



**CONSOLIDATED**

**ACTIVITY REPORT OF GRADUS AD**

*for 2020*

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## I. Introduction. General information about Gradus Group.

### 1.1. Information about the Group

The management presents a report on the activities of Gradus Group for 2020.

Gradus Group includes the parent company and its eight subsidiaries:

#### The 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.

It is registered for an indefinite period of time.

Address of management:

Republic of Bulgaria,

6000 Stara Zagora, Industrial residential district, Gradus Poultry Slaughterhouse.

On **30 July 2018** with decision No. 770 - PD/ 0.07.2018, the Financial Supervision Commission entered Gradus AD as a public company in the register of public companies and other issuers of securities under Art. 30, paragraph 1, item 3 of the FSCA, kept by the FSC.

The shares of the Company are traded on the Main Market of the BSE - “**Standard**” segment and stock exchange code **GR6**.

#### Subsidiaries:

As of 31 December 2020 the subsidiaries are:

- Lora-2004 \* (the Company) is registered as a limited liability company (OOD) in the Stara Zagora District Court under company case 332/2004. On 14 December 2017, it was registered in the Commercial Register as a sole-owner limited liability company (EOOD) with a sole owner of the capital Gradus AD.  
Address of management: Stara Zagora, Industrial district, Gradus Poultry Slaughterhouse
- Zhyuliv \* (the Company) is registered as a limited liability company (OOD) in the Sliven District Court under company case 369/1997. On 14 December 2017, the company was registered in the Commercial Register as a sole-owner limited liability company (EOOD) with sole owner of the capital Gradus AD.  
Address of management: Stara Zagora, Industrial district, Gradus Poultry Slaughterhouse
- Millennium 2000 \* (the Company) is registered as a limited liability company (OOD) with decision No. 1976/20.12.2001 in the Sliven District Court under company case 948/2001. On 14 December 2017, it was registered in the Commercial Register as a sole-owner limited liability company (EOOD) with sole owner of the capital Gradus AD.  
Address of management: Stara Zagora, Industrial district, Gradus Poultry Slaughterhouse
- Gradus-1 \* (the Company) is registered with the Pazardzhik District Court under company case 732/1995. On 14 December 2017, its legal form was changed to a sole-owner limited liability company (EOOD) with sole owner of the capital Gradus AD.  
Address of management: Stara Zagora, Industrial district, Gradus Poultry Slaughterhouse
- Gradus-3 \*\* (the Company) was established on 20 April 1999 by a decision of the Stara Zagora District Court under company case 895/1999.  
Address of management: Stara Zagora, Industrial district, Gradus Poultry Slaughterhouse
- Gradus-98 \* (Biser Oliva-98 AD) was registered on 10 July 1998, with a decision of the Stara Zagora District Court under company case No. 1399/1998. With a decision of the General Meeting of Shareholders in the Joint Stock Company held on 08 August 2017, the General Meeting of Shareholders decided to change the name of the company from Biser Oliva-98 AD to Gradus-98 AD, entered in the Commercial Register on 06 September 2017.  
Address of management: Stara Zagora, Industrial district, Gradus Poultry Slaughterhouse
- Gold Pharm 91 EOOD \* (the Company) is registered in the commercial register with a sole owner of the capital Gradus AD.  
Address of management: Stara Zagora, Industrial district, Gradus Poultry Slaughterhouse“
- Gradus Logistics EOOD \* (the Company) is registered in the Commercial Register with sole owner of the capital Gradus AD.  
Address of management: Stara Zagora, Industrial district, Gradus Poultry Slaughterhouse

\* *Effective percent of participation*

\*\* *indirect participation*

#### **Management bodies of the parent company**

- General meeting of the shareholders
- Board of Directors

#### **1.2. Ownership and management 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 with regard to the Board of Directors has the following composition as of 31 December 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

The parent company has the following capital participation 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 a subsidiary Gradus-1 EOOD - owning 96.00% of the capital of Gradus-3 AD;
- Gradus-98 AD - 49,967 ordinary material registered voting shares with a nominal value of BGN 10 each representing 99.94% of the capital of Gradus 98 AD;
- Gold Pharm 91 EOOD - 3,837,782 shares with a nominal value of BGN 1 each representing 100% of the capital of Gold Pharm 91 EOOD;
- Gradus Logistics EOOD - 400 shares with a nominal value of BGN 100 each representing 100% of the capital of Gradus Logistics EOOD.

