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GRADUS AD
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2020

1. Status and object of activity

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

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

BULSTAT: 204882907

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

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

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

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

Ownership and management

The shareholding structure of the company as at 31 March 2020 is as follows:

- Luka Angelov Angelov – 40.72% of the capital
- Ivan Angelov Angelov – 20.65% of the capital
- Angel Ivanov Angelov – 20.65% of the capital
- Legal entities – 15.74% of the capital
- Individual shareholders – 2.24% of the capital

Management bodies of the Company

- General Meeting of Shareholders
- Board of Directors

Board of Directors:

The Board of Directors consists of three (3) members who are as follows as at 31 March 2020:

Luka Angelov Angelov – Chairman of the Board of Directors of Gradus AD

Ivan Angelov Angelov – Member of the Board of Directors and Executive Director of Gradus AD

Georgi Aleksandrov Babev - Member of the Board of Directors of Gradus AD

Audit Committee:

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

Members of the Audit Committee are:

- Petya Radoslavova Panova – An independent member of the Audit Committee and temporarily performing the functions of Chairperson of the Audit Committee from 23.03.2020 until the election of a third member of the GMS of Gradus AD; ;
- Georgi Aleksandrov Babev – Member of the Audit Committee.

By minutes of 02.11.2019 from the Board of Directors meeting Dobri Svetlozarov Simeonov was proposed as a new member of the Audit Committee to the GMS of Gradus AD.

The average number of staff of Gradus AD as at 31 March 2020 is 3 persons hired under employments contracts.

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2. Basis of preparation of the separate financial statements

These separate financial statements have been prepared based on the principles of going concern and historical cost convention.

These interim financial statements are the separate financial statements of Gradus AD for the second quarter of 2019.

Functional currency and currency of presentation

Pursuant to the requirements of the Bulgarian legislation, the Company keeps its accounting books and records and prepares its financial statements in the national currency of the Republic of Bulgaria – the Bulgarian lev. Since 1 January 1999 the exchange rate of the Bulgarian lev has been pegged to the exchange rate of the Euro in a ratio of EUR 1 = BGN 1.95583.

These interim financial statements have been prepared in BGN'000 (BGN thousand), unless stated otherwise.

3. Significant accounting policies

(a) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the closing exchange rate prevailing on the date of preparation of the statement of financial position. Foreign exchange gain or loss originating from monetary items is the difference between the amortised cost in the functional currency at the beginning of the period adjusted by the effective interest and the payments over the period and the amortised cost in foreign currency translated at the exchange rate at end of the period.

Non-monetary assets and liabilities that are measured in terms of fair value in a foreign currency are translated using the exchange rate at the date of measurement of the fair value. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Any foreign exchange differences, which occur upon translation into the functional currency, are reported as profits and losses, except for differences arising on the translation into the functional currency of available-for-sale equity instruments or eligible cash flow hedges that are recognised in other comprehensive income (if any).

(b) Property, plant and equipment

(i) Recognition and measurement

Initial recognition

Items of property, plant and equipment are measured initially at cost, which comprises all directly attributable costs of acquisition of the asset and the acquisition cost of the asset is over BGN 700.00 (seven hundred).

The cost comprises the asset's purchase price, including any import duties and non-refundable purchase taxes, and any costs directly incurred in bringing the asset to its location and working condition necessary to prepare the asset for its intended use.

The cost of self-constructed assets includes the cost of materials, direct labour and the appropriate proportion of indirect production overheads; costs directly incurred in bringing the asset to its location and working condition necessary to prepare the asset for its intended use; initial estimate of the costs of dismantling and removing the assets, and restoring the site on which they are located, and capitalised interest expenses. Software acquired without which it is impossible to operate equipment purchased is capitalised as part of the equipment.

When items of property, plant and equipment contain components with different useful lives, they are reported separately.

