

# Interim Individual Report

of the activity of "Sirma Group Holding" JSC according  
to Annex N10 of Ordinance 2 to Article 32, Paragraph 1,  
Item 2, Article 35, Paragraph 1, Item 2, Article 41,  
Paragraph 1, Item 2 for the period  
01.01.2019 – 30.09.2019

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

The present annual individual report of the management of SIRMA GROUP HOLDING JSC covers the period, ending on 30 September 2019 and was prepared in accordance with the provisions of Article 39 of the Accountancy Law and Art. 100o, para. 2 and 5 of the Law on the Public Offering of Securities (POSA), including also the established events, occurring after the balance sheet date. The structure of this report is in accordance with Annex 9, 10 and Appendix 11 to Article 32a (2) of Ordinance No. 2.

The board of directors of the holding confirms that:

- there were no irregularities in which managers or employees were involved, which may be material to the consolidated financial statements;
- all material transactions are duly accounted for and reflected in the annual financial statements as at 30 September 2019;
- there is no actual or potential breach of laws and (or) other regulatory provisions that would have a material impact on the individual financial statements or could serve as a basis for reporting contingent loss;
- there are no legal or other restrictions on the flow of funds;
- there are no known trends, requests, commitments, events or occasional circumstances for which there is reason to expect that they may affect the company as a whole.

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

The words "purpose", "predict", "accept", "believe", "in the future", "we could", "rely", "we are confident", "appreciate", "expect", "we intend", "we can", "can", "prospect", "plan", "project", "predict", "would" and other similar expressions are intended to identify these forward-looking statements. Such estimates are, for example, those made in the Business Results section of our quantitative and qualitative disclosures about market risk in accordance with International Financial Reporting Standards (IFRS), namely IFRS 7 and related statements in our Notes to the financial statements, our prospects for development, and other forecast information that appears in other parts of

this report. Unless required by law, we do not commit and we have no obligation to update or revise predictive statements as a result of new information we have received about the conditions that existed at the time of this report, future events, or otherwise unless we are obliged to do so under the law.

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

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

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

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

The reporting period is the financial period ending on 30.09.2019. The report includes the activity of Sirma Group Holding JSC.





## 2/ ORGANIZATION AND WAY OF PRESENTATION

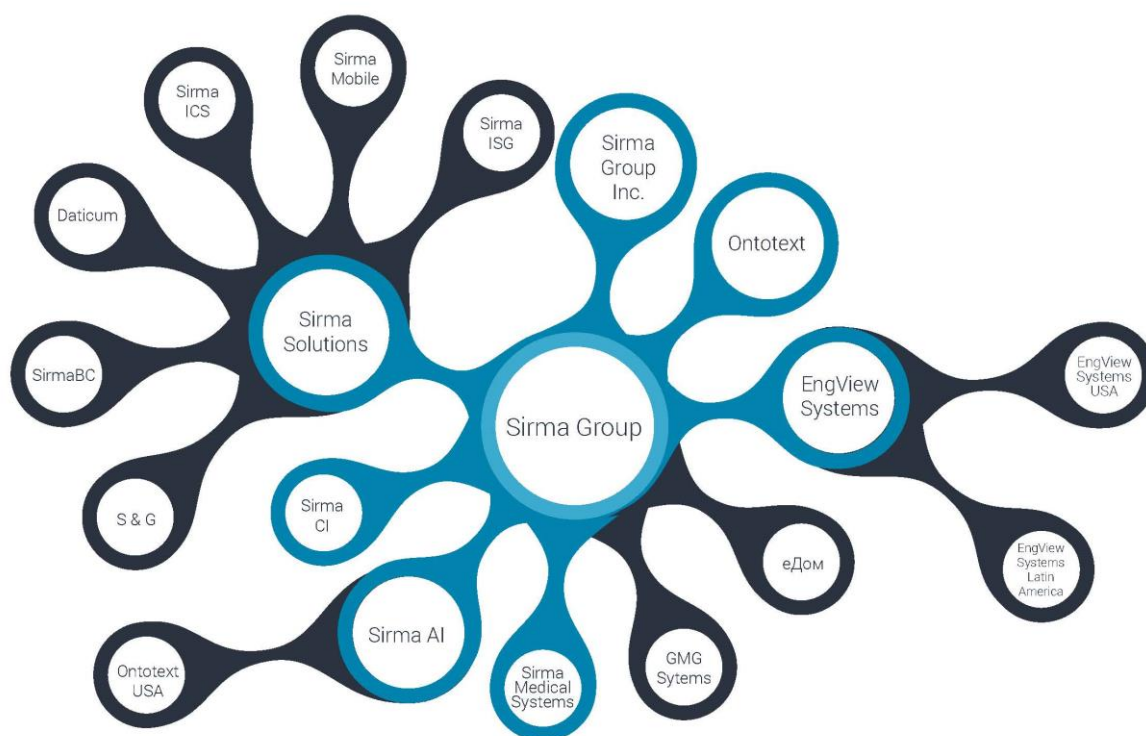
Sirma Group Holding JSC is a holding company which invests in technological businesses, manages them strategically and operationally, provides its subsidiaries with management, administrative, marketing and financial services.

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

capital. Our strategy is to create businesses, incubate them and develop them.

Generating robust growth, cost-effectiveness and consistent business results are among the company's top priorities.

### 2.1. Group structure



## HISTORY AND DEVELOPMENT OF THE COMPANY

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

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

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

### Changes in the subject of activity:

On 23.03.2009 Sirma Group Holding changed its scope of activity as follows: Acquisition, management, evaluation and sale of participations in Bulgarian and foreign companies, acquisition, evaluation and sale of patents, surrender of licenses for use of patents to companies in which the holding company participates, financing of the companies in which the holding company participates, organization of the accounting and preparation of financial statements as per the Law for Accounting. The company may also carry out its own commercial activity, which is not

prohibited by law. On 04.07.2012 the subject of activity is changed to the current one.

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

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

- does not have a transfer or pledge to the enterprise;
- does not have claims, which have been filed for the opening of insolvency proceedings of the company;
- does not have pending tenders from third parties to the Company or from the Company to other companies;

## CAPITAL

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.

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

Non-monetary contributions - description:

1. Software representing 29 (twenty nine) software modules.

**Value: BGN 61 555 838**

2. 81 960 number of ordinary registered shares of "Sirma Group" JSC, the company registered in the Commercial Register to the Registry Agency with UIC 040529004.  
**Value: BGN 11 734 980**

3. Real Estate - Floor 3 of an office building "IT - Center Office Express" in Sofia, bul. "Tsarigradsko Shosse " N 135 with an area 796, 50 square meters, pursuant to Deed of buying and selling real estate N 126, Volume I, reg. N 4551, case N 116 from 23.04.200. and 5 floor of an office building "IT - center office Express" in Sofia bul. " Tsarigradsko Shosse " N 135 with area 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  
**Value: BGN 3 911 660**

**Total Value: BGN 77 202 478**

Non-cash contributions are detailed in Article 7, paragraph 3 of the Articles of Association of the Company.



## HISTORY OF SHAREHOLDER CAPITAL

- Through an initial public offering, according to a resolution of the GMS dated 04.12.2014, an increase of the capital of Sirma Group Holding JSC was registered on 30.10.2015, increasing the capital to BGN 59 360 518 BGN.
- During the transformation entered in the Commercial Register on 23.10.2014, the Company's capital is reduced to 49 837 156 through the cancellation of 23 503 662 shares. This decrease is a result of the estimated fair value of the shares of Sirma Group Holding JSC by three independent valuers. The shareholding structure of the Company does not change as a result of the separation until the shareholding structures in the transforming and newly established companies are mirrored.
- On 22.10.2010, as a result of the decision of the regular annual general meeting of the Company's shareholders, a reduction of the capital of Sirma Group Holding JSC from 77,252,478 BGN to 73,340,818 BGN was recorded through the cancellation of 3,911,660 shares with a par value of one each. The Company's capital was reduced on the basis of Art. 200, para. 2, in conjunction with Art. 187f, par. 1, item 2n in Bulgarian commercial law.

