

Translation from Bulgarian

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

1. Information whether the issuer complies as appropriate:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Control

Main ethical principles and rules in accounting and financial reporting processes

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

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

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

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

Their functions and responsibilities include:

- The Board of Directors accepts and approves: accounting policies and any changes thereto for every reporting period, accounting estimates developed at the date of every reporting period, including the methodology applied; financial statements and reports, and other public documents containing financial information; functions, organisation and responsibilities of all structural units and their managers involved in processes on and relating to financial reporting; development, implementation and current monitoring on the operation of various controls;

- The Audit Committee monitors independently the implementation of the financial reporting processes, accounting policies applied, as well as the financial performance and results from the external and internal audit;

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

- The Chief Accountant organises and manages the accounting and reporting activity of the companies – he/she exercises control and provides methodological guidance on the current accounting; manages the preparation of financial and management reports; bears the responsibility for the

development and implementation of accounting and reporting methods and techniques; bears the responsibility for the process of closing the accounts and the preparation of all accounting estimates, proposes and develops accounting policies and changes thereto; follows-up any current amendments to IFRS. The Chief Accountant is the person for direct contact with all internal and external experts involved in financial reporting processes.

Human resource policy and practice in the financial and accounting departments

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

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

The Board of Directors, the Audit Committee, the Financial Director and the Chief Accountant of the parent company play a key role in the process of constant identification, monitoring and control of business risks, including to identify and control the effects of those of them, which have a direct impact on individual processes and accounting items, financial reporting and companies' reporting. They ensure an overall monitoring over the risk management process. Risk factors relevant to ensuring a reliable financial reporting include external and internal events, transactions and circumstances that may arise and negatively affect the ability of an enterprise to create, maintain and process accounting and operational data in a way that ensures reliable financial reporting, financial statements and reports.

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

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

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

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

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

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

Information system

The information system of Gradus comprises of infrastructure (physical and hardware components), software, people, procedures, and data. At present, the Group is in a process of implementing a management and control system (ERP). The subsidiaries apply various accounting software, the data of which is summarized in a specialized software for consolidation purposes.

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

The Accounting Department of the parent company is directly subordinated to the Executive Director. It is headed by a Chief Accountant. According to its functional characteristics, the Accounting Department covers and fully implements the accounting and reporting function, including the preparation of financial statements.

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

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

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

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

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

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

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

Control activities

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

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

The physical controls applied by the Group companies include:

a) measures for the physical safety of assets - safety facilities and premises, as well as special conditions for access to assets and documents;

b) a special procedure for approval of the access to software and data files;

c) periodical stocktaking - procedures for the organisation and carrying out of stocktaking by way of physical counting / weighting of stock / sending relevant letters of confirmation and comparison with the amounts recorded in the checklists and accounting documents/registers. Procedures have been implemented for the timely analysis of the stocktaking results, elaboration of decisions on their accounting for, and respectively, obtaining the approval of the Executive Director.

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

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

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

No proposals for takeover and/or merger with another company were made to the Company as of 31 December 2018.

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

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

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

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

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

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

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

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

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

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

- ✓ organizes the implementation of the decisions taken at the General Meeting and controls this implementation;
- ✓ elects the Executive Director / representative(s), defines the limits of his / her / their competence and controls his / her / their activity;
- ✓ decides on long-term cooperation essential to the Company or terminates such cooperation;
- ✓ takes decisions on the establishing and / or closing a branch;
- ✓ takes decisions to increase the Company's capital, in cases where it is expressly authorized to do so by the General Meeting;

