



Translation from Bulgarian

**"GRADUS" AD**

**CONSOLIDATED ACTIVITY REPORT**

*for 2018*

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## I. Introduction

### 1. Information about the Group

The Management presents herewith an Activity Report for Gradus Group for the year of 2018

Gradus Group consists of the parent company and its six subsidiary companies:

#### Parent company

"Gradus" AD (the "Company") is a company registered in Bulgaria in the "Trade Register" at the "Registry Agency" under Unified Identification Code (UIC): 204882907, on 28 November 2017.

The Company is a **parent company**.

It is registered for an unlimited period of time

Registered office address:

Republic of Bulgaria,

6000 Stara Zagora, "Industrialen" Residential District, "Gradus" Poultry Slaughterhouse.

On **30.07.2018**, by Decision No.770 – ПД/30.07.2018, the Financial Supervision Commission entered "Gradus" AD as a public company into the Register of Public Companies and other emitters of securities under Art. 30, para 1, item 3 of the Financial Supervision Commission Act, kept by the Financial Supervision Commission.

The Company's shares are traded on the Main market of the Bulgarian Stock Exchange – segment "**Standart**" and stock exchange code **GR6**.

#### Subsidiary companies:

As at 31.12.2018 the subsidiary companies are as follows:

- Lora-2004 \* (the Company) is registered as a limited liability company (LTD) into the Stara Zagora District Court, under company case No. 332/2004. On 14.12.2017 it was registered into the Commercial Register as EOOD having "Gradus" AD as the sole owner of the capital.  
Registered office address: Stara Zagora "Industrialen" Residential District, Poultry Slaughterhouse
- Zhyuliv \* (the Company) is registered as a limited liability company (LTD) into the Sliven District Court, under company case No. 369/1997. On 14.12.2017 it was registered into the Commercial Register as EOOD having "Gradus" AD as the sole owner of the capital.  
Registered office address: Stara Zagora "Industrialen" Residential District, "Gradus" Poultry Slaughterhouse
- Millenium 2000 \* (the Company) is registered as a limited liability company (LTD) by Decision No. 1976/20.12.2001 into the Sliven District Court, under company case No. 948/2001. On 14.12.2017 it was registered into the Commercial Register as EOOD having "Gradus" AD as the sole owner of the capital.  
Registered office address: Stara Zagora, "Industrialen" Residential District, "Gradus" Poultry Slaughterhouse
- Gradus-1 \* (the Company) is registered into the Pazardzhik District Court, under company case No. 732/1995. On 14.12.2017 its legal form was changed to EOOD having "Gradus" AD as the sole owner of the capital. Registered office address: Stara Zagora, "Industrialen" Residential District, "Gradus" Poultry Slaughterhouse
- Gradus-3 \*\* (the Company) was established on 20.04.1999 by a decision of the Stara Zagora District Court under company case No. 895/1999.  
Registered office address: Stara Zagora, "Industrialen" Residential District - Poultry Slaughterhouse
- Gradus-98 \* ("Biser Oliva-98" AD) was registered on 10.07.1998 by a decision of the Stara Zagora District Court under company case No. 1399/1998. By a decision of the General Meeting of the shareholders of the joint-stock company held on 08.08.2017, the General Meeting of the shareholders took a decision for the change of the Company's name from "Biser Oliva-98" AD to "Gradus-98" AD entered into the Commercial Register on 06.09.2017.  
Registered office address: Stara Zagora, "Industrialen" Residential District

\* *effective share rate*

\*\* *indirect interest*

## Management bodies of the parent company

- General Meeting of the shareholders
- Board of Directors

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

Gradus AD (parent company) has a single level management system with a Board of Directors consisting of three (3) members. As at 31.12.2018 the Management of the parent company in the face of the Board of Directors has the following members:

- 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 has the following capital interest in the subsidiary companies:

- 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;
- Millenium-2000 EOOD – 10 shares with a nominal value of BGN 500 each, representing **100%** of the capital of Millenium-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 the subsidiary company Gradus-1 EOOD – holding 96.00% of the capital of Gradus-3 AD;
- Gradus-98 AD – 49 967 ordinary available registered shares entitled to vote, with a nominal value of BGN 10 each, representing **99.94%** of the capital of Gradus 98 AD.

### *1.2. Subject of activity of the companies within the Group*

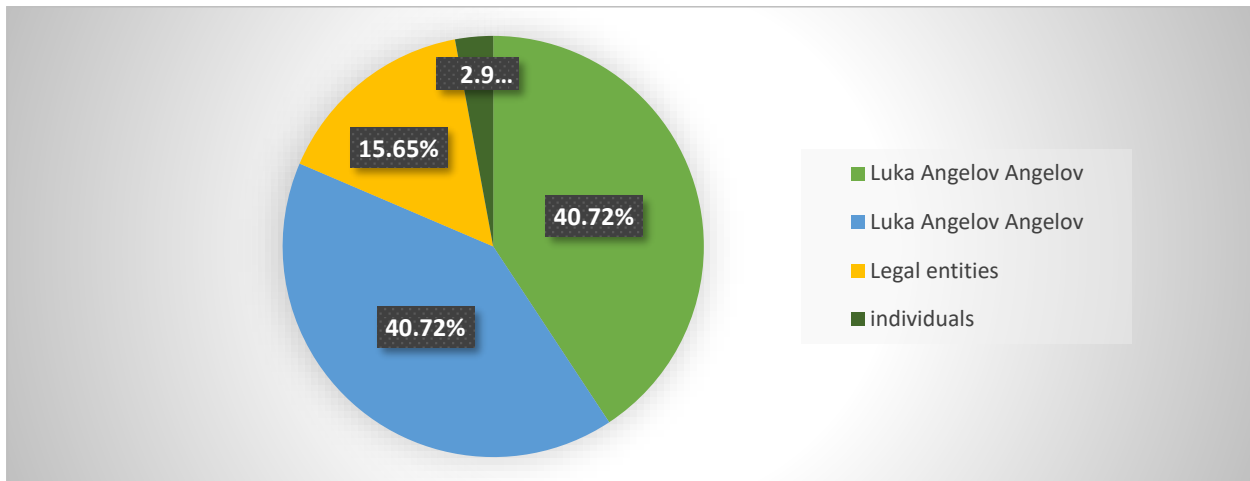
The main subject of activity of the companies within Gradus Group is concentrated in the field of "Poultry-farming", except for companies also having as their subject of activity the "production of combined fodders and trade".

