

Materials for Extraordinary general meeting of shareholders of Gradus AD

***16th of October 2020, 11 am, /8 am UTC/ town of Stara Zagora 6009, Park Hotel
Stara Zagora, 50, Khan Asparuh Street, Tervel Hall
Code: 20201016110002***

Agenda

- 1. Approval of the six-monthly financial statement of the Company for the first half of 2020.***

Draft resolution: The General Meeting approves the six-month financial statement of the Company for the first half of 2020.

- 2. Approval of Report on compliance with the requirements of the Public Offering of Securities Act for payment of six-month dividend.***

Draft decision: The General Meeting approves Report on compliance with the requirements of the Public Offering of Securities Act for payment of six-month dividend.

- 3. Decision making pursuant to Art. 39 of the By-Laws of the Company for profit distribution and the payment of an interim dividend on the basis of the adopted 6-month financial statement.***

Draft resolution: The General Meeting resolves to distribute a 6-month dividend from the profit made by the Company in accordance with the issued 6-month financial report for the first half of 2020, with the following parameters: (i) Total gross amount of the dividend – BGN 5,359,391.62 (ii) Gross amount of the dividend per share – BGN 0.022; (iii) Start of payment of dividend: 17 Nov 2020; (iv) Dividend payment maturity: two months; (v) Method of payment of the dividend: through the Central Depository SA and branches of UniCredit Bulbank SA.

Content

1. *Financial report of the Company for the period ending June 30, 2020;*
2. *Report of the Board of Directors on compliance with the requirements of the Public Offering of Securities Act for payment of six-month dividend.*

GRADUS AD
INDIVIDUAL INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

	Note	30.06.2020 BGN'000	31.12.2019 BGN'000
ASSETS			
Non-current assets			
Computer equipment	4	27	26
Intangible assets	5	111	174
Investments in subsidiaries	6	269 012	269 012
Deferred tax assets	7	78	60
Total non-current assets		269 228	269 272
Current assets			
Receivables on loans to related parties	22	182	18
Receivables on loans to related parties	22	38 402	38 847
Dividends receivable	22	5 998	5 999
Other current receivables and prepaid expenses	8	27	55
Cash and cash equivalents	9	6 851	899
Total current assets		51 460	45 818
TOTAL ASSETS		320 688	315 090
EQUITY AND LIABILITIES			
EQUITY			
Share capital	10	243 609	243 609
Issue premium	10	62 287	62 287
Retained earnings/ (loss)	10	9 360	8 891
Total equity		315 256	314 787
Current liabilities			
liabilities to related parties	22	2	-
Trade liabilities		3	-
Tax liabilities	11	230	250
Payables to personnel and social security	12	38	41
Dividend liabilities	13	5 133	-
Other current liabilities		26	12
Total current liabilities		5 432	303
TOTAL LIABILITIES		5 432	303
TOTAL EQUITY AND LIABILITIES		320 688	315 090

Date: 21 August 2020

Prepared by:

/Antoaneta Boeva/

Executive Director:

/Ivan Angelov/

Chairman of the Board of Directors:

/Luka Angelov/

The notes are an integral part of these financial statements.

GRADUS AD
INDIVIDUAL INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDING ON 30 JUNE 2020

		01.01.2020- 30.06.2020	01.01.2019- 30.06.2019
		BGN'000	BGN'000
Revenue from services	14.1.	-	60
Dividend income	14.2.	5 998	5 998
Costs of materials		(4)	(2)
Costs of hired services	15	(89)	(43)
Depreciation / amortisation expenses	4,5	(3)	(1)
Personnel expenses	16	(244)	(208)
Other operating expenses	17	(7)	(40)
Operating profit / (loss)		5 651	5 764
Finance income/costs	18	159	281
Finance income/costs, net		159	281
Profit / (Loss) before taxes		5 810	6 045
Taxes	19	18	(5)
Net profit /(loss) for the period		5 828	6 040
Other comprehensive income		-	-
Total comprehensive income for the period		5 828	6 040

Date: 21 August 2020

Prepared by:

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Executive Director:

/Ivan Angelov/

Chairman of the Board of Directors:

/Luka Angelov/

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GRADUS AD
INDIVIDUAL INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDING ON 30 JUNE 2020

	Share capital	Issue premium	Retained earnings / (loss)	Total equity
	BGN'000	BGN'000	BGN'000	BGN'000
Balance on 31.12.2018	243 609	62 287	26 700	332 596
Net profit for the period	-	-	6 040	6 040
Distributed profit for dividends	-	-	(24 361)	(24 361)
Balance on 30.06.2019	243 609	62 287	8 379	314 275
Balance on 31.12.2019	243 609	62 287	8 891	314 787
Net profit for the period	-	-	5 828	5 828
Distributed profit for dividends	-	-	(5 359)	(5 359)
Balance on 30.06.2020	243 609	62 287	9 360	315 256

Date: 21 August 2020

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Executive Director:

/Ivan Angelov/

Chairman of the Board of Directors:

/Luka Angelov/

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GRADUS AD
INDIVIDUAL INTERIM CASH FLOWS STATEMENT
FOR THE PERIOD ENDING ON 30 JUNE 2020

	01.01.2020- 30.06.2020	01.01.2019- 30.06.2019
	BGN'000	BGN'000
Cash flows used in operating activity		
Receipts from customers	47	59
Payments to suppliers	(128)	(77)
Payments to personnel	(226)	(207)
Taxes paid/ refunded, other than income tax, net	(38)	(45)
Other payments for operating activity	(1)	(1)
Net cash flows used in operating activity	(346)	(271)
Cash flows used in investing activity		
Assets purchase	(79)	(199)
Loans to related parties	(12 400)	-
Proceeds from loans	12 841	12 000
Interest received on granted loans	163	244
Dividends received	5 999	11 579
Net cash flow from investing activities	6 524	23 624
Cash flows from financing activity		
Taxes paid on dividends paid	(226)	-
Net cash flows from financing activity	(226)	-
Net increase in cash and cash equivalents	5 952	23 353
Cash and cash equivalents at the beginning of the period	899	3 145
Cash and cash equivalents at the end of the period	6 851	26 498

Date: 21 August 2020

Prepared by:

/Antoaneta Boeva/

Executive Director:

/Ivan Angelov/

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1. Status and object of activity

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.

These interim financial statements are the separate financial statements of Gradus AD for the second quarter of 2020.

The company will prepare interim consolidated financial statements in accordance with IFRS adopted by the European Union by August 31, 2020.

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 interim 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 and the acquisition cost of the asset is over BGN 700.00 (seven hundred).

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 recognition

Subsequent to initial acquisition, fixed tangible assets are carried under the revaluation model of IAS 16.

The fair value of fixed tangible assets 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

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FOR THE PERIOD ENDED 30 JUNE 2020

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.

