

**GRADUS AD**

**INDIVIDUAL ANNUAL REPORT ON THE ACTIVITY  
INDIVIDUAL ANNUAL FINANCIAL STATEMENT  
INDEPENDENT AUDITOR'S REPORT  
FOR THE PERIOD 28 NOVEMBER 2017 – 31 DECEMBER 2017**

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**GRADUS AD  
INDIVIDUAL ANNUAL REPORT ON THE ACTIVITY  
FOR THE PERIOD 28 NOVEMBER – 31 DECEMBER 2017**

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The management hereby submits a report and other essential information on the activity, as well as an Annual Financial Statement for the period 28 November – 31 December 2017 drawn up in accordance with the International Financial Reporting Standards (IFRS), adopted by the European Union.

**REGISTRATION**

Gradus AD (the “Company”) is a company registered in Bulgaria in the Commercial Registry of the Registry Agency under uniform identification code: 204882907. The Company Gradus AD is a “mother” company. It is registered for an indefinite period of time.

Registered address:  
Republic of Bulgaria,  
6000 Stara Zagora, housing estate of Industrialen, Gradus Chicken Slaughterhouse.

**SCOPE OF ACTIVITY**

Investments in equity shares and stocks of companies, acquisition and management of shareholdings in Bulgarian and foreign companies; performance of activity as a holding company; acquisition, evaluation and sale of patents, assignment of licenses for the use of patents to companies, in which the company participates; financing of companies, in which the company participates, as well as any other activity not prohibited by the law, provided that if an authorization or licence or registration is required for the performance of any activity, this activity shall be performed after the obtaining of such authorization or license, respectively after such registration is made.

**REVIEW OF THE ACTIVITY**

Gradus AD, performs as a holding company its subject of activity, by managing and representing the following subsidiaries:

As at 31 December 2017 the Subsidiaries in the group are:

		% interest
Lora-2004 EOOD	effective percentage of shareholding	100,00
Zhyuliv EOOD	effective percentage of shareholding	100,00
Millennium 2000 EOOD	effective percentage of shareholding	100,00
Gradus-1 EOOD	effective percentage of shareholding	100,00
Gradus-3 AD	effective percentage of shareholding through Gradus-1 EOOD	96,00
Gradus-98 AD	effective percentage of shareholding	99,94

**Results for the current period**

For the period 28 November 2017 – 31 December 2017 the company made loss in the amount of BGN 1 thousand.

The main subject of activity of the Group companies is concentrated in the “Chicken Slaughtering” sector, except for the companies, the subject of activity of which is the “production of combined fodder and trade”.

**The scope of activity of the companies is, as follows:**

- **Lora-2004 EOOD** – a company registered in the Republic of Bulgaria by a decision of the Stara Zagora District Court No.332/2004 and having its seat and registered address – city of Stara Zagora, the quarter of Industrialen. Scope of activity – “Chicken breeding”;
- **Zhyliv EOOD** – a company registered in the Republic of Bulgaria by a decision of the Sliven District Court No.665/02.05.1997 and having its seat and registered address – city of Stara Zagora, the quarter of Industrialen – “Chicken Slaughtering House”. Scope of activity – “Chicken breeding”;
- **Millennium 2000 EOOD** – a company registered in the Republic of Bulgaria by a decision of Sliven District Court No.1976/20 December 2001 and having its seat and registered address – city of Stara Zagora, the quarter of Industrialen. Scope of activity - Chicken breeding;

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- **Gradus-1 EOOD** – a company registered in the Republic of Bulgaria by a decision of the Pazardzhik District Court No.897/04 April 1995 and having its seat and registered address – city of Stara Zagora, the quarter of Industrialen, Chicken Slaughtering House “Gradus”. Scope of activity – Production and sale of poultry meat products;
- **Gradus-3 AD is a subsidiary of Gradus-1 EOOD**, registered in the Republic of Bulgaria by a decision of the Stara Zagora District Court on 20 April 1999, having its registered address at – city of Stara Zagora, the quarter of Industrialen – Chicken Slaughtering House. Scope of activity – production of combined fodder. The production base is situated in the town of Nova Zagora, the quarter of Industrial Zone;
- **Gradus-98 AD** – a joint-stock company registered in the Republic of Bulgaria by a decision of Stara Zagora District Court and having its seat and registered address at – city of Stara Zagora, the quarter of Industrialen. Scope of activity – Poultry breeding – breeding parents of broilers, production and sale of breeding eggs. The Company is registered as an agricultural producer.

**Share capital**

As at 31 December 2017 the registered share capital of Gradus AD amounts to BGN 221 000 thousand distributed in 221 000 thousand shares having shares having par value of BGN 1 (one) each.

The shares of Gradus AD are ordinary, registered, book-entry, voting.

