Translation from Bulgarian

GRADUS AD

CONSOLIDATED ANNUAL ACTIVITY REPORT
CONSOLIDATED ANNUAL FINANCIAL STATEMENT
REPORT OF THE INDEPENDENT AUDITOR
31 DECEMBER 2017

The management presents a report and other material information about the Group's operations as well as the Annual Financial Statements for the period from November 28 to December 31, 2017, prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union.

1. INFORMATION ABOUT THE GROUP

The Gradus Group includes the parent company and its six subsidiaries.

Parent company

"Gradus" AD (the "Company") is a company registered in Bulgaria in the "Commercial Register" of the "Registry Agency" with UIC: 204882907.
It is registered for an indefinite period.
Management address:
Republic of Bulgaria,
6000, the town of Stara Zagora, residential district "Industrialen", "Gradus" Poultry Slaughterhouse.

Managing bodies of the parent company

- General meeting of the shareholders
- Board of Directors

Subsidiaries

As of December 31, 2017, the subsidiaries of the Group are:

- Lora-2004 * (the Company) is registered as an OOD (limited liability company) with the Stara Zagora Regional Court, under company file 332/2004. On 14.12.2017 it is registered in the Commercial Register as EOOD (single-member limited liability company) with the sole owner of the capital "Gradus" AD.
  Management address: the town of Stara Zagora, residential district "Industrialen", "Gradus" Poultry Slaughterhouse

- Zhyuliv * (the Company) is registered as an OOD (limited liability company) with the Sliven District Court, under company file 369/1997. On 14.12.2017 it is registered in the Commercial Register as EOOD (single-member limited liability company) with the sole owner of the capital "Gradus" AD.
  Management address: the town of Stara Zagora, residential district "Industrialen", "Gradus" Poultry Slaughterhouse

- Millennium 2000 * (the Company) is registered as an OOD (limited liability company) by decision 1976 / 20.12.2001 with the Sliven District Court, under company file 948/2001. On 14.12.2017 it is registered in the Commercial Register as EOOD (single-member limited liability company) with the sole owner of the capital "Gradus" AD.
  Management address: the town of Stara Zagora, residential district "Industrialen", "Gradus" Poultry Slaughterhouse

- Gradus-1 * (the Company) is registered with the District Court of Pazardzhik under company file 732/1995. On 14.12.2017 its legal form was changed in EOOD (single-member limited liability company) with sole owner of the capital "Gradus" AD. Management address: the town of Stara Zagora, residential district "Industrialen", "Gradus" Poultry Slaughterhouse
- Gradus-3 ** (the Company) was established on 20.04.1999 by a decision of the Stara Zagora District Court under company file 895/1999.
  Management address: the town of Stara Zagora, residential district "Industrialen", "Gradus" Poultry Slaughterhouse

- Gradus-98 * ("Biser Oliva-98" AD) was registered on 10.07.1998 by a decision of the Stara Zagora District Court under company file No. 1399/1998. By decision of the General Meeting of the Shareholders held on 08.08.2017, 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 06.09.2017.

Management address: the town of Stara Zagora, residential district "Industrialen", "Gradus" Poultry Slaughterhouse

** effective participation percentage rate*
*** indirect participation*

1.1. Ownership and management of the parent company

Gradus AD (the parent company) has a one-tier management system with a Board of Directors of three (3) members. The management of the parent company in the face of the Board of Directors has the following composition as at 31.12.2017:

- 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 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 - 49967 ordinary registered voting shares with a nominal value of BGN 10 each, representing 99.94% of the capital of Gradus 98 AD.

1.2. Business activities of the Group companies

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

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

- **"Lora-2004" EOOD** - the main business activity of the company is poultry farming - breeding and realization of fattened poultry - broilers;
- **"Zhyuliv" EOOD** - the main business activity of the company is fattening of broilers and hatching of chickens. The company is registered in the State Fund "Agriculture" as a farmer;
- **"Millennium 2000" EOOD** - the main business activity of the company is poultry farming - breeding parents of broilers, production and realization of breeding eggs, production and realization of fattened broilers;
- **"Gradus-1" EOOD** - the main business activity of the company is the processing and sale of poultry meat products;
- **"Gradus-3 AD** - the main business activity of the company is the production of compound fodder intended for the market, containing grains and feed additives in a ratio according to established and approved recipes. For the exercise of the activity, the company is entered in the register under Art. 19, para.11 of the Law on Fodders and has received a certificate of approval № 00041 dated 26.01.2007 from the National Grain and Fodder Service.
- **"Gradus-98" AD** - the main business activity of the company is production, processing and realization of all kind of agricultural and animal products.

The parent company and the subsidiaries carry out their business activities in Bulgaria.

As of the date of these consolidated financial statements, the average payroll staff of the Group is 1,244 employees.

Group result for the current period

For the period 28 November - 31 December, the Group reported operating profit of BGN 4 287 thousand and a net profit of BGN 3 383 thousand.

Financial instruments and financial risk

The Risk Management policy of the Group is aimed at identifying and analysing the risks to which the Group is exposed in order to set limits of risk taking. Based on the analysis of these risks, the Group develops and implements appropriate controls to address these risks. This policy, as well as the established controls for risk management, are subject to periodic review in order to reflect changes in the external and internal conditions in which the subsidiaries operate.

Credit risk

Credit risk arises mainly from receivables from customers. The exposure to credit risk is the result of the individual characteristics of each individual client.
The Group manages credit risk primarily by placing credit limits on each client individually depending on the sales volume and the client's credit history as well as on constant control over delayed payments.

Liquidity risk

Liquidity risk is the risk that the Group companies will have difficulty in fulfilling their obligations related to financial liabilities. The liquidity management approach is to ensure, as far as possible, that there will always be sufficient liquidity to meet its obligations, both under normal and stressful conditions, and without incurring unacceptable losses or harming the reputation of the Group. For this purpose, the subsidiaries maintain credit lines and use short-term borrowings from banks.

Market risk

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

Activities in the field of scientific research and development

No scientific research and development has been performed for the period in the Group.

Information on the acquisition of own shares required by the order of Article 187E of the Law on Commerce

No own shares have been acquired in 2016 and 2017.

Information in accordance with Art. 247 of the Law on Commerce

The members of the Board of Directors as at 31 December 2017 participate in the following companies:

I. Luka Angelov Angelov

1.1. As an unlimited liability partner - NO
1.2. Owns directly more than 25% of the capital of:
"Equity Invest-1" AD (UIC 204750154), "Equity Invest-2" OOD (UIC 204746138), "Gradus-2" OOD (UIC 123655788), "Gradus-7" OOD (UIC 123654743) "Mirena" OOD (UIC 123655806), "Gold Agro-2005" OOD (UIC 119642703), "Wolf" OOD (UIC 123760892), "Marieta" EOOD (UIC 123655770), "Bisser Distribution" OOD (UIC 200090633), "Gradus" AD (UIC 204882907)

and indirectly through "Gradus" AD:

"Zhyuliv" EOOD (UIC 119053781), "Millennium 2000" EOOD (UIC 119591422), "Gradus-98" EAD (UIC 123120561), "Gradus-1" EOOD (UIC 822132592), "Lora-2004" EOOD (UIC 123658624), "Gradus-3" AD (UIC 123152751)
and indirectly through "Marieta" EOOD in "Trade Home" EOOD (UIC 123644254).
1.3. Participates in the governing bodies of:
"Equity Invest-1" AD (UIC 204750154), "EQUITY INVEST-2" OOD (UIC 204746138), "Zhyuliv" EOOD (UIC 119053781), "Millennium 2000" EOOD (UIC 119591422), "Gradus-98" AD (UIC 123120561), "Gradus-2" OOD (UIC 123655788), "Graudus-7" OOD (UIC 123654743), "Gradus-1" EOOD (UIC 822132592), "Mirena" OOD (UIC 123655806), "Lora-2004" EOOD (UIC 123658624), "Gold Agro-2005 "OOD (UIC 119642703), "Graudus-3 "AD (UIC 123152751), "Wolf" OOD (UIC 123760892), "Marieta" EOOD (UIC 123655770) , "Biser Oliva" AD (UIC 123036597).

