



Translation from Bulgarian

GRADUS AD

INTERIM CONSOLIDATED MANAGEMENT REPORT

31 MARCH 2019

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 March 2019, 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 March 2019:

- 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

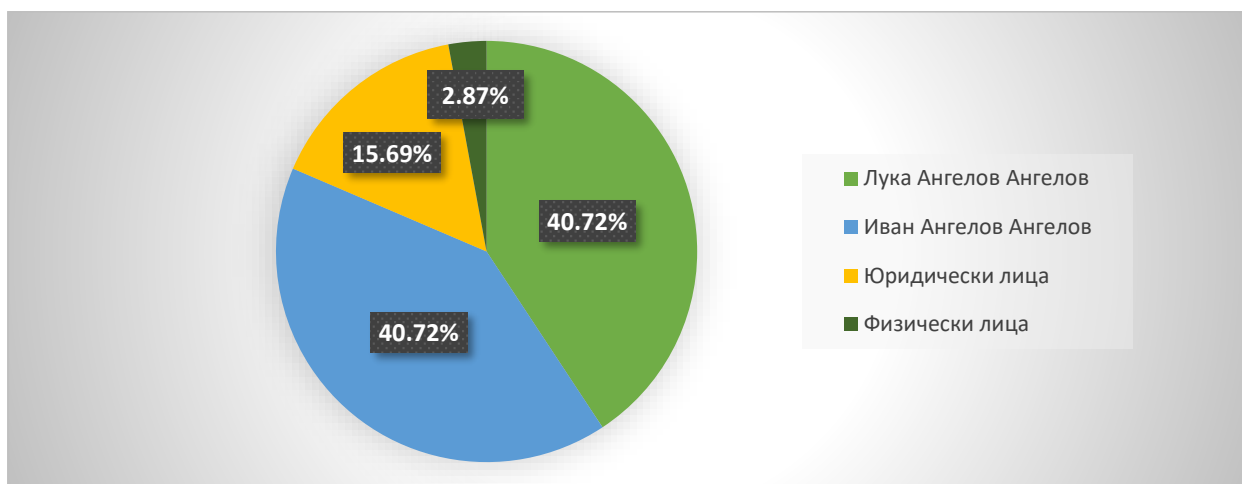
The main business activity of the Group companies is concentrated in the Poultry Farming sector, with the exception of companies whose activity includes also production of compound fodder and trade.

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 31 March 2019



1.4. Personnel

As of 31 March 2019, the average payroll staff of the Group was 1,300 workers and employees (31 March 2018: 1,315).

2. Current period result of the Group

For the period 01 January 2019 – 31 March 2019, the Group reports an operating profit of BGN **15,151** thousand (1 January 2018 – 31 March 2018: BGN 13,759 thousand) and net profit of BGN **13,691** thousand (1 January 2018 – 31 March 2018: BGN 12,183 thousand).

REVENUE

Sales revenue reported by the Group for the reporting period amount to BGN 39,883 thousand, including:

Sales revenue	01-03/2019 BGN'000	01-03/2018 BGN'000	Change %
Revenue from sale of finished products	29 667	25 555	16%
Revenue from sale of goods	10 031	872	1050%
Revenue from sale of services	185	177	5%
Total sales revenue	39 883	26 604	50%

Revenue from sale of finished products in the first quarter of 2019 grew by BGN 4,1 million or by 16% compared to sales reported in the first quarter of 2018. This development is due to the stabilisation of prices on international markets and the sales of significant quantities abroad. External factors also contributed to achieving better results. It is expected that this trend will continue in the future as well, and that the Group will succeed in taking advantage of better opportunities and sustain them in the long term.

Revenue from sale of goods in the first quarter of 2019 grew by BGN 9,1 million or by 1,050% compared to revenue reported in the first quarter of 2018. The group managed to contract good deals for sales of the major segment of grain and components. It is expected that this segment will develop positively in the current year.

Revenue from sale of services in the first quarter of 2019 grew by BGN 8 thousand or by 5% compared to revenue reported in the first quarter of 2018.