#### **1.3. Subject of activity of the companies in the Group**

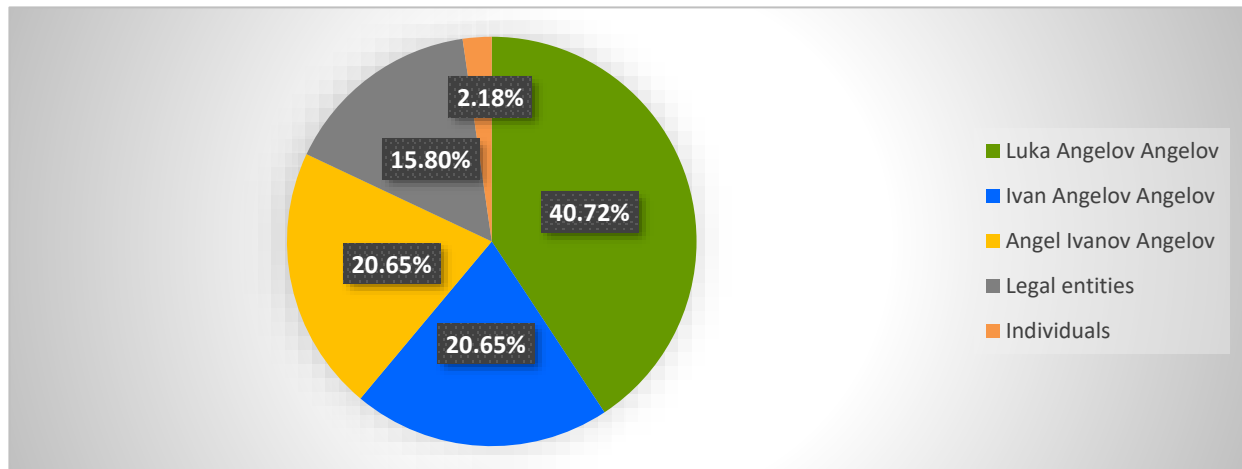
The main activity of the companies in the Group is concentrated in the Poultry sector, with the exception of companies whose activity also includes "compound fodder production and trade".

The subject of activity of the companies in the Group is as follows:

- **Lora-2004 EOOD** - the main activity of the company is poultry - breeding and sale of fattened poultry - broilers;
- **Zhyuliv EOOD** - the main activity of the company is fattening of broilers and hatching of chickens. The company is registered in the State Fund "Agriculture" as an agricultural producer;
- **Millennium 2000 EOOD** - the main activity of the company is poultry farming - raising parents for broilers, production and sale of breeding eggs, production and sale of fattened broilers;
- **Gradus-1 EOOD** - the main activity of the company is processing and sale of poultry meat products;
- **Gradus-3 AD** - the main activity of the company is the production of compound fodder intended for the market and containing grains and fodder additives in a ratio according to certain and approved recipes. For the exercise of the activity the company is entered in the register under Art. 19, paragraph 11 of the Fodder Act and has received a certificate for approval No. 00041 of 26 January 2007 from the National Grain and Fodder Service.
- **Gradus-98 AD** - the main activity of the company is production, processing and sale of all types of agricultural and animal products.
- **Gold Pharm 91 EOOD** - the main activity of the company is poultry - breeding and sale of fattened poultry - broilers.
- **Gradus Logistics EOOD** - the main activity of the company is rental of vehicles.

The parent company and the subsidiaries operate in Bulgaria.

#### 1.4. Shareholder structure of the parent company as of 31.12.2020.



#### 1.5. Board of Directors

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

consists of three (3) members as of 31 December 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

**The participation of the members of the Board of Directors** in business companies as unlimited liable partners, the ownership of more than 25 percent of the capital of another company, as well as their participation in the management of other companies or cooperatives such as procurators, managers or board members:

##### Luka Angelov Angelov

1.1. As an unlimited liable shareholder – NO

1.2. He directly owns over 25 percent of the capital of:

Equity Invest-1 AD (UIC 204750154), Equity Invest-2 OOD (UIC 204746138), Energy-2 OOD (UIC 123655788), Agro Invest-7 OOD (UIC 123654743), Mirena OOD (UIC 123655806), Gold Agro-2005 OOD (UIC 119642703), Wolf OOD (UIC 123760892), Marietta EOOD (UIC 123655770), Biser Distribution OOD (UIC 200090633), Auto Spa Center OOD (UIC 204959983), Gradus AD (UIC 204882907)

##### and indirectly through Gradus AD:

„Zhyuliv EOOD (UIC 119053781), Millennium 2000 EOOD (UIC 119591422), Gradus-98 AD (UIC 123120561), Gradus-1 EOOD (UIC 822132592), Lora-2004 EOOD (UIC 123658624), Gradus-3 AD (UIC 123152751), Gold Pharm 91 EOOD (UIC 205933500), Gradus Logistics EOOD (UIC 206290911).

##### and indirectly through Marietta EOOD in Targovski Dom EOOD (UIC 123644254)

1.3. He participates in managing bodies of:

„Equity Invest-1 AD (UIC 204750154), Equity Invest-2 OOD (UIC 204746138), Zhyuliv EOOD (UIC 119053781), Millennium 2000 EOOD (UIC 119591422), Gradus-98 AD (UIC 123120561), Energy-2 OOD (UIC 123655788), Agro Invest-7 OOD (UIC 123654743), Gradus-1 EOOD (UIC 822132592), Mirena OOD (UIC 123655806), Lora-2004 EOOD (UIC 123658624), Gold Agro-2005 OOD (UIC 119642703), Gradus-3 AD (UIC 123152751), Wolf OOD (UIC 123760892), Marietta EOOD (UIC 123655770), Auto Spa Center OOD (UIC 204959983), Gradus AD (UIC 204882907), Gradus Logistics EOOD (UIC 206290911), Biser Oliva AD (UIC 123036597).

##### Ivan Angelov Angelov

1.1. As an unlimited liable shareholder – NO

1.2. He directly owns over 25 percent of the capital of:

Equity Invest-1 AD (UIC 204750154), Ayazmo AD (UIC 201974859), Mirena OOD (UIC 123655806), Gold Agro-2005 OOD (UIC 119642703), Wolf OOD (UIC 123760892), Ralitsa 2004 OOD (UIC 123658631), Pharm Pro OOD (UIC 123761581).