Subsequent recognition

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

The fair value of fixed tangible assets is determined on the basis of market evidence presented in a report prepared by an approved licensed valuer. Revaluation is scheduled to take place every 3 years. When the fair value changes significantly over a shorter period of time, the revaluation may be made more often to ensure that their carrying amount at the relevant reporting date does not materially differ from their fair value.

Gains and losses on derecognition of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are recognised net in other income / other expenses in profit or loss. When the revalued

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assets are sold or derecognised on other grounds, the amounts included in the revaluation reserve are reclassified to retained earnings or accumulated losses.

(ii) Subsequent costs

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

(iii) Depreciation

An item of property, plant and equipment is depreciated from the date on which it is installed and ready for use, or for the self-constructed assets, from the date on which the asset is completed and ready for use. Depreciation charges are recognised up to the amount of the asset's original value minus the estimated residual value of the asset based on the straight-line method over the estimated useful life of each component of property, plant and equipment. Depreciation charges are recognised in profit or loss unless they are included in the carrying amount of another asset.

Assets acquired under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term, unless it is virtually certain that the ownership of the asset will be acquired by the end of the lease term. Land is not depreciated.

Depreciation rates are defined as follows:

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

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

(c) Intangible assets

Intangible assets are carried at cost less accumulated amortisation and any impairment losses.

The carrying amount of intangible assets is tested for impairment when events or changes in circumstances indicate that the carrying amount could exceed their recoverable amount. Intangible assets are derecognised from the statement of financial position when they are permanently retired and no future economic benefit is expected from their disposal, or when they are sold.

Gains and losses on sale of individual assets from the group of intangible assets are determined by comparing the consideration to which the Company expects to be entitled (sales proceeds) with the asset's carrying amount at the date on which the recipient obtains control of the asset. They are stated net, as part of "Other operating income/(losses), net" on the face of the statement of comprehensive income.

Subsequent costs

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

Amortisation

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

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

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

(d) Investments

The long-term investments representing shares in subsidiaries are presented in the financial statements at acquisition price (cost), which is:

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

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

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

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

(e) Financial instruments

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

Financial assets

Initial recognition, classification and measurement

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

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

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

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade (transaction) date, i.e., the date that the Company commits to purchase or sell the asset.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. In order for a financial asset to be classified and

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measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are ‘solely payments of principal and interest (SPPI)’ on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

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

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through other comprehensive income with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through other comprehensive income with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss (debt and equity instruments).

Classification groups

Financial assets at amortised cost (debt instruments)

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held and used within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest method. They are subject to impairment. Gains and losses are recognised in the statement of comprehensive income.

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

Derecognition

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

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

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

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

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

Expected credit loss on financial assets

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

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

Expected credit losses are recognised in two stages.

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

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

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

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

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

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

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

Financial liabilities

Initial recognition, classification and measurement

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

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

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification.

Classification groups

Financial liabilities at fair value through profit or loss

The Group has no such liabilities.

Loans and other borrowings

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

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

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Derecognition

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. This requirement derives from the idea of the real business nature of the company's relationship with a counterparty that, in the simultaneous existence of these two requirements, the expected actual cash flow and benefits from these estimates to the enterprise is the net flow, i.e. the net amount reflects the actual right or liability of the Company originating from these financial instruments – in any case, its right to receive or pay only the net amount. If both conditions are not met simultaneously, it is assumed that the rights and obligations of the Company in respect of these counter-balances (financial instruments) are not covered only and solely by the receipt or payment of the net amount.

The netting policy is also linked to the assessment, presentation and management of the actual credit and liquidity risks associated with these counter-balances.

Criteria applicable to establishing *the existence of a current and legally enforceable netting right* are as follows:

- the right should not depend on a future event, i.e. it shall be enforceable not only if a particular future event occurs;
- it should be possible to exercise the right and to defend it by employing legal means in the course of (taken cumulatively):
 - the ordinary activity,
 - in case of default/delay, and
 - in case of bankruptcy and insolvency.

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

(f) Trade and other receivables

Trade receivables are an unconditional right of an entity to receive remuneration under contracts with customers and other contractors.

