

Translation from Bulgarian

GRADUS AD

MANAGEMENT REPORT

As at 30 September 2021

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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 30.09.2021 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
Radus Logistics 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

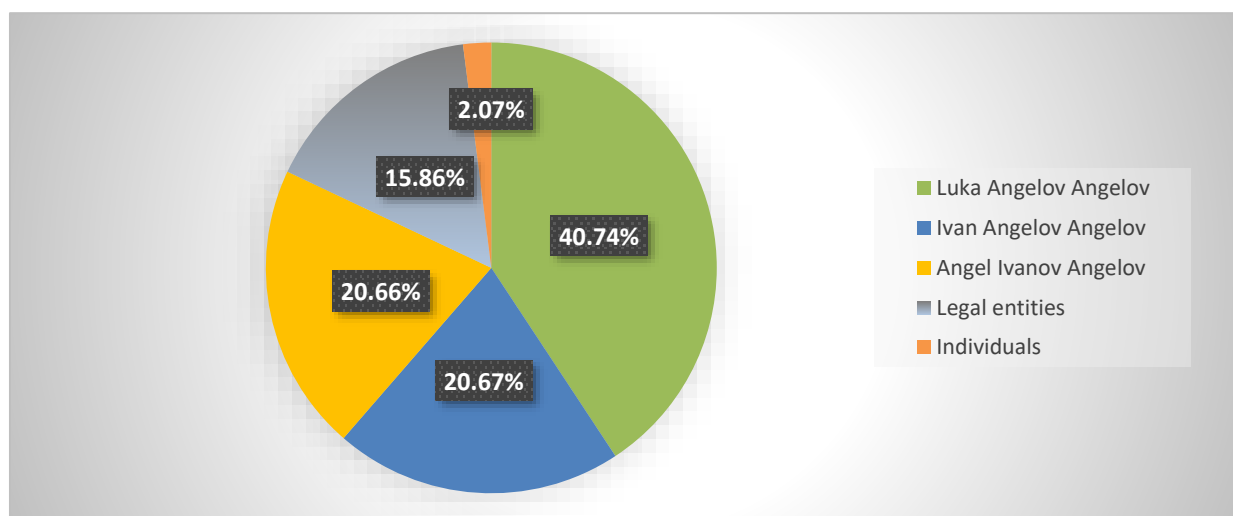
The object of activity of the Company is: Investments in stocks and shares of companies, acquisition and management of shares in Bulgarian and foreign companies; activity as a holding company; acquisition, assessment and sale of patents, concession of licenses for the use of patents of companies, in 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 September 2021 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 September 2021.



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 September 2021:

- 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 September 2021 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)**

	30.09.2021	30.09.2020
EBITDA (earnings before interest, taxes, depreciation and amortisation)	6 509	5 493
Revenue	7 006	5 998
EBITDA margin	92.91%	91.58%

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

	30.09.2021	30.09.2020
Total expenses	536	511
Total income	7 320	6 266
Cost effectiveness	0.07	0.08

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

	30.09.2021	30.09.2020
Total income	7 320	6 266
Total expenses	536	511
Revenue effectiveness	13.66	12.26

The analysis of the revenue and costs effectiveness for 2021 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 2021 – 30 September 2021, the company realized net profit of BGN 6 784 thousand (for the period 01 January 2020 – 30 September 2020 - the company realized net profit of BGN 5 773 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	01-09/2021 <i>in BGN'000</i>	01-09/2020 <i>in BGN'000</i>	Change %	Relative share for 2021 %
Operating income				
Dividend income	6 998	5 998	17%	96%
Revenue from services	3	-	-	-
Other revenue	5	-	-	-
Finance income				
Interest income	314	268	17%	4%
Total	7 230	6 266	15%	100%

- The main income for the period 01.01.2021. - 30.09.2021, 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 activit.

For the period 01.01.2020 - 30.09.2020, 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 trading activities for 2019.

