Sirma Group

Risk Management Policy

„SIRMA GROUP HOLDING" JSC

Contents

1. Purpose

"Sirma Group Holding" and its subsidiaries (Sirma, the Group) recognize the importance of effective risk management to ensure the security, reliability, continuity, and sustainability of its operations.

The purpose of this Risk Management Policy is to establish a framework for identifying, assessing, mitigating, and monitoring risks associated with the operations of Sirma and has the following elements:

- Identification and assessment of potential risks that could impact the company's operations, assets, data, and reputation.
- Implement measures to mitigate and manage the identified risks effectively.
- Ensure compliance with relevant laws, regulations, and industry standards.
- Continuous monitoring and review of the effectiveness of risk management processes and its upgrade.

2. Scope

This policy applies to all employees of Sirma, contractors, and third-party entities engaged in activities on behalf of Sirma. It encompasses all aspects of the organization's operations, including but not limited to information security, financial risks, operational risks, and compliance risks.

3. Risk Management Framework

Risk Identification: Sirma will regularly identify and document potential risks across all areas of the organization, including cybersecurity, operational, financial, and compliance risks. All employees are responsible for identifying and reporting potential risks related to their respective areas of operation. Registered emerging and/or potential risks shall be reported to the Committee for Investments, Risk and Sustainability to the Board of Directors of "Sirma Group Holding" JSC.

Risk Assessment: Risks will be assessed based on their likelihood of occurrence and potential impact on the sustainability of the Group and the achievement of its business objectives. Sirma uses a Risk Matrix (attached hereto) to categorize risks into high, medium, and low priority, guiding the allocation of resources for their mitigation.

Risk Mitigation: Upon identification and assessment, appropriate mitigation strategies will be developed and implemented to reduce the likelihood and the potential impact of the identified risks. Mitigation plans will be documented, assigned to responsible individuals, and monitored for effectiveness. These will be summarized within the Risk Matrix.

Risk Monitoring and Review: The Committee for Investments, Risk and Sustainability will continuously monitor the effectiveness of mitigation measures and review the status of identified risks on a periodic basis. Changes in the internal or external environment will prompt reassessment and adjustment of risk management strategies as necessary.

Risk Reporting: Provide regular reports to senior management and the board of directors on the status of identified risks, mitigation efforts, and any emerging threats that require attention.

4. Risk Matrix

Not all risks have the same probability of occurrence. Each risk would also have a different impact on Sirma's sustainability. The probability and the impact of each risk also differ from time to time.

To establish the materiality of each risk, as well as take into account its current possibility of occurrence, the Group uses the "Risk Matrix", which is also an integral part of this Policy.

The risk matrix contains:

- The name of the identified risk;
- A brief description of the risk;
- Scoring of the probability of its occurrence and potential negative effects, using a point system from 0 to 6;
- Annual review of risk for the past year, justification of scoring, and review of risk mitigation measures;
- The risk mitigation measures that the Group uses;
- Metrics for measuring the effectiveness of the risk-mitigation process for the given risk.

5. Roles and Responsibilities

Board of directors: The BD is responsible for providing oversight and direction for the risk management process. They will ensure that adequate resources are allocated for risk management activities and that risk management objectives are aligned with the organization's strategic goals.

Committee for Investments, Risk and Sustainability: The Committee is responsible for coordinating risk identification, assessment, mitigation, and monitoring activities across the organization. They will facilitate risk management training for employees, provide risk management support for the Board of directors, and ensure guidance on risk-related matters.

Senior Management: Accountable for implementing and enforcing the risk management policy, overseeing risk assessments, and ensuring that appropriate controls are in place.

Employees: All employees are responsible for adhering to risk management policies and procedures, promptly reporting any potential risks or incidents, and actively participating in risk assessment and mitigation activities within their respective roles.

5. Compliance and Reporting

The risk management process will adhere to all relevant laws, regulations, and industry standards governing risk management practices in the IT sector.

Incidents, near misses, and significant changes in risk profiles will be promptly reported to the Committee for Investments, Risk and Sustainability for assessment and appropriate action. Regular risk management reports will be provided to the Board of directors to ensure transparency and accountability.

6. Review and Revision

This Risk Management Policy will be reviewed annually or as needed to ensure its continued relevance and effectiveness. Any necessary revisions will be made in consultation with relevant stakeholders, approved by the BD, and communicated across the organization.

7. Adoption and Implementation

All employees are required to familiarize themselves with this Risk Management Policy and adhere to its provisions in the execution of their duties. Failure to comply with this policy may result in disciplinary action, up to and including termination of employment.

This Risk Management Policy, along with associated procedures and guidelines, will be maintained and updated as necessary by the Committee for Investments, Risk and Sustainability team and approved by the Board of directors. Current versions will be made available to all employees through the Group's internal communication channels.

