Sirma Group

Notes

to the Separate Financial Statements of

"Sirma Group Holding" JSC

for 2019

sirma.com

Contents

Notes to the financial statements

Notes to the financial statements

1. General information about “Sirma Group Holding” JSC

“Sirma Group Holding” JSC is a holding company registered on 25.04.2008 in the Commercial Register under UIC 200101236.

Principal place of business and registered office: BULGARIA, Sofia (capital), Sofia municipality, city. Sofia, 1784, Mladost area, bul. Tsarigradsko Shosse, No 135.

The company’s principal activities include
Acquisition, management, evaluation and sale of interest in Bulgaria and foreign entities; acquisition, evaluation and sale of patents, granting of licenses to use patents of the entities in which the company holds interests, financing the entities in which the company holds shares, organizing their accounting and compiling financial statements under the Law of Accounting. The Company may perform independent business activity that in not prohibited by law.

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

The capital of the Company has changed as follows:

Date	Amountof capital
30.10.2015	BGN 59 360 518
23.10.2014	BGN 49 837 156
22.10.2010	BGN 73 340 818
15.10.2008	BGN 77 252 478
25.4.2008	BGN 50 000

The company's capital is fully paid.

the non-monetary contributions in the company's capital are presented below:

- Software representing 29 (twenty nine) software modules

  Amount: 61 555 838 BGN

- 81 960 ordinary registered shares of "Sirma Group" JSC registered in the Commercial Register under UIC 040529004.
  Amount: 11 734 980 BGN

- Real Estate - Floor 3 of an office building "IT - Center Office Express" in Sofia, bul. "Tsarigradsko Shosse" N 135 with an area of 796,50 square meters, pursuant to Deed of buying and selling real estate N 126, Volume I, reg. N 4551, case N 116 from 23.04.2003 and 5 floor of an office building "IT - center office Express" in Sofiabul. "Tsarigradsko Shosse" N 135 with area of 281.81 square meters, according to Deed of sale of real estate N 86, Volume 4, Reg. N 10237, Case N 592 of 23.12.2004

  Amount: 3 911 660 BGN

1.1. Distribution of share capital

As of 31.12.2019 the distribution of the share capital of Sirma Group Holding is as follows:

	31.12.2019	**31.12.2018**
Share capital	59 361	59 361
Number of shares (par value of 1.00 lev)	59 360 518	59 360 518
Total number of registered shareholders	1 064	1 041
Legal entities	57	48
Individuals	1 007	993
Number of shares held by legal entities	11 614 752	10 747 462
% Of participation of entities	19,57%	18,11%
Number of shares held by individuals	47 745 766	48 613 056
% Participation of individuals	80,43%	81,89%

Share capital allocation, including deduction of repurchased own shares is as follows:

Shareholders	Number of shares at 31.12.2019	Number of shares at 31.12.2018	Nominal VALUE (BGN)	Value (BGN)	% Shareholding	% shareholding with deducted repurchased own shares
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%
Veselin Kirov Antchev	4 700 786	4 700 786	1	4 700 786	7,92%	7,98%
Ognyan Plamenov Chernokozhev	3 741 620	3 741 620	1	3 741 620	6,30%	6,35%
Atanas Kostadinov Kiryakov	2 887 524	2 887 524	1	2 887 524	4,86%	4,90%
Krasimir Nevelinov Bozhkov	2 534 161	2 596 821	1	2 534 161	4,27%	4,30%
"NN Universal Pension Fund"	2 323 939	2 434 539	1	2 323 939	3,91%	3,95%
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%
Emiliana Ilieva Ilieva	1 792 168	2 343 985	1	1 792 168	3,02%	3,04%
Ivo Petrov Petrov	1 572 828	835 800	1	1 572 828	2,65%	2,67%
Yavor Liudmilov Djonev	1 392 746	1 392 746	1	1 392 746	2,35%	2,37%
Peter Nikolaev Konyarov	1 187 480	1 271 910	1	1 187 480	2,00%	2,02%
Foundation for Educational Transformation	363 327	1 301 855	1	363 327	0,61%	0,62%
Unicredit Bank Austria	1 094 249	296 649	1	1 094 249	1,84%	1,86%
UPF "Doverie"	1 047 678	802 126	1	1 047 678	1,76%	1,78%
"Mandjukov" Ltd.	960 000	960 000	1	960 000	1,62%	1,63%
Bank of New York Melon	857 600	0	1	857 600	1,44%	1,46%
UPF "DSK Rodina"	747 036	747 036	1	747 036	1,26%	1,27%
Expat Bulgaria SOFIX UCITS ETF	732 355	977 907	1	732 355	1,23%	1,24%
UPF “Pension Insurance Institute”	715 810	664 190	1	715 810	1,21%	1,22%
Elena Yordanova Kozuharova	607 040	948 250	1	607 040	1,02%	1,03%
Stanislav Ivanov Dimitrov	257 368	649 868	1	257 368	0,43%	0,44%
Others	10 624 246	10 586 349	1	10 624 246	17,92%	17,24%
Total	**59 360 518**	**59 360 518**		**59 360 518**	**100%**	**100%**

As of 31.12.2019 Sirma Group Holding JSC holds 474 724 repurchased own shares at the total amount of BGN 474 724 (0,80 % of share capital). The Company has no newly acquired own shares during 2019.

Shareholders holding more than 5% of the company's capital are:

Shareholders	Number of shares at 31.12.2019	% Shareholding	% shareholding with deducted repurchased own shares
Georgi Parvanov Marinov	5 269 748	8,88%	8,95%
Tsvetan Borisov Alexiev	4 865 753	8,20%	8,26%
Chavdar Velizarov Dimitrov	4 750 786	8,00%	8,07%
Veselin Antchev Kirov	4 700 786	7,92%	7,98%
Ognyan Plamenov Chernokozhev	3 741 620	6,30%	6,35%

Shareholders	Number of shares at 31.12.2018	% Shareholding	% shareholding with deducted repurchased own shares
Georgi Parvanov Marinov	5 269 748	8,88%	8,95%
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Veselin Antchev Kirov	4 700 786	7,92%	7,98%
Ognyan Plamenov Chernokozhev	3 741 620	6,30%	6,35%

1.2. Management authorities

“Sirma Group Holding” JSC has a one-tier management system which comprises of a Board of Directors.

The Board of Directors as at 31.12.2019 includes the following members:

Chavdar Velizarov Dimitrov
Tsvetan Borisov Alexiev
Atanas Kostadinov Kiryakov
Georgi Parvanov Marinov
Petar Borisov Statev - independent member
Yordan Stoyanov Nedev - independent member

Pursuant to a resolution of the Annual General Meeting of Shareholders of Sirma Group Holding held on 19.06.2019, as of 04.07.2019 Tsvetomir Angelov Doskov and Sasha Konstantinova Bezukhanova are dismissed as members of the Board of Directors

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

The current term of the Board of Directors is until 19.09.2021.

The company is represented by the executive director - Tsvetan Borisov Alexiev.

The following Committees are established within the Board of Directors:

- Investment and Risk Committee;
- Remuneration Committee – an internal authority not selected by the GMS;
- Information Disclosure Committee;
- Audit Committee.

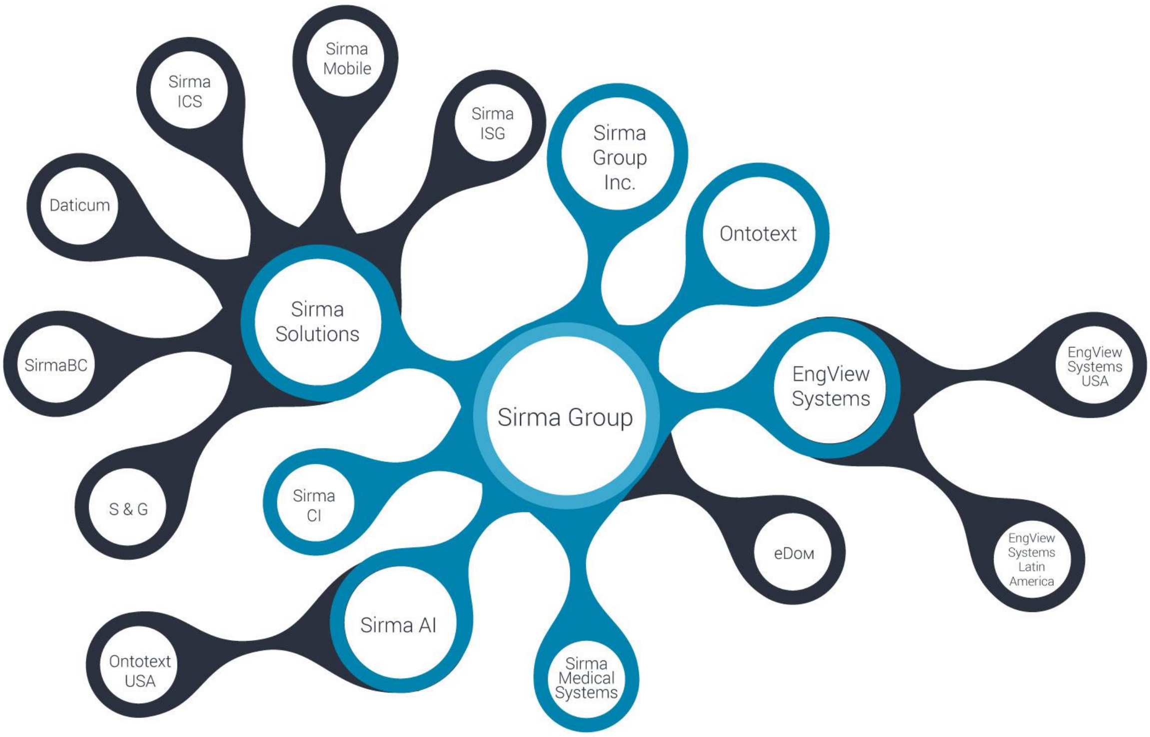
The participation of members of the Board of Directors in the capital of the Company is as follows:

Shareholders	Number of shares at 31.12.2019	Number of shares at 31.12.2019	Nominal value (BGN)	Value (BGN)	% Shareholding	% shareholding with deducted repurchased own shares
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%
Atanas Kostadinov Kiryakov	2 887 524	2 887 524	1	2 887 524	4,86%	4,90%
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**	**17 787 344**		**17 787 344**	**29,96%**	**30,21%**

During 2019 there was no change in the participation of the members of the Board of Directors in the capital of the company.

Organizational structure of Sirma Group:

The structure of the Group includes “Sirma Group Holding” JSC as the parent company and the companies listed below, as follows:



Subsidiaries of "Sirma Group Holding" JSC:

Company	Value of the investment at 31.12.2019 (in BGN’000)	Percentage of capital at 31.12.2019	Percentage of capital with adjusted repurchased own shares at 31.12.2019	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
Sirma Solutions	39 311	77,71%	82,43%	39 311	77,71%	82,43%
Sirma AI	7 035	100,00%	100,00%	7 035	100,00%	100,00%
Sirma Medical Systems	66	66,00%	66,00%	66	66,00%	66,00%
Sirma Group Inc.	3 471	76,16%	76,29%	3 471	76,16%	76,29%
Sirma CI	106	80,00%	80,00%	106	80,00%	80,00%
Ontotext	17 865	87,65%	90,44%	17 865	87,65%	90,44%
Engview Systems	50	72,90%	72,90%	50	72,90%	72,90%
Total	**67 904**			**67 904**		

Associated companies of "Sirma Group Holding" JSC:

Company	Value of the investment at 31.12.2019 BGN '000	Percentage of capital at 31.12.2019	Value of the investment at 31.12.2018 BGN '000	Percentage of capital at 31.12.2018
GMG Systems (IN LIQUIDATION)	-	19,93%	-	19,93%
E-DOM MANAGEMENT	-	35,00%	-	35,00%
Total	**-**		**-**	

“Sirma Group Holding JSC” is a public company under the Public Offering of Securities Act.