The capital of the company is subscribed in paid in full as at the time of establishment.

**Management bodies of the company**

- General Meeting of the shareholders
- Board of directors

**Shareholders of the company are:**

- Luka Angelov Angelov – 50% of the capital and
- Ivan Angelov Angelov – 50% of the capital

The Board of Directors consists of three (3) members in the following composition as at 31 December 2017:

Luka Angelov Angelov – Chairperson of the Board of Directors на 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

**Financial instrument and financial risk**

The Company’s risk management policy is made so as to identify and analyse the risks that the Company is exposed to, for the purpose of establishing limits for risk assumption. On the basis of the performed analysis of these risks, the Company develops and implements respective controls whereby it ensures control of these risks. This policy, as well as the developed risk management controls, is subject to periodical inspection for the purpose of reflecting changes that may have occurred in the external and internal conditions, in which the Company operates.

**Credit risk**

Credit risk is present upon the occurrence of a loss when a party to a financial instrument fails to fulfil an obligation in accordance with a condition of a contract. The Company is not exposed to a credit risk.

**Liquidity risk**

Liquidity risk is the risk that the Company will have difficulty in fulfilling its obligations related to financial liabilities. The Company’s liquidity management approach is to ensure, as far as possible, that there will always be sufficient liquidity to meet its obligations, both under normal and stress conditions, as well as without suffering unacceptable losses or causing harm to the Company’s reputation.

**Market risk**

Market risk is the risk upon a change in the market prices, such as a foreign currency exchange rate, interest rates or prices of capital instruments, that the income of the Company or the value of its investments is affected.

**Research and development activities**

In 2017 no research and development was carried out in the Company.

**Presence of branches**

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The Company does not have branches.

**Information for the acquisition of own shares required in accordance with article 187e of the Commercial Act**

There are no own shares acquired for the period 28 November 2017 – 31 December 2017.

**Information in accordance with article 247 of the Commercial Act**

- Participation of members of the board of directors in business companies as unlimited partners and holding of more than 25% of the capital of other companies.

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

**I. Luka Angelov Angelov**

1.1. As an unlimited partner – HE

1.2. Holds directly more than 25% of the capital of:

Equity Invest-1 AD (uniform identification code 204750154), Equity Invest-2 OOD (uniform identification code 204746138), Gradus-2 OOD (uniform identification code 123655788), Gradus-7 OOD (uniform identification code 123654743), Mirena OOD (uniform identification code 123655806), Gold Agro-2005 OOD (uniform identification code 119642703) Wolf OOD (uniform identification code 123760892), Marieta EOOD (uniform identification code 123655770), Biser Distribution OOD (uniform identification code 200090633), Gradus AD (uniform identification code 204882907)

and indirectly, through Gradus AD:

Zhyuliv EOOD (uniform identification code 119053781), Millennium 2000 EOOD (uniform identification code 119591422), Gradus-98 AD (uniform identification code 123120561), Gradus-1 EOOD (uniform identification code 822132592), Lora-2004 EOOD (uniform identification code 123658624), Gradus-3 AD (uniform identification code 123152751)

and indirectly, through Marieta EOOD in Targovski Dom EOOD (uniform identification code 123644254)

1.3. Participates in management bodies of:

Equity Invest-1 AD (uniform identification code 204750154), Equity Invest-2 OOD (uniform identification code 204746138), Zhyuliv EOOD, (uniform identification code 119053781), Millennium 2000 EOOD (uniform identification code 119591422), Gradus-98 AD (uniform identification code 123120561), Gradus-2 OOD (uniform identification code 123655788), Gradus-7 OOD (uniform identification code 123654743), Gradus-1 EOOD (uniform identification code 822132592), Mirena OOD (uniform identification code 123655806), Lora-2004 EOOD (uniform identification code 123658624), Gold Agro-2005 OOD (uniform identification code 119642703), Gradus-3 AD (uniform identification code 123152751), Wolf OOD (uniform identification code 123760892), Marieta EOOD (uniform identification code 123655770), Biser Oliva AD (uniform identification code 123036597).