- On 15.10.2008 after the adoption of three triple expert appraisals, the share capital is increased from 50 000 BGN to 77 252 478 BGN through non-cash contributions by issuing new 77 202 478 shares as follows:

- 29 software modules worth 61 555 838 BGN;
- Non-monetary contribution representing real estate amounting to 3 911 660 BGN:

□ Office building - offices, floor 3th and floor 5th of an office building, located in Sofia, 135 Tsarigradsko shose Blvd., owned by "Sirma Group" JSC, a company registered in the Commercial Register at the Registry Agency UIC 040529004, with headquarters and address of management in Sofia, Mladost district, 135 Tsarigradsko shose Blvd., accepted as shareholder in "SGH" JSC by decision of the General Meeting of "SGH" JSC from 10.07.2008

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

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

## Information on the terms of any vesting rights and / or liabilities for statutory but unissued capital

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

# 3/ PORTFOLIO OF SIRMA GROUP HOLDING JSC

### Subsidiaries of "Sirma Group Holding" JSC

Company	Value of the investment at 30.09.2019 (in BGN'000)	Percentage of capital at 30.09.2019	Percentage of capital with adjusted repurchased own shares 30.09.2019	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	Changes (in BGN'000)
Sirma Solutions	39 311	77,71%	82,43%	39 311	77,71%	82,43%	0
Sirma AI	7 035	100,00%	100,00%	7 035	100,00%	100,00%	0
Sirma Medical Systems	66	66,00%	66,00%	66	66,00%	66,00%	0
Sirma Group Inc.	3 471	76,16%	76,16%	3 471	76,16%	76,16%	0
Sirma CI	106	80,00%	80,00%	106	80,00%	80,00%	0
Ontotext	17 865	87,65%	90,44%	17 865	87,65%	90,44%	0
Engview Systems	50	72,90%	72,90%	50	72,90%	72,90%	0
<b>Total</b>	<b>67 904</b>			<b>67 904</b>			<b>0</b>

### Associated companies and joint ventures of "Sirma Group Holding" JSC

Company	Value of the investment at 30.09.2019 (BGN'000)	Percentage of capital at 30.09.2019	Value of the investment at 31.12.2018 (BGN'000)	Percentage of capital at 31.12.2018	Changes (BGN'000)
GMG Systems (IN LIQUIDATION)	150	19,93%	150	19,93%	0
E-DOM MANAGEMENT	7	35,00%	7	35,00%	0
<b>Total</b>	<b>157</b>		<b>157</b>		<b>0</b>

## INFORMATION ON PARTICIPATION

Apart from the above mentioned participations of the Company under PORTFOLIO above, there are no other participations which are likely to have a significant effect on the valuation of its own assets and liabilities, financial position or profits or losses.



## 4/ STRUCTURE OF SHAREHOLDERS CAPITAL AND MANAGEMENT AUTHORITIES

### 4.1. Distribution of share capital

As of 30.09.2019 the distribution of the share capital of Sirma Group Holding is as follows:

	30.09.2019 BGN '000	30.06.2019 BGN '000
Share capital	59 361	59 361
Number of shares (par value of BGN 1.00)	59 360 518	59 360 518
Total number of registered shareholders	1072	1059
Including legal entities	57	56
individuals	1015	1003
Number of shares held by legal entities	11 674 892	11 580 692
% Of participation of entities	19,67%	19,51%
Number of shares held by individuals	47 685 626	47 779 826
% Participation of individuals	80,33%	80,49%

Shareholders	Number of shares at 30.09.2019	Number of shares at 30.06.2019	Nominal VALUE (BGN)	Value (BGN)	% Shareho lding	% shareholding with deducted repurchased own shares
Atanas Kostadinov Kiryakov	2 887 524	2 887 524	1	2 887 524	4,86%	4,90%
Veselin Kirov Antchev	4 700 786	4 700 786	1	4 700 786	7,92%	7,98%
Tsvetan Borisov Alexiev	4 865 753	4 865 753	1	4 865 753	8,20%	8,26%
Chavdar Velizarov Dimitrov	4 750 786	4 750 786	1	4 750 786	8,00%	8,07%
Yavor Liudmilov Djonev	1 392 746	1 392 746	1	1 392 746	2,35%	2,37%
Georgi Parvanov Marinov	5 269 748	5 269 748	1	5 269 748	8,88%	8,95%
Krasimir Nevelinov Bozhkov	2 534 161	1 749 161	1	2 534 161	4,27%	4,30%
Ognyan Plamenov Chernokozhev	3 741 620	3 741 620	1	3 741 620	6,30%	6,35%
Vladimir Ivanov Alexiev	2 177 583	2 177 583	1	2 177 583	3,67%	3,70%
Rosen Vasilev Varbanov	2 156 687	2 156 687	1	2 156 687	3,63%	3,66%
Peter Nikolaev Konyarov	1 187 480	1 184 745	1	1 187 480	2,00%	2,02%
Emiliana Ilieva Ilieva	1 792 168	2 132 233	1	1 792 168	3,02%	3,04%
Elena Yordanova Kozuharova	638 942	763 229	1	638 942	1,08%	1,09%
Ivo Petrov Petrov	1 450 000	1 400 000	1	1 450 000	2,44%	2,46%
Stanislav Ivanov Dimitrov	257 368	649 868	1	257 368	0,43%	0,44%
Expat Bulgaria SOFIX UCITS ETF	977 907	977 907	1	977 907	1,65%	1,66%
Foundation for Educational Transformation	554 479	916 327	1	554 479	0,93%	0,94%
"NN Universal Pension Fund"	2 323 939	2 323 939	1	2 323 939	3,91%	3,95%
Bank of New York Melon	857 600	0	1	857 600	1,44%	1,46%
UPF "Doverie" JSC	802 126	802 126	1	802 126	1,35%	1,36%
UPF "DSK Rodina"	747 036	747 036	1	747 036	1,26%	1,27%
UPF "Pension Insurance Institute"	715 810	715 810	1	715 810	1,21%	1,22%
"Mandjukov" Ltd.	960 000	960 000	1	960 000	1,62%	1,63%
Unicredit Bank Austria	1 094 249	885 249	1	1 094 249	1,84%	1,86%
Others	10 524 020	11 209 655	1	10 524 020	17,73%	17,87%
<b>Total</b>	<b>59 360 518</b>	<b>59 360 518</b>		<b>59 360 518</b>	<b>100%</b>	<b>100%</b>

As of 30.09.2019 "Sirma Group Holding" JSC posses repurchased 474 724 own shares.





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

Shareholders	Number of shares at 30.09.2019	% Shareholding	% shareholding with deducted repurchased own shares
Veselin Antchev Kirov	4 700 786	7,92%	7,98%
Tsvetan Borisov Alexiev	4 865 753	8,20%	8,26%
Chavdar Velizarov Dimitrov	4 750 786	8,00%	8,07%
Georgi Parvanov Marinov	5 269 748	8,88%	8,95%
Ognyan Plamenov Chernokozhev	3 741 620	6,30%	6,35%

Shareholders	Number of shares at 30.06.2019	% Shareholding	% shareholding with deducted repurchased own shares
Veselin Antchev Kirov	4 700 786	7,92%	7,98%
Tsvetan Borisov Alexiev	4 865 753	8,20%	8,26%
Chavdar Velizarov Dimitrov	4 750 786	8,00%	8,07%
Georgi Parvanov Marinov	5 269 748	8,88%	8,95%
Ognyan Plamenov Chernokozhev	3 741 620	6,30%	6,35%

Insofar as it is known to the Company, indicate whether the company is directly or indirectly owned or controlled and by whom and how the nature of that control and the measures introduced are introduced to avoid abusing such control.

Sirma Group Holding JSC is owned by its shareholders exercising full control over the company. Operational control is delegated to the Board of Directors and, respectively, the Executive Director. The company has implemented a number of internal documents aimed at regulating the work and preventing abuses. Such are the "Instruction on the Obligations and Responsibilities of Insiders with Insider Information", "Code of Conduct for Financial and Accounting Posts", "Rules of Procedure of the Board of Directors", "Good Corporate Governance Program".

Description of any arrangements known to the Company, the operation of which may at any subsequent date result in a change in the control of the Company

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

## 4.2. Management authorities

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

The Board of Directors as of 30.09.2019 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

**Determination of the mandate of the Board of Directors:** 2 years from the date of entry.

**The current mandate of the Board of Directors:** 19.09.2021

## The competence of the management

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



## Stock options of the company

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

## Committees in The Company

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

### 1. Investment and Risk Committee, composed of:

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

### 2. Remuneration Committee, composed of:

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

### 3. Information Disclosure Committee, composed of:

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

### 4. Audit Committee, composed of:

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

## Adopted internal documents

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

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

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

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

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

Shareholders	Number of shares at 30.09.2019	Number of shares at 30.06.2019	Nominal VALUE (BGN)	Value (BGN)	% Shareholding	% shareholding with deducted repurchased own shares
Atanas Kostadinov Kiryakov	2 887 524	2 887 524	1	2 887 524	4,86%	4,90%
Georgi Parvanov Marinov	5 269 748	5 269 748	1	5 269 748	8,88%	8,95%
Tsvetan Borisov Alexiev	4 865 753	4 865 753	1	4 865 753	8,20%	8,26%
Chavdar Velizarov Dimitrov	4 750 786	4 750 786	1	4 750 786	8,00%	8,07%
Petar Borisov Statev	10 100	10 100	1	10 100	0,02%	0,02%
Yordan Stoyanov Nedev	3 433	3 433	1	3 433	0,01%	0,01%
<b>Total</b>	<b>17 787 344</b>	<b>17 787 344</b>		<b>17 787 344</b>	<b>29,96%</b>	<b>30,21%</b>

During the period 30.06.2019 - 30.09.2019 there was no change in the participation of the members of the BD in the capital of the company.

CEO of Sirma Group Holding is Tsvetan Borisov Alexiev.



