



Translation from Bulgarian

NON-FINANCIAL DECLARATION

**To the annual consolidated financial report of Gradus Group
pursuant to the requirements of Article 48-52 of the Accounting Act 2018**

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I. General information about the Group

Gradus Group includes the parent company and its six subsidiaries:

Parent company

Gradus AD (the "Company") is a company registered in Bulgaria in the Commercial Register of the Registry Agency, with UIC: 204882907 on 28 November 2017.

The company is a parent company.

It is registered for not limited period of time.

Management address:

Republic of Bulgaria,

6000 Stara Zagora, Industrial residential district, Gradus Poultry.

On 30 July 2018, the Financial Supervision Commission, by decision No. 770 - PD / 30 July 2018, entered Gradus AD as a public company in the register of public companies and other issuers of securities under Article 30, paragraph 1, item 3 of the Financial Supervision Commission Act, kept by the Financial Supervision Commission. The shares of the Company are traded on the Main Market of the BSE - the Standard segment and the GR6 stock code.

As of 31 December 2018, Gradus AD owns and manages the following subsidiary companies, grouped in the Gradus Economic Group, which carry out the following operating activities:

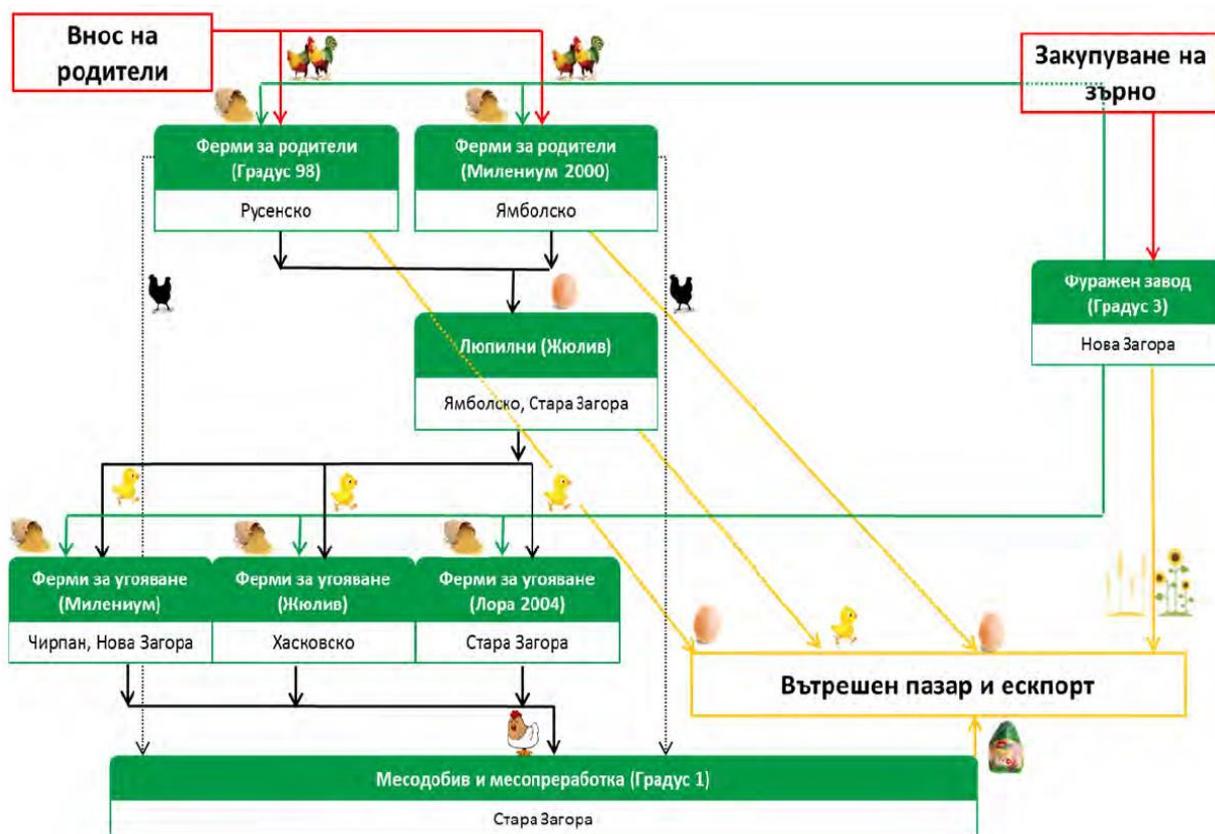
- Millenium 2000 EOOD - breeding of parent birds for production of eggs and fattening of broilers
- Lora-2004 EOOD – fattening of broilers
- Gradus-1 EOOD – production of meat and meat products; transport services for the other companies in the Group (except for Gradus-3 AD)
- Zhyuliv EOOD – hatching of one day chickens and fattening of broilers
- Gradus-98 AD - raising of parent birds for production of eggs
- Gradus-3 AD - production of fodder and trade in agricultural products.