**II. Ivan Angelov Angelov**

1.1. As an unlimited partner – ET Gradus-Ivan Angelov-55 (uniform identification code 112038433)

1.2. Holds directly more than 25% of the capital of:

Equity Invest-1 AD (uniform identification code 204750154), Equity Invest-2 OOD (uniform identification code 204746138), Gradus-2 OOD (uniform identification code 123655788), Gradus-7 OOD (uniform identification code 123654743), Mirena OOD (uniform identification code 123655806), Gold Agro-2005 OOD (uniform identification code 119642703), Wolf OOD (uniform identification code 123760892), Gradus AD (uniform identification code 204882907), Zagora Oil OOD (uniform identification code 202473858)

and indirectly, through Gradus AD:

Zhyuliv EOOD (uniform identification code 119053781), Millennium 2000 EOOD (uniform identification code 119591422), Gradus-98AD (uniform identification code 123120561), Gradus-1 EOOD (uniform identification code 822132592), Lora-2004 EOOD (uniform identification code 123658624), Gradus-3 AD (uniform identification code 123152751)

1.3. Participates in management bodies of:

Equity Invest-1 AD (uniform identification code 204750154), Equity Invest-2 OOD (uniform identification code 204746138), Zhyuliv EOOD (uniform identification code 119053781), Millennium 2000 EOOD (uniform identification code 119591422), Gradus-98 AD (uniform identification code 123120561), Gradus-2 OOD (uniform identification code 123655788), Gradus-7 OOD (uniform identification code 123654743), Gradus-1 EOOD (uniform identification code 822132592), Mirena OOD (uniform identification code 123655806), Lora-2004 EOOD (uniform identification code

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123658624), Gold Agro-2005 OOD (uniform identification code 119642703), Wolf OOD (uniform identification code 123760892)

**Georgi Aleksandrov Babev** – does not participate in business companies as an unlimited partner and does not hold more than 25% of the capital of other companies.

**Analysis of main indicators**

For the purpose of achieving higher efficiency and control over the results of the Company, the management shall track certain basic indicators related to the activity. These indicators are mostly directed towards the amount of the profit, the debt level and efficiency. The calculation of these indicators for the current financial statement is inapplicable.

**FORECASTED DEVELOPMENT OF THE COMPANY**

The Company does not develop own production and commercial activity, does not produce and offer on the market own goods or services. The activity of the company is participation in the management of the subsidiaries and distribution of the finances among them.

The Company intends to increase its capital by issuing new shares under the conditions of public offering, in accordance with the applicable legislation in the amount of 100 000 000 (one hundred million), within up to 2 (two) years, as it must specify all the necessary details and take all the necessary decisions related to the conditions and organization of offering, including selection of an investment intermediary and adoption of a prospect for public offering of shares.

**LIABILITY OF THE MANAGEMENT**

According to the Bulgarian legislation the management is supposed to prepare a report on the activity, as well as a financial statement for every financial year, which provides fair and true view of the financial conditions of the company as at the year end, of its financial results from the activity and of the cash-flows, in accordance with the applicable accounting framework. The Company applies for accounting purposes the Bulgarian accounting legislation, the International Financial Reporting Standards (IFRS) approved by the European Union. The liability of the management includes: development, implementation and maintenance of internal control system related to the preparation and fair presentation of financial statements, free from material misstatements, departures and discrepancies, whether due to a fraud or error; selection and implementation of appropriate accounting policies; and preparation of accounting estimates, which are reasonable under the circumstances.

The management confirms that it has acted in accordance with its liabilities and that the financial statement is drawn up in full conformity with the International Financial Reporting Standards approved by the European Union.

Likewise, the management confirms that upon the preparation of the present report on the activity it has presented in a true and fair way the development and the results from the activity of the enterprise for the past period, as well as its condition and the main risks faced by it. The management has approved the issue of the report on the activity and the financial statement for 2017.

**POST-REPORTING DATE EVENTS**

On 30 January 2018 Gradus AD made a decision to increase the capital by up to BGN 100 million through the issue of new shares. The capital increase will be made under the conditions of public offering on Bulgarian Stock Exchange – Sofia AD. A decision was made that the specific amount of the increase of the capital and the number of issued shares would be determined at a subsequent session.

On 26 March 2018 Gradus AD made a decision to increase its capital by up to BGN 28 million by offering new shares on the Bulgarian Stock Exchange.

As at the date of the present individual financial statement Gradus AD has not started the procedure for public offering of securities.

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

On behalf of the Board of Directors:

Ivan Angelov

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Approved for issue on 30 March 2018.

**GRADUS AD  
INDIVIDUAL STATEMENT OF FINANCIAL CONDITION  
AS AT 31 DECEMBER 2017**

	Note	2017 BGN'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Investments in subsidiaries	4	<u>264 960</u>
<b>Total non-current assets</b>		<b><u>264 960</u></b>
<b>Current assets</b>		
Cash and cash equivalents	5	<u>240</u>
<b>Total current assets</b>		<b><u>240</u></b>
<b>TOTAL ASSETS</b>		<b><u><u>265 200</u></u></b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	6	221 000
Premium reserve		44 200
Accumulated loss		<u>(1)</u>
<b>Total equity</b>		<b><u>265 199</u></b>
<b>Current liabilities</b>		
Commercial payables		<u>1</u>
<b>Total current liabilities</b>		<b><u>1</u></b>
<b>Total liabilities</b>		<b><u>1</u></b>
<b>TOTAL EQUITY II LIABILITIES</b>		<b><u><u>265 200</u></u></b>

Date: 30 March 2018

Drawn up by:

/Krasimira Kirkova/

Executive Director:

/Ivan Angelov/

the notes on pages 10 to 18 are an integral part of this financial statement.

