

Translation from Bulgarian

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 /NCGC/ elaborated in October 2007 and approved by the National Corporate Governance Committee, as subsequently amended in February 2012 and April 2016. It was approved by the Deputy Chairperson of the Financial Supervision Commission.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

No proposals for takeover and/or merger with another company were made to the Company as of 31 December 2019.

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

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

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

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

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

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

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

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

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

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

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

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

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

- Luka Angelov Angelov – 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 parent company by a proxy;
- The members of the Board of Directors who are not shareholders participate in the General Meetings without a right to vote.

Competence of the General Meeting:

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

Board of Directors:

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

Competence of the Board of Directors:

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

Remuneration

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

Conflict of interest

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

Supervisory bodies

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

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

Members of the Audit Committee are:

- Radka Dincheva Peneva – Chair of the Audit Committee until 02 November 2019;
- Dobri Svetlozarov Simeonov – Chair of the Audit Committee from 02 November 2019;
- Petya Radoslavova Panova – Member of the Audit Committee;
- Georgi Aleksandrov Babev – Member of the Audit Committee.

The Chair of the Audit Committee complied with the requirements to be an independent member of the Audit Committee, as stipulated in Article 107, paragraph 4, item 1 of the Independent Financial Audit Act, only until 31 October 2019 inclusive. Pursuant to Article 4, paragraph 4 of the Rules of Procedure and Status of the Audit Committee, approved by decision of the GMS of 25 October 2019, after so ceasing to meet the requirements the person shall notify in writing the Board of Directors of Gradus AD and shall cease immediately to perform his/her functions in accordance with paragraph 7.

On 02 November 2019, by virtue of Minutes of the Board of Directors of Gradus AD, the company's management proposed to the General Meeting of Shareholders to elect as Chair of the Audit Committee Mr. Dobri Svetlozarov Simeonov, who complied with the requirements of the Independent Financial Audit Act to be a member and Chair of an audit committee.

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

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

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

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

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

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

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

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

20 March 2020

Executive Director

Ivan Angelov

Chairman of Board of Directors:

Luka Angelov