Initial recognition

Initially, trade receivables are presented and measured at fair value based on the transaction price, which value is usually equal to the invoice amount, unless they contain a significant financing component that is not charged additionally. If this is the case, they are recognised at their present value calculated at a discount rate equal to the interest rate that is considered inherent to the debtor.

Subsequent measurement

The Company holds trade receivables solely for the purpose of collecting contractual cash flows and measures them subsequently at amortised cost less the accumulated impairment for expected credit losses.

Impairment

The Company applies the lifetime expected credit losses model for its trade receivables using the simplified approach required by IFRS 9. The expected credit loss from receivables is stated as Impairment of assets in the statement of comprehensive income.

(g) Cash and cash equivalents

Cash comprises cash on hand and cash in current accounts, and cash equivalents comprises deposits with banks with an original maturity of three months or less, and deposits with longer maturity that are freely disposable by the company in accordance with the arrangement with bankers during the term of the deposit.

Subsequent measurement

Cash and cash equivalents in banks are measured subsequently at amortised cost, less any accumulated impairment for expected credit losses.

For the purposes of the preparation of the cash-flow statement:

- cash equivalents from customers and cash payments to suppliers are presented gross, VAT inclusive (20%);
- interest received on current accounts are presented as operating activity;
- VAT paid under purchases of long-term assets is specified on the “payments to suppliers” line to the cash-flows from operating activity, as long as it is included into and recovered together with the operating flows of the company for the respective period (month);
- proceeds from and payments from and on overdrafts are reported net by the company.

(h) Trade and other payables

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

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

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

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

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

(j) Income

The company’s usual income consists of dividends and interest on loans granted.

Dividend income is recognized in the current profit or loss on the date the Company acquires the right to receive the payment as a result of a decision taken for the allocation of the accumulated profits of the subsidiaries.

Evaluation of a contract with a client

A customer agreement is available when:

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

A contract for which any of the above criteria has not yet been fulfilled shall be re-evaluated each reporting period. Remuneration received under such a contract is recognized as a liability (liability under a contract) in the statement of financial position until all criteria for recognizing a contract with a client are fulfilled and the company fulfills its obligations to perform. In the initial evaluation of its contracts with customers, the company makes an additional

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analysis and assessment of whether two or more contracts should be considered in their combination and accounted for as one. The Company recognizes revenue for each individual obligation to perform at the level of an individual contract with a client by analyzing the type, term and conditions for each specific contract.

Measurement of revenue under customer contracts

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

(k) Finance income and finance costs

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

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

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

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

(l) Provisions

Provisions are recognised when the Company has a present legal or constructive liability as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the liability. Provisions are determined by discounting the estimated future cash flows with a pre-tax interest rate that reflects the time value of money and the risks specific to the liability. Interest accrued on the discounted value is recognised as finance costs.

(m) Income tax

Income tax for the reporting period consists of current and deferred taxes. Income tax is recognised in profit and loss, except to the extent that it relates to business combinations or items recognised directly in equity or in other comprehensive income.

Current income tax is the expected tax payable on the taxable profit or loss for the year, using the tax rates that are enacted or substantially enacted by the reporting date, and any adjustments to tax payable in respect of previous years. Current income tax includes also any tax effects of dividends.

Deferred income tax is provided on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax is recognised for all temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither the accounting nor taxable profit nor loss.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred income tax assets and deferred income tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxation authority.

Deferred income tax assets are recognised for all unused tax losses, credits and deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilised. Deferred tax assets are reviewed at least annually and are compulsory at the end of the year at each reporting date and are reduced to the extent that it is no longer probable that future benefits will be realized.

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

(n) Key estimates and assumptions

Calculation of expected credit losses on loans granted, trade receivables and assets under contracts with customers

The measurement of the expected credit loss for financial assets carried at amortised cost (loans granted, receivables and assets under contracts with customers) is an area, which requires the use of significant assumptions about future economic conditions and credit behaviour of customers and debtors (for example, the likelihood of counterparties not fulfilling their obligations and the resulting losses).