(ii) 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.

(iii) 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. Depreciation charges are recognised in profit or loss unless they are included in the carrying amount of another asset.

Assets acquired under finance 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:

	2020	2019
	Annual depreciation rate, %	Annual depreciation rate, %
Buildings and facilities	1.5	1.5
Plant and equipment	8	8
Motor vehicles	10	10
Hardware	33.3	33.3
Fixtures and fittings	10	10
Other fixed assets	4 – 10	4 – 10

The methods of depreciation, useful lives and assets residual values (if not immaterial) are reviewed at each date of preparation of 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 face of 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.

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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.

	2020	2019
	Annual amortisation rate, %	Annual amortisation rate, %
• Software	33.3	33.3
• Licences	15	15

The methods of amortisation, useful lives and assets residual values are reviewed at each date of preparation of financial statements.

(d) Investments

The long-term investments representing 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 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 review for impairment. When impairment conditions and indicators are established, it is calculated as the difference in comparing the carrying amount with the investment's recoverable amount and is recognized in the statement of comprehensive income (in profit or loss for the year). In the case of subsequent reversal of impairment, it is recognized 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.

On initial recognition, financial assets are classified into three groups, according to which they are subsequently measured at amortized 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.

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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 Group'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.

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, loans to related parties and loans to third parties.

Financial assets at fair value through other comprehensive income (debt or 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.

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

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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).

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.

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 Group 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.

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.

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 (month);
- proceeds from and payments from and on overdrafts are reported net by the company.

(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 is from dividends.

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.

Evaluation of a contract with a client

A customer agreement is available when:

- the parties have approved the contract;
- The rights of each of the parties can be identified;

- Payment terms can be identified;

A contract for which any of the above criteria has not yet been fulfilled shall be re-evaluated each reporting period. Remuneration received under such a contract is recognized as a liability (liability under a contract) in the statement of financial position until all criteria for recognizing a contract with a client are fulfilled and the company fulfills its obligations to perform. In the initial evaluation of its contracts with customers, the company makes an additional analysis and assessment of whether two or more contracts should be considered in their combination and accounted for as one. The Company recognizes revenue for each individual obligation to perform at the level of an individual contract with a client by analyzing the type, term and conditions for each specific contract.

Measurement of revenue under customer contracts

Revenue is measured on the basis of the transaction price set for each contract. The price of the transaction is the amount of remuneration the company expects to be entitled to, except for the amounts collected on behalf of third parties. In determining the transaction price, the company takes into account the terms of the contract and its usual commercial practices, incl. the impact of variable remuneration, the existence of a material financial component, the non-monetary consideration and the consideration due to the client.

(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.

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 tax assets are reviewed at least annually and are compulsory at the end of the year at each reporting date and are reduced to the extent that it is no longer probable that future benefits will be realized.

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) 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 the end of each reporting period.

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 financial year, management assesses whether there are any indications of impairment of its investments in shares and subsidiaries.

(o) New standards and interpretations

During the current year, the Company has adopted all new and amended IFRSs, which are related to its activities and are effective for the reporting period beginning on January 1, 2020.

Standards and interpretations issued by the IASB not yet adopted by the EU:

Currently, the IFRS adopted by the EU do not differ significantly from those adopted by the IASB, except for the following new standards, amendments to existing standards and new interpretations, which have not been adopted by

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the EU yet as at the date of approval of these financial statements (the dates of entry into force specified below refer to the complete IFRS):

IFRS 17 Insurance Agreements (effective for annual periods beginning on or after 1 January 2021) - Management does not expect that the adoption of this standard will have a significant effect on the financial statement of the company.

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current - Management does not expect that these amendments will have a significant impact on the financial statement of the company.

Amendments to IFRS 3 Business Combinations (effective for annual periods beginning on or after 01 January 2020) - Management does not expect that the adoption of these amendments will have a significant effect on the financial statement of the company.

Amendments to IFRS 16 “Leasing” Discussions Found in Relation to Covid-19 (effective for annual periods beginning on or after 1 June 2020) - The guidance is not applied to these stories to have significant effects on the company's financial statements.

Amendments to IFRS 4 Insurance Contracts - deferral of IFRS 9 (effective for annual periods beginning on or after 1 January 2021) - The guidance is not applied to these histories to have significant effects on the company's financial statements.

The company expects the adoption of these standards, amendments and interpretation will not have a significant effect on the company separate financial statement during their initial implementation.

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4. Fixed tangible assets

In BGN 000

	Hardware	Cars	Total
Book value			
Balance on 31 December 2018	-	-	-
Additions	5	22	27
Balance on 31 December 2019	5	22	27
Additions	3	-	3
Balance on 30 June 2020	<u>8</u>	<u>22</u>	<u>30</u>
Depreciation			
Balance on 31 December 2018	-	-	-
Depreciation for the period	(1)	-	(1)
Balance on 31 December 2019	(1)	-	(1)
Depreciation for the period	(1)	(1)	(2)
Balance on 30 June 2020	<u>(2)</u>	<u>(1)</u>	<u>(3)</u>
Net book value			
Net book value on 31 December 2018	-	-	-
Net book value on 31 December 2019	4	22	26
Net book value on 30 June 2020	<u>6</u>	<u>21</u>	<u>27</u>

5. Intangible assets

Intangible assets consist of software products.

In BGN 000

	Software	Licences	Other	Total
Book value				
Balance on 31 December 2018	4	-	-	4
Additions	1	/6	85	172
Balance on 31 December 2019	5	86	85	176
Additions	-	16	76	92
Transfers	-	-	(154)	(154)
Balance on 30 June 2020	<u>5</u>	<u>102</u>	<u>7</u>	<u>114</u>
Depreciation				
Balance on 31 December 2018	(1)	-	-	(1)
Depreciation for the period	(1)	-	-	(1)
Balance on 31 December 2019	(2)	-	-	(2)
Depreciation for the period	(1)	-	-	(1)
Balance on 30 June 2020	<u>(3)</u>	<u>-</u>	<u>-</u>	<u>(3)</u>
Net book value				
Net book value on 31 December 2018	3	-	-	3
Net book value on 31 December 2019	3	86	85	174
Net book value on 30 June 2020	<u>2</u>	<u>102</u>	<u>7</u>	<u>111</u>

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6. Investments in subsidiaries

As at 30 June 2020, 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
Total:		269 012	

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

Impairment of investments in subsidiaries

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

The main indicators of impairment are: this reduction of the volume and / or cessation of the activity of the company in which it is invested; loss of markets, customers or technological problems, reporting of loss for a more sustained period of time (over three years), reporting of negative neutral assets or activation under registration of share capital, trends for investment of key financial indicators, whatever they are used market capitalization. The calculations were made by management with the assistance of independent licensed appraisers. The financial budgets developed by the respective companies covering a five-year period as a basis for the pre-tax cash flow forecasts, as well as other medium- and long-term plans and intentions for their development, including forecasts for key economic indicators at national and EU / Balkan level.