- ✓ approves disposition (including, but not limited to, transfer, encumbrance, burden, etc.) to the Company's business or parts thereof;
- ✓ approves the conclusion of transactions with shareholders, members of the Board of Directors or employees of the Company (or members of their families);
- ✓ approves borrowing or otherwise forming a Company's financial debt to a third party at a value above BGN 50,000 as a result of a single transaction or a series of transactions;
- ✓ decides on the participation and / or termination of the Company's participation in other companies in the Republic of Bulgaria and abroad;
- ✓ decides to exercise rights as a shareholder / partner in subsidiaries;
- ✓ decides to grant a loan or other form of financing the companies in which the Company owns and / or exercises control;
- ✓ decides to dispose of intellectual property of the Company as well as to grant intellectual property rights on assets of the Company;
- ✓ prepares, accepts and signs a prospectus for public offering of securities issued by the Company;
- ✓ elects and releases investment intermediaries to take and/or administer a securities issue issued by the Company, which will be subject to public offering;
- ✓ approves the conclusion of transactions other than those specified in Art.114, para.1 of the Public Offering of Securities Act (POSA) with the participation of interested persons within the meaning of Art.114, para.7 of POSA;
- ✓ approves the conclusion of transactions under Art.114, para.3 of the POSA by the subsidiaries of the Company,
- ✓ resolves on all matters that are not within the exclusive competence of a General Meeting.

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

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

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

The company is represented by the Chairman of the Board of Directors, Luka Angelov, and by Ivan Angelov, Member of the Board of Directors and Executive Director, jointly.

The company has a one-tier management system.

Management bodies of Gradus AD:

- General Meeting of Shareholders
- Board of Directors

General Meeting, Participation in a General Meeting

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

Competence of the General Meeting:

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

Board of Directors:

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

Competence of the Board of Directors:

- Organises the implementation of the decisions taken at the General Meeting and control this implementation;
 - Elects the Executive Director(s)/representative(s), determines the limits of his/their competence and controls his/their activity;
 - Takes decisions on long-term cooperation essential to the Company on the termination of such cooperation;
 - Takes decisions on the establishment and/or closure of a branch;
 - Takes decisions to increase the capital of the Company, in cases where it is expressly authorized to do so by a General Meeting;
 - Approves the disposal (including, but not limited to, transfer, closure, burdening, etc.) of the Company's business or parts thereof;

- Approves the conclusion of transactions with Shareholders, members of the Board of Directors or employees of the Company (or members of their families);
- Approves the taking of a loan or otherwise forming a Company's financial debt to a third party at a value exceeding BGN 50,000 as a result of a single transaction or a series of transactions;
- Takes decisions on the participation and/or termination of the Company's participation in other companies in the Republic of Bulgaria and abroad;
- Takes decisions on the exercise of rights of the Company as a shareholder/partner in subsidiaries;
- Takes decisions on granting a loan or other form of financing to companies in which the Company has equity participation and /or on which it exercises controls;
- Takes decisions on disposal of Intellectual Property Rights of the Company, as well as on granting rights to objects of Intellectual Property of Company;
- Prepares, accepts and signs a prospectus for public offering of securities issued by the Company;
- Selects and releases investment intermediaries which to take over and/or administer the issue of securities issued by the Company, which will be subject to public offering;
- After obtaining a public status from the Company, it shall approve the conclusion of transactions other than those specified in Art.114, para.1 of the Public Offering of Securities Act with the participation of interested persons within the meaning of Art.114, para.7 of POSA,
- After obtaining a public status from the Company, it shall approve the conclusion of transactions under Art.114, para.3 of POSA by the subsidiaries of the Company;
- Resolves all matters which are not within the exclusive competence of the General Meeting.

Remuneration

The amount and structure of remuneration of the members of the Board of Directors are regulated by the Articles of Association of Gradus AD, approved by the General Meeting of the company, their management contracts, and the Remuneration Policy of the Board of Directors, adopted by minutes dated 01 August 2018. The latter shall be approved by the GMS of the company.

Conflict of interest

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

Supervisory bodies

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

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

Members of the Audit Committee are:

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

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

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

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

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

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

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

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

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

25 April 2019

Executive Director

Ivan Angelov

Chairman of Board of Directors:

Luka Angelov