II. Ivan Angelov Angelov

1.1. As an unlimited liability partner - ET "Gradus-Ivan Angelov-55" (UIC 112038433)
1.2. Owns directly more than 25% of the capital of:
"Equity Invest-1" AD (UIC 204750154), "Equity Invest -2" OOD (UIC 204746138), "Gradus-2" OOD (UIC 123655788), "Gradus-7" OOD (UIC 123654743) "Mirena" OOD (UIC 123655806), "Gold Agro-2005" OOD (UIC 119642703), "Wolf" OOD (UIC 123760892), "Gradus" AD (UIC 204882907), "Zagora Oil" OOD (UIC 202473858)
and indirectly through "Gradus" AD:
"Zhyuliv" EOOD (UIC 119053781), "Millennium 2000" EOOD (UIC 119591422), "Gradus -98" EAD (UIC 123120561), "Gradus-1" EOOD (UIC 822132592), "Lora-2004" EOOD (UIC 123658624), "Gradus-3" AD (UIC 123152751).

1.3. Participates in the governing bodies of:
"Equity Invest-1" AD (UIC 204750154), "Equity Invest-2" Ltd. (UIC 204746138), "Zhyuliv" EOOD (UIC 119053781), "Millennium 2000" EOOD (UIC 119591422), "Gradus -98" AD UIC 123120561), "Gradus-2" OOD (UIC 123655788), "Graudus-7" OOD (UIC 123654743), "Gradus-1" EOOD (UIC 822132592), "Mirena" OOD (UIC 123655806), "Lora-2004" OOD (UIC 123658624), "Gold Agro-2005" OOD (UIC 119642703), "Wolf" OOD (UIC 123760892).

III. Georgi Alexandrov Babev - does not participate in commercial companies as unlimited liability partner and does not hold more than 25% of the capital of other companies.

Analysis of key indicators

In order to achieve greater efficiency and control over the Company's results, the management will follow some core performance indicators related to the business activities. These indicators are mainly focused on the amount of profit, debt and effectiveness.

- **Gross Profit Margin (Gross profit from operations / Sales)**

For the period 28 November - 31 December 2017

Profit before tax	4 063
Income	18 252
Gross Profit Margin	22.26%

- **EBITDA margin (EBITDA -** earnings before financial expenses, taxes and depreciation **/ Sales)**

For the period 28 November - 31 December 2017

EBITDA (Earnings before financial expenses, taxes and depreciation)	4 741
Income	18 252
EBITDA margin	25.98

Core indicators that the Group's management monitors in terms of debt and financial stability:

- **Net debt (total debt minus cash) to EBITDA ratio.**

For the period 28 November - 31 December 2017

Interest-bearing debt	
Net debt	44 001
EBITDA (Earnings before financial expenses, taxes and depreciation)	4 741
Net debt /EBITDA	9.28

- **Debt to Asset Ratio (Total Liabilities / Total Assets).** Through this indicator, the Management monitors how much of the assets are financed by debt in one form or another.

As of 31 December 2017

Total Liabilities	69 596
Total Assets	339 695
Debt to Asset Ratio	0.20

EXPECTED DEVELOPMENT OF THE GROUP

The group plans to increase the number of basic herds, increase the number of fattened broilers, increase the production and sale of breeding eggs. Full load of production capacities and increase of the product range and volume of sales under the "Gradus" and "I eat" brands is planned.

RESPONSIBILITY OF THE MANAGEMENT

Under Bulgarian law, management should prepare a report on the activities and as well as a financial report for each financial year that gives a true and fair view of the financial performance of the Group at the year-end, financial performance and cash flows, in accordance with the applicable accounting framework. The Group applies International Financial Reporting Standards (IFRS) approved by the European Union for the purpose of accounting under Bulgarian Accounting Legislation. Management's responsibility includes: developing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selection and application of appropriate accounting policies; and the preparation of approximate accounting estimates that are reasonable in the circumstances.

The management confirms that it has acted in accordance with its responsibilities and that the consolidated financial statements have been prepared in full compliance with the International Financial Reporting Standards as approved by the European Union.

The management also confirms that, when preparing this consolidated activity report, it has faithfully and honestly presented the development and performance of the enterprise over the past period as well as its position and the main risks it faces. The management has approved the consolidated Activity and Consolidated Financial Statements for 2017.

EVENTS AFTER THE REPORTING DATE

On 24.01.2018 the Group has signed an annex to an Overdraft Loan Agreement with "Bank 1" (Loan 1). The term of use and repayment was extended until 30.09.2018.

On 24.01.2018 the Group has signed an Annex to a Loan Agreement with "Bank 1" (Loan 2). The term of use and repayment was extended until 30.09.2018.

On 24.01.2018 the Group has signed an Annex to a Loan Agreement with "Bank 1" (Loan 3). The term of use and repayment was extended until 30.09.2018.

On 30.01.2018 Gradus AD made a decision to increase the capital by up to BGN 100 million by issuing new shares. The increase of the capital will be made under the conditions of public offering of the Bulgarian Stock Exchange - Sofia AD. It is decided that the specific amount of the capital increase and the number of issued shares shall be determined at a subsequent meeting.

On 26.03.2018 Gradus AD made a decision to increase its capital by up to BGN 28 million by offering new shares on the Bulgarian Stock Exchange.

As of the date of this consolidated financial report, Gradus AD has not launched the procedure for public offering of securities.

There are no other material events occurring after 31 December 2017 that require additional adjustments and / or disclosures in the financial statements as at 31 December 2017.

On behalf of the Board of Directors:

Ivan Angelov

Approved for issue on March 30, 2018

GRADUS AD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2017

	Note	2017 BGN'000
ASSETS		
Non-current assets		
Property, machinery and equipment	4	169 940
Intangible assets	5	53 973
Goodwill	6	20 656
Investment property	8	6 350
Investments	9	1
		250 920
Current assets		
Inventories	10	43 772
Receivables from affiliated undertakings	33	4 947
Trade receivables	11	34 381
Loans granted	12	1 380
Other current receivables	13	1 406
Cash and cash equivalents	14	2 889
		88 775
TOTAL ASSETS		**339 695**
EQUITY AND LIABILITIES		
EQUITY		
Capital referring to the owners of the parent company		
Share capital	15	221 000
Premium reserve	15	44 200
Reserve from actuarial revaluations	15	(29)
Retained earnings	15	3 372
		268 543
Non-controlling participation	7	1 556
Total equity		**270 099**
LIABILITIES		
Non-current liabilities		
Deferred tax liabilities	16	14 937
Long-term payables to employees	17	211
Other non-current liabilities	18	297
		15 445
Current liabilities		
Bank loans	19	46 890
Liabilities to related parties	33	479
Trade obligations	20	3 717
Tax obligations	21	942
Payables to employees and social security	22	1 492
Other current liabilities	23	631
		54 151
TOTAL LIABILITIES		**69 596**
TOTAL EQUITY AND LIABILITIES		**339 695**

Date: 30.03.2018

Compiled by:
/Krasimira Kirkova/

Executive director:
/Ivan Angelov/

The notes on pages 12 to 36 are an integral part of these consolidated financial statements.
The Consolidated Financial Statements were approved by the Board of Directors of Gradus AD on 30.03.2018

GRADUS AD
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD 28 NOVEMBER - 31 DECEMBER 2017

	Note	28.11.2017г. – 31.12.2017г. BGN'000
Income	24	18 252
Other operating income, net	25	3 600
Book value of sold assets (excluding production)		(7 276)
Change in stocks of finished goods		582
Raw materials expenses	26	(7 371)
Expenses for external services	27	(1 111)
Depreciation costs	4,5	(454)
Personnel costs	28	(1 503)
Other operating expenses	29	(432)
Profit from ordinary activities		**4 287**
Financial income	30	14
Financial expenses	30	(238)
Financial income / (expenses), net		(224)
Profit before tax on profit		**4 063**
Income tax expense	31	(680)
Net profit for the period		**3 383**
Items that will not be reclassified to profit or loss		
Changes in reserve from actuarial gains and losses, net of tax		(29)
Total comprehensive income for the period		**3 354**
Net profit for the period attributable to:		
Owners of the parent company		*3 372*
Non-controlling participation		*11*
Total comprehensive income for the period attributable to:		
Owners of the parent company		*3 343*
Non-controlling participation		*11*

Date: 30.03.2018

Compiled by:
/Krasimira Kirkova/

Executive director:
/Ivan Angelov/

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GRADUS AD
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD 28 NOVEMBER - 31 DECEMBER 2017

In thousands BGN	**Share capital**	**Premium reserve**	**Reserve from actuarial revaluations**	**Retained earnings**	**Total for the owners of the parent company**	**Non-controlling participation**	**Total**
Balance sheet as of November 28, 2017	-	-	-	-	-	-	-
Share issue	221 000	44 200	-	-	**265 200**	1 545	**266 745**
Net profit for the period	-	-	-	3 372	**3 372**	11	**3 383**
Other comprehensive income	-	-	(29)	-	**(29)**	-	**(29)**
Balance sheet as of December 31, 2017	221 000	44 200	(29)	3 372	**268 543**	1 556	**270 099**