Geography of sales	01-03/2019 BGN'000	01-03/2018 BGN'000	Change %
Domestic market	20 733	16 615	25%
Europe	4 122	5 479	-25%
Third countries	15 028	4 510	233%
Total	39 883	26 604	

Revenue reported by main segments

Segments	01-03/2019 BGN'000	01-03/2018 BGN'000	Change %
Meat and meat products	15 674	15 618	-
Breeding eggs	13 367	9 550	40%
Grain and components	10 657	1 259	746%
Others	185	177	5%
Total	39 883	26 604	

REVENUE BY MAIN SEGMENTS



Meat and meat products	Breeding eggs	Grain and components
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The meat and meat products segment reported the highest share of sales revenue for the reporting period: 39.30% of total income of BGN 39,883 (1 January - 31 March 2018: the highest share of sales were reported by the meat and meat products segment as well: 58.71%).

The results of the meat and meat products segment did not change significantly. There were no changes in prices of chicken meat as well. The new product of the Group – the slow-growing "Yellow Chicken" brand – demonstrates an extremely good trend with regard to sales. Thanks to increased interest in the first quarter, production grew threefold. We have succeeded in introducing the product into major store chains, demand continues to grow, and is very well accepted by consumers. External factors also contributed positively to achieving better sales of this product brand.

The other brand of the Group, "I eat" also reports good results.

Expectations are for product price increases, mainly due to more expensive raw materials, rising domestic consumption and inflation. The main objective of Gradus is to maintain good margins and increase sales.

Sales revenue in the breeding eggs segment (breeding eggs and one-day-old chickens) grew significantly. This development is due to the stabilisation of prices on international markets and the sales of significant quantities abroad. Domestic sales also reported a significant increase. During the first quarter of 2019, the Group achieved a 162% growth in sales of breeding eggs to third countries compared to the first quarter of 2018. During the first quarter of 2019, Gradus AD achieved a 16% growth in sales of one-day-old chickens on the domestic market compared to the first quarter of 2018.

During the first quarter of 2019, the Group reported a decline in sales of one-day-old chickens in Europe compared to the first quarter of 2018, mainly due to the increase in sales of breeding eggs.

We also concluded contracts with new customers, hoping for more future ones.

External factors also contributed to achieving better results in this segment. It is expected that this trend will continue in the future as well, and that the Group will succeed in taking advantage of better opportunities and sustain them in the long term.

During the first quarter of 2019, the group managed to contract good deals and it is expected that this segment will develop positively in the current year.

The Group is currently optimising and changing the way it works with the aim to reduce costs and increase revenue.

Other operating income in the first quarter of 2019 amounts to BGN 10,582 thousand and consists of:

Other operating income	01-03/2019 BGN'000	01-03/2018 BGN'000	Change %	Relative share / 2019 %
Rental income		149	46%	2%
Gain on sale of materials and FTAs		84	124%	2%
Income from financing	10 094	10 314	-2%	95%
Others	83	292	-72%	1%
Total	10 582	10 839	-2%	100%

EXPENSES

Operating expenses

The Group reports operating expenses amounting to BGN 35,636 thousand.

Operating expenses	1-3/2019 BGN'000	1-3/2018 BGN'000	Changes %	Relative share 1-3/2019 %
Changes in stock of finished products and work in progress	(3 832)	(4 079)	-6%	-11%
Expenses on raw materials and materials	20 499	17 516	17%	58%
Hired service expenses	2 079	2 212	-6%	6%
Personnel expenses	5 945	5 285	12%	17%
Depreciation / amortization expenses	1 554	1 363	14%	4%
Carrying amount of goods sold	8 834	856	932%	25%
Other operating expenses	557	594	-6%	1%
Total	35 636	13 759	183%	100%

During the reporting period January-March/2019, *operating expenses* grew by BGN 22 million or by 183% compared to the same period of 2018. The change is due to investments made in the major segments of breeding eggs and meat and meat products.

FINANCE INCOME AND FINANCE COSTS

Finance income	1-3/2019 BGN'000	1-3/2018 BGN'000	Change %	Relative share % 2019
Interest income on loans granted	67	19	253%	39%
Foreign exchange gains	105	-	100%	61%
Total	172	19	805%	100%

Finance costs	1-3/2019 BGN'000	1-3/2018 BGN'000	Change %	Relative share % 2019
Interest expenses on bank loans received	12	151	-92%	11%
Bank charges	90	57	58%	81%
Interest expenses on lease contracts	3	-	100%	3%
Foreign currency losses	-	33	-100%	
Others	6	-	100%	5%
Total	111	241	-54%	100%

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)**

	1-3/2019	1-3/2018
Pre-tax profit	15 212	13 537
Income	39 883	26 604
Gross profit margin	38.14%	50.88%

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

	1-3/2019	1-3/2018
EBITDA (Earnings before interest, taxes, depreciation and amortisation)	16 705	15 122
Income	39 883	26 604
EBITDA margin	41.89%	56.84%

- **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.

