



GRADUS AD

Incorporated as a joint-stock company under the laws of the Republic of Bulgaria, with registered office in the region of Stara Zagora, Stara Zagora, Industrial Area, Gradus Poultry Slaughterhouse; entered in the Commercial Register under UIC 204882907

Public offering of up to 55,555,556 (fifty-five million five hundred fifty-five thousand five hundred and fifty-six) ordinary registered shares with a nominal value of BGN 1 per share

This document is a prospectus for the public offering of up to 55,555,556 ordinary shares issued by Gradus AD ("**Company**" or "**Issuer**"), each with a par value of BGN 1 ("**Offering**"). The offering consists of up to 27,777,778 new shares proposed for subscription in the Company's capital increase ("**New Shares**") and up to 27,777,778 existing shares ("**Existing Shares**"). In addition, the Manager of the Offering has the right to further over-allot up to 6,638,888 Shares ("**Over-Allotted Shares**" and together with the New Shares and Existing Shares, "**Offered Shares**"). The offer is made based on a prospectus in the form of a single document, as referred to in Article (3) of Directive 2003/71/EC of the European Parliament and of the Council ("**Prospectus Directive**"), which prospectus has been approved by the Financial Supervision Commission ("**FSC**") pursuant to the Public Offering of Securities Act ("**POSA**"). Immediately after the registration of the New Shares in the Commercial Register, Central Depository AD, and FSC, an application will be submitted for admission to trading of the Offered Shares and all shares of Gradus AD ("**Shares**") on the Main Market of the Bulgarian Stock Exchange ("**Bulgarian Stock Exchange**" or "**BSE**").

The investment in the securities presented in this Prospectus is associated with a high risk typical for equity financial instruments as well as risks related to the Company's business. The risks to be considered when deciding to invest in the Offered Shares are described in the Risk Factors section of this Prospectus.

This Prospectus does not constitute an offer for subscription or an invitation to offer subscription of the Offered Shares by persons in any jurisdiction where making such an offer or invitation to such persons would be unlawful. The public offering of the Offered Shares will take place only on the territory of the Republic of Bulgaria.

Investors also acknowledge that: (i) they have not relied on First Financial Brokerage House EOOD ("**FFBH**", "**Lead Manager**") or any person affiliated with FFBH in connection with the investigation as to the accuracy of any information contained in this Prospectus or their investment decisions; (ii) they have relied solely on the information contained in this document and no person has been authorized to submit any information or make any representations concerning the Company or the Offered Shares (other than those contained in this Prospectus) and, if given or made, any such other information or representation should not be relied upon as having been authorized by the Company or FFBH.

The date of this Prospectus is 16.05.2018.

FSC CONFIRMED THIS PROSPECTUS BY DECISION No. 542-E OF 28.05.2018, WHICH DOES NOT CONSTITUTE A RECOMMENDATION FOR INVESTMENT IN THE OFFERED SHARES. FSC IS NOT RESPONSIBLE FOR THE ACCURACY AND COMPLETENESS OF THE DATA CONTAINED IN THIS PROSPECTUS.

RESPONSIBILITY STATEMENT

Gradus AD, as the issuer of the securities, and the investment intermediary First Financial Brokerage House EOOD, as Manager of the Offering ("**Manager**"), assume the responsibility for the completeness and accuracy of the information contained in the Prospectus. The representatives of Gradus AD and FFBH General manager declare with their signatures at the end of the document that, to the best of their knowledge, this Prospectus contains all the information about the Issuer that is material in the context of the Offering and nothing has been omitted that may affect its accuracy or completeness. In addition, according to Article 81, paragraph 2 of the Public Offering of Securities Act, the representatives of Gradus AD and First Financial Brokerage House EOOD declare with their signatures at the end of the document that the Prospectus complies with the requirements of the law. The opinions, assumptions and intentions expressed in this Prospectus with regard to the Group are honestly held by the Company, have been reached after considering all relevant circumstances and are based on reasonable assumptions.

The members of the Board of Directors of Gradus AD, the Offerors, and FFBH EOOD, through their manager, will be held jointly and severally liable for any and all damages caused by incorrect, misleading, or incomplete data in the Prospectus. The persons responsible for the preparation of the Financial Statements (see "*Additional Information - Preparation of the Financial Reports*") will be jointly and severally liable with the persons of the preceding sentence for any and all damages caused by incorrect, misleading or incomplete data in the financial statements of the Company, and the auditors of the Company (see "*Additional Information - Independent Registered Auditors*") will be jointly and severally liable with the persons of the preceding sentence for damages caused by the audit reports issued on the audited financial statements of the Company. In view of this, the aforementioned persons have declared the relevant circumstances under Article 81, paragraph 5 of the Public Offering of Securities Act and have submitted these declarations to the FSC. Data on the persons under Article 81, paragraph 5 of the Public Offering of Securities Act are stated at the end of this document.

IMPORTANT INFORMATION

The capitalized terms and phrases in this Prospectus, which are not otherwise defined in the document, shall have the meaning given in "*Abbreviations and Definitions*". "*Abbreviations and Definitions*" also explains some terms used in the Prospectus.

Unless otherwise indicated or understood, the terms "we", "us", "our" and the like in the Prospectus shall refer to Gradus AD.

Unless otherwise stated, all references to statements of assurance, knowledge, expectation, forecasts, and opinions of the Company or the management shall refer to the Board of Directors.

Neither the Company, nor FFBH provide any guarantee of the compliance with the law of the investment in the Offered Shares by any investor.

This Prospectus aims to provide information to potential investors in the context and for the sole purpose of evaluating a possible investment in the Offered Shares covered by this document. It contains selected and summarized information, does not represent commitment or recognition or denial of rights, and no direct or indirect rights are created to any other than to a potential investor in the context of the Offering. The Prospectus may not be used except in connection with the promotion of the Offering. The contents of this Prospectus cannot be interpreted as an interpretation of the Company's obligations, market practices or of the contracts entered by the Company.

Potential investors are explicitly informed that investing in the Offered Shares results in a financial risk and they should therefore read this Prospectus in its entirety and in particular the *Risk Factors* section when considering an investment in the Offered Shares. When making an investment decision, potential investors must rely on their own research and the information contained in the Prospectus, including the benefits and risks associated with the investing in the Offered Shares.

Any decision to invest in the Offered Shares should be based solely on this Prospectus (and any appendices thereto), given that any summary or description contained in this Prospectus, or legal provisions, accounting principles or a comparison of such principles, corporate structure are for informational purposes only and

should not be considered as legal, accounting or tax advice for the interpretation or application of such provisions, information, or relationships.

Except as provided in mandatory legal provisions, no person is authorized to provide information or to provide statements in relation to the Offering other than those contained in this Prospectus and, should such be provided, should not be considered as given with the permission of the Company, the Offerors or FFBH.

The Company has provided the Prospectus for confirmation by the FSC. The prospectus was prepared in accordance with POSA, Regulation No 809/2004, and other applicable regulations regulating the public offering of securities in Bulgaria.

The contents of this Prospectus should not be considered as legal, financial or tax advice. Investors are advised to consult their own legal advisor, an independent financial adviser, or a tax adviser on legal, financial or tax matters.

Neither the presentation of this Prospectus nor any offering, sale or transfer made on its basis after this date shall in any circumstances result in the presumption that no changes in the Company or Group status have occurred since this date or that the information presented in this Prospectus as a whole is up to date at any date after the date of the Prospectus.

In connection with the Offering, the Manager acting as an Investor on its own account may acquire Shares and, as such, may retain, purchase, sell, offer for sale, or otherwise dispose on its own account with those securities, other securities of Gradus AD or other related investments in connection with the Offering or otherwise. The manager does not intend to disclose the amount of such investments or transactions in any other way except in accordance with the statutory obligations to do so.

PRESENTATION OF FINANCIAL INFORMATION

Unless otherwise indicated, the financial information in this document was prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU.

Anyone who considers acquiring Shares should rely on their own research of the Issuer, the terms of the Offering, and the financial information in this document.

Some data contained in this document, including financial information, have been subject to rounding and approximations. In this respect, in some individual cases, the sum of the numbers in a column or row of tables or percentage calculations contained in this document may not accurately correspond to the total figure given in the corresponding column or line.

PRESENTATION OF MARKET AND ECONOMIC INFORMATION

The market, economic, and industry information used in this document was derived from various professional and other independent sources. The accuracy and completeness of such information is not guaranteed.

The information contained in this document on the industry in which Gradus AD and its competitors operate (which may include assessments and approximations) was derived from publicly available information, including publications and disclosures, as required by the applicable law for securities and other statutory instruments. Gradus AD confirms that such information is correctly reproduced from its sources and, as far as Gradus AD is aware and capable of establishing, no facts are omitted, which could misrepresent the reproduced information or represent it in a misleading way. However, the Company relied on the accuracy of this information without conducting an independent review. Some information in this document regarding Bulgaria was derived from documents and other official, public, and private sources, including of participants in capital markets and the financial sector in Bulgaria. It should not be considered that there is complete uniformity in the information provided among all these sources. In this respect, the Company assumes responsibility only for the accurate reproduction of samples from the relevant sources of information. The Company does not assume any additional or any other liability with respect to the reproduced information.

INFORMATION ON THE COMPANY WEBSITE

Except for the documents to which the prospectus refers, the content of the website of Gradus AD is not part of this Prospectus.

CONTENTS

1. SUMMARY	1
<i>Section A - Introduction and disclaimer</i>	<i>1</i>
<i>Section B - Issuer</i>	<i>1</i>
<i>Section C - Securities.....</i>	<i>7</i>
<i>Section D – Risk factors</i>	<i>9</i>
<i>Section E - Offering.....</i>	<i>12</i>
2. RISK FACTORS	16
<i>Systemic risks</i>	<i>16</i>
<i>Risks related to the Group's business and the sector in which the Group operates</i>	<i>20</i>
<i>Risks related to the shares.....</i>	<i>27</i>
3. USE OF PROCEEDS	30
4. DIVIDENDS AND DIVIDEND POLICY	31
<i>Dividend history.....</i>	<i>31</i>
<i>Dividend policy</i>	<i>31</i>
<i>Distribution of dividends</i>	<i>32</i>
5. CAPITALIZATION AND INDEBTEDNESS.....	33
<i>Capitalization and indebtedness</i>	<i>33</i>
<i>Indirect and conditional obligations.....</i>	<i>34</i>
6. SELECTED HISTORICAL FINANCIAL INFORMATION.....	35
<i>Statement of Comprehensive Income.....</i>	<i>35</i>
<i>Statement of Financial position.....</i>	<i>36</i>
<i>Cash flow statement.....</i>	<i>37</i>
<i>Profit before interest, tax, and depreciation (EBITDA)</i>	<i>37</i>
<i>Distributed dividends during the period of historical financial information</i>	<i>37</i>
7. UNAUDITED PRO FORMA FINANCIAL INFORMATION.....	38
<i>Assurance report by the independent auditor on the process to compile unaudited pro forma financial information included in a prospectus</i>	<i>38</i>
<i>Unaudited pro forma financial information</i>	<i>41</i>
8. OPERATIONAL AND FINANCIAL REVIEW	44
<i>Overview</i>	<i>44</i>
<i>Common factors influencing operational and financial performance</i>	<i>45</i>
<i>Financial review of Gradus AD.....</i>	<i>48</i>
<i>Operating results.....</i>	<i>48</i>
<i>Capital resources, cash flows, and indebtedness.....</i>	<i>52</i>
<i>Capital expenditures</i>	<i>54</i>
<i>Financial review of Gradus-1 EOOD.....</i>	<i>55</i>
<i>Operating results.....</i>	<i>55</i>
<i>Capital resources, cash flows and indebtedness.....</i>	<i>61</i>
<i>Capital expenditures</i>	<i>64</i>
<i>Financial review of Gradus-3.....</i>	<i>65</i>

Operating results.....	65
Capital resources, cash flows and indebtedness.....	70
Conditional obligations.....	73
Capital expenditures	74
<i>Financial review of Milenium 2000 EOOD</i>	<i>75</i>
Operating results.....	75
Capital resources, cash flows and indebtedness.....	80
Capital expenditures	82
<i>Financial review of Gradus-98 AD</i>	<i>83</i>
Operating results.....	83
Capital resources, cash flows and indebtedness.....	87
Capital expenditures	90
<i>Financial review of Zhyuliv EOOD.....</i>	<i>91</i>
Operating results.....	91
Capital resources, cash flows and indebtedness.....	95
Capital expenditure.....	97
<i>Financial Review of “Lora-2004” EOOD.....</i>	<i>98</i>
Revenue	98
Capital resources, cash flows and indebtedness.....	102
Capital expenses.....	105
<i>Current and Planned Investments</i>	<i>106</i>
<i>Working Capital Declaration</i>	<i>107</i>
<i>Trends and outlook.....</i>	<i>107</i>
<i>Recent Developments.....</i>	<i>108</i>
9. BUSINESS OVERVIEW	109
General Overview	109
History	109
Group’s business structure	112
Competitive advantages.....	113
Strategy.....	117
Business plan	117
Products	120
Production quality control, biological safety, humane treatment of birds during transport and slaughter, environmental protection	123
Gradus Group’s Subsidiaries – General information.....	127
Research and development	130
Permits, licenses, and mandatory registrations	130
Main suppliers.....	132
Production capacities, technologies and facilities	134
Sales and marketing	137
Main markets and competitors	140
Material contracts.....	145
Insurance coverage	146
Significant fixed and intangible assets	146
Judicial, administrative and arbitration proceedings	147

<i>Intellectual ownership</i>	<i>148</i>
<i>Employees</i>	<i>149</i>
10. INDUSTRY OVERVIEW	152
<i>The Bulgarian economy</i>	<i>152</i>
<i>Poultry production and meat market</i>	<i>154</i>
11. GENERAL INFORMATION ABOUT THE COMPANY	161
<i>Basic information</i>	<i>161</i>
<i>Scope of business activity</i>	<i>162</i>
12. MANAGEMENT AND CORPORATE GOVERNANCE	163
<i>General rules</i>	<i>163</i>
<i>Members of the Board of Directors</i>	<i>164</i>
<i>Family relationships</i>	<i>169</i>
<i>Other information related to the members of the Board of Directors</i>	<i>170</i>
<i>Conflict of interests</i>	<i>170</i>
<i>Every senior manager which is relevant to assess Issuer knowledge and experience in running its economic activity</i>	<i>170</i>
<i>Participation of members of the Board of Directors in the Offering</i>	<i>171</i>
<i>Remunerations and compensations</i>	<i>171</i>
<i>Information on the BoD members' contracts with the Company or any of its subsidiaries that provide severance benefits</i>	<i>171</i>
<i>Expiration dates for the members of the Board of Directors mandates and the period they have held the position</i>	<i>171</i>
<i>Shareholders structure and Information on options for such shares as of the Prospectus date</i>	<i>171</i>
<i>Details on the Audit Committee of the Company</i>	<i>173</i>
<i>Corporate governance</i>	<i>173</i>
13. MAJOR SHAREHOLDERS	174
<i>Control over the Company</i>	<i>174</i>
<i>Selling Shareholders</i>	<i>174</i>
<i>Temporary ban on the sale of Shares (Lock-up period)</i>	<i>174</i>
14. DILUTION	175
15. RELATED-PARTY TRANSACTIONS	178
16. SHARE CAPITAL AND RIGHTS AND OBLIGATIONS RELATED TO THE SHARES AND GENERAL MEETING	187
<i>Share capital</i>	<i>187</i>
<i>Increase and decrease of share capital</i>	<i>188</i>
<i>Rights and Obligations attached to the Shares</i>	<i>189</i>
<i>Decisions, Authorizations and Approvals for current Offering of Securities</i>	<i>198</i>
<i>Public takeover bids</i>	<i>199</i>
<i>Information on the shares subject to the public offering</i>	<i>199</i>
17. TERMS OF OFFERING	201
<i>Terms of public offering</i>	<i>201</i>
<i>IPO auction</i>	<i>202</i>
<i>Offering Currency</i>	<i>203</i>

<i>Disclosure of information in relation to Offering.....</i>	<i>203</i>
<i>Address and contact person</i>	<i>204</i>
<i>Start of the Offering and initial date for shares purchase</i>	<i>204</i>
<i>Deadline for purchase / transfer of shares</i>	<i>204</i>
<i>Offering schedule</i>	<i>204</i>
<i>Possibility for extending the term for offering the shares</i>	<i>204</i>
<i>Termination, deferment or suspension of the Offering</i>	<i>205</i>
<i>Ability to reduce / increase the number of offered shares</i>	<i>206</i>
<i>Minimum and maximum number of shares that can be acquired by one person</i>	<i>206</i>
<i>Terms and procedure for purchase of shares, including terms for filling in forms and submission of documents by investors; terms, procedure and deadline for withdrawal of any order for purchase of shares</i>	<i>206</i>
<i>Settlement of Offering and Transfer of the Shares Offered.....</i>	<i>207</i>
<i>Terms, order and payment terms for the offered shares.....</i>	<i>208</i>
<i>Public announcement of the results of the Offering.....</i>	<i>208</i>
<i>Marketing plan and allocation of shares.....</i>	<i>209</i>
<i>Determination of the offer price.....</i>	<i>209</i>
<i>Placement and underwriting</i>	<i>210</i>
<i>Delivery of Offered Shares and Admittance for Trading</i>	<i>212</i>
<i>Expenditure for public offering.....</i>	<i>212</i>
18. TAXATION.....	214
19. ADDITIONAL INFORMATION	217
<i>Documents available for review</i>	<i>217</i>
<i>Independent registered auditors</i>	<i>217</i>
<i>Preparation of Financial Reports.....</i>	<i>217</i>
<i>Persons participating in the Offering.....</i>	<i>217</i>
<i>Information from experts and third parties.....</i>	<i>218</i>
20. ABBREVIATIONS AND DEFINITIONS	219
21. RESPONSIBILITY STATEMENT	222

EXPECTED OFFERING SCHEDULE

The time table and the dates listed below shall be subject to change without prior notice. The references to hours of the day are in Eastern European time (unless otherwise indicated).

The dates after announcing the Offering Price are only indicative and the Issuer and the Lead Manager will endeavour to ensure, as soon as possible, the admission of the Shares to trading on the Bulgarian Stock Exchange. The exact dates will be published on the Issuer and the Manager's websites – www.ffbh.bg and www.gradus.bg, with relevant notifications to the BSE, FSC, and other institutions in accordance with the Bulgarian law.

Date of publication of this document	on or about 15 June 2018
Date of publication of the Offering announcement in a central daily newspaper and on the websites of the Issuer and the Lead Manager ⁽¹⁾	on or about 15 June 2018
Start date for the purchase of the Offered Shares ⁽²⁾	on or about 25 June 2018
End date for the purchase of the Offered Shares	on or about 26 June 2018
Transfer of the Offered Shares ⁽³⁾	on or about 27-28 June 2018
Disclosure of the Offering Results (Offering Price and Total Acquired Acquisition Shares)	on or about 28 June 2018
Registration in the Commercial Register of the New Shares from the capital increase of the Issuer	on or about 3 July 2018 ⁽⁴⁾
Registration of the Shares on Investor's Accounts with the Central Depository	on or about 6 July 2018 ⁽⁴⁾
Admission of the Shares to Trading on the Bulgarian Stock Exchange	on or about 20 July 2018 ⁽⁴⁾

(1) At least 7 days before the Start date for the purchase of the Offered Shares.

(2) The Start date shall not be later than the first business day following the expiration of 5 working days from the date of the decision of the BD of BSE - Sofia AD to admit the securities to Initial Public Offering Segment.

(3) Settlement shall be based on T+2.

(4) The determination of these dates shall be based on the assumption that: (a) the timetables are observed without delay; and (b) the procedures with the relevant institutions will take place as soon as practicable. The exact date may be more or less days after the specified date.

1. SUMMARY

Section A - Introduction and disclaimer	
A.1.	This summary should be read as an introduction to this Prospectus. It contains information that can be found in other sections of the Prospectus, as well. It should be emphasized that this summary is not exhaustive and does not present all the information that is material for potential investors to decide whether to invest in the Offered Shares. Before taking an investment decision, potential investors must carefully review the entire Prospectus. In the event of an investor claim against the information contained in this Prospectus, the plaintiff may have to bear the costs of translating the Prospectus prior to the commencement of the court proceedings. The persons who prepared the Summary are liable should it be misleading, inaccurate, inconsistent with the other parts of the prospectus or, when read together with the other parts of the Prospectus, does not provide key information to assist investors in deciding whether to invest in the securities.
A.2.	<p>Consent of the issuer or the person responsible for compiling the prospectus to its use for subsequent resale or final placement of securities, executed by investment intermediaries.</p> <p>Not applicable to this issue, given that the issuer or the person responsible for compiling the prospectus has not given consent to its use by third parties in connection with subsequent resale or final placement of securities by investment intermediaries.</p>

Section B - Issuer							
B.1. B.2.	<p>Company name and business name, registered office and legal form of the issuer. The law under which the issuer exercises its activity and country of registration.</p> <table border="1"> <tr> <td>Company name and legal form:</td><td>GRADUS AD</td></tr> <tr> <td>Registered office and administrative address:</td><td>Bulgaria, region of Stara Zagora; town of Stara Zagora; Industrial Area, Gradus Poultry Slaughterhouse</td></tr> <tr> <td>UIC:</td><td>204882907</td></tr> </table> <p>GRADUS AD is a joint stock company registered in the Commercial Register at the Registry Agency on 28 November 2017.</p> <p>The Company operates under the applicable Bulgarian legislation (the Commercial Act; following the acquisition of a public status, the Public Offering of Securities Act, the relevant secondary legislation as well as the provisions of the Articles of Association and other internal acts).</p>	Company name and legal form:	GRADUS AD	Registered office and administrative address:	Bulgaria, region of Stara Zagora; town of Stara Zagora; Industrial Area, Gradus Poultry Slaughterhouse	UIC:	204882907
Company name and legal form:	GRADUS AD						
Registered office and administrative address:	Bulgaria, region of Stara Zagora; town of Stara Zagora; Industrial Area, Gradus Poultry Slaughterhouse						
UIC:	204882907						
B. 3.	<p>Description of the nature of the issuer's underlying business and ongoing operations and the key factors associated with them.</p> <p>The scope of activity Investment in shares and shares of companies, acquisition and management of stakes in Bulgarian and foreign companies; pursuing an activity as a holding company; acquisition, evaluation and sale of patents, transfer of licenses for patents to companies in which it has stakes; provision of financing to companies in which it has stakes, and any other activity not prohibited by law, provided that if an authorization or license is required or a registration to engage in any activity, that activity shall be performed after such authorization or license is obtained and after such registration is made. Gradus AD was established at the end of 2017 as a holding company which consolidated its owners' operations in the production of hatching eggs, poultry breeding, chicken meat and sausage production, and grain trading. Gradus Group is the largest poultry meat producer in Bulgaria, with a market share of about 35%, and the second largest producer of hatching eggs in the EU.</p> <p>The main activities of the Group are:</p> <ul style="list-style-type: none"> ▪ Parent breeding and hatching eggs production ▪ Hatching of one-day-old chickens ▪ Fattening of broilers 						

	<ul style="list-style-type: none"> ▪ Production of meat and meat products ▪ Fodder production ▪ Trade in agricultural commodities <p>Gradus products are produced in a closed cycle. The Gradus Group has: its own fodder plant, entirely for its own needs, with an annual capacity of 95,000 tons of fodder at one shift; hatcheries with a capacity of 4.2 million hatching eggs; farms for parent flocks with a single-load capacity of 832 thousand broiler parents; farms for fattening broilers with a total single load capacity of 1.9 million broilers; a meat processing plant with an annual capacity of 30,000 tons of chicken meat, cuts, sausages, convenience meals, and delicacies. The poultry slaughterhouse of the Group is the largest on the Balkans and one of the largest facilities for production and processing of white meats in Europe. Together with the meat processing plant, it has a total built-up area of 24,000 square meters and is equipped with the most modern equipment, minimizing the influence of the human factor. The group owns 33 specialized trucks for product transport and over 50 other trucks. The company produces more than 150 Gradus-branded chicken products, and in 2016 it launched sausages with pork under the brand "Az yam!". The company was the first poultry producer to create its own brand and put it on the Bulgarian market with a state-of-the art marketing strategy. Over 90% of the meat and sausages produced are sold domestically, with the company's products being present in all food chains in the country. In the case of hatching eggs and one-day-old chickens, the production sold outside the Group is almost entirely export-oriented, with the export destinations including the EU and the countries in the Middle East and the Black Sea region. Gradus AD is owned by Ivan Angelov and Luka Angelov and includes 6 subsidiaries under full control. The company's personnel is over 1,300 people. In 2017, the Gradus Group produced 118 million hatching eggs, 40 million one-day-old broilers, 26,100 tons of chicken and meat products, including 1,392 tons of pork products. The pro forma total consolidated revenues of the Company for the year 2017 amounted to BGN 246 million and the net profit amounted to BGN 39.8 million.</p>
B. 4a.	<p>Current trends affecting the issuer and the industries in which it operates.</p> <p>The pro forma consolidated revenues from sale of products and goods for 2017 amounted to BGN 214 million due to the sales growth of all the key segments of the Group. During the year, the production of hatching eggs by the subsidiaries of Gradus AD remained at a high level of 118 million eggs, while the hatcheries in the Group reached a record production of nearly 40 million one-day-old broilers. In the meat and meat products segment, a 9.4% growth in the value of poultry meat products was registered due to the reduction in the competitive pressure from imported products. At the same time, the pork products grew by 66% due to the expansion of the product portfolio. A strong annual growth of 2.3 times was registered by the grain trading segment, concentrated in the subsidiary Gradus-3 AD, due to a favourable market environment. The strong demand for hatching eggs and one-day-old broilers produced by the Group, the successful introduction of new pork products, and the increase in chicken prices have continued in 2018. The management believes that the Group's 2018 financial outlook is positive, and no other significant factors are expected to have a significant impact on the current trends in the Group's development.</p>
B. 4b.	<p>A description of all known trends affecting the issuer and the sectors in which it operates.</p> <p>Not applicable.</p>
B. 5.	<p>Business Structure of the Group</p> <p>Gradus AD owns and manages the following subsidiaries, grouped in the Gradus Group, performing the following operating activities:</p> <ul style="list-style-type: none"> ▪ Milenium 2000 EOOD - breeding of parents to produce hatching eggs and fattening of broilers ▪ Lora-2004 EOOD - fattening of broilers ▪ Gradus-1 EOOD - production of meat and meat products; transport services for the other companies within the Group (except Gradus-3 AD) ▪ Zhyuliv EOOD – hatching of one-day-old chickens and fattening of broilers ▪ Gradus-98 AD - breeding of parents to produce eggs