Aiming at achieving compliance with these requirements, the company's management makes a number of important judgments, such as:

- (a) defines criteria for identifying and evaluating a significant increase in credit risk;
- (b) selecting appropriate models and assumptions for measuring expected credit losses;
- (c) formation of groups of similar financial assets (portfolios) for the purpose of measuring expected credit losses,
- (d) establishing and evaluating the correlation between historical default rates and behaviour of certain macroeconomic indicators to reflect the effects of forecasts in future when calculating expected credit losses.

Estimates when recognising revenue from contracts with customers

When recognising revenue and preparing the annual financial statements, management makes different judgements, estimates and assumptions, which influence the reported income, expenses, assets and liabilities under contracts, and their corresponding disclosures.

Despite the uncertainty regarding these assumptions and estimates, the Company does not expect substantial adjustments to the carrying amount of the assets and liabilities in the future, and respectively, the reported costs and revenue.

Useful life of fixed assets - The Company examines the estimated useful lives of the depreciable fixed assets at the end of each reporting period.

Recognition of tax assets - When recognising deferred tax assets, it is assessed the probability that individual deductible temporary differences will reverse in the future and the ability of the Company to generate sufficient tax profits to offset them against those profits.

Impairment of investments – Investments in subsidiaries are measured at cost. At the end of each financial year, management assesses whether there are any indications of impairment of its investments in shares and subsidiaries.

(o) New standards and interpretations

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

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

Currently, the IFRS adopted by the EU do not differ significantly from those adopted by the IASC, except for the following new standards, amendments to existing standards and new interpretations, which have not been adopted by the EU yet as at the date of approval of these financial statements (the dates of entry into force specified below refer to the complete IFRS):

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

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

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

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

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4. Fixed tangible assets

<i>In BGN 000</i>	Hardware	Cars	Other	Total
Book value				
Balance on 31 December 2018	-	-	-	-
Balance on 31 December 2019	5	22	-	27
Additions	<u>2</u>	<u>-</u>	<u>1</u>	<u>3</u>
Balance on 31 March 2020	<u>7</u>	<u>22</u>	<u>1</u>	<u>30</u>
Depreciation				
Balance on 31 December 2018	-	-	-	-
Balance on 31 December 2019	(1)	-	-	(1)
Depreciation for the period	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>(1)</u>
Balance on 31 March 2020	<u>(1)</u>	<u>(1)</u>	<u>-</u>	<u>(2)</u>
Net book value				
Net book value on 31 December 2018	-	-	-	-
Net book value on 31 December 2019	<u>4</u>	<u>22</u>	<u>-</u>	<u>26</u>
Net book value on 31 March 2020	<u>6</u>	<u>21</u>	<u>1</u>	<u>28</u>

5. Intangible assets

Intangible assets consist of software products.

<i>In BGN 000</i>	Software	Licences	Other	Total
Book value				
Balance on 31 December 2018	4	-	-	4
Balance on 31 December 2019	5	86	85	176
Additions	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>
Balance on 31 March 2020	<u>5</u>	<u>86</u>	<u>86</u>	<u>177</u>
Depreciation				
Balance on 31 December 2018	(1)	-	-	(1)
Balance on 31 December 2019	(2)	-	-	(2)
Depreciation for the period	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>(1)</u>
Balance on 31 March 2020	<u>(3)</u>	<u>-</u>	<u>-</u>	<u>(3)</u>
Net book value				
Net book value on 31 December 2018	3	-	-	3
Net book value on 31 December 2019	<u>3</u>	<u>86</u>	<u>85</u>	<u>174</u>
Net book value on 31 March 2020	<u>2</u>	<u>86</u>	<u>86</u>	<u>174</u>

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6. Investments in subsidiaries

As at 31 March 2020, the Company held shares in the following companies:

