

GRADUS AD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

		31.12.2021	31.12.2020
ASSETS	Note	BGN'000	BGN'000
Non-current assets			
Property, plant and equipment	4	201 624	203 177
Intangible assets	5	54 137	54 020
Goodwill	6	20 656	20 656
Investment property	9	8 940	8 889
Investments		1	1
		285 358	286 743
Current assets			
Inventories	10.1	31 239	38 722
Farm animals	10.2	11 196	8 835
Related party receivables	37	9 349	9 604
Trade receivables	11	8 180	9 400
Loans granted	12	1 221	1 268
Other current receivables and prepayments	13	3 544	4 646
Cash and cash equivalents	14	10 805	4 507
		75 530	76 982
TOTAL ASSETS		360 888	363 725
EQUITY AND LIABILITIES			
EQUITY			
Capital attributable to the equity owners of the parent company			
Share capital	15	243 609	243 609
Issue premium	15	62 287	62 287
Restructuring reserve	15	(247)	(247)
Revaluation reserve	15	13 039	13 074
Reserve from actuarial revaluation	15	(229)	(170)
Retained earnings	15	9 597	3 572
		328 056	322 125
Non-controlling interest	8	1 818	1 887
Total equity		329 874	324 012
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	16	16 667	17 247
Long-term payables to personnel	17	453	372
Leasing liabilities		50	105
Deferred revenue from government grants	18	1 807	2 143
		18 977	19 867
Current liabilities			
Bank loans	19	-	10 833
Payables to related parties	37	63	86
Trade payables	20	5 929	4 699
Tax liabilities	21	1 582	830
Payables to personnel and social security	22	3 456	2 450
Leasing liabilities		130	133
Other current liabilities	23	877	815
		12 037	19 846
TOTAL LIABILITIES		31 014	39 713
TOTAL EQUITY AND LIABILITIES		360 888	363 725

Prepared by:
 /Antoaneta Boeva/

Executive Director:
 /Ivan Angelov/

Chairman of the Board of Directors:
 /Luka Angelov/

The notes on pages 5 to 47 are an integral part of these financial statements.

GRADUS AD
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDING ON 31 DECEMBER 2021

	Note	01-12/2021 BGN'000	01-12/2020 BGN'000
Revenue	24	156 574	139 914
Other operating income, net	25	14 632	14 130
Changes in stock of finished products		18 079	14 159
Changes in stock of biological assets		2 354	692
Capitalised own costs	26	737	1 726
Book value of assets sold (other than finished products)		(13 967)	(20 431)
Expenses on raw materials and materials	27	(93 400)	(77 301)
Hired service expenses	28	(8 862)	(8 252)
Depreciation / amortization expenses	4,5	(8 172)	(7 279)
Personnel expenses	29	(30 241)	(28 681)
	30	(14 583)	
Other operating expenses	31	(3 522)	(15 567)
Operating profit / (loss)		19 629	13 110
Finance income	32	305	154
Finance costs	32	(158)	(768)
Finance income /(costs), net		147	(614)
Profit before income tax		19 776	12 496
Income tax expense	33	(1 818)	(1 966)
Profit for the period after taxes		17 894	10 530
Other components of comprehensive income			
Items not to be reclassified to profit or loss			
Changes in the revaluation reserve of property, plant and equipment, net of taxes		(59)	(3)
Changes in the reserve from actuarial gains and losses, net of taxes		(35)	12 670
Total comprehensive income for the period		17 800	23 197
Net profit for the period attributable to:			
Equity owners of the parent company		17 963	10 408
Non-controlling interest		(69)	122
Total comprehensive income attributable to:			
Equity owners of the parent company		17 869	23 075
Non-controlling interest		(69)	122
Earnings per share in BGN		0.07	0.04

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GRADUS AD
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDING ON 31 DECEMBER 2021

	Share capital	Issue premium	Restructuring reserve	Revaluation reserve	Reserve from actuarial revaluation s	Retained earnings	Total to the equity owners of the parent company	Noncontrolli ng interest	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Balance at 01 January 2020	243 609	62 287	(247)	404	(167)	3 882	309 768	1 765	311 533
Net profit for the period	-	-	-	-	-	10 408	10 408	122	10 530
Distributed profit for dividends	-	-	-	-	-	(10 718)	(10 718)	-	(10 718)
Changes due to sale of fixed assets	-	-	-	12 670	-	-	12 670	-	12 670
Changes in the reserve from actuarial	-	-	-	-	(3)	-	(3)	-	(3)
Balance at 31 December 2020	243 609	62 287	(247)	13 074	(170)	3 572	322 125	1 887	324 012
Net profit for the period	-	-	-	-	-	17 963	17 963	(69)	17 894
Distributed profit for dividends	-	-	-	-	-	(11 693)	(11 693)	-	(11 693)
Changes from sale of fixed assets	-	-	-	-	-	(245)	(245)	-	(245)
Changes in revaluation reserve	-	-	-	(35)	-	-	(35)	-	(35)
Changes in the reserve from actuarial	-	-	-	-	(59)	-	(59)	-	(59)
Balance at 31 December 2021	243 609	62 287	(247)	13 039	(229)	9 597	327 650	2 010	329 874

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GRADUS AD
CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE PERIOD ENDING ON 31 DECEMBER 2021

	2021	2020
	BGN'000	BGN'000
Cash flows from operating activity		
Proceeds from customers	186 180	167 071
Payments to suppliers	(131 800)	(115 388)
Payments to personnel and social security	(28 265)	(27 438)
Taxes paid/ refunded, other than income tax, net	(1 226)	(4 102)
Income taxes paid	(1 628)	(2 234)
Financing of current activity	11 836	11 455
Foreign exchange differences and bank charges, net	(49)	(327)
Other proceeds, net	(1 124)	(1 013)
Net cash flows from operating activity	33 924	28 024
Cash flows from investing activity		
Acquisition of property, plant and equipment	(6 775)	(10 918)
Proceeds from sale of fixed assets	832	197
Loans repaid by related parties	1 003	386
Loans repaid by unrelated parties	150	131
Interest proceeds from loans to related parties	108	89
Interest proceeds from loans to unrelated parties	22	19
Net cash flows used in investing activity	(4 660)	(10 096)
Cash flows from financing activity		
Proceeds from bank loans	2 697	27 316
Payments on bank loans	(13 544)	(32 506)
Interest and charges paid on bank loans	(51)	(177)
Dividends paid	(11 447)	(10 306)
Taxes paid on dividends paid	(453)	(452)
Payments on leasing contracts	(169)	(117)
Other payments, net	(3)	(3)
Net cash flows used in financing activity	(22 970)	(16 245)
Net increase / decrease in cash	6 294	1 683
Cash and cash equivalents on 01 January	4 507	2 824
Cash and cash equivalents on 31 December	10 801	4 507

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1. Information about the economic group

Economic Group "Gradus" AD (the Group) includes a parent company and eight subsidiaries.

"Gradus" AD is a joint-stock company incorporated on November 28, 2017. and entered in the Commercial Register of Registry Agency with UIC: 204882907.

Gradus AD is a parent company.

Address of management: Republic of Bulgaria

Stara Zagora 6000, kvartal "Industrialen", Ptyceclanica "Gradus"

LEI: 485100VMOUDWWCUDJ690

On 30.07.2018 by decision No770 – PA/30.07.2018, the Financial Supervision Commission entered "Gradus" AD,

public company in the register of public companies and other issuers of securities under Article 30, para 1, item 3 of the FSC, led by the Financial Supervision Commission (FSC).

The shares of the Company are traded on the Main Market of bse – segment "Standart" with stock code of the issue

GR6 and ISIN: BG1100002184

In 2021 Gradus AD (parent company) has not changed its name.

Gradus AD is not a subsidiary of another parent company.

Ownership and management

Gradus AD is a public company in accordance with the Public Offering of Securities Act. Shareholders of the company as at 31 December 2021:

- Luka Angelov Angelov – 40.77% of the capital,
- Ivan Angelov Angelov – 20.68% of the capital
- Angel Ivanov Angelov - 20.67% of the capital
- Legal entities – 15.80% of the capital
- Individual shareholders – 2.08% of the capital.

Management bodies of the company

- General Meeting of Shareholders
- Board of Directors

Board of Directors

The Board of Directors consists of three (3) members who are as follows as at 31 December 2021:

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:

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

The COVID 19 pandemic –impact, actions taken and effects

On March 11, 2020, the World Health Organization declared the pandemic coronavirus COVID-19. On 13 March 2020 the National Assembly voted on a state of emergency in Bulgaria, as a result of which measures were introduced to contain the infection, including work from home, temporary closure of schools, universities, restaurants, cinemas, theaters, museums and sports facilities, retailers, excluding grocery retailers, grocery stores and pharmacies. As a result of the restrictions imposed, the normal functioning of businesses from a number of sectors of the economy has been disrupted. The supply of raw materials from suppliers, shipments to customers and labour supply were hampered. Almost all enterprises, although to varying degrees, had to take certain actions and measures to recalibrating the organisation of their business, working regime, business communication and

GRADUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

other aspects of relations with counterparties, partners and state institutions. The Group has sufficient funding to meet its liquidity needs. The Management of the Group has not identified areas in the financial statements on which the pandemic has a direct and material impact and effects, including with regard to the valuation of individual assets and liabilities.

2. Basis of preparation of the consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union (EU). These consolidated financial statements have been prepared based on the principles of going concern, current accrual and historical cost, except for items of property, plant and equipment that are measured using the revaluation model of IAS 16 *Property, Plant and Equipment* and investment property that is measured at fair value in accordance with IAS 40 *Investment Property*, and biological assets that are measured at fair value in accordance with IAS 41 *Agriculture*.

Functional currency and currency of presentation

Pursuant to the requirements of the Bulgarian legislation, the Group keeps its accounting books and records and prepares its consolidated 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 consolidated financial statements have been prepared in thousands of Bulgarian leva (BGN'000).

Comparative data

The Group presents comparative data in these financial statements for one previous year. Where necessary, comparatives are reclassified (and restated) in order to achieve comparability with any changes in the current year's presentation.

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.

GRADUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

(b) Property, plant and equipment (continued)

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. Gains or losses on derecognition of certain assets from the group of property, plant and equipment are determined by comparing the proceeds to which the Group expects to be entitled (sales revenue) with the carrying amount of the asset at the date the purchaser acquires the control over the asset. The proceeds are recognised net in other operating income, net on the face of the statement of comprehensive income. When the revalued assets are sold or derecognised on other grounds, the amounts included in the revaluation reserve are reclassified to retained earnings or losses.

(i) Subsequent costs

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

(ii) Depreciation

An item of property, plant and equipment is depreciated from the date on which it is installed and ready for use, or for the self-constructed assets, from the date on which the asset is completed and ready for use. Depreciation charges are recognised up to the amount of the asset's original value minus the estimated residual value of the asset based on the straight-line method over the estimated useful life of each component of property, plant and equipment. Depreciation charges are recognised through profit or loss unless they are included in the carrying amount of another asset. Assets acquired under leases are depreciated over the shorter of the estimated useful life of the asset and the lease term, unless it is virtually certain that the ownership of the asset will be acquired by the end of the lease term. Land is not depreciated.

Depreciation rates are defined as follows:

	2021 Annual depreciation rate , %	2020 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 consolidated financial statements.

(c) Intangible assets

(i) Goodwill

Goodwill is the excess of the acquisition cost (consideration paid) over the fair value of the Group's share of the net identifiable assets of the acquiree at the acquisition date (business combination).

Goodwill arising on the acquisition of a subsidiary is presented in the consolidated statement of financial position in the Intangible Assets group.

In the consolidated financial statements, goodwill is measured initially at acquisition cost (cost) and subsequently, at acquisition cost less any accumulated impairment losses. Goodwill is not amortised.

GRADUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

3. Significant accounting policies (continued)

(c) Intangible assets (continued)

(ii) Intangible assets, other than goodwill

Intangible assets consist of trademarks, licenses, software, and other intangible assets.

Intangible assets acquired by subsidiaries that have a limited useful life 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. If this is the case, the impairment is included as amortisation costs in the consolidated statement of comprehensive income (through profit or loss for the year). Intangible assets are derecognised from the consolidated 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 or losses on disposal of individual assets in the Intangible Assets group are determined by comparing disposal proceeds and the asset's carrying amount at the date of sale.

Gains or losses on derecognition of certain assets from the group of intangible assets are determined by comparing the proceeds to which the Group expects to be entitled (sales revenue) with the carrying amount of the asset at the date the purchaser acquires the control over the asset. The proceeds are recognised net in other operating income, net on the face of the statement of comprehensive income (profit or loss for the year).

(iii) 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.

(iv) Amortisation

Intangible assets, other than goodwill and trademarks, 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.

	2021	2020
	Annual amortisation rate, %	Annual amortisation rate, %
Intellectual property rights	15	15
Industrial property rights	15	15
Other intangible assets	6,67 - 33,3	6,67 - 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 investments in financial instruments are presented in the consolidated financial statements at acquisition price (cost), which is:

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

Investments in financial instruments held by the Group 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 (through profit or loss for the year). In case of subsequent reversal of impairment, it is recognised in the statement of comprehensive income (through profit or loss for the year).

These investments are not listed on the stock exchange. Therefore, it is not possible to ensure quotations for market prices on an active market that to give a sufficiently reliable fair value of these shares.

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.

GRADUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

3. Significant accounting policies (continued)

(e) Investment property

Investment property is held to earn rentals and/or for capital appreciation. Initially, investment property is recognised at acquisition cost plus any costs related to its acquisition. Subsequent to initial recognition, investment property is measured under the fair value model in accordance with IAS 40 Investment Property. Gains or losses due to changes in the fair value are included in profit or loss in the period in which they have occurred.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses arising from the disposal of investment property is recognised through profit or loss in the current period. They are stated net to the Other operating income / (loss), net in the consolidated statement of comprehensive income (through profit or loss for the year). Transfers from and to Investment property are made when there is a change in the functional purpose and use of a property. In the case of a transfer from Investment property to Business-occupied property, in its new group the asset is carried at its deemed historical cost that is its fair value at the date of the transfer. Conversely, when there is a transfer to Investment property from Business-occupied property, the asset is measured at its fair value at the date of the transfer and the difference to its carrying amount is presented as a component of the consolidated statement of comprehensive income.

(f) Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost of inventories - materials and work in progress - is reported on a weighted average cost basis and comprises costs of acquiring the inventories, costs of production or processing, and any other costs incurred in bringing the inventories to their current location and condition. In the case of manufactured products, the cost also includes costs of labour, social security expenses, depreciation / amortisation expenses, and other overheads allocated on the basis of normal production capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(g) Biological assets and government funding

An entity recognises a biological asset or agricultural produce if and only if:

- a.) the entity controls the asset as a result of past events;
- b.) it is probable that the future economic benefits associated with the asset will flow to the entity; and
- c.) the asset's fair value or cost can be measured reliably.

Upon initial recognition and at the date of each balance sheet, a biological asset is measured at fair value, less costs to sell.

A gain or loss that has occurred on initial recognition of a biological asset at fair value less costs to sell the biological asset is recognised through profit or loss for the period in which it has occurred.

Government funding is a variety of forms of grants from the State (local and central authorities and institutions) and/or intergovernmental agreements and organisations. Government funding related to compensation of costs incurred on biological assets is recognised in current gains and losses on a systematic basis for the same period as expenses are recognised.

(h) Impairment of non-financial assets

The book values of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, then the asset's recoverable amount is estimated. For intangible assets with indefinite useful life or not yet brought into use, the recoverable amount is estimated annually. An impairment loss is recognised always when the carrying amount of an asset or a cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

GRADUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

3. Significant accounting policies (continued)

(g) Biological assets and government funding (continued)

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest possible group of assets generating cash inflows from continuing use that are largely independent of cash inflows from other assets or CGUs.

Impairment losses are recognised in profit or loss. Impairment losses recognised for CGUs are allocated so as to reduce the carrying amounts of the assets at the site proportionately.

An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

(i) Trade and other receivables

Trade receivables are an unconditional right of the Group 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 Group 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.

(j) 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 Group 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 Group for the respective period (month).

(k) Financial instruments

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

Financial assets

Initial recognition, classification and measurement

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

The Group 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.

GRADUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

3. Significant accounting policies (continued)

(k) 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 Group commits to purchase or sell the asset.

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

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

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

The Group has no such assets.

Financial assets at fair value through profit or loss

The Group has no such assets.

Derecognition

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

- The rights to receive cash flows from the asset have expired; or
- The Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group 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 Group has retained.

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FOR THE YEAR ENDED 31 DECEMBER 2021

3. Significant accounting policies (continued)

(k) Financial instruments (continued)

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 Group could be required to repay.

Expected credit loss on financial assets

The Group 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 Group 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 Group has adopted the general approach to impairment as set by IFRS 9. According to this approach, the Group 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 Group'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 Group 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 Group applies a simplified approach to calculate expected credit losses and does not follow subsequent changes in their credit risk. According to this approach, the Group recognises an allowance (impairment provision) based on the expected credit loss over the entire period of the receivables at each reporting date.

Financial liabilities

Initial recognition, classification and measurement

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

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

The Group's financial liabilities comprise trade and other payables, loans, lease liabilities, and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification.

GRADUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

3. Significant accounting policies (continued)

(k) Financial instruments (continued)

Classification groups

Financial liabilities at fair value through profit or loss

The Group has no such liabilities.

Loans and other borrowings

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

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

Derecognition

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

This requirement derives from the idea of the real business nature of the group'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 Group 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 Group 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: not to depend on future event, i.e. it shall be enforceable not only if a particular future event occurs; it should be possible to exercise the right and to defend it by employing legal means in the course of (taken cumulatively):

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

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

(l) 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

3. Significant accounting policies (continued)

m) Trade and other payables

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

(n) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions to a separate entity and has no legal or constructive obligations to pay further amounts. The Government of Bulgaria is responsible for providing pensions in Bulgaria under defined contribution plan. The Group's contributions to the defined contribution pension plan are recognised as incurred through profit or loss. Contributions to a defined contribution plan past due for more than 12 months following the period of provision of services are discounted to their present value.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

The Group has an obligation to pay termination benefits to those employees who retire in accordance with Art. 222,

§ 3 of the Bulgarian Labour Code. According to these Labour Code provisions, when a labour contract of an employee, who has acquired a pension right, is ended, the employer is obliged to pay him or her compensations amounting to two months' gross salaries. Where the employee has been with the same employer for the past 10 years or more, this employee is entitled to a compensation amounting to six months' gross salaries. At the date of these financial statements, management estimated the potential expenses for all employees using the projected credit unit method.

(iii) Termination benefits

Termination benefits are recognised as an expense where the Group has clearly committed, without realistic possibility of withdrawal, to a formal detailed plan either to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made a formal offer of voluntary redundancy, and it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, they are discounted to their present value.

(iv) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are accounted for as an expenditure, as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the liability can be estimated reliably. The Group recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the past reporting period.

(o) Provisions

Provisions are recognised when the Group 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.

3. Significant accounting policies (continued)

(o) Provisions (continued)

Onerous contracts

Provision for onerous contracts is recognised when the economic benefits expected to be received by the Group under it are lower than the unavoidable costs of meeting the obligations under the contract. This provision is measured at the present value of the lower of the two values: the costs of exiting from the contract and the estimated net costs of continuing it. Prior to the establishment of the provision, the Group recognises impairment losses on assets related to this contract.

(p) Revenue

Recognition of revenue from contracts with customers

The Group's usual revenue originates from the following activities: sale of products, goods and services. The Group's revenue is recognised when the control over the goods and/or services promised in the contract with the customer is transferred to the customer. The control is transferred to the customer upon satisfaction of the performance obligations under the contract by transferring the promised goods and/or providing the promised services.

Measurement of a contract with a customer

There is a contract with a customer if:

- the contract has been approved by the parties;
- each party's rights can be identified;
- the payment terms can be identified;
- the contract has a commercial substance;
- the collection of the consideration is probable after the goods and services have been transferred.

If a contract does not yet meet any of the above criteria, the entity will continue to re-assess the contract in every reporting period. The consideration received under such a contract is recognized as a liability (a contract liability) in the statement of financial position until all criteria for recognition of a contract with a customer are satisfied and the Group performs its obligations. In the initial assessment of its contracts with customers, the group makes further analysis and judgement whether two or more contracts must be considered as combination and be accounted for as one. Each promise to transfer goods and/or services that are identifiable, or a series of identifiable goods and services that are identical in substance, is reported as a single performance obligation. The Group recognises income for each individual performance obligation at the level of an individual contract with a customer by analysing the type, duration and terms and conditions of each specific contract.

Measurement of revenue from contracts with customers

Revenues is measured on the basis of the transaction price determined for each contract. The transaction price is the amount of consideration to which the group expects to be entitled, excluding amounts collected on behalf of third parties. When determining the transaction price, the group takes into account the terms and conditions of the contract and customary business practices, including the impact of variable consideration, the existence of a significant financing component, non-cash consideration, and consideration payable to the customer. In the case of contracts with more than one performance obligation, the transaction price is allocated to each performance obligation based on the individual selling prices of each good or service.

The change in the contract scope and price is reported as a separate contract or as part of an existing contract, depending on whether the change relates to adding identifiable goods and services as also on their price.

Performance obligations under contracts with customers

Revenue generated by the Group originates mainly from the sale of products, goods and services. In general, the Group has concluded that it acts as a principal in its arrangements with customers as it typically controls the goods and services before transferring them to the customer.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. Significant accounting policies (continued)

(p) Revenue (continued)

Revenue from sale of goods

Upon its sale, the control of the good is transferred to the customer at a particular point in time, which is usually when the good is delivered to a client's site.

Revenue from sale of services

Services provided by the Group consist of transport services and rents. The control of the services is transferred at the time of their provision. Sales revenue is measured over time by measuring the stage of performance of the group's Liabilities (a stage of completion). To measure the stage of completion, the Group applies the straight-line method. The assessments of income, expenses, and stage of completion are re-reviewed if circumstances change. Each subsequent increase or decrease in estimated income and expenses is recognized through profit or loss in the period in which the circumstances having necessitated the re-review become known to management.