The number of employees as of 31.12.2019 is 27 people. including 21 employees under labour contracts and 6 under management contracts.

2. Basis for the preparation of the separate financial statements

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and approved by the European Union (IFRS, as adopted by the EU). The term “IFRS, as adopted by the EU” has the meaning of paragraph 1, subparagraph 8 of the Additional provisions of Bulgarian Accountancy Act, which is International Accounting Standards (IAS) adopted in accordance with Regulation (EC) 1606/2002 of the European Parliament and of the Council.

The financial statements are presented in Bulgarian leva (BGN), which is also the functional currency of the Company. All amounts are presented in thousand Bulgarian leva (BGN‘000) (including comparative information for 2018) unless otherwise stated.

Management is responsible for the preparation and fair presentation of the information in these financial statements.

These financial statements are separate financial statements. The Company also prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) developed and published by the International Accounting Standards Board (IASB) and approved by EU. Investments in subsidiaries are accounted for and disclosed in accordance with IFRS 10 “Consolidated Financial Statements”.
The financial statements are prepared under the going concern principle.

At the date of preparation of these financial statements, management has made an assessment of the Company's ability to continue as a going concern based on available information for the foreseeable future. After making enquiries, Board of directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

3. Changes in accounting policies

3.1. New Standards adopted as at 1 January 2019

The Company has adopted the new accounting pronouncements which have become effective this year, and are as follows:

IFRS 16 “Leases”, effective from 1 January 2019, adopted by the EU
IFRS 16 “Leases” replaces IAS 17 ‘Leases’ along with three Interpretations (IFRIC 4 ‘Determining whether an Arrangement contains a Lease’, SIC 15 ‘Operating Leases-Incentives’ and SIC 27 ‘Evaluating the Substance of Transactions Involving the Legal Form of a Lease’).

The adoption of this new Standard has resulted in the Company recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach without recognition of the cumulative effect of adopting IFRS 16 at initial adoption. The Company measures the lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial adoption of IFRS 16. The right of-use asset at either is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of transition to IFRS 16. Prior periods have not been restated.

For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Company has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

The Company reports a lease liability as of 31.12.2018 in the amount of BGN 112 thousand. As of 01.01.2019, the asset with right to use is presented in the position Investment property of the Company. Its carrying amount as at 01.01.2019 amounts to BGN 278 thousand (31.12.2019: BGN 275 thousand).

IAS 19 “Employee benefits” (amended) – Plan amendment, curtailment or settlement, effective from 1 January 2019, adopted by the EU
These amendments clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must:

- calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change
- recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

IAS 28 "Investments in associates and joint ventures" (amended) – Long-term interests in associates and joint ventures, effective from 1 January 2019, adopted by the EU
The amendments clarify that:

- IFRS 9 should be applied only to those long-term interests in an associate or joint venture, which are not accounted for by using the equity method.
- in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

IFRIC 23 Uncertainty over Income Tax Treatments, effective from 1 January 2019, adopted by the EU
The Interpretation clarifies how the recognition and measurement requirements of IAS 12 are applied where there is uncertainty over income tax treatments. It discusses:

- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

3.2. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

The following new standards, amendments and interpretations to existing standards have been issued, but are not effective, and are not anticipated to have relevant effect on the the Company's financial statements.

- **IAS 1 and IAS 8 (amended) - Definition of Material, effective from 1 January 2020, adopted** by the EU
- Amendments to References to the Conceptual Framework in IFRS Standards, effective from 1 January 2020, adopted by the EU
- IFRS 3 (amended) - Definition of a Business, effective from 1 January 2020, not yet adopted by the EU
- IFRS 14 "Regulatory deferral accounts" effective from 1 January 2016, not adopted by the EU
- IFRS 17 "Insurance Contracts" effective from 1 January 2021, not yet adopted by the EU
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (issued on 26 September 2019) , effective from 1 January 2020, not yet adopted by the EU

4. Significant accounting policies
4.1. Overall considerations

The significant accounting policies that have been used in the preparation of these separate financial statements are summarized below.

The financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used for the preparation of the separate financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

4.2. Presentation of separate financial statements

The separate financial statements are presented in accordance with IAS 1 "Presentation of Financial Statements".

The Company has elected to present the statement of profit or loss and other comprehensive income as a single statement.

Two comparative periods are presented for the statement of financial position when the Company applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or reclassifies items in the financial statements and this has a material impact on the statement of financial position at the beginning of the preceding period.
In 2019 two comparative periods are presented because the Company reclassifies items in the separate financial statements. Further information is presented in note 5.

4.3. Investments in subsidiaries

Subsidiaries are firms under the control of the Company. The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In the financial statements of the Company investment in subsidiaries is accounted at cost of the investment.

The Company recognises a dividend from a subsidiary in profit or loss in its separate financial statements when its right to receive the dividend is established.

4.4. Investments in associates

Associates are those entities over which the Company is able to exert significant influence, but which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognised and subsequently measured at cost or in accordance with IFRS 9 or using the equity method as described in IAS 28.

The Company recognises a dividend from a jointly controlled entity or associate in profit or loss in its separate financial statements when its right to receive the dividend is established.

All subsequent changes to the Entity's share of interest in the equity of the associate are recognised in the carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are reported within "Profit/ (Loss) from equity accounted investments" in the consolidated statement of profit or loss/ statement of profit or loss and other comprehensive income. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of assets and liabilities.

Changes resulting from other comprehensive income of the associate or items recognised directly in the associate's equity are recognised in other comprehensive income or equity of the Entity, as applicable. However, when the Entity's share of losses in an associate equal or exceeds its interest in the associate, including any unsecured receivables, the Entity does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognised.

Unrealized gains and losses on transactions between the Entity and its associates and joint ventures are eliminated to the extent of the Entity's interest in those entities. Where unrealized losses are eliminated, the underlying asset is also tested for impairment losses from an Entity's perspective.

Amounts reported in the financial statements of associates and jointly controlled entities have been adjusted where necessary to ensure consistency with the accounting policies of the Entity.

Upon loss of significant influence over the associate, the Entity measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the sum of the fair value of the retaining investment and proceeds from disposal is recognised in profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

4.5. Foreign currency translation

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions (spot exchange rate as published by the Bulgarian National Bank). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognised in profit or loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

Bulgarian leva is pegged to the euro at an exchange rate of EUR 1 = BGN 1,95583.

4.6. Segment reporting

“Sirma Group Holding” JSC is a parent company that prepares consolidated financial statements and segment information is disclosed only in the consolidated financial statements.

4.7. Revenue

The basic revenue generated by the Company is related revenue from sales of services, interest income, revenue from participations, revenue from financing and other revenue.

To determine whether to recognise revenue, the Company follows a 5-step process:

1 Identifying the contract with a customer
2 Identifying the performance obligations
3 Determining the transaction price
4 Allocating the transaction price to the performance obligations
5 Recognising revenue when/as performance obligation(s) are satisfied.

Revenue is recognised either at a point in time or over time, when (or as) the Company satisfies performance obligations by transferring the promised goods or services to its customers.

The Company recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Company satisfies a performance obligation before it receives the consideration, the Company recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

4.7.1.Revenue recognised over time

- **Rendering of services**

The services provided by the Company include the following services: subscriptions, administrative, accounting, consulting and other services. Service revenue is recognized when control over the benefits of the services provided is transferred to the service user.

4.7.2.Revenue recognised at a point of time

Revenue is recognized when the Company has transferred control of the assets provided to the buyer. Control is considered to be transferred to the buyer when the customer has accepted the assets without objection.

4.7.3.Revenue from investment property rental

Rental revenue from operating leases is recognized as revenue on a straight-line basis over the term of the lease, except where the management of the company determines that another systematic basis more accurately reflects the time model, which utilizes the reaped benefit of the leased asset.

4.7.4.Interest and dividend income

Interest income is related to loan agreements and deposits granted under the business activity of the holding company. It is reported on an accrual basis using the effective interest method.
Dividend income is recognised at the time the right to receive payment is established.

4.7.5.Revenue from financing

Initially financing is recognised as deferred income when there is significant certainty as to whether the Company will receive financing and will fulfil any associated requirements. Financing received to cover current expenditure is recognised in the period when the respective expenses were incurred. Financing received to cover capital expenditure for non-current assets is recognised in line with the depreciation charges accrued for the period.

4.8. Contract assets and liabilities

The Company recognises contract assets and/ or liabilities when one of the parties in the contract has fulfilled its obligations depending on the relationship between the business of the company and the payment by the client. The Company presents separately any unconditional right to remuneration as a receivable. The receivable is the unconditional right of the company to receive remuneration.

A contract liability is presented in the statement of financial position where a customer has paid an amount of consideration prior to the entity performing by transferring the related good or service to the customer.

The Company recognises contract assets when performance obligations are satisfied, and payment is not due on behalf of the client. A contract asset is the right of a company to receive remuneration in exchange for the goods or services that the company has transferred to a customer.

Subsequent the Company measures a contract asset in accordance with IFRS 9 Financial Instruments.

4.9. Operating expenses

Operating expenses are recognised in profit or loss upon utilization of the service or as incurred.

The Company recognises two types of contract costs related to the execution of contracts for the supply of services/ goods/ with customer: incremental costs of obtaining a contract and costs to fulfil a contract.

Where costs are not eligible for deferral under IFRS 15, they are recognised as current expenses at the time they arise, such as they are not expected to be recovered, or the deferral period is up to one year. The following operating expenses are always recognised as current expenses at the time of their occurrence:

- General and administrative costs (unless those costs that are chargeable to the customer);
- Costs of wasted materials;
- Costs that relate to satisfied performance obligation;
- Costs for which the company cannot distinguish whether the costs relate to unsatisfied performance obligation or to satisfied performance obligation.

Expenditure for warranties is recognised and charged against the associated provision when the related revenue is recognised.

4.10. Interest expenses and borrowing costs

Interest expenses are reported on an accrual basis using the effective interest method.

Borrowing costs primarily comprise interest on the Company's borrowings. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in 'Finance costs'.

To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

4.11. Intangible assets

Intangible assets include software products and software module rights. They are accounted for using the cost model. The cost comprises its purchase price, including any import duties and non-refundable purchase taxes, and any directly attributable expenditure on preparing the asset for its intended use, whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as these assets are considered finite.

After initial recognition, an intangible asset is carried at its cost less any accumulated amortization and any accumulated impairment losses. Impairment losses are recognised in the statement of profit or loss/ statement of profit or loss and other comprehensive income for the respective period.

Subsequent expenditure on an intangible asset after initial are recognized in the separate statement of profit or loss and other comprehensive income for the period of their occurrence, unless due to them the asset can generate more than the originally projected future economic benefits and when these costs can be reliably estimated and attributed to the asset. If these conditions are met, the subsequent expenditure is added to the carrying amount of the intangible asset.

Residual values and useful lives are reviewed by the management at each reporting date.

Amortization is calculated using the straight-line method over the estimated useful life of individual assets as follows:

- Software 5-20 years
- Others 2-20 years

Amortization has been included within “Depreciation, amortization of non-financial assets”.

Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred.

Costs that are directly attributable to the development phase of an intangible asset are capitalized provided they meet the following recognition requirements:
- completion of the intangible asset is technically feasible so that it will be available for use or sale;
- the Company intends to complete the intangible asset and use or sell it;
- the Company has the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting these criteria for capitalization are expensed as incurred.

Directly attributable costs to the development phase include employee remuneration and social security expense as well as hired services expenses. Internally generated intangible assets are subject to the same subsequent measurement method as externally acquired intangible assets. However, until completion of the development project, the assets are subject to impairment testing only as described below in note 4.14.

