13.7 MAIN EVENTS AND MAIN BUSINESS NEWS IN Q4 2018

Information of events and business news in Q4 2018 can be found in Appendix 3.



13.8 MAIN LEGAL INFORMATION IN Q4 2018

13.8.1 Litigation for the period 01.01.2018 - 31.12.2018:

JUDICIAL JUDGMENTS

“SIRMA ISG” OOD AGAINST INSURANCES “SOFTWARE RETAIL” EOOD

Claims amount: 158 283 BGN, of which:

- 100 000 BGN - filed as a partial claim for compensation for damages from the total amount due, amounting to 538 971.27 BGN representing damages for non-performance of contractual obligations
- 58 283 BGN. - price of settling claim for establishing the existence of a legal relationship under a license agreement from 01.06.2011 - Reason for the objectively connected claims: Art. 79 of the LOC, Art. 82 LOC

„SIRMA ISG” OOD AGAINST TIANKO SASHKOV LATEV

Claims amount: 69 162,19 BGN of which::

- 50 000 BGN - filed as a partial claim for compensation for damages, expressed as expenses incurred from a total amount due from 311 524 BGN
- 11 162,19 BGN - representing indemnity for damages, expressed as unaccountable material means
- 8 000 BGN - representing damages in the form of the lost benefit

Grounds for claims: Art. 45 of the LOC in relation to Art. 145 TL, Art. 36 LPC and Art. 142 TL

There are no lawsuits filed against the company for the period



14 CONSOLIDATED FINANCIAL RESULTS

14.1 CONSOLIDATED REVENUES

Consolidated revenues in Q4 2018 includes:

	31.12.2018	31.12.2017	Change	Change
	BGN '000	BGN '000	BGN '000	%
Operating revenues from the sale of materials	0	1	-1	-100,00%
Operating revenues from the sale of goods	21 466	11 390	10 076	88,46%
Operating revenues from sales of services	36 999	40 077	-3 078	-7,68%
Revenue from revaluation and sale of FA	20	0	20	n/a
Revenues from financing	290	179	111	62,01%
Operating revenue from others	2 325	389	1 936	497,69%
Total	61 100	52 036	9 064	17,42%

Consolidated revenues grow steadily at a high rate of 17,42% or BGN 9 064 thousand during the period considered, which is in line with the upward trend in the business sector of the Group. The increase in consolidated revenues is due both to the attraction of new customers and to the increase in the volumes of existing ones.

Revenues from sales of services by type:

Type of service	31.12.2018	31.12.2017	Change	Change
	BGN '000	BGN '000	BGN '000	%
Backup services	97	80	17	21,25%
MAN connectivity	32	26	6	23,08%
Subscriptions	3 606	3021	585	19,36%
Administrative, accounting services	19	21	(2)	-9,52%
Outsourcing services	78	36	42	116,67%
Installation fee	2	2	-	0,00%
Internet	111	108	3	2,78%
Co-location	88	86	2	2,33%
Consulting services	6 424	3 975	2 449	61,61%
Consumables	165	172	(7)	-4,07%
Rental of software license	226	170	56	32,94%
Rental of hardware and licenses	90	99	(9)	-9,09%
Cabinet rental	183	179	4	2,23%
Rents	2	2	-	0,00%
Cloud Services	2 902	2 226	676	30,37%
Training	41	70	(29)	-41,43%
License revenues	2 283	1 984	299	15,07%
Revenue from European Projects - IAS 20	639	669	(30)	-4,48%
System integration	3 639	9 402	(5 763)	-61,30%
Software services	16 041	17 518	(1 477)	-8,43%
Technical Support	136	149	(13)	-8,72%
Hosting	195	82	113	137,80%
Total	36 999	40 077	(3 078)	-7,68%

14.2 CONSOLIDATED STAFF EXPENSES



Consolidated staff costs include:

	31.12.2018 BGN '000	31.12.2017 BGN '000	Change BGN '000	Change %
Actuarial gains / losses for the reporting period	4	0	4	n/a
Unused leave	77	0	77	n/a
Sick Leave	64	45	19	42,22%
Bonuses	227	60	167	278,33%
Paid leave	1 100	1 177	(77)	-6,54%
Expenses for wages under civil contracts	106	214	(108)	-50,47%
Payroll costs for contracts for management and control	1 319	1 351	(32)	-2,37%
Expenditure on retirement benefits under IAS 19	17	(25)	42	n/a
Social securities costs for civil contract	3	11	(8)	-72,73%
Social securities costs for contracts for management and control	38	38	-	0,00%
Social securities costs for unused leave	18	(3)	21	-700,00%
Social securities costs for labour contracts	1 938	1 937	1	0,05%
Wage costs	15 622	15 955	(333)	-2,09%
Total	20 533	20 760	(227)	-1,09%

In Q4 2018 the staff on Labour Contracts in the Group decreased by 0,85% and the consolidated staff expenses decreased by 1,09%.

Count of staff in the Group:

31.12.2018

Company	LC	CMC	Total
SIRMA CI	5	3	8
SIRMA ICS	9	1	10
DATICUM	10	6	16
ENGVIEW SYSTEMS SOFIA	42	5	47
SIRMA AI	1	2	3
SIRMA BUSINESS CONSULTING	56	5	61
SIRMA GROUP HOLDING	22	8	30
SIRMA SOLUTIONS	133	7	140
SIRMA MEDICAL SYSTEMS	4	3	7
SIRMA USA	5	1	6
S&G UK	0	1	1
SIRMA SHA	4	3	7
ONTOTEXT	58	3	61
Total	349	48	397



31.12.2017

Company	LC	CMC	Total
SIRMA ICS	9	1	10
DATICUM	10	7	17
ENGVIEW SYSTEMS SOFIA	39	5	44
SIRMA AI	2	3	5
SIRMA BUSINESS CONSULTING	53	5	58
SIRMA GROUP HOLDING	22	8	30
SIRMA SOLUTIONS	144	7	151
SIRMA MEDICAL SYSTEMS	4	3	7
SIRMA GROUP INC.	1	0	1
SIRMA USA	5	1	6
S&G UK	0	1	1
SIRMA SHA	4	3	7
ONTOTEXT	59	3	62
Total	352	47	399

14.3 CONSOLIDATED OPERATING EXPENSES

	31.12.2018 BGN '000	31.12.2017 BGN '000	Change BGN '000
Material expenses	(1 672)	(8 148)	6476
Change in %			-79,48%
Expenses for external services	(12 848)	(13 481)	633
Change in %			-4,70%
Depreciation and amortization of non-financial assets	(4 112)	(8 179)	4067
Change in %			-49,72%
Cost of goods sold and other current assets	(19 464)	(10 170)	-9294
Change in %			91,39%
Changes in stocks of finished products and incomplete production	962	745	217
Change in %			29,13%
Capitalized own expenses	8 534	17 330	-8796
Change in %			-50,76%
Other expenses	(2 453)	(1 579)	-874
Change in %			55,35%
Total expenses	(31 053)	(23 482)	-7571
Change in %			32,24%

In Q4 2018, consolidated operating expenses gradually increased in line with the Group's consolidated revenues. The highest share in consolidated operating expenses has consolidated external service expenses (41,37%), followed by depreciation and amortization (13,24%).