	<ul style="list-style-type: none"> ▪ Gradus-3 AD - production of fodder and trade in agricultural products. <p>Gradus AD holds directly:</p> <ul style="list-style-type: none"> ▪ 100% of the capital of Milenium 2000 EOOD, Lora-2004 EOOD, Gradus-1 EOOD, Zhyuliv EOOD; ▪ 99.934% of Gradus-98 AD; ▪ Indirectly, 96% in Gradus-3 AD through Gradus -1 EOOD. 																																
B. 6.	<p>Persons having a direct or indirect interest in the issuer's capital or voting rights the disclosure of which is required by the issuer's domicile law, and the size of the interest of such persons. Voting rights of major shareholders. Direct and indirect control.</p> <p>The major shareholders, who are also members of the Board of Directors and hold directly 5 and more than 5 percent of the total number of votes of the General Meeting, are:</p> <ul style="list-style-type: none"> ▪ Ivan Angelov Angelov, address: Stara Zagora; Industrial Area, Gradus Poultry Slaughterhouse - owns 110,500,000 shares of BGN 1 from the share capital of the Company at a total par value of BGN 110,500,000, providing 110,500,000 votes in the General Meeting of Shareholders, representing 50% of the Company's capital. ▪ Luka Angelov Angelov, address: Stara Zagora; Industrial Area, Gradus Poultry Slaughterhouse - owns 110,500,000 shares of BGN 1 from the share capital of the Company at a total par value of BGN 110,500,000, providing 110,500,000 votes in the General Meeting of Shareholders, representing 50% of the Company's capital. <p>The aforementioned persons hold their shares in the Company in their own name and for their own account. There is no other third party holding shares of the Company. There are no persons within the meaning of Article 146 of the POSA. None of the aforementioned shareholders holds different voting rights at the General Meeting of the Company. All Shares owned by the aforementioned shareholders are ordinary shares and each of them provides the shareholder with one vote at the General Meeting. Ivan Angelov and Luka Angelov hold an equal number of shares of the Company's capital and control it jointly. There is no person capable of exercising sole control of the Company.</p>																																
B. 7.	<p>Selected key historical financial information about the issuer</p> <p>The tables below provide selected financial data as of 31 December 2017 derived from the audited consolidated annual financial statements of Gradus AD for the period 28.11. – 31.12.2017.</p> <p>Statement of Comprehensive Income</p> <table> <tr> <th><i>(Amounts in BGN `000)</i></th><th>28.11.-31.12.2017</th></tr> <tr> <td>Revenue</td><td>18 252</td></tr> <tr> <td>Other operating income, net</td><td>3 600</td></tr> <tr> <td>Changes in stocks of products and work in progress (net)</td><td>582</td></tr> <tr> <td>Book value of goods sold (excluding production)</td><td>(7 276)</td></tr> <tr> <td>Cost of raw materials and supplies</td><td>(7 371)</td></tr> <tr> <td>Cost of hired services</td><td>(1 111)</td></tr> <tr> <td>Depreciation expenses</td><td>(454)</td></tr> <tr> <td>Personnel costs</td><td>(1 503)</td></tr> <tr> <td>Other expenses</td><td>(432)</td></tr> <tr> <td>Profit from ordinary activity</td><td>4 287</td></tr> <tr> <td>Financial income</td><td>14</td></tr> <tr> <td>Financial expenses</td><td>(238)</td></tr> <tr> <td>Profit before tax</td><td>4 063</td></tr> <tr> <td>Tax expense, net</td><td>(680)</td></tr> <tr> <td>Net profit for the period</td><td>3 383</td></tr> </table>	<i>(Amounts in BGN `000)</i>	28.11.-31.12.2017	Revenue	18 252	Other operating income, net	3 600	Changes in stocks of products and work in progress (net)	582	Book value of goods sold (excluding production)	(7 276)	Cost of raw materials and supplies	(7 371)	Cost of hired services	(1 111)	Depreciation expenses	(454)	Personnel costs	(1 503)	Other expenses	(432)	Profit from ordinary activity	4 287	Financial income	14	Financial expenses	(238)	Profit before tax	4 063	Tax expense, net	(680)	Net profit for the period	3 383
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<i>including for the owners of the parent company's equity</i>	3 372
<i>Including non-controlling interest</i>	11
Other components of the comprehensive income	
Changes in actuarial gains and losses	(29)
Total comprehensive income for the year	3 354
<i>including for the owners of the parent company's equity</i>	3 343
<i>Including non-controlling interest</i>	11
<i>Source: Audited Consolidated Financial Statements of Gradus AD for 28.11-31.12.2017</i>	
Statement of Financial Position	
The table below presents the information on the statement of financial position as of 31.12.2017.	
<i>(Amounts in BGN `000)</i>	2017
Assets	
Non-current assets	
Property, plant and equipment	169 940
Investment property	6 350
Investments	1
Intangible assets	53 973
Goodwill	20 656
Total non-current assets	250 920
Current assets	
Inventories	43 772
Receivables from related parties	4 947
Trade receivables	34 381
Loans receivables	1 380
Other current receivables	1 406
Cash and cash equivalents	2 889
Total current assets	88 775
Total assets	339 695
Equity and liabilities	
Equity	
Share capital	221 000
Reserves	44 171
Retained earnings	3 372
Total equity	268 543
Non-controlling interest	1 556
Non-current liabilities	
Deferred tax liabilities	14 937
Long-term payables to personnel	211
Other non-current liabilities	297
Total non-current liabilities	15 445
Current liabilities	
Bank loans	46 890
Related parties payables	479
Account payables	3 717
Tax liabilities	942
Payables to personnel	1 492
Other current liabilities	631
Total current liabilities	54 151
Total liabilities	69 596
Total equity and liabilities	339 695

Source: Audited Consolidated Financial Statements of Gradus AD for 28.11-31.12.2017

Cash Flow Statement

The table below provides information about selected positions in the cash flow statements for the specified period.

<i>(Amounts in BGN `000)</i>	28.11.-31.12.2017
Cash flows from operating activities	
Receipts from customers	14 037
Payments to suppliers	(8 976)
Payments to the personnel and social security payments	(1 350)
Paid / (reimbursed) taxes, net of profit tax, net	(448)
Paid profit taxes	(390)
FX and bank commissions, net	(2)
Other (payments) / receipts, net	1 549
Net cash flows from operating activities	4 420
Cash flows from investing activities	
Purchase of property, plants, and equipment	(301)
Net cash used in investing activities	(301)
Cash flows from financial activities	
Cash contributions from owners	240
Proceeds from borrowing	980
Payments on received loans	(5 710)
Paid interest and bank commissions	(52)
Net cash used in financing activities	(4 542)
Net decrease in cash and cash equivalents	(423)
Cash and cash equivalents on 28 November	3 312
Cash and cash equivalents on 31 December	2 889

Source: Audited Consolidated Financial Statements of Gradus AD for 28.11-31.12.2017

Profit before interest, tax, and depreciation (EBITDA)

The table below provides information about the profit before interest, taxes, and depreciation of the Company for the periods indicated.

<i>Amounts in BGN `000</i>	2017
EBITDA*	4 741

Source: Audited Financial Statement of Gradus AD for 28.11-31.12.2017; FFBH calculations

* EBITDA is calculated as operating profit plus depreciation expense.

B.8.

Selected key pro forma financial information, disclosed as such

The unaudited pro forma Statement of Comprehensive Income was prepared to show what the financial result of Gradus AD would have been if the company was incorporated on 01.01.2017 and held the same stake in Gradus-1 EOOD, Gradus -3 AD, Milenium 2000 EOOD, Gradus-98 AD, Zhyuliv EOOD, and Lora-2004 EOOD as of 31 December 2017. The unaudited pro forma Statement of Comprehensive Income was prepared for illustrative purposes only. Due to its nature, the report considers a hypothetical situation and does not represent the actual financial position or result of the company. The pro forma information was prepared in accordance with the accounting policies adopted by the issuer in the audited annual consolidated financial statements for the period ending on 31.12.2017. The unaudited pro forma Statement of Comprehensive Income was prepared in accordance with the requirements of paragraph 20.2 of Annex I and Items 1 to 6 of Annex II to Regulation 809/2004.

Pro forma statement of comprehensive income

<i>(Amounts in BGN `000)</i>	Gradus AD 2017 audited information	Adjustments	Gradus AD 2017 – pro forma information 1)	Explanatory notes
Revenue	18 252	196 192	214 444	2)
Other operating income, net	3 600	17 566	21 166	2)
Capitalized expenditure	-	171	171	2)
Dividend income	-	5 522	5 522	2)
Income from revaluation of investment properties	-	4 531	4 531	2)
Change in stocks of finished products	582	6 589	7 171	2)
Book value of goods sold (excluding production)	(7 276)	(89 278)	(96 554)	2)
Cost of raw materials and supplies	(7 371)	(63 849)	(71 220)	2)
Cost of hired services	(1 111)	(8 933)	(10 044)	2)
Depreciation expenses	(454)	(4 792)	(5 246)	2)
Impairments	-	(4 374)	(4 374)	2)
Personnel costs	(1 503)	(14 901)	(16 404)	2)
Other operating expenses	(432)	(3 705)	(4 137)	2)
Profit from ordinary activity	4 287	40 739	45 026	
Financial income	14	88	102	2)
Financial expenses	(238)	(1 573)	(1 811)	2)
<i>Financial income / (expenses), net</i>	(224)	(1 485)	(1 709)	
Profit before tax	4 063	39 254	43 317	
expense	(680)	(2 812)	(3 492)	2)
Net profit for the year	3 383	36 442	39 825	
<i>The owners of the parent company's equity</i>	3 372	36 279	39 651	
<i>Non-controlling interest</i>	11	163	174	
Other components of comprehensive income				
Articles that will not be reclassified through the profit or loss				
Changes in the revaluation reserve of property, plant, and equipment	-	89 356	89 356	3)
Changes in actuarial gains and losses	(29)	-	(29)	
Total comprehensive income for the year	3 354	125 798	129 152	

Source: Gradus AD;

Notes:

Gradus AD was incorporated on 20/11/2017 and registered in the Commercial Register on 28/11/2017 to carry out activity as a holding company of the Gradus Group companies.

	<p><i>The audited information on the comprehensive income was taken from the audited consolidated financial statements of Gradus AD.</i></p> <p><i>The financial statements of the acquired subsidiaries - Gradus-1 EOOD, Gradus-3 AD, Milenium 2000 EOOD, Gradus-98 AD, Zhyuliv EOOD, and Lora-2004 EOOD are shown in section "Operational and Financial Review".</i></p>
B.9.	<p>Profit forecasts</p> <p>This Prospectus does not include profit forecasts and estimates.</p>
B.10.	<p>Description of the nature of all qualifications in the auditor's report on historical financial information.</p> <p>There are no qualifications in the auditor's reports.</p>
B.11.	<p>If the issuer's working capital is insufficient to meet the current requirements, an explanation for this shall be given.</p> <p>Due to the nature of its operations, the Group uses a relatively large working capital - over BGN 70 million at the end of 2017. For its financing, the Group mainly uses its own funds and short-term bank loans. At present, the Gradus Group companies have no difficulty in securing working capital and enjoy favourable terms on their loans.</p>
B.12 – B.50.	Not applicable

Section C - Securities

C. 1.	<p>Description of the type and class of the securities offered</p> <p>Up to 27,777,778 new, ordinary, registered, dematerialized, freely transferable voting shares of the Company's capital increase are subject to initial public offering. The issued shares are the same class as the existing shares of the Company and provide the same rights to their holders. Together with the capital increase, the selling shareholders will offer up to 27,777,778 existing shares (and, additionally, up to 6,638,889 Over-allotted shares). The shares will be under ISIN code BG1100002184.</p>
C. 2.	<p>Currency of the issue.</p> <p>The nominal and issue value of the current share issue is denominated in BGN. All cash amounts associated with the Offering will be in Bulgarian leva (BGN).</p>
C. 3.	<p>Number of shares issued and fully paid and issued but not fully paid. Nominal value per share.</p> <p>At the date of this Prospectus, the nominal value of the Company's capital amounts to BGN 221,000,000. The capital is distributed in 221,000,000 ordinary registered dematerialized shares, each with a nominal value of BGN 1 and entitled to one vote. Some 200,000 shares were paid in cash. The remainder of the shares were issued against in-kind (non-cash) contributions.</p>
C. 4.	<p>Description of the rights attached to the securities.</p> <p>Under the applicable law and the Articles of Association of the Company, the property and non-property rights of the holders of Shares include in particular:</p> <ul style="list-style-type: none"> ▪ Right to dispose of shares - free transfer in compliance with the statutory order, with the transfer restrictions provided by the Commercial Act for the available securities not applying to their disposal and the effect of the transfer depending on its registration with the depository institution; ▪ Right to participate in the General Meeting and exercise the voting right - any person registered in the book of the Central Depository as a shareholder 14 days before the date of the General Meeting has this right; ▪ Pre-emptive (preferential) rights to receive new shares in a capital increase of the Company - each shareholder has the right to acquire new shares in proportion to the number of existing shares that they hold before the increase.

	<ul style="list-style-type: none"> ▪ Right to request information about the Company at the General Meeting - the Board of Directors of the Company is obliged to respond faithfully, exhaustively, and in essence to the shareholders' questions asked at the General Meeting on the economic and financial position and the commercial activity of the Company, except for circumstances that constitute inside information. Shareholders may ask questions no matter if they are related to the agenda or not; ▪ Right to protection against company decisions and protection of shareholder rights - according to Article 74 of the Commercial Act, each shareholder may bring an action against the Company for the annulment of the decision of the General Meeting when it is contrary to the mandatory provisions of the Bulgarian law or the Articles of Association of the Company and to intervene in the case and to defend the claim, even if the plaintiff abandons or withdraws it; with a claim under Article 71 of the Commercial Act, each shareholder may protect the right of membership or individual shareholder rights when violated by the management body of the Company. ▪ Right to participate in the profit (dividend right) - the right to receive dividends shall be accrued to entities entered in the registers of the Central Depository as shareholders of the Company on the 14th day following the day of the General Meeting at which the annual financial statements were approved, respectively the semi-annual report, and a resolution on the distribution of the profit was taken; ▪ Right to a liquidation stake of the assets upon liquidation of the Company - in case of liquidation of the Company, the assets remaining after the satisfaction or securing of the receivables of the Company's creditors shall be distributed among the shareholders in proportion to their stake in the share capital; ▪ Right to receive the invitation and the materials related to the agenda of the convened General Meeting before its assembly – the Company is obliged to disclose the invitation in the Commercial Register and make it publicly available in due order at least 30 days before the opening of the General Meeting. The invitation and the materials of the General Meeting shall be published on the Company's website for the period between its announcement in the Commercial Register and the end of the meeting; ▪ Rights of minority shareholders - shareholders holding, together or separately, at least 5% of the shares have: <ul style="list-style-type: none"> ○ The right to bring claims of the Company against third parties in the event of inaction by the Company's management bodies, which threatens the interests of the Company and the right to bring claims against members of its management for damages caused to the Company; ○ The right to call a General Meeting and to include questions or draft resolutions on the issues already included in the agenda; ○ The right to request the appointment of Company Controllers to inspect all its financial records and report on their findings. <p>In general, the fundamental rights related to ordinary shares (voting rights, dividend rights, and right to liquidation shares) cannot be limited or excluded.</p> <p>The provisions of the applicable law under which such rights are granted to shareholders are of a mandatory nature and, therefore, the Articles of Association may give additional rights to shareholders but cannot exclude or limit the rights provided for by those laws.</p>
C. 5.	<p>Description of possible restrictions on the free transferability of the securities.</p> <p>All shares of the Company are of one class - ordinary, dematerialized, and freely transferable shares entitled to one vote each. Under the relevant legislation in force, the Shares may be freely transferred. The shares of the company are dematerialized, and the transfer restrictions provided by the Commercial Act for the available securities do not apply to their disposal. Their transfer takes effect at its registration with the Central Depository AD. The Bulgarian legislation provides for restrictions on the transfer of shares blocked at the depository institution, as well as those on which a pledge has been established or</p>

	distrain has been imposed.
C. 6.	<p>Information on whether the securities being offered are or will be subject of admission to trading on a regulated market as well as any regulated markets on which the securities are or will be traded.</p> <p>All shares of Gradus AD issued on the date of preparation of this document, namely 221,000,000 ordinary, registered, dematerialized shares with a nominal value of BGN 1 (one) each, including up to 27,777,778 proposed existing shares and an additional 6,638,889 over-allotted shares, as well as the shares of the capital increase up to 27,777,778, will be registered for trading on the regulated market of BSE-Sofia AD. The securities will be admitted to trading on this market only. No admission to trading on another securities market will be applied for.</p>
B. 7.	<p>Company's dividend policy</p> <p>In the next 5 years the dividend distributions to be proposed by the Board of Directors will be at least 90% of the Issuer's distributable net profit after all statutory deductions. In determining the specific percentage of distributable profit to be offered at the General Meeting, the Board of Directors will take into account factors such as the need to finance its Subsidiaries and provisions in relation to the Group's operations. The planned capital investments of Gradus AD, including any acquisitions, will be funded by the capital increase, which will allow a substantial share of the Group's future profits to be distributed as dividends. The final decision on the dividends to be distributed by the Issuer has to be taken by the General Meeting of Shareholders. Although the Issuer was incorporated in November 2017, the full amount of the statutory reserve funds was filled by the Issuer as early as its incorporation with the issue value of the shares subscribed by the founders. This will allow the Issuer not to allocate additional funds to the reserve fund that reduce the amount of the distributable profit. The Issuer does not intend to distribute dividends in 2018. The earliest date on which the Issuer may distribute dividends to its shareholders will be after the adoption of the Company's annual financial statement for 2018.</p>
C. 8. – C. 22.	Not applicable

Section D – Risk factors

D. 1.	<p>Key risks specific and intrinsic for the issuer or its industry.</p> <ul style="list-style-type: none"> ▪ The chicken market as well as the meat products market is extremely competitive, which mainly manifests as pressure to maintain lower prices for the products offered. The Group's main advantages and means to counteract are: well-developed distribution network, product quality and variety of the product portfolio, and recognizable brand. ▪ The concentration of the participants in the modern trade segment may worsen the profitability. With a smaller number of market participants, the number of alternative sales channels of the Group will also be reduced, respectively, its negotiating position and its profitability may weaken, too. ▪ The group receives, on a yearly basis, state compensation to cover costs related to its commitment for humane rearing of birds. This state support regime for livestock can change, which may lead to a reduction in compensation revenues and / or an increase in the Group's expenditure. ▪ The group cannot conduct its own pricing policy for the sales of hatching eggs. The hatching eggs of the Group are distinguished by their highest quality on the market but the situation may depends on the combined effect of number of market factors. ▪ The results of the Group from the grain trading depend on the trends of the international grain markets. The turnovers and profits of the grain trading segment will remain heavily dependent on the dynamics of international prices in the future. ▪ The cost of production depends on the prices of the grain used for fodder. The group compensates the fluctuations in fodder grain prices on the international markets mainly by keeping stocks in their own storages.
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	<ul style="list-style-type: none"> ▪ The group is dependent on parent birds' suppliers. Although the Gradus Group works with long-term supply contracts, there is a risk that any supplier may not meet its commitments to the Group, which would severely hamper its operations. ▪ There is a geographical concentration of the Group's export customers in hatching eggs. Any deterioration in the relationship with key clients or a potential problem in the core markets of the Group would disrupt the Group's supply pattern and worsen its financial position. ▪ The Group's asset base is scattered over a large area in order to reduce the risk of an unforeseen event. At the same time, this placement is related to the need for precise organization and process management, complex logistics, and risk of error due to the many participants. ▪ It is possible for the Company to choose the wrong business strategy or fail to implement it. The policy of the Company is to manage the strategic risk by constantly monitoring the implementation of its strategy and results, including procedures and interaction between the management and the operational officers. ▪ The Company is dependent on the members of the Board of Directors and its key management personnel and its operations may be at risk if it is unable to retain or employ quality management personnel. ▪ The outbreak of avian influenza or another animal disease can limit the operations of the Group, even without affecting the birds reared. Restrictions may be imposed on the transport of birds, the loading of new flocks, etc., while the state does not provide for compensation for lost profits. ▪ The group may not be able to hire sufficient and qualified staff to expand their operations. The success of the Company's strategy and its future profits will depend heavily on its ability to retain and motivate both current and future employees. ▪ A potential infringement of the trademarks Gradus and "Az yam!" would have a negative effect on the results of the Company. In the event that the trademarks of Gradus AD become subject to imitation, this would harm the sales volumes and may lead to complaints, negative advertising, claims, etc. ▪ In case of unsuccessful introduction of new products into production and on the market, the Group may suffer losses. For this purpose, the management of Gradus AD carefully prepares all steps and analyzes the results of the tests so that the introduction of the new products can be done without any problems and in the most appropriate moment. ▪ The group may not be able to provide sufficient funds to finance its working capital. Although the Gradus Group companies currently have no difficulty in securing working capital and enjoy favourable terms on their loans, they cannot guarantee that this will continue in the future. ▪ Negative advertising may have an adverse effect on the Company's business, its financial position, and / or the results of its operations. ▪ The Group may not have or may not be able to obtain sufficient insurance coverage to protect itself from various business risks and liabilities. The companies of the Group conclude and maintain valid insurance for their main assets and risks but these insurance policies do not cover and, as far as the Company is aware, no insurance is offered in Bulgaria for all the potential risks to which the Group is or may be exposed. ▪ Failures of the IT systems of the Group or threats to their security are possible, too. Any failure, interruption, or security breach of these systems may influence the ability of the Group to service its production processes, disrupt the Group's operations or impair its reputation. ▪ The Gradus Group companies are at risk of losses or unforeseen costs associated with inaccurate or non-working internal processes, human errors, external circumstances, office or business errors, business misconduct, fraud, unauthorized transactions, and asset damage. ▪ It is possible for the Company to carry out transactions with related parties at
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	<p>conditions that differ materially from the market ones.</p> <ul style="list-style-type: none"> There is a risk that the IPO of Gradus AD might not be successful. In this case the Issuer's management would explore alternative sources of financing, which would be used to fund planned investments. In case of failure, investors will not be able to receive the shares they have already subscribed, the value of which would be refunded at a later date. Litigation or other out-of-court procedures or actions may have an adverse effect on the Group's business, its financial position and / or the results of its operations. As of the date of preparation of this Prospectus, the Company is not aware of the existence of significant administrative, civil, arbitration or criminal proceedings. Gradus AD is a holding company and is therefore financially dependent on the distribution of dividends from its subsidiaries. Since Gradus AD fully controls its subsidiaries and the decisions of their general meetings (where available), the Company will manage the dependence. The obligations of Mr. Ivan Angelov and Mr. Luka Angelov in connection with business activities outside the Group may prevent them from allocating enough of their time to the Group's activity or create a potential conflict of interest. <p>Systemic risks also affecting the Company's activities, including:</p> <ul style="list-style-type: none"> political risk, macroeconomic risks, changes in the EU's foreign trade regime with third countries, inflation / deflation risk, currency risk, interest rate risk, unemployment risk, risk of tax legislation change and unfavourable interpretation of tax laws, risk of changes in the credit rating of Bulgaria, risks related to the Bulgarian legal system, risk of catastrophic events and climate change. <p>As they are related to the market and the macro environment in which the Company operates, systemic risks cannot be managed by the Company's management and require compliance of its operational and investment policy with each of the systemic risk components.</p>
D. 2.	Not applicable
D. 3.	<p>Key information on the key securities-specific risks</p> <ul style="list-style-type: none"> There is no market for the Shares. Despite the submission of an application for admission for trading of the Shares on the Bulgarian Stock Exchange, there is no certainty that an active market for the Shares will be created and will exist after the Offering. Risks related to the Bulgarian securities market. Investors may have less information on the Bulgarian securities market than is available to companies in other securities markets. The Bulgarian Stock Exchange is significantly smaller and less liquid than the securities markets in some other countries. There is no guarantee that the shares will be traded actively; if this does not happen, the volatility of the price may be high. The Bulgarian legislation provides for cases in which the trading of the Shares of the Company on the BSE will be or may be suspended. Any temporary suspension of the trading of the Shares on the BSE would have an adverse effect on the liquidity and the price of the Shares. The Company cannot guarantee that the volumes of trading in the Shares will be permanent or will improve. It is possible that at certain times the sale of the Shares is difficult or impossible due to lack of investor interest. The market price of the