Dividend income by subsidiaries is as follows:

Subsidiaries	01-09/2021 <i>in BGN'000</i>	01-09/2020 <i>in BGN'000</i>	Relative share %
Milenium 2000 EOOD	2 500	3 500	36%
Gradus-98 AD	2 998	2 298	43%
Zhyuliv EOOD	400	-	6%
Gradus-1 EOOD	1 000	100	14%
Lora-2004 EOOD	100	100	1%
Total	6 998	5 998	100%

- Interest income has increased by BGN 46 thousand or 17% compared to the same period of 2020, mainly due to a change in the interest rate from 0.86% to 1.15%.

The conditions under which loans to subsidiaries are extended are detailed in the notes to the financial statements for the period 01.01.2021. - 30.09.2021.

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:

EXPENSES	01-09/2021 in BGN'000	01-09/2020 in BGN'000	Change %	Relative share for 2021 %
Operating expenses				
<i>Expenses by nature</i>				
Expenses on materials	10	8	25%	2%
Hired service expenses	107	119	-10%	20%
Depreciation / amortization expenses	37	4	825%	7%
Expenses on wages and social security payments	372	369	1%	70%
Other expenses	8	9	-11%	1%
Total:	534	509	5%	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

Unforeseen events in connection with the Covid-19 pandemic would have an indirect effect on the company's activities.

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 its activities in the foreseeable future.

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 30 September 2021.

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 September 2021.

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

On 29.04.2021 Gradus AD presented an invitation to convene a Regular General Meeting of Shareholders and materials for a General Meeting of Shareholders, which will be held on 11-06-2020. from 11:00 in Stara Zagora.

The Board of Directors of Gradus AD on the grounds of Art. 223 of the CA convenes a regular annual General Meeting of Shareholders of Gradus AD / "The Company" /, which will be held on 11.06.2021, from 11:00 am, and in coordinated universal time - 08.00 hours in the town. Stara Zagora 6009, Park-Hotel Stara Zagora, 50 Khan Asparuh Str., Tervel Hall, with the following agenda:

1. Adoption of a Report of the Board of Directors on the activities of the Company in 2020;

Draft resolution: The General Meeting of Shareholders approves the Report of the Board of Directors on the activities of the Company for 2020;

2. Acceptance of a Report of the registered auditor for inspection of the annual financial statements of the Company for 2020;

Draft resolution: The General Meeting of Shareholders approves the Report of the registered auditor for the audit of the annual financial statements for 2020;

3. Adoption of the annual financial report of the Company for 2020;

Draft resolution: The General Meeting of Shareholders adopts the annual financial statements of the Company for 2020;

4. Adoption of a report on the activity of the Investor Relations Director of the Company for 2020;

Draft resolution: The General Meeting of Shareholders adopts a report on the activities of the Investor Relations Director of the Company for 2020;

5. Adoption of a Report of the Audit Committee on its activities in 2020;

Draft resolution: The General Assembly adopts a Report of the Audit Committee on its activities in 2020.

6. Proposal for profit distribution for 2020

Draft decision:

6.1. The General Meeting of Shareholders of Gradus AD distributes the profit of the Company for 2020, which is BGN 11,694,487.87, as follows:

- part of the profit, which amounts to a 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 0.022 BGN per share), according to a decision of the General Meeting of Shareholders of the Company dated October 16, 2020;

- part of the profit, which part is in the total gross amount of BGN 5,359,391.62, is distributed to the shareholders of the Company as an annual dividend, as the gross single annual dividend is BGN 0.022 per share.

- the balance in the amount of BGN 975,704.63 relates to the retained earnings of the Company;

6.2. Terms and conditions for distribution of the profit: (i) Commencement of dividend payment: July 26, 2021; (ii) Term for payment of the dividend: - three months; (iii) Manner of dividend payment: through Central Depository AD and branches of Unicredit Bulbank AD.

7. Making a decision to release from liability the members of the Board of Directors of the Company for their activity in 2020;

Draft resolution: The General Meeting of Shareholders releases from liability the members of the Board of Directors of the Company for their activities in 2020;

8. Selection of a registered auditor to certify the annual financial statements of the company for 2021.

Draft decision: GMS elects a registered auditor to inspect and certify the annual financial statements of the Company for 2021, according to a proposal of the Audit Committee, included in the materials on the agenda;

9. Adoption of a Report of the Board of Directors on the implementation of the Remuneration Policy of the members of the Board of Directors of the Company for 2020;

Draft resolution: The General Meeting approves the Report of the Board of Directors on the implementation of the Remuneration Policy of the members of the Board of Directors.