14.4 CONSOLIDATED FINANCIAL INCOME / COSTS NET

	31.12.2018	31.12.2017	Change	Change
	BGN '000	BGN '000	BGN '000	%
Financial costs	(1 313)	(1 049)	(264)	25,17%
Financial income	825	439	386	87,93%
Financial income / expenses net	(488)	(610)	122	-20,00%

Consolidated financial expenses increased by BGN 264 thousand or by 25,17 % in Q4 2018, mainly due to the exchange rate differences on currency transactions. Financial income increased by BGN 386 thousand or by 87,93%, mainly due to the increase in revenues from currency operations.

14.5 CONSOLIDATED ASSETS

Like the revenues, assets posted an increase of BGN 13 755 thousand or 10,38% over 2017. Traditionally, most of them, or 33,44%, occupy intangible assets, incl. Goodwill (15,18%), which is dictated by the activity of the Group and its ownership over a significant amount of software modules.

14.5.1 NON-CURRENT ASSETS

	31.12.2018	31.12.2017	Change	Change
Assets	BGN '000	BGN '000	BGN '000	%
Non-current assets				
Intangible assets	48 917	48 471	446	0,92%
Property, plant and equipment	5 055	5 214	(159)	-3,05%
Investments in subsidiaries	197	222	(25)	-11,26%
Investments in Associates	157	236	(79)	-33,47%
Deferred tax assets	316	198	118	59,60%
Expenses for acquisition of fixed assets	40 909	36 737	4 172	11,36%
Goodwill	22 212	19 540	2 672	13,67%
Total	117 763	110 618	7 145	6,46%

Non-current assets increased by BGN 7 145 thousand or by 6,46% during Q4 2018.

RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

Several companies belonging to the Sirma Holding Group invest in R & D, patents and licenses. These companies are "Ontotext", "Sirma Solutions", "EngView Systems Sofia" and "Sirma Enterprise Systems". They incurred the following costs for the historical period considered:

	31.12.2018	31.12.2017	Change	Change
	BGN '000	BGN '000	BGN '000	%
Sirma Solutions	1225	1084	141	13,01%
Ontotext	911	809	102	12,61%
EngView Systems Sofia	234	195	39	20,00%
Sirma Enterprise Systems	27	99	(72)	-72,73%
Total	2397	2187	210	9,60%



14.5.2 CURRENT ASSETS

	31.12.2018	31.12.2017	Change	Change
Assets	BGN '000	BGN '000	BGN '000	%
Current assets				
Inventories	3 612	2 576	1 036	40,22%
Trade receivables	11 216	9 098	2 118	23,28%
Receivables from related parties	588	2 460	(1 872)	-76,10%
Tax receivables	455	386	69	17,88%
Other receivables	1 020	1 114	(94)	-8,44%
Prepaid expenses	460	164	296	180,49%
Money and cash equivalents	11 176	6 119	5 057	82,64%
Total	28 527	21 917	6 610	30,16%

Current assets increased by BGN 6 610 thousand or by 30,16% in Q4 2018.

14.6 EQUITY

	31.12.2018	31.12.2017	Change
	BGN '000	BGN '000	BGN '000
Main / Share Capital	59 361	59 361	0
Change			0,00%
Reserves	3 800	6 826	-3026
Change			-44,33%
Retained earnings / (Accumulated loss) from previous years	26 927	15 513	11414
Change			73,58%
Non-controlling interest	15 768	25 221	-9453
Change			-37,48%
Changes resulting from purchased own shares	(475)	(475)	0
Change			0,00%
Total	105 381	106 446	-1065
Change			-1%

Equity during the period decreased by BGN 1 065 thousand or by 1%.



14.7 CONSOLIDATED LIABILITIES

Like the consolidated assets, the consolidated liabilities increased by BGN 14 820 thousand or 56,81% in Q4 2018, which can be traced back to the following tables.

14.7.1 NON-CURRENT LIABILITIES

	31.12.2018	31.12.2017	Change	Change
Non-current liabilities	BGN '000	BGN '000	BGN '000	%
Provisions	204	177	27	15,25%
Long-term loans	9 359	1 924	7 435	386,43%
Finance lease liabilities	127	199	(72)	-36,18%
Financing (Grants)	-	159	(159)	-100,00%
Liabilities to suppliers	58	28	30	107,14%
Deferred tax liabilities	454	1 335	(881)	-65,99%
Total	10 210	3 822	6 388	167,14%

Non-current liabilities increased by BGN 6 388 thousand or by 167,14% in Q4 2017.



LONG-TERM AND SHORT-TERM BANK LOANS

Recipient of credit	In Bank	Type of loan	Currency	Total amount of credit	Remaining obligation to 31.12.2018	Date of making the loan	Interest rate	Number of remaining installments	The amount of monthly installment	End date of the contract	Collateral
Loans in which the Issuer is a debtor											
Sirma Group Holding JSC	Eurobank Bulgaria	overdraft	BGN	2 200 000,00	2 110 432	11.8.2017	2,50%			31.7.2019	Pledge on shares – 1 373 548 of the share of Sirma Business Consulting AD, owned by Sirma Solutions, Pledge of Future and Current Cash Receivables and Stocks on the Open Account in Eurobank, Receivables Pledge of the Receivables under the Business Incubator Contract №BG161PO003-2.2.0012-C0001 / 02.02.2012; Contractual mortgage of a real estate located in Sofia, Mladost district, Tsarigradsko Shose Blvd 135, namely the 5th floor of the building (EUR 2 282 021)
Sirma Group Holding JSC	Societe Generale Expressbank	overdraft	BGN	2 000 000,00	1 993 800	8.8.2017	1 m. SOFIBOR +1,8%			31.8.2019	Pledge of 1 392 740 registered shares of the capital of Datium AD, owned by Sirma Solutions AD
Sirma Group Holding JSC	Unicredit Bulbank	investment	BGN	1 781 507,00	1 505 678	7.4.2017	ADI + 2.332% (no less than 2.5%)	103	16 495,00	7.4.2027	Office №1, 2, 3, 4, 5, 6, 7, 9, 11
Sirma Group Holding JSC	Allianz Bank Bulgaria	investment	EUR	123 000,00	61 200	18.12.2013	6m. LIBOR EUR + 4.75%, but not less than 4.75%	62	1 030,00	25.11.2023	Office №8 , 3th floor+ pledge of receivables totaling EUR 123,000