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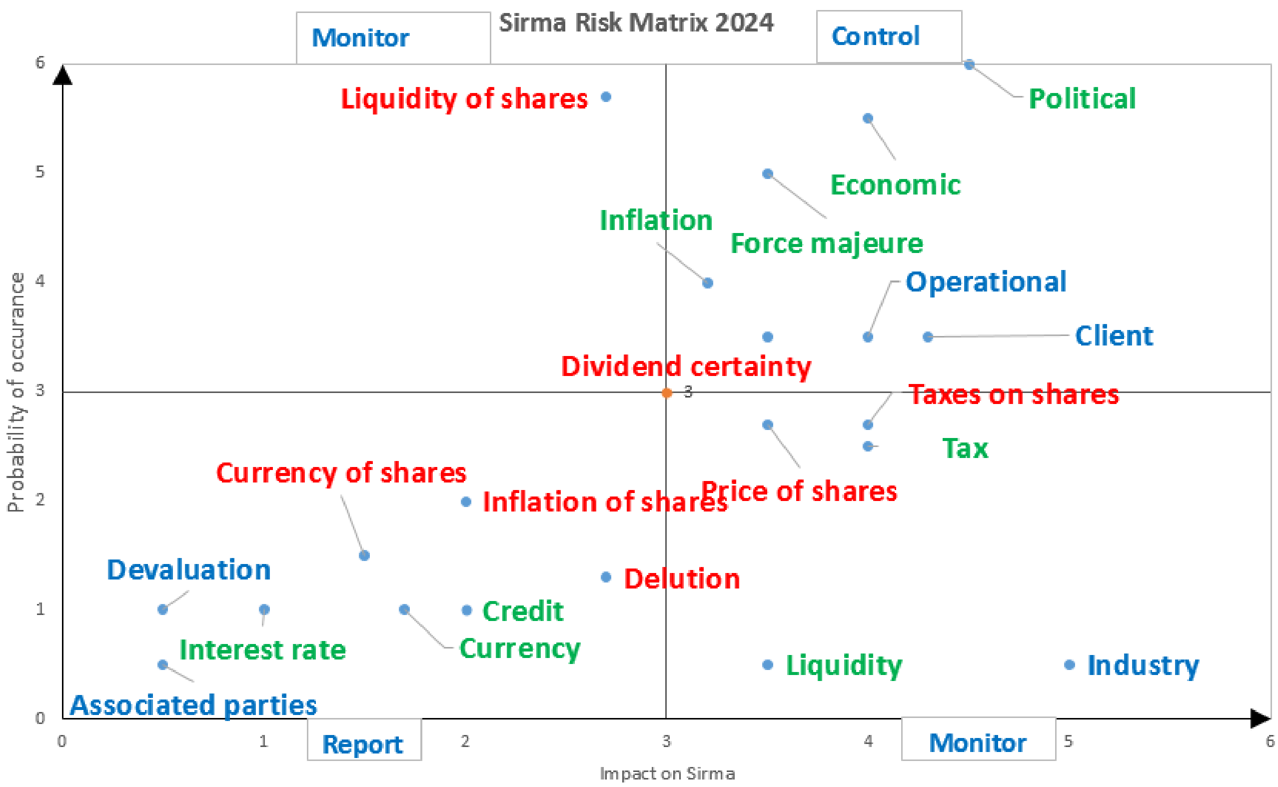
Risk Matrix



1. Systematic risks

Marked in green on the Matrix.

General risks arise from possible changes in the overall economic system and, more specifically, changes in financial market conditions. All economic entities operating on a given market are exposed to them.

1.1. Risk of slow economic growth

Definition: The interaction between economic growth and financial markets has a direct impact on the formation and modification of market conditions and the investment climate. Slowed economic growth means reduced activity on the part of economic entities and a reduced level of investments in general and in particular in IT and software solutions. In this regard, lower economic growth adversely affects Sirma's activity and would prevent the realization of future plans according to previously set parameters.

Probability / Impact: 5.5 / 4

Review 2024: The reduced impact (4) of this risk on Sirma is the result of observations on various markets during various crises, which led to a decline in economic growth during the period 2020-2024. With the corresponding slowdown in economic growth, IT solutions were seen by all market participants as a solution to the problems. Accordingly, the IT sector remained relatively less affected by the slowdown in economic growth (except for the most affected sub-segments). Sadly, the probability of a further economic slowdown is more likely than not (5.5).

Measures:

Diversification of the markets where the Group operates:

- by geography (Bulgaria, the Balkans, Europe, USA)
- by vertical (financial industry, insurance industry, healthcare, manufacturing, hospitality, logistics, etc.)
- by sub-segment (IT services, Software)

Through diversification, Sirma has the opportunity to shift the focus of its activity from difficult markets to more favorable ones operationally.

