

# Interim Consolidated Report

for the activity of "Sirma Group Holding" JSC for the period  
ending on 31.12.2019, in accordance with Appendix 10 of  
Ordinance 2 of the FSC

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

The present interim consolidated report of the management of “Sirma Group Holding” JSC covers the period, ending on 31 December 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 the Public Offering of Securities Act (POSA), including also the established events, occurring after the balance sheet date. The structure of this report is in accordance with Appendix 9, 10 and Appendix 11 to Article 32a (2) of Ordinance No. 2 of the Financial Supervision Commission (FSC).

The board of directors of the holding confirms that:

- there were no irregularities in which managers or employees were involved, which may be material to the consolidated financial statements;
- all material transactions are duly accounted for and reflected in the interim financial statements as at 31 December 2019;
- there is no actual or potential breach of laws and (or) other regulatory provisions which would have a material impact on the consolidated financial statements or could serve as a basis for reporting contingent loss;
- there are no legal or other restrictions on the flow of funds;
- there are no known trends, requests, commitments, events or occasional circumstances for which there is reason to expect that they may affect the company as a whole.

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

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

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

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

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

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

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

The reporting period is the financial period ending on 31.12.2019. The report includes Sirma Group Holding JSC and all subsidiary companies of the group without Flash Media, Engview Systems Latin America, Eyeball Interactive, Excell Management and e-Dom, which are excluded from consolidation due to lack of relevance.



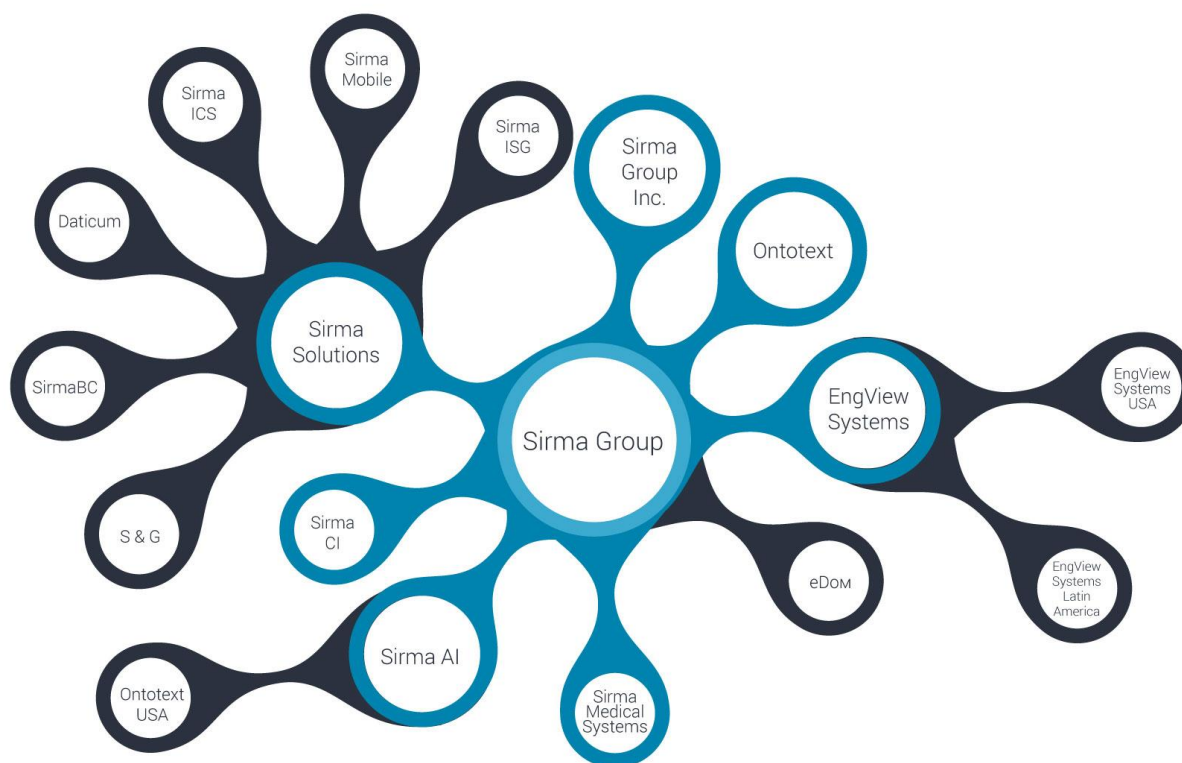
## 2 ORGANIZATION AND WAY OF PRESENTATION

Sirma Group Holding JSC is a holding company that 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.





## Branches of the company

"Sirma Group Holding" JSC has no registered branches.

## History and development of the company

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

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

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

## Changes in the statement of activity

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

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

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

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

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

## CAPITAL

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

## History of Share Capital

History of changes in share capital

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

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

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

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

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

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

On 22.10.2010. as a result of the decision of the regular annual general meeting of the Company's shareholders, a reduction of the capital of Sirma Group Holding JSC from 77 252 478 BGN to 73 340 818 BGN was recorded through the cancellation of 3 911 660 shares with a par value of one



BGN each. The Company's capital was reduced on the basis of Art. 200, para. 2, in conjunction with Art. 187f, par. 1, item 2n of the Bulgarian Commercial Law.

During the transformation, entered in the Commercial Register on 23.10.2014, the Company's capital is reduced to 49 837 156 through the cancellation of 23 503 662 shares.

This decrease is a result of the estimated fair value of the shares of Sirma Group Holding JSC by three independent appraisers. The shareholder structure of the Company does not change as the shareholder structures of the transforming and that of the newly established companies are mirrored.

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

### 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 STRUCTURE OF SHARE CAPITAL AND MANAGEMENT AUTHORITIES

### 3.1. Capital structure

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

	31.12.2019 BGN '000	30.09.2019 BGN '000
Share capital	59 361	59 361
Number of shares (par value of 1.00 BGN)	59 360 518	59 360 518
Total number of registered shareholders	1064	1072
Including legal entities	57	57
Including Individuals	1007	1015
Number of shares held by legal entities	11 614 752	11 674 892
% of capital of legal entities	19,57%	19,67%
Number of shares held by individuals	47 745 766	47 685 626
% of capital held by individuals	80,43%	80,33%

Shareholders	Number of shares at 31.12.2019	Number of shares at 30.09.2019	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%
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	2 534 161	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	1 187 480	1	1 187 480	2,00%	2,02%
Emiliana Ilieva Ilieva	1 792 168	1 792 168	1	1 792 168	3,02%	3,04%
Elena Yordanova Kozuharova	607 040	638 942	1	607 040	1,02%	1,03%
Ivo Petrov Petrov	1 572 828	1 450 000	1	1 572 828	2,65%	2,67%
Stanislav Ivanov Dimitrov	257 368	257 368	1	257 368	0,43%	0,44%
Expat Bulgaria SOFIX UCITS ETF	732 355	977 907	1	732 355	1,23%	1,24%
Foundation for Educational Transformation	363 327	554 479	1	363 327	0,61%	0,62%
"NN Universal Pension Fund"	2 323 939	2 323 939	1	2 323 939	3,91%	3,95%
Bank of New York Mellon	857 600	857 600	1	857 600	1,44%	1,46%
UPF "Doverie" JSC	1 047 678	802 126	1	1 047 678	1,76%	1,78%
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	1 094 249	1	1 094 249	1,84%	1,86%
Others	10 624 246	10 524 020	1	10 624 246	17,90%	18,04%
<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 31.12.2019 "Sirma Group Holding" JSC possesses repurchased 474 724 own shares.

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

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

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

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

The Company is not aware to be directly or indirectly owned or controlled.

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.

### 3.2 Management authorities

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

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

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

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

**Current term of the Board of Directors is until: 19.09.2021**

### The jurisdictions of the management

The jurisdictions of the management are in line with these 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 shares of the Company.

### Rights of the members of the BD to acquire shares and bonds of the company

The rights of the members of the BD to acquire shares in the company are regulated in the legal framework. The company does not have a bond issue.



## 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*

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

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

**2. Remuneration Committee, composed of:**

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

**4. Audit Committee, composed of:**

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

## Accepted internal normative documents

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

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

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

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

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

Shareholders	Number of shares at 31.12.2019	Number of shares at 30.09.2019	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>

CEO of Sirma Group Holding is Tsvetan Borisov Alexiev.



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

<b>Board Member</b>	<b>Company</b>	<b>Sums for the period 01.01.2019 -31.12.2019 (BGN)</b>
<b>Atanas Kostadinov Kiryakov</b>	EngView Systems Sofia	(600)
	Ontotext	(5 673)
	Sirma AI	(161 429)
	Sirma Group Holding	(18 000)
	Sirma Solutions	(6 000)
<b>Georgi Parvanov Marinov</b>	EngView Systems Sofia	(102 888)
	Sirma Business Consulting	(10 624)
	Sirma Group Holding	(18 000)
<b>Yordan Stoyanov Nedev</b>	Sirma Group Holding	(71 095)
	Sirma Medical Systems	(661)
<b>Petar Borisov Statev</b>	Sirma Group Holding	(18 000)
<b>Sasha Konstantinova Bezuhanova*</b>	Sirma Group Holding	(9 196)
<b>Tsvetan Borisov Alexiev</b>	Daticum	(240)
	EngView Systems Sofia	(600)
	Ontotext	(273)
	Sirma AI	(5 727)
	Sirma Business Consulting	(21 249)
	Sirma Group Holding	(139 000)
	Sirma Solutions	(126 027)
	Sirma Business Consulting	(167 253)
	Sirma Group Holding	(9 196)
<b>Chavdar Velizarov Dimitrov</b>	Daticum	(240)
	EngView Systems Sofia	(79 352)
	Sirma Group Holding	(27 488)
	Sirma Medical Systems	(1 200)
<b>Total</b>		<b>(1 000 009)</b>

\*As of the date of this document, they are not members of the Board of Directors.

#### Information on the contracts of the members of the administrative, management or supervisory bodies with the company providing severance pay

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

#### Information on the company's audit committee or remuneration committee, including the names of the members of the committee and a mandate summary by which the committee functions

At the 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, the financial statements of Sirma Group Holding JSC comply with its Program for the application of internationally recognized standards for good corporate governance and maintains its accounting policy in accordance with International Accounting Standards.

## 4 FUNCTIONING OF THE GROUP

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

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

## Subsidiaries of "Sirma Group Holding" JSC

Company	Value of the investment at 31.12.2019 (in BGN'000)	Percentage of capital at 31.12.2019	Percentage of capital with adjusted repurchased own shares at 31.12.2019	Value of the investment at 31.12.2018 (in BGN'000)	Percentage of capital at 31.12.2018	Percentage of capital with adjusted repurchased own shares at 31.12.2018	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%	76,29%	3 471	76,16%	76,29%	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>

## Subsidiaries of "Sirma Solutions"

Company	Value of the investment at 31.12.2019 BGN '000	Percentage of capital at 31.12.2019	Value of the investment at 31.12.2018 BGN '000	Percentage of capital at 31.12.2018	Changes BGN '000
Sirma Business Consulting	1 374	54,08%	1 374	54,08%	0
Daticum	1 394	60,50%	1 394	60,50%	0
S&G Technology Services Ltd., UK	117	51,00%	117	51,00%	0
Sirma ISG	0	71%	0	71%	0
Sirma ICS	270	90,00%	270	90,00%	0
<b>Total</b>	<b>3 155</b>		<b>3 155</b>		<b>0</b>



## Subsidiaries of "Sirma AI"

	Value of the investment at 31.12.2019	Percentage of capital at 31.12.2019	Value of the investment at 31.12.2018	Percentage of capital at 31.12.2018	Changes
Company	BGN '000		BGN '000		BGN '000
Ontotext USA	30	100,00%	0	0%	30

## Subsidiaries of "EngView Systems Sofia"

	Value of the investment at 31.12.2019	Percentage of capital at 31.12.2019	Value of the investment at 31.12.2018	Percentage of capital at 31.12.2018	Changes
Company	BGN '000		BGN '000		BGN '000
EngView Systems Latin America	7	95%	7	95%	0
EngView USA	9	100%	9	100%	0
<b>Total</b>	<b>16</b>		<b>16</b>		<b>0</b>

## Associated companies of "Sirma Group Holding"

	Value of the investment at 31.12.2019	Percentage of capital at 31.12.2019	Value of the investment at 31.12.2018	Percentage of capital at 31.12.2018	Changes
Company	BGN '000		BGN '000		BGN '000
GMG Systems (IN LIQUIDATION)	0	19,93%	150	19,93%	(150)
E-DOM MANAGEMENT	7	35,00%	7	35,00%	0
<b>Total</b>	<b>7</b>		<b>157</b>		<b>(150)</b>

## Associated companies of "Sirma Solutions"

	Value of the investment at 31.12.2019	Percentage of capital at 31.12.2019	Value of the investment at 31.12.2018	Percentage of capital at 31.12.2018
Company	BGN '000		BGN '000	
SEP Bulgaria	0	6,50%	0	6,50%
EYE BILL INTERACTIVE	0	34%	0	34%
EXCELL MANAGEMENT	0	34%	0	34%
Flash Media	0	50%	0	50%
Sirma Group Inc.	916	23,71%	916	23,71%
Sirma Mobile	15	40%	15	40%
<b>Total</b>	<b>931</b>		<b>931</b>	

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

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



## 5 SIRMA GROUP HOLDING IN Q4 2019

### 5.1 THE BUSINESS

Established in 1992, Sirma has become one of the largest IT companies in the region for 27 years, owning a range of proprietary, innovative technologies, a diverse product portfolio and growing market share in Europe and North America.

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

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

Some of Sirma's unique advantages are:

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

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

The main elements of the Strategy are:

- Technological transformation through concentration of R&D;
- Improvement of the commercialization of technologies;
- Expansion and technological leap in Sirma's product portfolio through:
  - o Cloud base;
  - o Development of new products with a cognitive element;
- Complementing the sales model - from predominantly on premise to SaaS sales;
- Significant expansion of the distribution network and partner ecosystem to improve the sales model - in addition to direct sales and sales through a major affiliate distribution network, including increasing OEM partnerships;
- Organizational restructuring to implement the strategy.

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

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

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





## 5.2 Economic Trends

**Economic Development of Bulgaria in 2019 and Forecasts for 2020/2021**

The growth of GDP in Bulgaria in 2019 the highest in recent years and is expected to reach 3,6%, according to forecast of the European Commission [/Economic Forecast for Bulgaria, EC, November 2019/](#). The engines of the growth in 2019 were domestic consumption, investments and exports. Due to a weaker external environment, leading to a decrease in exports, the growth during the second half of 2019 slowed down. This slow down was transferred to 2020, when it is expected that the growth of the GDP will drop to 3.0% in 2020 and 2.9% in 2021 y/y.

