

Translation from Bulgarian

**GRADUS AD**

**INTERIM CONSOLIDATED MANAGEMENT REPORT**

*As at 30 June 2024*

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## I. General information about the group

### 1. Registration and business activities

The Gradus Group includes the parent company and its seven 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 June 2024, the Group subsidiaries are:

- **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.

- **Gradus Logistics EOOD \*** (the Company) is registered into the Commercial Register with sole owner of capital "Gradus" AD.

Registered office address: Stara Zagora "Industrialen" Residential District, "Gradus" Poultry Slaughterhouse

\* *Effective percentage of participation*

\*\* *Indirect participation*

#### ***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 and renting of means of transport.

#### **The scope of business activities of the Group companies is as follows:**

- **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, fattening of broilers and hatching of chickens;

- **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.
- **Gradus Logistics EOOD** - the main activity of the company is rental of vehicles.

The parent company and the subsidiaries carry out their business activities in the Republic of Bulgaria.

The parent company holds the following equity interest in the subsidiaries:

- 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.
- Gradus Logistics EOOD - 4000 shares with a nominal value of BGN 100 each representing 100% of the capital of Gradus Logistics EOOD

## 2. Personnel

As of 30 June 2024, the average payroll staff of the Group was 1,155 workers and employees (30 June 2023: 1,229 workers and employees).

## II. An objective overview of the development and performance of the enterprise as well as its condition, together with a description of the main risks it faces

### 1. Current period results of the group

For the period 01 January 2024 – 30 June 2024, the Group has reported an operating profit of BGN 23 101 thousand (for the period 01 January 2023 – 30 June 2023 - an operating profit of BGN 4 433 thousand) and net profit of BGN 20 881 thousand (01 January 2023 – 30 June 2023 - an net profit of BGN 3 800 thousand).

#### REVENUE

*Sales revenue reported by the Group for the reporting period amount to BGN 83 113 thousand, including:*

Sales revenue	1-6/2024 BGN'000	1-6/2023 BGN'000	Change %	Relative share 2024 %
Revenue from sale of finished products	79 544	64 150	24%	94%
Revenue from sale of goods	3 122	2 121	47%	6%
Revenue from sale of services	447	784	-43%	%
<b>Total sales revenue</b>	<b>83 113</b>	<b>67 055</b>	<b>24%</b>	<b>100%</b>

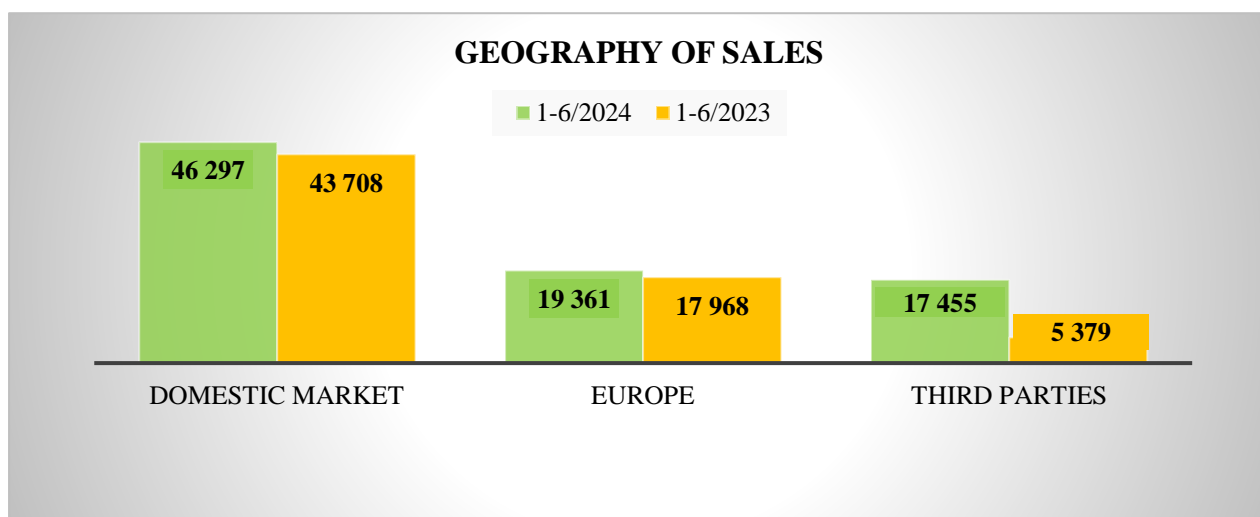
Revenues from production sales for the reporting period increased by BGN 15 394 thousand or by 24% compared to those realized in the same period of 2023, reflecting the overall growth in the markets in which the Group operates, with the greatest weight of transactions executed in the markets of third countries in the Breeding Eggs segment.

