



**GRADUS**

**INTERIM CONSOLIDATED MANAGEMENT REPORT**

**31 DECEMBER 2018**

Management presents their preliminary consolidated Management Report for the fourth quarter months of 2018.

## 1. INFORMATION ABOUT THE GROUP

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

### Parent company

Gradus AD (the "Company") is a company registered in Bulgaria with the Commercial Register at the Registry Agency under UIC 204882907.

The company is of unlimited duration.

Management address:

Republic of Bulgaria,

6000 Stara Zagora, Industrialen quarter, Gradus Poultry Slaughterhouse.

Gradus AD is a public company in accordance with the Public Offering of Securities Act.

### Subsidiaries:

As of 31 December 2018, the Group subsidiaries are:

- Lora-2004\* (the Company) is registered as OOD (a limited liability company) with the Stara Zagora Regional Court, under company file 332/2004. On 14 December 2017, it was registered with the Commercial Register as EOOD (a single-member limited liability company) with the sole owner of the capital being Gradus AD.  
Management address: Stara Zagora, Industrialen quarter, Gradus Poultry Slaughterhouse
- Zhyuliv\* (the Company) is registered as OOD (a limited liability company) with the Sliven District Court, under company file 369/1997. On 14 December 2017, it was registered with the Commercial Register as EOOD (a single-member limited liability company) with the sole owner of the capital being Gradus AD.  
Management address: the town of Stara Zagora, Industrialen quarter, Gradus Poultry Slaughterhouse
- Millennium 2000\* (the Company) is registered as OOD (a limited liability company) by decision 1976 / 20 December 2001 with the Sliven District Court, under company file 948/2001. On 14 December 2017, it was registered with the Commercial Register as EOOD (a single-member limited liability company) with the sole owner of the capital being Gradus AD.  
Management address: the town of Stara Zagora, Industrialen quarter, Gradus Poultry Slaughterhouse
- Gradus-1\* (the Company) is registered with the District Court of Pazardzhik under company file 732/1995. On 14 December 2017, its legal form was changed to EOOD (a single-member limited liability company) with the sole owner of the capital being Gradus AD.  
Management address: the town of Stara Zagora, Industrialen quarter, Gradus Poultry Slaughterhouse
- Gradus-3\*\* (the Company) was established on 20 April 1999 by decision of the Stara Zagora District Court on company file 895/1999.  
Management address: the town of Stara Zagora, Industrialen quarter, Gradus Poultry Slaughterhouse
- Gradus-98\* ("Biser Oliva-98" AD) was registered on 10 July 1998 by decision of the Stara Zagora District Court on company file No. 1399/1998. By decision of the General Meeting of the Shareholders held on 08 August 2017, it was decided to change the company name from Biser Oliva-98 AD to Gradus-98 AD, which was entered into the Commercial Register on 06 September 2017.  
Management address: the town of Stara Zagora, Industrialen quarter.

\* *Effective percentage of participation*

\*\* *Indirect participation*

## Governing bodies of the parent company

- General Meeting of Shareholders
- Board of Directors

### *1.1. Ownership and management of the parent company*

Gradus AD (the parent company) has a one-tier management system with a Board of Directors of three (3) members. Management of the parent company, the Board of Directors, has the following composition as at 31 December 2018:

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

The parent company holds the following equity interest in the subsidiaries:

- Lora-2004 EOOD - 50 shares with a nominal value of BGN 100 each representing 100% of the capital of Lora-2004 EOOD;
- Zhyuliv EOOD - 50 shares with a nominal value of BGN 100 each representing 100% of the capital of Zhyuliv EOOD;
- Millennium-2000 EOOD - 10 shares with a nominal value of BGN 500 each representing 100% of the capital of Millennium-2000 EOOD;
- Gradus-1 EOOD - 100 shares with a nominal value of BGN 50 each representing 100% of the capital of Gradus-1 EOOD;
- Gradus AD participates indirectly in the capital of Gradus 3 AD through its subsidiary Gradus-1 EOOD, owning 96.00% of the capital of Gradus 3 AD;
- Gradus 98 AD – 49,967 ordinary registered voting shares with a nominal value of BGN 10 each, representing 99.94% of the capital of Gradus 98 AD.