	<p>Shares may also fluctuate widely depending on many factors beyond the control of the Company. In view of these and other factors, the Company cannot guarantee that the market price of the Shares will not fluctuate or fall below the Offering Price.</p> <ul style="list-style-type: none"> ▪ Additional equity financing, including through convertible or exchangeable bonds or other similar instruments, may have a "dilutive effect" for the shareholders of the Company. ▪ Sales of significant quantities of Shares or the expectation that such sales may occur may adversely affect the market price of the Shares. Such sales may also cause the Company to have difficulty in issuing new shares in the future at the time and at the price the Company considers appropriate. ▪ The Company's ability to pay dividends depends on a number of factors and there is no guarantee that in a given year it will be able to pay dividends in accordance with its dividend policy or that it will be able to pay dividends at all. ▪ As per the Prospectus date, realized capital gains from the sale of securities of public companies in Bulgaria are not subject to taxation. There is a risk that this tax regime of non-taxation of securities transactions income will be changed in the future, which would lead to an increase in the shareholders' tax burden and a decrease in their profits from trading in the Company's shares. ▪ The currency risk posed by the shares of the Company stems from the fact that they are denominated in Bulgarian leva. Movements in the exchange rate of the BGN against another currency would change the returns that investors expect to receive compared to the return they would receive from an investment denominated in another currency. ▪ Inflation risk in relation to investments in securities. The inflation risk is linked to the likelihood that inflation will affect the real return on investment in securities. ▪ Risk with respect to the rights of minority shareholders - the main risk to minority shareholders is that their ability to participate in decision-making and exercise control over the Company is limited.
D. 4. – D. 6.	Not applicable

Section E - Offering	
E. 1.	<p>Total net proceeds as well as an estimate of the total cost of the offering, including estimated costs accrued to the investor by the Issuer or the person offering the securities.</p> <p>Gradus AD will receive the net proceeds from the public offering of the New Shares. The Issuer will not receive any proceeds from the sale of Existing Shares, the net proceeds of which will be received by the Selling Shareholders. The expected net amount of the proceeds from the public offering, which will be received by the Issuer, provided that the entire amount of the New Shares offered is subscribed at the maximum possible price of the announced price range (after deducting the cost of its execution) is BGN 64,383,133, and upon successful subscription in the minimum amount at the minimum possible price of the price range - BGN 32,095,485. The main costs directly associated with the public offering of securities are variable and are dependent on the amount of the Lead Manager's variable fee. The total expenses for the Issuer's account amount to BGN 597,015. Individual investors and Institutional Investors will not pay any additional costs or fees in connection with the submission of Purchase Orders except for the expenses related to the opening and maintenance of a securities account and/ or brokerage commissions under the relevant agreements or under the internal rules of the legal entity accepting such Purchase Orders.</p>
E. 2a.	<p>Reasons for the offering, use of proceeds, expected net proceeds.</p> <p>Resolutions of the General Meeting and the Board of Directors of 29.12.2017, 30.01.2018, and 26.03.2018.</p> <p>Since the issuer cannot predict the results of the subscription, respectively the exact amount of the proceeds, their intended use is prioritized according to the investment objectives of the</p>

	<p>Company. The planned investments are presented in accordance with the minimum success of the offering and the maximum amount of the issue. Expansion of the parent breeding capacity - BGN 15,000,000; Increase of sales of pork products - BGN 6,700,000; Expansion of the chicken meat product portfolio - BGN 4,500,000 and others. The expected net amount of the proceeds from the public offering, which will be received by the Issuer, provided that the entire amount of the New Shares offered is registered at the maximum possible price of the announced price range (after deducting the cost of its execution) is BGN 64,383 133, and upon successful subscription in the minimum amount at the minimum possible price of the price range - BGN 32,095,485.</p>
E. 2b.	Not applicable
E. 3.	<p>Description of the conditions of the offering</p> <p>Following the confirmation of the prospectus, the public offering of new and existing shares will be made on the Bulgarian Stock Exchange - Sofia AD ("BSE") on its segment for initial public offerings, through the Initial Public Offering Auction (IPO Auction) mechanism. The date of publication of the announcement under Article 92a paragraph 1 of the POSA will be considered as the start of the public offering. The issuer will publish the announcement in a central daily newspaper (<i>Standard</i>) and on the websites of the Issuer (www.gradus.bg) and the Lead Manager (www.ffbh.bg). The Start date for the purchase of the Offered Shares (the day of the first IPO auction) will be the first business day following the expiration of 7 days from the latest date mentioned above for publication of the announcement under Article 92a, paragraph 1 of the POSA. The Start date for the purchase must not be later than the first business day following the expiration of 5 working days from the date of the decision of the BD of BSE - Sofia AD to admit the securities to the Segment for Initial Public Offering. The offering will continue until the quantity of offered shares is exhausted, but not more than 2 trading sessions. The deadline for transferring shares from the Offered Shares is no later than 4 business days from the auction start date inclusive (includes the maximum offering period of 2 trading sessions and the two-day settlement period for the transactions). The Price Range is from BGN 1.80 (one leva point eighty) to BGN 2.35 (two leva point thirty-five) per share. The offering is made available to: i) Individual investors; and (ii) Institutional investors. Investors in the Offered Shares may be all local and non-resident individuals except in cases where this would constitute a violation of the applicable laws. The initial public offering auction will take place at the BSE-Sofia IPO Segment and will pass through the following stages: Announcement of the auction date, number of securities offered for sale, and price range; IPO Auction Call Phase; Freeze phase; Determining the Auction Price and volume of orders to be executed. Two types of orders can be submitted - limit and market. The priority of the execution of the market orders is the time of their introduction, while for the limit orders the priority is the price. The qualified investors will receive an equal number of new and existing shares. The investors who are interested in the securities offered can contact the Lead Manager:</p> <p>First Financial Brokerage House EOOD</p> <p>Address: 2, Enos street, city of Sofia</p> <p>Contact person: Stoian Nikolov</p> <p>Telephone: +359 2 460 64 24</p> <p>E-mail: Stoian.Nikolov@ffbh.bg</p> <p>The investors may also apply to any investment intermediary, that is member of Bulgarian Stock Exchange - Sofia AD. The acquired shares are paid into the account of the respective investment intermediary where the order is placed, upon the placement of the order or within the settlement period. The investment intermediaries pay the shares purchased for their clients and / or for their own account under the terms of "delivery against payment" and according to the rules of Central Depository AD. The Lead Manager, respectively the investment intermediaries, submits a notification to Central Depository AD for each purchase / sale of shares of the Share issue. A special account has been opened to which the amounts of the payment of the Shares will be paid (the account under Article 89 paragraph 1 of the Public Offering of Securities Act) after the settlement of the Auction has ended. The proceeds from the sale of the Shares will remain blocked on the special account and will not be available until the subscription and the entry of the capital increase in the Commercial Register (Article 89</p>

	paragraph 2 of the Public Offering of Securities Act). Following the conclusion of a transaction for the purchase of shares of the Issuer and their payment, the shares remain blocked on a sub-account with the investment intermediary whose customer is the buyer until the registration of the issue for trading on a regulated market. The required notifications will be made and applications submitted to the relevant institutions.																																																																						
E. 4.	Description of any material interest in the issue / offering, including conflicts of interest The offering is organized and implemented by First Financial Brokerage House EOOD (" Lead Manager ") and FFBH EOOD will perform functions under the Bulgarian legislation and regulations regarding public companies and under the Contract for servicing and preparation of the Capital Increase and the Contract for the Sale of Existing Shares. The relations between the investment intermediary, the Company, and the Selling Shareholders depend on the proceeds from the sale of the Offered Shares. Except for this interest, there are no other interests (including conflicts of interest) of organizations or individuals that are essential to the Offering.																																																																						
E. 5.	Name of the natural or legal person offering to sell the security. Blocking agreements: participating parties, blocking period information In addition to the new shares offered by Gradus AD, existing shares are offered by Ivan Angelov and Luka Angelov. There are no blocking agreements.																																																																						
E. 6.	Size and percentage of immediate dilution due to the offering Dilution of the capital (share value) as a result of the offering, based on the consolidated financial report <table border="1"> <thead> <tr> <th></th><th>31.12.2017</th><th>Minimum subscription</th><th>Maximum subscription</th></tr> </thead> <tbody> <tr> <td colspan="4">At a minimum price per share, BGN 1.80.</td></tr> <tr> <td>Total assets (BGN `000)</td><td>339 695</td><td>371 790</td><td>389 098</td></tr> <tr> <td>Total liabilities (BGN `000)</td><td>69 596</td><td>69 596</td><td>69 596</td></tr> <tr> <td>Equity (BGN `000)</td><td>268 543</td><td>300 638</td><td>317 946</td></tr> <tr> <td>Non-controlling interest (BGN `000)</td><td>1 556</td><td>1 556</td><td>1 556</td></tr> <tr> <td>Number of shares in circulation</td><td>221 000 000</td><td>239 055 556</td><td>248 777 778</td></tr> <tr> <td>Book value per share in BGN</td><td>1.22</td><td>1.26</td><td>1.28</td></tr> <tr> <td>Issue value per share in BGN</td><td></td><td>1.8</td><td>1.8</td></tr> <tr> <td colspan="4">At a maximum price per share of BGN 2.35</td></tr> <tr> <td>Total assets (BGN `000)</td><td>339 695</td><td>381 528</td><td>404 078</td></tr> <tr> <td>Total liabilities (BGN `000)</td><td>69 596</td><td>69 596</td><td>69 596</td></tr> <tr> <td>Equity (BGN `000)</td><td>268 543</td><td>310 376</td><td>332 296</td></tr> <tr> <td>Non-controlling interest (BGN `000)</td><td>1 556</td><td>1 556</td><td>1 556</td></tr> <tr> <td>Number of shares in circulation</td><td>221 000 000</td><td>239 055 556</td><td>248 777 778</td></tr> <tr> <td>Book value per share in BGN</td><td>1.22</td><td>1.30</td><td>1.34</td></tr> <tr> <td>Issue value per share in BGN</td><td></td><td>2.35</td><td>2.35</td></tr> </tbody> </table> <p>Source: Audited Annual Financial Statements of Gradus AD for 2017; FFBH calculations</p> <p>As the minimum issue value of the new shares (BGN 1.80) is higher than the book value of one share on a consolidated and individual basis before the capital increase, there is no dilution of the capital, regardless of whether the minimum or maximum increase is achieved.</p>				31.12.2017	Minimum subscription	Maximum subscription	At a minimum price per share, BGN 1.80.				Total assets (BGN `000)	339 695	371 790	389 098	Total liabilities (BGN `000)	69 596	69 596	69 596	Equity (BGN `000)	268 543	300 638	317 946	Non-controlling interest (BGN `000)	1 556	1 556	1 556	Number of shares in circulation	221 000 000	239 055 556	248 777 778	Book value per share in BGN	1.22	1.26	1.28	Issue value per share in BGN		1.8	1.8	At a maximum price per share of BGN 2.35				Total assets (BGN `000)	339 695	381 528	404 078	Total liabilities (BGN `000)	69 596	69 596	69 596	Equity (BGN `000)	268 543	310 376	332 296	Non-controlling interest (BGN `000)	1 556	1 556	1 556	Number of shares in circulation	221 000 000	239 055 556	248 777 778	Book value per share in BGN	1.22	1.30	1.34	Issue value per share in BGN		2.35	2.35
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	Size and percentage of immediate dilution should existing shareholders not participate in the subscription for the new offering		
	Immediate dilution of the percentage participation in the capital of Gradus AD of the owners of the share capital		
	31.12.2017	Minimum subscription	Maximum subscription
Number of shares in circulation	221 000 000	239 055 556	248 777 778
Share of the share capital per 1 share	0.00000045%	0.00000042%	0.00000040%
Immediate dilution of percentage participation in%		-7.55%	-11.17%
	Source: FFBH calculations		
	Upon completion of the new offering, the current shareholders will dilute their percentage participation by between 7.55% and 11.17% respectively with a minimum and maximum capital increase.		
E. 7. -	Estimated costs charged to the investor by the issuer or the person offering the securities.		
	The investors will not pay any other costs or charges in connection with the submission of Purchase Orders except for the costs associated with the opening and maintaining of a securities account and / or brokerage commissions under the relevant agreements or under the internal rules of the legal entity that accepts such Purchase Orders.		

2. RISK FACTORS

Prospective investors should carefully consider the following risks mentioned below as well as the other information contained in this Prospectus before deciding to invest in the Offer Shares. The risks described below have and may have an adverse effect on the Group's operations, financial position, and the results of its operations. If any of the risks described below materializes, this may result in a decrease in the value of the Company's Shares and in the price at which they are traded, and investors may lose all or part of their investments. The order in which the risk factors are listed below is not indicative of their relative importance to the Group, the likelihood of their occurrence or their potential impact on the Group's operations. Additional risks and other uncertainties, including those that are not currently known to the Group or considered immaterial to the Group, may also have a significant adverse effect on its business, its financial position or the results of its operations, or may lead to a decrease in the value of the Company's Shares.

The risks associated with the Group's operations can generally be divided into systemic (general) and non-systemic (related to the Group's activity and the industry in which it operates).

Systemic risks

Systemic risks arise from the external conditions under which companies operate and have a direct impact on the Group. As they are related to the market and the macro environment in which the Group operates, systemic risks cannot be managed and require that its operational and investment policies be aligned with each of the systemic risk components - political, macroeconomic, currency, fiscal, credit risk of the state, etc.

Political risk

Over the last 25 years, the political and socio-economic development of the country has gone through various stages, the most important of which is the preparation and the subsequent accession of Bulgaria to the European Union on 1 January 2007.

Despite the financial crisis, during this period Bulgaria achieved real economic growth and financial stability, which, even if they did not automatically become political stability, increased the confidence in and improved the image of the country. The future economic growth, however, will continue to depend on the political will to carry out economic reforms and the continued follow-up of EU best market practices. Notwithstanding, all the positive of Bulgaria's EU membership, there is no guarantee that the country's government will conduct a sound economic policy and that it will be able to administer it effectively. If the country's government fails to create financial security and a predictable environment for economic operators in the country, this may have a material adverse effect on the Group's operations, performance, and financial position.

The current government was elected by the National Assembly in May 2017 with the mandate of the GERB (Citizens for European Development of Bulgaria) party after snap parliamentary elections, following the resignation of the cabinet led by the same political formation and its chairman Boyko Borisov. The newly-formed government is a coalition and, besides the representatives of GERB, representatives of the United Patriots Coalition also take part in it. By the beginning of 2018, the political situation in the country was relatively stable, with the next elections in the country (for local administration) to be held in 2019. Despite some disagreements within the ruling coalition, there is no immediate risk of its disintegration. At the same time, the government policy is backed by a stable parliamentary majority. In the first half of 2018, Bulgaria is the President of the EU, which is an additional factor in maintaining a tolerant internal political atmosphere. However, there is no certainty that there will be no social and political tensions in the country that will lead to a significant and sharp change in the political and economic conditions, which may have a material adverse effect on the Group's activities, performance, and financial position.

The very accession of Bulgaria to the EU, besides being an act of enormous political importance, continues to be connected with many challenges. They are caused not only by the ongoing reforms in Bulgaria as part of the process of integration in the Community but also by the dynamics of the development of the integration processes within the EU itself. These processes are linked to serious

political, economic, and institutional changes that are difficult to reconcile the interests of all member states. There is no guarantee that these processes will be completed successfully or that Bulgaria's national interest will be guaranteed. There is no guarantee that the UK's exit from the EU will not exacerbate the disintegration moods in other countries of the Union and thus cause serious political and economic shocks to all member states, including Bulgaria.

Beyond the context of the EU membership and domestic political difficulties, the Bulgarian political system is also vulnerable to possible economic difficulties, social instability, organized crime, and corruption. A potential instability of the state institutions may have a significant adverse effect on the Group's operations, performance, and financial position.

The group is also vulnerable to foreign-policy risks and their direct effects on the country's economy. Outside of force majeure, economic constraints are increasingly being used as a means of imposing political sanctions, which can cause serious economic damage to companies in Bulgaria, including the Gradus Group.

Macroeconomic risks

The results of the Group's operations depend both on the state of the macroeconomic environment in Bulgaria and on the overall economic situation in the world. The consumer staples sector (including meat products) was one of the least affected by the global financial crisis that started in 2008. Nevertheless, the high unemployment, falling incomes, and low purchasing power of the population have made the demand for fast moving consumer goods heavily sensitive to price levels, respectively affected the profitability of the companies in the sector.

Since 2010 the economic activity in Bulgaria has improved due to both the growth in the consumption and investment and the positive dynamics in the trade balance. Despite the declining unemployment and increasing purchasing power, however, the recovery of the Group's markets has slowed down due to the sophisticated market situation following the economic sanctions imposed on Russia in 2014. Consequently, a significant portion of the food produced in the EU has remained without export markets and the domestic markets in the Member States have been subject to strong price pressure. Since last year, there is a trend of upward movement in the prices and profits in the poultry sector but the complicated economic relations between Russia and the EU have remained. There is no guarantee that this situation will change in the near future or that the competitive pressure on the sales and profits in the sector in the EU, including those of the Group, will weaken significantly.

However, since the beginning of 2017, the prices of meat and meat products in Bulgaria have increased by 4.8%, according to NSI data, and the trend is that the strong consumption and the accelerated, albeit slow, inflation will continue to support the steady growth of the turnover and the profits of the companies in the food processing industry in the country. Should the rates of economic growth slowdown, the Group may fail to achieve the expected historical financial and operating results.

We do not deem the tightening of the ECB's monetary policy expected at the end of 2018 or the beginning of 2019 and, respectively, the rise of the interest rates to have a direct impact on the Gradus Group. The company has a low level of indebtedness, which is to be further reduced after this procedure. At the current stage of development, the Group needs debt financing mainly for working capital, which the Group can provide easily and cheap, thus no difficulties are expected regarding receiving loans at an adequate cost despite the future interest rate growth.

However, any deterioration in the general economic conditions may adversely affect the level of demand for different products, including the meat products offered by the Group.

For information on the macroeconomic development in Bulgaria see "*Industry Overview – The Bulgarian Economy*".

A change in the EU's foreign trade regime with third countries may adversely affect the Group's export operations.

The group sells over 85% of the hatching eggs outside the EU and a disruption in the trade relations between the EU and the major markets for the companies in the Group, followed by the introduction of tariff and non-tariff barriers, would significantly limit the realization of this income segment and would lead to deterioration in the Group's financial position.

Inflation risk

The inflation risk is a risk of local currency depreciation and its purchasing power reduction. The risk of rising inflation affects the Group on the one hand, in the direction of decreasing the consumer demand, and on the other, it causes an increase in the expenses of the Group which, in the absence of growth in sales, leads directly to a decrease in the financial result.

The Bulgarian economy operated in a deflation environment for 3.5 years. Since mid-2017, the country has returned to inflation. At the end of December 2017, the annual harmonized index of consumer prices amounted to 1.2%.¹. Despite the projected increase in the base inflation over the next two years, the current economic realities in the EU do not support the expectation that it will be excessive. At the same time, Bulgaria is strongly focused on the inflation requirements for Euro zone membership and, although the state does not have the standard monetary policy instrument, this clearly defined objective provides a high level of inflation predictability for the economic operators.

Currency risk

Since 1997, a currency board system has been in place in Bulgaria according to which the exchange rate of the Bulgarian currency was initially fixed to the German mark and then, after the creation of the Euro zone, to the euro. Maintaining the currency board system is considered a particularly important element of the economic reform in Bulgaria and requires continued political support for the non-inflation policy pursued. The rigid rules of the currency board that exclude both the devaluation (depreciation) of the fixed rate and the independent monetary policy may not meet the future needs of the Bulgarian economy. It is expected that the currency board system will be preserved until the country joins the Euro zone but there is no certainty that this will be achieved. Although Bulgaria fulfils the formal membership requirements, Bulgaria's lack of real convergence towards the Euro zone countries - mainly the institutional weaknesses and the low standard of living, is indicated as a hindrance to accession. Even if Bulgaria is invited to join the Euro zone, there is no guarantee under what conditions (BGN EUR exchange rate) this will happen.

A possible devaluation of the Bulgarian currency would make the products offered by the Group on the export markets (mainly hatching eggs) more attractive to foreign customers all else equal. At the same time, a significant depreciation of the Bulgarian currency would have an adverse effect on the local clients of the Group and the revenues realized on the Bulgarian market.

As the Group realizes part of its revenues - those from the grain trading - in US dollars, it is also vulnerable to the risk of fluctuations in the US dollar exchange rate. The depreciation of the dollar against the euro, to which the Bulgarian currency is pegged, leads to a decrease in the income and profits of the Group from trading, which, although not leading in the revenue split, could have a negative impact on its financial results.

Interest rate risk

The interest rate risk is related to the possibility of a change in the prevailing interest rates in the country. This would have an impact on the Company's operations as far as, all else equal, the change in interest rates would lead to a change in the cost of the financing used by the Group in the implementation of various projects.

The efforts of the Federal Reserve and the European Central Bank to overcome the effects of the global financial and economic crisis through provision of liquidity have led to record low interest rates on the

¹ Source: NSI

international financial markets. At the same time, in Bulgaria, the downward trend in interest rates is also supported by the considerable accumulated corporate and public deposits that the financial institutions have and which further reduces the "price of money".

After the Federal Reserve changed its monetary policy in 2016, given the stable economic recovery in the United States, and started gradual withdrawal of liquidity and interest pick-up, similar steps are expected to be taken by the ECB in the Euro zone by the end of this year. All this will lead to a gradual increase in the cost of financing in Bulgaria as well. Although the Group does not use significant external financing currently, a potential change in the interest rates will lead to higher financial costs and, accordingly, lower profits for the Group.

Unemployment risk

A rise in unemployment could lead to a decrease in disposable income and fall in overall consumption, including of the goods that Gradus sells on the local market. Such developments would lead to a drop in price and volume of goods sold and adversely influences the group's revenue and profit. Nevertheless, poultry is the best value-for-money protein source and its demand is least elastic to drops in income in comparison to more expensive meat and related products.

The unemployment in Bulgaria has been steadily increasing ever since 2013 and as of Q1 2018 it reaches 5.3%². The positive macro developments in the country, the growing turnovers in the industry, and service sectors have created many new workplaces and have affected positively the labour market. The Ministry of Finance and the European Commission expect that the unemployment would continue to decrease, alas at a diminishing rate. Naturally, this is expected to push disposable income, consumption of goods and services and their prices upward.

Risk of changes in taxation and unfavourable interpretation of the tax laws

In recent years, the Bulgarian tax system has remained relatively stable due to the strict fiscal discipline, and although the global financial and economic crisis has put a heavy strain on the country's budget, this risk is currently overcome. However, there is no guarantee that, under the influence of political, economic or demographic factors, the tax system will not change in the future, and these changes may be more or less negative for the merchants. If the tax laws and regulations applicable to the Gradus Group companies are amended, this may have a material adverse effect on the results of the Group's operations and its financial position.

The taxes paid by the Bulgarian merchants include taxes at source, local (municipal) taxes and fees, corporate income tax; value added tax, excise duties, export and import duties, and property taxes. For more information on the taxation in Bulgaria, see "*Taxation*".

The Gradus Group companies were registered as farmers and, as such, they fall within the scope of Article 189b of the Corporate Income Tax Act, which defines the conditions for the waiving of up to 60% of the corporation tax due. The tax law, however, restricts the scope of those who can benefit from the tax relief to micro-, small- and medium-sized enterprises (staff of <250 people and sales of <EUR 50 million and/ or assets of <EUR 43 million). Although some of the companies in the Group meet these additional conditions, Annex I to Regulation (EU) No. 702/2014 also introduces the concept of a group of related parties whose specific size and financial indicators should qualify for tax relief. Given this additional limit, for the period of the historical information provided - 2015-2017 - the Group companies did not benefit from the tax relief for farmers and are not expected to be in a position to do it in the future. In this regard, a possible change in the preferential tax regime for farmers would not affect the Group.

Certain provisions of the tax laws are vague, often lacking a unanimous or equal interpretation of the law or a unified practice of the tax authorities. Due to different interpretations of the tax laws, the risk associated with the Bulgarian tax laws may be greater than in other tax jurisdictions in developed

² Moving weighted average for the period, Eurostat;

countries. The tax authorities can apply a more demanding approach in the interpretation of the legislation and tax audits. This, along with the intensification of the tax collection efforts because of budget needs, may lead to an increase in the scope and frequency of tax audits. In particular, it is possible for the tax authorities to challenge transactions and activities that have not been challenged to date. As a result, significant additional taxes, fines, and interest may be charged.

The Company cannot guarantee that the Bulgarian tax authorities will not give a different, unfavourable interpretation of the tax provisions applied by the Group and this may have an adverse effect on the Group's business, its financial position, and / or the results of its operations.

Investors should also consider that the value of the investment in ordinary shares of the Company may be adversely affected by changes in the existing tax legislation, including in its interpretation and application.

Risk of changes in the credit rating of Bulgaria

The country's credit risk is the risk of impossibility or unwillingness to meet the upcoming debt payments. The latest change in Bulgaria's credit rating dates back to December 2017, when Fitch raised it to BBB with a stable outlook and S&P restored BBB's investment rating of Bulgaria after a three-year break, with a stable outlook. The basis of the opinions of both agencies is the strengthening of the country's external position due to the prolonged expansion of export and the growth of savings, the better expectations for economic growth, and the government's conservative fiscal policy. For information on the current country's credit rating assigned by the credit rating agencies, see "*Industry Review – The Bulgarian Economy*".

The credit rating and outlook are one of the main indicators that foreign investors are considering when deciding on their investments in a given country. An eventual decrease in the Bulgaria's credit rating would mean a higher risk and would automatically raise investors' expectations for profitability, with the potential adverse effect being reflected both in the Group's capital expenditure rise and the decrease in the value of the investment in its shares due to the increase in the risk premium.