Revenues from sales of goods for the reporting period increased by BGN 1 001 thousand or 47,19% compared to the same period of 2023, reflecting the realized transactions in the segment Grains and components on the domestic market.

Revenues from sales of services for the reporting period decreased by BGN 218 thousand or by 51.42% compared to those reported in the same period of 2023.

#### Geography of sales

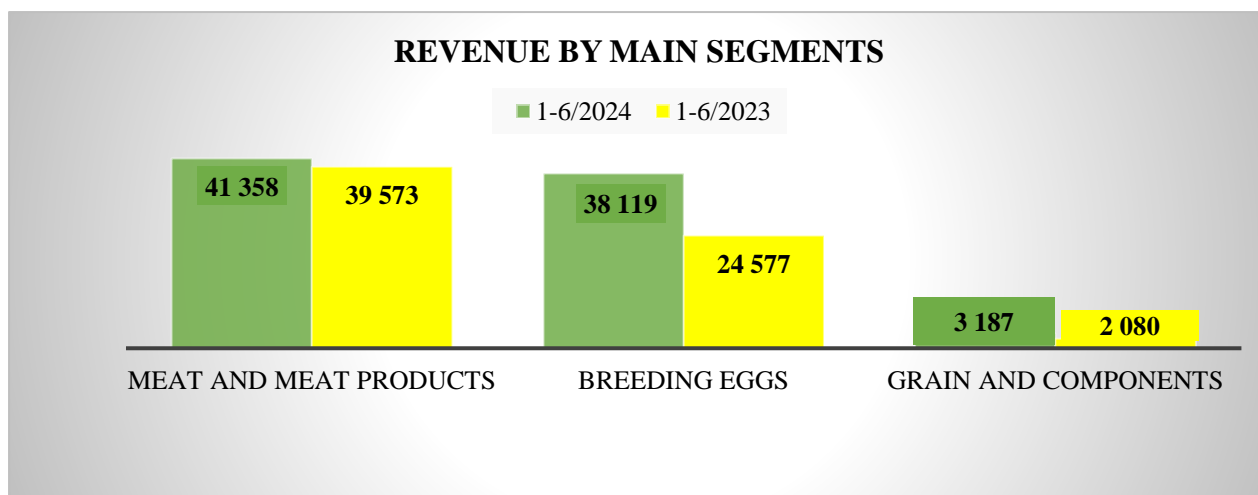
	1-6/2024 BGN'000	1-6/2023 BGN'000	Change %	Relative share 2024 %
Domestic market	46 297	43 708	6%	56%
Europe	19 361	17 968	8%	23%
Third countries	17 455	5 379	225%	21%
<b>Total</b>	<b>83 113</b>	<b>67 055</b>	<b>24%</b>	<b>100%</b>



#### Revenue reported by main segments

	1-6/2024 BGN'000	1-6/2023 BGN'000	Change %	Relative share 2024 %
Meat and meat products	41 358	39 573	5%	50%
Breeding eggs	38 119	24 577	55%	46%
Grain and components	3 187	2 080	53%	4%
Others	449	825	-46%	-
<b>Total</b>	<b>83 113</b>	<b>67 055</b>	<b>24%</b>	<b>100%</b>

For the reporting period, the largest share of sales revenue by main segments is the "Meat and Meat Products" segment with 49,76% of the total revenue BGN 83 113 thousand (For the same period of the previous year, the largest share of sales is the segment "Meat and Meat Products" – 59,02% of the total amount of BGN 67 055 thousand).



#### REVENUE BY MAIN SEGMENTS AND BY MARKET

Main segments	Domestic market		Europe		Third countries	
	1-6/2024 BGN'000	1-6/2023 BGN'000	1-6/2024 BGN'000	1-6/2023 BGN'000	1-6/2024 BGN'000	1-6/2023 BGN'000
Meat and meat products	40 756	39 040	585	430	17	103
Breeding eggs	1 905	1 770	18 776	17 531	17 438	5 276
<i>breeding eggs</i>	1 620	1 551	9 336	6 575	17 438	5 276
<i>one-day-old chicks</i>	285	219	9 440	10 956	-	-
Grains and components	3 187	2 080	-	-	-	-
<b>Total</b>	<b>45 848</b>	<b>42 890</b>	<b>19 361</b>	<b>17 961</b>	<b>17 455</b>	<b>5 379</b>

The management of the group closely monitors the main markets for the realization of the production in the segments in which it operates and takes the necessary measures to ensure optimal economic benefit at the group level.

