



Sirma

Notes

to the Interim Consolidated
Financial Statements of
"Sirma Group Holding" JSC
for Q3 2022

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Notes to the interim consolidated financial statements

1. Nature of operations

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

The company is registered as joint-stock company on 25.04.2008. It is registered in Bulgarian trade register under UIC 200101236.

The parent company’s registered office, which is also its principal place of business, is BULGARIA, Sofia (capital), Sofia municipality, city. Sofia, 1784, Mladost area, bul. Tsarigradsko Shosse, No 135.

The shares of the parent company are listed on the Bulgarian Stock Exchange.

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

The capital of the Company has changed as follows:

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

The company's capital is fully paid.

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

- Software representing 29 (twenty nine) software modules
Amount: 61 555 838 BGN
- 81 960 ordinary registered shares of "Sirma Group" JSC registered in the Commercial Register under UIC 040529004.
Amount: 11 734 980 BGN
- Real Estate - Floor 3 of an office building "IT - Center Office Express" in Sofia, bul. "Tsarigradsko Shosse" N 135 with an area of 796,50 square meters, pursuant to Deed of buying and selling real estate N 126, Volume I, reg. N 4551, case N 116 from 23.04.2003 and 5 floor of an office building "IT - center office Express" in Sofiabul. "Tsarigradsko Shosse" N 135 with area of 281.81 square meters, according to Deed of sale of real estate N 86, Volume 4, Reg. N 10237, Case N 592 of 23.12.2004
Amount: 3 911 660 BGN

1.1. Distribution of share capital

As of 30.09.2022 the distribution of the share capital of “Sirma Group Holding” JSC is as follows:

	30.9.2022	30.6.2022
Share capital	59 361	59 361
Number of shares (par value of 1.00 lev)	59 360 518	59 360 518
Total number of registered shareholders	1 024	1 042
Legal entities	39	41
Individuals	985	1 001
Number of shares held by legal entities	5 357 458	5 246 231
% Of participation of entities	9,03%	8,84%
Number of shares held by individuals	54 003 060	54 114 287
% Participation of individuals	90,97%	91,16%

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

Shareholders	Number of shares at 30.09.2022	Number of shares at 30.06.2022	Nominal VALUE (BGN)	Value (BGN)	% Shareholding	% shareholding with deducted repurchased own shares
Georgi Parvanov Marinov	5 269 748	5 269 748	1	5 269 748	8,88%	8,90%
Tsvetan Borisov Alexiev	4 965 753	4 965 753	1	4 965 753	8,37%	8,38%
Chavdar Velizarov Dimitrov	4 750 786	4 750 786	1	4 750 786	8,00%	8,02%
Veselin Antchev Kirov	4 700 786	4 700 786	1	4 700 786	7,92%	7,93%
Ivo Petrov Petrov	4 000 000	3 955 000	1	4 000 000	6,74%	6,75%
Ognyan Plamenov Chernokozhev	3 741 620	3 741 620	1	3 741 620	6,30%	6,32%
Atanas Kostadinov Kiryakov	2 887 524	2 887 524	1	2 887 524	4,86%	4,87%
Krasimir Nevelinov Bozhkov	2 534 161	2 534 161	1	2 534 161	4,27%	4,28%
Vladimir Ivanov Alexiev	2 177 583	2 177 583	1	2 177 583	3,67%	3,68%
Rosen Vasilev Varbanov	2 156 687	2 156 687	1	2 156 687	3,63%	3,64%
Emiliana Ilieva Ilieva	1 965 209	1 965 209	1	1 965 209	3,31%	3,32%
Deyan Nikolov Nenov	1 790 748	1 790 748	1	1 790 748	3,02%	3,02%
Yavor Liudmilov Djonev	1 292 746	1 292 746	1	1 292 746	2,18%	2,18%
Rosen Ivanov Marinov	1 265 795	1 265 795	1	1 265 795	2,13%	2,14%
Peter Nikolaev Konyarov	867 165	867 165	1	867 165	1,46%	1,46%
Mandjukov Ltd.	860 000	860 000	1	860 000	1,45%	1,45%
UPF Doverie JSC	802 126	802 126	1	802 126	1,35%	1,35%
UPF DSK Rodina	747 036	747 036	1	747 036	1,26%	1,26%
Asen Krumov Nelchinov	641 349	641 349	1	641 349	1,08%	1,08%
First Financial Brokerage House	581 220	400 086	1	581 220	0,98%	0,98%
Purchased own shares	117 785	117 785	1	117 785	0,20%	0,20%
Others	11 244 691	11 470 825	1	11 244 691	18,94%	18,78%
Total	59 360 518	59 360 518		59 360 518	100%	100%

The normalized equity interest rate is the equity interest in the company's netting of repurchased treasury shares.

As of 30 September 2022 the total amount of repurchased own shares is 117 785 shares in the amount of BGN 103 735 (0,17% % of the share capital), distributed as follows:

- “Sirma Group Holding” JSC holds 84 846 repurchased own shares at the total amount of BGN 584 474 (0,98 % of share capital). On 9 June 2022 the company sold 499 628 purchased own shares at an average price of BGN 0.75 per share, for a total value of BGN 374 721.
- “Ontotext” AD owns 550 shares of the parent company “Sirma Group Holding” JSC with total value of BGN 643,50.
- “Sirma Solutions” EAD owns 32 389 shares of the parent company “Sirma Group Holding” JSC with total value of BGN 18 245. During the period the company has acquired additional 1 500 952 shares from the capital of “Sirma Group Holding” JSC for the amount of BGN 919 524 and sold 2 906 349 shares for the amount of BGN 2 179 762.

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

Shareholders	Number of shares at 30.09.2022	% Shareholding	% shareholding with deducted repurchased own shares
Georgi Parvanov Marinov	5 269 748	8,88%	8,89%
Tsvetan Borisov Alexiev	4 965 753	8,37%	8,38%
Chavdar Velizarov Dimitrov	4 750 786	8,00%	8,01%
Veselin Antchev Kirov	4 700 786	7,92%	7,93%
Ivo Petrov Petrov	3 955 000	6,66%	6,67%
Ognyan Plamenov Chernokozhev	3 741 620	6,30%	6,31%

Shareholders	Number of shares at 30.06.2022	% Shareholding	% shareholding with deducted repurchased own shares
Georgi Parvanov Marinov	5 269 748	8,88%	8,89%
Tsvetan Borisov Alexiev	4 965 753	8,37%	8,38%
Chavdar Velizarov Dimitrov	4 750 786	8,00%	8,01%
Veselin Antchev Kirov	4 700 786	7,92%	7,93%
Ivo Petrov Petrov	3 955 000	6,66%	6,67%
Ognyan Plamenov Chernokozhev	3 741 620	6,30%	6,31%

1.2. Management authorities

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

The Board of Directors as of 30.09.2022* includes the following members:

Chavdar Velizarov Dimitrov
Tsvetan Borisov Alexiev
Atanas Kostadinov Kiryakov
Georgi Parvanov Marinov
Veselin Anchev Kirov
Yavor Ludmilov Djonev - independent member
Martin Veselinov Paev - independent member
Peyo Vasilev Popov - independent member
Yordan Stoyanov Nedev - independent member

*On 24 June 2022, the Annual general meeting of shareholders of “Sirma Group Holding” JSC decided:

- a. Removes Petar Borisov Statev as member of the Board of Directors.
- b. Elect as members of the Board of Directors:
 - Veselin Anchev Kirov
 - Yavor Ludmilov Djonev - independent member of the Board of Directors
 - Martin Veselinov Paev - independent member of the Board of Directors
 - Peyo Vasilev Popov - independent member of the Board of Directors

with remuneration and tenure commensurate with the remuneration of the current non-executive members of the Board of Directors and the tenure of the current Board of Directors.
Determination of the mandate of the Board of Directors: 2 years from the date of entry.

The current mandate of the Board of Directors: 07.07.2024

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

The following Committees are established within the Board of Directors:

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

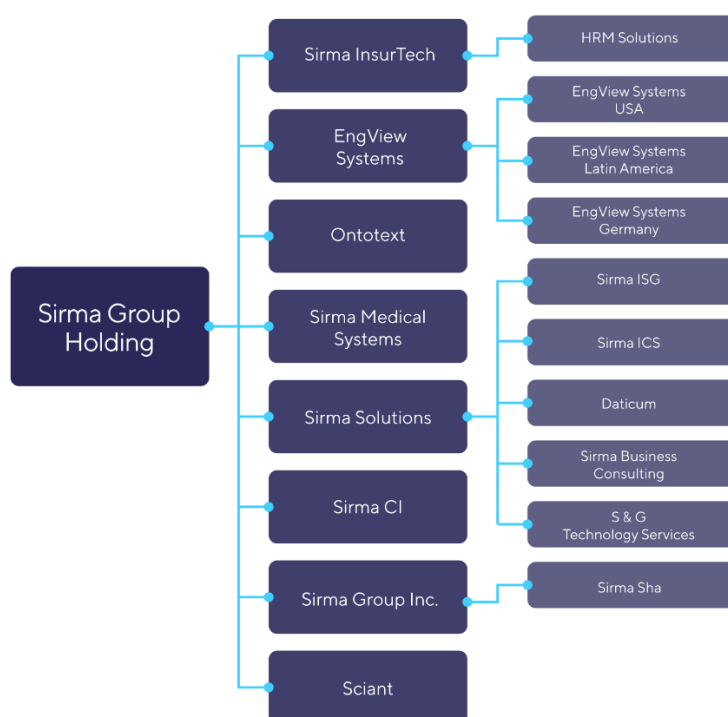
The participation of members of the Board of Directors in the capital of the Company is as follows:

Shareholders	Number of shares at 30.06.2022	Number of shares at 31.03.2022	Nominal value (BGN)	Value (BGN)	% Shareholding	% shareholding with deducted repurchased own shares
Georgi Parvanov Marinov	5 269 748	5 269 748	1	5 269 748	8,88%	8,89%
Tsvetan Borisov Alexiev	4 965 753	4 965 753	1	4 965 753	8,37%	8,38%
Chavdar Velizarov Dimitrov	4 750 786	4 750 786	1	4 750 786	8,00%	8,01%
Veselin Anchev Kirov	4 700 786	4 700 786	1	4 700 786	7,92%	7,93%
Atanas Kostadinov Kiryakov	2 887 524	2 887 524	1	2 887 524	4,86%	4,87%
Yavor Ludmilov Djonev	1 292 746	1 292 746	1	1 292 746	2,18%	2,18%
Martin Veselinov Paev	99 720	-	1	99 720	0,17%	0,17%
Yordan Stoyanov Nedev	3 433	3 433	1	3 433	0,01%	0,01%
Peyo Vasilev Popov	100	100	1	100	0,0002%	0,0002%
Total	23 970 596	23 870 876		23 970 596	40,38%	40,44%

During the period 01.07.2022 – 30.09.2022 the members of the BD Martin Veselinov Paev has acquired 99 720 shares of the capital of the company.

Organizational structure of Sirma Group:

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



The number of employees as at 30 September 2022 is 462 under labour contracts.

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

Information about the names, country of incorporation and percent of the shares and voting power of the subsidiaries, included in the consolidation, is provided in note 5.1.

2. Basis for the preparation of the interim consolidated financial statements

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

The consolidated financial statements are presented in Bulgarian leva (BGN), which is also the functional currency of the parent company. All amounts are presented in thousand Bulgarian leva (BGN'000) (including comparative information) unless otherwise stated.

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

The interim consolidated financial statements have been prepared in accordance with the going concern principle and taking into account the possible effects of the continuing impact of the Covid-19 pandemic, geopolitical tensions and others.

The management has performed an analysis and assessment of the ability of the group to continue its activities as an operating enterprise based on the available information for the foreseeable future. The assessment was performed on the basis of the actions taken by the management regarding the maintenance of stable supply chains, efficient customer service, regular monitoring of liquidity and negotiation of appropriate financing parameters.