Risks related to the Bulgarian legal system

Although Bulgaria has introduced a number of significant legal and constitutional reforms since 2007 and most of the Bulgarian legislation has been harmonized with the EU law, the country's legal system is still under reform. In order to overcome its weaknesses, the EU has introduced a monitoring mechanism on the results achieved and to identify the areas where further efforts are needed. Regardless of the partial success of this mechanism, which has been extended in the fields of justice and home affairs and will continue at least until the end of 2018, the judicial and administrative practices remain problematic and those who rely on the Bulgarian courts to effectively resolve property disputes, violations of laws and agreements, etc. find that this is difficult to obtain.

Consequently, a risk of legal deficiencies that may result in uncertainty in corporate actions, supervision, and other issues that are generally not questioned in other countries can be identified.

Risk of catastrophic events

Natural catastrophic events, bird diseases, terrorist attacks, and military or hostile actions as well as the responses to these actions can create economic and political uncertainty that may have a negative impact on the economic conditions in Bulgaria, and, therefore, an adverse effect on the Group's business, its financial position, and the results of its operations.

Risks related to the Group's business and the sector in which the Group operates

Although it is a vertically-integrated producer of meat and meat products, the Group operates on various market segments with various sector risks. At the same time, this gives some flexibility and possibility to react to minimize the negative effects of these risks.

The chicken meat and meat products market are extremely competitive.

The group sells its poultry products mainly on the domestic market, which is highly competitive. There is another big local producer - Ameta Holding AD. Besides this, the Group competes with a large-volume and highly price-competitive import from other European countries that are big chicken meat producers, which has become a significant factor on the local market after the introduction of the sanctions against Russia. The competition is especially intense in cheaper cuts which, when under certain circumstances, importers can afford to sell in Bulgaria practically below cost. The negative effect of the dynamic competitive environment on the Group manifests itself mainly as pressure to maintain lower prices of the products sold. There is no guarantee that this situation will not further deteriorate and lead to weaker than planned performance and, accordingly, deteriorate the financial position of the Group. Still, the Gradus Group has some important advantages that help it to counteract these market factors and maintain its position - an extremely well-developed distribution network, quality products and variety of the range of products, and a recognizable brand. In addition, the durability of imported products is shortened by the transport period (about 3 days), which significantly limits the period for their realization.

On the meat products market, there is strong fragmentation of the participants in all product types and in all price categories. The Group's pork sausages compete in the average price segment under the brand "Az yam" with the products of Ken AD, Delicates-2 OOD (Zhitnitsa), Bella Bulgaria AD (Sachi, Leki), Boni Holding AD, where active marketing is key to positioning and sales. If the Group does not maintain a steady and active market presence on such a saturated market, it risks immediately being moved out of the consumer basket by a more popular product in the same segment. The main tool for counteracting this risk is the excellent relationship with the retail chains and distributors, including by applying a system of discounts and bonuses.

Although the Group is the leading chicken sausage producer, the competition in this segment is also extremely intense, with virtually all major meat processing companies and many small ones actively taking part on the market in the main product categories. The demand on this market is highly elastic, and in case of a further saturation of the supply - for example, when a new aggressive player emerges - the pressure on the Group's sales, regardless of the strong brand, may lead to deterioration in its performance and financial position.

The concentration of the participants in the modern trade segment may worsen the profitability of the sales.

At present, over 30 retail chains, both international and Bulgarian, operate in Bulgaria. The competition between them is extremely strong despite the growth in the household consumption and the fact that a large part of the market has been redistributed since Penny, Piccadilly, and Carrefour dropped out. This competition is beneficial to suppliers such as the Gradus Group companies, which are an established brand and are sought by consumers, which puts them in a favourable position when negotiating business conditions with the chains.

In such a fragmented market, however, a consolidation in the retail chains might be expected, and in case of a smaller number of market participants, the number of the alternative sales channels of the Group will also be limited, thus negotiating positions will become weaker. By the end of 2017, the sales of the Group in the modern trade segment represented 36% of the sales of sausages and chicken meat. If the profitability of the sales in this segment decreases, this will have a significant adverse effect on the Group's operations, performance, and financial position.

The state support regime for livestock breeding can change.

At present, the Group receives state compensation on an annual basis to cover the costs related to its commitment on humane rearing of birds (parents and broilers). This state compensation was notified in February 2018 and will be in force for the next 5 years, with a very high probability of prolongation afterwards. However, there is a risk of changing the current regime or aggravating the qualification conditions after 2022. Such a change may result in reduction in the revenue from financing and / or an increase in the Group's expenses, which will impair its performance and financial position.

The group cannot conduct its own pricing policy in hatching eggs sales.

The hatching eggs produced by the Group are sold almost entirely outside Bulgaria, with the sales prices depending on the international situation. Although the hatching eggs of the Group are distinguished by the highest quality on the market (hatchability ratio) and practically unlimited volumes can be realized, the company cannot determine the prices at which it sells. It is the result of the combined effect of a number of market factors (degree of excess demand, competing suppliers in the targeted region, restrictions related with bird diseases, etc.). Last year, there has been a gradual increase in the hatching egg prices and we expect that the trend will continue at least over the mid-term. Nevertheless, the Group remains vulnerable to a possible longer-lived price decline in hatching eggs, which are a major revenue component and focus of the investment policy. This may adversely affect the Group's operations, performance, and financial position.

The results of the Group from its grain trading business depend on the trends on the international grain markets.

As a grain trading party, the Group depends on the general trends on the world grain markets. The high yields in key producer countries, the higher productivity investments, and the expansion of the arable areas led to lower prices and increased stocks, both on the international and domestic markets. The turnovers and profits of the grain trading segment will remain heavily dependent on the dynamics of the international prices in the future and can hardly be predictable. An additional element of volatility of the results is also the fact that the Group sells grains mainly in US dollars. There is no guarantee of what future crop yields will be or how it will affect its stock prices globally and in the region. In case of continuous pressure on the prices, the Group may reduce traded volumes and even record losses from this activity.

The cost of production depends on the prices of the grain used for fodder.

Feeding is probably the most important component in bird rearing as both value and importance for the quality of the final product. The Group produces the necessary nutritional mixtures in its own fodder plant (the largest one in Bulgaria) with modern equipment and technologies. Although the Group itself takes care of grain deliveries and controls the whole production process to maximize the parental and broiler performance, the Group cannot control the price of feed grain, which follows the international market trends. As a result, the economic output of hatching eggs and broilers is highly dependent on the fluctuations in the prices of sunflower, corn, wheat, barley, and soybean meal. The Group has some mechanisms to reduce this dependence - mainly maintaining stockpiles in its own facilities. However, in the case of a long-term increase in the feed grain prices, the cost of both hatching eggs and broilers will increase and, if the Group fails to pass this increase on the prices of the end products under conditions of serious competition, this will have a significant adverse effect on the business, the financial situation, and the results of its operations.

The group is dependent on parent birds' suppliers.

The Group has a solid relationship with its foreign parent birds' suppliers, and good terms and relations in its import are key to the entire production cycle. There are few one-day-old parent producers and their supplies are contracted for way ahead. Although the Group works with several suppliers from different European countries, a possible termination of a contract or failure of a supplier to fulfil its obligations to the Group and supply the flocks necessary for loading the parent farms would put the companies in a difficulty, without the possibility of rapid import substitution. Such an event will affect the Group's operations at all levels and will negatively affect its sales and profits.

There is geographical concentration of the Group's foreign hatching eggs customers.

Although the Group diversifies the sales of eggs into pre-negotiated (1 year) and free market ones, there is some degree of geographic concentration of this segment's revenues. It is due to the fact that the Group has very strong positions on the markets in the Middle East and the Transcaucasia as well as in the neighbouring countries of Bulgaria. Here, the geographical position of our country plays a major role, since hatching eggs can be transported for no more than 120 hours. In addition, the company has established long-lasting relationships with one key customer, operating on the Ukrainian markets (32% of the hatching eggs sold) as well as on the Romanian markets (8.3% of the eggs sold). Potential

deterioration of these relationships or a potential problem on the Group's core markets for hatching eggs (e.g. deterioration of the geopolitical situation, economic sanctions, restrictions or other unforeseen factors) would disrupt the Group's deliveries to these markets. If it fails to replace them quickly with alternative markets and / or counterparties, this could have a material adverse effect on the Group's operations, performance, and financial position.

The Group's asset base is scattered over a large area.

The group operates a large-scale and with a spread out asset base located in the regions of Ruse, Yambol, Stara Zagora, Haskovo, Pazardzhik, and Sofia. The assets include parent farms, broiler fattening farms, hatcheries, grain storage, fodder plant, poultry slaughterhouse, a meat processing plant and administrative buildings that are not grouped geographically by type of activity. The main reason for this structure is to reduce the risk of an unforeseen event (e.g. bird diseases, although the state compensates farmers for the destruction of birds due to diseases) that can affect all the farms of the Group at the same time. At the same time, the numerous locations prompt for good operational and process management, complex logistics, and risk of error due to the many participants. If the operational management fails to execute the processes as planned, the Group may incur losses that can affect its financial position. Over the next 6 months, the Group plans to launch a comprehensive ERP system that will cover all Group operations and, therefore, significantly reduce the risk.

It is possible that the Company may choose the wrong development strategy or fail to fulfil it.

The Company's strategy is described in detail in "*Business Review - Strategy*".

Choosing an inappropriate development strategy may result in loss or reduction of profits. The policy of the Company is to manage the strategic risk through continuous monitoring of the implementation of its strategy and results. It includes procedures and regular interactions between the management and the operations team, in order that the Group is able to respond as quickly as possible to changes in the management policy.

The Group may face a number of legislative, legal, operational, and financial risks related to the implementation of its strategy, although the management is making every effort to overcome and minimize them as far as it is dependent on their actions. However, the Company may not be able to achieve its strategic objectives in the coming years due to adverse macroeconomic conditions and potential legal and regulatory barriers, which may have a material adverse effect on the Group's business, financial position, and performance.

The Company is dependent on the members of the Board of Directors and its key management personnel and its operations may be at risk if it is unable to retain or employ qualified management personnel.

As a result of the know-how and experience they possess, the Group is highly dependent on the members of the Board of Directors Ivan Angelov (Executive Director) and Luka Angelov (Chairman of the Board of Directors), who are also shareholders of the Company. The loss of any member of the board of directors or key manager may significantly slow down or impede the implementation of the Group's strategy or business goals. The management contracts concluded with the members of the Board of Directors do not contain any anti-competitive clauses and may be terminated with a notice. The resignation, retirement or dismissal of a member of the Board of Directors may have a material adverse effect on the Group's business, its financial condition, and / or the results of its operations.

The outbreak of bird flu or another animal disease can have a negative effect on the Group's business.

Potential outbreaks of animal diseases can severely limit the operations of the Group. In Bulgaria, as well as in the neighbouring countries, cases of avian influenza (H5N1 strain) have been reported several times in recent years, and there are currently cases of this disease. Cases of other bird diseases have also been identified.

Avian influenza affects the outdoor birds that come in contact with wild birds, while birds grown in farms are practically non-contact. However, if there is an outbreak of an animal disease in one of the areas where the Group's farms are located, it may be necessary for the Group to limit the transport of live animals, to stop loading some of the farms or even to destroy already loaded flocks. A wider and prolonged spread of the disease and a resonance in the society can also lead to a change in the consumer attitudes towards poultry meat products. Although the state is fully compensating producers for losses suffered in the case of destruction of birds due to diseases, no compensation for lost profits has been foreseen. In such a situation, the Group's business may suffer serious damages that may also impact its financial performance.

The group may fail to recruit sufficient and qualified staff to expand their operations.

The expansion of the Group's operations will require the recruitment of additional qualified personnel. The group is already experiencing difficulties in some of its locations (Stara Zagora), where the rapid economic growth and the opening of new industries in various sectors led to a serious labour shortage. The success of the Company's strategy and its future profits will depend heavily on its ability to retain and motivate both current and future employees. There is no guarantee that the Group will be able to recruit the necessary staff at an acceptable wage or that the staff will have the necessary training. The Group's inability to recruit and maintain sufficiently qualified staff at an acceptable level of remuneration may have a significant adverse effect on its operations, performance, and financial position.

A potential infringement of the trademarks "Gradus" and "Az yam!" would have a negative effect on the Company's results.

The group sells poultry products under the Gradus brand, white-labelled or non-branded (commodity) chicken, with the difference in the profitability of the various products being significant. The establishment of Gradus brand among customers is a long and costly process that includes all standard marketing tools, but above all, the maintenance of product quality over an extended period of time. As a result, Gradus is one of the most recognizable brands in the food industry with a total reputation of 99.8%. From 2016, the group began to offer pork sausages with the brand "Az yam!", which also quickly gained significant popularity. In the event that Gradus AD brands become subject to imitation, this would harm the sales volumes and may lead to complaints, negative advertising, claims, or damage to the value of the brands and the Group may suffer serious losses.

In case of unsuccessful introduction of new products into production and on the market, the Group may suffer losses.

The group is in the process of introducing a new type of pork sausages of the brand "Az yam!" as well as a new broilers breed with longer rearing. Should the preparatory / test period be extended or the result for any of these products not meet the expectations or the Group fail to market them, this would have a serious negative effect on its operations, performance, and financial position. The management of Gradus AD closely follows this risk by carefully preparing all steps and analysing the results of the tests so that the introduction of the new products can be done without any problems in the most appropriate moment.

The group may not be able to secure sufficient funds to finance its working capital.

Due to the nature of its operations, the Group uses a relatively large working capital - over BGN 70 million at the end of 2017. For its financing, the Group mainly uses its own funds and short-term bank loans. Although the Gradus Group subsidiaries currently have no difficulty in securing working capital and enjoy favourable terms on their loans, it cannot be guaranteed that this will continue in the future. It is possible that as early as the end of the current year the interest rates in the country will start to rise, which would lead to an increase in the cost of borrowing used by the Group and would have a negative effect on its financial result. At the same time, the Group maintains a low debt / equity ratio (2017: 17.6%) and has significant tangible assets that can be used as collateral, which is reason for preferential terms by financial institutions in case of obtaining bank lending.

Negative advertising may have an adverse effect on the Company's business, financial position, and / or performance.

It is possible that the Group's activity may be the subject to negative advertising. In this regard, the targeted dissemination of negative information could harm the business of the Group's subsidiaries. The Group shall endeavour to minimize this risk by striving to maintain its reputation without fail and complying with all requirements related to its activities. Such negative advertising may in particular lead to loss of trust in the Group and a decline in its revenues, and this may have an adverse effect on the business, the financial position, and / or the results of its operations.

It is possible that the Group may not have or may not be able to obtain sufficient insurance coverage to protect itself from various business risks and liabilities.

A number of foreseeable or unpredictable causes may result in the destruction or damage to the Group's property. Events for which the Group is responsible may also cause damage to third parties. It is possible that these damages or claims are not covered by insurance or covered only partially. Some risks cannot be insured and the insurance premiums for others have a deterrent effect compared to the probability of the risk being realized. The companies in the Group conclude and maintain valid Property Insurance for all their real estate but these insurance policies do not cover and, as far as the Company knows, no insurance is offered in Bulgaria for all the potential risks to which the Group is or may be exposed. In addition, the insurance policies held by the Group are limited in relation to the maximum amount of the claims; therefore, the amounts paid to the companies in the Gradus Group on claims under such insurances may not be sufficient to cover the damage that are suffered. That said, the Company does not expect an incident or damages exceeding the maximum insurance coverage in case of the occurrence of an insurance event.

The occurrence of an uninsured or partially insured event or damage may have an adverse effect on the Group's operations, performance, and financial position.

A failure of the IT systems of the Group or threats to their security are possible.

The Group relies on its IT systems for the performance of a range of functions, including management of the technological equipment, quality management, packaging, labelling, warehousing, logistics, and transportation. Despite the security measures implemented, the IT systems used by the Group may be vulnerable to physical penetration or electronic intrusion, computer viruses or other attacks. Any failure, interruption, or security breach of these systems may affect the ability of the Group to service its production processes, disrupt the Group's operations, impair its reputation, and force it to incur significant technical, legal, and other costs. Moreover, there is no guarantee that the capacity of the IT systems of the Group will be sufficient to meet the needs of its growing and changing business.

A failure or disruption in the Group's IT systems may have an adverse effect on its business, financial position or the results of its operations. ***The Group is exposed to an operational risk that is distinctive for its business activities.***

The companies in Gradus Group are at a risk of loss or unforeseen costs associated with inappropriate or inaccurate internal processes, human errors, external circumstances, office or business errors, business misconduct, fraud, unauthorized transactions, and asset damage. Any failure to identify or non-correction of an operational risk by the Group's risk management system may have a material adverse effect on the Group's business, financial position or results of its operations.

It is possible that the Company engage in transactions with related parties, the conditions of which may differ materially from market value.

Despite the special authorization regime for related party transactions, the Company may enter into related party transactions, the conditions of which may differ materially from the market ones. This may have a material adverse effect on the Company's operations, performance, and financial position.

For more information, see *Related party transactions*.

Unsuccessful IPO

There is a risk that the IPO of Gradus AD might not be successful. In this case the Issuer's management would explore alternative sources of financing, which would be used to fund planned investments. The

latter would be completed at a slower pace with own funds and debt financing. The Board of Directors decided that the IPO would be considered unsuccessful if during the period investors subscribe less than 36 111 112 (thirty-six million hundred and eleven thousand hundred and eleven) shares, divided into 18 055 556 new and 18 055 556 existing shares. In case of unsuccessful IPO, investors would not receive any shares, however, the payments that they have made would be refunded as per the Central Depository's rules and procedures. Investors are not entitled to additional compensations for the period in which their funds related to the share subscription have been blocked and for any other costs they might have incurred during the IPO.

Litigation or other out-of-court arrangements or actions may have an adverse effect on the Group's business, financial position, and / or the performance.

The companies in the Group may be at risk of bringing legal proceedings against them by their clients (including collective claims), workers and employees, shareholders, etc. by bringing civil actions, administrative proceedings, acts of competent authorities or other types of court proceedings. The claimants in this type of lawsuit against the Group may seek redemption of large or inaccurate amounts or other benefits that may have an effect on the Group's ability to carry out its business, and the extent of potential losses from such litigation may remain unknown for a prolonged period of time. The costs for legal defense in future court cases may be significant. Negative advertising related to lawsuits against the companies in the Group or related companies is also possible and may be negative to the reputation of the Group and/ or their related companies, whether the claims are well founded and whether the Group companies or their related companies should be held accountable and have been sentenced by a decision of a competent authority which has entered into force. Therefore, litigation may have an adverse effect on the Group's business, its financial position, and / or the results of its operations.

In their ordinary activity, the companies in Gradus Group may be subject to various proceedings in connection with their operating activities but as per the date of this Prospectus the Company is not aware of the existence of any administrative, civil, arbitration or criminal proceedings that could, to a significant extent, affect the Group's financial position or performance.

Gradus AD is a holding company and is therefore financially dependent on the distribution of dividends from its subsidiaries.

Gradus AD was established at the end of 2017 as a holding company that consolidates its owners' operations in poultry farming and the production of chicken meat and sausage. Up to now, it has no active operations and the Company is not expected to generate any significant operating revenues in the future. The only revenue that the Company is expected to receive is from the distribution of dividends from its subsidiaries. Gradus AD fully controls its subsidiaries and the decisions of their general meetings (where available), which means that the Company will manage the relationship. In addition, since Bulgarian entities are exempt from withholding tax on dividend income, the holding structure does not lead to loss of any value.

However, due to requirement that profit distribution is in the competence of the annual general meeting of shareholders in each individual subsidiary following the adoption of its annual financial statements, it will be booked by the holding and will enter into its distributable profit for the next financial year. Accordingly, the shareholders of Gradus AD will receive their allocations with delay, after approval of the annual or six-month financial statements of the Company, if applicable,

The obligations of Mr. Ivan Angelov and Mr. Luka Angelov in relation to business activities outside the Group could have a material adverse effect on the Group's business, its financial position or the results of its operations.

The Executive Director of Gradus AD, Ivan Angelov, and the Chairman of the Board of Directors, Luka Angelov, who are also the shareholders of the Company, are engaged in various business activities in the private sector, apart from those of the Group. As a result, no guarantee can be given that they will be able to consistently devote enough of their time to the Group's activities. Moreover, the Company cannot entirely exclude the risk that in the future there will be a potential conflict of interest between their obligations to the Group and those in relation to the other activities they carry out. Similarly, it cannot be

ensured that the number of transactions entered into by the Group with related parties to Mr. Ivan Angelov and Mr. Luka Angelov, will not increase. In addition, it cannot be guaranteed that the activities of Mr. Ivan Angelov and Mr. Luka Angelov outside the Group or the information regarding this activity will not be associated with the Group and if this happens that it will not have an adverse effect on the Group's reputation and / or public awareness or other parts of its operations.

Risks related to the shares

No market for the Shares

Before the Offering, there was no market for the Shares. Despite the submission of an application for admission to trading of the Shares on the Bulgarian Stock Exchange, there is no certainty that an active stock market will be created and will exist for the Shares after the Offering or that the Offer Price will correspond to the price at which the Shares will be traded on the stock exchange market after the Offering. If there is no active stock market for the Shares or no such is created, the market price and the liquidity of the Shares may be adversely affected.

Risks related to the Bulgarian capital market

Investors may have less information on the Bulgarian capital market than is available to companies in other markets. There is a difference in the regulation and supervision of the Bulgarian capital market and in the activities of investors, brokers, and other market participants compared to the markets in Western Europe and the United States. The Financial Supervision Commission supervises the disclosure of information and the compliance with other regulatory standards on the Bulgarian capital market. The Financial Supervision Commission monitors the law compliance and regulations and guidelines on disclosure obligations, insider trading, and other matters. However, there may be less publicly available information on Bulgarian companies than is usually available to investors from public companies on other capital markets, which may affect the stock market.

The Bulgarian Stock Exchange is significantly smaller and less liquid than the capital markets in some other countries³

The Bulgarian Stock Exchange is significantly smaller and less liquid than the securities markets in some other countries, such as the United States and the UK.

As of 31 December 2017, shares of 327 companies with a total market capitalization of approximately BGN 10.7 billion⁴ were listed for trading on the Bulgarian Stock Exchange. 100 of them were listed for trading on the Main Market of BSE-Sofia and represent 88% of the total market capitalization as of 31 December 2017 and 87% of the value of the traded shares on the BSE for 2017. The capitalization of the 15 largest companies registered for trading on the Main Market of the BSE was 57% of the total market capitalization on this market as of 31 December 2017 and the value of the traded shares of these fifteen issues accounted for 45% of the total trading volume on the Main Market of the BSE for the period 1 January to 31 December 2017.

From the above statistics, it is evident that a small number of companies make up a large part of the market capitalization and a significant part of the traded volumes on the Bulgarian Stock Exchange. Low liquidity also leads to other difficulties such as excessive volatility. In addition, the market is vulnerable to speculation as liquidity is usually so low that relatively small number of deals can manipulate prices. Therefore, there is no guarantee that the Shares will be actively traded, and if that does not happen, the volatility of the price may increase.

The trading of the Company's Shares on the BSE can be suspended

The Bulgarian legislation provides for cases in which the trading of the Company's Shares on the BSE will be or may be suspended. Under the terms of Article 91 of the Financial Instruments Markets Act,

³ The data source in this point is the quarterly statistics of BSE-Sofia

⁴ The statistics exclude the market capitalization of Capital Concept Limited AD

according to Article 75 of the Trading Rules of the BSE, the Board of Directors of the BSE may temporary suspend the trading of the Shares on the BSE. Any temporary suspension of the trading of the Shares on the BSE would have an adverse effect on the liquidity and the price of the Shares.

The trading volume of the Shares may fall and their market price may fluctuate and fall below the Offering Price

The Company cannot guarantee that the trading volume of the Shares will be permanent or will improve. It is possible that at certain times the sale of the Shares is difficult or impossible due to lack of investor interest.

The market price of the Shares at the time of the Offering cannot be indicative of their market price after the Offering. The market price of the Shares may fluctuate widely depending on many factors that are beyond the control of the Company. These factors include, among other things, actual or expected differences in the performance and the profits of the Group and / or its competitors, changes in the financial assessments of the securities analysts, the market conditions in the sector, and the stock market situation as a whole, changes in laws and regulations as well as changes in the general economic and market conditions, such as recession,

The market price of the Shares may also fluctuate as a result of subsequent issue of new shares by the Company, redemption of Shares by the Company, sale of Shares by the Company's major shareholders, dynamics of the liquidity of the Shares trading, and the perception of investors. In view of these and other factors, the Company cannot guarantee that the market price of the Shares will not fluctuate or fall below the Offering Price.

Additional equity financing, including through convertible preferred shares, convertible bonds or other similar instruments, may have a "dilutive effect" for the shareholders of the Company.

The Company may issue additional ordinary shares in subsequent capital increases. Pursuant to the Bulgarian legislation and the rules of the stock exchange, the Company is obliged to offer these ordinary shares to the current shareholders by distributing subscription rights corresponding to the number of shares held before the increase. Nonetheless, current shareholders may choose not to participate in future issuance of ordinary shares, which would lead to the "dilution" of their current participation in the Company as a share of the capital.

"Dilution" of shareholder participation may also occur in cases where, for one reason, they have not exercised their right to proportionate subscription of convertible preferred share convertible bonds, warrants or similar instruments, which may be converted into (exchanged with) shares in the Company and the other holders of these instruments exercise their right to convert (exchange) and acquire new shares in the Company's capital.

Significant future sales of Shares may affect their market price.

Sales of significant amounts of Shares or the expectation that such sales may occur may adversely affect the market price of the Shares. Such sales may also cause the Company to have difficulty in issuing new shares in the future at the time and the price the Company considers appropriate.