	1-3/2019	1-3/2018
Total liabilities	44 171	39 100
Total assets	382 425	363 663
Debt to Assets Ratio	0.12	0.11

5. Prospective future development of the Group

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, which have occurred during the first quarter of 2019 and until the date of the interim management report

In implementing its investment program, the subsidiary, Gradus-98 AD, completed the construction of a new centre for adolescents, located in the village of Chervena Voda, Ruse municipality (Centre North-4). The facility comprises six buildings, twelve halls, each hall of 864 square meters of functional built-up area. The maximum capacity of the centre is 123,264 birds - adolescents. To date, it operates at full capacity. The investments totals to approximately BGN 3,500,000, including repair works and construction of building for BGN 1,450,000 and equipment, plant and installations for BGN 2,050,000.

Center North-5 for parent flocks is under construction. The centre is located in the village of Chervena Voda, Ruse municipality, and comprises six buildings and twelve halls. It is expected to be completed in August 2019.

VII Center Stara Zagora for broilers hatcheries with capacity of 233,000 broilers is also under construction. The approximate investment amounts to BGN 2,500,000.

On 09 April 2019, Gradus-98 AD issued a notice of convocation of a regular General Meeting of Shareholders to be held in the town of Stara Zagora, Industrialen quarter, the Administrative building of Biser Oliva AD on 30 May 2019 at 12:00 noon under the following agenda: 1. Approval of the annual financial statements of the company for 2018, audited and certified by an auditor; and of the Report of the Board of Directors on the activity of the company in 2018; draft decision: GMS accepts and approves the financial statements and the report; 2. Adoption of a decision to release the members of the Board of Directors from responsibility for their activity in 2018, draft decision: GMS releases the members of the Board of Directors for their activity in 2018; 3. Determination of remuneration of members of the Board of Directors for 2019; draft decision: GMS accepts the remuneration of members of the Board of Directors for 2019; 4. Election of a registered auditor to audit the annual financial statements of the company for 2019; draft decision: GMS elects and appoints a registered auditor; 5. Adoption of a decision for distribution of profits (cover of losses) for 2018, draft decision: GMS accepts the proposal of the Board of Directors for distribution of profits (cover of losses) for 2018.

Gradus-3 AD issued a notice of convocation of a regular General Meeting of Shareholders to be held in the town of Stara Zagora, Industrialen quarter, the Slaughterhouse, to be held on 05 June 2019 at 12:00 noon under the following agenda: 1. Approval of the annual financial statements of the company for 2018, audited and certified by an auditor; and of the Report of the Board of Directors on the activity of the company in 2018; draft decision: GMS accepts and approves the financial statements and the report; 2. Adoption of a decision to release the members of the Board of Directors from responsibility for their activity in 2018, draft decision: GMS releases the members of the Board of Directors for their activity in 2018; 3. Determination of remuneration of members of the Board of Directors for 2019; draft decision: GMS accepts the remuneration of members of the Board of Directors for 2019; 4. Election of a registered auditor to audit the annual financial statements of the company for 2019; draft decision: GMS elects and appoints a registered auditor; 5. Adoption of a decision for distribution of profits (cover of losses) for 2018, draft decision: GMS accepts the proposal of the Board of Directors for distribution of profits (cover of losses) for 2018.

Gradus AD published a notice of convocation of a regular General Meeting of Shareholders on 02 May 2019.

II. Information about the shares of Gradus AD

The shares of the Company are traded on BSE AD, Main Market, Standard Equities Segment
 Since 15 March 2019, the issue of Gradus AD (GR6) has been part of the main indices of BSE, namely SOFIX, BG40, BGTR30.

	31 March 2019
Total number of shares issued	243 608 710
Number of shares in circulation as at 31 March 2019	243 608 710
Net earnings per share in BGN	0,055
Share price at the beginning of the year	1,705
Share price at the end of period	1,760
Market capitalisation as at 31 March 2019 in BGN	428 751 330

Trading in shares of Gradus AD on BSE AD over the period 01 January 2019 - 31 March 2019



Ivan Angelov

/Executive Director/

The undersigned Dobrinka Petrova Krasteva hereby certify the fidelity of the translation done by me from Bulgarian into English language of the attached document / Interim Management Report. The translation consists of ten (10) pages.

Translator: Dobrinka Petrova Krasteva