Interim Consolidated Management Report of Sirma Group Holding for Q4 2018

Sirma Group Holding JSC	Unicredit Bulbank	investment	EUR	300 000,00	125 020	8.10.2013	3 m. EURIBOR + 4.45%	63	2 083,00	8.12.2023	Office №19; Office №20; Office №21 + pledge of receivables
											Pledge under the terms of LPO of the commercial enterprise Sirma Solutions JSC, Pledge of 2 443 682 (BGN 10) ordinary shares of Sirma Solutions' equity and 3,550 shares (BGN 1) from Sirma ISG Ltd. Pledge on all future receivables and current receivables available and future on the accounts of the account holder and third party debtors. Pledge of 270000 shares of the capital of SirmaICS JSC, 25000 shares of the capital of Flash Media JSC, 20000 shares of the capital of Sirma Mobile JSC
Sirma Group Holding JSC	Unicredit Bulbank	investment	BGN	9 780 000,00	9 780 000	26.1.2018	ADI + 1.182% (no less than 1.35%)	42	120000/ 252000/ 240000	26.7.2022	
Loans for which the Issuer is a guarantor											
Sirma Solutions		overdraft	BGN	420 000,00	30	30.5.2015	ADI + 1.8% (no less than 1.8%)			31.10.2018	Office №19; Office №20; Office №21 + pledge of receivables
Ontotext	Unicredit Bulbank	overdraft	EUR	460 000,00	91 307	30.5.2016	1 m. EURIBOR (but not less than 3.5%) in euro or 1 m. SOFIBOR (but not less than 2,9%) in BGN			31.10.2018	Ontotext - Contracts for 391 041 GBP + 848 316 GBP;
Sirma Enterprise Systems		overdraft	BGN	550 000,00	541 403	8.10.2013	1 m. SOFIBOR + 2,9%, but not less than 2,9%			31.10.2018	Office №19; Office №20; Office №21 + pledge on receivables + contract EUR 400 000.



Sirma Solutions	overdraft	EUR	810 000,00	475 958	30.5.2015	1 m. EURIBOR+3 .5% (but no less than 3.5%) in EUR or ADI+1.8% (but no less than 1.8%) in lv.	31.10.2018	3th Floor, 135 Tsarigradsko shose office building Sofia + pledge on receivables \$ 700,000 / annually by Sirma USA and all other receivables
Sirma Solutions	overdraft	EUR	700 000,00	512 846	30.5.2015	1 m. EURIBOR + 2,9%	31.10.2018	Another mortgage 3th floor, office building Tsarigradsko shose 135; Next mortgage Office №19; office №20; office №21 floor 4; Pledge under the terms of the Contract on receivables under Contracts concluded between Sirma Solutions AD and its clients in the total amount of BGN 9 210 022



14.7.2 CURRENT LIABILITIES

	31.12.2018	31.12.2017	Change	Change
	BGN '000	BGN '000	BGN '000	%
Current liabilities				
Provisions	801	714	87	12,18%
Pension obligations to the staff	1 499	1 434	65	4,53%
Short-term loans	9 044	8 452	592	7,00%
Finance lease liabilities	42	41	1	2,44%
Trade and other payables	8 898	4 815	4 083	84,80%
Short-term obligations affiliates	64	1	63	6300,00%
Tax obligations	1 304	1 078	226	20,96%
Advances received	7 895	2 583	5 312	205,65%
Deferred income and financing	230	414	(184)	-44,44%
Other liabilities	922	2 735	(1 813)	-66,29%
Total Current liabilities	30 699	22 267	8 345	37,87%

Current liabilities increased by 37,87% in Q4 2018.

14.8 CASH FLOWS

The Group has no liquidity problems and operates with the available resources while maintaining a low level of indebtedness for the period under review. Traditionally, the largest pay-out in revenue streams is paid by customers, while the role of a negative item is paid by payments to suppliers and payments for staff and social security contributions.

SUMMARY OF CASH FLOW

	31.12.2018	31.12.2017	Change	Change
	BGN '000	BGN '000	BGN '000	%
Net cash flow from operating activities	8 841	8 616	225	2,61%
Net cash flow from investing activities	(10 645)	(14 257)	3 612	-25,33%
Net cash flow from financing activities	6 861	5 685	1 176	20,69%
Net change in cash and cash equivalents	5 057	44	5 013	11393,18%
Cash and cash equivalents at the beginning of the year	6 119	6 075	44	0,72%
Cash and cash equivalents at the end of the year	11 176	6 119	5057	82,64%



14.9 INDICATORS AND RATIOS

№	Indicators	31.12.2018	31.12.2017	Change	Change
		BGN '000	BGN '000	BGN '000	%
1	Revenue from operating activities	61 100	52 036	9064	17,42%
2	Cost of sales	(49 133)	(42 663)	-6470	15,17%
3	Gross profit / loss	11 967	9 373	2594	27,68%
4	Other operating costs	(2 453)	(1 579)	-874	55,35%
5	Operating profit / loss	9 514	7 794	1720	22,07%
6	Financial income	825	439	386	87,93%
7	Financial costs	(1 313)	(1 049)	-264	25,17%
8	Profit / loss before tax expense	9 026	7 184	1842	25,64%
9	Tax costs	(675)	(994)	319	-32,09%
10	Net profit / loss	8 351	6 190	2161	34,91%
11	Dividend	0	594	-594	-100,00%
12	Cash and cash equivalents	11 176	6 119	5057	82,64%
13	Inventories	3 612	2 576	1036	40,22%
14	Short-term assets	28 527	21 917	6610	30,16%
15	Total amount of assets	146 290	132 535	13755	10,38%
16	Average arithmetic total asset value for 5 quarters	139 534	123 799	15735	12,71%
17	Current liabilities	30 699	22 267	8432	37,87%
18	Debt	18 572	10 616	7956	74,94%
19	Liabilities (borrowed funds)	40 909	26 089	14820	56,81%
20	Equity	105 381	106 446	-1065	-1,00%
21	Equity averaged 5 quarters	108 149	104 445	3703	3,55%
22	Turnover capital	-2 172	-350	-1822	520,57%
23	Number of shares at the end of the period (in thousands)	59 361	59 361	0	0,00%
24	Gain / loss minority interest	1421	1890	-469	-24,81%
25	Interest expenses	318	263	55	20,91%
26	Weighted average price of last trading session	0,898	1,085	-0,187	-17,24%
27	Last price per share of last trading session	0,91	1,088	-0,178	-16,36%