## Remuneration of the members of the Board of Directors of Sirma Group Holding JSC

Pursuant to Article 25, paragraph 5 of the Articles of Association of the Company, each member of the Board of Directors has received a permanent gross remuneration (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 no longer members of the Board of Directors) :

<b>Name</b>	<b>Company</b>	<b>Period: 01.01.2019 - 30.09.2019 (BGN)</b>
Tsvetan Borisov Alexiev	SIRMA GROUP HOLDING JSC	(103 500)
Chavdar Velizarov Dimitrov	SIRMA GROUP HOLDING JSC	(22 988)
Tsvetomir Angelov Doskov	SIRMA GROUP HOLDING JSC	(9 196)
Atanas Kostadinov Kiryakov	SIRMA GROUP HOLDING JSC	(13 500)
Georgi Parvanov Marinov	SIRMA GROUP HOLDING JSC	(13 500)
Sasha Konstantinova Bezukanova	SIRMA GROUP HOLDING JSC	(9 196)
Yordan Stoyanov Nedev	SIRMA GROUP HOLDING JSC	(53 010)
Petar Borisov Statev	SIRMA GROUP HOLDING JSC	(13 500)
<b>Total</b>		<b>(238 389)</b>

## INFORMATION ON THE CONTRACTS OF THE MEMBERS OF THE ADMINISTRATIVE, MANAGEMENT OR SUPERVISORY BODIES WITH THE COMPANY PROVIDING BENEFITS FOR THE DISCONTINUATION OF EMPLOYMENT

In the contracts of the members of the board of directors, both with the Company itself and with subsidiaries of the Company, where such contracts are available to them, no

benefits have been provided upon termination of their contracts.

## INFORMATION ON THE COMPANY'S AUDIT COMMITTEE, INCLUDING THE NAME OF THE MEMBERS OF THE COMMITTEE AND A MANDATE SUMMARY ON WHICH THE COMMITTEE FUNCTIONS

At the Extraordinary General Meeting of the Shareholders of the Company held on 26.08.2019, the mandate of the Audit Committee was continued with 3 (three) years at the current remuneration. The Audit Committee consisting of:

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

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

In view of the fact that Sirma Group Holding JSC is entered in the register under Art. 30, para. 1, item 3 of FSCA, kept by FSC, the Company has implemented a program prepared in accordance with internationally recognized standards for good corporate governance. In accordance with the provision of Art. 100n, para. 4, item 3 of POSA

Sirma Group Holding JSC is obliged to comply its financial statements with the requirements within the program for the application of internationally recognized standards for good corporate governance and maintains its accounting policy in accordance with International Accounting Standards.



## 5/ SIRMA GROUP HOLDING IN Q3 2019

### Economic Development of Bulgaria in 2019 and Forecasts for 2020

The growth of GDP in Bulgaria during the first half of 2019 is increasing from 3,1% to 3,5%, according to forecast of the European Commission /Economic Forecast for Bulgaria, EC, July 2019/. The engines of the growth in 2019 are consumption, investments and exports. The leading reason for the growth is the robust growth of individual consumption, which is strengthened by the favorable development of the labor market as well as increased credit. Due to a weaker external environment, the growth during the second half of 2019 is expected to slow down due to decreased export. Thus the return to growth will be maintained at 3,3% for the whole 2019 and will increase in 2020 to 3,4% y/y. The main risk to the economy in 2019/2020 is weaker demand from traditional export partners, something to which the country may be able to respond by quickly re-targeting exports to third countries outside the EU – an opportunity which may improve the prospects of growth in 2020.

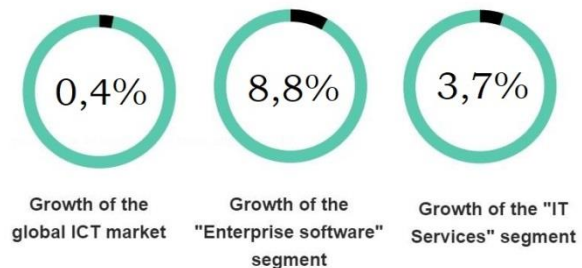
### Development of the global economy in 2019 and forecast for 2020

During the last year global growth has decreased rapidly. The global economic growth is expected to be 3% in 2019, according to the analysis of IMF /IMF WEO, October 2019/. This is the lowest economic growth since 2008-2009. A small acceleration is expected in 2020 to 3,4%. This acceleration is anticipated to come from some countries in Latin America, the Middle East and emerging and developing Europe. Never the less the economic growth remains perilous due to the trade and geopolitical tensions, which reflect negatively on the business climate investment decisions and global economy.

### The Industry of Sirma

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

### Global ICT Market in 2019



### Forecast for the Global ICT Market in 2019 and until 2023 by Gartner

Following the extremely strong ICT spending in 2018, with a 5.1% year-on-year growth, Gartner's expectations ([Gartner Market Outlook, October 2019](#)) for the development of the ICT market in 2019 have been revised. In 2019, the ICT sector is expected to grow at a 0.4% y/y, maintaining levels around USD 3.7 trillion (in current prices) for the entire sector. At the same time, different segments within the ICT sector are expected to have very different developments throughout the year. The segments leading to this, albeit limited growth, are the "IT Services" and "Enterprise Software", which are expected to grow with 3.7% and 8.8% respectively. They are also the only growth segments. The remaining segments mark a decline in 2019:

Global ICT Spending in Current Prices

	2017	2018	2019	2020	2021	2022	2023	CAGR 2018 - 2023
Global ICT Spending (B\$)	3120	3280	3250	3280	3320	3360	3400	0.66%

Data Center Systems								
Spending (B\$)	182	210	205	210	212	215	217	
Growth y/y	6.40%	15.70%	-2.50%	2.60%	1.0%	1.10%	1.20%	0.66%
Software								
Spending (B\$)	370	420	457	507	560	616	674	
Growth y/y	10.40%	13.50%	8.80%	10.90%	10.50%	10.00%	9.60%	9.94%
Devices								
Spending (B\$)	673	713	675	683	685	681	680	
Growth y/y	5.70%	5.90%	-5.30%	1.20%	0.40%	-0.60%	-0.20%	-0.94%



IT Services								
Spending (B\$)	931	994	1 031	1 088	1 147	1 210	1 276	
Growth y/y	4.40%	6.70%	3.70%	5.50%	5.50%	5.50%	5.40 %	5.12 %
TELCO								
Spending (B\$)	1 381	1 380	1 364	1 384	1 413	1 436	1 456	
Growth y/y	1.00%	-0.10%	-1.10%	1.50%	2.10%	1.60%	1.40 %	1.07 %
All ICT								
Spending (B\$)	3 537	3 717	3 732	3 872	4 018	4 157	4 303	
Growth y/y	3.90%	5.10%	0.40%	3.70%	3.80%	3.50%	3.50 %	2.97 %
IT w/o TELCO								
Spending (B\$)	2 156	2 337	2 368	2 487	2 605	2 722	2 847	
Growth y/y	5.80%	8.40%	1.30%	5.10%	4.70%	4.50%	4.60 %	4.03 %

Source: Gartner Market Outlook October 2019

## Reasons for the Market Dynamics in 2019 according to Gartner (growth in constant currency)

It is important to note that the relatively slow growth of 0.4% y/y in 2019 is in current prices. The rapid appreciation of the USD to other currencies (about 5% to the EUR for the period 01 Jan – 30 Sept 2019) strongly decreases spending in other currencies when transferred to US dollars. The ICT dynamic in constant currency reveals a stronger annual growth of 2.3% in 2019 (Gartner Webinar, IT Spending Forecast, 3Q19 Update: The Next Generation of Cloud), as well as maintaining growth in all segments.

Gartner expect a quick return to growth even in current prices as soon as 2020. At the same time several risk factors will persist into the future, which could have a negative impact on the development of the ICT market:

- A recession in the USA: 10 years have passed since the last recession and this is the longest period between recessions. Even if there is no recession, the expectation of one curb spending in many segments;
- Trade wars and the introduction of new tariffs: these have a direct impact on investments, trade and growth;
- Levels of government debt: the problem has not been solved and the levels of government debt continue to increase;
- Brexit: with or without a deal;
- Hiring and skill crisis: due to the low unemployment finding qualified employees becomes harder.

## Forecast for the Global ICT Market in 2019 and until 2022 by IDC

The forecast of the global ICT spending in 2019 by IDC differs from that of Gartner. While the constant currency spending growth is somewhat close i.e. 3% in 2019, the composition and the overall volume differ substantially.

IDC separate ICT spending into 2 main categories: "Traditional ICT" and "New Technologies". The "Traditional ICT" spending comprises of somewhat the same categories as that of Gartner, with the exception of "Data Center" spending, which is non-existent in the IDC study.