10. Review of the Remuneration Policy of the members of the Board of Directors.

Draft resolution: The General Meeting cancels, as of 01.07.2021 the Remuneration Policy of the members of the Board of Directors, adopted by the General Meeting of Shareholders, held on 10.06.2019. The GMS adopts the Remuneration Policy of the members of the Board of Directors, which enters into force on 01.07.2021.

On 07.05.2021 Gradus AD decided to file all possible cases against the person Svetoslav Ilchovski and will refer to the competent authorities in defense of their rights and legitimate interests for the export and dissemination of false allegations by him. All actions have been taken to protect our investors and customers.

On 17.05.2021 Gradus AD entered the Financial Supervision Commission with a signal in connection with widespread false and misleading circumstances about the company by Svetoslav Ilchovski during his hearing on 5

and 7 May 2021 in the Temporary Commission for Inspection for Establishment of Abuses and violations in the spending of funds by the Council of Ministers, ministries, state bodies, state enterprises and companies with more than 50 percent state participation in the last 10 years.

These circumstances give false or misleading signals regarding the price of the shares of Gradus AD, which are traded on the Bulgarian Stock Exchange and determine this price on an unusual and artificial level.

The company referred to the Financial Supervision Commission with the request for conducting a full and complete inspection of whether these actions constitute manipulation of the market of the shares of Gradus AD.

The signal to the regulator is accompanied by all financial and accounting information (as opposed to partially and selectively provided by Mr. Ilchovski), including invoices, handover protocols and other documents that clearly prove that any allegations of "fictitious revolutions" are groundless and malicious.

The regulator should check whether there have been violations of the Regulation on Market Abuse and the Law on the Application of Measures against Market Abuse of Financial Instruments (the Law on Measures against Market Abuse).

The position of Gradus AD is that:

- The disseminated circumstances are incorrect and misleading and give false and misleading signals regarding the share price of Gradus AD;
- The turnover of Gradus 3 AD is not decisive for the price at which the shares of Gradus AD were sold in the IPO. The prospectus itself clearly shows the three ways of valuing the share, as none of them takes into account the traded volumes, which makes the accusations of "hollow turnovers" and "fictitious transactions" meaningless. The transactions themselves, which Mr. Ilchovski claims to be fictitious, are negligibly small compared to the company's total turnover for the reference period;
- The Prospectus discloses complete and reliable information about the financial condition of Gradus 3 AD and the risks related to its activity;
- The spread of false circumstances for the Gradus group has had a negative impact on the market capitalization of Gradus AD and has directly affected mainly the small shareholders;

The request is for conducting a full and complete inspection of the notification of violation, as the FSC is invited to exercise its supervisory powers under Art. 18 of the Law on the Financial Supervision Commission and Art. 28e (2) supra art. 25 (2) to (5) of the Rules for the structure and activity of the Financial Supervision Commission and its administration in order to establish whether the described actions of the person Svetoslav Ilchovski constitute manipulation of the share market of Gradus AD within the meaning of the Regulation on market abuse.

Upon establishing an administrative violation, the Commission may impose the provisions of Art. 23 of the Law on Administrative Offenses, administrative penalties in the amount of BGN 5 million

Gradus AD will assist the FSC in performing the inspection with any additional information and full access to the company's accounting and legal database.

As a public company, we at Gradus AD believe in the rule of law and transparency, and we want the facts to be clarified quickly and the truth to be made public. The pledge is the justice and the good name of our company, as well as the overall image of the domestic capital market.