The gain or loss arising on the disposal of an intangible asset is determined as the difference between the proceeds and the carrying amount of the asset and is recognised in profit or loss within “Gain/ (Loss) on sale of non-current assets”.

The recognition threshold adopted by the Company for the intangible assets amounts to BGN 700.

4.12. Property, plant and equipment

Property, plant and equipment are initially measured at cost, which comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use.

After initial recognition, the property, plant and equipment is carried at its cost less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Impairment losses are recognised in the separate statement of profit or loss and other comprehensive income for the respective period.

Subsequent expenditure relating to an item of property, plant and equipment is added to the carrying amount of the asset when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of the its originally assessed standard of performance. All other subsequent expenditure is recognised as incurred.

Material residual value estimates and estimates of useful life are updated from the management at each reporting date.

Property, plant and equipment acquired under finance lease agreement, are depreciated based on their expected useful life, determined by reference to comparable assets or based on the period of the lease contract, if shorter.

Depreciation is calculated using the straight-line method over the estimated useful life of individual assets as follows:
- Buildings 50 years
- Machines 3-8 years
- Vehicles 4 years
- Business inventory 7,5 years
- IT equipment 2-5 years
- Others 7,5 years

Depreciation expense is included in the separate statement of profit or loss and other comprehensive income on the line "Depreciation expense for non-financial assets".

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss within “Gain/(Loss) on sale of non-current assets”.

The recognition threshold adopted by the Company for property, plant and equipment amounts to BGN 700.

4.13. Leases

4.13.1. Accounting policy applicable from 1 January 2019

The Company as a lessor

The Company’s accounting policy under IFRS 16 has not changed from the comparative period.

As a lessor the Company classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership of the underlying asset, and as an operating lease if it does not substantially transfer all the risks and rewards of ownership of the underlying asset.

The Company as a lessee

For any new contracts entered into on or after 1 January 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Company has the right to direct the use of the identified asset throughout the period of use.

The Company assesses whether it has the right to direct ‘how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company’s incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

After initial measurement, the liability is reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

4.13.2. Accounting policy applicable until 31 December 2018

The Company as a lessee

Finance leases

Management applies judgment in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset’s fair value, and whether the Company obtains ownership of the asset at the end of the lease term.

The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a finance lease liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.
The finance lease liabilities are reduced by subsequent lease payments, which consist of repayment of principal and finance costs.

Leases of land and buildings are classified separately and are split into a land and a building element, in accordance with the relative fair values of the leasehold interests at the date the asset is recognized initially.

Assets acquired under the terms of finance lease are depreciated or amortized in accordance with IAS 16 “Property, Plant and Equipment” or IAS 38 “Intangible Assets”.

The Company as a lessor

Assets subject to operating lease agreements are presented in the statement of financial position and are depreciated and amortized in accordance with the depreciation and amortization policy of the Company for similar assets and with the requirements of IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”. The Company earns rental income from operating leases of its investment properties (see note 10). Rental income is recognised on a straight-line basis over the term of the lease.

Assets held under a finance lease agreement are presented in the separate statement of financial position as a receivable at amount equal to the net lease investment. The sales revenue from assets is recognized in the separate statement of profit or loss and other comprehensive income for the reporting period. The recognition of the finance income is based on a pattern reflecting a constant periodic rate of return on the lessor’s net investment outstanding.

4.14. Impairment testing of intangible assets and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All assets and cash-generating units are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management.

Impairment losses for cash-generating units reduce the carrying amount of the assets allocated to that cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

4.15. Investment property

The investment property is initially measured at cost, which comprises the purchase price and any directly attributable expenses, e. g. legal fees, property transfer taxes and other transaction costs.

The Company accounts for investment property as buildings that are held for rental income and / or for capital appreciation, using the acquisition cost model.

The investment property of the Company includes buildings held to earn rentals and/or for capital appreciation and are accounted for using the cost model.

The investment property is initially measured at cost, which comprises the purchase price and any directly attributable expenses, e. g. legal fees, property transfer taxes and other transaction costs.

Following the initial recognition, the investment property is measured at cost less any subsequent accumulated depreciation and any subsequent impairment losses.

Subsequent expenditure relating to investment property, which is already recognised in the Company's financial statements, is added to the carrying amount of the investment property when it is probable that this expenditure will enable the existing investment property to generate future economic benefits in excess of its originally assessed value. All other subsequent expenditure is recognised as incurred.

The investment property is derecognised upon its sale or permanent withdrawal from use in case that no future economic benefits are expected from its disposal. Gains or losses arising from the disposal of investment properties are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss.

Depreciation is calculated using the straight-line method over the estimated useful life of the buildings, which is 50 years.

Rental income and operating expenses from investment property are reported in the separate statement of profit or loss and other comprehensive income, respectively in the line "Revenue from sales", "Other expenses" and "Employee benefits expense" respectively and are recognised as described in note 20.2,note 25 and note 4.9.

4.16. Financial instruments

4.16.1. Recognition and derecognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

4.16.2. Classification and initial measurement of financial assets

Financial assets are initially measured at fair value, adjusted for transaction costs, except for financial assets at fair value through profit or loss and trade receivables that do not contain a significant financial component. The initial measurement of financial assets at fair value through profit or loss is not adjusted with transaction costs that are reported as current expenses. The initial measurement of trade receivables that do not contain a significant financial component represents the transaction price in accordance with IFRS 15.

Depending on the method of subsequent measurement, financial assets are classified into the following categories:

- Debt instruments at amortised cost;
- Financial assets at fair value through profit or loss (FVTPL);
- Financial assets at fair value through other comprehensive income (FVOCI) with or without reclassification in profit or loss, depending on whether they are debt or equity instruments.

The classification is determined by both:

- the entity's business model for managing the financial asset;
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses in the separate statement of profit or loss and other comprehensive income.

4.16.3. Subsequent measurement of financial assets

The percentages of expected losses are based on the sales payment profiles and the corresponding historical credit losses that occurred during that period. Historical loss values are adjusted to reflect current and forecast information about the macroeconomic factors that affect customers' ability to settle claims. The company has determined the GDP and unemployment rate of the countries in which it sells its goods and services, as the most important factors and accordingly adjusts historical losses based on the expected changes in these factors.

Financial assets at amortised cost
Financial assets are measured at amortised cost if the assets meet the following conditions and are not designated as FVTPL:

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows;
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

This category includes non-derivative financial assets like loans and receivables with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Trade receivables
Trade receivables are amounts due from customers for goods or services sold in the ordinary course of business. Typically, they are due to be settled within a short timeframe and are therefore classified as current. Trade receivables are initially recognised at amortized cost unless they contain significant financial components. The Company holds trade receivables for the purpose of collecting the contractual cash flows and therefore measures them at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model than "hold to collect" or "hold to collect and sell", and financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

This category also contains an equity investment. The Company accounts for the investment at FVTPL and did not make the irrevocable election to account for the investment in subsidiaries at FVOCI.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

4.16.4. Impairment of financial assets

IFRS 9's new impairment requirements use forward-looking information to recognise expected credit losses – the "expected credit loss" (ECL) model.

Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (Stage 1) and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (Stage 2)
- Stage 3 would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month expected credit losses" are recognised for the first category while "lifetime expected credit losses" are recognised for the second category. Expected credit losses are determined as the difference between all contractual cash flows attributable to the Company and the cash flows it is actually expected to receive ("cash shortfall"). This difference is discounted at the original effective interest rate (or credit adjusted effective interest rate).

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and other receivables, contract assets and finance lease receivables

The Company makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses.

The Company allows 50% for amounts that are 180 to 365 days past due and writes off fully any amounts that are more than 365 days past due.

4.16.5. Classification and measurement of financial liabilities

The Company’s financial liabilities include borrowings, finance lease payments, trade and other payables and derivative financial instruments.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

The Company has designated some financial liabilities at FVTPL to reduce significant measurement inconsistencies between investment properties in the United States and related US-dollar bank loans with fixed interest rates. These investment properties are measured using the fair value model, with changes in the fair value recognised in profit or loss. The fair value of loans used to finance these assets correlates significantly with the valuation of the investment properties held by the Company, because both measures are highly reactive to the market interest rate for 30-year government bonds. The loans are managed and evaluated on a fair value basis through a quarterly management review in comparison with the investment property valuations. Therefore, the Company designates such fixed interest rate loans as at FVTPL if they are secured by specific investment property assets that are held by the Company. This accounting policy reduces significantly what would otherwise be an accounting mismatch.

All interest-related charges and, if applicable, changes in an instrument’s fair value that are reported in profit or loss are included within finance costs or finance income.

4.17. Income taxes

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of an asset or liability unless the related transaction affects tax or accounting profit.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilized against future taxable income. For management’s assessment of the probability of future taxable income to utilize against deferred tax assets, see note 4.22.2.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

4.18. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current bank accounts, demand deposits and deposits up to 3 months, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

4.19. Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

Other reserves include the following:

- legal reserves, common reserves;
- revaluation reserve – comprises gains and losses from the revaluation of non-financial assets;

Retained earnings include all current and prior period retained profits and uncovered losses.
Dividend payables to shareholders are included in ‘Related party payables’ when the dividends have been approved at the general meeting of shareholders prior to the reporting date.
All transactions with owners of the Company are recorded separately within equity.

4.20. Post-employment benefits and short-term employee benefits

The Company reports short-term payables relating to unutilized paid leaves, which shall be compensated in case it is expected the leaves to occur within 12 months after the end of the accounting period during which the employees have performed the work related to those leaves. The short-term payables to personnel include wages, salaries and related social security payments.

In accordance with Labour Code requirements, in case of retirement, after the employee has gained the legal right of pension due to years of services and age, the Company is obliged to pay him/her compensation at the amount of up to six gross wages. The Company has reported a liability by law for the payment of retirement compensation in accordance with IAS 19 “Employee Benefits”. The amount is based on forecasts made for the next five years, discounted with the long-term income percentage of risk free securities.

The Company has not developed and implemented post-employment benefit plans.

Net interest expense related to pension obligations is included in “Finance costs” in profit or loss. Service cost on the net defined benefit liability is included in “Employee benefits expense”.

Short-term employee benefits, including holiday entitlement, are current liabilities included in “Pension and other employee obligations”, measured at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

4.21. Provisions, contingent liabilities and contingent assets

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, granted product warranties, legal disputes or onerous contracts. Restructuring provisions are recognised only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan’s main features to those affected by it. Provisions are not recognised for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised.

Possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets.

4.22. Significant management judgement in applying accounting policies

The following are significant management judgements in applying the accounting policies of the Company that have the most significant effect on the financial statements. Critical estimation uncertainties are described in note 4.23.

4.22.1. Internally generated intangible assets and research costs

Significant judgement is required in distinguishing research from the development phase. Development costs are recognised as an asset when all the criteria are met, whereas research costs are expensed as incurred.

To distinguish any research-type project phase from the development phase, it is the Company’s accounting policy to also require a detailed forecast of sales or cost savings expected to be generated by the intangible asset. The forecast is incorporated into the Company’s overall budget forecast as the capitalization of development costs commences. This ensures that managerial accounting, impairment testing procedures and accounting for internally-generated intangible assets is based on the same data.

The Company’s management also monitors whether the recognition requirements for development costs continue to be met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems after the time of recognition.

4.22.2. Deferred tax assets

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company’s latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The tax rules in the numerous jurisdictions in which the Company operates are also carefully taken into consideration. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognised in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

4.23. Estimation uncertainty

When preparing the financial statements management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses.