Global ICT Spending in \$B Constant Currency							
Technology	2016	2017	2018	2019	2020	2021	2022
Traditional Technologies	3 698	3 858	3 987	4 099	4 212	4 330	4 454
New Technologies	612	714	826	962	1 131	1 346	1 602
Total ICT	4 310	4 572	4 813	5 061	5 343	5 676	6 056

The "New Technologies" include in 2019 spending for AI, IoT, Robotics, AI/VI, Drones, Next gen security, Sensors and 3D Printers. IDC anticipate that growth in the "Traditional technologies" will be about the same as global GDP growth, i.e. around 3% and that of the "New Technologies" will be double digit strong in 2019 and years to come – thus pushing the whole industry forward:

Global ICT Spending in Constant Currency

	2017	2018	2018 Growth	2019	2019 Growth
Hardware					
Spending \$B	996	1 034	4.00%	1 054	2.00%
Software					
Spending \$B	478	512	7.00%	551	9.00%
Services					
Spending \$B	971	1 010	7.00%	1 049	7.00%
TELCO					
Spending \$B	1 412	1 431	1.00%	1 446	1.00%
Traditional ICT					
Spending \$B	3 858	3 987	3.00%	4 099	3.00%
New Technologies					
Spending \$B	714	826	16.00%	962	16.00%
Total ICT					
Spending \$B	4 572	4 813	5.00%	5 061	5.00%

Source: IDC Spending Forecast 2018 - 2022, July 2019

There is an increasing link between the two types of technology. A growing share of traditional server/storage spend, for example, is now driven by workloads related to the deployment of these new technologies on the back-end;





traditional software applications and system infrastructure solutions benefit from the need of organizations to leverage new technologies into cost savings or competitive benefits; and large firms will continue to engage professional services firms with the roll-out of transformative new ICT solutions. The overall impact of new technologies, then, is much bigger than revenues associated with discrete categories such as IoT sensors, 3D printers or drones and yearly growth associated with them.

### Strategy execution of Sirma Group Holding

In pursuance of the strategy, the group will move to a new technological level by creating a NEW MODERN CLOUD SYSTEM OF SOFTWARE PRODUCTS, SOLUTIONS AND SERVICES BASED ON COGNITIVE TECHNOLOGIES, USING THE TRANSITION OF ENTERPRISES AND ORGANIZATIONS FROM DIGITAL TO INTELLIGENT.

For this purpose, Sirma reorganizes the corporate structure, concentrates intellectual property and solutions for financing development. The Group will continue to work towards the development of foreign markets and the sale of customized solutions to complex problems. At the same time, we are looking to accelerate the growth of recurring revenue with low marginal costs - moving from product sales to cloud-based services, the SaaS model, and investment in marketing and sales.

#### Targets

*The Group has set out the following targets for reporting on the implementation of the strategy:*

>35% average annual revenue growth

>70% revenue share from SaaS

> 70% revenue share from North America and Europe

> 29% EBITDA margin

Revenue growth will be backed by strengthening market share in cognitive services, one of the most promising segments of the IT sector where Sirma Group has significant expertise.

#### Implement the strategy

The levers we will focus on implementing the strategy include:

- Strengthening the leading positions for software services, managed services, system integration;
- Increase investment in marketing and sales of the existing product portfolio
- Marketing of products on the foreign market, with a focus on insurance, engineering and healthcare
- Acquisition of companies as a sales platform
- Add new services - Data as a Services; PaaS; SaaS, and so on.
- Decrease the amount of non-controlling participation and consolidation of IP rights

The Group aims to become a globally recognized player in the market for the delivery of cognitive products, solutions and services by uniting the internationally renowned and market-proven products and top technologies in the Sirma Cognitive System and developing vertical specialization.

## PARTICIPATION IN MANAGEMENT AND IMPLEMENTATION OF CONTROL ON THE SUBSIDIARY COMPANIES

In Q3 2019, as in previous periods, Sirma Group Holding's senior management was actively involved in the management of its subsidiaries. The high expertise and accumulated experience of Sirma Group Holding's managers helped companies to formulate their development goals and strategies as well as their business and financial plans. As a

result, the company achieved outstanding successes over the past period. At the same time, taking part in the management of the Group's companies, they monitored the Group's overall objectives, strategies for its development and financial discipline.

### MARKETING

In operational terms, the annual marketing strategy and budget of the Sirma Group Holding for 2019 ensured the planning, development and successful implementation of the following activities:

1. Creating, developing and maintaining a general knowledge of the Sirma brand through a range of activities that help for successful branding and corporate communications - public relations, investor relations, public institutions, company employees, general public. They included internet marketing, online meetings, helping managers and managers with marketing materials for their investment tours, press interviews, TV, radio, participation in specialized and high profile business events.

2. Building a strong employer brand and affirming the company as an attractive place to work, career development and realization of own innovative ideas for creating new software products and solutions, working with the most advanced technologies, entering new market niches. A favorable environment has been created and the innovation process in companies is regularly promoted. Social media is actively used for informal communication with employees, engaging in important causes, informing about upcoming events, company and product news. The team building conducted at the end of the year was traditionally one of the most anticipated events that enabled people from different companies, cities and offices to communicate in an informal environment.



3. Increased presence of the brand in social media and communication management through digital channels. As part of marketing through social channels, a content marketing program has been developed. It aims at:

- enhanced performance across the global network through digital tools - a substantial increase in traffic to Sirma Group Holding sites and subsidiaries; improved detection in the most popular search engines - SEO & SEM activities;

- raising awareness of external and internal audiences about corporate initiatives and key business events;

- informing the audience about new products and services created by our companies, the development of existing products and services, company achievements;

## FINANCIAL ACTIVITY AND MANAGEMENT OF FINANCIAL RESOURCES OF THE GROUP

### ASPECTS OF THE FINANCIAL ACTIVITY OF HOLDING AND GROUP

Over the past period the management of the financial activities of Sirma Group Holding was carried out in the following:

#### I. Goals

As a **strategic goal** of financial management, Sirma Group Holding has accepted the increase in the wealth of the owners, which can only be achieved by maximizing the market value of the company based on the share price.

As a **tactical objective** of the financial management, Sirma Group Holding JSC opted the maximization of revenues and profit.

As an **operational objective** of financial management, Sirma Group Holding has determined the maintenance of the solvency of the company and the Group companies as an opportunity to service all emerging uncontested payments.

#### II. Execution of functions

1. Executed functions of Sirma Group Holding's management::

- a) Financial planning - plans of Sirma Group Holding and of all companies of the Group for a one-year and mid-term period were prepared.

- b) Co-ordination of the financial activity - Sirma Group Holding coordinated the activities of all the companies in the Group for the fulfillment of the general objectives of the financial activity management and for the implementation of unified policies in this activity;

- c) Control - The financial team of the Sirma Group Holding throughout the year carried out regular and periodical control over the financial activity of the companies in the group.

2. As regards the financial activities of Sirma Group Holding and the subsidiaries, the Holding had the following functions:

- a) financing - related to the provision of financial resources and the structuring of capital needed for the proper functioning of the enterprise.

This function is related to the company Balance liability. There are the sources of capital available to the enterprise for the conduct of its business.

- b) investment - covers the insured capital in different assets in order to realize the strategic objective of the company. This feature is related to the Balance asset.

#### III. Completed tasks

- 1. Ensure sufficient financial resources in accordance with the strategy and tasks for the development of Sirma Group Holding and the subsidiaries during the respective period.

- 2. Ensuring the most efficient allocation and utilization of the volume of financial resources formed in the main directions of the Group's activity.

- 3. Optimization of the monetary turnover - synchronization by size and time of the receipts and payments for the normal service of the undisputed payments.

- 4. Ensure maximum profit at a given level of risk.

- 5. Ensure the financial equilibrium of Sirma Group Holding and the subsidiaries in the process of their development.

In fulfilling the task of financial equilibrium, we have complied with the golden balance rule, which requires long-term assets to be funded by long-term capital sources, and short-term assets from short-term sources of capital.

- 6. Providing opportunities for quick capital reinvestment when changing the external and internal conditions for carrying out the business activity.

## - ACCOUNTING SERVICES

In Q3 2019 Sirma Group Holding performed the accounting services of 17 subsidiaries and associated companies and related companies. In addition to regular accounting services, management is presented with various BI reports built as know-how of the Group. The FAD of Sirma Group Holding achieved monthly reporting of results at individual and group level. The department also managed to manage the companies' relationships with the fiscal and social

security systems. The timely introduction of taxes, timely information submission and the preparation of information under the Law for Public Offering of Securities to the Financial Supervision Commission and the BSE have been performed in the period.



## **- LEGAL SERVICES**

The legal department of Sirma Group Holding carries out legal services to the companies of the Group, which includes the preparation of corporate documents; assistance with the

preparation and implementation of the GMS; preparation of any commercial documents and contracts; settlement of commercial disputes; conducting court cases.

## **- MANAGEMENT OF RISKS**

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

Risk management is, inherently, the ability to anticipate threats to the company's activities, individual projects and minimize their adverse effects. The process is iterative. It starts with identifying the possible risks, goes through risk analysis and planning their management, then begins a process of monitoring and a regular return to the analysis process.

In Sirma Group Holding a sophisticated risk management system has been set up.