Date: 30.03.2018

Compiled by:
/Krasimira Kirkova/

Executive director:
/Ivan Angelov/

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GRADUS AD
CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD 28 NOVEMBER - 31 DECEMBER 2017

	28.11.2017-31.12.2017
	BGN'000
Cash flows from operating activities	
Revenues from customers	14 037
Payments to suppliers	(8 976)
Payments to employees and social security	(1 350)
Taxes paid, excluding taxes on profits	(448)
Paid taxes on profits	(390)
Exchange rate differences and bank charges, net	(2)
Other revenues, net	1 549
Net cash flows from operating activities	4 420
Cash flows from investing activities	
Purchases of property, plant and equipment	(301)
Net cash flows used in investing activities	**(301)**
Cash flows from financial activities	
Cash contributions from owners	240
Proceeds from borrowings	980
Payments on received loans	(5 710)
Paid interest and loan charges	(52)
Net cash flows used in financing activities	**(4 542)**
Net reduction in cash	**(423)**
Cash and cash equivalents on 28 November	**3 312**
Cash and cash equivalents on 31 December	**2 889**

Date: 30.03.2018

Compiled by:
/Krasimira Kirkova/

Executive director:
/Ivan Angelov/

The notes on pages 12 to 36 are an integral part of these consolidated financial statements.
The Consolidated Financial Statements were approved by the Board of Directors of Gradus AD on 30.03.2018

1. Status and object of business activity

"Gradus" AD, Stara Zagora, was established on November 28, 2017.
Management address: the town of Stara Zagora, residential district "Industrialen", "Gradus" Poultry Slaughterhouse
Bulstat: 204882907

2. Basis of preparation of the consolidated financial statements

These consolidated financial statements have been prepared in accordance with the going concern principle, the accruals-based accounting and the historical cost, except for property, plant and equipment that is measured using the revaluation model in IAS 16 "Property, Plant and Equipment" and investment properties that are stated at fair value under IAS 40 "Investment property".

Functional currency and currency of presentation

Pursuant to the requirements of the Bulgarian legislation, the Group keeps its accounts and prepares its consolidated financial statements in the national currency unit of the Republic of Bulgaria - Bulgarian lev, which as of January 1, 1999 has a fixed exchange rate to the euro in the ratio of 1 euro = 1.95583 BGN.

These consolidated financial statements are prepared in thousands of levs (BGN thousand).

3. Significant Accounting Policies

(a) Transactions in foreign currency

Foreign currency transactions are reported in the functional currency at the exchange rate prevailing on the date of the transaction. Cash assets and liabilities denominated in foreign currencies are reported in the functional currency at the closing rate at the date of preparation of the statement of financial position. Gain or loss on exchange rate differences arising from monetary items is the difference between the amortized cost in the functional currency at the beginning of the period adjusted for the effective interest and the payments over the period and the amortized cost in foreign currency translated at the exchange rate at end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities in foreign currency, which are measured at historical cost, are translated into the functional currency at the exchange rate at the date of the transaction. Exchange rate differences arising on the translation in the functional currency are accounted for in profit or loss except for differences arising on the translation in the functional currency of available-for-sale equity instruments or qualifying cash flow hedges that are recognized in other comprehensive income (if available).

(b) Property, plant and equipment

(i) Recognition and evaluation

Initial recognition
Property, plant and equipment is measured initially at cost, which includes the expenses directly attributable to the acquisition of the asset.
Acquisition cost includes the purchase price, including duties and non-refundable purchase taxes, and any other costs directly attributable to bringing the asset to a location and condition required for its operation in the manner prescribed by the management. The value of assets acquired in an economic manner includes the cost of materials, direct labour and the corresponding proportion of indirect production costs; costs directly related to bringing the asset to a location and condition necessary for its operation; an initial estimate of the cost of dismantling and relocating the asset and of restoring the site on which the asset is located and capitalized interest costs. Purchased software without which it is impossible to operate purchased equipment is capitalized as part of this equipment.
When property, plant and equipment contain components with different useful lives, they are reported separately.

3. Significant Accounting Policies (Continued)
Ex-post evaluation
Tangible fixed assets after their initial acquisition are reported using the revaluation model in IAS 16.
The fair value of tangible fixed assets is determined on the basis of market evidence presented in a report prepared by an approved licensed valuer. Reassessment is scheduled to take place every 3 years. When the fair value changes

significantly over a shorter period of time, the revaluation may be made more often to ensure that their carrying amount at the relevant reporting date does not materially differ from their fair value.
Gains and losses on derecognition of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are recognized net in other income / other expenses in profit or loss. When the revalued assets are sold or written off for other reasons, the amounts included in the revaluation reserve are reclassified to retained earnings or losses.

(ii) Subsequent expenditure

Subsequent expenditures incurred to replace a portion of an asset, plant, equipment and equipment are capitalized in the carrying amount of the asset only when it is probable that future economic benefits associated with that part of the asset will flow to the entity, and these can be evaluated reliably. Current repairs and maintenance are recognized as expense when incurred.

(iii) Depreciation

Property, plant and equipment is amortized from the date on which it is installed and ready for use, or for the self-constructed items from the date on which the asset is completed and ready for use. Depreciation is recognized up to the amount of the asset's original value minus the expected residual value of the asset based on the straight-line method, on the grounds of the estimated useful life of each item of property, plant and equipment. Depreciation is recognized in profit or loss unless it is included in the carrying amount of another asset. Depreciation of acquired assets under finance lease terms is charged for the shorter of the term of the contract and the useful life of the item, except in cases where the acquisition of ownership is almost certain by the end of the term of the contract. Earth is not amortized.

The adopted depreciation rates are as follows:

	annual depreciation rate in %
• Buildings and facilities	1.5
• Machinery and equipment	8
• Transport vehicles	10
• Computer equipment	33.3
• Business inventory	10
• Other fixed assets	4 – 10

Depreciation methods, useful lives and residual values (if they are not insignificant) are reviewed at each reporting date.

(c) Intangible assets

(i) Goodwill

Goodwill is the excess of the acquisition cost (the consideration paid) over the fair value of the Group's share of the net identifiable assets of the acquired entity 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, it is initially measured at acquisition cost (cost) and subsequently at the acquisition cost less accumulated impairment losses. Goodwill is not amortized.

3. Significant Accounting Policies (Continued)

(ii) Intangible assets other than goodwill

Intangible assets are trademarks, licenses, software, and other intangible assets.
Intangible assets acquired by subsidiaries that have a limited useful life are stated at cost less accumulated amortization and impairment losses.
The carrying amount of intangible assets is reviewed for impairment when there are events or changes in circumstances that indicate that the carrying amount could exceed their recoverable amount. Then the impairment is included as depreciation expense in the consolidated statement of comprehensive income (in profit or loss for the year). Intangible assets are derecognised from the consolidated statement of financial position when they are permanently out of use and no future economic benefits are expected or when they are sold. Gains or losses on sales

of individual assets in the "intangible assets" group are determined by comparing proceeds from the sale and the carrying amount of the asset at the date of sale. They are stated net to "other income / (losses) on operations, net" on the face of the consolidated statement of comprehensive income (in profit or loss for the year).

(iii) Subsequent expenditure

Subsequent expenditures are capitalized only when they increase the future economic benefit of the specific asset to which they relate. All other costs, including costs for internally generated goodwill and trademarks, are recognized as an expense when they occur.

(iv) Amortization

Intangible assets other than goodwill and trademarks are amortized on a straight-line basis in profit or loss on the basis of their expected useful lives from the date they are ready for use.

	annual amortization rate in %
• Intellectual property rights	15
• Industrial property rights	15
• Other intangible assets	6.67 – 33.33

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(d) Investments

Long-term investments representing investments in financial instruments are presented in the financial statements at acquisition 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 against the issued shares, which value is determined by the appraisers appointed by the court, incl. the direct costs of acquiring the investment, less any impairment losses.

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

Investments in financial instruments held by the Group are subject to impairment review. When impairment conditions and indicators are established, the impairment is calculated as a difference of comparing the carrying amount to the recoverable amount of the investment and is recognized in the statement of comprehensive income (in profit or loss for the year). In the case of subsequent reversal of impairment, it is recognized in the statement of comprehensive income (in profit or loss for the year).

