



GRADUS

INTERIM CONSOLIDATED MANAGEMENT REPORT

30 SEPTEMBER 2018

Management presents an interim consolidated management report on the activity for the first nine months of 2018.

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 30 September 2018, 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 30 September 2018:

- Luka Angelov Angelov - Chairman of the Board of Directors of Gradus AD
- Ivan Angelov Angelov - Member of the Board of Directors and Executive Director of Gradus AD
- Georgi Aleksandrov Babev - Member of the Board of Directors of Gradus AD

The 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 30 September 2018

- Luka Angelov Angelov - 40.72% of the capital and
- Ivan Angelov Angelov - 40.72% of the capital
- Legal entities – 16.79% of the capital
- Individual shareholders – 1.77% of the capital.

1.4. Personnel

As of 30 September 2018, the average payroll staff of the Group was 1,288 workers and employees (2017: 1,244).

2. Current period result of the Group

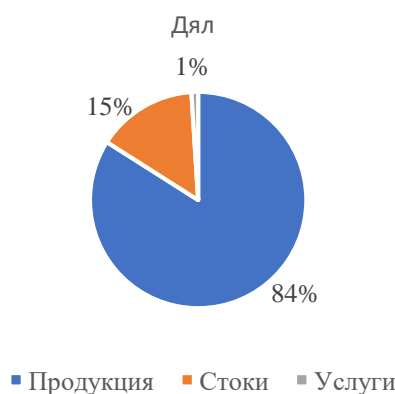
For the period 01 January 2018 – 30 September 2018, the Group reports an operating profit of BGN **18,539** thousand and net profit of BGN **16,584** thousand.

- **Including for non-controlling interest** – net profit for the period of **BGN 75** thousand.

REVENUE

Sales revenue reported by the Group amount to BGN 98,099 thousand, including:

Sales revenue	01-09.2018 BGN'000	Relative share %
Revenue from sale of finished products	82 240	84%
Revenue from sale of goods	15 281	15%
Revenue from sale of services	578	1%
Total	98 099	100%

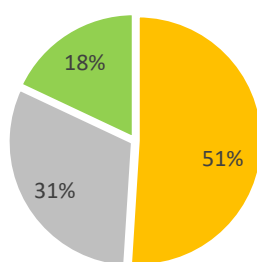


The main revenue of the Group for the reporting period comes from sales of products, forming 84% of total revenue.

Revenue reported by main segments

Segments	01-09 2018 BGN'000	Relative share %
Meat and meat products	50 103	51%
Breeding eggs	30 790	31%
Grain and components	17 206	18%
Total	98 099	100%

Дял



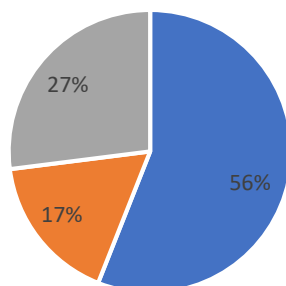
- Месо и месни продукти
- Разплодни яйца
- Търговия със зърна и компоненти

The meat and meat products segment reported the highest share in sales revenue during the first nine months of 2018.

Geography of sales revenue

Geography of sales	01-09.2018 BGN'000	Relative share %
Domestic market	54 567	56%
Europe	16 834	17%
Third countries	26 698	27%
Total	98 099	100%

Дял



- Вътрешен пазар
- Европа
- Трети страни

Other operating income amounts to BGN 12,241 thousand and consists of:

Other operating income	01-09 2018 BGN'000	Relative share %
Rental income	506	4%
Gain on sale of materials and FTAs	337	3%
Income from financing	11 014	90%
Revaluation of biological assets	190	2%
Other income	194	1%
Total	12 241	100%

EXPENSES

Operating expenses

The Group reports operating expenses amounting to BGN 93,820 thousand.