### *1.2. Business activities of the Group companies*

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

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

- **Lora-2004 EOOD** - the main business activity of the company is poultry farming - breeding and realization of fattened poultry – broilers;
- **Zhyuliv EOOD** – the main business activity of the company is fattening of broilers and hatching of chickens. The company is registered in the State Fund Agriculture as a farmer.
- **Millennium 2000 EOOD** - the main business activity of the company is poultry farming - breeding parents of broilers, production and realization of breeding eggs, production and realization of fattened broilers;
- **Gradus-1 EOOD** - the main business activity of the company is the processing and sale of poultry meat products;
- **Gradus-3 AD** - the main business activity of the company is the production of compound fodder intended for the market, containing grains and feed additives in a ratio according to established and approved recipes. For the exercise of the activity, the company is entered in the register under Article 19, para.11 of the Law on Fodders and has received a certificate of approval № 00041 dated 26 January 2007 issued by the National Grain and Fodder Service.
- **"Gradus-98" AD** - the main business activity of the company is production, processing and realization of all kind of agricultural and animal products.

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

### *1.3. Shareholding structure of the Group as at 30 September 2018*

- Luka Angelov Angelov - 40.72% of the capital and
- Ivan Angelov Angelov - 40.72% of the capital
- Legal entities – 15.65% of the capital
- Individual shareholders – 2.91% of the capital.

#### 1.4. Personnel

As of 31 December 2018, the average payroll staff of the Group was 1,400 workers and employees (2017: 1,244).

#### 2. Current period result of the Group

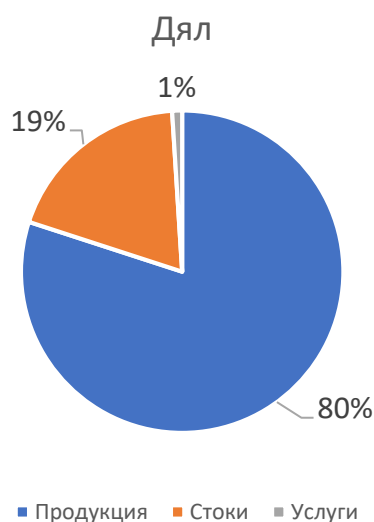
For the period 01 January 2018 – 31 December 2018, the Group reports an operating profit of BGN **18,312** thousand and net profit of BGN **16,966** thousand.

- **Including for non-controlling interest** – net profit for the period of **BGN 114** thousand.

#### REVENUE

*Sales revenue reported by the Group amount to BGN 141,926 thousand, including:*

Sales revenue	01-12.2018 BGN'000	Relative share %
Revenue from sale of finished products	113 365	80%
Revenue from sale of goods	27 754	19%
Revenue from sale of services	807	1%
<b>Total</b>	<b>141 926</b>	<b>100%</b>

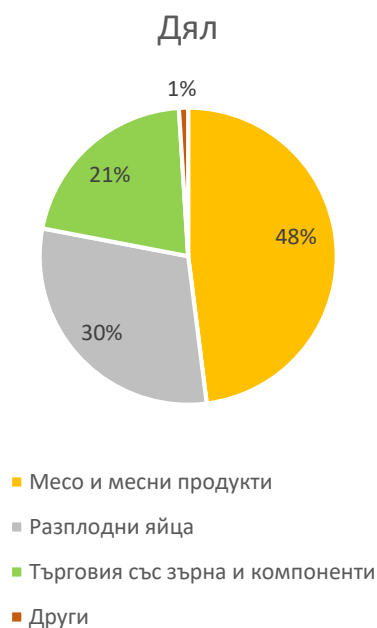


The main revenue of the Group for the reporting period comes from sales of products, forming 84% of total revenue.

