

Papers for Regular annual general meeting of shareholders of Gradus AD

***30th of June 2023, 11 am, 8:00 UTC, town of Stara Zagora 6009, Park Hotel
Stara Zagora, 50, Khan Asparuh Street, Tervel Hall***

Agenda

1. Approval of the Activity Report of the Board of Directors of the Company for the year 2022;
Draft resolution: The General Meeting of Shareholders approves the Activity Report of the Board of Directors of the Company for the year 2022;
2. Approval of the Registered Auditor's Report for auditing the Annual Financial Statements of the Company for the year 2022;
Draft resolution: The General Meeting of Shareholders approves the Report of the Registered Auditor for the Verification of the Annual Financial Statement for the year 2022;
3. Approval of the Annual Financial Statements of the Company for the year 2022;
Draft resolution: The General Meeting of Shareholders approves the Annual Financial Statement of the Company for the year 2022;
4. Approval of the report on the activity of the Investor Relations Director of the Company for the year 2022;
Draft resolution: The General Meeting of Shareholders approves the report on the activity of the Investor Relations Director of the Company for the year 2022;
5. Approval of the report on the activity of the Audit Committee for the year 2022;
Draft resolution: The General Meeting approves the report on the activity of the Audit Committee for the year 2022;
6. Election of members of the Audit Committee of the Company on proposal of the Board of Directors and determination of their remuneration;
Draft resolution: The General Meeting of Shareholders elects the members of the Audit Committee proposed by the Board of Directors as follows: Hristina Atanasova Filipova, Ivaylo Nikolaev Nikolov and Radka Dimcheva Peneva and set a monthly remuneration for the chairman of the Audit Committee at the gross amount of BGN500 and for member of the Audit Committee at the gross amount of BGN 250.
7. Proposal for distribution of the profit for 2022;
Draft resolution:
 - 7.1. The General Meeting of Shareholders approves part the profit for 2022 in total gross amount of BGN 2 800 000 to be distributed as dividend and the rest of the profit remains undistributed. The gross single annual dividend will be determined in accordance with Art. 115v, para. 3 of the POCA, as the company is in buyback procedure;

7.2. Condition and term of dividend distribution: Commencement of payment of dividends: 30.08.2023;
Term for payment of dividends: - three months; Method of payment of dividends: through Central Depository AD and branches of Unicredit Bulbank AD;

8. Deciding on the dismissal of the members of the Board of Directors of the Company for their activity in 2022;

Draft resolution: The General Meeting of Shareholders releases from responsibility the members of the Board of Directors of the Company for their activity in 2022;

9. Election of a certified (registered) auditor to verify and certify the Company's Annual Financial Reports for 2023.

Draft resolution: The General Meeting of Shareholders elects a registered auditor to verify and certify the annual financial statements of the Company for 2023, in accordance with a proposal of the Audit Committee included in the materials on the agenda.

10. Approval of the Report on the Implementation of the Remuneration Policy of the Board of Directors;

Draft resolution: The General Meeting of Shareholders approves the Report on the Implementation of the Remuneration Policy of the Board of Directors of the Company;

Content

1. *Activity Report of the Board of Directors of the Company for the year 2022;*
2. *Registered Auditor's Report for auditing the Annual Financial Statements of the Company for the year 2022;*
3. *Annual Financial Statements of the Company for the year 2022;*
4. *Report on the activity of the Investor Relations Director of the Company for the year 2022;*
5. *Audit committee report;*
6. *Documents certifying the professional experience and qualification of the members of the audit committee;*
7. *Declarations under Art. 107, para. 4 and 5 of the ZNFO of the proposed members of the Audit committee;*
8. *Audit committee recommendation;*
9. *Report on the Implementation of the Remuneration Policy;*



GRADUS AD

**INDIVIDUAL ANNUAL FINANCIAL STATEMENTS
31 DECEMBER 2022**



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GRADUS AD
INDIVIDUAL STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022

	Бележки	31 December 2022 BGN'000	31 December 2021 BGN'000
ASSETS			
Non-current assets			
Property, plant and equipment	4	36	99
Intangible assets	5	22	29
Investments in subsidiaries	6	269 412	269 412
Deferred tax assets	7	58	59
Total non-current assets		269 528	269 599
Current assets			
Related party receivables		7	1
Trade receivables	21	219	17
Loans granted	21	34 683	34 542
Dividends receivable	21	15 397	6 998
Other current receivables and prepayments	8	43	67
Cash and cash equivalents	9	2 570	6 916
Total current assets		52 919	48 541
TOTAL ASSETS		322 447	318 140
EQUITY AND LIABILITIES			
EQUITY			
Capital attributable to the equity owners of the parent company			
Share capital	10	243 609	243 609
Issue premium	10	62 287	62 287
Retained earnings	10	16 473	11 843
		322 369	317 739
LIABILITIES			
Non-current liabilities			
Leasing liabilities	12	-	15
Total non-current liabilities		-	15
Current liabilities			
Payables to related parties	21	1	1
Trade payables	11.1	49	10
Tax liabilities	11.2	3	270
Payables to personnel and social security	11.3	7	44
Leasing liabilities	12	16	59
Other current liabilities		2	2
Total current liabilities		78	386
TOTAL LIABILITIES		78	401
TOTAL EQUITY AND LIABILITIES		322 447	318 140

Prepared by:
 /Antoaneta Boeva/

Executive Director:
 /Georgi Babev/

Chairman of the Board of Directors:
 /Angel Angelov/

The notes on pages 7 to 36 form an integral part of the interim financial statements.
 The separate financial statements were approved for issue by the Board of Directors of Gradus AD on 20.03.2022.

Auditing Firm No. 129 Baker Tilley Clitu & Partners EOOD:

Ivaylo Yachev
 Registered auditor responsible for the audit

Galina Lokmadzhieva - Nedkova
 General Manager
 Baker Tilly Klitou and Partners EOOD

GRADUS AD
INDIVIDUAL STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDING DECEMBER 31, 2022

	Note	2022 BGN'000	2021 BGN'000
Dividend income	13.1	15 997	13 996
Other revenue	13.2	11	12
Costs of materials		(22)	(12)
Costs of hired services	14	(186)	(175)
Depreciation / amortization expenses	4,5	(72)	(55)
Personnel expenses	15	(559)	(496)
Other operating expenses		(15)	(9)
Operating profit	16	<u>15 154</u>	<u>13 261</u>
Finance income		443	421
Finance costs	17	(4)	(6)
Finance income /(costs), net	17	<u>439</u>	<u>415</u>
Profit before income tax		<u>15 593</u>	<u>13 676</u>
Income tax expense	18	(1)	(1)
Profit for the period after taxes		<u>15 592</u>	<u>13 675</u>
Other components of comprehensive income		-	-
Total comprehensive income for the period		<u>15 592</u>	<u>13 675</u>
Earnings per share in BGN	10	0,06	0,06

Prepared by:
/Antoaneta Boeva/

Executive Director:
/Georgi Babev/

Chairman of the Board of Directors:
/Angel Angelov/

The notes on pages 6 to 36 form an integral part of the interim financial statements.

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Registered auditor responsible for the audit

Galina Lokmadzhieva - Nedkova
General Manager
Baker Tilly Klitou and Partners EOOD

GRADUS AD
INDIVIDUAL STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDING DECEMBER 31, 2022

	Share capital	Issue premium	Retained earnings	Total share capital
	BGN'000	BGN'000	BGN'000	BGN'000
Balance at 31 December 2020	243 609	62 287	9 867	315 763
Total comprehensive income for the period:				
Net profit for the period	-	-	13 669	13 669
Changes in equity for the period				
Distributed profit for dividends	-	-	(11 693)	(11 693)
Balance at 31 December 2021	243 609	62 287	11 843	317 739
Total comprehensive income for the period:				
Net profit for the period	-	-	15 592	15 592
Changes in equity for the period				
Distributed profit for dividends	-	-	(10 962)	(10 962)
Balance at 31 December 2022	243 609	62 287	16 473	322 369

Prepared by:
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GRADUS AD
INDIVIDUAL CASH FLOW STATEMENT
FOR THE PERIOD ENDING DECEMBER 31, 2022

	2022 BGN'000	2021 BGN'000
Cash flows from operating activity		
Proceeds from customers	495	604
Payments to suppliers	(800)	(543)
Payments to personnel and social security	(540)	(448)
Taxes paid/ refunded, other than income tax, net	(51)	(39)
Other proceeds, net	<u>(57)</u>	<u>(44)</u>
Net cash flows from operating activity	<u>(953)</u>	<u>(470)</u>
Cash flows from investing activity		
Assets purchase	(2)	(14)
Loans to related parties	(2 000)	(39 500)
Proceeds from loans	1 900	43 670
Interest received on granted loans	403	462
Dividends received	<u>7 598</u>	<u>12 996</u>
Net cash flows used in investing activity	<u>7 899</u>	<u>17 614</u>
Cash flows from financing activity		
Dividends paid	(10 501)	(11 202)
Taxes paid on dividends paid	(728)	(453)
Payments on leasing contracts	(60)	(43)
Other proceeds on financing activities	<u>(3)</u>	<u>(3)</u>
Net cash flows used in financing activity	<u>(11 292)</u>	<u>(11 701)</u>
Net increase / decrease in cash	<u>(4 346)</u>	<u>5 443</u>
Cash and cash equivalents on 01 January	<u>6 916</u>	<u>1 473</u>
Cash and cash equivalents on 31 December	<u>2 570</u>	<u>6 916</u>

Prepared by:
/Antoaneta Boeva/

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GRADUS AD
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

1. Status and subject of activity

Gradus AD, Stara Zagora, was established on 28 November 2017.

Management address: Stara Zagora, Industrialen quarter, Gradus Poultry Slaughterhouse

BULSTAT: 204882907

Gradus AD is a public company registered on 30 July 2018 by the Financial Supervision Commission.

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

The capital of the company consists of 243,608,710 (two hundred forty-three million, six hundred and eight thousand, seven hundred and ten) non-preferential registered voting shares with nominal amount of BGN 1 each.

Object of activity of the company: Investments in stocks and shares of companies, acquisition and management of shares in Bulgarian and foreign companies; activity as a holding company; acquisition, assessment and sale of patents, concession of licenses for the use of patents of companies, in which the company has shares; financing of companies, in which the company has shares, as well as any other activity not prohibited by law, provided that if a permit or a license is required, or registration for the purpose of carrying out any activity, then such activity shall take place following the obtaining of such permit or license, respectively following the completion of such registration.

Ownership and management

Shareholders of the company as at 31 December 2022:

- Luka Angelov Angelov – 40.77% of the capital,
- Ivan Angelov Angelov – 20.68% of the capital
- Angel Ivanov Angelov - 20.68% of the capital
- Legal entities – 15.86% of the capital
- Individual shareholders – 2.01% of the capital.

Management bodies of the company

- General Meeting of Shareholders
- Board of Directors

Board of Directors

The Board of Directors consists of three (3) members who are as follows as at 31 December 2022:

Luka Angelov Angelov – Deputy Chairman of the Board of Directors of Gradus AD

Ivan Angelov Angelov – Chairman of the Board of Directors and Executive Director of Gradus AD

Georgi Aleksandrov Babev - Member of the Board of Directors of Gradus AD

As of the date of approval of the current financial statements, there has been a change in the composition of the Board of Directors. See Note 22.

Audit Committee:

The Audit Committee supports the work of the Board of Directors; it has the role of those in charge of governance who monitor and supervise the internal control system, risk management and financial reporting system of the company.

Members of the Audit Committee are:

- Dobri Svetlozarov Simeonov – Chair of the Audit Committee;
- Petya Radoslavova Panova – Member of the Audit Committee;
- Georgi Aleksandrov Babev – Member of the Audit Committee.

The average number of staff of Gradus AD as at 31 December 2022 was 4 hired under employment contracts (2021: 4).

Macroeconomic situation

The parent company and the subsidiaries operate in conditions of rising inflation. The management managed to maintain a good financial position of the Group by indexing its income and expenses within reasonable limits. A direct effect of the changed macroeconomic environment is the increase in the discount rate by which the Company tests its investments for impairment. (see Note 6).

1. Status and subject of activity (Continued)

The COVID 19 pandemic –impact, actions taken and effects

On 11 March 2020, the World Health Organization declared a COVID-19 coronavirus pandemic. On 13 March 2020, the National Assembly voted on a state of emergency in Bulgaria, as a result of which measures were introduced to reduce the infection, including work from a home office, temporary closure of schools, universities, restaurants, cinemas, theatres, museums and sports facilities, retailers, with the exception of food retailers, grocery stores and pharmacies. As a result of the restrictions imposed, the normal functioning of businesses in a number of business sectors was disrupted. The supply of raw materials and materials, forwarding activities to customers and labour supply experienced difficulties. Almost all companies, although to a varying degree, were forced to take certain actions and to implement various measures to readjust the organization of their businesses, work schedules, business communication and other aspects of relationships with contractors, partners and government institutions.

The company operates in a sector the normal operation of which was not affected significantly by the restrictive measures being imposed. The company has sufficient funding to meet its liquidity needs. The Company's management has not identified areas in the separate financial statements on which the pandemic has had a direct and significant impact and effects, including the valuation of individual assets and liabilities.

War in Ukraine – Impact and Effects

On 24.02.2022, a military conflict arose between Ukraine and Russia. Subsequently, a number of countries imposed sanctions against certain individuals and legal entities in Russia. The Russia-Ukraine conflict and related economic sanctions and other measures taken by governments around the world have a significant effect on both the local economies of individual countries and the global economy.

Gradus AD and its subsidiaries do not own investments in the territory of the countries involved in the military conflict. The Company and its subsidiaries do not have commercial relations with counterparties that have been sanctioned. Gradus AD and its subsidiaries do not have suppliers of goods or services from the parties to the conflict. Sales to customers from the affected countries are not significant for the activities of the Company and its subsidiaries and are redirected to other markets under the same or more favorable conditions.

Climate related issues

The Company perceives the protection of the environment and the reduction of the rate of occurrence of climate change as part of its corporate social responsibility policy and develops its activity in compliance with the requirements for environmental protection. The Group implements measures for: separate collection of waste, minimization, utilization and recycling of industrial and household waste; ensures appropriate training of personnel on issues related to environmental protection and pollution prevention. The Group actively invests in renewable sources of electricity for its own consumption.

2. Basis of preparation of the separate financial statements

These separate financial statements have been prepared based on the principles of going concern and historical cost convention, with the exception of property, plant and equipment, which are accounted for by using the revaluation model in IAS 16 "Property, Plant and Equipment".

These financial statements are the separate financial statements of Gradus AD.

The company will prepare consolidated financial statements in accordance with IFRS, endorsed by the European Union, until 30 April 2022.

Functional currency and currency of presentation

Pursuant to the requirements of the Bulgarian legislation, the company keeps its accounting books and records and prepares its financial statements in the national currency of the Republic of Bulgaria – the Bulgarian lev. Since 1 January 1999 the exchange rate of the Bulgarian lev has been pegged to the exchange rate of the Euro in a ratio of EUR 1 = BGN 1.95583.

These financial statements have been prepared in BGN'000 (BGN thousand), unless stated otherwise.

3. Significant accounting policies

(a) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the closing exchange rate prevailing on the date of preparation of the statement of financial position. Foreign exchange gain or loss originating from monetary items is the difference between the amortised cost in the functional currency at the beginning of the period adjusted by the effective interest and the payments over the period and the amortised cost in foreign currency translated at the exchange rate at end of the period.

Non-monetary assets and liabilities that are measured in terms of fair value in a foreign currency are translated using the exchange rate at the date of measurement of the fair value. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Any foreign exchange differences, which occur upon translation into the functional currency, are reported as profits and losses, except for differences arising on the translation into the functional currency of available-for-sale equity instruments or eligible cash flow hedges that are recognised in other comprehensive income (if any).

b) Property, plant and equipment

(i) Recognition and measurement

Initial recognition

Items of property, plant and equipment are measured initially at cost, which comprises all directly attributable costs of acquisition of the asset.

The cost comprises the asset's purchase price, including any import duties and non-refundable purchase taxes, and any costs directly incurred in bringing the asset to its location and working condition necessary to prepare the asset for its intended use.

The cost of self-constructed assets includes the cost of materials, direct labour and the appropriate proportion of indirect production overheads; costs directly incurred in bringing the asset to its location and working condition necessary to prepare the asset for its intended use; initial estimate of the costs of dismantling and removing the assets, and restoring the site on which they are located, and capitalised interest expenses. Software acquired without which it is impossible to operate equipment purchased is capitalised as part of the equipment.

When items of property, plant and equipment contain components with different useful lives, they are reported separately.

Subsequent measurement

Subsequent to initial acquisition, fixed tangible assets (property, plant and equipment) are carried under the revaluation model of IAS 16.

The fair value of fixed tangible assets (property, plant and equipment) is determined on the basis of market evidence presented in a report prepared by an approved licensed valuer. Revaluation is scheduled to take place every 3 years. When the fair value changes significantly over a shorter period of time, the revaluation may be made more often to ensure that their carrying amount at the relevant reporting date does not materially differ from their fair value.

Gains and losses on derecognition of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are recognised net in other income / other expenses in profit or loss. When the revalued assets are sold or derecognised on other grounds, the amounts included in the revaluation reserve are reclassified to retained earnings or accumulated losses.

The other fixed tangible assets (motor vehicles, hardware, fixtures and fittings, etc) are presented under the cost model of IAS 16.

(i) Subsequent costs

Subsequent costs of replacing part of the property, plant and equipment are capitalised to the carrying amount of the relevant asset only to the extent that it is probable that economic benefits originating from that part of the asset will flow to the company and the expenditure can be measured reliably. Current repairs and maintenance are recognised as an expense when incurred.

(ii) Depreciation

An item of property, plant and equipment is depreciated from the date on which it is installed and ready for use, or for the self-constructed assets, from the date on which the asset is completed and ready for use. Depreciation charges are recognised up to the amount of the asset's original value minus the estimated residual value of the asset based on the straight-line method over the estimated useful life of each component of property, plant and equipment.

GRADUS AD
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

3. Significant accounting policies (continued)

(b) Property, plant and equipment (continued)

Depreciation charges are recognised in profit or loss unless they are included in the carrying amount of another asset. Assets acquired under leases are depreciated over the shorter of the estimated useful life of the asset and the lease term, unless it is virtually certain that the ownership of the asset will be acquired by the end of the lease term. Land is not depreciated.

Depreciation rates are defined as follows:

	Annual depreciation rate, %
Buildings and facilities	1.5
Plant and equipment	8
Motor vehicles	10
Hardware	33.3
Fixtures and fittings	10
Other fixed assets	4 – 10

Depreciation methods, useful lives and residual values (if not insignificant) are reviewed at each date of preparation of the financial statements.

(c) Intangible assets

Intangible assets are carried at cost less accumulated amortisation and any impairment losses.

The carrying amount of intangible assets is tested for impairment when events or changes in circumstances indicate that the carrying amount could exceed their recoverable amount. Intangible assets are derecognised from the statement of financial position when they are permanently retired and no future economic benefit is expected from their disposal, or when they are sold.