The Company's ability to pay dividends depends on a number of factors and there is no guarantee that in a given year it will be able to pay dividends in accordance with its dividend policy or that it will be able to pay dividends at all.

There are many factors that may affect the ability and timing of dividend payment to shareholders, including the liquidity and capital requirements of the Group, in particular those related to the implementation of the investment programme. The Board of Directors' proposal for dividend distribution will be affected by a number of factors, including: the net profit reported in the Company's financial statements, the current cost, and the existence of debt financing, the requirements with regard to the Group's capital expenditures, the planned acquisitions, and the applicable law (see also *Dividends and Dividend Policy - Dividend Policy*).

Changes in the taxation of investment in securities

At the date of preparation of this Prospectus, the capital gains realized from the sale of securities of listed companies in Bulgaria are not subject to tax. There is a risk that this tax regime for profits from securities trading will be changed in the future, which would lead to an increase in the tax burden on the shareholders and a decrease in their profits from trading in the Company's shares.

Currency risk

The currency risk incorporated in the shares of the Company stems from the fact that they are denominated in BGN. Changes in the exchange rate of the BGN against another currency would affect expected return compared to the return received from an investment denominated in another currency. That said, a possible depreciation of the Bulgarian currency would lead to a decrease in the return on investment in shares of the Company. The functioning currency board mechanism in the country where the Bulgarian currency is fixed to the euro eliminates the presence of currency risk to a large extent by making fluctuations in the exchange rates to the main foreign currencies, dependent on the fluctuations of the common European currency.

Inflation risk in relation to investments in securities

The inflation risk is linked to the likelihood that inflation will affect the real return on investment in securities. After a long deflationary period, last year Bulgaria started a gradual rise in prices, which reached 1.2% at the end of 2017.⁵ Although we do not expect the annual inflation to exceed 2%, the purchasing power of the cash flows stemming from the shares would decrease by the corresponding inflation rate.

Risk with respect to the rights of minority shareholders

The major risk with regard to the minority shareholders is that their ability to participate in the management decisions and exercise control over the Company is limited. This risk can be minimized by investing in securities of issuers who adhere to high standards of corporate governance and control.

⁵ Annual Harmonized Index of Consumer Prices; source: NSI

3. USE OF PROCEEDS

Gradus AD will receive the net proceeds from the public offering of the New Shares. The Issuer will not receive any proceeds from the sale of Existing Shares, the net proceeds of which will be received by the Selling Shareholders.

The expected net amount of the proceeds from the public offering, which will be received by the Issuer, provided that the entire amount of the New Shares offered is subscribed at the maximum possible price of the announced price range (after deducting the cost of its execution) is BGN 64 383 133, and upon successful subscription in the minimum amount at the minimum possible price of the price range - BGN 32,095,485.

Since the issuer cannot predict the results of the subscription, respectively the exact amount of the proceeds, their intended use is prioritized according to the investment objectives of the Company. The planned investments are described in the following table, the presentation being consistent with the condition of minimum success and maximum emission rate.

Priority of execution	Planned investment / Target use	Approximate amount (BGN)
1	Expansion of parent breeding capacity for hatching eggs (including working capital)	15 000 000
2	Increase in the sales of pork products (marketing costs and working capital)	6 700 000
3	Expansion of the chicken meat product portfolio (equipment and marketing, working capital)	4 500 000
4	Expansion of the transportation unit to match the increased production	1 600 000
5	Additional investments in optimization and energy efficiency of the farms	2 500 000
6	Implementation of an ERP system	2 100 000
7	Further expansion of the capacity of parent breeding farms	5 000 000
8	Expansion of the chicken meat production capacity to enter the HoReCa sector (equipment and marketing)	5 800 000
9	Purchase of a cold storage facility	10 000 000
10	Acquisition of local producers of sausages and / or brands	11 000 000

In addition to the net proceeds from the public offering of the shares, the issuer also plans to finance its investment programme with its own funds.

4. DIVIDENDS AND DIVIDEND POLICY

Dividend history

Gradus AD was founded in November 2017 as a holding company to merge its owners' interests into existing subsidiaries and does not have its own dividend history.

The existing companies in the Group have so far allocated a significant percentage of their annual profits as a dividend due to their low indebtedness and despite the investments made during the period.

	2014	2015	2016
(1) Amount of net profits of the Group companies, BGN'000	27 710	25 197	17 414
(2) Amount of dividends distributed by the Group companies, BGN'000	10 282	9 159	10 141
(3) Aggregated dividend payout ratio (3) = (1) / (2)	37.1%	36.3%	58.2%

Source: The Company

Dividend policy

The Company's dividend policy covers the policy regarding the distribution of dividends from the Subsidiaries to the Issuer and a policy regarding the distribution of dividends by the Issuer to its shareholders for a 5-year period after the IPO has been completed.

Dividend Policy of Subsidiaries

According to the policy of distribution of dividends from the Subsidiaries to the Issuer adopted by the Board of Directors, *the Board of Directors will aim to approve the distribution, in favor of the Issuer, of dividends which represent not less than 60% (sixty per cent) of the total distributable profit of the Subsidiaries.* The specific amount of dividends for each individual Subsidiary will be determined considering the following factors: the amount of the net profit and its distributable portion after all statutory deductions according to the financial statements of the respective Subsidiary; running costs; planned capital expenditure; the need to attract debt financing; the cost of the debt financing; planned acquisitions and requirements for the formation of statutory reserves and provisions. Next, the purpose of the Board of Directors would be to approve and pay dividends from Subsidiaries to the Issuer in the first six months of the calendar year except for 2018 when this distribution can be made after 30 June.

In respect of some of the Subsidiaries, the Board of Directors may independently approve dividend decisions as the Issuer is the sole owner. In other Subsidiaries, such as Gradus-1 AD, the Issuer cannot independently approve dividend decisions but the Issuer has a sufficient majority to determine the policy of these Subsidiaries as well.

Dividend policy of the Issuer

The policy of the Board of Directors in respect of the dividends distributed by the Issuer will be to offer at least 90% of the distributable portion of the Issuer's⁶ net profit after all statutory deductions. After the acquisition of a public status, it is planned for the Articles of Association of the Company to be amended so as to allow the distribution of dividends by the Issuer on a 6-month basis under the conditions described in section *Share Capital and Rights and Obligations Related to the Shares and the General Meeting - Rights and Obligations arising out of the Shares - Right to Participation in the Profit* of this Prospectus. In determining the specific percentage of distributable profit to be offered at the General Meeting, the Board of Directors will consider factors such as the need for funds to finance Subsidiaries and provisions in relation to the Group's operations. The planned investments of Gradus AD, including for

⁶ The distributable portion of the Issuer's net profit is the remainder of the annual net profit less all statutory deduction (eg. contribution to the "Reserves" fund of the company) have been accounted for and which could be distributed to the Issuer's shareholders as per article 247 of the Commercial Law after being approved by the General Shareholders Meeting.

acquisitions, will be funded by the capital increase, which will allow a substantial share of the Group's future profits to be distributed. The final decision on the amount of dividends to be distributed by the Issuer falls within the remit of the General Meeting.

Although the Issuer was founded in November 2017, the full amount of the Reserve Fund required by law was filled in by the Issuer when it was set up with the issue price of the shares subscribed by the founders. This will allow the Issuer not to allocate additional funds to the Reserve Fund to reduce the amount of the distributable portion of the profits. The Issuer does not intend to distribute profit in 2018. The earliest date on which the Issuer may distribute dividends to its shareholders will be after the adoption of the Company's annual financial statement for 2018.

Distribution of dividends

The decision on the distribution of profits in the form of dividends is subject to approval by the General Meeting following the approval of the audited annual financial statements of the Company for the financial year in question or for the first six months of the year in question as applicable. The distribution and payment of prepaid dividends are not allowed.

Each Share, including the Offered Shares, entitles its holder to a dividend proportional to the ratio of its nominal value to the Company's capital. The right to receive a dividend is granted to any person registered with the Central Depository as a shareholder of the Company on the date that is the 14th day after the decision of the General Meeting for dividend distribution ("**Dividend Date**"). For more detailed information on dividend payments, please refer to section *Share capital and rights and obligations attached to the shares and general meeting - Rights and obligations arising from the Shares - Right to Participation in the Profit*.

Bulgarian and foreign shareholders enjoy the same regime regarding their right to dividend and the procedures for its payment. As a rule, the Company pays dividends in BGN.

The Articles of Association do not provide for any restrictions on the payment of dividends. Certain restrictions on the distribution of dividends are contained in the applicable Bulgarian legislation (see section *Share capital and rights and obligations attached to the shares and general meeting - Rights and obligations arising from the Shares - Right to Participation in the Profit*).

For information on the taxation of dividends, see section *Taxation - Dividends*.

5. CAPITALIZATION AND INDEBTEDNESS

The data presented in this section should be analyzed along with the information provided in the Operational and Financial Review, the financial statements and notes thereto, and the financial data presented in the other sections of the Prospectus.

Capitalization and indebtedness

The table below contains information on the capitalization and indebtedness of the Group on consolidated basis.

Capitalization and indebtedness, BGN `000	As of 31 March 2018
Non-current liabilities	15 499
Guaranteed liabilities	-
Secured liabilities	-
Loans	-
Unsecured and unguaranteed liabilities	15 499
Deferred tax liabilities	14 937
Other non-current liabilities	283
Non-current liabilities to personnel	279
Current liabilities	51 260
Guaranteed liabilities	-
Secured liabilities	42 245
Loans	42 245
Unsecured and unguaranteed liabilities	9 015
Trade payables to suppliers	4 218
Related parties payables	440
Tax liabilities	2 026
Payables to personnel and social security contributions	1 735
Other current liabilities	596
Equity	280 227
Share capital	221 000
Reserves	44 171
Retained earnings	15 056
Coefficients	
Equity / Liabilities	4.20
Current liabilities / Liabilities	0.77
Non-current liabilities / Equity	0.06

Source: The Company, FFBH calculations

The table below contains information on the capitalization and indebtedness of the Issuer on individual basis.

Capitalization and indebtedness, BGN `000	As of 28 February 2018
Non-current liabilities	48
Guaranteed liabilities	-
Secured liabilities	-
Loans	-
Unsecured and unguaranteed liabilities	-
Deferred tax liabilities	-
Other non-current liabilities	48
Non-current liabilities to personnel	-
Current liabilities	7
Guaranteed liabilities	-
Secured liabilities	-
Loans	-

Unsecured and unguaranteed liabilities	7
Trade payables to suppliers	-
Related parties payables	-
Tax liabilities	-
Payables to personnel and social security contributions	2
Other current liabilities	5
Equity	265 107
Share capital	221 000
Reserves	44 200
Retained earnings	(93)
Coefficients	
Capital / Liabilities	4 820.1
Current Liabilities / Liabilities	0.00
Non-current liabilities / Equity	0.00

Source: The Company, FFBH calculations

The table below contains information on the capitalization and indebtedness of the Group.

Capitalization and indebtedness, BGN `000	As of 31 December 2017
Non-current liabilities	15 445
Guaranteed liabilities	-
Secured liabilities	-
Loans	-
Unsecured and unguaranteed liabilities	15 445
Deferred tax liabilities	14 937
Other non-current liabilities	297
Non-current liabilities to personnel	211
Current liabilities	54 151
Guaranteed liabilities	-
Secured liabilities	46 890
Loans	46 890
Unsecured and unguaranteed liabilities	7 261
Commercial liabilities to suppliers	3 717
Liabilities to related parties	479
Tax liabilities	942
Payables to personnel and social security contributions	1 492
Other current liabilities	631
Equity	268 543
Share capital	221 000
Reserves	44 171
Retained earnings	3 372
Coefficients	
Capital / Liabilities	3.86
Current Liabilities / Liabilities	0.78
Non-current liabilities / Equity	0.06

Source: Audited Consolidated Financial Statements of Gradus AD for 28.11-31.12.2017, FFBH calculations

Indirect and conditional obligations

As of 31 March 2018 Gradus AD has provided a BGN 80 thousand guarantee for a faithful execution to Marina 2003 EOOD in the latter's commitment to Southwestern state enterprise DP

As of 31 March 2018 Gradus AD has no other indirect and conditional obligations.

6. SELECTED HISTORICAL FINANCIAL INFORMATION

The tables below provide selected financial data as of 31 December 2017 derived from the audited consolidated annual financial statements of Gradus AD for the period 28.11.– 31.12.2017.

This section should be read in conjunction with the information presented in *Operational and Financial Review* and in the financial statements and the explanatory notes thereto as well as with the other financial information presented in the Prospectus.

Statement of Comprehensive Income

<i>(Amounts in BGN `000)</i>	28.11.-31.12.2017
Revenue	18 252
Other operating income, net	3 600
Change in inventories and unfinished production (net)	582
Book value of sold assets (excluding production)	(7 276)
Cost of raw materials	(7 371)
Cost of hired services	(1 111)
Depreciation and amortization costs	(454)
Personnel costs	(1 503)
Other expenses	(432)
Profit from ordinary activities	4 287
Financial income	14
Financial expense	(238)
Profit before tax	4 063
Profit tax expense, net	(680)
Net profit for the period	3 383
<i>including for the owners of the parent company's equity</i>	3 372
<i>incl. non-controlling interest</i>	11
Other components of comprehensive income	
Changes in the reserve from actuarial gains and losses	(29)
Total comprehensive income for the year	3 354
<i>including for the owners of the parent company's equity</i>	3 343
<i>incl. non-controlling interest</i>	11

Source: Audited Consolidated Financial Statements of Gradus AD for 28.11-31.12.2017

Statement of Financial position

The table below presents the information on the statement of financial position at the dates specified.

<i>(Amounts in BGN `000)</i>	2017
Assets	
Non-current assets	
Property, machinery and equipment	169 940
Investment properties	6 350
Investments	1
Intangibles assets	53 973
Goodwill	20 656
Total non-current assets	250 920
Current assets	
Inventories	43 772
Receivables from related parties	4 947
Trade receivables	34 381
Loans receivables	1 380
Other current receivables	1 406
Cash and cash equivalents	2 889
Total current assets	88 775
Total assets	339 695
Equity and liabilities	
Equity	
Share capital	221 000
Reserves	44 171
Retained Earnings	3 372
Total equity	268 543
Non-controlling interest	1 556
Non-current liabilities	
Deferred tax liabilities	14 937
Long-term payables to personnel	211
Other non-current liabilities	297
Total non-current liabilities	15 445
Current liabilities	
Bank loans	46 890
Related parties payables	479
Trade payables	3 717
Tax liabilities	942
Payables to personnel	1 492
Other current liabilities	631
Total current liabilities	54 151
Total liabilities	69 596
Total equity and liabilities	339 695

Source: Audited Consolidated Financial Statements of Gradus AD for 28.11-31.12.2017.

Cash flow statement

The table below provides information about selected positions in the cash flow statements for the periods indicated.

<i>(Amounts in BGN `000)</i>	28.11.-31.12.2017
Cash flows from operating activities	
Cash receipts from customers	14 037
Payments to suppliers	(8 976)
Payments to personnel and social security contributions	(1 350)
Paid / (reimbursed) taxes, net of tax on profits, net	(448)
Paid taxes on profits	(390)
Exchange differences and bank charges, net	(2)
Other (payments) / receipts, net	1 549
Net cash flows from operating activities	4 420
Cash flows from investing activities	
Purchase of property, machinery, facilities, and equipment	(301)
Net cash flows used in investing activities	(301)
Cash flows from financial activities	
Cash contributions from owners	240
Proceeds from borrowing	980
Payments under received loans	(5 710)
Paid interest and loan charges	(52)
Net cash flows used in financial activities	(4 542)
Net decrease in cash and cash equivalents	(423)
Cash and cash equivalents at the beginning of the year	3 312
Cash and cash equivalents at the end of the year*	2 889

Source: Audited Consolidated Financial Statements of Gradus AD for 28.11-31.12.2017.

Profit before interest, tax, and depreciation (EBITDA)

The table below presents the information about the profit of the Company before interest, tax, and depreciation for the periods indicated.

<i>Amounts in BGN `000</i>	2017
EBITDA*	4 741

Source: Audited Consolidated Financial Statements of Gradus AD for 28.11-31.12.2017, FFBH calculations

* EBITDA is calculated as operating profit plus depreciation expense.

Distributed dividends during the period of historical financial information

Gradus AD was incorporated on 20.11.2017 and entered in the Commercial Register on 28.11.2017 and has not distributed dividends to date.

7. UNAUDITED PRO FORMA FINANCIAL INFORMATION

Assurance report by the independent auditor on the process to compile unaudited pro forma financial information included in a prospectus

To the owners of GRADUS AD



Report on the process to compile unaudited pro forma financial information included in the prospectus

We have completed our assurance engagement to report on the management's process to compile the attached unaudited pro forma financial information of Gradus AD (the "Company"). The unaudited pro forma financial information consists of a pro forma statement of comprehensive income for the year 2017 and explanatory notes thereto.

The applicable criteria on the basis of which the management compiled the attached unaudited pro forma financial information are defined in EU Regulation 809/2004 Annex I, item 20.2 and Annex II and were disclosed in the explanatory notes to the pro forma financial information of the Company.

The unaudited pro forma financial information was compiled by the management to illustrate the effect of the Company's operations on the financial results if Gradus AD was founded on 01.01.2017, and a consolidated statement of comprehensive income for the year ended 31 December 2017 was prepared.

Management's responsibility for the unaudited pro forma financial information

The management is responsible for the compilation of the pro forma financial information on the basis of the applicable criteria described in the explanatory notes to the pro forma financial information.

Our independence and quality control

We have complied with the independence requirements and the other ethical requirements of the Ethics Code of Professional Accountants issued by the International Ethics Standards Board for Accountants based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional conduct.

The company implements International Standard on Quality Control 1 and, accordingly, maintains a comprehensive quality control system including documented policies and procedures for compliance with the ethical requirements, professional standards, and applicable legal and regulatory requirements.

Responsibilities of the independent auditor

Our responsibility is to express an opinion on whether the pro forma financial information was compiled by the management, in all material respects, on the basis of the applicable criteria.

We have fulfilled our engagement in line with the International Standard on Assurance Engagements (ISAE) 3420 Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus issued by the International Auditing and Assurance Standards Board. This Standard requires the Independent Auditor to plan and perform procedures to obtain a reasonable assurance as to whether the management has compiled, in all material respects, the pro forma financial information on the basis of the applicable criteria.

For the purposes of this engagement, we are not responsible for updating or re-issuing reports or opinions about the historical financial information used in the compilation of the pro forma financial information, nor did we, in the course of the engagement, audit or review the financial information used in the compilation of the pro forma financial information.

The purpose of the pro forma financial information included in a prospectus is merely to illustrate the effect of a significant event or a transaction on an enterprise's unadjusted financial information as if the event had taken place or the transaction was made at an earlier date chosen for the purpose of illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction as of 01.01.2017 would be the same as the one presented.

The engagement to reasonable assurance of reporting whether the pro forma financial information was compiled, in all material respects, on the basis of the applicable criteria involves the performing of procedures to assess whether the applicable criteria used by the management in the compilation of the pro forma financial information provide a reasonable basis for presenting the material effects directly related to the event or transaction and for obtaining sufficient and relevant evidence whether:

- the relevant pro forma adjustments produce an appropriate effect according to these criteria; and
- the pro forma financial information reflects the correct application of these adjustments to the unadjusted financial information.

The procedures selected depend on the independent auditor's judgment, taking into account the independent auditor's understanding of the nature of the company, of the event or transaction in respect of which the pro forma financial information was compiled, and other relevant engagement-related circumstances.

The engagement also includes assessing the overall presentation of the pro forma financial information.

We believe that the evidence we have received is sufficient and relevant to provide a basis for our opinion.

Opinion

In our opinion:

- a) the unaudited pro forma financial information was compiled, in all material respects, according to the applicable criteria described in the explanatory notes thereto, and
- b) the basis for the preparing of the unaudited pro forma financial information is in line with the accounting policies of the Company.

Krasimira Radeva
Registered Auditor

Manager
Baker Tilly Klitou and Partners OOD
Floor 5, 5 Stara Planina str.

30 March 2018
City of Sofia

Unaudited pro forma financial information

The unaudited pro forma Statement of Comprehensive Income was prepared to show what the financial result of Gradus AD would have been if the company was founded on 01.01.2017 and had the same number of shares of Gradus-1 EOOD, Gradus -3 AD, Milenium 2000 EOOD, Gradus-98 AD, Zhyuliv EOOD, and Lora-2004 EOOD as of 31 December 2017. The unaudited pro forma Statement of Comprehensive Income was prepared for illustrative purposes only. Due to its nature, the report considers a hypothetical situation and does not represent the actual financial position or result of the company.

The audited consolidated annual financial statements of Gradus AD and the audited annual financial statements of Gradus-1 EOOD, Gradus-3 AD, Milenium 2000 EOOD, Gradus-98 AD, Zhyuliv EOOD, and Lora-2004 EOOD were used in the preparation of the unaudited pro forma financial information. All listed annual financial statements were prepared in accordance with the International Financial Reporting Standards approved by the EU.

The audited information from the statement of comprehensive income before adjustments shows the consolidated audited statement of comprehensive income of Gradus AD for the period 28.11-31.12.2017, which is also indicated in section *Selected historical financial information* in this Prospectus. The unaudited pro forma information was compiled based on the complete consolidation of the historical financial statements of the subsidiaries Gradus-1 EOOD, Gradus-3 AD, Milenium 2000 EOOD, Gradus-98 AD, Zhyuliv EOOD, and Lora-2004 EOOD for the whole financial year 2017 and the individual statement of Gradus AD for the period 28.11-31.12.2017. In this regard, the pro forma adjustments shown have a continuous impact on the Issuer as it is expected to continue to consolidate the results of the aforementioned subsidiaries.

The pro forma information was prepared in accordance with the accounting policies adopted by the issuer in the audited annual consolidated financial statements for the period ending on 31.12.2017. The unaudited Pro forma Statement of Comprehensive Income was prepared in accordance with the requirements of paragraph 20.2 of Annex I and paragraphs 1 to 6 of Annex II to Regulation 809/2004.

Pro forma statement of comprehensive income

(Amounts in BGN `000)	Gradus AD 2017 - Audited information	Adjustments	Gradus AD 2017 – pro- forma information 1)	Notes
Revenue	18 252	196 192	214 444	2)
Other operating income, net	3 600	17 566	21 166	2)
Capitalized expenditure	-	171	171	2)
Dividend income	-	5 522	5 522	2)
Income from revaluation of investment property	-	4 531	4 531	2)
Change in stocks of finished goods	582	6 589	7 171	2)
Book value of assets sold (excluding production)	(7 276)	(89 278)	(96 554)	2)
Cost of raw materials	(7 371)	(63 849)	(71 220)	2)
Cost of hired services	(1 111)	(8 933)	(10 044)	2)
Depreciation and amortization costs	(454)	(4 792)	(5 246)	2)
Impairments	-	(4 374)	(4 374)	2)
Personnel costs	(1 503)	(14 901)	(16 404)	2)
Other operating costs	(432)	(3 705)	(4 137)	2)
Profit from ordinary activities	4 287	40 739	45 026	
Financial income	14	88	102	2)
Financial expenses	(238)	(1 573)	(1 811)	2)
<i>Financial income/ (expenses), net</i>	<i>(224)</i>	<i>(1 485)</i>	<i>(1 709)</i>	

Profit before tax	4 063	39 254	43 317	
Tax expense	(680)	(2 812)	(3 492)	2)
Net profit for the year	3 383	36 442	39 825	
<i>The owners of the parent company's equity</i>	3 372	36 279	39 651	
<i>Non-controlling interest</i>	11	163	174	
Other components of comprehensive income				
Articles that will not be reclassified through profit or loss				
Changes in the revaluation reserve of property, facilities, and equipment	-	89 356	89 356	3)
Changes in the reserve from actuarial gains and losses	(29)	-	(29)	
Total comprehensive income for the year	3 354	125 798	129 152	

Source: Gradus AD

Notes:

Gradus AD was founded on 20/11/2017 and registered in the Commercial Register on 28/11/2017 in order to carry out activity as a holding company of the Gradus Group companies.

The audited information on the comprehensive income was taken from the audited consolidated financial statements of Gradus AD.

The financial statements of the acquired subsidiaries - Gradus-1 EOOD, Gradus-3 AD, Milenium 2000 EOOD, Gradus-98 AD, Zhyuliv EOOD, and Lora-2004 EOOD are shown in section "Operational and Financial Review".

Accompanying explanatory notes

The following pro forma adjustments were made to the Audited Consolidated Annual Financial Statements of Gradus AD the year for 2017:

1. Consolidation

The unaudited Pro Forma Consolidated Statement of Comprehensive Income represents a pro forma complete consolidation of the historical financial statements for the subsidiaries Gradus-1 EOOD, Gradus-3 AD, Milenium 2000 EOOD, Gradus-98 AD, Zhyuliv EOOD, and Lora-2004 EOOD for the whole financial year 2017. The applicable basis for the preparation of the historical financial statements included in the pro forma information is the IFRS approved by the EU.