Transaction price and terms of payment

The transaction price normally includes a fixed selling price, according to a general or customer price list, and different forms of variable consideration. In determining the price of the transaction, amounts due to the customer, non-cash consideration and the existence of a significant financial component are also taken into account.

Variable consideration

The variable consideration is included in the transaction price only to the extent that it is very likely that there will be no substantial adjustment in the amount of revenue recognised cumulatively. The forms of variable consideration include: price discounts, rebates, bonus turnover, logistics bonus, marketing bonus. The discounts, rebates and bonuses granted are compensated against the amounts due by the customer.

Significant financial component

The Group has conducted an analysis and has determined that the length of time between the time the customer pays for the promised goods and services and the time of transfer of control of these goods and services is within twelve months, and the agreed consideration does not have a significant financing component. The advance payments collected by the customer are presented in the statement of financial position as liabilities under contracts with customers.

(q) Leases

The Group as a lessee

Assessment for measurement of a lease

A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Initial recognition and measurement

At the commencement date of the lease (the date on which the underlying assets is available for use) the Group recognises a right-of-use asset and a lease liability.

The cost of acquisition of a right-of-use assets included:

- the initial amount of the lease liability;
- any lease payments made as of or before the commencement date, minus any incentives received under the lease contract;
- lessee's initial direct costs;
- provisions for costs of decommissioning and shifting the asset.

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

The right-of-use assets are presented under the heading of Property, plant and equipment in the statement of financial position, and their depreciation – under the heading of Depreciation expenses in the statement of comprehensive income.

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

- fixed payments less leasing incentives to be paid;
- variable lease payments based on indices or rates;
- the price for exercising the purchase option if it is reasonably certain that the Group will exercise that option;
- payments of penalties for termination of the lease;
- residual value guarantees.

GRADUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. Significant accounting policies (continued)

(q) Leases (continued)

Lease payments are discounted at the interest rate set out in the contract if it can be directly determined or at the Group's differential interest rate reflecting the interest rate that would be applicable to borrowings having a similar term, similar collateral, and in a similar economic environment.

Lease payments comprise, in a certain proportion, of finance costs (interest) and the attributable portion of the lease liability (principal) so that to achieve a constant interest rate for the remaining unpaid portion of the principal of the lease liability.

Subsequent measurement

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

The Group subsequently measures the lease liability by:

- increasing the carrying amount to reflect the interest accrued;
- reducing the carrying amount to reflect the lease payments made;
- reassessing the carrying amount of the liabilities to reflect the revaluation or changes to the lease.

Reporting of revaluations and amendments to the lease contract

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

The lessee considers a change in the lease as a separate lease if:

- the amendment extends the scope of the lease by adding a new "right of use" to one or more additional underlying assets; and
- the lease fee is increased by an amount corresponding to the stand-alone price for the increase in scope and any adjustments reflecting the circumstances of the specific contract. Short-term lease payments and payments under contracts where the underlying asset is a low-value asset, as well as variable lease payments not included in the measurement of the lease liability, are recognised directly as current expenses in the statement of comprehensive income on a straight-line basis over the lease term.

(r) 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.

Finance costs include interest expenses on loans and expenses incurred as a result of an increase in the obligation due to approaching with one period the date set for implementation of provisions.

Borrowing costs that cannot be attributed directly to the acquisition, construction or production of an eligible asset are recognised through profit or loss using the effective interest rate method.

GRADUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. Significant accounting policies (continued)

(r) Income tax

Income tax for the year 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 from 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 Group takes into account the effect of uncertain tax items and whether additional taxes or interest might be due. The Group 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 Group 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.

(s) 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 Group'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 from forecasts in future when calculating expected credit losses.

Estimates when recognising revenue from contracts with customers

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

GRADUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. Significant accounting policies (continued)

(s) Key estimates and assumptions (continued)

Impairment of inventories

At the end of each financial year, the Group reviews the condition and usability of available inventories. When inventories are identified that are potentially unlikely to be realized at their current carrying amount in subsequent reporting periods, the entity impairs the inventories to net realizable value. Inventories in stock but expired are impaired 100%.

Useful life of fixed assets

The Group examines the estimated useful lives of Property, plant and equipment and Intangible assets at the end of each reporting period.

Lease contracts

The application of IFRS 16 requires the Group's management ~~to make judgments, estimates and~~ assumptions that have an impact on the reported intangible assets and lease liabilities. The main key considerations concern the determination of an appropriate discount rate and the determination of the lease term, including whether it is sufficiently certain that the options for extending / terminating the contract term will be exercised. Uncertainties regarding these assumptions and estimates may result in significant adjustments in the future to the carrying amount of the assets and liabilities concerned, and respectively, reported expenses and revenue.

Goodwill - It is tested for impairment annually and when circumstances indicate that its value may be overestimated. Impairment of goodwill is determined by measuring the recoverable amount of each cash-generating unit (or a group of cash-generating units) to which goodwill relates. When the recoverable amount of the cash-generating unit is less than its carrying amount, an impairment loss is recognised. Impairment losses associated with goodwill cannot be recovered in future periods.

Trademarks - At the end of each financial year, the Group reviews the impairment of trademarks. Where the recoverable amount of the trademark is less than its carrying amount, an impairment loss is recognised. Impairment losses associated with trademarks cannot be recovered in future periods.

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 each of the Group companies to generate sufficient tax profits to offset them against those profits.

(t) Subsidiaries

Subsidiaries and entities, including unincorporated partnerships, where the parent company holds, directly or indirectly, more than 50% of the votes in the General Meeting (share capital) and/or the right to appoint more than 50% of the Board of Directors of the entity, or by virtue of a written control agreement concluded between the shareholders it is able to exercise control over the entity's financial and operating policies (including by virtue of a control agreement concluded between the shareholders).

Subsidiaries are consolidated from the date that effective control is acquired by the Group and cease to consolidate from the date that control is deemed to have ceased and is transferred outside the Group. For their consolidation, the full consolidation method is applied.

(u) Consolidation principles

Consolidation of subsidiaries

In preparing consolidated financial statements, the financial statements of the parent and its subsidiaries are combined on a line-by-line basis by applying consistent accounting policies to all significant items. The parent company's investments are eliminated against the share in the equity of the subsidiaries at the date of acquisition. Intragroup transactions and balances and resulting unrealised profits are eliminated in full. Upon these eliminating consolidation entries, the deferred tax effect has been taken into account.

GRADUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. Significant accounting policies (continued)

(u) Consolidation principles (continued)

Business combinations

Business combinations are accounted for by the Group using the acquisition method at the date the Group acquires control. The cost of acquisition is measured as the aggregate of the assets transferred, measured at fair value, the liabilities assumed to the previous owners, and the amount of any interest in the Group's capital. The consideration transferred consists of the fair value of all assets or liabilities originating from arrangements to transfer contingent consideration. Identifiable net assets acquired and liabilities assumed are measured at the fair value at the date of acquisition. Acquisition costs are expensed when incurred.

Non-controlling interest

For each business combination, the Group chooses to measure the non-controlling interest in the acquiree on the basis of:

- fair value; or
- the proportion of identifiable net assets at the acquisition date, which is generally measured at fair value.

Changes in the Group's share of a subsidiary that do not result in a loss of control are recognised in equity. Changes in non-controlling interest are determined on the basis of the proportional share of the net asset of the subsidiary. Changes in goodwill or gains or income on acquisition are not made.

Acquisitions of companies under common control

Acquisition under common control is a transaction in which the participating companies or businesses are controlled by the same person or persons, both before and after the transaction. These transactions arise when there is a change of the direct owner of the subsidiaries but the ultimate controlling entity remains unchanged.

Where the consideration transferred is less than the fair value of the identifiable net assets acquired, the difference is recognised in equity as contributions from the shareholders of the acquirer. Where the consideration transferred exceeds the fair value of the identifiable net assets acquired, the difference is recognised as a reserve from transformation in the consolidated statement of financial position.

Provisional accounting for acquisitions

The Group applies provisional accounting for acquisitions on the assumption that accounting for the acquisition for some amounts may be incomplete. Adjustments made in accounting for the acquisition during the measurement period may affect the recognition and measurement of assets acquired and liabilities assumed, non-controlling interests, consideration transferred, all existing interests in the acquiree before acquisition, and goodwill arising or the amount of the bargain purchase gain recognised. During the assessment period, the acquirer retrospectively adjusts the amounts recognised at the acquisition date on a pro-rata basis that result from new information about facts and circumstances that existed at the acquisition date and, if known, the ones that have affected the amount recognised at that date. The measurement period ends when the acquirer obtains all the information necessary to record fully the acquisition or finds out that additional information is not available and may not exceed one year from the acquisition date. Adjustments made during the measurement period are recognised retrospectively, and comparative information is adjusted, i.e. as if the business combination had been recognised fully at the acquisition date.

GRADUS AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

3. Significant accounting policies (continued)

(v) New standards and interpretations

In the current year, the Group has adopted all new and modified IFRSs that are related to its activities and are in force for the reporting period beginning On January 1, 2021. The effects of these standards are presented below: New standards and amendments to existing standards issued by the IASB and adopted by the EU that have not yet entered into force and have not been implemented earlier:

The standards and amendments issued by the IASB and adopted by the EU, which have not yet entered into force and have not been applied earlier until the date of issue of the Group's financial statements, are listed below. The Group intends to adopt these standards and amendments when they enter into force.

IFRS 17 Insurance Contracts and Amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023)

IFRS 17 was issued in May 2017 and, together with amendments to IFRS 17 issued in June 2020, replaces IFRS 4. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard and its objective is to ensure that the Group provides appropriate information that fairly presents those contracts. The new standard addresses the issues with comparison created by IFRS 4 by requiring all insurance contracts to be accounted for at consistent manner. Insurance liabilities will be accounted for using current values instead of historical cost.

Amendments to IFRS 3, IAS 16, IAS 37 Conceptual Framework - (effective for annual periods beginning on or after 1 January 2022);

The amendment updates the standard to reference the 2018 Conceptual Framework for Financial Reporting to determine what constitutes an asset or liability in a business combination. In addition, an exception was added for certain types of liabilities and contingent liabilities acquired in a business combination. Finally, it is clarified that the acquirer does not have to recognize contingent assets, as defined in IAS 37, at the acquisition date.

Amendments to IAS 1 'Classification of liabilities as current or non-current' (effective for annual annual periods beginning on or after 1 January 2023);

The amendments clarify that liabilities are classified as current or non-current depending on rights that exist at the end of the reporting period. The classification is not affected by expectations of entity or events after the reporting date. The amendments also clarify what IAS 1 means when it refers to 'settling' a liability.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 1 January 2023);

Management does not expect the adoption of these amendments to have a material effect on the Group's financial statements.

New standards and amendments to existing standards issued by the IASB that have not yet been adopted by the EU

Currently, IFRSs adopted by the EU are not materially different from those adopted by the IASB, except for the following new standards, amendments to existing standards and new interpretations that are not yet endorsed by the EU at the date of approval of these financial statements (the effective dates indicated below are for full IFRSs):

Amendments to IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2023);

Management does not expect the adoption of these amendments to have a material effect on the Group's financial statements. The amendments have not yet been approved by the EU.

Amendments to IAS 12 Income Taxes: Deferred Tax Relating to Assets and Liabilities Arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023)

The amendments require entities to recognise deferred taxes on transactions that, on initial recognition, result in equal amounts of taxable and deductible temporary differences. This generally applies to transactions such as leases for the lessee and decommissioning obligations. The amendments have not yet been approved by the EU.

Amendments to IFRS 17 Insurance Contracts : Initial Application of IFRS 17 and IFRS 9 - Comparative Information (effective for annual periods beginning on 1 January 2023)

The amendment is a transition option related to comparative information for financial assets presented on initial application of IFRS 17. The amendment is intended to help entities avoid temporary accounting mismatches between financial assets and liabilities under insurance contracts and therefore improve the usefulness of comparative information for users of financial statements. The amendments have not yet been approved by the EU.

The Group does not expect the adoption of these new standards, amendments to existing standards and new

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interpretations to have a material effect on the Group's consolidated financial statements in the period of initial application.

4. Property, plant and equipment

<i>In BGN '000</i>	Land	Buildings	Plant and equipment	Facilities	Motor vehicles	Fixtures and fittings and other fixed assets	In the process of acquisition and construction	Total
Book value								
Balance at 01.01.2020	17 257	97 167	47 498	27 679	16 376	3 493	1 620	211 090
Additions	-	225	395	14	659	116	11 543	12 952
Transfer	24	2 191	3 535	2 060	120	242	(8 172)	-
Elimination of depreciation before revaluation	-	(3 592)	(12 403)	(1 194)	-	-	-	(17 189)
Revaluation	183	8 445	3 608	1 765	-	-	-	14 001
Transfer to investment property	-	-	-	-	-	-	(973)	(973)
Disposals	(33)	-	(70)	-	(1 756)	(9)	(10)	(1 878)
Balance at 31.12.2020	17 431	104 436	42 563	30 324	15 399	3 842	4 008	218 003
Additions	-	117	172	27	552	86	6 697	7 651
Transfer	-	2 493	3 844	842	92	64	(7 335)	-
Disposals	-	(363)	(731)	-	(658)	-	(45)	(1 797)
Balance at 31.12.2021	17 431	106 683	45 848	31 193	15 385	3 992	3 325	223 857
Depreciation								
Balance at 01.01.2020	-	(3 677)	(9 452)	(1 003)	(9 932)	(2 503)	-	(26 567)
Depreciation charge for the period	-	(1 508)	(3 830)	(364)	(1 137)	(280)	-	(7 119)
Elimination of depreciation before revaluation	-	3 592	12 403	1 194	-	-	-	17 189
Disposals	-	-	16	-	1 646	9	-	1 671
Balance at 31.12.2020	-	(1 593)	(863)	(173)	(9 423)	(2 774)	-	(14 826)
Depreciation charge for the period	-	(1 726)	(4 476)	(497)	(988)	(275)	-	(7 962)
Disposals	-	4	32	-	519	-	-	555
Balance at 31.12.2021	-	(3 315)	(5 307)	(670)	9 892	(3 049)	-	(22 233)
Net book value								
At 31 December 2020	17 431	102 843	41 700	30 151	5 976	1 068	4 008	203 177
At 31 December 2021	17 431	103 368	40 541	30 523	5 493	943	3 325	201 624

The Group has established a registered pledge over buildings, plant and equipment in connection with loan contracts (see Note 19).

It is a policy of the Group to measure subsequently the items of Property, plant and equipment under the revaluation model of IAS 16 „Property, plant and equipment“. To asset the value of its assets, in 2020 the Group engaged the services of an external expert – Intellect – Diamandiev & Co. The table below describes the valuation techniques used to determine the fair value of the individual groups of property, plant and equipment for 2020, as well as the inputs used:

<i>Group of assets</i>	<i>Level</i>	<i>Valuation methods and techniques</i>	<i>Significant non-observable inputs and quantitative parameters</i>
<i>Land</i>	2	Cost approach. Valuation technique:	
<i>Buildings</i>	3	Cost-effective method for developing or replacing an asset - amortized recoverable cost method - based on the combined application of the following techniques:	* Price inflation index depending on the period between the moment of commissioning the asset and the current moment of valuation
<i>Plant and equipment</i>	3	- The value of the sites as new with correction for obsolescence and wear and tear to reflect their physical condition, functionality and economic usefulness. - The value of the land is assessed on the basis of information on actually concluded transactions.	* Index of market prices of production - warehousing and service facilities * Weight ratio between the techniques applied individually to each asset, according to the assessment of the reliability of the comparative data used and the asset's specifics * Adjusted prices for construction of identical sites and delivery prices of analogues

4. Property, plant and equipment (continued)

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Further details about the right-of-use assets, disclosed in Note *Property, plant and equipment*, are presented in the following table:

<i>In BGN'000</i>	Net book value as at 01.01.2020	Additions during 2020	Depreciation charge for 2020	Net book value as at 31 December 2020
Land and buildings	182	-	(48)	134
Motor vehicles	64	116	(76)	104
Total	246	116	(124)	238
<i>In BGN'000</i>	Net book value as at 01.01.2021	Additions during 2021	Depreciation charge for 2021	Net book value as at 31 December 2021
Land and buildings	134	117	(92)	159
Motor vehicles	104	-	(75)	29
Total	238	117	(167)	188

The Group has reported the right-of-use assets under the same heading in which they would have been reported if they were its own assets.

5. Intangible assets

Intangible assets comprise trademarks, software, certificates, permits, etc.

<i>In BGN'000</i>	Trademarks	Software	Leasehold improvements	Licenses and others	Total
Book value					
Balance at 01 January 2020	53 273	66	783	516	54 638
Additions	-	95	-	323	418
Disposals	-	-	-	(249)	(249)
Balance at 31 December 2020	53 273	161	783	590	54 807
Additions	-	248	-	79	327
Disposals	-	300	-	(300)	-
Balance at 31 December 2021	53 273	709	783	369	55 134
Amortization					
Balance at 01 January 2020	-	(58)	(322)	(247)	(627)
Amortisation charge for the year	-	(21)	(117)	(22)	(160)
Balance at 31 December 2020	-	(79)	(439)	(269)	(787)
Amortisation charge for the year	-	(93)	(111)	(6)	(210)
Balance at 31 December 2021	-	(172)	(550)	(275)	(997)
Net book value					
At 31 December 2020	53 273	82	344	321	54 020
At 31 December 2021	53 273	537	233	94	54 137

On the establishment of Gradus AD and the contribution in kind of shares of Gradus-1 EOOD, identifiable intangible assets Trademarks with an unlimited useful life are recognised. They were initially recognised at fair value as determined by an independent licensed appraiser's report. The fair value of trademarks is not different from their carrying amount. The trademarks capitalised as a result of the business combinations are: "GRADUS" and "I EAT".

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The Group's management conducted an analysis and assessment whether there were any indications of impairment of trademarks. The calculations were made by management in cooperation with independent licensed valuers. Estimates for expected cash flows were used in their calculations, based on financial budgets covering a five-year period. The discount rate used (based on WACC) was 4.78%. As a result of the calculations made in 2021, no need to recognise an impairment of trademarks was established (2020: BGN 0).

6. Goodwill

The acquisition of Gradus-1 EOOD, Zhyuliv EOOD, Lora-2004 EOOD, Millennium 2000 EOOD and Gradus-98 AD was made at the establishment of the capital of Gradus AD through in-kind contributions representing 100% of the share capital of Gradus-1 EOOD, Lora- 2004 EOOD and Millennium 2000 EOOD, and 99.94% of the capital of Gradus-98 AD, which have been evaluated by a licensed appraiser at the date of the transaction. The valuation method used is the asset's net value. Gradus AD was registered with the Commercial Register on 28 November 2017.

Goodwill arises when the parent company acquires control. It is defined as the excess of the consideration transferred at fair value and the non-controlling interest in the acquired entity over the fair value of the identifiable net assets therein as at the date of the acquisition. As of 31 December 2021, the goodwill amounted to BGN 20,656 thousand (2020: BGN 20,656 thousand).

Goodwill is tested for impairment annually and when circumstances indicate that its value may be overestimated. Impairment of goodwill is determined by measuring the recoverable amount of each cash-generating unit (or group of cash-generating units) to which that goodwill relates. When the recoverable amount of the cash-generating unit is lower than its carrying amount, an impairment loss is recognised. Impairment losses associated with goodwill cannot be recovered in future periods. The key assumptions used in the recoverable amount calculations as at 31.12.2021 are:

- Discount rate (wacc based) – from 4.00% to 5.06%
- Interest rate (debt price) – 1.15%

6. Goodwill (continued)

Gradus AD Group	Gradus-1	Zhyuliv	Lora-2004	Millennium 2000	Gradus-98	Total
Remuneration transferred	149 760	16 200	11 100	35 700	52 200	264 960
Non-controlling interest	1 514	-	-	-	31	1 545
Fair value of net assets	(140 739)	(16 103)	(10 143)	(31 630)	(47 234)	(245 849)
Goodwill	10 535	97	957	4 070	4 997	20 656

Gradus-1 EOOD Sub-Group	Gradus-1	Gradus-3	Total
Remuneration transferred	113 836	35 924	149 760
Non-controlling interest	-	1 514	1 514
Fair value of net assets	(102 901)	(37 838)	(140 739)
Goodwill	10 935	(400)	10 535

Gradus-1 EOOD holds 96% of the capital of Gradus-3 AD, the same percentage is held by Gradus AD.

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7. Group structure

		Effective participation of the parent company at 31.12.2021	Effective participation of the parent company at 31.12.2020
Gradus AD	Parent company	-	-
Gradus-1 EOOD (Note 6)	Subsidiary of Gradus AD	100%	100%
Zhyuliv EOOD (Note 6)	Subsidiary of Gradus AD	100%	100%
Lora-2004 EOOD (Note 6)	Subsidiary of Gradus AD	100%	100%
Millennium 2000 EOOD (Note 6)	Subsidiary of Gradus AD	100%	100%
Gradus-98 AD (Note 6)	Subsidiary of Gradus AD	99,94%	99,94%
Gradus-3 AD (Note 6)	Subsidiary of Gradus-1 EOOD	96%	96%
Gold Farm 91 EOOD (бел.15)	Subsidiary of Gradus AD	100%	100%
Gradus Logistics EOOD	Subsidiary of Gradus AD	100%	100%

8. Non-controlling interest

<i>In BGN'000</i>	Non-controlling interest, %	Balance at 31.12.2020	Result for the year	Balance at 31.12.2021
Gradus-3 AD	4%	1 858	(72)	1 786
Gradus-98 AD	0,066%	29	3	32
		1 887	(69)	1 818

	Non-controlling interest, %	Balance at 31.12.2019	Result for the year	Balance at 31.12.2020
Gradus-3 AD	4%	1 737	121	1 858
Gradus-98 AD	0,066%	28	1	29
		1 765	122	1 887

9. Investment property

<i>In BGN'000</i>	Land and buildings	Total
Balance at 01.01.2020	7 777	7 777
Revaluation of investment property	139	139
Transfers from Property, plant and equipment	973	973
Balance at 31.12.2020	8 889	8 889
Revaluation of investment property	51	51
Balance at 31 December 2020	8 940	8 940

Investment property comprises land and buildings leased out. The Group hires an external expert - "Intellect - Diamandiev & Co.", which assesses the Investment property as of 31 december 2021 year.. The revaluation of the investment property is recurring (annual) and is due to the application of the fair value model under IAS 40. It is performed regularly at the date of each annual financial statement.