#### Revenue reported by main segments

Segments	01-12 2018 BGN'000	Relative share %
Meat and meat products	67 471	48%

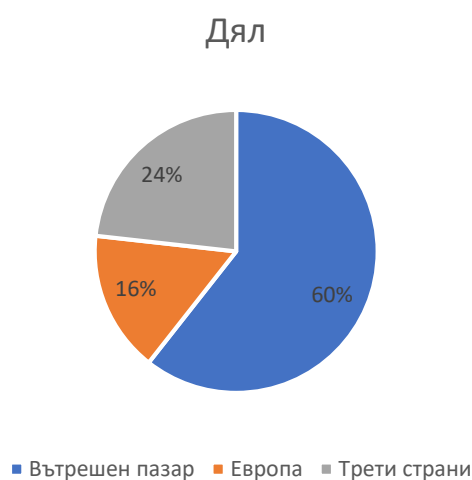
Breeding eggs	43 342	30%
Grain and components	30 306	21%
Other	807	1%
<b>Total</b>	<b>141 926</b>	<b>100%</b>



The meat and meat products segment reported the highest share in sales revenue during the first nine months of 2018.

*Geography of sales revenue*

Geography of sales	01-12.2018 BGN'000	Relative share %
Domestic market	85 838	60%
Europe	22 115	16%
Third countries	33 973	24%
<b>Total</b>	<b>141 926</b>	<b>100%</b>



*Other operating income amounts to BGN 15,532 thousand and consists of:*

Other operating income	01-12 2018 BGN'000	Relative share %
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Rental income	722	5%
Gain on sale of materials and FTAs	549	4%
Income from financing	11 019	71%
Revaluation of investment property	486	3%
Revaluation of biological assets	190	2%
Income from provisions – credit risk	1 917	12%
Other income	415	3%
<b>Total</b>	<b>15 532</b>	<b>100%</b>

## **EXPENSES**

### *Operating expenses*

*The Group reports operating expenses amounting to BGN 138,785 thousand.*

<b>Operating expenses</b>	<b>01-12 2018 BGN'000</b>	<b>Relative share %</b>
Changes in stock of finished products	(14 351)	-10%
Expenses on raw materials and materials	78 753	57%
Hired service expenses	8 060	6%
Personnel expenses	23 199	17%
Depreciation / amortization expenses	5 686	4%
Carrying amount of goods sold	25 551	18%
Other operating expenses	11 887	8%
<b>Total</b>	<b>138 785</b>	<b>100%</b>

## **FINANCE INCOME AND FINANCE COSTS**

### *Finance income*

<b>Finance income</b>	<b>01-12 2018 BGN'000</b>	<b>Relative share %</b>
Interest income on loans granted	165	27%
Foreign exchange gains	451	73%
<b>Total</b>	<b>616</b>	<b>100%</b>

### *Finance costs*

<b>Finance costs</b>	<b>01-12 2018 BGN'000</b>	<b>Relative share %</b>
Interest expenses on loans received	473	48%
Bank charges	222	23%
Foreign exchange losses	282	29%

### 3. Main risks faced by the Group

The risk management policy of the Group is directed towards identifying and analysing the risks to which the Group is exposed in order to set limits of risk appetite. Based on the analysis of these risks, the Group develops and implements appropriate controls to address these risks. This policy, as well as the risk management controls introduced are subject to periodic reviews in order to reflect any changes in the external and internal conditions in which the subsidiaries operate.

#### **Credit risk**

Credit risk arises mainly from receivables from customers. The exposure to credit risk is the result of the individual characteristics of each individual client.

The Group manages credit risk primarily by placing credit limits on each client individually, depending on the sales volume and the client's credit history, as well as by exercising constant control over delayed payments.

#### **Currency risk**

Sometimes, the Group companies undertake transactions denominated in foreign currencies. The Group is exposed to currency risk relating to possible fluctuations in exchange rates of foreign currencies. Currently, such risk originates from fluctuations in the USD exchange rate upon trading in agricultural produce.