3. Significant Accounting Policies (Continued)

Investments are derecognized when the rights deriving from them are transferred to other entities when the legal basis for that is established, thereby losing control over the economic benefits of the investments.

(e) Investment property

Investment properties are properties held for renting and / or capital accumulation. Investment properties are initially recognized at acquisition cost plus all related costs. Subsequent evaluation uses the fair value model in accordance with IAS 40 "Investment property". An investment property is derecognized in case of sale or when it is not used or when no future economic benefits from its sale are expected. Any gain or loss on disposal of the property is recognized in profit or loss for the current period. They are stated net to the item "Other operating income / (operating loss), net" in the consolidated statement of comprehensive income (in profit or loss for the year). Transfers from and to "investment properties" 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 "property for use in its own business activity", the asset is recorded in its new group at a found historical cost that represents its fair value at the date of the transfer. Conversely, when there is a transfer to "investment property" from "property for use in its own business activity", the asset is evaluated 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) Leased assets

Lease contracts, by virtue of which all significant risks and rewards of ownership are transferred, are classified as finance leases. Upon initial recognition, the leased assets are stated at the lower of their fair value and the present value of the minimum lease payments. After initial recognition, the asset is accounted for according to the accounting policy applicable to the asset.

Operating leases differ from these financial lease contracts and are not recognized in the consolidated statement of financial position of the Group.

(g) Inventories

Inventories are stated at the lower of their cost and their net realizable value. The cost of inventories is accounted for on a weighted average cost basis for materials and work in progress and includes the expenses of acquiring inventories, the cost of production or processing, and all other expenditures relating to the bringing of inventories to their current location and condition. In the case of manufactured products, the cost also includes labour, social security and depreciation costs and other general production costs allocated on the basis of normal production capacity.

Net realizable value is the estimated selling price in the normal course of business less the approximately estimated costs of completing the production cycle and those required to realize the sale.

Biological assets under IAS 41 "Agriculture" are recorded during initial and subsequent measurement at fair value less costs of sale. The change in the fair value is recognized in profit or loss for the period in which it occurs.

(h) Impairment

(i) Non-derivative financial assets

A financial asset that is not recognised at fair value through profit or loss is reviewed at each reporting date in order to assess whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset and that loss event has affected expected future cash flows from that asset that can be measured reliably.

3. Significant Accounting Policies (Continued)

Objective evidence that a financial asset is impaired includes a default or delay of the debtor, a restructuring of the liability to the Group under conditions that the Group would not otherwise consider, indications that a debtor or issuer will become insolvent, adverse changes in the debtor's or issuer's payment status, economic conditions that lead to default or disappearance of an active market for a security. In addition, for an investment in equity security, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment.

Credits and receivables

The Group considers evidences of impairment of loans and receivables for both a specific asset and on a collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables for which there is no specific impairment are then collectively assessed for impairment that has arisen but has not yet been identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

When assessing the collective impairment level, the Group uses the historical trends of probability of default on obligations, the recovery time and the amount of the losses incurred, adjusted by the management's judgment as to whether the current economic and credit conditions are such that actual losses are likely to be bigger or smaller than the supposed ones on the basis of the historical trends.

Impairment loss for a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the expected future cash flows discounted at the original effective interest rate. An impairment loss is recognized in profit or loss and is reflected in a revaluation account decreasing the loans and receivables. When an event occurs after impairment is recognized, which reduces the impairment loss, this decrease is reflected reversely in profit or loss.

(ii) Non-financial assets

The reporting amounts of the non-financial assets of the Group, other than inventories and deferred tax assets, are reviewed at each reporting date in order to determine whether there are any indications of impairment. In the event that such evidence exists, an estimate of the recoverable amount of the asset is made. For intangible assets with indefinite useful lives or not yet ready for use, the recoverable amount is determined each year at the same time. An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit (CGU), a part of which it is exceeds its recoverable amount.

The recoverable amount of an asset or a CGU is the higher of its value in use and its fair value less costs of sale. In assessing the value in use, future cash flows are discounted to their present value by applying a pre-tax discount rate reflecting current market evaluations, market value of money over time, and asset-specific or CGU-specific risks. For the purpose of the impairment assessment, assets that cannot be tested individually are grouped together into the smallest possible group of assets generating cash receipts from continuing use that are largely independent of cash receipts from other assets or CGUs.

Impairment losses are recognized in profit or loss. Impairment losses recognized for CGUs are allocated in such a way as to reduce the asset's reporting amounts proportionally.

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 after deducting depreciation if the impairment loss had not been recognized.

3. Significant Accounting Policies (Continued)

(i) Employee benefits

(i) Defined contribution plans

A Defined contribution plan is a post-employment benefit plan whereby a company pays contributions to another person and has no legal or constructive obligation to pay further amounts afterwards. The Government of Bulgaria is responsible for providing pensions under defined contribution plans in Bulgaria. Contributory obligations for retirement plans with defined contributions are recognized as personnel costs in current earnings and losses. Contributions under a defined contribution plan that are due more than 12 months after the end of the period of service provision by employees 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 net liability of the Group for defined benefit plans is calculated by estimating the amount of future earnings that employees have earned in exchange for their services in the current and prior periods; and this income is discounted to determine its present value.

The Group has an obligation to pay income upon leaving to these employees who retire in accordance with the requirements of Art. 222, § 3 of the Labour Code (LC) in Bulgaria. Pursuant to these provisions of the Labour Code, upon termination of the employment contract of an employee who has acquired the right to a pension, the employer pays a compensation amounting to 2 monthly gross salaries. If the employee has accumulated experience of 10 years or more at the retirement date, the compensation is 6 monthly gross salaries. As at the reporting date, management estimates the approximate size of potential costs for all employees using the projected credit units' method.

(iii) Termination benefits

Termination benefits are recognized as an expense when the Group has committed clearly, with no real possibility of withdrawal, to a formal detailed plan either to terminate a business relationship before the normal retirement date or to provide severance benefits as a result of a proposal, made to encourage voluntary redundancy. Termination benefits for voluntary redundancy are recognized as an expense if the Group has made a formal offer for voluntary termination, and it is probable that the offer will be accepted and the number of acceptants can be reliably estimated. If benefits are due more than 12 months after the end of the reporting period, they are discounted to their present value.

(iv) Short-term employee benefits

Liabilities for short-term employee benefits are measured on an undiscounted basis and are recognized as an expense when the related services are provided. Liabilities are recognized as the amount expected to be paid on short-term cash bonus or profit sharing plans if the Group has a legal or constructive obligation to pay that amount as a result of past service provided by an employee and the liability can be estimated reliably. The Group recognizes as a liability the undiscounted amount of estimated expense for paid annual leave expected to be paid to employees in return for their work for the past reporting period.

(j) Provisions

A provision is recognized in the cases when the Group has, due to past events, a legal or constructive obligation that is reliably measurable and is likely to be repaid on the expense of an outflow of economic benefits. Provisions are determined by discounting expected future cash flows with a pre-tax interest rate that reflects the current market value of money over time and the risks, specific to the liability. Interest accrued on the discounted value is recognized as a financial expense.

3. Significant Accounting Policies (Continued)

Onerous contracts

A provision for onerous contracts is recognized when the Group's expected benefits are lower than the unavoidable costs of meeting the obligations under the contract. This provision is estimated at the present value of the lower of the expected termination costs and the expected net costs of continuing the contract. Prior to the establishment of the provision, the Group recognizes impairment losses on assets related to this contract.

(k) Income

(i) Revenues from the sale of finished goods and merchandise

Revenues from the sale of finished goods and merchandise in the course of normal business activity is recognized at fair value of the consideration received or expected to be received, less the returned goods, discounts or rebates. Revenue from the sale of finished goods and merchandise is recognized when there is convincing evidence, usually in the form of a contract of sale, that the material risks of ownership are transferred to the buyer, the receipt of the consideration is probable, the related costs and the possible returns of the goods can be reliably determined, there is no continued involvement of management in the control of the goods, and the amount of revenue can be measured reliably. If discounts are likely to be granted and their value can be reliably measured, then discounts are recognized as a reduction in revenue when sales are recognized. The transfer of risks and benefits varies according to the specific terms of the sales contract and is usually done at the time of the dispatch of the production and the merchandise.

(ii) Revenues from services

Revenues from services rendered is recognized in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is usually determined by analysing the work done.

(l) Payments under contracts of leasing

Operating lease payments are recognized in profit or loss on a straight-line basis over the lease term. Additional payments received are recognized as an integral part of the total lease costs over the contract period.