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

3. Changes in accounting policies

3.1. New standards, amendments and interpretations to existing standards that are effective for annual periods beginning on or after 1 January 2022

The following new standards, amendments and interpretations to IFRS issued by the International Accounting Standards Board, which are mandatory from the period beginning on 1 January 2022, but do not have a significant effect of their application on the financial result and financial condition of the Group:

- Amendments IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment IAS 37 Provisions, Contingent Liabilities and Contingent Assets effective from 1 January 2022, adopted by the EU
- Annual Improvements 2018-2020 effective from 1 January 2022, adopted by the EU

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

As of the date of approval of these financial statements, new standards, amendments and interpretations to existing standards have been published, but have not entered into force or have not been adopted by the EU for the financial year beginning on 1 January 2022 and have not been applied from an earlier date by the company. Management expects all standards and amendments to be adopted in the company's accounting policy in the first period beginning after the date of their entry into force.

Information about these standards and amendments that have an effect on the financial statements of the Group is presented below:

The following new standards, amendments and interpretations to existing standards that have been published but have not yet entered into force are not expected to have a material effect on the Company's financial statements:

- IFRS 17 “Insurance Contracts” effective from 1 January 2023, adopted by the EU
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies effective from 1 January 2023, adopted by the EU
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates effective from 1 January 2023, adopted by the EU
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current effective from 1 January 2023 not yet adopted by the EU
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction effective from 1 January 2023 not yet adopted by the EU
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback effective not earlier than 1 January 2024 not yet adopted by the EU;
- Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information effective from 1 January 2023 not yet adopted by the EU
- IFRS 14 “Regulatory deferral accounts” effective from 1 January 2016, not adopted by the EU

4. Summary of accounting policies

4.1. Overall considerations

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

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

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

4.2. Presentation of consolidated financial statements

The interim consolidated financial statements are presented in accordance with IAS 1 “Presentation of Financial Statements”. The Group has elected to present the interim consolidated statement of profit or loss and other comprehensive income in one statement.

Two comparative periods are presented for the interim consolidated statement of financial position when the Group applies an accounting policy retrospectively, makes a retrospective restatement of items in its consolidated financial statements, or reclassifies items in the consolidated financial statements and this has a material impact on the consolidated statement of financial position at the beginning of the preceding period.

In Q3 2022, one comparative period is presented because the Group do not reclassifies items in the interim consolidated financial statements.

4.3. Basis of consolidation

The Group's interim financial statements consolidate those of the parent company and all of its subsidiaries as of 30 September 2022. Subsidiaries are firms under the control of the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. All subsidiaries have a reporting date of 30 September.

All transactions and balances between Group companies are eliminated on consolidation, including unrealized gains and losses on transactions between Group companies. Where unrealized losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the period are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit and loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

When the Group ceases to have control of a subsidiary, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value of any investment retained in the former subsidiary at the date of loss of control is considered to be the fair value on initial recognition of a financial asset in accordance with IFRS 9 “Financial Instruments” or, where appropriate, the cost of initial recognition of an investment in an associate or jointly controlled entity. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs).

The profit or loss on disposal is calculated as the difference between i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and ii) the previous carrying amount of the assets including goodwill and liabilities of the subsidiary and any non-controlling interest.

4.4. Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred.

The acquisition method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree that is present ownership interests and entitles their holders to a proportionate share of the entity's net assets in the event of liquidation either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognized amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair value of any identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognized in profit or loss immediately.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have been previously recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if the interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period which cannot exceed one year from the acquisition date or additional assets or liabilities are

recognized to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Any contingent consideration to be transferred by the acquirer is measured at fair value at the acquisition date and included as part of the consideration transferred in a business combination. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognized in accordance with IFRS 9 “Financial Instruments” either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill.

4.5. Transactions with non-controlling interest

Changes in the Group’s ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are treated as transactions with equity owners of the Group. The carrying amounts of the Group’s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the parent company.

4.6. Investments in associates and joint ventures

Associates are those entities over which the Group is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method. The cost of the investment includes transaction costs.

Any goodwill or fair value adjustment attributable to the Group's share in the associate is included in the amount recognized as investment in associates.

All subsequent changes to the Group’s share of interest in the equity of the associate are recognized in the carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are reported within “Share of profit/ (loss) from equity accounted investments” in profit or loss. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of assets and liabilities.

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

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

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

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

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

4.7. Foreign currency translations

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

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

The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into BGN at the closing rate at the reporting date. Income and expenses have been translated into the Group's presentation currency at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognized in the currency translation reserve in equity. On disposal of a foreign operation, the related cumulative currency differences recognized in equity are reclassified to profit or loss and are recognized as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into BGN at the closing rate.

Bulgarian lev is pegged to the euro at the exchange rate of 1 EUR = 1.95583 BGN.

4.8. Segment reporting

Management determines the operating segments based on the main products and services provided by the Group.

The operating segments in the group are the following: Intelligent Evolution of Enterprises, Financial segment and System Integration. Each of these operating segments is managed separately, as different technologies, resources and marketing approaches are used for each product line. All transactions between the segments are carried out at the prices of corresponding transactions between independent parties.

The measurement policies the Group uses for segment reporting under IFRS 8 “Operating Segments” are the same as those used in its consolidated financial statements, except that:

- post-employment benefit expenses;
- R&D costs relating to new business activities; and

which are not included in arriving at the operating profit of the operating segments.

In addition, Group assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

Information about the results of the separate segments that is regularly reviewed by the chief operating decision maker does not include isolated unrepeatable events. Financial income and costs are also not included in the results of operating segments which are regularly reviewed by persons, which are responsible for operating decision making.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss. No asymmetrical allocations have been applied between segments.

4.9. Revenue

The basic revenue generated by the Group is related to sale of products and services, interest revenue, revenue from participations, revenue from financing and other revenue.

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

- 1 Identifying the contract with a customer
- 2 Identifying the performance obligations
- 3 Determining the transaction price
- 4 Allocating the transaction price to the performance obligations

5 Recognising revenue when/as performance obligation(s) are satisfied.

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

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

The Group often enters into transactions involving a range of the Group’s products and services, for example for the delivery of telecommunications hardware, software and related after-sales service.

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

4.9.1. Revenue recognized over time

Hardware and software

Revenue from the sale of hardware and software for a fixed fee is recognised when or as the Group transfers control of the assets to the customer. Invoices for goods or services transferred are due upon receipt by the customer.

For stand-alone sales of telecommunications hardware and/or software that are neither customised by the Group nor subject to significant integration services, control transfers at the point in time the customer takes undisputed delivery of the goods. When such items are either customised or sold together with significant integration services, the goods and services represent a single combined performance obligation over which control is considered to transfer over time. This is because the combined product is unique to each customer (has no alternative use) and the Group has an enforceable right to payment for the work completed to date. Revenue for these performance obligations is recognised over time as the customisation or integration work is performed, using the cost-to-cost method to estimate progress towards completion. As costs are generally incurred uniformly as the work progresses and are considered to be proportionate to the entity’s performance, the method, taking into account the invested resources, most accurately reflects the transfer of goods and services to the customer.

For sales of software that are neither customised by the Group nor subject to significant integration services, the licence period commences upon delivery. For sales of software subject to significant customisation or integration services, the licence period begins upon commencement of the related services. The Group’s has a customer loyalty incentive programme. For each BGN XXX spent, customers obtain one loyalty point which they can redeem to receive discounts on future purchases. Loyalty points are considered to be a separate performance obligation as they provide customers with a material right, they would not have received otherwise. Unused points will expire if not used within two years. The Group allocates the transaction price between the material right and other performance obligations identified in a contract on a relative stand-alone selling price basis. Revenue from the material right is recognised on the earlier of the date the points are redeemed by the customer and the date on which they expire. The Group provides a basic 1-year product warranty on its telecommunications hardware whether sold on a stand-alone basis or as part of an integrated telecommunications system. Under the terms of this warranty customers can return the product for repair or replacement if it fails to perform in accordance with published specifications. These warranties are accounted for under IAS 37.

After-Sales Services

The Group enters into fixed price maintenance and extended warranty contracts with its customers for terms between one and three years in length. Customers are required to pay in advance for each twelve-month service period and the relevant payment due dates are specified in each contract.

- Maintenance contracts – The Group enters into agreements with its customers to perform regularly scheduled maintenance services on telecommunications hardware purchased from the

Group. Revenue is recognised over time based on the ratio between the number of hours of maintenance services provided in the current period and the total number of such hours expected to be provided under each contract. This method best depicts the transfer of services to the customer because: (a) details of the services to be provided are specified by management in advance as part of its published maintenance program, and (b) the Group has a long history of providing these services to its customers, allowing it to make reliable estimates of the total number of hours involved in providing the service.

Consulting and IT Services

The Group provides consulting services relating to the design of telecommunications systems strategies and IT security. Revenue from these services is recognised on a time-and-materials basis as the services are provided. Customers are invoiced weekly as work progresses. Any amounts remaining unbilled at the end of a reporting period are presented in the consolidated statement of financial position as accounts receivable as only the passage of time is required before payment of these amounts will be due.

The Group also provides IT outsourcing services including payroll and accounts payable transaction processing to customers in exchange for a fixed monthly fee. Revenue is recognised on a straight-line basis over the term of each contract. As the amount of work required to perform under these contracts does not vary significantly from month-to-month, the straight-line method provides a faithful depiction of the transfer of goods or services.

Construction of telecommunication systems

The Group enters into contracts for the design, development and installation of telecommunication systems in exchange for a fixed fee and recognises the related revenue over time. Due to the high degree of interdependence between the various elements of these projects, they are accounted for as a single performance obligation. When a contract also includes promises to perform after-sales services, the total transaction price is allocated to each of the distinct performance obligations identifiable under the contract on the basis of its relative stand-alone selling price.

To depict the progress by which the Group transfers control of the systems to the customer, and to establish when and to what extent revenue can be recognised, the Group measures its progress towards complete satisfaction of the performance obligation by comparing actual hours spent to date with the total estimated hours required to design, develop, and install each system. The hours-to-hours basis provides the most faithful depiction of the transfer of goods and services to each customer due to the Group's ability to make reliable estimates of the total number of hours required to perform, arising from its significant historical experience constructing similar systems.

In addition to the fixed fee, some contracts include bonus payments which the Group can earn by completing a project in advance of a targeted delivery date. At inception of each contract the Group begins by estimating the amount of the bonus to be received using the “most likely amount” approach. This amount is then included in the Group's estimate of the transaction price only if it is highly probable that a significant reversal of revenue will not occur once any uncertainty surrounding the bonus is resolved. In making this assessment the Group considers its historical record of performance on similar contracts, whether the Group has access to the labour and materials resources needed to exceed the agreed-upon completion date, and the potential impact of other reasonably foreseen constraints.

Most such arrangements include detailed customer payment schedules. When payments received from customers exceed revenue recognised to date on a particular contract, any excess (a contract liability) is reported in the consolidated statement of financial position under other liabilities.

The construction of telecommunication systems normally takes 10–12 months from commencement of design through to completion of installation. As the period of time between customer payment and performance will always be one year or less, the Group applies the practical expedient in IFRS 15.63 and does not adjust the promised amount of consideration for the effects of financing.

In obtaining these contracts, the Group incurs a number of incremental costs, such as commissions paid to sales staff. As the amortisation period of these costs, if capitalised, would be less than one year, the Group makes use of the practical expedient in IFRS 15.94 and expenses them as they incur.

4.9.2.Revenue recognized at a point of time

Sale of goods

The sale of goods includes the sale of goods in the field of computer equipment, office equipment and software. Revenue is recognized when the Company has transferred control of the goods to the buyer. Control is considered to be transferred to the buyer when the customer has accepted the goods without objection.

Revenue from the sale of goods in the field of computer equipment, office equipment and software, which are not bound by a contract for future service support, is recognized at the time of delivery. When the goods require adaptation to the customer's needs, modification or implementation, the Company applies a method for measuring the invested resources.

Sale of services

Revenue from software services is recognized when control of the benefits of the services provided is transferred to the user of the services. Revenue is recognized over time based on the execution of individual performance obligations.

In recognizing the revenue from the service provided, the company applies a method that takes into account the resources invested.

4.9.3.Interest and dividend revenue

Interest revenue is related to rendering of deposits and loans. It is reported on an ongoing basis using the effective interest method.

