

Materials for Extraordinary annual general meeting of shareholders of Gradus AD

***25th of October 2019, 11 am, town of Stara Zagora 6009, Park Hotel Stara
Zagora, 50, Khan Asparuh Street, Tervel Hall***

Agenda

1. ***Adopting the Rules of Procedure of the Audit Committee of Gradus SA;
Draft Resolution: The General Meeting adopts the Rules of Procedure of the Audit
Committee of Gradus SA issued and proposed by the Audit Committee.***
2. ***Selection of a certified (registered) auditor to verify and certify the Company's
Individual Annual Financial Report for 2019. and the Company's Consolidated
Financial Statements for 2019.***
***Draft resolution: The General Meeting elects a certified auditor to verify and certify
the Company's Individual Annual Financial Report for 2019 and the Consolidated
Financial Statement of the Company for 2019: Baker Tilly Klitou and Partners Ltd.,
Reg. #129, Company ID#: 131349346, Sofia-1000, 5 Stara planina str., floor 5,
represented by the manager Krasimira Ivanova Radeva.***
3. ***Approval of the six-monthly financial statement of the Company for the first half of
2019.***
***Draft resolution: The General Meeting approves the six-month financial statement of
the Company for the first half of 2019.***
4. ***Approval of the report of the Board of Directors on meeting the requirements of the
Public Offering of Securities Act (POSA) for paying a six-month dividend.***
***Draft resolution: The General Meeting approves the report of the Board of Directors
on meeting the requirements for the Public Offering of Securities for the payment of a
six-month dividend.***
5. ***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 2019, 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: 26 Nov 2019; (iv) Dividend payment maturity: three months; (v) Method of payment of the dividend: through the Central Depository SA and branches of UniCredit Bulbank SA.

Content

1. *Rules of Procedure of the Audit Committee of Gradus AD;*
2. *Recommendation of the Audit Committee for selection of auditor on the grounds of art. 108, item 6 of the Independent Financial Audit Act;*
3. *Financial report of the Company for the period ending June 30, 2019;*
4. *Report of the Board of Directors on the implementation of the requirements of the law for the payment of the six-month dividend.*

**RULES OF PROCEDURE
OF THE AUDIT COMMITTEE
OF GRADUS SA**

I. GENERAL PROVISIONS

Art. 1. (1) These Rules of Procedure of the Audit Committee of Gradus SA /hereinafter: the Statute/ have been adopted on the basis of and reflect the requirements of Art. 107, para. 7 of the Independent Financial Audit Act.

(2) GRADUS SA is a public-interest entity within the meaning of §1, item 26 of the Independent Financial Audit Act (IFAA).

(3) In fulfillment of its obligations under the Independent Financial Audit Act, the Company has established an Audit Committee.

**II. COMPOSITION AND MANDATE
OF THE AUDIT COMMITTEE**

Art. 2. The Audit Committee of GRADUS SA consists of 3 (three) members – natural persons, and one of them is the Chair of the Audit Committee.

Art. 3. (1) The members of the Audit Committee shall be elected and dismissed by the General Meeting of Shareholders at the proposal of the Board of Directors of GRADUS SA.

(2) The members of the Audit Committee of GRADUS SA shall be elected for a term of 4 (four) years. After the expiration of the term of office, the members of the Audit Committee of GRADUS SA shall continue to carry out their roles until the election of new members by the General Meeting of Shareholders.

(3) The members of the Audit Committee may be re-elected without restriction [in mandates].

Art. 4. (1) As members of the Audit Committee of GRADUS SA shall be elected persons who have a master's degree of education, knowledge in the field the enterprise operates in, with at least one of the members having no less than 5 (five) years of professional experience in the field of accounting or auditing.

(2) Members of the Audit Committee of GRADUS SA may also be elected from members of the Board of Directors of the Company who are not executive members.

(3) The majority of the members of the Audit Committee are external and independent of GRADUS SA. An independent member of the Audit Committee of GRADUS SA may not be:

- 1.** a member of the management body, an executive member of the supervisory body or an employee of the company;
- 2.** a person who has a lasting commercial relationship with the company;
- 3.** a member of a management or supervisory body, procurator or employee of an entity under item 2;
- 4.** a related party to another member of a management or supervisory body of the public-interest entity/enterprise.

(4) The lack of circumstances under para. 3 shall be established by a written declaration to the General Assembly submitted before the election date by each nominee to be a member of the Audit Committee. When one or more of these circumstances arise after the election, the respective member of the Audit Committee shall immediately notify in writing the Board of Directors of GRADUS SA and terminate the performance of their role, and a new member shall be elected in their place at the next General Meeting.

(5) The Chair of the Audit Committee of GRADUS SA shall be elected by its members. The Chair must also meet the requirements pursuant to para. 3.

(6) Any member of the Audit Committee may submit a written reasoned request to the Board

of Directors of the company for their dismissal from the position they have been holding.

(7) Until an appropriate resolution is adopted by the General Meeting of Shareholders of the company on the dismissal of a member of the Audit Committee, the latter shall continue to carry out their obligations and responsibilities to the company, except in the cases under Art. 4, para. 4 of these Rules.

III. RIGHTS, OBLIGATIONS AND RESPONSIBILITIES OF THE AUDIT COMMITTEE

Art. 5. The Audit Committee of GRADUS SA:

- 1.** Informs the Board of Directors of GRADUS SA about the results of the mandatory audit and clarifies how the mandatory audit contributed to the reliability of the financial statements as well as the role of the Audit Committee in this process;
- 2.** Oversees the financial reporting process and provides recommendations and proposals to ensure its effectiveness;
- 3.** Monitors the effectiveness of the internal control system, the risk management system and the internal audit activity with respect to financial reporting in the audited entity;
- 4.** Observes the mandatory audit of the annual financial statements, including its implementation, taking into account the findings and conclusions of the Public Supervision Commission on the certified/registered auditors on the application of Art. 26 (6) of Regulation (EU) No 537/2014;
- 5.** Checks and monitors the independence of the certified auditors in accordance with the requirements of Chapters Six and Seven of the IFAA, as well as with Art. 6 of Regulation (EU) #537/2014, including the feasibility of providing services outside the audit of the audited entity under Art. 5 of the same regulation;
- 6.** Is responsible for the selection procedure of an certified auditor and recommends their appointment unless the audited entity has a selection committee;
- 7.** Notifies the Committee for Public Supervision of the Certified auditors (CPSRA), as well as the Board of Directors of GRADUS SA for each approval given under Art. 64, para. 3 and Art. 66, para. 3 of the IFAA within 7 days from the date of the decision;
- 8.** Reports annually to the General Meeting of the shareholders of GRADUS SA;
- 9.** Issues and submits to the CPSRA an annual report on its activities – by 30 June;
- 10.** Discusses and resolves all other matters falling within its competence under these Rules and the legislation in force;
- 11.** Carries out all other obligations assigned to it by these Rules and the legislation in force;

