



GRADUS AD

PRELIMINARY MANAGEMENT REPORT

31 DECEMBER 2018

Management presents their preliminary Management Report for the fourth quarter of 2018.

INFORMATION ABOUT THE COMPANY

REGISTRATION

Gradus AD (the "Company") is a company registered in Bulgaria with the Commercial Register at the Registry Agency under UIC 204882907. The Company is a **parent company**.

The company is of unlimited duration.

Management address:

Republic of Bulgaria,

6000 Stara Zagora, Industrialen quarter, Gradus Poultry Slaughterhouse.

OBJECT OF ACTIVITY

The Company has the following subject of activity: 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.

The results presented in the financial statement of the Company depend directly on the activity of the subsidiaries.

REVIEW OF THE ACTIVITY

Gradus AD as a holding company carries out its subject of activity by managing and representing the following subsidiaries:

As at 31.12.2018 the Group subsidiaries 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

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".

Results for the current period

For the period 01.01.2018 – 31.12.2018 the Company realized a net profit to the amount of BGN 26,711 thousand. The company's loss for the period 27 November 2017 – 31 December 2017 amounts to BGN 1,000.

The Company's **income** is as follows:

Dividend income allocated by the subsidiaries as a result of their trade activity from previous years of BGN 27,175 thousand.

Interest income from loans to Group companies – BGN 309 thousand (2017: 0).

Operating expenses include: general overheads of BGN 814 thousand (2017: 1).

Finance costs of BGN 11 thousand.

Main share capital

As at 31.12.2018, the registered share capital of Gradus AD amounts to BGN 243,609 thousand split into 243,608,710 shares with a nominal value of BGN 1 (one) each.

The shares of Gradus AD are ordinary, registered, dematerialized, voting shares. The Company's capital is paid in full.

As at 30.09.2018 the Company's shareholders are as follows:

- Luka AngelovAngelov – 40.72% of the capital,
- Ivan Angelov – 40.72% of the capital
- Legal entities – 15.65% of the capital
- Individual shareholders – 2.91% of the capital.

Board of Directors

The Board of Directors consists of three (3) members who are as follows as at 31.12.2018:

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

Financial instruments and financial risk

The Company's risk management policy is designed to identify and analyse the risks, to which the Company is exposed with the purpose of establishing limits of undertaking a risk. Based on the analysis made of those risks, the Company develops and introduces respective controls, through which to ensure control on those risks. This policy, as well as the implemented risk management controls are subject to periodic inspection for the purpose of reflecting any changes made to the external and internal conditions, under which the Company operates.

Credit risk

There is credit risk upon the occurrence of loss, when a party to a financial instrument cannot fulfil an obligation under a contractual obligation. The Company is not exposed to credit risk.

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 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.

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.

Financial risk management

The Company's objectives in view of capital management are to ensure its ability to continue existing as a going concern and to ensure adequate profitability for shareholders.

During the period ending 31.12.2018, there were no changes in the capital management objectives, policies or processes.

Prospective future development of the Company

The Board of Directors of Gradus AD believes that the Company needs some additional capital in order to invest in the growth of the Group's activity set in the Investment Policy of Gradus AD. The Board of Directors has taken a decision that it would be most appropriate as regards its financing to increase the capital via public offering on the "Bulgarian Stock Exchange – Sofia" AD.

The investment policy, including the planned target allocation of the funds to be obtained as a result of the capital increase, is described in detail in a Prospectus for public offering of shares, subject to the approval of the Financial Supervision Commission.

Information on material related party transactions

We are not aware of material related party transactions concluded in the period 01.01.2018 – 31.12.2018.

Significant events in 2018 and up to the date of issuance of the preliminary 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 21 May 2018, by virtue of Minutes of the sole owner of the capital of Gradus-1 EOOD, the Board members approved a decision, on behalf of Gradus AD, to distribute part of the operating profit of the company in 2017 amounting to BGN 1,500,000 (one million and five hundred thousand Bulgarian leva) as dividend to the sole owner of the capital;

On 21 May 2018, by virtue of Minutes of the sole owner of the capital of Millenium 2000 EOOD, the Board members approved a decision, on behalf of Gradus AD, to distribute part of the operating profit of the company in 2017

amounting to BGN 10,331,000 (ten million three hundred and thirty-one thousand Bulgarian leva) as dividend to the sole owner of the capital;

On 21 May 2018, by virtue of Minutes of the sole owner of the capital of Zhyuliv EOOD the Board members approved a decision, on behalf of Gradus AD, to distribute part of the operating profit of the company in 2017 amounting to BGN 2,500,000 (two million and five hundred Bulgarian leva) as dividend to the sole owner of the capital;

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 June 2018, by virtue of Minutes of the General Meeting of Gradus-98 AD, the GMS decided that the operating profit of the company in 2017 and the retained earnings carried forward amounting to BGN 6,995,380 (six million nine hundred and ninety-five thousand three hundred and eighty Bulgarian leva) to be distributed as dividend to 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 virtue of 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 01 August 2018, by virtue of Minutes of a meeting of the Board of Directors of Gradus AD, a decision was taken to appoint under an employment agreement Boryana Dimitrova Dimitrova on the position of Investors Relation Director;

On 27 September 2018, by virtue of Minutes for decisions of Gradus AD, the Board of Directors took a decision to distribute part of the profit of Gradus-1 EOOD in 2017 amounting to BGN 1,000,000 (one million Bulgarian leva) as additional dividend to the sole owner of the capital;

On 27 September 2018, by virtue of Minutes for decisions of Gradus AD, the Board of Directors took a decision to distribute part of the profit of Millenium 2000 EOOD in 2017 amounting to BGN 1,000,000 (one million Bulgarian leva) as additional dividend to the sole owner of the capital;

On 27 September 2018, by virtue of Minutes for decisions of Gradus AD, the Board of Directors took a decision to distribute part of the profit of Zhyuliv EOOD in 2017 amounting to BGN 1,000,000 (one million Bulgarian leva) as additional dividend to the sole owner of the capital;

On 27 September 2018, by virtue of Minutes for decisions of Gradus AD, the Board of Directors took a decision to distribute part of the profit of Lora-2004 EOOD in 2017 amounting to BGN 350,000 (three hundred and fifty thousand Bulgarian leva) as additional dividend to the sole owner of the capital;

On 27 September 2018 the Board of Directors of Gradus-98 AD took a decision to convene a General Meeting of Shareholders and the distribution of part of the 2017 profit to be discussed and voted thereat as an agenda item. The General Meeting will be held on 15 November 2018 and as a result of the decision to be taken, it is expected that

Gradus AD, in the capacity as a majority shareholder of Gradus-98 AD, to receive additional dividend of BGN 2,498,350 (two million four hundred and ninety-eight thousand three hundred and fifty Bulgarian leva).

Therefore, the total dividend distributed by the subsidiaries to Gradus AD in 2018 will amount to BGN 27,174,730 (twenty-seven million one hundred and seventy-four thousand seven hundred and thirty Bulgarian leva) and thus, the company will fulfil its commitment to the shareholders taken by the Prospectus for public offering of shares.

The Board of Directors of Gradus AD intends to propose to the General Meeting of Shareholders to be held in 2019 that at least 90% of the company's profit to be distributed in the form of dividends to the shareholders!

Gradus AD

Ivan Angelov
/Executive Director/