The tests and assessments of management for impairment of investments are made through the prism of its forecasts and intentions regarding the future economic benefits that are expected to be received from the subsidiaries, including commercial and industrial experience, securing positions in Bulgarian and foreign markets, expectations for future sales, etc. The calculations are made with the assistance of an independent licensed appraiser.

As a result of the calculations made as of 30.06.2020, there is no need to recognize impairment of certain investments in subsidiaries (2019: BGN 0 thousand).

7. Deferred tax assets

The recognised deferred tax assets relate to the following:

	Assets		Liabilities		Net	
<i>In BGN'000</i>	30.06.2020	31.12.2019	30.06.2020	31.12.2019	30.06.2020	31.12.2019
Tax loss	75	57	-	-	75	57
Income of individuals	2	2	-	-	2	2
Provision for expected credit losses	1	1	-	-	1	1
Net tax assets	78	60	-	-	78	60

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Movements in temporary differences during the period 01.01.2020 – 30.06.2020

In BGN'000

	Balance Sheet 31.12.2019	Profit and loss	Balance Sheet 30.06.2020
Tax loss	57	18	75
Income of individuals	2	-	2
Provision for expected credit losses	1	-	1
Total:	60	18	78

Movements in temporary differences during the period 01.01.2019 – 31.12.2019

In BGN'000

	Balance Sheet 31.12.2018	Profit and loss	Balance Sheet 30.06.2020
Tax loss	50	7	57
Income of individuals	2	-	2
Provision for expected credit losses	1	-	1
Total:	53	7	60

8. Other receivables and prepayments

In BGN'000

	30.06.2020	31.12.2019
Taxes refundable	4	33
Prepayments	19	10
Other	4	12
Total	27	55

9. Cash and cash equivalents

In BGN'000

	30.06.2020	31.12.2019
Cash on hand	2	1
Cash in current accounts	6 849	898
Total cash and cash equivalents	6 851	899

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.

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10. Equity

Share capital

The share capital consists of:

	Number of voting shares	Value in BGN thousand
At 31 December 2017.	243 608 710	243 609
At 31 December 2019	243 608 710	243 609
At 30 June 2020	243 608 710	243 609

The total number of shares at 30 June 2020 is 243,608,710 with nominal value of BGN 1 each. The share capital is paid in full.

Shareholders of Gradus AD as of June 30, 2020 are as follows:

	Number of voting shares	% Shareholding
Luka Angelov Angelov	99 195 645	40.72
Ivan Angelov Angelov	50 312 465	20,65
Angelov Ivanov Angelov	50 312 465	20,65
legal entities	38 080 512	15,64
Individual shareholders	5 707 623	2,34
Общо:	243 608 710	100,00

Shareholders of Gradus AD as of December 31, 2019 are as follows:

	Number of voting shares	% Shareholding
Luka Angelov Angelov	99 195 645	40.72
Ivan Angelov Angelov	50 312 465	20,65
Angelov Ivanov Angelov	50 312 465	20,65
legal entities	38 292 755	15,72
Individual shareholders	5 495 380	2,26
Общо:	243 608 710	100,00

Equity

<i>In BGN'000</i>	30.06.2020	31.12.2019
Share capital	243 609	243 609
Issue premium	62 287	62 287
Retained earnings	9 360	8 891
Total equity	315 256	314 787

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.

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11. Tax liabilities

<i>In BGN'000</i>	30.06.2020	31.12.2019
VAT	-	20
Personal income tax liabilities	4	4
Tax on dividends	226	226
	230	250

12. Payables to personnel and for social security

<i>In BGN'000</i>	30.06.2020	31.12.2019
Payables to personnel	34	36
Social security payable	4	5
Total	38	41

13. Dividend liabilities

<i>In BGN'000</i>	30.06.2020	31.12.2019
Dividend liabilities	5 133	-
Total	5 133	-

On 05.06.2020 the general meeting of the shareholders of the Company decides on the distribution of dividends in the amount of BGN 5,359 thousand. from accumulated profit.

14. Revenue

14.1. Revenue from services provided amount

<i>In BGN'000</i>	01-01.2020- 30.06.2020	01-01.2019- 30.06.2019
Training	-	60
Total	-	60

43.2. Dividend income

<i>In BGN'000</i>	01-01.2020- 30.06.2020	01-01.2019- 30.06.2019
Gradus-1 EOOD	100	-
Milenium 2000 EOOD	3 500	1 000
Lora-2004 EOOD	100	500
Gradus-98 AD	2 298	2 498
Zhuliv EOOD	-	2 000
Total	5 998	5 998

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15. Costs of hired services

<i>In BGN'000</i>	01-01.2020- 30.06.2020	01-01.2019- 30.06.2019
Consulting activities	31	15
Audit expenses	17	12
Subscription Legal services	13	-
Subscription fees	10	6
Rental costs	10	2
Repair and maintenance of fixed tangible assets	3	-
Insurance	1	-
Translation services	2	6
Marketing and advertising costs	-	1
Other studies	2	1
Total	89	43

16. Personnel expenses

<i>In BGN'000</i>	01-01.2020- 30.06.2020	01-01.2019- 30.06.2019
Current remuneration	231	198
Social security contributions	13	10
Total	244	208

17. Other operating expenses

<i>In BGN'000</i>	01-01.2020- 30.06.2020	01-01.2019- 30.06.2019
Entertainment expenses	1	-
Travel expenses	2	2
Unrecognized taxes	4	38
Total	7	40

18. Finance income/costs

<i>In BGN'000</i>	01-01.2020- 30.06.2020	01-01.2019- 30.06.2019
Interest income on loans granted	159	281
Total	159	281

19. Tax expenses

<i>In BGN'000</i>	01-01.2020- 30.06.2020	01-01.2019- 30.06.2019
Tax profit / loss for the period	(184)	50
Current income tax expense – 10% (2019: 10%)	-	(5)
Deferred income taxes relating to:		
Origination and reversal of temporary differences	18	-
Total income tax expense	18	(5)

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Reconciliation of income tax expenses determined compared to the accounting result	01-01.2020- 30.06.2020	01-01.2019- 30.06.2019
Accounting profit for the year	5 810	6 045
Income taxes – 10% (2019 :10%)	(581)	(605)
Non-deductible expenses	599	600
Total income tax expense	18	(5)

20. Financial instruments

Categories of financial instruments:

Financial assets at amortised cost	01-01.2020- 30.06.2020	01-01.2019- 30.06.2019
<i>In BGN'000</i>		
Related party receivables	6 180	6 017
Receivables on loans to related parties	38 402	38 847
Cash and cash equivalents	6 851	899
Total:	51 433	45 763

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.