Minimum finance lease instalments are allocated between financial expenses and a reduction in outstanding liabilities. Financial charges are allocated to each period during the lease term so as to achieve a constant periodic interest rate on the remaining balance of the liability.

Determining whether a given agreement contains a lease

Upon the occurrence of an agreement, the Group determines whether it is, or contains, a lease. A specific asset is subject to a lease if the performance of the agreement depends on the use of that particular asset. An agreement is a transfer of the right to use the asset if the agreement grants the Group the right to exercise control over the use of the underlying asset.

Upon the occurrence or after a reassessment of an arrangement, the Group shall divide the payments and other required remuneration under this agreement into payments for leases and payments for other items, based on their relative fair values. If the Group concludes that for a finance lease it is not possible to divide the payments reliably, an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. The liability is then reduced when payments are made and an incurred financial cost on the liability is recognized using the differential interest rate of the Group.

(m) Financial income and expenses

Financial income includes interest income on invested funds in bank deposits. Interest income is recognized at the time it is accrued using the effective interest method.

Financial expenses include interest expense on borrowings and expenses 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 directly attributed to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

3. Significant Accounting Policies (Continued)

Gains and losses on foreign exchange rate differences are recognized on a net basis either as financial income or as financial expense, depending on whether the exchange rate difference is a net profit or a net loss.

(n) Income tax

The income tax for the year consists of current and deferred taxes. Income tax is recognized in profit or loss except for income tax that is recognized directly in equity or other comprehensive income.

The current tax liability is the expected tax liability or receivable on the taxable profit or loss for the year by applying the tax rates that have entered into force or are substantially enacted at the reporting date and any tax adjustments for taxes due for previous years. Current tax liabilities also include any tax liability arising from the declaration of dividends.

Deferred taxes are calculated on the temporary differences between the amounts of assets and liabilities used for the purpose of preparing the financial statements and the amounts used for tax purposes. Deferred tax is not recognized as temporary differences from the initial recognition of assets and liabilities in a transaction that is not a business combination and that does not affect profits and losses, neither for accounting nor for tax purposes.

Deferred tax is measured at the tax rates that are expected to apply to temporary differences when they are reversed on the basis of laws in force or substantially enacted by the reporting date.

Deferred tax assets and liabilities are offset only if there is a legal basis for deducting current tax assets and liabilities and they relate to income taxes levied by the same tax authorities.

A deferred tax asset is charged for unused tax losses, loans and deductible temporary differences, to the extent that it is probable that future taxable profit will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are discounted to the extent that it is unlikely that future benefit will be realized.

In determining the current and deferred tax, the Group takes into account the effect of uncertain tax positions and whether additional taxes or interest may be payable. The Group believes that tax accruals are adequate for all open tax years on the basis of the assessment of many factors, including the interpretation of tax laws and previous experience. This assessment is based on estimates and assumptions and may include judgments about future events. New information may arise based on which the Group may change its judgment on the adequacy of existing tax liabilities; such tax changes would affect the tax expense in the period when such determination is made.

(o) Subsidiaries

These are companies including undertakings that are non-legal entities in which the parent directly or indirectly owns more than 50% of the voting rights in the general meeting (share capital) and / or has the right to appoint more than 50% of the Board to the directors of the company concerned or by virtue of a written agreement for control between the shareholders and may exercise control over their financial and operating policies (including by virtue of a concluded agreement for control 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.

(p) Consolidation principles

Consolidation of subsidiaries

In the consolidated financial statements, the financial statements of the subsidiaries are consolidated using the "full consolidation" method, line by line, by applying unified accounting with respect to substantial items. The parent company's investments are eliminated against the equity interest of the subsidiaries as at the acquisition date. Intragroup operations and estimates are fully eliminated, including unrealized intragroup profits or losses. The effect of deferred tax on these eliminating consolidation entries is also reported.

3. Significant Accounting Policies (Continued)

Business combinations

The Group recognizes business combinations using the acquisition method as at the date the Group acquires control. The consideration transferred for the acquisition is measured by the fair value of the assets granted, the liabilities assumed to previous owners and the participations made by the Group in the capital. The consideration transferred includes the fair value of all assets or liabilities arising under contingent consideration agreements. Acquired identifiable assets and contingent consideration liabilities are measured at fair value at the acquisition date. Transaction costs are reported as expenses when incurred.

Non-controlling participation

For each business combination, the Group chooses to measure the non-controlling interest in the acquired entity 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 recognized 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 reported 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 recognized 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 recognized as a goodwill in the consolidated statement of financial position.

Provisional accounting for acquisition

The Group applies provisional accounting of the acquisition with 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 acquired assets and liabilities, non-controlling interests, retained earnings, all existing interests in the acquired entity before acquisition, and recognized goodwill or profit from bargain purchases. During the assessment period, the acquirer shall retrospectively adjust the amounts recognized at the acquisition date on a pro-rata basis to reflect the new information received with respect to the facts and circumstances existing at the acquisition date and, if known, the ones that have affected the evaluation recognized at that date. The valuation period ends when the acquirer obtains all the information necessary to fully record the acquisition or finds that additional information is unavailable and may not exceed one year from the acquisition date. Adjustments made during the valuation period are recognized retrospectively, and comparative information is adjusted - i.e. as if the business combination recognition had been fully carried out at the acquisition date.

(q) Key estimates and assumptions

Impairment of receivables - Loss from impairment of receivables is formed when there is objective evidence that the Group will not be able to collect the entire amount under the original terms and conditions of receivables.

3. Significant Accounting Policies (Continued)

Significant financial difficulties of the debtor of the receivable, the probability of the debtor to enter into insolvency proceedings or other financial reorganization, the overdue payment of more than 90 days shall be taken into account by management when determining and classifying a given receivables for impairment. When assessing the collection of receivables, the management analyses the entire exposure of each counterparty in order to establish the real possibility of collecting them. When assessing high uncertainty about the collection rate of a receivable, an assessment is made as to how the funds are guaranteed.

The impairment loss is reversed if that reversal can be objectively attributed to an event occurring after an impairment loss has been recognized.

The amount of impairment is the difference between the carrying amount of the receivable and the present value of the estimated future cash flows discounted at the effective interest rate. The carrying amount is adjusted by using a correction account where all impairments are accumulated. When a receivable is judged to be totally uncollectible, it is derecognised at the expense of the adjustment.

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 Company 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 the depreciable fixed assets at the end of each reporting period.

Goodwill - It is assessed 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 goodwill relates. When the recoverable amount of the cash-generating unit is less than its carrying amount, an impairment loss is recognized. 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 trade mark is less than its carrying amount, an impairment loss is recognized. Impairment losses associated with trademarks cannot be recovered in future periods.

Recognition of tax assets - When recognizing deferred tax assets, the probability that individual deferred temporary differences will have a reversal in the future and the ability of each of the Group companies to generate sufficient tax profits to offset them against those profits.

(r) New standards and interpretations that have not yet been implemented

In the current year, the Group has adopted all new and changed IFRSs that are related to its operations and are effective for the reporting period beginning on January 1, 2017. Their application has not resulted in significant changes in the accounting policies of the Company.

As at the date of preparation of the consolidated financial statements, the IASB / IFRIC has issued standards and interpretations that are not yet in force. Some of them have been adopted by the European Union and others have not yet been adopted. Management expects that the adoption of these accounting standards in future periods will not have a material effect on the Group's financial statements.

Standards issued by the IASB / IFRIC that have not yet entered into force at the date of issue of the financial statements and have not been applied earlier are listed below. The company intends to adopt these standards when they enter into force.

3. Significant Accounting Policies (Continued)

Published standards that are not yet in force and are not adopted earlier

At the date of approval of these financial statements, the following standards have been issued by the IASB and adopted by the EU but have not yet entered into force:

IFRS 9 Financial Instruments - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018). This standard is a new standard for financial instruments. Its ultimate purpose is to fully replace IAS 39. It establishes new principles, rules and criteria for the classification, measurement and write-off of financial assets and liabilities. IFRS 9 defines only two major categories of valuation - at amortized cost and fair value. The Standard also introduces changes in determining impairment by applying an "expected loss" model. The management of the Group believes that the requirements of the new standard will not lead to material effects on the Group's financial statements.

IFRS 15 Revenue from contracts with customers and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018); The Group does not expect a material change in the amount of income from sales and profit as a result of changes in accounting policies related to the application of IFRS 15. There are no continuing contracts that would require a change in reported earnings in 2017 as a result of a change in accounting policy regarding revenue accounting with the entry into force of IFRS 15.