Market research and innovation

By studying the market situation and the needs of the customers, Sirma can quickly react to an unfavorable development in the economic situation. Innovations and hence, increased customer demand make the Group more resilient to economic shocks.

State support

In a situation of economic downturn, companies that operate in the relevant market often have the opportunity to use state support. Sirma investigates and takes advantage of such support when it exists.

1.2. Political risk

Definition: Political risk is the probability of deterioration of the market situation as a result of political decisions and/or a lack of timely ones. As a result, the environment in which business entities operate deteriorates, and investors are at risk of incurring losses.

Political risks have been abundant in recent years:

- Refugee waves
- Wars in Ukraine and the Middle East
- Geopolitical tension
- Difficulties in logistics
- Terrorist attacks
- Legislative changes
- Political uncertainty in Bulgaria

Probability / Impact: 6 / 4.5

Review 2024: The small deviation from the maximum estimate of the impact of political risk (4.5) on Sirma's operations is due to the resilience of the IT sector and the lower impact on it of political adverse developments. Again, IT is usually seen as a solution to problems that have arisen.

In 2023, Sirma actually functioned under conditions of political risk in almost all its manifestations - both in Bulgaria and in the other countries of operations. The steady growth of the segments where Sirma specializes ("IT services" and "Business software"), as well as the good diversification of the Group, reduced the negative impact of this risk. The probability of this risk stays at the maximum level (6).

Measures:

Diversification of the markets where the Group operates:

- by geography (Bulgaria, the Balkans, Europe, USA)
- by vertical (financial industry, insurance industry, healthcare, manufacturing, hospitality, logistics, etc.)
- by sub-segment (IT services, Software)

Through diversification, Sirma has the opportunity to shift the focus of its activity from politically risk-affected territories to more operationally favorable ones.

Compliance with laws and good corporate governance.

Strict compliance with local laws, regulations, and corporate governance standards in all aspects of a company's activity can help minimize the risk of regulatory action and litigation.

1.3. Credit risk

Definition: Credit risk is the risk that a counterparty will not pay its obligation to the Company. The company is exposed to this risk in connection with various financial instruments, such as when granting loans, arising receivables from customers, depositing funds, and others. Sirma's exposure to credit risk is limited to the amount of the book value of the financial assets recognized at the end of each reporting period.

Probability/Impact: 1 / 2

Review 2024: Losses from revaluations or write-offs of liabilities in the past year are insignificant. Accordingly, the probability (1) of the occurrence of this risk, as well as the potential impact (2) on Sirma, are relatively low.

Measures:

Limitation of exposure: The Company regularly monitors the execution/default of the obligations of its customers and other counterparties, whether determined individually or in groups, and uses this information to control credit risk.

Careful selection of counterparties: Where costs are not prohibitive, external credit rating data and/or financial statements of customers and other counterparties are obtained and used. It is the Company's policy to conduct transactions only with counterparties with a good credit reputation.

Strict documentary control: All transactions in the Group are carried out according to pre-concluded contracts, signed by authorized persons, which in turn are approved by Sirma's legal consultants. This documentary package protects the interests of the Group from the occurrence of credit risk.

Focus on activity: All financial claims of the Group are directly related to its activity. Sirma has not provided its assets as collateral for transactions other than as collateral for bank loans received.

Cash and cash equivalents: The credit risk regarding cash and cash equivalents is considered immaterial as the counterparties are banks with a good reputation and a high external credit rating.

Measurement: Overdue receivables of the Group are impaired and/or written off according to the Accounting Policy. Accordingly, credit risk is measured by the BGN value of revaluations and write-offs during the year. This value is also compared to the total turnover. These values are also compared to historical values to determine increased or decreased risk.

1.4. Currency risk

Definition: This is the risk of a negative change in the exchange rate of one currency against another. About half of the Company's transactions are carried out in Bulgarian leva and euro. The Group's foreign transactions, mainly denominated in US dollars, expose the Company to currency risk.

Probability/impact: 1 / 1.7

Outlook 2024: The Group's revenues and expenses are balanced, and losses from currency revaluations are immaterial.

Measures:

Control of cash flows: In order to reduce currency risk, the Group monitors cash flows that are not in Bulgarian leva or euro (as BGN is pegged to the euro). Risk management procedures are in place for short-term (up to 6 months) and long-term foreign currency cash flows. When the amounts to be paid and received in a certain currency are expected to offset each other, then no additional hedging is required, as is usually the case in the Company.

Measurement: currency risk is measured in BGN as currency revaluations, which are compared to total turnover. These values are also compared to historical values to determine increased or decreased risk.

1.5. Interest rate risk

Definition: Interest rate risk is the risk of an increase in interest on borrowed funds and loans, compared to the originally agreed-upon ones. This is only possible for loans/contracts with a variable interest rate.