Dividend revenue is recognized at the time the right to receive payment occurs.

4.9.4.Revenue from financing

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

4.9.5.Contract assets and liabilities

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

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

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

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

4.10. Operating expenses

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

The Group recognises two types of contract costs related to the execution of contracts for the supply of services/ goods/ with customer: incremental costs of obtaining a contract and costs to fulfil a contract. Where costs are not eligible for deferral under IFRS 15, they are recognised as current expenses at the time they arise, such as they are not expected to be recovered, or the deferral period is up to one year.

The following operating expenses are always recognised as current expenses at the time of their occurrence:

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

4.11. Interest expenses and borrowing costs

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

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

4.12. Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognized. See note 4.4 for information on how goodwill is initially determined. Goodwill is carried at cost less accumulated impairment losses. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Refer to note 4.18 for a description of impairment testing procedures.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

4.13. Intangible assets

Intangible assets include development products resulting from R&D, software products, software module rights, acquisition costs of intangible assets and others. They are accounted for using the cost model. The cost comprises of its purchase price, including any import duties and non-refundable purchase taxes, and any directly attributable expenditure on preparing the asset for its intended use, whereby capitalized costs are amortized on a straight line basis over their estimated useful lives, as these assets are considered finite. If an intangible asset is acquired in a business combination, the cost of that intangible asset is based on its fair value at the date of acquisition.

After initial recognition, all finite-lived intangible assets are carried at their cost less any accumulated amortization and any accumulated impairment losses. Impairment losses are recognized in the consolidated statement of profit or loss/statement as profit or loss and other comprehensive income for the respective period.

Subsequent expenditure on an intangible asset after its purchase or its completion is expensed as incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured reliably and attributed to the asset. If these two conditions are met, the subsequent expenditure is added to the carrying amount of the intangible asset.

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

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

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

Amortization has been included within the consolidated report for profit and loss and other income in the line “Amortization of non-financial assets” .

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

Costs that are directly attributable to the development phase of an intangible asset are capitalized provided they meet the following recognition requirements:

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

Development costs for non-material assets not meeting these criteria for capitalization are recognized as expenses when incurred.

Directly attributable costs to the development phase include wage and social security costs, external service costs and depreciation costs. Internally generated intangible assets are subject to the same subsequent measurement method as externally acquired intangible assets. However, until completion of the development project, the assets are subject to impairment testing only as described below in note 4.16.

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

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

4.14. Property, plant and equipment

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

After initial recognition, the property, plant and equipment is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Impairment losses are charged against revaluation reserve if no expenses have been incurred before that. Impairment losses are recognized in the consolidated statement of profit or loss/statement of profit or loss and other comprehensive income for the respective period.

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

Material residual value estimates and estimates of useful life are updated as required, but at least annually, whether or not the asset is revalued.

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

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

- | | |
|-----------------------|-----------|
| • Buildings | 50 years |
| • Machines | 3-8 years |
| • Vehicles | 4 years |
| • Fixtures & Fittings | 7.5 years |
| • IT equipment | 2-5 years |
| • Others | 7.5 years |

Depreciation has been included in the consolidated statement of profit or loss statement and other comprehensive income within “Amortization of non-financial assets”.

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

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

4.15. Leases

The Group as a lessee

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

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

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

Measurement and recognition of leases as a lessee

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

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

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

To determine the incremental borrowing rate, the Company uses the applicable interest rate from the last financing from third parties, adjusted in order to reflect the changes in the financing conditions that occurred after the last financing.

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

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

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has chosen to account for short-term leases and leases of low-value assets using the practical expedients provided by the Standard. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the consolidated statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in trade and other payables / as a separate line item.

Extension and termination options are included in several property and equipment leases at the Group. They are used to increase operational flexibility regarding the management of assets used in the operations of the Group. Most owned extension and termination options are exercised only by the Group and not by the respective lessor.

The Group as a lessor

The Group's accounting policy under IFRS 16 has not changed from the comparative period.

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

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

4.16. Impairment testing of goodwill, intangible assets and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

4.17. Financial instruments

4.17.1. Recognition and derecognition

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

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

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

4.17.2. Classification and initial measurement of financial assets

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

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

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

The classification is determined by both:

- the Group’s business model for managing financial assets;
- the contractual cash flow characteristics of the financial asset.

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

4.17.3. Subsequent measurement of financial assets

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

Financial assets at amortised cost

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

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

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

- **Trade receivables**

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

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

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

This category also contains an equity investment. The Group accounts for the investment at FVTPL and did not make the irrevocable choice to account for the investment in daughter companies using fair value through other comprehensive income.

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

4.17.4. Impairment of financial assets

IFRS 9’s new impairment requirements use more forward-looking information to recognise expected credit losses – the “expected credit loss” (ECL) model. This replaces IAS 39’s “incurred loss model”.

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

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

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

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

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

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

Trade and other receivables, contract assets and finance lease receivables

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

The Group allows 50% for amounts that are 180 to 365 days overdue and 100% for amounts that are more than 365 overdue.

4.17.5. Classification and measurement of financial liabilities

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

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

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

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

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

4.18. Inventory

Inventory includes raw materials, work in progress and goods. Cost of inventories includes all expenses directly attributable to the purchase or manufacturing process, recycling and other direct expenses connected to their delivery as well as suitable portions of related production overheads, based on normal operating capacity. Financing costs are not included in the cost of the inventories. At the end of every accounting period, inventories are carried at the lower of cost and net realizable value. The amount of impairment of inventories to their net realizable value is recognized as an expense for the period of impairment.

Net realizable value is the estimated selling price of the inventories less any applicable selling expenses. In case inventories have already been impaired to their net realizable value and in the following period the impairment conditions are no longer present, than the new net realizable value is adopted. The reversal amount can only be up to the carrying amount of the inventories prior to their impairment. The reversal of the impairment is accounted for as decrease in inventory expenses for the period in which the reversal takes place.

The Group determines the cost of inventories by using the weighted average cost.

When inventories are sold, the carrying amount of those inventories is expensed in the period in which the related revenue is recognized.

4.19. Income taxes

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

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

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future.

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

Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. For management's assessment of the probability of future taxable income to utilize against deferred tax assets, see note 4.24.2.

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

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

4.20. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash in bank accounts and others.

4.21. Non-current assets and liabilities classified as held for sale and discontinued operations

When the Group intends to sell a non-current asset or group of assets (disposal group) and if the sale is very likely to take place within 12 months, the asset or disposal group is classified as held for sale and presented separately in the consolidated statement of financial position. condition.

Liabilities are classified as held for sale and presented as such in the consolidated statement of financial position only if they are directly attributable to the disposal group.

Assets classified as held for sale are measured at the lower of their carrying amount immediately after their determination as held for sale and their fair value less costs to sell. Certain assets held for sale, such as financial assets or deferred tax assets, continue to be measured in accordance with the Group's accounting policies for these assets. Assets classified as held for sale are not depreciated after they are classified as held for sale.

4.22. Equity and reserves

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

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

Other reserves include the legal reserves.

Retained earnings/ Accumulated losses include all current and prior period retained profits and uncovered losses.

Dividend payables to shareholders are included in “Related party payables” when the dividends have been approved at the general meeting of shareholders prior to the reporting date.

All transactions with owners of the parent company are recorded separately in the consolidated report within equity.

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

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

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

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

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

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

4.24. Provisions, contingent liabilities and contingent assets

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

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

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

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

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination (see note 4.4). In a business combination contingent liabilities are recognized in the course of the allocation of the purchase price to the assets and liabilities acquired in the business combination. They are subsequently measured at the higher amount of a comparable provision as described above and the amount initially recognized, less any amortization.

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

4.25. Significant management judgement in applying accounting policies

The following are significant management judgements in applying the accounting policies of the Group that have the most significant effect on the consolidated financial statements. Critical estimation uncertainties are described in note 4.24.3.

4.25.1. Internally generated intangible assets and research costs

Management monitors progress of internal research and development projects by using a project management system. Significant judgement is required in distinguishing research from the

development phase. Development costs are recognized as an asset when all the criteria are met, whereas research costs are expensed as incurred.

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

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

4.25.2. Deferred tax assets

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

4.25.3. Lease term

In determining the lease term, management takes into account all the facts and circumstances that create an economic incentive to exercise the option of extension or not to exercise the option of termination. Extension options (or periods after termination options) are included in the lease term only if it is reasonably certain that the lease is extended (or not terminated).

4.25.4. Recognition of deferred taxes on assets and liabilities arising from leases

When an asset and liability arise as a result of a lease that results in recognition of a taxable temporary difference related to the right of use asset and equal deductible temporary difference on the lease liability, this results in a net temporary difference in the amount of zero. Therefore, the Group does not recognize deferred taxes in respect of those leases, to the extent that, within the useful life of the asset and the maturity of the liability, the net tax effects will be zero. However, deferred tax will be recognized when temporary differences arise in subsequent periods, provided that the general conditions for recognizing tax assets and liabilities under IAS 12 are met.

4.26. Estimation uncertainty

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

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

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

4.26.1. Impairment of non-financial assets and goodwill

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows (see note 4.16). In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to

future events and circumstances. The actual results may vary, and may cause significant adjustments to the Group's assets within the next financial year.

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

4.26.2. Useful lives of depreciable assets

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

At 30 September 2022 management assesses that the useful lives represent the expected utility of the assets to the Group. The carrying amounts are analyzed in note 9 and 10. Actual results, however, may vary due to technical obsolescence, particularly relating to software and IT equipment.

4.26.3. Inventory

Inventories are measured at the lower of cost and net realizable value. In estimating net realizable values, management takes into account the most reliable evidence available at the times the estimates are made. The Group's core business is subject to technology changes which may cause selling prices to change rapidly.

4.26.4. Measurement of expected credit loss

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

4.26.5. Defined benefit liabilities

Management estimates the defined benefit liability annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimate of its defined benefit liability BGN 356 thousand for 2021 is based on standard rates of inflation, medical cost trends and mortality. It also takes into account the Group's specific anticipation of future salary increases. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Estimation uncertainties exist particularly with regard to actuarial assumptions, which may vary and significantly impact the defined benefit obligations and the annual defined benefit expenses.

5. Basis of consolidation

5.1. Investments in subsidiaries

The subsidiaries included in the consolidation are as follows:

Investments of “Sirma Group Holding” JSC:

Name of the subsidiary	Country of incorporation and principal place of business	Main activities	30.09.2022	30.09.2022	31.12.2021	31.12.2021
			BGN'000	share %	BGN'000	share %
Sirma Solutions	Bulgaria	Software services	39 686	100,00%	39 311	82,43%
Ontotext	Bulgaria	Software services	12 505	90,44%	17 865	90,44%
Sciant	Bulgaria	Software services	10 237	80,00%	10 237	80,00%
Sirma Group Inc.	USA	Software services	3 471	76,30%	3 471	76,15%
Sirma InsurTech	Bulgaria	Software services	914	55,00%	-	0,00%
Sirma CI	Bulgaria	Software services	106	80,00%	106	80,00%
Sirma Medical Systems	Bulgaria	Software services	66	66,00%	66	66,00%
EngView Systems	Bulgaria	Software services	50	72,90%	50	72,90%
Sirma AI	Bulgaria	Software services	-	-	7 035	100,00%

Investments of “Sirma Solutions” EAD:

Name of the subsidiary	Country of incorporation and principal place of business	30.09.2022	30.09.2022	31.12.2021	31.12.2021
		BGN'000	share %	BGN'000	share %
Sirma AI	Bulgaria	20 511	23,70%	-	-
Daticum	Bulgaria	1 394	60,50%	1 394	60,50%
Sirma Business Consulting	Bulgaria	1 374	54,08%	1 374	54,08%
Sirma ICS	Bulgaria	270	90,00%	270	90,00%
S&G Technology Services	UK	117	51,00%	117	51,00%
Sirma ISG	Bulgaria	4	71,00%	4	71,00%

Investments of “EngView Systems Sofia” AD:

Name of the subsidiary	Country of incorporation and principal place of business	Main activities	30.09.2022	30.09.2022	31.12.2021	31.12.2021
			BGN'000	share %	BGN'000	share %
EngView USA	USA	Software services	190	100	190	100
EngView Systems GmbH	Germany	Software services	156	100	156	100
EngView Systems Latin America	Brazil	Software services	7	95	7	95

Investments of Sirma Group Inc.:

Name of the subsidiary	Country of incorporation and principal place of business	Main activities	30.09.2022	30.09.2022	31.12.2021	31.12.2021
			BGN'000	share	BGN'000	share
Sirma Sha	Albania	Software services	25	55	25	55

Investments of “Sciart” AD:

Name of the subsidiary	Country of incorporation and principal place of business	Main activities	30.09.2022	30.09.2022	31.12.2021	31.12.2021
			BGN'000	share	BGN'000	share
Sciart Software s.r.o.	The Czech Republic	Software services	-	-	2	100

On 18 January 2022, “Sciart” AD sold its investment in the subsidiary Sciart Software s.r.o in the Czech Republic for the amount of CZK 142,73.