The table below provides a description of the valuation techniques used to determine the fair value of the individual investment property groups for 2021, as well as the inputs used:

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<i>Group of assets</i>	<i>Level</i>	<i>Valuation methods and techniques</i>	<i>Significant non-observable inputs and quantitative parameters</i>
<i>Land</i>	2	Cost approach. Valuation technique:	* Price inflation index depending on the period between the moment of commissioning the asset and the current moment of valuation
<i>Buildings</i>	3	Cost-effective method for developing or replacing an asset - amortized recoverable cost method - based on the combined application of the following techniques: - The value of the sites as new with correction for obsolescence and wear and tear to reflect their physical condition, functionality and economic usefulness. - The value of the land is assessed on the basis of information on actually concluded transactions.	* Index of market prices of production - warehousing and service facilities * Weight ratio between the techniques applied individually to each asset, according to the assessment of the reliability of the comparative data used and the asset's specifics * Adjusted prices for construction of identical sites and delivery prices of analogues

10.1 Inventories

<i>In BGN'000</i>	31 December 2021	31 December 2020
Main materials	22 747	28 084
Products	6 081	7 382
Goods	932	2 733
Work in progress	1 479	523
Total	31 239	38 722

10.2 Biological assets

<i>In BGN'000</i>	31 December 2021	31 December 2020
<i>Biological assets carriers, incl.:</i>		
Immature biological assets - growing roosters and hens	5 940	4 319
Mature biological assets - roosters and hens	2 828	2 882
Total biological assets carriers	8 768	7 201
<i>Biological assets for consumption, incl.:</i>		
Immature biological assets - growing chickens	2 428	1 634
Total biological assets for consumption	2 428	1 634
Total:	11 196	8 835

11. Trade receivables

<i>In BGN'000</i>	31 December 2021	31 December 2020
Trade receivables from counterparties, gross	8 460	8 772
Expected credit losses	(1 671)	(1 434)
Trade receivables from counterparties, net	6 789	7 338
Advances to suppliers	1 391	2 062
Total	8 180	9 400

Trade receivables are current, interest-free, denominated in Bulgarian leva and relate to the sale of goods, products and services.

The Group applied the simplified approach of IFRS 9 to measure the expected credit losses on trade receivables by recognising lifetime expected losses over the expected life of the financial instrument for all trade receivables.

The Group has established a registered pledge of receivables in connection with loan contracts. (See Note 19).

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12. Loans granted

	Maturity	Collateral	Interest rate	31 December 2021	31 December 2020
<i>In BGN'000</i>					
Company B	31.12.2022	No	2%-2.5%	774	823
Company E	31.12.2022	No	2.5%	447	445
Total				1 221	1 268

13. Other current receivables and prepayments

	31 December 2021	31 December 2020
<i>In BGN'000</i>		
Taxes refundable	2 036	3 270
Court and awarded receivables	686	817
Prepayments	265	295
Other receivables	557	264
Total	3 544	4 646

14. Cash and cash equivalents

	31 December 2021	31 December 2020
<i>In BGN'000</i>		
Cash on hand	249	453
Cash in current accounts	10 550	4 054
Cash equivalents	2	-
Total	10 801	4 507

The Group assesses expected credit losses on cash and cash equivalents as immaterial and therefore, no expected credit loss on cash and cash equivalents was accrued.

15. Equity

Share capital	Number of voting shares	Amount, BGN'000
As at 31 December 2019	243 608 710	243 609
As at 31 December 2020	243 608 710	243 609
As at 31 December 2021	243 608 710	243 609

	Number of voting shares	Shareholding, %
Shareholders of GRADUS AD as at 31 December 2021:		
Luka Agnelov Agnelov	99 316 945	40,77
Ivan Agnelov Agnelov	50 373 165	20,68
Angel Ivanov Angelov	50 372 417	20,67
Legal entities	38 485 425	15,80
Individual shareholders	5 060 758	2,08
Total:	243 608 710	100,00

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15. Equity (continued)

Shareholders of GRADUS AD as at 31 December 2020:

	Number of voting shares	Shareholding, %
Luka Agnelov Agnelov	99 195 645	40,72
Ivan Agnelov Agnelov	50 312 465	20,65
Angel Ivanov Angelov	50 312 465	20,65
Legal entities	38 485 617	15,80
Individual shareholders	5 302 518	2,18
Total:	243 608 710	100,00

Equity

	31 December 2021	31 December 2020
<i>In BGN'000</i>		
Share capital	243 609	243 609
Issue premium	44 200	44 200
Issue premium from the issue of securities	18 087	18 087
Reserve from transformation	(247)	(247)
Revaluation reserve	13 039	13 074
Reserve from actuarial revaluations	(229)	(170)
Accumulated profit	9 597	3 572
Capital relating to the owners of the parent company	328 056	322 125
Non-controlling interest	1 818	1 887
Total equity	329 874	324 012

Transaction under joint control

In BGN'000

	Gold Farm 91 EOOD
Remuneration transferred	(4 052)
Fair value of net assets	3 805
Reserve from transformation	(247)

On 27 December 2019, the Group acquired Gold Farm 91 EOOD. The acquisition is treated as a transaction under joint control with the effect thereof being reported under the heading of „Reserve from transformation“ (See Note 7).

Earnings per share

Earnings per share are calculated by dividing the net profit attributable to shareholders with the average weighted number of ordinary shares circulating throughout the year.

	2021	2020
Net profit in BGN'000	17 894	10 530
Average weighted number of ordinary shares	243 608 710	243 608 710
Earnings per share in BGN	0.07	0.04

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16. Deferred tax assets and liabilities

Deferred tax assets and liabilities recognised

Deferred tax assets and liabilities recognised originate from the following:

	Assets		Liabilities		Net	
<i>In BGN'000</i>	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Property, plant and equipment	-	-	(12 926)	(13 015)	(12 926)	(13 015)
Intangible assets	-	-	(5 327)	(5 327)	(5 327)	(5 327)
Investment property	-	-	(634)	(604)	(634)	(604)
Tax loss	646	237	-	-	646	237
Trade receivables and loans granted	405	353	-	-	405	353
Employee benefits	59	15	-	-	59	15
Long-term retirement benefits	47	41	-	-	47	41
Inventories and biological assets	996	1 011	-	-	996	1 011
Compensated leaves	67	42	-	-	67	42
	2 220	1 699	(18 887)	(18 946)	(16 667)	(17 247)

Movements in temporary differences in 2021

In BGN'000

	Balance 31.12.2020	Profits and losses	Other comprehen sive income	Balance 31.12.2021
Property, plant and equipment	(13 015)	60	29	(12 926)
Intangible assets	(5 327)	-	-	(5 327)
Investment property	(604)	(30)	-	(634)
Inventories and biological assets	1 011	(15)	-	996
Tax loss	237	409	-	646
Trade receivables and loans granted	353	52	-	405
Employee benefits	15	44	-	59
Long-term retirement benefits	41	4	2	47
Compensated leaves	42	25	-	67
Total:	(17 247)	549	31	(16 667)

Movements in temporary differences in 2020

In BGN'000

	Balance 31.12.2019	Profits and losses	Other comprehen sive income	Balance 31.12.2020
Property, plant and equipment	(10 563)	(858)	(1 594)	(13 015)
Intangible assets	(5 327)	-	-	(5 327)
Investment property	(471)	(133)	-	(604)
Inventories and biological assets	1 061	(50)	-	1 011
Tax loss	94	143	-	237
Trade receivables and loans granted	333	20	-	353
Employee benefits	13	3	(1)	15
Long-term retirement benefits	42	-	(1)	41
Compensated leaves	39	3	-	42
Total:	(14 779)	(872)	(1 596)	(17 247)

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17. Long-term payables to personnel

Long-term payables to personnel comprise the Group's obligation to pay termination benefits to those employees who retire as of 31 December 2021 and 31 December 2020. Pursuant to the Labour Code provisions, every employee is entitled to compensation amounting to two months' gross salaries upon retirement. If he/she has been with the same employer for the past 10 years or more, this employee is entitled to a compensation amounting to six months' gross salaries. At the time of retirement.

To determine these liabilities, the Group companies made an actuarial valuation as of 31 December 2021 and 31 December 2020 by employing the services of an accredited actuary.

The change in the present value of payables to employees upon retirement is as follows:

<i>In BGN'000</i>	2021	2020
Present value of the obligation on 31 December	372	398
Current service costs	70	68
Past service cost - Contingent income	10	-
Interest expense	-	1
Payments during the period	(63)	(92)
Effects from subsequent valuation for the year	64	(3)
Present value of the obligation on 31 December	453	372

In assessing the present value of the obligations as at 31 December, the following actuarial assumptions were made:

- a rate based on the annual interest rate in the range from 0.20 percent to 0.34 percent was used to determine the discount factor;
- the assumption for the future level of salaries is based on a range from 1 to 5 percent increase compared to the previous year level;
- mortality – according to the table of the NSI for the total mortality of the Bulgarian population during the period 2018 – 2020;
- other assumptions – the retirement entitlement legislation will not be subject to amendments.

18. Deferred income from financing

<i>In BGN'000</i>	31 December 2021	31 December 2020
Gradus - 1 EOOD	901	1 057
Millennium 2000 EOOD	-	76
Lora 2004 EOOD	906	1 010
Total long-term portion of financing for FTAs	1 807	2 143
Gradus - 1 EOOD	156	156
Millennium 2000 EOOD	76	74
Lora 2004 EOOD	103	103
Total short-term portion of financing for FTAs (Note 23)	335	333
Total	2 142	2 476

The financing obtained is from the State Fund Agriculture and relate to the acquisition of fixed tangible assets.

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19. Bank loans

Bank	Currency	Interest rate %	Maturity	2020		2019	
				Liability BGN'000	Approved limit BGN'000	Liability BGN'000	Approved limit BGN'000
"Bank 1" - borrower Gradus-1 EOOD							
Loan 1	BGN	WADI+0.6%	30.09.2022	-	12 000	1 566	12 000
Loan 2	BGN	WADI+0.6%	30.09.2022	-	2 800	-	2 800
Loan 3	BGN	WADI+0.6%	30.09.2022	-	15 000	6 167	15 000
"Bank 1" - borrower Gradus-3 AD							
Loan 1	BGN	WADI+0.6%	30.09.2022	-	12 000	-	12 000
Loan 2	BGN	WADI+0.6%	30.09.2022	-	2 800	-	2 800
Loan 3	BGN	WADI+0.6%	30.09.2022	-	15 000	-	15 000
"Bank 2" - borrower Gradus-3 AD							
Loan 1	BGN	ПЛИИ+0.7%	20.08.2022	-	10 000	3 100	10 000
Total:				-		10 833	

The bank loans are secured by Group's assets, as follows:

In BGN'000

	31 December 2021	31 December 2020
Fixed assets	33 322	52 864
Receivables	1 736	1 965
Total	<u>35 058</u>	<u>54 829</u>

20. Trade payables

In BGN'000

	31 December 2021	31 December 2020
Payables to suppliers	5 569	4 526
Payables under contracts with customers	360	173
Total	<u>5 929</u>	<u>4 699</u>

21. Tax liabilities

In BGN'000

	31 December 2021	31 December 2020
VAT payable	728	405
Corporate income tax	412	4
Individuals' income tax	411	388
Other taxes	31	33
Total	<u>1 582</u>	<u>830</u>

22. Payables to personnel and social security

In BGN'000

	31 December 2021	31 December 2020
Payables to personnel	2 334	1 770
Payables to social security	668	620
Payables on unused paid leave	454	60
Total	<u>3 456</u>	<u>2 450</u>

23. Other current liabilities

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<i>In BGN'000</i>	31 December 2021	31 December 2020
Liability under a contract for the supply of FTAs	383	383
Short-term portion of financing of FTAs	335	333
Insurance liabilities	27	42
Pledge	11	13
Dividends payable to individuals	6	7
Other liabilities	115	37
Total	877	815

24. Revenue

<i>In BGN'000</i>	2021	2020
Sale of products	137 773	115 888
Sale of good	17 990	23 220
Sale of services	811	806
Total	156 574	139 914

Revenue comprises:

<i>In BGN'000</i>	2020	2019
Goods and products transferred at a point in time	155 763	139 108
Services transferred over time	811	806
Total:	156 574	139 914

25. Other operating income

<i>In BGN'000</i>	2021	2020
Income from financing	13 014	11 788
Rental income	787	925
Surpluses of inventories	165	409
Sale of materials and FTAs, net	291	348
Income from indemnities	-	266
Gain on revaluation of investment property	51	139
Liabilities derecognized	51	29
Other income	273	226
Total	14 632	14 130

26. Own costs capitalised

<i>In BGN'000</i>	2021	2020
Costs of materials	347	1 099
Costs of personnel	380	555
Other expenses	10	72
Total	737	1 726

27. Expenses on materials

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<i>In BGN'000</i>	2021	2020
Raw materials	76 458	66 005
Electricity	6 894	4 298
Fuel and lubricants	2 225	1 843
Expenses on repair and spare parts	2 724	1 801
Heating materials	1 448	994
Natural gas	2 037	913
Water and steam	391	413
Other expenses	1 223	1 034
Total	93 400	77 301

28. Hired service expenses

<i>In BGN'000</i>	2021	2020
Marketing and advertising	1 655	1 590
Transport services	1 122	956
Repair and maintenance	875	607
Forwarding services and commissions	861	690
Taxes and charges	790	761
Veterinary services and researches	430	439
Security	387	365
Consulting services	347	80
Insurances	344	374
Commissions	305	-
Subscription fees	135	185
Audit fees	104	100
Incinerator	95	259
Legal services	90	14
Rentals	74	78
Translation / interpretation services	16	8
Storage of inventories	-	86
Other expenses	1 232	1 660
Total	8 862	8 252

29. Personnel expenses

<i>In BGN'000</i>	2021	2020
Salaries and wages	25 114	23 681
Social security expenses	4 139	4 062
Social benefits expenses	921	946
Other expenses	67	(8)
Total	30 241	28 681

30. Impairment expenses

<i>In BGN'000</i>	2022	2021
Impairment of biological assets	14 097	12 662
Write off of receivables	486	174
Total	14 583	12 836

31. Other expenses

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<i>In BGN'000</i>	2021	2020
Scrap of inventories	2 429	2 037
Receivables written off	474	19
Entertainment expenses	226	177
Unrecognized taxes	89	80
Scrap of FTAs	85	43
Shortage of assets	55	119
Natural wastage	28	16
Donations	25	46
Penalty under a contract	14	-
Business trip expenses	12	18
Social expenses	-	1
Other expenses	85	175
Total	3 522	2 731

32. Finance income and finance costs

<i>In BGN'000</i>	2021	2020
Interest income	180	154
Income from foreign currency transactions	125	-
Total finance income	305	154
Interest expenses on bank loans	(11)	(77)
Bank charges and commissions	(74)	(92)
Interest expenses on lease contracts	(3)	(4)
FX expenses	-	(591)
Others	(70)	(4)
Total finance costs	(158)	(768)
Total finance income/finance costs, net	147	(614)

33. Tax expenses

	2021	2020
Current income tax expense – 10% (2019: 10%)	(2 431)	(1 094)
Deferred income taxes relating to:		
Origination and reversal of temporary differences	549	(872)
Total income tax expense	(1 882)	(1 966)

Reconciliation of income tax expenses determined compared to the accounting result

	2021	2020
Accounting profit for the year	19 776	12 496
Income taxes – 10% (2019 :10%)	(1 978)	(1 250)
Non-deductible expenses	96	(716)
Total income tax expense	(1 882)	(1 966)

34. Segment reporting

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The Group identifies three main operating segments:

- Meat and meat products
- Breeding eggs
- Trade in grain and components

Segment assets as at 31.12.2021 include:

	Meat and meat products	Breeding eggs	Trade in grain and components	Total:
Non-current assets				
Property, plant and equipment	182 233	5 058	14 333	201 624
Intangible assets	54 137	-	-	54 137
Goodwill	20 559	97	-	20 656
Segment assets	256 929	5 155	14 333	276 417
Retained earnings	-	-	-	8 941
Total non-current assets				285 358
Current assets				
Inventories	10 893	2 222	18 124	31 239
Biological assets	2 428	8 768	-	11 196
Related party receivables	6 286	1 342	1 721	9 349
Trade receivables	5 606	1 060	1 514	8 180
Cash	1 721	1 062	277	3 060
Segment assets	26 934	14 454	21 636	63 024
Unallocated assets	-	-	-	12 506
Total current assets				75 530

Segment liabilities as at 31.12.2021 include:

	Meat and meat products	Breeding eggs	Trade in grain and components	Total:
Non-current liabilities				
Long-term payables to personnel	209	156	88	453
Segment liabilities	209	156	88	453
Unallocated liabilities	-	-	-	18 524
Total non-current liabilities				18 977
Current liabilities				
Payables to related parties	12	-	51	63
Trade payables	5 261	-	308	5 569
Payables to personnel and social security	3 040	230	186	3 456
Segment liabilities	8 313	230	545	9 088
Unallocated liabilities	-	-	-	2 949
Total current liabilities				12 037

34. Segment reporting (continued)

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Segment income, expenses and results for 2021 include:

	Meat and meat products	Breeding eggs	Trade in grain and components	Total:
	2021	2021	2021	2021
Revenue	71 367	65 072	19 309	155 748
Other operating income, net	13 014	-	-	13 014
Changes in stock of finished products	634	1 668	52	2 354
Changes in biological assets	18 079	-	-	18 079
Capitalised own costs	737	-	-	737
Segment costs	(98 255)	(53 834)	(17 393)	(169 482)
Result of the segment:	5 576	12 906	1 968	20 450
Unallocated revenue				826
Unallocated other income				1 618
Unallocated costs				(3 265)
Finance costs, net				147
Profit before tax				19 776
Income tax expense				(1 882)
Net profit for the year				17 894

Segment assets as at 31.12.2020 include:

	Meat and meat products	Breeding eggs	Trade in grain and components	Total:
Non-current assets				
Property, plant and equipment	183 011	5 276	14 890	203 177
Intangible assets	54 020	-	-	54 020
Goodwill	20 559	97	-	20 656
Segment assets	257 590	5 373	14 890	277 853
Retained earnings	-	-	-	8 890
Total non-current assets				286 743
Current assets				
Inventories	11 273	3 347	23 579	38 199
Biological assets	1 634	7 201	-	8 835
Related party receivables	1 385	277	882	2 544
Trade receivables	5 135	1 256	3 009	9 400
Cash	2 396	860	231	3 487
Segment assets	21 823	12 941	27 701	62 465
Unallocated assets	-	-	-	14 517
Total current assets				76 982

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Segment liabilities as at 31.12.2020 include:

	Meat and meat products	Breeding eggs	Trade in grain and components	Total:
Non-current liabilities				
Long-term payables to personnel	181	118	73	372
Segment liabilities	181	118	73	372
Unallocated liabilities	-	-	-	19 495
Total non-current liabilities				19 867
Current liabilities				
Bank loans	7 733	-	3 100	10 833
Payables to related parties	11	-	75	86
Trade payables	4 135	16	372	4 523
Payables to personnel and social security	2 067	190	155	2 412
Segment liabilities	13 946	206	3 702	17 854
Unallocated liabilities	-	-	-	1 992
Total current liabilities				19 846

Segment income, expenses and results for 2020 include:

	Meat and meat products 2019	Breeding eggs 2019	Trade in grain and components 2019	Total:
Revenue	66 378	48 343	24 362	139 083
Other operating income, net	11 788	-	-	11 788
Changes in stock of products	916	(214)	(10)	692
Biological assets	14 159	-	-	14 159
Capitalised own costs	1 726	-	-	1 726
Segment costs	(90 247)	(43 054)	(20 151)	(153 452)
Result of the segment:	4 720	5 075	4 201	13 996
Unallocated revenue				831
Unallocated other income				2 342
Unallocated costs				(4 059)
Finance costs, net				(614)
Profit before tax				12 496
Income tax expense				(1 966)
Net profit for the year				10 530

35. Cash flows from financing activity

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In BGN'000	01/01/2021	Cash received	Cash paid	Interest and bank charges accrued	Interest and charges	Others	31/12/2021
Lease contracts	238	-	(166)	3	(3)	108	180
Bank loans	10 833	2 697	(13 544)	74	(51)	(9)	-
Dividend payable	-	-	(11 447)	-	-	11 447	-
Total	11 071	2 697	(25 157)	77	(54)	11 546	180

In BGN'000	01/01/2020	Cash received	Cash paid	Interest and bank charges accrued	Interest and charges	Others	31/12/2020
Lease contracts	247	-	(113)	4	(4)	104	238
Bank loans	16 008	27 316	(32 506)	169	(177)	23	10 833
Dividend payable	-	-	(10 306)	-	-	10 306	-
Total	16 255	27 316	(42 925)	173	(181)	10 433	11 071

36. Financial instruments
Categories of financial instruments

Financial assets at amortised cost <i>In BGN'000</i>	31.12.2021	31.12.2020
Trade receivables	6 789	7 338
Related party receivables	9 349	9 604
Loans to related parties	1 221	1 268
Cash and cash equivalents	10 550	4 054
Total	27 909	22 264

Financial liabilities at amortised cost <i>In BGN'000</i>	31.12.2021	31.12.2020
Bank loans	-	10 833
Payables to related parties	63	86
Lease liabilities	180	238
Trade payables	5 569	4 526
Total	5 812	15 683

In the course of its ordinary activity the Group 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 Group.

36. Financial instruments (continued)

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Financial risks are identified, measured and monitored currently, using different control mechanisms, in order to determine adequate prices of the group's goods and services, and of its borrowings, as well as to assess adequately the market circumstances of its investments and the forms of maintenance of free liquidity without permitting unjustified concentration of a particular risk.