Indicators	31.12.2018	31.12.2017	Change %	Change
EBITDA	13 944	16 236	-2292	-14,12%
DEPRTIATION	(4 112)	(8 179)	4067	-49,72%
EBIT	9 832	8 057	1775	22,03%
FIN/INVEST NET	(488)	(610)	122	-20,00%
EBT	9 026	7 184	1842	25,64%
ROA	0,0474	0,0324	0,0149	46,01%
ROA(BSE)	0,0497	0,0347	0,0149	42,99%
Debt/EBITDA Ratio	1,3319	0,6539	0,6780	103,70%
Quick Ratio	0,8116	0,8686	-0,0570	-6,56%
ROE (BSE)	0,0822	0,0543	0,0279	51,48%
ROE	0,0772	0,0593	0,0180	30,29%
Debt/Equity Ratio (BSE)	0,3882	0,2451	0,1431	58,39%
Profitability ratios				
Gross profit margin	0,1959	0,1801	0,0157	8,74%
Operating profit margin	0,1557	0,1498	0,0059	3,96%
Net profit margin	0,1367	0,1190	0,0177	14,90%
Coefficients for assets and liquidity				
Assets turnover ratio	0,4438	0,4239	0,0199	4,70%
Assets turnover ratio (BSE)	0,4379	0,4203	0,0176	4,18%
Operating cycle	-28,1308	-148,6743	120,5435	-81,08%
Current ratio	0,9292	0,9843	-0,0550	-5,59%
Quick ratio	0,8116	0,8686	-0,0570	-6,56%
Cash ratio	0,3641	0,2748	0,0892	32,48%
Odds per share				
P/S ratio	0,8724	1,2377	-0,3653	-29,51%
P/E ratio	6,3832	10,4050	-4,0217	-38,65%
P/B ratio	0,6725	0,7751	-0,1027	-13,24%
Revenue per share	1,0293	0,8766	0,1527	17,42%
Earnings per share	0,1407	0,1043	0,0364	34,91%
Book value of equity per share	1,8219	1,7595	0,0624	3,55%
Dividends ratio				
Divident payout ratio	0,0000	0,0960	-0,0960	-100,00%
Earnings retention ratio	1,0000	0,9040	0,0960	10,61%
Divident per share	0,0000	0,0100	-0,0100	-100,00%
Development Ratios				
Revenue growth	0,1742	2,2266	-2,0525	-92,18%
Gross profit growth	0,2768	9,1549	-8,8782	-96,98%
Assets growth	0,1038	0,1046	-0,0008	-0,74%
Leverage Ratios				
Debt/taotal assets	0,1331	0,0858	0,0473	55,22%
Debt/capital	0,1466	0,0923	0,0543	58,85%
Debt/equity	0,1717	0,1016	0,0701	68,95%
Total assets/equity	1,2902	1,1853	0,1049	8,85%
Market value of the company	54019	64585	-10566	-16,36%



14.10 RELATED COMPANIES TRANSACTIONS

Purchases:

Company	Type	Type of Connectivity	31.12.2018 (BGN '000)
EngView Systems Sofia	Service expenses	Other related parties	-3
Sirma Business Consulting	Other expenses	Other related parties	-58
Sirma Group Holding	Other expenses	Other related parties	-6
Sirma AI	Other expenses	Other related parties	-33
Sirma Solutions	Service expenses	Companies under common indirect control	-830
Sirma Solutions	Other expenses	Companies under common indirect control	-131
Total			-1 061

Company	Type	Type of Connectivity	31.12.2017 (BGN '000)
EngView Systems Sofia	Service expenses	Other related parties	-17
Sirma Solutions	Service expense	Companies under common indirect control	-41
Sirma Group Holding	Service expenses	Companies under common indirect control	-32
Total			-90

Sales:

Company	Type	Type of Connectivity	31.12.2018 (BGN '000)
EngView Systems Sofia	Sale of service	Other related parties	1
Sirma Group Holding	Sale of service	Other related parties	11
Sirma Group Holding	Sale of service	Companies under common indirect control	10
Sirma Solutions	Sale of service	Other related parties	11
Sirma Solutions	Interest income	Companies under common indirect control	9
Total			42

Company	Type	Type of Connectivity	31.12.2018 (BGN '000)
EngView Systems Sofia	Sale of goods	Other related parties	1
Sirma Group Holding	Sale of service	Other related parties	13
Sirma Group Holding	Sale of service	Companies under common indirect control	10
Sirma Group Holding	Other sales	Companies under common indirect control	4
Sirma Solutions	Other sales	Companies under common indirect control	2
Total			30



Loans (balances):

31.12.2018

Company	Type	Type of Connectivity	(BGN '000)
Sirma Group Holding	loan	Other related parties	785
Sirma AI	loan	Other related parties	18
Sirma Business Consulting	loan	Other related parties	46
Sirma Solutions	loan	Other related parties	5

31.12.2017

Company	Type	Type of Connectivity	(BGN '000)
Sirma Group Holding	loan	Other related parties	608
Sirma AI	loan	Other related parties	18
Sirma Business Consulting	loan	Other related parties	46
Sirma Solutions	loan	Companies under common indirect control	284
Sirma Solutions	loan	Other related parties	331

14.11 PERSONNEL AND ECOLOGY

Sirma Group Holding maintains and observes its commitments in compliance with the national legislation in the field of environmental protection. The company applies measures for separate collection of waste, minimization, recovery and recycling of municipal waste. In 2018, the use of plastic cups stopped, and they were replaced with porcelain and glass.

The Company believes that its employees play a key role in the development of its business and the overall corporate goals and therefore pays special attention to the development of a common human resources management

strategy and policies. Sirma Group Holding's policies in this regard are aimed at stimulating the responsibility and motivation of the staff to fulfill the assigned tasks and objectives.

The company and the companies in the group apply certain selection criteria and consider that they have an ambitious team of professionals capable of pursuing the strategic and operational objectives. Sirma Group Holding invests in various training programs for its employees and provides its employees with opportunities for professional development.



15 RISK FACTORS

THE WORDS USED IN THE REPORT AS "EXPECTS", "BELIEVES", "INTENDS" OR THE LIKE INSTRUCTIONS FOR STATEMENTS THAT ARE FORWARD-LOOKING IN NATURE AND / OR REFER TO FUTURE UNCERTAIN EVENTS AND CONDITIONS WHICH MAY INFLUENCE FUTURE BUSINESS AND FINANCIAL PLANS OF THE COMPANY, THE RESULTS OF ITS ACTIVITY AND THE FINANCIAL POSITION. WE WARN THE INVESTORS THAT THE ABOVE STATEMENTS ARE NOT A GUARANTEE FOR THE FUTURE RESULTS OF THE COMPANY'S ACTIVITY AND ARE THEMSELVES SUBJECT TO RISKS AND UNCERTAINTY. ACTUAL FUTURE RESULTS FROM THE COMPANY'S ACTIVITY MAY DIFFER SUBSTANTIALLY FROM THE FORECAST RESULTS AND EXPECTATIONS AS A RESULT OF MULTIPLE FACTORS INCLUDING THE RISK FACTORS LISTED BELOW. (THE SEQUENCE IN THE PRESENTATION OF THE RISK FACTORS INDICATES THE VIEW OF THE BOARD OF DIRECTORS REGARDING THEIR PARTICULAR SIGNIFICANCE FOR THE ACTIVITY OF THE COMPANY AT THE PRESENT TIME).

RISKS, TO WHICH INVESTORS IN SECURITIES MAY BE EXPOSED CAN BE BROKEN DOWN BY DIFFERENT CRITERIA DEPENDING ON THEIR NATURE, MANIFESTATION, FEATURES OF THE COMPANY, CHANGES IN EQUITY OF THE COMPANY AND THE POSSIBILITY OF RISK MITIGATION OR NOT. THESE MAY BE DIVIDED INTO TWO GROUPS: SYSTEMIC AND NON-SYSTEMATIC RISKS.