### **Risk management in the Sirma Group Holding includes:**

- Risk identification - This is a lengthy process that detects potential threats. In order to identify the expected and predictable risks, different methods are used: questionnaires (interview questionnaires), interviews, brainstorming, document analysis, a list of expected and predictable risks (checklist analysis), based on a previous experience
- Qualitative and quantitative risk analysis - Once the potential risks have been identified, a qualitative and quantitative analysis of each of them is required. The likelihood of occurrence and impact through predefined scales is estimated, for example Probability: very small, small, medium, large or very large; Impact: catastrophic, critical, permissible, insignificant.

A risk table is prepared with the data. Risks are grouped into categories, their likelihood of occurrence and their impact, as well as case scenarios that are implemented in case the risk occurs. The resulting list is sorted by impact and probability. A threshold is set, the risks over which it will be managed.

The risk table is reviewed and reassessed on a regular basis, as there is a chance that risks may be dropped, new ones added or ratings changed.

- Planning actions to overcome the risk

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

- a) risk avoidance - a strategy that reduces the likelihood of risk occurring;
- b) minimizing the risk-taking effect - a strategy that reduces the consequences of the risk;
- c) Emergency action plans - a strategy where the organization accepts the risk and is ready to deal with it if it comes to fruition;

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

- Risk monitoring and control - This is the latest activity in risk management. This process has several main tasks:
  - confirm the occurrence of a risk
  - ensure that activities to prevent or deal with risks are implemented
  - Identify what risk has caused the relevant problems
  - document information to be used in a subsequent risk analysis;

## **IMPACT OF EXCLUSIVE FACTORS**

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

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

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

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



## **INFORMATION, CONCERNING SIGNIFICANT FACTORS, INCLUDING NON-ORDINARY OR RARE EVENTS OR NEW DEVELOPMENTS, THAT EXPRESSLY RENDER THE INCOME OF THE COMPANY'S ACTIVITY**

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

## **SIGNIFICANT CHANGES IN NET SALES OR REVENUES DISCLOSED IN THE ACCOUNTS**

Significant changes in net sales or earnings reported in the Company's accounts detailed in Section 6 of this Report are observed during the period considered.

## **INFORMATION ON GOVERNANCE, ECONOMIC, FISCAL, MONETARY POLICY OR POLITICAL COURSE OR FACTORS THAT SIGNIFICANTLY HAVE BEEN CONCERNED OR MAY CONTRIBUTE TO SIGNIFICANT, DIRECT, OR CONSEQUENTIAL ACTIVITY OF THE COMPANY**

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

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

## **EVENTS AND BUSINESS NEWS IN Q3 2019**

The following events and business news took place in Q3 2019:

### **30.09.2019**

Disclosure of a closed contract between the daughter company Sirma Solutions JSC and the National Health Assurance Fund for provision of cloud services to the amount of BGN 6.6 million without VAT.

### **20.09.2019**

Diabetes: M is ranked 5th among the best diabetes apps by the Disability Credit Canada organization.

### **29.08.2019**

Disclosure of a closed contract with the investment bank from Luxembourg „CORUM GROUP INTERNATIONAL“ S.À.R.L. for support in finding investor for the semantic technologies and the GraphDB product.

### **29.08.2019**

Disclosure of interim consolidated financial reports of Sirma Group Holding as at 30.06.2019.

### **27.08.2019**

Disclosure of the Protocol of the conducted Extraordinary General Meeting of Shareholders of Sirma Group Holding JSC on 26.08.2019 and the list of proxies.

### **30.07.2019**

Publication of the interim individual reports of Sirma Group Holding JSC for Q2 2019.

### **20.07.2019**

The product GraphDB has been included in the "Trend Setting List for 2019" by the KMWorld Magazine.

### **19.07.2019**

The daughter company Sirma Medical System JSC has signed of a global partnership agreement with the Irish med-tech company Innovation Zed.

### **18.07.2019**

Publication of the Invitation for the Extraordinary GMS of Sirma Group Holding on 26.08.2019.

### **05.07.2019**

Disclosure of registration of changes in the Board of Directors of Sirma Group Holding JSC in the Trade Register.



**21.06.2019**

Disclosure of the Protocol of the Annual GMS of Sirma Group Holding JSC and the lists of proxys at the meeting.

**20.06.2019**

Disclosure of the notification for the distribution of profit for 2018 and the distribution of dividends, adopted by the GMS of Sirma Group Holding JSC.

**19.06.2019**

Annual General Meeting of the Shareholders of Sirma Group Holding JSC.

**18.06.2019**

Disclosure of the exclusion of points from the Agenda of the GMS of Sirma Group Holding following the Resolution 795/14.06.2019 of the FSC and publication of the updated Agenda.

**04.06.2019**

Disclosure of additional points to the Agenda for the General Meeting of Shareholders of Sirma Group Holding made by Veselin Kirov and publication of the expended Agenda.

**20.05.2019**

Publication of the Invitation for the Annual General Meeting of Shareholders of Sirma Group Holding and the respective documents.

**16.05.2019**

EngView Systems launches the 7-th version of the EngView Packing and Display Designer Suite

**15.05.2019**

Sirma AI is awarded by the BCIC as “the most successful innovative company for 2018“.

**10.05.2019**

Sirma AI is a sponsor of the First Knowledge Graph Conference in New York

**30.04.2019**

Publication of the Interim Individual Financial Statements of Sirma Group Holding JSC for the period ending on 31.03.2019.

**30.04.2019**

Publication of the Annual Audited Consolidated Financial Statements of Sirma Group Holding JSC for 2018.

**09.04.2019**

Sirma AI launches the latest version of Graph DB – version 8.9

**01.04.2019**

Publication of the Annual Audited Individual Financial Statements of Sirma Group Holding JSC for 2018.

**27.03.2019**

Ontotext JSC has been awarded by the Ministry of Education and Science for its successful participation in the Europeand program “Horizon 2020“, where the company won finance for the development of four of its projects for some EUR 3.1 million.

**27.02.2019**

Sirma Group Holding and the School of Management in partnership with Cardiff Metropolitan University from the UK launch their program for free education of high-school students in the 10, 11 and 12<sup>th</sup> grade in Varna

**19.02.2019**

Publication of Invitation for the return of sums as per art.89, par.4 of POSA.

**19.02.2019**

Sirma Medical System has been awarded by the President Rumen Radev for technological achievements in the field of innovation.

**19.02.2019**

Sirma AI launched its project for fighting cancer - ExaMode.

**19.02.2019**

Disclosure of Notification for the end of the public offering and the achieved results.

**08.02.2019**

Phone conference with Ben Griffith from Caravan Capital Management, USA. Issues discussed were related to future options for capital raise.





**06.02.2019**

Phone conference with Tim Mesina from Briarwood Chase Management, USA. Topics discussed were related to the Strategy of Sirma and the current raise of capital.

**29.01.2019**

Meeting and discussion with Ben Griffith from Caravan Capital Management, USA. Issues discussed were related to the implementation of the Strategy and the current raise of capital.

**29.01.2019**

Daticum JSC has been certified under the special cloud services standard ISO 27018.

**23.01.2019**

A new version of Graph DB 8.8.0 is released.

**21.01.2019**

Disclosure of internal information for the decision for prolongation of the public offering of Sirma Group Holding. The information is also available in English.

**18.01.2019**

Notification of the Financial Supervision Commission about the decision for prolongation of the public offering of Sirma Group Holding.

**18.01.2019**

Disclosure of internal information for a concluded contract for the sale of the daughter company Ontotext JSC to Sirma AI JSC. The information is also available in English.

**03.01.2019**

Disclosure of internal information for the acquisition of a liquidation share by Sirma AI in Sirma Software. The information is available in English.

## MAIN LEGAL INFORMATION IN Q3 2019

### Transactions with shares for the period 01.01.2019 - 30.09.2019:

- **A Purchase of "Ontotext" from "Sirma AI"**

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

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

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

- **Sale of a separate part of „Daticum“ to „Sirma AI“**

On 7 March 2019, a contract was signed under which the subsidiary "Daticum" transferred the ownership right to a separate part of its trading company "Daticum", UIC 200558943, as a separate set of rights, obligations and factual relations, created in the course of his previous commercial activity of "Sirma AI", for a price of BGN 1 241 786.93 (one million two hundred and forty thousand and one thousand seven hundred and eighty-six leva and 93 st.). In the separate part of the enterprise are included assets - cloud platform and employee liability.



- **A resolution to repurchase shares of the Company was adopted**

At the Extraordinary General Meeting of Shareholders of the Company held on 26.08.2019, a resolution was adopted that „Sirma Group Holding” JSC would buy-back own shares. The Board of Directors can enact the buy-back under the following conditions:

- The maximum number of shares subject to the buy-back are 19 000 000.
- The minimum price is BGN 0,10 per share and the maximum price is BGN 2 per share. The maximum price for buy-back of shares should not exceed BGN 20 000 000 (twenty million leva).
- The term of the buy-back is until 31.12.2022.
- Means of the buy-back – through an investment intermediary.