1.3. He participates in managing bodies of:

Equity Invest-2 OOD (UIC 204746138), Ayazmo AD (UIC 201974859), Zhyuliv EOOD (UIC 119053781), Millennium

2000 EOOD (UIC 119591422), Energy-2 OOD (UIC 123655788 ), Agro Invest-7 OOD (UIC 123654743), Gradus-1 EOOD (UIC 822132592), Mirena OOD (UIC 123655806), Lora-2004 EOOD (UIC 123658624), Gold Agro-2005 OOD (UIC 119642703), Wolf OOD (UIC 123760892), Ralitsa 2004 OOD (UIC 123658631), Gold Pharm 91 EOOD (UIC 205933500), Gradus AD (UIC 204882907), Gradus Logistics EOOD (UIC 206290911), Product Board for Eggs, Poultry and Rabbit Meat Association (UIC 175066976), Association of Biogas Producers (UIC 176638405), “Union of Poultry Breeders in Bulgaria” Association (UIC 000682444).

### Georgi Aleksandrov Babev

- 1.1. As an unlimited liable shareholder – NO
- 1.2. He directly owns over 25 percent of the capital of LG Auto OOD (UIC 205395076)
- 1.3. He participates in managing bodies of:  
LG Auto OOD (UIC 205395076)

### 1.6. Audit Committee

The Audit Committee is composed of:

- Dobri Svetozarov Simeonov - 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 results of the enterprise, as well as its condition, together with a description of the main risks it faces.

### 2.1. Activity development

The companies of Gradus Group have modern production units and are also constantly striving to expand and modernize their production facilities.

### 2.2. Results of the activity

For the period 01.01.2020 - 31.12.2020, the Group reported an operating profit of BGN 12,496 thousand and net profit in the amount of BGN 10,530 thousand. (for the period 01.01.2019 - 31.12.2019 the Group reported an operating profit of BGN 19,299 thousand and a net profit of BGN 17,095 thousand).

### REVENUE

*The reported sales revenue of the Group in 2020 amount to BGN 139,914 thousand and include:*

REVENUE	2020	2019	Change %	Relative share for 2020 %
<b>Sales revenue</b>				
Revenue from sales of products	115,888	126,590	-8%	83%
Revenue from sales of goods	23,220	27,176	-15%	17%
Revenue from sales of services	806	764	5%	-
<b>Total sales revenue</b>	<b>139,914</b>	<b>154,530</b>	<b>-9%</b>	<b>100%</b>

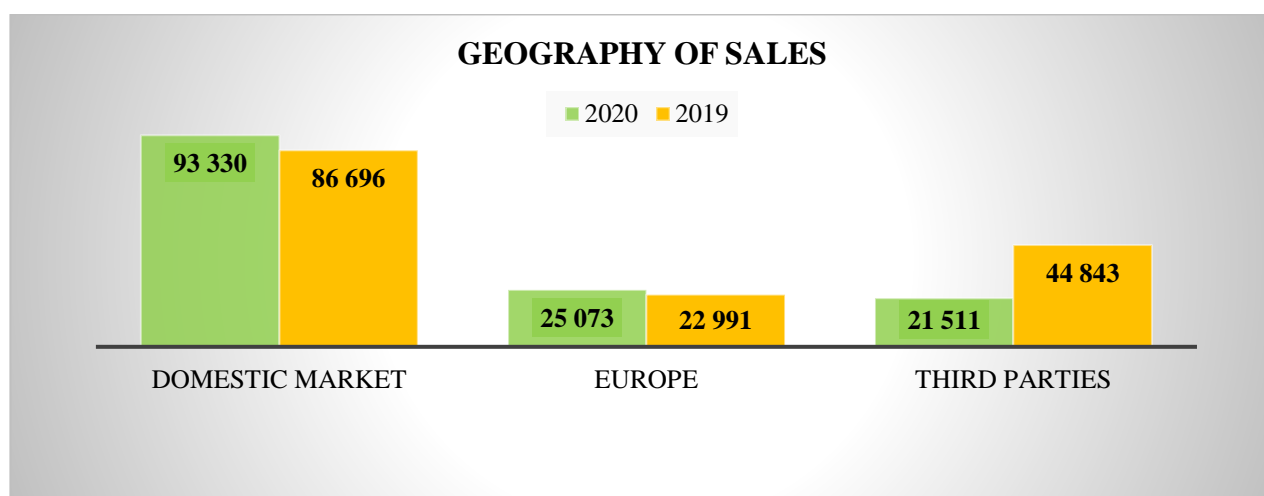
Revenue from sales of products for 2020 has decreased by BGN 10.702 million or 8% compared to the same period in 2019, reflecting the effects of the COVID-19 pandemic.

Revenue from sales of goods for the reporting period has decreased significantly by BGN 3.956 million or by 15% compared to 2019. This is due to the sales in the grains and components segment and in particular to most of the transactions in sunflower realized in January-December 2019.

Revenue from sales of services for 2020 has increased by BGN 42 thousand or by 5% compared to the same period of 2019.