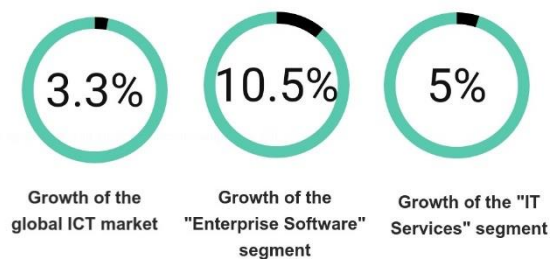
The risks for these forecasts are mainly in the negative direction, linked with a sudden and prolonged decrease in external demand. This would have a negative influence on exports, leading to employment deterioration and internal consumption decrease. The main risk to the economy in 2020/2021 is weaker 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 2020/21.

**Development of the global economy in 2019 and forecast for 2020/2021**

During the last year global growth has decreased rapidly. The global economic growth is expected to be 2,9% in 2019, according to the analysis of IMF [/IMF WEO, January 2020/](#). This is the lowest economic growth since 2008-2009. A small acceleration is expected in 2020 to 3,3% and then to 3.4% in 2021. 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, social and geopolitical tensions, which reflect negatively on the business climate, investment decisions and global trade.

**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, and to ascertain the growth of the whole sector:

**Global ICT Market 2020****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, in 2019 the growth was sluggish falling to 0.5% for the year. The expectation of Gartner [\(Gartner Market Outlook, January 2020\)](#) for the development of the ICT industry in 2020 are of renewed growth. In 2020 it is anticipated that the growth of the ICT sector will reach 3,4% y/y, reaching annual expenses for the whole sector of USD 3,9 trillion /in current prices/. 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 growth, are the "IT Services" and "Enterprise Software", which are expected to grow with 5.0% and 10.5% respectively. All remaining segment are expected to register a decline or a minimum growth in 2020:



## Global ICT Spending in Current Prices

	2017	2018	2019	2020	2021	2022	2023	CAGR 2018 - 2023
<b>Data Center Systems</b>								
Spending (B\$)	182	210	205	208	212	213	215	
Growth y/y	6.40%	15.70%	-2.70%	1.90%	1.50%	0.80%	0.80%	0.43%
<b>Software</b>								
Spending (B\$)	370	420	456	503	556	612	671	
Growth y/y	10.40%	13.50%	8.50%	10.50%	10.50%	10.00%	9.60%	9.82%
<b>Devices</b>								
Spending (B\$)	673	713	682	688	685	682	677	
Growth y/y	5.70%	5.90%	-4.30%	0.80%	-0.30%	-0.50%	-0.80%	-1.03%
<b>IT Services</b>								
Spending (B\$)	931	994	1 030	1 081	1 140	1 203	1 268	
Growth y/y	4.40%	6.70%	3.60%	5.00%	5.50%	5.50%	5.40%	5.00%
<b>TELCO</b>								
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%
<b>All ICT</b>								
Spending (B\$)	3 537	3 717	3 737	3 865	4 007	4 146	4 286	
Growth y/y	3.90%	5.10%	0.50%	3.40%	3.70%	3.50%	3.40%	2.89%
<b>IT w/o TELCO</b>								
Spending (B\$)	2 156	2 337	2 372	2 481	2 594	2 710	2 830	
Growth y/y	5.80%	8.40%	1.50%	4.60%	4.60%	4.50%	4.40%	3.91%



### Reasons for the Market Dynamics in 2020 according to Gartner (growth in constant currency)

It is important to note that the renewed growth of 3.4% y/y in 2020 is in current prices. The rapid appreciation of the USD to other currencies (about 2.5% to the EUR in 2019) strongly decreases spending in other currencies when transferred to US dollars. The ICT dynamic in **constant currency** reveals a stronger annual growth of 3.7% in 2020 ([Gartner Webinar, IT Spending Forecast, 4Q19 January Update: Emerging Technologies in 2020](#)), as well as an increased growth in all ICT segments.

The contribution to growth in 2020 by ICT markets is unevenly distributed. Some of the ICT markets are expected to grow with a rate that exceeds the average growth by more than 2 times. Such are „Infrastructure software“ with expected growth of 11,42%, „Enterprise application software“ with anticipated growth of 10,30% and „Consulting“ with anticipated growth of 7,2%. Other markets are expected to grow with a rate that is closer to the average value of 3,7% y/y. Such are „Cloud infrastructure and services“ with anticipated growth of 5,7%, „Implementation“ with anticipated growth of 5,1% and „Business process outsourcing“ with anticipated growth of 4%. The growth of the above mentioned markets compensate the weak growth or market decrease in some other markets. Such are „Consumer mobile services“ with anticipated growth of 2%, „Consumer fixed services“ with anticipated growth of 1,7% and „PC, smart phones and tablettes“ and „External storage systems“ which are expected to decrease with as much as 3%.

**Geographically**, as in the previous years, the various national markets contribute differently to the global growth due to their different share of the ICT industry. Subsequently, despite the dynamic development of the ICT market in India and South Korea, marking a growth of 6,3% and 5,6% in 2020 y/y respectively, they will not influence substantially the global growth of the industry due to their modes share. At the same time the US, which possess a share which is bigger than 30% of the global ICT spending, contribute substantially for the growth of the industry with their 4,3% country growth anticipated in 2020. The growth in Europe is preserved close to the mean growth rate for the World of 3.7% y/y in cc.

Gartner expect stabilization of the growth in the 3-4% range in the years following 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: deal with EU;

- 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%



<b>TELCO</b>					
Spending \$B	1 412	1 431	1.00%	1 446	1.00%
<b>Traditional ICT</b>					
Spending \$B	3 858	3 987	3.00%	4 099	3.00%
<b>New Technologies</b>					
Spending \$B	714	826	16.00%	962	16.00%
<b>Total ICT</b>					
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.

### 5.3.Information in Q4 2019

## 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 10 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.



## 5.4. Major news in Q4 2019

Information on key events and business news in Q4 2019 can be found in Appendix 3.

## 5.5. Key legal information in Q4 2019

### Transactions with shares for the period 01.01.2019 - 31.12.2019:

#### - 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 - 31.12.2019:

#### "Sirma ISG" OOD against Tiano Sashkov Latev

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

- 50 000 leva - filed as a partial claim for compensation for damages, expressed as expenses incurred from a total amount due from 311 524 leva
- 11 162,19 leva - representing indemnity for damages, expressed as unaccountable material means
- 8 000 leva - 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.**





## 5.6 Information for contracted large transactions in Q4 2019

In Q4 2019, the company made several large contracts with customer and subcontracts, in connection with the new strategy of the Group:

Purchases:

- Deal 1 for BGN 1 484 thousand
- Deal 2 for BGN 924 thousand
- Deal 3 for BGN 736 thousand

Sales:

- Deal 1 for BGN 1 667 thousand
- Deal 2 for BGN 1 410 thousand
- Deal 3 for BGN 1 021 thousand

## 5.7 Information of the used financial instruments Q4 2019

In Q4 2019 the company has not used any financial instruments.

## 5.8 R&D activity of the company in Q4 2019

The strategy for growth and development of Sirma Group Holding JSC foresees the concentration of the intellectual property of the Group in the Holding company. This concentration also implies the concentration of the Group's research and development activities at Sirma Group Holding JSC. Implementation of this process started in 2018.

The total value of the investments made in research and development in Q4 2019 amounts to BGN 2 022 thousand.

## 5.9 Possible future development of the company

In 2019, Sirma Group Holding will updated "Growth and Development Strategy", which covers the future development of the company by 2022.

## 5.10 Contracts under Art.240b of the Commerical Code in Q4 2019

During Q4 2019 the company has not been notified for contracted transactions with the members of the Board of Directors or parties related to them, which fall outside the line of activity of the company or the terms of which differ substantially from the current market.



## 6 RESULTS BY COMPANY

### 6.1 DATICUM

- <https://www.daticum.com/>
- **Datium JSC is a subsidiary of Sirma Solutions AD**
- **Capital:** BGN 2 302 049 divided into 2 302 049 registered materialized shares with a nominal value of BGN 1 with the right to vote, the right to dividend and a liquidation share according to the participation in the capital. Sirma Solutions JSC holds 1 392 740 shares or 60.5% of the capital.

In the beginning of 2009, Daticum was transformed from a business unit of Sirma Solutions AD into an independent company, attracting financing from Asarel Medet AD.

The company operates as a center for reliable data storage from the highest possible generation. The main services it provides are cloud services, including public and private, colocation, hosting, virtualization, hardware rental, communications and network services, the construction and operation of backup data centers, archiving and storage of information, provision of services for building and maintenance of hardware and software systems, building of data centers, system integration, building of test environments, etc.

The robust expertise in the field of building and providing public and private cloud computing platforms has contributed to the growth of the company's business and has a positive impact on both revenue and profits. In 2018, Datium designed and successfully migrated computational activities from conventional architecture to cloud platforms for multiple customers, as well as customers who have decided to purchase the necessary computing equipment independently.

Daticum is certified by Microsoft and has the right for Bulgaria to provide the full range of Microsoft products, paid on a monthly basis according to the customer's requirement (Certified Microsoft SPLA Provider). All customers can rent any Microsoft product from Dacum for as long as they need this product and use storage volume and computational resources which they actually consume. This partnership opens the possibility for all developers and system integrators who operate on the territory of Bulgaria and use Microsoft products in their solutions to be able to provide these solutions to their clients as a service in the only legal way possible, namely through a Microsoft SPLA partner on monthly basis, without having to invest in tangible fixed assets for computational resources or purchase of licenses.

Daticum is certified as VMWare Service Provider, which also provides it with the only legal opportunity to provide public cloud services as well as private cloud rental solutions using the latest VMWare technology.

Daticum is increasingly reoriented from a company providing basic colocation services to client equipment, to a company providing services on a monthly basis with high added value.

#### MAIN MARKETS:

Bulgaria, North and South America, Europe

#### MAIN CLIENTS:

The main clients of the company are the following industries - insurance, ICT, utilities, media and information services, industrial production, wholesale and retail, transport and courier services.

#### MAIN COMPETITORS:

Neterra OOD, Evolink AD, Teleponet OOD, 3DC EAD and international companies providing cloud services such as Amazon, Rackspace, Microsoft, IBM and others.

#### BUSINESS MODEL OF THE COMPANY.

The Company's core business model is to build infrastructure to provide computing resources for data processing and storage and to provide these resources for a fee to a wide range of customers who prefer not to maintain such infrastructure or have a temporary need for these resources.

#### RESOURCES OF THE COMPANY

The company has the necessary resources and is able to invest in the development of its business without using debt capital.

#### NEW PRODUCTS, NEW BUSINESS OR BUSINESS MODELS FOR THE PERIOD.

The company focused on consolidating its market positions and expanding its IaaS and PaaS cloud services. Thanks to our partners, we can now offer a new Remote Backup as a Service, through which we can back up our data center data from client servers and end user devices regardless of their geographic location. In the next reporting period, we will develop and offer a Key Management Software as a Service in relation to meeting GDPR requirements. Along with the increasing tendency of customers to use leased computing resources on a monthly use basis, there is a similar tendency on the part of the company's suppliers to switch to business models for the provision of licenses and services based on monthly consumption.

#### HR POLICY.

Preserve current staff. Maintaining and increasing its qualification through training, courses and participation in affiliate programs. We perform a selective increase in staff, following requirements arising from the increase in the volume of activity. Staff costs are rising in line with an increase in business volumes by up to 10-15% per year.



**DATICUM IN Q4 2019****BUSINESS DEVELOPMENT IN Q4 2019 AND REALIZATION OF THE INVESTMENT PLAN**

- We have achieved over 60% growth in the company's revenue compared to 2018 (including nearly 25% growth in revenue from cloud services, 17% growth in revenue from standard services, and over 34% growth in revenue from Internet services);
- Closed partnership contracts with two IT new entrant companies for the Bulgarian market, which provide services to large Bulgarian and international companies, for the use of the resources of Daticum in the solutions provided by them.
- Expanded and upgraded the back-up storage capacity of Daticum, aiming at the improvement of the back-up service for our clients.

- Launch of the new Daticum service – Daticum C2, which provides a client console for the administration and management of cloud resources.

- Launch of a new BaaS service on remote workstations and servers not located in Daticum. The devices in question can be backed up and restored to the Daticum cloud platform only with an internet connection. The process is entirely self-service for the client and no contact with or intervention of our employee is required.

**IMPORTANT EVENTS**

- Certification under ISO/IEC 9001:2015;
- Certification under ISO/IEC 27001:2013;
- Certification under the additional standard ISO/IEC 27018:2014 for the implementation of the common measures for control and personal data protection regulations.

**NEWS**

- Successfully completed the process of acquiring customers from another cloud provider and migrating them to the Daticum platform;

**FORECAST FOR 2020**

- We anticipate the continuation of our long term growth of revenue around 15% compared with 2019.
- Cloud services will continue to mark a two digit growth, moving along with the expected global growth of the IaaS market for 2020.

**FINANCIAL RESULTS**

	31.12.2019	31.12.2018	Change BGN '000	Change %
Revenues	3 619	2 258	1 361	60,27%
EBITDA	909	780	129	16,54%
Depreciation	(306)	(264)	(42)	15,91%
Net Result	537	460	77	16,74%
EBITDA margin	25,12%	34,54%	-9,43%	-27,29%
Net Profit margin	14,84%	20,37%	-5,53%	-27,16%
Sales per share	1,5721	0,9809	0,59	60,27%
EPS	0,2333	0,1998	0,03	16,74%
ROE	0,1775	0,1564	0,02	13,46%
Total Assets	3 360	4 624	(1 264)	-27,34%
Intangibles	-	1 242	(1 242)	-100,00%
Book value	3 026	1 699	1 327	78,10%
Equity	3 026	2 941	85	2,89%
Total Liabilities	334	1 683	(1 349)	-80,15%
Interest bearing	-	-	-	n/a
D/E	0,1104	0,5723	-0,46	-80,71%
ROA	0,1598	0,0995	0,06	60,66%



## 6.2 SIRMA SOLUTIONS

- <http://www.sirmasolutions.com>
- **Sirma Solutions is a subsidiary of Sirma Group Holding JSC**
- **Capital: BGN 35 370 800**
- **Shares:**
  - Ordinary, Number: 3 444 366, Nominal: BGN 10 Rights: Every ordinary share entitles one vote to the general meeting of shareholders as well as a right to dividend and a liquidation quota proportional to the nominal value of the share.
  - Class A, Number: 15 000, Nominal: BGN 10 Rights: Class A shares are preferred non-voting shares with a guaranteed dividend amounting to 12% of the nominal value.
  - Class B, Issue: 77 714, Nominal: BGN 10 Rights: Class B shares are right and have a voting right and a liquidation quota in proportion to the nominal value of the share.