Probability/Impact: 1 / 1

Review 2024: Sirma's debt has reached one of the lowest points in the company's development, with all long-term investment loans repaid. Accordingly, the probability of this risk (1) is minimal, as is its potential impact on the Group (1).

Measures:

Limited credit exposure: The Group maintains limited credit exposure, which is repaid at the first liquid opportunity.

Measurement: the interest rate risk is measured by considering the value in BGN of all revalued credits during the year. This value is compared to the total turnover. These values are also compared to historical values to determine increased or decreased risk.

1.6. Liquidity risk

Definition: Liquidity risk is the risk that the Group will not be able to repay its obligations when they fall due. Such an event may result in penalty interest, full liability claims, and reputational damage.

Probability/Impact: 0.5 / 3

Review 2024: Sirma has repaid all its investment loans and has sufficient reserves to meet its liquidity needs. Accordingly, the probability of this risk approaches zero. Never the less, its impact could be serious (3).

Measures:

Control of cash flows: Sirma meets its liquidity needs by carefully monitoring the repayment plans of long-term financial obligations, as well as the inflows and outflows of cash arising in the course of operating activities. Liquidity needs are monitored for different time periods – daily, monthly, and weekly, as well as based on 30-day forecasts. Long-term liquidity needs - for periods of 180 to 360 days - are determined monthly. Cash needs are compared with available loans to determine surpluses or deficits. This analysis determines whether the borrowings available will be sufficient to cover the Company's needs for the period.

Cash and Cash Equivalents: Sirma maintains cash and cash equivalents to meet its liquidity needs for a period of up to 30 days. Funds for long-term liquidity needs are provided through loans in the appropriate amount.

1.7. Inflation risk

Definition: Inflationary risk is a general increase in prices in which money depreciates, employee compensation must increase, while companies do not have the opportunity to compensate for this increase by increasing the prices of services and products they sell. Inflation risk could potentially cause Sirma to contract earnings or incur losses.

Probability/Impact: 4 / 3.2

Review 2024: After a significant increase in inflation in 2022, from mid-2023 inflation is falling in the countries where Sirma operates. At the same time, the geo-strategic confrontation, the various regional conflicts, and difficult supplies continue to give reason to consider a relatively higher level of probability for inflation risk (4). Sirma is particularly sensitive to this risk (impact 3.2), because for IT services, manpower is a major cost, and it is strongly influenced by inflation.

Measures:

Contractual protection: When significant inflationary pressure is expected, Sirma includes in its sales contracts an "inflation clause" that allows the adjustment of the agreed prices in accordance with the inflation index. This clause is mandatory for long-term contracts.

Flexible employment: In addition to its own employees with permanent employment relationships, Sirma regularly maintains additional employment from subcontractors. The latter provide the necessary flexibility of employment when inflationary pressure is established. In this way, Sirma has the opportunity to both compensate its employees for the corresponding price increase and contain the negative impact on the Group.

Price hike: Despite strong competition in the IT sector, amid strong inflationary pressure, Sirma has historically resorted to hiking in its prices as well. It may do so in the future.

Long-term supply contracts and strategic partnerships: Sirma seeks to maintain long-term supply contracts and strategic partnerships. They provide the Group with sustainable prices in turbulent market situations.

Shortening Supply Chains: Shortening supply chains by eliminating some of the middlemen helps Sirma, if not to reduce supply price levels, at least to maintain them during inflationary pressures.

Cost-cutting: Controlling costs and limiting/postponing less important ones during times of inflationary pressure, reduces the effect of inflation on the Group.

1.8. Risk of adverse changes in tax laws and tax practice

Definition: The taxation system in Bulgaria is still developing, as a result of which conflicting tax practices may arise at both the state and local levels.

Investors should also note that the value of an investment in shares may be adversely affected by changes in current tax law, including its interpretation and application.

In addition, tax legislation is not the only thing that can undergo a change, such a change can negatively affect the Group's operations. Although the majority of Bulgarian legislation has already been harmonized with EU legislation, the implementation of the law has come under criticism from Bulgaria's European partners. Judicial and administrative practice remains problematic: Bulgarian courts are unable to effectively resolve disputes related to property rights, violations of legal and contractual obligations, and others, as a result of which systematic regulatory risk is relatively high.

Adverse changes in tax and other laws could lead to a deterioration in the general conditions in which the Company operates, from where, and to a deterioration in its future results. In particular, an increase in corporate income tax and other taxes and fees would reduce the bottom line available for new investment and/or for distributing dividends to its shareholders.

Probability / Impact: 2.5 / 4

Review 2024: no fines have been imposed on any of the companies in the Group for their compliance with their tax obligations. At the same time, the risk of tax changes remains high (IMF advice, potential introduction of a progressive tax). Accordingly, the probability is 2.5. The potential impact of this risk would be even higher (4).