**The subject of activity of the companies within the Group is as follows:**

- **"Lora-2004" EOOD** – the main activity of the company is Poultry-farming - breeding and realization of fattened birds - broiler chickens;
- **"Zhyuliv" EOOD** – the main activity of the company is fattening of broiler chickens and hatching of chickens. The company is registered into the State Fund "Agriculture" as an agricultural producer;
- **"Millenium 2000" EOOD** – the main activity of the company is Poultry-farming – breeding of parent chickens of broiler chickens, production and realization of breeding eggs, production and realization of fattened broiler chickens;
- **"Gradus-1" EOOD** – the main activity of the company is the processing and realization of products from chicken meat;
- **"Gradus-3"AD** - the main activity of the company is the production of combined fodders to be marketed, containing grains and fodder additives in a ratio according to certain established recipes. In order to exercise the activity, the Company is entered into the Register under Art. 19, para 11 of the Fodders Act and has been granted a Certificate of Approval No. 00041 of 26.01.2007 by the National Grain and Feed Association.
- **"Gradus-98" AD** – the main activity of the company is the production, processing and realization of all types of agricultural and animal production.

The parent company and the subsidiary companies execute their activity in the Republic of Bulgaria.

### 1.3. Shareholding structure as at 31.12.2018



### 1.4. Board of Directors

Gradus AD has a single level management system with a Board of Directors.

The Board of Directors consists of three (3) members with the following members as at 31.12.2018:

- 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 interest of the members of the Board of Directors** in trade companies as unlimited liability shareholders, the possessing of more than 25 percents of the capital of another company, as well as their interest in the management of other companies or cooperations as procurators, managers or members of Councils:

#### Luka Angelov Angelov

1.1. As an unlimited liability shareholder – NO

1.2. Possessing directly over 25 percents of the capital of:

"Equity Invest-1" AD (UIC: 204750154), "Equity Invest-2" LTD (UIC: 204746138), "Energy-2" LTD (UIC: 123655788), "Agro Invest-7" LTD (UIC: 123654743), "Mirena" LTD (UIC: 123655806), "Gold Agro-2005" LTD (UIC: 119642703) "Volf" LTD (UIC: 123760892), "Marieta" EOOD (UIC: 123655770), "Biser Distribution" LTD (UIC: 200090633), "Gradus" AD (UIC: 204882907)

and indirectly through "Gradus" AD:

"Zhyuliv" EOOD (UIC: 119053781), "Millenium 2000" EOOD (UIC: 119591422), "Gradus-98" AD (UIC: 123120561), "Gradus-1" EOOD (UIC: 822132592), "Lora-2004" EOOD (UIC: 123658624), "Gradus-3" AD (UIC: 123152751)

and indirectly, through "Marieta" EOOD in "Targovski Dom" EOOD (UIC: 123644254)

1.3. Being a part in the management bodies of:

"Equity Invest-1" AD (UIC: 204750154), "Equity Invest-2" LTD (UIC: 204746138), "Zhyuliv" EOOD, (UIC: 119053781), "Millenium 2000" EOOD (UIC: 119591422), "Gradus-98" AD (UIC: 123120561), "Energy-2" LTD (UIC: 123655788), "Agro Invest-7" LTD (UIC: 123654743), "Gradus-1" EOOD (UIC: 822132592), "Mirena" LTD (UIC: 123655806), "Lora-2004" EOOD (UIC: 123658624), "Gold Agro-2005" LTD (UIC: 119642703), "Gradus-3" AD (UIC: 123152751), "Volf" LTD (UIC: 123760892), "Marieta" EOOD (UIC: 123655770), "Biser Oliva" AD (UIC: 123036597).

#### Ivan Angelov Angelov

1.1. As an unlimited liability shareholder – ET "Gradus-Ivan Angelov-55" (UIC: 112038433)

1.2. Possessing directly over 25 percents of the capital of:

"Equity Invest-1" AD (UIC: 204750154), "Equity Invest-2" LTD (UIC: 204746138), "Energy-2" LTD (UIC: 123655788), "Agro Invest-7" LTD (UIC: 123654743), "Mirena" LTD (UIC: 123655806), "Gold Agro-2005" LTD

(UIC: 119642703), "Volf" LTD (UIC: 123760892), "Gradus" AD (UIC: 204882907), "Zagora Oil" LTD (UIC: 202473858),

and indirectly through "Gradus" AD:

"Zhyuliv" EOOD (UIC: 119053781), "Millenium 2000" EOOD (UIC: 119591422), "Gradus-98" AD (UIC: 123120561), "Gradus-1" EOOD (UIC: 822132592), "Lora-2004" EOOD (UIC: 123658624), "Gradus-3" AD (UIC: 123152751)