#### **Segment “Meat and meat products”**

The realized sales revenues in the “**Meat and Meat Products**” segment for the period under review scored a increase by 4,51% or BGN 1 788 thousand compared to the same period of the previous 2023 year.

Inflationary processes in the country and dynamic prices of cereals on world markets suggest future volatility in price levels of meat and meat products.

The focus of the production of Gradus – 1 Ltd. is to continue to increase the quantities of final products with higher demand, higher added value and margins. Part of this strategy is the investment launched in the second quarter to increase the production capacity of cut meat products.

Management expects the strategic reorientation of the subsidiary to continue to bring positive results in the medium term.

#### **Segment „Breeding eggs”**

The realized sales revenues in this segment for the reporting period increased by 55,10% or by BGN 13 542 thousand, compared to the same period of the previous year.

#### *Breeding eggs*

The realized revenues from sales of breeding eggs for the reporting period increased by 111,86% or by BGN 14 992 thousand compared to the same period of the previous year. During the reporting period, there were volatile prices of breeding eggs on international markets.

Revenues from **the domestic market** of breeding eggs recorded a increase of 4,45% or 69 thousand BGN in the same period of 2023.

During the period under review, there was a increase in revenue from sales of breeder eggs on the **European market** by 41,99% or BGN 2 761 thousand compared to the same period of 2023.

The group reported a significant increase in revenues from sales of breeding eggs in **third countries** for the period under review – 230,52% or BGN 12 162 thousand, compared to the same period in 2023, thanks to higher demand and higher prices negotiated by the new management.

#### *Day-old chicks*

The Group realized an decrease in revenue from sales of day-old chicks in the amount of BGN 1 450 thousand or 12,98% in comparison to the same period in 2023.

Realized revenues from sales of day-old chicks on the **domestic market** they have seen a slight increase by 30,14% or BGN 66 thousand, compared to the same reporting period in 2023.

Sales of day-old chickens in **Europe** reported a decrease in revenue by 13,84% or BGN 1 516 thousand compared to the same reporting period in 2023.

#### ***Segment “Grains and components segment”***

For the reporting period the Group realized significant growth in sales of the grain and components segment by 53,22% or BGN 1 107 thousand, compared to the same reporting period of 2023.

The group does not focus on this segment of its business, but if there are good transaction opportunities in this segment, they will be exploited.

The optimization and restructuring processes to reduce costs and increase revenue continue.

***Reported other operating income for the period under review amounted to BGN 11 371 thousand and included:***

<b>Other operating income</b>	<b>1-6/2024 BGN'000</b>	<b>1-6/2023 BGN'000</b>	<b>Change %</b>	<b>Relative share 2024 %</b>
Rental income	219	228	-4%	2%
Gain on sale of materials and FTAs	4 064	247	1545%	36%
Income from financing, including:	6 902	5 689	21%	61%
<i>for the humane rearing of poultry</i>	<i>6 727</i>	<i>5 170</i>	<i>30%</i>	<i>59%</i>
<i>for electric energy</i>	<i>0</i>	<i>267</i>	<i>-100%</i>	<i>-</i>
Others	180	1 738	-89%	1%
<b>Total</b>	<b>11 371</b>	<b>7 902</b>	<b>44%</b>	<b>100%</b>

## **EXPENSES**

*The Group reports operating expenses amounting to BGN 71 399 thousand.*

Operating expenses	1-6/2024 BGN'000	1-6/2023 BGN'000	Changes %	Relative share 2024 %
Changes in stock of finished products and work in progress	(16 076)	(16 247)	-1%	-22%
Expenses on raw materials and materials	49 938	50 792	-2%	70%
Hired service expenses	3 762	3 364	12%	5%
Personnel expenses	17 827	17 297	3%	25%
Depreciation / amortization expenses	3 613	4 122	-12%	5%
Carrying amount of goods sold	3 109	2 182	42%	4%
Impairment of assets	7 597	7 604	-	11%
Other operating expenses including	1 629	1 596	2%	2%
<b>Total</b>	<b>71 399</b>	<b>29 894</b>	<b>1%</b>	<b>100%</b>

During the period under review, the first effects of the optimizations launched by the new management are visible, with *the operating costs* growing significantly slower than the revenues. The change for the period of operating expenses is BGN 689 thousand or 0.97% more compared to those reported in the same period of 2023. (Detailed information on the costs of the activity can be seen on pages 14-15 of the Explanatory Notes to the Consolidated Report).