Measures:

Knowledge of and strict compliance with tax legislation

Using the services of a reliable *auditor* for the Group

Measurement: fines imposed for non-compliance with tax legislation

1.9. Risk of force majeure

Definition: Force majeure events such as natural disasters, pandemics, sabotage, outbreaks of war, and acts of terrorism, as well as others, can lead to an unpredictable change both in the demand for IT services and products, as well as in the interest of investors in the shares of “Sirma Group Holding” JSC. Some force majeure events do not provide for the possibility of insurance.

Force majeure events could seriously affect the Company's results by reducing its opportunities to conduct normal business activities and reflecting in the direction of an increase in expenses.

Probability / impact: 5 / 3.5

Review 2024: The last years were saturated with the most diverse force majeure events (probability 5 - the maximum degree has not been reached due to the lack of direct FM events in Bulgaria), the impact of which was not limited to a given calendar year. Such were, for example, the COVID pandemic, the war in Ukraine, logistical difficulties, floods, fires, etc. The Sirma Group and its customers suffer negative consequences from all these force majeure circumstances. Although the Group did not directly suffer losses from force majeure last year (3.5 impact), Sirma realized indirect damages. Thus, in 2023, some of the Group's clients postponed their investments in IT due to force majeure circumstances.

Measures:

State support: In the event of certain force majeure events, it is possible to access targeted state aid for the affected companies. Sirma maintains the administrative capacity to take advantage of this.

Insurance: Some of the force majeure events are perceived as covered risks by the insurance companies. Such is the risk of fire, for example. Sirma is insured for all force majeure risks permitted by insurance companies.

Disaster recovery: Sirma maintains alternative access to its databases at its Headquarters and in its Data Center. In the event of force majeure at one address, the Group will continue to have access to its data from the alternate location.

Hybrid workplaces: Hybrid workplaces are now part of everyday life in the Group. They, in turn, make Sirma more resistant to force majeure events.

Sustainability Policy: A large proportion of force majeure events are the result of unsustainable practices of humanity in the past. Through its Sustainability Policy, Sirma makes targeted efforts to reduce the risks of unsustainable business practices.

Measurement: damages measured in BGN that occurred as a result of force majeure.

2. Unsystematic risks

Marked in blue on the Matrix.

Unsystematic (internal) risks are associated with general investment risks specific to the company itself or its industry. Unsystematic risks can be divided into two types: industry risk, concerning the uncertainty in the development of the industry as a whole, and company risk, arising from the specifics of the specific company.

2.1. Industry risk

Definition: The companies in the Group operate in the economic sector of information and communication technologies (ICT). Specifically, Sirma specializes in the “IT Services” and “Business Software” segments. The Group's revenue and profit may be adversely affected by a number of factors linked to the financial market and ICT market conditions.

Probability / Impact: 0.5 / 5

Outlook 2024: Over the past decade, the “IT Services” and “Business Software” segments have consistently been among the fastest growing. The expected growth for 2024, according to Gartner (Gartner, December, 2023) is 8% for the entire ICT sector and 10.4% and 13.8% respectively, for the two segments of Sirma's specialization. Accordingly, despite the great impact that the development of the industry has on the Group's activity (5), the probability of an unfavorable development of the industry is highly underestimated (0.5).

Measures:

Market monitoring: Sirma carefully monitors the state of the market where it operates, as well as forecasts for its future development. This is done through quarterly reports to the Board of Directors of the company.

Adaptability and innovation: Sirma invests in adaptability and innovation in its products and services. In this way, the Group is always abreast of emerging trends, technologies, and customer preferences and is ready to adjust its business strategies accordingly.

Diversification: Despite the two segments of specialization (“IT Services” and “Business Software”), Sirma strives for vertical diversification of its clients. This reduces the risk of a general decline in sales.

Measurement: The expected development of the specialization segments in the current and next years and monitoring the demand from the verticals served.

2.2. Specific company (customer) risk

Definition: Company/customer risk is related to the nature of the Company's activity, and it is important for any company that the return on invested funds and resources corresponds to the risk associated with the investment. The main company risk for Sirma is related to the possibility of reducing the solvent demand for the products and services offered by the Group, as well as in changing the terms of sale of these products and services. Company risk may have a negative impact on contract growth for software development and delivery services.

Likelihood/Impact: 3.5 / 4.3

2024 Review: In 2023, multiple crises (see "systemic risks") led to subdued demand. Global instability persists in 2024. Countering this is Sirma's sustainability over time and the strong diversification of its portfolio. Accordingly, the probability of client risk remains elevated (3.5), and its impact on Sirma would be strong (4.3).