The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

In the preparation of the presented Separate financial statements the significant judgments of the management in applying the accounting policies of the Company and the main sources of uncertainty of the accounting estimates do not differ from those disclosed in the annual financial statements of the Company as at 31 December 2018.

Information about significant judgements, estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses are discussed below.

4.23.1. Impairment of non-financial assets

An impairment loss is recognised for the amount by which the asset’s or cash-generating unit’s carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows (see note 4.14). In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company’s assets within the next financial year.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

The Company hasn’t incurred an impairment loss on non-current assets in 2019 and 2018 in order to reduce the carrying amount of non-current assets to its recoverable amount.

4.23.2. Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date.

At 31 December 2019 management assesses that the useful lives represent the expected utility of the assets to the Company. The carrying amounts are analysed in notes 6,6 and 7. Actual results, however, may vary due to technical obsolescence, particularly relating to software and IT equipment.

4.23.3. Measurement of expected credit losses

Credit losses are the difference between all contractual cash flows due to the Company and all cash flows that the Company expects to receive. Expected credit losses are a probability-weighted estimate of credit losses that require the Company’s judgment. Expected credit losses are discounted at the original effective interest rate (or the credit-adjusted effective interest rate for purchased or initially created financial assets with credit impairment).

4.23.4. Defined benefit liability

Management estimates the defined benefit liability annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimate of its defined benefit liability BGN 32 thousand (2018: BGN 27 thousand) is based on standard rates of inflation, medical cost trends and mortality. It also takes into account the Company’s specific anticipation of future salary increases. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Estimation uncertainties exist particularly with regard to actuarial assumptions, which may vary and significantly impact the defined benefit obligations and the annual defined benefit expenses.

4.23.5. Uncertain tax position and tax-related contingency

The Company's management has assessed whether it is probable that the tax authority will accept uncertain tax treatment. In its activities, the company complied with the tax practice and the probable tax treatment, and therefore the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and the tax rate, correspond to the used and expected treatment that will be used in declaring income taxes.

5. Effect of reclassifications and the application of IAS 8

5.1. Effect of reclassifications as at 1 January 2018

The reclassifications made relate to changes in the presentation of the items in the separate statement of financial position of the Company and have no effect on retained earnings, total assets and liabilities. No reclassifications have been made to the items in the separate income statement and other comprehensive income for the year ended 31 December 2017. The reclassifications made are as follows:

5.1.1. - Expenses for acquisition of fixed assets at the amount of BGN 5 103 thousand are reclassified to Intangible assets.

5.1.2. - Deferred tax assets are reduced as a result of the reclassification of Deferred tax liabilities to the amount of BGN 60 thousand.

5.1.3. - Other receivables at the amount of BGN 336 thousand are reclassified to Prepayments and other assets.

5.1.4. - Provisions at the amount of BGN 10 thousand are reclassified to Pension employee obligations.

5.1.5. - Provisions amounting to BGN 56 thousand are reclassified to Employee obligations.

5.1.6. - Other liabilities at the amount of BGN 12 thousand are reclassified to Trade and other payables.

5.1.7. - Tax liabilities at the amount of BGN 251 thousand are reclassified respectively in Income tax liabilities at the amount of BGN 218 thousand and in Trade and other payables at the amount of BGN 33 thousand.

5.1.8. - Trade receivables at the amount of BGN 449 thousand are reclassified to Prepayments and other assets.

5.2. Effect of the application of IAS 8 as at 1 January 2018

The total effect on the retained earnings of the Company as at 1 January 2018 amounts to BGN 1 411 thousand and is presented as follows:

5.2.1. - Investments in associates amounting to BGN 157 thousand are impaired at the expense of Retained earnings.

5.2.2. - Related party receivables at the amount of BGN 1 357 thousand are impaired at the expense of Retained earnings.

5.2.3. - Prepayments and other assets at the amount of BGN 10 thousand are written off at the expense of Retained earnings and BGN 43 thousand are depreciated at the expense of Retained earnings.

5.2.4. - In connection with the impaired Related party receivables at the amount of BGN 1 357 thousand, Prepayments and other assets of BGN 43 thousand and Investments in associates in the amount of BGN 157 thousand Deferred tax assets are increased by BGN 156 thousand.

The following table presents the adjustments recognised for each affected financial statement line item:

Separate Statement of financial position	**Note**	**1 January 2018 BGN'000**	**Correction BGN'000**	**1 January 2018 BGN'000 Restated**
Non-current assets				
Property, plant and equipment		456	-	456
Intangible assets	5.1.1.	33	5 103	5 136
Expenses for acquisition of fixed assets	5.1.1.	5 103	(5 103)	-
Investments in subsidiaries		56 392	-	56 392
Investments in associates	5.2.1.	221	(157)	64
Investment property		6 682	-	6 682
Deferred tax assets	5.1.2., 5.2.4.	12	96	108
Total Non-current assets		**68 899**	**(61)**	**68 838**
Current assets				
Trade receivables	5.1.8.	1 515	(449)	1 066
Prepayments and other assets	5.1.3., 5.1.8., 5.2.3.	7	732	739
Other receivables	5.1.3.	336	(336)	-
Related party receivables	5.2.2.	8 475	(1 357)	7 118
Cash and cash equivalents		604	-	604
Total Current assets		**10 937**	**(1 410)**	**9 527**
Total Assets		**79 836**	**(1 471)**	**78 365**
Equity				
Share capital		59 361	-	59 361
Purchased own shares		(475)	-	(475)
Share premium reserve		5 462	-	5 462
Other reserves		311	-	311
Retained earnings	5.2.1, 5.2.2.,5.2.3., 5.2.4.	2 038	(1 411)	627
Current financial result		2 809	-	2 809
Total Equity		**69 506**	**(1 411)**	**68 095**
Liabilities				
Non-current liabilities				
Provisions	5.1.4.	10	(10)	-
Pension employee obligations	5.1.4.	-	10	10
Long-term borrowings		1 870	-	1 870
Long-term Lease liabilities		114	-	114
Long-term related party payables		141	-	141
Financing		81	-	81
Deferred tax liabilities	5.1.2.	60	(60)	-
Total Non-current liabilities		**2 276**	**(60)**	**2 216**
Current liabilities				
Provisions	5.1.5.	56	(56)	-
Employee obligations	5.1.5.	36	56	92
Short-term borrowings		4 393	-	4 393
Short-term Lease liabilities		42	-	42
Trade and other payables	5.1.6, 5.1.7.	41	45	86
Other liabilities	5.1.6.	12	(12)	-
Financing		55	-	55
Short-term related party payables		3 168	-	3 168
Income tax liabilities	5.1.7.	-	218	218
Tax liabilities	5.1.7.	251	(251)	-
Total Current liabilities		**8 054**	**-**	**8 054**
Total liabilities		**10 330**	**(60)**	**10 270**
Total Equity and Liabilities		**79 836**	**(1 471)**	**78 365**

5.3. Effect of IAS 8 as at 31 December 2018

The total effect on Retained earnings of the Company as at 31 December 2018 amounts to BGN 39 thousand and is presented as follows:

5.3.1. - Related party receivables at the amount of BGN 43 thousand are impaired at the expense of Retained earnings.
5.3.2. - In connection with the impaired Related party receivables, Deferred tax assets are increased by BGN 4 thousand.

The basic earnings per share as at 31 December 2018 have been recalculated. The adjustment of earnings per share consists respectively in a decrease of BGN 0,0007 per share.

Separate Statement of financial position	Note	31 December 2018 BGN'000	Increase / (decrease) due to correction IAS 8 BGN'000	31 December 2018 BGN'000 Restated
Non-current assets				
Property, plant and equipment		840	-	840
Intangible assets		9 394	-	9 394
Investments in subsidiaries		67 904	-	67 904
Investment property		6 604	-	6 604
Deferred tax assets	5.3.2.	95	4	99
Total Non-current assets		**84 837**	**4**	**84 841**
Current assets				
Trade receivables		142	-	142
Prepayments and other assets		718	-	718
Related party receivables	5.3.1.	5 147	(43)	5 104
Cash and cash equivalents		1 214	-	1 214
Total Current assets		**7 221**	**(43)**	**7 178**
Total Assets		**92 058**	**(39)**	**92 019**
Equity				
Share capital		59 361	-	59 361
Purchased own shares		(475)	-	(475)
Share premium reserve		5 462	-	5 462
Other reserves		592	-	592
Retained earnings		3 133	-	3 133
Current financial result	5.3.1., 5.3.2.	2 596	(39)	2 557
Total Equity		**70 669**	**(39)**	**70 630**
Liabilities				
Non-current liabilities				
Pension employee obligations		27	-	27
Long-term borrowings		9 399	-	9 399
Long-term Lease liabilities		66	-	66
Financing		26	-	26
Total Non-current liabilities		**9 518**	**-**	**9 518**
Current liabilities				
Employee obligations		166	-	166
Short-term borrowings		6 355	-	6 355
Short-term Lease liabilities		46	-	46
Trade and other payables		4 397	-	4 397
Financing		55	-	55
Short-term related party payables		567	-	567
Income tax liabilities		285	-	285
Total Current liabilities		**11 871**	**-**	**11 871**
Total liabilities		**21 389**	**-**	**21 389**
Total Equity and Liabilities		**92 058**	**(39)**	**92 019**

Separate Statement of profit or loss and other comprehensive income	Note	2018 BGN‘000	Increase / (decrease) due to correction IAS 8	2018 BGN‘000 Restated
Revenue from sales		5 558	-	5 558
Interest income		269	-	269
Revenues from financing		54	-	54
Other revenues		3	-	3
Cost of materials		(91)	-	(91)
Hired services expenses		(4 624)	-	(4 624)
Employee benefits expense		(1 344)	-	(1 344)
Depreciation, amortisation		(242)	-	(242)
Cost of goods sold and other current assets		(81)	-	(81)
Capitalized own expenses		3 761	-	3 761
Other expenses	5.3.1.	(155)	(43)	(198)
Operating profit		**3 108**	**(43)**	**3 065**
Finance costs		(312)	-	(312)
Finance income		84	-	84
Profit / (Loss) before tax		**2 880**	**(43)**	**2 837**
Income tax expense/income	5.3.2.	(284)	4	(280)
Profit/(Loss) for the year		**2 596**	**(39)**	**2 557**
Other comprehensive loss:				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit liability		(4)	-	(4)
Total comprehensive income for the year		**2 592**	**(39)**	**2 553**
		BGN	**BGN**	**BGN**
Earnings per share		**0,0441**	**(0,0007)**	**0,0434**

6. Property, plant and equipment

	Buildings	Vehicles	Office equipment	Machinery	Computer equipment	Assets under construction	Others	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Gross carrying amount								
Balance at 1 January 2019	143	28	126	203	460	406	46	1 412
Additions	-	-	-	-	23	185	-	208
Disposals	-	-	-	-	-	(41)	-	(41)
Balance at 31 December 2019	143	28	126	203	483	550	46	1 579
Depreciation								
Balance at 1 January 2019	(15)	(16)	(31)	(190)	(312)	-	(8)	(572)
Depreciation	(3)	(6)	(19)	(6)	(51)	-	(6)	(91)
Balance at 31 December 2019	**(18)**	**(22)**	**(50)**	**(196)**	**(363)**	**-**	**(14)**	**(663)**
Carrying amount at 31 December 2019	**125**	**6**	**76**	**7**	**120**	**550**	**32**	**916**

	Buildings	Vehicles	Office equipment	Machinery	Computer equipment	Assets under construction	Others	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Gross carrying amount								
Balance at 1 January 2018	143	28	50	194	439	29	24	907
Additions	-	-	76	9	21	587	22	715
Disposals	-	-	-	-	-	(210)	-	(210)
Balance at 31 December 2018	143	28	126	203	460	406	46	1 412
Depreciation								
Balance at 1 January 2019	(12)	(9)	(18)	(144)	(265)	-	(3)	(451)
Depreciation	(3)	(7)	(13)	(46)	(47)	-	(5)	(121)
Balance at 31 December 2018	**(15)**	**(16)**	**(31)**	**(190)**	**(312)**	**-**	**(8)**	**(572)**
Carrying amount at 31 December 2018	**128**	**12**	**95**	**13**	**148**	**406**	**38**	**840**

All depreciation charges are included within "Depreciation and amortization of non-financial assets" in the separate statement of profit or loss and other comprehensive income.