The financial statement is approved by the Board of Directors of Gradus AD on 30 March 2018.



**GRADUS AD**  
**INDIVIDUAL STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE PERIOD 28 NOVEMBER – 31 DECEMBER 2017**

	<b>2017</b>
	<b>BGN'000</b>
Expenses	(1)
<b>Loss from operating activity</b>	<u>(1)</u>
Financial expenses	-
<b>Loss before taxes</b>	<u>(1)</u>
Taxes	-
<b>Net loss for the period</b>	<u>(1)</u>
<b>Other comprehensive income</b>	-
<b>Total comprehensive income for the period</b>	<u><u>(1)</u></u>

Date: 30 March 2018

Drawn up by:

/Krasimira Kirkova/

Executive Director:

/Ivan Angelov/

the notes on pages 10 to 18 are an integral part of this financial statement.

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**GRADUS AD**  
**INDIVIDUAL STATEMENT OF CHANGES IN EQUITY**  
**FOR THE PERIOD 28 NOVEMBER – 31 DECEMBER 2017**

*In thousands of BGN*

	<b>Share capital</b>	<b>Premium reserve</b>	<b>Accumulated loss</b>	<b>Total</b>
<b>Balance as at 28 November 2017</b>	-	-	-	-
Issue of shares	221 000	44 200	-	265 200
Loss for the period	-	-	(1)	(1)
<b>Balance as at 31 December 2017</b>	<b>221 000</b>	<b>44 200</b>	<b>(1)</b>	<b>265 199</b>

Date: 30 March 2018

Drawn up by:

/Krasimira Kirkova/

Executive Director:

/Ivan Angelov/

the notes on pages 10 to 18 are an integral part of this financial statement.

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**GRADUS AD  
INDIVIDUAL CASH-FLOW STATEMENT  
FOR THE PERIOD 28 NOVEMBER – 31 DECEMBER 2017**

	<b>2017 BGN'000</b>
<b>Cash-flows from operating activity</b>	_____
<b>Net cash-flows from operating activity</b>	<u>_____</u> <u>_____</u> -
<b>Cash-flows for investing activity</b>	_____
<b>Net cash-flows for investing activity</b>	<u>_____</u> <u>_____</u> -
<b>Cash-flows from financing activity</b>	
Cash contributions from the owners	_____ 240
<b>Net cash-flow from financing activity</b>	<u>_____</u> <u>_____</u> 240
<b>Net increase of cash and cash equivalents</b>	240
Cash and cash equivalents in the beginning of the period	_____ -
<b>Cash and cash equivalents on 31 December 2017</b>	<u>_____</u> <u>_____</u> 240

Date: 30 March 2018

Drawn up by:

/Krasimira Kirkova/

Executive Director:

/Ivan Angelov/

the notes on pages 10 to 18 are an integral part of this financial statement.

The financial statement is approved by the Board of Directors of Gradus AD on 30 March 2018.

**GRADUS AD**  
**EXPLANATORY NOTES TO THE INDIVIDUAL FINANCIAL STATEMENT**  
**FOR THE PERIOD ENDING ON 31 DECEMBER 2017**

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**1. Status and scope of activity**

Gradus AD, city of Stara Zagora is established on 28 November 2017.

Seat and registered address: city of Stara Zagora, the quarter of Industrialen, Chicken Slaughtering House "Gradus"  
Bulstat: 204882907

**2. Basis for preparation**

The present individual financial statement is drawn up on a "going concern" basis and at historical cost.

This financial statement is an individual financial statement of Gradus AD.

The Company will draw up a consolidated financial statement in accordance with IFRS adopted by the European Union by 31 March 2018.

**Functional currency and presentation currency**

According to the requirements of the Bulgarian legislation, the Company keeps accounting and prepares its financial statements in the national currency of the Republic of Bulgaria – Bulgarian lev, which has since 1 January 1999 a fixed exchange rate to the euro in the following ratio: EUR 1 = BGN 1.95583.

The present individual financial statement is drawn up in thousands of levs (thousands of BGN).

**3. Material accounting policies**

**(a) Transactions in a foreign currency**

The FX operations are reported in the functional currency at the exchange rate applicable on the day of performance of the transaction. Cash assets and liabilities denominated in a foreign currency shall be reported in the functional currency at the exchange rate at the closing of the day of preparation of the statement of financial condition.