Measures:

Long-term business relationships: Building long-term business relationships with customers makes sales revenue more sustainable. Sirma will aim to do more "repeat business" (new business with old customers).

Open dialogue with customers: Maintaining an open and transparent dialogue with customers could reduce or prevent the surprise of difficulties occurring in any of the verticals of specialization. The dialogue can also suggest ways to reduce such risk.

Measurement:

Uncertainty can be measured by the variability of income received over time. This means that the more variable and more volatile the income, the greater the uncertainty that the company will realize a positive financial result, i.e., the risk for investors, and creditors will be higher.

Repeat Business: The percentage of new business that is done with old customers.

2.3. Operational risk

Definition: Operational risk is the risk of loss arising from inadequate or malfunctioning internal processes, people, and systems, and/or malicious influence from external interference. Operational risks are related to the management of the company and can be expressed in the following ways:

- making wrong decisions about the current management of the company's investments and liquidity by the management staff;
- the inability of the management staff to start the implementation of planned projects or the lack of suitable personnel for this;
- legal risk;
- departure of key employees and inability to appoint new adequately qualified experts;
- internal fraud, unauthorized access, and unauthorized transactions;
- breach in cyber security, crash in operating systems, malware, data leakage;
- risk related to the compliance and legality of operations;
- risk of a complete collapse of the activity as a result of an external phenomenon.

Probability / Impact: 3.5 / 4

Review 2024: In 2023, no security breaches, fraud, abuse, legal losses, or non-compliance fines were recorded. During the year, Sirma also took its first steps in measuring the sustainability of its development and managing this process. Internal processes, procedures, and policies were audited and updated. Employee training costs increased by over 30%. Sirma Academy entered its second year with good results. Despite the indisputable progress in the fight against operational risks, the ability to find and attract quality personnel remains the key. The probability of operational risk remains high (5) due to the general increased risk in the world and the demographic problems of Bulgaria. The impact of each of the risks that make up the group of operational risks (5) also remains relatively high.

Measures: Various mechanisms will be used to optimize and manage risk, which include the following main areas:

- reasonable investment policy;
- development of the company's committees and the increase of their expert potential;
- due legal formalization of all transactions;
- optimizing the structure, quality, and return of the Company's assets;
- improvement of internal regulations, procedures, and instructions and the involvement of all personnel in their implementation;
- systematic training and qualification of employees and attraction of talents;
- development of cyber security measures and protection from adverse and malicious external factors and attacks;
- strict and comprehensive internal control;
- development and improvement of disaster recovery measures;
- development and implementation of all measures of the Sustainability Policy/Strategy.

Measurement:

- Number of cyber security breaches during the year;
- Number of lost court cases during the year;
- Fines imposed for non-compliance during the year;
- Employee training costs - total amount and costs per employee;
- Average duration of employment relationships – measured in years and months;
- All measures from the Sustainability Policy/Strategy.

2.4. Protection of intellectual property

Definition: Safeguarding and protecting the Group's intellectual property is critical to its success. Despite efforts to protect its intellectual property, the Group may not be able to prevent third parties from using or selling without permission what it considers to be its proprietary technology. Any intellectual property may be vulnerable to disclosure or misuse by employees, partners, or third parties. Third parties may independently develop technologies that are substantially equivalent to or superior to the Company's technologies. In addition, a third party may re-engineer or otherwise obtain and use technology and information that the Group claims to be its own. In this regard, the Company may not be able to protect its proprietary rights against unauthorized copying or use by a third party, which could have an adverse effect on its competitive and financial position and lead to a decline in sales. In addition, the laws and courts of some countries may not offer an effective remedy for intellectual property rights.

Probability/Impact: 2 / 2

Review 2024: In 2023, no violations of the Group's intellectual property were registered. The likelihood of intellectual property infringement is relatively low (2). The great diversification of the Group's specialization reduces the potential negative impact of this risk (2).

Measures: Sirma uses a variety of means to identify and control potential risks and to protect its intellectual property. Such are:

Applying for patents, trademarks, and registering other trademarks and copyrights to prevent copyright and trademark infringement.

Diversification of the Group's verticals of specialization, and hence diversification of intellectual property.

2.5. Risk of entering into transactions with related parties at prices other than market prices

Definition: "Sirma Group Holding" JSC is part of an economic group. The risk of carrying out transactions with the enterprises of the Group, the conditions of which may differ from the market ones at the time of the transaction and are economically detrimental to any company within the Group.

Probability/Impact: 0.5 / 0.5

Review 2024: In 2023, there were no transactions found between companies from the Group, the conditions of which differed from the market conditions. The probability and potential impact remain low (0.5).

Measures: This risk is eliminated to the extent that the Company strives to maintain a *transparent policy* in connection to the treatment of related companies. To the extent that there are transactions in the economic group, they are concluded under standard market conditions at the given time of the transaction and do not extraordinarily benefit any of the parties.