Gains and losses on sale of individual assets from the group of intangible assets are determined by comparing the consideration to which the company expects to be entitled (sales proceeds) with the asset's carrying amount at the date on which the recipient obtains control of the asset. They are stated net, as part of "Other operating income/(losses), net" on the statement of comprehensive income.

Subsequent costs

Subsequent costs are capitalised only when they increase the future economic benefit from the specific asset to which they relate. Any other costs, including costs of internally generated goodwill and trademarks, are recognised as an expense when incurred.

Amortisation

Intangible assets are amortised on a straight-line basis in profits and losses over the estimated useful economic life from the date on which they are ready for use.

	Annual amortisation rate, %
Software	33.33
Intellectual property rights	15

The methods of amortisation, useful lives and assets residual values are reviewed at each year-end.

3. Significant accounting policies (continued)

(d) Investments

The long-term investments representing stocks and shares in subsidiaries are presented in the financial statements at acquisition price (cost), which is:

- the fair value of the consideration paid for the acquisition of stocks and shares and / or
- the value of the paid-up monetary shareholding and / or
- the value of the shares contributed in-kind against the shares issued, which value is determined by appraisers appointed by the court, incl. the direct costs of acquiring the investment, less any impairment losses.

These investments are not traded on stock exchanges. This circumstance does not make it possible to provide market price quotations in an active market that adequately reflect the fair value of those shares.

Investments held by the company are subject to impairment testing. When there are conditions and indications of impairment, it is calculated as the difference between the investment's carrying amount and its recoverable amount and is recognised in the statement of comprehensive income (in profit or loss for the year). In case of subsequent reversal of impairment, it is recognised in the statement of comprehensive income.

Investments are derecognised when the entity transfers the rights originating from the asset to other persons when the legal grounds for that arise and thus control on the economic benefits from the respective specific type of investment is lost.

(e) Financial instruments

A financial instrument is each contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

Financial assets

Initial recognition, classification and measurement

On initial recognition, financial assets are classified in three groups according to which they are subsequently measured at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss.

The company initially measures financial assets at fair value and, in the case of financial assets which are not carried at fair value through profit or loss, plus the direct transaction costs. Trade receivables that do not contain a significant financing component are an exception - they are measured on the basis of the transaction price determined in accordance with IFRS 15.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade (transaction) date, i.e., the date that the company commits to purchase or sell the asset.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the company's business model for managing them. In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

3. Significant accounting policies (continued)

(e) Financial instruments (continued)

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through other comprehensive income with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through other comprehensive income with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss (debt and equity instruments).

Classification groups

Financial assets at amortised cost (debt instruments)

The company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held and used within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest method. They are subject to impairment. Gains and losses are recognised in the statement of comprehensive income.

The company's financial assets at amortised cost include cash and cash equivalents, trade receivables, and loans to related parties.

Financial assets at fair value through other comprehensive income (debt and equity instruments)

The company has no such assets.

Financial assets at fair value through profit or loss

The company has no such assets.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the company has transferred substantially all the risks and rewards of the asset, or (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3. Significant accounting policies (continued)

(e) Financial instruments (continued)

When the company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the company could be required to repay.

Expected credit loss on financial assets

The company recognises an allowance (impairment provision) for expected credit losses for all debt instruments not held at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For the purposes of calculation of expected credit losses on loans to related and third parties, and cash and cash equivalents with banks, the company has adopted the general approach to impairment as set by IFRS 9. According to this approach, the company applies a three-stage impairment model based on changes compared to the initial recognition of the financial instrument's credit quality.

Expected credit losses are recognised in two stages.

a. A financial asset that has not been credit impaired at its initial origination/acquisition is classified in phase 1. Since its initial recognition, its credit risk and qualities are subject to continuous monitoring and analyses. The expected credit losses on financial assets classified in Phase 1 are determined on the basis of expected credit losses resulting from possible default events which could occur within the next 12 months of the life of the asset concerned (12-month expected credit losses for the instrument).

b. In cases where, after initial recognition of a financial asset, its credit risk increases significantly and as a result its qualities deteriorate, it is classified in phase 2.

Expected credit losses on financial assets classified in phase 2 are determined over the remaining life (term) of the relevant asset (lifetime expected credit losses for the instrument).

3. Significant accounting policies (continued)

(e) Financial instruments (continued)

The company's management has developed a policy and a set of criteria for analysis, identification and evaluation of the occurrence of a status of a "significant increase in credit risk".

In cases where the credit risk of a financial asset increases to a level indicating that an event of default has occurred, the financial asset is considered to be impaired and it is classified in phase 3. At this stage, losses incurred by the relevant asset for its entire remaining lifetime (term) are established and calculated.

The company adjusts expected credit losses based on historical data using forecast macroeconomic indicators that are found to be correlated and are expected to affect the amount of the expected credit losses in the future.

In calculating expected credit losses on trade receivables, assets under contracts with customers and lease receivables, the company applies a simplified approach to calculate expected credit losses and does not follow subsequent changes in their credit risk. According to this approach, the company recognises an allowance (impairment provision) based on the expected credit loss over the entire period of the receivables at each reporting date.

Financial liabilities

Initial recognition, classification and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, trade and other payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification.

Classification groups

Financial liabilities at fair value through profit or loss

The Group has no such liabilities.

Loans and other borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured by the company at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the relevant financial liability is derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition, and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the statement of comprehensive income (in the profit or loss for the year).

Derecognition

Financial liabilities are derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

3. Significant accounting policies (continued)

(e) Financial instruments (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. This requirement derives from the idea of the real business nature of the company's relationship with a counterparty that, in the simultaneous existence of these two requirements, the expected actual cash flow and benefits from these estimates to the enterprise is the net flow, i.e. the net amount reflects the actual right or liability of the company originating from these financial instruments – in any case, its right to receive or pay only the net amount. If both conditions are not met simultaneously, it is assumed that the rights and obligations of the company in respect of these counter-balances (financial instruments) are not covered only and solely by the receipt or payment of the net amount.

The netting policy is also linked to the assessment, presentation and management of the actual credit and liquidity risks associated with these counter-balances.

Criteria applicable to establishing the existence of a current and legally enforceable netting right are as follows: the right should not depend on a future event, i.e. it shall be enforceable not only if a particular future event occurs; it should be possible to exercise the right and to defend it by employing legal means in the course of (taken cumulatively):

- the ordinary activity,
- in case of default/delay, and
- in case of bankruptcy and insolvency.

The applicability of criteria shall be assessed against the requirements of Bulgarian legislation and the established arrangements between the parties. The condition for the existence of a current and legally enforceable netting right is always and mandatorily assessed together with a second condition: for the existence of obligatory intention to settle these balances on a net basis.

(f) Trade and other receivables

Trade receivables are an unconditional right of an entity to receive remuneration under contracts with customers and other contractors.

Initial recognition

Initially, trade receivables are presented and measured at fair value based on the transaction price, which value is usually equal to the invoice amount, unless they contain a significant financing component that is not charged additionally. If this is the case, they are recognised at their present value calculated at a discount rate equal to the interest rate that is considered inherent to the debtor.

Subsequent measurement

The company holds trade receivables solely for the purpose of collecting contractual cash flows and measures them subsequently at amortised cost less the accumulated impairment for expected credit losses.

Impairment

The company applies the lifetime expected credit losses model for its trade receivables using the simplified approach required by IFRS 9. The expected credit loss from receivables is stated as Impairment of assets in the statement of comprehensive income.

(g) Cash and cash equivalents

Cash comprises cash on hand and cash in current accounts, and cash equivalents comprises deposits with banks with an original maturity of three months or less, and deposits with longer maturity that are freely disposable by the company in accordance with the arrangement with bankers during the term of the deposit.

Subsequent measurement

Cash and cash equivalents in banks are measured subsequently at amortised cost, less any accumulated impairment for expected credit losses.

3. Significant accounting policies (continued)

(g) Cash and cash equivalents (continued)

For the purposes of the preparation of the cash-flow statement:

- cash equivalents from customers and cash payments to suppliers are presented gross, VAT inclusive (20%);
- interest received on current accounts are presented as operating activity;
- VAT paid under purchases of long-term assets is specified on the “payments to suppliers” line to the cash-flows from operating activity, as long as it is included into and recovered together with the operating flows of the company for the respective period;
- proceeds from and payments from and on overdrafts are reported net by the company in cash flows from financing activity.

(h) Trade and other payables

Trade and other current liabilities in the statement of financial position are stated at cost of acquisition, which is deemed to be the fair value of the transaction and will be paid in future against the goods and services received. In cases of deferred payments beyond the usual credit term on which no additional payment of interest is envisaged or interest is quite different from the usual market interest rate, the liabilities are initially assessed at their fair value at the discount rate inherent to the company, and subsequently, at amortised cost.

(i) Interest-bearing loans and other financial resources provided

Loans and other financial resources are presented initially at an acquisition price which is considered fair value of consideration given in a transaction, net of direct costs associated with these loans and resources. Subsequent to initial recognition, interest-bearing loans and borrowings, and other resources given, are measured subsequently and presented in the statement of financial position at amortised cost determined by applying the effective interest rate method. The amortised cost has been calculated by taking into account of all types of charges, commissions and other amounts relating to these loans.

Gains and losses are recognized in the statement of comprehensive income as finance income or finance costs during the amortisation period.

Interest income is presented depending on the phase in which the relevant loan or other receivable on financial resource granted, as the case may be, has been classified using the effective interest rate method.

(j) Income

The company's usual income consists of dividends and interest on loans granted.

Dividend income is recognized in the current profit or loss on the date the company acquires the right to receive the payment as a result of a decision taken for the allocation of the accumulated profits of the subsidiaries.

Measurement of contracts with customers

A contract with customer exists when:

- The parties have approved the contract;
- The rights of each party can be identified;
- The payments terms can be identified.

A contract for which any of the above criteria has not yet been met shall be re-measured each reporting period. Remuneration received under such a contract is recognized as a liability (a contract liability) in the statement of financial position until all criteria for recognizing a contract with customer are complied with and the company fulfils its performance obligations. Upon initial recognition of its contracts with customers, the company makes an additional analysis and assessment of whether two or more contracts should be considered together and accounted for as only one contract. The company recognises revenue for each single performance obligation at the level of an individual contract with a customer by analysing the type, terms and conditions of each specific contract.

3. Significant accounting policies (continued)

(j) Income (continued)

Measurement of revenue under contracts with customers

Revenue is measured on the basis of the transaction price set under each contract. The transaction price is the amount of the consideration to which the company expects to be entitled, with the exception of amounts collected on behalf of third parties. In determining the transaction price, the company takes into account the terms and conditions of the contract and its usual commercial practices, including the impact of the variable remuneration, the existence of a significant financing component, the non-monetary consideration, and the consideration due to the customer.

(k) Finance income and finance costs

Finance income is reported in the statement of comprehensive income (in the profit or loss for the year), when occurs, and comprises of: interest income on loans granted and term bank deposits, interest income on receivables, and net foreign exchange gains.

Finance income is presented separately from finance costs on the face of the statement of comprehensive income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets in phases 1 and 2. Interest income on financial assets in phase 3 is calculated by applying the effective interest rate to their amortised cost (i.e. the gross carrying amount adjusted by expected credit losses).

Foreign currency gains and losses are reported net as either finance income or finance costs depending on whether the foreign currency differences represent a net gain or a net loss.

(l) Provisions

Provisions are recognised when the company has a present legal or constructive liability as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the liability. Provisions are determined by discounting the estimated future cash flows with a pre-tax interest rate that reflects the time value of money and the risks specific to the liability. Interest accrued on the discounted value is recognised as finance costs.

(m) Income tax

Income tax for the reporting period consists of current and deferred taxes. Income tax is recognised in profit and loss, except to the extent that it relates to business combinations or items recognised directly in equity or in other comprehensive income.

Current income tax is the expected tax payable on the taxable profit or loss for the year, using the tax rates that are enacted or substantially enacted by the reporting date, and any adjustments to tax payable in respect of previous years. Current income tax includes also any tax effects of dividends.

Deferred income tax is provided on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax is recognised for all temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither the accounting nor taxable profit nor loss.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred income tax assets and deferred income tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxation authority.

3. Significant accounting policies (continued)

(m) Income tax (continued)

Deferred income tax assets are recognised for all unused tax losses, credits and deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilised. Deferred income tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that future benefits will be realised.

In assessing its current and deferred taxes the company takes into account the effect of uncertain tax items and whether additional taxes or interest might be due. The company is of the opinion that the tax liability accruals are adequate for all open tax years based on an assessment of lots of factors, including interpretation of tax laws and previous experience. The assessment is based on estimates and assumptions and may include judgements for future events. New information may appear as well, according to which the company may change its judgements on the adequacy of the existing tax liabilities; any such changes in the tax liabilities would affect the tax expense for the period in which such assessment is made.

(n) Leases

The Company as a lessee

Assessment for lease recognition

A contract constitutes or contains elements of a lease if the contract transfers for consideration the right to control the use of an asset for a specified period of time.

Initial recognition and assessment

On the lease inception date (the date the underlying asset is available for use), the Company recognizes a "right-of-use" asset and a lease liability.

The acquisition price of the right-of-use asset includes:

- the amount of the initial assessment of the lease liability;
- lease payments made on or before the start date, reduced by incentives received under the lease contract;
- the initial direct costs of the lessee;
- provisions for costs related to dismantling and moving the asset.

The Company depreciates right-of-use assets on a straight-line basis over the shorter of their useful lives and the term of the lease.

Right-of-use assets are presented under "Property, plant and equipment" in the Statement of Financial Position and their depreciation under "Depreciation costs" in the Statement of Comprehensive Income.

The lease liability includes the net present value of the following lease payments:

- fixed payments reduced by lease incentives payable;
- variable lease payments depending on indexes or percentages;
- the price for exercising the purchase option, if it is sufficiently certain that the Company will exercise this option;
- payments of penalties for termination of the lease contract;
- residual value guarantees.

Lease payments are discounted with the interest rate stipulated in the contract, if it can be directly determined, or with the Company's differential interest rate, reflecting the interest rate that would be applicable when borrowing funds for a similar period of time, with similar collateral, and in a similar economic environment.

Lease payments contain, in a certain ratio, the financial expense (interest) and the deductible part of the lease obligation (principal). Finance costs are charged to the Statement of Comprehensive Income over the term of the lease on a periodic basis so as to achieve a constant interest rate on the remaining outstanding principal of the lease obligation.

3. Significant accounting policies (continued)

(x) Leases (continued)

Subsequent assessment

The Company has chosen to apply the acquisition cost model to all of its right-of-use assets. They are presented at acquisition cost less accumulated depreciation, impairment losses and adjustments resulting from revaluations and adjustments of the lease liability.

The Company subsequently assesses the lease liability as:

- increases the book value to reflect the accrued interest;
- reduces the balance sheet value to reflect the lease payments made;
- revalues the carrying amount of liabilities to reflect revaluations or lease amendments.

Reporting of lease revaluations and amendments

As a result of a revaluation, the lessee recognizes the amount of the revaluation of the lease liability as an adjustment to the right-of-use asset. If the asset's carrying amount is lower, the remaining amount of the revaluation is recognized in profit or loss.

The lessee accounts for an amendment to the lease as a separate lease if:

- the amendment increases the scope of the lease by adding a new "right to use" for one or more additional underlying assets; and
- the remuneration under the lease contract is increased by an amount commensurate with the individual price for the increase in scope and possible adjustments reflecting circumstances under the specific contract.

Payments related to short-term leases and contracts where the underlying asset is of low value, as well as variable lease payments that are not included in the measurement of the lease liability, are recognized directly as current expenses in the Statement of Comprehensive Income on a straight-line basis for the lease period.

(n) Key estimates and assumptions

Calculation of expected credit losses on loans granted trade receivables and assets under contracts with customers

The measurement of the expected credit loss for financial assets carried at amortised cost (loans granted, receivables and assets under contracts with customers) is an area, which requires the use of significant assumptions about future economic conditions and credit behaviour of customers and debtors (for example, the likelihood of counterparties not fulfilling their obligations and the resulting losses).

Aiming at achieving compliance with these requirements, the company's management makes a number of important judgments, such as:

- (a) defines criteria for identifying and evaluating a significant increase in credit risk;
- (b) selecting appropriate models and assumptions for measuring expected credit losses;
- (c) formation of groups of similar financial assets (portfolios) for the purpose of measuring expected credit losses,
- (d) establishing and evaluating the correlation between historical default rates and behaviour of certain macroeconomic indicators to reflect the effects of forecasts in future when calculating expected credit losses.

Estimates when recognising revenue from contracts with customers

When recognising revenue and preparing the annual financial statements, management makes different judgements, estimates and assumptions, which influence the reported income, expenses, assets and liabilities under contracts, and their corresponding disclosures. Despite the uncertainty regarding these assumptions and estimates, the company does not expect substantial adjustments to the carrying amount of the assets and liabilities in the future, and respectively, the reported costs and revenue.

Useful life of fixed assets - The company examines the estimated useful lives of the depreciable fixed assets at each year-end.

3. Significant accounting policies (continued)

(n) Key estimates and assumptions

Recognition of tax assets - When recognising deferred tax assets, it is assessed the probability that individual deductible temporary differences will reverse in the future and the ability of the company to generate sufficient tax profits to offset them against those profits.

Impairment of investments – Investments in subsidiaries are measured at cost. At the end of each year, management assesses whether there are any indications of impairment of its investments in shares and subsidiaries. Management found no indications of impairment of its investments in subsidiaries as at 31 December 2022.

(o) New standards and interpretations

During the current year, the Company has adopted all new and changed IFRSs that are related to its activities and are effective for the reporting period beginning on 1 January 2022.

New standards and amendments to existing standards issued by the IASB and adopted by the EU, which have not yet entered into force and have not been applied earlier:

IFRS 17 Insurance Contracts, including Amendments to IFRS 17 – adopted by the EU on 19 November 2021 (effective for annual periods beginning on or after 1 January 2023);

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies – adopted by the EU on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023);

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – adopted by the EU on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023);

Amendments to IAS 12 Income taxes: Deferred tax relating to assets and liabilities arising from a single transaction - adopted by the EU on 11 August 2022 (effective for annual periods beginning on or after 1 January 2023);

Amendments to IFRS 17 Insurance contracts: Initial application of IFRS 17 and IFRS 9 – Comparative information – adopted by the EU on 8 September 2022 (effective for annual periods beginning on or after 1 January 2023).

New standards and amendments to existing standards issued by the International Accounting Standards Board that have not yet been adopted by the EU

Amendment to IAS 1 Presentation of financial statements: Classification of liabilities as current and non-current, Classification of liabilities as current or non-current – deferral of the effective date and Non-current liabilities with covenants (effective for annual periods beginning on or after 1 January 2024);

Amendment to IFRS 16 Leases – Lease Obligations on Sale and Leaseback (effective for annual periods beginning on or after 1 January 2024);

The Company expects the adoption of those new Standards, amendments to existing Standards and new interpretations not to have a material effect on the Company's financial statements during the period of their initial application.