Operating expenses	01-09 2018 BGN'000	Relative share %
Changes in stock of finished products	(10 412)	-11%
Expenses on raw materials and materials	56 390	60%
Hired service expenses	5 942	6%
Personnel expenses	16 986	18%
Depreciation / amortization expenses	4 190	5%
Carrying amount of goods sold	13 383	14%
Other operating expenses	7 341	8%
Total	93 820	100%

FINANCE INCOME AND FINANCE COSTS

Finance income

Finance income	01-09 2018 BGN'000	Relative share %
Interest income on loans granted	81	18%
Foreign exchange gains	372	82%
Other finance income	1	-
Total	454	100%

Finance costs

Finance costs	01-09 2018 BGN'000	Relative share %
Interest expenses on loans received	403	50%
Bank charges	168	21%
Foreign exchange losses	235	29%
Total	806	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)**

	09.2018
Pre-tax profit	18 187
Income	98 099
Gross profit margin	<u>18.54%</u>

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

	09.2018
EBITDA (Earnings before interest, taxes, depreciation and amortisation)	22 729
Income	98 099
EBITDA margin	<u>28.27%</u>

Key indicators that the Group's management monitors in terms of debt and financial stability:

- **Net debt (total debt minus cash) to EBITDA ratio**

	09.2018
Interest-bearing debt	
Net debt	17 352
EBITDA (Earnings before interest, taxes, depreciation and amortisation)	22 729
Net debt/EBITDA	<u><u>0.76</u></u>

- **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.

	09.2018
Total liabilities	47 870
Total assets	<u>375 249</u>
Debt to Assets Ratio	<u><u>0.13</u></u>

5. Prospective future development of the Group

The major goal of the issuer's management is to increase the number of basic herds, the number of fattened broilers, the production volume and sales of breeding eggs. Full load of production capacities and expansion of the product range and volume of sales under the "Gradus" and "I eat" brands is planned.

Development of the existing and new business lines related to the production of high-value food products, as well as the introduction of a new "Yellow Chicken" French Le Poulet brand.

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 half year of 2018 and until the date of the interim management report

A General Meeting of Shareholders (GMS) of Gradus AD was held on 26 March 2018 and the following decisions were passed: 1. To increase the capital of the company by up to BGN 248,777,778 (two hundred and forty-eight million seven hundred and seventy-seven thousand seven hundred and seventy-eight) by issuing 27,777,778 (twenty-seven million seven hundred and seventy-seven thousand seven hundred and seventy-eight) new ordinary dematerialised registered freely transferable voting shares with nominal amount of BGN 1 (one) each under the conditions of public offering of shares on Bulgarian Stock Exchange-Sofia; 2. The GMS resolves on the key parameters of the issue of new shares used to increase the capital of Gradus AD; 3. The GMS gave its consent that the public offering of shares from the capital increase, approved by the decision under item 1, to be carried out simultaneously with the public offering of shares held by the company's shareholders; 4. The GMS appoints First Financial Brokerage House EOOD, licensed investment intermediary holding Licence no. ПГ-03-2015 of 15 October 2008, to serve the increase of the capital of Gradus AD; 5. The General Meeting assigns the investment intermediary, First Financial Brokerage House EOOD, with the task to draw up Prospectus for public offering of shares from the capital increase; 6. The General Meeting assigns the Board of Directors with the task to pass all decisions that might be necessary in connection with the Prospectus for public offering of shares from the capital increase, including to approve the Prospectus, to make changes therein, etc; 7. The General Meeting approves the report of the Board of Directors pursuant to article 194, paragraph 4 of the Commercial Act and revokes the privilege rights of shareholders

pursuant to article 194, paragraphs 1 - 3 of the Commercial Act for the acquisition of part of the new shares corresponding to their share in the capital, and therefore, a right to subscribe shares from the capital increase of the Company shall have all natural and legal persons; 8. The GMS approves amendments to the Articles of Association of the company in compliance with the provisions of the Public Offering of Securities Act in accordance with Appendix 1. The amendments shall have an effect only if the Company becomes a public company.

On 16 April 2018, Gradus AD, through the investment intermediary First Financial Brokerage House EOOD, submitted its Prospectus for admission to trading on a regulated market of debt securities.