Investments of “Sirma InsurTech” AD:

Name of the subsidiary	Country of incorporation and principal place of business	Main activities	30.09.2022	30.09.2022	31.12.2021	31.12.2021
			BGN'000	share	BGN'000	share
HRM Solutions	Bulgaria	Software services	150	100%	150	100%

The entities not included in the consolidation for their insignificance are a subsidiary EngView Systems Latin America and associates: Eye Bill Interactive and Excel Management OOD.

No dividends were paid to the NCI during the Q3 2022 and in 2021.

Summarized financial information for “Sirma Group Holding” JSC, before intragroup eliminations, is set out below:

	30.09.2022	30.09.2021/ 31.12.2021
	BGN'000	BGN'000
Non-current assets	132 705	266 333
Current assets	50 352	45 210
Total assets	183 057	311 543
Non-current liabilities	14 481	25 106
Current liabilities	23 212	48 828
Total liabilities	37 693	73 934
Equity attributable to owners of the parent	145 364	236 218
Non-controlling interests	16 880	18 287
Revenue	79 482	56 357
Profit/ (loss) for the period attributable to owners of the parent	(6 833)	4 069
Profit/ (loss) for the period attributable to NCI	(919)	1 781
Profit/ (loss) for the period	(7 752)	4 190

5.2. Acquisition of “Sirma Insurtech” AD and its subsidiary “HRM Solutions” EAD in 2022

On 05.07.2022, the Group acquired control over “TBI Info” AD and its subsidiary “HRM Solutions” EAD, by purchasing 55% of its equity and voting rights in the company.

The acquisition of control over "TBI Info" AD was carried out with the aim of expanding the Group, markets and qualified personnel.

On 02.09.2022, “TBI Info” AD changed its name to “Sirma Insurtech” AD.

From the date of acquisition until 30.09.2022, the company "Sirma Insurtech" AD realized BGN 678 thousand in revenues and a loss in the amount of BGN 33 thousand, which are included in the consolidated financial statement.

The total acquisition price amounts to BGN 913 914.

The costs related to the acquisition amount to BGN 10 500 and include costs for assessments and administrative services. They are recognized in profit or loss in the period in which they occur and are included in the line "External service costs" in the consolidated statement of profit or loss and other comprehensive income of the Group.

5.3. Acquisition of acquired the commercial enterprise "Empiriu" EAD in 2022

On 30.09.2022, the subsidiary of "Sirma Group Holding" JSC - "Sirma Business Consulting" AD acquired the trading company "Empiriu" EAD.

The total acquisition price amounts to BGN 150 000.

The Board of Directors of "Sirma Group Holding" JSC and "Sirma Business Consulting" AD consider the potential synergy with the experts from the Holding companies and in particular with those from "Sirma Business Consulting" AD.

5.4. Sale of “Sirma AI” AD and its subsidiary Ontotext USA in 2022

On 01.09.2022, all actions regarding the sale of shares from the capital of "Sirma AI" AD to "New Frontier Technology Invest" SARL were finalized, according to the decision of the General Meeting of Shareholders of the majority owner "Sirma Group Holding" JSC from 24.06.2022 as follows:

- Valuation of the entire company "Sirma AI" AD: BGN 55 741 155;
- Buyer of shares: "New Frontier Technology Invest" SARL ("New Frontier Technology Invest" SARL), entered in the Luxembourg Trade Register under No. B267936;
- Sellers and percent of shares sold: "Sirma Group Holding" JSC - 100%, "Sirma Solutions" AD - 76,20% and "Ontotext" AD - 100%;
- The total sale price for the sold shares is in the amount of BGN 38 207 139, with receipts by company being as follows: "Sirma Group Holding" JSC - BGN 12 909 874, "Sirma Solutions" AD - BGN 14 672 468 and "Ontotext" AD - BGN 10 624 805;
- "Sirma Solutions" AD retaining a share of 23.80% of the capital of "Sirma AI" AD, and the remaining 76.20% belonged to "New Frontier Technology Invest" SARL;

6. Investments accounted for using the equity method

The carrying amount of investments accounted for using the equity method have zero book value as of 30.09.2022 and 31.12.2021.

The Group's investments accounted for using the equity method include associates. The date of the financial statements of the associates is 30 September.

Associates	Country of incorporation and principal place of business	Main activities	30.09.2022 share	31.12.2021 share
SEP Bulgaria AD	Bulgaria	Construction and operation of an Electronic Payment System	6.5 %	6.5 %
Sirma AI AD	Bulgaria	Software services	23,70 %	-

The shares of the associated companies are not traded on a public stock exchange and therefore there are no quoted prices on an active market.

The Group has no investments in significant associates.

In Q3 2022 and 2021, no dividends were received from associates.

All transfers of funds to the Group, i.e. distribution of cash dividends, are subject to the approval of at least 51% of all shareholders of the associates.

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

7. Long - term financial assets

	30.09.2022 BGN'000	31.12.2021 BGN'000
Financial assets at fair value through profit or loss	589	841
	589	841

The company from the Group "Sirma Business Consulting" has purchased 3 shares from Madara Invest Ltd. (Madara Invest Ltd.) under a contract dated 02.04.2020. Madara Invest Ltd. (Madara Invest Ltd.) is a limited liability company incorporated and operating under the laws of England and Wales, incorporated in the Company House of the United Kingdom under number 11260272, with registered office in England, London, E14 5AB, One Kenada Square, Canary Wharf, floor 39. The shares of Madara Invest Ltd. They are not listed on a stock exchange.

The essence of the business model of Madara Invest Ltd. is built on the idea of developing an integrated FinTech group to create a bridge between traditional finance (including banking and other financial services) and the revolutionary FinTech ecosystem. At the core of the company's business model is the development of an innovative FinTech solution targeting retail and business customers, with a focus on financially excluded or insufficiently covered by financial services segments.

8. Segment reporting

Management currently identifies the following Group's operating segments as further described in note 4.8. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

Segment information can be analyzed as follows for the reporting periods under review:

	Intelligent Evolution of Enterprises	Solutions, products and consulting in Finance	System Integration	Total
	30.9.2022 BGN'000	30.9.2022 BGN'000	30.9.2022 BGN'000	30.9.2022 BGN'000
Revenue:				
- from external customers	31 685	9 178	17 254	58 117
Segment revenues	31 685	9 178	17 254	58 117
Changes in inventories	20	-	-	20
Cost of materials	(1 002)	(52)	(14 787)	(15 841)
Hired services expenses	(7 428)	(616)	(1 430)	(9 474)
Employee benefits expense	(20 009)	(4 252)	(638)	(24 899)
Depreciation and amortization of non-financial assets	(4 608)	(292)	(79)	(4 979)
Other expenses	(2 493)	(563)	(6)	(3 062)
Segment operating profit	(3 835)	3 403	314	(118)

	Intelligent Evolution of Enterprises	Solutions, products and consulting in Finance	System Integration	Total
	30.9.2021 BGN'000	30.9.2021 BGN'000	30.9.2021 BGN'000	30.9.2021 BGN'000
Revenue:				
- from external customers	21 505	7 737	15 004	44 246
Segment revenues	21 505	7 737	15 004	44 246
Changes in inventories	113	-	-	113
Cost of materials	(685)	(26)	(12 569)	(13 280)
Hired services expenses	(3 203)	(533)	(1 745)	(5 481)
Employee benefits expense	(10 743)	(3 904)	(427)	(15 074)
Depreciation and amortization of non-financial assets	(3 962)	(330)	(41)	(4 333)
Other expenses	(335)	(62)	(3)	(400)
Segment operating profit	2 690	2 882	219	5 791

The Group's revenues from external customers are divided into the following geographical areas:

	30.9.2022 BGN'000	30.9.2021 BGN'000
Bulgaria (domicile)	23 678	17 268
USA	11 465	11 041
UK	9 292	3 943
Other countries	13 682	11 994
Total	58 117	44 246

9. Goodwill

The movements in the net carrying amount of goodwill are as follows:

	30.09.2022	31.12.2021
	BGN'000	BGN'000
Gross carrying amount		
Balance at 1 January	31 104	22 482
Acquired goodwill as a result of a business combination	(5 722)	8 622
Balance at 30 September/ 31 December	25 382	31 104
Carrying amount at 30 September/ 31 December	25 382	31 104

For the purpose of annual impairment testing goodwill is allocated to the following cash-generating units, which are the units expected to benefit from the synergies of the business combinations in which the goodwill arises, as follows:

	30.09.2022	31.12.2021
	BGN'000	BGN'000
Sirma Solutions	11 754	11 754
Sciant	8 622	8 622
Ontotext	2 961	2 961
Panaton Software	1 863	1 863
S&G	164	164
EngView Brazil	14	14
Sirma Bussiness Consulting	4	4
Sirma AI	-	5 722
Goodwill allocation at 30 September/ 31 December	25 382	31 104

The recoverable amounts of the cash-generating units were determined based on value-in-use calculations, covering a detailed 3-year forecast, followed by an extrapolation of expected cash flows for the units' remaining useful lives using the growth rates determined by the management.

The growth rates reflect the long-term average growth rates for the product lines and industries of the cash-generating units. The discount rates reflect appropriate adjustments relating to market risk and specific risk factors of each segment.

Key assumptions of the management in preparing the impairment test reflect its forecasts and intentions regarding the future economic benefits that the Group expects to obtain through the use of trade experience, in-house brands, positions in Bulgarian and foreign markets and ultimately based on them. expectations for future sales of cash-generating units.

Apart from the considerations described in determining the value in use of the cash-generating units described above, management is not currently aware of any other probable changes that would necessitate changes in its key estimates. However, the estimate of recoverable amount for cash-generating units is particularly sensitive to the discount rate, but the simulations show that it remains above the carrying amount of goodwill with a reasonable change in key assumptions.

10. Property, plant and equipment

Group's property, plant and equipment of the Group comprise of buildings, vehicles, office equipment, machinery, computer equipment, assets under construction, right-of-use assets and others. The carrying amount can be analyzed as follows:

	Buildings	Vehicles	Office equipment	Machinery	Computer equipment	Assets under construction	Right-of-use assets	Others	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Gross carrying amount									
Balance at 1 January 2022	7 610	232	724	2 332	6 003	-	4 476	831	22 208
Additions	229	66	29	1	242	52	17	-	636
Disposals	-	(43)	(27)	-	(113)	-	(656)	(21)	(860)
Balance at 30 September 2022	7 839	255	726	2 333	6 132	52	3 837	810	21 984
Depreciation									
Balance at 1 January 2022	(1 235)	(165)	(351)	(2 098)	(5 100)	-	(1 440)	(739)	(11 128)
Depreciation	(62)	(44)	(81)	(51)	(417)	-	(541)	(27)	(1 223)
Balance at 30 September 2022	(1 297)	(209)	(432)	(2 149)	(5 517)	-	(1 981)	(766)	(12 351)
Carrying amount at 30 September 2022	6 542	46	294	184	615	52	1 856	44	9 633

	Buildings	Vehicles	Office equipment	Machinery	Computer equipment	Assets under construction	Right-of-use assets	Others	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Gross carrying amount									
Balance at 1 January 2021	5 238	232	647	2 323	4 846	7	3 995	827	18 115
Acquired from a business combination	-	-	3	-	246	-	481	5	735
Additions	2 372	-	89	68	963	126	-	-	3 618
Disposals	-	-	(15)	(59)	(52)	(133)	-	(1)	(260)
Balance at 31 December 2021	7 610	232	724	2 332	6 003	-	4 476	831	22 208
Depreciation									
Balance at 1 January 2021	(808)	(202)	(285)	(2 097)	(4 369)	-	(929)	(711)	(9 401)
Acquired from a business combination	-	-	(1)	-	(233)	-	(73)	(3)	(310)
Depreciation	(427)	(30)	(80)	(60)	(549)	-	(438)	(26)	(1 610)
Disposals	-	67	15	59	51	-	-	1	193
Balance at 31 December 2021	(1 235)	(165)	(351)	(2 098)	(5 100)	-	(1 440)	(739)	(11 128)
Carrying amount at 31 December 2021	6 375	67	373	234	903	-	3 036	92	11 080

All depreciation charges are included within “Depreciation, amortization of non-financial assets”.