**(b) Investments**

Long-term investments representing shares in subsidiaries are presented in the financial statement at acquisition price, which represents:

- the fair value of the remuneration paid for the acquisition of shares and/or
- the value of the paid cash company share and/or
- the value of the contributed shares against the issued shares, this value being determined by appraisers appointed by the court, including the direct costs for the acquisition of the investment, decreased by the impairment losses.

These investments are not traded at stock exchanges. This circumstance does not allow providing quotes at market prices on an active market that express in a sufficiently reliable the fair value of these shares.

The investments in subsidiaries held by the company are subject to an impairment review. If impairment conditions and indicators are established, the said impairment shall be calculated as the difference in the comparison of the book value of the recoverable value of the investment and it shall be recognized in the statement of comprehensive income (as profit or loss for the year). In cases of subsequent recovery of impairment, it shall be recognized in the statement of comprehensive income (as profit or loss for the year).

Investments are written off when the rights ensuing from them are transferred to other persons upon the occurrence of the legal grounds for this and the control over the economic benefits from the investments is thus lost.

**3. Material accounting policies (Continued)**

**(c) Cash and cash equivalents**

Cash and equivalents include cash at hand and in current bank accounts.

**GRADUS AD**  
**EXPLANATORY NOTES TO THE INDIVIDUAL FINANCIAL STATEMENT**  
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For the purposes of the preparation of the cash-flow statement the following policies are adopted:

- the cash equivalents from customers and the cash payments to suppliers are presented on a gross basis, VAT inclusive (20%);
- the 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 participates and is recovered together and in the operating flows of the company for the respective period (month);
- the interests and bank fees paid that are related to credits servicing the current activity are included in the operating activity, and the paid interests and bank fees under investment loans are included in the financial activity.

**(d) Commercial and other obligations**

The commercial and other current obligations are reported and presented in the financial statement at the value of the original invoices (acquisition price), which is considered to be the fair value of the transaction and will be paid in the future against the received goods and services. In the cases of deferred payments over and above the usual credit term, in which no additional payment of interest is envisaged or the interest considerably differs from the usual market rate of interest, the obligations are evaluated initially at their fair value, and subsequently – at amortized value, after deduction of the interest incorporated in their par value, this interest being determined by the method of effective interest.

**(e) Impairment**

**(i) *Non-derivative financial assets***

A financial asset that is not reported at fair value as profits and losses is to be reviewed as at every reporting date, in order to determine whether objective evidence of impairment thereof exists. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events arisen after the initial recognition of the assets and this loss event affected the anticipated future cash-flows from this asset, which may be reliably measured.

An objective piece of evidence that a financial asset is impaired includes non-performance or delay on the part of the debtor, restructuring of the obligation to the Company under conditions that the Company would not otherwise consider, indications that a debtor will become bankrupt, adverse changes in the payment status of a debtor, economic conditions bringing about non-fulfilments or the disappearance of an active market for a certain security.

*Credits and receivables*

The Company takes into account the evidence of impairment of credits and receivables both for a specific asset and on a collective level. All individually significant receivables are checked for specific impairment. All individually significant credits and receivables, for which there is specific impairment, must be checked afterwards collectively for impairment that has arisen but is still not identified. The credits and receivables that are individually significant are collectively checked for impairment being grouped together with receivables with similar risk characteristics.

In the impairment check on a collective level, the Company uses the historic trends of the probability of fulfilment of the obligations, the recovery time and the amount of the loss that have arisen, adjusted by the evaluation of the management whether the present economic and credit conditions are such as to make it likely that the real losses are higher or lower than the ones presumed on the basis of the historic trends.

The impairment loss for a financial assets reported at an amortized value is calculated as the difference between its reported value and the present value of the anticipated future cash-flows discounted by the original effective rate of interest. Impairment loss is recognized as profits and losses and is reflected in a corrective account decreasing the credits and receivables. When an event that took place after the recognition of impairment decreases the impairment loss, this decrease is reflected back through profits and losses.

**3. Material accounting policies (Continued)**

**(ii) *Non-financial assets***

The reported values of non-financial assets of the Company, other than inventories and deferred tax assets, are reviewed as at every reporting date for the purpose of determining whether there signs of impairment. In case that such signs exist, an estimate of the recoverable value of the asset is to be made. Impairment loss is recognized in case that the book value of an asset or cash-generating unit (CGU), a part of which it is, exceeds its recoverable value.

The recoverable value of an asset or CGU is the highest of its value in use and its fair value decreased by the sale expense. Upon evaluation of the value in use, the future cash-flows are discounted up to their present value, as a

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**EXPLANATORY NOTES TO THE INDIVIDUAL FINANCIAL STATEMENT**  
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discount rate before taxes applied, which reflects the current evaluations of the market, the price of money over time and the risk specific for the asset or the CGU. For the purpose of the impairment test, assets that cannot be individually tested are grouped together in the smallest possible group of assets generating cash receipts from continuing use, which are largely independent from the cash receipts from other assets or the CGU.