Art. 6. The Audit Committee may:

- 1.** Receive assistance from the Board of Directors of GRADUS SA, as well as from the employees of the Company, in performing its activity;
- 2.** Require and receive documents, data, facts and other information related to financial reporting, risk management and internal control within a reasonable time from the management of GRADUS SA or from authorized employees;
- 3.** Attend meetings of the Board of Directors of GRADUS SA or working meetings on matters within the competence of the Audit Committee, if necessary;
- 4.** Review the financial reporting processes of the company, the internal control systems and risk management and submit recommendations and proposals to ensure their effectiveness;
- 5.** Request and obtain access to any information and documents necessary for carrying out their tasks and duties;
- 6.** Require the certified auditor / audit company be informed in writing without delay of any

circumstances that have or would impair its independence in the performance of the audit engagement undertaken, as required by Art. 31, para. 2, item 1 of IFAA;

7. Request to be informed in writing immediately by the certified auditor / audit company about identified and possible significant violations of the existing legislation, constituent and other internal acts of GRADUS SA, insofar as such have become known to the certified auditor / audit company while carrying out their audit commitment;

8. Demand clarification from the certified auditor / audit company on the nature and reasons for the modification of the audit opinion in the audit report, as well as on the paragraphs to be considered and other matters that did not modify the auditor's opinion;

9. Require a copy of the signed compulsory professional indemnity insurance of the certified auditor / audit company;

10. Receive an additional paper to the audit report according to Art. 59 and Art. 60 of the IFAA;

11. Receive warnings/complaints from the employees and shareholders of the company about mistakes, wrong or illegal actions related to the financial reporting processes in the company;

12. Investigate all warnings/complaints of irregularities related to the performance of its tasks and duties, receiving assistance from the management of the enterprise;

13. Keep confidentiality in receiving warnings/complaints about reported and closed irregularities related to the performance of its tasks and duties.

14. Receive remuneration for the service provided by them, resolved by a decision of the General Meeting of Shareholders of Gradus SA.

15. Require the Board of Directors of the company to pay the expenses related to the performance of its activity.

Art. 7. (1) The enterprise shall be obliged to cover the expenses incurred by the members of the Audit Committee related to the performance of their duties.

(2) The remuneration of the members of the Audit Committee shall be defined by the General Meeting of the shareholders and shall be consistent with the quantity and quality of the service provided and their participation in the meetings of the committee and shall not be less than BGN 250 (two hundred and fifty) per month.

(3) The expenses for business trips related to the activity of the members of the Audit Committee shall be borne by the company and shall not be part of the remuneration under para. 2.

Art. 8. The members of the Audit Committee shall have the following rights:

1. To attend the meetings of the Audit Committee in person or by giving written authorization to another member of the Audit Committee;

2. To request a meeting of the Audit Committee;

3. To propose for consideration items on the agenda and to propose solutions;

4. To vote in favor or against the proposed decisions.

Art. 9. The members of the Audit Committee shall have the following responsibilities:

1. To monitor the processes of financial reporting, the effectiveness of internal control systems and the risk management systems;

2. To monitor the independent financial audit of the company;

3. To attend the meetings of the Audit Committee;

4. To inform immediately the other members of any circumstances of material importance to the company and would contribute to the prevention of errors, abuses or fraud and which have become known to them while carrying out their duties.

IV. SESSIONS

OF THE AUDIT COMMITTEE

Art. 10. (1) The Audit Committee of GRADUS SA meets at least 3 (three) times a year.

(2) The Chair of the Audit Committee may schedule a meeting on his/he own initiative or at the request of a member of the Audit Committee. The Chair of the Audit Committee may not refuse to call a meeting.

(3) The meeting is regular if it is attended by more than half of the members of the Audit Committee, personally or represented by another member of the Audit Committee. No one present may represent more than one absentee.

(4) Members of the Board of Directors, the certified auditor, company employees, consultants or other external specialists relevant to the issues discussed may be invited to attend a meeting of the Audit Committee without having the right to vote.

Art. 11. (1) In exercising the powers conferred on it, the Audit Committee of GRADUS SA shall announce its decisions/resolutions.

(2) Decisions shall be taken by simple majority, except in cases where the law or these Rules provide otherwise.

(3) The Audit Committee may also take decisions in absentia if all members have given their written consent on the decision and have signed the Minutes.

Art. 12. (1) The Audit Committee shall carry out its activity promptly. Minutes shall be drawn up for each meeting of the Audit Committee, reflecting the agenda, the decisions taken and the manner of voting of the members. The Minutes shall be signed by all members of the Audit Committee present at the meeting.

(2) The decisions of the Audit Committee shall enter into force after the Minutes of the meeting have been signed.

(3) The Minutes of the Audit Committee meetings, as well as all reports and other papers issued by the Committee, shall be kept in the company for a minimum of 5 years from the end of the year they have been issued in.

V. RELATIONSHIPS OF THE AUDIT COMMITTEE WITH THE BOARD OF DIRECTORS

Art. 13. (1) The Audit Committee of GRADUS SA:

1. Shall inform the Board of Directors of the company of the results of the mandatory audit and explain how the mandatory audit contributed to the reliability of the financial statements and the role of the Audit Committee in this process;

2. Shall periodically report to the Board of Directors of the company on carrying out of its commitments and shall make recommendations for improving the effective functioning of the company's audit committee;

3. Shall notify the Board of Directors of the company, as well as the CPSRA, of any approval given under Art. 64, para. 3 and Art. 66, para. 3 of the Independent Financial Audit Act within 7 days from the date of the decision;

4. Shall notify and make recommendations to the Board of Directors in cases provided by the law and at its own discretion;

5. Shall review and make proposals to the Board of Directors of the company for updating these Rules;

6. May attend meetings of the Board of Directors of the company to discuss matters within its competence.

(2) The Board of Directors of GRADUS SA:

1. Shall provide appropriate annual training for all members of the Audit Committee of the

company and provide the necessary budget for carrying out its tasks within the company;

2. Shall provide the Audit Committee with sufficient resources for carrying out its duties effectively;

(3) The members of the Board of Directors and the employees of the company shall be obliged to assist the Audit Committee in the performance of its activity, including to provide the information requested by it within a reasonable time.

VI. REPORTING OF THE AUDIT COMMITTEE

Art. 14. (1) The Audit Committee of GRADUS SA shall annually report its activities to the General Meeting of the Shareholders of the company and submit a Report on its activities during the respective financial year.

(2) The report of the Audit Committee of the company shall be submitted to the Board of Directors and shall be part of the written documents for the General Meeting of the shareholders to be considered at.

(3) The members of the Audit Committee may attend the session of the General Meeting of the shareholders, where the annual report of the committee for the respective financial year should be reviewed at, without any voting right, unless they are shareholders of the company.

VII. FINAL PROVISIONS

§ 1. These Rules have been drawn up in compliance of the Independent Financial Audit Act.