The Group has not a contractual commitment to acquire assets in Q3 2022 or 2021.

11. Intangible assets

The Group's other intangible assets comprise of R&D products, software products, rights to software modules, costs for acquisition of intangible assets and others. The carrying amounts for the reporting periods under review can be analyzed as follows:

	R&D products	Software products	Rights to software modules	Costs for acquisition of intangible assets	Others	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Gross carrying amount						
Balance at 1 January 2022	65 708	1 962	12 461	25 693	7 216	113 040
Additions, purchased	2 494	-	697	2 060	47	5 298
Disposals	(47 248)	(394)	(1 666)	(21 973)	(5)	(71 286)
Balance at 30 September 2022	20 954	1 568	11 492	5 780	7 258	47 052
Amortization						
Balance at 1 January 2022	(16 428)	(1 962)	(6 444)	-	(1 482)	(26 316)
Amortization	(1 505)	-	(1 886)	-	(365)	(3 756)
Disposals	1 292	394	-	-	-	1 686
Balance at 30 September 2022	(16 641)	(1 568)	(8 330)	-	(1 847)	(28 386)
Carrying amount at 30 September 2022	4 313	-	3 162	5 780	5 411	18 666

	R&D products	Software products	Rights to software modules	Costs for acquisition of intangible assets	Others	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Gross carrying amount						
Balance at 1 January 2021	39 121	1 962	12 535	23 582	7 219	84 419
Additions, purchased	52 047	-	1 970	49 589	962	104 568
Acquired from a business combination	-	-	220	-	9	229
Disposals	(25 460)	-	(2 264)	(47 478)	(974)	(76 176)
Balance at 31 December 2021	65 708	1 962	12 461	25 693	7 216	113 040
Amortization						
Balance at 1 January 2021	(18 194)	(1 935)	(4 969)	-	(1 191)	(26 289)
Acquired from a business combination	-	-	(220)	-	(9)	(229)
Amortization	(1 962)	(27)	(1 389)	-	(411)	(3 789)
Disposals	3 728	-	134	-	129	3 991
Balance at 31 December 2021	(16 428)	(1 962)	(6 444)	-	(1 482)	(26 316)
Carrying amount at 31 December 2021	49 280	-	6 017	25 693	5 734	86 724

R&D products include the following assets:

Customer Intelligence Platform (CIP)

The centralization of CIP transaction processes in a database, as well as the use of semantic technologies in the retrieval, analysis and interpretation of data from all sources, allows 360 ° view and various analyzes that facilitate individual behavioral targeting;

Extracting additional value from the data - built-in intelligent algorithms, analytical tools, as well as the ability to customize solutions tailored to the individual needs of the retailer, provide valuable insights and information. The focus on data, a deep understanding of customer behavior and motivation, along with seamless delivery management to end customers, will help merchants personalize communication, improve the user experience and manage their customer loyalty;

GraphDB is a semantic graph database management system (DBMS) compatible with the following standards defined by the W3C consortium: RDF, RDFS, OWL and SPARQL. (Sirma AI is a member of the W3C, the organization that standardizes HTTP, HTML, and a number of other WWW standards.) The main purpose of this type of software is well defined:

- Loading, storage and indexing of large volumes of structured data;
- Extracting information through queries that select, link, filter and organize information;
- Effective detection of specific models for connectivity between objects connected in a network. This distinguishes graph databases from relational ones;
- Derivation of additional information by interpreting the data based on a semantic data scheme (ontology). This distinguishes semantic databases from others - for example, those based on Property Graphs.

Ontotext Platform 2.0 allows the construction of software solutions for information management in the knowledge graph, search and recommendation of information content. What is specific about the platform is that it uses large knowledge graphs to analyze documents and other unstructured information and enrich them with semantic metadata in order to better interpret the meaning of the information. The first stage in the construction of such solutions is the creation of a graph of knowledge, by integrating data from different sources, their normalization, connection and enrichment with relationships based on inference and other techniques.

The platform allows annotation (tagging) of text with references to concepts and objects in large columns of knowledge, thus linking text and data and providing semantic search, categorization and recommendation of information content.

Formerly known as the DSP (Dynamic Semantic Publishing) platform, it uses GraphDB to manage graphs of knowledge from master / reference data, as well as to store generated metadata.

Platform-based solutions can be installed on client infrastructure or in cloud infrastructures such as Amazon Web Services (AWS). Such solutions can also be installed and managed by the company's cloud infrastructure.

Many of the platform's features are shown in NOW (<http://now.ontotext.com>) - a public news portal that demonstrates thematic reading and browsing, familiarity with concepts mentioned in the content, analysis of their interconnectedness and popularity.

R&D Image Recognition is a set of algorithms that allow the handling of photographic material and video content, calculating the degree of similarity between photos and videos, as well as the application of various algorithms for detecting objects in photos and videos and their semantic annotation, using pre-introduced ontologies and links. with external knowledge bases, in particular Geonames.

Initially, the system was intended to be specialized for the purposes of the tourism industry. It was developed with EU co-financing under the Innovation and Competitiveness Program 2007-2013. However, it is built with a broader vision, allowing it to function as a framework by integrating ontologies and algorithms from the field of computer vision. Can be used for:

Defining ontologies in a specific subject area. In this case - Tourism and travel; Embedding algorithms for detecting objects in images (videos).

Adding models in the field of machine learning to be used by the embedded algorithms in order to find a certain semantic category "church" or "beach". Model training is not subject to the system. "

Processing of images (videos) in order to annotate them with semantic categories using all or selected algorithm. RDF triplets are automatically generated, which are provided to the user I confirm or correct. The result obtained is recorded in the database.

Processing of input files in order to extract metadata for geolocation (if any) and automatic annotation of the location.

As far as geolocation of photos is built-in functionality, the system could be used for other purposes, such as grouping content in media and advertising agencies.

Packaging Suite is a complex product. It is based on functionalities that are part of a multifunctional software CAD system for the packaging industry. Some of these functionalities are also provided as online services through a specially developed API (application programming interface), which allows various online systems to visualize, calculate and model data or drawings. Different integrations or design of new products through such functionalities already provided in a component, provide new

opportunities for development of various online products, platforms or portals. Such is the example with built-in basic functionalities of the CAD system, its libraries and models in a specialized platform for services in the field of packaging and printing in China.

The long-developed CAD system, which covers several main stages of preparation for serial production of packaging from sheet materials (cardboard, corrugated cardboard, etc.) is offered as a main tool in the production departments of packaging companies. The stages are the following:

- 1 / Design of the single unfolding of the structure of the package;
- 2 / Graphic layout based on integration with the graphics system Adobe Illustrator
- 3 / Verification and approval by three-dimensional modeling;
- 4 / Design of specialized tools for optimized serial production and management of specialized machines for their production.

The product, which can be installed directly in the production departments of both Windows and MAC OS, is organized on a modular basis to be more flexibly oriented to different types of end customers. It consists of the following main modules:

- Library with ready-made packaging designs. Includes internationally standardized packaging structures from the main materials used (cardboard and corrugated cardboard), as well as further developed non-standard packaging.
- Library with ready-made display structures.
- Drafting with Parametric Components. Module for structural design of the unfolding of the package. This module defines the structure of the desired package. This can be done either by selecting a suitable ready-made structure from a library on which the desired dimensions are set; or using the rich set of CAD tools and ready-made parametric components, with the help of which the user creates an entirely new structure.
- Parametric Drafting (Synergy) - this is a module aimed at designers of original packaging structures. With the help of unique proprietary technology for variational and parametric CAD, a new parameterized standard can be created quickly and easily - a unique structure on which different values of basic parameters can be easily set, changing its dimensions while maintaining its integrity.
- Integration with Adobe Illustrator - module for integration with a graphic design product. Allows the integration of the developed new packaging structure with the corresponding graphic design created in the most common graphic design product Adobe Illustrator.
- 3D Presenter - module for three-dimensional visualization of the design. This is a design verification module before moving on to actual production. In this module, a TA image of the selected structure can be generated, together with a further developed graphic design. The user can see completely realistically what the final product would look like, as well as detect possible design errors before series production.
- Layout Optimizer. Module for optimal placement of the structure on a sheet. The user can choose between the available materials of different sizes and substrates, as well as according to the available machines for serial punching, and make the optimal placement of the structure in order to maximize the number of packages and minimum waste.
- Display Nesting - optimal placement of components of the display structure in order to minimize waste.
- Master Canvas new module for creating individual parts of the display in one place and for optimizing the creation of an otherwise complex and time-consuming process.
- One sheet nesting - new functionality for optimizing the sheet according to the given graphs (articles), and not only by structure.
- SAM - module for control of CNC machines. This module generates a specific file, based on which various machines related to the production process are managed - modeling plotters, machines for bending knives, machines for cutting trenches, etc.

- Dieboard Design. Module for generating punch shapes. The die-form is a tool used by machines for mass production of packaging. Each punch must comply with the requirements of the available punching machine. In this module, the user has a wealth of tools to create a suitable die shape and prepare it for production.
- The process of serial production of packaging includes several specialized modules for specific activities related to high-performance and high-quality punching - Stripping Die Design, Counterplate Design, Vamish Blanket Design
- Project Organizer, Cost Estimator. These are modules serving the organization of business processes related to the production of packaging. With their help, companies engaged in the production of packaging and / or punch forms, organize work with their customers, orders and related files, as well as generate automated calculation of the expected value of the product, based on information from the graphic file.

Packaging Suite is software targeted at the global niche of packaging and display manufacturers. Potential customers for various configurations of product modules are advertising agencies, printers, packaging companies, punch companies. The product supports a user interface in all major world languages and has virtually unlimited market reach. With its developed AP1 provides opportunities for all these groups of users to embed in their sites or platforms for communication with their end customers elements of production functionality, through which to improve both customer-manufacturer relationship and increase the efficiency of service and overall production .

For 2021, the sales generated by licenses from the CAD system, subscriptions and API-based online developments total over BGN 3 000 000.

The largest share in the total generated revenue was realized by the strategic partner Heidelberg and the largest client Prinzhorn. Among the main customers of Packaging Suite are manufacturers of cardboard packaging, corrugated cardboard, punch manufacturers and companies that have fully digital production of displays. The software is also rebranded for several manufacturers of digital cutting machines, which offer one machine and software solution to their customers.

A new version 8 of the CAD system is expected to be released in 2022, as well as to develop new online products based on its functionality, but providing services for Internet users of cloud and online solutions in the packaging industry.

With the help of the developed API and the developed component for online services, several major business problems of packaging manufacturers are solved:

- Have access to parametric standards, which eliminates errors in the design of the structure;
- The offered TA visualization helps the end customers to orientate well what they will order and what the order will look like after the production;
- Production is also optimized based on what the customer has ordered.

The target market for this component is global. Customers can be arbitrary packaging companies around the world, and the trends towards digitalization of production and use of digital printing machines, as well as combined machines for digital printing and serial production of packaging, suggest future expansion of the market niche for it.

Measurement Suite is software that has invested many years of development and experience in this industry, generating several applications with common technology and code.