The company owns 194 417 units. own shares with nominal value of each share BGN 10

### SIRMA SOLUTIONS IN Q4 2019:

#### General information

Sirma Solutions JSC is a global provider of complex software systems, IT consulting and system integration, in various industrial verticals. Founded in 1992, the company is the largest in Sirma Group Holding JSC. Since its inception, Sirma Solutions has developed organically, thanks to the unique combination of innovative spirit, solid technology expertise and business flair.

The company specializes in the creation of corporate software systems and solutions, system integration and IT consulting for both specific industries and multi-industrial solutions. Sirma Solutions JSC is among the leading Bulgarian software developers, thanks to its excellent reputation, proven expertise and comprehensive know-how used in software product development and the successful implementation of numerous complex projects for clients on a regional and global scale.

Sirma Solutions also specializes in hardware delivery, infrastructure development, cloud services and virtualization.

The company maintains excellent relationships with leading software and technology vendors for the fastest growing industries, as well as independent software companies. Also, there are excellent interactions with the other holding company, which ensures the successful realization of projects, regardless of the degree of complexity. Depending on the size and complexity of a project, the company has access to an expanded range of resources from over 500 people.

Sirma Solutions is Microsoft Gold Partner, IBM Advanced Partner, Oracle Gold Partner, HP Preferred Gold Partner, and so on. The company is certified to ISO 9001: 2015 and ISO 27001: 2005 to meet the regulatory and contractual requirements in terms of security and data integrity and IT management.

#### 6.2.1 Conditions for business development in 2019

##### 6.2.1.1 Marketing analysis of the industries in which the company operates

##### 6.2.1.1.1 IT BFSI (Information technologies in Banking Financial Services and Insurance)

In Europe, 2019 was set as the deadline for the implementation of the first phase of the Open Banking / PSD2. This brought some dynamics to the market, especially in banks that have delayed this process. According to statistics, 26% of banks are not yet fully compliant with the Directive and this process is expected to continue until 2021, with the main focus in 2020 falling on the part of PSD2 regulating the Strong Customer Authentication (SCA).

The market for alternative banking and payment systems was also very dynamic in 2019 - the year with the most new services (similar to Revolut) which recruited customers. The main reason for this boom is due to the large investments in 2018, which reached \$ 40 billion globally and led to the market launch of new products.

In 2019, investments in alternative banks and services declined slightly (to \$ 33 billion) compared with 2018,



because investors saw difficulties in quickly profiting in this sector, mainly because of the slowness of banks to adapt to new regulations. This creates major obstacles to the growth of smaller players and slows them down in launching new products and services. However, research shows that this market (of alternative banks) will develop and grow significantly.

#### 6.2.1.1.2 Healthcare

The size of the global healthcare IT market was estimated at USD 125 billion in 2015, with forecast to reach USD 297 billion by 2022, with a CAGR of 13.2%.

(<https://www.alliedmarketresearch.com/healthcare-information-technology-market>)

This market growth is driven by a growing commitment to patient safety and data reliability, the need to minimize healthcare costs, and the introduction of various health

#### 6.2.1.1.3 IT services

Global professional IT services market size is expected to reach USD 1.07 trillion by 2025 at a CAGR of 8.4%, according to a new study by Grand View Research, Inc. (<https://www.grandviewresearch.com/press-release/global-it-professional-services-market>). Growth is driven by the demand for knowledge-based services. Preferences for flexible and responsive professional services are driving the global market.

Enterprises from different industries are under increasing pressure to reduce capital costs and increase operational efficiency. Adoption of IT professional services is increasing as these services can help reduce overall IT costs and, in turn, capital expenditures. The benefits of such services, such as ease of implementation, lower risk and higher security, are also contributing to market growth.

BFSI's businesses, retail, telecommunications and IT industries all prefer cloud services. As the number of businesses that have opted for digital transformation continues to grow, resellers find it more convenient to provide IT services through cloud technology. It also allows providers to expand their geographical reach and offer scalable services as well as on-demand support.

The global public sector software market is estimated at USD 87.72 billion in 2017 and will reach USD 169.65 billion by 2023, at a CAGR of 11.62% over the period.

It is expected that the market for IT BFSI will grow from USD 82,06 billion in 2017 to USD 149,74 billion in 2022 with CAGR of 12,8% in this period, due to the rapid growth of the data generated by the multitude of sources in various applications. (<https://www.marketsandmarkets.com/Market-Reports/it-bfsi-market-245625011.html>) .

policies which promote the use of HCIT in healthcare establishments.

Health information technology connects all healthcare companies, minimizing human error and reducing costs. It is also expected that an increased demand for better healthcare facilities and an increased demand for integrated healthcare systems will drive this sector over the forecast period.

Increased mobility decision-making is a major driver of market growth. As internet penetration increases, so does the adoption of software solutions that drive market growth. On the other hand, the availability of open source solutions impedes market growth.

The European IT services market has continued to grow steadily in 2019. Despite the increasingly gloomy economic outlook, the expanding scope of digital transformation initiatives across all industrial sectors has retained investment in IT consulting, system integration and operational services.

Market expectations were more cautious for 2019, against a backdrop of two years that saw a slight acceleration in growth, from + 3.4% in 2017 to + 4.4% in 2018. This was driven by strong investment in project services (over 5% growth over both years) and public IaaS / PaaS (dramatic growth, albeit with relatively small volume). Generally, growth is expected to slow down slightly to 3.7% in 2020, with a noticeable slowdown in most countries (and in Germany in particular, with growth falling below 3% in 2020), offset by acceleration in the UK (after the elections and after Brexit, following three years of uncertainty).





## 6.2.1.2 Marketing analysis of the products of the company

### 6.2.1.2.1 Museum Space

Museum space is a museum management software specifically designed for galleries, libraries, archives, and museums (the so-called GLAM institutions) to support their daily work processes and to preserve and digitize their cultural treasures.

The product was created using the experience of museum staff and museum IT professionals from around the world. Museum Space is a web-based product that stores and links documents, images, notes, etc. in a way that suits the way most art institutions work.

Museum space is designed to optimize conservation, cataloging, restoration and display activities.

Technologically Museum space is the best product of its class in the world. Following the reference clients are the National Gallery of Washington, the Van Gogh Museum, the Metropolitan Museum of Art, Yale and more.

With global economic growth slowing down, the museum management software industry has also had some impact, but has maintained relatively optimistic growth over the past four years, marketing museum management software to maintain an average annual growth rate of \$ 1 million through 2014 to 2018.

### 6.2.1.2.2 Kanin.IO

Kanin.IO is a product that allows you to create analytical information structures, load them with data and receive processed (ready for action) information in real time without the need for programming. Kanin.IO is a real-time BIG Data analysis product. Potential customers are all businesses that handle large amounts of data and need real-time analytics to improve their business performance. Examples of such businesses are numerous: telecoms, banks, energy companies, large retailers, insurance companies, IoT operators, and many more.

The real-time market size of big data analytics was estimated at USD 6.32 billion in 2018 and is expected to register a

CAGR of 28.9% from 2019 to 2025. Increasing investment from companies in this type of analysis (also known as "streaming analytics") are intended to improve performance by better understanding the risks and opportunities of on-the-go data analysis. The rapid development of IoT (internet of things) sensors and devices used by industrial and consumer applications has created a growing need for the use of such technologies.

Based on the industries in which this technology is being used, the market is segmented into BFSI (banking, financial services and insurance), IT and telecoms, retail, healthcare, public sector, media and entertainment, education, etc.

### 6.2.1.2.3 Customer Intelligence Platform

CIP is a platform for collecting and analyzing customer information and their actions. There are various modules in CIP in the areas of: customer loyalty & customer engagement, big data real time analysis, computer vision based customer intelligence, chat bots, mobile marketing services and more.

Platform-specific solutions help marketers build deeper and more effective customer engagement and improve strategic planning through in-depth customer base analysis.

The global Customer Intelligence market is segmented based on solutions, services, verticals and regions. In terms of solutions, the CI market can be segmented into web analytics, voice and image analysis, mobile analytics, social media analysis and more. Based on verticals, the consumer intelligence (CI) market is classified into: BFSI, retail, telecommunications, health and life sciences, media and

entertainment, manufacturing, utilities, travel and tourism and more.

Leading companies in the consumer intelligence (CI) market are Microsoft Corporation, SAS Institute Inc., Open Text, Qlik International AB, Verint Systems, FICO Inc., Information Builders Inc., Angoss Software Corp, IBM Corporation, and SAP SE.

According to MarketWatch (<https://www.marketwatch.com/press-release/customer-intelligence-market-size-is-projected-to-be-around-us-50-billion-by-2022-2018-11-12>) the CI market is expected to be around USD 5 billion in 2022 at a CAGR of 20% for the period 2015-2022.



## 6.2.2 Business development in 2019 and realization of the investment plans

### 6.2.2.1 IT BFSI

We have implemented a PSD2 implementation for a large bank in Ireland and have been able to deliver the project very quickly and with excellent quality so that the terms set in the directive were met. In the USA, we have executed several successful projects for MascomaBank.

S&G - Sirma Solutions' Company in the UK for the last 3 years:

- Increased and diversified its revenue by continuing to work on product development for Temenos and Temenos Services while expanding its operations at KBC Group

- established its reputation with many different clients - KBC Ireland, Bank of Ireland, Banque Internationale a Luxembourg, Advanzia, Metrobank

- increased its expertise in integrating various software products with T24

In 2019, S&G diversified its customer base and found a steady stream of revenue and sales throughout the year. A key new client is Deloitte, with which a partnership is being developed. The resource utilization rate is over 95% for the year.

We have successfully completed another phase of a very large project at Raiffeisen Bank.

### 6.2.2.2 Healthcare

We have won a big 4-year contract at the NHIF for the provision of on-premises cloud rental. We have started marketing and business activities to refocus Diabetes: M

from end-user sales to sales to clinics, pharmaceuticals, insurance companies and practitioners.

### 6.2.2.3 IT professional services (IT consulting, software product development, public sector)

#### 6.2.2.3.1 European IT projects

At the end of the year we managed to win new clients in Austria, with which the process of market entry of Sirma as a provider of IT solutions to this market was started.

#### 6.2.2.3.2 Consulting projects in the USA

We have completed several successful projects in the US:

- Oasis Senior Advisors - a software system in the business of housing seniors in boarding houses and homes.
- PetsBest - a system for automatically classifying invoices by pet insurance policies using machine learning algorithms.
- UBeam - software connected to wireless charging devices via sound wave

Over the years, Sirma Solutions has managed to build an excellent name in the US software services market, with teams in Bulgaria and the US able to deliver quality on time without a failed project. This has led to a high percentage of repeatable sustainable businesses (over 80%). We believe that our existing contracts are low to medium risk of termination or in other words, we do not expect existing clients to change our services with other competing companies.

#### 6.2.2.3.3 Public sector projects

We have won and successfully executed a public sector project in Albania. We have successfully completed a

milestone of an FMO (Financial Mechanism Office, Brussels) project.



#### 6.2.2.3.4 System integration:

The business of system integration has been dynamic in 2019. We have managed to maintain our position in the private sector and develop expertise in the delivery and introduction of new products and services, mainly in cybersecurity and cloud technologies. The experience gained in working with large international corporations has helped us win the first major public sector projects.

We have successfully developed five new partnerships with cyber security products and have been able to implement projects and / or deliverables with each of these new products. We have developed two new services - on-premise cloud, which is extremely suitable for clients in the public sector and we have signed a large contract for our first client in this area. We have developed the Device as a Service (DaaS), which will be marketed in 2020.

Sirma Solutions has years of expertise in delivering customized devices to major international companies. Working with them has allowed us to achieve the highest possible new partnerships and certifications in some of the largest manufacturers, such as HP and Lenovo. In this regard, we have full access and the right to configure tailored products for our customers' needs and to manage the overall

process - from design, through technical parameters, planning to production, and channels for delivery. This gives us an extremely competitive advantage over traditional vendors relying on pre-configured models available in stock that cost marketing and distribution channels. In this regard, we were able to win a project to supply over 2000 personalized devices to the Employment Agency.

In the last 5 years Sirma has successfully built over 50 private cloud systems for our clients. Including clouds fully designed, delivered, built and operated by us. Together with our subsidiary Daticum, we transformed our customers' information departments from our own to ITaaS (IT as a service) or outsourced IT services. In different projects we have used technologies from VMWare, Microsoft, Oracle, HPE, IBM and others. The accumulated expertise in continuous cloud solutions in 2019 we were able to apply by winning the National Health Insurance Fund as a client, where we signed a 4-year contract for the provision of cloud services for database operations, with the cloud located in our customer data center and operated by Sirma and our partners in the project, in particular Oracle Cloud Operations.

- Contract for building application security solution for client from FinTech industry
- Contract for the migration of 3000 services from New Relic to AppDynamics
- Replacing huge disk arrays for a large international client in the FinTech industry
- Consolidation of support in the data centers of a large international client
- Build a DLP client solution
- Building an application security solution for an international client

In the past 2019, in the system integration department we concluded contracts for representation of five new products for the Bulgarian market, with each of them we were able to realize at least one project or sale to our clients:

- AppDynamics - product for Application Performance Management. An independent company that was acquired by Cisco several months ago
- Qualys - product for Vulnerability Management, Web Application Scanning, full spectrum of auditing, compliance and protection of IT systems and web applications
- CyberArk - a security software focused on eliminating cyber threats using insider privileges to attack the heart of the enterprise
- Veracode - Web Application Scanning, Static and Dynamic analytics
- Forcepoint is transforming cybersecurity by focusing on understanding people's intentions as they interact with critical data wherever it resides.

#### 6.2.2.4 Realization of the company's products

##### 6.2.2.4.1 Museum Space

In 2019, we were able to win two new customers for the Museum Space product: the Van Gogh Museum and the Royal Institute for Cultural Heritage (Brussels). Work on the

projects began in 2019, with the first phase being completed in early 2020. Phase 2 is to be implemented.



#### 6.2.2.4.2 Customer Intelligence Platform

We implemented a solution for KIOSK terminals in Metro, with our solution processing an average of 8000 users per day.

We have signed a strategic agreement with KFC Bulgaria, whereby Sirma Solutions has become a major provider of online solutions for the company.

#### 6.2.2.4.3 Kanin.IO

Based on Kanin.IO and artificial intelligence techniques, we have developed a joint product with the US company PureInfluencer, which provides services to car dealers in the US. The product monitors and classifies real-time visitors to car dealership websites, enabling sellers to reach potential

buyers much easier. The product was shown at the Nada Show 2020 in Las Vegas and already has several customers.