The table below is for illustrative purposes and shows how the compilation of a consolidated statement of comprehensive income of Gradus AD would appear if the Issuer was incorporated on 01.01.2017 and completely consolidated the results of its subsidiaries for the whole 2017. The data shown for Gradus-1 EOOD, Gradus-3 AD, Milenium 2000 EOOD, Gradus-98 AD, Zhyuliv EOOD, and Lora-2004 EOOD are from the respective annual statements of comprehensive income. The data in column "Eliminations" of the table show summarized information about the pro forma eliminations of intragroup transactions between Gradus-1 EOOD, Gradus-3 AD, Milenium 2000 EOOD, Gradus-98 AD, Zhyuliv EOOD, and Lora-2004 EOOD and the adjustments related to the unification of the accounting policy in the presenting of the separate elements of the statement of comprehensive income of the subsidiaries with the accounting policy chosen by Gradus AD:

(Amounts in BGN '000)	Gradus-1 EOOD	Gradus -3 AD	Milenium 2000 EOOD	Gradus -98 AD	Zhyuliv EOOD	Lora -2004 EOOD	Eliminations/ Adjustments	Gradus AD
								2017 – pro forma information
Income	69 560	127 177	47 046	28 834	37 483	5 754	(101 410)	214 444
Other operating income, net	3 617	709	14 926	3 029	443	973	(2 531)	21 166
Capitalized own costs	-	-	-	171	-	-	-	171
Dividend income	2 401	-	-	-	-	-	3 121	5 522
Income from revaluation of investment property	23 380	895	-	-	-	-	(19 744)	4 531

Change in stocks of finished goods	(1 718)	(144)	4 826	3 117	486	341	263	7 171
Book value of sold assets (excluding production)	(3 389)	(86 353)	(3 367)	(8 389)	(6 525)	-	11 469	(96 554)
Cost of raw materials	(50 639)	(31 990)	(32 879)	(12 706)	(25 142)	(5 313)	87 449	(71 220)
Cost of hired services	(7 152)	(2 003)	(1 894)	(1 363)	(1 610)	(132)	4 110	(10 044)
Depreciation and amortization costs	(2 198)	(546)	(731)	(1 147)	(401)	(230)	7	(5 246)
Impairment costs	(215)	(491)	-	(2 141)			(1 527)	(4 374)
Personnel costs	(6 631)	(1 039)	(4 464)	(2 302)	(1 521)	(447)		(16 404)
Other operating costs	(158)	(145)	(3 986)	(1 019)	(230)	(129)	1 530	(4 137)
Profit from ordinary activities	26 858	6 070	19 477	6 084	2 983	817	(17 263)	45 026
Financial income	39	1	1 461	3 126	35	3 353	(7 913)	102
Financial costs	(388)	(1 369)	(11)	(36)	(21)	(21)	35	(1 811)
<i>Financial income/ (expenses), net</i>	(349)	(1 368)	1 450	3 090	14	3 332	(7 878)	(1 709)
Profit before tax	26 509	4 702	20 927	9 174	2 997	4 149	(25 141)	43 317
Profit tax expense	(2 587)	(472)	(2 152)	(407)	(302)	(23)	2 451	(3 492)
Net profit for the year	23 922	4 230	18 775	8 767	2 695	4 126	(22 690)	39 825
<i>The owners of the parent company's equity</i>	23 922	4 061	18 775	8 762	2 695	4 126	(22 690)	39 651
<i>Non-controlling participation</i>		169		5				174
Other components of comprehensive income								
Changes in the revaluation reserve of property, facilities, and equipment	17 354	3 633	8 193	26 413	5 834	5 879	22 050	89 356
Changes in the reserve from actuarial gains and losses	(29)	(5)			5		-	(29)
Total comprehensive income for the year	41 247	7 858	26 968	35 180	8 534	10 005	(640)	129 152

Source: Gradus AD*, Gradus-1 EOOD, Gradus-3 AD, Milenium 2000 EOOD, Gradus-98 AD, Zhyuliv EOOD, and Lora-2004 EOOD

*On the individual level, Gradus AD has income, expenses, and net profit that equal to 0 (BGN zero).

2. Adjustments to the statement of income and expense

The unaudited pro forma information on the items of the statement of income and expense of Gradus AD shows what their value would be if Gradus AD was incorporated on 01.01.2017 and completely consolidated the relevant items of the statements of comprehensive income of Gradus-1 EOOD, Gradus-3 AD, Milenium 2000 EOOD, Gradus-98 AD, Zhyuliv EOOD, and Lora-2004 EOOD for the whole 2017. The combined effect of the net profit adjustments for 2017 is BGN 36.4 million, of which BGN 36.3 million for the holders of the capital of Gradus AD, and would be a pro forma consolidated net profit of Gradus AD for the period 01.01.2017 years – 27.11.2017 in the above hypothesis.

3. Adjustments of other components of comprehensive income

As of 1 January 2017, all subsidiaries of the Company changed their accounting policies for subsequent valuation in respect of the fixed tangible assets under a revaluation model under IAS 16 Property, Facilities, and Equipment and in respect of the investment property by fair value under IAS 40 Investment Property. The unaudited pro forma information about the other comprehensive income includes revaluations of fixed tangible assets and investment properties leased within and outside the Group, owned by Gradus-1 EOOD, Gradus-3 AD, Milenium 2000 EOOD, Gradus -98 AD, Zhyuliv EOOD, and Lora-2004 EOOD. The adjustments made to the amount of BGN 89.4 million indicate the amount of the revaluation as it would appear if Gradus AD prepared a financial statement for the whole 2017, including the financial results of the aforementioned companies.

8. OPERATIONAL AND FINANCIAL REVIEW

This section provides information that the management believes is essential to the understanding of the Group's financial position and the results for the years ended 31 December 2015, 2016, and 2017.

Gradus AD prepares financial statements on a consolidated and individual basis. The review of the financial position and the operations presented below is based on the consolidated statement of comprehensive income, the consolidated statement of financial position, and the consolidated cash flow statement of Gradus AD for the period from 28 November to 31 December 2017 (audited).

Management of Gradus AD believes that the understanding of the financial position and the performance of the subsidiaries of the Group, namely Gradus-1 EOOD (Gradus-1), Gradus-3 AD (Gradus-3) Milenium 2000 EOOD (Milenium 2000), Gradus-98 AD (Gradus-98), Zhyuliv EOOD (Zhyuliv), and Lora-2004 EOOD (Lora 2004), is essential for the operational and financial review of the parent company. Therefore, this chapter provides an operational and financial overview of the individual annual statements of comprehensive income, the individual annual statements of financial position, and the individual annual cash flow statements of the abovementioned companies for the years ended 31 December 2015, 2016, and 2017 (all of them audited).

The following review of the performance, financial position, and cash flows of the Company and the subsidiaries of the Group should be read and interpreted in conjunction with the attached Financial Statement of Gradus AD and the other financial information contained in the other sections of this Prospectus.

The assumptions in this review and the analysis of the industry's prospects, the management's expectations regarding the Company's future performance, and the other non-historical information relate to the future and, by their very nature, involve risk and uncertainty. As a result of the factors discussed in this section and elsewhere in this Prospectus, in particular in section "Risk Factors", it is possible that the actual performance of the Company may differ materially from that relating to the future (see also "Trends and prospects"). Investors should look at the Prospectus in its entirety rather than make decisions or form an opinion solely on the basis of summarized information.

Overview

The companies of the Gradus AD Group form the largest vertically integrated chicken meat producer in Bulgaria with 35% of the sales of branded chicken meat in Bulgaria and in top 3 of the largest producers of hatching eggs in Europe, exporting products for over 10 countries in Europe and Asia. The Group has its own grain storage facilities for about 90,000 tons of grain, which allows the successful development of trade in grain and cereals.

The Group carries out activities in the following areas:

- Production of meat and meat products, including chicken meat, chicken sausages and delicacies as well as pork sausages and delicacies. The production of the final products in this field is carried out in the largest meat processing plant on the Balkans located in Stara Zagora and owned by Gradus-1 EOOD (Gradus-1). Activities in this field are also carried out by the following other subsidiaries: Gradus-3 AD (Gradus-3) - production of fodders; Milenium 2000 EOOD (Milenium 2000) - production of hatching eggs and fattening of broilers; Gradus-98 AD (Gradus-98) - production of hatching eggs, Zhyuliv EOOD (Zhyuliv) - hatcheries, supply of one-day-old broilers and fattening of broilers; Lora-2004 EOOD (Lora-2004) - fattening of broilers. In 2017, the revenues from sales of meat and meat products amounted to BGN 67.4 million.
- Production and export of hatching eggs. In addition to supplying the business with chicken meat and products, Gradus AD makes sales in this field both of hatching eggs and one-day-old broilers. Activities in this field are carried out by Milenium 2000 EOOD - production of hatching eggs; Gradus-98 AD - production of hatching eggs; Zhyuliv EOOD - production of one-day-old broilers. In 2017, 118 million hatching eggs (including in the Group) were sold, of which 55% were sold

directly to external customers and about 37% were sold in the form of one-day-old broilers (32 million one-day-old broilers sold outside the Group).

- Trade in grain and cereals. Gradus AD trades in grain and cereals by using the well-built structure of its own grain storage facilities and its good contacts with Bulgarian agricultural producers and traders, suppliers of the Group's own fodder plant. The activity in the field is mainly done by Gradus-3 AD, which realized revenues from grain trade in the amount of BGN 90.4 million in 2017.

The Group's companies realized a pro forma total consolidated income of BGN 246 million and a profit from ordinary activity amounting to BGN 45 million in 2017 (see section *Unaudited Pro Forma Information*).

Common factors influencing operational and financial performance

The activities of the Company and the subsidiaries in the Group are influenced by the following key factors, which are expected to continue to have an effect on the performance: (i) the macroeconomic conditions in Bulgaria and on the export markets of the Group; (ii) the general government support policy for the sector; (iii) the competitive environment in the segments in which the Group companies operate; (iv) the introduction of new products; (v) the prices of raw materials, materials and labor; (vi) business seasonality and cyclicity; (vii) exchange rates and interest rates.

Below, there is an overview of the main factors that influenced the financial and operating results of the Group companies in 2015, 2016, and 2017. The management believes that these factors have had and are likely to have an effect in the future on the activity, financial results, financial position, and prospects for development of the Company and the Group.

A detailed analysis of the actual effect of the following factors on the specific items of the statement of comprehensive income and the statement of financial position of the Company and the subsidiaries in the Group during the periods and dates indicated are presented in this section under *Performance*.

Macroeconomic conditions in Bulgaria and on the export markets of the Group

The group is based in Bulgaria where the main part of the activity is in the meat and meat products segment and more than 98% of the revenues are realized. The trade in hatching eggs is export-oriented and targets 10 export markets, with Romania, Iraq, and Ukraine accounting for over 80% in 2017. The information is based on the individual statements of Milenium 2000 EOOD, Gradus-98 AD, and Zhyuliv EOOD. The main contractors in the cereal trade are international trading companies and local exporting companies.

The main macroeconomic factors related to Bulgaria and the respective export markets of the Group are the growth of the local economy, the inflation rate, the unemployment rate, the household incomes, and the external trade regimes in the non-EU countries.

The macroeconomic factors in Bulgaria and the export markets of the Group, in particular Romania, Iraq and Ukraine, and in the world, continue and will continue to have an impact on the Group's financial performance in the future.

Bulgaria

Since 2010, the economic activity in Bulgaria has improved due to both the growth in consumption and investment and the positive dynamics in the trade balance. However, the chicken meat product line of the Group could not fully benefit from the positive trends due to the complicated competitive environment following the economic sanctions imposed on Russia in 2014. Last year, the situation began to improve and the prices of chicken products began to rise and we expect this trend to continue.

The main macroeconomic indicators for Bulgaria for the years 2015-2017 are presented in section *Industry Overview - Bulgarian Economy*.

General government policy on livestock support

At present, Gradus AD receives state compensation annually to cover expenses related to a commitment for the humane breeding of birds (parents and broilers). This state aid has been in force since 2013 and was extended for a five more years in 2018 with a very high probability of additional extension. However, there is a risk of change in the current regime or aggravating of the qualification conditions after 2022. Such a change may result in reduction in the revenues from funding and / or in an increase in the Group's expenses.

Gradus-1 EOOD is a beneficiary of state funding in the form of a discount on the distribution component of the expenses for purchasing electricity produced from renewable sources. Termination of this funding would have a limited impact on the performance of Gradus-1 and Gradus AD.

Competitive environment in the segments in which the Group companies operate

The interaction with local and foreign competition has and will continue to have a significant effect on the Group's performance and financial position.

Chicken meat and sausages

Gradus AD sells its poultry products mainly on the domestic market, which is highly competitive. There is another big local producer, Ameta Holding AD, which is engaged in the production of poultry meat. Gradus AD has a serious competitive advantage thanks to its vertically integrated structure that allows optimization of production costs and quality control throughout the entire production chain.

In addition to local competitors, Gradus AD competes with imports from other European countries, which are big producers of chicken meat. The competition from importing countries has increased since the introduction of sanctions against Russia because it has led to a redirection of production destined for the Russian market to the pan-European market and, hence, to oversupply. The result of this situation is mainly in the form of prolonged retention of lower prices for chicken products.

In the last year, there has been a reversal of the trend and a rise in the prices, which in Gradus AD is a growth of about 5% of the sales price of chicken meat. At the same time, the price levels are below the average chicken meat prices from before the sanctions against Russia due to the ongoing complicated EU-Russia relationship and there is no guarantee of how long this situation will continue and when the market will get normal again. Still, the vertical integration of Gradus AD and the good brand recognition make it possible to counteract the situation significantly better than the other local competitors.

Besides the leading producer of poultry meat, Gradus AD is a leading producer of chicken meat sausages in Bulgaria. Chicken sausages are also characterized by intense competition. Major competitors are both the leading local large-scale meat processors and many small participants. The emergence of a new aggressive player and the saturation of the supply may lead to pressure on the sales of Gradus AD despite the strong brand.

Pork meat products

The pork product line is new for the Group and products from the brand „Az yam!“, under which Gradus AD operates have been marketed since the middle of 2016. However, with the help of an active marketing and advertising campaign, Gradus AD achieved total brand recognition of 76.5% as of the end of 2017, which supports the planned growth of the product portfolio and the increase in the production volumes.

The market where the products under the brand “Az yam!” are sold is highly fragmented. The brand is positioned in the middle price segment and competes with the products of Ken AD, Delicates-2 OOD (Zhitnitsa), Bella Bulgaria AD (Sachi, Leki), Boni Holding AD, and many regional producers. Characteristic of this market is the key importance of active marketing for the positioning and sales of individual brands, which is associated with relatively higher advertising and marketing expenses for Gradus AD.

Hatching eggs

Gradus AD is among the top 3 of Europe's largest suppliers of hatching eggs. The competitive advantages of the Group are the high quality expressed in the form of a high hatching rate as well as the possibility and the large free capacity for such supplies to be made directly in the form of hatched one-

day-old broilers. Despite the higher concentration on the hatching egg market, the Company has no control over the final price, and it varies greatly under the influence of the following market factors: excess of supply over demand, competitive suppliers in the region, restrictions due to bird diseases, etc.

In the last year, there has been a gradual increase in the prices of hatching eggs thanks to the favorable development of the above-mentioned factors. The management's expectations are to maintain this trend in the medium term at least to reach the average historical price levels.

It should be noted here that the Group companies operating in this segment are the most profitable ones, which determines the leading influence of the changes in the prices of the hatching eggs on the performance and the financial situation of the Group.

Introduction of new products

The introduction of new products is an important factor that influences and will continue to influence the Group's sales and profitability.

The current results are influenced by the gradual introduction of new products of the "Az yam!" brand. In 2018, the introduction of boiled-smoked and raw dried sausages is expected, which have significantly higher margins than the current product portfolio.

In the chicken meat line, in order to meet the increased demand for meat of a taste quality similar to that of domestic chickens, a new high-margin broiler breed is planned to be introduced.

Prices of raw and other materials, and labor

Fodder is the most significant expense in poultry farming and changes in grain prices, respectively, have noticeable impact on the Group's financial performance

Gradus AD, as well as the other companies operating in the sector, cannot control the price of fodder grain, the latter following the trends on international markets. As a result, the economic result of the production of hatching eggs and broilers is highly dependent on fluctuations in prices of wheat, fodder maize, and other cereal components, which account for a total of 96% of the cost of the fodder, as these prices can be transferred late in the final prices of chicken meat and products. In order to reduce its dependence on the grain prices fluctuations, Gradus AD maintains its own stocks of fodder materials.

Another significant factor for the Group is the security and the cost of the supply of day old parents. The Group has a long-term relationship with the main supplier and is one of its largest clients, which allows for preferential prices and discounts and ensures the supply volumes and, hence, the lower fluctuation of supply prices and financial performance.

A significant factor are the personnel expenses and, in particular, the salaries of the Group's employees. The Group companies have to compete for both highly qualified personnel with the other meat processing companies and low-skilled work with other employers at the location of the individual companies. Due to the fact that the Group wants to ensure continuous and qualitative functioning of the production activity, the enterprises of the Group employ personnel with an average annual salary comparable to the average for the country for the manufacturing industry and above the average annual salary for the agricultural sector. In 2017, the average salary in the individual subsidiaries ranged between BGN 9,280 and BGN 11,442.

Average gross salary (annual, in BGN)	2015	2016	2017
Gradus AD	n/a	n/a	n/a
Gradus-98 AD	7 909	8 074	10 271
Gradus-3 AD	9 371	10 633	11 442
Zhyuliv EOOD	8 988	9 795	10 620
Gradus-1 EOOD	9 494	10 478	11 124
Milenium 2000 EOOD	10 168	10 916	11 186
Lora-2004 EOOD	8 734	9 018	9 280

Source: Unaudited data from Gradus AD; n/a - not applicable

The Company's performance also depends on the electricity and natural gas prices. According to Eurostat data, the average electricity price for industrial customers with annual consumption between 2,000 MWh and 20,000 MWh in the first half of 2017 decreased by 10.9% compared to the first half of 2016 and by 2.9% compared to the end of 2016. According to Eurostat data, the price of natural gas with an annual consumption between 10,000 GJ and 100,000 GJ in the first half of 2017 decreased by 5.0% compared to the first half of 2016 and increased by 14.3% compared to the end of 2016.

Business seasonality and cyclicity

Seasonality is a factor with a limited impact on the Company's current performance. Typical is the increase in consumption of chicken meat and other types of meat protein during the winter months. At the same time, there is a clear trend in chicken meat consumption at the expense of red meat in summer, which is related to the preference for a lighter diet during this period.

With the introduction of „Az yam!“ pork meat, it is expected that the impact of the factor on the financial and operating results will increase due to the strong seasonality in the consumption of dried sausages with their peak around the Christmas and New Year holidays.

Characteristic of the production of hatching eggs and broilers for fattening is the cyclicity associated with the technological time until maturity of the parents before starting to lay eggs and the fattening period for the broilers. This cyclicity affects both the financial performance of the Group's subsidiaries and the carrying amounts of the inventories.

Exchange rates and interest rates in Bulgaria

The subsidiary Gradus-3 AD is trading in cereals: sunflower, wheat, barley, rapeseed, and others. This activity is carried out with bank financing, which at the end of 2017 amounted to BGN 22.5 million. Therefore, Gradus-3 AD and its financial performance are strongly dependent on the availability of bank lending and the interest rates on loans in Bulgaria.

Other companies of the Group also use loans for working capital and investment loans, which is why their financial performance also depends on the interest rates in Bulgaria.

A substantial part of the grain transactions is made in dollars. The company plans to hedge these positions.

Financial review of Gradus AD

Operating results

The table below which is drawn up for the specified periods provides specific information on the performance of the Company.

Statement of comprehensive income

<i>(Amounts in BGN `000)</i>	28.11.-31.12.2017
Revenue	18 252
Other operating income, net	3 600
Change in inventories and unfinished production (net)	582
Book value of sold assets (excluding production)	(7 276)
Cost of raw materials	(7 371)
Cost of hired services	(1 111)
Depreciation and amortization expenses	(454)
Personnel costs	(1 503)
Other expenses	(432)
Profit from ordinary activities	4 287
Financial income	14
Financial expenses	(238)

Profit before tax	4 063
Profit tax expense, net	(680)
Net profit for the period	3 383
including for the owners of the parent company's equity	3 372
incl. non-controlling interest	11
Other components of comprehensive income	
Changes in the reserve from actuarial gains and losses	(29)
Total comprehensive income for the year	3 354
including for the owners of the parent company's equity	3 343
incl. non-controlling interest	11

Source: Audited Consolidated Financial Statements of Gradus AD for 28.11-31.12.2017, FFBH calculations

Revenue

The table below presents a breakdown of the income of Gradus AD for the period 28.11-31.12.2017 by type. The main types of income for Gradus-1 were from the sale of finished goods and the sale of goods with, respectively, BGN 10.7 million and BGN 7.4 million.

Income by type (Amounts in BGN `000)	28.11.-31.12.2017
Sale of finished goods	10 741
Sale of goods	7 445
Sale of transport services	66
Rental income	102
Sale of materials and fixed tangible assets	486
Income from financing	633
Other operating income, net	2 379
Total	21 852

Source: Audited Consolidated Financial Statements of Gradus AD for 28.11-31.12.2017, FFBH calculations

Operating expenses

The table below, prepared for the period 28.11-31.12.2018, presents the main components of the operating costs of Gradus AD.

Operating expenses (Amounts in BGN `000)	28.11.-31.12.2017
Cost of raw materials	7 371
Cost of hired services	1 111
Depreciation and amortization costs	454
Personnel costs	1 503
Other expenses	432
Cost of assets sold (excluding production)	7 276
Total	18 147

Source: Audited Consolidated Financial Statements of Gradus AD for 28.11-31.12.2017, FFBH calculations

The main components of the operating expenses are the costs of raw materials and the cost of the sold assets, which represent, respectively, 40.6% and 40.1% of the total operating expenses.

Financial income and expenditure

The table below, prepared for the periods indicated, presents the main components of the financial income and expenditure of Gradus AD by type.

Financial income and expenditure (Amounts in BGN `000)	28.11.-31.12.2017
Interest income	14
Financial income	14
Loss from foreign exchange operations, net	(6)
Interest expenses	(224)
Other financial expenses	(8)
Financial costs	(238)
Financial income/ (expenses), net	(224)

Source: Audited Consolidated Financial Statements of Gradus AD for 28.11-31.12.2017, FFBH calculations

The basic financial expenses are interest expenses and bank charges. Their amount for the period of the financial statements was BGN 224 thousand.

Profitability

Profitability (Amounts in BGN `000)	28.11.-31.12.2017
EBITDA*	4 741
<i>margin</i>	21.7%
Operating profit	4 287
<i>margin</i>	19.6%
Profit before tax	4 063
<i>margin</i>	18.6%
Net profit for the year	3 383
<i>margin</i>	15.5%
Net profit for the year for the owners of the equity	3 372
<i>margin</i>	15.4%

Source: Audited Consolidated Financial Statements of Gradus AD for 28.11-31.12.2017, FFBH calculations

* Profit before depreciation, financial expenses, and taxes, calculated as operating profit plus depreciation expense

The net profit for the year of Gradus AD amounted to BGN 3.4 million for the period, which is a net margin of 15.5%.

Other comprehensive income

For the period 28.11-31.12.2017, the total comprehensive income amounted to BGN 3.35 million due to a decrease in the reserve of BGN 29 thousand from actuarial gains and losses.

Assets and liabilities

The following table presents the balance sheet of Gradus AD as of 31.12.2017.

Statement of financial position (Amounts in BGN `000)	2017
Assets	
Non-current assets	
Property, machinery and equipment	169 940
Investment properties	6 350
Investments	1
Intangibles assets	53 973
Reputation	20 656
Total non-current assets	250 920
Current assets	
Inventories	43 772
Receivables from related parties	4 947
Trade receivables	34 381

Loans receivables	1 380
Other current receivables	1 406
Cash and cash equivalents	2 889
Total current assets	88 775
Total assets	339 695
Equity and liabilities	
Equity	
Share capital	221 000
Reserves	44 171
Accumulated profits	3 372
Total Equity	268 543
Non-controlling interest	1 556
Non-current liabilities	
Deferred tax liabilities	14 937
Long-term payables to personnel	211
Other non-current liabilities	297
Total non-current liabilities	15 445
Current liabilities	
Bank loans	46 890
Related parties payables	479
Trade payables	3 717
Tax liabilities	942
Payables to personnel	1 492
Other current liabilities	631
Total current liabilities	54 151
Total liabilities	69 596
Total equity and liabilities	339 695

Source: Audited Consolidated Financial Statements of Gradus AD for 28.11-31.12.2017, FFBH calculations

Major components of the aggregate amount of the consolidated assets of Gradus AD are fixed tangible assets, intangible assets, inventories, and trade receivables, which by the end of 2017 represented 50.0%, 15.9%, 12.9%, and 10.1%, respectively. As of 31 December 2017, the total amount of assets amounted to BGN 339.7 million. At the time of establishment of Gradus AD and the acquisition of shares from Gradus-1 EOOD, by applying the requirements of IFRS approved by the EU, identifiable intangible assets "Trademarks" with an unlimited useful life were recognized, amounting to BGN 53.3 million as assessed by independent licensed appraisers.

The tables below show the balance sheet values of the fixed tangible assets (FTA) as of 31 December 2017.

Balance sheet value of fixed tangible assets as of 31 December	2017	
	BGN `000	% of fixed assets
Land	16 466	9.7%
Buildings	86 990	51.2%
Machinery and equipment	33 237	19.6%
Facilities	22 408	13.2%
Transport vehicles	4 461	2.6%
Business inventory	1 671	1.0%
Expenditure on acquisition of fixed tangible assets	4 707	2.8%
Total fixed tangible assets	169 940	100.0%

Source: Audited Consolidated Financial Statements of Gradus AD for 28.11-31.12.2017, FFBH calculations

Balance sheet value of investment properties	2017
as of 31 December	BGN `000
Investment properties	6 350

Source: Audited Consolidated Financial Statements of Gradus AD for 28.11-31.12.2017, FFBH calculations

The amount of the liability in the consolidated statement for 2017 amounted to BGN 69.6 million. The key elements in the structure of the liabilities of Gradus-1 are short-term loans and deferred tax liabilities, which at the end of 2017 amounted to 67.4% and 21.5% of all liabilities.