The General Meeting of Shareholders authorizes the Board of Directors to enact all necessary legal and factual actions for execution of the buy-back.“

**Litigation for the period 01.01.2019 - 30.09.2019:**

**“Sirma ISG” OOD against Tianko Sashkov Latev**

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

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

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

**There are no lawsuits filed against the company for the period.**



## 6/ INDIVIDUAL FINANCIAL RESULTS

### 6.1. REVENUES

The company's revenues includes:

	30.9.2019 BGN '000	30.9.2018 BGN '000	Change (BGN '000)	Change (%)
Sales revenue	3 162	3 880	(718)	-18,51%
Interest income	202	203	(1)	-0,49%
Revenue from participations	160	-	160	n/a
Income from financing	41	41	-	0,00%
Other revenues	31	-	31	n/a
<b>Total</b>	<b>3 596</b>	<b>4 124</b>	<b>(528)</b>	<b>-12,80%</b>

In Q3 2019 the revenues of "Sirma Group Holding" JSC decreased by BGN 528thousand or by 12,80% compared to Q3 2018.

Revenues in the period include interest and from participations, since the business of acquiring businesses and parts of them, as well as the provision of loans and the receipt of deposits is the main activity of the holding company.

Revenues from financing are in connection 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 for buying fixed assets and incubating new startups.

Sales revenue includes:

	30.9.2019 BGN '000	30.9.2018 BGN '000	Change (BGN '000)	Change (%)
Rents of investment properties	392	226	166	73,45%
Administrative service	640	665	(25)	-3,74%
Sales of licenses	2 035	81	1 954	2412,35%
Cloud Services	-	2 782	(2 782)	-100,00%
Others	95	126	(31)	-24,60%
<b>Total</b>	<b>3 162</b>	<b>3 880</b>	<b>(718)</b>	<b>-18,50%</b>



## 6.2. EXPENSES

	30.9.2019 BGN '000	30.9.2018 BGN '000	Change
Material expenses	(39)	(65)	26
Change in %			-40,00%
Expenses for external services	(409)	(3 419)	3 010
Change in %			-88,04%
Staff expenses	(912)	(992)	80
Change in %			-8,06%
Depreciation and amortization of assets	(340)	(249)	(91)
Change in %			36,55%
Capitalized own expenses	109	1 064	(955)
Change in %			-89,76%
Carrying amount of assets sold	-	(82)	82
Change in %			n/a
Interest expenses	(208)	(152)	(56)
Change in %			36,84%
Other expenses	(88)	(61)	(27)
Change in %			44,26%
<b>Total expenses</b>	<b>(1 887)</b>	<b>(3 956)</b>	<b>2 069</b>
Change in %			-52,30%

In Q3 2019 the expenses of "Sirma Group Holding" JSC decreased by BGN 2 069 thousand or by 52,30% as compared to Q3 2018. The main share in the expenses is staff expenses, decreased by BGN 61 thousand compared to Q3 2018.

## 6.3. FINANCIAL INCOME / COSTS (NET)

	30.9.2019 BGN '000	30.9.2018 BGN '000	Change (BGN '000)	Change (%)
Financial costs	(51)	(23)	(28)	121,74%
Financial income	26	81	(55)	-67,90%
<b>Financial income / costs (net)</b>	<b>(25)</b>	<b>58</b>	<b>(83)</b>	

In Q3 2019, financial income / costs (net) of "Sirma Group Holding" JSC increased by BGN 124 thousand as compared to Q3 2018.

## 6.4. ASSETS

The total assets of Sirma Group Holding JSC at the end of the Q3 of 2019 are with BGN 3 230 thousand (3,45%) higher than their value at the end of 2018.

	30.9.2019 BGN '000	31.12.2018 BGN '000	Change (BGN '000)	Change (%)
<b>Non-current assets</b>				
Intangible assets	357	530	(173)	-32,64%
Property, plant and equipment	903	840	63	7,50%
Expenditure on acquisition of fixed assets	8 973	8 864	109	1,23%
Investments in subsidiaries	67 904	67 904	-	0,00%
Investments in associates and joint ventures	150	150	-	0,00%
Investment property	6 546	6 604	(58)	-0,88%
Investments in joint ventures	7	7	-	0,00%
Deferred tax assets	21	21	-	0,00%
<b>Non-current assets</b>	<b>84 861</b>	<b>84 920</b>	<b>(59)</b>	<b>-0,07%</b>
<b>Current assets</b>				
Trade receivables	385	484	(99)	-20,45%
Receivables from related parties	9 238	6 504	2 734	42,04%
Tax receivables	0	69	(69)	-100,00%
Other receivables	456	353	103	29,18%
Prepaid expenses	13	7	6	85,71%
Cash and cash equivalents	1 828	1 214	614	50,58%
<b>Current assets</b>	<b>11 920</b>	<b>8 631</b>	<b>3 289</b>	<b>38,11%</b>



## 6.5. EQUITY

Equity and liabilities	30.9.2019 BGN '000	31.12.2018 BGN '000	Change (BGN '000)	Change (%)
<b>Equity</b>				
Main / Share Capital	59 361	59 361	-	0,00%
Purchased own shares	(475)	(475)	-	0,00%
Reserves	5 462	5 462	-	0,00%
Emission premiums	852	592	260	43,92%
Retained earnings / (Accumulated loss) from previous years	6 880	4 544	2 336	51,41%
Current financial result	1 684	2 596	(912)	-35,13%
<b>Total equity</b>	<b>73 764</b>	<b>72 080</b>	<b>1 684</b>	<b>2,34%</b>

In Q3 2019, Equity increased by BGN 1 684 thousand compared to the previous reporting period.

For the reporting period share capital remained unchanged from the previous period. In execution of the decisions of the regular General Meeting of Shareholders in 2017, Sirma Group Holding JSC purchased 474 724 own shares. The board of directors believes in the development of the Sirma Group Holding JSC and the increase of the market value of the shares in the future and therefore decided to purchase these shares at a relatively low price.

## 6.6. LIABILITIES

The amount of the liabilities of Sirma Group Holding JSC at the end of Q3 2019 is with BGN 1 546 thousand (7,20%) higher than their value at the end of 2018.

Non-current liabilities	30.9.2019 BGN '000	31.12.2018 BGN '000	Change (BGN '000)	Change (%)
Provisions	27	27	-	0,00%
Long-term loans	6 928	9 399	(2 471)	-26,29%
Finance lease liabilities	38	66	(28)	-42,42%
Financing	-	26	(26)	-100,00%
Deferred tax liabilities	82	82	-	0,00%
<b>Non-current liabilities</b>	<b>7 075</b>	<b>9 600</b>	<b>(2 525)</b>	<b>-26,30%</b>

Current liabilities	30.9.2019 BGN '000	31.12.2018 BGN '000	Change (BGN '000)	Change (%)
Provisions	53	53	-	0,00%
Pension obligations to the staff	175	113	62	54,87%
Short-term loans	5 425	6 355	(930)	-14,63%
Finance lease liabilities	39	46	(7)	-15,22%
Trade and other payables	7	4 340	(4 333)	-99,84%
Short-term payables to related parties	9 762	567	9 195	1621,69%
Tax obligations	428	330	98	29,70%
Financing	41	55	(14)	-25,45%
Other liabilities	12	12	-	0,00%
<b>Current liabilities</b>	<b>15 942</b>	<b>11 871</b>	<b>4 071</b>	<b>34,29%</b>





## 6.7. CASH FLOW

	30.9.2019 BGN '000	30.9.2018 BGN '000	Change (BGN '000)	Change (%)
Net cash flow from operating activities	(567)	(698)	131	-18,77%
Net cash flow from investing activities	4 812	(2 592)	7 404	-285,65%
Net cash flow from financing activities	(3 631)	4 682	(8 313)	-177,55%
Net change in cash and cash equivalents	614	1 392	(778)	-55,89%
Money and cash equivalents at the beginning of the year	1 214	604	610	100,99%
Cash and cash equivalents at the end of the year	1 828	1 996	(168)	-8,42%

The Company has no liquidity problems and operates with the available resources.