#### 6.2.3 New clients

- S&G won a key new client - Deloitte
- Employment Agency
- Register Agency
- National Health Insurance Fund
- Austrian insurance company

#### 6.2.4 New services

- On-premise rental cloud - an extremely working service for the public sector. In 2020, we have plans to offer this service to several other institutions.
- Together with our HP and Lenovo partners, we have developed DaaS (Desktop as a Service). A real test of the

market and its realization with real customers is coming in 2020

#### 6.2.5 Important events in the first months of 2020

- Successfully completed the migration of the NHIF databases to the rental cloud provided by us, thus starting the 4 year period of our services.
- Migration of 3000 services from New Relic to AppDynamics for a large FinTech client began

- We are working on delivering a cloud resource management platform to distributed data centers in several countries on different continents for a large client in the FinTech industry.

#### 6.2.6 Solved and pending issues in the execution of the business plan for 2019

##### 6.2.6.1 Software services

The main problem in 2019 was insufficient leads to new business, which led to incomplete staff utilization in the second half of the year and deterioration in financial results. To address this, a restructuring of the marketing and sales department was made in the fourth quarter of 2019. Since the beginning of 2020, we have focused marketing and sales on the most promising verticals.

We have already achieved the following results:

- We have improved the selection and participation process in international tenders
- We have established a network of partners to work with in different countries (Austria, Mexico, Stockholm, Germany)



- We have adopted and started implementing an ambitious marketing plan

Another major challenge is our ability to retain our experienced programmers as well as the selection and engagement of highly qualified software engineers. The great

strain on the labor market in the sector and the increase in wages are persistent problems. We decided to invest the time and financial resources in building a solid HR recruitment department that would be trained to handle the challenges of recruiting as well as retaining current staff.

#### 6.2.6.2 System integration

The implementation of the business plan in 2019 was successful as the department was able to achieve and exceed the set profit targets. Revenues were not fulfilled to the maximum amount as planned, but the opportunity to work on projects with higher expertise and added value resulted in

higher profits than previously planned, despite the smaller amount of revenue.

We have been able to expand our product and service portfolio to support and drive growth next year.

### 6.2.7 Prospects and forecast for 2020

#### 6.2.7.1 BFSI

We will develop two new areas:

- Implementation and configuration of the T24. We will attract and train a team of business analysts who will be able to participate in the Temenos T24 core banking system configuration and implementation projects. We are partnering with Deloitte to win business in this area.

- Remote project work. In addition to being an on-site consulting service provider, we are currently trying to position ourselves as a provider that can handle the overall project development outside the bank.

#### 6.2.7.2 Software services

##### 6.2.7.2.1 USA

In 2020, the goal is to gain 2-3 new core customers and increase project revenue in the US by over 15%. US business is largely dependent on the number of project staff employed and hours paid per year.

This prediction can easily be exceeded if the new Kanin.io product and related software services are well received by the market.

Overall, the prospects for 2020 remain good. The company is expanding its team with a new reseller in the US, focusing on the services and development of Kanin.io technology.

##### 6.2.7.2.2 Europe

In Austria, we aim to grow our business with two large clients: one of the largest companies in the medical sector, as well as Austrian Post, who bought a bank and are entering the Fintech sector.

In Bulgaria, there is an opportunity to get even stronger in the healthcare sector by taking over the implementation of software projects in the NHIF.

#### 6.2.7.3 System integration

The forecast and goals set for the system integration department is a 15% increase in revenue. Further diversification of customers and the industries in which they

operate. Further public sector penetration in cyber security, cloud technology, application management and data centers.





## FINANCIAL RESULTS

	31.12.2019	31.12.2018	Change BGN '000	Change %
Revenues	32 961	37 776	(4 815)	-12,75%
EBITDA	1 372	2 867	(1 495)	-52,15%
Depreciation	(752)	(1 168)	416	-35,62%
Net Result	1 025	1 872	(847)	-45,25%
EBITDA margin	4,16%	7,59%	-3,43%	-45,15%
Net Profit margin	3,11%	4,96%	-1,85%	-37,25%
Sales per share	1,0198	1,1688	-0,15	-12,75%
EPS	0,0317	0,0579	-0,03	-45,25%
ROE	0,0215	0,0386	-0,02	-44,43%
Total Assets	59 573	59 096	477	0,81%
Intangibles	7 578	27 835	(20 257)	-72,78%
Book value	40 153	20 610	19 543	94,82%
Equity	47 731	48 445	(714)	-1,47%
Total Liabilities	11 842	10 651	1 191	11,18%
Interest bearing	4 024	1 962	2 062	105,10%
D/E	0,0843	0,0405	0,044	108,16%
ROA	0,0172	0,0317	-0,01	-45,68%

## 6.3 SIRMA AI AND ONTOTEXT USA

- **Sirma AI is a Daughter company of Sirma Group Holding JSC**
- **Share Capital: BGN 1 410 460.**
- Shares:
  - **Ordinary Shares**, Number: 127 144, Nominal: BGN 10, available, with voting rights, dividend and liquidation share.

- **Class A**, Number: 13 902, Nominal: BGN 10

Sirma Group Holding owns 100% of the capital of the company.

## Conditions for the business development in 2019

The main technology market on which Sirma AI's sales depend is that of graph databases and, in general, technologies based on graph representation of data for integration and analysis purposes. (Here, "database" is used as the popular short name of "database management system", DBMS – ie. software such as the popular ORACLE or MS SQL Server.)

A growing technological trend in this market is the creation and use of so-called Knowledge graphs. In 2019, for the first time, several international conferences were held on the subject, among which the most significant and most indicative of the growing interest in technology was the Knowledge Graph Conference, held in May in New York. Despite the organization's extremely short deadlines, the conference attracted more than 200 visitors, most of them from leading banks and financial institutions in the United States.

According to a research of the agency Markets & Markets from August 2019, the market for graph data bases is expected to grow from USD 1 billion in 2019 to USD 2.8

billion in 2024. In February 2019 Gartner identified the graph technologies as one of the leading 10 technologies for management and analysis of data). There, they predict that the graph technology market, including graph databases and knowledge management platforms, will grow at an average annual growth rate of over 100% by 2022, ie. that it will double in each of these years. According to this analysis, the graph technology supports data science (data science and data analytics) in two ways: it accelerates data preparation and allows for more adaptive and flexible analysis. The need for graph analysis is summarized as "more complex analysis of more complex data that are not practical and often not possible with SQL technology."

Sirma AI's most popular product is Ontotext GraphDB. In 2019, it established itself as the leader of semantic graph databases.

GraphDB is recognized as one of the leading databases of its kind globally and is currently used in numerous media, pharmaceutical companies, museums, government organizations and more. One of the distinctive features of



GraphDB over its competitors is its ability to automatically output new data, according to the semantics of languages for describing data schemas and ontologies RDFS, OWL 2 RL and OWL 2 QL. GraphDB implements a unique algorithm that, when deleting data, automatically removes extracted facts that cannot be extracted from the data after deletion. This makes it the only database graph to ensure that logical inference is used without creating performance issues over the entire data lifecycle: load, query, and change.

#### Regional and international factors, reflected on the business of the company

The company develops all its products in Bulgaria, but sells its products globally through its offices in Bulgaria and the US, as well as through employees located in the UK. In addition to direct sales, the company also sells through distributors and other types of partners (consultants or OEMs) in the US, Western Europe, Japan and Korea.

Trade revenue in 2019 is evenly distributed between the UK, US, Asia, and Continental Europe, as shown in the chart. Thus, the company carries a limited risk in terms of exposure to regional markets. The trend is to increase revenue in the US, which will reduce the risk of concussions in the UK related to BREXIT.

In addition to commercial sales revenue, the company also has substantial revenue from European Commission-funded R&D projects that are not directly dependent on market conditions in Europe.

#### Business development in 2019 and realization of the investment plan

2019 was a good year for the business of the company:

- In addition to increased revenue, the share of revenue in both product revenue and recurring revenue increased. This ensures greater business resilience and creates the conditions for faster growth;
- The second development center of Rousse was opened within the already existing office of Sirma Solutions (also part of Sirma Group Holding). This significantly improved the company's ability to attract experienced technical staff. By the end of 2019, 7 people are engaged in it;
- The Knowledge Graph Platform (Ontotext Platform 3.0) product was successfully developed and marketed, which improves positioning in relation to the new market trend for knowledge graphs, and introduces up-to-date standards and architectures (GraphQL and SHACL);
- Increased sales in the US, which reduced dependence on customer revenue in the UK;
- Significant steps were taken to expand the affiliate network;
- A contract for marketing services and access to analytical information was concluded with the largest technology analytics company

Gartner. The contract was signed through Sirma Group Holding;

In May the company won an award from the Bulgarian Chamber of Commerce and Industry for being the most innovative enterprise.

#### New clients, projects, products and services in 2019

New:

- **Clients:** top 5 aircraft manufacturer; the top 10 cyber security companies; a top 5 provider of building air conditioning and automation systems. Contracts with most of the large corporate clients do not allow their public mention.
- **Projects:** two major new contracts for the financing of research projects.
- **Products:** Ontotext Platform 3.0; GraphDB 9.
- **Services:** none.

#### Important events in 2019

- In January, the company acquired the trading company of Ontotext AD, together with all its assets, contracts, personnel and management. As part of Sirma Group Holding's strategy to consolidate assets and activities related to artificial intelligence. Separate parts of the companies were also purchased
- Corum Group was hired as a consultant to identify potential strategic partners and investors in the semantic technology field. Sirma Group Holding signed a contract with Corum Group in September 2019.
- In 2019 the company moved to a new office in Sofia due to the expiration of the contract with the previous landlord.
- Sirma AI was presented at numerous international conferences and trade shows, including: Knowledge Graph Conference, New York; Graphorum, Chicago; Connected Data London; Recent Advances in NLP, Varna; BioData World, Basel; L3C AI and FinTech, London.

#### New contracts in 2019

The following is information about new contracts and transactions of high commercial potential and importance:

- Major deals for GraphDB's annual licenses with landmark clients, including a top 5 US bank and a global leader in aircraft production;



- Contract with one of the largest providers of building automation systems to integrate GraphDB into the next version of their core product;

- Funding was awarded and contracts were signed for new research projects: TheFSM (Food Safety and Certification; EUR 420 thousand funding for the company) and PLANET (Logistics; EUR 300 thousand funding).

## Perspectives and forecast for 2020

In 2020, it is expected that the good market conditions will remain and the company will increase its revenues by 16%. The average number of employees is planned to reach 79.

Among the most important business development plans are the following:

- Developing a partner network and generating partner revenue of at least BGN 2 million. Currently, the company partners with more than 40 other trading

companies, the most active of which are partnerships with 15 of them. At the end of 2019, a Partnership Manager was appointed;

- Increase in license revenue and maintenance up to 50% of total revenue;

- Increase in recurring revenues over 35% of total revenues;

- Expenditure on external marketing and sales related services is estimated at just under BGN 600 thousand (compared to BGN 220 thousand in 2019). Much of the increase is related to the contract with Gartner.

## FINANCIAL RESULTS

### SIRMA AI

	31.12.2019	31.12.2018	Change BGN '000	Change %
Revenues	10 519	131	10 388	7929,77%
EBITDA	2 049	50	1 999	3998,00%
Depreciation	(1 948)	(205)	(1 743)	850,24%
Net Result	(66)	(202)	136	-67,33%
EBITDA margin	19,48%	38,17%	-18,69%	-48,96%
Net Profit margin	-0,63%	-154,20%	153,57%	-99,59%
Sales per share	75	1	73,67	7929,77%
EPS	-0,4681	-1,4326	0,96	-67,33%
ROE	-0,0010	-0,0529	0,05	-98,15%
Total Assets	78 880	25 855	53 025	205,09%
Intangibles	67 081	25 412	41 669	163,97%
Book value	302	(21 591)	21 893	n/a
Equity	67 383	3 821	63 562	1663,49%
Total Liabilities	11 497	22 034	(10 537)	-47,82%
Interest bearing	557	585	(28)	-4,79%
D/E	0,171	5,767	-5,60	-97,04%
ROA	-0,0008	-0,0078	0,01	-89,29%



**ONTOTEXT USA**

	31.12.2019	31.12.2018	Change BGN '000	Change %
Revenues	1 843	805	1 038	128,94%
EBITDA	6	191	(185)	-96,86%
Depreciation	-	-	-	n/a
Net Result	4	(71)	75	n/a
EBITDA margin	0,33%	23,73%	-23,40%	-98,63%
Net Profit margin	0,22%	-8,82%	9,04%	-102,46%
Sales per share	61	27	34,60	128,94%
EPS	0,1333	-2,3667	2,50	n/a
ROE	-0,0354	0,6068	-0,64	n/a
Total Assets	516	377	139	36,87%
Intangibles	-	-	-	n/a
Book value	(112)	(117)	5	-4,27%
Equity	(113)	(117)	4	-3,42%
Total Liabilities	628	494	134	27,13%
Interest bearing	-	-	-	n/a
D/E	-5,5575	-4,2222	-1,34	31,63%
ROA	0,0078	-0,1883	0,196	n/a

**6.4 ONTOTEXT**

- <http://www.ontotext.com>
- **Ontotext is a subsidiary of Sirma Group Holding JSC**
- **Share Capital: BGN 16 068 801**

Shares: 16 068 801

Classes of shares:

CLASS A 1, Number: 4 187 087, Nominal value: BGN 1 - materialized with right to vote, dividend, different economic rights incl. the right to a different liquidation share upon

termination of the company depending on its market capitalization and different share of the income from the sale of shares, etc. economic rights..

ORDINARY, Number: 11 038 684, Nominal: BGN 1 - materialized, with voting rights, dividend, liquidation quota, right of first refusal, right of access.

The company participated in the business combinations described above. On January 19 2019, the trading company of Ontotext AD was sold to Sirma AI EAD.



## FINANCIAL RESULTS

## ONTOTEXT

	31.12.2019	31.12.2018	Change BGN '000	Change %
Revenues	199	9 118	(8 919)	-97,82%
EBITDA	26	3 562	(3 536)	-99,27%
Depreciation	(58)	(1 804)	1 746	-96,78%
Net Result	(32)	1 477	(1 509)	n/a
EBITDA margin	13,07%	39,07%	-26,00%	-66,56%
Net Profit margin	-16,08%	16,20%	-32,28%	n/a
Sales per share	0,0124	0,5674	-0,56	-97,82%
EPS	-0,0020	0,0919	-0,09	n/a
ROE	-0,0015	0,0691	-0,07	n/a
Total Assets	21 344	27 772	(6 428)	-23,15%
Intangibles	-	19 853	(19 853)	-100,00%
Book value	21 338	1 516	19 822	1307,52%
Equity	21 338	21 369	(31)	-0,15%
Total Liabilities	6	6 403	(6 397)	-99,91%
Interest bearing	-	179	(179)	-100,00%
D/E	0,0003	0,2996	-0,30	-99,91%
ROA	-0,0015	0,0532	-0,05	n/a

## 6.5 ENGVIEW SYSTEMS SOFIA

- **EngView Systems Sofia JSC is a daughter company of Sirma Group Holding JSC**
- **Capital : BGN 68 587.**

Shares: **68 587 ordinary named voting shares, with right to dividend and liquidation share, proportional to the participation in the capital.**

Sirma Group Holding owns 50 000 shares or 72,9 % of the company capital.