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4. Property, plant, and equipment

In BGN'000	Buildings	Hardware	Cars	Total
Book value				
Balance on 31 December 2020	-	22	10	32
Acquire	117	5	-	122
Balance on 31 December 2021	117	27	10	154
Acquire	-	-	2	2
Balance on 31 December 2022	117	27	12	156
Depreciation				
Balance on 31 December 2020	-	(2)	(3)	(5)
Depreciation charge for the period	(44)	(3)	(3)	(50)
Balance on 31 December 2021	(44)	(5)	(6)	(55)
Depreciation charge for the period	(58)	(3)	(4)	(65)
Balance on 31 December 2022	(102)	(8)	(10)	(120)
Net book value				
Net book value on 31 December 2021	73	22	4	99
Net book value on 31 December 2022	15	19	2	36

Further information on right-of-use assets included in the Property, Plant and Equipment note is presented in the table below:

In BGN'000	Carrying amount at 01.01.2021	Acquired in 2021	Accrued depreciation for the period 2021	Carrying amount as at 31.12.2021
Buildings-office	-	117	(44)	73
Total	-	117	(44)	73

In BGN'000	Carrying amount at 01.01.2022	Acquired in 2022	Accrued depreciation for the period 2022	Carrying amount as at 31.12.2022
Buildings-office	73	-	(58)	15
Total	73	-	(58)	15

5. Intangible assets

In BGN'000	Software	Licences	In process of acquisition and development	Total
Book value				
Balance on 31 December 2020	5	7	17	29
Acquire	-	-	9	9
Written-off	11	8	(19)	-
Balance on 31 December 2021	16	15	7	38
Balance on 31 December 2022	16	15	7	38
Amortisation				
Balance on 31 December 2020	(4)	-	-	(4)
Amortisation charge for the period	(2)	(3)	-	(5)
Balance on 31 December 2021	(6)	(3)	-	(9)
Amortisation charge for the period	(2)	(5)	-	(7)
Balance on 31 December 2022	(8)	(8)	-	(16)

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5. Intangible assets (continue)

Net book value

Net book value on 31 December 2021	10	12	7	29
Net book value on 31 December 2022	8	7	7	22

6. Investments in subsidiaries

As at 31 December 2022 and 31 December 2021, the company held shares in the following companies:

Company	Country	Share – BGN	Equity share - %
Lora-2004 EOOD	Bulgaria	11 100	100
Zhyuliv EOOD	Bulgaria	16 200	100
Millennium 2000 EOOD	Bulgaria	35 700	100
Gradus-1 EOOD	Bulgaria	149 760	100
Gradus-98 AD	Bulgaria	52 200	99,94
Gold Farm 91 EOOD	Bulgaria	4 052	100
Gradus Logistics EOOD	Bulgaria	400	100
Total:		269 412	

Gradus-1 EOOD holds 96% of the capital of Gradus-3 AD, which is the effective participation of Gradus AD in Gradus-3 AD.

Impairment of investments in subsidiaries

At the end of each year, management analyses and evaluates whether there are any indicators of impairment of its investments in subsidiaries.

The main indicators for impairment are: a significant reduction in the volume and / or discontinuance of the activity of the investee; loss of markets, customers or technological problems, reporting of losses over a longer period (more than three years), reporting of negative net assets or assets below the registered share capital, trends of deterioration of key financial indicators, and reduction of market capitalization.

As of 31.12.2022 management has reviewed for impairment to determine the fair value of the use of investments in subsidiaries. The calculations were made by the management with the assistance of independent licensed appraisers. The financial budgets developed by the respective companies, covering a five-year period, as well as other medium- and long-term plans and intentions for their development, including forecasts for key economic indicators at national and EU level, were used as a basis for the pre-tax cash flow forecasts / The Balkans. Investments in subsidiaries (continued)

Tests and judgments of management about investments impairment have been made in the light of management's forecasts and intentions regarding the future economic benefits that are expected to be received from the subsidiaries, including commercial and industrial experience, gaining share on the Bulgarian and foreign markets, expectations for future sales, etc. The calculations have been made with the assistance of an independent licensed appraiser. The key assumptions used in the calculations of the recoverable amount as of 31 December 2022 are as follows:

	31.12.2022	31.12.2021
Discount rate (based on WACC)	от 6.23% до 7.41%	от 4.00% до 5.06%
Interest rate (debt price)	3%	1.15%

As a result of the calculations made, no need to recognise impairment of certain investments in subsidiaries was found in 2022 (2021: BGN 0).

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7. Deferred tax assets

The recognised deferred tax assets relate to the following:

	Assets		Liabilities		Net	
In BGN'000	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Tax loss	57	57	-	-	57	57
Income of individuals	1	2	-	-	1	2
Net tax assets	58	59	-	-	58	59

Movements in temporary differences during the period 01.01.2022 – 31.12.2022

In BGN'000	Balance Sheet	Profit and loss	Balance Sheet
	31.12.2021		31.12.2022
Tax loss	57	-	57
Income of individuals	2	(1)	1
Total:	59	(1)	58

Movements in temporary differences during the period 01.01.2021 – 31.12.2021

In BGN'000	Balance Sheet	Profit and loss	Balance Sheet
	31.12.2020		31.12.2021
Tax loss	57	-	57
Income of individuals	2	-	2
Provision for expected credit losses	1	(1)	-
Total:	60	(1)	59

8. Other current receivables and prepayments

In BGN'000	31 December	31 December
	2022	2021
Taxes refundable	4	6
Deferred income	11	10
Others	28	51
Total	43	67

9. Cash and cash equivalents

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In BGN'000	31 December 2022	31 December 2021
Cash on hand	2	3
Cash in current accounts	2 568	6 913
Total	2 570	6 916

The company assesses the expected credit losses on cash and cash equivalents as immaterial and therefore, expected credit losses on cash and cash equivalents were not accrued.

10. Equity

Share capital

The share capital consists of:

	Number of voting shares	Amount in BGN'000
At 31 December 2020	243 608 710	243 609
At 31 December 2021	243 608 710	243 609
At 31 December 2022	243 608 710	243 609

The total number of shares at 31 December 2022 is 243,608,710 with nominal value of BGN 1 each. The share capital is paid in full.

The shareholders of Gradus AD at 31 December 2022 are as follows:

	Number of voting shares	Shareholding, %
Luka Angelov Angelov	99 316 945	40,77
Ivan Angelov Angelov	50 373 165	20,68
Angel Ivanov Angelov	50 372 417	20,68
Legal entities	38 628 449	15,86
Individual shareholders	4 917 734	2,01
Total:	243 608 710	100,00

The shareholders of Gradus AD at 31 December 2021 are as follows:

	Number of voting shares	Shareholding , %
Luka Angelov Angelov	99 316 945	40,77
Ivan Angelov Angelov	50 373 165	20,68
Angel Ivanov Angelov	50 372 417	20,67
Legal entities	38 485 425	15,80
Individual shareholders	5 060 758	2,08
Total:	243 608 710	100,00

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Equity

In BGN'000	31 December 2022	31 December 2021
Share capital	243 609	243 609
Issue premium	62 287	62 287
Retained earnings	16 473	11 843
Total	322 369	317 739

The share capital is presented at the nominal value of the shares issued and paid. Receipts above their nominal value are reported as issue premium.

Earnings per share	31 December 2022	31 December 2021
Net profit for the year, BGN'000	15 592	11 695
Average -weighed number of shares	243 608 710	243 608 710
Earnings per share in BGN, net	0.06	0.05

11.1. Trade payables

As of 31/12/2022, the Company reported trade payables to third parties in the amount of BGN 49 thousand. (31/12/2021: BGN 10 thousand)

11.2 Tax liabilities

In BGN'000	31 December 2022	31 December 2021
Personal income tax liabilities	-	3
Tax on dividends	-	266
VAT	2	-
Other taxes	1	1
Total:	3	270

11.3 Payables to personnel and for social security

In BGN'000	31 December 2022	31 December 2021
Payables to personnel	-	34
Social security payable	-	4
Obligations under unused leave and social security contributions for them	7	6
Total:	7	44

12. Lease payables

The leasing obligations included in the statement of financial position are in BGN and have arisen in connection with contracts for the rental of buildings. The liabilities are presented net of the interest due in the future and are as follows:

	Minimum lease payments		Present value of the minimum lease payments	
	As at 31.12.2022	As at 31.12.2021	As at 31.12.2022	As at 31.12.2021
Liabilities under lease with maturity :				
Up to 1 year	16	60	16	59
Between 2 and 5 years	-	15	-	15
Total	16	75	16	74
Reduced by: future financial charges	-	(1)	-	-
Present value of liabilities	16	74	16	74

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Income

13.1 Dividend income

In BGN'000	2022	2021
Gradus-1 EOOD	7 500	2 500
Gradus-98 AD	4 997	5 396
Millennium 2000 EOOD	3 000	5 000
Zhyuliv EOOD	300	900
Lora-2004 EOOD	200	200
Total:	15 997	13 996

See note 21, „Related party transactions“

13.2. Other income

In BGN'000	2022	2021
Income from compensation for electricity	3	-
Rentals	8	5
Income from reversed impairment	-	7
Total:	11	12

14. Costs of hired services

In BGN'000	2022	2021
Subscription fees – legal services	45	49
Audit costs	42	38
Service charges current bank accounts	36	31
Subscription fees	18	14
Consulting services	8	8
FTAs repair and maintenance	2	1
Insurances	2	2
Short-term rentals	1	6
Translation / interpretation services	-	6
Expenses for consumables of leased assets (electricity; etc. gas)	13	5
Other expenses	19	15
Total:	186	175

Statutory fees accrued during the year amount to BGN 42 thousand (2021: BGN 38 thousand).

15. Personnel costs

In BGN'000	2022	2021
Current remuneration	527	464
Social security contributions	30	26
Cost of compensated leave	2	6
Total:	559	496

16. Other operating expenses

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	2022	2021
In BGN'000		
Donations	10	-
Entertainment costs	3	2
Business trips expenses	1	2
Non-deductible taxes	-	5
Other expenses	1	-
Total:	15	9

17. Finance income/costs

	2022	2021
In BGN'000		
Interest income on loans granted	443	421
Lease interest expense	(1)	(1)
Other finance expenses	(3)	(5)
Total	439	415

18. Tax expenses

	2022	2021
In BGN'000		
Tax profit for the year as per the tax return	-	-
Current income tax expense for the year – 10% (2021: 10%)	-	-
Deferred income taxes relating to:		
Unrecognised temporary differences	(1)	(1)
Total income tax benefit recognized in the separate statement of comprehensive income	(1)	(1)

	2022	2021
Reconciliation of income tax expense with the accounting result		
Accounting profit for the year	15 593	13 670
Income taxes – 10% (2021: 10%)	(1 559)	(1 367)
Tax effect of revenue unrecognized for tax purposes	1 558	1 366
Total income tax benefit recognized in the separate statement of comprehensive income	(1)	(1)

19. Financial instruments

Categories of financial instruments:

Financial assets at amortised cost

	31.12.2022	31.12.2021
In BGN'000		
Trade receivables	7	1
Related party receivables	15 616	7 015
Receivables on loans to related parties	34 683	34 542
Cash and cash equivalents	2 570	6 916
Total:	52 876	48 474

19. Financial instruments (continued)

In the course of its ordinary activity the company is exposed to various financial risks, the most significant of which are the following: market risk (including currency risk, risk of changes in fair value and price risk), credit risk, liquidity risk and risk of interest-bearing cash flows.

The overall risk management is focused on difficulties in forecasting financial markets aimed at minimising the potential negative effects that might impact the financial results and performance of the company.

Currently, financial risks are identified, measured and monitored currently, using different control mechanisms, in order to determine adequate prices of company's goods and to assess adequately the forms of maintenance of free liquidity without permitting unjustified concentration of a particular risk.

Risks faced by the company are managed on an ongoing basis in accordance with a policy elaborated by the company's management. Main principles of the overall financial risk management have been set, on the basis of which specific procedures for management of particular risks, such as credit risk, currency risk, liquidity risk, and interest rate risk.

Credit risk

The main financial assets of the company comprise cash on hand and cash in bank accounts, and receivables on loans granted.

Credit risk is the risk that the company's counterparties might not be able to repay fully and within the usual time limits the amounts they owe on credit receivables.

Receivables

To calculate the expected credit losses on trade receivables, the company applies a simplified approach to calculating expected credit losses and does not track subsequent changes in their credit risk. By applying this approach, the company recognises an adjustment (impairment allowance) on the basis of the expected credit loss over the entire period of the receivables at each reporting date.

The Company has not segmented receivables into different groups as it believes that they have similar characteristics, and for each type of financial asset it has conducted a collectability analysis in the different ranges of aging analysis. Provision rates applied are based on days past due according to aging analysis. Initially, these rates were determined on the basis of historical data monitored by the company over a 2-year period.

The company has analysed the effects on the estimated default rates based on historical forecast data for certain macroeconomic parameters, such as GDP and unemployment rate. Management has analysed future information on these parameters and determined that the effects are immaterial, so historical loss rates have not been adjusted for 2022.

The expected credit losses are calculated on the date of each reporting period.

Monetary, including payment transactions are limited to banks with good credit rating. Moreover, the company seeks to limit its exposure to a bank.

19. Financial instruments (continued)

Loans granted and financial guarantees

The Company measures the credit risk of loans to related parties by using the probability of default (PD), exposure at default (EAD) and loss given default (LGD). To determine the credit risk, the company's management uses internal estimates that reflect the probability of default for individual counterparties. The activity, financial performance of the borrower and the value of the collateral received is included in the risk assessment.

The Company considers that a financial instrument has undergone a significant increase in credit risk (migration from phase 1 to phase 2) when one or more of the following quantitative or qualitative criteria are met:

- the borrower is past due by more than 60 days;
- significant adverse changes in business, financial and economic conditions in which the borrower operates;
- actual or expected significant adverse changes in the operating results of the borrower;

Criteria used to determine whether there is a significant increase in credit risk are monitored and reviewed periodically.

The company considers a financial instrument as being in default and exposed to a credit loss (migration from phase 1 or phase 2 to phase 3) when one or more of the following quantitative or qualitative criteria are met:

- the borrower is past due by more than 90 days;
- the borrower experiences significant financial difficulties;
- the borrower is in an insolvency / liquidation procedure.

Calculation of expected credit losses

Expected credit losses are calculated by discounting the resulting value of the product of: the probability of default (PD), exposure at default (EAD) and loss given default (LGD), determined as follows:

- PD the probability of that the borrower would fail to perform its financial obligation either in the next 12 months or for the entire lifetime of the financial asset;
- EAD is the amount due by the company at the time of default;
- LGD is the expectation of the company for the amount of the loss in case of exposure at default. The LGD amount has been reduced by the insured portion of the financial asset.

The discount rate used to calculate the expected credit loss (ECL) is the instrument's original effective interest rate. When determining the 12-month and lifetime PD, EAD and LGD for the instrument, forecast information has been employed as well. The company's management has conducted an historical analysis and has identified the main economic variables affecting credit risk and expected credit losses.

The expected credit losses on certain loans classified in Phase 1 are determined on the basis of expected credit losses resulting from possible default events which could occur within the next 12 months of the lifetime of the relevant asset (12-month expected credit losses for the instrument).

GRADUS AD
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

19. Financial instruments (continued)

Analysis of expected credit losses on loans granted:

In BGN'000	Loan granted at 31.12.2022	Interest rate	Probability of non- performance, %	Loss in case of non- performance	Expected credit losses	Loan granted, net
Gradus-1 EOOD	17 443	2.90%	0.02%	17 443	(3)	17 440
Gradus-3 AD	4 415	2.90%	0.02%	4 415	(1)	4 414
Lora-2004 EOOD	11 127	2.90%	0.02%	11 127	(2)	11 125
Gradus Logistics EOOD	401	2.90%	0.02%	401	-	401
Milenium 2000 EOOD	1 303	2.90%	0.02%	1 303	-	1 303
Total:	34 689			34 689	(6)	34 683

In BGN'000	Loan granted at 31.12.2021	Interest rate	Probability of non- performance, %	Loss in case of non- performance	Expected credit losses	Loan granted, net
Gradus-1 EOOD	17 617	1.15%	0.02%	17 617	(3)	17 614
Gradus-3 AD	4 516	1.15%	0.02%	4 516	(1)	4 515
Lora-2004 EOOD	9 309	1.15%	0.02%	9 309	(2)	9 307
Gradus-98 AD	602	1.15%	0.02%	602	-	602
Gradus Logistics EOOD	1 001	1.15%	0.02%	1 001	-	1 001
Milenium 2000 EOOD	1 503	1.15%	0.02%	1 503	-	1 503
Total:	38 548			34 548	(6)	34 542

Currency risk

At the moment, this risk is immaterial for the Company has no transactions in currencies other than the Bulgarian lev.

Liquidity risk

Liquidity risk is reflected in the adverse situation of the Company not being able to meet unconditionally all of its liabilities as they fall due. The Company applies conservative liquidity management policy through which it constantly maintains optimal cash levels. The company does not experience a shortage of cash.

Interest rate risk

The company did not hold interest-bearing financial liabilities at 31 December 2022 and 31 December 2021.

Fair values

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The policy of the company is to disclose in its separate financial statements the fair value of financial assets and liabilities, primarily for which there are quoted market prices. The fair value of financial instruments not traded on active markets is determined using valuation techniques based on various valuation methods and management's assumptions made on the basis of market conditions prevailing at the balance sheet date.

GRADUS AD
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
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19. Financial instruments (continued)

Fair values (continued)

The concept of fair value implies the realization of financial instruments through sale. In most cases, especially in respect of trade receivables and payables, loans and deposits, the Company expects to realize these financial assets through their full repayment or, respectively, repayment over time. That is why they are stated at their amortised cost. The Company's financial assets and liabilities are mainly short-term in nature (trade receivables and payables, short-term loans) and therefore, it is assumed that their carrying amount approximates their fair value. The Company's management considers that, under the existing circumstances, the estimates of financial assets and liabilities included on the balance sheet are the most reliable, adequate and trustworthy as possible for the purposes of financial reporting.

The fair value of financial instruments is determined in accordance with the valuation methodology corresponding to Level 3 in the fair value hierarchy.

Fair values compared to carrying amounts

The fair values of financial assets and liabilities, together with their carrying amounts included on the separate statement of financial position are as follows:

In BGN'000	31.12.2022		31.12.2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade receivables	7	7	1	1
Related party receivables	15 616	15 616	7 015	7 015
Receivables on loans to related parties	34 683	34 683	34 542	34 542
Cash and cash equivalents	2 570	2 570	6 916	6 916
Total assets at amortised cost	52 876	52 876	48 474	48 474

20. Segment reporting

At 31 December 2022, the Company identified one operating segment – management of companies.