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 General Manager. The General Manager has set the main principles of the overall financial risk management on the basis of which specific procedures for management of particular risks, such as currency risk, price risk, interest rate risk, credit risk, and liquidity 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.

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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 as of 30 June 2020.

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.

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).

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Analysis of the expected losses on loans granted:

In BGN'000	Loan granted as at 30.06.2020	Interest rate	Probability of default in %	Loss given default	Discounted credit loss	Loan granted, net
Gradus-1 EOOD	21 500	0.86%	0.01%	21 500	(3)	21 497
Gradus-3 AD	4 302	0.86%	0.05%	4 302	(2)	4 300
Lora-2004“ EOOD	9 607	0.86%	0.02%	9 607	(2)	9 905
Gradus-98 AD	2 001	0.86%	0.05%	2 001	(1)	2 000
Milenium 2000 EOOD	1 000	0.86%	0.01%	1 000	-	1 000
Total	38 410			38 410	(8)	38 402

In BGN'000	Loan granted as at 31.12.2019	Interest rate	Probability of default in %	Loss given default	Discounted credit loss	Loan granted, net
Gradus-1 EOOD	16 663	0.86%	0.02%	16 663	(3)	16 660
Gradus-3 AD	9 090	0.86%	0.02%	9 090	(2)	9 090
Lora-2004“ EOOD	10 601	0.86%	0.02%	10 601	(2)	10 599
Gradus-98 AD	2 501	0.86%	0.02%	2 501	(1)	2 500
Total	38 855			38 855	(8)	38 847

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 30 June 2020 and 31 December 2019.

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 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.

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.

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Fair values compared to carrying amounts

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

<i>In BGN'000</i>	30.06.2020		31.12.2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Related party receivables	6 180	6 180	6 017	6 017
Receivables on loans to related parties	38 402	38 402	38 847	38 847
Cash and cash equivalents	6 851	6 851	899	899
Total assets at amortised cost	51 433	51 433	45 763	45 763

21. Segment reporting

As at 30.06.2020 the Company identifies one operating segment – company management

Segment income, expense and results comprise:

	Company management	Total	Company management	Total
	01.01.2020 – 30.06.2020	01.01.2020 – 30.06.2020	01.01.2019 – 30.06.2019	01.01.2019 – 30.06.2019
Segment revenue	5 998	5 998	6 058	6 058
Segment expense	(347)	(347)	(294)	(294)
Result:	5 651	5 651	5 764	5 764
Financial income/ expense, net	159	159	281	281
EBT	5 810	5 810	6 045	6 045
Income tax expenses	18	18	(5)	(5)
Net profit for the period	5 828	5 828	6 040	6 040

Segment assets comprise:

	Company management	Total	Company management	Total
	30.06.2020	30.06.2020	31.12.2019	31.12.2019
Fixed assets	27	27	26	226
Intangible assets	111	111	174	174
Investments in subsidiaries	269 012	269 012	269 012	269 012
Deferred tax assets	78	78	60	60
Receivables from related parties	182	182	18	18
Receivables from loans granted to related parties	38 402	38 402	38 847	38 847
Dividend receivables	5 998	5 998	5 999	5 999
Other current receivables	27	27	55	55
Cash and cash equivalents	6 851	6 851	899	899
Segment assets	320 688	320 688	315 090	315 090
Total assets	320 688	320 688	315 090	315 090

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Segment liabilities comprise:

	Company management	Total	Company management	Total
	30.06.2020	30.06.2020	31.12.2019	31.12.2019
Payables to related parties	2	2	-	-
Trade liabilities	3	3	-	-
Tax liabilities	230	230	250	250
Payables to employees and to social insurance	38	38	41	41
Dividend payables	5 133	5 133	-	-
Other current payables	26	26	12	12
Segment liabilities	320 688	320 688	315 090	315 090
Total liabilities	320 688	320 688	315 090	315 090

22. Related party transactions:

Identification of related parties

For the purposes of preparing these 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 of Gradus AD
Gradus-1 EOOD	Company under joint control
Gradus-3 AD	Company under joint control
Millennium 2000 EOOD	Company under joint control
Gradus-98 AD	Company under joint control
Zhyuliv EOOD	Company under joint control
Lora-2004 EOOD	Company under joint control
Gold Farm 91 EOOD	Company under joint control
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
Zagora Oil OOD	Relationship through a person exercising significant influence
Auto Spa Center	Relationship through a person exercising significant influence
LG Auto OOD	Relationship through a person exercising significant influence
Farmpro OOD	Relationship through a person exercising significant influence
Product Board for Eggs, Poultry and Rabbit Meat- Association	Relationship through a person exercising significant influence
Association of Biogas Producers	Relationship through a person exercising significant influence
Union of Poultry Breeders in Bulgaria	Relationship through a person exercising significant influence

GRADUS AD
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2020

Transactions with key management personnel

The accrued remuneration of the directors and members of the board for the period 01.01.2020 – 30.06.2020 amounts to BGN 173 thousand. (01.01.-30.06.2019: BGN 181 thousand).

Related party loans:

<i>In BGN'000</i>	Interest rate %	Maturity date	Collateral	Loans granted 30.06.2020	Loans granted 31.12.2019
Gradus-1 EOOD	0.86%	07.2020-04.2021	No	21 497	16 660
Gradus-3 AD	0.86%	07.2020-06.2021	No	4 300	9 088
Lora-2004 EOOD	0.86%	07.2020	No	9 605	10 599
Gradus-98 AD	0.86%	06.2021	No	2 000	2 500
Milenium 2000 EOOD	0.86%	06.2021	No	1 000	-
Total:				38 402	38 847

As at 30 June 2020, the transactions between Gradus AD and the related companies were as follows:

<i>In BGN'000</i>	Type of transaction	Transaction value as at 01.01.2020 – 30.06.2020	Total liabilities 30 June 2020
Related parties of Gradus AD			
Gradus-1 EOOD	Service	1	1
Gradus-1 EOOD	Other	-	1
Total liabilities			2

<i>In BGN'000</i>	Type of transaction	Transaction value as at 01.01.2020 – 30.06.2020	Total receivables 30 June 2020
Related parties of Gradus AD			
Gradus-1 EOOD	Service	22	22
Gradus-1 EOOD	Loans granted	6 800	21 497
Gradus-1 EOOD	Interest accrued	85	-
Gradus-3 AD	Service	120	137
Gradus-3 AD	Loans granted	2 600	4 298
Gradus-3 AD	Interest accrued	26	2
Millennium 2000 EOOD	Service	7	5
Millennium 2000 EOOD	Loans granted	1 000	1 000
Lora-2004 EOOD	Service	6	4
Lora-2004 EOOD	Loans granted	-	9 598
Lora-2004 EOOD	Interest accrued	43	7
Gradus-98 AD	Service	6	5
Gradus-98 AD	Loans granted	2 000	1 999
Gradus-98 AD	Interest accrued	4	1
Zhyuliv EOOD	Service	6	5
Gold Farm 91 EOOD	Service	5	4
Biser Oliva AD	Service	1	-
Total receivables on loans granted:			38 584