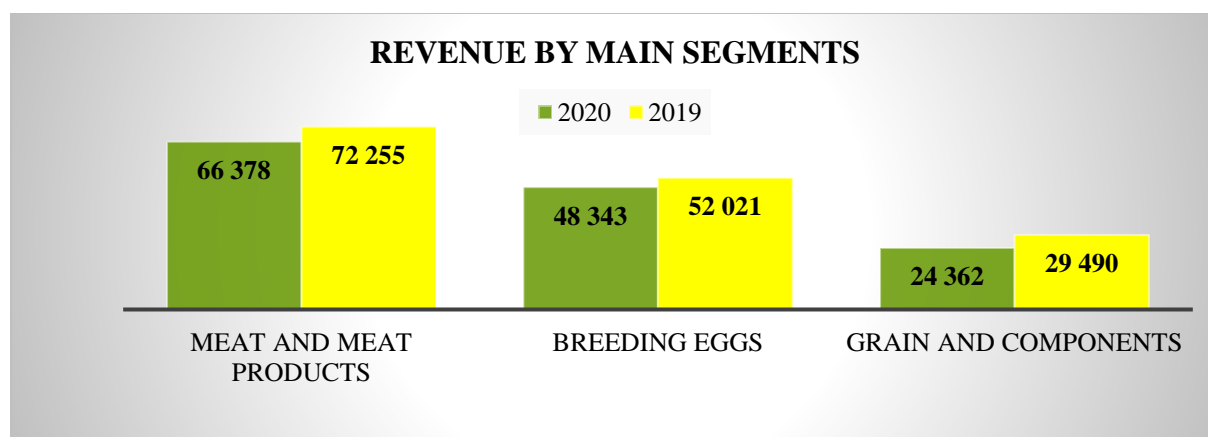
### Geography of sales

	2020 BGN'000	2019 BGN'000	Change %	Relative share 2020 %
Domestic market	93,330	86,696	8%	67%
Europe	25,073	22,991	9%	18%
Third countries	21,511	44,843	-52%	15%
<b>Total</b>	<b>139,914</b>	<b>154,530</b>	<b>-9%</b>	<b>100%</b>



### Reported revenue by key segments

Segments	2020 BGN'000	2019 BGN'000	Change %	Relative share 2019%
Meat and meat products	66,378	72,255	-8%	47%
Breeding eggs	48,343	52,021	-7%	35%
Grains and components	24,362	29,490	-17%	17%
Other	831	764	9%	1%
<b>Total</b>	<b>139,914</b>	<b>154,530</b>	<b>-9%</b>	<b>100%</b>



For the reporting period with the largest share of revenue from sales by key segments is "Meat and meat products" segment with 47% of the total revenue or BGN 139,914 thousand (For the same period of the previous year with the largest share of sales is also "Meat and meat products" segment with 47% of the total amount of BGN 154,530 thousand).

## REVENUE BY KEY SEGMENTS AND BY MARKETS

Key segments	Domestic market		Europe		Third countries	
	2020 BGN'000	2019 BGN'000	2020 BGN'000	2019 BGN'000	2020 BGN'000	2019 BGN'000
<b>Meat and meat products</b>	<b>65,921</b>	<b>71,391</b>	<b>457</b>	<b>490</b>	<b>-</b>	<b>374</b>
<b>Breeding eggs</b>	<b>5,799</b>	<b>6,670</b>	<b>24,616</b>	<b>22,501</b>	<b>17,928</b>	<b>22,850</b>
<i>Breeding eggs</i>	<i>4,791</i>	<i>5,403</i>	<i>10,914</i>	<i>5,343</i>	<i>17,928</i>	<i>22,850</i>
<i>One-day old chickens</i>	<i>1,008</i>	<i>1,267</i>	<i>13,702</i>	<i>17,158</i>	<i>-</i>	<i>-</i>
<b>Grains and components</b>	<b>20,779</b>	<b>7,871</b>	<b>-</b>	<b>-</b>	<b>3,583</b>	<b>21,619</b>
<b>Total</b>	<b>92,499</b>	<b>85,932</b>	<b>25,073</b>	<b>22,991</b>	<b>21,511</b>	<b>44,843</b>

The results in the meat and meat products segment for 2020 reported a decrease of 8% compared to 2019. There is a decline in the price of chicken meat on the European market. The uncertainty caused by the coronavirus infection suggests future volatility in the price levels of meat and meat products.

The Group's forecasts prepared before the announcement of the Covid-19 pandemic, for 2020 suggested growth in sales volumes and revenue. The effects of the events related to Covid-19 hindered the achievement of the expected growth. The Group's management envisages good prospects for sales in the meat and meat products segment during the recovery period from the pandemic, as well as thereafter, in view of its good liquidity position and the ability to adequately respond to future growth rates of consumer consumption.

Revenue from sales in the breeding eggs segment (breeding eggs and one-day old chickens) for the period under review decreased by 7% or BGN 3,678 thousand compared to the previous year.

### *Breeding eggs*

In this segment, the Group has suffered not only the negative results from some of the measures taken to deal with Covid-19, but also geopolitical shocks, mainly with imposed sales bans in Russia and Iraq. The lost benefits from the unrealized income of breeding eggs in these markets are of nearly 10 million eggs. The effects of the Covid-19 pandemic have reduced the market prices of breeding eggs. Despite the negative results accumulated during the period, the realized revenue from sales of breeding eggs remained the same (2020 - BGN 33,633 million or BGN 37,000 more compared to the previous 2019 - BGN 33,596 thousand).

The Group reported a significant increase in revenue from sales of breeding eggs on the European market - 104% or BGN 5,571 thousand and a significant decrease in revenue from sales of breeding eggs in third countries for the period under review - 22% or BGN 4,922 thousand compared to 2019. Revenue from sales of breeding eggs on the domestic market reported a decrease of 11% or BGN 612 thousand compared to those reported in 2019.