RISK MANAGEMENT

The management of the risks of Sirma Group Holding is the responsibility of the Board of Directors. In its activities, it is assisted by the Investment and Risk Committee. The Holding also supports its subsidiaries in risk management.

Risk management is, inherently, the ability to anticipate threats to the company's activities, individual projects and minimize their adverse effects. The process is iterative. It

starts with identifying the possible risks, goes through risk analysis and planning their management, then begins a process of monitoring and regular return to the analysis process.

A sophisticated risk management system has been set up in Sirma Group Holding.

RISK MANAGEMENT IN SIRMA GROUP HOLDING INCLUDES:

- Risk Identification - This is a lengthy process which detects potential threats. In order to identify the expected and predictable risks, different methods are used: questionnaires (interview questionnaires), interviews, brainstorming, document analysis, a list of expected and predictable risks, based on a previous experience

- Qualitative and quantitative risk analysis - Once the potential risks have been identified, a qualitative and quantitative analysis of each of them is required. The likelihood of occurrence and impact through predefined scales is estimated, for example Probability: very small, small, medium, large or very large; Impact: catastrophic, critical, permissible, insignificant.

A risk table is prepared with the data. Risks are grouped into categories, their likelihood of occurrence and their impact, as well as case scenarios which are implemented in case the risk occurs. The resulting list is sorted by impact and probability. A threshold is set, the risks over which it will be managed. The risk table is reviewed and reassessed on a regular basis, as there is a possibility that risks may be dropped, new ones added or ratings changed.

- Planning actions to overcome the risk

The next step in risk management is planning. This is the process of documenting the measures which will be applied to managing each of the identified key risks. 3 management strategies are used:

- risk avoidance - a strategy which reduces the likelihood of risk occurring;

- minimizing the risk-taking effect - a strategy that reduces the consequences of the risk;

- Emergency action plans - a strategy whereby the organization accepts the risk and is ready to deal with it if it comes to fruition;

As a result of the risk planning, a Risk Mitigation Monitoring and Management Plan is established. It may be a separate document or a set of information cards for each individual risk to be stored and managed in a database.

- Risk monitoring and control - This is the last activity in risk management process. This process has several main tasks:

- confirm the occurrence of a risk
- Ensure that activities to prevent or deal with risks are implemented
- Identify what risk has caused the relevant problems
- document information to be used in a subsequent risk analysis



15.1 SYSTEM RISKS

The general risks stem from possible changes in the overall economic system and, in particular, a change in the conditions of the financial markets. They can not be diversified, as all economic entities in the country are exposed to them.

Twenty-five years after the end of the planned economy in Bulgaria, a policy of economic reforms and stabilization aimed at the imposition and functioning of the principles of a free market economy is being pursued. As a result, business entities in Bulgaria have a limited history of activity in free market conditions. In this regard, Bulgarian companies, compared to Western companies, are characterized by a lack of experience in the market economy and limited capital resources, with which to develop their business. Bulgaria also has limited infrastructure to maintain the market system.

In Bulgaria, as in most transition countries, there is a trade deficit and a current account deficit. Our country is an importer of crude oil and energy resources. In this regard, increases in oil prices and energy resources reduce the competitiveness of the Bulgarian economy and, in addition, its dependence on oil and energy imports further exposes the economy to currency risks from unfavorable changes in the USD exchange rate against the Bulgarian Lev. The capital gains from privatization are expected to gradually decrease as the privatization program is completed.

15.1.1 Economic Growth

The interaction between economic growth and external indebtedness of the country has a direct impact on the formation and change of market conditions and the investment climate. Official statistics show real GDP and GDP growth per capita in recent years, which are in line with the government's development agenda.

According to published information from NSI, after the introduction of the currency board system in 1997, Bulgaria achieved macroeconomic stability and good indicators for economic development.

Delayed economic growth, not only in Bulgaria but also in other countries where the Company realizes its output, means reduced activity on the part of economic operators, where there is also a reduced level of investment in general and in particular in software solutions. In this respect, lower economic growth adversely affects the Company's activity and would prevent the future plans from being realized according to predefined parameters.

Company's activity and would prevent the future plans from being realized according to predefined parameters.

15.1.2 Political Risk

The political risk is the likelihood of a change in government, or a sudden change in its policy, the emergence of internal political turmoil and unfavorable changes in European and / or national legislation, resulting in a negative change in the environment in which local businesses operate, and investors to suffer losses.

The political risks for Bulgaria at international level are related to the commitments made to implement serious structural reforms in the country as an equal member of the EU, increasing the social stability of the inefficient spending on the one hand, as well as the severe destabilization of the countries The Middle East, the increasing threats of terrorist attacks in Europe, refugee waves, and the volatility of key countries in the immediate vicinity of Bulgaria.

Bulgaria, as well as the other EU member states in the region, continues to be seriously affected by the common European problem of the intensive Middle East refugee flow.

Other factors that also affect this risk are possible legislative changes, particularly those that concern the economic and investment climate in the country.

15.1.3 Credit Risk

The credit risk of the country is related to the ability of the state to repay its obligations regularly. In this respect, Bulgaria is constantly improving its position on the international debt markets, which facilitates the access of state and economic agents to external financing. The most important effect of the credit rating improvement is the lowering of loan risk premiums, which leads to more favorable interest rates (on equal terms). For this reason, the potential increase in the country's credit rating would have a beneficial impact on the Company's activity and more precisely on its financing. On the other hand, lowering the credit rating of Bulgaria would have a negative impact on the cost of financing the Company unless its loan agreements are fixed-rate. The determination and measurement of this risk is carried out by specialized international credit agencies.

At the date of this document, the credit rating of the Republic of Bulgaria is as follows:

- Standard & Poors - Long-term BB +, short-term C, stable outlook both in foreign and local currencies;
- Moody's - Long-term Baa2 with a stable outlook for foreign and local currencies;
- Fitch Ratings - foreign currency long-term BBB- with stable outlook, short-term F3 with stable outlook and local currency long-term BBB with stable outlook.

Bulgaria continues to fund its needs under relatively good credit conditions, given the reduced long-term ratings. The quantitative easing policy of the European Central Bank implies the maintenance of historically low interest rates in Europe, from which it would stimulate the attraction of credit resources from all economic subjects, including the Company.