Impairment losses are recognized as profits and losses. Impairment losses recognized for the CGU are distributed so as to decrease proportionally the reporting values of the assets in the unit.

Impairment loss is only recovered to such an extent that the book value of the asset does not exceed the book value that would be determined after a depreciation deduction, if impairment loss has not been recognized.

***(f) IFRS 13 Fair Value Measurement***

The fair value of financial instruments and non-financial assets that are measure at fair value is measured in accordance with IFRS 13 Fair Value Measurement as at every balance date.

A fair value is the price that would be received upon a sale of an asset or paid upon the transfer of an obligation in an ordinary transaction between the market players on the date of measurement.

Fair value measurement is based on the presumption that the sale of the asset or the transfer of the obligation takes place:

On the main market for the asset or liability or,

In the absence of a main market – on the most advantageous market for the asset or liability. The main or more advantageous market should be accessible to the Company.

The fair value of the asset or liability is measured by assuming that the market players will use this value upon the measurement of the asset or liability, and that they will act in the best economic interest.

The fair value of non-financial assets is determined by taking into account the participants' ability to generate economic benefits by using the asset or by selling it to another market counterparty that will use the asset in the best and most efficient way.

The Company applies techniques for measurement that are given the circumstances and in respect of which there is sufficient data for measurement of the fair value, as it maximizes the use of foreseeable parameters and minimizes the use of unforeseeable parameters.

All assets and liabilities, for which a fair value is used upon their evaluation or disclosed, are divided into the following three hierarchical level on the basis of the measurement hypotheses and techniques:

Level 1 — Quoted (unadjusted) prices on active markets for identical assets or liabilities

Level 2 — Measurement techniques, in which the parameters for measuring the fair value may be monitored directly or indirectly

Level 3 — Measurement techniques, in which the parameters for measuring the fair value cannot be monitored directly or indirectly

**3. Material accounting policies (Continued)**

As at each and every balance sheet date, the Management makes an analysis of the changes in the fair value of the assets and liabilities and sees that they are reflected in the financial statements in accordance with the adopted accounting policy. The Company makes an evaluation whether a change has occurred in the categorization of the assets or liabilities in accordance with the hypotheses of the measurement techniques. With the help of certified appraisers the Management compares each of the changes in the fair value of the assets and liabilities to the foreseeable parameters in order to confirm that the changes are reasonable.

The Company determines the assets and liabilities, for which disclosures must be made in relation to their fair value, on the basis of their nature, risks and their hierarchical level mentioned hereinabove.

**(g) Financial incomes and expenses**

Financial incomes include incomes from interests under funds invested in bank deposits. Interest income is recognized at the moment of its accrual according to the method of effective interest.

**GRADUS AD**  
**EXPLANATORY NOTES TO THE INDIVIDUAL FINANCIAL STATEMENT**  
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Financial expenses include interests expenses under loans and expenses resulting from an increase of the obligation as a consequence from the approaching by one period of the date determined for the realization for provisions.

Expenses under loans that cannot be directly attributed to the acquisition, construction or production of an eligible asset are recognized as profits and losses by using the method of effective interest.

Profits and losses from currency exchange rate differences are reported on a net basis either as financial incomes, or as financial expenses, depending on whether currency differences represent a net profit or net loss.

**(h) Taxes**

Current profit taxes are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Tax Act. The nominal tax rate for 2017 is 10% (2016: 10%).

Deferred taxes are determined by using the balance passive method for all temporary differences as at the end of the reporting period, which exist between the book values and the tax bases of the individual assets and liabilities.

Deferred tax liabilities are recognized for all taxable temporary differences, except for the ones given rise to by the recognition of an asset or liability that as at the date of the business operation has not influenced the accounting and tax profit/(loss).

Deferred tax assets are recognized for all deductible temporary differences and for the unused tax losses up to the extent, to which it is likely that they appear in a reverse manner and sufficient taxable profit is generated in the future or that taxable temporary differences appear, from which these deductible temporary difference can be deducted, except for the differences given rise to by the recognition of an asset or liability, which has not as at the date of the economic operation influences the accounting the tax profit/(loss).

The book value of all deferred tax assets is reviewed as at the end of each reporting period and is reduced to the extent, to which they are likely to appear in a reverse manner and it is likely to generate sufficient taxable profit or taxable temporary differences appearing in the same period, which can be deducted from or compensated against them.

Deferred taxes related to items that are other components of the comprehensive income or are directly reported in equity or another book value in the statement of financial condition, are also reported directly to the respective other component of the comprehensive income or to the respective capital component or the balance position.