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

### *One-day old chickens*

During the period and against the background of the economic uncertainty caused by COVID-19 pandemic, the Group realized a decrease in the revenue from sales of one-day old chickens in the amount of BGN 3,715 thousand or 20.16% compared to the results reported in 2019. The realized revenue from sales of one-day old chickens on the domestic market marked a decrease by 20% or by BGN 259 thousand compared to 2019. Sales of one-day old chickens in Europe showed a decrease in revenue by 20% or by BGN 3,456 thousand compared to 2019.

The management of the Group expects volatility in the market prices of meat and meat products, as well as in the



market of breeding eggs in the medium term and benefits from the non-dramatically reduced production capacities of the Group in the long run.

For the reporting period, the Group realized a decrease in the sales of the grains and components segment by 17% or by BGN 5,128 thousand. It was dictated by the lack of good opportunities for realization and in particular - significantly lower sales of sunflower in Turkey in 2020 compared to 2019.

Optimization and restructuring processes to reduce costs and increase revenue continue.

*The other income from operations amounts to BGN 14,130 thousand and include:*

OTHER INCOME	2020	2019	Change %	Relative share 2020 %
<b>Other operating income</b>				
Income from financing	11,788	10,552	12%	83%
Rentals	925	878	5%	7%
Gain on sale of investment properties	139	687	-80%	1%
Gains on sale of materials and fixed tangible assets, net	348	660	-47%	2%
Revaluation of biological assets	-	918	-100%	-
Income from impairment reversal	-	84	-100%	-
Income from indemnities	266	1,032	-74%	2%
Income from actuarial revaluation	-	37	-100%	-
Excess inventories	409	218	88%	3%
Derecognition of liabilities	29	-	-	-
Other	226	268	-16%	2%
<b>Total other operating income</b>	<b>14,130</b>	<b>15,334</b>	<b>-8%</b>	<b>100%</b>

## EXPENSES

### Operating expenses

*In 2020, the Group reported the following expenses:*

EXPENSES	2020	2019	Change %	Relative share/2020 %
<b>Operating costs</b>				
<b>Costs by economic elements</b>				
Book value of goods sold	20,431	24,643	-17%	13%
Costs of raw materials and supplies	77,301	81,579	-5%	49%
Hired service expenses	8,252	8,676	-5%	5%
Depreciation / amortisation expenses	7,279	6,753	8%	5%
Remuneration and insurance costs	28,681	26,081	10%	18%
Impairment of assets	12,836	13,517	-5%	8%
Others	2,731	3,107	-12%	2%
<b>Total costs by economic elements:</b>	<b>157,511</b>	<b>164,356</b>	<b>-4%</b>	<b>100%</b>

In 2020, operating expenses decreased by BGN 6.85 million or by 4% compared to the same period of 2019. The change is mainly due to a decline in sales of goods and respectively to the carrying amount of goods sold by the Group for 2020, and a reduction in reported costs for raw materials and supplies.

The costs for raw materials and supplies have decreased by BGN 4.3 million or by 5% in 2020, compared to 2019.

Hired service expenses also decreased by BGN 424 thousand or by 5% compared to 2019.

Staff costs in 2020 increase by BGN 2.6 million or by 10%, compared to 2019.

For the reporting period, the depreciation / amortisation expenses have increased by BGN 526 thousand or by 8% compared to 2019.

Expenses on impairment of assets decreased by BGN 681 thousand or by 5%.

## FINANCE INCOME AND FINANCE COSTS

Finance income	2020	2019	Change %	Relative share/2020 %
Interest income on loans granted	154	254	-39%	100%
Gains on changes in exchange rates	-	128	-100%	-
<b>Total finance income:</b>	<b>154</b>	<b>382</b>	<b>-60%</b>	<b>100%</b>

Finance costs	2020	2019	Change %	Relative share/2020 %
Interest expenses on loans received	77	155	-50%	10%
Bank fees on loans	92	217	-58%	12%
Interest on leases	4	4	0%	1%
Losses on changes in exchange rates	591	-	100%	77%
Other finance costs	4	32	-88%	-
<b>Total finance costs:</b>	<b>768</b>	<b>408</b>	<b>88%</b>	<b>100%</b>

## 2.3. Key events that have affected the Group's results and that will affect future results

### 2.3.1. Investments in new products

In 2020, the Group made investments in order to expand its core business in the following areas:

#### *Segment of breeding eggs and one-day old chickens*

The market of breeding eggs in 2020 was volatile due to falling prices as well as the geopolitical shocks, mainly with sales bans in Russia and Iraq. The lost benefits from the unrealized income of breeding eggs in these markets were of nearly 10 million eggs. The effects of Covid-19 pandemic have reduced the market prices of breeding eggs. Despite the negative results accumulated during the period, the Group is hedged due to the fact that it concludes long-term contracts for the sale of eggs during the year, as well as maintains quantities for free market trading. In this way, the continuity of the production process is guaranteed, as well as the possibility for realization of volumes at higher prices. The expectations in the medium and long term are that price will continue to rise, but we do not rule out volatility dictated by external factors.

In the past 2020, sixteen production buildings were put into operation with a total area of 14,400 square meters and Center NORTH 5, Ruse. The birds accommodated there are 79,729 hens and 7,375 roosters.