1.3. Taking part in the management bodies of:

"Equity Invest-1" AD (UIC: 204750154), "Equity Invest-2" LTD (UIC: 204746138), "Zhyuliv" EOOD (UIC: 119053781), "Millenium 2000" EOOD (UIC: 119591422), "Gradus-98" AD (UIC: 123120561), "Energy-2" LTD (UIC: 123655788), "Agro Invest-7" LTD (UIC: 123654743), "Gradus-1" EOOD (UIC: 822132592), "Mirena" LTD (UIC: 123655806), "Lora-2004" EOOD (UIC: 123658624), "Gold Agro-2005" LTD (UIC: 119642703), "Volf" LTD (UIC: 123760892)

### **Georgi Aleksandrov Babev**

1.1. As an unlimited liability shareholder – NO

1.2. Holding directly over 25 percents of the capital of "LG Auto" LTD (UIC: 205395076)

1.3. Taking part in the management bodies of:

"LG Auto" LTD (UIC: 205395076)

### ***1.5. Audit Committee***

The Audit Committee has the following members:

- Radka Dimcheva Peneva – Chairman of the Audit Committee;
- Petya Radoslavova Panova – member of the Audit Committee;
- Georgi Aleksandrov Babev – member of the Audit Committee.

## **II. Objective review of the development and the results from the Company's activity, as well as its condition, together with a description of the main risks it faces.**

### ***Development of the activity***

The companies within Gradus Group have modern production units, as they also constantly strive to expand and modernize the production capacities.

### ***2. Result of the Group for the current period***

For the period 01.01.2018 – 31.12.2018. The Group reports operating profit to the amount of BGN **16 380** thousand and net profit to the amount of BGN **14 654** thousand.

- **including for uncontrolling interest** a net profit for the period to the amount of BGN **114** thousand.

For the period 28.11.2017 – 31.12.2017 the realized net profit amounted to BGN 3 383 thousand, including for uncontrolling interest of BGN 11 thousand.

The income and expenditure cannot be compared to the preceding fiscal period, for Gradus Group has been operating since 28.11.2017.

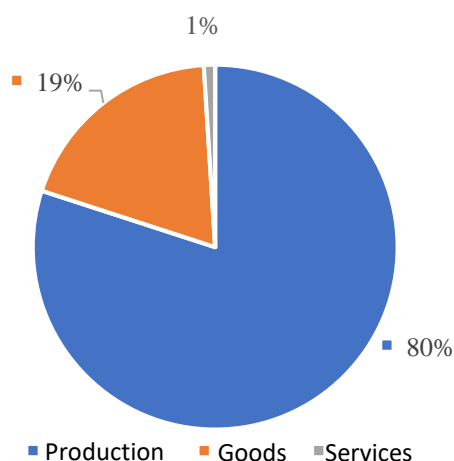
The Group will apply efficient comparison of the income and expenditure for the first time in the statements for the first quarter of 2019.

The Group may apply for the first time, on a yearly basis, efficient comparison of the income and expenditure only in the Consolidated Annual Financial Statement for 2019.

### **INCOME**

***The reported income from sales of the Group amounts to BGN 141 390 thousand and includes as follows:***

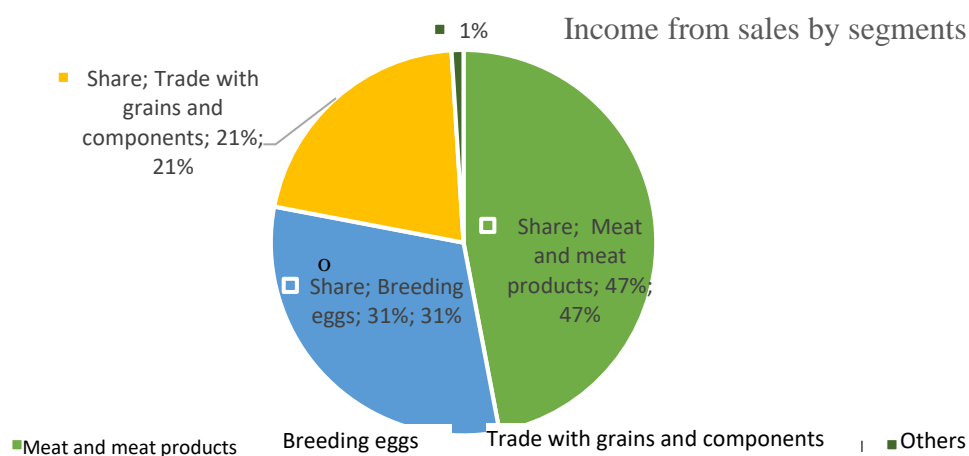
INCOME	2018	28.11.2017-31.12.2017	Change	Relative share for 2018 %
<b>Income from sales</b>				
Income from the sale of production	112 829	10 741	-	80%
Income from the sale of goods	27 754	7 445	-	19%
Income from the sale of services	807	66	-	1%
<b>Total income from sales</b>	<b>141 930</b>	<b>18 252</b>	-	<b>100%</b>



For the period under review the main income of the Group is formed by the sales of production with a relative share of 80% of the total income.

#### Reported income by main segments

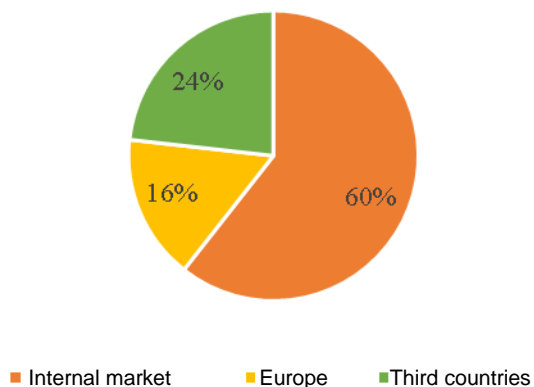
Segments	01-12 2018 BGN'000	Relative share %
Meat and meat products	66 936	47%
Breeding eggs	43 343	31%
Grains and components	30 304	21%
Others	807	1%
<b>Total</b>	<b>141 390</b>	<b>100%</b>



In 2018 the biggest share of the income from sales was the segment Meat and meat products 47%.

