



Translation from Bulgarian

GRADUS AD

MANAGEMENT REPORT

As at 30 June 2020

Contents

I.	Introduction	3
1.	Registration and object of activity	3
1.1.	Share capital	3
1.2.	Board of Directors	4
1.3.	Audit Committee	4
II.	Objective overview of the development and operating results of the entity, and of its performance, together with description of the main risks faced by the entity.	4
2.	Main indicators related to profit	4
2.1.	Operating results	5
2.2.	Income of the Company:	5
2.3.	Expenses of the Company	6
2.4.	Risk factors for the activity.....	6
III.	Significant events, which have occurred during the reporting period and until the issuance of the interim management report	7
IV.	Information about the shares of Gradus AD.....	8

I. Introduction

1. Registration and object of activity

Gradus AD, town of Stara Zagora, was incorporated on 28 November 2017.

Management address: Republic of Bulgaria, Stara Zagora 6000, Industrialen quarter, Gradus Poultry Slaughterhouse.

The Company is a **parent company**.

The Group subsidiaries as at 30.06.2020 are as follows:

		% shares
Lora-2004 EOOD	effective percentage share	100.00
Zhyuliv EOOD	effective percentage share	100.00
Millenium 2000 EOOD	effective percentage share	100.00
Gradus-1 EOOD	effective percentage share	100.00
Gradus-3 AD	effective percentage share through Gradus-1 EOOD	96.00
Gradus-98 AD	effective percentage share	99.94
Gold Farm 91 EOOD	effective percentage share	100.00

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

OBJECT OF ACTIVITY OF THE COMPANY

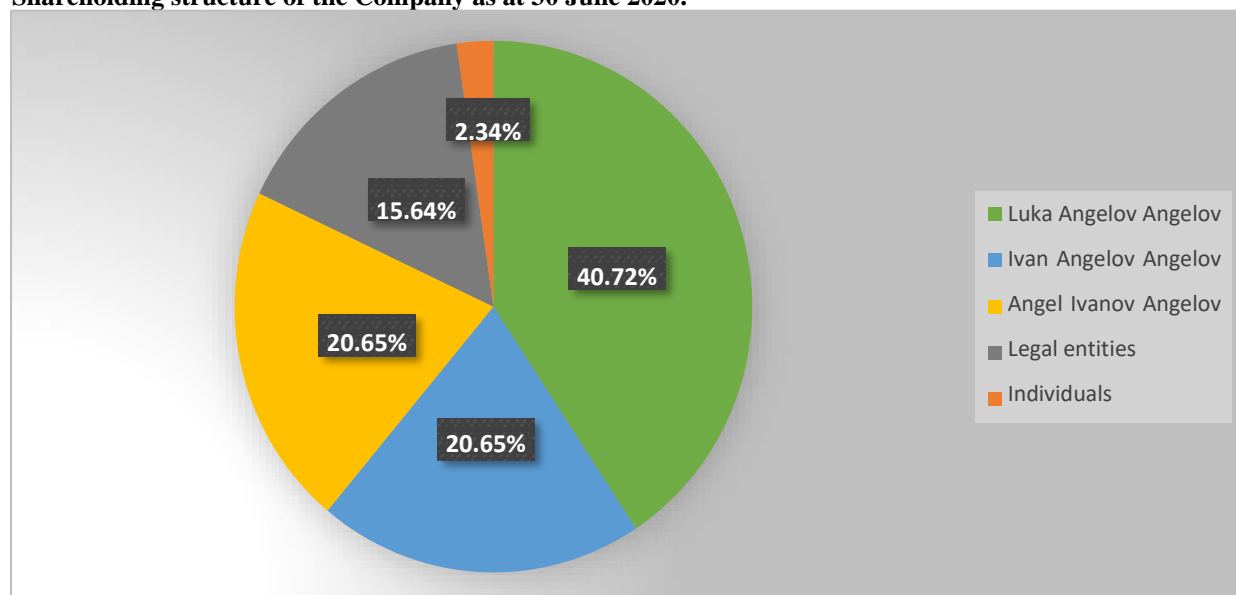
The object of activity of the Company is: Investments in stocks and shares of companies, acquisition and management of shares in Bulgarian and foreign companies; activity as a holding company; acquisition, assessment and sale of patents, concession of licenses for the use of patents of companies, in which the Company has shares; financing of companies, in which the Company has shares, as well as any other activity not prohibited by law, provided that if a permit or a license is required, or registration for the purpose of carrying out any activity, then such activity shall take place following the obtaining of such permit or license, respectively following the completion of such registration.