Additional investments have been made in building and improving the infrastructure. At the moment, 720 m. (2880 square meters) roads and sites with ramps of approximately 6000 square meters were covered by concrete.

Four buildings /3600 square meters/ "PARENTS PRODUCTIVE PERIOD" to center NORTH 3 Ruse were also put into operation - June 2020.

Eight production buildings /7200 square meters/ "PARENTS GROWING PERIOD" CENTER NORTH Ruse were reconstructed - September 2020.

Exchange of equipment in two double buildings /3600 square meters/ CENTER NORTH 2 Ruse is expected - January 2021.

#### *Segment of meat and meat products*

A decision was made by the Board of Directors with minutes of proceeding dated 28.10.2020, for the establishment of a new subsidiary. A business company with the company name Gradus Logistics EOOD was established, with a sole owner Gradus AD and a capital of BGN 400,000 (four hundred thousand).

Subject of activity: Acquisition and rental of vehicles, provision of transport services, purchase of goods or other items for resale in original, processed or refined form, business representation and mediation, commission, forwarding and transportation transactions, as well as all other activities and services not prohibited by law, such as the activities subject to licensing or permissive regime will be performed after obtaining a relevant license or permit. To ensure the activity of Gradus Group, the management has planned to purchase vehicles, cars and a tractor for an approximate total value of BGN 371 thousand.

#### *Trade in grain*

The Group does not focus on this segment of its activity, but if there are good opportunities for transactions in this segment, they will be used.

### **2.3.2. Factors that will positively affect the results**

The Group is in the process of implementing a complete ERP system. The system will lead to significant cost reductions and optimizations in the long run.

Gradus put into operation a software system for business management Microsoft Dynamics NAV in its subsidiary Gradus - 3 AD from 1 September 2020.

For the other companies in the Group, the implementation processes continue.

Periodic renegotiation of commercial terms for the services provided to us, in order to ensure optimization and cost efficiency.

The Group is in an ongoing process of optimization and changing the manners of operation in order to reduce costs and increase revenue.

## **2.4. Risk factors for the activity**

The risk management policy of the Group is aimed at identifying and analysing the risks to which the Group is exposed, in order to establish limits for taking risks. Based on the analysis of these risks, the Group develops and implements appropriate controls to address these risks. This policy, as well as the established risk management controls, are subject to periodic review in order to reflect 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 a result of the individual characteristics of each individual customer.

The Group manages credit risk mainly by setting credit limits for each customer individually depending on the volume of sales and its credit history, as well as by constant control over late payments.

### **Currency risk**

In some cases, the Companies in the Group carry out transactions denominated in foreign currency. The Group is exposed to currency risk related to possible fluctuations in the exchange rate of foreign currencies. At present, this risk is associated with fluctuations in the US dollar exchange rate used by the Group in the trade in agricultural production.

### **Liquidity risk**

Liquidity risk is the risk that the Group companies will have difficulty in meeting their obligations related to financial liabilities. The approach to liquidity management is aimed to ensure, as far as possible, that there is sufficient liquidity to meet obligations, both under normal and stressful conditions, and without incurring unacceptable losses or damaging the Group's reputation. For this purpose, the subsidiaries maintain credit facilities and use short-term loans from banks.

### **Market risk**

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

### **COVID-19**

Economic instability and investment uncertainty, the decline in consumer consumption, the volatility of price levels in the segments operated by the Group are just some of the effects of the pandemic situation, which inevitably affect the results of the Group.

Management continues to apply the necessary and possible measures to limit the effects of COVID-19, considering

the principle of going concern to be appropriate for these consolidated financial statements, as the Group has sufficient liquid resources to continue its activity in the foreseeable future.

In 2020 as a result of COVID-19, the Group has reduced the volume of its production activities, which has the effect of reducing the volume of revenues and expenses. Management has not identified significant effects and effects on the valuation of individual assets and liabilities at the end of the reporting period.

#### Political risk

Political risk is the likelihood of a change of government, or of a sudden change in its policy, of internal political turmoil and adverse changes in European and/or national legislation, as a result of which the environment in which local businesses operate will change negatively, and investors would incur losses.

The political situation in the Group's export markets, in particular Russia and Iraq, has had a material effect on the Group's operations and financial position.

#### Macroeconomic risk

This is the risk of macroeconomic shocks, which are measured by economic stability and the growth prospects of the national economy. Trends in the macroeconomic environment directly or indirectly influence the formation and change of market conditions, as well as the investment climate.

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

#### 3. 1. Analysis of the main indicators

- **Profit margin (Profit before taxes/Sales)**

	<b>2020</b>	<b>2019</b>
Profit before taxes	12 496	19 299
Income	139 914	154 530
<b>Gross profit margin</b>	<b>8.93%</b>	<b>12.49%</b>

- **EBITDA margin (EBITDA- Earnings before finance costs, taxes, depreciation / amortization / Sales)**

	<b>2020</b>	<b>2019</b>
EBITDA (Earnings before finance costs, taxes, depreciation / amortization)	20 389	26 078
Income	139 914	154 530
<b>EBITDA margin</b>	<b>14.57%</b>	<b>16.88%</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**

	<b>2020</b>	<b>2019</b>
Net debt	6 326	13 184
EBITDA (Profit before financial expenditure, taxation and amortization)	20 389	26 078
<b>Net debt/EBITDA</b>	<b>0.31</b>	<b>0.51</b>

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

	<b>31.12.2020</b>	<b>31.12.2019</b>
Total liabilities	39 713	43 299
Total assets	363 725	354 832
<b>Debt/assets ratio</b>	<b>0.11</b>	<b>0.12</b>

### **3.2. 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, which have occurred after the date as at which the annual consolidated financial statements have been prepared**

No significant events have occurred after 31 December 2020, which require additional adjustments and/or disclosures in these consolidated financial statements.