#### **Liquidity risk**

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

#### **Market risk**

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

### 4. Key ratios analysis

In order to achieve greater efficiency and control over the Group companies' results, management monitors certain key performance indicators related to business activities. These indicators are mainly focused on the amount of profit, debt level and effectiveness.

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

	<b>2018</b>
Pre-tax profit	18 312
Income	141 926
<b>Gross profit margin</b>	<b>12.90%</b>

- **EBITDA margin (EBITDA-Earnings before interest, taxes, depreciation and amortisation /Sales)**

	<b>2018</b>
EBITDA (Earnings before interest, taxes, depreciation and amortisation)	24 359
Income	141 926
<b>EBITDA margin</b>	<b>17.16%</b>

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

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

	<b>2018</b>
Interest-bearing debt	
Net debt	4 709
EBITDA (Earnings before interest, taxes, depreciation and amortisation)	24 359
<b>Net debt/EBITDA</b>	<b>0.19</b>

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

	<b>2018</b>
Total liabilities	38 600
Total assets	363 636
<b>Debt to Assets Ratio</b>	<b>0.11</b>

## **5. Prospective future development of the Group**

The major goal of the issuer's management is to increase the number of basic herds, the number of fattened broilers, the production volume and sales of breeding eggs. Full load of production capacities and expansion of the product range and volume of sales under the "Gradus" and "I eat" brands is planned.

Development of the existing and new business lines related to the production of high-value food products, as well as the introduction of a new "Yellow Chicken" French Le Poulet brand.

The Group expects to preserve its market positions in subsequent reporting periods as well.

## **6. Research and development activities**

The Group has not carried out research and development activities over the period.

## **7. Significant events in 2018 and until the date of the interim management report**

A General Meeting of Shareholders (GMS) of Gradus AD was held on 26 March 2018 and the following decisions were passed: 1. To increase the capital of the company by up to BGN 248,777,778 (two hundred and forty-eight million seven hundred and seventy-seven thousand seven hundred and seventy-eight) by issuing 27,777,778 (twenty-seven million seven hundred and seventy-seven thousand seven hundred and seventy-eight) new ordinary dematerialised registered freely transferable voting shares with nominal amount of BGN 1 (one) each under the conditions of public offering of shares on Bulgarian Stock Exchange-Sofia; 2. The GMS resolves on the key parameters of the issue of new shares used to increase the capital of Gradus AD; 3. The GMS gave its consent that



the public offering of shares from the capital increase, approved by the decision under item 1, to be carried out simultaneously with the public offering of shares held by the company's shareholders; 4. The GMS appoints First Financial Brokerage House EOOD, licensed investment intermediary holding Licence no. ПГ-03-2015 of 15 October 2008, to serve the increase of the capital of Gradus AD; 5. The General Meeting assigns the investment intermediary, First Financial Brokerage House EOOD, with the task to draw up Prospectus for public offering of shares from the capital increase; 6. The General Meeting assigns the Board of Directors with the task to pass all decisions that might be necessary in connection with the Prospectus for public offering of shares from the capital increase, including to approve the Prospectus, to make changes therein, etc; 7. The General Meeting approves the report of the Board of Directors pursuant to article 194, paragraph 4 of the Commercial Act and revokes the privilege rights of shareholders pursuant to article 194, paragraphs 1 - 3 of the Commercial Act for the acquisition of part of the new shares corresponding to their share in the capital, and therefore, a right to subscribe shares from the capital increase of the Company shall have all natural and legal persons; 8. The GMS approves amendments to the Articles of Association of the company in compliance with the provisions of the Public Offering of Securities Act in accordance with Appendix 1. The amendments shall have an effect only if the Company becomes a public company.

On 16 April 2018, Gradus AD, through the investment intermediary First Financial Brokerage House EOOD, submitted its Prospectus for admission to trading on a regulated market of debt securities.