IFRS 16 Leases - adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019); The Standard represents a significant change in the presentation and reporting for lessees. It requires assets and liabilities to be recognized under all leases (financial and operating) unless they are of a low value or less than 12 months. Upon adoption of the Standard, Lease Agreements will form a "Rights of Use" asset and a lease liability for future payments. The Group is in the process of evaluating the effect of the new standard but at the date of these financial statements its full impact cannot be comprehensively evaluated as it is materially dependent on the facts and circumstances that will be effective as of the date of its entry into force.

Amendment to IFRS 4 Insurance Contracts - Application of IFRS 9 Financial Instruments to IFRS 4 Insurance Contracts - Adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when the IFRS 9 Financial Instruments is first applied);

Amendment to IFRS 15 Revenue from contracts with customers - Clarification of IFRS 15 Revenue from contracts with customers - adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).

Amendments to Different Standards "Improvements to IFRS (Cycle 2014-2016)" resulting from the annual IFRS Improvements Project (IFRS 1, IFRS 12 and IAS 28) primarily aiming to eliminate contradictions and clarify formulations (amendments to IFRS 12 are applicable for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are applicable for annual periods beginning on or after 1 January 2018).

Amendment to IFRS 2 Share-based Payment - Classification and measurement of share-based transactions (effective for annual periods beginning on or after 1 January 2018);

Amendments to IAS 40 Investment Property - Transfer of Investment Property (effective for annual periods beginning on or after 1 January 2018);

Amendment to IFRS 9 Financial Instruments - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019);

3. Significant Accounting Policies (Continued)

New standards and interpretations issued by the IASB, which have not yet been adopted by the EU

Currently, IFRSs adopted by the EU do not differ materially from those adopted by the IASB, except for the following new standards, amendments to existing standards and new interpretations not yet endorsed by the EU at the date of approval of these consolidated financial statements (the dates of entry into force below are for full IFRS):

IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021);

Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);

Amendments to Different Standards "Improvements to IFRS (Cycle 2015-2017)", resulting from the annual IFRS Improvements Project (IFRS 3, IFRS 11, IAS 12 and IAS 23), mainly for the purpose of eliminating contradictions and clarifying the wording for annual periods beginning on or after 1 January 2019);

IFRIC 22 "Transactions in Foreign Currency and Advances" (effective for annual periods beginning on or after 1 January 2018);

IFRIC 23, "Uncertainty in the Treatment of Income Taxes" (effective for annual periods beginning on or after 1 January 2019);

Amendment to IAS 19 Employee Benefits - Plan amendment, curtailment or settlement (effective for annual periods beginning on or after 1 January 2019). Amendments to the References to the Common Framework for the Preparation and Presentation of Financial Statements in International Standards for financial reporting (effective for annual periods beginning on or after 1 January 2020);

The Group expects the adoption of these standards and amendments to existing standards not to have a material effect on the Group's consolidated financial statements during the period of their initial application.

4. Fixed assets

In thousands of levs	**Land**	**Buildings**	**Machinery and Equipment**	**Facilities**	**Transport vehicles**	**Fixtures and fittings and other fixed assets**	**In the process of acquisition and construction**	**Total**
Carrying amount								
Balance sheet at 28 November 2017	16 514	87 868	36 365	22 070	12 576	3 830	5 190	184 413
Acquired assets	-	-	1	-	-	10	135	146
Transfer	-	23	-	595	-	-	(618)	-
Written off assets	(48)	(23)	-	-	-	-	-	(71)
Balance sheet at 31 December 2017	16 466	87 868	36 366	22 665	12 576	3 840	4 707	184 488
Depreciation								
Balance sheet at 28 November 2017	-	804	2 886	228	8 044	2 144	-	14 106
Depreciation for the period	-	74	243	29	71	25	-	442
Balance sheet at 31 December 2017	-	878	3 129	257	8 115	2 169	-	14 548
Net book value								
By 28 November 2017	16 514	87 064	33 479	21 842	4 532	1 686	5 190	170 307
By 31 December 2017	**16 466**	**86 990**	**33 237**	**22 408**	**4 461**	**1 671**	**4 707**	**169 940**

The Group has set up a special pledge of buildings, machinery and equipment under credit agreements (see note 19)**.**

5. Intangible assets

Intangible assets are trademarks, software, ISO certificates, integrated permits, and others.

In thousands of levs	**Trademarks**	**Software**	**Leasehold improvements**	**Licenses and others**	**Total**
Carrying amount					
At 28 November 2017	53 273	47	678	310	54 308
At 31 December 2017	53 273	47	678	310	54 308
Amortization					
At 28 November 2017	-	(40)	(95)	(189)	(324)
Amortization for the period	-	-	(9)	(2)	(11)
At 31 December 2017	-	(40)	(104)	(191)	(335)

Net book value					
At 28 November 2017	53 273	7	583	121	53 984
At 31 December 2017	53 273	7	574	119	53 973

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

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 Millenium 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 a net asset value. Gradus AD is registered in the Commercial Register on 28.11.2017.

Goodwill arises when the Parent Company acquires control and 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 of 31.12.2017 the goodwill amounted to BGN 20656 thousand.

Goodwill is assessed 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 goodwill relates. When the recoverable amount of the cash-generating unit is less than its carrying amount, an impairment loss is recognized. Impairment losses associated with goodwill cannot be recovered in future periods.

Group structure

		Effective participation of the parent company
Gradus AD	Mother Company	-
Gradus-1 EOOD	Subsidiary of Gradus AD	100%
Zhyuliv EOOD	Subsidiary of Gradus AD	100%
Lora-2004 EOOD	Subsidiary of Gradus AD	100%
Millennium 2000 EOOD	Subsidiary of Gradus AD	100%
Gradus-98 AD	Subsidiary of Gradus AD	99,94%
Gradus-3 AD	Subsidiary of Gradus-1 EOOD	96%

"Gradus" AD Group	**Gradus-1**	**Zhyuliv**	**Lora-2004**	**Millennium 2000**	**Gradus-98**	**Total**
Transferred considerations	149 760	16 200	11 100	35 700	52 200	264 960
Non-controlling participation	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

Sub-group Gradus-1 EOOD “	**Gradus-1**	**Gradus -3**	**Total**
Transferred considerations	113 836	35 924	149 760
Non-controlling participation	-	1 514	1 514
Fair value of net assets	(102 901)	(37 838)	(140 739)
Goodwill	10 935	(400)	10 535

Gradus-1 EOOD owns 96% of the capital of "Gradus-3" AD, as much as the effective participation of "Gradus" AD.

7. Non-controlling participation

	Percentage of non-controlling participation	Balance sheet at 28.11.2017	Result for the period	Balance sheet at 31.12.2017
Gradus-3 AD	4%	1 514	11	1 525
Gradus-98 AD	0,066%	31	-	31
		1 545	**11**	**1 556**

8. Investment property

Investment properties represent land and rented buildings. Initially, they are measured at cost and at subsequent measurements - at fair value, determined by an independent licensed appraiser, the changes being recognized in profit or loss. The fair value reflects the actual standing of the investment property in the conditions of a competitive market in the same location and condition of the property. As of 31.12.2017 the book value of the investment properties amounts to BGN 6 350 thousand.

9. Investments available for sale

The Group owns shares in “Ecobulpack” AD amounting to BGN 1 thousand.

10. Inventories

	31.12.2017
Basic materials	20 850
Goods	7 298
Production	6 833
Animals for fattening	4 662
Work in progress	4 129
	43 772

The Group has set up a special pledge of inventories under credit agreements. (See Note 19).

11. Trade receivables

	31.12.2017
Receivables from counterparties	30 167
Receivables from suppliers on advances	4 214
Total receivables	**34 381**

The Group has set up a special pledge of its trade receivables under credit agreements (see note 19).

12. Loans granted

Borrower	Date	Contract principle	Balance at 31.12.2017	Annual interest	Maturity date
Natural person 1	23.01.2013	117	152	6.118%	23.01.2018
Company 2	18.12.2014	20	21	7.00%	31.12.2018
Company 3					
Contract 1	09.05.2016	120	127	2.50%	30.06.2018
Contract 2	30.05.2016	50	53	2.50%	30.06.2018
Contract 3	17.06.2016	100	105	2.50%	30.06.2018
Contract 4	27.02.2017	100	103	2.50%	31.12.2018
Contract 5	02.03.2017	400	411	2.50%	31.12.2018
Contract 6	16.03.2017	100	102	2.50%	30.06.2018
Contract 7	15.05.2017	100	102	2.50%	31.12.2018
Contract 8	26.05.2017	100	102	2.50%	30.06.2018
Contract 9	29.06.2017	100	102	2.50%	30.06.2018
Total		1 307	**1 380**		

Loans are granted to unrelated parties.