Dividends	3 500	3 500
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GRADUS AD
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2020

Millennium 2000 EOOD			
Gradus-98 AD	Dividends	2 298	2 298
Gradus-1 EOOD	Dividends	100	100
Lora-2004 EOOD	Dividends	100	100
Total dividends receivable			5 998
Total related party receivables:			44 582

As at 30 June 2019, the transactions between Gradus AD and the related companies were as follows:

<i>In BGN'000</i>	Type of transaction	Transaction value as at 01.01.2020 – 30.06.2020	Total liabilities 31 December 2019
Related parties of Gradus AD			
Gradus-1 EOOD	Service	1	1
Energy-2 OOD	Service	2	2
Total liabilities			3

<i>In BGN'000</i>	Type of transaction	Transaction value as at 01.01.2020 – 30.06.2020	Total receivables 31 December 2019
Gradus-1 EOOD	Service	12	10
Gradus-1 EOOD	Loans granted	-	16 647
Gradus-1 EOOD	Interest accrued	107	13
Gradus-3 AD	Service	12	-
Gradus-3 AD	Loans granted	-	9 088
Gradus-3 AD	Interest accrued	87	-
Millennium 2000 EOOD	Service	12	-
Millennium 2000 EOOD	Interest accrued	25	-
Lora-2004 EOOD	Service	12	8
Lora-2004 EOOD	Loans granted	-	10 599
Lora-2004 EOOD	Interest accrued	62	-
Gradus-98 AD	Service	-	2 499
Gradus-98 AD	Loans granted	-	1
Gradus-98 AD	Interest accrued	12	-
Zhyuliv EOOD	Service	12	-
Total receivables on loans granted:			38 865
Lora-2004 EOOD	Dividends	500	-
Millennium 2000 EOOD	Dividends	1 000	3 000
Gradus-98 AD	Dividends	2 498	1 999
Zhyuliv EOOD	Dividends	2 000	1 000
Total dividends receivable			5 999
Total related party receivables:			44 864

23. Events after the reporting date

On 16.07.2020 the company concluded annexes to extend the repayment period until July 2021 on loans granted to related parties with current maturity July 2020.

GRADUS AD
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2020

The management of the Company carefully analyzes the effects of the one announced by the WHO in March 2020 coronavirus pandemic and the subsequent restrictions imposed by the government, expecting a reduction in economic activity and liquidity in general for the country's economy. The Company has taken measures to limit the effects of the pandemic, and the Management considers appropriate the going concern principle in respect of these separate interim financial statements, as the Company has sufficient liquid resources to continue its operations in the foreseeable future

There are no other events that follow balance sheet data to support disclosure in separate separate financial statements.

Translation from Bulgarian

GRADUS AD

MANAGEMENT REPORT

As at 30 June 2020

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I. Introduction

1. Registration and scope of business

Gradus AD (the Company) is a company incorporated in Bulgaria, registered in the Commercial Register with the Registry Agency under Uniform Identification Code [EIK]: 204882907 on 28 November 2017.

The Company is a **parent company**.

It is registered for an indefinite period.

Address of management:

Republic of Bulgaria,

6000 Stara Zagora, Industrial residential district, Gradus Poultry Farm.

On **30 July 2018** by Decision No. 770 - PD of 30 July 2018, the Financial Supervision Commission entered Gradus AD as a public company in the register of public companies and other issuers of securities kept by the FSC under Article 30, paragraph (1), item (3) of the Financial Supervision Commission Act.

The Company's shares are traded on the BSE main market under stock code **GR6**.

SCOPE OF BUSINESS

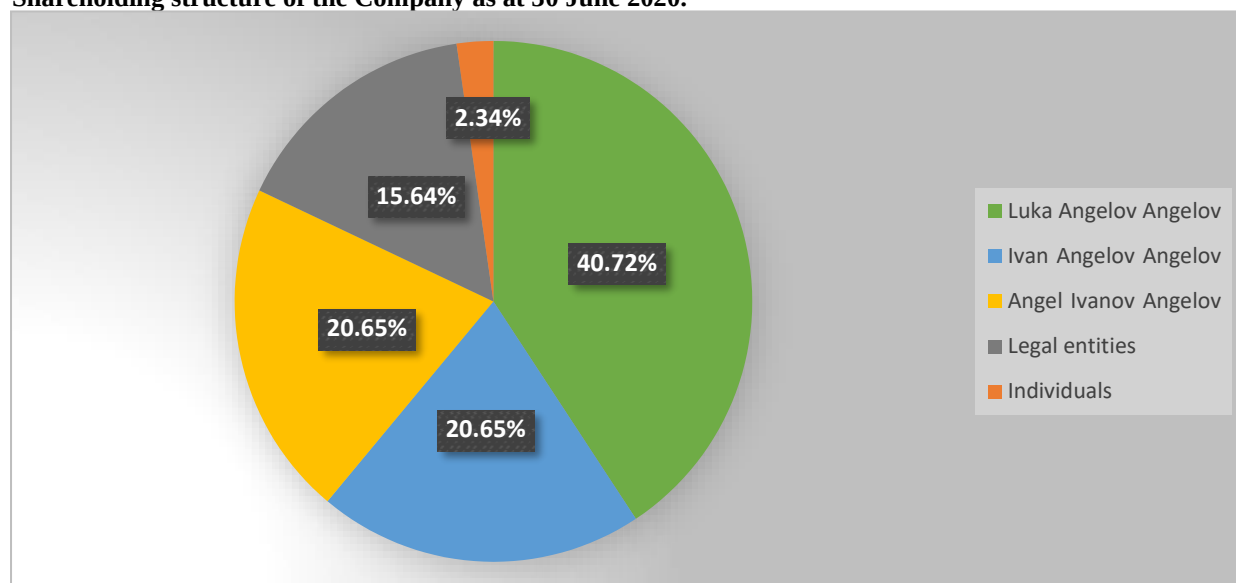
The scope of business of the Company is: Investments in stocks and shares of companies, acquisition and management of shares in Bulgarian and foreign companies; activity as a holding company; acquisition, assessment and sale of patents, concession of licenses for the use of patents of companies, in which 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.

1.1. Share capital

The registered share capital of Gradus AD as at 30 June 2020 amounts to BGN 243,609 thousand, split into 243,608,710 shares with nominal value of BGN 1 (one) each.

The shares of Gradus AD are ordinary, registered, dematerialised, voting shares.