15.1.4 Currency Risk

Exposure to the currency risk is the dependence and effects of exchange rate fluctuations. The systemic currency risk is the probability of a possible change in the currency regime of the country (The Currency Board), which would either lead to a depreciation of the Lev or a rise in the Lev against foreign currencies. The currency risk will have an impact on companies with considerable market share, whose payments are made in a currency other than the Lev and the Euro. Since the Bulgarian Lev is fixed to the Euro in EUR 1 = BGN 1.95583 and the Bulgarian National Bank is obliged to maintain a level of Bulgarian Levs in circulation equal to the foreign currency reserves of the bank, the risk of depreciation of the Lev against the European currency is minimal and consists in the eventual early elimination of the Currency Board in the country. This seems unlikely at this stage as the expectations are that the Currency Board will be abolished when the Euro is adopted in Bulgaria as an official legal tender. Theoretically, the currency risk could rise when Bulgaria joins the second stage of the European Monetary Mechanism (ERM II). This is a regime in which the country has to maintain the exchange rate against the Euro within +/- 15% against the central parity. In practice, all countries



currently in the mechanism (Denmark, Estonia, Cyprus, Lithuania, Latvia, Malta) are experiencing fluctuations that are substantially lower than the $\pm 15\%$ allowed. The fixed exchange rate of the Lev to the Euro does not eliminate the risk of unfavorable movements of the Euro against other major currencies (US Dollar, British Pound, Swiss Franc) on the international financial markets, but at present the company does not consider that such a risk would have a significant impact on its activities. The Company may be affected by the currency risk depending on the type of currency of its revenue and the type of currency of potential borrowings of the company.

According to "External Debt Statistics: Guide for Compilers and Users", p. 7, par. 2.3, Gross external debt at a given time represents the amount of current and unconditional liabilities requiring principal (s) and / or interest on the debtor in a future moment due to non-residents by the residents of an economy. High gross external debt is a prerequisite for potential debt repayment problems, especially when there is a significant currency risk.

According to the preliminary data of the BNB of 27.12.2018 gross external debt at the end of October 2018 was EUR 33,982.5 million (64.4% of GDP2), which is EUR 585.2 million (1.8%) more than the end in 2017 (EUR 33 397.3 million, 64.6% of GDP). Debt increased by EUR 878.8 million (2.7%) compared to October 2017 (EUR 33,103.7 million, 64.1% of GDP). At the end of October 2018 long-term liabilities amounted to EUR 25,879.5 million (76.2% of gross debt, 49% of GDP), increasing by EUR 284.2 million (1.1%) compared to end-2017 (EUR 25,595.3 million) 76.6% of the debt, 49.5% of GDP). Long-term debt increased by EUR 225.3 million (0.9%) compared to October 2017 (EUR 25,654.2 million, 49.7% of GDP). Short-term liabilities amounted to EUR 8103.1 million (23.8% of gross debt, 15.3% of GDP) and increased by EUR 301 million (3.9%) compared to end-2017 (EUR 7802 million, of GDP). Short-term external debt increased by EUR 653.5 million (8.8%) compared to October 2017 (EUR 7449.6 million, 14.4% of GDP).

15.1.5 Interest Rate Risk

The interest rate risk is related to possible negative changes in the interest rates established by the financial institutions in the Republic of Bulgaria.

At its meeting on monetary policy on 13 December 2018, the Governing Council decided to suspend net asset purchases in December 2018, keeping the ECB's key interest rates unchanged and further developing its asset reinvestment guidance. Although incoming data are weaker than expected, reflecting lower external demand, and due to country and sector-specific factors, strong domestic demand continues to support the eurozone's economic upturn and the steadily rising inflationary pressures. This reinforces the Board of Trustees' belief that a sustained convergence of inflation to its target level will continue and will persist even after the net asset purchase cease. At the same time, there remains considerable uncertainty about geopolitical factors, the threat of protectionism, vulnerabilities in emerging countries and the fluctuations in financial markets. Therefore, a policy of significant monetary stimulus is still needed to support the further strengthening of domestic price pressures and overall inflation dynamics in the medium term. The Governing Council's benchmark on key ECB interest rates, backed by the reinvestment of a significant volume of assets, continues to provide the necessary money supply for the sustainable convergence of inflation to its target level. In any event, the Governing Council is prepared to adjust all its instruments according to circumstances to ensure that inflation continues steadily closer to its target level.

The key interest rates set by the BNB for the period 01.01.2018 - 31.12.2018 is 0.00%.

15.1.6 Inflation Risk

Inflationary risk is a general price increase whereby money is depreciated and there is a likelihood of loss from households and firms.

Inflationary risk is a general price increase whereby money is depreciated and there is a likelihood of loss from households and firms.

According to NSI, the harmonized consumer price index for December 2018 compared to November 2018 is 100.0%, ie, monthly inflation is 0.0%. Annual inflation in December 2018 compared to December 2017 was 2.3%. The average annual inflation for January - December 2018 compared to January - December 2017 was 2.6%.

Inflation for the period 01.01.2018 - 31.12.2018 is the following:

January 2018 - 0,3%
February 2018 - 0,3%
March 2018 - -0,3%
April 2018 - 0,4%
May 2018 - 0,3%
June 2018 - 0,1%
July 2018 - 0,7%
August 2018 - 0,1%
September 2018 - 0,3%
October 2018 - 0,7%
November 2018 - -0,1%
December 2018 - 0,0%

15.1.7 Risk from unfavorable changes in tax and other legislation

The taxes paid by Bulgarian merchants include taxes at source, local taxes and fees, corporate income tax, value added tax, excise duties, export and import duties and property taxes. The tax system in Bulgaria is still developing. This may result in contradictory tax practices, both at state and local level.

Investors should also take into account that the value of the investment in shares may be adversely affected by changes in the current tax legislation, including its interpretation and application. In addition, tax legislation is not the only one that can undergo changes, and these changes adversely to affect the Company's business. Although the bulk of Bulgarian legislation is already harmonized with EU law, the application of the law is subject to criticism by the European partners in Bulgaria. Judicial and administrative practice remains problematic: the Bulgarian courts are not able to effectively resolve disputes over property rights, breaches of legal and contractual obligations, etc., resulting in a systemic regulatory risk being relatively high.

Unfavorable changes to tax and other laws would lead to a worsening of the general conditions in which the Company operates, from wherever its future results may deteriorate. In particular, the increase in the corporate income tax and other taxes would reduce the ultimate disposable profit for new investments and / or the distribution of dividends to its shareholders.



15.1.8 Force Majeure Risks

Force majeure events such as natural disasters, sabotage, war and terrorist acts, and others may lead to unpredictable changes in investor and interest in the market for all shares, as well as, in particular, the shares of

Sirma Group Holding. Some force majeure events do not provide for the possibility of insurance.

Force majeure events could seriously affect the Company's performance by reducing its ability to conduct normal business activities and cause an increase in some cost items.

15.2 NON-SYSTEM RISKS

Non-system risks are associated with the overall investment risk specific to the firm and the industry itself. Non-system risks can be divided into two types: sectoral risk related to the uncertainty in the development of the sector as a whole and general business risk - arising from the specifics of the particular company.

Various mechanisms will be used to optimize and manage this risk, including the following:

- sound investment policy;
- optimizing the structure, quality and return on assets of the Company;
- protection against unfavorable and undesirable external factors and attacks, etc.

