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INDEPENDENT AUDITOR'S REPORT

TO
THE SHAREHOLDERS
OF GRADUS AD

REPORT ON THE RESULTS FROM THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of **GRADUS AD** (the Group), which comprise the consolidated statement of financial position as of 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements comprising also a summary of significant accounting policies.

In our opinion, the enclosed consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted for use by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in our report, *Auditor's Responsibilities for the Audit of the consolidated financial statements* section. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code) and have otherwise fulfilled our ethical responsibilities in accordance with the requirements of the Independent Financial Audit Act (IFAA) applicable to our audit of the consolidated financial statements in Bulgaria, and we complied also with our other ethical responsibilities in accordance with the requirements of IFAA and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

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

Key audit matter	***How this key audit matter was addressed in our audit***
1. Evaluation of trade receivables, loans to third parties and related party receivables As disclosed in Notes 10, 11 and 34 to the consolidated financial statements, the Group has trade receivables, loans to third parties and receivables from related parties of BGN 20,037 thousand, BGN 6,777 thousand and BGN 6,245 thousand, respectively. The Group has adopted IFRS 9 Financial Instruments, with the date of initial implementation being 1 January 2018. The most significant effect of its initial implementation is that the determination of impairment is based on expected losses rather than losses incurred. As described in Note 3 (s) to the consolidated financial statements, the effect recorded in the opening balances of equity in respect of adjustments for credit losses is BGN 1,303 thousand before deferred tax effect. The implementation of the new model for determining impairment for credit losses on trade receivables, loans to third parties and related party receivables leads to a significant increase in the complexity and necessity of judgments and key assumptions by the Group's management – both in respect of the identification of problematic receivables and the very determination of the amount of credit losses. To determine the amount of impairment for expected credit losses, the Group applies a model based on significant estimates and assumptions for: • Interpretation of impairment requirements under IFRS 9, which is based on the Group's model for	In this area, our audit procedures included: • Understanding the process of the first-time adoption and implementation of IFRS 9; focusing on the implementation of a new methodology in the credit impairment Group model for credit losses, including the use of key assumptions and judgments, as well as the assessment of the effects on the date of initial implementation of the standard, i.e. 1 January 2018. • Inquiries, walk-through tests, and understanding the process of determining impairment for credit losses on trade receivables, loans to third parties and related party receivables. • Evaluating and testing the design and operational effectiveness of key controls in the process of monitoring and determining the amount of impairment for credit losses. • Review and assessing the adequacy of the methodology used by the Group for the purpose of identifying credit losses and calculating impairment in accordance with the concepts and requirements of the new IFRS 9. • Analysis and evaluation of the model applied for calculating the impairment as at 01 January 2018 and 31 December 2018, in accordance with IFRS 9, the specific characteristics of the Group's receivables and available internal historical data and macro-forecast information. • Analysis and evaluation of the reasonableness and relevance of the calculations of the Probability of Default and Exposure at Default indicators by checking the assumptions used and the

establishing and calculating expected credit losses; • Calculations and interpretations of the Probability of Default, Exposure at Default and Exposure to Default key indicators. • Assumptions and judgments on a set of scenarios for expected future cash flows based on past events, current conditions and future economic forecasts; • Assumptions applied by management in the review of individually significant recent loss-related receivables, a set of probable scenarios of future cash flows and their performance, and future collectability. Due to the significance of the above circumstances: (a) the materiality of trade receivables, loans to third parties and related party receivables as a reportable element of the consolidated financial statements of the Group, and (b) the inherent level of uncertainty in the use of multiple estimates and assumptions by the Group's management for specific estimates of the amount of credit losses on trade receivables, loans to third parties and related party receivables under the new model, which is the result of the adoption of IFRS 9, we have identified this matter as a key audit matter.	baseline data, as well as the approach of including forecast information in the models. • Assessing the adequacy, completeness and appropriateness of the Group's disclosures relating to credit risk and impairment for credit losses on trade receivables, loans to third parties and related party receivables, including also on the effects of the first-time adoption of IFRS 9.
2. Valuation of intangible assets and goodwill As disclosed in Notes 5 and 6 to the consolidated financial statements, as at 31 December 2018, the Group reported intangible assets of BGN 53,273 thousand and goodwill of BGN 20,656 thousand associated to subsidiaries. The review of the Group's management tests of the valuation of intangible assets and the goodwill associated to subsidiaries is a complex process that should take into account the Group's estimates of future	In this area, our audit procedures included: • Analyses and assessment of the appropriateness of budgets and forecasts prepared by the Group as at 31 December 2018; • Review of the calculations and results of the impairment test for intangible assets and goodwill prepared by the Group's management with the assistance of an independent external valuer; • Analysis and assessment of the adequacy of key judgments and

economic benefits and return expected to be received through them. While making these calculations, significant assumptions, judgments and estimates by the Group are required to be made where for the purpose of determining the estimates the discounted cash flow method is used. Due to the fact that: (a) the process of determining the valuation of intangible assets and goodwill associated to subsidiaries implies multiple judgments, a high level of subjectivity related to estimated income, estimated cash flows and growth rates, rate of uncertainty, and (b) materiality of the reporting entity itself, as outlined above, we have identified this matter as a key audit matter.	assumptions employed by the Group's management in the discounted cash flow model, including the discount rate; • Evaluation and verification of the completeness, relevance and adequacy of the disclosures made in the Group's consolidated financial statements regarding the measurement of intangible assets and goodwill relating to subsidiaries.

Information other than the consolidated financial statements and auditor's report thereon

Management is responsible for the other information. That other information comprises the management report, Corporate Governance Statement and Non-financial Statement prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and the auditor's report thereon.