EngView Systems Sofia JSC is a joint-stock company, member of Sirma Group Holding JSC, with main activity - development of software products and services in the field of two main vertical markets:

- **Packaging industry.** The products developed by the company are based on proprietary innovative technology for variation and parametric CAD / CAM and are designed for automation and optimization of the production processes, mainly connected with packages and displays of different sheet materials.
- **Quality control of serial production** in various industries, mainly related to machine building, mechanics, aluminum and plastic parts, etc. In this field, the company develops entirely proprietary market solutions as well as technological solutions

designed for specific measurement machines for the main strategic partner - QVI.

## ENGVIEW SYSTEMS IN Q4 2019

## CONDITIONS FOR BUSINESS DEVELOPMENT IN Q4 2019

In the packaging industry, in recent years, there has been a trend towards an increasing penetration of digital technologies for the production and optimization of the business processes. 2019 is no different in this regard. Although a large proportion of packaging production remains in the established offset printing, the proliferation of digital technologies is accelerating and more companies are investing in digital printing and



production machines. New niche markets are shaping up as well, such as personalization, small print carton and corrugated packaging, promotional products and better visualization of selected brands (displays) or entire structures, exhibition stands, shows, printed and thick-cut materials (Rigid Board). Companies that until yesterday were throwing large print runs or printing newspapers and books on offset machines are now using their fleet for new products to satisfy consumers' increasingly diverse and creative service needs. Robotic and cognitive technologies are emerging. In the recent years in Europe and the US, there is also a trend towards the entry and production of materials and products which are directly related to nature conservation and are environmentally friendly, easy to recycle and re-use.

This also determines the direction of the prevailing investment in the packaging industry - in addition to machinery, companies from different niches are looking for solutions to further save time and resources, modernize their production in order to improve their competitiveness, and follow the modern technologies that help them improve their customer relationships and optimize their ordering channels. Such solutions are Internet and cloud based solutions for communication with customers and shortening of the web-to-print, web-to-pack cycles, which are made possible in combination with the new digital technologies.

On the market for quality monitoring technologies of serial production the technological dynamics are smaller. However there may also be trends towards more intensive integration between classic measurement technologies and communication, mobile, information and internet / cloud based technologies which enable the acceleration of the transfer, storage and processing of information received from measuring machines and, as a result, improve the efficiency and reliability of quality assurance systems.

Engview Systems successfully develops its products in its two main areas of packaging and video measurement industries. In recent years, the company has been investing in the development of new products based on its already implemented solutions and the accumulated knowledge and expertise in individual niches. They meet the latest trends, as well as customer requirements for high-quality software capable of accelerating production rates, boosting sales through optimizations and supporting additional processes. The main products of the company which are still being developed in the last six months are Packaging Suite, ScanFit & Measure, m-caliper, packGATE, TurnCheck. In 2019, the development of a new project for one of the main corporate clients of the CAD system - the Princeton Holding in Austria, the owner of corrugated board production and recycling plants - begins. The goal of the project is to integrate certain modules and functionality from the Packaging Suite into their existing CPMS system to increase the efficiency of production and service to their end customers, as well as to

use files from all users and from all factories. This integration is expected to be completed by mid-2020.

A contract has been signed with Heidelberg Germany to jointly develop a new platform and grant licenses based on the cloud technology of packGATE and Packaging Suite. It is expected to launch first in China and, if successful, spread worldwide.

Quality control and measurement products are gradually gaining in popularity in the market. In 2019, new contracts for the distribution of ScanFit & Measure and m-caliper were signed. Sales were made in Dubai, Portugal and Greece.

## **REGIONAL AND INTERNATIONAL FACTORS INFLUENCING THE BUSINESS OF THE COMPANY**

The company develops all of its products in Bulgaria, but has a network of distributors worldwide, as well as its own offices in the USA and Brazil. The factors influencing the business are mainly related to the saturation of the market with competitive products or the degree of development of the given market. The largest share of software sales for the packaging industry is still generated in Europe, with 2019 showing an increase compared to 2018 in both license sales in the US and Brazil, as well as in India, Italy, Romania, Thailand, the Benelux countries. EngView, one of the leading names in the packaging industry, works with strategic partners from Germany - Heidelberg, for whom new versions of their products for the printing industry are being developed each year and the United States - QVI for their video measuring machines. EngView has worked with both companies for years, consolidating its position by providing quality and advanced software to their clients. The company is investing in a new QVI solution - Turn Check, which led to first sales of licenses in 2019. The software manages a new type of QVI machine for measuring rotary parts and elements. As part of the OEM solution, the software is marketed and fully distributed by the US giant. The product is fully relied on by QVI's own network of companies and dealerships worldwide.

## **BUSINESS DEVELOPMENT IN Q4 2019 AND INVESTMENTS**

During 2019 the preparation and launch of a new basic version of the CAD / CAM product - Packaging Suite was done. Customers around the world will be able to upgrade their and take advantage of new features, modules and enhancements. The preparation also included a certification seminar at the end of February, attended by distributors and representatives from over 40 companies from Mexico, Japan, China, Philippines, Korea, India, Israel, Jordan, Egypt, Dubai, Germany, Italy, England, Czech Republic, Croatia and other countries. The campaign started successfully as a large part of the customers took advantage of the promotional terms for the





upgrade during the first month of its official launch. The new versions and partners of manufacturers of cutting plotters with rebranded versions of the CAD system were gradually prepared and implemented, which will continue in stages in 2020. At the end of the year, a new distribution contract was signed in Sri Lanka.

The distribution of m-caliper is also being prepared, looking for new partnerships, pilot clients and participation in various exhibitions. The necessary links and customer visits have already been created and the first sale of m-caliper in Bulgaria was realized in the summer of 2019.

The year for the development of ScanFit & Measure was also successful. A major investment was made in promoting the product and seeking new partnerships and distributors.

## MAIN EVENTS IN 2019

- Certification Seminar for Packaging Suite Distributors
- Participation in exhibitions and support of the distribution network
- Visits to FESPA Germany, metrology show Quality and K-online Plastics and Tires Exhibition in Germany, meetings with strategic partners

## OBJECTIVES AND FORECAST FOR 2020

US revenue is expected to decline to develop new QVI functionalities and products. This decline will be offset by the first sales of new products in which EngView has invested in recent years.

Expected overall revenue growth of between 15-20% compared to 2019.

## FINANCIAL RESULTS

	31.12.2019	31.12.2018	Change BGN '000	Change %
Revenues	3 574	3 122	452	14,48%
EBITDA	1 578	1 047	531	50,72%
Depreciation	(650)	(130)	(520)	400,00%
Net Result	819	542	277	51,11%
EBITDA margin	44,15%	33,54%	10,62%	31,66%
Net Profit margin	22,92%	17,36%	5,55%	32,00%
Sales per share	51,7971	45,2464	6,55	14,48%
EPS	11,8696	7,8551	4,01	51,11%
ROE	0,2228	0,1768	0,05	26,03%
Total Assets	4 288	3 652	636	17,42%
Intangibles	2 951	2 441	510	20,89%
Book value	725	625	100	16,00%
Equity	3 676	3 066	610	19,90%
Total Liabilities	612	586	26	4,44%
Interest bearing	4	2	2	100,00%
D/E	0,0011	0,0007	0,00	66,81%
ROA	0,1910	0,1484	0,04	28,69%



## 6.6 SIRMA BUSINESS CONSULTING JSC

- <https://sirmabc.com/>
- **Sirma Business Consulting JSC is a subsidiary of Sirma Solutions**
- **Capital: BGN 2 539 768**

Shares: Special conditions for transfer: the shares are vinculated and non-transferable for a period of three years from the incorporation of the company.

Classes of shares:

CLASS A: Number: 1 958 268, Nominal: BGN 1 Rights: regular, voting, right to dividend and liquidation share

CLASS B: Number: 581 500, Nominal: BGN 1 - Privileged, Non-voting, Entitled to Guaranteed Dividend

Sirma Solutions JSC holds 1 077 048 pcs. Class A shares and 296 500 Class B shares or 54.08% of the company's capital and 55% of the voting shares.

Sirma Business Consulting JSC (SirmaBC) is a subsidiary of Sirma Solutions JSC, which is highly specialized in the provision of software products and services in the financial sector. The SirmaBC implements Universal Banking Solutions (UBS) individually or based on the FlexCube (Oracle platform). This is a complete banking solution which has received worldwide recognition as one of the most preferred systems in the banking and financial industries.

The range of services provided by the company covers mainly banking, retail and wholesale banking, regulatory compliance and risk management as well as the whole range of implementation and advisory services. SirmaBC is the third largest holding company and accounts for about 20% of revenue.

SirmaBC was established as a separate unit in 2007 and has since become one of the leading technology players in the financial sector. The company has been established not only in the local market, but has continued to seek to increase its presence on international markets, especially in Europe, North and South America, Asia and the Caribbean. SirmaBC has a team of highly specialized professionals with complementary expertise in the financial field. This helps to develop a wide range of products designed to respond to growing demand and evolving industry trends tailored to the banking and financial industry specification both locally and globally.

The company is practically free of debt, and presents itself solidly, with strong financial results.

### CONDITIONS FOR BUSINESS DEVELOPMENT OF SIRMA BC IN 2019

The financial services market and trends in its development globally and in Bulgaria continues to be strongly influenced by regulations and the pursuit of digitalization. On the one hand, all major players are adapting to open systems and offering more and more digital services that incorporate artificial intelligence and various analytical tools. On the other hand, the business development of all consultants and technology solution providers is mainly driven by the increased global requirements for:

- customer information and knowledge about their behavior,
- combating the resources generated by the informal sector of the economy, including the requirements for monitoring and preventing 'money laundering',
- measures for the safeguarding of personal data and its protection,
- planned changes and increased accountability requirements for financial players.

In the sector, everyone is projecting investments that are slower than expected. The main attitudes and actions are related to the introduction of "new" payment channels (PSD2), although the adoption of open banking is slow, with only 33% of bank executives claiming to have implemented it effectively, as well as electronic customer registration. There is increasing talk of "tokenization" and the provision of services that can be trusted by financial players' clients. The widespread use of hybrid services, as well as customer expectations for the free provision of easily accessible products and forms of payment, continue to determine



technological solutions. In addition, everyone clearly understands that a new generation of streamlining and optimization is coming in the sector, based on "robots", machine learning, analysis of large data sets and business process automation. Everything related to changes and digitalization in the sector is further re-drawn and provoked by Fintech organizations, which are gaining momentum and becoming more recognizable and interesting on the one hand to customers and on the other to medium and large banks. Market observations here are that Open Banking is evolving and evolving into Open  $\pi$ , where banks and new non-traditional players join forces to provide banking services that integrate the digital experience into other parts of customers' lives.

Licensed financial players need to choose strategic partners that complement product portfolios, improve service delivery, increase sales - and work together. By leveraging effective collaboration while maximizing traditional fortresses, banks can create a powerful advantage in the times of Open  $\pi$ .

SirmaBC continues to provide its own services and products that are focused solely on the financial sector. In 2019, the company is retiring, part of products that have not experienced significant development in the last 3-4 years and focuses on updating and upgrading available products for use not only in the local market.

Customers report low positive experience in many banking interactions, with loan and mortgage applications and problem solving identified as the highest friction (69.3% for mortgage applications and 63.7% for problem solving) and the lowest positive experience (37.7% for mortgage applications and 40.3% for problem solving.) Customers report lower friction, but also lower positive experience in the early stages of banking relationships, such as opening accounts and gathering information, probably due to lack of resolution multichannel channels. For example, the majority of Gen Y customers (71.9%) consider mobile apps to be an important banking channel, but only a few (32.9%) report a positive experience on this channel. Poor experiences with both initial contact points and more complex customer journey transactions, especially in the last mile, can lead to missed revenue opportunities and call for a sound universal channel strategy.

The company's most recognizable products continue to be "RepXpress", "ceGate" and "UBX Suite".

## REGIONAL AND INTERNATIONAL FACTORS, INFLUENCING THE BUSINESS OF THE COMPANY

There are no exceptional regional (Balkan) factors that are different or totally individual from what is happening in Europe. In particular, everything in Bulgaria is influenced by the economic trends in Europe and the whole policy of regulation of the financial and other sectors of the economy.

## BUSINESS DEVELOPMENT IN 2019 AND REALIZATION OF THE INVESTMENT PLAN

The development of the business is influenced by the global and local factors for development as well as especially for SirmaBC it is influenced by the closed contracts in 2019 for which we are currently in the phase of implementation and delivery, as well as the desire of existing clients to intervene on the market of PSD2 services and products.

## NEW CLIENTS, PROJECTS, PRODUCTS AND SERVICES IN 2019

### - Clients

For 2019 the company has 4 new clients, which are non-bank institutions.

### - Projects

The major projects being implemented are two parallel deployments of major banking systems and several projects for the implementation of payment and other satellite solutions covering: "RepXpress", "ceGate" and "UBX Suite", DIGI Bank, Notifications.

### - Products

During the year, the company invested and developed several PSD2 solutions and made changes and upgrades to two of its existing solutions, namely:

PSD2:

Open  $\pi$  - Open banking API hub that implements the BISTRA standard for all PSD2 services

Up2Pay - A payment software terminal that resides with a mobile application merchant or as a Plug-in for a web site.

Up2Seal - One-time password and code generation portfolio that also serves as an advanced electronic signature and provides SCA. For the purposes of the Payment Regulation.

### - Services

The company is positioning a suite of consulting services for analysis and documentation regarding the selection and choice of digital solutions. The methodology used is based on Assist Knowledge Development and the British Business Analysis Association.

## MAIN EVENTS IN 2019

Renewed certificates for:

- Certificate under ISO/IEC 9001:2015;
- Certificate under ISO/IEC 27001:2013;
- Certificate under additional standard ISO/IEC 27018:2014 for the implementation of the common measures for control and personal data protection regulations.



**PERSPECTIVES AND FORECAST FOR 2020**

Our long-term revenue growth is expected to continue in the range of 15-20% compared with 2019. Completed cloud-based projects will continue to register double-digit growth, with more pre-integrated solutions being offered, which are adapted for the technologies of Microsoft, Amazon, Google, Oracle, IBM.

Revenues for consulting services and sales of the company's products for the financial year are projected to increase by 30% compared to 2019.