## 6.8. INDICATORS AND COEFFICIENTS

Over the past financial period, the company has realized the following financial results:

(The indices and the coefficients have been calculated according to the instructions of BSE)

№	Indicators	30.9.2019 BGN '000	30.9.2018/31.12.2018 BGN '000	Delta	
				(Abs.)	(%)
1	Revenue from operating activities	3 596	4 124	( 528)	-12,80%
2	Cost of sales	(1 799)	(3 895)	2 096	-53,81%
3	Gross profit / loss	1 797	229	1 568	684,72%
4	Other operating costs	( 88)	( 61)	( 27)	44,26%
5	Operating profit / loss	1 709	168	1 541	917,26%
6	Financial income	26	81	( 55)	-67,90%
7	Financial costs	( 51)	( 23)	( 28)	121,74%
8	Profit / loss before tax expense	1 684	226	1 458	645,13%
9	Tax costs	-	-	-	n/a
10	Net profit / loss	1 684	226	1 458	645,13%
11	Dividend	-	-	-	n/a
12	Cash and cash equivalents	1 828	1 214	614	50,58%
13	Inventories	-	-	-	n/a
14	Short-term assets	11 920	8 631	3 289	38,11%
15	Total amount of assets	96 781	93 551	3 230	3,45%
16	Average arithmetic total asset value for 5 quarters	89 915	81 040	8 875	10,95%
17	Current liabilities	15 942	11 871	4 071	34,29%
18	Debt	12 430	15 866	(3 436)	-21,66%
19	Liabilities (borrowed funds)	23 017	21 471	1 546	7,20%
20	Equity	73 764	72 080	1 684	2,34%
21	Equity averaged 5 quarters	71 430	69 298	2 132	3,08%
22	Turnover capital	(4 022)	8 381	(12 403)	-147,99%
23	Number of shares at the end of the period (in thousands)	59 361	59 361	-	0,00%
24	Gain / loss minority interest	-	-	-	n/a
25	Interest expenses	-	-	-	n/a
26	Weighted average share price of last trading session	0,705	0,895	-0,19	-21,23%
27	Last share price of last trading session	0,71	0,85	-0,14	-16,47%



Indicators	30.9.2019	30.9.2018/31.12.2018	Delta	
			(Abs.)	(%)
EBITDA	2 049	417	1 632	391,37%
DEPRECIATION	( 340)	( 249)	( 91)	36,55%
EBIT	1 709	168	1 541	917,26%
FIN/INVEST NET	( 25)	58	( 83)	n/a
EBT	1 684	226	1 458	645,13%
ROA	0,0174	0,0024	0,0150	620,26%
ROA(BSE)	0,0187	0,0028	0,0159	571,58%
Debt/EBITDA Ratio	6,0664	38,0480	-31,9816	-84,06%
Quick Ratio	0,7477	0,7271	0,0206	2,84%
ROE (BSE)	0,0236	0,0033	0,0203	622,89%
ROE	0,0236	0,0033	0,0203	622,89%
EBITDA	0,3120	0,2979	0,0142	4,75%
<b>Profitability ratios</b>				
Gross profit margin	0,4997	0,0555	0,4442	799,94%
Operating profit margin	0,4753	0,0407	0,4345	1066,63%
Net profit margin	0,4683	0,0548	0,4135	754,54%
<b>Coefficients for assets and liquidity</b>				
Assets turnover ratio	0,0403	0,0519	-0,0116	-22,37%
Assets turnover ratio (BSE)	0,0400	0,0509	-0,0109	-21,41%
Operating cycle	-0,8941	0,4921	-1,3861	n/a
Current ratio	0,7477	0,7271	0,0206	2,84%
Quick ratio	0,7477	0,7271	0,0206	2,84%
Cash ratio	0,1147	0,1023	0,0124	12,12%
<b>Odds per share</b>				
P/S ratio	11,6378	12,8827	-1,2449	-9,66%
P/E ratio	24,8513	235,0801	-210,2288	-89,43%
P/B ratio	0,5673	0,7371	-0,1697	-23,03%
Revenue per share	0,0606	0,0695	-0,0089	-12,80%
Earnings per share	0,0284	0,0038	0,0246	645,13%
Book value of equity per share	1,2033	1,1674	0,0359	3,08%
<b>Dividends ratio</b>				
Divident payout ratio	0,0000	0,0000	0,0000	n/a
Earnings retention ratio	1,0000	1,0000	0,0000	0,00%
Divident per share	0,0000	0,0000	0,0000	n/a
<b>Development Ratios</b>				
Revenue growth	-0,1280	-8,8106	8,6826	-98,55%
Gross profit growth	6,8472	-0,8540	7,7011	n/a
Assets growth	0,0345	27,9632	-27,9286	-99,88%
<b>Leverage Ratios</b>				
Debt/taotal assets	0,1382	0,1958	-0,0575	-29,39%
Debt/capital	0,1482	0,1863	-0,0381	-20,44%
Debt/equity	0,1740	0,2290	-0,0549	-23,99%
Total assets/equity	1,2588	1,1694	0,0893	7,64%
Market value of the company	42146	50457	-8310,54	-16,47%



## 6.9 RELATED PARTY TRANSACTIONS

The types of connectivity are:

- 1 Subsidiary
- 2 A company under common control with key management personnel
- 3 Other related parties

### Purchases

Type	Type of Connectivity	Description	30.9.2019 BGN '000	30.9.2018 BGN '000
Materials	1	Inventory	-	(1)
Materials	1	Computer components	(1)	-
Materials	1	Office supplies	(2)	(2)
External services	2	Internet	(11)	(12)
External services	2	Consulting services	-	(4)
External services	1	Subscriptions	(1)	-
External services	2	Subscriptions	(3)	-
External services	1	Software services	(33)	(407)
External services	2	Software services	-	(38)
External services	2	Software License Rental	-	(79)
Interest on deposits	1	Interest expense on deposits	(12)	(5)

### Sales

Type	Type of Connectivity	Description	30.9.2019 BGN '000	30.9.2018 BGN '000
Services	1	Subscriptions	-	74
Services	1	Administrative, accounting services	508	500
Services	2	Administrative, accounting services	103	154
Services	3	Administrative, accounting services	5	5
Services	1	Consumables	59	17
Services	2	Consumables	5	-
Services	1	Rentals	357	197
Services	2	Rentals	35	28
Services	1	Cloud services	-	2 782
Services	1	Revenue from the sale of licenses	2 035	81
Services	1	Technical Support	17	22
Services	2	Technical Support	11	11
Interest on loans	1	Interest income on loans	160	167
Interest on loans	2	Interest income on loans	13	13
Interest on loans	3	Interest income on loans	34	34

## 7/ PERSONNEL AND ECOLOGY

Sirma Group Holding maintains and observes its commitments in compliance with the national legislation in the field of environmental protection. The company applies measures for separate collection of waste, minimization, recovery and recycling of municipal waste. In 2017, the use of plastic cups stopped, and they were replaced with porcelain and glass cups.

The Company believes that its employees play a key role in the development of its business and the overall

corporate goals and therefore pays special attention to the development of a common human resources management

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

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



The structure of the personnel of Sirma Group Holding has the following dynamics:

Sirma Group Holding JSC	30.09.2019 Number of employees	30.09.2018 Number of employees
Employment contract	21	23
Contract for management and control	6	8
<b>Total</b>	<b>27</b>	<b>31</b>

## DESCRIPTION OF ALL AGREEMENTS FOR THE PARTICIPATION OF THE EMPLOYEES IN THE CAPITAL OF THE COMPANY.

There are no arrangements for the participation of employees in the capital of the Company.

# 8/ RISK FACTORS

## 8.1 System Risks

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

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

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

### 8.1.1. Economic Growth

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

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

Delayed economic growth, not only in Bulgaria but also in other countries where the Company realizes its output, means reduced activity on the part of economic operators, where there is also a reduced level of investment in general and in particular in software solutions. In this respect, lower economic growth adversely affects the

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

### 8.1.2. Political Risk

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

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

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

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

### 8.1.3. Credit Risk

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



determination and measurement of this risk is carried out by specialized international credit agencies.

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

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

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

#### 8.1.4. Currency Risk

Exposure to the currency risk is the dependence and effects of exchange rate fluctuations. The systemic currency risk is the probability of a possible change in the currency regime of the country (The Currency Board), which would either lead to a depreciation of the Lev or a rise in the Lev against foreign currencies. The currency risk will have an impact on companies with considerable market share, whose payments are made in a currency other than the Lev and the Euro. Since the Bulgarian Lev is fixed to the Euro in EUR 1 = BGN 1.95583 and the Bulgarian National Bank is obliged to maintain a level of Bulgarian Levs in circulation equal to the foreign currency reserves of the bank, the risk of depreciation of the Lev against the European currency is minimal and consists in the eventual early elimination of the Currency Board in the country. This seems unlikely at this stage as the expectations are that the Currency Board will be abolished when the Euro is adopted in Bulgaria as an official legal tender. Theoretically, the currency risk could rise when Bulgaria joins the second stage of the European Monetary Mechanism (ERM II). This is a regime in which the country has to maintain the exchange rate against the Euro within +/- 15% against the central parity. In practice, all countries currently in the mechanism (Denmark, Estonia, Cyprus, Lithuania, Latvia, Malta) are experiencing fluctuations that are substantially lower than the  $\pm 15\%$  allowed. The fixed exchange rate of the Lev to the Euro does not eliminate the risk of unfavorable movements of the Euro against other major currencies (US Dollar, British Pound, Swiss Franc) on the international financial markets, but at present the company does not consider that such a risk would have a significant impact on its activities. The Company may be affected by the currency risk depending on the type of currency of its revenue and the type of currency of potential borrowings of the company.