A General Meeting of Shareholders of Gradus AD was held on 03 May 2018 and the following decisions were passed: 1. The GMS approves the report of the Board of Directors on the company's activity in 2017; 2. The GMS approves the Registered Auditor's Report on the audit of the annual separate financial statements of the company for 2017; 3. The GMS approves the annual separate financial statements of the company for 2017; 4. The GMS approves the Registered Auditor's Report on the audit of the annual consolidated financial statements of the company for 2017; 5. The GMS approves the annual consolidated financial statements of the company for 2017 г.; 6. The GMS decides not distribute the operating profit of the company for 2017, as there is no such profit; 7. The GMS grants the members of the Board of Directors discharge in respect with their activities in 2017; 8. Considering the decision taken on 26 March 2018 by the General Meeting to increase the capital of the company by issuing new shares under the conditions of public offering of shares on Bulgarian Stock Exchange-Sofia AD, the GMS revokes its decision dated 29 December 2017 by virtue of which the Board of Directors, in accordance with article 32, item 5 of the Articles of Association, has been empowered to increase the capital of the company by issuing new shares under the conditions of public offering of shares in compliance with the applicable law in an amount of up to BGN 100,000,000 (one hundred million Bulgarian leva) within up to 2 years, and to clarify all necessary details and to pass all necessary decisions concerning the conditions and organisation of an offering, including the selection of an investment intermediary and the approval of a prospectus for public offering of shares.

A General Meeting of Shareholders of Gradus AD was held on 11 May 2018 in connection with the appointment of a registered auditor to audit and certify the annual financial statements for 2018. The GMS appointed the audit firm Baker Tilly Klitou and Partners OOD.

On 17 May 2018, through the investment intermediary First Financial Brokerage House EOOD, submitted a corrected Prospectus for admission to trading on a regulated market of debt securities.

On 28 May 2018, by **decision no. 542 – E of 28 May 2018**, the Financial Supervision Commission confirmed the Prospectus for public offering of share issue for increasing the capital of Gradus AD.

On 18 and 19 June, the initial public offering took place on Bulgarian Stock Exchange-Sofia AD. Type of offering: IPO Auction. Total of 45,217,420 (forty-five million two hundred and seventeen thousand four hundred and twenty) shares were sold at a price of BGN 1.80 per share for the total amount of BGN 81,391,356 (eighty-one million three hundred and ninety-one thousand three hundred and fifty-six), of which BGN 22,608,710 (twenty-two million six hundred and eight thousand seven hundred and ten) existing shares for the total amount of BGN 40,695,678 (forty million six hundred and ninety-five thousand six hundred and seventy-eight) and 22,608,710 (twenty-two million six hundred and eight thousand seven hundred and ten) new shares for the total amount of BGN 40,695,678 (forty million six hundred and ninety-five thousand six hundred and seventy-eight).

On 17 July 2018, the increase of the capital of Gradus AD was registered with the Commercial Register at the Registry Agency. The company increased its capital from BGN 221,000,000 to BGN 243,608,710.

On 20 July 2018, the issue from the capital increase of Gradus AD was registered with Central Depository AD with c **ISIN BG1100002184**. 243,608,710 shares with nominal value of BGN 1 (one) each, or issue capital of BGN 243,608,710, were registered.

On 30 July 2018, by Decision no. **770 – ПД of 30 July 2018**, the Financial Supervision Commission (FSC) entered Gradus AD as a public company into the register of public companies and other issuers of securities in accordance with article 30, paragraph 1, item 3 of FSCA, kept by the FSC.

On 31 July 2018, at its session held on the grounds of article 33, paragraph 8 of Part III of the Rules for Admission to Trading, the Board of Directors of Bulgarian Stock Exchange-Sofia AD took the following decision: To admit to trading on the BSE Main Market, Standard Equities Segment, the issue of shares issued by Gradus AD-Stara Zagora. The BSE code **GR6** was designated to the share issue.

On 01 August 2018, at its session, the Board of Directors of Gradus AD took a decision to appoint Boryana Dimitrova on the position of Investors Relation Director.