The need for a narrow licensed specialization of all company resources working with third-party software or products is becoming increasingly clear, which will lead to an even greater focus on the technologies and technical tools used. Licensing and specialization will require staff involved in the relevant activities to undergo training and certification

**FINANCIAL RESULTS**

	31.12.2019	31.12.2018	Change BGN '000	Change %
Revenues	5 547	5 858	(311)	-5,31%
EBITDA	1 268	833	435	52,22%
Depreciation	(572)	(294)	(278)	94,56%
Net Result	648	516	132	25,58%
EBITDA margin	22,86%	14,22%	8,64%	60,76%
Net Profit margin	11,68%	8,81%	2,87%	32,62%
Sales per share	2,1839	2,3063	-0,12	-5,31%
EPS	0,2551	0,2031	0,05	25,58%
ROE	0,1840	0,1587	0,03	15,95%
Total Assets	4 531	4 763	(232)	-4,87%
Intangibles	87	449	(362)	-80,62%
Book value	3 435	2 803	632	22,55%
Equity	3 522	3 252	270	8,30%
Total Liabilities	1 009	1 511	(502)	-33,22%
Interest bearing	-	-	-	n/a
D/E	-	-	-	n/a
ROA	0,1430	0,1083	0,03	32,01%



## 6.7 SIRMA GROUP INC./DBA PANATON

- <http://panatonsoftware.com/>
- Sirma USA is a subsidiary of Sirma Solutions

### General Business Conditions in 2019

We operate exclusively in North America and our business Sirma Group Inc. (SGI) engaged clients in the semiconductor, cybersecurity, consumer services, B2B and financial services sectors. Because of the diversity of our clients we are impacted more from general macroeconomic conditions rather than specific sentiment in any one vertical.

We are observing a maturing and commoditization of the software outsourcing services business. Our clients and prospects are aligning in two clear groups. The cost-first group is driven exclusively by the cost per hour of the services offered and is generally less well informed and competent in terms of IT technology. These clients are hard to win as we are competing with lowest-cost providers from India, China and the former soviet republics. The second group of clients are ones that have a specific and/or immediate technology need, or who understand the TCO of building and operating software systems. This is our sweet spot, as we offer highly sophisticated small teams with specific in-depth technology capabilities.

In 2020 we intend to market our services in a more focused manner with an emphasis of specific business processes and types of clients.

### New Contracts and Clients

The key new clients in 2019 were in Consumer Electronics and Retirement Services. We worked with Sonic Energy and Oasis Senior Advisors to develop their key product features and business process automation platforms. In the case of OSA we engaged in a new for us vertical – the management of a franchised service organization that requires integrated corporate and franchisee systems that address both logistics and financial management issues in a multitenant, HIPAA compliant platform.

### Forecast for 2020

We expect to continue to grow the outsourcing business at a moderate rate in 2020 and we intend to invest modestly in the trial launch of a core employee performance management technology we have been developing as part of a specific client engagement.

We are also planning to launch a startup incubator specific program that we believe will enhance our marketing reach.

### FINANCIAL RESULTS

	31.12.2019	31.12.2018	Change BGN '000	Change %
Revenues	8 142	6 928	1 214	17,52%
EBITDA	1 506	(197)	1 703	n/a
Depreciation	(22)	(15)	(7)	46,67%
Net Result	1 447	(210)	1 657	n/a
EBITDA margin	18,50%	-2,84%	21,34%	n/a
Net Profit margin	17,77%	-3,03%	20,80%	n/a
Sales per share	0,3773	0,3211	0,06	17,52%
EPS	0,0671	-0,0097	0,08	n/a
ROE	1,0640	-0,2652	1,33	n/a
Total Assets	6 120	4 108	2 012	48,98%
Intangibles	1 650	1 266	384	30,33%
Book value	(290)	(474)	184	-38,82%
Equity	1 360	792	568	71,72%
Total Liabilities	4 760	3 316	1 444	43,55%
Interest bearing	51	21	30	142,86%
D/E	0,0375	0,0265	0,01	41,43%
ROA	0,2364	-0,0511	0,288	n/a



## 6.8 SIRMA ICS

- <http://sirmaics.com/>
- **Sirma ICS is a subsidiary of Sirma Solutions**
- **Capital:** BGN 300 000 divided into 300 000 number of registered nominal shares with a nominal value of 1 BGN per 1 share with voting right, dividend and liquidation share. Sirma Solutions owns 270 000 number of shares or 90% of the capital.

### Sirma ICS in 2019

Sirma ICS is part of Sirma Group Holding, with the main goal to concentrate the technological and business knowledge of Sirma Group's in the insurance sphere.

#### Conditions for Business Development in 2019

The Company operates in the insurance sector with target clients insurance brokers and insurance companies. Both segments show revenue growth and, therefore, digital demand is on the increase. At the same time, both segments reduce the number of market participants, a trend particularly evident in the segment of insurance brokers. The reason for this is the growing regulatory and financial requirements for insurance brokers, leading to a reduction in their number.

The company offers Sirma Insurance Enterprise Platform and Sirma Insurance Enterprise MTPL API, as well as customized solutions such as websites, end-to-end web portals and administrative portals, mobile applications, software for process and document management, and others. Due to regulatory changes and changes in the workflow of the web services of the insurance companies, the full upgrade of the Sirma Insurance Enterprise Web Calculator was done. This continued until the middle of 2019. The company also creates customized solutions and custom development projects such as websites, web portals for end clients and administrative portals, mobile applications.

#### Regional and global factors influencing the business of the company

The company has business only in Bulgaria at the moment, but by working with our international clients in 2019 a plan and assessment was prepared for the necessary resources for expansion in other markets on the Balkans.

#### Business Development in 2019 and Investment plan

In 2019 Sirma ICS continued with the execution of its strategic objectives:

- Increase of the product range in insurance broker software and product optimization and its functionality

- We continued the development of e-insurance in the "ICS WEB PLATFORM" module, which has been integrated with our core product Sirma Insurance Enterprise Platform.
- Building new portals and mobile applications, including client portfolios of insurance companies and insurance brokers.

We were successful in attracting a few new insurance broker clients, while introducing the new price policy of the company.

In 2019, the company continues to rely on a stable and sustainable model of product sales with a monthly license fee instead of relying on large single-sale deals which are more difficult to predict.

#### New:

- customers

The Company entered into 5 new contracts with insurance brokers and 1 with insurance company.

- projects

- Individualization of the Sirma Insurance Enterprise Platform for bank brokers,
- Launch of Sirma Insurance Enterprise Web Calculator
- API for Liability Insurance for an insurance broker,
- API for Third Party Liability Insurance for the Telecommunications Sector,
- API for Leasing Companies,

#### New Contracts

The first contracts with clients of Sirma Insurance Enterprise Web Calculator have been concluded, API for the TPL insurance for the telco sector, contracts for the Sirma Insurance Enterprise Platform module for leasing companies, new features in two mobile applications, consultancy services for end clients.





**Information on Client Retention**

We anticipate the growth of Sirma Insurance Enterprise Platform, customer acquisition for Sirma Insurance Enterprise Web Calculator. Inclusion of Casco insurance product from at least 2 insurance companies. Improvements to 2 mobile applications, creation of at least 1 new mobile application, creation of websites and customer portals.

**Challenges and unsolved issues in 2019**

Delayed realization of the project for Raiffeisen Broker, as well as for individualization for Leasing Contracts. The product is scheduled to launch in Q4 2019.

**Perspectives for 2020**

We forecast growth of revenue from sales of Sirma Insurance Enterprise Platform, attraction of clients for the Sirma Insurance Enterprise Web Calculator, development start on the customization of the SIE Platform for bank brokers and leasing companies. Inclusion of Casco insurance product from at least 2 insurance companies. Improvements to 2 mobile applications, creation of at least 1 new mobile application, creation of websites and customer portals.

**Extraordinary Information**

Increasing regulatory requirements. Aggravation of the requirements to the main clients of the company - insurance brokers and insurance companies, leading to mergers and acquisitions and respectively, a smaller market.

**FINANCIAL RESULTS**

	31.12.2019	31.12.2018	Change BGN '000	Change %
Revenues	832	701	131	18,69%
EBITDA	145	95	50	52,63%
Depreciation	(97)	(17)	(80)	470,59%
Net Result	38	64	(26)	-40,63%
EBITDA margin	17,43%	13,55%	3,88%	28,60%
Net Profit margin	4,57%	9,13%	-4,56%	-49,97%
Sales per share	2,7733	2,3367	0,44	18,69%
EPS	0,1267	0,2133	-0,09	-40,63%
ROE	0,0511	0,0900	-0,04	-43,26%
Total Assets	1 072	1 119	(47)	-4,20%
Intangibles	959	1 041	(82)	-7,88%
Book value	(215)	(330)	115	-34,85%
Equity	744	711	33	4,64%
Total Liabilities	328	408	(80)	-19,61%
Interest bearing	23	27	(4)	-14,81%
D/E	0,0309	0,0380	-0,01	-18,59%
ROA	0,0354	0,0572	-0,02	-38,02%



## 6.9 S&G TECHNOLOGY SERVICES

- <http://www.sngservices.co.uk/>
- **S & G Technology Services operates in the Financial Segment**

S & G Technology Services is a joint venture of Sirma Solutions, which operates in the United Kingdom. The company provides technology services in the areas of software integration, data integration and mobile technologies for the financial service sector.

S & G Technology Services has accumulated tremendous expertise on the banking industry and the development of technology solutions for some of the world's largest banks. This enables the company to better understand the challenges faced by customers, identify the areas in which it can provide innovative solutions and integrate seamlessly into its specific solutions within a broader delivery program. S & G Technology Services specializes in providing IT consulting services, software products and services to the software ecosystem of one of the most popular banking systems - the Temenos T24.

In 2019, the company successfully completed projects in major international banks in Ireland, Kenya, Luxembourg and the UK.

## 6.10 SIRMA CI

- **Sirma CI** is a subsidiary of Sirma Group Holding
- **Capital:** BGN 133 000. **Sirma Group Holding** owns 80% of the capital.

### Conditions for Business Development in 2019

Sirma CI (Customer Intelligence) offers intelligent software solutions in the field of Retail. We advise and assist trade organizations in their digital adaptation of the so-called. multichannel or unified trading by implementing proven software solutions relevant to each trader's development phase.

We implement Artificial Intelligence (AI) -based software solutions for real-time analytics and recommendations, both for business and end clients.

This approach allows for the flexible use of resources, platform solutions and software modules that provide merchants with the complement or refinement of existing systems tailored to their specific business.

### New:

#### New products

- We launched the new product "Sirma Card-Smart White-Label Card" – a bank card and loyalty program for large retailers who manage a multitude of clients.
- "Kiosk" – a solution queue management and marketing campaigns

#### New clients

- Contract with a large outsourcing company for the development and licence of a "Virtual Assistant" (Chatbot);
- Contract with a large retail chain for the product "Retail Kiosk & Digital Signage";
- Contract for the development and maintenance of an online store for luxury goods;

#### New partners

- A distribution contract for the "Loyalty Program Solutions" in the Caribbean

### Perspectives for 2020

We will focus on the banking sector, medium and large retail chains that need to introduce new or upgrade existing information systems. Our specialization will be in the following areas: banking services (retail), sports, retail, FMCG, shopping malls, consumer electronics, personal hygiene and cleaning products, airport shopping areas, etc. We will try to implement more Cognitive Commerce (AI Analytics). We will transform companies from multi-channel trading to a unified model.

We will develop our affiliate program outside the country through local partners and look for new ones for our priority markets. We have established partners in Austria, Singapore and Mexico.



**FINANCIAL RESULTS**

<b>BGN '000</b>	<b>31.12.2019</b>
Revenues	298
EBITDA	(201)
Depreciation	-
Net Result	(203)
EBITDA margin	-67,45%
Net Profit margin	-68,12%
Sales per share	0,9933
EPS	-0,6767
ROE	1,5984
Total Assets	65
Intangibles	-
Book value	(127)
Equity	(127)
Total Liabilities	192
Interest bearing	-
D/E	-
ROA	-3,1231

**6.11 SIRMA MEDICAL SYSTMES**

- **Sirma Medical Systems** is a subsidiary of Sirma Group Holding
- **Capital:** BGN 100 000. **Sirma Group Holding** owns 66% of the capital.

The presentation of the system by Nipro Diagnostics continues and there are already English doctors who use it to monitor the therapy.

**Key trends in 2019**

The main trends in diabetes management systems are the automation of the data collection process and the use of artificial intelligence, wherever and whenever possible. Attempts to create a system that resembles the normal functioning of the organism (so-called artificial pancreas) are still unsuccessful and companies are competing in the development and supply of integrated systems connected to different devices. New types of CGM devices with new technologies are being developed, but the process is rather slow and there is nothing new to the market.

A partnership agreement was signed with the Specialized Hospital for the Active Treatment of Pediatric Diseases (SBALDB), and training was then given to endocrinology staff on how to use Diabetes: M for follow-up of their patients' post-hospital treatment.

At the end of 2019, it completed the development of MPI-2 applications for Android, which were officially released on Google Play in February 2020.

**Product development in Q4 2019:****Diabetes: M**

Diabetes: M continues to rank 1 / 2 on Google Play and is highly rated and accepted by users. There are extremely positive reviews from doctors.

In 2019, Sirma Medical Systems updated Diabetes: M to meet the requirements for obtaining the CE mark.

**Highlights in 2019**

Sirma Medical Systems registered Diabetes: M at the Medicines Agency as a medical device and received a CE mark that allows it to be marketed in the European Union.



**MPI-2**

Both versions of MPI-2 applications for Android have been developed.

**2020 targets**

The main goals for 2020 are certification of Sirma Medical Systems according to ISO 13485.

Analysis and planning for the development of the MPI-2 system to work without the need for specialist assistance.

Analysis of the planning and development of two new applications of the "M" family - Cardiac: M for the recording and tracking of people with high blood pressure and Medicine: M for the creation of a medication plan, medication record and analysis of compliance with planned this reception.

The entry into new hospitals and clinics of Diabetes: M, and possibly Cardiac: M and Medicine: M, in the field of remote patient follow-up.