Our opinion on the consolidated financial statements does not cover this other information and we do not express any form of assurance conclusion regarding this other information, unless expressly stated otherwise in our report and to the extent stated.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether the information is materially inconsistent with our knowledge obtained in the audit or the other information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements prepared in accordance with IFRS, as approved by the EU, and for such internal control system as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for the assessment of the Group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting, unless management intends to liquidate the Group, to cease its operations or has no realistic alternative but to do so.

The Audit Committee (those charged with governance) is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Independent Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves true and fair presentation.
- Receive sufficient and appropriate audit evidence about the financial information of the entities or business activities within the Group to be able to express an opinion on the consolidated financial statements. We are responsible for instructing, supervising and carrying out the Group's audit. We are exclusively responsible for our auditor's report.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Among the matters we communicate with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and therefore, are key audit matters. We describe those matters in our auditor's report, except in the cases when a law or regulation prevents the public disclosure of information on the matter or when, in extremely rare cases, we decide that a particular matter shall not be communicated in our report as it can be reasonably expected that the unfavourable consequences of this act would outweigh the potential benefits from the point of view of the public interest from this communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Other matters to be reported in accordance with the Accountancy Act and the Public Offering of Securities Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the *Information other than the consolidated financial statements and auditor's report thereon* section, in relation to the management report, the Corporate Governance Statement and Non-financial Statement, we have also performed the procedures added to those required under ISAs in accordance with the *Guidance of the professional organisation of certified public accounts and registered auditors in Bulgaria - Institute of Certified Public Accountants (ICPA*). These procedures concern verifications of the existence, as also of the form and contents of this other information, in order to support us in the formation of an opinion as to whether this other information includes disclosures and reporting stipulated in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act (Article 100n, paragraph 10 of POSA with reference to Article 100n, paragraph 8, items 3 and 4 of POSA), applicable in Bulgaria.

Opinion with reference to article 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

a) The information included in the management report is consistent with the consolidated financial statements for the same reporting period;
b) The management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and Article 100n, paragraph 7 of the Public Offering of Securities Act;
c) The Corporate Governance Statement referring to the financial year for which the consolidated financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100n, paragraph 10 of the Public Offering of Securities Act;

d) The Non-financial Statement for the financial year, for which the consolidated financial statements have been prepared has been prepared and presented in accordance with the requirements of Chapter Seven of the Accountancy Act.

Opinion with reference to Article100n, paragraph 10 in conjunction with Article 100n, paragraph 8, items 3 and 4 of the Public Offering of Securities Act

Based on the procedures performed and the knowledge and understanding obtained about entity's activities and the environment in which it operates, in our opinion, the description of the main characteristics of entity's internal control and risk management systems relevant to the financial reporting process, which is part of the management report (as a component of the corporate governance statement) and the information under Art. 10 paragraph 1(c), (d), (f), (h) and (i) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on Takeover Bids, do not contain any material misrepresentations.

Additional reporting regarding the audit of the consolidated financial statements with reference to Article 100n, paragraph 4, т. 3 of the Public Offering of Securities Act

Statement with reference to Article 100n, paragraph 4, item 3, letter „b" of the Public Offering of Securities Act

Information on related party transactions is disclosed in Note 34 to the consolidated financial statements. Based on the audit procedures performed by us with respect to related party transactions as part of our audit of the financial statements as a whole, there are not any facts, circumstances or other information, which have come to our notice, on the basis of which to make the conclusion that the related party transactions have not been disclosed, in all material respects, in the notes to the consolidated financial statements for the year ended 31 December 2018 in accordance with the requirements of IAS 24 Related Party Disclosures. The results of our audit procedures on the related party transactions have been considered by us in the context of the formation of our opinion on the consolidated financial statements as a whole, and not for the purpose of expression of a consolidated opinion on the related party transactions.

Statement with reference to Article 100n, paragraph 4, item 3, letter "c" of the Public Offering of Securities Act

Our responsibilities to audit the consolidated financial statements as a whole, as described in the section of our report titled *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*, include evaluation whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves true and fair presentation. Based on the audit procedures performed by us with respect to the underlying transactions and events for the consolidated financial statements for the year ended 31 December 2018, there are not any facts, circumstances or other information, which have come to our notice, on the basis of which to make the conclusion that there are cases of material misrepresentation and unfair disclosure in accordance with the applicable requirements of IFRS, adopted by the European Union. The results of our audit procedures on the underlying transactions and events for the consolidated financial statements of the Group have been considered by us in the context of the formation of our opinion on the consolidated financial statements as a whole, and not for the purpose of expression of a consolidated opinion on these underlying transactions.

Reporting in accordance with Article 10 of Regulation (EU) 537/2014 with reference to the requirements of Article 59 of the Independent Financial Audit Act

Pursuant to the requirements of the Independent Financial Audit Act with reference to Article 10 of Regulation (EU) 537/2014, we report also on the information described below:

- Baker Tilly Klitou & Partners OOD was appointed as a statutory auditor of the consolidated financial statements of the Group for the year ended 31 December 2018 by the General Meeting of Shareholders held on 11 May 2018 for a period of one year.
- The audit of the consolidated financial statements of the Group for the year ended 31 December 2018 is the second full continuous statutory audit engagement of this entity performed by Baker Tilly Klitou & Partners OOD.
- We confirm that the audit opinion expressed by us corresponds to the additional report presented to the Audit Committee of the Group in accordance with the requirements of Article 60 of the Independent Financial Audit Act.
- We confirm that we have not provided prohibited services other than audit, enumerated in Article 64 of the Independent Financial Audit Act.
- We confirm that, when carrying out our audit, we have continued to be independent to the Group.
- For the period covered by our statutory audit, besides the audit services we have not provided any other services to the Group.

Krasimira Radeva
Registered Auditor
Managing Director

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25 April 2019