Segment income, expenses and results include:

In BGN'000	Management of companies 2022	Total 2022	Management of companies 2021	Total 2021
Segment income	16 008	16 008	14 008	14 008
Segment expenses	(854)	(854)	(753)	(753)
Segment result :	15 154	15 154	13 255	13 255
Finance income, net	439	439	415	415
Pre-tax profit	15 593	15 593	13 670	13 670
Tax benefit	(1)	(1)	(1)	(1)
Net profit for the year	15 592	15 592	13 669	13 669

GRADUS AD
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

20. Segment reporting (continued)

Segment assets include:

In BGN'000	Management of companies 2022	Total 2022	Management of companies 2021	Total 2021
Fixed tangible assets	36	36	99	99
Intangible assets	22	22	29	29
Investments in subsidiaries	269 412	269 412	269 412	269 412
Deferred tax assets	58	58	59	59
Trade receivables	7	7	1	1
Trade receivables from related parties	219	219	17	17
Receivables on loans to related parties	34 683	34 683	34 542	34 542
Dividends receivable	15 397	15 397	6 998	6 998
Other current receivables	43	43	67	67
Cash and cash equivalents	2 570	2 570	6 916	6 916
Segment assets	322 447	322 447	318 140	318 140
Total assets:	322 447	322 447	318 140	318 140

Segment liabilities include:

In BGN'000	Management of companies 2022	Total 2022	Management of companies 2021	Total 2021
Non-current lease liabilities	-	-	15	15
Payables to suppliers	49	49	10	10
Liabilities to related parties	1	1	1	1
Payables to personnel and for social security	7	7	44	44
Lease liabilities	16	16	59	59
Tax liabilities	3	3	270	270
Other liabilities	2	2	2	2
Segment liabilities	78	78	401	401
Total liabilities:	78	78	401	401

GRADUS AD
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

21. Related party transactions

Identification of related parties

For the purposes of preparing these separate financial statements, the owners, the companies under their control, the senior management (key management staff) and close family members, including companies controlled by them, are treated as related parties.

Related parties:	Relation
Luka Angelov Angelov	Equity owner
Ivan Angelov Angelov	Equity owner
Angel Ivanov Angelov	Equity owner
Georgi Aleksandrov Babev	Member of the Board of Directors
Gradus-1 EOOD	Subsidiary company
Gradus-3 AD	Subsidiary company
Millennium 2000 EOOD	Subsidiary company
Gradus-98 AD	Subsidiary company
Zhyuliv EOOD	Subsidiary company
Lora-2004 EOOD	Subsidiary company
Gold Farm 91 EOOD	Subsidiary company
Gradus Logistics EOOD ЕООД	Subsidiary company
Energy-2 OOD	Relationship through a person exercising significant influence
Agro Invest-7 OOD	Relationship through a person exercising significant influence
Mirena OOD	Relationship through a person exercising significant influence
Gold Agro-2005 OOD	Relationship through a person exercising significant influence
Ayazmo AD	Relationship through a person exercising significant influence
Marieta EOOD	Relationship through a person exercising significant influence
Trade Home EOOD	Relationship through a person exercising significant influence
Ralitsa 2004 OOD	Relationship through a person exercising significant influence
Wolf OOD	Relationship through a person exercising significant influence
Biser Oliva AD	Relationship through a person exercising significant influence
Equity Invest-1 AD	Relationship through a person exercising significant influence
Equity Invest-2 OOD	Relationship through a person exercising significant influence
M.O. Stara Zagora OOD	Relationship through a person exercising significant influence
Biser Distribution OOD	Relationship through a person exercising significant influence
LG Auto OOD	Relationship through a person exercising significant influence
Auto Spa Center	Relationship through a person exercising significant influence
Next Capital OOD	Relationship through a person exercising significant influence
LG Auto 2 OOD	Relationship through a person exercising significant influence
Vladista EOOD	Relationship through a person exercising significant influence

Transactions with key management personnel

The remuneration of the Directors and Board members amounts to BGN 383 thousand (2021: BGN 346 thousand).

Loans granted to related parties:

In BGN'000	Interest rate	Maturity	Collateral	Loan granted at 31.12.2022	Loan granted at 31.12.2021
Gradus-1 EOOD	2.90%	02.2023	-	17 440	17 614
Gradus-3 AD	2.90%	09.2023	-	4 414	4 515
Lora-2004 EOOD	2.90%	10-11.2023	-	11 125	9 307
Gradus-98 AD	2.90%	-	-	-	602
Gradus Logistics EOOD	2.90%	04.2023	-	401	1 001
Milenium 2000 EOOD	2.90%	11.2023	-	1 303	1 503
Total:				34 683	34 542

GRADUS AD
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

21. Related party transactions (continued)

The transactions between Gradus AD and the related companies at 31 December 2022 were as follows:

In BGN'000	Type of transaction	Transaction value in 2022	Total liabilities 31 December 2022
Gradus-1 EOOD	Service	1	1
Total liabilities			1

In BGN'000	Type of transaction	Transaction value in 2022	Total liabilities 31 December 2022
Gradus-1 EOOD	Service	365	189
Gradus-1 EOOD	Loans granted	-	17 397
Gradus-1 EOOD	Interest accrued	228	43
Gradus-3 AD	Service	38	6
Gradus-3 AD	Loans granted	-	4 399
Gradus-3 AD	Interest accrued	58	15
Millennium 2000 EOOD	Service	63	5
Millennium 2000 EOOD	Loans granted	-	1 300
Millennium 2000 EOOD	Interest accrued	18	3
Lora-2004 EOOD	Service	20	4
Lora-2004 EOOD	Loans granted	2 000	11 098
Lora-2004 EOOD	Interest accrued	128	27
Gradus-98 AD	Service	39	4
Gradus-98 AD	Interest accrued	1	-
Zhyuliv EOOD	Service	24	4
Gold Farm 91 EOOD	Service	16	3
Gradus Logistics EOOD	Service	9	2
Gradus Logistics EOOD	Loans granted	-	400
Gradus Logistics EOOD	Interest accrued	11	1
Equity Invest-1 AD	Service	1	1
Equity Invest-2 OOD	Service	1	1
Millennium 2000 EOOD	Dividends	3 000	2 900
Gradus -98 AD	Dividends	4 997	4 997
Gradus-1 EOOD	Dividends	7 500	7 300
Lora-2004 EOOD	Dividends	200	100
Zhyuliv EOOD	Dividends	300	100
Total:			41 557
Including dividends receivable:			6 998
Including receivables on loans			34 542
Including trade receivables			219

GRADUS AD
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

21. Related party transactions (continued)

The transactions between Gradus AD and the related companies at 31 December 2021 were as follows:

In BGN'000	Type of transaction	Transaction value in 2021	Total liabilities 31 December 2021
Gradus-1 EOOD	Service	1	1
Total liabilities			1

In BGN'000	Type of transaction	Transaction value in 2021	Total liabilities 31 December 2021
Gradus-1 EOOD	Service	14	2
Gradus-1 EOOD	Loans granted	26 100	17 597
Gradus-1 EOOD	Interest accrued	241	17
Gradus-3 AD	Service	29	1
Gradus-3 AD	Loans granted	7 700	4 499
Gradus-3 AD	Interest accrued	26	16
Millennium 2000 EOOD	Service	173	2
Millennium 2000 EOOD	Loans granted	2 000	1 500
Millennium 2000 EOOD	Interest accrued	3	3
Lora-2004 EOOD	Service	32	2
Lora-2004 EOOD	Loans granted	800	9 298
Lora-2004 EOOD	Interest accrued	120	9
Gradus-98 AD	Service	104	3
Gradus-98 AD	Loans granted	1 000	600
Gradus-98 AD	Interest accrued	21	2
Zhyuliv EOOD	Service	32	4
Zhyuliv EOOD	Loans granted	500	-
Zhyuliv EOOD	Interest accrued	1	-
Gold Farm 91 EOOD	Service	25	3
Gold Farm 91 EOOD	Loans granted	400	-
Gold Farm 91 EOOD	Interest accrued	1	-
Gradus Logistics EOOD	Service	13	-
Gradus Logistics EOOD	Loans granted	1 000	1 000
Gradus Logistics EOOD	Interest accrued	9	1
Millennium 2000 EOOD	Dividends	5 000	2 500
Gradus -98 AD	Dividends	5 396	2 398
Gradus-1 EOOD	Dividends	2 500	1 500
Lora-2004 EOOD	Dividends	200	100
Zhyuliv EOOD	Dividends	900	500
Total:			41 557
Including dividends receivable:			6 998
Including receivables on loans			34 542
Including trade receivables			17

22. Events after the reporting date

On 04.01.2023 a change of the Board of Directors of the Company has been registered in the Commercial Register at the Registry Agency, with Ivan Angelov and Luka Angelov terminating their participation in the Board of Directors and their place being taken by Angel Angelov and Bistra Kotseva.

On 23 February 2023, the Company signed with Gradus – 1 EOOD an Annex for extending the term of a loan granted until 25 February 2024.

There were no other significant events occurring after 31 December 2022 that require additional adjustments and/or disclosures in the separate financial statements for the year ended 31 December 2022.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Gradus AD

REPORT ON THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying separate financial statements of Gradus AD ("the Company"), which comprise of separate statement of financial position as of December 31, 2022 and separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the separate financial statements section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the separate financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the requirements of IFAA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 2 to the separate financial statements disclosing that at the date of their issuance, the consolidated financial statements of the Company for the same period have not yet been issued. The management plans to issue the consolidated financial statements not later than 30 April 2023. Our opinion is not qualified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

ADVISORY ☐ ASSURANCE ☐ TAX

Baker Tilly Klitou and Partners EOOD trading as Baker Tilly is a member of the global network of Baker Tilly International Ltd., the members of which are individual and independent legal entities.

Key audit matter	How our audit addressed the key audit matter
Valuation of Investments The Company has investments in subsidiaries with a carrying amount totaling BGN 269,412 thousand – included in the disclosures in Note 6 to the separate financial statements. The review of the indicators and the tests of the management for the necessity of impairment of the exposures to these subsidiaries is a complex process which requires from the management to apply significant assumptions, various judgments and estimates with regard to the future return on the investments. For the purposes of measuring the recoverable amount the management uses the method of discounted future cash flows. The latter are determined specifically for each subsidiary, which is treated as an separate cash generating unit, and taking into account a number of factors, such as: specific activities and location, business environment, past experience with the company, expected growth in the volume of sales for subsequent reporting periods, appropriate discount rate, other risks, etc. Therefore, there is inherent uncertainty in these assessments of the management. The calculations have been performed by the management with the assistance of independent certified appraisers – external experts. Due to the circumstances that (a) the process of estimating and testing of possible impairment losses on the exposures to subsidiaries assumes number of judgments, higher degree of subjectivity and uncertainty in the projection assumptions, including revenue projections, cash flow projections and growth rate; and (b) the significance of the reporting item itself, as disclosed above, we have determined this matter as a key audit matter.	In this area our audit procedures are: • Consideration and evaluation of Company's analyses on its investment in each of these subsidiaries and its potential of return by applying the discounted future cash flows method; • Analysis and assessment of the relevance of Company's budgets and projections as of 31 December 2022; • Assessment of the objectivity, independence and competency of the external certified appraisers. • Analyses and assessment of the appropriateness of the key judgments and assumptions, used by Company's management, including the discount rate used in the application of the discounted cash flows model. • Testing and assessment of the completeness, appropriateness and adequacy of the disclosures in Company's separate financial statements with regard to the measurement of investments in subsidiaries.

Information other than the separate financial statements and Auditors' Report thereon

The Management Board of the Company ("the Management") is responsible for the other information. The other information comprises the annual report on activities, the corporate governance statement and a report on the implementation of the remuneration policy prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate financial statements and our auditors' report thereon.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless it is not specifically stated in our auditors' report and to the extent it is specifically stated.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the separate financial statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRS, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and will communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional matters, required to be reported by the Accountancy Act and Public Offering of Securities Act

In addition to our reporting responsibilities according to ISAs described in section "Information Other than the separate financial statements and Auditors' Report Thereon", with respect to the annual report on activities, corporate governance statement and the report on the implementation of the remuneration policy, we have also performed the procedures required by the Guidelines related to new extended audit reports and communication from the auditors of the Professional Organization of Registered Auditors in Bulgaria - Institute of Certified Public Accountants. These procedures include tests over the existence, form and content of the other information in order to assist us in forming an opinion as to whether the other information includes the disclosures and reporting as required by Chapter Seven of the Accountancy Act and the Public Offering of Securities Act (art. 100m, para 10 of POSA in relation to art. 100m, para 8, p. 3 and 4 of POSA, as well as art. 100m, para 13 of POSA in relation with art. 116c, para 1 of POSA), applicable in Bulgaria.

Opinion under Article 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

- a) The information included in the annual report on the activities for the financial year for which the separate financial statements have been prepared, is consistent with the separate financial statements.
- b) The annual report on the activities has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100m, paragraph 7 of the Public Offering of Securities Act.
- c) The information required by Chapter Seven of the Accountancy Act and Art. 100m, para 8 of the Public Offering of Securities Act is presented in the corporate governance statement covering the financial year for which the separate financial statements have been prepared.
- d) The report on the implementation of the remuneration policy for the financial year, related to the financial statement, has been submitted and meets the requirements, set out in the ordinance under Art. 116c, para. 1 of the Public Offering of Securities Act.

Opinion under Art. 100m, para 10 in relation to art. 100m, para 8, p. 3 and 4 of the Public Offering of Securities Act

Based on the procedures performed and as a result of the acquired knowledge and understanding of the Company and the environment in which it operates, acquired during our audit, in our opinion, the description of the main features of the Company's internal control and risk management systems in relation to the financial reporting process as part of the annual report on activities (as element of the content of the corporate governance statement) and the information under Article 10, paragraph 1, letter "c", "d", "f", "h" and "i" of the Directive 2004/25/EC of the European Parliament and of the EU Council of April 21, 2004 related to takeover bids, included in the corporate governance statement do not contain cases of material misrepresentations.

Additional Reporting on the audit of the separate financial statements under Art. 100m, para 4, p.3 of the Public Offering of Securities Act

Reporting under Art. 100m, para 4, p.3 b) "b" of the Public Offering of Securities Act

The information on transactions with related parties is disclosed in Note 21 to the separate financial statements. Based on the audit procedures performed on the transactions with related parties, we have not identified any facts or other information, based on which we could conclude that the transactions with related parties are not disclosed in the attached financial statements, in all material aspects, in accordance with the requirements of IAS 24 Disclosure of related parties. The results of our audit procedures regarding transactions with related parties are considered in the context of forming our audit report on the separate financial statements taken as a whole, and not with the purpose of expressing the audit opinion on transactions with related parties.

Reporting under Art. 100m, para 4, p.3 b) "c" of the Public Offering of Securities Act

Our responsibilities for the audit of the separate financial statements as a whole, described in the section Auditors' Responsibilities for the Audit of the separate financial statements include assessment whether the separate financial statements present true and fair view of material transactions and events. Based on the audit procedures performed on the material transactions, underlying the separate financial statements for the year ended 31 December 2022, no facts, circumstances or other information have come to our attention, based on which we can conclude that there are cases of material misstatements and disclosures in the separate financial statements in accordance with the requirements of IFRS, adopted by EU. The results of our audit procedures on the material transactions and events related to the Company are considered in the context of forming our audit report on the separate financial statements taken as a whole, and not with the purpose of expressing the audit opinion on these material transactions.

Reporting for compliance of the electronic format of the separate financial statements, included in the annual separate financial statements according to art. 100m, para 4 of the Public Offering of Securities Act in relation to the requirements of the ESEF Regulation

In addition to our reporting responsibilities according to ISAs described in section "Auditors' Responsibilities for the Audit of the separate financial statements", we have also performed the procedures required by the „Guidelines related to issuing of audit opinion in relation to the application of the European single electronic format (ESEF) for the financial statements of entities, which shares are traded on a regulated market in the European union (EU)" of the Professional Organization of Registered Auditors in Bulgaria - Institute of Certified Public Accountants.

These procedures are related to inspection of the format and whether human readable part of this electronic format complies with the audited separate financial statements and issuing an opinion in relation to compliance of the electronic format of separate financial statements of "Gradus AD" for the year ended 31 December 2022, included in electronic file "485100VMOUDWWCUDJ690-20221231-BG-SEP.xhtml", with the requirements of Commission Delegated Regulation (EU) 2018/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format ("Regulation ESEF").

In relation to these requirements, the electronic format of the separate financial statements, included in the annual separate financial statements according to art. 100m, para 4 of the Public Offering of Securities Act, should be presented in XHTML format.

Management of the Company is responsible for the implementation of the requirements of the Regulation ESEF when preparing the electronic format of the separate financial statements in XHTML.

Our opinion is related to the electronic format of the separate financial statements, included in electronic file "485100VMOUDWWCUDJ690-20221231-BG-SEP.xhtml" and does not include other information, included in the annual separate financial statements according to art. 100m, para 4 of the Public Offering of Securities Act.

Based on the procedures performed, our opinion is that electronic format of the separate financial statements of the Company for the year ended 31 December 2022, included in the attached electronic file "485100VMOUDWWCUDJ690-20221231-BG-SEP.xhtml" is prepared in all material respects in compliance with the Regulation ESEF.

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- Baker Tilly Klitou and Partners EOOD were appointed as statutory auditors of the separate financial statements of the Company for the year ended December 31, 2022 by the general meeting of shareholders held on June 3th, 2022 for a period of one year.
- The audit of the separate financial statements of the Company for the year ended December 31, 2022 represents sixth statutory audit engagement for that entity carried out by Baker Tilly Klitou and Partners EOOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report provided to the Company's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- No prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Company.
- For the period for which is related our statutory annual audit, we have not delivered other services to the Company.

Audit company №129 Baker Tilly Klitou and Partners EOOD

Ivaylo Yanchev
Registered auditor, responsible for the audit

March 20, 2023

Galina Lokmadjieva - Nedkova - Director

Baker Tilly Klitou and Partners EOOD
5, Stara Planina Str., 5th floor
1000 Sofia, Bulgaria



Translation from Bulgarian

REPORT ON THE ACTIVITY OF GRADUS AD
IN 2022

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I. Introduction. General information about Gradus AD

Gradus AD closed the financial year 2022 reporting a positive result of BGN 15,592 thousand, which was formed primarily from dividends paid by the subsidiaries and interest on loans granted.

1.1. Registration and object of activity

GRADUS AD (the „Company”) is a company registered in Bulgaria with the Commercial Register of the Registry Agency under UIC: 204882907 on 28 November 2017.

The Company is a parent entity.

Its existence is not limited by time.

Management address:

Stara Zagora 6000, Industrialen quarter, Gradus Poultry Slaughterhouse

On 30 July 2018, by decision N 770 – ПД of 30 July 2018, the Financial Supervision Commission registered GRADUS AD as a public company with the Public Companies and Other Issuers of Securities Register, kept by the Financial Supervision Commission, pursuant to Article 30, paragraph 1, item 3 of the Financial Supervision Commission Act.

The company shares are admitted to trading on the BSE Main Market, Standard Segment. Stock Exchange Code GR6.