1.1. Share capital

The registered share capital of Gradus AD as at 30 June 2020 amounts to BGN 243,609 thousand, split into 243,608,710 shares with nominal value of BGN 1 (one) each.

The shares of Gradus AD are ordinary, registered, dematerialised, voting shares.

Shareholding structure of the Company as at 30 June 2020.



1.2. Board of Directors

Gradus AD has a one-tier management system - Board of Directors.

The Board of Directors consists of three (3) members who are as follows as at 30 June 2020:

- 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

1.3. Audit Committee

Members of the Audit Committee are:

- Dobri Svetlozarov Simeonov – Chairman of the Audit Committee;
- Petya Radoslavova Panova – Member of the Audit Committee;
- Georgi Aleksandrov Babev – Member of the Audit Committee.

The Audit Committee supports the work of the Board of Directors; it has the role of those in charge of governance who monitor and supervise the internal control system, risk management and financial reporting system of the company.

1.4. Personnel

The average number of staff of Gradus AD as at 30 June 2020 is 3 persons hired under employments contracts:

- Investor Relations Director
- Chief Risk Officer
- Chief Accountant
- Financial manager

II. Objective overview of the development and operating results of the entity, and of its performance, together with description of the main risks faced by the entity.

2. Main indicators related to profit

Gradus AD as a holding company does not carry out independent commercial activity. The company has focused its activities in the management of subsidiaries and the distribution of finances between them.

Key financial indicators

Aiming at achieving greater efficiency and control on the Company's performance, management monitors certain key performance indicators. These indicators are mainly directed towards the amount of profit, the debt level and efficiency.

- **EBITDA margin (EBITDA/sales)**

	30.06.2020	31.12.2019
EBITDA (earnings before interest, taxes, depreciation and amortisation)	5 654	5 765
Revenue	5 998	6 058
EBITDA margin	94.26%	95.16%

- **Cost effectiveness ratio (total expenses /total income)**

	30.06.2020	30.06.2019
Total expenses	347	294
Total income	6 157	6 339
Cost effectiveness	0.06	0.05

- **Revenue effectiveness ratio** (total income /total expenses)

	30.06.2020	30.06.2019
Total income	6157	6339
Total expenses	347	294
Revenue effectiveness	17.74	21.56

The analysis of the revenue and costs effectiveness for 2020 reveals that revenue covers fully the company's expenses and thus, the company is able to meet the dividend commitments undertaken and to finance the companies included in the Group's portfolio.

2.1. Operating results

For the period 01 January 2020 – 30 June 2020, the company realized net profit of BGN 5 828 thousand (for the period 01 January 2019 – 30 June 2019 - the company realized net profit of BGN 6 040 thousand).

The reports reported on the financial statements of the Company are directly dependent on the activity of its subsidiaries.

2.2. Income of the Company:

INCOME	01-06/2020 in BGN'000	01-06/2019 in BGN'000	Change %	Relative share for 2020 %
Operating income				
Dividend income	5 998	5 998	-	97%
Revenue from services	-	60	-	
Finance income				
Interest income	159	281	-43%	3%
Total	6 157	6 339	-3%	100%

• The main income for the period 01.01.2020. - 30.06.2020, having the greatest impact on the current financial result of the Company, is due to the distribution of dividends by the subsidiaries, which are a result of their commercial activity for 2019.

For the period 01.01.2019 - 30.06.2019, having the greatest impact on the current financial result of the Company, is due to the distribution of dividends by the subsidiaries, which are a result of their trading activities for 2018.