On 11.06.2021 a regular General Meeting of the shareholders of Gradus AD was held, where the following decisions were taken:

1. GMS approves the annual Report of the Board of Directors on the activities of the company in 2020;
2. GMS accepts the Report of the registered auditor for performed audit of the annual financial statements of the Company for 2020;
3. GMS approves the annual financial report of the Company for 2020;
4. GMS approves the annual Report on the activities of the Investor Relations Director in 2020;
5. GMS approves the Report of the Audit Committee on its activities in 2020;
6. The GMS accepts the proposal of the Board of Directors for distribution of the profit of the Company, realized in 2020, as follows: - 6.1. The total amount of distributable profit amounts to BGN 11,694,487.87 (eleven million six hundred ninety-four thousand four hundred eighty-seven levs and eighty-seven stotinki, as follows: - part of the profit, which totals 5,359,391.62 BGN, 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 dated October 16, 2020;
 - part of the profit, which part is in the total gross amount of BGN 5,359,391.62, is distributed to the shareholders of the Company as an annual dividend, as the gross single annual dividend is BGN 0.022 per share.
 - the balance in the amount of BGN 975,704.63 refers to the retained earnings of the Company: - 6.2. Terms and conditions for distribution of the profit: (i) Commencement of dividend payment: July 26, 2021; (ii) Term for payment of the dividend: - 3 (three) months; (iii) Manner of dividend payment: through Central Depository AD and branches of Unicredit Bulbank AD;
7. GMS releases from liability the members of the Board of Directors of the Company for their activity in 2020;
8. GMS Selects as a registered auditor to check and certify the Individual Annual Financial Statements of the Company for 2021. Baker Tilly Klitu and Partners OOD, Reg. № 129, UIC: 131349346, Sofia, 1000, 5 Stara Planina Str., 5th

floor, represented by the manager Krassimira Ivanova Radeva;

9. The GMS approves the Report of the Board of Directors on the implementation of the Remuneration Policy of the members of the Board of Directors;

10. Review of the Remuneration Policy of the members of the Board of Directors.

The General Meeting cancels, as of 01.07.2021 the Remuneration Policy of the members of the Board of Directors, adopted by the General Meeting of Shareholders, held on 10.06.2019. The GMS adopts the Remuneration Policy of the members of the Board of Directors, which enters into force on 01.07.2021.

On 17.09.2021 presented an invitation to convene an Extraordinary General Meeting of Shareholders and materials for a General Meeting of Shareholders, which will be held on 22-10-2021. from 11:00 am in Stara Zagora, Stara Zagora, with the following agenda:

- On the grounds of Article 223 of the Commercial Act, the Board of Directors of Gradus AD convenes an Extraordinary General Meeting of Shareholders of Gradus AD /the "Company"/ to be held on 22 October 2021 at 11:00 a.m. local time /8 am UTC/, in the town of Stara Zagora 6009, Stara Zagora Park Hotel, 50 Khan Asparukh Street, Tervel Hall, under the following agenda:

1. Approval of the six-month financial statements of the Company for the first half of 2021.

Draft decision: The General Meeting approves the six-month financial statements of the Company for the first half of 2021.

2. Approval of Report on compliance with the requirements of the Public Offering of Securities Act for payment of six-month dividend.

Draft decision: The General Meeting approves Report on compliance with the requirements of the Public Offering of Securities Act for payment of six-month dividend.

3. Decision making pursuant to Art. 39 of the By-Laws of the Company for profit distribution and the payment of an interim dividend on the basis of the adopted 6-month financial statement.

Draft decision: The General Meeting resolves on distributing 6-month dividends from the profit reported by the Company in accordance with the prepared 6-month financial statements for the first half of 2021, under the following parameters: (i) Total gross dividend amount: – BGN 6 333 826.46; (ii) Gross dividend amount per share – BGN 0.026; (iii) Dividend payment start date: 29 November 2021; (iv) Dividend payment period – three months; (v) Method of payment of the dividend: through Central Depository AD and branches of UniCredit Bulbank AD.

IV. Information about the shares of Gradus AD

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

From March 15, 2019. until September 20, 2021. The issue of Gradus AD (GR6) is part of the main indices of the BSE (SOFIX, BGBX40, BG TR30). From September 20, 2021. The issue of Gradus AD (GR6) is part of the main indices of the BSE (BGBX40, BG TR30).

	30 September 2021
Total number of shares issued	243 608 710
Number of shares in circulation as at 30 September 2021	243 608 710
Price of share at the beginning of the period	1,460
Price of share at the end of the period	1.330
Market capitalisation as at 30 September 2021 in BGN	323 999 584

20 October 2021

EXECUTIVE DIRECTOR:

/Ivan Angelov/

CHAIRMAN OF BD:

/Luka Angelov/