#### 8.1.5. Interest Rate Risk

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

At its meeting on monetary policy on 13 December 2018, the Governing Council decided to suspend net asset purchases in December 2018, keeping the ECB's key interest rates unchanged and further developing its asset reinvestment guidance. Although incoming data are weaker than expected, reflecting lower external demand, and due to country and sector-specific factors, strong domestic demand continues to support the eurozone's economic upturn and the steadily rising inflationary pressures. This reinforces the Board of Trustees' belief

that a sustained convergence of inflation to its target level will continue and will persist even after the net asset purchase cease. At the same time, there remains considerable uncertainty about geopolitical factors, the threat of protectionism, vulnerabilities in emerging countries and the fluctuations in financial markets. Therefore, a policy of significant monetary stimulus is still needed to support the further strengthening of domestic price pressures and overall inflation dynamics in the medium term. The Governing Council's benchmark on key ECB interest rates, backed by the reinvestment of a significant volume of assets, continues to provide the necessary money supply for the sustainable convergence of inflation to its target level. In any event, the Governing Council is prepared to adjust all its instruments according to circumstances to ensure that inflation continues steadily closer to its target level.

#### 8.1.6. Inflation Risk

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

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

#### 8.1.7. Risk from unfavorable changes in tax and other legislation

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

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

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

#### 8.1.8. Force Majeure Risks

Force majeure events such as natural disasters, sabotage, war and terrorist acts, and others may lead to unpredictable changes in investor and interest in the market for all shares, as well as, in particular, the shares of Sirma Group Holding. Some force majeure events do not provide for the possibility of insurance.

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





## 8.2. Non-system Risks

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

### 8.2.1. Industry Risks

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

### 8.2.2. Specific Company Risk

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

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

### 8.2.3. Operation Risk

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

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

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

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

### 8.2.4. Intellectual Property Protection

The protection of the intellectual property of the Group is crucial to its success. It uses a variety of tools to identify and control potential risks and to protect its intellectual property. These measures include application for patents, trademarks, and other brands and copyrights to prevent

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

### 8.2.5. Risk of concluding insider deals at prices differing from the market ones

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

### 8.2.6. Risk of asset depreciation

The impairment risk of assets is related to the possibility of reducing the carrying amount of the Company's assets. Possible impairment of tangible and / or intangible fixed assets would result in the need to account for an impairment loss. This, in turn, may worsen the Company's future financial performance as well as lead to a final negative financial result for an annual period. This in turn leads to the risk of not being able to distribute dividends to existing shareholders at this future moment, as well as a possible decrease in the market price of a shares of the Company due to the deteriorated financial indicators.

## 8.3. Risk factors, characteristic of share traded on the Stock Exchange

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

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

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

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





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

#### **8.3.1. Price Risk**

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

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

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

A significant number of sales of the shares of Sirma Group Holding JSC for a certain period of time may have an adverse effect on the maintenance of their achieved price level. Such an event would result from a significant excess of the sellers of those shares over buyers in that period. At this point in time, the Issuer or a third party does not commit to maintaining a particular price level and a significant number of sales may lead to a decrease in that level.

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

#### **8.3.2. Liquidity Risk**

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

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

#### **8.3.3. Inflation Risk**

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

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

#### **8.3.4. Dillution Risk**

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

#### **8.3.5. Currency Risk**

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

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

#### **8.3.6. Lack of an annual dividend payment guaranty**

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

#### **8.3.7. Risk of change in the tax treatment of investments in shares**

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

#### **8.3.8. Risk factors included in the Registration document**

The specific risks associated with the core activity of Sirma Group Holding JSC, as well as the general risks that may have an impact on its activities, are detailed on pages of the Registration document, Section "Risk Factors".



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

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

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

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

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

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The management of financial resources is subject to the requirement of maximizing efficiency while respecting payment deadlines agreed with both suppliers and customers. This means a predominant use of own funds, resulting in lower financial costs and interest costs. On the other hand, there is a significant reserve of undrawn loans that can serve both current and investment costs, which maintain high liquidity of payments.

The entity's ability to service obligations is expressed in terms of liquidity ratios in the description of the liquidity risk in this report. As evidenced by the values of the liquidity indicators, Sirma Group Holding JSC has no problems in meeting its obligations, both in the medium and long term. The company has regular proceeds from sale, while also using bank overdrafts, which allows it to service its obligations by successfully managing its financial resources and to properly and timely service its obligations.



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

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

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

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

## 14/ INFORMATION ABOUT THE MAIN CHARACTERISTICS OF THE FINANCIAL REPORTING PROCESSING INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM IN THE COMPANY.

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

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

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

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

- detection and termination of frauds and errors;

- completeness and regularity of accounting information;

- preparation of reliable financial information;

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

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



## 15/ INFORMATION ON CHANGES IN MANAGEMENT AND SUPERVISORY AUTHORITIES DURING THE PERIOD.

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No changes during the period considered.

## 16/ INFORMATION ABOUT THE USE OF THE FUNDS FROM A NEW ISSUED SHARES AND SECURITIES IN THE REPORTING PERIOD.

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No funds from a new issued shares and securities were used during the reporting period.

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

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Stanislav Tanushev

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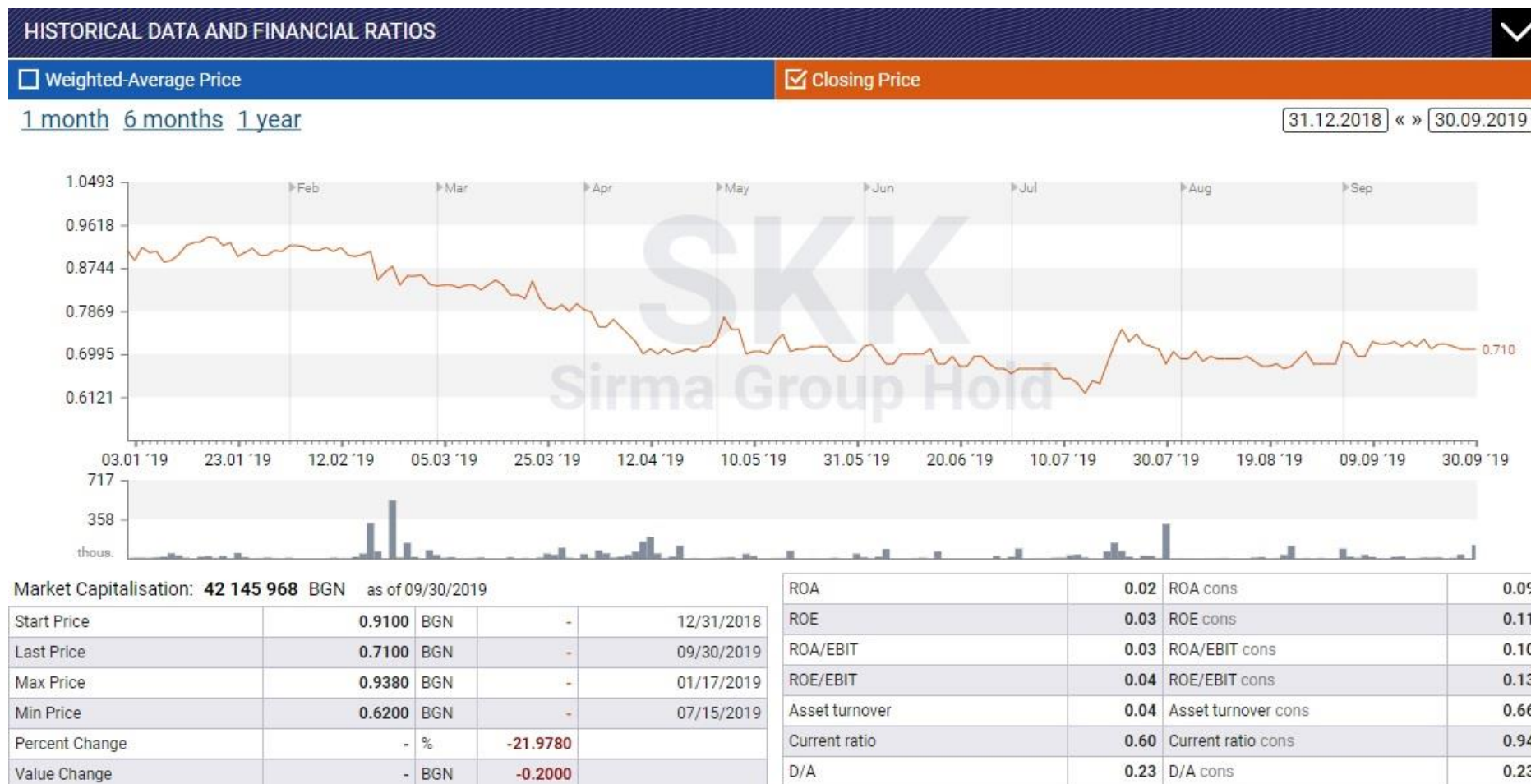
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# 18/ CHANGES IN THE PRICE OF THE SHARES OF THE COMPANY



## 19/ EVENTS AFTER THE END OF THE REPORTING PERIOD

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There have been no events after the end of the reporting period that would require disclosure.

**Sofia**  
**30.10.2019**

**CEO:**



**Tsvetan Alexiev**