Shareholding structure of the Company as at 30 June 2020.



1.2. 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 30 June 2020:

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

Participation of the members of the Board of Directors in business companies as unlimited liability partners, the holding of more than 25 percent of the capital of another company, as well as their participation in the management of other companies or cooperatives as procurators, managers or members of boards:

Luka Angelov Abgelov

1.1. As an unlimited liability partner – NO

1.2. Holding directly over 25 percent 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), Gradus AD (UIC 204882907)

and indirectly through Gradus AD:

Zhyuliv EOOD (UIC 119053781), Millennium 2000 EOOD (UIC 119591422), Gradus-98 AD (UIC 123120561), Gradus-1 EOOD (UIC 822132592), Lora-2004 EOOD (UIC 123658624), Gradus-3 AD (UIC 123152751)

and indirectly through Marieta EOOD in Targovski Dom EOOD (UIC 123644254)

1.3. Participating in the management bodies of:

Equity Invest-1 AD (UIC 204750154), Equity Invest-2 OOD (UIC 204746138), Zhyuliv EOOD, (UIC 119053781), Millennium 2000 EOOD (UIC 119591422), Gradus-98 AD (UIC 123120561), Energy-2 OOD (UIC 123655788), Agro Invest-7 OOD (UIC 123654743), Gradus-1 EOOD (UIC 822132592), Mirena OOD (UIC 123655806), Lora-2004 EOOD (UIC 123658624), Gold Agro-2005 OOD (UIC 119642703), Gradus-3 AD (UIC 123152751), Wolf OOD (UIC 123760892), Marieta EOOD (UIC 123655770), Biser Oliva AD (UIC 123036597).

Ivan Angelov Angelov

1.1. As an unlimited liability partner – NO

1.2. Holding directly over 25 percent of the capital of:

Equity Invest-1 AD (UIC 204750154), Equity Invest-2 OOD (UIC 204746138), Energy-2 OOD (UIC 123655788), "Ayazmo" AD (UIC 201974859), Mirena OOD (UIC 123655806), Gold Agro-2005 OOD (UIC 119642703), Wolf OOD (UIC 123760892), Zagora Oil OOD (UIC 202473858), „Ralitsa 2004“ OOD (UIC 123658631), “Farmpro” OOD (UIC 123761581).

1.3. Participating in the management bodies of:

Equity Invest-2 OOD (UIC 204746138), "Ayazmo" AD (UIC 201974859), 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 EOOD (UIC 123658624), Gold Agro-2005 OOD (UIC 119642703), Wolf OOD (UIC 123760892), „Ralitsa 2004“ OOD (UIC 123658631), “Gold Farm 91” EOOD (UIC 205933500), "Product Board for Eggs, Poultry and Rabbit Meat" Association (UIC 175066976), Association "Association of Biogas Producers" (BULSTAT 176638405), "Union of Poultry Breeders in Bulgaria" Association (UIC 000682444).

Georgi Aleksandrov Babev

1.1. As an unlimited liability partner – NO

1.2. Holding directly over 25 percent of the capital of LG Auto OOD (UIC 205395076)

1.3. Participating in the management bodies of:

LG Auto OOD (UIC 205395076)

1.3. Audit Committee

The Audit Committee consists of:

- 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 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.

II. O An objective review of the development and performance of the company, as well as its position, together with a description of the major risks it faces.

2. Main indicators related to profit

Gradus AD as a holding company does not carry out independent commercial activity. The company has focused its activities in the management of subsidiaries and the distribution of finances between them.

As of 30 June 2020, the subsidiaries in the Group are: % participation

Lora-2004 EOOD	effective percent of participation	100,00
Zhyuliv EOOD	effective percent of participation	100,00
Millennium 2000 EOOD	effective percent of participation	100,00
Gradus-1 EOOD	effective percent of participation	100,00
Gradus-3 AD	effective percent of participation through Gradus-1 EOOD	96,00
Gradus-98 AD	effective percent of participation	99,94
Gold Farm 91 EOOD	effective percent of participation	100,00

The principal scope of business of the companies within Gradus AD group is concentrated in the poultry sector, with the exception of companies whose activity is "production of compound fodders and trade.

Presently, the management is not aware of any trends and events that would have a significant impact on the future activity and results of the Company.

2.1. Results of the activity

For the period 01 January 2020 – 30 June 2020 the Company achieved a net profit of **BGN 5 828** thousand (for the period 01 January 2019 – 30 June 2019 - the Company achieved a net profit of **BGN 6 040** thousand).

The results presented in the financial statements of the Company are directly dependent on the activities of the subsidiaries.

2.1.1. Income of the Company:

INCOME	01-06/2020 in BGN'000	01-06/2019 in BGN'000	Change %	Relative share for 2020 %
Operating income				
Dividend income	5 998	5 998	-	97%
Revenue from services	-	60	-	
Finance income				
Interest income	159	281	-43%	3%
Total	6 157	6 339	-3%	100%

• The main income for the period 01.01.2020. - 30.06.2020, having the greatest impact on the current financial result of the Company, is due to the distribution of dividends by the subsidiaries, which are a result of their commercial activity for 2019.

• The main income for the period 01.01.2019 - 30.06.2019, having the greatest impact on the current financial result of the Company, is due to the distribution of dividends by the subsidiaries, which are a result of their trading activities for 2018.

Dividend income by subsidiaries is as follows:

Subsidiaries	01-06/2020 in BGN'000	01-06/2019 in BGN'000	Relative share for 2020 %
Milenium 2000 EOOD	3 500	1 000	58%
Gradus-98 AD	2 298	2 498	38%
Zhyuliv EOOD	-	2 000	-
Gradus-1 EOOD	100	-	2%
Lora-2004 EOOD	100	500	2%
Total	5 998	5 998	100%

• Interest income decreased by BGN 122 thousand or 43% compared to the same period of 2019, mainly due to a change in the interest rate from 1.05% to 0.86%, as well as a decrease in the amount of loans granted.