On 06 August 2018, the trading in shares of Gradus AD on the Bulgarian Stock Exchange began.

On 06 August 2018, Gradus placed on the market the French Le Poulet brand of chicken.

On 27 September 2018, at meetings of the Board of Directors held, it is resolved that part of the 2017 profit of the subsidiaries Millennium-2000 EOOD, Lora-2004 EOOD, Zhyuliv EOOD, Graddus-1 EOOD, shall be distributed in the form of an additional dividend amounting to BGN 3,350,000 /three million three hundred and fifty thousand Bulgarian leva/.

The Board of Directors of Gradus AD intends to fulfil its commitment to investors by proposing to the Annual General Meeting of Shareholders to be held in 2019 that it distributes at least 90 per cent of the company's profit in the form of dividends to the shareholders.

Gradus AD notifies that on 15th of November 2018 General meeting of shareholders of Gradus-98 AD has been held. On the General meeting was decided that part of the profit of Gradus -98 AD for 2017 will be distributed in the form of an additional dividend. As a result of the decision, Gradus AD as a majority shareholder of Gradus-98 AD, will receive an additional dividend amounting to BGN 2 498 350.

Key events, which have and will continue to have an impact on the company's current and future performance

In 2018, the company carried out large-scale investments with the aim to expand its main business in two directions:

1. Breeding eggs and one-day-old chickens segment
  - 1.1 A centre for parent flocks was completed in Ruse, in the subsidiary Gradus-98 AD, with the following parameters: Ruse City, North 3 Centre, Adolescents, 12 broiler hatcheries of 864 sq. m., capacity: 72,360 birds, investment: BGN 3,535,872;
  - 1.2 A new centre for broilers in Stara Zagora, in the subsidiary Lora-2004 EOOD, with the following parameters: Town of Stara Zagora, IV Centre, 6 broiler hatcheries of 1,800 sq. m., capacity: 233 thousand broilers, investment: BGN 2,500,000;
  - 1.3 On 25 February 2019, we completed a new Centre for adolescents in Ruse, in the subsidiary Gradus-98, with the following parameters: Ruse City, North 3 Centre, Adolescents, 12 broiler hatcheries of 864 sq. m., estimated investment: BGN 3,600,000;
  - 1.4 Another centre for parent flocks in Ruse is expected to be put into operation in 2019. The estimated investment amounts to BGN 3,600,000, as also another Centre for broilers in Stara Zagora amounting to BGN 2,500,000.
2. Meat and meat products segment
  - 2.1 Investments in the subsidiary Gradus-1 EOOD.

In implementation of its investment programme announced in the Prospectus for public offering of shares, Gradus AD, through its subsidiary, Gradus-1 EOOD, purchased new equipment – plant and fixtures and fittings for meat processing /vacuum packing machine, press and machine for raw-dried products, refrigeration plant, semi-automatic clipping machine, etc./, means of transport for the transport of live birds and for finished products, software, etc. Advertising costs have also been incurred in order to introduce new products to the market, as well as further promotion of group brands.

## 2.2 Introduction of new products

In August 2018, a new product was launched on the market: the slow-growing chicken of the Le Poulet brand. In view of the more limited initial quantities, we have refined its positioning by focusing on stores with potential consumers of a high-class chicken meat. Meetings with representatives of the trade chains were organised and held in a timely manner in order to arrange the supply of the product.

February 2019 compared to August 2018, the first month of the product supply, the realized quantities marked a growth of 5 times. The pace of growth is outstripping even our most optimistic expectations.

It is yet for the product to be offered by more trade chains, and commencing in February, it will also be available in the HoReCa channel. Considering these good results, Gradus has increased the volume of production of this product three times since February 2019. New products will be placed on the market under this brand, such as cuts.

In 2018, no new products were launched under our main brand “Gradus”, but for 2019, we are planning to launch many new offerings. New raw-dried sausages of poultry meat, special grilled offers, and fresh sausages are being developed.