Gradus AD directly owns:

- 100% from the capital of Millenium 2000 EOOD, Lora-2004 EOOD, Gradus-1 EOOD, Zhyuliv EOOD;
- 99.934% from Gradus-98 AD;
- Indirectly 96% in Gradus-3 AD through Gradus -1 EOOD.

1. BUSINESS MODEL

Следващата графика представя бизнес модела на Групата.



Ownership and governance of the parent company

Gradus AD (the parent company) has a one-tier management system with a Board of Directors consisting of three (3) members. The management of the parent company by the Board of Directors has the following composition as of 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 common registered voting shares with a nominal value of BGN 10 each, representing 99.94% of the capital of Gradus 98 AD.

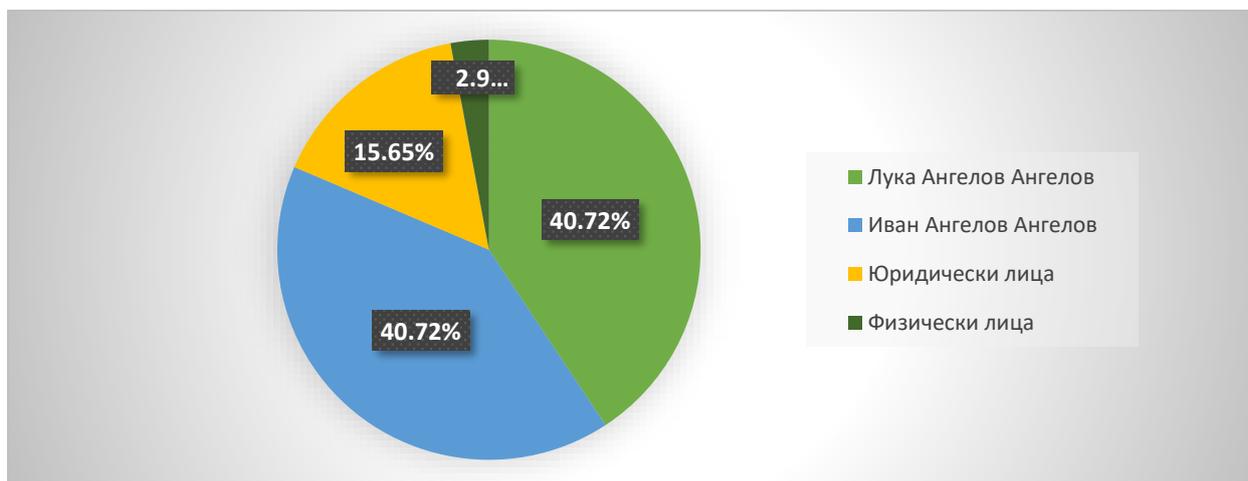
Scope of business of the Group companies

The main scope of business of the Group companies is concentrated in the Poultry sector, except for companies whose activity is also "production of compound fodder and trade".