The conditions under which loans are granted to subsidiaries are as follows:

Subsidiary	Currency	Agrees principal in BGN thousand	Due date	Interest %	Balance as of 30 June 2020 with interest included	Balance as of 31 December 2019 with interest included
Gradus-3 AD	BGN	2 600	15.06.2021	0,86%	2 601	-
	BGN	12 000	17.07.2020	0,86%	799	8 188
	BGN	900	17.09.2020	0,86%	900	900
Gradus-1 EOOD	BGN	4 300	15.03.2021	0,86%	4 300	-
	BGN	1 500	23.03.2021	0,86%	1 500	-
	BGN	1 000	05.04.2021	0,86%	1 000	-
	BGN	12 000	17.07.2020	0,86%	-	1 008
	BGN	1 000	15.08.2020	0,86%	400	-
	BGN	5 400	28.08.2020	0,86%	-	354
	BGN	3 400	19.12.2020	0,86%	2 399	3 400
	BGN	2 500	22.12.2020	0,86%	2 500	2 500
	BGN	2 800	26.12.2020	0,86%	2 800	2 800
	BGN	3 200	29.12.2020	0,86%	3 199	3 199
	BGN	3 400	29.12.2020	0,86%	3 399	3 399
Lora-2004 EOOD	BGN	11 000	17.07.2020	0,86%	9 605	10 599
Millennium 2000 EOOD	BGN	1 000	15.06.2021	0,86%	1 000	-
Gradus-98 AD	BGN	2 000	15.06.2021	0,86%	2 000	-
Gradus-98 AD	BGN	2 500	22.12.2020	0,86%	-	2 500
Total amount		72 500			38 402	38 847

The loans granted to the subsidiaries are current. The purpose of the loans is to support the development of existing and new business lines described in the Prospectus for public offering of securities as well as to finance the subsidiaries operating activities.

2.1.2. Costs of the Company:

Operating costs:

EXPENSES	01-06/2020 in BGN'000	01-06/2019 in BGN'000	Change %	Relative share for 2020 %
Operating expenses				
Expenses by nature				
Expenses on materials	4	2	100%	1%
Hired service expenses	89	43	107%	26%
Depreciation / amortization expenses	3	1	200%	1%
Expenses on wages and social security payments	244	208	17%	70%
Other expenses	7	40	-83%	2%
Total:	347	294	18%	100%

During the reporting period, the highest share of expenses is the cost of remuneration.

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

2.2. Risk factors for the activity

The unpredictable events of the Covid-19 pandemic would have an indirect effect on the activity.

The effects of the pandemic, as well as their impact, are difficult to predict, but management continues to take the necessary measures to limit them. Gradus AD has sufficient liquid resources to continue operations in the foreseeable future.

Due to the complicated geopolitical situation worldwide, the Group suffers losses in the segment "Breeding eggs" (according to approximate data - about 6 million eggs), and this will be reflected in the consolidated result for the second quarter of this year. Shocks are possible in the segment in the short term.

The Group's management continues its expansion program in this segment, believing that these are extraordinary events and will not adversely affect its activities in the medium and long term.

The Company's risk management policy is designed to identify and analyze the risks, to which the Company is exposed with the purpose of establishing limits of undertaking a risk.

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.

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.

The Company had no payables under financial liabilities as at 30 June 2020.

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 minimal.

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 period ending 30 June 2020.

III. Analysis of financial and non-financial key performance indicators relevant to business, including information on ecological and personnel issues

3. 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.

The key indicators related to the profit that the Company monitors are as follows:

- **EBITDA margin (EBITDA/sales)**

	30.06.2020	31.12.2019
EBITDA (earnings before interest, taxes, depreciation and amortisation)	5 654	5 765
Revenue	6 157	6 339
EBITDA margin	91.83%	90.94%

PERFORMANCE

- **Cost effectiveness ratio (total expenses /total income)**

	30.06.2020	30.06.2019
Total expenses	347	294
Total income	6 157	6 339
Cost effectiveness	0.06	0.05

- **Revenue effectiveness ratio (total income /total expenses)**

	30.06.2020	30.06.2019
Total income	6157	6339
Total expenses	347	294
Revenue effectiveness	17.74	21.56

The analysis of the revenue and costs effectiveness for 2020 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.

As of 30.06.2020 the company has no business on financial liabilities. Fulfills its current obligations on time.

3.1. Non-financial statement

Gradus AD is a holding company and it does not carry out its own production and trade activities, it does not produce or market its own goods. The activity of the Company is focused primarily on the management of subsidiaries and the distribution of finances between them.

3.2. Personnel

As of 30 June 2020, Gradus AD has an average list of 2 employees appointed under employment contract. All employees of the Company have a university degree and qualification fulfilling the requirements for the position held.

During the reporting period, the Company did not employ temporary employees.

As of 30 June 2020, the job positions in the Company are as follows:

- Investor Relations Director;
- Financial manager;
- Chief Risk Officer;
- Chief Accountant;

IV. Significant events occurring after the date of preparation of the interim financial statements

On 16.07.2020 the company concluded annexes for extension of the term for receiving the receivables on loans granted to related parties with current maturity July 2020. until July 2021.

The management of the Company carefully analyzes the effects of the one announced by the WHO in March 2020 coronavirus pandemic and the subsequent restrictions imposed by the government, expecting a reduction in economic activity and liquidity in general for the country's economy. The Company has taken measures to limit the effects of the pandemic, and the Management considers appropriate the going concern principle in respect of these separate interim financial statements, as the Company has sufficient liquid resources to continue its operations in the foreseeable future

There are no other events after the balance sheet date that would require disclosure in these interim financial statements.

V. Probable future development of the Company

Gradus AD will continue to finance its subsidiaries in order to increase their production capacity and optimize operations. Investments are planned in all segments in which the companies operate. It is planned to introduce business software for business management.

The company would take advantage of any investment opportunity under appropriate financial conditions.

VI. Actions in the area of scientific and research activity

For the period 1-6/2020 the Company has not carried out any research and development activities.

VII. Information for the acquisition of own shares required under Article 187e of the Commercial Act

No own shares were acquired during the reporting period.

VIII. Company branches

The Company has no branches

IX. Financial instruments used by the Company

As of 30 June 2020, the financial instruments of the Company are:

Financial assets at amortised cost	30.06.2020	31.12.2019
<i>In BGN'000</i>		
Related party receivables	6 180	6 017
Receivables on loans to related parties	38 402	38 847
Cash and cash equivalents	6 851	899
Total:	51 433	45 763

21 August 2020

EXECUTIVE DIRECTOR:
/Ivan Angelov/

CHAIRMAN OF BD:
/Luka Angelov/

*This document is a translation of the original text in Bulgarian,
in case of divergence the Bulgarian original is prevailing.*

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
GRADUS AD

REPORT ON THE AUDIT OF THE SEPARATE INTERIM FINANCIAL STATEMENTS

Opinion

We have audited the accompanying separate interim financial statements of Gradus AD ("the Company"), which comprise the separate interim statement of financial position as at June 30, 2020, and the separate interim statement of comprehensive income, the separate interim statement of changes in equity and the separate interim statement of cash flows for the period January 1, 2020 - June 30, 2020, and notes to the separate interim financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate interim financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2020, and its financial performance and its cash flows for the period January 1, 2020 - June 30, 2020 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 interim 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 interim 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 interim financial statements, disclosing that at the date of their issuance, the consolidated interim financial statements of the Company for the period from January 1, 2020 - June 30, 2020, have not yet been issued. The management plans to issue the consolidated interim financial statements not later than 31 August 2020. 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 interim financial statements of the current period. These matters were addressed in the context of our audit of the separate interim financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
Valuation of Investments The Company has investments in subsidiaries with a carrying amount totaling BGN 269,012 thousand – included in the disclosures in Note 6 to the separate interim financial statements. The review of the indicators and the tests of the management for the necessity in 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 while for the purposes of measuring the recoverable amount it uses the method of discounted future cash flows. The latter are determined specifically for each subsidiary, which is treated as a 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.	In this area our audit procedures performed 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 at June 30, 2020; • 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 interim financial statements with regard to the measurement of investments in subsidiaries.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
Due to the circumstances that (a) the process of estimating and testing of possible impairment losses on the exposures to subsidiaries assumes a 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.	