15.2.1 Industry Risks

The activity of the Company and of the companies within Sirma Group are exposed to various risks, including: 1) risks typical of the Information and Communication Technology (ICT) industry and 2) risks specific to the Company itself. Revenue and profit of the Company may be adversely affected by a number of factors: the financial market situation and the information and communication technology market; the ability of the Company to ensure effective management, assessment of the different risks and economic feasibility of individual transactions, the economic climate in the country and others

15.2.4 Intellectual Property Protection

The protection of the intellectual property of the Group is crucial to its success. It uses a variety of tools to identify and control potential risks and to protect its intellectual property. These measures include application for patents, trademarks, and other brands and copyrights to prevent infringement of copyright and trademarks. Despite these efforts, the Group may not be able to prevent third parties from using or selling without permission what it regards as its own technology. All these measures provide only limited protection and its rights could be challenged or otherwise affected. Any intellectual property may be vulnerable to disclosure or misuse by employees, partners or third parties. Third countries can independently develop technologies that are substantially equivalent to or better than the technology of the Company. In addition, a third party may reengineer or otherwise obtain and use technology and information that the Group considers to be its own. In this regard, the Company may not be able to protect its proprietary rights against unauthorized copying or third party use, which could have an adverse effect on the competitive and financial situation and lead to a decline in sales. In addition, the laws and courts of some countries may not offer effective protection of intellectual property rights.

15.2.2 Specific Company Risk

The company risk is related to the nature of the Company's business, as for every firm it is important that the return on the invested funds and resources is consistent with the risk associated with the investment.

The main company risk for Sirma Group Holding JSC is related to the possibility of reduction of the solvent demand for the products and services offered by the Group, as well as changes in the terms of sale of those products and services. The company risk may have an impact on the growth of service and software solutions development contracts. Uncertainty can be measured by the variability of revenue earned over time. This means that the more volatile the revenues of a company, the greater the uncertainty of the company to realize a positive financial result, ie. the risk for the investors, respectively the creditors, will be higher.

15.2.5 Risk of concluding insider deals at prices differing from the market ones

The company is part of an economic group. The risk of engaging in transactions with Group entities, whose conditions differ from market at the date of the transaction is eliminated to the extent that the Company seeks to maintain a transparent policy regarding its relations and the treatment of related companies. As far as there are transactions in the economic group, they are concluded under standard market conditions at the moment of transaction and do not favor any of the parties.

15.2.3 Operation Risk

Operational risks are related to the management of the company and can be expressed in the following:

- Making erroneous decisions for the ongoing management of the investment and liquidity of the company by the management staff;
- the inability of the management team to start the implementation of planned projects or lack of suitable personnel for this;
- key employees leaving and impossibility to recruit new ones;
- the risk of excessive spending on management and administration, leading to a reduction in the overall profitability of the company.

15.2.6 Risk of asset depreciation

The impairment risk of assets is related to the possibility of reducing the carrying amount of the Company's assets.



Possible impairment of tangible and / or intangible fixed assets would result in the need to account for an impairment loss. This, in turn, may worsen the Company's future financial performance as well as lead to a final negative financial result for an annual period. This in turn

leads to the risk of not being able to distribute dividends to existing shareholders at this future moment, as well as a possible decrease in the market price of a shares of the Company due to the deteriorated financial indicators

15.3 RISK FACTORS, CHARACTERISTIC OF SHARE TRADED ON THE STOCK EXCHANGE

The risk of investing in securities is linked to the uncertainty and the inability to accurately predict future effects and the impact on the expected return on the investment made.

The main risk and uncertainty for the shareholders of Sirma Group Holding JSC is the probability that the investments in the company's shares will not retain its value, nor generate the expected return on them, due to a decrease in the price of the shares or a lack of other income (dividends) from them.

Sirma Group Holding JSC informs potential investors that investing in shares is associated with certain risks. Investors should carefully read and understand the risks associated with investing in shares of the current issue before making an investment decision.

Sirma Group Holding JSC seeks to maintain a low risk profile by maintaining low levels of financial and operational leverage, a high level of operational efficiency, the introduction of strict rules and procedures in the management of the activity and strict control over their compliance, diversification of the client base and suppliers.

The above makes the company resistant to external negative shocks, but nevertheless has significant risks for its business that could negatively affect the company's results.

15.3.1 Price Risk

The changes in the price of the shares of Sirma Group Holding JSC can be created both from the fundamental state of the Company - current and expected results from the activity and financial results as well as from the economic and market conditions in Bulgaria and from the market and economic conditions in the world economy.

Shareholders should keep in mind that events that may cause sudden fluctuations in market prices of shares that have previously occurred on the Bulgarian capital market and in international financial markets may occur and that such fluctuations are likely to affect unfavorable price movements of the shares of Sirma Group Holding JSC.

The market value of the shares will be determined on the basis of supply and demand, and the share price may increase or decrease. These "price fluctuations" can cause a security to cost at a certain point much less than the value at which it is purchased. This price dynamic is particularly typical for the ordinary stock market, whose stock prices may be subject to sharp fluctuations as a result of publicly disclosed information about the Company's financial performance, changes in legislation and other material events.

A significant number of sales of the shares of Sirma Group Holding JSC for a certain period of time may have an adverse effect on the maintenance of their achieved price level. Such an event would result from a significant excess

of the sellers of those shares over buyers in that period. At this point in time, the Issuer or a third party does not commit to maintaining a particular price level and a significant number of sales may lead to a decrease in that level.

The Company does not guarantee to investors that the price of its shares will remain stable and / or increase its value in the future. At the moment of preparation of this document, Sirma Group Holding JSC or, to the best of its knowledge, other persons, do not intend to purchase shares of the Company in order to preserve and / or increase the market price of the Company's shares after the increase of capital.

15.3.2 Liquidity Risk

Liquidity risk is directly related to the liquidity of the securities market itself and expresses the potential for short-term purchase or sale of the securities on the secondary market. The liquidity of the issue depends on the number of investors who will be interested in investing in the issue. The liquidity risk of the shares will also depend on the development of the equity market in terms of the volume and variety of instruments offered, the issuer's financial position, the ability of the local capital market to attract new investors,

Investors should keep in mind that the BSE is significantly smaller and less liquid than the securities markets in most developed market economies. Thus, for the shareholders of Sirma Group Holding JSC there is no guarantee that the listing of the shares of the Company on the BSE will guarantee their active trading and sufficient liquidity.

15.3.3 Inflation Risk

The manifestation of the inflationary risk for the shareholders of Sirma Group Holding JSC would arise in cases when the income from the shares (increase in the price and / or received dividends) were lower than the inflation for the investment period. The inflation processes leads to a decrease in the real yield that investors receive.

Although in the long run equity yields usually outweigh the inflationary processes in Bulgaria and other countries with a developed market economy, there is no guarantee for the investors in the shares of Sirma Group Holding JSC that their investment in shares of the Company will represent a real protection against inflation.