As at 31 December 2019 there were no material contractual commitments related to acquisition of items of property, plant and equipment.

The carrying amount of the Company's property, plant and equipment pledged as security for its liabilities (see note 17) is presented as follows:

	Buildings BGN'000	Vehicles BGN'000	Office equipment BGN'000	Machinery BGN'000	Computer equipment BGN'000	Others BGN'000	Total BGN'000
Carrying amount at 31 December 2019	125	6	76	7	120	32	366
Carrying amount at 31 December 2018	128	12	95	13	148	38	434

7. Intangible assets

The carrying amounts for the reporting periods under review can be analysed as follows:

	Software products BGN'000	Rights to software modules BGN'000	In process of acquisition BGN'000	Others BGN'000	Total BGN'000
Gross carrying amount					
Balance at 1 January 2019	57	540	8 864	4	9 465
Additions, separately acquired	-	1 082	-	-	1 082
Additions, internally developed	-	-	133	4 265	4 398
In exploitation, internally developed	-	-	(4 265)	-	(4 265)
Balance at 31 December 2019	57	1 622	4 732	4 269	10 680
Amortization and impairment					
Balance at 1 January 2019	(39)	(31)	-	(1)	(71)
Amortization	(11)	(280)	-	(196)	(487)
Balance at 31 December 2019	(50)	(311)	-	(197)	(558)
Carrying amount at 31 December 2019	**7**	**1 311**	**4 732**	**4 072**	**10 122**

	Software products BGN'000	Rights to software modules BGN'000	In process of acquisition BGN'000	Others BGN'000	Total BGN'000
Gross carrying amount					
Balance at 1 January 2019	57	-	5 103	4	5 164
Additions, separately acquired	-	540	-	-	540
Additions, internally developed	-	-	3 761	-	3 761
Balance at 31 December 2019	57	540	8 864	4	9 465
Amortization and impairment					
Balance at 1 January 2019	(27)	-	-	(1)	(28)
Amortization	(12)	(31)	-	-	(43)
Balance at 31 December 2019	(39)	(31)	-	(1)	(71)
Carrying amount at 31 December 2019	**18**	**509**	**8 864**	**3**	**9 394**

The Company's intangible assets reported under "Other" and "In process of acquisition" are internally developed. These include SIRMA CLOUD PLATFORM, which is a cloud management platform:

• Data centre virtualization management.
• Data warehouse storage virtualization management;
• Resource efficiency management;
• Resource cost management;
• Cloud management distributed in different geographical locations.

The Company has not entered into material contractual commitments to acquire intangible assets as at 31 December 2019 or 2018.

All amortization expenses are included within "Depreciation and amortization of non-financial assets" in the separate statement of profit or loss and other comprehensive income.

No intangible assets have been pledged as security for liabilities.

8. Investments in subsidiaries

The Company has the following investments in subsidiaries:

Name of the subsidiary	Country of incorporation and principal place of business	Main activities	2019	2019 share	2018	2018 share
			BGN‘000	**%**	**BGN‘000**	**%**
Sirma Solutions	Bulgaria	Software services	39 311	82,43%	39 311	82,43%
Ontotext	Bulgaria	Software services	17 865	90,44%	17 865	90,44%
Sirma AI	Bulgaria	Software services	7 035	100,00%	7 035	100,00%
Sirma Group Inc.	USA	Software services	3 471	76,15%	3 471	76,15%
Engview Systems	Bulgaria	Software services	50	72,90%	50	72,90%
Sirma Medical Systems	Bulgaria	Software services	66	66,00%	66	66,00%
Sirma CI	Bulgaria	Software services	106	80,00%	106	80,00%
			67 904		**67 904**	

The subsidiaries are recognised in the financial statements of the Company using the cost method.

During 2019 and 2018 the Company received dividends respectively at the amount of BGN 160 thousand and BGN 0.

The shares of the subsidiaries are not traded on a stock exchange.

The Company has contingent liabilities as a guarantor on loans granted to subsidiaries (see note □).

9. Investments in associates

The carrying amount of investments in associates by company is as follows:

	31.12.2019 BGN '000	Share	31.12.2018 BGN '000	Share
GMG Systems (in liquidation)	-	19.93%	-	19.93%
E-Dom Management	-	35.00%	-	35.00%

	2019 BGN’000	2018 BGN’000
Investments in associates, gross amount before impairment	221	221
Impairment of investments in associates	(221)	(221)
Investments in associates	**-**	**-**

The Company has not incurred any contingent liabilities or other commitments relating to its investments in associates.

10. Investment property

Investment properties are specially detached parts of buildings for self-operation, intended for long-term rent to subsidiaries and third parties. The investment properties have a total built-up area of 3 779 square meters and are part of a business building in Mladost district, Sofia.

Changes to the carrying amounts presented in the separate statement of financial position can be summarized as follows:

	Investment property BGN'000
Gross carrying amount	
Balance at 1 January 2019	7 750
Balance at 31 December 2019	**7 750**
Depreciation	
Balance at 1 January 2019	(1 146)
Depreciation	(77)
Balance at 31 December 2019	(1 223)
Carrying amount at 31 December 2019	**6 527**

	Investment property BGN'000
Gross carrying amount	
Balance at 1 January 2018	7 750
Balance at 31 December 2018	**7 750**
Depreciation	
Balance at 1 January 2018	(1 068)
Depreciation	(78)
Balance at 31 December 2018	(1 146)
Carrying amount at 31 December 2018	**6 604**

At the reporting date the fair value of the investment property accounted for using the cost model amounts to BGN 7 279 thousand (2018: BGN 6 626 thousand). The market valuation was performed on 10.01.2020 by licensed appraiser Bright Consult Ltd. and the valuation methods used include: Cost method, Revenue method and Quick sale method.

Investment properties valued at BGN 6 527 thousand are pledged as security for borrowings (2018: BGN 6 604 thousand).

Rental income of BGN 523 thousand (2018: BGN 301 thousand) is shown within "Revenue from sales" in the separate statement of profit or loss and other comprehensive income. They include variable lease payments not dependent on an index or rate. Direct operating expenses of BGN 135 thousand are reported within "Other expenses" and "Employee benefits expense" (2018: BGN 147 thousand), of which BGN 36 thousand is incurred on vacant properties that did not generate rental income in 2019 (2018: BGN 40 thousand).

Future minimum lease rentals are as follows:

	Minimum lease income						
	Within 1 year BGN'000	1-2 years BGN'000	2-3 years BGN'000	3-4 years BGN'000	4-5 years BGN'000	After 5 years BGN'000	Total BGN'000
31 December 2019	612	1 224	1 836	2 448	3 060	6 120	15 300
31 December 2018	326	1 224	1 836	2 448	3 060	6 120	15 014

11. Deferred tax assets and liabilities

Deferred taxes arising from temporary differences and unused tax losses can be summarized as follows:

Deferred tax liabilities (assets)	31 December 2018	Effect from IAS 8	31 December 2018 Restated	Recognised in profit and loss	31 December 2019
	BGN‘000			BGN‘000	BGN‘000
Non-current assets					
Property, plant and equipment, Intangible assets, Investment property	82	-	82	6	88
Impairment of investments	(22)	-	(22)	-	(22)
Current assets					
Trade and other receivables	(142)	(4)	(146)	(5)	(151)
Non-current liabilities					
Pension and other employee obligations	(3)	-	(3)	(1)	(4)
Current liabilities					
Employee obligations	(10)	-	(10)	(13)	(23)
	(95)	**(4)**	**(99)**	**(13)**	**(112)**
Deferred tax assets	(177)		(181)		88
Deferred tax liabilities	82		82		(200)
Recognised as:					
Net deferred tax liabilities/(assets)	**(95)**		**(99)**		**(112)**

Deferred taxes for the comparative period 2018 can be summarized as follows:

Deferred tax liabilities (assets)	31 December 2018	Effect from IAS 8	31 December 2018 Restated	Recognised in profit and loss	31 December 2019
	BGN‘000			BGN‘000	BGN‘000
Non-current assets					
Property, plant and equipment, Intangible assets, Investment property	40	-	40	42	82
Impairment of investments	-	(16)	(16)	(6)	(22)
Current assets					
Trade and other receivables	(2)	(140)	(142)	-	(142)
Non-current liabilities					
Pension and other employee obligations	(1)	-	(1)	(2)	(3)
Current liabilities					
Employee obligations	16	-	16	(26)	(10)
Unused tax losses	(5)	-	(5)	5	-
	48	**(156)**	**(108)**	**13**	**(95)**
Deferred tax assets	(8)		(164)		(177)
Deferred tax liabilities	56		56		82
Recognised as:					
Net deferred tax liabilities/(assets)	**48**		**(108)**		**(95)**

All deferred tax assets and liabilities have been recognised in the separate statement of financial position.

12. Trade receivables

	2019 BGN‘000	2018 BGN‘000
Trade receivables, gross amount before impairment	164	151
Impairment of trade receivables	(9)	(9)
Trade receivables	**155**	**142**

All trade receivables are short term. The net carrying value of trade and other receivables is considered a reasonable approximation of fair value.

All trade receivables of the Company have been reviewed for indicators of impairment. They have applied simplified approach for determining the expected credit losses at the end of the period.

The movement in the allowance for credit losses can be reconciled as follows:

	2019 BGN'000	2018 BGN'000
Balance at 1 January	(9)	-
Adjustment for expected credit losses	-	(9)
Balance at 31 December	**(9)**	**(9)**

An analysis of unimpaired trade receivables that are past due is presented in note 35.2.

The most significant trade receivables as at 31 December are presented below:

	2019 BGN'000	2018 BGN'000
Client 1	120	70
Client 2	10	42
Client 3	6	11
	136	**123**

13. Prepayments and other assets

	2019 BGN'000	2018 BGN'000
Other receivables, gross amount before impairment	582	642
Impairment losses on other receivables	(1)	-
Other receivables	581	642
Tax receivables	-	69
Prepayments	228	7
Other assets, non-financial	**809**	**718**

For all other assets of the Company a simplified approach has been applied to determine the expected credit losses at the end of the period.

The change in the amount of the adjustment for expected credit losses on other assets can be presented as follows:

	2019 BGN'000	2018 BGN'000
Balance at 1 January	-	-
Adjustment for expected credit losses	1	-
Balance at 31 December	**1**	**-**

14. Cash and cash equivalents

Cash and cash equivalents include the following components:

	2019 BGN'000	2018 BGN'000
Cash at bank and in hand:		
- BGN	810	941
- EUR	99	270
- USD	8	3
Cash and cash equivalents	**917**	**1 214**

The amount of cash and cash equivalents inaccessible to the Company as at 31 December 2019 amounts to BGN 500 thousand (2018: BGN 500 thousand).

The Company has evaluated the expected credit losses on cash and cash equivalents. The estimated amount is less than 0.1% of the gross amount of cash deposited in financial institutions, which is therefore considered to be immaterial and has not been accounted for in the financial statements of the Company.

15. Equity
15.1. Share capital

The share capital of "Sirma Group Holding" JSC consists only of 59 360 518 fully paid ordinary shares with a nominal value of BGN 1. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders meeting of the Company.