§ 2. Amendments and supplements to these Rules shall be made in the order of their adoption.

§ 3. Legislative changes repealing or amending a single provision of these Rules shall not invalidate the Rules as a whole.

These Rules are approved by Minutes of a meeting of the Audit Committee on 11 June 2019 and approved by the Board of Directors of GRADUS SA by a resolution of 14 June 2019.

These Rules have been proposed for approval by the General Meeting of Shareholders of GRADUS SA – the session shall be held on 25 Oct 2019.

TO: The shareholders of GRADUS

RECOMMENDATION

On the grounds of the Independent Financial Audit Act, Art. 108, it. 6, the Audit Committee recommends to the General Meeting of the shareholders of GRADUS SA to elect the Baker Tilly Klitou and Partners Ltd., Reg. #129, represented by the manager Krasimira Ivanova Radeva, to carry out the independent financial audit of Gradus SA for 2019.

The Audit Committee received a documented assessment pursuant to Art. 6 of Regulation EC #537/2014 (related to the specific requirements in regards to the mandatory audit of companies of public interest) by the Baker Tilly Klitou and Partners Ltd., Reg. #129, represented by the manager Krasimira Ivanova Radeva.

This recommendation is related to the renewal of the audit engagement and it is not influenced by any third party. The Audit Committee has not been imposed a provision of the type defined in Art. 16, para. 6 of Regulation EC #537/2014 related to specific requirements in regards to the mandatory audit of companies of public interest.

Chair of the Audit Committee: Radka Peneva, signature (illegible)

GRADUS AD
INDIVIDUAL INTERIM STATEMENT OF FINANCIAL POSITION
ASTO 30 JUNE 2019

	Note	30.06.2019 BGN'000	31.12.2018 BGN'000
ASSETS			
Non-current assets			
Fixed tangible assets	4	1	-
Intangible assets	5	167	3
Investments in subsidiaries	6	264 960	264 960
Deferred tax assets	7	48	53
Total non-current assets		265 176	265 016
Current assets			
Receivables from related parties	21	43 452	55 389
Receivables from dividends	21	3 500	9 081
Other current receivables and prepaid expenses	8	62	-
Cash and cash equivalents	9	26 498	3 145
Total current assets		73 512	67 615
TOTAL ASSETS		338 688	332 631
EQUITY AND LIABILITIES			
Equity			
Basic capital	10	243 609	243 609
Premium reserve	10	62 287	62 287
Retained profit	10	8 379	26 700
Total equity		314 275	332 596
Current liabilities			
Liabilities to related parties	21	3	-
Tax obligations	11	1 032	4
Payables to staff and for social security	12	32	31
Dividend payables	21	23 332	-
Other liabilities		14	-
Total current liabilities		24 413	35
Total liabilities		24 413	35
TOTAL EQUITY AND LIABILITIES		338 688	332 631

Date: 20 August 2019

Prepared by:

/Antoaneta Boeva/

Executive Director:

/Ivan Angelova/

Chairman of Board of Directors:

/Luka Angelov/

The notes are an integral part of these interim financial statements.

GRADUS AD
INDIVIDUAL INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR PERIOD ENDING ON 30 JUNE 2019

	Note	01.01.2019 - 30.06.2019 BGN'000	01.01.2018 - 30.06.2018 (unaudited) BGN'000
Revenue from services	13.1	60	-
Revenue from dividends	13.2	5 998	21 326
Costs for materials		(2)	-
Costs for external services	14	(43)	(177)
Depreciation costs	5	(1)	-
Personnel costs	15	(208)	(184)
Other operating expenses	16	(40)	(21)
Profit from ordinary activities		5 764	20 944
Financial income	17	281	-
Financial expenses	17	-	(11)
Financial income / (expenses), net		281	(11)
Profit before taxes		6 045	20 933
Taxes	18	(5)	39
Net profit for the period		6 040	20 972
Another comprehensive income		-	-
Total comprehensive income for the period		6 040	20 972

Date: 20 August 2019

Prepared by:

/Antoaneta Boeva/

Executive Director:

/Ivan Angelova/

Chairman of Board of Directors:

/Luka Angelov/

The notes are an integral part of these interim financial statements.

GRADUS AD
INDIVIDUAL INTERIM STATEMENT OF CHANGES IN EQUITY
FOR PERIOD ENDING ON 30 JUNE 2019

	Basic capital	Premium reserve	Retain profit /accumulate loss	Total equity
	BGN'000	BGN'000	BGN'000	BGN'000
Balance on 31.12.2017	221 000	44 200	(1)	265 199
Net profit for the period (unaudited)	-	-	20 972	20 972
Balance on 30.06.2018 (Unaudited)	221 000	44 200	20 971	286 171
Balance on 31.12.2018	243 609	62 287	26 700	332 596
Net profit for the period	-	-	6 040	6 040
Profit distribution for dividends	-	-	(24 361)	(24 361)
Balance on 30.06.2019	243 609	62 287	8 379	314 275

Date: 20 August 2019

Prepared by:

/Antoaneta Boeva/

Executive Director:

/Ivan Angelova/

Chairman of Board of Directors:

/Luka Angelov/

The notes are an integral part of these interim financial statements.

GRADUS AD
INDIVIDUAL INTERIM STATEMENT OF CASH FLOWS
FOR PERIOD ENDING ON 30 JUNE 2019

	01.01.2019 r. - 30.06.2019r. BGN'000	01.01.2018 r. - 30.06.2018r. (unaudited) BGN'000
Cash flows for operating activities		
Receipts from customers	59	-
Payments to suppliers	(77)	(157)
Staff related payments	(207)	(73)
Taxes paid / (refunded), excluding income taxes, net	(45)	-
Other payments for operating activities	(1)	5
Net cash flows for operating activities	(271)	(225)
Cash flows for investment activities		
Purchases of tangible and intangible assets	(199)	(3)
Repaid loans granted to related parties	12 000	-
Interest received on loans granted to related parties	244	-
Dividend income from subsidiaries	11 579	-
Net cash flows from / (for) investment activity	23 624	(3)
Cash flows from financial activities		
Proceeds from the issue of capital	-	40 696
Other proceeds	-	40 684
Net cash flows from financial activities	-	81 380
Net decrease / increase in cash and cash equivalents	23 353	81 152
Cash and cash equivalents at the beginning of the period	3 145	240
Cash and cash equivalents at end of the period	26 498	81 392

Date: 20 August 2019

Prepared by:

/Antoaneta Boeva/

Executive Director:

/Ivan Angelova/

Chairman of Board of Directors:

/Luka Angelov/

The notes are an integral part of these interim financial statements.