In November 2018, we placed on the market a new type of boiled-smoked sausage offered under the „I eat!“ brand, namely: „Classic“. In the middle of the same month, 4 new products were offered for the first time RDS – Lukanka, Sudzhuk, Belena sushenitsa, and Melnicharski mezelak. These products are quickly established on the market and will be offered gradually in all trade chains that we work with. New products under the 'I eat!' brand are expected in 2019 as well.

On 28 November 2018, Gradus AD notified the shareholders of a contract under sub-measure 4.2 “Investments in processing / marketing of agricultural products” of the Rural Development Programme for the period 2014-2020, co-financed by the European Agricultural Fund for Rural Development, concluded with its subsidiary “Gradus-1” EOOD. The grand totals to BGN 1,564,640.

### Grain trade

In 2018, the results from the grain trade were not very good for the company, mainly due to external factors, such as: 1. Bad weather conditions that affected the quality of the harvest. Pouring and lengthy spring rains have affected negatively the harvest, leading to a rise in buy-out prices due to reduced supply. 2. The situation in Turkey has led to the depreciation of the Turkish lira, which has undermined the solvency of our Turkish partners. The grain business is a business of high-speed and low margin. This development has forced us to be more cautious and we stopped exports to our southern neighbour. We did not consider it justified to continue in 2018 to export to Turkey due to increased political and financial risk. The weak year in the grain trade mainly affected the company’s turnover, but also profit, albeit to a lesser extent. Losses have not been suffered due to the fact that the company is not a producer and insures its stocks of cereals.

Investments and the expansion of the group's business have resulted in a lower profit for the year than expected. Higher costs than budgeted have been reported due to more investments incurred during the year.

Another serious fact having affected negatively the profit is the parent flocks available at the end of the year. At the end of 2017, there were 434,849 parents available. Parents, and at the end of 2018, they reached 653,756, or by 218,907 more, a 50.34 percent increase. These parents are yet to bring revenue in 2019 and 2020; however, pursuant to its accounting policy, the company should report an impairment of biological assets, which has resulted in a growth in impairment of over BGN 2,500,000.

In terms of prices, the market of breeding eggs appeared to be highly volatile in 2018. The group was hedged due to the fact that it concluded long-term sales contracts throughout the year; however, this affected the volumes held for sale on the free market. The average selling price for the last year was approximately EUR 0.18, which is in the low range compared to historical market data. Our average selling price, including the long-term contracts, is much higher. A factor that has had a negative impact on the price is the record heat in the Middle East. That is why, for a period of about three weeks, farms had ceased to fill eggs for hatching, since hatching has fallen dramatically and, in new-hatched chickens, mortality is reaching such levels that even the planned loss is beyond control.

Political disagreements in Iraq and the prohibitions imposed hamper the normal functioning of the business on this market and lead to imports of eggs at very low prices. The collapse of Turkish lira has also had an effect - Turkish eggs are traditionally cheaper and of less quality, but have been offered at record low selling prices.

It is expected that 2019 will be a good year. The group concluded contracts at good prices with its long-term partners, and we expect that another contract will be signed under very favourable conditions. We also expect that we will achieve better volumes of sales and at least 15 percent higher prices on the free market compared to the previous year. Factors that will have a positive impact on the results:

1. The group managed to agree better interest rates with its banking partners. Strict financial discipline, company ratios and the public status of the group have led to better interest conditions agreed with our banking partners. This will significantly reduce the interest costs of the group in both the short and the long term.

2. We are in the process of implementing an overall ERP system. The system will lead to a significant reduction in costs and optimisations.
3. We renegotiate sales terms with customers who provide us with services. Our expectations are that those new conditions, which the company managed to negotiate, will reduce our costs by between BGN 500 thousand and BGN 1,000 thousand per year.

The company is ongoing a process of optimization and change in its way of doing business aiming at reducing costs and increasing its revenues.

Ivan Angelov

/Executive Director/