15.3.4 Dillution Risk

Pursuant to the Articles of Association of the Company no limitations on the maximum amount of future issues of shares are envisaged. For this reason, shareholder participation may be reduced as a result of a public offering if they do not exercise their rights and do not subscribe a proportionate share of the new shares. In the event that, as a result of a future public offering, the number of issued shares of the Company increases at a faster rate than the amount of the assets of the Company,



it is possible to decrease the value of the assets per share of the Company.

15.3.5 Currency Risk

This current issue is denominated in BGN. Currency risk of the investment exists for investors whose funds are denominated in US dollars or currencies other than Lev and Euro, due to the constant exchange rate movements. Investors who take a currency risk in the purchase of the current issue would increase or reduce the effective return on their investment as a consequence of strengthening or weakening the BGN and EUR exchange rate against the currency in which the investor's funds are denominated.

Stability and high confidence in the credibility of the Currency Board in the country, as well as the relatively stable positions of the euro on international currency markets, reduce the existence of the currency risk to minimum levels.

15.3.6 Lack of an annual dividend payment guaranty

The financial results of the company depend on many factors, including the skills and professionalism of the management team, the development of the market in which the company operates, the economic development of the country and the region, etc. There is a risk for investors due to the lack of a guarantee for annual dividends payment.

15.3.7 Risk of change in the tax treatment of investments in shares

The risk of changing in the taxation of investments in securities is linked to the change in the current taxation regime for such instruments. The latter may be considered favorable, as capital gains are tax-exempt. Changes in capital gains tax, as well as other potential changes in the taxation of securities' investments, may have a negative impact on the final realized net result by an investor.

For additional information on the risk factors affecting the Group's activity, see Appendix 5.

16 INFORMATION ABOUT EVENTS AND INDICATORS WITH INCREASED NATURE OF THE COMPANY, HAVING A SIGNIFICANT EFFECT ON THEIR ACTIVITY AND THEIR INCOME AND EXPENDITURE; EVALUATION OF THEIR IMPACT ON RESULTS IN THE CURRENT YEAR.

There are no events and indicators with an unusual nature for the company that have a significant impact on its operations and its realized revenues and expenses; assessing their impact on results during the current year.

17 INFORMATION ABOUT OUT OF THE BALANCE SHEET TRANSACTIONS - NATURE AND BUSINESS PURPOSE, FINANCIAL IMPACT OF THE TRANSACTION ON ACTIVITY IF THE RISKS AND BENEFITS OF THESE TRANSACTIONS ARE ESSENTIAL FOR THE COMPANY AND THE DISCLOSURE OF THIS INFORMATION IS ESSENTIAL FOR ASSESSING THE FINANCIAL POSITION OF THE COMPANY.

There are no deals out of the balance sheet of the Company.

18 ANALYSIS AND FINANCIAL EVALUATION OF THE FINANCIAL RESOURCES MANAGEMENT POLICY WITH THE POSITION OF OPPORTUNITIES FOR THE SERVICE OF THE OBLIGATIONS, THE EVENTUAL THREATS AND MEASURES WHICH THE COMPANY WAS PREVENTED OR PROVIDED TO TAKE FOR THE PURPOSE OF REMOVING THEM.

The company successfully manages its financial resources and serves its duties in a normal and timely manner.



19 ASSESSMENT OF THE POSSIBILITIES FOR THE IMPLEMENTATION OF INVESTMENT INTENTIONS WITH THE SIGNIFICANCE OF THE AMOUNT OF EXPENDITURE AND THE EFFECTIVENESS OF THE POSSIBLE CHANGES IN THE STRUCTURE OF FINANCING THAT ACTIVITY.

The management estimates that it is possible to realize the investment intentions declared with the prospectus for initial public offering.

20 INFORMATION ABOUT OCCURRING CHANGES IN THE REPORTING PERIOD IN THE MAIN PRINCIPLES FOR THE MANAGEMENT OF THE COMPANY AND ITS ECONOMIC GROUP.

There were no changes during the reporting period in the company's main management principles and its economic group.

21 INFORMATION ABOUT THE MAIN CHARACTERISTICS OF THE FINANCIAL REPORTING PROCESSING INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM

Under Bulgarian law, the management should prepare an interim report on the operations and a financial statement for each quarter to give a true and fair view of the Company's financial position as of the end of the year, financial performance and cash flows in accordance with the applicable accounting framework. Management's responsibility also includes the implementation of an internal control system to prevent, detect and correct mistakes and false statements as a result of the accounting system's actions. In this respect, the management observes the following basic principles in its activities:

- adherence to a particular management and accounting policy disclosed in the financial statements;
- carrying out all operations in compliance with the laws and regulations; coverage of all events and operations in a timely manner, with the exact amount of the amounts in the appropriate accounting articles.

- accounts and the relevant reporting period so as to allow the financial statements to be prepared in accordance with the specific accounting framework;

- observance of the precautionary principle in the valuation of assets, liabilities, income and expenses;

- detection and termination of frauds and errors;

- completeness and regularity of accounting information;

- preparation of reliable financial information;

- adherence to international financial reporting standards and adherence to the going concern principle.

During the reporting period, there have been no changes in the basic principles of management of SIRMA GROUP HOLDING

22 INFORMATION ON CHANGES IN MANAGEMENT AND SUPERVISORY BODIES IN THE FINANCIAL YEAR.

During the period considered, after the decision of the General Meeting of Shareholders of Sirma Group Holding, held on 15.06.2017, based on article 20 from Regulation № 48/ 20.03.2013 regarding the remuneration requirements of FSC, members of the Remuneration committee were appointed:

Georgi Parvanov Marinov – chairman

Yordan Stoyanov Nedev - member

Petar Borisov Statev- member



23 DETAILS OF THE DIRECTOR FOR CONNECTIONS WITH THE INVESTOR, INCLUDING A TELEPHONE AND ADDRESS FOR CORRESPONDENCE.

Stanislav Tanushev

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24 CHANGES IN THE PRICE OF THE SHARES OF THE COMPANY



25 EVENTS AFTER THE END OF THE REPORTING PERIOD

Purchase of "Ontotext" from "Sirma AI"

On January 18, 2019, a contract was concluded on the grounds of Art.15 of the Commercial Act and a decision of the General Meeting of Shareholders of Ontotext JSC, by which the commercial enterprise of Ontotext JSC, as a set of rights and obligations and factual relations created by realization of its previous business activity was sold to Sirma AI JSC for a price equal to the net asset value, according to the balance sheet of the company as at 17.01.2019 - BGN 21 249 612,89.

Sale of a separate part of „Sirma Solutions“ to „Sirma AI“

On 23 January 2019, a contract was signed under which the subsidiary Sirma Solutions transferred the ownership right to a separate part of its trading company Sirma Solutions, UIC 040529004 as a separate set of rights, obligations and factual relations, created in the course of his previous commercial activity to Sirma AI, for a price of BGN 20 912 384.19 (twenty million nine hundred and twelve thousand three hundred eighty four and four hundred levs). In the separate part of the enterprise are included assets - software modules, contracts with receivables on them and employees.

Sofia

CEO: 
Tsvetan Alexiev