GRADUS AD
NOTES TO THE SEPARATE INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2019

1. Status and object of activity

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

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

BULSTAT: 204882907

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

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

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

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

Ownership and management

The shareholding structure of the company as at 30 June 2019 is as follows:

- Luka Angelov Angelov – 40.72% of the capital
- Ivan Angelov Angelov – 20.36% of the capital
- Angel Ivanov Angelov – 20.93% of the capital
- Legal entities – 15.71% of the capital
- Individual shareholders – 2.28% of the capital

Management bodies of the Company

- General Meeting of Shareholders
- Board of Directors

Board of Directors:

The Board of Directors consists of three (3) members who are as follows as at 30 June 2019:

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

Audit Committee:

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

Members of the Audit Committee are:

- Radka Dincheva Peneva – Chair of the Audit Committee;
- Petya Radoslavova Panova – Member of the Audit Committee;
- Georgi Aleksandrov Babev – Member of the Audit Committee.

The average number of staff of Gradus AD as at 30 June 2019 is 2 persons hired under employments contracts.

2. Basis of preparation of the separate financial statements

These separate financial statements have been prepared in accordance with IFRS endorsed by the European Union and 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 2019.

The Company will prepare interim consolidated financial statements in accordance with IFRS, endorsed by the European Union, until 30 August 2019.

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.

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 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.

3. Significant accounting policies (continued)

(b) Property, plant and equipment (continued)

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:

	2019	2018
	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" in the statement of comprehensive income.

3. Significant accounting policies (continued)

(c) Intangible assets (continued)

Subsequent costs

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

Amortisation

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

	Annual amortisation rate, %
• Software	33.3

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 stocks or shares in subsidiaries are presented in the financial statements at acquisition price (cost), which is:

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

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

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

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

(e) Financial instruments

Accounting policy applicable as from 1st of January 2018:

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

Financial assets

Initial recognition, classification and measurement

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

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

3. Significant accounting policies (continued)

(e) Financial instruments (continued)

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 has committed to purchase or sell the asset.

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

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

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 in banks, trade receivables, and loans to related parties.

Financial assets at fair value in other comprehensive income (debt or equity instruments)

The company does not have any such assets

Financial assets at fair value in profit or loss

The company does not have any such assets.

Derecognition

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

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

3. Significant accounting policies (continued)

(e) Financial instruments (continued)

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

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

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

Expected credit loss on financial assets

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

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

Expected credit losses are recognised in two stages.

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

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

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

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

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

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

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

3. Significant accounting policies (continued)

(e) Financial instruments (continued)

Financial liabilities

Initial recognition, classification and measurement

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

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

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification.

Classification groups

Financial liabilities at fair value through profit or loss

The Group has no such liabilities.

Loans and other borrowings

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

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

Derecognition

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

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.

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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*.

3. Significant accounting policies (continued)

(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;
- proceeds from and payments from and on overdrafts are reported net by the company in cash flows from financing activity.

(h) Trade and other payables

Trade and other current payables in the statement of financial position are stated at cost, which is considered to be the fair value of the transaction and would be paid in future in return of received goods and services. In case of deferred payments exceeding the usual credit time period for which no additional interest payment is foreseen or where the interest substantially differs from the usual market interest rate, payables are initially measured at their fair value based on their present value with discount rate attributable to the company, and are subsequently measured at amortised cost.

3. Significant accounting policies (continued)

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

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

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

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

(j) Income

The company's usual income consists of dividends and provision of services.

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 contract with a customer

A contract with a customer exists when:

- the parties have acquired the contract;
- the rights of each of the parties may be identified;
- the payment terms may be identified.

A contract for which any of the above criteria has not been met yet is subject to new evaluation for each reporting period. Considerations received under such contract are recognised as payable (liability under contract) in the statement of financial position until all criteria for recognition of a contract with a customer are met, and the company fulfils its performance obligations. Upon initial recognition of contracts with customers, the company further analyses and estimates whether two or more contracts have to be reviewed in combination or to be stated as one contract. The company recognises revenue for every individual performance obligation at individual contract with customer level, by analysing the type, time period and the conditions of every individual contract.

Measurement of revenue from contracts with customers

Revenue is measured on the basis of the transaction price determined for each contract. The transaction price is the amount of consideration to which the company expects to be entitled in exchange of transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. When determining the transaction price, the company takes into account the contractual conditions and its usual trade practices, including the impact of variable considerations, the existence of material financial component, non-monetary considerations and considerations payable to the customer.

(k) Finance income and finance costs

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

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

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

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

3. Significant accounting policies (continued)

(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 income tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that future benefits will be realised.

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

(n) 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.

3. Significant accounting policies (continued)

(n) Key estimates and assumptions

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 reporting period, management assesses whether there are any indications of impairment of its investments in shares and subsidiaries. Management found no indications of impairment of its investments in subsidiaries as at 30 June 2019.

(o) New standards and interpretations

Standards and interpretations issued by IASB, but not yet endorsed by 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 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 statements of the Company.

Revision of the Conceptual Framework for Financial Reporting (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 statements 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 statements of the Company.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (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 statements of the Company.

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

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4. Fixed tangible assets

In BGN'000

	Hardware	Total
Book value		
Balance on 31 December 2017	-	-
Balance on 31 December 2018	-	-
Additions	<u>1</u>	<u>1</u>
Balance on 30 June 2019	<u>1</u>	<u>1</u>
Depreciation		
Balance on 31 December 2017	-	-
Balance on 31 December 2018	-	-
Balance on 30 June 2019	<u>-</u>	<u>-</u>
Net book value		
Net book value on 31 December 2017	-	-
Net book value on 31 December 2018	-	-
Net book value on 30 June 2019	<u>1</u>	<u>1</u>

5. Intangible assets

Intangible assets consist of software products.

In BGN'000

	Software	Licences	Others	Total
Book value				
Balance on 31 December 2017	-	-	-	-
Additions	4	-	-	4
Balance on 31 December 2018	4	-	-	4
Additions	-	80	85	165
Balance on 30 June 2019	<u>4</u>	<u>80</u>	<u>85</u>	<u>169</u>
Amortisation				
Balance on 31 December 2017	-	-	-	-
Balance on 31 December 2018	(1)	-	-	(1)
Amortisation for the period	(1)	-	-	(1)
Balance on 30 June 2019	<u>(2)</u>	<u>-</u>	<u>-</u>	<u>(2)</u>
Net book value				
Net book value on 31 December 2018	3	-	-	3
Net book value on 30 June 2019	<u>2</u>	<u>80</u>	<u>85</u>	<u>167</u>

6. Investments in subsidiaries

As at 30 June 2019 and 31 December 2018, 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

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Gradus-1 EOOD	Bulgaria	149 760	100
Gradus-98 AD	Bulgaria	52 200	99,94
Total:		264 960	

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 each date of the statement of financial position the management analyses and assesses whether indicators for impairment of its investments in subsidiaries exist.