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

- **Lora-2004 EOOD** – the main business of the company is poultry farming - breeding and sale of fattening birds - broilers;
- **Zhyuliv EOOD** – the main business of the company is fattening broilers and hatching of chickens. The company is registered in the Agriculture State Fund as an agricultural producer;
- **Millenium 2000 EOOD** – the main business of the company is poultry breeding - breeding parent birds for broilers, production and sale of breeding eggs, production and sale of fattening broilers;
- **Gradus-1 EOOD** – the main business of the company is the processing and sale of poultry meat products;
- **Gradus-3 AD** - the main business of the company is the production of compound fodder intended for the market containing grains and fodder additives in proportion according to established and approved recipes. For the exercise of its business the company is entered in the register pursuant to Article 19, paragraph 11 of the Fodders Act and has received a certificate of approval No. 00041 dated 26 January 2007 from the National Grain and Fodder Service.
- **Gradus-98 AD** – the main business of the company is production, processing and sale of all kind of agricultural and animal products.

Shareholding structure as of 31 December 2018



VALUE

Green – Luka Angelov Angelov
Blue – Ivan Angelov Angelov
Yellow – legal entities
Olive – natural persons

Products

Gradus is a company operating in the meat processing sector, which includes a vertically integrated business for the production of chicken meat and chicken meat products, as well as sausages and frankfurters from pork meat. Gradus products are produced in a closed cycle which ensures that at every stage the company's highest standards are strictly adhered to. The product chain for the production of chicken meat and chicken meat products includes: production of fodder, production of breeding eggs, production of one-day broilers, breeding of broilers for fattening, chicken meat and products of processed chicken meat.

Personnel

By the end of 2018, the average number of Gradus Group staff was 1 302 employees: The company with the highest number of staff was Gradus 1, followed by Millennium 2000, and the company with the lowest number of staff was the parent company Gradus AD.



Average number of staff

II. Environment protection

Description of policies and their objectives

As a holding company, which does not carry out independent business activity, Gradus AD has focused with priority its activity on the management of subsidiaries and associates. The company pays particular attention to the environmental impact exercised by the activities. They report annually on environmental impact assessment and the measures taken in this direction.

Main activities and costs incurred in 2018

Companies from Gradus Group pay particular attention to and care for the environmental impact imposed by the production activities of its facilities. Taking into account the scale of the production processes that exceed the thresholds specified in the Environmental Protection Act, the facilities of Gradus Holding AD carry out their activities on the basis of Complex Licenses issued (pursuant to Article 117 of the Law). The facilities of Gradus Group hold Complex Licenses and, under the terms of these Complex Licenses, they implement Environmental Management Systems (EMS) that comply with the applicable best available techniques conclusions for the sector concerned. All operating and maintenance instructions, for monitoring of technical and emission indicators, periodic assessment of the compliance of the measured values with the permitted ones, for establishing the reasons for the non-conformities and taking corrective actions have been prepared and applied. Both inflows to installations - water, energy, fuels, raw

materials and auxiliary materials, as well as outflows - emissions to the air, emissions to waste and groundwater, pollutant release into the soil, noise generated waste are monitored. EMSs shall be reviewed annually and, where necessary, updated in order to ensure that the achieved level of environmental performance is maintained and improved. The companies have an organizational structure established for environmental management. Responsible officials are designated to perform and carry out the specific terms and provisions contained in the Complex Licenses, who also are responsible for controlling the results of the elimination of the non-conformities that have been identified. Continuous control of efficient use and minimization of resource use is carried out during the operation of installations, with regular monitoring of the efficiency of the production activity with regard to the use of water, energy, auxiliary materials and fuels. The water for watering the birds, as well as the water for the production and sanitary needs at Gradus Poultry is supplied from own water sources - tubular wells based on permits under the Water Act. Each quarter, monitored is conducted an accredited laboratory to determine the compliance of the water produced by the wells with the requirements of Ordinance No. 9 of 2001 on the quality of water intended for drinking household purposes. Water costs are calculated on a monthly basis to determine the annual rate of effectiveness. In order to reduce the cost of water on the sites, the necessary instructions for the operation and maintenance of the technological equipment, which is the main water consumer, for the maintenance and verification of the water supply network, leakage removal and identification of the causes for them, have been applied. Where nonconformities are detected, immediate corrective actions are taken to address them.