*Geography of the income from sales*

Geographic distribution of sales



Geography of sales

01-12 2018  
BGN'000

Relative  
share %

**Internal market**

**85 279**

• <i>Meat and meat products</i>	65 964	77%
• <i>Breeding eggs</i>	2 589	3%
• <i>Trade with grains and components</i>	15 923	19%
• <i>Others – services</i>	803	1%

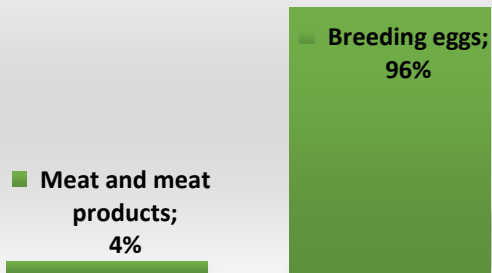
Geography of sales by main segments - *Internal market*





<b>European market</b>		<b>22 138</b>
• <i>Meat and meat products</i>	776	4%
• <i>Breeding eggs</i>	21 358	96%
• <i>Trade with grains and components</i>	-	
• <i>Others – services</i>	4	

Geography of sales by main segments - *Euroeman market*



<b>Third countries</b>		<b>33 973</b>
• <i>Meat and meat products</i>	196	1%
• <i>Breeding eggs</i>	19 396	57%
• <i>Trade with grains and components</i>	14 381	42%
• <i>Others – services</i>	-	-

Geography of sales by main segments - *Third countries*



The reported other income from the activity amount to BGN 14 262 thousand and include as follows:

OTHER INCOME	2018	28.11.2017- 31.12.2017	Change	Relative share for 2018 %
<b>Other income from the activity</b>				
Income from financings	11 025	633		79%
Income from rents	722	102	-	5%
Income from reassessment of investment properties	486	-	-	3%
Income from the sale of materials and tangible fixed assets, net	440	486	-	3%
Reassessment of biological assets	424	759	-	3%
Income from provisions – credit risk	374	-	-	3%
Income from provisions – actuarial assessment	43	-	-	-
Income from compensable leaves	11	1 601	-	2%
Others	471	19		2%
<b>Total other income from the activity</b>	<b>13 996</b>	<b>3 600</b>		<b>100%</b>

## EXPENDITURE

### *Expenditure on activity*

In 2018 the Group reported the following expenditure:

EXPENDITURE	2018	28.11.2017- 31.12.2017	Change	Relative share for 2018 %
<b>Expenditure on the activity</b>				
<b><i>Expenditure by economic elements</i></b>				
Change of the reserves from finished production and unfinished production	(14 343)	(582)	-	(12)
Expenditure on materials	78 753	7 371	-	68%
Expenditure on external services	7 483	1 111	-	6%
Expenditure on amortizations	6 119	454	-	5%
Expenditure on remunerations and social security instalments	23 199	1 503	-	20%
Depreciation of assets	10 849	50	-	9%
Others	4 038	382	-	4%
<b>Total expenditure by economic elements:</b>	<b>116 098</b>	<b>10 289</b>		<b>100%</b>

## FINANCIAL INCOME AND EXPENDITURE

Financial income	2018	28.11.2017- 31.12.2017	Change	Relative share for 2018 %
Income from interests under granted loans	165	14	-	49%
Positive differences from a change of currency exchange rates, NET	169	-	-	51%
<b>Total financial income:</b>	<b>334</b>	<b>14</b>		<b>100%</b>

<b>Financial expenditure</b>	<b>2018</b>	<b>27.11.2017-31.12.2017</b>	<b>Change</b>	<b>Relative share for 2018 %</b>
Expenditure on interests under granted loans	473	224	-	68%
	-	6	-	-
Bank fees under loans	222	8	-	32%
<b>Total financial expenditure:</b>	<b>695</b>	<b>232</b>	<b>-</b>	<b>100%</b>

Key events having an impact on the Company's results and to impact future results.

In 2018 the Group made some large-scale investments with the purpose of growing its main business into two fields, namely:

Segment breeding eggs and one-day old chickens

- The construction of a center for parent flocks in Russe was completed, in the subsidiary company "Gradus-98" AD with the following parameters: town of Russe, Center North 3, parent flocks, 12 halls of 864 sq.m. each, capacity: 72 360 birds, investment: BGN 3 535 872.
- A new center for broiler chickens in Stara Zagora in the subsidiary company "Lora-2004" EOOD with the following parameters: town of Stara Zagora, IV Center, 6 halls of 1800 sq.m. each, capacity: 233 thousand broiler chickens, Investment: BGN 2 500 000.
- On 25.02.2019 we completed a new center for rising parent chickens in Russe, in the subsidiary company Gradus-98 with the following parameters: town of Russe, Center North 3, Rising parent chickens, 12 halls of 864 sq.m., Approximate investment: BGN 3 600 000.
- In 2019 it is expect to have another center for parent flocks put into exploitation in Russe. The approximate investment is to the amount of BGN 3 600 000 and one center for broiler chickens in Stara Zagora to the amount of BGN 2 500 000.

Segment meat and meat products

- Investments of the subsidiary company Gradus-1 EOOD.

In pursuance of its Investment Program entered into the "Prospect for public offering of securities", the subsidiary company "Gradus-1" EOOD has purchased new equipment – machinery and fixtures and fittings for meat processing /vacuum packaging machine, press and machines for raw dried products, re Fridgeration installation, semi-automatic clip machine, etc./, vehicles for transportation of live birds and for finished production, software, etc. There has been also expenditure on advertising with the purpose of establishment of new products on the market, as well as additional popularization of the Group's brands.