**FINANCIAL RESULTS**

	31.12.2019	31.12.2018	Change BGN '000	Change %
Revenues	392	338	54	15,98%
EBITDA	29	75	(46)	-61,33%
Depreciation	(30)	(12)	(18)	150,00%
Net Result	(30)	32	(62)	n/a
EBITDA margin	7,40%	22,19%	-14,79%	-66,66%
Net Profit margin	-7,65%	9,47%	-17,12%	n/a
Sales per share	1,3067	1,1267	0,18	15,98%
EPS	-0,1000	0,1067	-0,21	n/a
ROE	-0,3659	0,2909	-0,66	n/a
Total Assets	753	724	29	4,01%
Intangibles	689	650	39	6,00%
Book value	(607)	(540)	(67)	12,41%
Equity	82	110	(28)	-25,45%
Total Liabilities	671	614	57	9,28%
Interest bearing	-	-	-	n/a
D/E	-	-	0,00	n/a
ROA	-0,0398	0,0442	-0,08	n/a



## 6.12 SIRMA GROUP HOLDING – INDIVIDUAL FINANCIAL RESULTS

BGN '000	31.12.2019	31.12.2018	Change	Change
			BGN '000	%
Revenues*	5 137	5 884	(747)	-12,70%
EBITDA	3 110	3 555	(445)	-12,52%
Depreciation	(655)	(242)	(413)	170,66%
Net Result	1 727	2 596	(869)	-33,47%
EBITDA margin	60,54%	60,42%	0,12%	0,20%
Net Profit margin	33,62%	44,12%	-10,50%	-23,80%
Sales per share	0,0865	0,0991	-0,01	-12,70%
EPS	0,0291	0,0437	-0,01	-33,47%
ROE	0,0239	0,0360	-0,01	-33,59%
Total Assets	92 882	93 551	(669)	-0,72%
Intangibles	10 122	9 394	728	7,75%
Book value	62 081	62 686	(605)	-0,97%
Equity	72 203	72 080	123	0,17%
Total Liabilities	20 679	21 471	(792)	-3,69%
Interest bearing	12 614	15 866	(3 252)	-20,50%
D/E	0,1747	0,2201	-0,05	-20,63%
ROA	0,0186	0,0277	-0,01	-33,00%

\* according to the FSC's instructions, the dividend income is included in the income from the main activity of "Sirma Group Holding" JSC



## 7 RESULTS BY SEGMENTS

### THE GROUP DEFINED OPERATION IN SEVERAL SEGMENTS:

#### Segment INTELLIGENT EVOLUTION OF ENTERPRISES

Companies of Sirma Group operating in the segment are: EngView Systems, Sirma AI, Sirma Solutions, Sirma Medical Systems, Datium, Sirma CI and Sirma Group Inc.

### FINANCIAL RESULTS OF THE SEGMENT

	Q4 2019 BGN '000	Q4 2018 BGN '000
<b>Revenue</b>	<b>27 963</b>	<b>24 485</b>
BG	6 165	8 493
EU	6 995	6 158
UK	4 243	2 437
USA	9 935	7 006
Other	625	390
<b>Expenses without depreciation and amortization</b>	<b>-23 111</b>	<b>-19 823</b>
<b>EBITDA</b>	<b>4 852</b>	<b>4 662</b>

In Q4 2019 the revenues of the segment grew by 14,21%, and EBITDA increased by 4,08% or 190 thousand BGN compared to Q4 2018.

#### Segment SOLUTIONS, PRODUCTS AND CONSULTING IN FINANCE

Companies of Sirma Group operating in the segment are: Sirma Business Consulting, Sirma ICS, Sirma AI, Sirma Solutions, S&G Technologies Inc. and Sirma Group Inc..

### FINANCIAL RESULTS OF THE SEGMENT

	Q4 2019 BGN '000	Q4 2018 BGN '000
<b>Revenue</b>	<b>10 719</b>	<b>10 636</b>
BG	4 468	3 583
EU	882	362
UK	2 022	2710
USA	1 906	2777
Other	1441	1202
<b>Expenses without depreciation and amortization</b>	<b>-7 230</b>	<b>-6 701</b>
<b>EBITDA</b>	<b>3 489</b>	<b>3 935</b>

In Q4 2019 the revenues of the segment increased by 0,78% compared to Q4 2018.





## Segment SYSTEM INTEGRATION

COMPANIES OF SIRMA GROUP OPERATING IN THE SEGMENT ARE: SIRMA SOLUTIONS

## FINANCIAL RESULTS OF THE SEGMENT

	Q4 2019 BGN '000	Q4 2018 BGN '000
<b>Revenue</b>	<b>22 772</b>	<b>23 704</b>
BG	12 454	16 620
EU	3 318	2 987
UK	5 361	3 475
USA	85	75
Other	1555	547
<b>Expenses without depreciation and amortization</b>	<b>-20 663</b>	<b>-19 475</b>
<b>EBITDA</b>	<b>2 109</b>	<b>4 229</b>

In Q4 2019 the revenues of the segment decreased by 932 thousand BGN compared to Q4 2018.

## 8 INVESTMENTS BY COMPANIES

For information on company investments, please see Appendix 4.

## 9 MAIN MARKETS

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

## REVENUE BY REGIONS AND COUNTRIES:

Region	31.12.2019 BGN '000	31.12.2018 BGN '000	Change BGN '000	Change %
Australia	22	3	19	633,33%
Asia	462	232	230	99,14%
Africa	28	39	(11)	-28,21%
Europe	34 281	38 203	(3 922)	-10,27%
United Kingdom	11 626	8 698	2 928	33,66%
South America	62	12	50	416,67%
North America	14 973	11 638	3 335	28,66%
<b>Total</b>	<b>61 454</b>	<b>58 825</b>	<b>2 629</b>	<b>4,47%</b>



## 10 CONSOLIDATED FINANCIAL RESULTS

### 10.1 CONSOLIDATED REVENUES

Consolidated revenues in Q4 2019 includes:

	31.12.2019	31.12.2018	Change	Change
	BGN '000	BGN '000	BGN '000	%
Operating revenues from the sale of goods	19 463	12 117	7 346	60,63%
Operating revenues from sales of services	39 442	44 820	(5 378)	-12,00%
Operating revenues from sales of FA	5	20	(15)	-75,00%
Revenues from financing	2 018	290	1 728	595,86%
Operating revenue from others	526	1 578	(1 052)	-66,67%
<b>Total</b>	<b>61 454</b>	<b>58 825</b>	<b>2 629</b>	<b>4,47%</b>

Consolidated revenues grow with 4,74 % or BGN 2 629 thousand during the period considered, which is in line with the upward trend in the business sector of the Group. The increase in consolidated revenues is due both to the attraction of new customers and to the increase in the volumes of existing ones.

Revenues from sales of services by type:

Type of service	31.12.2019	31.12.2018	Change	Change
	BGN '000	BGN '000	BGN '000	%
Backup services	122	97	25	25,77%
MAN connectivity	40	32	8	25,00%
Subscriptions	3 208	3606	(398)	-11,04%
Administrative, accounting services	38	19	19	100,00%
Outsourcing services	48	78	(30)	-38,46%
Internet	167	111	56	50,45%
Co-location	98	88	10	11,36%
Consulting services	6 290	6 424	(134)	-2,09%
Consumables	169	165	4	2,42%
Rental of software license	275	226	49	21,68%
Rental of hardware and licenses	128	90	38	42,22%
Cabinet rental	174	183	(9)	-4,92%
Cloud Services	2 060	2 902	(842)	-29,01%
Training	137	41	96	234,15%
License revenues	2 905	2 283	622	27,24%
Revenue from European Projects - IAS 20	34	639	(605)	-94,68%
System integration	3 113	3 639	(526)	-14,45%
Software services	19 731	23 862	(4 131)	-17,31%
Technical Support	297	136	161	118,38%
Hosting	408	195	213	109,23%
<b>Total</b>	<b>39 442</b>	<b>44 820</b>	<b>(5 378)</b>	<b>-12,00%</b>



## 10.2 CONSOLIDATED STAFF EXPENSES

Consolidated staff costs include:

	31.12.2019	31.12.2018	Change	Change
	BGN '000	BGN '000	BGN '000	%
Actuarial gains / losses for the reporting period	-	1	(1)	-100,00%
Unused vacation	(87)	77	(164)	-212,99%
Sick Leave	60	64	(4)	-6,25%
Bonuses	1 043	227	816	359,47%
Paid leave	1 212	1 100	112	10,18%
Expenses for wages under civil contracts	53	106	(53)	-50,00%
Payroll expenses for contracts for management and control	1 336	1 322	14	1,06%
Expenses of retirement benefits under IAS 19	64	17	47	276,47%
Social securities expenses for civil contract	5	4	1	25,00%
Social securities expenses for contracts for management and control	47	38	9	23,68%
Social securities expenses for unused vacation	(8)	18	(26)	-144,44%
Social securities expenses for labour contracts	2 406	2 017	389	19,29%
Wage expenses	16 422	16 094	328	2,04%
<b>Total</b>	<b>22 553</b>	<b>21 085</b>	<b>1 468</b>	<b>6,96%</b>

In Q4 2019 the staff on Labour Contracts in the Group increased by 0,28 % and the consolidated staff expenses increased by 6,96%.

Count of staff in the Group:

### 31.12.2019

Company	LC	CMC	Total
SIRMA CI	2	1	3
SIRMA ICS	10	1	11
DATICUM	9	6	15
ENGVIEW SYSTEMS SOFIA	37	4	41
SIRMA AI	73	6	79
SIRMA BUSINESS CONSULTING	59	5	64
SIRMA GROUP HOLDING	21	6	27
SIRMA SOLUTIONS	126	7	133
SIRMA MEDICAL SYSTEMS	3	3	6
SIRMA GROUP INC.	5	1	6
S&G UK	1	1	2
SIRMA SHA	7	3	10
ONTOTEXT	0	1	1
<b>Total</b>	<b>353</b>	<b>45</b>	<b>398</b>



31.12.2018

Company	LC	CMC	Total
SIRMA ICS	9	1	10
DATICUM	10	6	16
ENGVIEW SYSTEMS SOFIA	42	5	47
SIRMA AI	1	2	3
SIRMA BUSINESS CONSULTING	56	5	61
SIRMA GROUP HOLDING	22	8	30
SIRMA SOLUTIONS	133	7	140
SIRMA MEDICAL SYSTEMS	4	3	7
SIRMA GROUP INC.	0	0	0
SIRMA USA	5	1	6
S&G UK	0	1	1
SIRMA SHA	7	3	10
ONTOTEXT	58	3	61
<b>Total</b>	<b>352</b>	<b>48</b>	<b>400</b>

### 10.3 CONSOLIDATED OPERATING EXPENSES

	31.12.2019	31.12.2018	Change
	BGN '000	BGN '000	BGN '000
Material expenses	(3 944)	(10 710)	6 766
<i>Change in %</i>			-63,17%
Expenses for external services	(7 250)	(11 059)	3809
<i>Change in %</i>			-34,44%
Depreciation and amortization expenses	(4 962)	(4 412)	-550
<i>Change in %</i>			12,47%
Cost of goods sold	(17 371)	(10 239)	(7 132)
<i>Change in %</i>			69,66%
Changes in stocks of finished products and incomplete production	(1 241)	962	(2 203)
<i>Change in %</i>			-229,00%
Capitalized own expenses	2 408	8 523	(6 115)
<i>Change in %</i>			-71,75%
Other expenses	(1 234)	(2 730)	1 496
<i>Change in %</i>			-54,80%
<b>Total expenses</b>	<b>(33 594)</b>	<b>(29 665)</b>	<b>(3 929)</b>
<b><i>Change in %</i></b>			<b>13,24%</b>

During the period under review, consolidated operating expenses increased by BGN 3 929 thousand or by 13,24%.



## 10.4 CONSOLIDATED FINANCIAL INCOME / COSTS NET

	31.12.2019	31.12.2018	Change	Change
	BGN '000	BGN '000	BGN '000	%
Financial costs	(700)	(1 306)	606	-46,40%
Financial income	233	779	(546)	-70,09%
<b>Financial income / expenses net</b>	<b>(467)</b>	<b>(527)</b>	<b>60</b>	<b>-11,39%</b>

Consolidated financial costs decreased by BGN 606 thousand or by 46,40 % in Q4 2019, mainly due to the exchange rate differences on currency transactions. Financial income decreased by BGN 546 thousand or by 70,09%, mainly due to the increase in revenues from currency operations.

## 10.5 CONSOLIDATED ASSETS

Consolidated assets posted a decrease of BGN 1 547 thousand or 1,06 % in Q4 2019. Traditionally, most of them are occupied by intangible assets, which is dictated by the activity of the Group and its ownership over a significant amount of software modules.

### NON-CURRENT ASSETS

	31.12.2019	31.12.2018	Change	Change
Assets	BGN '000	BGN '000	BGN '000	%
<b>Non-current assets</b>				
Intangible assets	55 043	49 968	5 075	10,16%
Property, plant and equipment	5 580	5 041	539	10,69%
Investments in subsidiaries	7	7	-	0,00%
Investments in Associates	157	157	-	0,00%
Deferred tax assets	307	307	-	0,00%
Expenses for acquisition of fixed assets	33 846	40 020	(6 174)	-15,43%
Goodwill	22 482	22 482	-	0,00%
<b>Total</b>	<b>117 422</b>	<b>117 982</b>	<b>(560)</b>	<b>-0,47%</b>

Non-current assets increased by BGN 560 thousand or by 0,47% during Q4 2019.

### CURRENT ASSETS

	31.12.2019	31.12.2018	Change	Change
Assets	BGN '000	BGN '000	BGN '000	%
<b>Current assets</b>				
Inventories	1 256	3 151	(1 895)	-60,14%
Trade receivables	11 607	10 232	1 375	13,44%
Receivables from related parties	616	1 387	(771)	-55,59%
Tax receivables	473	392	81	20,66%
Other receivables	1 614	1 055	559	52,99%
Prepaid expenses	663	460	203	44,13%
Cash and cash equivalents	10 529	11 068	(539)	-4,87%
<b>Total</b>	<b>26 758</b>	<b>27 745</b>	<b>(987)</b>	<b>-3,56%</b>

Current assets decreased by BGN 987 thousand or by 3,56 % in Q4 2019.



## 10.6 EQUITY

	31.12.2019	31.12.2018	Change
	BGN '000	BGN '000	BGN '000
Main / Share Capital	59 361	59 361	0
Change			0,00%
Reserves	6 557	5 622	935
Change			16,63%
Retained earnings / (Accumulated loss) from previous years	24 282	23 792	490
Change			2,06%
Non-controlling interest	15 463	15 747	(284)
Change			-1,80%
Changes resulting from purchased own shares	(475)	(475)	0
Change			0,00%
<b>Total</b>	<b>105 188</b>	<b>104 047</b>	<b>1 141</b>
<b>Change</b>			<b>1,10%</b>

Equity during the period increased by BGN 1 141 thousand or by 1,10 %.

## 10.7 CONSOLIDATED LIABILITIES

Consolidated liabilities decreased by 2 688 BGN thousand or 6,45% in Q4 2019, which can be traced back to the following tables.

## NON-CURRENT LIABILITIES

	31.12.2019	31.12.2018	Change	Change
Non-current liabilities	BGN '000	BGN '000	BGN '000	%
Provisions	285	203	82	40,39%
Long-term loans	8 402	9 359	(957)	-10,23%
Finance lease liabilities	-	127	(127)	-100,00%
Contribution obligations	-	8	(8)	100,00%
Financing (Grants)	-	58	(58)	-100,00%
Deferred tax liabilities	456	1 084	(628)	-57,93%
<b>Total</b>	<b>9 143</b>	<b>10 839</b>	<b>(1 696)</b>	<b>-15,65%</b>

Non-current liabilities decreased by BGN 1 696 thousand or by 15,65% in Q4 2019.