The management of the holding company from time to time evaluates the energy output of the installations and takes measures aimed at reaching optimal consumption standards in the operation of the facilities. Instructions for the operation and maintenance of the equipment, which is the main consumer of electricity, have been applied. Where immediate nonconformities are detected, immediate corrective actions are taken to remove them. In order to protect soils and underground water from pollution with hazardous chemical substances and mixtures, for the use of such substances, mainly disinfectants, special storage areas are used such as closed warehouses which are equipped with floor and side insulation, preventing the leakage of water or other liquids into the soil, and they are not connected to the water sewerage system. Collector tanks are provided for the occurrence of any spills and suitable absorbing materials are in place. The premises are equipped with forced ventilation and are permanently locked. All chemical substances and mixtures classified under one or more hazard categories pursuant to Regulation (EC) No. 1272/2008 on classification, labeling and packaging of substances and mixtures are provided with safety data sheets that meet the requirements of Annex II to Regulation (EC) 1907/2006 on the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) as amended by subsequent amendments and corrections. The storage of the chemical substances and mixtures meets the storage conditions specified in the safety data sheets and the Ordinance of the Council of Ministers pursuant to Article 4b of the Protection against the Harmful Impact of Chemical Substances and Mixtures Act. Instructions for maintenance and periodic inspection of the conformity of the facilities and the storage sites with the requirements of the regulations for the procedure and the manner of storage of hazardous chemical substances are applied. Where immediate nonconformities are detected, immediate corrective actions are taken to address them. In order to preserve the cleanness of the atmospheric air, the organized and non-organized emissions from the activity of the holding's facilities are controlled and monitored. Once at every two years, the company is carrying out self- monitoring using an accredited laboratory to monitor the emissions of harmful substances released into the atmosphere by Gradus Poultry and the Fodder Plant in the town of Nova Zagora. The results of the monitoring carried out so far /the last monitoring being conducted in 2018/ show compliance with the emission standards set. To minimize non-organized emissions, including emissions into the air of ammonia and dust from activities, as well as the emissions of intense odorous substances, a set of measures complying with the requirements of the applicable best available techniques conclusions have been applied for the respective sector – poultry breeding, slaughterhouses and the production of fodder for birds.

The control for compliance with the set individual emission limits of discharged production and household faeces waste water from Gradus Poultry and the Fodder Plant in the town of Nova Zagora is carried out through self-monitoring carried out twice a year. Sampling and analysis are performed by an accredited laboratory. The results of the monitoring carried out so far show compliance with the norms set.

For the environmentally sound management of the waste generated from the activities of the holding's facilities, separate collection of waste is applied. Waste is handed over for recovery prior to its disposal. On the territory of the companies there is a site for pre-storage of industrial and hazardous waste generated from work activities. The

designated sites have a durable concrete/asphalt covering. In order to avoid mixing different types of waste, the sites are separated by placing boards with the name of the waste and their codes under Ordinance 2 of 23 July 2014 on the classification of the waste.

For the preliminary storage of hazardous waste, closed warehouses are designated, with a resistant floor covering, without connection to the sewage system, permanently locked and marked with sign boards. The waste is handed over for recovery, incl. recycling and disposal outside the territory of the site, only to persons holding a document under Article 67 and/or under Article 78 of the Waste Management Act or a complex permit for the specific type of waste and for carrying out the respective activity on the basis of a written contract.

The animal by-products generated from the activities of facilities that are not utilized are handed over for disposal to incinerator plants.