The following are considered main indicators for impairment: significant reduction of the amount and/or termination of the investee; losses of markets, customers, or technological issues, reporting losses for more continuous period of time (more than three years), reporting negative net assets or assets below the registered share capital, trends for deterioration of key financial indicators, as well as decrease of the market capitalisation. Calculations are made by the management with the assistance of independent licensed valuers. The financial budgets made by the respective companies for five-years' period, as well as other mid- and long-term plans and intentions for their development, including forecasts of key economic indicators at national level and EU/ Balkans level have been used as a basis for the estimated cash flows before tax.

Management's tests and estimates for impairment of investments are made in the light of its forecasts and intentions with regard to the future economic benefits that the subsidiaries are expected to receive, including trade and industrial experience, ensuring positions on Bulgarian and foreign markets, expectations for future sales, etc. Calculations are made with the assistance of independent licensed valuator.

As a result of the calculations made as at 30 June 2019, no need of recognition of impairment of specific investments in subsidiaries has been identified (2018: 0 BGN'000).

7. Deferred tax assets

The recognised deferred tax assets relate to the following:

	Assets		Liabilities		Net	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018	30.06.2019	31.12.2018
<i>In BGN'000</i>						
Tax loss	45	50	-	-	45	50
Income of individuals	2	2	-	-	2	2
Provision for expected credit losses	1	1	-	-	1	1
Net tax assets	48	53	-	-	48	53

Movements in temporary differences during the period 01.01.2019 – 30.06.2019

In BGN'000

	Balance Sheet 31.12.2018	Profit and loss	Balance Sheet 30.06.2019
Tax loss	50	(5)	45
Income of individuals	2	-	2
Provision for expected credit losses	1	-	1
Total:	53	(5)	48

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Movements in temporary differences during the period 01.01.2018 – 31.12.2018

In BGN'000

	Balance Sheet	Profit and loss	Balance Sheet
	31.12.2017		31.12.2018
Tax loss	-	50	50
Income of individuals	-	2	2
Provision for expected credit losses	-	1	1
Total:	-	53	53

8. Other receivables and prepayments

In BGN'000

	30.06.2019	31.12.2018
Taxes refundable	45	-
Prepayments	17	-
Total	62	-

9. Cash and cash equivalents

In BGN'000

	30.06.2019	31.12.2018
Cash on hand	1	1
Cash in current accounts	26 497	3 144
Total cash and cash equivalents	26 498	3 145

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

10. Equity

Share capital

The share capital consists of:

	Number of voting shares	Value in BGN thousand
At 31 December 2017	221 000 000	221 000
Issue of shares	22 608 710	
At 31 December 2018	243 608 710	243 609
At 30 June 2019	243 608 710	243 609

The total number of shares at 30 June 2019 is 243,608,710 with nominal value of BGN 1 each. The share capital is paid in full.

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As at 30 June 2019, the shareholders of Gradus AD are as follows:

	Number of voting shares	% of the share capital
Luka Angelov Angelov	99 195 645	40,72
Ivan Angelov Angelov	49 597 823	20,36
Angel Ivanov Angelov	50 997 822	20,93
Legal entities	38 265 454	15,71
Individual shareholders	5 551 966	2,28
Total:	243 608 710	100,00

As at 31 December 2017, the shareholders of Gradus AD are as follows:

	Number of voting shares	% of the share capital
Ivan Angelov Angelov	99 195 645	40,72
Luka Angelov Angelov	99 195 645	40,72
Legal entities	38 134 878	15,65
Individual shareholders	7 082 542	2,91
Total:	243 608 710	100,00

10. Equity (continued)

Equity

<i>In BGN'000</i>	30.06.2019	31.12.2018
Share capital	243 609	243 609
Issue premium – statutory reserve	24 361	24 361
Premium reserve	37 926	37 926
Retained earnings	2 339	26 700
Profit for the period	6 040	-
Total equity	314 275	332 596

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.

11. Tax liabilities

<i>In BGN'000</i>	30.06.2019	31.12.2018
Tax on expenses	-	1
Personal income tax liabilities	3	3
Tax on dividends	1 029	-
	1 032	4

12. Payables to personnel and for social security

<i>In BGN'000</i>	30.06.2019	31.12.2018
Payables to personnel	29	29
Social security payable	3	2
Total	32	31

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13.1. Revenue from services

BGN'000

	01.01.2019 - 30.06.2019	01.01.2018 - 30.06.2018 (unaudited)
Training	60	-
Total	60	-

13.2. Dividend income

BGN'000

	01.01.2019 - 30.06.2019	01.01.2018 - 30.06.2018 (unaudited)
Gradus-1 EOOD	-	1 500
Millenium 2000 EOOD	1 000	10 331
Lora-2004 EOOD	500	-
Gradus-98 AD	2 498	6 995
Zhyuliv EOOD	2 000	2 500
Total	5 998	21 326

14. Costs of hired services

In BGN'000

	01.01.2019 - 30.06.2019	01.01.2018 - 30.06.2018 (unaudited)
Commission fees	-	108
Consulting services	15	6
Audit costs	12	30
Marketing and advertising costs	1	14
Translation / interpretation services	6	10
Rent	2	1
Other expenses	7	8
Total	43	177

15. Personnel expenses

In BGN'000

	01.01.2019 - 30.06.2019	01.01.2018 - 30.06.2018 (unaudited)
Current remuneration	198	178
Social security contributions	10	6
Total	208	184

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16. Other operating expenses

In BGN'000

	01.01.2019 - 30.06.2019	01.01.2018 - 30.06.2018 (unaudited)
Business trips expenses	2	10
Entertainment costs	-	11
Non-deductible taxes	38	-
Total	40	21

17. Finance income/costs

In BGN'000

	01.01.2019 - 30.06.2019	01.01.2018 - 30.06.2018 (unaudited)
Interest income on loans granted	281	-
Bank charges	-	(11)
Total	281	(11)

18. Tax expenses

	01.01.2019 - 30.06.2019	01.01.2018 - 30.06.2018 (unaudited)
Tax profit for the period	50	-
Current income tax expenses for the period – 10% (2018: 10%)	(5)	-
Deferred income tax attributable to:		
Origination and reversal of temporary differences	-	39
Total income tax (expense) / benefit recognized in the statement of comprehensive income	(5)	39

	01.01.2019 - 30.06.2019	01.01.2018 - 30.06.2018 (unaudited)
Reconciliation of income tax expenses calculated in accordance with the accounting result		
Accounting profit for the period	6 045	20 933
Income tax – 10% (2018: 10%)	(605)	(2 093)
Revenue not recognised for tax purposes	600	2 132
Total income tax (expense) / benefit recognized in the statement of comprehensive income	(5)	39

19. Financial instruments

Categories of financial instruments:

Financial assets at amortised cost	30.06.2019	31.12.2018
<i>In BGN'000</i>		
Dividend receivables	3 500	9 081
Receivables on loans and services to related parties	43 452	55 389
Cash and cash equivalents	26 498	3 145
Total:	73 450	67 615

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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, dividend receivables 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.