The cost of raw materials decreased by BGN 854 thousand or 1,68% compared to the same period in 2023 (p. 14, note 27);

The cost of external services has increased slightly by BGN 398 thousand. or by 11,83% compared to those reported in the same period of 2023. (p. 14, note 28);

Personnel costs in the reporting period of 2024. have increased by BGN 530 thousand. or by 3,06%, compared to those reported in the same period of 2023.

For the reporting period, depreciation expenses decreased by BGN 509 thousand. or by 12,35% compared to those reported in the same period of 2023.

The book value of the goods sold has increased by BGN 927 thousand. or by 42,48% compared to those reported in the same period of 2023. This is due to sales of goods located in the "Grains and components" segment.

Other operating expenses increased slightly by BGN 33 thousand. Lv. or by 2,07%.

## FINANCE INCOME AND FINANCE COSTS

Finance income	1-6/2024 BGN'000	1-6/2023 BGN'000	Change %	Relative share 2024 %
Interest income on loans granted	92	155	-41%	100%
<b>Total</b>	<b>92</b>	<b>155</b>	<b>-41%</b>	<b>100%</b>



<b>Finance costs</b>	<b>1-6/2024 BGN'000</b>	<b>1-6/2023 BGN'000</b>	<b>Change %</b>	<b>Relative share 2024 %</b>
Interest expenses on bank loans received	134	45	198%	64%
Bank charges	64	52	23%	30%
Negative differences from changes in net exchange rates.	3	80	-96%	1%
Interest expenses on leasing agreements	8	-	-	4%
Other finance costs	2	-	-	1%
<b>Total</b>	<b>211</b>	<b>177</b>	<b>19%</b>	<b>100%</b>

## 2. 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 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 to reflect any changes in the external and internal conditions in which the subsidiaries operate.

The continuing uncertainty regarding the expected economic development at the national, regional and global levels, as well as the observed inflationary processes, are a challenge in determining the Group's strategy and may affect its results. The geopolitical risk associated with the conflict in Ukraine may have a negative effect on economic processes in Bulgaria and the region, as well as in particular on supply chains in a number of sectors of the economy, and hence affect the Group's operations. This uncertainty creates risks that the Group analyses and assesses.

### **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.

#### Political risk

Political risk is the probability 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 to incur losses.

At the date of the report, the political instability in our country is again a significant factor in the economy of the country.

The political situation in the Group's export markets has a significant effect on the Group's operations and financial position. Russia is inaccessible as a breeding egg market for the group.

At the date of the report, the Russian invasion of Ukraine creates prerequisites for uncertainty and negative consequences for Bulgaria in many dimensions, including economic ones.

#### Macroeconomic risk

This is the risk of macroeconomic shocks, which are measured by economic stability and the prospects for growth 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.

### 3. Key ratios analysis

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)**

	1-6/2024	1-6/2023
Pre-tax profit	23 101	4 433
Income	83 113	67 055
<b>Gross profit margin</b>	<b>27.94%</b>	<b>6.61%</b>

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

	1-6/2024	1-6/2023
EBITDA (Earnings before interest, taxes, depreciation and amortisation)	26 833	8 577
Income	83 113	67 055
<b>EBITDA margin</b>	<b>32.28%</b>	<b>12.79%</b>

- **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.

30.06.2024 31.12.2023

Total liabilities	37 623	39 720
Total assets	330 596	326 290
<b>Debt to Assets Ratio</b>	<b>0.11</b>	<b>0.12</b>

#### 4. Prospective future development of the Group

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

- increasing efficiency in broiler fattening, increasing the production and marketing of breeding eggs, as well as achieving full compliance with all European standards for the protection of the environment;
- full utilization of production and investments in new capacities;
- development of existing and new business lines related to the production of high-margin food products.

### III. Important events for Gradus AD Group that occurred during the reporting period

On 29.02.2024, Gradus AD notified of significant shareholding under Art. 145 of the Public Offering of Securities Act - carried out transactions for the sale of respectively: 517 000, 11 306 857 and 1 009 446 shares with voting rights from the capital of Gradus AD, representing 5.27% of the company's capital.