Dividend income by subsidiaries is as follows:

Subsidiaries	01-06/2020 in BGN'000	01-06/2019 in BGN'000	Relative share for 2020 %
Milenium 2000 EOOD	3 500	1 000	58%
Gradus-98 AD	2 298	2 498	38%
Zhyuliv EOOD	-	2 000	-
Gradus-1 EOOD	100	-	2%
Lora-2004 EOOD	100	500	2%
Total	5 998	5 998	100%

• Interest income decreased by BGN 122 thousand or 43% compared to the same period of 2019, mainly due to a change in the interest rate from 1.05% to 0.86%, as well as a decrease in the amount of loans granted.

The conditions under which loans to subsidiaries are extended are detailed in the notes to the financial statements for the first quarter of 2020.

The loans granted to subsidiaries are current. The purpose of the loans is to support the development of existing and new business lines, as described in the Public Offering of Securities Prospectus and to finance their operational activity.

2.3. Expenses of the Company

Operating results:

EXPENSE S	01-06/2020 in BGN'000	01-06/2019 in BGN'000	Change %	Relative share for 2020 %
Operating expenses				
<i>Expenses by nature</i>				
Expenses on materials	4	2	100%	1%
Hired service expenses	89	43	107%	26%
Depreciation / amortization expenses	3	1	200%	1%
Expenses on wages and social security payments	244	208	17%	70%
Other expenses	7	40	-83%	2%
Total:	347	294	18%	100%

During the reporting period, the highest share of expenses is the cost of remuneration. A detailed breakdown of expenditure can be found in the Notes to the financial statement.

2.4. Risk factors for the activity

The unpredictable events of the Covid-19 pandemic would have an indirect effect on the activity. The effects of the pandemic, as well as their impact, are difficult to predict, but management continues to take the necessary measures to limit them. Gradus AD has sufficient liquid resources to continue operations in the foreseeable future.

Due to the complicated geopolitical situation worldwide, the Group suffers losses in the segment "Breeding eggs" (according to approximate data - about 6 million eggs), and this will be reflected in the consolidated result for the second quarter of this year. Shocks are possible in the segment in the short term.

The Group's management continues its expansion program in this segment, believing that these are extraordinary events and will not adversely affect its activities in the medium and long term.

The Company's risk management policy is designed to identify and analyze the risks, to which the Company is exposed with the purpose of establishing limits of undertaking a risk.

Credit risk

Credit risk exists if a loss is generated when a counterparty to a financial instrument is not able to meet its obligations under a contractual term.

The exposure to a credit risk depends on the individual characteristics of each customer. The Company measure the credit risk of loans to related parties using internal valuations that reflect the probability of default.

Liquidity risk

Liquidity risk is the risk that the Company will have difficulties in fulfilling its obligations related to financial liabilities. The liquidity management approach of the Company 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 Company.

The Company had no payables under financial liabilities as at 31 March 2020.

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 Company's income or the value of its investments may be affected. At present, this risk is immaterial.

Financial risk management

The overall capital management goal of the Company is to ensure its ability to continue as a going concern and to ensure adequate return to its shareholders.

There were no changes in the capital management goals, policies or processes in the period ending 30 June 2020.

III. Significant events, which have occurred during the reporting period and until the issuance of the interim management report

A regular General Meeting of Shareholders (GMS) was held on 5th June 2020 and the following decisions were taken:

1. The GMS approves the Activity Report of the Board of Directors of the Company for the year 2019;
2. The GMS approves the Registered Auditor's Report for auditing the Annual Financial Statements of the Company for the year 2019;
3. The GMS approves the Annual Financial Statements of the Company for the year 2019;
4. The GMS approves the report on the activity of the Investor Relations Director of the Company for the year 2019;
5. The GMS dismisses the former member of the Audit Committee - Mrs. Radka Peneva, who has applied for her dismissal from her position - member and chairman of the Audit Committee of Gradus AD;
6. The GMS elects a new member of the Audit Committee proposed by the Board of Directors as follows: Dobri Svetlozarov Simenonov
7. The GMS approves the report on the activity of the Audit Committee;
8. The GMS adopts the prepared and proposed by the Audit Committee of Gradus AD amendments to the Rules of Procedure of the Audit Committee of the company, in accordance to the regulatory framework;
9. The GMS approves the proposal for distribution of the profit for 2019, which is BGN 11 910 268.74, as follows:
 - 9.1. The Board of Directors proposes the profit for 2019 to be distributed as follows:
 - part of the profit, which is in the total gross amount of BGN 5 359 391.62, has already been distributed to the shareholders of the Company as a 6-month dividend (gross single 6-month dividend BGN 0.022 per share), according to a decision of the General Meeting of Shareholders of The Company as of October 25, 2019;
 - part of the profit, which is a part of the total gross amount of BGN 5 359 391.62, to be distributed to the shareholders of the Company as an annual dividend, the gross single annual dividend BGN 0.022 per share.
 - The balance of BGN 1 191 485.50 to be transferred to the undistributed profit of the Company.
 - 9.2. Condition and term of dividend distribution: Commencement of payment of dividends: 13 July 2020; Term for payment of dividends: - 60 days; Method of payment of dividends: through Central Depository AD and branches of Unicredit Bulbank AD;
10. The GMS releases from responsibility the members of the Board of Directors of the Company for their activity in 2019;
 11. 11.1. The GMS extends the term of office of the present members of the Board of Directors for another 5 (five) years from the date of the expiry of the first term of office - 17.11.2020. The following decision shall take effect upon the expiration of the term of office of this Board of Directors - 11/17/2020 and shall take effect from the date of its entry in the Commercial and Non-profit Legal Entities Register of the Registry Agency.
 - 11.2. The GMS decides to preserve the current amount of the remuneration of the members of the Board of Directors. This Decision shall enter into force on the date on which the decision appointing the members of the Board of Directors under the preceding paragraph is entered.
12. The GMS elects a registered auditor to verify and certify the annual financial statements of the Company for 2020, in accordance with a proposal of the Audit Committee included in the materials on the agenda.
13. The GMS adopts proposal of the Board of Directors for covering accumulated loss in the amount of BGN 1040.08 from retained earnings for 2019.
14. The GMS approves the Report on the Implementation of the Remuneration Policy of the Board of Directors of the Company;
15. Pursuant to Art. 187b of the Commercial Code and Art. 111, para. 5 of the Law on Public Offering of Securities, the General Meeting of Shareholders of Gradus AD decides to repurchase shares from the capital of the company under the following conditions:
 - a) maximum number of shares to be repurchased: up to 3% (three percent) of the total number of shares issued by the company;
 - b) minimum price per share – 1.20 levs
 - c) maximum price per share – 2.00 levs
 - d) redemption term: up to 5 years from the day on which the decision of the General Assembly for redemption is entered in the Commercial Register.
 - e) redemption order: through a licensed stockbroker.
 - f) Assign actions to the Board of Directors of the Company:The General Assembly assigns to the Board of Directors of the Company:

- (i). to set specific dates for the beginning and end of the redemption. In the event that the maximum number of shares is not redeemed within the period specified by the Board of Directors, the General Meeting authorizes the Board of Directors at its discretion to extend this period.
- (ii). to identify the investment intermediary through which the redemption takes place;
- (iii). to determine each and all other terms and conditions of the redemption, subject to the requirements of the law and the Articles of Association of the Company;
- (iv) to undertake any and all necessary legal and factual actions related to the redemption;

IV. Information about the shares of Gradus AD

The company shares are admitted to trading on BSE AD, Market: Standard Segment

Since 15 March 2019, the issue of Gradus AD (GR6) has been part of the main indices of BSE, namely SOFIX, BG40, BGTR30.

	30 June 2020
Total number of shares issued	243 608 710
Number of shares in circulation as at 30 June 2020	243 608 710
Price of share at the beginning of the period	1,680
Price of share at the end of the period	1,470
Market capitalisation as at 30 June 2020 in BGN	<u>358 104 804</u>

28 July 2020

EXECUTIVE DIRECTOR:

/Ivan Angelov/

CHAIRMAN OF BD:

/Luka Angelov/