Capital resources, cash flows, and indebtedness

Cash flows

The table below provides information on the net cash flows of Gradus AD from operating, investing, and financial activities for the indicated period as well as on the cash and cash equivalents at the beginning and the end of the reporting period.

Cash flow statement (Amounts in BGN `000)	28.11-31.12.2017
Cash flows from operating activities	
Cash receipts from customers	14 037
Payments to suppliers	(8 976)
Payments to personnel and social security contributions	(1 350)
Paid / (reimbursed) taxes, net of tax on profits, net	(448)
Paid taxes on profits	(390)
Exchange differences and bank charges, net	(2)
Other (payments) / receipts, net	1 549
Net cash flows from operating activities	4 420
Cash flows from investing activities	
Purchase of property, machinery, facilities, and equipment	(301)
Net cash flows used in investing activities	(301)
Cash flows from financial activities	
Cash contributions from owners	240
Proceeds from borrowing	980
Payments under received loans	(5 710)
Paid interest and loan charges	(52)
Net cash flows used in financial activities	(4 542)
Net increase / (decrease) in cash and cash equivalents	(423)
Cash and cash equivalents on 28 November	3 312
Cash and cash equivalents on 31 December	2 889

Source: Audited Consolidated Financial Statements of Gradus AD for 28.11-31.12.2017.

Cash flows generated from / (used in) operating activities

The consolidated net cash flows generated from operating activities include mainly receipts from customers, payments to suppliers and payments to personnel, paid and reimbursed taxes.

For the period 28.11.2017- 31.12.2017, the net cash flows from operating activities amounted to BGN 4.4 million. For the period, the receipts from customers exceeded the payments to suppliers by BGN 5.1 million.

Cash flows used in investing activities

The consolidated net cash flows for the investing activity of Gradus AD included mainly receipts and payments related to the purchase of fixed tangible assets.

The investing activity generated a negative net cash flow of BGN 0.3 million for the one-month period after the registration of the holding, which was entirely due to purchases of property, machinery, facilities, and equipment.

Cash flows used in financial activities

The net cash flows from the financial activities of Gradus AD included mainly receipts and payments related to borrowing, interest paid on loans, dividends paid to owners, and received and paid additional contributions from owners.

The financial activities generated an outflow of BGN 4.5 million for the period 28.11.2017 - 31.12.2017. The main reason for the negative cash flow from financial activity was the repayment of loans amounting to BGN 5.7 million for the period offset by borrowings amounting to BGN 1 million.

Capital resources

Gradus AD finances its operations with cash from operating activities. Additionally, at the date of this Prospectus, Gradus AD relied on the following external sources of funding: (i) attracted share capital; (ii) bank loans; (iii) trade payables, including payables to suppliers and advances received.

The main needs for cash of Gradus AD are related to the operating activities of its subsidiaries, their capital expenses, payment of liabilities of the parent company and its subsidiaries at maturity, and payment of dividends to shareholders. According to the Board of Directors, the main sources of cash for Gradus AD prospectively will be cash from operating activities and, possibly, proceeds from public share offerings.

There are no limitations on the use by Gradus AD of the capital resources that have affected or could significantly affect, directly or indirectly, the Company's business.

For description of indebtedness, essential credit financial instruments and loan agreements, on which Gradus AD is a part, see "*Indebtedness*". For description of the loans provided by affiliated enterprises, see "*Related-party transactions*". For description of the future capital needs of the Company, see "*Current and Planned Investments*" below.

Indebtedness

The companies of the Group have entered into a number of loan agreements with different financial institutions, mainly providing working capital financing. As of 31 December 2017, the short-term loans of Gradus AD amounted to BGN 46.9 million, while there were no long-term loans.

The table below provides specific information relating to the loans and net debt of Gradus AD as of 31 December 2017.

Financial liabilities <i>(Amounts in BGN `000)</i>	As of 31 December 2017
Current loans	
Bank loans	46 890
Total current loans	46 890
Non-current loans	
Total non-current loans	0
Total loans	46 890
Minus: Cash and cash equivalents	2 889
Net debt	44 001

Source: Audited Consolidated Financial Statements of Gradus AD for 28.11-31.12.2017, FFBH calculations

Loan agreements and credit financial instruments

The table below presents the loans of Gradus AD as of 31 December 2017 respectively.

Type of financing	Creditor	Currency	Amount agreed, BGN `000	Maturity	Amount as of 31 December BGN `000
Overdraft	Bank 1	BGN	12 000	2018	11 568
Working capital loan	Bank 1	BGN	2 800	2018	2 792
Working capital loan	Bank 1	BGN	15 000	2018	10 041
Overdraft	Bank 3	EUR	16 625	2018	6 602
Overdraft	Bank 3	EUR	12 713	2018	12 552
Working capital loan	Bank 3	EUR	9 779	2018	35
Working capital loan	Bank 2	BGN	10 000	2018	3 300
Total bank loans					46 890

Source: Audited Consolidated Financial Statements of Gradus AD for 28.11-31.12.2017

All bank credits have a floating interest rate.

Loan collateral

As of 31 December 2017, the loans of Gradus AD (see *Capital resources, cash flows, and indebtedness - loan agreements and credit financial instruments*) were secured with fixed tangible assets totaling BGN 42.5 million, receivables of BGN 2.2 million, and inventories amounting to BGN 15.4 million.

Conditional obligations and commitments

In the normal course of its business, Gradus AD may conclude transactions that result in conditional obligations and are not reflected as liabilities in the statement of financial position. As of 31 December 2017, Gradus AD provided a performance guarantee in the amount of BGN 80 thousand to secure the obligation of Marina 2003 EOOD to South-West State Enterprise.

Lawsuits

Gradus is not a defendant in lawsuits.

Capital expenditures

Capital expenditures mainly include property, machinery, facilities, and equipment costs.

The tables below provide information on the Group's capital expenditures for the periods indicated.

Investment expenses (Amounts in BGN `000)	28.11.-31.12.2017	As of the prospectus' date
Fixed tangibles assets	162	2 983
Intangibles assets	0	6
Financial assets	0	0
Total investment costs	162	2 989

Source: Gradus AD

Investment costs by type (Amounts in BGN `000)	28.11.-31.12.2017	As of the prospectus' date
Meat Processing Plant and a Slaughterhouse, town of Stara Zagora	99	60

Poultry farm, village of Bolyarsko	4	25
Machinery and facilities - Gradus 3	47	30
Broiler fattening - Milenium 2000	0	178
Parents and adolescents Milenium 2000	2	60
Growing parents - Gradus 98	0	1 863
Reconstruction of buildings Lora-2004	1	703
Other	9	70
Total investment costs	162	2 989

Source: Gradus AD

From the date of incorporation 28.11.2017 to 31.12.2017, the consolidated capital expenses of the Issuer amounted to BGN 162 thousand. A major part of the investments - BGN 99 thousand - were in machines and facilities in the meat processing plant in the town of Stara Zagora. A total of BGN 47 thousand was invested in machinery and facilities by the subsidiary Gradus-3 AD.

In 2018, the expenditures amounted to BGN 3.0 million, of which BGN 1.9 million were invested in reconstruction and modernization of farms for parent flocks in Gradus-98 and BGN 0.7 million were invested in reconstruction and modernization of the poultry farms owned by Lora-2004.

Gradus AD makes its investments entirely in Bulgaria.

Financial review of Gradus-1 EOOD

Operating results

The table below, which was drawn up for the specified periods, provides specific information on the performance of Gradus-1 EOOD (Gradus-1).

Statement of comprehensive income (Amounts in BGN `000)	2015	2016	2017
Revenue*	66 877	65 186	73 177
Change in inventories	361	641	(1 718)
Cost of raw materials	(52 181)	(50 383)	(50 639)
Cost of hired services	(6 437)	(5 916)	(7 152)
Depreciation and amortization costs	(1 368)	(2 160)	(2 198)
Personnel costs	(4 941)	(5 820)	(6 631)
Other expenses**	(991)	(156)	(373)
Book value of goods sold	(1 863)	(1 171)	(3 389)
Operating profit	(543)	221	1 077
Revaluation of investment properties	-	-	23 380
Financial income	924	1 080	2 440
Financial expenses	(314)	(331)	(388)
Profit before tax	67	970	26 509
Profit tax expense, net	(52)	30	(2 587)
Net profit for the year	15	1 000	23 922
Other components of comprehensive income			
Articles that will not be reclassified in profit or loss			
Changes in the reserve from actuarial gains and losses	-	-	(29)
Changes in the revaluation reserve of property, facilities, and equipment	-	-	17 354
Other comprehensive income	1	-	-

Total comprehensive income for the year	16	1 000	41 247
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Source: Gradus-1 EOOD; FFBH calculations

Note: For the purpose of comparable presentation of the information, the revaluation of investment properties as a result of a change in the accounting policy is shown in a separate line in the financial income; dividend income was reclassified as financial income; The accounting policy regarding depreciation was changed as of 1 January 2017 and was unified between all Group companies.

* Income includes income from sales and other income.

** "Other expenses" includes impairment of assets and other expenses.

Revenue

The main types of revenue for Gradus-1 are sales of finished products and the sales of goods. They increased by 8.1% in 2017 and 3.3 times respectively. The main factors influencing the increase in the sales in 2017 were the gradual introduction of new pork meat products under the brand "Az yam!" and the recovery of the price of chicken meat after weakening of the competition on the part of importers in the second half of the period. According to the company's data, the average price of a whole cooled chicken rose by 5.0% in 2017.

Among other sources of income, the 18% decrease in rents received due to the reduction in the rented area should be noted. At the same time, other income increased 3.7 times due to the sales of fixed tangible assets contributing BGN 939 thousand in 2017 in relation to the restructuring of the Group. Income from state aid came in the form of a discount on the distribution component in the price of electricity, produced from renewable sources, which started to be paid in 2017.

Revenue by type (Amounts in BGN `000)	2015	2016	2017
Sale of finished goods	59 718	58 746	63 488
Sale of goods	2 032	1 220	3 986
Sale of transport services	2 134	2 151	2 062
Rental income	2 503	2 775	2 265
Income from financing	0	3	292
Other*	490	291	1 084
Total	66 877	65 186	73 177
Change on annual basis, %		-2.5%	12.3%

Source: Gradus-1 EOOD; FFBH calculations

* Other includes the sale of other services; sale of fixed tangible assets, materials, and others

The following table provides information on the sales of Gradus 1 by end product category. The main product category for Gradus 1 is fresh products, accounting for 63% of revenues, rising by 4.7% in 2017. This growth partly offset the 6.7% decline in 2016. A factor in the growth of fresh product sales in 2017 was the recovery of the chicken meat prices and the higher-margin product mix. Other important end product category is frozen products and poultry meat sausages, which have grown in value during 2017 by 23.5% and 19.1%, respectively. In 2016, Gradus-1 began production and sales of pork meat sausages under the brand „Az yam!“. Thanks to the gradual expansion of the product range and active marketing, the sales of pork meat sausages grew by 66% in 2017 and reached 9% of the total sales of products and goods.

As a result of the growth in the individual end product categories, the total income from sales of products and goods increased by 12.8% in 2017 and fully offset the decline of 2.9% registered in 2016.

Revenue by end product category* (Amounts in BGN `000)	2015	2016	2017
Fresh products	43 478	40 562	42 456
Change on annual basis, %		-6.7%	4.7%
Frozen products	10 523	9 346	11 545
Change on annual basis, %		-11.2%	23.5%

Poultry meat sausages	7 330	6 096	7 261
<i>Change on annual basis, %</i>		-16.8%	19.1%
Pork meat sausages	0	3 560	5 924
<i>Change on annual basis, %</i>		n/c	66.4%
Total	61 331	59 564	67 186
<i>Change on annual basis, %</i>		-2.9%	12.8%

Source: Gradus-1 EOOD; FFBH calculations

* The amounts do not include sales of by-products from poultry processing.

n/c – not comparable

When analyzing the breakdown of the income of Gradus-1 by distribution channel, the growing importance of the sales in modern trade (supermarket chains) can be seen, with a growth of 21.9% in 2017 (decline of 6.4% in 2016), which is typical for the whole fast-moving consumer goods sector (FMCG sector). The largest, though declining, share of 49% was that of the traditional trade, which includes wholesale distributors. The growth rates in the same were 8.8% and 3.1% in 2017 and 2016 respectively.

Revenue by distribution channel* (Amounts in BGN `000)	2015	2016	2017
Traditional trade	29 539	30 446	33 134
<i>Change on annual basis, %</i>		3.1%	8.8%
Modern trade	21 115	19 761	24 097
<i>Change on annual basis, %</i>		-6.4%	21.9%
Other plus Export	10 677	9 358	9 955
<i>Change on annual basis, %</i>		-12.4%	6.4%
Total	61 331	59 564	67 186
<i>Change on annual basis, %</i>		-2.9%	12.8%

Source: Gradus-1 EOOD; FFBH calculations

*The amounts do not include sales of by-products from poultry processing.

Gradus-1 sells its products mainly on the Bulgarian market. For the period 2015-2017, the sales in Bulgaria accounted for between 97.4% and 98.3% of the sales of the company's production and goods. The export saw a decline in supplies outside the EU, mainly due to the lack of export to the Middle East. At the same time, there was a gradual increase in the sales in the EU. The growth rates for 2016 and 2017 were 5.3% and 19.4%, but from a low base.

Revenue by production and goods markets (Amounts in BGN `000)	2015	2016	2017
Bulgaria	60 121	58 521	66 325
<i>Change on annual basis, %</i>		-2.7%	13.3%
EU countries	832	876	1 046
<i>Change on annual basis, %</i>		5.3%	19.4%
Non-EU countries	797	569	103
<i>Change on annual basis, %</i>		-28.6%	-81.9%
Total	61 750	59 966	67 474
<i>Change on annual basis, %</i>		-2.9%	12.5%

Source: Gradus-1 EOOD; FFBH calculations

Operating expenses

The table below, prepared for the periods indicated, presents the main components of the operating expenses of Gradus-1.

Operating expenses <i>(Amounts in BGN `000)</i>	2015	2016	2017
Cost of raw materials	52 181	50 383	50 639
Cost of hired services	6 437	5 916	7 152
Depreciation and amortization costs	1 368	2 160	2 198
Personnel expenses	4 941	5 820	6 631
Other expenses*	991	156	373
Cost of goods sold	1 863	1 171	3 389
Total	67 781	65 606	70 382
Change on annual basis, %		-3.2%	7.3%

Source: Gradus-1 EOOD; FFBH calculations

* Other expenses include impairment of assets, and other expenses.

The main component of operating expenses was the cost of raw materials, which accounted for 71.9% of the total operating expenses. Approximately 72% of the cost of raw materials was due to the cost of poultry and pork meat and 18% were for auxiliary materials.

In 2017, the operating expenses grew by 7.3% due to the 2.9-fold increase in the book value of goods sold, 20.9% growth in hired services, and 13.9% growth in personnel expenses. A factor for the increase in the expenses for hired services was the active marketing and the introduction of new products from the brand „Az yam!“, and the growth in marketing and advertising expenses in 2017 was 45% up to BGN 2 million. A factor in the personnel expenses was the 10% growth of the average personnel of Gradus-1 and the 6% increase in the average gross salary in 2017.

Financial income and expenditure

The table below, prepared for the periods indicated, presents the main components of the financial income and expenditure of Gradus-1 by type.

Financial income and expenditure <i>(Amounts in BGN `000)</i>	2015	2016	2017
Financial income	924	1 080	25 820
Financial expenses	(314)	(331)	(388)
Total	610	749	25 432
Change on annual basis, %		22.8%	3 295%

Source: Gradus-1 EOOD; FFBH calculations

Note: For the purpose of comparable presentation of the information, the revaluation of investment properties as a result of a change in the accounting policy is shown in a separate line in the financial income.

Components of the financial income were the revaluations of investment property, the dividend income, and the interest income. In 2017, the dividend income grew by 131% to BGN 2.4 million, paid entirely by Biser-Oliva AD. In connection with the restructuring of the Group in 2017, Gradus-1 invested in Biser-Oliva AD. On the other hand, the interest income remained unchanged in the last two years at a level of BGN 39 thousand. Income of BGN 23.4 million from investment property revaluation was reported.

The financial expenses included expenses for interest and bank charges. Their amount increased by 17.2% in 2017 due to the increased book value of liabilities under loans.

Profitability

Profitability (Amounts in BGN `000)		2015	Change %	2016	Change %	2017
EBITDA*		825	188.6%	2 381	37.6%	3 275
	<i>margin</i>	1.2%		3.7%		4.5%
Operating profit		(543)	n/a	221	387.3%	1 077
	<i>margin</i>	n/a		0.3%		1.5%
Profit before tax		67	1 348%	970	2 633%	26 509
	<i>margin</i>	0.1%		1.5%		36.3%
Net profit for the year		15	6 567%	1 000	2 292%	23 922
	<i>margin</i>	0.0%		1.5%		32.7%

Source: Gradus-1 EOOD; FFBH calculations

n/a - not applicable

Note: The accounting policy regarding depreciation was changed as of 1 January 2017 and was unified between all Group companies.

* Profit before depreciation, financial expenses, and taxes

As can be seen from the data presented in the report, the Group's operating profitability increased strongly in 2017 due to the faster growth in the chicken meat prices compared to the operating costs and the introduction of higher-margin products from the brand "Az yam!".

The additional increase in the profit before tax and the net profit was due to a change in the accounting policy and the introduction of the fair value model in the subsequent valuation of investment properties. As a result, revaluation of investment property at the amount of BGN 23.4 million was reflected in the statement of comprehensive income. A positive effect on profitability was also the increase in the dividend income in 2017. The investment properties were rented to other subsidiaries in the Group and, therefore, these revaluations are subject to elimination in the consolidated statement of Gradus AD.

Other comprehensive income

In 2017, the total comprehensive income increased more than 41 times as a result of the introduction of a revaluation model for property, facilities, and equipment reporting and the revaluation of non-current assets.

As of 1 January 2017, an accounting policy was adopted in Gradus 1 for the revaluation of fixed tangible assets to their fair value, to be carried out over a three-year period by independent licensed appraisers.

In the revaluation made in 2017, revaluation reserve of BGN 17,354 thousand, net of tax, was recognized.

Assets and liabilities

The following table presents the balance sheet of Gradus-1 EOOD as of the end of the last three financial years.

Statement of financial position (Amounts in BGN `000)	2015	2016	2017
Assets			
Non-current assets			
Fixed tangibles assets	28 153	34 066	52 186
Intangibles assets	120	149	92
Investment properties	3 484	3 270	27 550
Investments	1 143	1 143	455
Total non-current assets	32 900	38 628	80 283
Current assets			
Inventories	12 093	13 659	10 764
Receivables from related parties	2 645	3 393	3 239
Trade and other receivables	9 270	6 337	8 929

Cash and cash equivalents	272	411	311
Total current assets	24 280	23 800	23 243
Total assets	57 180	62 428	103 526
Equity and liabilities			
Equity			
Share capital	5	5	5
Revaluation reserve	774	774	18 128
Other reserves*	5	5	- 24
Accumulated profits	12 204	13 204	36 448
Total equity	12 988	13 988	54 557
Non-current liabilities			
Deferred tax liabilities	198	168	4 489
Long-term payables to personnel	0	0	40
Total non-current liabilities	198	168	4 529
Current liabilities			
Trade payables	1 899	1 746	1 280
Related parties payables	31 024	28 307	17 732
Bank loans	10 618	17 311	24 401
Tax liabilities	35	247	426
Payables to personnel	413	567	571
Other current liabilities	5	94	30
Total current liabilities	43 994	48 272	44 440
Total liabilities	44 192	48 440	48 969
Total equity and liabilities	57 180	62 428	103 526

Source: Gradus-1 EOOD; FFBH calculations

* Other reserves include statutory and actuarial reserves

Major components of the total assets of Gradus-1 were the fixed tangible assets, investment property, and inventories, which by the end of 2017 represented 50.4%, 26.6%, and 10.4% respectively. As of 31 December 2017, the total assets increased by 65.8% or BGN 41.1 million to a total of BGN 103.5 million, mainly due to the change in the accounting policy of Gradus-1 as regards the subsequent valuation of fixed tangible assets and investment properties and the positive revaluations of BGN 42.5 million. The commercial and other receivables during the period increased by 40.9% to BGN 8.9 million, which was offset by a decrease in the inventories by 21.2% to BGN 10.7 million due to the natural cyclicity of the business.

The tables below show the changes in the balance sheet values of fixed tangible assets (FTA) and investment property as of 31 December 2015, 31 December 2016, and 31 December 2017. The changes were mainly attributable to the revaluations made on 1 January 2017 but also to the implementation of the investment programme of Gradus-1.

Balance sheet value of fixed assets as of 31 December	2015		2016		2017	
	BGN `000	% of fixed assets	BGN `000	% of fixed assets	BGN `000	% of fixed assets
Land	1 316	4.7%	1 316	3.9%	5 963	11.4%
Buildings	3 368	12.0%	9 333	27.4%	14 690	28.1%
Machinery and equipment	1 521	5.4%	8 023	23.6%	14 284	27.4%
Facilities	1 651	5.9%	6 338	18.6%	13 828	26.5%
Transport vehicles	2 472	8.8%	2 767	8.1%	2 838	5.4%
Inventory	175	0.6%	547	1.6%	547	1.0%
Expenditure on acquisition of fixed tangible assets	17 650	62.7%	5 742	16.9%	36	0.1%
Total fixed tangible assets	28 153	100.0%	34 066	100.0%	52 186	100.0%

Source: Gradus-1 EOOD; FFBH calculations

Balance sheet value of investment properties as of 31 December	2015 BGN `000	2016 BGN `000	2017 BGN `000
Investment properties	3 484	3 270	27 550
including revaluations			23 380

Source: Gradus-1 EOOD; FFBH calculations

Total liabilities for 2017 amounted to BGN 49 million, increasing by 1% compared to the previous year. The most significant growth was reported for the short-term loans, which increased by 41% to BGN 24.4 million and the non-current deferred tax liabilities, which rose 26 times to BGN 4.5 million. Their increase was almost entirely offset by declines of 26.7% and 37.4% in the commercial and other payables and those to related parties respectively.

The key elements in the structure of the liabilities of Graus-1 are short-term loans and liabilities to other subsidiaries in the Gradus Group, which, at the end of 2017, amounted to 49.8% and 36.2% of all liabilities. The liabilities to the other companies in the Group are subject to elimination in the preparation of the consolidated financial statements of Gradus AD.

The deferred tax liabilities were also an essential element and, as of 31 December 2017, amounted to 9.2% of the total liability. The deferred tax liabilities were mainly formed as a result of the revaluation of fixed tangible assets and investment property as of 1 January 2017.

Capital resources, cash flows and indebtedness

Cash flows

The table below provides information on the net cash flows of Gradus-1 from operating, investing, and financial activities for the periods mentioned as well as on the cash and cash equivalents at the beginning and the end of the reporting periods.

Cash flow statement (Amounts in BGN `000)	2015	2016	2017
Cash flows from operating activities			
Cash receipts from customers	85 105	78 969	86 051
Payments to suppliers	(73 345)	(79 338)	(69 404)
Payments to personnel	(4 827)	(5 568)	(6 505)
Commission and exchange rate flows	(43)	(19)	(19)
Profit tax paid / reimbursed	0	(140)	(2 259)
Other operating flows	(1 610)	36	57
Net cash flows from / (used in) operating activities	5 280	(6 060)	7 921
Cash flows from investing activities			
Purchase of property, machinery, facilities, and equipment	(4 865)	(1 515)	(1 032)
Cash flows related to loans granted	0	(150)	(274)
Cash flows related to repayments of loans granted	0	151	272
Dividends received	0	376	3 066
Proceeds from the sale of fixed assets	0	15	70
Net cash flows from / (used in) investing activities	(4 865)	(1 123)	2 102
Cash flows from financial activities			

Repaid loans	(4 616)	(3 505)	(19 457)
Loans received	6 112	10 174	28 933
Interest paid	(261)	(310)	(329)
Cash contributions from owners (net)	(1 913)	963	(19 270)
Net cash flows from / (used in) financial activities	(678)	7 322	(10 123)
Net increase / (decrease) in cash and cash equivalents	(263)	139	(100)
Cash and cash equivalents at the beginning of the year	535	272	411
Cash and cash equivalents at the end of the year*	272	411	311

Source: Gradus-1 EOOD; FFBH calculations

Cash flows generated from / (used in) operating activities

The net cash inflows generated from operating activities included mainly receipts from customers, payments to suppliers, personnel payments, paid and reimbursed taxes.

In 2017, the net cash flows from operating activities amounted to BGN 7.9 million compared to the negative cash flow of BGN 6 million in 2016. The main reasons for the improvement were the increase by BGN 7 million (+ 9.0%) of the receipts from customers and the decrease by BGN 10 million (-12.5%) of payments to suppliers. In 2017, the increase by BGN 1 million (+ 16.8%) in the personnel payments and the 15-fold increase in the paid corporate tax to BGN 2.6 million acted in the opposite direction.

The cash flow from operating activities was positive in 2015 and amounted to BGN 5.3 million.

Cash flows generated from / (used in) investing activities

The net cash flows for and from the investing activity of Gradus-1 included mainly receipts and payments related to the purchase of fixed tangible assets, investment dividends received, and receipts and payments related to loans provided by Gradus-1.

The investing activity generated a positive net cash flow of BGN 2.1 million in 2017 compared to the negative cash flows of BGN 4.9 million and BGN 1.1 million respectively in 2015 and 2016. One reason was the smaller investment programme during the year and the net purchases of property, machinery, and equipment amounted to BGN 1 million compared to BGN 1.5 million in 2016 and BGN 4.9 million in 2015. In 2017, dividends from investment were also received in the amount of BGN 3 million.