19. Financial instruments (continued)

Receivables

The company has not classified receivables in different groups as it believes that they have similar characteristics, and has made a collectability analysis for every type of financial assets within the different ranges of age analysis. Applied provisioning rates are based on arrears data according to the age analysis. These rates are initially measured at historical databases observed by the company for a period of 2 years.

The company has analysed the impacts on calculated default rates on the basis of historical data of forecast information about some macroeconomic parameters, such as GDP and unemployment rate. The management has analysed future information about these parameters and has decided that such impacts are minor, and therefore, the historical loss rates for 2018 have not been adjusted.

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

Cash, including payment operations are limited to banks with high reputation and liquid stability. Furthermore, the company has implemented a policy to limit its exposure to specific bank.

For the purposes of calculating the credit losses of its *receivables*, the company applies simplified approach for calculation of expected credit losses and does not monitor the subsequent changes of their credit risk. When using this approach, at every reporting date the company recognises an adjustment (impairment provision) based on the expected credit loss for the entire term of the receivables.

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:

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- 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:

19. Financial instruments (continued)

- 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).

BGN'000	Granted loan as at 30.06.2019	Interest rate	Probability of default, %	Loss in case of default	Expected credit losses	Granted loan, net
Gradus-1 EOOD	18 800	1.05%	0.02%	18 800	(5)	18 795
Grasus-3 AD	10 400	1.05%	0.02%	10 400	(2)	10 398
Millenium 2000 EOOD	3 300	1.05%	0.02%	3 300	(1)	3 299
Lora-2004 EOOD	10 900	1.05%	0.02%	10 900	(3)	10 897
Total	43 400			43 400	(11)	43 389

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 3 June 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.

19. Financial instruments (continued)

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

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

Fair values compared to carrying amounts

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

<i>In BGN'000</i>	30.06.2019		31.12.2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Dividend receivables	3 500	3 500	9 081	9 081
Receivables on loans and services to related parties	43 452	43 452	55 389	55 389
Cash and cash equivalents	26 498	26 498	3 145	3 145
Total assets at amortised cost	73 450	73 450	67 615	67 615

20. Segment reporting

As at 30.06.2019 the Company identifies one operating segment – company management.

Segment income, expense and results comprise:

	Company management	Total	Company management	Total
	01.01.2019 – 30.06.2019	01.01.2019 – 30.06.2019	01.01.2018 – 30.06.2018 (unaudited)	01.01.2018 – 30.06.2018 (unaudited)
Segment revenue	6 058	6 058	21 326	21 326
Segment expense	(294)	(294)	(382)	(382)
Result:	5 764	5 764	20 944	20 944

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Financial income/ expense, net	281	281	(11)	(11)
EBT	6 045	6 045	20 933	20 933
Income tax expenses	(5)	(5)	39	39
Net profit for the year	6 040	6 040	20 972	20 972

20. Segment reporting (continued)

Segment assets comprise:

	Company management 30.06.2019	Total 30.06.2019	Company management 31.12.2018	Total 31.12.2018
Fixed assets	168	168	3	3
Investments in subsidiaries	264 960	264 960	264 960	264 960
Deferred tax assets	48	48	53	53
Receivables from related parties	43 452	43 452	55 389	55 389
Dividend receivables	3 500	3 500	9 081	9 081
Other current receivables	62	62	-	-
Cash and cash equivalents	26 498	26 498	3 145	3 145
Segment assets	338 688	338 688	332 631	332 631
Total assets	338 688	338 688	332 631	332 631

Segment liabilities comprise:

	Company management 30.06.2019	Total 30.06.2019	Company management 31.12.2018	Total 31.12.2018
Payables to related parties	3	3	-	-
Payables to employees and to social insurance	32	32	31	31
Tax payables	1 032	1 032	4	4
Dividend payables	23 332	23 332	-	-
Other current payables	14	14	-	-
Segment liabilities	24 413	24 413	35	35
Total liabilities	24 413	24 413	35	35

21. 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:

Luka Angelov Angelov
Ivan Angelov Angelov
Gradus-1 EOOD

Relation

Equity owner
Equity owner
Company under joint control

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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
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
Wolf OOD	Relationship through a person exercising significant influence
Biser Oliva AD	Relationship through a person exercising significant influence
SP Gradus-Ivan Angelov-55	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 who is a member of the BD

Transactions with key management personnel

The remuneration of the Directors and Board members is current and amounts to BGN 181 thousand (for the period as at 30 June 2018: BGN 162 thousand).

Loans granted to related parties are as follows:

BGN'000	Interest rate	Maturity	Collateral	Granted loan as at 30.06.2019	Granted loan as at 31.12.2018
Gradus-1 EOOD	1.05%	07-08.2019	He	18 795	19 396
Gradus-3 AD	1.05%	07-09.2019	He	10 398	19 996
Millenium 2000 EOOD	1.05%	07.2019	He	3 299	4 999
Lora-2004 EOOD	1.05%	07.2019	He	10 897	10 998
Total				43 389	55 389

21. Related party transactions (continued)

<i>In BGN'000</i>	Type of transaction	Transaction value 01.01.2019 - 30.06.2019	Total payables 30 June 2019
Related parties of Gradus AD			
Gradus-1 EOOD	Office rent	1	1
Energy-2 OOD	Vehicle rent	2	2
Total payables			3

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<i>In BGN'000</i>	Type of transaction	Transaction value 01.01.2019 - 30.06.2019	Total receivables 30 June 2019
Related parties of Gradus AD			
Gradus-1 EOOD	Service	12	14
Gradus-1 EOOD	Loans granted	-	18 795
Gradus-1 EOOD	Interest accrued	107	16
Gradus-3 AD	Service	12	-
Gradus-3 AD	Loans granted	-	10 398
Gradus-3 AD	Interest accrued	87	9
Millennium 2000 EOOD	Service	12	-
Millennium 2000 EOOD	Loans granted	-	3 299
Millennium 2000 EOOD	Interest accrued	25	3
Lora-2004 EOOD	Service	12	12
Lora-2004 EOOD	Loans granted	-	10 897
Lora-2004 EOOD	Interest accrued	62	9
Gradus-98 AD	Service	12	-
Zhyuliv EOOD	Service	12	-
Total receivables from services and loans provided			43 452
Lora-2004 EOOD	Dividends	500	500
Millennium 2000 EOOD	Dividends	1 000	1 000
Gradus-98 AD	Dividends	2 498	1 000
Zhyuliv EOOD	Dividends	2 000	1 000
Total dividends receivable			3 500
Total related party receivables			46 952

On 10.06.2019, the General Meeting of Shareholders of the Company has adopted a resolution for allocation of dividend in the amount of BGN 24 361 thousand from accumulated profit. The statutory tax has been withheld from this amount (see note 11).