Risks faced by the Group are managed on an ongoing basis in accordance with a policy elaborated by management. Management 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, have been developed.

Credit risk

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

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

Trade receivables

The Group has segmented trade receivables into different groups. A collection analysis has been carried out for each type of financial asset classified in different ranges of the aging analysis. The provisioning rates applied are based on the days of past due determined as a result of the aging analysis. These percentages have been determined initially using historical data observed by the Group for a period of 2 years.

The Group has analysed the effects on calculated default rates based on historical data of forecast information for certain macroeconomic parameters, such as GDP and unemployment rate. Management has made an analysis of the future information on these parameters and has determined that the effects are negligible and therefore, the historical loss rates have not been corrected for 2018.

The expected credit losses are calculated on each reporting date.

Monetary, including payment transactions are limited to banks with good reputation and stability from the position of liquidity. Moreover, the Group has a policy to limit its exposure to a separate bank.

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

The age structure of trade receivable before impairment is as follows:

<i>In BGN'000</i>	31.12.2021	31.12.2020
Current	3 927	2 963
Within 90 days	1 520	2 356
From 90 to 365 days	813	750
Over 365 days	2 200	2 703
Total trade receivables, gross	8 460	8 772
Expected credit loss	(1 671)	(1 434)
Total trade receivables, net	6 789	7 338

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36. Financial instruments (continued)

31 December 2021 BGN'000	Current	Past due from 1 to 90 days	Past due from 90 to 365 days	Over 365 days	Total
Expected percentage of credit losses	0.10%	4%	10%	70%	
Trade receivables, gross	3 927	1 520	813	2 200	8 460
Expected credit loss as at 31 December 2021	4	57	81	1 529	1 671

31 December 2020 BGN'000	Current	Past due from 1 to 90 days	Past due from 90 to 365 days	Over 365 days	Total
Expected percentage of credit losses	0.10%	4%	10%	47%	
Trade receivables, gross	2 963	2 356	750	2 703	8 772
Expected credit loss as at 31 December 2019	3	94	75	1 262	1 434

Loans and financial guarantees granted

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

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

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

The Group 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.

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36. Financial instruments (continued)

Calculation of expected credit losses

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

- PD the probability of that the borrower would fail to perform its financial obligation either in the next 12 months or for the entire lifetime of the financial asset;
- EAD is the amount due by the Group at the time of default;
- LGD is the expectation of the Group 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 Group'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).

Analysis of the expected losses on loans granted as at 31 December 2021:

	Loan granted as at 31.12.2021	Interest rate	Probability of default in %	Loss given default	Expected credit losses	Discounted credit loss	Loan granted, net
In BGN'000							
Company B	781	2%-2,50%	1,00%	781	1%	7	774
Company E	451	2,50%	1,00%	451	1%	4	447
Total loans to non-related parties (note 12)							1 221
Farmpro OOD	3 221	2-2,5%	1,00%	3 221	1%	31	3 190
Energy-2 OOD	1 258	2,50%	1,00%	1 258	1%	13	1 245
M.O. Stara Zagora OOD	2 344	2,50%+3m Euribor	47,40%	2 344	47,40%	1 111	1 233
Mirena OOD	38	2,00%	1,00%	38	1%	-	38
Agro Invest- 7 OOD	297	2,50%	1,00%	297	1%	3	294
Total loans to related parties (note 37)							6 000
Total	8 390			8 390		1 169	7 221

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36. Financial instruments (continued)

Analysis of the expected losses on loans granted as at 31 December 2020:

	Loan granted as at 31.12.2020	Interest rate	Probability of default in %	Loss given default	Expected credit losses	Discounted credit loss	Loan granted, net
In BGN'000							
Company B	832	2%-2,50%	1,00%	832	1%	9	823
Company E	449	2,00%	1,00%	449	1%	4	445
Total loans to non-related parties (note 12)							1 268
Farmpro OOD	3 994	2-2,5%	1,00%	3 994	1%	39	3 955
Energy-2 OOD	1 563	2,50%	1,00%	1 563	1%	15	1 548
M.O. Stara Zagora OOD	2 311	2,50%+3m Euribor	47,38%	2 311	47.38%	1 095	1 216
Mirena OOD	54	2,00%	1,00%	54	1%	1	53
Agro Invest- 7 OOD	290	2,50%	1,00%	290	1%	3	287
Total loans to related parties (note 37)							7 059
Total	9 493			9 493		1 166	8 327

Currency risk

Exposure to currency risk

Sometimes, the Group companies undertake transactions denominated in foreign currencies. The Group is exposed to currency risk relating to possible fluctuations in exchange rates of foreign currencies. Currently, such risk originates from fluctuations in the USD exchange rate upon trading in agricultural produce.

Liquidity risk

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

The following table contains the financial liabilities' contractual maturities, including estimated interest payments, but excluding the effect of netting arrangements:

31 December 2021

	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
In BGN'000							
Payables to related parties	180	181	69	62	50	-	-
Lease liabilities	63	63	63	-	-	-	-
Trade payables	5 569	5 569	5 569	-	-	-	-
Total	5 812	5 813	5 701	62	50	-	-

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36. Financial instruments (continued)

31 December 2020

<i>In BGN'000</i>	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Bank loans	10 833	10 833	-	10 833	-	-	-
Payables to related parties	238	239	70	64	61	44	-
Lease liabilities	86	86	86	-	-	-	-
Trade payables	4 526	4 526	4 526	-	-	-	-
Total	15 683	15 684	4 682	10 897	61	44	-

Interest rate risk

Generally, the Group has no significant interest-bearing assets. Therefore, revenue and operating cash flows are to a large extent independent from changes in market interest rates. At the same time, the Group is exposed to interest rate risk originating from its bank loans. Usually, they bear variable interest rates, which exposes its cash flows to interest rate risk.

<i>In BGN'000</i>	Interest-bearing		Interest-free	Total
	<i>Fixed interest rate</i>	<i>Variable interest rate</i>		
	%	%		
31 December 2020				
Related party receivables	4 767	1 233	3 349	9 349
Trade receivables	-	-	6 789	6 789
Loans granted	1 221	-	-	1 221
Cash and cash equivalents	-	10 550	-	10 550
Total financial assets	5 988	11 783	10 138	27 909
Lease liabilities	180	-	-	180
Trade payables	-	-	5 569	5 569
Payables to related parties	-	-	63	63
Total financial liabilities	180	-	5 632	5 812

<i>In BGN'000</i>	Interest-bearing		Interest-free	Total
	<i>Fixed interest rate</i>	<i>Variable interest rate</i>		
	%	%		
31 December 2020				
Related party receivables	5 843	1 216	2 545	9 604
Trade receivables	-	-	7 338	7 338
Loans granted	1 268	-	-	1 268
Cash and cash equivalents	-	4 054	-	4 054
Total financial assets	7 111	5 270	9 883	22 264
Bank loans	-	10 833	-	10 833
Lease liabilities	238	-	-	238
Trade payables	-	-	4 526	4 526
Payables to related parties	-	-	86	86
Total financial liabilities	238	10 833	4 612	15 683

36. Financial instruments (continued)

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Fair values

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

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 vs carrying amounts

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

<i>In BGN'000</i>	31 December 2021		31 December 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Related party receivables	9 349	9 349	9 604	9 604
Trade receivables	6 789	6 789	7 338	7 338
Loans granted	1 221	1 221	1 268	1 268
Cash and cash equivalents	10 550	10 550	4 054	4 054
Total assets	27 909	27 909	22 264	22 264
Payables to related parties	63	63	86	86
Lease liabilities	180	180	238	238
Trade payables	5 569	5 569	4 526	4 526
Bank loans	-	-	10 833	10 833
Total liabilities	5 812	5 812	15 683	15 683

37. Related party transactions

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Identification of related parties

For the purposes of preparing these consolidated 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:	Type of relationship
Luka Angelov Angelov	Equity owner
Ivan Angelov Angelov	Equity owner
Angel Ivanov Angelov	Equity owner
Georgi Aleksandrov Babev	Member of the Board of Directors
Gradus-1 EOOD	Subsidiary
Gradus-3 AD	Subsidiary
Millennium 2000 EOOD	Subsidiary
Gradus-98 AD	Subsidiary
Zhyuliv EOOD	Subsidiary
Lora-2004 EOOD	Subsidiary
Gold Farm 91 EOOD	Subsidiary
Gradus Logistics EOOD	Subsidiary as of 09 November 2020
Energy-2 OOD	Relationship through a person exercising significant influence
Agro Invest-7 OOD	Relationship through a person exercising significant influence
Mirena OOD	Relationship through a person exercising significant influence
Gold Agro-2005 OOD	Relationship through a person exercising significant influence
Ayazmo AD	Relationship through a person exercising significant influence
Marieta EOOD	Relationship through a person exercising significant influence
Trade Home EOOD	Relationship through a person exercising significant influence
Ralitsa 2004 OOD	Relationship through a person exercising significant influence
Wolf OOD	Relationship through a person exercising significant influence
Biser Oliva AD	Relationship through a person exercising significant influence
Equity Invest-1 AD	Relationship through a person exercising significant influence
Equity Invest-2 OOD	Relationship through a person exercising significant influence
Farmpro OOD	Relationship through a person exercising significant influence as of 16.01.2020
M.O. Stara Zagora OOD	Relationship through a person exercising significant influence
Biser Distribution OOD	Relationship through a person exercising significant influence
LG Auto OOD	Relationship through a person exercising significant influence
Auto Spa Center	Relationship through a person exercising significant influence

Remuneration to key management staff

The total remuneration accrued to key management staff amounts to BGN 2,788 thousand (2020: BGN 2,564 thousand).

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37. Related party transactions (continued)

Related party transactions 2021

<i>In BGN'000</i>	Type of transaction	Transaction amount	Total receivables	Total payables
As at 31.12.2021				
Agro Invest-7 OOD	Sales	1 321	1 079	-
Agro Invest-7 OOD	Loan granted	-	294	-
Energy- 2 OOD	Sales	856	1 106	-
Energy- 2 OOD	Loan granted	-	1 245	-
M.O. Stara Zagora OOD	Loan granted	-	1 233	-
Biser Oliva AD	Sales	144	-	-
Mirena OOD	Loan granted	-	38	-
Equity Invest-1 AD	Sales	1	-	-
Equity Invest-2 OOD	Sales	1	-	-
Farmpro OOD	Sales	1 033	722	-
Farmpro OOD	Loan granted	12	3 190	-
Ivan Agnelov Agnelov	Sales	228	19	-
Luka Agnelov Agnelov	Sales	4	-	-
Ralitsa 2004 OOD	Sales	556	423	-
Agro Invest-7 OOD	Purchases	786	-	37
Biser Oliva AD	Purchases	9 850	-	17
Ralitsa 2004 OOD	Purchases	115	-	-
Farmpro OOD	Purchases	9	-	9
Total balances related parties outside the Group:			9 349	63
Including:				
Loans granted			6 000	-
Trade receivables			3 349	-
Trade payables			-	63

Related party transactions 2020

<i>In BGN'000</i>	Type of transaction	Transaction amount	Total receivables	Total payables
As at 31.12.2020				
Agro Invest-7 OOD	Sales	529	543	-
Agro Invest-7 OOD	Loan granted	-	287	-
Energy- 2 OOD	Sales	846	988	-
Energy- 2 OOD	Loan granted	-	1 548	-
M.O. Stara Zagora OOD	Loan granted	-	1 216	-
Biser Oliva AD	Sales	2 899	26	-
Mirena OOD	Loan granted	-	53	-
Equity Invest-1 AD	Sales	1	-	-
Equity Invest-2 OOD	Sales	1	-	-
Farmpro OOD	Sales	816	967	-
Farmpro OOD	Loan granted	-	3 955	-
Ivan Agnelov Agnelov	Sales	196	21	-
Agro Invest-7 OOD	Purchases	350	-	7
Biser Oliva AD	Purchases	4 948	-	79
Total balances related parties outside the Group:			9 604	86
Including:				
Loans granted			7 059	-
Trade receivables			2 545	-
Trade payables			-	86

38. Contingent liabilities

As of 31 December 2021 and 31 December 2020 the Group has no contingent liabilities.

39. Events after the reporting date

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

The Group has no investments on the territory of the countries involved in the military conflict. The Group has no trading relationships with sanctioned counterparties. The Group has no suppliers of goods or services from the parties to the conflict. Sales to customers in the affected countries are not material to the Group's operations and can be redirected to other markets on the same or more favourable terms. At this stage, management has not identified any significant indirect economic effects on the Group's operations arising from the conflict.

There were no significant events occurring after 31 December 2020 that require additional adjustments and / or disclosures in these consolidated financial statements.

CONSOLIDATED

ACTIVITY REPORT OF GRADUS AD

for 2021

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I. Introduction. General information about Gradus Group.

1.1. Information about the Group

The management presents a report on the activities of Gradus Group for 2020.

Gradus Group includes the parent company and its eight subsidiaries:

The parent company

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

It is registered for an indefinite period of time.

Address of management:

Republic of Bulgaria,

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

On **30 July 2018** with decision No. 770 - PD/ 0.07.2018, the Financial Supervision Commission entered Gradus AD as a public company in the register of public companies and other issuers of securities under Art. 30, paragraph 1, item 3 of the FSCA, kept by the FSC.

The shares of the Company are traded on the Main Market of the BSE - “**Standard**” segment and stock exchange code **GR6**.

Subsidiaries:

As of 31 December 2021 the subsidiaries are:

- Lora-2004 * (the Company) is registered as a limited liability company (OOD) in the Stara Zagora District Court under company case 332/2004. On 14 December 2017, it was registered in the Commercial Register as a sole-owner limited liability company (EOOD) with a sole owner of the capital Gradus AD.

Address of management: Stara Zagora, Industrial district, Gradus Poultry Slaughterhouse

- Zhyuliv * (the Company) is registered as a limited liability company (OOD) in the Sliven District Court under company case 369/1997. On 14 December 2017, the company was registered in the Commercial Register as a sole-owner limited liability company (EOOD) with sole owner of the capital Gradus AD.

Address of management: Stara Zagora, Industrial district, Gradus Poultry Slaughterhouse

- Millennium 2000 * (the Company) is registered as a limited liability company (OOD) with decision No. 1976/20.12.2001 in the Sliven District Court under company case 948/2001. On 14 December 2017, it was registered in the Commercial Register as a sole-owner limited liability company (EOOD) with sole owner of the capital Gradus AD.

Address of management: Stara Zagora, Industrial district, Gradus Poultry Slaughterhouse

- Gradus-1 * (the Company) is registered with the Pazardzhik District Court under company case 732/1995. On 14 December 2017, its legal form was changed to a sole-owner limited liability company (EOOD) with sole owner of the capital Gradus AD.

Address of management: Stara Zagora, Industrial district, Gradus Poultry Slaughterhouse

- Gradus-3 ** (the Company) was established on 20 April 1999 by a decision of the Stara Zagora District Court under company case 895/1999.

Address of management: Stara Zagora, Industrial district, Gradus Poultry Slaughterhouse

- Gradus-98 * (Biser Oliva-98 AD) was registered on 10 July 1998, with a decision of the Stara Zagora District Court under company case No. 1399/1998. With a decision of the General Meeting of Shareholders in the Joint Stock Company held on 08 August 2017, the General Meeting of Shareholders decided to change the name of the company from Biser Oliva-98 AD to Gradus-98 AD, entered in the Commercial Register on 06 September 2017.

Address of management: Stara Zagora, Industrial district, Gradus Poultry Slaughterhouse

- Gold Pharm 91 EOOD * (the Company) is registered in the commercial register with a sole owner of the capital Gradus AD.

Address of management: Stara Zagora, Industrial district, Gradus Poultry Slaughterhouse“

- Gradus Logistics EOOD * (the Company) is registered in the Commercial Register with sole owner of the capital Gradus AD.

Address of management: Stara Zagora, Industrial district, Gradus Poultry Slaughterhouse

* Effective percent of participation

** indirect participation

Management bodies of the parent company

- General meeting of the shareholders
- Board of Directors

1.2. Ownership and management of the parent company

Gradus AD (the parent company) has a one-tier management system with a Board of Directors consisting of three (3) members. The management of the parent company with regard to the Board of Directors has the following composition as of 31 December 2021:

- 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

The parent company has the following capital participation in the subsidiaries:

- Lora-2004 EOOD - 50 shares with a nominal value of BGN 100 each representing 100% of the capital of Lora-2004 EOOD;
- Zhyuliv EOOD - 50 shares with a nominal value of BGN 100 each representing 100% of the capital of Zhyuliv EOOD;
- Millennium-2000 EOOD - 10 shares with a nominal value of BGN 500 each representing 100% of the capital of Millennium-2000 EOOD;
- Gradus-1 EOOD - 100 shares with a nominal value of BGN 50 each representing 100% of the capital of Gradus-1 EOOD;
- Gradus AD participates indirectly in the capital of Gradus-3 AD through a subsidiary Gradus-1 EOOD - owning 96.00% of the capital of Gradus-3 AD;
- Gradus-98 AD - 49,967 ordinary material registered voting shares with a nominal value of BGN 10 each representing 99.94% of the capital of Gradus 98 AD;
- Gold Pharm 91 EOOD - 3,837,782 shares with a nominal value of BGN 1 each representing 100% of the capital of Gold Pharm 91 EOOD;
- Gradus Logistics EOOD - 400 shares with a nominal value of BGN 100 each representing 100% of the capital of Gradus Logistics EOOD.

1.3. Subject of activity of the companies in the Group

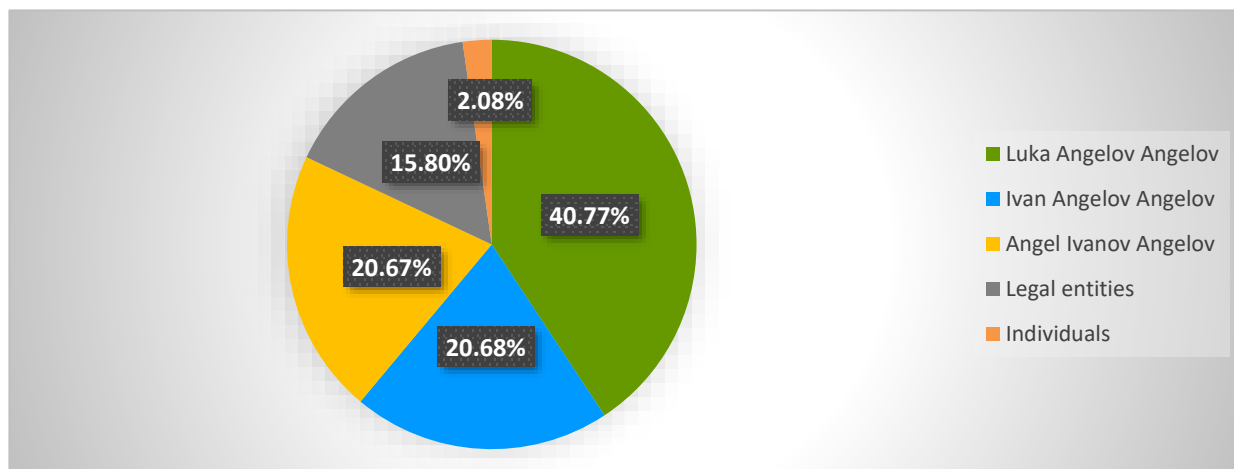
The main activity of the companies in the Group is concentrated in the Poultry sector, with the exception of companies whose activity also includes "compound fodder production and trade".

The subject of activity of the companies in the Group is as follows:

- **Lora-2004 EOOD** - the main activity of the company is poultry - breeding and sale of fattened poultry - broilers;
- **Zhyuliv EOOD** - the main activity of the company is fattening of broilers and hatching of chickens. The company is registered in the State Fund "Agriculture" as an agricultural producer;
- **Millennium 2000 EOOD** - the main activity of the company is poultry farming - raising parents for broilers, production and sale of breeding eggs, production and sale of fattened broilers;
- **Gradus-1 EOOD** - the main activity of the company is processing and sale of poultry meat products;
- **Gradus-3 AD** - the main activity of the company is the production of compound fodder intended for the market and containing grains and fodder additives in a ratio according to certain and approved recipes. For the exercise of the activity the company is entered in the register under Art. 19, paragraph 11 of the Fodder Act and has received a certificate for approval No. 00041 of 26 January 2007 from the National Grain and Fodder Service.
- **Gradus-98 AD** - the main activity of the company is production, processing and sale of all types of agricultural and animal products.
- **Gold Pharm 91 EOOD** - the main activity of the company is poultry - breeding and sale of fattened poultry - broilers.
- **Gradus Logistics EOOD** - the main activity of the company is rental of vehicles.

The parent company and the subsidiaries operate in Bulgaria.

1.4. Shareholder structure of the parent company as of 31.12.2021.



1.5. 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 31 December 2021:

- 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

The participation of the members of the Board of Directors in business companies as unlimited liable partners, the ownership of more than 25 percent of the capital of another company, as well as their participation in the management of other companies or cooperatives such as procurators, managers or board members:

Luka Angelov Angelov

1.1. As an unlimited liable shareholder – NO

1.2. He directly owns 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), Marietta EOOD (UIC 123655770), Biser Distribution OOD (UIC 200090633), Auto Spa Center OOD (UIC 204959983), 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), Gold Pharm 91 EOOD (UIC 205933500), Gradus Logistics EOOD (UIC 206290911).

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

1.3. He participates in managing 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), Marietta EOOD (UIC 123655770), Auto Spa Center OOD (UIC 204959983), Gradus AD (UIC 204882907), Gradus Logistics EOOD (UIC 206290911), Biser Oliva AD (UIC 123036597).

Ivan Angelov Angelov

1.1. As an unlimited liable shareholder – NO

1.2. He directly owns over 25 percent of the capital of:

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

1.3. He participates in managing bodies of:

Equity Invest-2 OOD (UIC 204746138), Ayazmo AD (UIC 201974859), Zhyuliv EOOD (UIC 119053781), Millennium 2000 EOOD (UIC 119591422), Energy-2 OOD (UIC 123655788), Agro Invest-7 OOD (UIC 123654743), Gradus-1 EOOD (UIC 822132592), Lora-2004 EOOD (UIC 123658624), Gold Agro-2005 OOD (UIC 119642703), Gradus-3 AD (UIC 123152751), Wolf OOD (UIC 123760892), Marietta EOOD (UIC 123655770), Auto Spa Center OOD (UIC 204959983), Gradus AD (UIC 204882907), Gradus Logistics EOOD (UIC 206290911), Biser Oliva AD (UIC 123036597).