## LONG-TERM AND SHORT-TERM BANK LOANS

Recipient of credit	In Bank	Type of loan	Currency	Total amount of credit	Remaining obligation to 31.12.2019	Date of making the loan	Interest rate	Number of remaining installments	The amount of monthly installment	End date of the contract	Collateral
<b>Loans in which the Issuer is a debtor</b>											
Sirma Group Holding JSC	Eurobank Bulgaria	overdraft	BGN	2 200 000	2 129 628	21.7.2016	2,50%			31.7.2019	Pledge on shares – 1 373 548 of the share of Sirma Business Consulting AD, owned by Sirma Solutions, Pledge of Future and Current Cash Receivables and Stocks on the Open Account in Eurobank, Receivables Pledge of the Receivables under the Business Incubator Contract №BG161PO003-2.2.0012-C0001 / 02.02.2012; Contractual mortgage of a real estate located in Sofia, Mladost district, Tsarigradsko Shose Blvd 135, namely the 5th floor of the building
Sirma Group Holding JSC	Societe Generale Expressbank	overdraft	BGN	2 000 000	0	8.8.2017	1 m. SOFIBOR +1,8%			31.8.2019	Pledge of 1 392 740 registered shares of the capital of Datium AD, owned by Sirma Solutions AD
Sirma Group Holding JSC	United Bulgarian Bank	overdraft	BGN	10 475 000	10 475 000	12.12.2019	RIR + 1.2%, but no less than 1.3% per year	60	174 580	20.12.2024	Pledge of receivables, pledge of commercial enterprises, pledge of real estate
<b>Loans for which the Issuer is a guarantor</b>											
Sirma Solutions	United Bulgarian Bank	overdraft	BGN	4 025 000	4 023 604	12.12.2019	RIR + 1.2%, but no less than 1.3% per year			20.12.2020	Pledge of receivables, pledge of commercial enterprises, pledge of real estate





Sirma AI	United Bulgarian Bank	overdraft	EUR	741 000	666 620	15.08.2019	1 m. EURIBOR + 1,4% (but not less than 1,4%)	21.08.2020	Second in a row pledge on Sirma AI; Second pledge of his shares; A second pledge of current and future receivables totaling EUR 741 thousand; Pledge on receivables on all accounts of the borrower in UBB in the amount of EUR 741 thousand.
Sirma AI	United Bulgarian Bank	overdraft	EUR	3 000 000	2 955 029	15.08.2019	1 m. EURIBOR + 1,4% (but not less than 1,4%)	20.09.2020	The first in a row pledge of Sirma AI; The first pledge of the shares he holds; First in a row pledge of current and future receivables totaling EUR 3 million; Pledge on receivables on all accounts of the borrower in UBB in the amount of EUR 3 million.



## CURRENT LIABILITIES

	31.12.2019	31.12.2018	Change	Change
	BGN '000	BGN '000	BGN '000	%
<b>Current liabilities</b>				
Provisions	1 728	794	934	117,63%
Pension obligations to the staff	1 677	1 539	138	8,97%
Short-term loans	15 396	9 065	6 331	69,84%
Finance lease liabilities	-	42	(42)	-100,00%
Trade and other payables	5 809	8 781	(2 972)	-33,85%
Short-term obligations affiliates	362	292	70	23,97%
Tax obligations	645	1 272	(627)	-49,29%
Advances received	2 831	8 054	(5 223)	-64,85%
Deferred income and financing	878	71	807	1136,62%
Other liabilities	523	931	(408)	-43,82%
<b>Total Current liabilities</b>	<b>29 849</b>	<b>30 841</b>	<b>(992)</b>	<b>-3,22%</b>

Current liabilities decreased by BGN 992 thousand or 3,22 % in Q4 2019.

## 10.8 CASH FLOWS

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

## SUMMARY OF CASH FLOW

	31.12.2019	31.12.2018	Change	Change
	BGN '000	BGN '000	BGN '000	%
Net cash flow from operating activities	6 640	9 089	(2 449)	-26,94%
Net cash flow from investing activities	(8 584)	(10 694)	2 110	-19,73%
Net cash flow from financing activities	1 405	6 554	(5 149)	-78,56%
Net change in cash and cash equivalents	(539)	4 949	(5 488)	-110,89%
Cash and cash equivalents at the beginning of the year	11 068	6 119	4949	80,88%
Cash and cash equivalents at the end of the year	10 529	11 068	-539	-4,87%



## 10.9 INDICATORS AND RATIOS

№	Indicators	31.12.2019	31.12.2018	Change	Change
		BGN '000	BGN '000	BGN '000	%
1	Revenue from operating activities	61 454	58 825	2629	4,47%
2	Cost of sales	(54 913)	(48 020)	(6 893)	14,35%
3	Gross profit / loss	6 541	10 805	-4264	-39,46%
4	Other operating costs	(1 234)	(2 730)	1 496	-54,80%
5	Operating profit / loss	5 307	8 075	-2768	-34,28%
6	Financial income	233	779	-546	-70,09%
7	Financial costs	( 700)	(1 307)	607	-46,44%
8	Profit / loss before tax expense	4 840	7 548	-2708	-35,88%
9	Tax costs	( 581)	( 686)	105	-15,31%
10	Net profit / loss	4 259	6 862	-2603	-37,93%
11	Dividend	-	-	-	n/a
12	Cash and cash equivalents	10 529	11 068	-539	-4,87%
13	Inventories	1 256	3 151	-1895	-60,14%
14	Short-term assets	26 758	27 745	-987	-3,56%
15	Total amount of assets	144 180	145 727	-1547	-1,06%
16	Average arithmetic total asset value for 5 quarters	143 234	139 421	3813	2,74%
17	Current liabilities	29 849	30 841	-992	-3,22%
18	Debt	23 798	18 593	5 205	27,99%
19	Liabilities (borrowed funds)	38 992	41 680	-2688	-6,45%
20	Equity	105 188	104 047	1141	1,10%
21	Equity averaged 5 quarters	106 380	107 882	(1 502)	-1,39%
22	Turnover capital	(3 091)	(3 096)	5	-0,16%
23	Number of shares at the end of the period (in thousands)	59 361	59 361	-	0,00%
24	Gain / loss minority interest	363	1209	( 846)	-69,98%
25	Interest expenses	( 285)	( 338)	53	-15,68%
26	Weighted average price of last trading session	0,635	0,898	-0,263	-29,29%
27	Last price per share of last trading session	0,625	0,910	-0,285	-31,32%



Indicators			Change	Change
	31.12.2019	31.12.2018		%
EBITDA	10 450	12 825	(2 375)	-18,52%
DEPRITIATION	(4 962)	(4 412)	(550)	12,47%
EBIT	5 488	8 413	(2925)	-34,77%
FIN/INVEST NET	( 467)	( 528)	61	-11,55%
EBT	4 840	7 548	(2708)	-35,88%
ROA	0,0270	0,0388	-0,0118	-30,34%
ROA(BSE)	0,0272	0,0405	-0,0133	-32,92%
Debt/EBITDA Ratio	2,2773	1,4497	0,8276	57,08%
Quick Ratio	0,8544	0,7974	0,0569	7,14%
ROE (BSE)	0,0472	0,0684	-0,0212	-30,96%
ROE	0,0400	0,0636	-0,0236	-37,06%
Debt/Equity Ratio (BSE)	0,3707	0,4006	-0,0299	-7,46%
<b>Profitability ratios</b>				
Gross profit margin	0,1064	0,1837	-0,0772	-42,05%
Operating profit margin	0,0864	0,1373	-0,0509	-37,09%
Net profit margin	0,0693	0,1167	-0,0473	-40,59%
Return on Assets	0,0297	0,0492	-0,0195	-39,59%
Return on Equity	0,0400	0,0636	-0,0236	-37,06%
<b>Coefficients for assets and liquidity</b>				
Assets turnover ratio	0,4307	0,4275	0,0032	0,74%
Assets turnover ratio (BSE)	0,4290	0,4219	0,0071	1,69%
Operating cycle	-19,8816	-19,0003	-0,8813	4,64%
Current ratio	0,8964	0,8996	-0,0032	-0,35%
Quick ratio	0,8544	0,7974	0,0569	7,14%
Cash ratio	0,3527	0,3589	-0,0061	-1,71%
<b>Odds per share</b>				
P/S ratio	0,6134	0,9062	-0,2928	-32,31%
P/E ratio	8,8505	7,7683	1,0822	13,93%
P/B ratio	0,4767	0,6606	-0,1839	-27,84%
Revenue per share	1,0353	0,9910	0,0443	4,47%
Earnings per share	0,0717	0,1156	-0,0439	-37,93%
Book value of equity per share	1,7921	1,8174	-0,0253	-1,39%
<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	0,0447	0,1305	-0,0858	-65,74%
Gross profit growth	-0,3946	0,1528	-0,5474	n/a
Assets growth	-0,0106	0,0995	-0,1102	n/a
<b>Leverage Ratios</b>				
Debt/taotal assets	0,1661	0,1334	0,0328	24,59%
Debt/capital	0,1828	0,1470	0,0358	24,35%
Debt/equity	0,2237	0,1723	0,0514	29,80%
Total assets/equity	1,3464	1,2924	0,0541	4,19%
Market value of the company	37101	54019	-16918	-31,32%



## 10.10 RELATED COMPANIES TRANSACTIONS

## Purchases:

Company	Type	Type of Connectivity	31.12.2019 (BGN '000)
EngView Systems Sofia	Service expenses	Other related parties	(3)
<b>Total</b>			<b>(3)</b>

Company	Type	Type of Connectivity	31.12.2019 (BGN '000)
EngView Systems Sofia	Service expenses	Other related parties	(3)
Sirma Solutions	Service expenses	Companies under common indirect control	(593)
<b>Total</b>			<b>(596)</b>

## Sales:

Company	Type	Type of Connectivity	31.12.2019 (BGN '000)
EngView Systems Sofia	Sale of service	Other related parties	1
Sirma Group Holding	Sale of service	Other related parties	7
Sirma Solutions	Sale of service	Companies under common indirect control	5
Sirma Group Holding	Interest income	Other related parties	1
Sirma Group Holding	Interest income	Other related parties	38
Sirma Business Consulting	Interest income	Other related parties	3
<b>Total</b>			<b>55</b>

Company	Type	Type of Connectivity	31.12.2018 (BGN '000)
EngView Systems Sofia	Sale of goods	Other related parties	1
Sirma Group Holding	Sale of service	Other related parties	11
Sirma Group Holding	Sale of service	Companies under common indirect control	10
Sirma Solutions	Sale of service	Other related parties	11
Sirma Group Holding	Interest income	Other related parties	31
Sirma Solutions	Interest income	Other related parties	24
Sirma Solutions	Interest income	Companies under common indirect control	9
<b>Total</b>			<b>97</b>

## Loans (balances):

31.12.2019

Company	Type	Type of Connectivity	(BGN '000)
Sirma Group Holding	loan	Other related parties	785
Sirma Solutions	loan	Other related parties	5

31.12.2018

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



## 11 PERSONNEL AND ECOLOGY

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

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

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

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

## 12 RISK FACTORS

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

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

### RISK MANAGEMENT

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

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

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

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

### RISK MANAGEMENT IN SIRMA GROUP HOLDING INCLUDES:

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

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

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

reassessed on a regular basis, as there is a possibility that risks may be dropped, new ones added or ratings changed.

- Planning actions to overcome the risk

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

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

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

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



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

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

- confirm the occurrence of a risk
- Ensure that activities to prevent or deal with risks are implemented

## 12.1 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.

### Economic Growth

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

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

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

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

- Identify what risk has caused the relevant problems
- document information to be used in a subsequent risk analysis

### 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.

### 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.

### 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 ± 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.

### 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.

### 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.

### 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 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.

### 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.

## 12.2 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.

### 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.

### 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, i.e. the risk for the investors, respectively the creditors, will be higher.

### 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.

### 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.

### 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.

### 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.

## 12.3 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.

### 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.

### 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.

### 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.

### Dilution 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.

### 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.



## 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.

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

## 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.

## 13 OTHER INFORMATION AS PER APPENDIX 11 OF ORDINANCE 2 OF THE FSC

### 13.1 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 PERIOD

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.

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

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

### 13.3 INFORMATION ABOUT THE USE OF FUNDS FROM THE NEW ISSUE OF SECURITIES, CARRIED OUT DURING THE REPORTING PERIOD.

The company did not use funds from a new issue of securities in the reporting period.



#### 13.4. ANALYSIS OF THE RELATIONSHIP BETWEEN THE FINANCIAL RESULTS ACHIEVED, REPORTED IN THE FINANCIAL STATEMENT FOR THE FINANCIAL YEAR AND EARLIER PUBLISHED PROJECTIONS FOR THESE RESULTS.

The financial results of the company correspond to the forecasts made in the Development Strategy of Sirma Group Holding, which is published on the company's website.

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

The 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.

#### 13.6 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.

#### 13.7 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.

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

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

management observes the following basic principles in its activities:

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



- accounts and the relevant reporting period so as to allow the financial statements to be prepared in accordance with the specific accounting framework;
- observance of the precautionary principle in the valuation of assets, liabilities, income and expenses;
- detection and termination of frauds and errors;
- completeness and regularity of accounting information;

- preparation of reliable financial information;
- adherence to international financial reporting standards and adherence to the going concern principle.

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

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

At the General Meeting of Shareholders of "Sirma Group Holding" JSC, held on 19.06.2019, Tsvetomir Angelov Doskov and Sasha Konstantinova Bezuhanova was dismissed as members of the Board of Directors.

### 13.10 INFORMATION ABOUT THE KNOWN TO THE COMPANY AGREEMENTS (INCLUDING ALSO AFTER THE CLOSING OF THE FISCAL YEAR) AS A RESULT OF WHICH CHANGES MAY OCCUR AT A FUTURE TIME IN THE OWNED PERCENT OF SHARES OR BONDS BY CURRENT SHAREHOLDERS OR BONDHOLDERS.

The company has no information of agreements which may alter the owned percent of shares by current shareholders. The company has not issued bonds.

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

Stanislav Tanushev

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Sofia 1784

ir@sirma.com

Contact phone: +359 2 976 8310





## 14 CHANGES IN THE PRICE OF THE SHARES OF THE COMPANY





## 15 EVENTS AFTER THE END OF THE REPORTING PERIOD

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

**Sofia**  
**28.02.2020**

  
**CEO:**  
**Tsvetan Alexiev**

