



Translation from Bulgarian

GRADUS AD

MANAGEMENT REPORT

As at 30 September 2019

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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 30.09.2019 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”.

At present, management of Gradus AD is not aware of any specific trends and events, which would directly influence the Company's future activity.

OBJECT OF ACTIVITY OF THE COMPANY

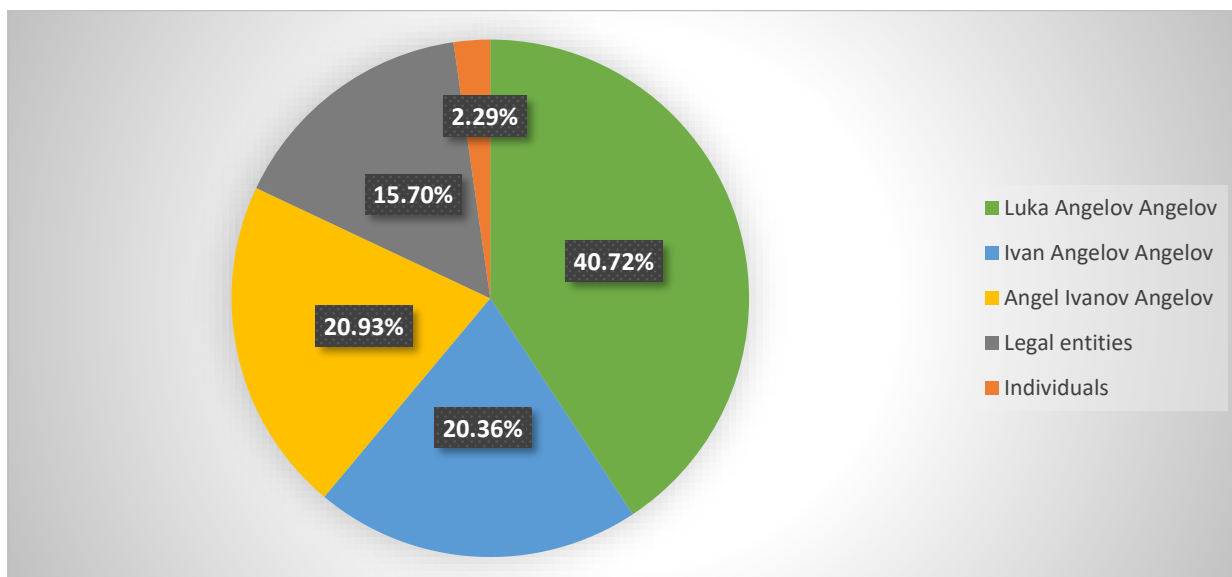
The object of activity of the Company is: Investments in stocks and shares of companies, acquisition and management of shares in Bulgarian and foreign companies; activity as a holding company; acquisition, assessment and sale of patents, concession of licenses for the use of patents of companies, in 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 June 2019 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 2019.



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 Sep. 2019:

- 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:

- Radka Dincheva Peneva – Chair 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 2019 is 3 persons hired under employments contracts:

- Investor Relations Director
- Chief Risk Officer
- Chief Accountant

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. Indicators characterising the operating results

Being a holding company, Gradus AD carries out no independent commercial activity. The Company's activity is focused on management of subsidiaries and allocating financial resources among them.

3. 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.

Main indicators related to profit, which the Company monitors, are as follows:

- **EBITDA margin (EBITDA/sales)**

	30.09.2019	30.09.2018
EBITDA (earnings before interest, taxes, depreciation and amortisation)	6 030	24 065
Revenue	6 393	24 799
EBITDA margin	94.32%	97.04%

EFFECTIVENESS

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

	30.09.2019	30.09.2018
Total expenses	422	714
Total income	6 393	24 799
Costs effectiveness	0.07	0.03

Revenue effectiveness ratio (total income /total expenses)

	30.09.2018	30.09.2018
Total income	6 393	21 326
Total expenses	422	393
Revenue effectiveness	15.15	54.26

The analysis of the revenue and costs effectiveness for 2019 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 2019 – 30 September 2019, the Company realized net profit of BGN **6,026** thousand (for the period 01 January 2018 – 30 September 2018 - the Company realized net profit of BGN **24,124** thousand).

The reports reported on the financial statements of the Company are directly dependent on the activity of its subsidiaries.

2.1.1. Income of the Company:

INCOME	01-09/2019 <i>in BGN'000</i>	01-09/2018 <i>in BGN'000</i>	Change %	Relative share for 2019 %
Operating income				
Dividend income	5 998	24 676	-76	94%
Finance income				
Interest income	395	123	221	6%
Total	6 393	24 799	-74	100%

- The main income for the period 01 January 2019 – 30 September 2019 having the greatest impact on the current financial result of the Company, originates from distribution of dividends by the subsidiaries, which are as a result of their commercial activity carried out in the current year of 2018.

- The main income for 01 January 2018 – 30 September 2018 having the greatest impact on the current financial result of the Company, originates from distribution of dividends by the subsidiaries, which are as a result of their commercial activity carried out in **previous years**.

Dividend income by companies:

Subsidiary	01-09/2019 in BGN'000	01-09/2018 in BGN'000	Relative share %
Millennium 2000 EOOD	1 000	11 331	17%
Gradus-98 АД	2 498	6 995	42%
Zhyuliv EOOD	2 000	3 500	33%
Gradus-1 EOOD	-	1 500	-
Lora-2004 EOOD	500	350	8%
Total	5 998	24 676	100.00%

- Interest income relate to loans granted to subsidiaries.