- Introduction of new products

In August 2018 a new product was launched onto the market: a slow-growth chicken Le Poulet. In view of the more limited initial quantities, we specified its marketing, as the focus was on stores with potential consumers of a high-class chicken meat. Meetings were also organized and held in good time with representatives of the trade chains for the purpose of offering the product. The growth rate has even exceeded our optimistic expectations. The product is yet to enter more trade chains, and as of February it will be also offered on the HoReCa channel. Due to the abovementioned good results, since February 2019 "Gradus" has increased by three times the production of this product. Additional products of this brand in the form of packaged cuts will be also launched onto the market.

In 2018 there were no new products launched of our main brand "Gradus", but we plan to launch in 2019 a number of new proposals. New raw dried chicken sausages are under development, as well as special grill proposals and fresh sausages.

In November 2018 we launched onto the market a new type of boiled smoked sausage of the brand "I Eat!", namely: "Classic". In the middle of the same month we also started 4 SSK articles– Lukanka (Flat sausage), Sudzhkuk (typical Bulgarian salami in a U shape), Peeled Sushenitsa (Dried beat meat) and Melnicharski Mezelak (Meat appetizer from Melnik). The products are quickly established on the market, as they will be offered on the stage-by-stage principle in all trade chains we work with. We also expect some new products in 2019 of the brand "I Eat!".

On 28.11.2018 Gradus" AD notified the shareholders of a submeasure agreement 4.2 "Investments in processing/marketing of agricultural products" of the Program for development of rural regions in the period 2014 -

2020, co-financed by the European Agricultural Fund for Rural Development (EAFRD), concluded with its subsidiary company "Gradus - 1" EOOD. The total amount of the grant is BGN 1 564 640.

#### Grain trade

In 2018 grain trade was not very good for the Company, mainly because of external factors, namely: 1. Poor meteorological conditions that affected the quality of the crops. The strong and continuous spring rains had a negative impact on the crops, thus resulting in the increase of the purchase prices due to the decreased offering. 2. The situation in Turkey resulted in the depreciation of the Turkish Lira, thus impacting the solvency of our Turkish partners. The business with grains is highly profitable and low margin. The above forced us to be more careful and to stop the export to our south neighbour. In our opinion it was an unjustified risk to continue the deliveries to Turkey in 2018 due to the increased political and financial risk. The poor year for the trade with grains mostly impacted the Company's turnover, but also the profit, even though to a lower extent. There were no losses sustained due to the fact that the Company is not a manufacturer and insures its availabilities of grain cultures.

The investments and growth of the Group's business resulted in the lower profit for year as compared to the expectations. There were higher expenditure reported as compared to the planned expenditure due to more realized investments for the year. Another serious fact, which impacted has a negative impact on the profit, was the parent flocks available as at the end of the year. As at the end of 2017 the Group had 434 849 available parent chickens, and as at the end of 2018 there were 653 756, namely 218 907 more, thus achieving a growth of 50,34%. These parent flocks are to start generating income in 2019 and 2020, but according to the Company's Accounting Policy had to enforce depreciation of the biological assets, thus resulting in a growth of the depreciation of over BGN 2 500 000.

The market of breeding eggs in 2018 turned out to be quite volatile when it comes to pricing. The Group is hedged due to the fact that it enters into long-term sale agreements for the year, which, however, had an impact on our volumes of sales on the free market. Last year the average sale price of the Group on a free market was approximately EUR 0,18, thus being in the lower range as compared to the historical data for the market. Our average sale price, which includes out long-term agreements, is significantly higher. A factor, which had a negative impact on the price, was the record-breaking heats in the Middle East, as for a period of about three weeks the farms stopped the supplies of hatching eggs, due to the fact that the hatching rate dropped drastically the death rate reported such rates that the planned loss was not subject to control. The political differences in Iraq and the imposed interdictions impeded the normal functioning of the business on this market and resulted in the import of eggs at extremely low prices on the black market. The depreciation of the Turkish Lira also had its impact – the Turkish eggs are traditionally at a lower price and not so quality, but yet they were at record-breaking low sale prices.

The expectations are for a good year of 2019. The Group has negotiated good prices with its long-term partners, as we are also to enter into one more contract under good conditions. We expect that the sold volumes are better and that the prices on the free market are at least 15% higher as compared to last year.

Fact to have a positive impact on the results:

- The Group has negotiated better interest rates with its bank partners. The strict financial discipline, the Company coefficients, as well as the public status of the Group have resulted in better interest rate conditions provided by our bank partners. This will decrease to a significant level the Group's expenditure on interest rates, including in a long-term perspective.
- There is an ongoing process of introduction of an overall ERP system. This system will result in the significant expenditure decrease and optimizations.
- Re-negotiation of the trading conditions with customers that render services to us. Our expectations are that these new conditions the Company has managed to negotiate will increase our expenditure by BGN 500 thousand and BGN 1 000 thousand per year.

The Group is in an ongoing process of optimizations and a change of its way of work with the purpose of decreasing its expenditure and increasing its income.

## 2.2. Main risks faced by the Group

The Risk Management Policy of the Group is directed towards identification and analysis of the risks faced by the Group with the purpose of establishing limits for undertaking risks. Based on the analysis made of these risks, the Group develops and introduces the respective controls, through which to address those. This Policy, as well as the built risk management controls, are subject to periodic verification with the purpose of reflecting any changed occurred to the external and internal conditions, under which the subsidiary companies operate.

### Credit risk

Credit risk mostly results from receivables from clients. The exposition to a credit risk is due to the individual characteristics of each separate client.