	2019 Number of shares	2018 Number of shares
Number of shares issued and fully paid:		
- beginning of the year	59 360 518	59 360 518
Number of shares issued and fully paid	59 360 518	59 360 518
Total number of shares authorized as at 31 December	**59 360 518**	**59 360 518**

The list of the shareholders of the "Sirma Group Holding" JSC is as follows:

Shareholders	Number of shares at 31.12.2019	Number of shares at 31.12.2018	Nominal value (BGN)	Value (BGN)	% Shareholding	% shareholding with deducted repurchased own shares
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%
Veselin Kirov Antchev	4 700 786	4 700 786	1	4 700 786	7,92%	7,98%
Ognyan Plamenov Chernokozhev	3 741 620	3 741 620	1	3 741 620	6,30%	6,35%
Atanas Kostadinov Kiryakov	2 887 524	2 887 524	1	2 887 524	4,86%	4,90%
Krasimir Nevelinov Bozhkov	2 534 161	2 596 821	1	2 534 161	4,27%	4,30%
"NN Universal Pension Fund"	2 323 939	2 434 539	1	2 323 939	3,91%	3,95%
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%
Emiliana Ilieva Ilieva	1 792 168	2 343 985	1	1 792 168	3,02%	3,04%
Ivo Petrov Petrov	1 572 828	835 800	1	1 572 828	2,65%	2,67%
Yavor Liudmilov Djonev	1 392 746	1 392 746	1	1 392 746	2,35%	2,37%
Peter Nikolaev Konyarov	1 187 480	1 271 910	1	1 187 480	2,00%	2,02%
Foundation for Educational Transformation	363 327	1 301 855	1	363 327	0,61%	0,62%
Unicredit Bank Austria	1 094 249	296 649	1	1 094 249	1,84%	1,86%
UPF "Doverie"	1 047 678	802 126	1	1 047 678	1,76%	1,78%
"Mandjukov" Ltd.	960 000	960 000	1	960 000	1,62%	1,63%
Bank of New York Melon	857 600	0	1	857 600	1,44%	1,46%
UPF "DSK Rodina"	747 036	747 036	1	747 036	1,26%	1,27%
Expat Bulgaria SOFIX UCITS ETF	732 355	977 907	1	732 355	1,23%	1,24%
UPF "Pension Insurance Institute"	715 810	664 190	1	715 810	1,21%	1,22%
Elena Yordanova Kozuharova	607 040	948 250	1	607 040	1,02%	1,03%
Stanislav Ivanov Dimitrov	257 368	649 868	1	257 368	0,43%	0,44%
Others	10 624 246	10 586 349	1	10 624 246	17,92%	17,24%
Total	**59 360 518**	**59 360 518**		**59 360 518**	**100%**	**100%**

15.2. Share premium reserve

The share premium reserve in the amount of BGN 5 462 thousand consists of reserves from initial valuation of contributed fixed assets in the amount of BGN 3 619 thousand and reserves from issue of shares in the amount of BGN 1 843 thousand.

15.3. Other reserves

The other reserves consist of legal reserves set aside according to Art. 246 of the Commercial Law over the years as follows:

	2019 BGN'000	2018 BGN'000
Balance at January 1	**592**	**311**
Allocation of reserves	260	281
Balance at December 31	**852**	**592**

16. Employee remuneration
16.1. Employee benefits expense

Expenses recognised for employee benefits include:

	2019 BGN'000	2018 BGN'000
Salary expenses	(1 142)	(1 220)
Social security expenses, including:	(128)	(124)
- *pension - defined contribution plans*	*(3)*	*(13)*
Employee benefits expense	**(1 270)**	**(1 344)**

16.2. Pension and other employee obligations

The liabilities for pension and other employee obligations recognised in the statement of financial position consist of the following amounts:

	2019 BGN'000	2018 BGN'000
Non-current:		
Compensations in compliance with Labour Code	32	27
Non-current pension and other employee obligations	**32**	**27**
Current:		
Payroll obligations	205	96
Social security obligations	27	24
Accrued holiday entitlement	55	46
Current pension and other employee obligations	**287**	**166**

The current portion of these liabilities represents the Company's obligations to its current employees that are expected to be settled during 2020. Other short-term employee obligations arise mainly from accrued holiday entitlement at the end of reporting date. As none of the employees has the right for early settlement of pension arrangements, the remaining part of pension obligations for defined benefit plans is considered non-current.

In accordance with the requirements upon termination of the employment relationship under Article 222, paragraph 2 and paragraph 3 of the Labour Code, the employee shall have the right to:

* sickness benefit in the amount of his gross wage for a period of 2 months, if he has at least five years of service and has not received compensation on the same grounds in the last 5 years.

* compensation, after acquiring the right to a pension for length of service and old age, irrespective of the reason for termination - in the amount of his gross salary for a period of 2 months, and if he worked with the same employer during the last 10 years of his work experience - compensation in the amount of his gross salary for a period of 6 months.

The event that gives rise to the obligation of the employer is the release of the person when he / she has acquired the right to a pension for length of service and old age. This requires an accurate prediction of the time of departure of employees, according to the time of occurrence of this right. The amount of the benefit is directly dependent on the person's length of service and, after a period of 10 years or more, future length of service does not affect the further amount of the obligation. In order to determine the exact amount of the obligation, it is necessary to forecast the amount of compensation at the future time when it will be due to the employee and this compensation must be discounted at the time of the assessment of the obligation.

As a result of the current employment contracts in the Company as of 31.12.2019, the payments upon retirement due to illness and due to reaching age and seniority, follow the amounts specified in Article 222, paragraph 2 and paragraph 3 of the Labour Code.

The mortality table reflects the probability that individuals will reach the specified retirement age. It is calculated for each person individually based on his / her gender and age at the time of the assessment.

A table for mortality and average life expectancy of the population of Bulgaria of the National Statistical Institute for the period 2016-2018 was used.

On the basis of the information provided by the company on the number of people who left in the last year, the probability of leaving has been calculated. This probability is set in the projections for the future development of staff in relation to the group of voluntarily left and dismissed in this model as an arithmetic mean of 0.2476.

The likelihood of disability reflects the likelihood of a person falling into a state that prevents him from interacting with the environment, which in turn creates social, intellectual, physical or moral difficulties. The probability is calculated on the basis of statistical information received from the NCHI.

An effective annual interest rate of 3.0% was used to calculate the discount factor, which corresponds to a discount annual rate of 2.91%. The proposal made is based on the yield data of long-term government securities offered on the Bulgarian Stock Exchange and the forecast for a longer term, based on the recommendations of Article 78 of IAS 19 and Articles 80 and 81 of the IAS, since the discount rate should reflect the estimated time of payment of income.

According to the company's development plans, the current model envisages 1.5% annual growth of the average gross salary compared to the previous year. The amount of the expected increase in the basic salary is in line with the levels of remuneration in the company, remuneration in alternative companies on the same market, long-term expectations and projected inflation.

Acquisition of pension rights for length of service and age - according to the Social Insurance Code and the underlying plans for increasing the retirement age. If a person cannot qualify for a pension for length of service and old age from the social security services listed in the table, then he / she shall acquire a pension right upon reaching the age of 65 and having at least 15 years of service. From 31.12.2015 the age from the previous sentence is increased from the first day of each following year by 2 months until reaching 67 years.

According to the requirements of the Labour Code, the benefit is paid when the employee acquires the right to a pension for length of service and age, and its amount is directly dependent on the amount of his gross salary and his length of service with the employer so far. This necessitates a precise prediction of the moment at which the person will leave the employer, obtaining the right to compensation. For all persons, this moment is calculated individually, on the basis of their age and sex at the time of the assessment and the age required to qualify for a pension, as required by the Social Security Code for the acquisition of a retirement pension by the State Public insurance. When forecasting the moment of retirement of all persons employed under a contract of employment in the structures of the company, it is assumed that they will retire upon reaching the age necessary for acquiring the right to retirement pension and age for persons working under the conditions of the third category of labour. In determining the time of retirement, the requirement of the Social Security Code for the minimum length of service required to qualify for retirement and old age pension was also taken into account. When a worker who has reached the required retirement age does not have the required length of service, the time of retirement is deferred until, he accumulates this length of service.

After determining the time of departure of employees who have acquired the right to a pension for length of service and age, the amount of the last salary can be predicted. The value of the gross salary at the time of the appraisal is multiplied by the projected percentage for growth of the salaries per year, for the period from the date of the appraisal to the foreseen moment of leaving the worker. The number of gross salaries due is directly dependent on the time served by the employer at the time of leaving. For employees who at the time of retirement will have ten or more years of service with the employer, compensation in the amount of six gross salaries is calculated, and for all others in the amount of two gross salaries.

The amount of the obligation can be divided into two main attributes related to demographic assumptions - gender and reason for payment of the obligation, with the present values of the respective payment obligations as of 31.12.2019:

Gender	Amount upon retirement for reaching length of service and old age in BGN	Amount upon retirement due to illness in BGN	Total amount
Female	28 201,57	423,93	28 625,50
Male	3 383,92	50,87	3 434,79
Total	**31 585,50**	**474,79**	**32 060,29**

The changes in the pension provisions in compliance with the Labour Code are summarized as follows:

	2019 BGN'000	2018 BGN'000
Pension provisions at 1 January	27	10
Increase of pension provisions due to an increased number of employees expected to retire in next 5 years	3	13
Discounted	1	-
Actuarial loss	1	4
Pension provisions at 31 December	**32**	**27**

The total expenses of the Company's defined benefit plans recognized in profit or loss may be presented as follows:

	2019 BGN'000	2018 BGN'000
Current service expenses	(3)	(13)
Interest expenses	(1)	-
Total expenses recognized in profit or loss	**(4)**	**(13)**

Current and past service expenses are included in " Employee benefits expense". Net interest expense is included in the separate statement of profit or loss in the line "Finance costs" (see Note 26).

17. Borrowings

Borrowings include the following financial liabilities:

	Current		Non-current	
	2019 BGN'000	2018 BGN'000	2019 BGN'000	2018 BGN'000
Financial liabilities measured at amortized cost				
Bank loans	4 234	6 355	8 380	9 399
Total carrying amounts	**4 234**	**6 355**	**8 380**	**9 399**

All loans are denominated in Bulgarian leva (BGN).

17.1. Borrowings at amortized cost

Bank	Type of loan	Currency	Total amount of credit	Outstanding obligation at 31.12.2019	Date of contract	Interest rate	Number of outstanding installments	Amount of monthly installment	Maturity date	Pledges
Eurobank Bulgaria ad	overdraft	BGN	2 200 000	2 132 211	21.07.2016	2.50%	-	-	31.guara.2020	Pledge of the Receivables under the Business Incubator Contract №BG161PO003-2.2.0012-C0001 / 02.02.2012; Mortgage of a real estate located in Sofia, Mladost district, Tsarigradsko Shosse Blvd 135, namely the 5th floor of the building
Exppressbank AD	overdraft	BGN	2 000 000	6 349	08.08.2017	2.50%	-	-	31.10.2020	Pledge of 1 392 740 registered shares of the capital of Daticum AD, owned by Sirma Solutions AD
United Bulgarian Bank AD	Investment	BGN	10 475 000	10 475 000	12.12.2019	RIR + 1.2%, but no less that 1.3% per year	60	174 580	20.12.2024	Pledge of receivables, pledge of commercial enterprises, pledge of real estate

The carrying values of borrowings are considered to be a reasonable approximation of fair value.