Measurement: Identified transactions between related parties at prices that differ from market prices.

2.6. Risk of devaluation of the company's assets

Definition: Asset devaluation risk is associated with the possibility of reducing the balance sheet value of the Company's assets. Any impairment of long-term tangible and/or intangible assets would lead to the need to post a loss from this impairment. This, in turn, may worsen the future financial results of the Company as well as lead to the realization of a final negative financial result for a given annual period. This, in turn, leads to the risk of not being able to distribute a dividend to the existing shareholders at that future time, as well as a possible decrease in the market price per share of the Company due to the deteriorating financial indicators.

Probability / Impact: 2.7 / 4

Review 2024: In 2023, there was no devaluation of the Group's assets. At the same time, the risk of market realization of the older assets in the company's portfolio is preserved. Accordingly, the probability of occurrence is medium high (2.7), and the impact on the company would be strong (4).

Measurement: the amount of impairment of assets during the year relative to profit before tax for the same year.

3. Risk factors specific to the shares subject to exchange trading

Marked in red on the Matrix.

Risk when investing in securities is associated with uncertainty and the impossibility of accurately predicting future effects and influencing the expected return from the investment.

The main risk and uncertainty for the shareholders of "Sirma Group Holding" JSC is the probability that their investment in the company's shares will not retain its value, as well as not generate the return expected from them due to a decrease in the price of the shares or a lack of other income (dividends). from them.

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

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

The above makes the company resistant to external negative shocks, but nevertheless, in its activity, it encounters significant risks that can negatively affect the company's results.

3.1. Price risk

Definition: Changes in the price of the shares of "Sirma Group Holding" JSC can be caused both by the fundamental condition of the Group - current and expected results of the activity and the respective financial results, and by the economic and market conditions in Bulgaria or the market and economic conditions in the global economy.

Shareholders should bear in mind that it is possible that events may occur that cause sharp fluctuations in the market prices of the shares, such as have previously occurred in the Bulgarian capital market and in the international financial markets, and that such fluctuations are likely to affect in an unfavorable direction the price of the shares of "Sirma Group Holding" JSC.

The market value of the shares will be determined based on supply and demand, and the price of the shares may rise or fall. These price "fluctuations" can cause a security to be worth much less at one time than the value at which it was purchased. This price dynamic is particularly characteristic of the common stock market, whose exchange prices can be subject to sharp fluctuations as a result of publicly disclosed information about the Company's financial results, changes in legislation, and other significant events.

A significant number of sales of the shares of "Sirma Group Holding" JSC for a certain period of time may have an adverse effect on maintaining the level of their price. Such an event would result from a significant excess of sellers of these shares over buyers during that period. At this time, the issuer or a third party is not committed to maintaining a specific price level, and a significant number of sales may result in a reduction of this level.

The Company does not guarantee to investors that the price of its shares will remain stable and/or increase in value in the future. At the time of preparation of this document, “Sirma Group Holding” JSC or, as far as the company is aware, other persons do not intend to buy back the Company's shares in order to preserve and/or increase the market price of the Company's shares.

Probability / Impact: 2.7 / 3.5

Review 2024: In 2023, SGH shares remain undervalued. What's more, the share price fell by 6% during the year. At the same time, BSE liquidity remains tight, and the risk of sharp negative fluctuations is high. Accordingly, the probability of additional devaluation remains elevated (2.7), and the negative impact (especially in strategic terms – SPO, relationship with banks, etc.) – high (3.5).

Measures:

Shareholder awareness: Sirma makes every effort to inform its shareholders of the existence of this risk;

Maximum transparency and accountability: Sirma regularly discloses complete information on the Group's development and financial results. The awareness of all interested parties is maintained at the required level.

Buy-back program: within the framework of the opportunities permitted by the regulatory framework, Sirma implements the buy-back of its own shares. These purchases somewhat counteract the price risk.

Measurement: price risk is measured by the price dynamics of SGH.

3.2. Liquidity risk

Definition: The liquidity risk is directly related to the liquidity of the securities market itself and expresses the potential opportunity to buy or sell in short terms and the usual volumes of the given securities in the secondary market. The liquidity of the issue depends on the number of investors who will show interest in investing in it. The liquidity risk of the shares will also depend on the development of the equity securities market in terms of the volume and variety of instruments offered, the financial condition of the issuer, the ability of the local capital market to attract new investors, etc.

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

Probability / Impact: 5.7 / 2.7

Review 2024: Despite the active trading of SGH shares in 2023, BSE liquidity remains limited. Trading in the Group's shares also decreased during the year by 16% and reached 3,492,732 traded shares. SGH carried out the maximum possible buyback during the year at 3%. Accordingly, the probability of this risk is the maximum (5.7), and the impact of this risk (2.7) relatively strong.