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

The Group's management continues its policy of effectively and successfully achieving its main goals:

- increasing the number of main flocks, increasing the number of fattened broilers, increasing the production and marketing of breeding eggs, as well as achieving full compliance with all European standards for the protection of the environment and the environment;
- full utilization of production capacities;
- development of existing and new business lines related to the production of high-margin food products.

### **VI. Research and development activities**

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. Branches**

The Company has no branches.

### **IX. Financial instruments used by the Company**

Financial instruments are described in detail in the note "Financial instruments" to the accompanying consolidated financial statements.

### **X. Additional information pursuant to Appendix 10 of Ordinance 2 of FSC**

#### **1. Information given in value or quantitative terms about the main categories of commodities, products and/or provided services, with indication of their share in the revenue from sales of the Issuer as a whole and the changes that occurred during the reporting fiscal year.**

The information on the value of sales, indicating their share, is set out in this Report in Section II.

#### **2. Information about the revenue allocated by separate categories of activities, domestic and external markets as well as information about the sources for supply of materials required for the manufacture of commodities or the provision of services with indication of the degree of dependence in relation to any individual seller or buyer/user, where if the share of any of them exceeds 10 per cent of the expenses or revenue from sales, information shall be provided about every person separately about such person's share in the sales or purchases**

## and his relations with the Issuer.

Information on revenue is disclosed in Section II. hereof.

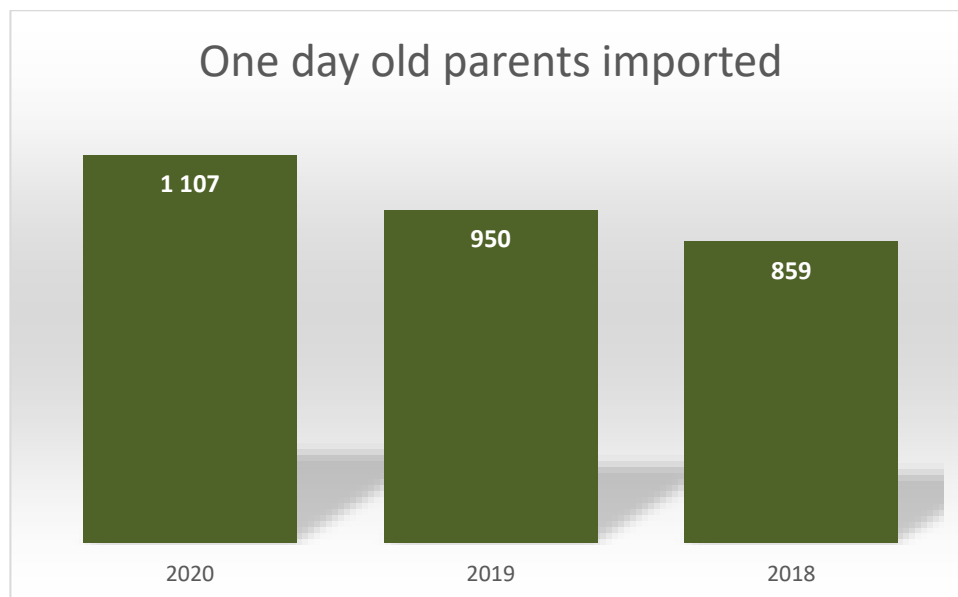
### Main suppliers

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 pork meat, additives and subsidiary materials for the production of sausages.

The raw materials supplied by external companies for preparation of fodder are mostly agricultural production and in particular – mixtures and additives selected by technologists.

The agricultural production, which is purchased from external suppliers, includes sunflower, corn, wheat, and barley. There is great offering of agricultural production, and the Group 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 of the Group 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 the Group, 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 with the purpose of production of breeding eggs, are of significant importance for the entire production cycle of the Group. Birds are imported from EU member states, as in 2020 the Group imported a total of 1,107 thousand one-day old parent birds (2019: 950 thousand).

Imported one-day old parent birds, in thousands



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.

There are requirements established at the Group for ethical and responsible behaviour 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 the Group 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), and 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 Group 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 agreement, which are updated on an yearly basis. The manufacturing enterprise of the Group 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, supplements, 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 Group 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 Group are as follows:

- of main raw materials – Nova Targovska Kompaniya 2004 AD
- of additional raw materials – Campus Balkani EOOD, Tea Trading LTD, German Bulgarian Business Group Ltd.
- of subsidiary materials - Skipter LTD, Intrama Invest EOOD, Sidorenko Foodtech EOOD, Bulpro 2004 Ltd.

The production 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 the Group does not depend on a given supplier. For the last years, the Group 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 transactions and such of significant importance to the issuer's activity**

Large transactions and such of significant importance to the activity of the Group were not concluded in 2020.

### **4. Information about the transactions concluded between the issuer and related parties during the reporting period, proposals for conclusion of such transactions as well as transactions which are outside its usual activity or substantially deviate from the market conditions, to which the Issuer or its subsidiary is a party, indicating the amount of the transactions, the nature of relatedness and any information necessary for an estimate of the influence over the issuer's financial status;**

Information on the deals concluded between Gradus Group and related parties in the period under review is announced in the Note "Related Parties" to the consolidated annual financial statements.