13. Other current receivables

Refundable taxes	955
Litigation and claims awarded	55
Other interest receivable	77
Expenses for future periods	145
Other receivables	174
Total receivables	**1 406**

14. Cash and cash equivalents

In thousands of levs	**31.12.2017**
Cash money	97
Cash deposited in current accounts	2 792
Total cash and cash equivalents	**2 889**

15. Equity

Share capital

	Number of voting shares	**Number of non-voting shares**	**Value in BGN thousand**
At 31December 2017	221 000 000	-	221 000

Shareholders of "GRADUS" AD as at 31 December 2017 are as follows:

Company	**Number of voting shares**	**Number of non-voting shares**	**% Shareholding**
Ivan Angelov Angelov	110 000 000	-	50
Luka Angelov Angelov	110 000 000	-	50
Total:	221 000 000	-	100

15. Equity (Continued)

In thousands of levs	**31.12.2017**
Share capital	221 000
Premium reserve	44 200
Reserve from actuarial revaluations	(29)
Retained earnings	3 372
Non-controlling participation	1 556
Total equity	**270 099**

The parent company was registered on 28.11.2017, with a share capital of 221 million ordinary shares each with a nominal value of BGN 1.

The premium reserve is formed as an excess of the value of the assets contributed above the value of the issued shares upon incorporation.

The non-controlling interest is formed by the share of the net assets, which does not belong to the owners of the parent company's capital, together with the portion of the result for the period. (See Note 7).

16. Deferred tax assets and liabilities

Recognized deferred tax assets and liabilities

Recognized deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
In thousands of levs	31.12.2017	28.11.2017	31.12.2017	28.11.2017	31.12.2017	28.11.2017
Property, machinery and equipment	-	-	(9 697)	(9 694)	(9 697)	(9 694)
Intangible assets	-	-	(5 327)	(5 327)	(5 327)	(5 327)
Subsequent valuations of investment properties	-	-	(453)	(453)	(453)	(453)
Tax loss	21	51	-	-	21	51
Impairment of receivables	124	115	-	-	124	115
Employee benefits	3	3	-	-	3	3
Long-term retirement benefits	20	17	-	-	20	17
Impairment of inventories	354	349	-	-	354	349
Compensated absences	18	21	-	-	18	21
	540	556	(15 477)	(15 474)	(14 937)	(14 918)

16. Deferred tax assets and liabilities (Continued)

Changes in temporary differences over the period 28.11.2017 – 31.12.2017

In thousands of levs

				Recognised in:
	Balance sheet 28.11.2017	**Profit and loss**	**Other comprehensive income**	**Balance sheet 31.12.2017**
Property, machinery and equipment	(9 694)	(3)	-	(9 697)
Intangible assets	(5 327)	-	-	(5 327)
Subsequent valuations of investment properties	(453)	-	-	(453)
Tax loss	51	(30)	-	21
Impairment of receivables	115	9	-	124
Employee benefits	3	-	-	3
Long-term retirement benefits	17	-	3	20
Impairment of inventories	349	5	-	354
Compensated absences	21	(3)	-	18
Total:	**(14 918)**	**(22)**	**3**	**(14 937)**

17. Long-term payables to employees

Long-term payables to employees include the present value of the Group's liability for the payment of benefits to employees on 31.12.2017 upon reaching retirement age. According to the Labour Code, each employee is entitled to a compensation amounting to two gross salaries on retirement, and if he has worked with the same employer for the last 10 years of his length of service, the compensation is 6 gross salaries at the time of retirement.

For determining these liabilities, the Group companies made an actuarial valuation as at 31.12.2017 using the services of a certified actuary. On the basis of the reports prepared by the actuary, a liability in the balance sheet as of 31.12.2017 is defined amounting to BGN 211 thousand.

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

In thousands of levs

	2017
Present value of the liabilities on 28 November	**143**
Payments during the period	(2)
Effects of ex-post evaluations for the period	70
Present value of the obligation on 31 December	**211**

In determining the present value of the liabilities as of 31 December the following actuarial assumptions were made:

- for the determination of the discount factor, a rate on the basis of an annual interest rate of 1.73% was used.

- the assumption of the future salary level is based on the information provided by the Group's management that a 5% increase is expected from the level of a previous year.
- mortality - according to the NSI (National Statistics Institute) mortality table for the total mortality rate of the population of Bulgaria for the period 2014 - 2016;
- other assumptions - the legal base will remain unchanged regarding the right to a pension

18. Other non-current liabilities

As of 31.12.2017 the received financing of companies in the Group includes:

Long-term financing	297
Short-term financing (see Note 23)	74
Total	**371**

The received financing is as per a contract of 2014 between Millennium 2000 and the State Agricultural Fund for the acquisition of tangible fixed assets. The amount of the approved financing under this contract amounts to BGN 924 thousand.

19. Bank loans

Bank	**Authorized amount in thousands of BGN**	**Currency**	**Interest rate %**	**Maturity date**	**2017 liability in thousands of BGN**
"Bank 1" – borrower Gradus -1 EOOD					
Loan 1	12 000	BGN	1m sofibor+1.3%	30.01.2018	11 568
Loan 2	2 800	BGN	1 m sofibor+1.3%	30.01.2018	2 792
Loan 3	15 000	BGN	1 m sofibor+1.3%	12.02.2018	10 041
" Bank 1" – borrower Gradus -3 AD					
Loan 1	12 000	BGN	1 m sofibor+1.3%	30.01.2018	-
Loan 2	2 800	BGN	1 m sofibor+1.3%	30.01.2018	-
Loan 3	15 000	BGN	1 m sofibor+1.3%	12.02.2018	-
" Bank 2" – borrower Gradus -3 AD					
Loan 1	10 000	BGN	1 m sofibor+1.5%	20.08.2018	3 300
" Bank 3" – borrower Gradus -3 AD					
Loan 1	16 625	Euro	1 m sofibor+1.25%	31.10.2018	6 602
Loan 2	12 713	Euro	1 m sofibor+1.25%	31.10.2018	12 552
Loan 3	9 779	Euro	1 m sofibor+1.25%	31.10.2018	35
Total:					46 890

Bank loans are secured by Group assets as follows

		Fixed assets BGN thousand.	**Receivables BGN thousand.**	**Inventories BGN thousand**
"Bank 1"				
Gradus 3	Loan 1	-	-	2 000
Gradus 1	Loan 1	9 923	-	3 500
Gradus 3	Loan 2	-	-	3 500
Gradus 1	Loan 2	-	2 231	-
Gradus 3	Loan 3	2 533	-	-
Gradus 1	Loan 3	13 269	-	-
"Bank 2"				
Gradus 3	Loan 1	11 684	-	-

"Bank 3"				
Gradus 3	Loan 1	3 957	-	-
Gradus 3	Loan 2	1 169	-	3 000
Gradus 3	Loan 3	-	-	3 400
	Total:	42 535	2 231	15 400

20. Trade payables

In thousands of levs	**31.12.2017**
Trade creditors	3 679
Liabilities on advances received	38
	3 717

21. Tax obligations

In thousands of levs	**31.12.2017**
VAT to pay	817
Income tax	16
Tax on the income of individuals	74
Others	35
	942

22. Payables to employees and social security

In thousands of levs	**31.12.2017**
Payables to employees	1 040
Payables to social security	410
Liabilities for unused leaves	42
	1 492

23. Other current liabilities

Obligation under contract for delivery of tangible fixed assets	383
Other financings	129
Fixed assets financing (see note 18)	74
Insurance liabilities	26
Distraint	14
Others	5
	631

24. Sales revenues

In thousands of levs	**2017**
Sale of finished goods	10 741
Sale of merchandise	7 445
Sale of transport services	66
	18 252

25. Other incomes

In thousands of levs	**2017**

Revenue from compensations	1 601
Revaluation of biological assets	759
Income from financing	633
Sale of materials and tangible fixed assets	486
Rental income	102
Other operating income	19
	3 600

26. Raw materials and supplies costs

In thousands of levs	**2017**
Component costs	6 450
Cost of electricity	279
Cost of fuel and lubricants	165
Costs for heating materials	162
Cost of natural gas	109
Consumption of water and water vapor costs	23
Costs for coal, pellets	9
Others	174
	7 371