**3. Material accounting policies (Continued)**

Deferred tax assets and liabilities are measured on the basis of the tax rates that are expected to apply for the period, in which the assets will be realised, and the liabilities will be settled (discharged), on the basis of the tax laws that are in effect or are expected with a great degree of certainty to be effective.

**(i) Key estimates and assumptions**

**Impairment of investments**

Long-term investments in subsidiaries are measured at cost. As at the end of each reporting period the management makes an evaluation whether there are indicators of impairment of the investments in shares in subsidiaries.

The management has not established indications of impairment of the investments in subsidiaries as at 31 December 2017.

**(j) New standards and clarifications that are still not applied**

In the current year the Company has adopted all new and amended IFRS that are related to its activity and are effective for the reporting period starting on 1 January 2017. The application thereof has not resulted in considerable changes in the Company's accounting policies.

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As at the date of preparation of the financial statement IASB/ IFRIC has issued standards and interpretations that are still not effective. Some of them are adopted by the European Union and others are still not. The management anticipates that the adoption of these accounting standards in future periods will not have any material effect on the Company's financial statements.

The standards issued by IASB /IFRIC, which are still not effective as at the date of issue of the financial statements and are not applied earlier are listed below. The Company intends to adopt these standards when they enter into force.

**Published standards that are still not effective and are not adopted earlier**

As at the date of approval of the present financial statement the following standards are issued by the IASB and adopted by the European Union but are still not in force:

- IFRS 9 Financial Instruments - adopted by the EU on 22 November 2016 (effective for annual periods starting on or after 1 January 2018);  
The Company does not expect that the adoption of IFRS 9 will have any significant effect on the results of the Company.
- IFRS 15 Revenue from contracts with customers and amendments to IFRS 15 "Effective Date of IFRS 15" – adopted by the EU on 22 September 2016 (effective for annual periods starting on or after 1 January 2018); the Company does not expect any significant change in the amount of the incomes from sales and the profit as a result from the change in the accounting policy related to the application of IFRS 15. There are no continuing contracts requiring a change in the reported incomes in 2017 as a result from a change in the accounting policy for reporting incomes by the entry into force of IFRS 15.
- IFRS 16 Leasing – adopted by the EU on 31 October 2017 (effective for annual periods starting on or after 1 January 2019); The standard is a considerable change in the accounting presentation and reporting for lessees. It requires recognition of assets and obligations under all leasing contracts (financial and operative), unless they are at a low value or for less than 12 months. Upon the adoption of the standard, the leasing contracts will form a "Right of Use" asset and a leasing obligation for future payments. The Company does not expect that the adoption of IFRS 16 will have any significant effect on the results of the Company.

**3. Material accounting policies (Continued)**

- Amendment to IFRS 4 Insurance Contracts – Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the European Union on 3 November 2017 (effective for annual periods starting on or after 1 January 2018 or upon initial application of IFRS 9 Financial Instruments);
- Amendment to IFRS 15 Revenue from contracts with customers – Interpretation of IFRS 15 Revenue from contracts with customers – adopted by the European Union on 31 October 2017 (effective for annual periods starting on or after 1 January 2018).
- Amendments to various standards "Improvements to IFRS Standards 2014-2016 Cycle", ensuing from the annual draft improvements to IFRS (IFRS 1, IFRS 12 and IAS 28) mainly for the purpose of eliminating discrepancies and clarifying wordings (the amendments to IFRS 12 are applicable to annual periods starting on or after 1 January 2017, and the amendments to IFRS 1 and IAS 28 are applicable to annual periods starting on or after 1 January 2018).
- Amendment to IFRS 2 "Share-based Payment" – Classification and Measurement of Share-based Payment Transactions (effective for annual periods starting on or after 1 January 2018);
- Amendment to IAS 40 Investment Property – Transfers of Investment Property (effective for annual periods starting on or after 1 January 2018);

**New standards and interpretations issued by IASB that are still not adopted by the European Union**

At this time, the IFRS adopted by the European Union do not differ significantly from the ones adopted by IASB, except for the following new standards, amendments to existing standards and new interpretations that are still not



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endorsed by the European Union as at the date of approval of the present financial statement (the effective dates set out below are for the full IFRS):

- IFRS 17 “Insurance Contracts ” (effective for annual periods starting on or after 1 January 2021);
- Amendment to IFRS 9 “Financial instruments” – Prepayment Features with Negative Compensation (effective for annual periods starting on or after 1 January 2019);
- Amendments to IAS 28 “Investments in Associates and Joint Ventures” – Long-term Interests in Associates and Joint Ventures (effective for annual periods starting on or after 1 January 2019);
- Amendments to various standards “Improvements to IFRS Standards 2015-2017 Cycle”, ensuing from the annual draft improvements to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) mainly for the purpose of eliminating discrepancies and clarifying wordings (effective for annual periods starting on or after 1 January 2019);
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods starting on or after 1 January 2018);
- IFRIC 23 “Uncertainty over Income Tax Treatments” (effective for annual periods starting on or after 1 January 2019);
- Amendment to IAS 19 “Employee Benefits” – Plan Amendment, Curtailment or Settlement (effective for annual periods starting on or after 1 January 2019).