Terms and conditions of loans to subsidiaries:

Subsidiary	Currency	Agreed principal BGN'000	Maturity	Interest %	Balance at 30 Sep. 2019	Balance at 31 December 2018
„Gradus-3“ AD	BGN	12 000	17.07.2019	1,05%	10 296	11 998
	BGN	1 000	02.08.2019	1,05%	-	-
	BGN	5 000	27.08.2019	1,05%	-	4 999
	BGN	3 000	03.09.2019	1,05%	-	2 999
„Gradus-1“ EOOD	BGN	12 000	17.07.2019	1,05%	11 998	11 998
	BGN	1 000	05.08.2019	1,05%	300	1 000
	BGN	1 000	14.08.2019	1,05%	1 000	1 000
	BGN	5 400	27.08.2019	1,05%	5 398	5 398
Millennium 2000 EOOD	BGN	5 000	17.07.2019	1,05%	3 299	4 999
Lora-2004 EOOD	BGN	11 000	17.07.2019	1,05%	10 898	10 998
Total amount		56 900			43 189	55 389

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.

2.1.2. Expenses of the Company:

Operating results:

EXPENSES	01-09/2019 in BGN'000	01-09/2018 in BGN'000	Change %	Relative share for 2019 %
Operating expenses				
<i>Expenses by nature</i>				
Expenses on materials	5	-	-	1%
Hired service expenses	76	390	-81%	18%
Depreciation / amortization expenses	1	-	-	-

Expenses on wages and social security payments	315	283	11%	75%
Other expenses	25	21	19%	6%
Total:	422	694	-39%	100%
Finance costs				
Bank charges	-	20		
Total:	-	20		
Total operating expenses	422	714		

During the reporting period, the hired service expenses held the highest share of costs. A detailed breakdown of expenditure can be found in the Notes to the financial statement.

2.2. Risk factors for the activity

At present, management of Gradus AD is not aware of any specific trends and events, which would directly influence the Company's future activity.

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

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 June 2019.

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 June 2019.

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

Notifications of disclosure of significant shareholding were submitted to Gradus AD by Ivan Angelov Angelov and Angel Ivanov Angelov on 07 June 2019.

According to the facts disclosed in these Notifications, Ivan Angelov Angelov transferred to Angel Ivanov Angelov, through donation, 49,597,822 shares, or 20.36% of the capital of Gradus AD.

A regular General Meeting of Shareholders (GMS) was held on 10 June 2019 and the following decisions were taken:

1. The GMS approves the annual Report of the Board of Directors on the activity of the company in 2018;
2. The GMS approves the Registered Auditor's Report on the audit of the annual financial statements of the Company for 2018;
3. The GMS approves the annual financial statements of the Company for 2018;
4. The GMS approves the annual Report on the activity of the Investor Relations Director in 2018;

5. 1) The GMS approves the members of the Audit Committee, nominated by the Board of Directors of the Company, namely: - Radka Dincheva Peneva – Chair of the Audit Committee; Petya Radoslavova Panova-Ivanova – Member of the Audit Committee, and Georgi Aleksandrov Babev – Member of the Audit Committee. 2) The GMS sets gross monthly remuneration of BGN 250 /two hundred and fifty/ for each one of the members of the Audit Committee;

6. The GMS approves Remuneration Policy of the Company, as proposed by the Board of Directors;

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

8. The GMS approved the recommendation of the Board of Directors on the distribution of the Company's profit earned in 2018, as follows: - The total amount of the profit to be distributed is BGN 26,700,772.43 (twenty-six million, seven hundred thousand, seven hundred and seventy-two Bulgarian leva and forty-three stotinki), including BGN 24,360,871 (twenty-four million, three hundred and sixty thousand, eight hundred and seventy-one Bulgarian leva) for payment of dividend of BGN 0.10 per share. The remaining balance after the distribution of BGN 2,339,901.43 (two million, three hundred and thirty-nine thousand, nine hundred and one Bulgarian leva and forty-three stotinki) shall be taken to the Company's retained earnings. Persons, who are registered with the Central Depository as shareholders on the 14th day after the date of the General Meeting at which the annual financial statements were approved and a decision was taken to distribute the profit, shall have the right to receive dividend. Expenses on paying the dividend are borne by the Company. The dividend shall be paid through the Central Depository and branches of UniCredit Bulbank AD;

9. The GMS exonerates from responsibility the members of the BD of the Company for their activity in 2018;

10. The BD proposed the following amendments and supplementations to the Company's Statute: 1) A new item 18 shall be added to article 32 of the Statute „Competence of the Board of Directors“, which shall read as follows: „18. Approves the annual consolidated financial statements of the Company“, 2) The current item 18 of article 32 of the Statute becomes item 19.

IV. Information about the shares of Gradus AD

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

Since 15 March 2019, the issue of Gradus AD (GR6) has been part of the main indices of BSE, namely SOFIX, BG40, BGTR30.

	30 September 2019
Total number of shares issued	243 608 710
Number of shares in circulation as at 30 June 2019	243 608 710
Net profit per share in BGN	0,025
Price of share at the beginning of the period	1,705
Price of share at the end of the period	1,720
Market capitalisation as at 30 June 2019 in BGN	419 006 981

Trading in shares of Gradus AD on BSE AD over the period 01 January 2019-30 September 2019



28 October 2019

EXECUTIVE DIRECTOR:

/Ivan Angelov/

CHAIRMAN OF BD:

/Luka Angelov/