Measures:

Sirma can only counter this risk (and to the extent possible) by *repurchasing share*s.

Measurement: volume of trading in SGH shares relative to the previous year.

3.3. Inflation risk

Definition: The manifestation of the inflation risk for the shareholders of "Sirma Group Holding" JSC would occur in cases where the income from the shares (price increase and/or received dividends) is less than the inflation for the investment period. Inflationary processes lead to a decrease in the real yield that investors receive.

Although in the long term the return on shares usually outpaces inflationary processes in Bulgaria and other countries with a developed market economy, there are no guarantees for investors in shares of Sirma Group Holding AD that their investment in shares of the Company will represent real protection against inflation .

Probability/Impact: 2.5 / 2.5

Review 2024: This risk was realized in 2023. After the strong inflationary pressure started in 2022, in 2023 inflation reached 8.6%. The dividend paid during the year was BGN 0.0489 (twice), which represents 6.9% of the average share price of BGN 0.705 for the year. The realized risk during the year accordingly amounts to 1.7%, which is further strengthened by the drop in the average price of SGH of 6% for the year. A total price drop of 7.7% for 2023. The risk remains with a relatively high probability and impact (2.5) in 2024 as well.

Measures:

Shareholder awareness

Management transparency

Strict compliance with the Dividend Policy

Measurement: the ratio between the annual yield (price increase/decrease + dividend) of SGH shares and annual inflation.

3.4. Risk of dilution of share value

Definition: According to the Articles of Association of the Company, there are no restrictions on the maximum amount of future share issues. For this reason, the amount of shareholders' participation may be reduced as a result of a public offering if they do not exercise their rights and subscribe a proportionate share of the new shares. In the event that, as a result of a future public offering, the number of issued shares of the Company increases at a faster rate than the size of the assets of the same, it is possible to reach a decrease in the value of the assets per share of the Company.

Probability/Impact: 1.3 / 2.7

Review 2024: In 2023 there is no dilution of the value of SGH shares. The likelihood remains negligible (1.3), while the impact would be moderate (2.7).

Measures: N.A.

Measurement: availability of new issues of SGH shares

3.5. Currency risk

Definition: The current SGH issue is denominated in BGN. Currency risk of the investment exists for investors whose funds are in US dollars or other currency other than leva and euro due to constant movements of exchange rates. Investors who assume currency risk when purchasing the current issue would increase or decrease the effective return on their investment as a result of a strengthening or weakening of the leva/euro rate against the currency in which the investor's funds are denominated.

Probability/Impact: 1.5 / 1.5

Review 2024: The stability and high confidence in the reliability of the currency board in the country, as well as the relatively stable positions of the euro in the international currency markets, reduce the presence of currency risk to minimal levels. In parallel, investors from non-EU countries are not registered in the SGH in 2023. Accordingly, the probability remains insignificant (1.5), while the potential impact is low (1.5).

Measures:

Informing investors

Monitoring the structure of investors

Measurement: investment in SGH by non-EU investors

3.6. Lack of guarantee for payment of annual dividends

Definition: The financial result of the company depends on many factors, including the skill and professionalism of the management team, the development of the market in which the company operates, the economic development of the country and the region, overcoming all types of risk, etc. There is a risk for investors of the lack of security/guarantee of annual dividend payments.

Probability/Impact: 3.5 / 3.5

Review 2024: In 2023, 2 dividends were paid for 2022 worth BGN 0.0489 per share. Sirma's development in 2023 was more modest, but the BD will strive to stick to its Dividend Policy. However, the likelihood and potential impact remain relatively high (3,5).

Measures:

Implementation of Sirma's Code of Good Corporate Governance

Dividend policy of SGH

Sustainable development of Sirma

Measurement: dividend paid during the year

3.7. Risk of changing the taxation of investments in securities

Definition: The risk of changing the taxation of investments in securities is associated with the change of the current regime of taxation of this kind of instruments. The same can be considered favorable in the sense of having a tax-free capital gain. A change to capital gains taxation, as well as other potential changes in the taxation of investments in securities, may adversely affect an investor's ultimate realized net result.

Probability/Impact: 2.7 / 4

Review 2024: In 2023, and expected in 2024, there is political uncertainty in Bulgaria. Accordingly, the probability of occurrence is moderately high (2.7), and the potential impact remains relatively high (4).

Measures: *monitoring the tax debate*

Measurement: change in the tax treatment of equity investments

4 Other risks

Risk factors included in the registration document, specific risks related to the main activity of “Sirma Group Holding” JSC, risks to sustainable development (ESG risks), as well as general risks that may have an impact on its activity are described in detail at pages in the Registration Document, Sustainability Policy/Strategy or other special internal document.

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