### **5. Information about events and indicators of unusual for the issuer nature, having substantial influence over its**



**operation and the realized by its revenue and expenses made; assessment of their influence over the results during the current year;**

There were no events and indicators of unusual nature, having influence over the Group.

**6. Information about off-balance sheet transactions – nature and business objective, indication of the financial impact of the transactions on the operation, if the risk and benefits of these transactions are substantial for the assessment of the issuer’s financial status;**

There were no such transactions.

**7. Information about holdings of the Issuer, about its main investments in the country and abroad (in securities, financial instruments, intangible assets and real estate), as well as the investments in equity securities outside its economic group and the sources/ways of financing;**

Information on share participation of Gradus AD is disclosed in Section I.

**8. Information about the concluded by the issuer, by its subsidiary or parent undertaking, in their capacity of borrowers, loan contracts with indication of the terms and conditions thereof, including the deadlines for repayment as well as information on the provided guarantees and assuming of liabilities**

Information on loan agreements entered into by the subsidiary companies is given in the Note “Bank Loans” to the consolidated annual financial statements.

**9. Information about the concluded by the issuer, by its subsidiary or the parent undertaking, in their capacity of lenders, loan contracts, including the provision of guarantees of any type, including to related persons, with indication of the concrete conditions there under, including the deadlines for repayment and the purpose for which they have been granted.**

Information about loans granted by the Group is given in the disclosures to the consolidated annual financial statements.

**10. Information on the use of the funds accumulated through a new issue of securities over the reporting period**

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 reflected in the financial statement for the fiscal year, and previously published forecasts for these results**

There are no forecasts published by the Group for the respective period.

**12. Analysis and assessment of the financial resource management policy with indication of the possibilities for servicing of the liabilities, eventual risks and measures which the issuer has undertaken or is to undertake with a view to their removal**

The Group's management currently monitors the collectability of the receivables and controls the servicing of the liabilities under bank loans and its tax liabilities.

**13. Assessment of the possibilities for realization of investment intentions with indication of the amount of available funds, as also of any changes in the financing structure of this activity**

The planned Investment Program of Gradus Group for 2021 includes investments 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 "Prospectus for Initial Public Offering", as it timely notifies the shareholders of Gradus AD of the investments made.

**14. Information about changes occurred in the period under review in the main principles of management of the emitter 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 applied by the issuer in the course of preparation of the financial statements internal controls system and risk management system.**



The Group has an established internal control and risk management system. Regarding the financial reporting process, financial statements are drawn up in accordance with International Financial Reporting Standards. The current financial and accounting activity of the company is subject to periodic control and analysis by the management body. The company has implemented a well-established practice for periodic discussion of the current financial performance of the companies included in its strategic investment portfolio with a view to ensuring the implementation of their business programmes and a precise analysis of the possibilities for the implementation of future investment projects.

#### **16. Information on changes in the management and supervisory bodies during the reporting fiscal year.**

There were no changes in the management bodies.

Changes in the supervisory bodies (Audit Committee):

On 5 June 2020, a regular General Meeting of Shareholders was held, at which the General Meeting voted to dismiss Ms. Radka Dimcheva Peneva as the Acting Chairperson of the Audit Committee.

Mr. Dobri Svetlozarov Simeonov was elected as the new Chairman of the Audit Committee.

#### **17. Information on the amount of the remuneration, rewards and/or the benefits of each member of the management and control bodies for the fiscal year under review, paid by the Company and its subsidiaries, irrespective of whether they have been included in the issuer's expenses or arise from profit distribution, including:**

a) amounts received and in-kind benefits;

b) conditional or postponed remuneration over the year, even if the remuneration is due at a later point in time;

c) amount due by the issuer or its subsidiaries for payment of pensions, retirement benefits or other similar compensation

The total amount of accrued remuneration for the issuer's key management personnel is as follows:

- Board of Directors - BGN 324 thousand;
- Audit Committee – BGN 3 thousand.

#### **18. Information about shares of the issuer owned by the members of the management and of the control bodies, procurators and the senior management, including shares held by anyone of them separately or as a percent from the shares of each class, as well as provided to them options on securities of the issuer by the latter – type and amount of the securities over which the options have been set up, price of exercising of the options, purchase price, if any, and term of the options.**

Shares held at 31 December 2020 by the members of the Board of Directors:

<b>Name, father's name, family name</b>	<b>Number of shares</b>	<b>%</b>
Luka Angelov	99 195 645	40.72%
Ivan Angelov	50 312 465	20.65%
Georgi Aleksandrov Babev	0	0%

#### **19. Information about agreements known to the Company (including also after the fiscal year closing) as a result of which changes may occur at a future time in the owned percent of shares or bonds by current shareholders and bondholder.**

No such agreements are known.

#### **20. Information about pending court, administrative or arbitration proceedings relating to issuer's liabilities or receivables of an amount of at least 10 percent of its equity**

The Group is not a party to pending court, administrative or arbitration proceedings, nor there are any decisions taken or claims to terminate the activity and announce it in liquidation.

#### **21. Contact information of the Investor Relations Director, including telephone number and correspondence address**



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26 April 2021

EXECUTIVE DIRECTOR:

*/Ivan Angelov/*

CHAIRMAN OF BD:

*/Luka Angelov/*