18. Lease liabilities

	2019 BGN’000	2018 BGN’000
Lease liabilities – non-current portion	-	66
Lease liabilities – current portion	-	46
Lease liabilities	**-**	**112**

Future minimum lease payments at 31 December 2019 were as follows:

	Minimum lease payments due			
	Within 1 year BGN’000	2-3 years BGN’000	2-3 years BGN’000	Total BGN’000
31 December 2019				
Lease payments	-	-	-	-
Finance charges	-	-	-	-
Net present values	**-**	**-**	**-**	**-**
31 December 2018				
Lease payments	51	51	17	119
Finance charges	(5)	(2)	-	(7)
Net present values	**46**	**49**	**17**	**112**

Interest expense on leases included in the finance costs for the year ended 31 December 2019 is BGN 6 thousand (2018: BGN 6 thousand).

Total cash outflow for leases for the year ended 31 December 2019 was BGN 112 thousand (2018: BGN 51 thousand).

19. Trade and other payables

	2019 BGN‘000	2018 BGN‘000
Non-current:		
Trade payables	282	4 340
Financial liabilities	**282**	**4 340**
Tax payables *(except income tax)*	89	45
Other liabilities	12	12
Non-financial liabilities	**101**	**57**
Current trade and other payables	**383**	**4 397**

The carrying values of current trade and other payables are considered to be a reasonable approximation of fair value.

20. Revenues from sales

20.1. Revenues recognized over time

The Company presents revenues from the sale of goods and services at a point in time and over time in the following product lines and geographical regions:

	Administrative, accounting services		Sale of licenses	Cloud services	Other income	Total
	Bulgaria	Great Britain	Bulgaria	Bulgaria	Bulgaria	
2019	**BGN‘000**	**BGN‘000**	**BGN‘000**	**BGN‘000**	**BGN‘000**	**BGN‘000**
Gross revenue						
Revenues from contracts with clients	890	4	2 256	1 021	154	4 325
Revenue recognition						
As a point in time						
Over time	890	4	2 256	1 021	154	4 325

	Sale of licenses		Administrative, accounting services	Cloud services	Other income	Total
	Germany	Bulgaria	Bulgaria	Bulgaria	Bulgaria	
2018	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**
Gross revenue						
Revenues from contracts with clients	872	651	255	3 316	163	5 257
Revenue recognition						
Over time	872	651	255	3 316	163	5 257

Revenues at the amount of BGN 2 132 thousand (2018: BGN 4 099 thousand) are reported by one external client.

Product lines	**2019 BGN'000**	**2018 BGN'000**
Sale of licenses	2 256	906
Cloud services	1 021	3 316
Administrative, accounting services	894	872
Others	154	163
	4 325	**5 257**

20.2. Rental revenues

The company has realized rental income in relation to leased investment properties as follows:

	2019 BGN'000	**2018 BGN'000**
Rental revenues	523	301
	523	**301**

21. Other income

	2019 BGN'000	**2018 BGN'000**
Interest	232	269
Dividends	160	-
Financing	54	54
Others	31	3
	477	**326**

Revenues from financing are recorded in relation with the grant Contract BI-02-16 / 02.02.2012 under Operational Program "Development of the Competitiveness of the Bulgarian Economy" 2007-2013. Funding is received for buying fixed assets and incubating startups.

Dividends received in the period relate to interests held in subsidiaries.

Interest income relates to loans granted to related parties.

22. Capitalized own expenses

The Company’s capitalized own expenses can be summarized as follows:

	2019 BGN‘000	2018 BGN‘000
Hired services expenses	40	3 636
Depreciation of property, plant and equipment	34	62
Employee benefits expense	59	63
	133	**3 761**

23. Cost of materials

	2019 BGN‘000	2018 BGN‘000
Inventory	(17)	(17)
Hygienic materials	(9)	(9)
Materials for office repair and maintenance	(6)	(15)
Advertising materials	(2)	(1)
Electricity	(3)	(6)
Heating	(3)	(8)
Office supplies	(3)	(4)
Computer components	(1)	(4)
Others	(23)	(27)
	(67)	**(91)**

24. Hired services expenses

	2019 хил. лв.	2018 хил. лв.
Consulting services	(525)	(331)
Software services	(77)	(3 941)
Commissions and fees	(66)	(32)
Seminars and training	(41)	(20)
Audit	(39)	(11)
Subscriptions	(21)	(17)
Internet	(17)	(18)
Car maintenance and repair	(17)	(8)
Mobile phones	(12)	(9)
Office maintenance and repair	(9)	(32)
Insurance	(9)	(10)
Cleaning	(5)	(10)
Civil contracts	(4)	(5)
Security	(4)	(11)
Advertising	(4)	(73)
Parking	(2)	(5)
Software license rental	-	(82)
Others	-	(9)
	(852)	**(4 624)**

The remuneration for independent financial audit for 2019 amounts to BGN 39 thousand. No tax consultancy or other services, not related to the audit, have been provided. This disclosure is made in compliance with the requirements of Article 30 of Bulgarian Accountancy Act.

25. Other expenses

	2019 хил. лв.	2018 хил. лв.
Local taxes and fees	(68)	(69)
Impairment of receivables	(54)	(62)
Entertainment expenses	(15)	(13)
Social expenses	(13)	(13)
Business trips	(14)	-
Donations	(7)	(3)
Written off receivables	(7)	(19)
Others	(25)	(19)
	(203)	**(198)**

26. Finance costs and finance income

	2019 BGN'000	2018 BGN'000
Interest expense for deposits	(32)	(6)
Interest expense for finance lease agreements	(6)	(6)
Borrowings at amortized cost	(245)	(205)
Total interest expenses for financial liabilities not at fair value through profit or loss	**(283)**	**(217)**
Loss on foreign currency financial liabilities designated at fair value through profit or loss	(27)	(3)
Bank fees and commissions	(85)	(28)
Net interest expense on defined benefit plans	(1)	-
Negative differences from operations with financial assets	-	(64)
Finance costs	**(396)**	**(312)**

	2019 BGN'000	2018 BGN'000
Interest income on financial assets carried at amortized cost and financial instruments carried at fair value through profit or loss	45	10
Total interest income for financial assets	**45**	**10**
Gain on foreign currency financial liabilities designated at fair value through profit or loss	27	74
Finance income	**72**	**84**

27. Income tax expense

The relationship between the expected tax expense based on the applicable tax rate in Bulgaria of 10% (2018: 10%) and the reported tax expense in profit or loss can be reconciled as follows:

	2019 BGN'000	2018 BGN'000
Profit before tax	2 087	2 837
Tax rate	10%	10%
Expected tax expense	**(209)**	**(284)**
Tax effect of:		
Increase of the financial result for tax purposes	(88)	(40)
Decrease of the financial result for tax purposes	**95**	**35**
Current tax expense	**(202)**	**(289)**
Deferred tax income:		
Origination and reversal of temporary differences	13	9
Income tax expense	**(189)**	**(280)**

28. Earnings per share and dividends

28.1. Earnings per share

Basic earnings per share has been calculated using the profit attributed to shareholders of the Company as the numerator.

The weighted average number of outstanding shares used for basic earnings per share as well as profit attributable to shareholders are as follows:

	2019	2018
Profit attributable to the shareholders (BGN'000)	1 898	2 557
Weighted average number of outstanding shares (BGN'000)	58 886	58 886
Basic earnings per share (BGN per share)	**0,0322**	**0,0434**

28.2. Dividends

The Company has not paid dividends in 2019 and 2018.

29. Related party transactions

The Company's related parties include its owners, subsidiaries and associates, key management personnel and others described below.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received.

29.1. Transactions with subsidiaries

	2019 BGN‘000	2018 BGN‘000
Purchases of goods and services		
Purchases of services		
- Software services	38	592
- Subscriptions	1	-
- Software license rental	-	3
Purchases of goods		
- Office supplies	2	3
- Inventory	1	1
- Computer components	1	4
Sales of goods and services		
Sales of services		
- Subscriptions	-	95
- Administrative, accounting services	715	661
- Rent	476	262
- Cloud services	-	3 316
- Sale of licenses	2 256	575
- Technical Support	22	29
- Marketing and Advertising	27	-
Sales of goods		
- Consumables	77	23
Dividends	160	-
- Deposits received	9 660	-
- Refund of received deposits	4 844	-
- Given loans	375	574
- Loans granted	67	801
- interest on received deposits	32	6
- interest on loans granted	215	221

29.2. Transactions with associates

The company had no transactions with associates in 2019 and 2018.

29.3. Transactions with other related parties

	2019 BGN‘000	2018 BGN‘000
Purchases of services		
- Internet	16	17
- Consulting services	18	4
- Subscriptions	5	-
- Software services	-	200
- Software license rental	-	79
Sale of services		
- Administrative, accounting services	149	184
- Rent	47	37
- Sale of licenses	-	76
- Technical Support	15	14
- Marketing and Advertising	1	-
Purchases of goods		
- Consumables	6	-
- Deposits received	670	-
- Given loans	-	184
- Reimbursed loans	43	-
- Interest on loans granted	56	59

29.4. Transactions with key management personnel

Key management of the Company includes members of the board of directors. Key management personnel remuneration includes the following expenses:

	2019 BGN‘000	2018 BGN‘000
Short-term employee benefits:		
Salaries including bonuses	300	322
Social security costs	7	6
Total short-term employee benefits	**307**	**328**
Total remunerations	**307**	**328**

30. Related party balances at year-end

	2019 BGN‘000	2018 BGN‘000
Current		
Receivables from:		
- subsidiaries:	**5 370**	**4 727**
- trade and other receivables	1 155	839
- impairment of trade receivables	(338)	(337)
- loans	4 467	4 159
- dividends	86	66
- other related parties under common control	**225**	**287**
- trade and other receivables	104	68
- impairment of trade receivables	(81)	(31)
- loans	1 244	1 292
- impairment of loans	(1 042)	(1 042)
- key management personnel	**90**	**90**
Total current receivables from related parties	**5 685**	**5 104**
Total receivables from related parties	**5 685**	**5 104**
Non-current		
Payables to:		
- subsidiaries:	6 315	-
- deposits	6 315	-
Total non-current payables to related parties	**6 315**	**-**
Current		
Payables to:		
- subsidiaries:	**164**	**540**
- trade and other liabilities	164	165
- liabilities on repurchased shares	-	220
- deposits	-	155
- other related parties under common control	**696**	**27**
- trade and other liabilities	9	10
- deposits	684	14
- others	3	3
Total current payables to related parties	**860**	**567**
Total payables to related parties	**7 175**	**567**

As at 31 December 2019 the Company reports the following granted loans:

- to three subsidiaries in the amount of BGN 4 467 thousand maturing on 31.12.2020 and
- to four other related parties under common control in the amount of BGN 1 244 thousand with maturity on 31.12.2020.

Interest rates vary between 3,5% and 6,5%.

As at 31 December 2019 the Company has received the following deposits:

- from one subsidiary in the amount of BGN 6 315 thousand with maturity on 31 December 2022 and interest in the amount of 1.4% and
- by two other related parties under common control in the amount of BGN 684 thousand with maturity on 31.12.2020 and interest rate 0,1%.

A simplified approach for determining the expected credit losses at the end of the period has been applied to all receivables from related parties of the Company.