822132592), Mirena OOD (UIC 123655806), Lora-2004 EOOD (UIC 123658624), Gold Agro-2005 OOD (UIC 119642703), Wolf OOD (UIC 123760892), Ralitsa 2004 OOD (UIC 123658631), Gold Pharm 91 EOOD (UIC 205933500), Gradus AD (UIC 204882907), Gradus Logistics EOOD (UIC 206290911), Product Board for Eggs, Poultry and Rabbit Meat Association (UIC 175066976), Association of Biogas Producers (UIC 176638405), “Union of Poultry Breeders in Bulgaria” Association (UIC 000682444).

Georgi Aleksandrov Babev

- 1.1. As an unlimited liable shareholder – NO
- 1.2. He directly owns over 25 percent of the capital of LG Auto OOD (UIC 205395076)
- 1.3. He participates in managing bodies of:
LG Auto OOD (UIC 205395076)

1.6. Audit Committee

The Audit Committee is composed of:

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

II. Objective review of the development and results of the enterprise, as well as its condition, together with a description of the main risks it faces.

2.1. Activity development

The companies of Gradus Group have modern production units and are also constantly striving to expand and modernize their production facilities.

2.2. Results of the activity

For the period 01.01.2021 - 31.12.2021, the Group reported an operating profit of BGN **19,776** thousand and net profit in the amount of BGN 17,894 thousand. (for the period 01.01.2020 - 31.12.2020 the Group reported an operating profit of BGN 12,4969 thousand and a net profit of BGN 10,530 thousand).

REVENUE

The reported sales revenue of the Group in 2021 amount to BGN 156 574 thousand and include:

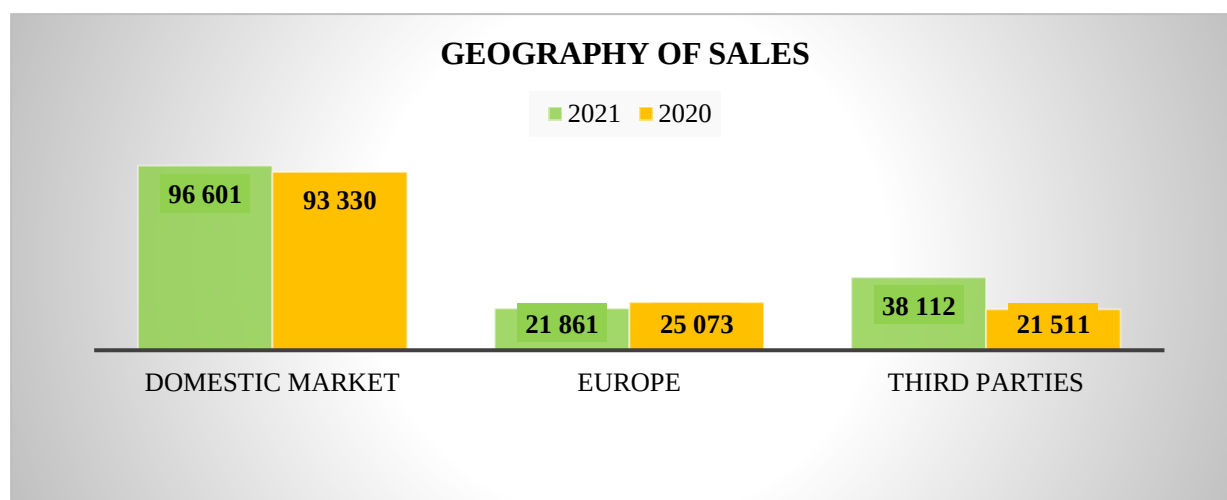
REVENUE	2021	2020	Change %	Relative share for 2020 %
Sales revenue				
Revenue from sales of products	137 773	115 888	19%	88%
Revenue from sales of goods	17 990	23 220	-23%	11%
Revenue from sales of services	811	806	-	1%
Total sales revenue	156,574	139 914	12%	100%

Приходите от продажби на продукцията за 2021г. са се увеличили с 21,885 млн.лв. или с 18,88% в сравнение със същия период на 2020г.

Приходите от продажби на стоки за 2021г. са намалели значително с 5,230 млн.лв. или с 22,52% в сравнение с 2020г. Това се дължи на продажбите от сегмента Зърна и компоненти и по-конкретно на повечето сделки със слънчоглед, реализирани през 2020г.

Revenues from sales of services for 2021 increased by **BGN 5 thousand** or by 0.62% compared to the same period of 2020.

Geography of sales

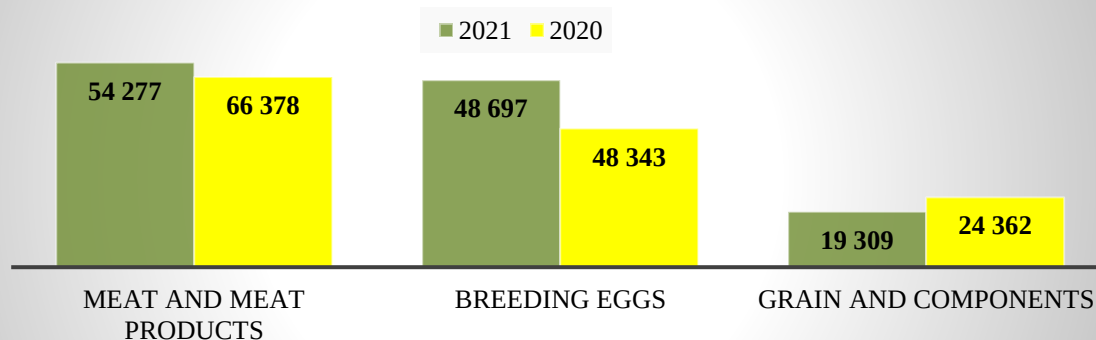


	2021	2020	Change	Relative share
	BGN'000	BGN'000	%	2021 %
Domestic market	96 601	93,330	4%	62%
Europe	21 861	25,073	-13%	14%
Third countries	38 112	21,511	77%	24%
Total	156 574	139,914	12%	100%

Reported revenue by key segments

Segments	2021	2020	Change	Relative share
	BGN'000	BGN'000	%	2019%
Meat and meat products	71 367	66,378	8%	46%
Breeding eggs	65 072	48,343	35%	41%
Grains and components	19 309	24,362	-21%	12%
Other	826	831	-	1%
Total	156 574	139,914	12%	100%

REVENUE BY MAIN SEGMENTS



For the reporting period with the largest share of revenue from sales by key segments is "Meat and meat products" segment with 46% of the total revenue or BGN 156,574 thousand (For the same period of the previous year with the largest share of sales is also "Meat and meat products" segment with 47% of the total amount of BGN 139,914 thousand).

REVENUE BY KEY SEGMENTS AND BY MARKETS

Key segments	Domestic market		Europe		Third countries	
	2021 BGN'000	2020 BGN'000	2020 BGN'000	2019 BGN'000	2020 BGN'000	2019 BGN'000
Meat and meat products	70 597	65,921	630	457	140	-
Breeding eggs	5 869	5,799	21 231	24,616	37 972	17,928
<i>Breeding eggs</i>	<i>4 997</i>	<i>4,791</i>	<i>9 594</i>	<i>10,914</i>	<i>37 972</i>	<i>17,928</i>
<i>One-day old chickens</i>	<i>872</i>	<i>1,008</i>	<i>11 637</i>	<i>13,702</i>	<i>-</i>	<i>-</i>
Grains and components	19 309	20,779	-	-	-	3,583
Total	95,775	92,499	21,861	25,073	38,112	21,511

The realized sales revenues in the meat and meat products segment in the reporting year 2021 recorded an increase of 7.52 % or BGN 4 989 thousand compared to the previous year.

The uncertainty caused by the coronavirus infection and soaring cereal prices on global markets suggests future volatility in the price levels of meats and meat products.

The management of the group provides good prospects for realization in the meat and meat products segment during the recovery period from the pandemic, as well as there after, in view of its good liquidity position and the ability to adequately respond to future growth rates of consumer consumption.

Sales revenues in the breeding eggs segment (breeding eggs and day-old chicks) for the period considered increased by 34,60 % or BGN 16 729 000. compared to the previous year.

Breeding eggs

The revenues generated from sales of breeding eggs for 2021 significant increase compared to the previous year. Demand for production in this segment outpaces supply, constrained by a reduction in production due to the effects of the Covid-19 pandemic. There has been a significant increase in the market prices of breeding eggs on international markets.

Breeding eggs

The revenues generated from sales of breeding eggs for 2021 significant increase compared to the previous year. Demand for production in this segment outpaces supply, constrained by a reduction in production due to the effects of the Covid-19 pandemic. There has been a significant increase in the market prices of breeding eggs on international markets.

It should be noted that during the reporting period there is no fluctuation in the prices of this type of production characteristic of the summer season.

The Group reported a significant increase in revenues from sales of breeding eggs in third countries for the period considered – BGN 111.80% or BGN 20 044 thousand. Revenues from sales of breeding eggs on the domestic market also recorded an increase of 4.30% or BGN 206 thousand compared to 2020. In the reporting year 2021 there was a decrease in revenues from sales of breeding eggs on the European market by 12.09% or BGN 1 320 thousand. compared to the previous year 2020.

The Management of the Group continues its expansion program in the segment in the medium and long term.

One-day old chickens

During the period and against the background of the economic uncertainty caused by COVID-19 pandemic, the Group realized a decrease in the revenue from sales of one-day old chickens in the amount of BGN 3,715 thousand or 20.16% compared to the results reported in 2019. The realized revenue from sales of one-day old chickens on the domestic market marked a decrease by 20% or by BGN 259 thousand compared to 2019. Sales of one-day old chickens in Europe showed a decrease in revenue by 20% or by BGN 3,456 thousand compared to 2019.

The management of the Group expects volatility in the market prices of meat and meat products, as well as in the market of breeding eggs in the medium term and benefits from the non-dramatically reduced production capacities of the Group in the long run.

For the reporting period, the Group realized a decrease in the sales of the grains and components segment by 17% or by BGN 5,128 thousand. It was dictated by the lack of good opportunities for realization and in particular - significantly lower sales of sunflower in Turkey in 2020 compared to 2019.

Optimization and restructuring processes to reduce costs and increase revenue continue.

The other income from operations amounts to BGN 14,632 thousand and include:

OTHER INCOME	2021	2020	Change %	Relative share 2021 %
Other operating income				
Income from financing	13,014	11,788	10%	89%
Rentals	787	925	-15%	5%
Gain on sale of investment properties	51	139	-63%	1%
Gains on sale of materials and fixed tangible assets, net	291	348	-16%	2%
Income from indemnities	-	266	-100%	-
Excess inventories	165	409	-60%	1%
Derecognition of liabilities	51	29	76%	-
Other	273	226	21%	2%
Total other operating income	14,632	14,130	4%	100%

Operating expenses

In 2021, the Group reported the following expenses:

EXPENSES	2021	2020	Change %	Relative share/2021 %
Operating costs				
Costs by economic elements				
Costs of raw materials and supplies	93 400	77 301	21%	54%
Hired service expenses	8 862	8 252	7%	5%
Remuneration and insurance costs	30 241	28 681	5%	18%
Depreciation / amortisation expenses	8 172	7 279	12%	5%
Book value of goods sold	13 967	20 431	-32%	8%
Impairment of assets	14 583	12 836	14%	8%
Others	3 522	2 731	29%	2%
Total costs by economic elements:	172 747	157 511	10%	100%

In 2021, operating expenses decreased by BGN 15.24 million or by 9.67% compared to the same period of 2020. The change is mainly due to a decline in sales of goods and respectively to the carrying amount of goods sold by the Group for 2021, and a reduction in reported costs for raw materials and supplies.

The costs for raw materials and supplies have decreased by BGN 16.1 million or by 20.83% in 2021, compared to 2020 mainly due to the appreciation of electricity and an increase in the prices of feed-producing raw materials.

Hired service expenses also decreased by BGN 610 thousand or by 7.39% compared to 2020.

Staff costs in 2021 increase by BGN 1.56 million or by 5.44%, compared to 2020.

For the reporting period, the depreciation / amortisation expenses have increased by BGN 893 thousand or by 12.27% compared to 2020.

Expenses on impairment of assets decreased by BGN 1.75 million or by 13.61%. The increase in impairments of biological assets is linked to increased parent flocks, which in turn generate additional group revenue and profit in the Breeding Eggs segment.

FINANCE INCOME AND FINANCE COSTS

Finance income	2021	2020	Change %	Relative share/2021 %
Interest income on loans granted	180	154	17%	59%
Gains on changes in exchange rates	125	-	-	41%
Total finance income:	305	154	-98%	100%

Finance costs	2021	2020	Change %	Relative share/2021 %
Interest expenses on loans received	11	77	-86%	7%
Bank fees on loans	74	92	-20%	47%
Interest on leases	3	4	-25%	2%
Losses on changes in exchange rates	-	591	-100%	0%
Other finance costs	70	4	1650%	44%
Total finance costs:	158	768	-79%	100%

2.3. Key events that have affected the Group's results and that will affect future results

2.3.1. Investments in new products

In 2021, the Group made investments in order to expand its core business in the following areas:

2.3.2. Factors that will positively affect the results



The group is currently in the process of introducing a Management and Control System (Microsoft Dynamics NAV 2018). At the date of preparation of this declaration, the ERP software was implemented in eight companies (at individual level). For the subsidiary Gradus-1 EOOD, the implementation processes continue.

Periodic renegotiation of commercial terms for the services provided to us in order to optimize and cost efficiency.

The group is in an ongoing process of optimisation and a change in the way it operates in order to reduce costs and increase its revenue.

2.4. Operating risk factors

The Risk Management Group's policy is aimed at identifying and analysing the risks to which the Group is exposed in order to establish risk-taking limits. On the basis of the analysis of these risks, the Group shall develop and implement appropriate controls to address these risks.

Continued uncertainty regarding expected economic developments at national, regional and global level, as well as the observed inflation processes, are challenging in determining the Group's strategy and may therefore affect its performance. The geopolitical risk associated with the conflict in Ukraine can have a negative effect on the economic processes in Bulgaria and the region, as well as in particular on supply chains in a number of sectors of the economy, and thus affect the group's activities. Despite the weakening of the Kovid-19 pandemic, its impact remains broad and continues to pose significant challenges not only for supply chains, but also for the global economy as a whole. This uncertainty creates risks that the Group analyses and assesses their impact.

Credit risk

Credit risk arises mainly from receivables from customers. The exposure to credit risk is a result of the individual characteristics of each individual customer.

The Group manages credit risk mainly by setting credit limits for each customer individually depending on the volume of sales and its credit history, as well as by constant control over late payments.

Currency risk

In some cases, the Companies in the Group carry out transactions denominated in foreign currency. The Group is exposed to currency risk related to possible fluctuations in the exchange rate of foreign currencies. At present, this risk is associated with fluctuations in the US dollar exchange rate used by the Group in the trade in agricultural production.

Liquidity risk

Liquidity risk is the risk that the Group companies will have difficulty in meeting their obligations related to financial liabilities. The approach to liquidity management is aimed to ensure, as far as possible, that there is sufficient liquidity to meet obligations, both under normal and stressful conditions, and without incurring unacceptable losses or damaging the Group's reputation. For this purpose, the subsidiaries maintain credit facilities and use short-term loans from banks.

Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, interest rates or prices of equity instruments, the Companies' income or the value of their investments, will be affected. The prices of the goods are monitored by the management of the Group. Sales are managed locally by using competitive market prices. The main factors determining the changes in prices are the changes in the prices of the competitors, as well as the changes in the prime cost of the products.

COVID-19

Economic instability and investment uncertainty, the decline in consumer consumption, the volatility of price levels in the segments operated by the Group are just some of the effects of the pandemic situation, which inevitably affect the results of the Group.

Management continues to apply the necessary and possible measures to limit the effects of COVID-19, considering the principle of going concern to be appropriate for these consolidated financial statements, as the Group has sufficient liquid resources to continue its activity in the foreseeable future.

In 2020 as a result of COVID-19, the Group has reduced the volume of its production activities, which has the effect of reducing the volume of revenues and expenses. Management has not identified significant effects and effects on the valuation of individual assets and liabilities at the end of the reporting period.

Political risk

The political risk is the likelihood of a change of Government, or a sudden change in its policy, of internal political turmoil and adverse changes in European and/or national legislation, with the result that the environment in which local businesses operate will change negatively and investors suffer losses.

The political situation on the Export Markets of the Group has a significant effect on the operations and financial position of the Group. Russia is still inaccessible as a breeding egg market for the group.

At the date of the report, the Russian invasion of Ukraine created preconditions for uncertainty and negative consequences for Bulgaria in many dimensions, including economic.

The group's sales revenues generated during the reporting period in Ukraine amounted to BGN 6 954 thousand (BGN 4 689 thousand in 2020) and were situational in the Breeding Eggs segment. At present, in view of the significant preponderance of demand for breeding eggs relative to supply on the export markets on which the Group operates, management expects that, if necessary, such sales may be redirected to other markets on the same or more advantageous terms.

Macroeconomic risk

This is the risk of macroeconomic shocks, which are measured by economic stability and the growth prospects of the national economy. Trends in the macroeconomic environment directly or indirectly influence the formation and change of market conditions, as well as the investment climate.

III. Analysis of the main financial and non-financial indicators for the result from operations, which are related to the economic activity, including information on ecology and employees related matters

3. 1. Analysis of the main indicators

- **Profit margin (Profit before taxes/Sales)**

	2021	2020
Profit before taxes	19 776	12 496
Income	156 574	139 914
Gross profit margin	12.63%	8.93%

- **EBITDA margin (EBITDA- Earnings before finance costs, taxes, depreciation / amortization / Sales)**

	2021	2020
EBITDA (Earnings before finance costs, taxes, depreciation / amortization)	27 801	20 389
Income	156 574	139 914
EBITDA margin	17.76%	14.57%

Main indicators followed by the Group's Management with respect to the debt amount and the financial stability:

- **Net debt (total debt minus funds)/EBITDA**

	2021	2020
Net debt	-	6 326
EBITDA (Profit before financial expenditure, taxation and amortization)	27 801	20 389
Net debt/EBITDA	0.00	0.31

- **Debt/assets ratio (total liabilities/total assets).** By using this indicator the Management follows the part of the assets financed by a debt in some form.

	31.12.2021	31.12.2020
Total liabilities	31 014	39 713
Total assets	360 888	363 725
Debt/assets ratio	0.09	0.11

3.2. Non-financial Declaration

Gradus presented a Consolidated Non-financial Declaration as a separate document deemed an integral part of the present Report.

The Consolidated Non-financial Declaration includes a description of the Group's Policies and their objectives as regards the activities implemented for environmental protection, the social issues and those connected with employees, their rights, gender equality.

IV. Important events, which have occurred after the date as at which the annual consolidated financial statements have been prepared

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

The Group has no investments on the territory of the countries involved in the military conflict. The Group has no trading relationships with sanctioned counterparties. The Group has no suppliers of goods or services from the parties to the conflict. Sales to customers in the affected countries are not material to the Group's operations and can be redirected to other markets on the same or more favourable terms. At this stage, management has not identified any significant indirect economic effects on the Group's operations arising from the conflict.

There are no other material events that have occurred since 31 December 2021 that require further adjustments and/or disclosures in these consolidated financial statements.

V. Envisaged future development of the Group

The Group's management continues its policy of effectively and successfully achieving its main goals:

- increasing the number of main flocks, increasing the number of fattened broilers, increasing the production and marketing of breeding eggs, as well as achieving full compliance with all European standards for the protection of the environment and the environment;
- full utilization of production capacities;
- development of existing and new business lines related to the production of high-margin food products.

VI. Research and development activities

For the period under review there were no scientific researches and developments taken place within the Group.

VII. Information about acquisition of own shares, as required by virtue of Art. 187e of the Commercial Act

There were no own shares acquired in the period under review.

VIII. Branches

The Company has no branches.

IX. Financial instruments used by the Company

Financial instruments are described in detail in the note "Financial instruments" to the accompanying consolidated financial statements.

X. Additional information pursuant to Appendix 2 of Ordinance 2 of FSC

1. Information, in terms of value and quantity, of the basic categories of goods, products and/or services provided, with an indication of their share in sales revenue of the issuer, respectively the entity under § 1e from the additional

regulations of POSA, as a whole and the changes, which have occurred during the reporting financial year

The information on the value of sales, indicating their share, is set out in this Report in Section II.

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

Information on revenue is disclosed in Section II. hereof.

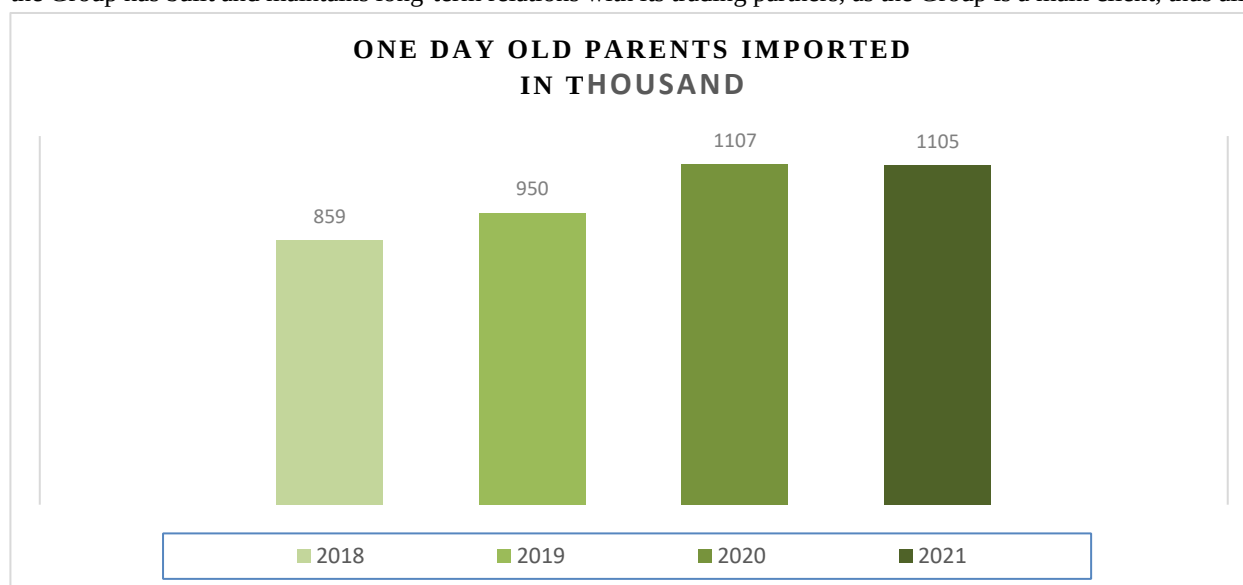
Main suppliers

In view of the vertical integration of the Group, the main products taking direct part in the production process, which are provided by external suppliers, are the raw materials for the production of fodder, one-day old parent birds, as well as pork meat, additives and subsidiary materials for the production of sausages.