Company	Country	Share – BGN	Equity share - %
Lora-2004 EOOD	Bulgaria	11 100	100
Zhyuliv EOOD	Bulgaria	16 200	100
Millennium 2000 EOOD	Bulgaria	35 700	100
Gradus-1 EOOD	Bulgaria	149 760	100
Gradus-98 AD	Bulgaria	52 200	99,94
Gold Farm 91 EOOD	Bulgaria	4 052	100
Total:		269 012	

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

As at 31 December 2019, the Company held shares in the same companies and quantities as of 31 March 2020:

Impairment of investments in subsidiaries

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

The main indicators for impairment are: a significant reduction in the volume and / or termination of the activity of the investee; losses on markets, customers or technological problems, reporting of losses over a longer period (more than three years), reporting of negative net assets or assets below registered share capital, trends in the deterioration of key financial indicators, as well as a decrease in market capitalization. The management of the company instructs an external independent appraiser to review the existence of impairment indications under IAS 36 Impairment of Assets on the value of investments in subsidiaries and goodwill.

As of 31.03.2020, no impairments were made on certain investments in subsidiaries.

7. Deferred tax assets

The recognised deferred tax assets relate to the following:

	Assets		Liabilities		Net	
	31.03.2020	31.12.2019	31.03.2020	31.12.2019	31.03.2020	31.12.2019
<i>In BGN'000</i>						
Tax loss	57	57	-	-	57	57
Income of individuals	2	2	-	-	2	2
Provision for expected credit losses	1	1	-	-	1	1
Net tax assets	60	60	-	-	60	60

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Movements in temporary differences during the period 01.01.2020 – 31.03.2020

In BGN'000

	Balance Sheet 31.12.2019	Profit and loss	Balance Sheet 31.03.2020
Tax loss	57	-	57
Income of individuals	2	-	2
Provision for expected credit losses	1	-	1
Total:	60	-	60

8. Other receivables and prepayments

In BGN'000

	31.03.2020	31.12.2019
Taxes refundable	38	33
Prepayments	11	10
Other	16	12
Total	65	55

9. Cash and cash equivalents

In BGN'000

	31.03.2020	31.12.2019
Cash on hand	3	1
Cash in current accounts	5 423	898
Total cash and cash equivalents	5 426	899

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

10. Equity

Share capital

The share capital consists of:

	Number of voting shares	Value in BGN thousand
At 31 December 2017.	221 000 000	221 000
Issue of shares	22 608 710	22 609
At 31 December 2019	243 608 710	243 609
At 31 March 2020	243 608 710	243 609

The total number of shares at 31 March 2019 is 243,608,710 with nominal value of BGN 1 each. The share capital is paid in full.

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Shareholders of Gradus AD as of March 31, 2020 are as follows:

	Number of voting shares	% Shareholding
Luka Angelov Angelov	99 195 645	40.72
Ivan Angelov Angelov	50 312 465	20,65
Angelov Ivanov Angelov	50 312 465	20,65
legal entities	38 341 517	15,74
Individual shareholders	5 446 618	2,24
Общо:	243 608 710	100,00

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

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

Equity

<i>In BGN'000</i>	31.03.2020	31.12.2019
Share capital	243 609	243 609
Issue premium	62 287	62 287
Retained earnings / (loss)	8 891	8 891
Profit for the period	(78)	-
Total equity	314 709	314 787

The share capital is presented at the nominal value of the shares issued and paid. Receipts above their nominal value are reported as issue premium.