OBJECT OF ACTIVITY OF THE COMPANY

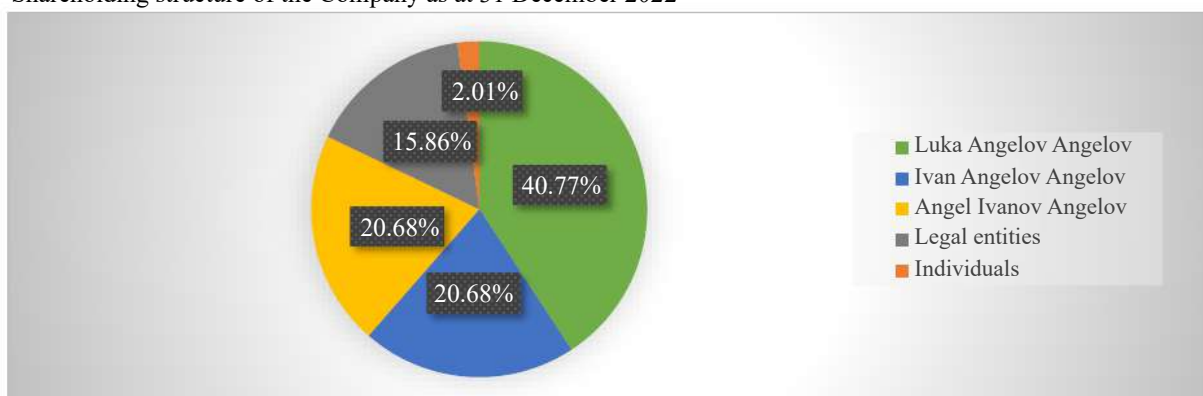
The object of activity of the Company is: Investments in stocks and shares of companies, acquisition and management of shares in Bulgarian and foreign companies; activity as a holding company; acquisition, assessment and sale of patents, concession of licenses for the use of patents of companies, in which the Company has shares; financing of companies, in which the Company has shares, as well as any other activity not prohibited by law, provided that if a permit or a license is required, or registration for the purpose of carrying out any activity, then such activity shall take place following the obtaining of such permit or license, respectively following the completion of such registration.

1.2. Share capital

The registered capital of the company as at 31 December 2022 amounts to BGN 243,609 thousand, split into 243,608,710 shares with nominal amount of BGN 1 (one) each.

The shares of GRADUS AD are ordinary, registered, dematerialized voting shares.

Shareholding structure of the Company as at 31 December 2022



1.3. Board of Directors

Gradus AD has a one-tier management system - Board of Directors.

The Board of Directors consists of three (3) members who are as follows as at 31 December 2022:

- Luka Angelov Angelov – Deputy Chairman of the Board of Directors of Gradus AD
- Ivan Angelov Angelov – Chairman of the Board of Directors and Executive Director of Gradus AD
- Georgi Alexandrov Babev - Member of the Board of Directors of Gradus AD

Participation of the members of the Board of Directors in commercial companies as general partners, holding of more than 25 percent of the capital of another entity, as well as participation in governing bodies of other companies or cooperatives as procurators, general managers or board members:

Luka Angelov

1.1. As a general partner - NO

1.2. Owns directly more than 25% of the capital of:

"Equity Invest-1" AD (UIC 204750154), "Equity Invest-2" OOD (UIC 204746138), "Energy-2" OOD (UIC 123655788), "Agro Invest-7" OOD (UIC 123654743) "Mirena" OOD (UIC 123655806), "Gold Agro-2005" OOD (UIC 119642703), "Wolf" OOD (UIC 123760892), "Marieta" EOOD (UIC 123655770), „Biser Distribution“ OOD (UIC 200090633), Biser Oliva AD (UIC 123036597), Auto Spa Center" OOD (UIC 204959983), "Gradus" AD (UIC 204882907), „Vladista” EOOD (UIC 207123452). and indirectly through "Gradus" AD:

"Zhyuliv" EOOD (UIC 119053781), "Millennium 2000" EOOD (UIC 119591422), "Gradus-98" EAD (UIC 123120561), "Gradus-1" EOOD (UIC 822132592), "Lora-2004" EOOD (UIC 123658624), "Gradus-3" AD (UIC 123152751), „Gold Farm 91“ EOOD (UIC 205933500), „Gradus Logistics“ EOOD (UIC 206290911).

and indirectly through "Marieta" EOOD in "Trade Home" EOOD (UIC 123644254)

1.3. Participates in the governing bodies of:

"Equity Invest-1" AD (UIC 204750154), "Equity Invest-2" OOD (UIC 204746138, "Gradus-98" AD (UIC 123120561), "Energy-2" OOD (UIC 123655788), "Agro Invest-7" OOD (UIC 123654743), "Mirena" OOD (UIC 123655806), "Gold Agro-2005" OOD (UIC 119642703), "Gradus-3" AD (UIC 123152751), "Wolf" OOD (UIC 123760892), "Marieta" EOOD (UIC 123655770), "Biser Oliva" AD (UIC 123036597), "Auto Spa Center" OOD (UIC 204959983), „Gradus“ AD (UIC 204882907) and „Vladista” EOOD (UIC 207123452).

Ivan Angelov

1.1. As a general partner - NO

1.2. Owns directly more than 25% of the capital of:

"Equity Invest-1" AD (UIC 204750154), "Equity Invest-2" OOD (UIC 204746138), "Energy-2" OOD (UIC 123655788), "Mirena" OOD (UIC 123655806), "Gold Agro-2005" OOD (UIC 119642703), "Wolf" OOD (UIC 123760892), "Ayazmo" AD (UIC 201974859), Ralitsa 2004“ OOD (UIC 123658631).

1.3. Participates in the governing bodies of:

"Equity Invest-2" Ltd. (UIC 204746138), "Zhyuliv" EOOD (UIC 119053781), "Millennium 2000" EOOD (UIC 119591422), "Energy-2" OOD (UIC 123655788), "Agro Invest-7" OOD (UIC 123654743), "Gradus-1" EOOD (UIC 822132592), "Mirena" OOD (UIC 123655806), "Lora-2004" OOD (UIC 123658624), "Gold Agro-2005" OOD (UIC 119642703), "Wolf" OOD (UIC 123760892), „Gold Farm 91“ EOOD (UIC 205933500), "Ayazmo" AD (UIC 201974859), Ralitsa 2004“ OOD (UIC 123658631), „Gradus” AD (UIC 204882907), „Gradus Logistics“ EOOD (UIC 206290911), „Product board for eggs, poultry and rabbit meat“ Partnership (UIC 175066976), Partnership „Association of Biogas Producers“ (BULSTAT 176638405), „Association of Poultry Breeders“ Partnership (UIC 000682444), Gradus-3“ AD (UIC 123152751).

Georgi Aleksandrov Babev

1.1. As a general partner - NO

1.2. Owns directly more than 25% of the capital of:

LG Auto OOD (UIC 205395076), Next Capital LTD (UIC 206378635), LG Auto 2“ OOD (UIC: 206928367).

1.3. Participates in the governing bodies of:

LG Auto OOD (UIC 205395076) , Next Capital LTD (UIC 206378635), LG Auto 2“ OOD (UIC: 206928367).

1.4. Audit Committee

Members of the Audit Committee are:

- Dobri Svetlozarov Simeonov - Chairman of the Audit Committee;
- Petya Radoslavova Panova – Member of the Audit Committee;
- Georgi Aleksandrov Babev – Member of the Audit Committee.

II. An objective review of the development and operating performance of the Company, as well as its status, together with a description of the main risks faced by it

2.1. Indicators characterizing the operating performance

Being a holding company, Gradus AD carries out no independent commercial activity. The Company's activity is focused on management of subsidiaries and allocating financial resources among them.

Group subsidiaries as at 31 December 2022:

		% participation
Lora-2004 EOOD	effective shareholding	100.00
Zhyuliv EOOD	effective shareholding	100.00
Millennium 2000 EOOD	effective shareholding	100.00
Gradus-1 EOOD	effective shareholding	100.00
Gradus-3 AD	effective shareholding through Gradus-1 EOOD	96.00
Gradus-98 AD	effective shareholding	99.94
Gold Farm 91 EOOD	effective shareholding	100.00
Gradus Logistics EOOD	effective shareholding	100.00

The main object of activity of the group of Gradus AD is concentrated in Poultry-farming Sector, except for the companies with object of activity „manufacture of and trading in compound feeding stuff“.

At present, there are no trends and events that have a significant impact on the company's future activity and operating performance.

2.2. Operating results

The net profit of the Company for the period 01 January 2022 – 31 December 2022 amounts to BGN 15,592 thousand (for the period 01 January 2021 – 31 December 2021 - a net profit of BGN 13,669 thousand).

The results of the Company reported in its financial statements depend directly on the performance of its subsidiaries.

2.2.1. Revenue of the Company:

REVENUE	2022 BGN'000	2021 BGN'000	Relative share for 2022, %
Operating income			
Revenue from services	8	5	-
Dividend income	15 997	13 996	97%
Other income	3	7	-
Finance income			
Interest income	443	421	3%
Total	16 451	14 429	100%

- Interest income relates to loans granted to subsidiaries.

The main income, which has the greatest impact on the current financial result of the Company, originates from distribution of dividends by the subsidiaries, which are as a result of their commercial activity.

Dividend income by companies:

Subsidiary	2022 BGN'000	2021 BGN'000	Relative share, %
Gradus-1 EOOD	7 500	2 500	47%
Gradus-98 AД	4 997	5 396	31%
Millennium 2000 EOOD	3 000	5 000	19%
Zhyuliv EOOD	300	900	2%
Lora-2004 EOOD	200	200	1%
Total	15 997	13 996	100%

Terms and conditions of loans to subsidiaries:

Subsidiary	Currency	Agreed principal BGN'000	Maturity	Interest %	Balance as at 31 December 2022 BGN'000	Incl. interest	Balance as at 31 December 2021 BGN'000	Incl. interest
„Gradus-3“ AD	BGN	2 000	16.09.2022	2,90%	-	-	4	4
	BGN	2 000	20.09.2023	2,90%	1 405	5	1 504	4
	BGN	3 000	23.09.2023	2,90%	3 010	10	3 007	7
	BGN	700	18.11.2022	2,90%	-	-	1	1
„Gradus-1“ EOOD	BGN	26 100	26.02.2023	2,90%	17 443	43	17 617	17
„Lora-2004“ EOOD	BGN	6 600	27.10.2023	2,90%	4 110	10	4 304	4
	BGN	5 000	01.11.2023	2,90%	5 012	12	5 005	5
	BGN	2 000	02.10.2023	2,90%	2 005	5	-	-
„Gradus-98“ AD	BGN	1 000	17.10.2022	2,90%	-	-	602	2
„Gradus Logistics“ EOOD	BGN	800	07.04.2023	2,90%	401	1	801	1
	BGN	200	05.02.2023	2,90%	-	-	200	-
„Millennium 2000“ EOOD	BGN	2 000	17.11.2023	2,90%	1 303	3	1 503	3
Total amount		51 400			34 689	89	34 548	48

The loans granted to subsidiaries are current. The purpose of the loans is to support the development of existing and new business lines, and to finance their operational activity.

2.2.2. Expenses on the company:

EXPENSES	2022 BGN'000	2021 BGN'000	Relative share, for 2022, %
Operating expenses			
Expenses by nature			
Expenses on materials	22	12	3%
Hired service expenses	186	175	22%
Depreciation / amortization expenses	72	55	8%
Expenses on wages and social security payments	559	496	65%
Other expenses	15	15	2%
Total:	854	753	
Finance costs			
Bank charges	3	3	-
Interest expense on right-of-use contracts	1	1	-
Other	-	2	-
Total:	4	6	
Total operating expenses	858	759	100%

During the reporting period, the remuneration expenses held the highest share of costs.

A detailed breakdown of expenditure can be found in the Notes to the separate financial statement.

2.3. Risk factors for the activity

At present, management of Gradus AD is not aware of any specific trends and events, which would directly influence the Company's future activity.

The Company's risk management identifies and analyses potential risks, to which the Company might be exposed. Different levels of control have been implemented with the aim to ensure effective monitoring of those risks.

Credit risk

Credit risk exists if a loss is generated when a counterparty to a financial instrument is not able to meet its obligations under a contractual term.

The exposure to a credit risk depends on the individual characteristics of each customer. The Company measures the credit risk of loans to related parties using internal valuations that reflect the probability of default. In 2022, the Company granted loans only to related parties – subsidiaries, which reduces the credit risk to a minimum.

Liquidity risk

Liquidity risk is the risk that the Company will have difficulties in fulfilling its obligations related to financial liabilities. The liquidity management approach of the Company aims at ensuring, as far as possible, that there will always be sufficient liquidity to meet its obligations, both under normal and stressful conditions, and without incurring unacceptable losses or harming the reputation of the Company.

Market risk

Market risk is the risk that in case of changes in market prices, such as foreign exchange rates, interest rates or prices of equity instruments, the Company's income or the value of its investments may be affected. At present, this risk is immaterial.

Financial risk management

The overall capital management goal of the Company is to ensure its ability to continue as a going concern and to ensure adequate return to its shareholders.

There were no changes in the capital management goals, policies or processes in the year ending 31 December 2022.

The COVID 19 pandemic –impact, actions taken and effects

On 11 March 2020, the World Health Organization declared a COVID-19 coronavirus pandemic. On 13 March 2020, the National Assembly voted on a state of emergency in Bulgaria, as a result of which measures were introduced to reduce the infection, including work from a home office, temporary closure of schools, universities, restaurants, cinemas, theatres, museums and sports facilities, retailers, with the exception of food retailers, grocery stores and pharmacies. As a result of the restrictions imposed, the normal functioning of businesses in a number of business sectors was disrupted. The supply of raw materials and materials, forwarding activities to customers and labour supply experienced difficulties. Almost all companies, although to a varying degree, were forced to take certain actions and to implement various measures to readjust the organization of their businesses, work schedules, business communication and other aspects of relationships with contractors, partners and government institutions.

The company operates in a sector the normal operation of which was not affected significantly by the restrictive measures being imposed. The company has sufficient funding to meet its liquidity needs.

The Company's management has not identified areas in the separate financial statements on which the pandemic has had a direct and significant impact and effects, including the valuation of individual assets and liabilities.

On 24.02.2022 a military conflict between Ukraine and Russia occurred. Subsequently, a number of countries imposed sanctions against certain individuals and entities in Russia. The Russia-Ukraine conflict and related economic sanctions and other measures taken by governments around the world are expected to have a significant effect on the local economies of individual countries as well as on the global economy.

Gradus AD and its subsidiaries have no investments in the territory of the countries involved in the military conflict. The Company and its subsidiaries do not have commercial relationships with any sanctioned counterparties. Gradus AD and its subsidiaries have no suppliers of goods or services from the parties to the conflict. Sales to customers in the affected countries are not material to the Company's and its subsidiaries' operations and may be redirected to other markets on the same or more favourable terms. Indirect economic effects on the operations of the Company, through

its subsidiaries, arising from the conflict are identified and consist mainly of volatility in the prices of raw materials that the Group purchases for feed production.

The Company views the protection of the environment and the reduction of the rate of climate change as part of its corporate social responsibility policy and conducts its business in compliance with environmental protection requirements. The Group implements measures to: separate waste collection; minimise, recover and recycle production and household waste; and provide appropriate training to staff on environmental protection and pollution prevention issues. The Group invests actively in renewable sources of electricity for its own consumption.

III. Analysis of financial and non-financial key performance indicators related to business activity, including information on environmental and personnel-related matters

3.1. Key financial indicators

Aiming at achieving greater efficiency and control on the Company's performance, management monitors certain key performance indicators. These indicators are mainly directed towards the amount of profit, the debt level and efficiency.

Main indicators related to profit, which the Company monitors, are as follows:

- EBITDA margin (EBITDA/sales)

	31.12.2022	31.12.2021
EBITDA (earnings before interest, taxes, depreciation and amortisation)	15 226	13 310
Revenue	16 008	14 008
EBITDA margin	95.11%	95.02%

EFFECTIVENESS

- Cost effectiveness ratio (total expenses /total income)

	31.12.2022	31.12.2021
Total expenses	858	759
Total income	16 451	14 429
Cost effectiveness	0.05	0.05

- Revenue effectiveness ratio (total income /total expenses)

	31.12.2022	31.12.2021
Total income	16 451	14 429
Total expenses	858	759
Revenue effectiveness	19.17	19.01

The analysis of the revenue and costs effectiveness for 2022 reveals that revenue covers fully the company's expenses and thus, the company is able to meet the dividend commitments undertaken and to finance the companies included in the Group's portfolio.

The Company had no financial liabilities as at 31 December 2022. The Company timely pays its current liabilities.

3.2. Non-financial Statement

Gradus AD is a holding company and does not carry out its own production and trading activity, nor it produces or markets its own goods or services. The company's activities are focused on management of subsidiaries and distribution of finance resources among them.

Being a parent entity in a large Group, the Company will draw up and include also a consolidated Non-financial Statement in its consolidated management report.

3.3. Personnel

The average number of staff of Gradus AD at 2022 year-end is 4 employees hired under employment agreements (2021: 4 employees).

All employees of the Company have a higher education degree and qualification that is in conformity with the post occupied.

During the reporting period, the company did not hire temporary workers.

Posts within the Company as of 31 December 2022:

- Investors Relations Director
- Finance Director
- Head of Finance Department
- Risk Manager
- Chief Accountant

The Company provides additional qualification possibilities to improve the professional qualification of its employees.

IV. Important events, which have occurred after the date of preparation of the annual separate financial statements

On 04.01.2023, in the Commercial Register at the Registry Agency, a change in the Company's Board of Directors was recorded, with Ivan Angelov and Luka Angelov ceasing their participation in the Board of Directors and their place being taken by Angel Angelov and Bistra Kotseva

On 23 February 2023, the Company signed with Gradus – 1 EOOD an Annex for extending the term of a loan granted until 26 February 2024.

There were no other significant events occurring after 31 December 2022 that require additional adjustments and/or disclosures in the separate financial statements for the year ended 31 December 2022.

V. Future perspectives of the company

Gradus AD intends to continue to finance its subsidiaries aiming at extending their production capacity and optimising activities. Investments are planned in all segments in which the entities operate. Business software to manage activities is to be implemented.

VI. Research and development activities

The Company was not involved in research and development activities in 2022.

VII. Information on the acquisition of treasury shares required by Article 187e of the Commercial Act

Treasury shares were not acquired during the reporting period.

VIII. Branches of the Company

The Company has no branches.

IX. Financial instruments used by the Company

Financial instruments used by the Company as of 31 December 2022:

Financial assets at amortised cost In BGN'000	31.12.2022	31.12.2021
Trade receivables	7	1
Related party receivables	15 616	7 015
Receivables on loans to related parties	34 683	34 542
Cash and cash equivalents	2 570	6 916
Total:	52 876	48 474

Management of the company assesses the estimated credit risk on financial instruments at each period-end. Parameters affecting the amount of expected credit losses are defined collectively or individually depending on the type and nature of the financial instruments concerned. For further details on the write down of receivables on loans granted and financial instruments, see the accounting policies and notes to the separate financial statements.

X. Additional information pursuant to Appendix 2 of Ordinance 2 of FSC of 9 November 2021

1. Information, in terms of value and quantity, of the basic categories of goods, products and/or services provided, with an indication of their share in sales revenue of the issuer, respectively the entity under § 1e from the additional regulations of POSA, as a whole and the changes, which have occurred during the reporting financial year

Information, in terms of value, of the sales revenue, with an indication of their share, is disclosed in section II, item 2.2.1. Revenue of the Company hereof.

2. Information on revenue, broken down by category of activity, domestic and foreign markets, as well as information on the sources of supply of materials necessary for the production of goods or the provision of services with an indication of the degree of dependency in respect of each individual seller or buyer/user, and if the relative share of any of them exceeds 10 per cent of the sales expenses or revenue, information on each person separately, its share in sales or purchases, and its relationships with the issuer, respectively the entity under § 1e from the additional regulations of POSA

The company does not carry out its production and trade activities or manufacture or market its goods or services. The company's activity is focused primarily on the corporate governance of its subsidiaries and the distribution of funds among them.