A General Meeting of Shareholders of Gradus AD was held on 03 May 2018 and the following decisions were passed: 1. The GMS approves the report of the Board of Directors on the company's activity in 2017; 2. The GMS approves the Registered Auditor's Report on the audit of the annual separate financial statements of the company for 2017; 3. The GMS approves the annual separate financial statements of the company for 2017; 4. The GMS approves the Registered Auditor's Report on the audit of the annual consolidated financial statements of the company for 2017; 5. The GMS approves the annual consolidated financial statements of the company for 2017 г.; 6. The GMS decides not distribute the operating profit of the company for 2017, as there is no such profit; 7. The GMS grants the members of the Board of Directors discharge in respect with their activities in 2017; 8. Considering the decision taken on 26 March 2018 by the General Meeting to increase the capital of the company by issuing new shares under the conditions of public offering of shares on Bulgarian Stock Exchange-Sofia AD, the GMS revokes its decision dated 29 December 2017 by virtue of which the Board of Directors, in accordance with article 32, item 5 of the Articles of Association, has been empowered to increase the capital of the company by issuing new shares under the conditions of public offering of shares in compliance with the applicable law in an amount of up to BGN 100,000,000 (one hundred million Bulgarian leva) within up to 2 years, and to clarify all necessary details and to pass all necessary decisions concerning the conditions and organisation of an offering, including the selection of an investment intermediary and the approval of a prospectus for public offering of shares.

A General Meeting of Shareholders of Gradus AD was held on 11 May 2018 in connection with the appointment of a registered auditor to audit and certify the annual financial statements for 2018. The GMS appointed the audit firm Baker Tilly Klitou and Partners OOD.

On 17 May 2018, through the investment intermediary First Financial Brokerage House EOOD, submitted a corrected Prospectus for admission to trading on a regulated market of debt securities.

On 28 May 2018, by **decision no. 542 – E of 28 May 2018**, the Financial Supervision Commission confirmed the Prospectus for public offering of share issue for increasing the capital of Gradus AD.

On 18 and 19 June, the initial public offering took place on Bulgarian Stock Exchange-Sofia AD. Type of offering: IPO Auction. Total of 45,217,420 (forty-five million two hundred and seventeen thousand four hundred and twenty) shares were sold at a price of BGN 1.80 per share for the total amount of BGN 81,391,356 (eighty-one million three hundred and ninety-one thousand three hundred and fifty-six), of which BGN 22,608,710 (twenty-two million six hundred and eight thousand seven hundred and ten) existing shares for the total amount of BGN 40,695,678 (forty million six hundred and ninety-five thousand six hundred and seventy-eight) and 22,608,710 (twenty-two million six hundred and eight thousand seven hundred and ten) new shares for the total amount of BGN 40,695,678 (forty million six hundred and ninety-five thousand six hundred and seventy-eight).

On 17 July 2018, the increase of the capital of Gradus AD was registered with the Commercial Register at the Registry Agency. The company increased its capital from BGN 221,000,000 to BGN 243,608,710.

On 20 July 2018, the issue from the capital increase of Gradus AD was registered with Central Depository AD with c **ISIN BG1100002184**. 243,608,710 shares with nominal value of BGN 1 (one) each, or issue capital of BGN 243,608,710, were registered.

On 30 July 2018, by Decision no. **770 – ПД of 30 July 2018**, the Financial Supervision Commission (FSC) entered Gradus AD as a public company into the register of public companies and other issuers of securities in accordance with article 30, paragraph 1, item 3 of FSCA, kept by the FSC.

On 31 July 2018, at its session held on the grounds of article 33, paragraph 8 of Part III of the Rules for Admission to Trading, the Board of Directors of Bulgarian Stock Exchange-Sofia AD took the following decision: To admit to trading on the BSE Main Market, Standard Equities Segment, the issue of shares issued by Gradus AD-Stara Zagora. The BSE code **GR6** was designated to the share issue.

On 01 August 2018, at its session, the Board of Directors of Gradus AD took a decision to appoint Boryana Dimitrova on the position of Investors Relation Director.

On 06 August 2018, the trading in shares of Gradus AD on the Bulgarian Stock Exchange began.

On 06 August 2018, Gradus placed on the market the French Le Poulet brand of chicken.

Ivan Angelov

/Executive Director/