21. Related party transactions (continued)

<i>BGN'000</i>	Type of transaction	Transaction value 01.01.2018 - 30.06.2018 (unaudited)	Total receivables 31 December 2018
Related parties of Gradus AD			
Gradus-1 EOOD	Granted loans	-	19 396
Gradus-3 AD	Granted loans	-	19 996
Millennium 2000 EOOD	Granted loans	-	4 999
Lora-2004 EOOD	Granted loans	-	10 998
Total receivables from granted loans			55 389
Gradus-1 EOOD	Dividend	1 500	1 000
Millennium 2000 EOOD	Dividend	10 331	5 731
Lora-2004 EOOD	Dividend	-	350
Gradus-98 AD	Dividend	6 995	2 000
Total dividend receivables			9 081
Total receivables from related parties			64 470

22. Events after the reporting date

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On 16.07.2019 the Company has entered into annexes for extending the deadline for repayment of loans granted to related parties currently maturing in July 2019 until July 2020.

In August 2019 the Company has entered into annexes for extending the deadline for repayment of loans granted to related parties currently maturing in August 2019 until August 2020.

There were no other significant events occurring after the balance sheet date that require disclosure in these separate interim financial statements.

GRADUS AD

ACTIVITY REPORT
As to 30 June 2019

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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

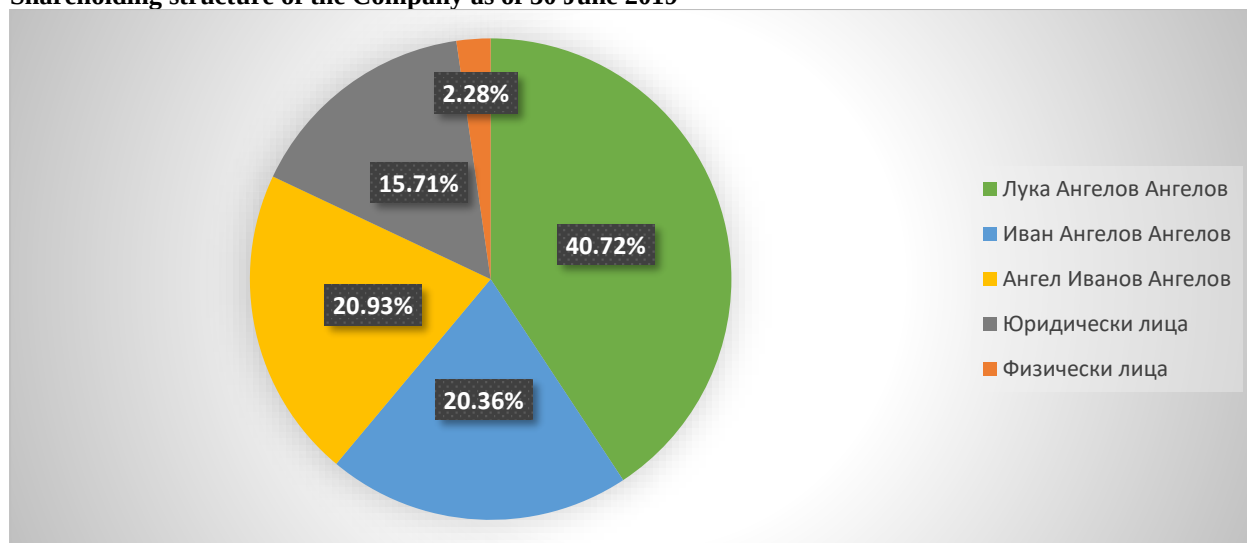
The scope of business of the Company includes: Investments in share units and shares of companies, acquisition and management of interests in Bulgarian and foreign companies; carrying on business as a holding company; acquisition, evaluation and sale of patents, assignment of licenses for the use of patents to companies in which the company participates; financing of companies in which the company participates, as well as any other business not prohibited by law, provided that if a permit or license or registration is required for the performance of any activity, this activity shall be carried out after obtaining such permit or license, respectively, after such registration.

1.1. Basic shareholder capital

As of 30 June 2019, the registered share capital of Gradus AD amounts to BGN 243 609 thousand, distributed in 243 608 710 shares with a nominal value of BGN 1 (one Bulgarian lev) each.

Gradus AD issues ordinary, registered, dematerialized voting shares.

Shareholding structure of the Company as of 30 June 2019



1.2. Board of Directors

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

The Board of Directors consists of three (3) members as of 30 June 2019:

- 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 – ET Gradus-Ivan Angelov-55 (UIC 112038433)

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), Gradus AD (UIC 204882907), Zagora Oil OOD (UIC 202473858),

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)

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), Wolf OOD (UIC 123760892)

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:

- Radka Dimcheva Peneva – Chairperson of Audit Committee;
- Petya Radoslavova Panova – Member of Audit Committee;
- Georgi Aleksandrov Babev – Member of Audit Committee.

II. 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. Indicators characterizing the results of the principal activity

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.

As of 30 June 2019, 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

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 2019 – 30 June 2019 the Company achieved a net profit of **BGN 6 040 thousand** (for the period 01 January 2018 – 30 June 2018 - the Company achieved a net profit of **BGN 20 972 thousand**).

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

2.1.1. Revenue of Company:

REVENUE	01-06/2019 in BGN thousand	01-06/2018 in BGN thousand	Change %	Relative share for 2019 %
Operating revenue				
Revenue from dividends	5 998	21 326	-72	94.62%
Revenue from services	60	-	100	0,94%
Financial revenue				
Interest revenue	281	-	-	4.44%
Total	6 339	21 326	-70	100%

- 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 result from their business activities for 2018.

- The main revenue for the period 01 January 2018 – 30 June 2018, 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 from **previous years**.

Revenue from dividends by company is as follows:

Subsidiary	01-06/2019 in BGN thousand	01-06/2018 in BGN thousand	Relative share %
Millennium 2000 EOOD	1 000	10 331	16.67%
Gradus-98 AD	2 498	6 995	41.65%
Zhyuliv EOOD	2 000	2 500	33.34%
Gradus-1 EOOD	-	1 500	-

Lora-2004 EOOD	500	-	8.34%
Total	5 998	21 326	100.00%

- Interest revenue is related to loans granted to subsidiaries.