3. Information on significant transactions.

Large transactions or such of significant importance to the activity of Gradus AD were not concluded in 2022.

4. Information on transactions concluded between the issuer, respectively the entity under § 1e from the additional regulations of POSA, and related parties over the reporting period, proposals for concluding such transactions, as well as transactions that are outside its normal business or substantially deviate from the market conditions to which the issuer or its subsidiary is a party, with an indication of the value of the transactions, the nature of the relationship, and any other information necessary to assess the impact on the financial position of the issuer, respectively the entity under § 1e from the additional regulations of POSA

Large transactions of significant importance to the activity of Gradus AD were not concluded in 2022, except for the provision of loans to subsidiaries, as disclosed in section II, item 2.2.1. „Revenue of the Company, Terms and Conditions of the Loans to Subsidiaries“ hereof. There are no transactions that fall outside the ordinary activity of the issuer, or such that deviate significantly from market conditions.

5. Information on events and indicators of unusual nature for the issuer, respectively the entity under § 1e from the additional regulations of POSA, having a significant impact on its activity, and revenue and expenses incurred; an assessment of their impact on the current year results

There are no events and indicators of unusual nature for the issuer having a significant impact on its activity.

6. Information on off-balance sheet transactions – nature and business goals; an indication of the financial impact of these transactions on the activity, if the risks and rewards of these transactions are material to the issuer, respectively the entity under § 1e from the additional regulations of POSA, and if the disclosure of that information is essential for the assessment of the financial position of the issuer, respectively the entity under § 1e from the additional regulations of POSA

There were no such transactions.

7. Information on the shareholdings of the issuer, respectively the entity under § 1e from the additional regulations of POSA, with respect to its major investments in the country and abroad (in securities, financial instruments, intangible assets and real estate), as well as investments in equity securities outside its group of companies within the meaning of the Accountancy Act and the sources/methods of financing

Gradus AD invests only in shares of its subsidiaries.

The Company owns no real estate.

The investment interests of the Company as of 31 December 2022 are only in its group of entities, as disclosed in section II, item 2.1.

8. Information on loan contracts concluded by the issuer, respectively the entity under § 1e from the additional regulations of POSA, its subsidiary or a parent company in their capacity as borrowers; loan contracts with an indication of their terms and conditions, including maturities, and information on guarantees provided and liabilities assumed

Gradus AD had no loan liabilities and was not a party to guarantees and commitments as of 31 December 2022.

9. Information on loans granted by the issuer, respectively the entity under § 1e from the additional regulations of POSA, or by their subsidiaries, provision of guarantees or assumption of obligations to one person or to its subsidiary, including related parties, with an indication of the name and UIC of the person, the nature of the relationship between the issuer, the entity under § 1e from the additional regulations of POSA, or their subsidiaries, and the borrower, the amount of outstanding principal, interest rate, contract date, repayment deadline, amount of the commitment, specific terms and conditions, other than those provided for in this provision, as well as the purpose for which they were granted, in case they were concluded as target ones.

Information on loans granted by the issuer is disclosed in detail in section II, item 2.2.1. „Terms and Conditions of the Loans to Subsidiaries“ hereof. The loans were granted to the Group subsidiaries for the purpose of facilitating the development of existing and new business lines, as well as financing the operating activities of the subsidiaries.

10. Information on the use of the funds from a new issue of securities during the reporting period

There has been no new issue of securities by the Company during the reporting financial year.

11. Analysis of the ratio between the financial results achieved, as reported in the financial statements for the financial year, and the estimates of such results published earlier.

The Company has not published estimates of the relevant period.

12. Analysis and evaluation of the financial resource management policy with an indication of the ability to service the liabilities; potential threats and measures the issuer, respectively the entity under § 1e from the additional regulations of POSA, has taken or is about to take with a view to their elimination

The policy of Gradus AD is focused primarily on the corporate governance of its portfolio companies. The free funds are used to finance its subsidiaries. The company had no borrowings as of 31 December 2022.

13. Feasibility study of investment intentions with an indication of the amount of available funds and reporting of any possible changes to the structure of financing of this activity.

The activity of Gradus AD is focused primarily on the development of its portfolio companies. To monitor the development of its subsidiaries and to finance their activities by providing loans is a priority goal of Gradus AD.

14. Information on changes, which have occurred during the reporting period, in the basic principles of governance of the issuer, respectively the entity under § 1e from the additional regulations of POSA, and its group of entities within the meaning of the Accountancy Act

No changes occurred during the reporting period in the basic principles of governance of the issuer, respectively the entity under § 1e from the additional regulations of POSA, and its group of entities.

15. Information on the key characteristics of both the internal control system and the risk management system, implemented by the issuer, respectively the entity under § 1e from the additional regulations of POSA, in the process of preparation of its financial statements

The company has in place an internal control system and a risk management system. In connection with the financial reporting process, the financial statements are prepared in accordance with International Financial Reporting Standards. The current financial and accounting activity of the Company is subject to periodic control and analysis by management. The company has a well-established practice for periodic discussion of the current financial results from the operations of the companies included in its strategic investment portfolio, aiming at ensuring the implementation of their business programs and accurate analysis of their ability to pursue future investment projects.

16. Information on changes in the management and supervisory bodies during the reporting financial year

There were no changes in the management and supervisory bodies during the reporting financial year.

17. Information on the amount of remuneration, rewards and / or benefits paid by the issuer, respectively the entity under § 1e from the additional regulations of POSA, to each member of management and control bodies during the reporting financial year, regardless of whether they have been included in the expenses of the issuer, respectively the entity under § 1e from the additional regulations of POSA, or originate from profit distributions, including: a) amounts and non-cash remuneration received; b) conditional or deferred remuneration occurred over the year, even if the remuneration is due on a later date; c) amount due by the issuer or its subsidiaries for payment of pensions, retirement benefits or other similar compensation.

Gradus AD draws up a separate "Report on Implementation of the Remuneration Policy for the Members of the Board of Directors" in compliance with the requirements of Ordinance 48 of FSC of 20 March 2013.

18. For public companies - information on the issuer's shares held by members of its management and control bodies, procurators and top management staff, including shares held by each one of them separately and as a percentage of the shares of each class, as well as options on securities provided to them by the issuer – type and amount of securities on which options are established, exercise price of the options, purchase price, if any, and term of the options.

As at 31.12.2022 shares held by the members of the Board of Directors are as follows:

Name, father's name, family name	Number of shares	%
Luka Angelov Angelov	99 316 945	40,77
Ivan Angelov Angelov	50 373 165	20,68
Georgi Aleksandrov Babev	0	0%

19. Information on agreements, the company is aware of (including after the end of the financial year), as a result of which changes could occur in future in the relative share of shares or bonds held by the existing shareholders or bond holders

No such agreements are known.

20. Information on pending court, administrative or arbitration proceedings concerning liabilities or receivables of the issuer, respectively the entity under § 1e from the additional regulations of POSA, amounting to at least 10 of its equity; if the total amount of the liabilities of the issuer, respectively the entity under § 1e from the additional regulations of POSA, or receivables on all constituted proceedings exceeds 10 of its equity, information of each proceeding shall be provided separately

Gradus AD is not a party to pending court, administrative or arbitration proceedings, nor are there any decisions or applications to discontinue the activity of the Company or announce it in liquidation.

21. Names of the Investors Relation Director, including telephone number, email and correspondence address

Investor Relations Director:

Marieta Babeva,

0883 773 993

ir@gradusbg.com

110B Simeonovsko Shosse Boulevard, floor 1, office 4/B

22. Non-financial declaration pursuant to the requirements of Article 41 of the Accountancy Act – for separate financial statements, and respectively pursuant to Article 51 of the Accountancy Act – for consolidated financial statements, if applicable

Information on the Non-financial declaration of Gradus AD is disclosed in section III, item 3.2. hereof.

23. Other information at discretion of the Company

None.

XI. Additional information pursuant to Appendix 3 of Ordinance 2 of FSC of 9 November 2021

1. Information on securities not admitted to trading on a regulated market in the Republic of Bulgaria or another EU Member State

At 31 December 2022 Gradus AD had no securities that were not admitted to trading on a regulated market in the Republic of Bulgaria or another EU Member State.

2. Information on the direct and indirect holding of 5 or more percent of the voting rights in the company's General Meeting of Shareholders, including information about the shareholders, the amount of their holding and the manner of holding the shares.

	Shareholders	31.12.2022	
		Number of shares	%
1	Luka Angelov Angelov	99 316 945	40,77
2	Ivan Angelov Angelov	50 373 165	20,68
3	Angel Ivanov Angelov	50 372 417	20,68
4	POK Doverie - indirectly	12 833 303	5,27
5	Legal entities 47	25 795 146	10,59
6	Individual shareholders 939 per.	4 917 734	2,01
	TOTAL	243 608 710	100,00

3. Information about the shareholders with special control rights and description of these rights

In compliance with the Articles of Association of Gradus AD, the Company has no holders of securities with special control rights.

4. Agreements among the shareholders, which are known to the company and which may result in restrictions on the transfer of shares or voting rights.

The Company is not aware of any agreements that may result in restrictions on the transfer of shares or voting rights.

5. Significant contracts of the company that give rise to action or that have been amended or terminated due to a change in control of the company upon carrying out mandatory bidding, and consequences thereof, save for the cases when the disclosure of such information may cause serious damage to the company; the exception under the previous sentence shall not apply in cases where the company is legally obliged to disclose information

In 2022, no significant contracts had been concluded by the company, which could give rise to action, or that had been changed or terminated due to a change in control of the company upon carrying out mandatory bidding and consequences thereof.



20 March 2023

EXECUTIVE DIRECTOR:

/Georgi Babev/

CHAIRMAN OF BD:

/Angel Angelov/

TO
SHAREHOLDERS OF
GRADUS AD

DECLARATION

Art. 100m, para 4, item 3 from
Public Offering of Securities Act

The undersigned:

Ivaylo Yanchev, in the capacity of registered auditor from Baker Tilly Klitou and Partners EOOD, with UIC 131349346, with headquarters and management address: 5 Stara Planina Str., floor 5, Sofia, 1000 and address for correspondence: Sofia, 1000, 5 Stara Planina Str., floor 5

Baker Tilly Klitou and Partners EOOD was engaged to carry out a mandatory financial audit of the separate financial statements of Gradus AD for the year 2022, prepared in accordance with the International Financial Reporting Standards, as adopted by the EU, a generally accepted name of the accounting base defined in paragraph 8 of the Supplementary part of the Accounting Act under the name "International Accounting Standards". As a result of our audit, we issued an audit report on March 20, 2023.

We hereby certify that as reported in our audit report on the annual separate financial statements of Gradus AD for 2022 issued on March 20, 2023:

1. Art. 100m, para. 4, item 3, letter "a" Audit opinion: In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Company as of 31 December 2022 and of its financial performance and its cash flows for the year ending on that date in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).
2. Art. 100m, para. 4, item 3, letter "b" Information related to the transactions of GRADUS AD with related parties. Information about related party transactions is duly disclosed in Note 21 to the separate financial statements. Based on the audit procedures we performed on related party transactions as part of our audit of the separate financial statements as a whole, we have not become aware of any facts, circumstances or other information on the basis of which we may conclude that related party transactions are not disclosed in the accompanying separate financial statements for the year ended 31 December 2022 in all material respects in accordance with IAS 24 Related Party Disclosures. The results of our audit procedures on related party transactions have been reviewed by us in the context of forming our opinion on the separate financial statements as a whole, rather than in order to express a separate opinion on related party transactions.
3. Art. 100m, para. 4, item 3, letter "c" Information relating to material transactions. Our audit responsibilities for the financial statements as a whole described in the section of our report "Auditor's Responsibilities for the Auditing of the Separate Financial Statements" include assessing whether the separate financial statements present the material transactions and events in a manner that delivers credible performance. Based on the audit procedures we performed on the material transactions underlying the separate financial statements for the year ended 31 December 2022, no facts, circumstances or other information have been disclosed to us in order to conclude that there are cases of material misrepresentation and disclosure in accordance with the applicable IFRS requirements adopted by the European Union.

The results of our audit procedures on the Company's transactions and events that are material to the Company's financial statements are reviewed by us in the context of our opinion on the separate financial statements as a whole and not for the purpose of obtaining a separate opinion on these material transactions.

The representations made by this declaration should be considered only in the context of our audit report as a result of the independent financial audit of the separate annual financial statements of GRADUS AD for the reporting period ending 31 December 2022, dated 20 March 2023. This declaration is intended solely for the above-mentioned addressee and has been prepared solely and solely in compliance with the requirements set forth in Art. 100m, para. 4 item 3 of the Public Offering of Securities Act (POSA) and should not be accepted as a substitute for our opinion expressed in the audit report issued by us on 20 March 2023 regarding the issues covered by Art. 100m, para. 4, item 3 of POSA.

20 March 2023

Sofia

Ivaylo Yanchev

Registered auditor, responsible for the
audit

DECLARATION

in accordance to Article 100H, Para 4, Item 4 of the Public Offering of Securities Act

The undersigned,

Georgi Aleksandrov Babev – Executive Director of Gradus AD

Angel Ivanov Angelov – Chairman of the Board of Directors

and

Antoaneta Nikiforova Boeva – Chief Accountant of Gradus AD

DECLARE HEREBY, that to the best of our knowledge:

(a) The financial statement for the 2022 prepared in accordance with the applicable accounting standards give a true and fair view of the assets and liabilities, financial performance, and of the profit or loss of Gradus AD;

(b) The management report contains a true and fair view of the development and operating performance of Gradus AD, as well as of the status of the issuer and the consolidated companies, together with a description of the main risks and uncertainties faced by the company.

20 March 2023

A. Boeva
/Chief Accountant/

G. Babev
/Executive Director/

A. Angelov
/Chairman of the Board of Directors/

REPORT
ON IMPLEMENTATION OF THE REMUNERATION POLICY FOR THE MEMBERS OF THE BOARD
OF DIRECTORS OF GRADUS AD FOR 2022

This Report has been prepared in accordance with Article 12, paragraph 1 of Ordinance No 48 dated 20 March 2013, issued by the Financial Supervision Commission, and Article 3, paragraph 1 of the 2013 Remuneration Policy for the members of the Board of Directors of Gradus AD, elaborated by the Board of Directors

The Report presents the implementation of the Remuneration Policy for the members of the Board of Directors and the Executive Director, the main goal of which is to establish principles and rules for determining and paying their remuneration in carrying out their duties.

I. Information about the implementation of the Remuneration Policy for the period from its approval to the 2022 year-end

1. Information about the decision-making process concerning the Remuneration Policy, including, if applicable, information about the mandate and composition of the Remuneration Committee, the name of external consultants, whose services have been used in determining the Remuneration Policy

The Remuneration Policy for the members of the Board of Directors has been elaborated in accordance with the requirements of Ordinance No 48 and also takes into account the recommendations of the National Corporate Governance Code.

Pursuant to the effective Remuneration Policy for the members of the Board of Directors, they have not set up a Remuneration Committee. The services of external consultants have not been used in the elaboration of the Remuneration Policy.

2. Information about the weight of the variable and fixed remuneration of the members of the managing and control bodies

The company may pay the members of the Board of Directors both permanent (fixed) and variable remuneration.

The remuneration and tantiemmes of the members of the Board of Directors shall be determined by decision of the General Meeting of Shareholders and shall be paid in accordance with the terms and conditions of the management contracts concluded between them and the Company.

At the time of adoption of this Policy, the members of the Board of Directors are paid only fixed remuneration.

In the past 2022, the members of the Board of Directors received only permanent remuneration.

3. Information about the assessment criteria, on the basis of which share options, company shares or other types of variable remuneration are granted; and explanation on how the criteria under Article 14, paragraphs 2 and 3 contribute to the achievement of the long-term goals of the Company

No remuneration was paid to the members of the Board of Directors in the form of company shares, share options or rights to acquire shares.

4. Explanation of the method applied and assessment whether the criteria reflecting the results achieved have been met

According to the Remuneration Policy, the members of the Board of Directors are entitled to receive additional variable remuneration in case of a positive financial result (objectives achieved) for the previous year.

5. Explanation of the interrelation between the remuneration and the results achieved

Variable remuneration, if voted on, depends on the achievement of certain objectives and is linked to the following criteria:

1. Financial indicators, namely operating results, as follows:

1.1. amount and dynamics of EBITDA (the earnings of the company and its subsidiaries before interest, taxes, depreciation and amortisation);

1.2. amount and dynamics of the sales of the subsidiaries;

1.3. amount and dynamics of the receivables of the subsidiaries.

2. Non-financial indicators, as follows:

1.1. compliance with the principles of the National Corporate Governance Code;

1.2. implementation of observance of the approved Code of Ethical Conduct and other internal rules and policies of the Company.

6. Basic payments and reasons underlying the annual scheme for payment of bonuses and/or other non-monetary consideration

The remuneration of the members of the Board of Directors shall be paid on a monthly basis to a bank account up to the 25th day following the month for which it is due.

Bonuses and other non-cash supplementary remuneration were not paid to the members of the Board of Directors in 2022.

7. Description of the key features of the additional voluntary pension insurance plan and information about contributions paid and/or due by the company in favour of a director for the respective financial year, where applicable

Additional voluntary pension insurance is not envisaged for the members of the Board of Directors.

8. Information about the period of deferral of variable remuneration

The payment of 40% of the variable remuneration determined in the decision of the General Meeting of Shareholders, when voted, is rescheduled for a period of 3 years, and the payment of the rescheduled part of the variable remuneration is made proportionally during the rescheduling period.

9. Information about the compensation policy to an early termination of a contract

The contract with a member of the Board of Directors shall regulate the terms and conditions, and the maximum amount of benefits in case of its early termination, as well as payments relating to the period of notice or provided for in the clause prohibiting the pursuit of a competitive activity.

Upon termination of the contract, compensation shall be paid corresponding to his unpaid remuneration in the amount according to the contract.

Benefits from the Company shall not be due if the termination of the contract is due to unsatisfactory results and/or guilty behaviour of a member of the Board of Directors.

10. Information about the period in which shares cannot be transferred and share options cannot be exercised in the case of share-based variable remuneration

No such period is set.

11. Information about the policy for preserving a certain number of shares until the end of the mandate of the members of the managing and control bodies after the expiry of the period under item 10

No such a policy is pursued by the Company.

12. Information about the contracts of the members of the managing and control bodies, including the term of each contract, the term of the notice of termination and details about the compensations and/or other payments due in case of early termination

The General Meeting of Shareholders held on 05 June 2020 extended the mandate of the members of the Board of Directors with five years, until 17 November 2025

On General Meeting of Shareholders held on 19.12.2022, pursuant to Article 221, item 4 of the Commercial Law, a decision on the early release of the following members of the Board of Directors of Gradus AD has been adopted:

- Ivan Angelov Angelov
- Luka Angelov Angelov

Compensation and/or other payments due in case of early termination – in accordance with item 9 of this report, the Company pays compensation corresponding to their unpaid remuneration in the amount, according to the contract.