The raw materials supplied by external companies for preparation of fodder are mostly agricultural production and in particular – mixtures and additives selected by technologists.

The agricultural production, which is purchased from external suppliers, includes sunflower, corn, wheat, and barley. There is great offering of agricultural production, and the Group maintains relations with a number of local and foreign suppliers, thus allowing it to purchase the optimum price/quality ratio. The suppliers in question have no material impact upon negotiation of the prices of their production, as the production processes of the Group do not depend on a given supplier. The offering of mixtures and additives in the required quantities is more limited, but the additives used may be often replaced by others without having any material impact on the food qualities of the fodder. Owing to the expert opinion of the technologists of the Group, the Company replaces those additives that have grown more expensive with alternative ones, thus decreasing the level of dependency on a given supplier of mixtures and additives. The main suppliers of additives of the Company are "Viand" EAD, "Biser Oliva" AD and "Mixxa" EOOD. One-day old parent birds, which are consequently bred with the purpose of production of breeding eggs, are of significant importance for the entire production cycle of the Group. Birds are imported from EU member states, as in 2021 the Group imported a total of 1,105 thousand one-day old parent birds (2020: 1,107 thousand).

Birds are supplied all year round according to a schedule. The offering of pure-breed birds in the required quantities is limited and the Group's dependency on its suppliers may be defined as significant. In order to decrease this dependency, the Group has built and maintains long-term relations with its trading partners, as the Group is a main client, thus allowing



negotiation of preferential prices and terms of supply. The Group imports one-day old parent birds mostly from Hungary, as its main supplier is Aviagen.

There are requirements established at the Group for ethical and responsible behaviour both on the part of employees and suppliers, which directly or indirectly also include the other companies within the Group. The Company's Management has developed norms and rules of behaviour intended for the personnel and suppliers, as all companies rendering products/services to the Company are obligated to observe them. All external suppliers of the Group are selected under conditions of free market choice. Selected suppliers are assessed according to a methodology of implemented IFQSMS (Integrated Food Quality and Safety Management System), and depending on the obtained results the Management distinguishes two types of suppliers:

- main - suppliers with proven reliability and offering products/services of the best price/quality ratio;
- episodic – suppliers with their services used for the satisfaction of unforeseen needs.

Depending on the level of impact on the work process, the products/services are divided into two types, namely:

- taking direct part in the production process – red meat, additives, etc.;
- having an indirect impact on the quality of the manufacturing process – e.g. technical equipment, appliances, consumables, etc.

The control on the performance of supplies is exerted by the person receiving the product/service, as the execution of quality control is verified via internal audits, which are carried out according to established practices. The Group usually enters into frame agreements with its suppliers for a term of one or several years, as the prices and quantities for a given year are specified in the annexes to the agreement, which are updated on an yearly basis. The manufacturing enterprise of the Group supplies the following main categories of raw materials, materials and services from suppliers that are external to the Group:

- Main raw materials – red meat;
- Additional raw materials – seasonings, supplements, additives, etc.;
- Subsidiary materials – packages, covers, labels, etc.;
- Services – electricity, gas, water, transportation activity, etc.;
- Technological equipment;

The Company's policy in the field of supply through suppliers external to the Group is directed towards ensuring supplies from at least two sources and in sufficient quantities, in case of any problem with a given supplier. The necessary products/services are supplied by companies registered according to the Food Act and based in EU member states, approved for trade with the EU member states. All suppliers the Company works with offer products/services that correspond to the requirements of the national laws and the European legislation and, if applicable, to the IFQSMS introduced to the Company, according to ISO 9001:2015, ISO 22000:2005 and IFS 6:2014. Based on the principle of "timely supply", the Group does not store any significant quantities but orders in advance on a two-three month basis.

The main suppliers of the Poultry Slaughterhouse and Meat processing enterprise of the Group are as follows:

- of main raw materials – Nova Targovska Kompaniya 2004 AD
- of additional raw materials – Campus Balkani EOOD, Tea Trading LTD, German Bulgarian Business Group Ltd.
- of subsidiary materials - Skipter LTD, Intrama Invest EOOD, Sidorenko Foodtech EOOD, Bulpro 2004 Ltd.

The production company is supplied with water from its own water source, as the water corresponds to the quality of drinking water according to the requirements of Ordinance No.9/2001 of the Ministry of Health, the Ministry of Regional Development and Public Works, and the Ministry of Environment and Water. In case of missing water supply, the site is provided with sufficient quantities of reserve drinking water from the urban public water main.

In view of the above-described established practices and the strong offering of the products and services, which are supplied by external companies, the production of the Group does not depend on a given supplier. For the last years, the Group has not had any significant problems with its suppliers and believes that, unless unforeseen circumstances occur, every approved supplier may provide the necessary quantity on time and with due quality.

3. Information on significant transactions

In 2021, no major transactions were concluded essential for the group's activities

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

respectively the entity under § 1e from the additional regulations of POSA

Information on the deals concluded between Gradus Group and related parties in the period under review is announced in the Note “Related Parties” to the consolidated annual financial statements.

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

There were no events and indicators of unusual nature, having influence over the Group.

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

There were no such transactions.

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

Information on share participation of Gradus AD is disclosed in Section I.

8. Information about the concluded by the issuer, by its subsidiary or parent undertaking, in their capacity of borrowers, loan contracts with indication of the terms and conditions thereof, including the deadlines for repayment as well as information on the provided guarantees and assuming of liabilities

Information on loan agreements entered into by the subsidiary companies is given in the Note “Bank Loans” to the consolidated annual financial statements.

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

Information about loans granted by the Group is given in the disclosures to the consolidated annual financial statements.

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

During the reporting period, there was no new issue of securities

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

There are no forecasts published by the Group for the respective period.

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

The Group's management currently monitors the collectability of the receivables and controls the servicing of the liabilities under bank loans and its tax liabilities.

13. Assessment of the possibilities for realization of investment intentions with indication of the amount of available funds, as also of any changes in the financing structure of this activity

The planned Investment Program of Gradus Group for 2021 includes investments for the acquisition of tangible fixed assets (buildings, machinery, equipment, vehicles) and Management System /ERP/. The funds stipulated for investments are from the funds collected from the initial public offering of the Company.

14. Information about changes occurred in the period under review in the main principles of management of the issuer and its economic group.

Gradus AD manages its investments by setting high but achievable goals as regards the quality, productivity and profitability. Special attention is paid to environmental protection, development of human resources and corporate social liability. In the period under review there were no changes in the main principles of management of Gradus AD and its economic group.

15. Information on the main characteristics of the internal control system and risk management system applied by the issuer, respectively the person under § 1e of the additional provisions of POSA, in the process of preparing the financial statements.

The Group has an established internal control and risk management system. Regarding the financial reporting process, financial statements are drawn up in accordance with International Financial Reporting Standards. The current financial and accounting activity of the company is subject to periodic control and analysis by the management body. The company has implemented a well-established practice for periodic discussion of the current financial performance of the companies included in its strategic investment portfolio with a view to ensuring the implementation of their business programmes and a precise analysis of the possibilities for the implementation of future investment projects.

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

Няма промяна в управителните и надзорните органи

17. Information on the amount of remuneration, awards and/or benefits of each of the members of the management and control bodies for the reporting financial year paid by the issuer, which is not a public company, respectively the person under § 1e of the additional provisions of POSA and its subsidiaries, regardless of whether they have been included in the costs of the issuer which is not a public company, respectively, the person under § 1e of the additional provisions of POSA, or arise from a distribution of profits, including:

- amounts received and in-kind benefits;
- conditional or postponed remuneration over the year, even if the remuneration is due at a later point in time;
- amount due by the issuer or its subsidiaries for payment of pensions, retirement benefits or other similar compensation

The total amount of accrued remuneration for the issuer's key management personnel is as follows:

- Board of Directors - BGN 324 thousand;
- Audit Committee – BGN 9 thousand.

18. Information about shares of the issuer owned by the members of the management and of the control bodies, procurators and the senior management, including shares held by anyone of them separately or as a percent from the shares of each class, as well as provided to them options on securities of the issuer by the latter – type and amount of the securities over which the options have been set up, price of exercising of the options, purchase price, if any, and term of the options.

Shares held at 31 December 2021 by the members of the Board of Directors:

Name, father's name, family name	Number of shares	%
Luka Angelov	99 316 945	40.77%
Ivan Angelov	50 373 165	20.68%
Georgi Aleksandrov Babev	0	0%

19. Information about agreements known to the Company (including also after the fiscal year closing) as a result of which changes may occur at a future time in the owned percent of shares or bonds by current shareholders and bondholder.

No such agreements are known.

20. Information on pending judicial, administrative or arbitration proceedings concerning obligations or claims of the issuer, respectively the person under § 1e of the additional provisions of POSA, amounting to at least 10% of its own funds; if the total value of the issuer's liabilities or receivables, respectively the person referred to in § 1e of the additional provisions of POSA, in all proceedings initiated exceeds 10 % of its own funds, information on each proceedings shall be provided separately.

The Group is not a party to pending court, administrative or arbitration proceedings, nor there are any decisions taken or claims to terminate the activity and announce it in liquidation.

21. Contact information of the Investor Relations Director, including telephone number and correspondence address

Marieta Babeva
0883 773 993
ir@gradusbg.com
Sofia, 110B Simeonovsko Shosse Boulevard, floor 4, office 22

22. Non-financial statement under Art. 41 of the Accountancy Act - for financial statements on an individual basis, respectively under Art. 51 of the Accountancy Act - for financial statements on a consolidated basis, where applicable.

Degree AD presents in a separate document "Non-financial statement under Art. 41 of the Accountancy Act"

23. Other information at the company's discretion.

There is no such

28 April 2022

EXECUTIVE DIRECTOR:

/Ivan Angelov/

CHAIRMAN OF BD:

/Luka Angelov/

DECLARATION
under Article 100n, par. 4, item.4 of the Public Offering of Securities Act

The undersigned,

Ivan Angelov Angelov – Executive Director of Gradus AD

Luka Angelov Angelov – Chairman of the Board of Directors

and

Antoaneta Nikiforova Boeva – Chief Accountant of Gradus AD

DECLARE HEREBY, that to the best of our knowledge:

- a. The annual consolidated financial statements for 2021, prepared in accordance with the applicable accounting standards, accurately and fairly reflect the information on the assets and liabilities, financial condition and profit of Gradus AD and the companies included in the consolidation;
- b. The consolidated management report for 2021 contains a reliable overview of the development and results of the activity of Gradus AD, as well as the condition of the companies included in the consolidation, together with a description of the main risks and uncertainties it faces.

28 April 2022

A. Boeva
/Chief Accountant/

I. Angelov
/Executive Director/

L. Angelov
/Chairman of the Board of Directors/

Translation from Bulgarian

NON-FINANCIAL DECLARATION

**To the annual consolidated financial report of Gradus Group for 2021
pursuant to the requirements of Article 48-52 of the Accounting Act**

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I. General information about the Group

Gradus Group includes the parent company and its seven subsidiaries:

Parent company

Gradus AD (the "Company") is a company registered in Bulgaria in the Commercial Register of the Registry Agency, with UIC: 204882907 on 28 November 2017.

The company is a parent company.

It is registered for not limited period of time.

Management address:

Republic of Bulgaria,

6000 Stara Zagora, Industrial residential district, Gradus Poultry.

On 30 July 2018, the Financial Supervision Commission, by decision No. 770 - PD / 30 July 2018, entered Gradus AD as a public company in the register of public companies and other issuers of securities under Article 30, paragraph 1, item 3 of the Financial Supervision Commission Act (FSCA), kept by the Financial Supervision Commission (FSC). The shares of the Company are traded on the Main Market of the BSE - the Standard segment and the GR6 stock code.

As of 31 December 2021, Gradus AD owned and managed the following subsidiary companies, grouped in the Gradus Economic Group that carry out the following operating activities:

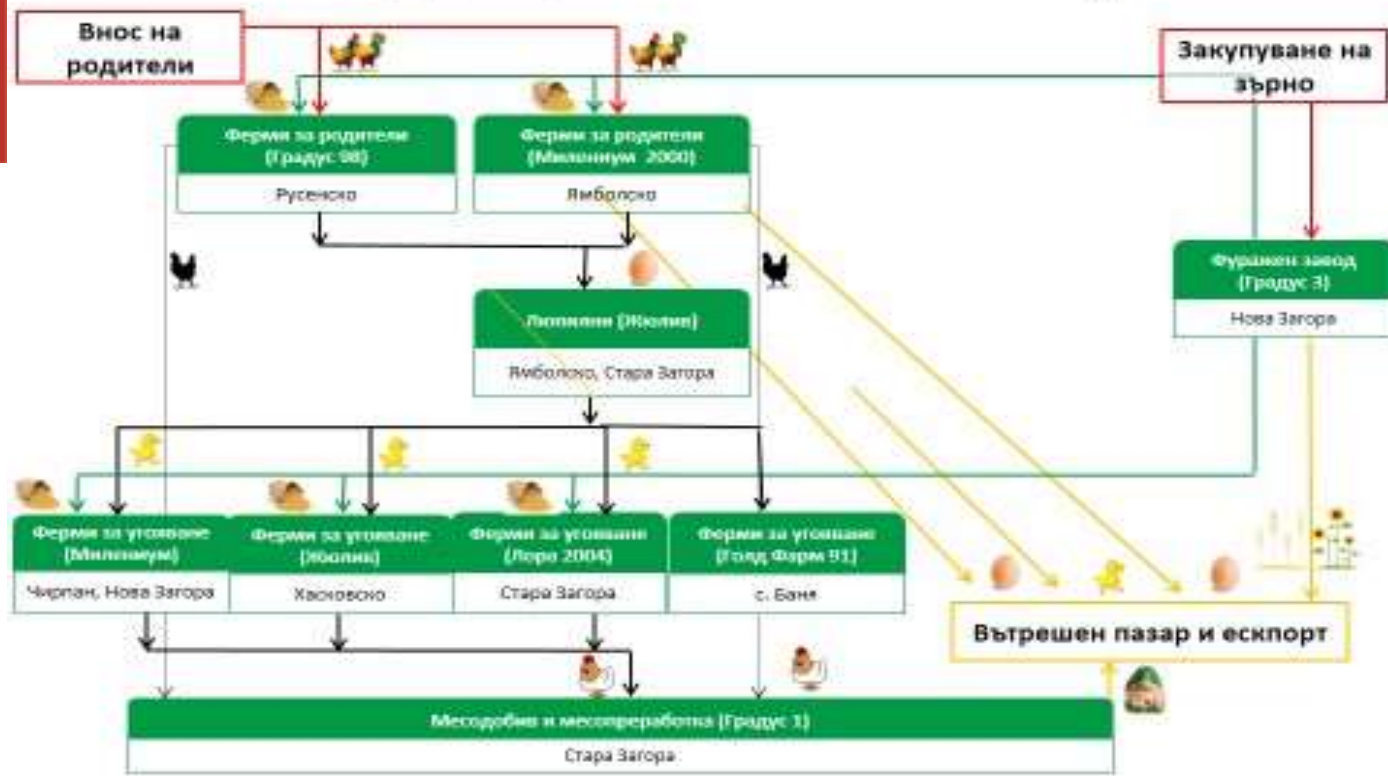
- └ Millennium 2000 EOOD - breeding of parent birds for production of eggs and fattening of broilers
- └ Lora-2004 EOOD – fattening of broilers
- └ Gradus-1 EOOD – production of meat and meat products; transport services for the other companies in the Group (except for Gradus-3 AD)
- └ Zhyuliv EOOD – hatching of one day chickens and fattening of broilers
- └ Gradus-98 AD - raising of parent birds for production of eggs
- └ Gradus-3 AD - production of fodder and trade in agricultural products.
- └ Gold Farm 91 EOOD - fattening of broilers.
- └ Gradus Logistics EOOD – hire-purchase of motor vehicles, transport services

Gradus AD owns directly:

- └ 100% of the capital of Millennium 2000 EOOD, Lora-2004 EOOD, Gradus-1 EOOD, Zhyuliv EOOD, Gold Farm 91 EOOD, Gradus Logistics EOOD;
- └ 99.994% of Gradus-98 AD;
- └ Indirectly 96% in Gradus-3 AD through Gradus -1 EOOD.

BUSINESS MODEL

Следващата графика представлява бизнес модела на Групата



Ownership and governance of the parent company

Gradus AD (the parent company) has a one-tier management system with a Board of Directors consisting of three (3) members. The management of the parent company by the Board of Directors has the following composition as of 31 December 2021:

- 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 Gradus AD

The parent company holds the following equity interest in the subsidiaries:

- Lora-2004 EOOD - 50 shares with a nominal value of BGN 100 each representing 100% of the capital of Lora-2004 EOOD;
- Zhyuliv EOOD - 50 shares with a nominal value of BGN 100 each representing 100% of the capital of Zhyuliv EOOD;
- Millennium-2000 EOOD - 10 shares with a nominal value of BGN 500 each representing 100% of the capital of Millennium-2000 EOOD;
- Gradus-1 EOOD - 100 shares with a nominal value of BGN 50 each representing 100% of the capital of Gradus-1 EOOD;
- Gradus AD participates indirectly in the capital of Gradus-3 AD through its subsidiary Gradus-1 EOOD - owning 96.00% of the capital of Gradus-3 AD;

- Gradus-98 AD - 49,967 common registered voting shares with a nominal value of BGN 10 each, representing 99.94% of the capital of Gradus 98 AD.
- Gold Farm 91 EOOD – 3,837,782 shares with a nominal value of BGN 1 each, representing 100% of the capital of Gold Farm 91 EOOD;
- Gradus Logistics EOOD – 400,000 shares with a nominal value of BGN 100 each, representing 100% of the capital of Gradus Logistics EOOD.

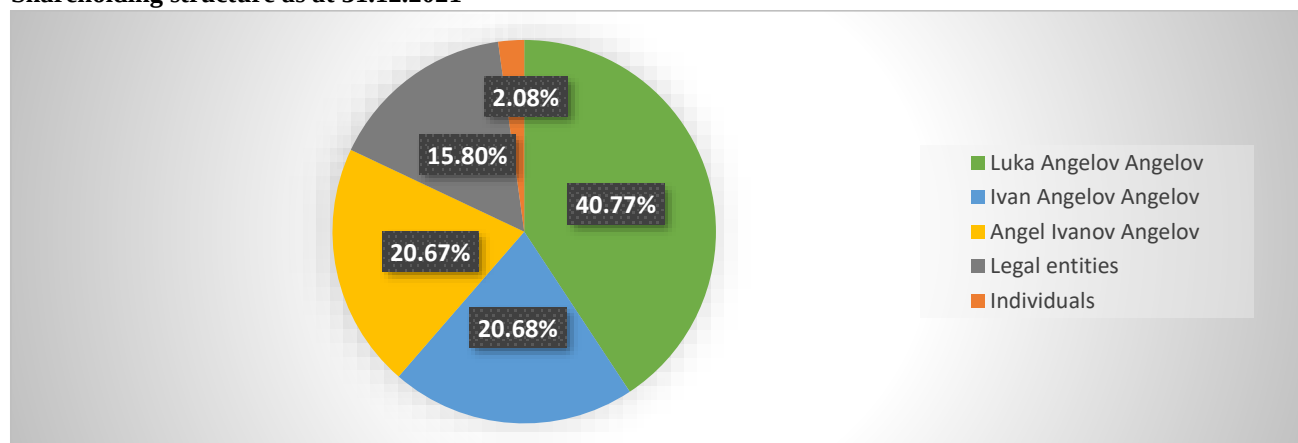
Scope of business of the Group companies

The main scope of business of the Group companies is concentrated in the Poultry sector, except for companies whose activity is also "production of compound fodder and trade", and „Hire-purchase of motor vehicles, transport services“.

The scope of business of the Group companies is as follows:

- **Lora-2004 EOOD** – the main business of the company is poultry farming - breeding and sale of fattening birds - broilers;
- **Zhyuliv EOOD** – the main business of the company is fattening broilers and hatching of chickens. The company is registered in the Agriculture State Fund as an agricultural producer;
- **Millennium 2000 EOOD** – the main business of the company is poultry breeding - breeding parent birds for broilers, production and sale of breeding eggs, production and sale of fattening broilers;
- **Gradus-1 EOOD** – the main business of the company is the processing and sale of poultry meat products;
- **Gradus-3 AD** - the main business of the company is the production of compound fodder intended for the market containing grains and fodder additives in proportion according to established and approved recipes. For the exercise of its business the company is entered in the register pursuant to Article 19, paragraph 11 of the Fodders Act and has received a certificate of approval No. 00041 dated 26 January 2007 from the National Grain and Fodder Service.
- **Gradus-98 AD** – the main business of the company is production, processing and sale of all kind of agricultural and animal products.
- **Gold Farm 91 EOOD** - the main business of the company is poultry-farming - breeding and sale of fattening birds – broilers.
- **Gradus Logistics EOOD** - the main business of the company is hire-purchase of motor vehicles, and provision of transport services.