As far as the environmental impact is concerned, poultry farming is an indispensable part of the circular economy that the European Union seeks to impose as a sustainable economic model. Fertilizers formed after the end of the poultry life cycle are utilized for the production of biogas in power plants, and animal waste from meat production for human consumption (from Gradus Poultry) is utilized for the production of food for small mammals.

The activities carried out on the production sites are performed in a manner that will not allow noise emissions in the environment above the equivalent noise level /at day, in the evening and at night at the boundaries of the site and at the place of impact/. This is evidenced by the results of self-monitoring carried out once at every two years where noise emission tests are conducted by an accredited laboratory. The results of the monitoring carried out /the last monitoring being conducted for 2018/ show compliance with the emission standards set.

For the activities related to the protection of environmental components and factors through the execution of the issued complex permits, according to the requirements of the Environmental Protection Act, the companies annually prepare and submit to the supervisory body - the respective Regional Inspectorate of Environment and Waters /RIEW/, an Annual Environmental Report. Once being verified, the reports are published on the website of the Executive Environment Agency, city of Sofia.

The costs incurred by the Group's subsidiaries in 2018 amounted to BGN 186,915.17 and are directed to water studies, wastewater treatment plants, waste collection and household waste charges, etc.

Ecological Risks

Pursuant to Article 3, paragraph 1 of *Ordinance No. 1 of 2008 on the type of preventive and remedial measures in the cases provided by the Law on the responsibility for prevention and removal of ecological damages and on the minimum amount of the costs for their implementation*, for all facilities of Gradus Holding Assessments have been prepared for possible cases of imminent threat of environmental damages and cases of environmental damages caused. According to these assessments, the following environmental damages may occur:

1. Soil and/or underground water penetration of concentrated hazardous chemical substances and mixtures as a result of spillage when unloaded and/or during activities with them;
2. Contamination of soils and/or underground water as a result of damaging the integrity of watertight sewage pits for waste water;
3. Contamination of soil with mercury as a result of breakage of luminescent tubes and/or other mercury-containing waste;
4. Contamination of soil and underground water with diesel fuel as a result of leakage of diesel fuel from the company gas station tanks, equipment or fuel pumps;
5. Ignition of diesel fuel and penetration of contaminated firefighting water into the soil and underground water.

Analysis and evaluation of the information: the methodology of analysis and evaluation of events is based on the principle of the three factors - event, event probability and event severity. The probability of occurring of any of the above listed events and the severity of the environmental damage occurring from the realization of this event is

evaluated. Preventive measures are proposed to manage the risk of occurrence of the event and remedial measures to be implemented should one of the preventive measures fail.

The preventive and remedial measures envisaged in the assessments are carried out by the designated persons responsible and are supervised by the managers of the facilities. The remedial measures envisaged for the possible occurrence of environmental damages are valued and financial resources are provided for this purpose.

In 2018, the costs related to the environment amounted to BGN 187 thousand.

III. Social Issues

Description of policies and their objectives

Gradus AD and Group companies apply social corporate strategy and policy. The companies have a Code of Ethics designed to establish and strengthen the principles and rules of conduct to be respected by managers and employees in connection with the exercise of their powers.

Main and future activities

The management actions related to employee are aimed at improving the working conditions and raising earnings. In some companies, a bonus scheme was introduced to motivate employees to carry out their duties properly. Gradually, social policies are introduced into subsidiaries that include a set of incentives with bonus elements such as contracted discounts for employee for the conclusion of insurances and preferential service in financial institutions with which the company operates.

It is envisaged the gradual introduction of monthly food vouchers, training courses for acquiring and enhancing professional qualifications, providing under certain conditions free transport from home to work and vice versa.

The active implementation of policies on the sustainable development of companies lead to creating a more favorable social environment, creating the necessary conditions and prerequisites for fulfilling the professional duties of the staff, mastering good manufacturing practices, motivation and satisfaction with working conditions and remuneration.