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 2019 with interest included	Balance as of 31 December 2018
Gradus-3 AD	BGN	12 000	17.07.2019	1,05%	10 407	11 998
	BGN	1 000	02.08.2019	1,05%	-	-
	BGN	5 000	27.08.2019	1,05%	-	4 999
	BGN	3 000	03.09.2019	1,05%	-	2 999
	BGN	500	17.09.2019	1,05%	-	-
Gradus-1 EOOD	BGN	12 000	17.07.2019	1,05%	12 007	11 998
	BGN	1 000	05.08.2019	1,05%	400	1 000
	BGN	1 000	14.08.2019	1,05%	1 001	1 000
	BGN	5 400	27.08.2019	1,05%	5 403	5 398
Millennium 2000 EOOD	BGN	5 000	17.07.2019	1,05%	3 302	4 999
Lora-2004 EOOD	BGN	11 000	17.07.2019	1,05%	10 906	10 998
Total amount		56 900			43 426	55 389

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 Company:

Operating costs:

EXPENSES	01-06/2019 in BGN thousand	01-06/2018 in BGN thousand	Change %	Relative share for 2019 %
Operating costs				
Costs by economic elements				
Costs of materials	2	-	-	0.68%
Costs of external services	43	177	-76	14.63%
Amortization costs	1	-	-	0.34%
Remuneration and social security costs	208	184	13	70.75%
Other	40	21	90	13.60%
Total:	294	382	-23	100%
Financial expenses				
Expenses for bank fees and charges	-	11		
Total:	-	11		
Total operating costs	294	393		

During the reporting period, the highest share of expenses is related to remuneration. A detailed breakdown of costs can be found in the notes to the financial statements.

2.2. Risk factors for activity

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.

The Company's risk management policy is designed to identify and analyze the risks to which the Company is exposed in order to set risk limits. Based on the analysis of these risks, the Company develops and implements appropriate controls to ensure control over these risks. This policy, as well as the controls in place for risk management, are

subject to periodic review in order to reflect changes in the external and internal conditions in which the Company operates.

Credit risk

Credit risk occurs when a loss occurs when a party to a financial instrument fails to fulfill a contractual obligation. Credit risk exposure is a result of the individual characteristics of each individual customer. The Company assesses the credit risk of loans granted to related parties by using internal estimates that reflect the likelihood of default.

Liquidity risk

Liquidity risk is the risk that the Company will have difficulty in meeting its obligations arising from financial liabilities. The Company approach in terms of liquidity management is to ensure, as far as possible, that there will always be sufficient liquidity to fulfill its obligations, both under normal and stressful conditions, and without incurring unacceptable losses or damages the Company's reputation.

As of 30 June 2019, the Company has no liabilities for financial liabilities.

Market risk

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

Financial risk management

The Company's objectives in relation to capital management are to ensure the ability of the Company to continue as a going concern and to ensure adequate profitability for the shareholders.

During the period ending on 30 June 2019, there are no changes in the objectives, policies or processes of capital management.

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

3. Key financial indicators

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

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

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

	30.06.2019	30.06.2018
EBITDA (Earnings before interest, taxes, depreciation, and amortization)	5 765	20 944
Income	6 339	21 326
EBITDA margin	90.94%	98.21%

PERFORMANCE

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

	30.06.2019	30.06.2018
Total costs	294	393
Total income	6 339	21 326
Cost performance	0.05	0.02

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

	30.06.2018	30.06.2018
Total revenue	6 339	21 326
Total costs	294	393
Revenue performance	21.56	54.26

Analysis of revenue and cost performance for 2019 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.

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.

The Company, as a parent company within a large group, will prepare and include a consolidated non-financial statement in the annual consolidated financial statements.

3.2. Personnel

As of 30 June 2019, 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 2019, the job positions in the Company are as follows:

- Investor Relations Director;
- Chief Accountant.

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

As of 16 July 2019, the Company has concluded annexes to extend the repayment period until July 2020 on loans granted to related parties with current maturity July 2019.

In August 2019, the Company has concluded annexes to extend the payment period until August 2020 on loans granted to related parties with current maturity August 2019.

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

The Company continues to follow its investment policy with regard to investments in its subsidiaries, mainly to increase sales in the major segments. The management seeks to ensure stability in the market capitalization of the Group companies in order to guarantee the shareholders' investments and their profitability.

VI. Actions in the area of scientific and research activity

For the period 1-6/2019 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 2019, the financial instruments of the Company are:

Financial assets at amortized cost	30.06.2019	31.12.2018
<i>In BGN thousand</i>		
Proceeds from dividends	3 500	9 081
Proceeds from loans and services granted to related parties	43 452	55 389
Cash and cash equivalents	26 498	3 145
Total:	73 450	67 615

20 August 2019

EXECUTIVE DIRECTOR:

/Ivan Angelov/

CHAIRMAN OF BOARD OF DIRECTORS:

/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, 2019, 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, 2019 - June 30, 2019, 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, 2019, and its financial performance and its cash flows for the period January 1, 2019 - June 30, 2019 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 Ethics Standards Board for Accountants' Code of Ethics for Professional 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, 2019 - June 30, 2019, have not yet been issued. The management plans to issue the consolidated interim financial statements not later than 30 August 2019. 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 264,960 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, 2019; • 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 20, 2019

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 20 August 2019 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 2019, 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 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 2019. Pursuant to the regulations, the Company should ensure payment of dividends voted at the General Meeting of Shareholders within 60 days from its holding.

2. 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.

2.1. Revenue of Company:

REVENUE	01-06/2019 <i>in BGN thousand</i>	01-06/2018 <i>in BGN thousand</i>	Change %	Relative share for 2019 %
Operating revenue				
Revenue from dividends	5 998	21 326	-72	94.62%
Revenue from services	60	-	100	0,94%
Financial revenue				
Interest revenue	281	-	-	4.44%

Total	6 339	21 326	-70	100%
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• 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 result from their business activities for 2018.

• The main revenue for the period 01 January 2018 – 30 June 2018, 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 from **previous years**.

2.2. Costs for activity:

EXPENSES	01-06/2019 <i>in BGN</i> <i>thousand</i>	01-06/2018 <i>in BGN</i> <i>thousand</i>	Change %	Relative share for 2019 %
Operating costs				
Costs by economic elements				
Costs of materials	2	-	-	0.68%
Costs of external services	43	177	-76	14.63%
Amortization costs	1	-	-	0.34%
Remuneration and social security costs	208	184	13	70.75%
Other	40	21	90	13.60%
Total:	294	382	-23	100%
Financial expenses				
Expenses for bank fees and charges	-	11		
Total:	-	11		
Total operating costs	294	393		

3. 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)

	30.06.2019	30.06.2018
EBITDA (Earnings before interest, taxes, depreciation, and amortization)	5 765	20 944
Income	6 339	21 326
EBITDA margin	90.94%	98.21%

PERFORMANCE

• Cost performance ratio (total costs/total revenue)

	30.06.2019	30.06.2018
Total costs	294	393

Total income	6 339	21 326
Cost performance	0.05	0.02

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

	30.06.2018	30.06.2018
Total revenue	6 339	21 326
Total costs	294	393
Revenue performance	21.56	54.26

Analysis of revenue and cost performance for 2019 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 2019, the financial instruments of the Company are:

Financial assets at amortized cost	30.06.2019	31.12.2018
<i>In BGN thousand</i>		
Proceeds from dividends	3 500	9 081
Proceeds from loans and services granted to related parties	43 452	55 389
Cash and cash equivalents	26 498	3 145
Total:	73 450	67 615

Members of Board of Directors:

Ivan Angelov Angelov

Luka Angelov Angelov

Georgi Aleksandrov Babev