The Company expects that the adoption of these standards and amendments to existing standards will not have any significant effect on the Company’s financial statement in the period of their initial application.

**4. Investments in subsidiaries**

As at 31 December 2017 the Company has shares in the following companies:

<b>Company</b>	<b>Country</b>	<b>Interest – BGN</b>	<b>Share in the capital - %</b>
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
<b>Total:</b>		<b>264 960</b>	

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

**5. Cash and cash equivalents**

*In thousands of BGN*

**31 December**  
**2017**

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Cash in hand	1
Cash in current accounts	239
<b>Total cash and cash equivalents</b>	<b>240</b>

**6. Equity**

*Share capital*

The share capital consists of:

	Number of voting shares	Number of non- voting shares	Value in thousands of levs
As at 31 December 2017	221 000	-	221 000

The total number of shares is 221 000 thousand with a par value of BGN 1 each. The share capital is fully paid in.

Shareholders на Gradus AD as at 31 December 2017 are, as follows:

Company	Number of voting shares	Number of non- voting shares	% Shareholding
Ivan Angelov Angelov	110 500	-	50
Luka Angelov Angelov	110 500	-	50
Total:	<b>221 000</b>	-	<b>100</b>

**Equity**

*In thousands of BGN*

	31 December 2017
Share capital	221 000
Premium reserve	44 200
Accumulated loss	(1)
<b>Total equity</b>	<b>265 199</b>

**7. Financial instruments**

**Credit risk**

The book value of the financial assets is the maximum credit exposure. The maximum credit exposure as at the report date is:

<i>In thousands of BGN</i>	31 December 2017
Cash and cash equivalents	239
<b>Total:</b>	<b>239</b>

**Currency risk**

At this time, this risk is minimal because the Company does not have transactions in currencies other than Bulgarian lev.

**Liquidity risk**

The Company has financial liabilities as at 31 December 2017 in the amount of BGN 1 thousand.

**Interest risk**

The Company does not have interest-bearing financial liabilities as at 31 December 2017.

**8. Transactions with related parties**

As at 31 December 2017 the Company does not have transactions with related parties.

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***Identification of the related parties***

For the purpose of the preparation of the present financial statement the owners, the companies under their control, the employees holding management positions (key management staff), as well as close members of their families, including companies controlled by them, are treated as related parties, and namely:

<b>Related parties:</b>	<b>Connection</b>
Luka Angelov Angelov	Owner of the capital
Ivan Angelov Angelov	Owner of the capital
Gradus-1 EOOD	Company under common control
Gradus-3AD	Company under common control
Millennium 2000 EOOD	Company under common control
Gradus-98 AD	Company under common control
Zhyuliv EOOD	Company under common control
Lora-2004 EOOD	Company under common control
Gradus-2 OOD	Connection through a person having considerable influence
Gradus-7 OOD	Connection through a person having considerable influence
Mirena OOD	Connection through a person having considerable influence
Gold Agro-2005 OOD	Connection through a person having considerable influence
Ayazmo AD	Connection through a person having considerable influence
Marieta EOOD	Connection through a person having considerable influence
Targovski Dom EOOD	Connection through a person having considerable influence
Wolf OOD	Connection through a person having considerable influence
Biser Oliva AD	Connection through a person having considerable influence
ETGradus-Ivan Angelov-55	Connection through a person having considerable influence
Equity Invest-1 AD	Connection through a person having considerable influence
Equity Invest-2 OOD	Connection through a person having considerable influence
M.O.Stara Zagora OOD	Connection through a person having considerable influence
Biser Distribution OOD	Connection through a person having considerable influence
Zagora Oil OOD	Connection through a person having considerable influence

The Company is also a related party to the key management staff of the Company.

***Remuneration of key management staff***

There are no remunerations accrued for key management staff for the period.

**9. Post report date events**

On 30 January 2018 Gradus AD made a decision to increase the capital by up to BGN 100 million through the issue of new shares. The capital increase will be made under the conditions of public offering on Bulgarian Stock Exchange –Sofia AD. A decision was made that the specific amount of the increase of the capital and the number of issued shares would be determined at a subsequent session.

On 26 March 2018 Gradus AD made a decision to increase its capital by up to BGN 28 million by offering new shares on the Bulgarian Stock Exchange.

As at the date of the present individual financial statement Gradus AD has not started the procedure for public offering of securities.

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