11. Tax liabilities

<i>In BGN'000</i>	31.03.2020	31.12.2019
VAT	-	20
Personal income tax liabilities	3	4
Tax on dividends	-	226
	3	250

12. Payables to personnel and for social security

<i>In BGN'000</i>	31.03.2020	31.12.2019
Payables to personnel	34	36
Social security payable	4	5
Total	38	41

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13. Revenue from services provided amount

<i>In BGN'000</i>	01-03.2020	01-03.2019
Training	-	60
Total	-	60

14. Costs of hired services

<i>In BGN'000</i>	01-03.2020	01-03.2019
Subscription Legal services	7	-
Consulting activities	6	-
Subscription fees	4	3
Rental costs	4	-
Repair and maintenance of fixed tangible assets	3	-
Audit expenses	3	1
Insurance	1	-
Translation services	-	1
Other studies	1	-
Total	29	5

15. Personnel expenses

<i>In BGN'000</i>	01-03.2020	01-03.2019
Current remuneration	117	98
Social security contributions	7	5
Total	124	103

16. Other operating expenses

<i>In BGN'000</i>	01-03.2020	01-03.2019
Entertainment expenses	1	-
Travel expenses	1	1
Others	1	-
Total	3	1

17. Finance income/costs

<i>In BGN'000</i>	01-03.2020	01-03.2019
Interest income on loans granted	82	161
Total	82	161

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18. Financial instruments

Categories of financial instruments:

Financial assets at amortised cost	31.03.2020	31.12.2019
<i>In BGN'000</i>		
Related party receivables	617	6 017
Receivables on loans to related parties	39 382	38 847
Cash and cash equivalents	5 426	899
Total:	45 425	45 763

In the course of its ordinary activity the Company is exposed to various financial risks, the most significant of which are the following: market risk (including currency risk, risk of changes in fair value and price risk), credit risk, liquidity risk and risk of interest-bearing cash flows.

The overall risk management is focused on difficulties in forecasting financial markets aimed at minimising the potential negative effects that might impact the financial results and performance of the Company.

Financial risks are identified, measured and monitored currently, using different control mechanisms, in order to determine adequate prices of company's goods and to assess adequately the forms of maintenance of free liquidity without permitting unjustified concentration of a particular risk.

Risks faced by the Company are managed on an ongoing basis in accordance with a policy elaborated by the General Manager. The General Manager has set the main principles of the overall financial risk management on the basis of which specific procedures for management of particular risks, such as currency risk, price risk, interest rate risk, credit risk, and liquidity risk.

Credit risk

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

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

Receivables

To calculate the expected credit losses on trade receivables, the company applies a simplified approach to calculating expected credit losses and does not track subsequent changes in their credit risk. By applying this approach, the company recognises an adjustment (impairment allowance) on the basis of the expected credit loss over the entire period of the receivables at each reporting date.

The Company has not segmented receivables into different groups as it believes that they have similar characteristics, and for each type of financial asset it has conducted a collectability analysis in the different ranges of aging analysis. Provision rates applied are based on days past due according to aging analysis. Initially, these rates were determined on the basis of historical data monitored by the company over a 2-year period.

The company has analysed the effects on the estimated default rates based on historical forecast data for certain macroeconomic parameters, such as GDP and unemployment rate. Management has analysed future information on these parameters and determined that the effects are immaterial, so historical loss rates have not been adjusted as of 31 March 2020.

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

Monetary, including payment transactions are limited to banks with good credit rating. Moreover, the company seeks to limit its exposure to a bank.

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Loans granted and financial guarantees

The Company measures the credit risk of loans to related parties by using the probability of default (PD), exposure at default (EAD) and loss given default (LGD). To determine the credit risk, the company's management uses internal estimates that reflect the probability of default for individual counterparties. The activity, financial performance of the borrower and the value of the collateral received is included in the risk assessment.

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

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

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

The company considers a financial instrument as being in default and exposed to a credit loss (migration from phase 1 or phase 2 to phase 3) when one or more of the following quantitative or qualitative criteria are met:

- the borrower is past due by more than 90 days;
- the borrower experiences significant financial difficulties;
- the borrower is in an insolvency / liquidation procedure.

Calculation of expected credit losses

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

- PD the probability of that the borrower would fail to perform its financial obligation either in the next 12 months or for the entire lifetime of the financial asset;
- EAD is the amount due by the company at the time of default;
- LGD is the expectation of the company for the amount of the loss in case of exposure at default. The LGD amount has been reduced by the insured portion of the financial asset.