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

Management is responsible for the preparation and fair presentation of the separate interim 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 interim financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate interim 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 interim financial statements

Our objectives are to obtain reasonable assurance about whether the separate interim 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 interim 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 interim 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 interim 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 interim financial statements, including the disclosures, and whether the separate interim 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 interim 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.

Krassimira Radeva

Registered Auditor
Managing Director

Baker Tilly Klitou and Partners OOD
Sofia, Bulgaria
5, Stara Planina Str., 5th floor
August 21, 2020

REPORT

FROM THE BOARD OF DIRECTORS OF GRADUS AD, STARA

ZAGORA REGARDING: PAYMENT OF A 6-MONTH DIVIDEND

This report has been prepared and adopted by the Board of Directors of Gradus AD, Stara Zagora, at a meeting held on 27 August 2020 in compliance with the provisions of Art. 115c, paragraph (2), item (1) of the POSA.

The purpose of this report is to inform the shareholders of the Company that on the basis of accounting information disclosed in the 6-month financial statement for 2020, GRADUS AD has sufficient funds to pay a 6-month dividend and its payment will not lead to indebtedness to creditors, budget, staff and more.

In a situation of the COVID-19 pandemic, announced by the World Health Organization on 11.03.2020, the Board of Directors of Gradus AD analyzes the effects of the imposed actions to fight coronavirus infection and continues to apply the necessary measures to limit their impact. Gradus AD has sufficient liquid resources to continue its activities in the foreseeable future.

In accordance with the Articles of Association of GRADUS AD and in accordance with the provisions of the POSA, which allows the companies to distribute a 6-month dividend, the Company intends to offer such dividend to be distributed at an extraordinary General Meeting of Shareholders. Based on up-to-date financial information, shareholders will have the opportunity to make an informed choice in order to protect the interests and development of the Company as well as the interests of investors.

The Board of Directors proposes to distribute a gross dividend in the amount of or BGN 0,022 gross dividend per share. Persons entered in the registers of the Central Depository as shareholders on the 14th day after the General Meeting of Shareholders, on which the decision to pay the dividend was made, are entitled to receive dividend. This is the reason why the number of outstanding shares and the total amount of dividend payout are not specified in this report. The approximate amounts are as follows: BGN 5 359 391,62 gross dividend and 243 608 710 outstanding shares as of 30 June 2020. Pursuant to the regulations, the Company should ensure payment of dividends voted at the General Meeting of Shareholders within 60 days from its holding.

Financial information

Gradus AD, as a holding company, does not carry out any independent business activity. The Company has focused its activities in the management of subsidiaries and the distribution of finances between them.

Revenue of Company:

REVENUE	01-06/2020 <i>in BGN thousan d</i>	01-06/2019 <i>in BGN thousan d</i>	Change %	Relative share for 2020 %
Operating revenue				
Revenue from dividends	5 998	5 998	-	97%
Revenue from services	-	60	-	-
Financial revenue				
Interest revenue	159	281	-43%	3%
Total	6 157	6 339	-3%	100%

The main revenue for the period 01 January 2020 – 30 June 2020, which has the greatest impact on the current financial result of the Company, is due to the distribution of dividends from subsidiaries, which are result from their business activities for 2019.

The main revenue for the period 01 January 2019 – 30 June 2019, which has the greatest impact on the current financial result of the Company, is due to the distribution of dividends from subsidiaries, which are the result of their business activity for **2018**.

Costs for activity:

EXPENSES	01-06/2020 <i>in BGN thousand</i>	01-06/2019 <i>in BGN thousand</i>	Change %	Relative share for 2020 %
Operating costs				
Costs by economic elements				
Costs of materials	4	2	100%	1%
Costs of external services	89	43	107%	26%
Amortization costs	3	1	200%	1%
Remuneration and social security costs	244	208	17%	70%
Other	7	40	-83%	2%
Total:	347	294	18%	100%

Key financial indicators

In order to achieve greater performance and control over the results of the Company, the management monitors some key performance indicators. These indicators are aimed primarily at profit margins, debt and performance levels.

- **EBITDA margin (EBITDA/sales)**

	30.06.2020	30.06.2019
EBITDA (Earnings before interest, taxes, depreciation, and amortization)	5 654	5 765
Income	<u>6 157</u>	<u>6 339</u>
EBITDA margin	<u>91.83%</u>	<u>90.94%</u>

PERFORMANCE

- **Cost performance ratio** (total costs/total revenue)

	30.06.2020	30.06.2019
Total costs	347	294
Total income	<u>6 157</u>	<u>6 339</u>
Cost performance	<u>0.06</u>	<u>0.05</u>

- **Revenue performance ratio** (total revenue/total costs)

	30.06.2020	30.06.2019
Total revenue	6 157	6 339
Total costs	<u>347</u>	<u>294</u>
Revenue performance	<u>17.74</u>	<u>21.56</u>

Analysis of revenue and cost performance for 2020 shows that the revenue fully covers the expenses of the Company and thus it can meet the dividend commitments as well as to finance the companies within the Group's portfolio.

The Company has no investment loans and uses short-term financing for up to one year.

As of 30 June 2020, the financial instruments of the Company are:

Financial assets at amortized cost	30.06.2020	31.12.2019
<i>In BGN thousand</i>		
Proceeds from dividends	6 180	6 017
Proceeds from loans and services granted to related parties	38 402	38 847
Cash and cash equivalents	<u>6 851</u>	<u>899</u>
Total:	<u>51 433</u>	<u>45 763</u>

Based on the interim report as of 30.6.2020. The Board of Directors considers that:

As of 30.06.2020 there are sufficient funds to pay a 6 - month dividend and this does not jeopardize the company's ability to pay its liabilities to creditors, staff, budget and others in the course of its ordinary activities.

This report has been prepared by the Board of Directors of Gradus AD, adopted with a protocol from 27.08.2020 and is part of the materials on the agenda of the 16.10.2020 General Meeting of Shareholders of the Company.

Members of Board of Directors:

Ivan Angelov Angelov

Luka Angelov Angelov

Georgi Aleksandrov Babev