The change in the amount of the adjustment for expected credit losses of receivables from related parties can be presented as follows:

	2019 BGN'000	2018 BGN'000
Balance as of January 1	1 410	21
Amounts written off (uncollectible)	(2)	(23)
Impairment loss	53	12
Adjustment for expected credit losses	-	1 400
Balance as of December 31	**1 461**	**1 410**

31. Reconciliation of liabilities arising from financing activities

The changes in the Company's liabilities arising from financing activities can be classified as follows:

	Long-term borrowings BGN'000	Short-term borrowings BGN'000	Interest on borrowings BGN'000	Lease liabilities BGN'000	Interest on lease agreements BGN'000	Deposits liabilities BGN'000	Interest payable on deposits BGN'000	Total BGN'000
1 January 2019	**9 399**	**6 355**	**-**	**112**	**-**	**169**	**-**	**16 035**
Cash flows:								
Repayment	(9 539)	(4 098)	(244)	(112)	(5)	(4 844)	(5)	(18 847)
Proceeds	10 475	22	-	-	-	10 330	-	20 827
Non-cash:								
Reclassification	(1 955)	1 955	244	-	5	1 344	5	1 598
31 December 2019	**8 380**	**4 234**	**-**	**-**	**-**	**6 999**	**-**	**19 613**

	Long-term borrowings BGN'000	Short-term borrowings BGN'000	Interest on borrowings BGN'000	Lease liabilities BGN'000	Interest on lease agreements BGN'000	Deposits liabilities BGN'000	Interest payable on deposits BGN'000	Total BGN'000
1 January 2018	**1 870**	**4 393**	**-**	**156**	**-**	**279**	**-**	**6 698**
Cash flows:								
Repayment	-	(429)	(199)	(44)	(7)	(72)	-	(751)
Proceeds	9 780	-	-	-	-	-	-	9 780
Non-cash:								
Reclassification	(2 251)	2 391	199	-	7	(38)	-	308
31 December 2018	**9 399**	**6 355**	**-**	**112**	**-**	**169**	**-**	**16 035**

32. Non-cash transactions

During the presented reporting periods, the Company entered into the following non-cash investing and financing activities which are not reflected in the statement of cash flows:

- the Company acquired assets at amount of BGN 9 thousand (2018: BGN 58 thousand);

33. Contingent assets and contingent liabilities

There are no contingent liabilities relating to subsidiaries and associates of the Company, except for:

Related party borrowings

The Company is a guarantor for loans granted to related parties as follows:

Recipient of loan	**Bank**	**Type of loan**	**Currency**	**Total amount of credit**	**Outstanding obligation to 31.12.2019**	**Date of contract**	**Interest rate**	**Maturity date**	**Pledges**
Sirma Solutions	United Bulgarian Bank AD	overdraft	BGN	4 025 000	4 023 604	12.12.2019	RIR + 1.2%, but no less that 1.3% per year	20.12.2020	Pledge of receivables, pledge of commercial enterprises, pledge of real estate
Sirma AI	United Bulgarian Bank AD	overdraft	EUR	741 000	666 620	15.08.2019	1 m. EURIBOR + 1,4% (but not less than 1,4%)	21.08.2020	Second in a row pledge on Sirma AI; Second pledge of his shares; A second pledge of current and future receivables totaling EUR 741 thousand; Pledge on receivables on all accounts of the borrower in UBB in the amount of EUR 741 thousand.
Sirma AI	United Bulgarian Bank AD	overdraft	EUR	3 000 000	2 955 029	15.08.2019	1 m. EURIBOR + 1,4% (but not less than 1,4%)	20.09.2020	The first in a row pledge of Sirma AI; The first pledge of the shares he holds; First in a row pledge of current and future receivables totaling EUR 3 million; Pledge on receivables on all accounts of the borrower in UBB in the amount of EUR 3 million.

Litigations
No claims were brought against the Company.

Tax liabilities

The Company's management does not believe that there are significant risks as a result of the dynamic fiscal and regulatory environment in Bulgaria, which would require adjustments to the financial statements for the year ended 31 December 2019.

34. Categories of financial assets and liabilities

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

Financial assets	**2019**	**2018**
	BGN’000	**BGN’000**
Trade and other receivables	736	784
Related party receivables	5 685	5 104
Cash and cash equivalents	917	1 214
	7 338	**7 102**

Financial liabilities	**2019**	**2018**
	BGN‘000	**BGN‘000**
Financial liabilities measured at amortized cost		
Borrowings:	12 614	15 754
non-current	*8 380*	*9 399*
current	*4 234*	*6 355*
Lease liabilities:	-	112
non-current	-	*66*
current	-	*46*
Trade and other payables	282	4 340
Related party payables:	7 175	567
non-current	*6 315*	-
current	*860*	*567*
	20 071	**20 773**

See note 4.16 about information related to the accounting policy for each category financial instruments. Description of the risk management objectives and policies of the Company related to the financial instruments is presented in note 36.

35. Financial instrument risk

Risk management objectives and policies

The Company is exposed to various risks in relation to financial instruments. The Company's financial assets and liabilities by category are summarized in note 34. The main types of risks are market risk, credit risk and liquidity risk.

The Company's risk management is coordinated at its headquarters, in close co-operation with the board of directors and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options.

The most significant financial risks to which the Company is exposed are described below.

35.1. Market risk analysis

The Company is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks, which result from both its operating and investing activities.

35.1.1. Foreign currency risk

Most of the Company's transactions are carried out in Bulgarian leva (BGN). Exposures to currency exchange rates arise from the Company's overseas sales and purchases, which are primarily denominated in US-Dollars.

To mitigate the Company's exposure to foreign currency risk, non-BGN cash flows are monitored. Generally, Company's risk management procedures distinguish short-term foreign currency cash flows (due within 6 months) from longer-term cash flows. Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further hedging activity is undertaken.

Foreign currency denominated financial assets and liabilities which expose the Company to currency risk are disclosed below. The amounts shown are translated into Bulgarian leva at the closing rate:

	Short-term exposure
	BGN'000
31 December 2019	
Financial assets	8
Total exposure	**8**
31 December 2018	
Financial assets	3
Total exposure	**3**

The following tables illustrate the sensitivity of post-tax financial result for the year and equity for 2018 in regard to exchange rate differences between the Bulgarian Lev (BGN) and the following currencies 'all other things being equal:

- US Dollars (USD) +/- 1% (for 2018 +/- 5%)

All other parameters are assumed to be constant.

For 2019, due to the low value of financial assets denominated in foreign currency and the weak change in the exchange rate of the US dollar, there are no changes in the annual net financial result after taxes and equity of the Company as a result of probable changes in exchange rates of the Bulgarian lev against the US dollar.

These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the Company's foreign currency financial instruments held at each reporting date.

31 December 2018	**Increase of the exchange rate BGN/foreign currency**		**Decrease of the exchange rate BGN/foreign currency**	
	Net financial result	**Equity**	**Net financial result**	**Equity**
	BGN'000	**BGN'000**	**BGN'000**	**BGN'000**
US Dollars (USD) (+/- x%)	(1)	(1)	1	1

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Company's exposure to currency risk.

35.1.2. Interest rate risk

The Company's policy is to minimize interest rate cash flow risk exposures on long-term financing. Longer-term borrowings are therefore usually at fixed rates. At 31 December 2019, the Company was not exposed to changes in market interest rates. The Company's investments in bonds all pay fixed interest rates.

35.2. Credit risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Company. The Company is exposed to this risk for various financial instruments, for example by granting loans and receivables to customers, placing deposits, etc. The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarized below:

	2019 BGN‘000	2018 BGN‘000
Financial assets		
Trade and other receivables	736	784
Related parties receivables	5 685	5 104
Cash and cash equivalents	917	1 214
	7 338	**7 102**

The Company continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Company's policy is to deal only with creditworthy counterparties. The Company's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good credit quality.

The Company has not provided its financial assets as collateral for transactions other than collateral for received bank loans.

In respect of trade and other receivables, the Company is not exposed to any significant credit risk exposure to a single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a small number of customers in single industry and geographical area. Based on historical information about customer default rates management consider the credit quality of trade receivables that are not past due or impaired to be good.

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

The carrying amounts disclosed above are the Company's maximum possible credit risk exposure in relation to these instruments.

35.3. Liquidity risk

Liquidity risk is the risk arising from the Company not being able to meet its obligations. The Company manages its liquidity needs by monitoring scheduled debt servicing payments for long-term financial liabilities as well as forecast cash inflows and outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly. Net cash requirements are compared to available borrowing facilities in order to determine headroom or any shortfalls. This analysis shows that available borrowing facilities are expected to be sufficient over the lookout period.

The Company's objective is to maintain cash to meet its liquidity requirements for 30-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As at 31 December 2019, the Company's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarized below:

31 December 2019	**Current**		**Non-current**
	Within 6 months BGN'000	**6 to 12 months BGN'000**	**1 to 5 years BGN'000**
Other bank borrowings	3 270	964	8 380
Trade and other payables	282	-	-
Related party payables	437	423	6 315
Total	**3 989**	**1 387**	**14 695**

This compares to the maturity of the Company's non-derivative financial liabilities in the previous reporting period as follows:

31 December 2018	**Current**		**Non-current**
	Within 6 months BGN'000	**6 to 12 months BGN'000**	**1 to 5 years BGN'000**
Other bank borrowings	4 812	1 543	9 399
Finance lease obligations	25	26	68
Trade and other payables	4 340	-	-
Related party payables	567	-	-
Total	**9 744**	**1 569**	**9 467**

The above amounts reflect the contractual undiscounted cash flows, which may differ from the carrying values of the liabilities at the reporting date.

Financial assets used for managing liquidity risk

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and trade receivables. The Company's existing cash resources and trade receivables do not significantly exceed the current cash outflow requirements. Cash flows from trade and other receivables are all contractually due within six months.

36. Capital management policies and procedures

The Company's capital management objectives are:

- to ensure the Company's ability to continue as a going concern; and
- to provide an adequate return to the shareholder by pricing products and services commensurately with the level of risk.

The Company monitors capital on the basis of the correlation between adjusted capital and net debt.

Net debt comprises of total liabilities, incl. total borrowings, trade and other payables less the carrying amount of cash and cash equivalents.

Company's goal is to maintain a capital-to-net debt ratio within reasonable limits.

The amount of the correlation for the presented accounting periods is summarized as follows:

	2019 BGN'000	**2018 BGN'000**
Equity	72 527	70 630
Total liabilities/Total borrowings/Total borrowings, trade and other payables	20 620	21 389
- Cash and cash equivalents	(917)	(1 214)
Net debt	**19 703**	**20 175**
Adjusted capital to net debt	**1:3,68**	**1:3,50**

The ratio-increase during 2019 is primarily a result of the reduction of liabilities.

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

No changes were made in the objectives, policies or processes for managing capital during the presented periods and in the description of what the Company manages as capital.

37. Post-reporting date events

In early 2020, due to the spread of a new coronavirus (Covid-19) worldwide, difficulties arose in the business and economic activities of a number of enterprises and entire economic sectors. On 11 March 2020, the World Health Organization also announced the presence of a coronavirus pandemic (Covid-19). On 13 March 2020, the Bulgarian government declared a state of emergency for a period of one month, which was subsequently extended by another month and introduced a number of restrictive and protective measures for business and people. The forecasts for the expected development of the Information and Communication Technologies sector in 2020 and the coming years are a function of the development of the health crisis and the economic stagnation caused by it.

The management has taken measures to improve the efficiency of the work process, in compliance with the prescriptions of the health authorities, focusing on the goal of retaining staff, which would ensure a good market position in the restoration of normal economic activity. The annual budget has been revised and analyzed in detail in order to limit the effects of the coronavirus and maintain stable financial indicators, and cost optimization measures are envisaged.

As the situation and the measures taken by the state authorities are extremely dynamic, the management of the Company is not able to assess the exact quantitative parameters of the impact of the coronavirus pandemic on the future financial condition and results of its activities. Management has analyzed the potential effects of the crisis and assessed the risks associated with it. In the analysis of the financial risks related to the change of the business environment, different scenarios with different degree of probability for their manifestation have been developed and considered. The worst case scenario, assessed as unlikely by management, could lead to a potential reduction in business volume and revenues from sales of products and services. This, in turn, could lead to a change in the carrying amounts of the company's assets, which in the separate financial statements are determined by a number of judgments and assumptions made by management and reporting the most reliable information available at the date of estimates.

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization.

38. Authorization of the separate financial statements

The financial statements for the year ended 31 December 2019 (including comparatives) were authorised for issue by the Board of Directors on 27.03.2020.