The technology allows the software to work with various devices for measuring, quality control, processing of scanned image, which can be a profile, shaft or other element important for the quality of the entire production.

Specialized functionality has been developed for collaborating Internet and mobile-based applications, as well as PCs. Based on automation and optimization of some specific activities for quality control of serial production, in measurements with hand tools such as calipers, micrometers, altimeters and more. covers the process of measurement, transmission of measurement data and their storage and subsequent processing. It covers both the traditional ways of data transmission in hand-held measuring instruments (manual data entry, cable transmission) and the most modern technologies - Bluetooth connection between the meter and a mobile device. The technology can be

offered as a cloud-based service on a subscription basis, or as a solution installed on the client's servers.

The following steps are included when measuring with a hand-held instrument and transferring data to the cloud:

- Operator measurements. The operator has a mobile device on which the application is installed. After login to the application, it gets access to a library of measurement plans allocated to it. The measurement plans are visualized as drawings of the details to be measured. The operator selects a plan and sees the drawing with all the dimensions to be measured and their nominal values. At the start of the measurement plan, a process begins in which all the planned dimensions must be measured step by step tool must be used. The operator follows the specified order of measurement and enters the relevant current measured values before moving forward. If the measuring instrument has bluetooth data transmission, the measured values are automatically displayed on the screen of the mobile device, respectively in red or green, depending on whether they are within or outside the tolerance to the nominal value.
- At the end of the process of steps according to the plan, the measurement data is sent to the Internet / cloud application, where it can be accessed according to the set rights, they can generate reports and other types of documentation, check and track results of the work of operators, serviceability of tools, to generate graphs and other ways to monitor the quality of production. The web / cloud application can create libraries of measurement plans, tool inventory, administer users and access rights.
- The desktop application, in turn, is designed to create new measurement plans to be added to the library in the Internet application. This is a standard PC application in which graphic files of the most common formats in mechanical engineering can be imported and based on them to create a process of sequential measurement of specific dimensions, their nominal values and tolerances, brief descriptions and specific instructions to the operator. each of the steps.

The application of the technology is a bit more complicated with regard to the measurements of shaft elements, in which already specialized machines are used. A machine shaft is mounted on a special stand, which is rotated and examined by a number of optical and sensor sensors. The received information is sent to the software to be analyzed and the dimensions and their compliance with the set tolerances are determined.

For specialized machines that are located in industrial conditions such as optical measuring systems based on a standard scanner, use PC and touch monitor, as well as specialized software Measurement Suite for scanned image analysis, report generation and documentation, as well as and storage and management of measurement information.

The main consumers are the companies that produce by extrusion products from aluminum, plastics and others. materials. The main stage in the production cycle of these productions is the ongoing monitoring of product quality. For this purpose, sections from any places of the extruded products (profiles) are taken and measured precisely, according to certain criteria.

The scanned image of the profile section is processed by the software and within seconds gives a complete report on the compliance of the part with the requirements and tolerances defined in the system. The product also allows manual comparison of the image against an ideal drawing and detection of deviations.

All information from all measurements is stored in the module MDC - Measurement Data Center - where at any time you can check the results, operators, measuring machines, etc. Integration with other popular specialized software products for processing information from measurements used in industry (SPC), or with standard ERP systems, etc. is also possible.

SIRMA CLOUD PLATFORM, which is a platform for cloud management:

- Data center virtualization management;
- Data warehouse virtualization management (storage);
- Resource efficiency management;
- Resource cost management;

- Cloud management distributed in different geographical locations.

PSD2 / 2FA - 2FA is a software solution created as a result of a European regulatory requirement under REGULATION (EC) No 910/2014 on electronic identification and authentication services in electronic transactions to reduce fraud, increase the security of online payments and protect identity .

Authentication software solution in which a user of an electronic device or program is granted access only after successful presentation of two or more evidences by which he is certified as:

- Knowledge - something the client knows (Password, PIN, secret answers);
- Possession - something that the client owns (dongle, telephone, hardware);
- Personality - something that the client is (Imprint, face, eyes, voice, DNA).

PSD2 is a software solution created as a result of the enlarged European Union Directive on payment services PSD2 Directive (EU) 2015/2366 and the Law on Payment Services and Payment Systems. Provides:

- PSD2 listener back end server - the connection with the outside world for the bank and implements the requirements of BISTRA (Banking Interfaces for Standardized Payments). Server services are available 24x7.
- PSD2 module for consent management - a module for registration of client accounts for work with the services under PSD2 and respectively BISTRA, which is integrated with OBS (Main Banking System).
- PSD2 module for transactions processing - a module for processing transactions on PSD2 and BISTRA, respectively, which is integrated with OBS (Basic Banking System).

RepExpress 2019 - a system for centralized storage and processing of data for regulatory reporting purposes.

Webank 2019 - internet banking system, which includes the following applications:

- mBANK - combined comprehensive platform for mobile banking
- UTILITY PAYMENTS - Utility payments - electronic utility payment system - invoices for payment and billing
- STATEMENTS - creation and delivery of reports on client accounts, through various channels - in a bank office, postal address, e-mail, web portal;
- NOTIFICATIONS - subscription for real-time notification via SMS and / or e-mails for account status or account movement, card transaction, upcoming loan installment, utility payment, amount due, etc.
- Personal Finance Manager - a system for increasing the financial awareness of bank customers through a visual representation of their financial management. With the use of PFM, customers can manage their costs and revenues by creating revenue forecasts.

SCARDS 2019- management system for all types of bank cards, which includes the following modules:

- Fees and loyalty programs
- Front-end module
- Credit module
- UBX PAYMENT PORTAL - system for information exchange, processing and making payments through: direct debit, credit transfer, credit transfer return, withdrawal. Management of logical and physical interfaces with SEPA, BISERA6, BISERA7, RINGS, SWIFT, SEBRA, TARGET 2.
- E-CHANNELS - Standardized solution for working with a full set of integrated electronic connectors and modules.

ceGate 2019 - a standardized portal for establishing a connection with electronic registers, which facilitates and unifies the receipt of information by end users.

Distrain orders 2019 - web-based software applications for automation of the process of distraint orders and inquiries;

Sirma ICS Platform

The platform has an open architecture and a modular structure that allows flexible and adaptive product management. The platform uses SSL-certified security to protect the privacy of customer data. Calculation and issuance of policies in real time (through integration) with discounts / increases confirmed by the insurance company.

"Motor Third Party Liability" - Integration with 9 companies

"Casco" - Integration with 1 company (Grupama),

"Property" - Integration with 3 companies (Allianz, ZAD Bulgaria, Grupama).

"Travel Assistance" - Integration with 4 companies (Unique Life, Grupama, DZI and ZAD Bulgaria).

- Registration of all other types of policies and all types of annexes
- Automatic renewal of policies, both through integration and for manually registered policies

No material contractual commitments were entered into during 2021 or 2020.

From the standpoint of the specific economic situation caused by the Covid-19 pandemic, the analysis of the recoverable amounts of intangible fixed assets did not show any indications of their impairment. In confirming its judgment, management has used the expert judgment of an independent licensed appraiser.

All amortization charges are included within “Depreciation, amortization of non-financial assets”.

No intangible assets have been pledged as security for liabilities.

12. Deferred tax assets and liabilities

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

Deferred tax liabilities/ (assets)	1 January 2022	Recognised in profit and loss	30 September 2022
	BGN'000	BGN'000	BGN'000
Non-current assets			
Intangible assets	45	(45)	-
Impairment of investments	(56)	7	(49)
Current assets			
Inventories	(3)	3	(3)
Trade and other receivables	(29)	29	(29)
Non-current liabilities			
Pension and other employee obligations	(23)	23	(23)
Current liabilities			
Pension and other employee obligations	(82)	45	(37)
Unused tax losses	(39)	21	(39)
Interest rates from weak capitalization	(20)	-	(20)
Lease liabilities	(7)	7	(7)
	(214)	90	(124)
Deferred tax assets	(259)		(124)
Deferred tax liabilities	45		-

Deferred taxes for the comparative period 31.12.2021 can be summarized as follows:

Deferred tax liabilities/ (assets)	31 December 2020	Recognised in profit and loss	31 December 2021
	BGN'000	BGN'000	BGN'000
Non-current assets			
Intangible assets	8	37	45
Impairment of investments	(56)	-	(56)
Current assets			
Inventories	(3)	-	(3)
Trade and other receivables	(40)	11	(29)
Non-current liabilities			
Pension and other employee obligations	(23)	-	(23)
Current liabilities			
Pension and other employee obligations	(82)	-	(82)
Unused tax losses	(39)	-	(39)
Interest rates from weak capitalization	(20)	-	(20)
Lease liabilities	(7)	-	(7)
	(262)	48	(214)
Deferred tax assets	(270)		(259)
Deferred tax liabilities	8		45

All deferred tax assets have been recognized in the consolidated statement of financial position.

13. Long - term receivables

As of 30 September 2022 the Group did not have a long-term receivable. The Group had a loan granted as of 31.12.2021 to one individual person in the amount of BGN 547 thousand with a repayment period of 31 December 2023 and interest in the amount of 3%. The receivable was unsecured. The company had impairment losses for the long-term receivable in the amount of BGN 121 thousand.

14. Inventory

Inventory recognized in the consolidated statement of financial position consist of the following:

	30.09.2022	31.12.2021
	BGN'000	BGN'000
Goods	131	2 762
Raw materials and consumables	47	29
Others	101	17
	279	2 808

None of the inventories at 30 September 2022 are pledged as securities for liabilities.

15. Contract liabilities

The Group recognizes the following contract liabilities related to contracts with customers:

	30.09.2022	31.12.2021
	BGN'000	BGN'000
Contract liabilities – advances	1 376	4 303
Total contract liabilities	1 376	4 303

Contract liabilities have arisen under contracts for which an advance payment by the client is available.

16. Trade and other financial receivables

	30.09.2022 BGN'000	31.12.2021 BGN'000
Trade receivables, gross	16 189	17 113
Impairment of trade receivables	(213)	(213)
Trade receivables	15 976	16 900
Court receivables	261	261
Financial assets	261	261
Trade and other financial receivables	16 237	17 161

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

All trade and other financial receivables of the Group have been reviewed in respect of events of default and for all trade receivables a simplified approach has been applied to determine the expected credit losses at the end of the period.

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

	30.09.2022 BGN'000	31.12.2021 BGN'000
Balance at 1 January	(213)	(178)
Impairment loss	-	(35)
Balance at 30 September / 31 December	(213)	(213)

The Group performs regular monitoring and analysis on an individual basis of the available settlements with the counterparties. Taking into account the difficulties of business caused by the Covid-19 pandemic, measures have been taken to increase the efficiency of the applied practices in debt collection. In assessing the collection of receivables, the Group takes into account the actual and potential effects of the pandemic on counterparties and their ability to repay their obligations to it. The negative economic outlook and potential liquidity difficulties arising from Covid-19 in respect of the Group's counterparties have been taken into account in assessing the collection of receivables. Based on the performed analysis, the management considers that there are no indications for deterioration of the credit quality of the counterparties. The process also takes into account the fact that the existence of temporary potential liquidity problems of counterparties caused directly by Covid-19 are not considered indications of deteriorating credit quality.