On 19.12.2022, the General Meeting of Shareholders elected new members of the Board of Directors:

- Angel Ivanov Angelov;
- Bistra Stoyanova Kotseva

The new members of the Board of Directors have been elected with a mandate until 17.11.2025.

The change comes into force as of 04.01.2023

13. Full amount of the remuneration and other incentives paid to the members of the managing and control bodies for the respective financial year

• The full remuneration of the members of the Board of Directors for the financial year 2022 amounts to BGN 324,000.00. Remuneration is current and no other incentives or deferred remuneration have been paid.

Ivan Angelov – BGN 108 thousand

Luka Angelov – BGN 108 thousand

Georgi Babev - BGN 108 thousand

The remuneration is current and no other material incentives or deferred remuneration have been paid.

- Remuneration of the BD members paid by companies from the same group;

Ivan Angelov Angelov

- Gradus 1 EOOD – none;
- Millennium 2000 EOOD – BGN 366 thousand
- Lora 2004 EOOD – BGN 246 thousand
- Gradus 98 AD - none;
- Gradus 3 AD – none;
- Gold Farm 91 EOOD – none;
- Zhyuliv EOOD – BGN 240 thousand
- Gradus Logistics EOOD – none;

Luka Angelov Angelov

- Gradus 1 EOOD – none;
- Millennium 2000 EOOD – BGN 207 thousand
- Lora 2004 EOOD – BGN 83 thousand
- Gradus 98 AD - BGN 120 thousand
- Gradus 3 AD – BGN 96 thousand
- Gold Farm 91 EOOD – none;
- Zhyuliv EOOD – BGN 104 thousand
- Gradus Logistics EOOD – none;

Georgi Aleksandrov Babev

- Gradus 1 EOOD – none;
- Millennium 2000 EOOD – none;
- Lora 2004 EOOD – none;
- Gradus 98 AD - none;
- Gradus 3 AD – none;
- Gold Farm 91 EOOD – none;
- Zhyuliv EOOD – none;
- Gradus Logistics EOOD – none;

14. Information about the remuneration of everyone who has been a member of a managing or control body of a public company for a certain period of time during the respective financial year

The following remuneration was paid to the members of the Audit Committee:

Dobri Svetlozarov Simeonov – BGN 3,000;
Petya Radoslavova Panova – BGN 3,000;
Georgi Aleksandrov Babev – BGN 3,000.

15. Information about the shares and/or share options and/or other share-based incentive schemes

There is no such information

16. Annual movement of remuneration, the company's results and the average amount of remuneration on a full-time basis of the company employees who are not directors, during the previous five fiscal years at least, presented together in a way that allows comparison:

Information pursuant to Article 13, item 16	2018 BGN'000	2019 BGN'000	Change 2019 compared to 2018 %	2020 BGN'000	Change 2020 compared to 2019, %	2021 BGN'000	Change 2021 compared to 2020, %	2022 BGN'000	Change 2022 compared to 2021, %
Gross remuneration of all BD members for one year	324	324	0%	324	0%	324	0%	324	0%
Average remuneration of a BD member for one year	108	108	0%	108	0%	108	0%	108	0%
Results of the company - EBITDA	26 351	11 415	-57%	11 326	-1%	13 310	18%	15 226	14%
Gross remuneration based on full-time basis of the company employees who are not directors for one year	30	53	77%	135	155%	135	0%	163	21%
Average remuneration based on full-time basis of the company employees who are not directors for one year	30	18	-40%	45	150%	45	0%	54	20%

17. Information about the possibility to demand a refund of the variable remuneration;

Variable remuneration is not paid.

- 
18. Information about any deviations from the procedure for the implementation of the remuneration policy in connection with extraordinary circumstances under Article 11, paragraph 13, including an explanation of the nature of the extraordinary circumstances and an indication of the specific components that have not been implemented

In 2022, there were no deviations from the procedure for implementation of the remuneration policy.

II. Program on the application of the Remuneration Policy during the subsequent year

The Remuneration Policy aims to support the long-term business goals of the Company and promote behaviour, which supports the creation of value for the shareholders while ensuring a competitive remuneration that is sufficient to attract and retain directors with qualities necessary for the successful management and development of the company.

This Policy has been developed for a long period of time, unless the shareholders of the company request its update and revision. Amendments to the Policy approved by the General Meeting of Shareholders shall be adopted in accordance with the procedure followed in its preparation and approval.

At present, the company does not plan to change the program for implementation of the remuneration policy for the next financial year or for a longer period.

The Board of Directors believes that the principles for determining remuneration at present, underlying this Policy, are effective in view of the financial results achieved during the reporting period. Their implementation will continue to be a priority of the Board of Directors.

The Board of Directors shall be responsible for the timely disclosure of the Remuneration Policy approved by the General Meeting of Shareholders and any subsequent amendments thereto.

20 March 2023

Executive Director:

Georgi Babev

Chairman of Board of Directors:

Angel Angelov

CORPORATE GOVERNANCE STATEMENT PURSUANT TO ARTICLE 100n, PARAGRAPH 8 OF POSA

1. Information whether the issuer complies as appropriate:

- Corporate Governance Code approved by the Deputy Chairperson of the Financial Supervision Commission, or
- Another Corporate Governance Code;
- Information regarding the corporate governance practices, which are applied by Gradus AD in addition to the code under Letter "a" or Letter "b";

Gradus AD complies with the National Corporate Governance Code /NCMC/ elaborated in October 2007 and approved by the National Corporate Governance Committee, as subsequently amended in February 2012, April 2016 and July 2021 year. It was approved by the Deputy Chairperson of the Financial Supervision Commission.

The basis for corporate governance is the interaction between the Board of Directors of the company, the management bodies of subsidiaries, shareholders, potential investors and trading partners.

Good corporate governance means loyal and responsible corporate management bodies, transparency and independence, as well as the responsibility of the company to society.

The code should be applied on the basis of the “comply or explain” principle. This means that the company complies with the Code and, in the event of a deviation, the management should clarify the reasons thereof.

According to the Company, the adoption and implementation of a “Program for Implementation of Internationally Recognised Good Corporate Governance Standards” will facilitate investment decisions by shareholders and enhance the confidence of potential investors, given the Company's willingness to improve and optimise the information disclosure processes.

Considering the Program, the main goals of the company are:

- introduction and implementation by the company of good corporate governance principles;
- facilitating and supporting communication, and raising the level of awareness of the company's shareholders, regulatory authorities, financial media and analysts;
- improving the information disclosure processes of the company, including the quality and relevance of information;
- enhancing the confidence of shareholders, investors and any other interested parties in the management of the company and its development;

2. Explanation by the issuer as to which parts of the corporate governance code under Item 1, Letter "a" or Letter "b" the issuer does not comply with and as to what the ground for this non-compliance are, and when the issuer has opted not to refer to any of the rules of the corporate governance code - the grounds for that:

While performing its activity, the company complies with all sections of the National Corporate Governance Code.

3. Description of the main characteristics of the internal control system and of the risk management system of the issuer in connection with the financial reporting process:

The internal financial reporting and accounting control system of Gradus AD is developed on the basis of good reporting and control practices in the country and in compliance with the legislative framework. For the purpose of maximum improvement, it is subject to continuous monitoring by the management and represents a set of rules, procedures and control actions, which are developed according to the specific features of the Company, its activity and reporting system. It is directed towards:

- ongoing monitoring and distribution of reporting activities against their objectives;
- adequate and timely localisation of identified business risks affecting financial, management and operational reporting.

Using the system, the management is able to assure itself that:

- the Company applies the requirements of the accounting and reporting legislation, and in particular, the requirements of the Accounting Act and International Financial Reporting Standards;
- the Company observes the instructions and recommendations of senior management with regard to reporting and documentation;
- the necessary efficiency and efficiency in the financial and accounting process exist;
- there is reliable, qualitative and timely financial and operational information to be provided to internal and external users;
- there is a high degree of security for the protection and maintenance of the assets of the company, including prevention of fraud and errors.

The main components of the internal financial reporting control system are:

- 1) adoption and observance of ethical principles and rules of conduct adopted by the Ethics Code of Conduct of the employees of Gradus AD and with regard to financial reporting;
- 2) development of and setting an optimal structure of units involved in financial reporting processes with clearly defined responsibilities and powers;
- 3) implementation and maintenance of control procedures and rules for each stage of accounting and financial reporting processes;
- 4) development of policies for selecting, training and developing staff employed in accounting and financial reporting processes;
- 5) development of procedures for identifying, monitoring and managing risks relating to accounting, financial reporting and reporting, including development of adequate measures and actions to minimise those risks;

6) development of and maintaining the information system organisation, including access controls, commissioning, data processing, system changes, allocation of responsibilities of persons employed to operate it, and preserving of data integrity in the system.

4. Information under Article 10, Paragraph 1, Letters "c", "d", "f", "h" and "i" of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 regarding take-over offers:

4.1. Significant direct and indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings) within the meaning of Article 85 of Directive 2001/34/EC.

No proposals for takeover and/or merger with another company were made to the Company as of 31 December 2022.

4.2. Holders of any securities with special control rights and a description of those rights

There are no shareholders enjoying special control rights in the Company. Pursuant to the Articles of Association of Gradus AD, all shares issued by the Company are of one class, ordinary, registered, dematerialised. All shares give the right to one vote at the General Meeting of Shareholders, right to dividend and right to liquidation share proportionate to the share's nominal value.

4.3. Restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the company's cooperation, the financial rights attaching to securities are separated from the holding of securities.

There are no restrictions on the voting rights attached to shares.

4.4. Rules governing the appointment and replacement of board members and the amendment of the articles of association.

According to the applicable legal framework and Articles of Association of Gradus AD, the election and discharge of the members of the Board of Directors, as well as the determination of their remuneration and the guarantee of their management, are part of the competence of the General Meeting of Shareholders of the Company.

The Board of Directors of the Company is elected and exercises its powers in accordance with the decisions of the General Meeting, the Articles of Association of the Company, and the applicable law. The term of office of the members of the Board of Directors is five (five) years, without limitation of re-election. Upon termination of the term of office of a member of the Board of Directors, regardless of the grounds therefor, he/she shall continue to perform his/her functions and duties as a member of the Board of Directors until the election of a new member by the General Meeting.

4.5. Powers of board members, and in particular, the power to issue or buy back shares

According to the Articles of Association of Gradus AD, the Company's Board of Directors decides on all matters relating to the activities of the Company, with the exception of those which are of exclusive competence of the General Meeting.

The Company is managed and represented by the Board of Directors in accordance with the law and the Company's Articles of Association. The Board of Directors of the Company takes decisions on the following:

- ✓ organizes the implementation of the decisions taken at the General Meeting and controls this implementation;
- ✓ elects the Executive Director / representative(s), defines the limits of his / her / their competence and controls his / her / their activity;
- ✓ decides on long-term cooperation essential to the Company or terminates such cooperation;
- ✓ takes decisions on the establishing and / or closing a branch;
- ✓ takes decisions to increase the Company's capital, in cases where it is expressly authorized to do so by the General Meeting;
- ✓ approves disposition (including, but not limited to, transfer, encumbrance, burden, etc.) to the Company's business or parts thereof;
- ✓ approves the conclusion of transactions with shareholders, members of the Board of Directors or employees of the Company (or members of their families);
- ✓ approves borrowing or otherwise forming a Company's financial debt to a third party at a value above BGN 50,000 as a result of a single transaction or a series of transactions;
- ✓ decides on the participation and / or termination of the Company's participation in other companies in the Republic of Bulgaria and abroad;
- ✓ decides to exercise rights as a shareholder / partner in subsidiaries;
- ✓ decides to grant a loan or other form of financing the companies in which the Company owns and / or exercises control;
- ✓ decides to dispose of intellectual property of the Company as well as to grant intellectual property rights on assets of the Company;
- ✓ prepares, accepts and signs a prospectus for public offering of securities issued by the Company;
- ✓ elects and releases investment intermediaries to take and/or administer a securities issue issued by the Company, which will be subject to public offering;
- ✓ approves the conclusion of transactions other than those specified in Art.114, para.1 of the Public Offering of Securities Act (POSA) with the participation of interested persons within the meaning of Art.114, para.7 of POSA;
- ✓ approves the conclusion of transactions under Art.114, para.3 of the POSA by the subsidiaries of the Company,
- ✓ resolves on all matters that are not within the exclusive competence of a General Meeting.

5. Composition and functioning of the administrative, managerial and supervisory bodies and their committees

Members of the Board of Directors at the date of preparation of this report are:

- Luka Angelov Angelov – Deputy chairman of the Board of Directors
- Ivan Angelov Angelov – Chairman of the Board of Directors and Executive Director
- Georgi Aleksandrov Babev - Member of the Board of Directors

The company is represented by the Deputy chairman of the Board of Directors, Luka Angelov, and by Ivan Angelov, Chairman of the Board of Directors and Executive Director, jointly.

The company has a one-tier management system.

Management bodies of Gradus AD:

- General Meeting of Shareholders
- Board of Directors

General Meeting, Participation in a General Meeting

- The General Meeting comprises all shareholders with voting rights.
- The shareholders with voting rights are able to exercise their vote at a General Meeting of the parent company by a proxy;
- The members of the Board of Directors who are not shareholders participate in the General Meetings without a right to vote.

Competence of the General Meeting:

- Amends and supplements the Articles of Association of the Company;
- Increases and decreases the capital of the Company;
- Transforms and terminates the Company;
- Elects and dismisses the members of the Board of Directors;
- Determines the remuneration of the members of the Board of Directors, to whom corporate governance functions will not be entrusted, including their right to receive a portion of the Company's profit, as well as the right to acquire shares and bonds of the Company;
- Appoints and dismisses registered auditors, when the audit is mandatory in the cases provided for in a law or when a decision has been taken that an independent financial audit shall be carried out;
- Approves the annual financial statements after they have been certified by the appointed registered auditor in the cases where an independent financial audit has been carried out; takes a decision for profit distribution, for making contributions to the Reserve Fund and for payment of dividends;
- Resolves on the issuance of bonds;
- Appoints liquidators in the event of termination of the Company, except for the case of termination by bankruptcy;
- Releases from liability the members of the Board of Directors;
- Resolves on redemption of treasury shares of the Company;
- Elects an Audit Committee; determines the number and mandate of its members and approves its Rules of Procedure in compliance with the provisions of the Independent Financial Audit Act;
- Empowers the persons managing and representing the Company to conclude deals under Article 114, paragraph 1 of POSA;
- Resolves on all other matters within its competence according to the law and/or the Articles of Association.

Board of Directors:

- The Board of Directors manages and represents the company;

• The Board of Directors exercises its powers in compliance with the decisions of the General Meeting, these Articles of Association and the applicable law.

Competence of the Board of Directors:

- Organises the implementation of the decisions taken at the General Meeting and control this implementation;
- Elects the Executive Director(s)/representative(s), determines the limits of his/their competence and controls his/their activity;
- Takes decisions on long-term cooperation essential to the Company on the termination of such cooperation;
- Takes decisions on the establishment and/or closure of a branch;
- Takes decisions to increase the capital of the Company, in cases where it is expressly authorized to do so by a General Meeting;
- Approves the disposal (including, but not limited to, transfer, closure, burdening, etc.) of the Company's business or parts thereof;
- Approves the conclusion of transactions with Shareholders, members of the Board of Directors or employees of the Company (or members of their families);
- Approves the taking of a loan or otherwise forming a Company's financial debt to a third party at a value exceeding BGN 50,000 as a result of a single transaction or a series of transactions;
- Takes decisions on the participation and/or termination of the Company's participation in other companies in the Republic of Bulgaria and abroad;
- Takes decisions on the exercise of rights of the Company as a shareholder/partner in subsidiaries;
- Takes decisions on granting a loan or other form of financing to companies in which the Company has equity participation and /or on which it exercises controls;
- Takes decisions on disposal of Intellectual Property Rights of the Company, as well as on granting rights to objects of Intellectual Property of Company;
- Prepares, accepts and signs a prospectus for public offering of securities issued by the Company;
- Selects and releases investment intermediaries which to take over and/or administer the issue of securities issued by the Company, which will be subject to public offering;
- After obtaining a public status from the Company, it shall approve the conclusion of transactions other than those specified in Art.114, para.1 of the Public Offering of Securities Act with the participation of interested persons within the meaning of Art.114, para.7 of POSA,
- After obtaining a public status from the Company, it shall approve the conclusion of transactions under Art.114, para.3 of POSA by the subsidiaries of the Company;
- Resolves all matters which are not within the exclusive competence of the General Meeting.

Remuneration

The amount and structure of remuneration of the members of the Board of Directors are regulated by the Articles of Association of Gradus AD, approved by the General Meeting of the company, their

management contracts, and the Remuneration Policy of the Board of Directors, adopted by the GMS of the company on 10 June 2019.

Conflict of interest

The company has implemented a related party transactions policy, approved by minutes of the Board of Directors dated 01 August 2018.

Supervisory bodies

The company has a one-tier management system and an Audit Committee has been established in accordance with Article 107 of the Independent Financial Audit Act.

The Audit Committee consists of 3 (three) members elected by the Board of Directors for a 4 (four)-year mandate. Two of the members of the Audit Committee, including its Chairperson, should be independent.

Members of the Audit Committee are:

- Dobri Svetlozarov Simeonov – Chairman of the Audit Committee;
- Petya Radoslavova Panova – Member of the Audit Committee;
- Georgi Aleksandrov Babev – Member of the Audit Committee.

The Chairman of the Audit Committee complied with the requirements to be an independent member of the Audit Committee, as stipulated in Article 107, paragraph 4, item 1 of the Independent Financial Audit Act.

The Audit Committee of Gradus AD is a specialised body entrusted with the following powers:

- Informs the Board of Directors of the results of the statutory audit and clarifies how the statutory audit has contributed to the credibility of financial reporting, and the role of the Audit Committee in this process;
- monitors the financial reporting and audit processes, internal control and risk management of the company, and provides recommendations and proposals to ensure their efficiency;
- monitors the statutory audit of the company's annual financial statements;
- inspects and monitors the independence of the registered auditors of the Company;
- is responsible for the registered auditor selection procedure and recommends the appointment of a registered auditor;
- perform other functions provided for by law.

6. Description of the diversity policy applied as regards the administrative, managerial and supervisory bodies of the issuer in connection with aspects such as age, gender or education and professional experience, the objectives of such diversity policy, its method of application and the results therefrom during the reporting period; when no such policy is applied, the declaration shall contain an explanation regarding the reasons for that:

Gradus AD makes every effort to ensure equal opportunities for recruitment and respect in form and substance of the whole range of laws relating to fair practices in the working environment and the prevention of discrimination.

Discrimination and harassment, whether based on race, gender, feeling or expression of sex, colour of the skin, belief, religion, national origin, nationality, citizenship, age, disability, family status (including partnerships without marriage and civil alliances, defined and recognised by the current legislation), sexual orientation, culture, pedigree, veteran status, socio-economic situation or other law-protected personal characteristics are unacceptable and totally incompatible with the traditions of the Company, for ensuring a reputable, professional and decent job. Repressive measures to persons raising complaints about discrimination or harassment are also prohibited.