On 09.05.2024 Gradus AD presented an invitation to convene a general meeting of shareholders and materials for a general meeting of shareholders, which will be held on 28-06-2024 at 11:00 am in Stara Zagora, with the following agenda:

The Board of Directors of Gradus AD on the grounds of art. 223 of the Commercial Act convenes a regular Annual General Meeting of Shareholders of Gradus AD (the Company), which will be held on 28.06.2023, at 11:00 am, and in coordinated universal time – 08.00 in Sofia. Stara Zagora 6009, Park Hotel Stara Zagora, ul. 50 Khan Asparuh, Tervel Hall, with the following agenda:

1. Adoption of a Report of the Board of Directors on the activities of the Company in 2023;

Draft resolution: The General Meeting of Shareholders adopts the Report of the Board of Directors on the activities of the Company for 2023;

2. Adoption of a Report of the registered auditor for an inspection of the annual financial statements of the Company for 2023;

Draft resolution: The General Meeting of Shareholders adopts the Report of the registered auditor for an inspection of the annual financial statements for 2023;

3. Adoption of the annual financial statements of the Company for 2023;

Draft resolution: The General Meeting of Shareholders adopts the annual financial statements of the Company for 2023;

4. Approval of a report on the activities of the Investor Relations Director of the Company for 2023;

Draft resolution: The General Meeting of Shareholders adopts a report on the activities of the Investor Relations Director of the Company for 2023;

5. Adoption of a Report of the Audit Committee on its activities in 2023;

Draft resolution: The General Assembly adopts a Report of the Audit Committee on its activities in 2023

6. Proposal for profit distribution for 2023

Draft decision:

The General Meeting of Shareholders in Gradus AD decides that the profit of the Company for 2023, which is BGN 5 100 045.23, will remain undistributed.

7. Taking a decision for discharge of the members of the Board of Directors of the Company for their activities in 2023;

Draft resolution: The General Meeting of Shareholders releases from responsibility the members of the Board of Directors of the Company for their activities in 2023;

8. 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 2023

Draft resolution: The General Assembly adopts a Report of the Board of Directors on the implementation of the Remuneration Policy of the members of the Board of Directors.

**On 14.06.2024** Gradus AD presented an updated invitation for convening a Regular General Meeting of Shareholders and materials for a General Meeting of Shareholders, which will be held on 28-06-2024. at 11:00 a.m. in Stara Zagora,

Park-Hotel Stara Zagora, ul. 50 Khan Asparuh Street, Tervel Hall with a proposal under Art. 118, para. 2, item 4 of the POSA, for making a decision under item 6 of the previously announced agenda in the following sense:

6.1. The General Meeting of Shareholders in Gradus AD distributes the Company's profit for 2023, which is BGN 5,100,045.23, as follows:

- Part of the profit, which is in the total gross amount of BGN 5,000,000, is distributed to the shareholders of the Company as an annual dividend. The gross unit annual dividend will be determined within the stipulated under Art. 115c, para. 3 of the POSA, as the company is in a procedure for redemption of its own shares.

- the balance of the Company's profit for 2023 in the amount of BGN 100,045.23 is attributed to the retained earnings of the Company;

6.2. Terms and Conditions for Profit Distribution: (i) Start of Dividend Payment: 28.08.2024; (ii) Dividend payment period: three months; (iii) Method of payment of the dividend: through Central Depository AD and branches of UniCredit Bulbank AD.

The proposal was announced under Art. 223a, para. 1 of the CA in the TRRYULNT with entry 20240614104440.

**On 28.06.2024** Gradus AD presented the minutes of the General Meeting of Shareholders held on 28.06.2024 at 11:00 a.m. (and in coordinated universal time – 8:00 a.m.) Stara Zagora 6009, Park-Hotel Stara Zagora, ul. 50 Khan Asparuh Street, Tervel Hall. The General Meeting of Shareholders of Gradus AD made the following decisions:

1. The General Meeting of Shareholders adopts the Report of the Board of Directors on the Company's activities for 2023.

2. The GMS adopts the Report of the Registered Auditor for the audit of the annual financial statements for 2023;

3. The General Meeting of Shareholders adopts the annual financial statements of the Company for 2023;

4. The GMS adopts a report on the activities of the Investor Relations Director of the Company for 2023;

5. The GMS adopts a Report of the Audit Committee on its activities in 2023;

6. The GMS does not adopt a decision on the Company's profit for 2023, which is BGN 5,100,045.23;

6.1. The GMS does not adopt a decision to distribute part of the Company's profit for 2023 in the amount of BGN 5,000,000.00;

7. The GMS releases the members of the Board of Directors of the Company from liability for their activities in 2023;

8. The GMS adopts a Report of the Board of Directors on the implementation of the Remuneration Policy for the members of the Board of Directors.

#### **IV. Information on transactions and/or interested parties, as well as information on newly arisen material receivables and/or liabilities for the relevant reporting period**

The group has not entered into large related party transactions outside its normal business. The information on related party transactions is disclosed in the notes (note 34, p. 20) to the interim consolidated financial statements for the period January – June 2024.

GRADUS GROUP

EXECUTIVE DIRECTOR:

/Georgi Babev/

CHAIRMAN OF THE BOARD OF DIRECTORS:

/Angel Angelov/