Shareholding structure as at 31.12.2021

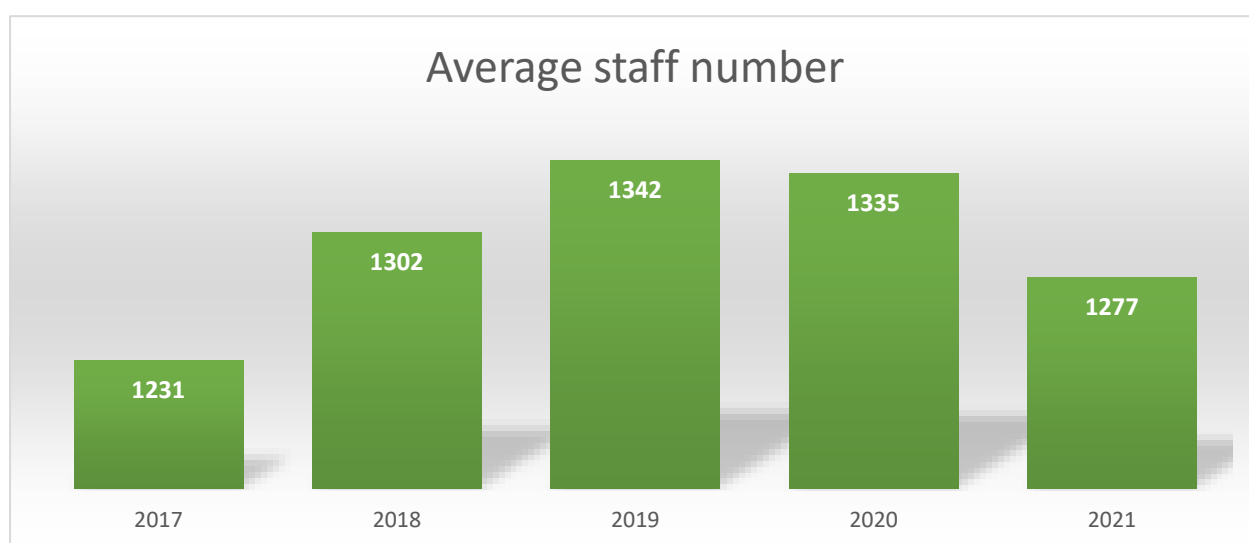


Products

Gradus is a group operating in the meat processing sector, which includes a vertically integrated business for the production of chicken meat and chicken meat products, as well as sausages and frankfurters from pork meat. Gradus products are produced in a closed cycle which ensures that at every stage the company's highest standards are strictly adhered to. The product chain for the production of chicken meat and chicken meat products includes: production of fodder, production of breeding eggs, production of one-day broilers, breeding of broilers for fattening, chicken meat and products of processed chicken meat.

Personnel

By the end of 2021, the average number of Gradus Group staff was 1,335 employees: The company with the highest number of staff was Gradus 1 EOOD, followed by Millennium 2000 EOOD, and the company with the lowest number of staff was the parent company Gradus AD, as well as Gradus Logistics EOOD.



II. Environment protection

Description of policies and their objectives

Being a holding company, which does not carry out independent business activity, Gradus AD has focused with priority its activity on the management of subsidiaries. The company pays particular attention to the environmental impact exercised by the activity. The companies report annually on environmental impact assessment and the measures taken in this direction.

Main activities and costs incurred in 2021

Companies from Gradus Group pay particular attention to and care for the environmental impact imposed by the production activities of its facilities. Taking into account the scale of the production processes that exceed the thresholds specified in the Environmental Protection Act, the facilities of Gradus Holding AD carry out their activities on the basis of Complex Licenses issued (pursuant to Article 117 of the Law). The facilities of Gradus Group hold Complex Licenses and, under the terms of these Complex Licenses, they implement Environmental Management Systems (EMS) that comply with the applicable best available techniques conclusions for the sector concerned. All operating and maintenance instructions, for monitoring of technical and emission indicators, periodic assessment of the compliance of the measured values with the permitted ones, for establishing the reasons for the non-conformities and taking corrective actions have been prepared and applied. Both inflows to installations - water, energy, fuels, raw materials and auxiliary materials, as well as outflows - emissions to the air, emissions to waste and groundwater, pollutant release into the soil, noise generated waste are monitored. EMSs shall be reviewed annually and, where necessary, updated in order to ensure that the achieved level of environmental performance is maintained and improved. The companies have an organizational structure established for environmental management.

Responsible officials are designated to perform and carry out the specific terms and provisions contained in the Complex Licenses, who also are responsible for controlling the results of the elimination of the non-conformities that have been identified. Continuous control of efficient use and minimization of resource use is carried out during the operation of installations, with regular monitoring of the efficiency of the production activity with regard to the use of water, energy, auxiliary materials and fuels. The water for watering the birds, as well as the water for the production and sanitary needs at Gradus Poultry is supplied from own water sources - tubular wells based on permits under the Water Act. Each quarter, monitored is conducted an accredited laboratory to determine the compliance of the water produced by the wells with the requirements of Ordinance No. 9 of 2001 on the quality of water intended for drinking household purposes. Water costs are calculated on a monthly basis to determine the annual rate of effectiveness. In order to reduce the cost of water on the sites, the necessary instructions for the operation and maintenance of the technological equipment, which is the main water consumer, for the maintenance and verification of the water supply network, leakage removal and identification of the causes for them, have been applied. Where nonconformities are detected, immediate corrective actions are taken to address them.

The management of the holding company from time to time evaluates the energy output of the installations and takes measures aimed at reaching optimal consumption standards in the operation of the facilities. Instructions for the operation and maintenance of the equipment, which is the main consumer of electricity, have been applied. Where immediate nonconformities are detected, immediate corrective actions are taken to remove them. In order to protect soils and underground water from pollution with hazardous chemical substances and mixtures, for the use of such substances, mainly disinfectants, special storage areas are used such as closed warehouses which are equipped with floor and side insulation, preventing the leakage of water or other liquids into the soil, and they are not connected to the water sewerage system. Collector tanks are provided for the occurrence of any spills and suitable absorbing materials are in place. The premises are equipped with forced ventilation and are permanently locked. All chemical substances and mixtures classified under one or more hazard categories pursuant to Regulation (EC) No. 1272/2008 on classification, labelling and packaging of substances and mixtures are provided with safety data sheets that meet the requirements of Annex II to Regulation (EC) 1907/2006 on the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) as amended by subsequent amendments and corrections. The storage of the chemical substances and mixtures meets the storage conditions specified in the safety data sheets and the Ordinance of the Council of Ministers pursuant to Article 4b of the Protection against the Harmful Impact of Chemical Substances and Mixtures Act. Instructions for maintenance and periodic inspection of the conformity of the facilities and the storage sites with the requirements of the regulations for the procedure and the manner of storage of hazardous chemical substances are applied. Where immediate nonconformities are detected, immediate corrective actions are taken to address them. In order to preserve the cleanness of the atmospheric air, the organized and non-organized emissions from the activity of the holding's facilities are controlled and monitored. Once at every two years, the company is carrying out self-monitoring using an accredited laboratory to monitor the emissions of harmful substances released into the atmosphere by Gradus Poultry and the Fodder Plant in the town of Nova Zagora. The results of the monitoring carried out so far show compliance with the emission standards set. To minimize non-organized emissions, including emissions into the air of ammonia and dust from activities, as well as the emissions of intense odorous substances, a set of measures complying with the requirements of the applicable best available techniques conclusions have been applied for the respective sector – poultry breeding, slaughterhouses and the production of fodder for birds.

The control for compliance with the set individual emission limits of discharged production and household faeces waste water from Gradus Poultry and the Fodder Plant in the town of Nova Zagora is carried out through self-monitoring carried out twice a year. Sampling and analysis are performed by an accredited laboratory. The results of the monitoring carried out so far show compliance with the norms set.

For the environmentally sound management of the waste generated from the activities of the holding's facilities, separate collection of waste is applied. Waste is handed over for recovery prior to its disposal. On the territory of the companies there is a site for pre-storage of industrial and hazardous waste generated from work activities. The designated sites have a durable concrete/asphalt covering. In order to avoid mixing different types of waste, the sites are separated by placing boards with the name of the waste and their codes under Ordinance 2 of 23 July 2014 on the classification of the waste.

For the preliminary storage of hazardous waste, closed warehouses are designated, with a resistant floor covering, without connection to the sewage system, permanently locked and marked with sign boards. The waste is handed over for recovery, incl. recycling and disposal outside the territory of the site, only to persons holding a document under Article 67 and/or under Article 78 of the Waste Management Act or a complex permit for the specific type of waste and for carrying out the respective

activity on the basis of a written contract.

The complex permits of the poultry farms have been reviewed and updated by the competent body, namely the Executive Environment Agency, Sofia, in connection with the Commission Implementing Decision (EU) 2017/302 of 15 February 2017 establishing best available techniques (BAT) conclusions. The new conditions set therein and their implementation by us guarantee the application of the best global techniques in the poultry industry, which minimizes the negative impacts of our activities on the environment.

The animal by-products generated from the activities of facilities that are not utilized are handed over for disposal to incinerator plants. The cost of rendering incurred by the Group's subsidiaries in 2021 amounts to BGN 98 thousand.

As far as the environmental impact is concerned, poultry farming is an indispensable part of the circular economy that the European Union seeks to impose as a sustainable economic model. Fertilizers formed after the end of the poultry life cycle are utilized for the production of biogas in power plants, and animal waste from meat production for human consumption (from Gradus Poultry) is utilized for the production of food for small mammals.

The activities carried out on the production sites are performed in a manner that will not allow noise emissions in the environment above the equivalent noise level /at day, in the evening and at night at the boundaries of the site and at the place of impact/. This is evidenced by the results of self-monitoring carried out once at every two years where noise emission tests are conducted by an accredited laboratory. The results of the monitoring carried out show compliance with the emission standards set.

For the activities related to the protection of environmental components and factors through the execution of the issued complex permits, according to the requirements of the Environmental Protection Act, the companies annually prepare and submit to the supervisory body - the respective Regional Inspectorate of Environment and Waters /RIEW/, an Annual Environmental Report. Once being verified, the reports are published on the website of the Executive Environment Agency, city of Sofia.

The costs incurred by the Group's subsidiaries in 2021 amount to BGN 293 thousand and are directed to water studies, wastewater treatment plants, waste collection and household waste charges, etc.

Ecological Risks

Pursuant to Article 3, paragraph 1 of *Ordinance No. 1 of 2008 on the type of preventive and remedial measures in the cases provided by the Law on the responsibility for prevention and removal of ecological damages and on the minimum amount of the costs for their implementation*, for all facilities of Gradus Holding Assessments have been prepared for possible cases of imminent threat of environmental damages and cases of environmental damages caused. According to these assessments, the following environmental damages may occur:

1. Soil and/or underground water penetration of concentrated hazardous chemical substances and mixtures as a result of spillage when unloaded and/or during activities with them;
2. Contamination of soils and/or underground water as a result of damaging the integrity of watertight sewage pits for waste water;
3. Contamination of soil with mercury as a result of breakage of luminescent tubes and/or other mercury- containing waste;
4. Contamination of soil and underground water with diesel fuel as a result of leakage of diesel fuel from the company gas station tanks, equipment or fuel pumps;
5. Ignition of diesel fuel and penetration of contaminated firefighting water into the soil and underground water.

Analysis and evaluation of the information: the methodology of analysis and evaluation of events is based on the principle of the three factors - event, event probability and event severity. The probability of occurring of any of the above listed events and the severity of the environmental damage occurring from the realization of this event is evaluated. Preventive measures are proposed to manage the risk of occurrence of the event and remedial measures to be implemented should one of the preventive measures fail.

The preventive and remedial measures envisaged in the assessments are carried out by the designated persons responsible and are supervised by the managers of the facilities. The remedial measures envisaged for the possible occurrence of environmental damages are valued and financial resources are provided for this purpose.

In 2021 the costs related to the environment amounted to BGN 293 thousand.

The Challenges of Climate Change

Climate change is recognized globally as a major challenge for humanity. Taking into account the role of human activity, the release of carbon dioxide, methane, nitrous oxide, fluorine containing and other gases into the atmosphere causes a greenhouse effect, with measurements of global atmospheric concentration of greenhouse gases showing significant increases, with an increase in average global air temperature. The effects of changing climatic conditions are extremely serious for the Earth - they include temperature changes in the oceans and its oxidation, massive melting of snow and ice layers, extreme climatic events that in turn create the risk of forest fires, landslides and floods, biodiversity, arable land and water resources loss.

Given the global nature of the processes related to climate change, the policy of GRADUS AD in the area is determined on the one hand by the legislation and on the other by voluntarily adopted and implemented commitments.

The following greenhouse gases are released from poultry farming activities: methane and nitrous oxide. The gases are released from the bird's excrements on the fertilizer bedding. Methane and nitrous dioxide emissions are calculated annually and reported to the Environment Executive Agency in the European Pollutant Release and Transfer Register. During the 14 years of reporting, the calculated quantities of emitted methane and nitrous oxide for each facility of Gradus AD are separately below the thresholds of Regulation 166/2006 for establishing a European Pollutant Release and Transfer Register.

The activities carried out on sites fully comply with the recommendations of the BREF-document Best Available Techniques Reference Document for Intensive Rearing of Poultry and Pigs - July 2017 and the conclusions of the Best Available Techniques /BAT/ on intensive farming of birds or pigs adopted with Commission Implementing Decision (EU) 2017/302 of 15.02.2017.

The measures implemented to reduce methane emissions from poultry farming are:

1. Frequent removal of the firmly accumulated semi-liquid fertilizer litter from the poultry premises resulting in low relative weight of methane producing bacteria. No fertilizer is stored on the site of the poultry farms. The production process is organized in such a way that at the end of the bird's life cycle, the fertilizer is removed from the halls and transported to a cogeneration plant using anaerobic digestion of biomass from plant and animal substances in the town of Nova Zagora.
2. Creating favourable conditions for methane-producing bacteria and building a facility for biogas utilization. Biogas is utilized at the Power Plant for the production of electricity and heat.

The application of any of the best techniques for reducing ammonia emissions also indirectly reduces the formation of nitrous oxide. Measures taken to reduce ammonia emissions, respectively of nitrous oxide in the poultry farms of GRADUS AD are as follows:

1. Equipping existing buildings with a nipple type drinking system. According to the BAT document for poultry farming, water is a significant factor in the level of emissions of methane, ammonia and bad odorous substances from production buildings. When the bedding is moistened in the production buildings, the quantities of pollutants emitted into the ambient air increase.

The nipple type drinking systems used by the operator are in accordance with the ones recommended in the BREF document. They do not allow wetting of the bedding and minimize the conditions for the release of these pollutants.

2. Balanced nutritional diet of birds. The use of additives to fodder - enzymes, which is in line with the worldwide practice of poultry farming - guarantees the maximum reduction of odours from excrements and the products of biochemical and microbiological processes with them.

3. Regular removal of fertilizer from buildings after the end of the bird's life cycle. The fertilizer is regularly removed from the halls. After completion of the life cycle of the birds and their removal from the buildings, the fertilizer bedding is loaded onto a trailer and transported from the site to the Power Plant for combined production of electricity and heat using anaerobic digestion of biomass from plant and animal substances in Nova Zagora.

4. Equipping the poultry premises with a heating and ventilation system contributes to keeping the bedding in the production halls dry and thus reducing the ammonia emissions, respectively nitrous oxide.

5. Compliance with the BAT requirements for bird placement density;

The combination of the techniques used for the density of birds in the halls, keeping the bedding dry, as well as the application of appropriate nutritional diets reduce ammonia emissions, respectively nitrous oxide more than 20% from the baseline.

The heating of the poultry farming premises is carried out with solid fuel stoves (coal) or with natural gas heaters. The stoves are new, with combustion chambers in which complete combustion of the fuel takes place, resulting in the simulation of smaller amounts of carbon dioxide in the atmosphere. Carbon dioxide emissions from the combustion of natural gas are not released.

In order to provide the necessary technological steam, there are steam power plants in Gradus poultry slaughterhouse and the Fodder Plant with natural gas fired boilers installed in them. Its combustion emits no greenhouse gas emissions.

With regard to the available equipment containing fluorinated greenhouse gases - air conditioning and refrigeration installations, leakage inspections shall be carried out by authorized persons on a regular basis in accordance with Regulation /EU/517/2014 on fluorinated greenhouse gases. The inspections are designed to prevent gas leakage into the atmosphere. Reports for the previous year are submitted annually to RIEW.

III. Social Issues

Description of policies and their objectives

Gradus AD and Group companies apply social corporate strategy and policy. The companies have a Code of Ethics designed to establish and strengthen the principles and rules of conduct to be respected by managers and employees in connection with the exercise of their powers.

Main and future activities

The management's actions related to employee are aimed at improving the working conditions and raising earnings. In some companies, a bonus scheme was introduced to motivate employees to carry out their duties properly. Gradually, social policies are introduced into subsidiaries that include a set of incentives with bonus elements such as contracted discounts for employee for the conclusion of insurances and preferential service in financial institutions with which the company operates, as well as mobile operators.

Monthly food vouchers were introduced in all Group companies. Some of the employees go through training courses for acquiring and enhancing their professional qualification. Free commuting is arranged under certain conditions. Some of the employees are provided with housing.

A Group company has a contract concluded with a physician, who takes care of the employees' health, if need arises.

The Group companies finance various social, sport and cultural events, and participates in donation campaigns of importance to the society.

The active implementation of policies on the sustainable development of companies lead to creating a more favourable social



environment, creating the necessary conditions and prerequisites for fulfilling the professional duties of the staff, mastering good manufacturing practices, motivation and satisfaction with working conditions and remuneration.

April 2022

EXECUTIVE DIRECTOR:

/Ivan Angelov/

CHAIRMAN OF THE BOARD OF DIRECTORS:

/Luka Angelov/

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

1. Information whether the issuer complies as appropriate:

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

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

The basis for corporate governance is the interaction between the Board of Directors of the company, the management bodies of subsidiaries, shareholders, potential investors and trading partners. Good corporate governance means loyal and responsible corporate management bodies, transparency and independence, as well as the responsibility of the company to society.

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

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

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

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

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

governance code - the grounds for that:

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

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

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

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

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

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

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

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

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

Control

Main ethical principles and rules in accounting and financial reporting processes

Management at the various levels of Group companies constantly monitors compliance with ethical values such as integrity, independence and objectivity as foundations of the professional conduct of all individuals involved in the accounting and financial reporting processes of the Group. Integrity and ethical conduct are a product of the established common ethical and behavioural standards. They are clearly communicated to all financial and accounting and control staff, and they are constantly being promoted in practice.

Ethical principles to be followed by all persons involved directly or indirectly in accounting and financial reporting processes are: objectivity; impartiality; independence; conservatism; transparency; methodological justification; consistency, and use of independent experts. These principles apply to all stages of financial reporting upon selection of accounting policies; closure of accounts; preparation and application of accounting estimates and preparation of public and management financial statements, other public reports and documents containing financial information.

Management bodies in charge of the separate components of the overall accounting and financial reporting process

The management bodies entrusted with certain responsibilities and powers concerning the financial reporting and other associated processes are different for the different Group companies. For the Group as a whole these are: Board of Directors, Audit Committee, Executive Director, Financial Manager, Chief Accountant.

Their functions and responsibilities include:

- The Board of Directors accepts and approves: accounting policies and any changes thereto for every reporting period, accounting estimates developed at the date of every reporting period, including the methodology applied; financial statements and reports, and other public documents containing financial information; functions, organisation and responsibilities of all structural units and their managers involved in processes on and relating to financial reporting; development, implementation and current monitoring on the operation of various controls;
- The Audit Committee monitors independently the implementation of the financial reporting processes, accounting policies applied, as well as the financial performance and results from the external and internal audit;
- The Executive Director is responsible for the overall organisation, operation and ongoing control over accounting and financial reporting. He manages directly the overall process and takes all key decisions on financial statements and other public documents containing financial information. Moreover, he approves as a first level the accounting policies, key reporting methodologies, and evaluates and

accepts the work of independent experts (valuers, actuaries, advisors, etc.), involved in the financial reporting process. He exercises, together with the Chief Accountant, ongoing control on the risk for financial statements arising out of the business risks faced by the company;

- The Financial Manager is responsible for the overall organisation, operation and ongoing control over accounting and financial reporting. He manages directly the overall process and takes all key decisions on financial statements and other public documents containing financial information. Moreover, he approves as a first level the accounting policies, key reporting methodologies, and evaluates and accepts the work of independent experts (valuers, actuaries, advisors, etc.), involved in the financial reporting process. He exercises, together with the Chief Accountant, ongoing control on the risk for financial statements arising out of the business risks faced by the company;

- The Chief Accountant organises and manages the accounting and reporting activity of the companies – he/she exercises control and provides methodological guidance on the current accounting; manages the preparation of financial and management reports; bears the responsibility for the development and implementation of accounting and reporting methods and techniques; bears the responsibility for the process of closing the accounts and the preparation of all accounting estimates, proposes and develops accounting policies and changes thereto; follows-up any current amendments to IFRS. The Chief Accountant is the person for direct contact with all internal and external experts involved in financial reporting processes.

Human resource policy and practice in the financial and accounting departments

The Group has policies and rules established related to the management of human resources employed in the financial reporting process and other associated processes. These include imposed and implemented policies and procedures in the selection and appointment of such staff aimed at their education and professional experience, computer literacy and foreign language competence of applicants. The selection is guided by the requirements laid down in the job descriptions of individual positions. Staff management policies also include continuing vocational training, upgrading and expanding the knowledge and skills of employees. Trainings are mandatorily carried out in the event of changes in statutes, IFRS, tax laws, etc. relating directly to their work. The goal of this policy is to improve their expertise and skills aiming at increasing their effectiveness in carrying out the duties being entrusted to them.

Assessment of risk relating to financial reporting – structure of the process within the Group

The Board of Directors, the Audit Committee, the Financial Manager and the Chief Accountant of the parent company play a key role in the process of constant identification, monitoring and control of business risks, including to identify and control the effects of those of them, which have a direct impact on individual processes and accounting items, financial reporting and companies' reporting. They ensure an overall monitoring over the risk management process.