The main goals of the Company in implementing diversity policies include:

- attracting, hiring and retaining at work of people possessing a wide range of talents. The diverse abilities and talent of managers and employees open up new opportunities for innovative and creative solutions, increase creativity and innovation. This in turn would also lead to a more effective adaptation to the impact of globalisation and technological change. A more diverse workforce can improve the ability of the Company to achieve its objectives. This approach can raise the spirit of employees, give access to new market segments and increase productivity;
- promoting a working atmosphere that respects ethical diversity and in which differences between people are valued and respected;
- solving one of the most important problems for the employer – that of labour shortages, as well as problems relating to the recruitment and retention of highly skilled workers;
- improving the reputation and overall representation of the company vis-à-vis external stakeholders and society;
- creating opportunities for disadvantaged groups and building the unity of society.

Gradus AD aims to achieve the goals set by promoting and implementing in practice the types of diversity that are of importance to the Company. By adopting good practices applied by other companies and institutions, the Company's management aims at making diversity management a functioning part of the Company. Gradus AD devotes its efforts to inform its employees, consumers, customers and investors of the importance of diversity for them and their work, aiming to build trust willingness to render support.

20 March 2023

Executive Director

Georgi Babev

Chairman of Board of Directors:

Angel Angelov

REPORT
for the activity of the Investor Relations Director of Gradus AD
in 2022

This report provides information on the activities of the Investor Relations Director of Gradus AD in 2022. The Public Offering of Securities Act gives the Investor Relations Director certain obligations related to the timely disclosure of information in favor of investors, the regulated market and the supervisory authorities. The present report is prepared in accordance with the requirements of the Public Offering of Securities Act and shall be provided to the shareholders of the company at the Regular Annual General Meeting. It reflects the activities performed by the Investor Relations Director for the presentation of the Company's periodic reports and in accordance with the provisions of the Public Offering of Securities Act.

The main priority of the Investor Relations Director is to establish an effective relationship between the Board of Directors of the Company and its shareholders and those who have expressed an interest in investing in the company's securities. During the past year, investors and shareholders were active in seeking information about the company's activities. The Director provided the necessary information regarding the current financial and economic situation of the company, the stages of realization of the investment plans of the company as well as any other information to which the persons referred to in the preceding sentence are legally entitled as shareholders or investors.

In the past 2022 and up to this moment the Investor Relations Director meets regularly questions from shareholders that for the reporting period are mainly related to:

- The ways of purchase and / or sale of shares of the Company;
- Payment of dividends;
- The results of the company;
- Information on the stages of realization of the investment intentions of the company;

The Investor Relations Director shall keep and store:

- the minutes of the meetings of the Board of Directors of Gradus AD;
- a journal for the held meetings of the Board of Directors of Gradus AD, in chronological order, the date, opening hours and closing hours of the meeting, agenda and decisions taken, in a way that does not allow subsequent amendments or additions to it .

The minutes accurately and faithfully reflect the information about the held meetings of the Board of Directors, incl. agenda, issues discussed and decisions taken.

The Investor Relations Director is responsible for the timely submission of all necessary reports and notices to the Financial Supervision Commission, Bulgarian Stock Exchange AD and Central Depository AD.

In 2022, the Investor Relations Director presented in full and in full time all normative regulated materials, including events related to the Company's activities, which could have an impact on the price of the shares, the supervisory body, the stock exchange and the public through the e-register platforms and x3News, the information is also published on the company's website: www.gradus.bg

The functionalities of the company's website were used to enable investors to have up-to-date information on the investments made and the results of the business.



The Investor Relations Director keeps a record of the reports and notifications sent to the regulators, a register of received requests and materials for general meeting given to shareholders and a register of received requests and information provided by shareholders and investors.

Gradus AD held two General Meeting of Shareholders. The Investor Relations Director participated actively in the preparation and holding of the General Meeting of the Shareholders by providing all the written materials on the agenda at the disposal of the shareholders at the address of the company's management. Upon request, the materials for a general meeting was sent to each shareholder. Whenever possible, the shareholders' rights in the General Meeting were clarified, including the right to vote in the decision-making process, the right to include additional issues on the agenda, the right to ask questions to the management of the holding regardless of whether they are related to the agenda.

In 2022 an order of the FSC started an inspection of the activities of Gradus AD, which is still ongoing.

The Investor Relations Director can be contacted through a publicly available electronic address and telephone, also announced on the website of Gradus AD: <https://gradus.bg/contact-investors>

The Investor Relations director of Gradus AD is a member of the Association of Investor Relations Directors in Bulgaria and participates in seminars, trainings and meetings organized by this association.

TO THE GENERAL MEETING OF SHAREHOLDERS (GMS)
OF GRADUS AD, UIC 204882907

ANNUAL REPORT
On the activity of the AUDIT COMMITTEE of Gradus AD
For the period April 2022 – April 2023

This report of the Audit Committee of Gradus AD has been prepared in accordance with Article 180, paragraph 1, item 8 of the Independent Financial Audit Act (IFAA).

The Audit Committee was elected by decision of the General Meeting of Shareholders dated 10 June 2019 in compliance with the requirements of IFAA to the independent financial audit of public-interest entities.

The Audit Committee of Gradus AD consists of three members – natural persons, of whom one Chair, elected for a mandate of 4 (four) years.

1. Dobri Svetlozarov Simeonov – Chair; education degree: a Master's degree in Accounting–UNWE, having an experience of more than ten years in the area of accounting and control;
2. Petya Radoslavova Panova; education degree: a Master's degree;
3. Georgi Alexandrov Babev; education degree: a Master's degree.

On March 23, 2020, with minutes of a meeting of the Audit Committee, Petya Radoslavova Panova was elected acting Chairman of the Audit Committee of Gradus AD for the period until the election of a third member of the Audit Committee by the GMS of Gradus AD.

The Chairman of the Audit Committee was elected a member of the Audit Committee of the General Meeting of Shareholders on 05.06.2020. and meets the requirements for independence of the members of the audit committee, defined in Article 107, paragraph 4 of the Independent Financial Audit Act.

Activity of the Audit Committee during the reporting period

The main functions of the Audit Committee, governed by the IFAA and the Rules of Procedure and Status of the Audit Committee, include:

- To inform the Board of Directors of Gradus AD of the outcome of the statutory audit and explain how the statutory audit contributed to the integrity of financial reporting and what the role of the Audit Committee was in that process;
- To monitor the financial reporting process and submit recommendations or proposals to ensure its efficiency;
- To monitor the effectiveness of the internal control system, the risk management system and the internal audit activities regarding the financial reporting of the audited entity;
- To monitor the statutory audit of the annual financial statements, including its performance, taking into account any findings and conclusions of the Commission for Public Oversight of Statutory Auditors in implementing Article 26, paragraph 6 of Regulation (EU) No 537/2014;
- To review and monitor the independence of statutory auditors in accordance with the requirements of Chapters Six and Seven of this Act as well as with Article 6 of Regulation (EU) No 537/2014, including the appropriateness of the provision of non-audit services to the audited entity in accordance with Article 5 of that Regulation;

- To be responsible for the procedure for the selection of a statutory auditor and recommend the statutory auditor to be appointed, except where the audited entity has a nomination committee;
- To inform, within a 7-day period from the decision, the Commission for Public Oversight of Statutory Auditors, as well as the management and supervisory bodies of the entity, on any approval granted under Article 64, paragraph 3 and Article 66, paragraph 3;
- To report on an annual basis on its activities to the General Meeting of Shareholders of Gradus AD;
- To prepare and submit to the Commission for Public Oversight of Statutory Auditors, by 30th June, an annual report on its activities.

The activity of the Audit Committee during the reporting period aimed at improving the effectiveness of the financial reporting processes, and the internal control and risk management systems of the company. The Audit Committee held meetings to discuss and take decision on matters relating to its main functions, while at the same time communicated actively with the Company's management and the independent statutory auditor.

The Audit Committee had not received any signals of irregularities affecting the Company's operations that could have an adverse impact on the shareholders' interests. No signals of omissions and irregularities related to the work of the independent statutory auditor were received as well.

In compliance with its obligations, the Audit Committee informs timely the Board of Directors of Gradus AD about the results of the statutory financial audit of the Company. The operation of the Audit Committee of the Company, a public-interest entity, enhances the quality of the statutory financial audit and the reliability of financial reporting by independently monitoring and overseeing the process of creating and providing reliable, accurate and precise financial information.

Monitoring the financial reporting processes

Management of Gradus AD is responsible for the financial reporting of the enterprise, for the management and protection of its assets, as well as for taking measures for the prevention and detection of possible errors and deficiencies, including due to abuse.

The Audit Committee has held consultative meetings with the Chief Accountant of the holding and established that the financial reporting processes in Gradus AD present truly and comprehensively the financial information. During the audited period, the Chief Accountant has conducted a review covering the lawfulness before assuming any obligations or incurring expenses, in accordance with the entity's internal risk control and risk management rules.

In 2022, the Company applied consistently adequate accounting policies in accordance with the effective International Accounting Standards and International Financial Reporting Standards. During the current year, Gradus AD applied all new and amended IFRS relevant to its activity and effective for the reporting period commencing on 1 January 22. The financial statements have been prepared in compliance with the applicable accounting standards and information therein reflects objectively the activity and financial performance of the Company.

Pursuant to the Public Offering of Securities Act and other acts regulating this activity, quarterly interim financial statements and separate and consolidated annual financial statements have been prepared regularly and submitted to the Financial Supervision Commission and BSE – Sofia AD, and disclosed to the public through the information system of x3news.com and the company website: gradus.bg.

Monitoring the effectiveness of the internal control system and the risk management system regarding the financial reporting

The Audit Committee monitors the effectiveness of the internal control system and the risk management system regarding the financial reporting of the audited entity. Management has implemented effective controls at various levels of financial reporting within the Company with the main focus being placed on controlling assets, expenses and cash flows. There is no an independent internal audit unit functioning within the Company. The internal control system is monitored by separate individuals and structures, which are entrusted with other control activities as well. In this sense, the Audit Committee considers the internal audit in the context of the overall internal control system.

The internal control on the accounting system is aimed at the following: 1) all transactions to be carried out only after obtaining authorisation by the company's management and in accordance with the laws and regulations, and (2) all transactions and other events to be recorded in a timely manner and at accurate amounts in the appropriate accounts and for the relevant reporting period so as to allow for the preparation of financial statements in accordance with a specific financial reporting framework.

The established internal control system operates effectively and provides a high level of financial reporting in all material respects, and allows for the timely preparation of reliable interim financial statements, as well as annual financial statements of the company, and their presentation to the public.

The Audit Committee finds that management has identified the risks to which the Company is exposed as a result of its activity. Continuous monitoring of the Company's exposure to specific risks is carried out and timely actions are taken to reduce any possible adverse effects. The Board of Directors has implemented and applies internal control and risk management rules.

Management includes in financial statements and management reports detailed information on all risks identified, to which the company is exposed, as well as on the methods of managing those risks. The majority of risks are appropriately identified and managed, and are limited to an acceptable level.

There are no systemic weaknesses in the internal control and risk management systems requiring adjustments. Findings regarding optimisation and improvement of the Company's financial reporting processes, respectively those of its group, were communicated. No specific recommendations have been made to improve the effectiveness of the entity's financial reporting processes, the internal control structure, functions and processes, and the risk management system.

On March 11, 2020, the World Health Organization declared a pandemic of the coronavirus, and on March 13, 2020, the Bulgarian government declared a state of emergency in the country. Measures have been introduced to control the outbreak, including restricting the cross-border movement of people, working from home, temporarily closing schools, universities, restaurants, cinemas, theatres, museums and sports facilities, retailers other than retailers. grocery stores, grocery stores and pharmacies. The Management of Gradus AD carefully analyses the potential effects, but considers that the company and its group are able to continue to operate as operating companies.

In connection with the Covid-19 pandemic to date, the Audit Committee has not identified events and conditions that could cast significant doubt on the ability of Gradus AD to maintain its business and viability.

On 24.02.2022 a military conflict between Ukraine and Russia occurred. Subsequently, a number of countries imposed sanctions against certain individuals and entities in Russia. The Russia-Ukraine conflict and related economic sanctions and other measures taken by governments around the world are expected to have a significant effect on the local economies of individual countries as well as on the global economy. The Audit Committee has not identified events and conditions that could cast significant doubt on the ability of Gradus AD to maintain its business and viability.

Monitoring the independent financial audit of the company

The Audit Committee has tracked out the work of the appointed independent auditor, namely Baker Tilly Klitou and Partners OOD Audit Firm, Commission number 129, and found that the independent financial audit of Gradus AD was conducted lawfully, in compliance with the regulatory requirements. Meetings were held with the statutory auditor to discuss the implementation of the engagement, as well as other key audit matters, significant risks identified in planning the audit, and the draft of the auditor's report.

The statutory auditor has identified key audit matters that have been communicated and analysed in relation to the assertions in the financial statements and associated risks, evidence and procedures. The key matters were discussed with the Audit Committee and the Company's management at the level of planning of audit engagements and upon their completion. No significant matters concerning the audit process in 2022 were reported by the appointed statutory auditor. The company observed all deadlines for the preparation and presentation of the financial statements to the statutory auditor. The auditor's reports were issued within the scheduled time limits.

The statutory auditor provided a high quality and objective audit service, whereas a full-scope audit of the company's activity had been carried out, and the report thereon had been prepared in accordance with the statutory requirements.

The statutory auditor issued an additional report on the audit of the separate and consolidated financial statements of the Company dated 20.3.2023. The findings and recommendations of the auditor had been considered.

Review of the independence of the statutory auditor

The Audit Committee has satisfied itself of the independence of the company's statutory auditor in accordance with the IFAA and the Code of Ethics for Professional Accountants. It has been established that the requirement that the auditor is independent from the audited entity has been complied with and that there are no financial and/or other relationships between the auditor and the audited entity, other than the audit, which could affect the auditor's judgement. Considering the above, on the grounds of Article 108, paragraph 1, item 5 of IFAA, the Audit Committee was provided with a statement, in which the statutory auditor had declared that it was independent from the company and that it provided no services other than audit to the entity.

No threats to the independence of Baker Tilly Klitou and Partners OOD, Commission number 129, represented by Galina Lokmadjieva – Nedkova, General Manager, and conflicts of interest were identified. The Independent Auditor's Transparency Report is published on the website of the Audit Firm: (<https://www.bakertilly.bg/about-us/transparency-report/>).

Responsibilities in connection with the procedure for selection of a statutory auditor

The most recent preliminary selection for the appointment of a statutory auditor was carried out by the Board of Directors of Gradus AD in 2017. Three audit firms were invited to participate, which submitted offers for an independent financial audit. The Board of Directors tabled the proposal for the appointment of an external auditor to the General Meeting of Shareholders, as at that time there was no a functioning audit committee within the Company. Baker Tilly Klitou and Partners OOD Audit Firm, Commission number 129, represented by Krasimira Ivanova Radeva, General Manager, was appointed as a statutory auditor to audit and certify the separate and consolidated financial statements of Gradus AD for 2017.

The Audit Committee got acquainted with the decision of the Company's management and the reasons underlying the proposed choice, and judged the expediency and lawfulness of the choice. The Audit Committee verified the compliance with the IFAA criteria in respect of the relevant statutory auditor, and obtained from Baker Tilly Klitou and Partners OOD Audit Firm, Commission number 129,

represented by Galina Lokmadjieva – Nedkova - Manager, General Manager, the document required by Article 6 of Regulation (EU) 537/2014 on specific requirements regarding statutory audit of public-interest entities.

Based on the results from monitoring of the work of a statutory auditor and good corporate practices the audit firm has followed, as well as the existence of a good cooperation between the independent auditor, the Company's management and the financial and accounting department of the Company, and having regard to the requirements of Article 65 of IFAA, the Audit Committee recommended to the General Meeting of Shareholders of Gradus AD to appoint Baker Tilly Klitou and Partners OOD Audit Firm, Commission number 129 Galina Lokmadjieva – Nedkova - Manager, to conduct an independent financial audit of Gradus AD in 2022. This recommendation was for a renewal of the audit engagement.

By decision of the General Meeting of Shareholders taken at a meeting held on 3 June 2022, Baker Tilly Klitou and Partners OOD, Commission number 129, represented by Galina Lokmadjieva – Nedkova - Manager, was appointed as a statutory auditor of the financial statements of Gradus AD for the year ended 31 December 2022.

The audit of the financial statements of the Company for the year ended 31 December 2022 represents the sixth consecutive year of continuous statutory audit engagement.

In connection with the fulfilment of its obligations, according to Art.108, paragraph 1, item 6 of the Independent Financial Audit Act the Audit Committee recommends to the GMS to conduct the independent financial audit of the financial statements of the company for 2022 to be selected Audit Company "Baker Tilly Clit and Partners" Ltd., registration number 129, represented by Galina Lokmadjieva – Nedkova - Manager. It is recommended to renew the audit engagement for the sixth consecutive year and has not been influenced by a third party.

Non-audit services

The policy of the Committee regarding other services that the statutory auditor is permitted to provide complies with Article 64, paragraph 1 of the Independent Financial Audit Act (IFAA) with reference to Article 5 of Regulation 537/2014 (the Regulation), and only the provision of tax services within the meaning of the Regulation is allowed, on the condition that:

- the services have no effect or have immaterial effect, separately or in the aggregate, on the audited financial statements;
- the estimation of the effect on the financial statements is comprehensively documented and explained in the report to the Audit Committee;
- the principles of independence are complied with by the statutory auditor.

Eligible non-audit services may be provided by the statutory auditor subject to the preliminary approval of the Audit Committee. The Audit Committee is obliged to inform the Commission for Public Oversight of Statutory Auditors thereof by providing them with a copy of the notification to the Committee. Considering the requirements of the Act and the Regulation, the Audit Committee has established a restrictive policy by allowing the provision of such services only as an exception and where essential.

In the case of the provision of additional services, other than the audit, by the statutory auditor, the Audit Committee requires the services to be provided by another team that is not involved in the audit of the financial statements.

In an extreme case, where services cannot be provided by a team not involved in the audit engagement, the Committee requests information on the engagement quality control review prior to issuing an

auditor's report, and re-communicates the statutory auditor's independence and assessment of the effect of the services provided.

During the period under review, the independent auditor has not provided services other than those relating to the audit and no circumstances under Article 66, paragraph 3 of the IFAA have occurred, which require a decision of the Audit Committee.

During the reporting period, no approval was given by the Audit Committee under Article 64, paragraph 3 and Article 66, paragraph 3 of IFAA.

Approval of the Statutory auditor's Report

The Company has submitted to the Audit Committee the certified annual financial statements for 2022 on a separate and consolidated basis, as well as the auditor's reports for 2022.

The Audit Committee has no reason to recommend that the General Meeting of Shareholders not approve the audited financial statements.

Report on the activity of the Audit Committee

The Audit Committee presents this annual report on the activity approved at a meeting of the Audit Committee held on 25th April 2023 as a report to the appointing body – the General Meeting of Shareholders.

In pursuance of its obligations under Article 108, paragraph 1, item 9 of IFAA, the Audit Committee prepares and submits to the Commission for Public Oversight of Statutory Auditors, within the statutory period, an annual report on its activities.

Audit Committee of Gradus AD:

1. Dobri Svetlozarov Simeonov
2. Petya Radoslavova Panova
3. Georgi Alexandrov Babev.....