The Group manages the credit risk mainly by imposing credit limits on each client separately depending on the volume of the sales and its credit history, as well as through permanent control as regards delayed payments.

### Currency risk

In some cases the companies within the Group implement deals denominated in a foreign currency. The Group is exposed to a currency risk connected with eventual fluctuations of the currency exchange rate of foreign currencies. As at the moment this risk is connected with fluctuations of the currency exchange rate of the US dollar used by the Group in the trade with agricultural production.

### Liquidity risk

Liquidity risk is the risk for the companies within the Group having difficulties upon fulfilling its obligations connected with financial liabilities. The approach towards liquidity management is to make sure, as far as possible, that there would be always sufficient liquidity in order to fulfill its obligations, both under normal and stressful conditions, including without undertaking any unacceptable losses or without causing any damages to the Group's reputation. For this purpose the subsidiary companies maintain credit lines and use short-term loans from banks.

### Market risk

Market risk is the risk in case of any change of the market prices, such as currency exchange rate, interest rates or prices of capital instruments, the companies' revenue or the value of their investments being affected. The prices of goods are supervised by the Group's Management. Sales are managed at a local level by applying competitive market prices. The main factors that determine the price changes are the changes of the prices of competitors, as well as changes in the prime cost of the products.

As at the present moment the Management is not aware of any trends and events to have any significant impact on the future activity and results of the Company.

## III. Analysis of the main financial and non-financial indicators for the result from the activity, which are related to the economic activity, including information on ecology and employees related matters

### 3. Analysis of the main indicators

In order to achieve a higher efficiency and control of the Group's results, the Management keeps a track of some main indicators connected with the activity. These indicators are mostly directed towards the profit amount, the debt level and efficiency.

- **Gross profit margin (Gross profit from the activity/Sales)**

	<b>2018</b>
Profit before taxation	16 380
Income	141 390
<b>Gross profit margin</b>	<b>11.58%</b>

- **EBITDA margin (EBITDA-profit before financial expenditure, taxation and amortization/Sales)**

	<b>2018</b>
EBITDA (Profit before financial expenditure, taxation and amortization)	22 860
Income	141 390
<b>EBITDA margin</b>	<b>16.17%</b>

*Main indicators followed by the Group's Management with respect to the debt amount and the financial stability:*

- **Net debt (total debt minus funds)/EBITDA ratio.**

	<b>2018</b>
Interest-bearing debt	
Net debt	4 709
EBITDA (Profit before financial expenditure, taxation and amortization)	22 860
<b>Net debt/EBITDA</b>	<b><u>0.21</u></b>

- **Debt/assets ratio (total liabilities/total assets).** Through this indicator the Management follows the part of the assets financed by a debt in some form.

	<b>2018</b>
Total liabilities	39 100
Total assets	<u>363 663</u>
<b>Debt/assets ratio</b>	<b><u>0.11</u></b>

### **3.1. Non-financial Declaration**

"Gradus" presented a Consolidated Non-financial Declaration as a separate document deemed an integral part of the present Report.

The Consolidated Non-financial Declaration includes a description of the Group's Policies and their objectives as regards the activities implemented for environmental protection, the social issues and those connected with employees, their rights, gender equality.

### **IV. Important events occurred after the date, as at which the Annual Financial Statement is executed**

The Group's Management is not aware of any important and material events occurred after 31 December 2018, which would impact the Annual Consolidated Financial Statement.

### **V. Envisaged development of the Group**

The main purpose of the Group's Management is to increase the number of the main flocks, the number of fattened broiler chickens, to increase the production and realization of breeding eggs, as well as to achieve full compliance with all European norms for environmental protection and safe environment.

Full load of the production capacities and increase of the range of products and the volume of sales under the brand of "Gradus" and "I Eat".

Development of existing and new business lines connected with the production of high-margin food products, as well as establishment of a new brand called "Yellow Chicken" ("Zhalto Pile"), the French breed "Le Poulet".

### **VI. Activities in the field of scientific researches and developments**

For the period under review there were no scientific researches and developments taken place within the Group.

### **VII. Information about acquisition of own shares, as required by virtue of Art. 187e of the Commercial Act**

There were no own shares acquired in the period under review.

## VIII. Availability of Company's branches

The Company has no branches.

## IX. Financial instruments used by the Company

As at 31.12.2018 the Group has no financial instruments.

## X. Additional information on Annex 10 to Ordinance No. 2 of the Financial Supervision Commission

### 1. Value and quantity information given as regards the main categories of goods, products and/or granted services, with specification of their share in the income from sales of the emitter as a whole and the changes occurred in the fiscal year.

The information about the value expression of the sales with specification of their share is given in Section II, item 2 of the present Report.

As at 31 December 2018 there may be no comparison made of the income and expenditure and the preceding fiscal period, for Gradus Group has been operating since 28.11.2017.

### 2. Information about the income allocated by separate categories of activities, internal and external markets, as well as information about the sources for supply of materials necessary for the production of goods or provision of services with reflection of the level of dependency as regards every separate seller or buyer/consumer, as in case the relative share of any of them exceeds 10 percents of the expenditure or the income from sales, then information should be provided separately about each person, about his/her share of sales or his/her purchases and relations with the emitter.

The income by separate categories of activities are given in Section II of the present Report.

#### Main suppliers

In view of the vertical integration of the Group, the main products taking direct part in the production process, which are provided by external suppliers, are the raw materials for the production of fodder, one-day old parent birds, as well as port, additives and subsidiary materials for the production of sausages at "Gradus - 1" EOOD.