17. Prepayments and other assets

	30.09.2022 BGN'000	31.12.2021 BGN'000
Prepayments	4 186	706
Tax receivables	398	316
Other receivables	948	937
Non-financial assets	5 532	1 959

18. Cash and cash equivalents

Cash and cash equivalents comprise of the following:

	30.09.2022 BGN'000	31.12.2021 BGN'000
Cash at bank and in hand	24 114	10 630
Short-term deposits	75	198
Blocked cash	745	525
Cash and cash equivalents	24 934	11 353

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

19. Equity

19.1. Share capital

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

	30.09.2022	31.12.2021
	Number of shares	Number of shares
Number of shares issued and fully paid, - beginning of the year	59 360 518	59 360 518
Number of shares issued and fully paid	59 360 518	59 360 518
Total number of shares authorized as at 30 September /December	59 360 518	59 360 518

The list of the principal shareholders of the “Sirma Group Holding” JSC is as follows:

Shareholders	Number of shares at 30.09.2022	Number of shares at 30.06.2022	Nominal VALUE (BGN)	Value (BGN)	% Sharehol ding	% shareholding with deducted repurchased own shares
Georgi Parvanov Marinov	5 269 748	5 269 748	1	5 269 748	8,88%	8,90%
Tsvetan Borisov Alexiev	4 965 753	4 965 753	1	4 965 753	8,37%	8,38%
Chavdar Velizarov Dimitrov	4 750 786	4 750 786	1	4 750 786	8,00%	8,02%
Veselin Antchev Kirov	4 700 786	4 700 786	1	4 700 786	7,92%	7,93%
Ivo Petrov Petrov	4 000 000	3 955 000	1	4 000 000	6,74%	6,75%
Ognyan Plamenov Chernokozhev	3 741 620	3 741 620	1	3 741 620	6,30%	6,32%
Atanas Kostadinov Kiryakov	2 887 524	2 887 524	1	2 887 524	4,86%	4,87%
Krasimir Nevelinov Bozhkov	2 534 161	2 534 161	1	2 534 161	4,27%	4,28%
Vladimir Ivanov Alexiev	2 177 583	2 177 583	1	2 177 583	3,67%	3,68%
Rosen Vasilev Varbanov	2 156 687	2 156 687	1	2 156 687	3,63%	3,64%
Emiliana Ilieva Ilieva	1 965 209	1 965 209	1	1 965 209	3,31%	3,32%
Deyan Nikolov Nenov	1 790 748	1 790 748	1	1 790 748	3,02%	3,02%
Yavor Liudmilov Djonev	1 292 746	1 292 746	1	1 292 746	2,18%	2,18%
Rosen Ivanov Marinov	1 265 795	1 265 795	1	1 265 795	2,13%	2,14%
Peter Nikolaev Konyarov	867 165	867 165	1	867 165	1,46%	1,46%
Mandjukov Ltd.	860 000	860 000	1	860 000	1,45%	1,45%
UPF Doverie JSC	802 126	802 126	1	802 126	1,35%	1,35%
UPF DSK Rodina	747 036	747 036	1	747 036	1,26%	1,26%
Asen Krumov Nelchinov	641 349	641 349	1	641 349	1,08%	1,08%
First Financial Brokerage House	581 220	400 086	1	581 220	0,98%	0,98%
Purchased own shares	117 785	117 785	1	117 785	0,20%	0,20%
Others	11 244 691	11 470 825	1	11 244 691	18,94%	18,78%
Total	59 360 518	59 360 518		59 360 518	100%	100%

19.2. Share premium

The share premium reserve in the amount of BGN 4 062 thousand consists of:

“Sirma Group Holding” JSC

The share premium reserve is formed by the initial valuation of contributed fixed assets in the amount of BGN 1 698 thousand and shares from issue of shares in the amount of BGN 1 843 thousand.

“Sirma AI”

In 2015, the Company issued an additional 2 024 Class A shares of BGN 10 per share or a total of BGN 20 thousand. The shares were sold for the amount of BGN 100 thousand, as a result of which a reserve of BGN 80 thousand was formed.

In 2018, as a result of repurchase of 15 926 own shares at BGN 10 per share, the premium reserve was reduced to BGN 59 thousand.

The amount of the premium reserve as of 31.12.2020 is BGN 59 thousand.

„Ontotext“

A premium reserve in the amount of BGN 346 thousand was formed as follows:

On 13.04.2009 an in-kind contribution of intangible assets in the amount of BGN 12 453 thousand was registered. The capital of Ontotext was increased by 12 242 026 shares with a par value of BGN 1.

A premium reserve in the amount of BGN 211 thousand was formed.

On 03.04. In 2017, by decision of the Board of Directors, the capital of Ontotext is increased by issuing new 843 030 shares with a par value of BGN 1 and an issue value of BGN 1.16 (Art. 195, in connection with Art. 194, para. 4 of the CA). A premium reserve in the amount of BGN 135 thousand has been formed.

„Daticum“

The premium reserve in the amount of BGN 1 thousand consists of reserves from the initial valuation of contributed fixed assets, formed in 2009.

S&G Technologies Ltd.

The premium reserve is formed by issuing shares worth BGN 115 thousand.

19.3. Other reserves

	Legal reserves BGN'000
Balance at 1 January 2022	2 759
Formation of reserves	299
Balance at 30 September 2022	3 058
	Legal reserves BGN'000
Balance at 1 January 2021	2 601
Formation of reserves	158
Balance at 31 December 2021	2 759

20. Provisions

Provisions for guaranteed dividends in the amount of BGN 22 thousand in Q3 2022 (31.12.2021: provisions for guaranteed dividends in the amount of BGN 22 thousand).

21. Employee remuneration

21.1. Employee benefit expense

Expenses recognized for employee benefits include:

	30.09.2022 BGN'000	30.09.2022 BGN'000
Wages, salaries	(24 161)	(15 374)
Social security costs	(2 751)	(1 880)
Employee benefits expense	(26 912)	(17 254)

21.2. Pension and other employee obligations

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

	30.09.2022 BGN'000	31.12.2021 BGN'000
Non-current:		
Compensations in compliance with Labour Code	227	356
Non-current pension and other employee obligations	<u>227</u>	<u>356</u>
Current:		
Payroll obligations	1 249	2 644
Social security obligations	470	354
Accrued holiday entitlement	497	785
Current pension and other employee obligations	<u>2 216</u>	<u>3 783</u>

The current portion of these liabilities represents the Group's obligations to its current employees that are expected to be settled during 2022. Other short-term employee obligations arise mainly from accrued holiday entitlement at the reporting date and various pension payments. As none of the employees has the right for early settlement of pension arrangements, the remaining part of pension obligations for defined benefit plans is considered non-current.

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

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

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

22. Borrowings

Borrowings include the following financial liabilities:

	Current		Non-current	
	30.09.2022 BGN'000	31.12.2021 BGN'000	30.09.2022 BGN'000	31.12.2021 BGN'000
Financial liabilities measured at amortized cost:				
Bank loans	930	15 287	7 858	13 288
Trade loans	987	987	-	-
Total carrying amounts	<u>1 917</u>	<u>16 274</u>	<u>7 858</u>	<u>13 288</u>

All loans are denominated in Bulgarian leva (BGN). The carrying amount of bank loans is considered a reasonable estimate of their fair value.

Bank	Type of loan	Currency	Total amount of credit (BGN)	Outstanding obligation at 30.09.2022 (BGN)	Date of contract	Interest rate	Maturity date	Pledges
United Bulgarian Bank	Overdraft	BGN	4 025 000	597 452	12.12.2019	RIR + 1.2%, but no less than 1.3% per year	20.12.2025	Office № 1 ,2, 3 ,4, 5 ,6, 7, 8, 9, 10, 11, 19, 20, 21 in office building located in Sofia, Mladost district, Tsarigradsko Shosse Blvd 135 + Pledge of the receivables
Eurobank Bulgaria	Overdraft	BGN	4 200 000	-	21.07.2016	Base + 0.7 points, but not less than 1.7% per year	31.12.2022	Pledge of the Receivables under the Business Incubator Contract №BG161PO003-2.2.0012-C0001 / 02.02.2012; Mortgage of a real estate located in Sofia, Mladost district, Tsarigradsko Shosse Blvd 135, namely the 5th floor of the building
United Bulgarian Bank	Investment	BGN	10 475 000	465 377	12.12.2019	RIR + 1.2%, but no less than 1.3% per year	20.12.2024	Pledge of receivables, pledge of commercial enterprises, pledge of real estate
United Bulgarian Bank	Investment	BGN	2 933 745	2 689 266	12.11.2021	3M EURIBOR + 1.3%, but no less than 1.3% per year	11.12.2031	Pledge of receivables, pledge of real estate
United Bulgarian Bank	Investment	BGN	6 391 652	5 926 165	12.11.2021	3M EURIBOR + 1.2%, but no less than 1.3% per year	11.12.2029	Pledge of receivables, pledge of commercial enterprises, pledge of real estate
United Bulgarian Bank	Investment	EUR	731 131	731 131	30.6.2022	3M EURIBOR + 1.2%, but no less than 1.3% per year	30.06.2027	Pledge of receivables, pledge of shares of subsidiary
United Bulgarian Bank	Overdraft	BGN	4 000 000	-	28.10.2020	RIR + 1.4%, but no less than 1.4% per year	20.09.2025	Pledge of receivables

23. Lease liabilities

Lease liabilities are presented in the statement of financial position as follows:

	30.09.2022	31.12.2021
	BGN'000	BGN'000
Lease liabilities – non-current portion	1 130	2 213
Lease liabilities – current portion	913	829
Lease liabilities	2 043	3 042

The Group leases building and vehicles. Except for short-term leases and leases of low-value underlying assets, each lease is reflected on the statement of financial position as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Group’s sales) are excluded from the initial measurement of the lease liability and asset. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see note 10).

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings and factory premises the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

Lease payments not recognised as a liability

The Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

24. Trade and other payables

	30.09.2022	31.12.2021
	BGN'000	BGN'000
Trade payables	5 466	4 367
Financial liabilities	5 466	4 367
Tax payables	539	354
Deferred income	9	4
Other liabilities	2 392	399
Non-financial liabilities	2 940	757
Non-current and current trade and other payables	8 406	5 124

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

25. Revenue from contracts with customers

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

30.09.2022	Sale of IT equipmen				Rendering of services				Total
	Bulgaria BGN'000	Europe BGN'000	USA BGN'000	Others BGN'000	Bulgaria BGN'000	Europe BGN'000	USA BGN'000	Others BGN'000	
Gross revenue	12 057	3 347	1	778	11 226	15 392	11 381	2 509	56 691
Revenue from contracts with customers	12 057	3 347	1	778	11 226	15 392	11 381	2 509	56 691
Revenue recognition As a point in time	12 057	3 347	1	778	11 226	15 392	11 381	2 509	56 691

30.09.2022	Sale of IT equipmen				Rendering of services				Total
	Bulgaria BGN'000	Europe BGN'000	USA BGN'000	Others BGN'000	Bulgaria BGN'000	Europe BGN'000	USA BGN'000	Others BGN'000	
Gross revenue	9 346	1 824	71	2 985	7 771	8 669	10 970	1 370	43 006
Revenue from contracts with customers	9 346	1 824	71	2 985	7 771	8 669	10 970	1 370	43 006
Revenue recognition As a point in time	9 346	1 824	71	2 985	7 771	8 669	10 970	1 370	43 006

Product lines

	30.09.2022 BGN'000	30.09.2021 BGN'000
Software services	26 481	16 793
Sale of IT equipment	16 183	14 226
Licenses	3 775	3 649
Subscriptions	3 258	3 215
Consulting services	2 160	1 370
System integration	1 015	1 013
Cloud services	465	506
Others	3 354	2 234
	56 691	43 006

26. Other income

Other income includes:

	30.09.2022 BGN'000	30.09.2021 BGN'000
Revenue from financing	975	966
Income from sale of investments	-	7
Other income	440	234
	1 415	1 207

27. Gain on sale of non-current assets

	30.09.2022 BGN'000	30.09.2021 BGN'000
Proceeds from sale of non-current assets	12	33
Carrying amount of non-current assets sold	(1)	-
Gain on sale of non-current assets	11	33

28. Cost of materials

Cost of materials includes:

	30.09.2022 BGN'000	30.09.2021 BGN'000
Electricity	(849)	(284)
System integration	(410)	(267)
Computer components	(47)	(21)
Office supplies	(40)	(13)
Inventory	(37)	(24)
Advertising materials	(24)	(10)
Car fuel	(23)	(22)
Hygienic materials	(16)	(10)
Repair parts for cars	(6)	(6)
Heating	(6)	(2)
Water	(5)	(4)
Materials for office repair and maintenance	(3)	(9)
Computer supplies	(3)	(7)
Materials embedded in systems	(1)	(22)
Others	(1)	(12)
	(1 471)	(713)

29. Hired services expenses

Hired services expenses include:

	30.09.2022 BGN'000	30.09.2021 BGN'000
Consulting services	(2 035)	(1 424)
Software services	(1 929)	(1 891)
Sub - contracted operations as part of projects	(1 386)	-
Advertising and marketing	(1 134)	(430)
Commissions and fees	(766)	(260)
Hosting	(500)	(249)
Subscriptions	(458)	(241)
Software license rental	(253)	(335)
Seminars and training	(170)	(99)
Insurances	(98)	(62)
Intermediary services	(93)	(107)
Mobile phones	(79)	(67)
Rents	(70)	(270)
Office maintenance and repair	(59)	(49)
Security	(59)	(44)
Courier, transport	(56)	(34)
Connectivity	(54)	(49)
Internet	(50)	(43)
Staff recruitment	(44)	(55)
Cleaning	(43)	(22)
Audit	(38)	(15)
Administrative service	(17)	(10)
Notary fees	(6)	-
Civil contracts	(5)	(26)
Parking	(5)	(10)
Car maintenance and repair	(1)	(3)
Others	(113)	(51)
	(9 521)	(5 846)

30. Other expenses

The Group’s other expenses include:

	30.09.2022 BGN'000	30.09.2021 BGN'000
Impairment of investment	(2 229)	-
Social expenses	(299)	(198)
Business trips	(216)	(55)
Entertainment expenses	(118)	(26)
Impairment of receivables	(87)	-
Local taxes and fees	(62)	(63)
Expenses without documents under Accountancy Act	(19)	(13)
Donations	(8)	(5)
Others	(24)	(40)
	(3 062)	(400)

31. Capitalized own expenses

	30.09.2022 BGN'000	30.09.2021 BGN'000
Employee benefits expense	2 013	2 180
Hired services expenses	47	365
Depreciation of property, plant and equipment	-	25
	2 060	2 570

32. Finance costs and finance income

Finance costs for the presented reporting periods can be analyzed as follows:

	30.09.2022 BGN'000	30.09.2021 BGN'000
Interest expenses on loans	(222)	(151)
Expenses on foreign exchange operations	(132)	(43)
Interest expenses for finance lease agreements	(9)	-
Interest expenses NRA	(3)	(3)
Other financial expenses	(120)	(78)
Total interest expenses for financial liabilities	(486)	(275)
not at fair value through profit or loss		
Finance costs	(486)	(275)

Finance income may be analyzed as follows for the presented reporting periods:

	30.09.2022 BGN'000	30.09.2021 BGN'000
Income from operations with financial assets and instruments	543	-
Income from foreign exchange operations	203	102
Interest income on loans	-	15
Financial income	746	117

33. Earnings/loss per share

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

	30.09.2022	30.09.2021
Earnings/loss attributable to the shareholders (BGN'000)	(5 109)	4 183
Weighted average number of outstanding shares (in thousand)	59 257	58 776
Basic earnings per share (BGN per share)	(0,0862)	0,0712

34. Related party transactions

The Group's related parties include its owners, associates and key management

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

Transactions with subsidiaries and other related parties

	30.09.2022 BGN'000	30.09.2021 BGN'000
Sales of:		
- goods	200	595
- services	10 719	10 890
- others	52	1 093
Purchases of:		
- materials	178	626
- services	9 945	10 737
- others	54	1

Transactions with key management personnel

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

	30.09.2022 BGN'000	30.09.2021 BGN'000
Short-term employee benefits:		
Salaries	579	405
Social security costs	12	10
Total remunerations	591	415

35. Related party balances at period-end

	30.09.2022 BGN'000	31.12.2021 BGN'000
Current		
Receivables from:		
- other related parties under common control		
- loans	277	277
- impairment	(277)	(277)
- key management personnel		
- trade and other receivables	862	970
- impairment	(348)	(348)
- loans	766	766
- impairment	(766)	(766)
Total current receivables from related parties	514	622
Total receivables from related parties	514	622
Current Payables to:		
- other related parties under common control		
- trade and other liabilities	644	5 199
Total current payables to related parties	644	5 199
Total payables to related parties	644	5 199

36. Reconciliation of liabilities arising from financing activities

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

	Long-term borrowings BGN'000	Short-term borrowings BGN'000	Lease liabilities BGN'000	Purchased own shares, dividends, interest BGN'000	Total BGN'000
1 January 2022	13 288	16 274	3 042	(1 304)	31 300
Cash flows:					
Repayment	(8 726)	(5 546)	(999)	-	(15 271)
Proceeds	3 296	2 560	-	1219	7 075
Non-cash:					
Reclassification	-	-	-	-	-
30 September 2022	7 858	13 288	2 043	(85)	23 104

	Long-term borrowings BGN'000	Short-term borrowings BGN'000	Lease liabilities BGN'000	Purchased own shares, dividends, interest BGN'000	Total BGN'000
1 January 2021	10 285	15 590	3 051	(585)	28 341
Cash flows:					
Repayment	(6 685)	(12 235)	(597)	(1 742)	(21 259)
Proceeds	11 837	10 770	-	187	22 794
Non-cash:					
Interest	-	-	-	18	18
Occurrence of lease obligations under IFRS 16	-	-	588	-	588
Dividends	-	-	-	1 021	1 021
Purchase of own shares	-	-	-	(203)	(203)
Reclassification	(2 149)	2 149	-	-	-
31 December 2021	13 288	16 274	3 042	(1 304)	31 300

37. Non-cash transactions

There were no non-cash transactions during the presented reporting period.

38. Contingent assets and contingent liabilities

Various warranty and legal claims were not brought against the Group during the period.

There are no contingent liabilities relating to subsidiaries and associates of the Group.

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

Recipient of loan	Bank	Type of loan	Currency	Total amount of credit (in BGN)	Outstanding obligation to 30.09.2022 (in BGN)	Date of contract	Interest rate	Maturity date	Pledges
Sirma Solutions	United Bulgarian Bank AD	overdraft	BGN	4 025 000	597 452	12.12.2019	RIR + 1.2%, but no less than 1.3% per year	20.12.2025	Pledge of receivables, pledge of commercial enterprises, pledge of real estate
Sirma Solutions	United Bulgarian Bank AD	Revolving credit line	BGN	4 000 000	-	28.10.2020	RIR + 1.4%, but no less than 1.5% per year	20.09.2025	Pledge of receivables.
Sirma Medical Systems	Unicredit Bulbank	Bank revolving credit	BGN	250 000	250 000	15.12.2020	ODI+1.3%, but no less than 1.3% annually	15.12.2023	Pledge of receivables

Litigations

No claims were brought against the Group.

39. Categories of financial assets and liabilities

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

Financial assets	Note	30.09.2022 BGN'000	31.12.2021 BGN'000
Financial assets at fair value through profit or loss:			
Long - term financial assets	7	841	841
Investment in associates	6	21 550	-
		41 963	29 621
Debt instruments measured at amortized cost			
Long-term receivables	13	-	426
Trade and other receivables	16	16 237	17 161
Related party receivables	35	514	622
Loand given		260	59
Financial assets		18	-
Cash and cash equivalents	18	24 934	11 353
		41 963	29 621
		64 102	30 462

Financial liabilities	Note	30.09.2022 BGN'000	31.12.2021 BGN'000
Financial liabilities measured at amortized cost			
Borrowings:			
non-current	22.1	7 858	13 288
current	22.1	1 917	16 274
Finance lease liabilities:			
non-current	23	1 130	2 213
current	23	913	829
Trade and other payables	24	8 406	5 124
Related party payables			
current	35	644	5 199
		20 868	42 927

See note 4.17 about information related to the accounting policy for each category financial instruments. Description of the risk management objectives and policies of the Group related to the financial instruments is presented in note 40.

40. Financial instrument risk

Risk management objectives and policies

The Group is exposed to various risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarized in note 39. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is carried out by the central administration, in close co-operation with the board of directors and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets.

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

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

40.1. Market risk analysis

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

40.1.1. Foreign currency risk

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

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

Exposures to foreign exchange rates vary during the period depending on the volume of overseas transactions.

40.1.2. Interest rate risk

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. Longer-term borrowings are therefore usually at fixed rates. At 30 September 2022, the Group is not exposed to changes in market interest rates through bank borrowings. All financial assets and liabilities of the Group are with fixed interest rates.

40.2. Credit risk

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

Financial assets	Note	30.09.2022 BGN'000	31.12.2021 BGN'000
Financial assets at fair value through profit or loss:			
Long - term financial assets	7	841	841
Investment in associates	6	21 550	-
		41 963	29 621
Debt instruments measured at amortized cost			
Long-term receivables	13	-	426
Trade and other receivables	16	16 237	17 161
Related party receivables	35	514	622
Loand given		260	59
Financial assets		18	-
Cash and cash equivalents	18	24 934	11 353
		41 963	29 621
		64 102	30 462

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

None of the Group's financial assets are secured by collateral or other credit enhancements in regard to transactions.

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

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

40.3. Liquidity risk

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

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

As at 30 September 2022, the Group's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarized below:

30 September 2022	Current		Non-current
	Within 6 months	6 to 12 months	1 to 5 years
	BGN'000	BGN'000	BGN'000
Borrowings	959	958	7 858
Finance lease obligations	457	456	1 130
Trade and other payables	8 406	-	-
Related party payables	644	-	-
Total	10 466	1 414	8 988

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

31 December 2021	Current		Non-current
	Within 6 months	6 to 12 months	1 to 5 years
	BGN'000	BGN'000	BGN'000
Borrowings	8 137	8 137	13 288
Finance lease obligations	429	428	2 269
Trade and other payables	4 367	-	-
Related party payables	5 199	-	-
Total	18 132	8 565	15 557

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

Financial assets used for managing liquidity risk

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

41. Capital management policies and procedures

The Group's capital management objectives are:

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

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

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

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

	30.09.2022 BGN'000	31.12.2021 BGN'000
Equity	98 098	112 898
Adjusted capital	98 098	112 898
Total liabilities/Total borrowings/Total borrowings, trade and other payables	25 863	51 601
- Cash and cash equivalents	(24 934)	(11 353)
Net debt	929	40 248
Adjusted capital to net debt	105.60:1	2.81:1

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

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

42. Post-reporting date events

Acquisition of a new company in the Group

On 18.10.2022, the subsidiary of "Sirma Group Holding" JSC - "Sciant" AD acquired its foreign partner - the company "ReSolutions" Shpk, registered in Albania. The transaction was entered in the Albanian Commercial Register on 15.11.2022.

Details of the transaction:

- Target acquisition: 100% of the company's capital;
- Capital of ReSolutions LLC: 100 000 albanian lek;
- Number of employees: ReSolutions has 25 employees;
- Final payment of the acquisition: 31.12.2022;
- Revenues for the period 01.01.2022 - 06.30.2022: 33 022 000 albanian lek (around BGN 560 000);
- Specialization: development and implementation of business software.

The Board of Directors of "Sirma Group Holding" JSC and "Sciant" AD consider the potential synergy with the experts from the Holding companies and in particular with those from "Sciant" AD and Sirma Sha in Albania.

Complicated international situation

The full-scale military invasion of Russia in Ukraine, which began on 24 February 2022, caused a wide international response and affected the countries of Europe in various aspects. The expectation is that the military conflict will have a negative impact and affect all businesses to one degree or another.

The escalation of hostilities between Russia and Ukraine, the imposition of sanctions and restrictions by the European Union, USA, Canada, Britain and other countries on Russia, the Russian Central Bank, credit institutions, companies, individuals and the closure of Russian stock exchanges, cause significant shocks, ubiquitous on financial markets. The Group has no direct exposure to Ukraine or Russia. However, the impact on the general economic situation may necessitate a revision of some assumptions and judgments. At the same time, inflationary pressures continue to increase, with military action and rising quotations on all commodities expected to increase further.

Systematic risks operate outside the Group, but have a key impact on its activities. These risks are specific to the whole market and cannot be avoided by diversifying the risk, as they are related to the macroeconomic situation, the political situation, regional development and others.

The economic sanctions imposed on Russia by USA and the European Union in connection with the military conflict are likely to have a direct impact on the Group's activities, in relation with the indirect effects of the effect on business and consumer confidence and commodity markets.

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