The discount rate used to calculate the expected credit loss (ECL) is the instrument's original effective interest rate.

When determining the 12-month and lifetime PD, EAD and LGD for the instrument, forecast information has been employed as well. The company's management has conducted an historical analysis and has identified the main economic variables affecting credit risk and expected credit losses.

The expected credit losses on certain loans classified in Phase 1 are determined on the basis of expected credit losses resulting from possible default events which could occur within the next 12 months of the lifetime of the relevant asset (12-month expected credit losses for the instrument).

Analysis of the expected losses on loans granted:

In BGN'000	Loan granted as at 31.03.2020	Interest rate	Probability of default in %	Loss given default	Discounted credit loss	Loan granted, net
Gradus-1 EOOD	22 476	0.86%	0.02%	22 476	(3)	22 473
Gradus-3 AD	7 006	0.86%	0.02%	7 006	(2)	7 004
Lora-2004** EOOD	9 907	0.86%	0.02%	9 907	(2)	9 905
Gradus-98 AD	1	0.86%	0.02%	1	(1)	-
Total	39 390			39 390	(8)	39 382

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

Currency risk

At the moment, this risk is immaterial for the Company has no transactions in currencies other than the Bulgarian lev.

Liquidity risk

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

Interest rate risk

The company did not hold interest-bearing financial liabilities at 31 March 2020 and 31 December 2019.

COVID-19

On March 11, 2020, the World Health Organization declared a coronavirus pandemic, and on March 13, 2020, the Bulgarian government declared a state of emergency. To limit the outbreak of contagion the following measures have been introduced: restricting cross-border movement of people, working from home, temporarily closing schools, universities, restaurants, cinemas, theaters, museums and sports facilities, retailers with the exception of retailers, grocery stores, grocery stores and pharmacies.'

The Company's management carefully analyzes the potential effects of the pandemic and the restrictions imposed by the government, expecting a decrease in economic activity and liquidity in general for the country's economy. The management of the company has taken measures to limit the effects of the pandemic. As the Company has sufficient liquid resources to continue in business for the foreseeable future, Management believes it is appropriate to have a going concern principle in these separate financial statements.

Fair values

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

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

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

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Fair values compared to carrying amounts

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

<i>In BGN'000</i>	31.03.2020		31.12.2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Related party receivables	617	617	6 017	6 017
Receivables on loans to related parties	39 382	39 382	38 847	38 847
Cash and cash equivalents	5 426	5 426	899	899
Total assets at amortised cost	45 425	45 425	45 763	45 763

19. Related party transactions

Identification of related parties

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

Related parties:	Relation
Luka Angelov Angelov	Equity owner
Ivan Angelov Angelov	Equity owner
Angel Ivanov Angelov	Equity owner
Gradus-1 EOOD	Company under joint control
Gradus-3 AD	Company under joint control
Millennium 2000 EOOD	Company under joint control
Gradus-98 AD	Company under joint control
Zhyuliv EOOD	Company under joint control
Lora-2004 EOOD	Company under joint control
Gold Farm 91 EOOD	Company under joint control
Energy-2 OOD	Relationship through a person exercising significant influence
Agro Invest-7 OOD	Relationship through a person exercising significant influence
Mirena OOD	Relationship through a person exercising significant influence
Gold Agro-2005 OOD	Relationship through a person exercising significant influence
Ayazmo AD	Relationship through a person exercising significant influence
Marieta EOOD	Relationship through a person exercising significant influence
Trade Home EOOD	Relationship through a person exercising significant influence
Ralitsa 2004 OOD	Relationship through a person exercising significant influence
Wolf OOD	Relationship through a person exercising significant influence
Biser Oliva AD	Relationship through a person exercising significant influence
Equity Invest-1 AD	Relationship through a person exercising significant influence
Equity Invest-2 OOD	Relationship through a person exercising significant influence
M.O. Stara Zagora OOD	Relationship through a person exercising significant influence
Biser Distribution OOD	Relationship through a person exercising significant influence
Zagora Oil OOD	Relationship through a person exercising significant influence
Auto Spa Center	Relationship through a person exercising significant influence
LG Auto OOD	Relationship through a person exercising significant influence

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Transactions with key management personnel

The accrued remuneration of the directors and members of the board for the period 01.01.2020 - 31.03.2020 amounts to BGN 86 thousand. (01.01.-31.03.2019: BGN 89 thousand).