The raw materials supplied by external companies for preparation of fodder are mostly agricultural production and in particular – mixtures and additives selected by technologists. By the second half of 2017 the Group cultivated a part of the raw materials on its own agricultural lands, but during the re-structuring process this activity was removed from the Holding as not related to its main activity. The agricultural production, which is purchased from external suppliers, includes sunflower, corn, wheat, and barley. There is great offering of agricultural production, as "Gradus - 3" AD maintains relations with a number of local and foreign suppliers, thus allowing it to purchase the optimum price/quality ratio. The suppliers in question have no material impact upon negotiation of the prices of their production, as the production processes at "Gradus - 3" AD do not depend on a given supplier. The offering of mixtures and additives in the required quantities is more limited, but the additives used may be often replaced by others without having any material impact on the food qualities of the fodder. Owing to the expert opinion of the technologists of "Gradus - 3" AD, the Company replaces those additives that have grown more expensive with alternative ones, thus decreasing the level of dependency on a given supplier of mixtures and additives. The main suppliers of additives of the Company are "Viand" EAD, "Biser Oliva" AD and "Mixxa" EOOD. One-day old parent birds, which are consequently bred at "Gradus 98" AD and "Millenium 2000" EOOD with the purpose of production of breeding eggs, are of significant importance for the entire 153 production cycle of the Group. Birds are imported from EU member states, as in 2017 the Group imported a total of 859 thousand one-day old parent birds (2016: 846 thousand).

Birds are supplied all year round according to a schedule. The offering of pure-breed birds in the required quantities is limited and the Group's dependency on its suppliers may be defined as significant. In order to decrease this dependency, the Group has built and maintains long-term relations with its trading partners, as the Group is a main client, thus allowing negotiation of preferential prices and terms of supply. The Group imports one-day old parent birds mostly from Hungary, as its main supplier is Aviagen.

At "Gradus - 1" EOOD there are requirements established for ethical and responsible behavior both on the part of employees and suppliers, which directly or indirectly also include the other companies within the Group. The Company's Management has developed norms and rules of behaviour intended for the personnel and suppliers, as all companies rendering products/services to the Company are obligated to observe them. All external suppliers of "Gradus-1" EOOD are selected under conditions of free market choice. Selected suppliers are assessed according to a methodology of implemented IFQSMS (Integrated Food Quality and Safety Management System), as depending on the obtained results the Management distinguishes two types of suppliers:

main - suppliers with proven reliability and offering products/services of the best price/quality ratio;

episodic – suppliers with their services used for the satisfaction of unforeseen needs.

Depending on the level of impact on the work process, the products/services are divided into two types, namely:

taking direct part in the production process – red meat, additives, etc.;

having an indirect impact on the quality of the manufacturing process – e.g. technical equipment, appliances, consumables, etc.

The control on the performance of supplies is exerted by the person receiving the product/service, as the execution of quality control is verified via internal audits, which are carried out according to established practices. The Company usually enters into frame agreements with its suppliers for a term of one or several years, as the prices and quantities for a given year are specified in the Annexes to the Contract, which are updated on an yearly basis. The manufacturing enterprise of "Gradus - 1" EOOD supplies the following main categories of raw materials, materials and services from suppliers that are external to the Group:

Main raw materials – red meat;

Additional raw materials – seasonings, additives, additives, etc.;

Subsidiary materials – packages, covers, labels, etc.;

Services – electricity, gas, water, transportation activity, etc.;

Technological equipment;

The Company's policy in the field of supply through suppliers external to the Group is directed towards ensuring supplies from at least two sources and in sufficient quantities, in case of any problem with a given supplier. The necessary products/services are supplied by companies registered according to the Food Act and based in EU member states, approved for trade with the EU member states. All suppliers the Company works with offer products/services that correspond to the requirements of the national laws and the European legislation and, if applicable, to the IFQSMS introduced to the Company, according to ISO 9001:2015, ISO 22000:2005 and IFS 6:2014. Based on the principle of "timely supply", the Company does not store any significant quantities but orders in advance on a two-three month basis.

The main suppliers of the Poultry Slaughterhouse and Meat processing enterprise of the company "Gradus-1" EOOD are as follows:

of main raw materials – Nova Targovska Kompaniya 2004 AD

of additional raw materials – Tea Trading LTD, Panacom Limited LTD, Bulpro 2004 LTD

of subsidiary materials - Skipter LTD, Intrama Invest EOOD, Sidorenko Foodtech EOOD

The Company is supplied with water from its own water source, as the water corresponds to the quality of drinking water according to the requirements of Ordinance No.9/2001 of the Ministry of Health, the Ministry of Regional Development and Public Works, and the Ministry of Environment and Water. In case of missing water supply, the site is provided with sufficient quantities of reserve drinking water from the urban public water main.

In view of the above-described established practices and the strong offering of the products and services, which are supplied by external companies, the production of "Gradus-1" EOOD does not depend on a given supplier. For the last seven years "Gradus-1" EOOD has not had any significant problems with its suppliers and believes that, unless unforeseen circumstances occur, every approved supplier may provide the necessary quantity on time and with due quality.

### **3. Information about concluded large deals and deals of significant importance for the activity of the emitter.**

In 2018 there were no large deals of significant importance for the activity of the Group.

### **4. Information about the deals concluded between the emitter and related parties in the period under review, proposals for conclusion of such deals, as well as deals outside its usual activity or significantly different from the market conditions, under which the emitter or its subsidiary company is a party with specification of the value of the deals, the nature of the relation, and any information necessary for assessing the impact on the financial condition of the emitter.**

The information about the deals concluded between Gradus Group and related parties in the period under review is announced in the Notes to the Consolidated Annual Financial Statement (*Note 33*).

### **5. Information about events and indicators of nature that is unusual for the emitter, having a significant impact on its activity, and the income realized by it and the expenses incurred by it; assessment of their impact on the results in the current year.**

There are no events and indicators of unusual nature for the Group.