27. Cost of external services

In thousands of levs	**2017**
Bonus costs	492
Marketing and advertising costs	168
Expenses for forwarding services and commissions	84
Rental costs	56
Cost of transport services	49
Repairs and maintenance costs	39
Expenses for fees, certificates, permits	31
Insurance costs	29
Veterinary services and research	15
Legal services	30
Security expenses	28
Subscriptions	30
Others	60
	1 111

28. Employee benefits

In thousands of levs	**2017**
Salaries costs	1 264
Social insurance costs	239
	1 503

29. Other expenses

In thousands of levs	**2017**
Rejects of inventories	211
Impairment of inventories	50
Provision for compensated leave	48
Employee retirement costs	70

Lack of assets	7
Wastage	1
Written-off receivables	16
Taxes and charges	4
Others	25
	432

30. Financial revenue and expenditure

In thousands of levs	**2017**
Interest income	14
Total financial revenue	**14**
Interest expenses	(224)
Expenditure on currency operations	(6)
Other financial costs	(8)
Total financial costs	**(238)**
Total financial revenue / expenditure net	**(224)**

31. Tax expenses

Current tax for the period 28 November to 31 December 2017

Tax for the period	(658)
Deferred tax	(22)
Total taxes recognized in profit or loss	**(680)**

Effective tax rate

In thousands of levs

Pre-tax result	4 063
Corporate tax based on the statutory tax rate	406
Unrecognized tax expense	274
	680
Effective tax rate	16.74%

32. Financial instruments

Credit risk

The carrying amount of financial assets is the maximum credit exposure. The maximum credit exposure at the reporting date is:

In thousands of levs	**31.12.2017**
Receivables from related parties	4 947
Trade receivables	30 167
Loans granted	1 380
Cash and cash equivalents	2 792

Total Assets:	**39 286**

Currency risk

Exposure to credit risk

In some cases, companies in the Group carry out transactions denominated in foreign currency. The Group is exposed to currency risk associated with possible fluctuations in the foreign currency exchange rate. Currently, this risk is associated with fluctuations in the US Dollar exchange rate used by the Group in trade in agricultural products.

32. Financial instruments (Continued)

Liquidity risk

Here below the contractual maturities of financial liabilities are listed, including expected interest payments, excluding the effect of netting arrangements:

31 December 2017

In thousands of levs	Carrying amount	Contractual cash flows	Up to 6 months	6-12 months
Bank loans	46 890	46 890	-	46 890
Payables to related parties	479	479	479	-
Trade obligations	3 679	3 679	3 679	-
Total:	**51 048**	**51 048**	**4 158**	**46 890**

Interest rate risk

Overall, the Group has no significant interest-bearing assets. As a result, revenues and operating cash flows are largely independent of changes in market interest rates. At the same time, the Group is exposed to interest rate risk from its bank loans. They are customary with a variable interest rate that results in interest rate risk for its cash flows.

In thousands of levs	**Interest-bearing**		**Interest-free**	**Total**
31.12.2017	***Fixed interest rate %***	***Variable interest rate %***		
Receivables from related parties	-	-	4 947	4 947
Trade and other receivables	-	-	30 167	30 167
Loans granted	1 380	-	-	1 380
Cash and cash equivalents	-	-	2 889	2 889
Total financial assets	**1 380**	**-**	**38 003**	**39 383**
Bank loans	-	46 890	-	46 890
Trade obligations	-	-	3 679	3 679
Payables to related parties	-	-	479	479
Total financial liabilities	**-**	**46 890**	**4 158**	**51 048**

32. Financial instruments (Continued)

Fair values

Fair values compared to 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:

	31.12.2017	
In thousands of levs	**Carrying amount**	**Fair value**
Receivables from related parties	4 947	4 947
Trade and other receivables	30 167	30 167
Loans granted	1 380	1 380
Cash and cash equivalents	2 889	2 889
Total assets	**39 383**	**39 383**
Payables to related parties	479	479
Trade obligations	3 679	3 679
Bank loans	46 890	46 890
Total liabilities	**51 048**	**51 048**

33. Transactions with related parties

Identification of related parties

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

Related parties:	**Relationship**
Luka Angelov Angelov	Owner of the capital
Ivan Angelov Angelov	Owner of the capital
"Gradus-1" EOOD	Subsidiary
"Gradus-3" AD	Subsidiary
Millennium 2000 EOOD	Subsidiary
"Gradus-98" AD	Subsidiary
"Zhyuliv" EOOD	Subsidiary
"Lora-2004" EOOD	Subsidiary
"Gradus-2" OOD	Relationship through a person with significant influence
"Gradus-7" OOD	Relationship through a person with significant influence
"Mirena" OOD	Relationship through a person with significant influence
"Gold Agro-2005" OOD	Relationship through a person with significant influence
"Ayazmo" AD	Relationship through a person with significant influence

"Marieta" EOOD"	Relationship through a person with significant influence
Trade Home" EOOD	Relationship through a person with significant influence
"Wolf" OOD	Relationship through a person with significant influence
"Biser Oliva" AD	Relationship through a person with significant influence
ET "Gradus-Ivan Angelov-55	Relationship through a person with significant influence
"Equity Invest-1" AD	Relationship through a person with significant influence
"Equity Invest-2" OOD	Relationship through a person with significant influence
"M.O. Stara Zagora" OOD	Relationship through a person with significant influence
"Biser Distribution" OOD	Relationship through a person with significant influence
"Zagora Oil" OOD	Relationship through a person with significant influence

Remuneration of key management personnel

During the period 6 thousand BGN were payed for remuneration of key management personnel.

33. Transactions with related parties (continued)

In thousands of levs	**Type of transaction**	**Transaction value**	**Total receivables**	**Total payables**
Related persons outside the group				
Gradus 7 OOD	Sales	6	983	-
Gradus 2OOD	Sales	50	1 520	-
ET Gradus - Ivan Angelov - 55	Sales	165	112	-
M.O. Stara Zagora OOD.	Loan provided	10	2 204	-
Biser Oliva AD	Sales	29	8	-
Ivan Angelov Angelov	Sales	136	120	-
Gradus 7 OOD	Purchases	7	-	12
Gradus 2 OOD	Purchases	8	-	11
ET Gradus - Ivan Angelov - 55	Purchases	345	-	440
Biser Oliva AD	Purchases	278	-	13
Mirena OOD	Purchases	-	-	3
Total balance of related parties outside the group:			**4 947**	**479**

The Group has provided a loan in 2008. of M.O. Stara Zagora EOOD at the amount of BGN 2 560 thousand, according to the Annex of January 1, 2009. The interest rate is 2.5% plus a 3 months Euribor. During the period interest has been charged amounting to of BGN 10 thousand. The loan is due on 30 September 2018. As of 31.12.2017 the sum due amounts to BGN 2204 thousand.

34. Conditional obligations

The Group has provided a performance guarantee amounting to BGN 80 thousand in order to secure an obligation of Marina 2003 EOOD to "South-West State Enterprise".

35. Events after the reporting date

On 24.01.2018 the Group signs an annex to an Overdraft Loan Agreement with "Bank 1" (Loan 1). The term of use and repayment was extended until 30.09.2018.

On 24.01.2018 the Group signs an Annex to a Loan Agreement with "Bank 1" (Loan 2). The term of use and repayment was extended until 30.09.2018.

On 24.01.2018 the Group signs an Annex to a Loan Agreement with "Bank 1" (Loan 3). The term of use and repayment was extended until 30.09.2018.

On 30.01.2018 Gradus AD decided to increase the capital by up to BGN 100 million by issuing new shares. The increase of the capital will be made under the conditions of public offering of the Bulgarian Stock Exchange - Sofia AD. It is decided that the specific amount of the capital increase and the number of issued shares shall be determined at a subsequent meeting.

On 26.03.2018 Gradus AD decided to increase its capital by up to BGN 28 million by offering new shares on the Bulgarian Stock Exchange.

At the date of this consolidated financial report, Gradus AD has not launched the procedure for public offering of securities.

There are no other material events occurring after 31 December 2017 that require additional adjustments and / or disclosures in the financial statements as at 31 December 2017.

I, the undersigned Svetoslav Ilkov Ilkov, hereby certify the correctness of the translation done by me from Bulgarian into English of the document herewith enclosed (Consolidated Financial Statements of Gradus AD). The translation consists of 36 (thirty-six) pages.

Translator: ________________

Svetoslav Ilkov Ilkov