Gradus AD has also a Risk Manager who conducts an economic assessment of the risks taken by the company and takes the necessary actions to diminish those risks by employing contemporary financial techniques and instruments. The Risk Manager identifies any possible weaknesses of business processes and evaluates the costs of operating risks and informs management of the existence of any uncovered risks, as well as of their value.

Risk factors relevant to ensuring a reliable financial reporting include external and internal events,

transactions and circumstances that may arise and negatively affect the ability of an enterprise to create, maintain and process accounting and operational data in a way that ensures reliable financial reporting, financial statements and reports.

The following factors have been identified as key factors within the Group:

a) external risks are: a change in the business environment and the market environment of companies, and their main products; the activities of competitors; a change in the legal and regulatory framework; changes in key suppliers or clients; unconscientious or malicious actions by external parties;

b) internal risks include: a change in the technological base of the companies, as well as in the manner and intensity of use of their assets and resources; new products and activities; new accounting policies and IFRS; changes in the staff of departments responsible for and/or involved in financial reporting; changes in information systems; errors and/or insufficient knowledge or skills of staff; application of multiple estimates – particularly application of fair values and calculation of recoverable amounts of certain non-current assets in which external experts are involved.

Risk factors of recurring nature and/or are related to the implementation of accounting policies and estimates are currently monitored by the Chief Accountant of the Group, who provides solutions for the management and proper reflection of their effects in the financial statements.

The new risk factors are identified by the Executive Director of the parent company; these are evaluated and developed by the Executive Director, jointly with the Chief Accountant. Where necessary, advisory assistance from independent consultants, including and for the application of new IFRSs, is used as well. The Audit Committee of the company carries out overall monitoring of the risk management process related to financial reporting.

Information system of the Group companies. Accounting Department – organisation of the accounting function and financial reporting process within the Group companies

Information system

The information system of Gradus comprises of infrastructure (physical and hardware components), software, people, procedures, and data. At present, the Group is in a process of implementing a management and control system (Microsoft Dynamics NAV 2018). At the date of preparation of this declaration, the ERP product was implemented in eight companies (at individual level).

For the subsidiary Gradus-1 EOOD, the implementation processes continue. Until the full coverage of all of the Group's business processes in a uniform management software, various accounting software are applied, the data of which is summarized in a specialized software for consolidation purposes.

Accounting Department – performance of the accounting function and a key role in the financial reporting process

The Accounting Department of the parent company is directly subordinated to the Executive Director. It is headed by a Chief Accountant. According to its functional characteristics, the Accounting Department



covers and fully implements the accounting and reporting function, including the preparation of financial statements.

Its responsibilities include also the correct and consistent application of the developed accounting policies; the development and implementation of an internal Chart of Accounts; reporting methodologies, the ongoing keeping of accounting; the current accounting analysis and control of the reporting data and documentation; the collection and classification of reporting data for the purposes of the financial statements; the preparation and/or processing of input data for accounting estimates together with the experts involved, as well as reporting of deviations and discrepancies found, and compliance with statutory requirements in the field of accounting, taxes and other related areas.

Relevant structures have been established in each one of the Group companies that ensure the proper functioning of the company itself and control on its financial and accounting activities.

The accounting policy of the parent company and the Group respectively, for the purposes of preparation of the consolidated financial statements, are subject to approval by the Financial Manager and the Board of Directors of the parent company on an annual basis. The most important aspects necessary for the proper understanding of financial statements are required to be disclosed.

The selection of the reporting framework is defined on the basis of the requirements of the Accountancy Act. The Group applies International Financial Reporting Standards (IFRS), adopted by the European Union. The current control on the proper application of IFRSs is carried out by the Chief Accountant, the Financial Manager, the Executive Director, and the Audit Committee.

Further confirmation of the correctness of the application is obtained by external auditors. The preparation of the financial statements of the parent company for public use is a result of a comprehensive accounting process for the reporting period.

Certain actions and procedures are to be carried out, and certain documents are to be drawn up by persons from the Accounting Departments, or by other officials, and these actions and procedures are aimed at: carrying out of stocktaking; analyses of accounts; sending letters of confirmation; determining best estimates, such as depreciation / amortisation charges, revaluations, impairments and accruals, which are based on reasonably justified assumptions; collection and classification of accounting data; investigation and analyses of certain legal documents (contracts, court cases, legal advisers' opinions); investigation and evaluation of experts' reports (valuers, actuaries, internal auditors, other internal experts and officials); preparation of reference sheets and financial packages for consolidation purposes; preparation, analysis and discussion of draft financial statements.

The closure of accounts process is directly managed by the Chief Accountant. Monitoring is carried out by the Financial Manager, the members of the Board of Directors and the Executive Director, and they take the final decisions on key issues relating to the recognition, classification, assessment, presentation and disclosures of certain items, transactions and events, as well as the overall presentation in the financial statements – separate and consolidated financial statements of the parent company.

Control activities

Control activities and processes include: reviews of performance and operating results; processing of information; physical controls, and division of duties and responsibilities.

The general controls relevant to financial reporting can be classified as procedures related to current and periodic reviews and analyses of financial indicators and inputs, through which the financial performance and operating results of the Group companies are presented in the financial statements.

The physical controls applied by the Group companies include:

- a) measures for the physical safety of assets - safety facilities and premises, as well as special conditions for access to assets and documents;
- b) a special procedure for approval of the access to software and data files;
- c) periodical stocktaking - procedures for the organisation and carrying out of stocktaking by way of physical counting / weighting of stock / sending relevant letters of confirmation and comparison with the amounts recorded in the checklists and accounting documents/registers. Procedures have been implemented for the timely analysis of the stocktaking results, elaboration of decisions on their accounting for, and respectively, obtaining the approval of the Executive Director.

The Group is in a process of constantly expanding the formal control procedures and activities.

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

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

No proposals for takeover and/or merger with another company were made to the Company as of 31 December 2020.

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

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

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

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

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

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

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

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

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

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

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

- ✓ approves the conclusion of transactions other than those specified in Art.114, para.1 of the Public Offering of Securities Act (POSA) with the participation of interested persons within the meaning of Art.114, para.7 of POSA;
- ✓ approves the conclusion of transactions under Art.114, para.3 of the POSA by the subsidiaries of the Company,
- ✓ resolves on all matters that are not within the exclusive competence of a General Meeting.

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

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

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

The company is represented by the Chairman of the Board of Directors, Luka Angelov, and by Ivan Angelov, Member of the Board of Directors and Executive Director, jointly.
The company has a one-tier management system.

Management bodies of Gradus AD:

- General Meeting of Shareholders
- Board of Directors

General Meeting, Participation in a General Meeting

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

Competence of the General Meeting:

- Amends and supplements the Articles of Association of the Company;
- Increases and decreases the capital of the Company;
- Transforms and terminates the Company;
- Elects and dismisses the members of the Board of Directors;
- Determines the remuneration of the members of the Board of Directors, to whom corporate governance functions will not be entrusted, including their right to receive a portion of the Company's profit, as well as the right to acquire shares and bonds of the Company;
- Appoints and dismisses registered auditors, when the audit is mandatory in the cases provided for in a law or when a decision has been taken that an independent financial audit shall be carried out;
- Approves the annual financial statements after they have been certified by the appointed registered auditor in the cases where an independent financial audit has been carried out; takes a decision for profit distribution, for making contributions to the Reserve Fund and for payment of dividends;
- Resolves on the issuance of bonds;

- Appoints liquidators in the event of termination of the Company, except for the case of termination by bankruptcy;
- Releases from liability the members of the Board of Directors;
- Resolves on redemption of treasury shares of the Company;
- Elects an Audit Committee; determines the number and mandate of its members and approves its Rules of Procedure in compliance with the provisions of the Independent Financial Audit Act;
- Empowers the persons managing and representing the Company to conclude deals under Article 114, paragraph 1 of POSA;
- Resolves on all other matters within its competence according to the law and/or the Articles of Association.

Board of Directors:

- The Board of Directors manages and represents the company;
- The Board of Directors exercises its powers in compliance with the decisions of the General Meeting, these Articles of Association and the applicable law.

Competence of the Board of Directors:

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

- After obtaining a public status from the Company, it shall approve the conclusion of transactions under Art.114, para.3 of POSA by the subsidiaries of the Company;
- Approves the consolidated financial statements of the Company;
- Resolves all matters which are not within the exclusive competence of the General Meeting.

Remuneration

The amount and structure of remuneration of the members of the Board of Directors are regulated by the Articles of Association of Gradus AD, approved by the General Meeting of the company, their management contracts, and the Remuneration Policy of the Board of Directors, adopted by the General Meeting held on 10 June 2019.

Conflict of interest

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

Supervisory bodies

The company has a one-tier management system and thus, an Audit Committee has been established in accordance with Article 107 of the Independent Financial Audit Act. The Audit Committee consists of 3 (three) members elected by the Board of Directors for a 4 (four)-year mandate. The majority of the members of the Audit Committee, including its Chairperson, should be independent.

The Audit Committee is composed as follows:

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

The Chair of the Audit Committee complies with the independence requirements applicable to members of Audit Committees, as defined in article 107, paragraph 4 of the Independent Financial Audit Act.

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

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

6. Description of the diversity policy applied as regards the administrative, managerial and supervisory bodies of the issuer in connection with aspects such as age, gender or education and professional experience, the objectives of such diversity policy, its method of application and

the results therefrom during the reporting period; when no such policy is applied, the declaration shall contain an explanation regarding the reasons for that:

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

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

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

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

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

28 April 2022

Executive Director:

Ivan Angelov

Chairman of Board of Directors:

Luka Angelov



**TO
SHAREHOLDERS OF
GRADUS AD**

DECLARATION

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

The undersigned:

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

Baker Tilly Klitou and Partners EOOD was engaged to carry out a mandatory financial audit of the consolidated financial statements of Gradus AD ("The Group") for the year 2021, prepared in accordance with the International Financial Reporting Standards, as adopted by the EU, a generally accepted name of the accounting base defined in paragraph 8 of the Supplementary part of the Accounting Act under the name "International Accounting Standards". As a result of our audit, we issued an audit report on April 28, 2022.

We hereby certify that as reported in our audit report on the annual consolidated financial statements of Gradus AD for 2021 issued on April 28, 2022:

1. Art. 100m, para. 4, item 3, letter "a" Audit opinion: In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2021 and of its financial performance and its cash flows for the year ending on that date in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).

2. Art. 100m, para. 4, item 3, letter "b" Information related to the transactions of GRADUS AD with related parties. Information about related party transactions is duly disclosed in Note 37 to the consolidated financial statements. Based on the audit procedures we performed on related party transactions as part of our audit of the consolidated financial statements as a whole, we have not become aware of any facts, circumstances or other information on the basis of which we may conclude that related party transactions are not disclosed in the accompanying consolidated financial statements for the year ended 31 December 2021 in all material respects in accordance with IAS 24 Related Party Disclosures. The results of our audit procedures on related party transactions have been reviewed by us in the context of forming our opinion on the consolidated financial statements as a whole, rather than in order to express a separate opinion on related party transactions.

3. Art. 100m, para. 4, item 3, letter "c" Information relating to material transactions. Our audit responsibilities for the consolidated financial statements as a whole described in the section of our report "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" include assessing whether the consolidated financial statements present the material transactions and events in a manner that delivers credible performance. Based on the audit procedures we performed on the material transactions underlying the consolidated financial statements for the year ended 31 December 2021, no facts, circumstances or other information have been disclosed to us in order to conclude that there are cases of material misrepresentation and disclosure in accordance with the applicable IFRS requirements adopted by the European Union.

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

The representations made by this declaration should be considered only in the context of our audit report as a result of the independent financial audit of the consolidated annual financial statements of GRADUS AD for the reporting period ending 31 December 2021, dated April 28, 2022. This declaration is intended solely for the above-mentioned addressee and has been prepared solely and solely in compliance with the requirements set forth in Art. 100m, para. 4 item 3 of the Public Offering of Securities Act (POSA) and should not be accepted as a substitute for our opinion expressed in the audit report issued by us on 28 April 2022 regarding the issues covered by Art. 100m, para. 4, item 3 of POSA.

28 April 2022

Sofia

Ivaylo Yanchev

Registered auditor, responsible for the
audit

*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 CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of GRADUS AD and its subsidiaries (together “the Group”), which comprise the consolidated statement of financial position as of December 31, 2021, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”), as adopted by the European Union (“EU”).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Group within the meaning of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the consolidated 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.

Key audit matters

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

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
1. Valuation of intangible assets and goodwill As disclosed in Notes № 5 and № 6 to the consolidated financial statements as of 31 December 2021, the Group reports intangible assets (trademarks), amounting to BGN 53,273 thousand and goodwill, amounting to BGN 20,656 thousand related to subsidiaries. The review and the tests of the Group's management for necessity of impairment of the intangible assets and goodwill related to subsidiaries is a complex process, through which are considered forecasts of the Group regarding future estimated benefits and gains, expected to be received from them. In its calculations the Group management needs to apply significant assumptions, various judgments and estimates, as for valuation determination they use the method of discounted future cash flows. Due to the circumstances that (a) the process of estimating and testing of possible impairment losses of the intangible assets and goodwill related to subsidiaries assumes a number of judgments, higher degree of subjectivity and uncertainty related to the projection assumptions, including revenue projections, cash flow projections and growth rate, the level of uncertainty, and (b) the significance of the reporting item itself, as disclosed above, we have determined this matter as a key audit matter.	In this area our audit procedures performed are: • Analyses and assessment of the appropriateness of Group's budget and projections as of 31 December 2021 • Examination of the calculations and the results from the test for impairment of the intangible assets and goodwill, made by the Group's management with the assistance of independent external appraisers; • Assessment of the objectivity, independence and competency of the external certified appraisers. • Analysis and assessment of the appropriateness of the key judgments and assumptions, used by the Group's management, including the discount rate used in the application of the discounted cash flows model; • Assessment and testing the completeness, appropriateness and adequacy of the disclosures in the Group's consolidated financial statements with regard to the valuation of intangible assets and goodwill related to subsidiaries.

Information Other than the consolidated financial statements and Auditors' Report Thereon

The Management is responsible for the other information. The other information comprises of the annual report on activities, the corporate governance statement and the non-financial declaration, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditors' report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee of the Group ("Those charged with governance") are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Receive adequate and relevant audit evidence regarding the financial information of the companies part of the Group in order to express an opinion on the consolidated financial statements. We bear responsibility for the instruction, supervision and execution of the audit of the consolidated financial statements. We bear the ultimate responsibility for our audit opinion.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Opinion under Article 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

- The information included in the annual report on the activities for the financial year for which the consolidated financial statements have been prepared, is consistent with the consolidated financial statements.
- The annual report on the activities has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100m, paragraph 7 of the Public Offering of Securities Act.
- The information required by Chapter Seven of the Accountancy Act and Art. 100m, para 8 of the Public Offering of Securities Act is presented in the corporate governance statement covering the financial year for which the consolidated financial statements have been prepared.
- The non-financial Declaration, covering the financial year for which the consolidated financial statements have been prepared, has been provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

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

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

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

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

The information on transactions with related parties is disclosed in Note 37 to the consolidated financial statements. Based on the audit procedures performed on the transactions with related parties, we have not identified any facts or other information, based on which we could conclude that the transactions with related parties are not disclosed in the attached financial statements, in all material aspects, in accordance with the requirements of IAS 24 Disclosure of related parties. The results of our audit procedures regarding transactions with related parties are considered in the context of forming our audit report on the consolidated financial statements taken as a whole, and not with the purpose of expressing the audit opinion on transactions with related parties.

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

Our responsibilities for the audit of the consolidated financial statements as a whole, described in the section Auditors’ Responsibilities for the Audit of the consolidated financial statements include assessment whether the consolidated financial statements presents true and fair view of material transactions and events. Based on the audit procedures performed on the material transactions, underlying the consolidated financial statements for the year ended 31 December 2021, no facts, circumstances or other information have come to our attention, based on which we can conclude that there are cases of material misstatements and disclosures in the consolidated financial statements in accordance with the requirements of IFRS, adopted by EU. The results of our audit procedures on the material transactions and events related to the Group are considered in the context of forming our audit report on the consolidated financial statements taken as a whole, and not with the purpose of expressing the audit opinion on these material transactions.

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

We have conducted engagement to express reasonable assurance regarding the compliance of the electronic format of the consolidated financial statements of Gradus AD for the year ended 31 December 2021, in the attached electronic file “485100VMOUDWWCUDJ690-20211231-BG-CON.zip”, with the requirements of Commission Delegated Regulation (EU) 2018/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (“Regulation ESEF”). Our conclusion is only regarding the electronic format of the consolidated financial statements and does not cover the other information included in the annual consolidated financial statements for the activity under Art. 100m, para. 5 of the POSA.

Description of a subject matter and applicable criteria

The management has prepared the electronic format of the consolidated financial statements of the Group for the year ended 31 December 2021 under the ESEF Regulation in order to comply with the requirements of the POSA. The requirements for the preparation of consolidated financial statements in this electronic format are contained in the ESEF Regulation and, in our view, have the characteristics of appropriate criteria for forming a reasonable assurance conclusion.

Responsibilities of the management and those charged with governance

The Group's management is responsible for applying the requirements of the ESEF Regulation when preparing the electronic format of the consolidated financial statements in XHTML. These responsibilities include the selection and application of appropriate iXBRL markups using the taxonomy of the ESEF Regulation, as well as the design and implementation of such internal control system that management determines necessary to prepare the electronic format of the Group's annual consolidated financial statements that does not contain material non-compliance with the requirements of the ESEF Regulation.

Those charged with governance are responsible for overseeing the process for preparation the Group's annual consolidated financial statements, including the application of the ESEF Regulation.

Auditor's responsibilities

Our responsibility is to express a reasonable assurance conclusion as to whether the electronic format of the consolidated financial statements is in compliance with the requirements of the ESEF Regulation. For this purpose, we have complied with the „Guidelines related to issuing of audit opinion in relation to the application of the European single electronic format (ESEF) for the financial statements of entities, which shares are traded on a regulated market in the European union (EU)” of the Professional Organization of Registered Auditors in Bulgaria - Institute of Certified Public Accountants and we have conducted an engagement to express reasonable assurance in accordance with ISAE 3000 (revised) “Assurance Engagements Other than Audits or Reviews of Historical Financial Information” (ISAE 3000 (revised)).

This standard requires us to comply with ethical requirements, plan and perform appropriate procedures to obtain reasonable assurance whether the electronic format of the Group's consolidated financial statements has been prepared, in all material respects, in accordance with the applicable criteria mentioned above.

The nature, timing and scope of the selected procedures depend on our professional judgment, including the assessment of the risk of material non-compliance with the requirements of the ESEF Regulation, whether due to fraud or error.

A reasonable assurance is a high level of assurance, but it does not guarantee that an engagement performed in accordance with ISAE 3000 (revised) will always detect material non-compliance, when such exist.

Quality control requirements

We apply the requirements of the International Standard on Quality Control (ISQC) 1 and, accordingly, maintain a comprehensive quality control system, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements for registered auditors in Bulgaria. We comply with the ethical and independence requirements of the International Code of Ethics for Professional Accountants (including International Standards of Independence) of the International Ethics Standards Board for Accountants (IESBA Code), adopted by ICPA through the IFAA.

Summary of the work performed

The purpose of the procedures planned and performed by us was to obtain a reasonable assurance that the electronic format of the consolidated financial statements has been prepared, in all material respects in accordance with the requirements of the ESEF Regulation. As part of our assessment of compliance with the ESEF Regulation's electronic (XHTML) format for reporting on the Group's consolidated accounts, we maintained professional skepticism and used professional judgment. We also:

- obtained understanding of the internal control and the processes related to the application of the ESEF Regulation regarding the consolidated financial statements of the Group and including the preparation of the consolidated financial statements of the Group in XHTML format and its marking up in machine readable language (iXBRL);
- checked if the applied XHTML format is valid;
- checked whether the human readable part of the electronic format of the consolidated financial statements corresponds to the audited consolidated financial statements;
- assessed the completeness of the marking up in the consolidated financial statements of the Group using the machine-readable language (iXBRL) in accordance with the requirements of the ESEF Regulation;
- assessed the appropriateness of the iXBRL markups selected from the main taxonomy used, as well as the creation of an extended taxonomy element in accordance with the ESEF Regulation where an appropriate element in the main taxonomy is missing;
- assessed the appropriateness of anchoring of the elements of the extended taxonomy in accordance with the ESEF Regulation.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion on the compliance of the electronic format of the consolidated financial statements with the requirements of the ESEF Regulation

In our opinion, based on the procedures performed, the electronic format of the consolidated financial statements of the Group for the year ended 31 December 2021, contained in the attached electronic file "485100VMOUDWWCUDJ690-20211231-BG-CON.zip", has been prepared in all material respects in accordance with the requirements of the ESEF Regulation.

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

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

- Baker Tilly Klitou and Partners EOOD were appointed as statutory auditors of the consolidated financial statements of the Group for the year ended December 31, 2021 by the general meeting of shareholders held on June 11th, 2021 for a period of one year.
- The audit of the consolidated financial statements of the Group for the year ended December 31, 2021 represents fifth statutory audit engagement for that entity carried out by Baker Tilly Klitou and Partners EOOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report provided to the Audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- No prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Group.
- For the period, for which is related our statutory audit, except the audit engagement, we had provided the following other services to the Group, which are not included in the annual report or in the consolidated financial statements:
 - Audit of individual financial statements of the Parent company, prepared in accordance with IFRS, as adopted by EU for the six months period ending 30 June 2021. Audit was conducted in accordance with International Standards on Auditing (ISAs).

Audit company 129 Baker Tilly Klitou and Partners EOOD

Ivaylo Yanchev
Registered auditor, responsible for the
audit

Galina Lokmadjieva – Nedkova
Managing Director
Baker Tilly Klitou and Partners EOOD

April 28, 2022

5, Stara Planina Str., 5th floor
1000 Sofia, Bulgaria