### **6. Information about deals kept out of balance – nature and business purpose, specification of the financial impact of the deals on the activity, if the risk and benefits related to such deals are significant for**



**the issuer and if the disclosure of such information is significant for the assessment of the financial condition of the issuer.**

There are no such deals.

**7. Information about holdings of the issuer, about its main investments in the country and abroad (in securities, financial instruments, intangible assets and immovable properties), as well as the investments in share securities outside its economic group and the sources/ways of financing.**

Information about the holdings of Gradus AD is provided in its Activity Report to the Individual Annual Financial Statement in Section I, item 1.1.

**8. Information about loan agreements entered into by the issuer, by its subsidiary company or parent company, in their capacity as a lender, with specification of their terms, including of the deadlines for payment, as well as information about provided guarantees and undertaking of liabilities.**

The information about loan agreements entered into by the subsidiary companies is given in the Note to the Consolidated Annual Financial Statement (*Note 18 "Bank Loans"*).

**9. Information about loan agreements entered into by the issuer, by its subsidiary company or parent company, in their capacity as a lender, including provision of guarantees of any type, including of related parties, with specification of the specific conditions under them, including of the deadlines for payment, for which the same have been granted.**

Information about loans granted by the Group is given in the announcements to the Consolidated Annual Financial Statement.

**10. Information about the use of funds from a completed new emission of securities in the period under review.**

Gradus AD uses the collected funds by granting current loans of its subsidiary companies, according to the Company's Policy and the Company's Statute.

**11. Analysis of the ratio between the achieved financial results entered into the Financial Statement for the financial year, and prognoses for these results published earlier.**

The Group has no published prognoses for the respective period.

**12. Analysis and assessment of the policy about management of the financial resources with specification of the possibilities for servicing the liabilities, the eventual threats and the measures undertaken or to be undertaken by the issuer in view of their elimination.**

At the moment the Group's Management observes the recoverability of the receivables and controls the servicing of the liabilities under bank loans and its liabilities.

**13. Assessment of the possibilities for realization of the investment intentions with specification of the amount of the available funds and specification of the eventual changes in the structure of financing of this activity.**

The planned Investment Program of Gradus Group for 2019 includes investments to the amount of BGN 7 million for the acquisition of tangible fixed assets (buildings, machinery, equipment, vehicles) and Management System /ERP/. The funds stipulated for investments are from the funds collected from the initial public offering of the Company.

The Group follows its Investment Program set in the "Prospect for Initial Public Offering", as it duly notifies the shareholders of Gradus AD and the public of the investments made.

**14. Information about changes occurred in the period under review in the main principles of management of the issuer and its economic group.**

Gradus AD manages its investments by setting high but achievable goals as regards the quality, productivity and profitability. Special attention is paid to environmental protection, development of human resources and

corporate social liability. In the period under review there were no changes in the main principles of management of Gradus AD and its economic group.

**15. Information about the main characteristics of the Internal Control System and Risk Management System applied by the issuer in the process of drawing up the financial statements.**

The Group has established Internal Control System and Risk Management System. In connection with the process of financial reporting, the financial statements are drawn up in compliance with the International Financial Reporting Standards (IFRS). The current financial and accounting activity of the Company is subject to periodic control and analysis by the management body. The Company has an established practice for periodic discussion of the current financial results from the activity of the companies included into its strategic investment portfolio, in view of ensuring the fulfillment of their business programs and a precise analysis of the possibilities for implementation of future investment projects.

**16. Information about changes in the management and supervisory bodies in the fiscal year.**

There is no change in the management and supervisory bodies.

**17. Information about the amount of the remunerations, awards and/or benefits of/for each of the members of the management and supervisory bodies for the fiscal year, paid out by the issuer, regardless of whether or not included into the issuer's expenditure or resulting from the profit allocation, including:**

- a) received amounts and non-monetary remunerations;
- b) conditional or deferred remunerations occurred throughout the year, even if the remuneration is due as at a later moment;
- s) amount due by the issuer or its subsidiary companies for payment of pensions, compensations upon retirement or other similar compensations.

In 2018 the amount of the remunerations assessed by the company to the members of the Board of Directors for 2018 was BGN 324 thousand.

The amount of the remunerations paid out the members of the Board of Directors in 2018 was BGN 297 thousand.

The amount of the remunerations of the key management personnel of the parent company in 2018 was BGN 42 thousand.

**18. Information about shares of the issuer held by the members of the management and supervisory bodies, procurators and high-ranking officials, including shares held by each of them separately and as a percentage of the shares from each class, as well as the options on its securities granted to them by the issuer - type and amount of the securities, on which the respective options have been established, price of exercise of the options, purchase price, if any, and term of the options.**

As at 31.12.2018 the shares held by the members of the Board of Directors are as follows:

Name, father's name, family name	Number of shares	%
Ivan Angelov	99 195 645	40.72%
Luka Angelov	99 195 645	40.72%
Georgi Aleksandrov Babev	0	0

**19. Information about the agreements known to the Company (including upon completion of the financial year), as a result of which in a future period there may be changes in the relative portion of shares or bonds held by current shareholders or bondholders.**

There are no such agreements known.

**20. Information about pending court, administrative or arbitrary proceedings concerning liabilities or receivables of the issuer to the amount of at least 10 percents of its share capital.**

The Group has no pending court, administrative or arbitrary proceedings, including decisions or requests for termination and announcement of liquidation.

**21. Data for the Investor Relations Director, including telephone and correspondence address.**

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25 April 2019

EXECUTIVE DIRECTOR:

*/Ivan Angelov/*

CHAIRMAN OF THE BOARD OF DIRECTORS:

*/Luka Angelov/*