Related party loans:

<i>In BGN'000</i>	Interest rate %	Maturity date	Collateral	Loans granted 31.03.2020	Loans granted 31.12.2019
Gradus-1 EOOD	0.86%	07/2020-02.2021	No	22 473	16 660
Gradus-3 AD	0.86%	07-12.2020	No	7 004	9 088
Lora-2004 EOOD	0.86%	07.2020	No	9 905	10 599
Gradus-98 AD	0.86%	12.2020	No	-	2 500
Общо:				39 382	38 847

As at 31 March 2020, the transactions between Gradus AD and the related companies were as follows:

<i>In BGN'000</i>	Type of transaction	Transaction value as at 31 Mar 2020	Total liabilities 31 March 2020
Related parties of Gradus AD			
Biser Oliva AD	Service	1	1
Total liabilities			1

<i>In BGN'000</i>	Type of transaction	Transaction value as at 31 Mar 2019	Total liabilities 31 March 2020
Related parties of Gradus AD			
Gradus-1 EOOD	Service	4	13
Gradus-1 EOOD	Loans granted	5 800	22 447
Gradus-1 EOOD	Interest accrued	38	26
Gradus-3 AD	Service	6	-
Gradus-3 AD	Loans granted	-	6 998
Gradus-3 AD	Interest accrued	19	6
Millennium 2000 EOOD	Service	4	2
Lora-2004 EOOD	Service	3	1
Lora-2004 EOOD	Loans granted	-	9 898
Lora-2004 EOOD	Interest accrued	22	7
Gradus-98 AD	Service	3	-
Gradus-98 AD	Interest accrued	4	-
Total			39 399
Millennium 2000 EOOD	Dividends	3 000	-
Gradus-98 AD	Dividends	1 999	-
Zhyuliv EOOD	Dividends	400	600
Total dividends receivable			600
Total related party receivables			39 999
Including dividends receivable			600
Including receivables on loans			39 382
Including trade receivables			17

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As at 31 March 2019, the transactions between Gradus AD and the related companies were as follows:

<i>In BGN'000</i>	Type of transaction	Transaction value as at 31 Mar 2019	Total liabilities 31 March 2020
Related parties of Gradus AD			
Gradus-1 EOOD	Service	12	12
Gradus-1 EOOD	Loans granted	-	19 196
Gradus-1 EOOD	Interest accrued	58	17
Gradus-3 AD	Service	12	12
Gradus-3 AD	Loans granted	-	17 696
Gradus-3 AD	Interest accrued	56	16
Millennium 2000 EOOD	Service	12	12
Millennium 2000 EOOD	Loans granted		4 999
Millennium 2000 EOOD	Interest accrued	33	10
Lora-2004 EOOD	Service	12	12
Lora-2004 EOOD	Loans granted		10 998
Lora-2004 EOOD	Interest accrued	15	4
Gradus-98 AD	Service	12	12
Zhyuliv EOOD	Service	12	12
Общо вземания от предоставени услуги и заеми			53 008
Gradus-1 EOOD	Dividends	-	500
Millennium 2000 EOOD	Dividends	-	4 700
Total dividends receivable			5 200
Other			11
Total related party receivables			58 219
Including dividends receivable			5 200
Including receivables on loans			52 936
Including trade receivables			72

20. Events after the reporting date

There were no other significant events occurring after 31 March 2020 that require additional adjustments and/or disclosures in the separate financial statements for the year ended 31 March 2020.