Cash flows generated from / (used in) financial activities

The net cash flows from the financial activities of Gradus-1 included mainly receipts and payments related to borrowing, interest paid on loans, dividends paid to owners and additional contributions received and paid by the owners.

The financial activities generated a cash outflow of BGN 10.1 million in 2017, a positive cash flow of BGN 7.3 million in 2016, and, again, outflow to the amount of BGN 0.7 million in 2015. The main reason for the negative cash flow from financial activities was the negative net contribution by the owners.

Capital resources

Gradus-1 finances its operations with cash from operating activities. In addition, by the date of this Prospectus, Gradus-1 relied on the following external sources of funding: (i) attracted share capital; (ii) bank loans; (iii) additional contributions from shareholders; (iv) trade payables, including liabilities to suppliers and advances received. In addition, Gradus-1 is a beneficiary of state aid in the form of a discount on the distribution component in the price of electricity, produced from renewable sources, which started to be paid in 2017. The main cash needs of Gradus-1 are related to its operating activities, capital expenditures, repayment of debts at maturity, and payment of dividends to shareholders. According to the Board of Directors, the main sources of cash for Gradus-1 in the future will be the cash from operating activities.

There are no restrictions on the use by Gradus-1 of its capital resources that have affected or could significantly affect, directly or indirectly, the company's business.

For description of the indebtedness, material credit financial instruments, and loan agreements to which Gradus-1 is a party, see "*Indebtedness*". For description of the loans provided by related parties, see "*Related-party transactions*". For description of the future capital needs of Gradus-1, see "*Current and Planned Investments*" below.

Indebtedness

As of 31 December 2017, the short-term loans of Gradus-1 amounted to BGN 24.4 million and, as of 31 December 2016 and 31 December 2015, they amounted to BGN 17.3 million and BGN 10.6 million respectively. As of 31 December 2017, Gradus-1 had no long-term loans and such were not used in the financial years 2016 and 2015 either.

The table below provides specific information related to the loans and the net debt of Gradus-1 as of 31 December 2015, 31 December 2016, and 31 December 2017 respectively.

Financial liabilities (Amounts in BGN `000)	As of 31 December		
	2015	2016	2017
Current loans			
Bank loans	10 612	17 311	24 401
Loans from related parties of the Group	0	0	2 413
Total current loans	10 612	17 311	26 814
Non-current loans			
Total non-current loans	0	0	0
Total loans	10 612	17 311	26 814
Minus: Cash and cash equivalents	272	411	311
Net debt	10 340	16 900	26 503

Source: Gradus-1 EOOD; FFBH calculations

Loan agreements and credit financial instruments

The table below presents the loans of Gradus-1 as of 31 December 2015, 31 December 2016, and 31 December 2017 respectively.

Type of financing	Creditor	Currency	Amount agreed, BGN `000	Maturity	Amount as of 31 December, BGN `000		
					2015	2016	2017
Overdraft	Bank 1	BGN	12 000	2018	9 212	11 568	11 568
Loan for working capital	Bank 1	BGN	2 800	2018	1 400	2 794	2 792
Loan for working capital	Bank 1	BGN	15 000	2018	-	2 949	10 041
Total bank loans					10 612	17 311	24 401

The total amount of the approved limit on bank loans was BGN 29.8 million and, as of 31.12.2017, BGN 24.4 million was absorbed.

Type of financing	Creditor	Currency	Amount agreed, BGN `000	Maturity	Amount as of 31 December, BGN `000		
					2015	2016	2017
Loan from related parties	Zhyuliv EOOD	BGN	2 000	2018	0	0	1 894
Loan from related parties	Milenium 2000 EOOD	BGN	1 000	2018	0	0	519
Total loans from related parties					0	0	2 413

Source: Gradus-1 EOOD

The table below presents the Group's loans and interest expenses as of 31 December 2015, 31 December 2016, and 31 December 2017 respectively.

	As of 31 December		
	2015	2016	2017
Bank loans, BGN'000	10 612	17 311	24 401
Interest expenses	225	266	320
Loans from related parties, BGN'000	0	0	2 413
Interest expenses	-	-	15

Source: Gradus-1 EOOD

All bank loans had floating interest rates. The loans from related parties were fixed at a rate of 2.5% per annum.

Loan collateral

As of 31 December 2017, the loans of Gradus-1 (see *Capital resources, cash flows, and indebtedness - loan agreements and credit financial instruments*) were secured by BGN 23.2 million of fixed tangible assets, receivables of BGN 2.2 million, and inventories worth BGN 3.5 million.

Conditional obligations and commitments

In the normal course of its business, Gradus-1 concludes transactions that result in conditional obligations and are not reflected as liabilities in the statement of financial position. The main items of conditional obligations include:

Conditional obligations

Under an overdraft loan agreement with "Bank 1" with a limit of BGN 15 000 thousand, Gradus-3 AD and Gradus-1 EOOD are co-beneficiaries. As of 31.12.2017, Gradus-3 AD had no obligations under this loan.

Gradus-1 is a co-debtor under a loan agreement between "Bank 2" and Gradus-3 AD, with a limit of BGN 16,625 thousand. In connection with this loan, Gradus-3 pledged its own fixed tangible assets. As of 31.12.2017, the liability of Gradus-3 AD under this loan amounted to BGN 6,602 thousand. Gradus-3 AD serves its loan on an ongoing basis, without any delays in its obligations.

Lawsuits

Gradus-1 is not a defendant in lawsuits.

Capital expenditures

Capital expenditures mainly include property, machinery, facilities, and equipment costs.

The tables below provide information on the Group's capital expenditures for the periods indicated.

Investment expenses (Amounts in BGN `000)	2013	2014	2015	2016	2017	As of the prospec tus' date
Fixed tangibles assets	701	3 123	4 757	25 450	2 271	93
Intangibles assets	21	24	2	58	17	1
Financial assets	0	0	0	0	0	0
Total investment costs	722	3 147	4 759	25 508	2 288	94

Source: Gradus-1 EOOD

Investment costs by type (Amounts in BGN `000)	2013	2014	2015	2016	2017	As of the prospect
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	us' date					
Intangibles assets	21	24	2	58	17	1
Facility: Meat Processing Plant in the town of Stara Zagora	520	1 561	3 490	23 892	1 647	35
Facility: Poultry Slaughterhouse in the town of Stara Zagora	3	12	20	25	0	25
Facility: Poultry farm, village of Bolyarsko, region of Yambol	4	300	584	118	70	25
Motor vehicles	147	1 055	559	1 256	552	0
Computers, electronic equipment	11	5	21	75	0	8
Other	16	190	83	84	2	0
Total investment costs	722	3 147	4 759	25 508	2 288	94

Source: Gradus-1 EOOD

In 2013, the capital expenditure of Gradus-1 amounted to 0.7 million BGN, of which BGN 0.5 million were invested in machines at the meat processing plant, which is the largest one on the Balkans, and the rest were invested in acquisition of transportation capacity.

In 2014, the capital expenditure of Gradus-1 amounted to BGN 3.1 million - BGN 2.4 million more than in the previous period. During the year, a programme began for the reconstruction and expansion of the meat processing plant with the purpose of starting production of pork meat sausages. During the year, BGN 1.6 million were invested in the project. A significant amount of BGN 1.1 million was invested in the renewal and expansion of the auto fleet of Gradus-1.

In 2015, the capital expenditures increased by BGN 1.6 million to BGN 4.8 million. Of the investments in the period, 3.5 million BGN were invested in the ongoing project for the reconstruction and expansion of the meat processing plant. Of the remaining investment costs during the year, BGN 0.6 million were invested in reconstruction in the poultry farm owned by the company in the village of Bolyarsko, Yambol, rented and operated by Milenium 2000.

In 2016, the total capital expenditures amounted to BGN 25.5 million. The second phase of the reconstruction and expansion of the meat processing plant, in which BGN 23.9 million were invested, was completed during the year. The investment in the renewal and expansion of the auto fleet of Gradus-1 during the year amounted to BGN 1.3 million.

In 2017, the investment costs decreased to BGN 2.3 million. During the year, BGN 1.6 million were invested in machines for the processing plant, connected with the expansion of the product range „Az yam!“.

In 2018, the capital expenditures in Gradus-1 amounted to BGN 94 thousand, including BGN 35 thousand in the meat processing plant, BGN 25 thousand in the slaughterhouse and BGN 25 thousand in a poultry farm in the village of Bolyarsko, rented out to Milenium-2000 EOOD.

Gradus-1 invests entirely in Bulgaria.

Financial review of Gradus-3

Operating results

The table below, which was prepared for the specified periods, provides specific information on the performance of Gradus-3 AD (Gradus-3).

Statement of comprehensive income (Amounts in BGN `000)	2015	2016	2017
Revenue*	67 446	79 881	127 886
Change in inventories	45	(73)	(144)
Cost of raw materials	(37 683)	(36 446)	(31 990)

Cost of hired services	(1 620)	(1 660)	(2 003)
Depreciation and amortization costs	(1 176)	(780)	(546)
Personnel costs	(826)	(922)	(1 039)
Other expenses**	(709)	(315)	(636)
Book value of goods sold	(19 237)	(37 567)	(86 353)
Operating profit	6 240	2 118	5 175
Revaluation of investment properties	-	-	895
Financial income	0	252	1
Financial expense	(753)	(929)	(1 369)
Profit before tax	5 487	1 441	4 702
Profit tax expense, net	(555)	(154)	(472)
Net profit for the year	4 932	1 287	4 230
Other components of comprehensive income			
Articles that will not be reclassified in profit or loss			
Changes in the reserve from actuarial gains and losses	-	-	(5)
Changes in the revaluation reserve of property, facilities, and equipment	-	-	3 633
Total comprehensive income for the year	4 932	1 287	7 858

Source: Gradus-3 AD; FFBH calculations

Note: For the purpose of comparable presentation of the information, the revaluation of investment properties as a result of a change in the accounting policy is shown in a separate line in the financial income; The accounting policy regarding depreciation was changed as of 1 January 2017 and was unified between all Group companies.

*Income includes income and other operating income, net.

** "Other expenses" includes impairment of assets and other operating expenses.

Income

The table below provides a breakdown of the Gradus-3's revenue by type. The total sales and income of Gradus-3 rose by 60% in 2017 to BGN 127.9 million. The main sources were the sale of finished and other goods.

The revenue from the sale of finished goods declined by 10.6% in 2017 due to lower fodder sales as well as the decline in average fodder prices (by 5% in 2017) as a result of cheaper agricultural goods globally. Gradus-3 sells its fodder entirely on the Bulgarian market, with 95% of the 2017 sales coming from other subsidiaries of Gradus AD.

On the other hand, the sales of goods increased 2.3 times to BGN 90.4 million as a result of the expansion of the trade in agricultural goods. In 2017, 19.2% of the revenue was a result of direct exports, while the rest was realized via domestic exporting companies.

The revenue from services was mainly from fodder transport services and increased by 9.7% in 2017.

Income by type (Amounts in BGN `000)	2015	2016	2017
Sale of finished goods	40 583	39 662	35 459
Sale of goods	24 936	38 571	90 416
Sale of services	956	1 101	1 208
Rental income	118	87	94
Other revenue	853	460	709
Total	67 446	79 881	127 886
Change on annual basis, %		18.4%	60.1%

Source: Gradus-3 AD; FFBH calculations

The following table provides information on the sales of goods of Gradus-3 by type. The main categories of agricultural goods in 2017 were sunflower and wheat, with shares of 66.7% and 16.8% of the total sales of goods.

Income from goods by type (Amounts in BGN `000)	2015	2016	2017
Sunflower	17 468	31 155	60 225
Wheat	2 543	643	15 233
Rapeseed	204	5 681	869
Other	4 721	1 092	14 089
Total	24 936	38 571	90 416
Change on annual basis, %		54.7%	134.4%

Source: Gradus-3 AD; FFBH calculations

Operating expenses

The table below, prepared for the periods indicated, presents the main components of the operating expenses of Gradus-3.

Operating expenses (Amounts in BGN `000)	2015	2016	2017
Cost of raw materials*	37 683	36 446	31 990
Cost of hired services	1 620	1 660	2 003
Depreciation and amortization costs	1 176	780	546
Personnel costs	826	922	1 039
Other expenses	709	315	636
Book value of goods sold	19 237	37 567	86 353
Total	61 251	77 690	122 567
Change on annual basis, %		26.8%	57.8%

Source: Gradus-3 AD; FFBH calculations

* "Other expenses" includes impairment of assets and other operating expenses.

The main component of the operating expenses was the cost of raw materials and the book value of sold goods, which represented, respectively, 26.1% and 70.5% of the total operating expenses.

The total operating expenses increased by 57.8% in 2017 to BGN 122.6 million due to the increase of the book value of sold goods by 130% as a result of the more active trade in grain. In 2017, there was growth of 12.7% in the personnel expenses due to the 7.6% growth of the average gross salary in 2017 and the 20.7% growth in the hired services costs due to the more active trade in grain.

Financial income and expenditure

The table below, prepared for the periods indicated, presents the main components of the financial income and expenditure of Gradus-3 by type.

Financial income and expenditure (Amounts in BGN `000)	2015	2016	2017
Revaluation of investment properties	-	-	895
Foreign exchange gains, net	135	245	0
Interest income		7	1
Financial income	135	252	896
Loss from foreign exchange, net		0	(590)
Interest expenses	(722)	(670)	(559)

Other financial expenses	(166)	(259)	(220)
Financial expenses	(888)	(929)	(1 369)
Financial income/ (expenses), net	(753)	(677)	(473)

Source: Gradus-3 AD; FFBH calculations

Note: For the purpose of comparable presentation of the information, the revaluation of investment properties as a result of a change in the accounting policy is shown in a separate line in the financial income.

Components of the financial income were the gains from the revaluation of investment properties, foreign exchange operations, and interest income; components of the financial expenditure were the loss from foreign currency transactions, interest expense, and commissions.

In 2017, Gradus-3 reported a loss from foreign exchange operations of BGN 590 thousand compared to the profit of BGN 245 thousand in 2016. The interest expenses decreased by 16.6% in 2017 due to the lower book value of the bank loans at the end of the period. In 2017, Gradus-3 reported total net financial expenses of BGN 0.5 million, which was a decrease of 30% compared to the figure in the previous period due to the reported revaluations of investment properties.

Profitability

Profitability (Amounts in BGN `000)	2015	Change %	2016	Change %	2017
EBITDA*	7 416	-60.9%	2 898	97.4%	5 721
margin	11.0%		3.6%		4.5%
Operating profit	6 240	-66.1%	2 118	144.3%	5 175
margin	9.3%		2.7%		4.1%
Profit before tax	5 487	-73.7%	1 441	226.3%	4 702
margin	8.1%		1.8%		3.7%
Net profit for the year	4 932	-73.9%	1 287	228.7%	4 230
margin	7.3%		1.6%		3.3%

Source: Gradus-3 AD; FFBH calculations

Note: The accounting policy regarding depreciation was changed as of 1 January 2017 and was unified between all Group companies.

* Profit before depreciation, financial expenses, and taxes

From the data presented in the report, it can be seen that the operational profitability of Gradus-3, expressed as EBITDA, doubled in 2017 due to the faster growth in the incomes compared to the operating expenses.

The additional increase in the profit before tax and the net profit was due to a change in the accounting policy and the introduction of the revaluation model in the subsequent valuation of investment properties. As a result, revaluation of the investment properties owned at the amount of BGN 0.9 million was reflected in the statement of comprehensive income.

Other comprehensive income

In 2017, the total comprehensive income increased 2 times to BGN 7.9 million as a result of the introduction of a revaluation model for the reporting of property, facilities, and equipment and the revaluation of non-current assets.

As of 1 January 2017, Gradus-3 adopted an accounting policy for the revaluation of the fixed tangible assets to their fair value to be carried out over a three-year period by independent licensed appraisers.

In the revaluation carried out in 2017, a revaluation reserve of BGN 3,633 thousand, net of tax, was recognized.

Assets and liabilities

The following table presents the balance sheet of Gradus-3 AD as of the end of the last three financial years.

Statement of financial position (Amounts in BGN `000)	2015	2016	2017
Assets			
Non-current assets			
Fixed tangibles assets	9 305	9 237	14 854
Investment properties	495	495	1 390
Deferred tax assets	51	54	0
Total non-current assets	9 851	9 786	16 244
Current assets			
Inventories	54 244	44 707	18 284
Receivables from related parties	11 147	11 213	6 878
Trade and other receivables	1 806	2 539	23 154
Cash and cash equivalents	28	23	188
Other receivables*	546	651	103
Total current assets	67 771	59 133	48 607
Total assets	77 622	68 919	64 851
Equity and liabilities			
Equity			
Share capital	460	460	460
Revaluation reserve	119	119	3 752
Other reserves**	46	46	41
Retained earnings***	28 337	29 624	33 854
Total equity	28 962	30 249	38 107
Non-current liabilities			
Deferred tax liabilities	0	0	432
Bank loans	0	227	0
Long-term payables to personnel	0	26	29
Total non-current liabilities	0	253	461
Current liabilities			
Trade payables	621	418	387
Related party payables	140	773	2 460
Liabilities under loans	47 367	36 762	22 489
Tax liabilities	448	378	459
Payables to personnel	83	85	104
Other current liabilities	1	1	384
Total current liabilities	48 660	38 417	26 283
Total liabilities	48 660	38 670	26 744
Total equity and liabilities	77 622	68 919	64 851

Source: Gradus-3 AD; FFBH calculations

* "Other receivables" includes prepaid expenses for future periods and other current receivables.

** "Other reserves" includes statutory and actuarial reserves.

*** "Accumulated profits" includes retained earnings and profit for the period.

Major components of the total assets of Gradus-3 were the trade and other receivables, inventories, and fixed tangible assets, which, by the end of 2017, represented 35.7%, 28.2%, and 22.9% respectively. As of 31 December 2017, the amount of the asset decreased by 5.9% or BGN 4.1 million to BGN 64.9 million. For the decline, the decrease in the inventories by 59.1% (BGN -26.4 million) and in the receivables from related parties by 38.7% (BGN -4.3 million) contributed. The decrease in the asset was limited by positive revaluations amounting to BGN 4.9 million and due to a change in the accounting policy of Gradus-3 in respect of the subsequent valuation of the fixed tangible assets and investment properties as well as the increase in trade and other receivables by BGN 20.6 million to BGN 23.2 million.

The table below shows the changes in the balance sheet values of the fixed tangible assets (FTA) and investment properties as of 31 December 2015, 31 December 2016, and 31 December 2017. The growth in 2017 was mainly due to the revaluations made on 1 January 2017, but also on the implementation of the investment programme of Gradus-3.

Balance sheet value of fixed tangible assets as of 31 December	2015		2016		2017	
	BGN `000	% of fixed assets	BGN `000	% of fixed assets	BGN `000	% of fixed assets
Land	1 196	12.9%	1 196	12.9%	1 932	13.0%
Buildings	1 368	14.7%	1 314	14.2%	2 987	20.1%
Machinery and equipment	1 523	16.4%	1 226	13.3%	2 221	15.0%
Facilities	1 442	15.5%	1 372	14.9%	4 356	29.3%
Transport vehicles	1 410	15.2%	1 203	13.0%	962	6.5%
Inventory	2	0.0%	45	0.5%	30	0.2%
Expenditure on acquisition of fixed tangible assets	2 364	25.4%	2 881	31.2%	2 366	15.9%
Total fixed tangible assets	9 305	100.0%	9 237	100.0%	14 854	100.0%
including revaluations					4 050	

Source: Gradus-3 AD; FFBH calculations

Balance sheet value of investment properties as of 31 December	2015	2016	2017
	BGN `000	BGN `000	BGN `000
Investment properties	495	495	1 390
including revaluations			895

Source: Gradus-3 AD; FFBH calculations

The amount of the liability for 2017 amounted to BGN 26.7 million, decreasing by 30.8% compared to the previous year. The most significant decline was recorded in the short-term bank loans, which decreased by 38.8% to BGN 22.5 million. The decline was partly offset by an increase by BGN 1.7 million to BGN 2.5 million in the liabilities to related parties and the recognition of the non-current deferred tax liabilities related to the revaluations, amounting to BGN 0.4 million.

The key elements in the structure of the liabilities of Gradus-3 were the short-term bank loans and the liabilities to other subsidiaries in the Gradus Group, which, at the end of 2017, amounted to 84.1% and 9.2% of all liabilities. The liabilities to the other companies in the Group were subject to elimination in the preparation of the consolidated financial statements of Gradus AD.

Capital resources, cash flows and indebtedness

Cash flows

The table below provides information on the net cash flows of Gradus-3 from operating, investing, and financial activities for the period mentioned as well as on the cash and cash equivalents at the beginning and the end of the reporting periods.

Cash flow statement (Amounts in BGN `000)	2015	2016	2017
Cash flows from operating activities			
Cash receipts from customers	81 284	92 514	124 895
Payments to suppliers*	(96 165)	(78 821)	(107 787)
Payments to personnel	(811)	(921)	(1 020)
Commission and exchange rate flows	118	217	(584)
Profit tax paid / reimbursed	(638)	(240)	(296)

Other operating flows	(114)	(115)	51
Net cash flows from / (used in) operating activities	(16 326)	12 634	15 259
Cash flows from investing activities			
Purchase of property, machinery, facilities, and equipment	(2 054)	(715)	(2 300)
Cash flows related to loans granted	0	(2 800)	0
Cash flows related to repayments of loans granted	0	2 141	659
Interest received	0	7	0
Net cash flows from / (used in) investing activities	(2 054)	(1 367)	(1 641)
Cash flows from financial activities			
Repaid loans	(25 304)	(25 347)	(36 020)
Loans received**	44 382	14 970	23 320
Interest paid	(722)	(895)	(753)
Net cash flows from / (used in) financial activities	18 356	(11 272)	(13 453)
Net increase / (decrease) in cash and cash equivalents	(24)	(5)	165
Cash and cash equivalents at the beginning of the year	52	28	23
Cash and cash equivalents at the end of the year*	28	23	188

Source: Gradus-3 AD; FFBH calculations

* "Payments to suppliers" includes payments to suppliers and taxes paid, excluding taxes on profits.

** includes bank loans and borrowings from related parties.

Cash flows generated from / (used in) operating activities

The net cash flows generated from operating activities included mainly receipts from customers, payments to suppliers, personnel payments, paid and reimbursed taxes.

In 2017, the net cash flows from operating activities amounted to BGN 15.3 million, which represented a growth of 20.8% compared to the previous period. The main reasons for the improvement were the increase by 32.4 million BGN (+ 35.0%) of the receipts from customers, which exceeded the growth of payments to suppliers by BGN 29.0 million (+ 36.8%).

The cash flow from operating activities was negative in 2015 when it amounted to minus BGN 16.3 million.

Cash flows generated from / (used in) investing activities

The net cash flows for and from the investing activity of Gradus-3 included mainly receipts and payments related to the purchase of fixed tangible assets and receipts and payments related to loans provided by Gradus-3 and interest earned on them.

The investing activities generated a cash outflow of BGN 1.6 million in 2017, which was an increase in outflows by 20% compared to 2016. This was due to investments made for purchases of property, machinery, and facilities amounting to BGN 2.3 million compared to BGN 0.7 million in 2016. In 2017, loans of BGN 659 thousand were repaid.

Cash flows generated from / (used in) financial activities

The net cash flows from the financial activities of Gradus-3 included mainly receipts and payments related to borrowing, interest paid on loans, and dividends paid to owners.

The financial activities generated a cash outflow of BGN 13.5 million in 2017, which was a growth of outflows by 19.3% compared to 2016. The main reason for the negative cash flow from financial activities was the excess of the repaid loans over the new ones received.

Capital resources

Gradus AD funds its operations with cash from operating activities (own funds). Additionally, at the date of this Prospectus, Gradus-3 relied on the following external sources of funding: (i) attracted share capital; (ii) bank loans; (iii) trade payables, including payables to suppliers and advances received. The main investment projects of the Issuers that are being carried out and their financing are outlined in "*Current and Planned Investments*" below.

The main cash needs of Gradus-3 were related to its operating activities, capital expenditures, repayment of debt at maturity, and dividend payments to shareholders. According to the Board of Directors, the main sources of cash for Gradus-3 in the future will be cash from operating activities.

There are no limitations on the use by Gradus-3 of its capital resources that have affected or could significantly affect, directly or indirectly, the business of the company.

For description of indebtedness, essential credit financial instruments, and loan agreements, to which Gradus-3 is a party, see "*Indebtedness*". For description of the loans provided by related parties, see "*Related-party transactions*". For description of the future capital needs of Gradus-3, see "*Current and Planned Investments*" below.

Indebtedness

As of 31 December 2017, the short-term loans of Gradus-3 amounted to BGN 24.3 million, and as of 31 December 2016 and 31 December 2015, they amounted to BGN 36.7 million and BGN 47.4 million respectively. As of 31 December 2017, Gradus-3 had no long-term loans, and in 2016, it had such at the amount of BGN 227 thousand.

The table below provides specific information related to the loans and net debt of Gradus-3 as of 31 December 2015, 31 December 2016, and 31 December 2017 respectively.

Financial liabilities (Amounts in BGN `000)	As of 31 December		
	2015	2016	2017
Current loans			
Bank loans	47 367	36 762	22 489
Loans from related parties of the Group	0	0	1 800
Total current loans	47 367	36 762	24 289
Non-current bank loans	0	227	0
Total loans	47 367	36 989	24 289
Minus: Cash and cash equivalents	28	23	188
Net debt	47 339	36 966	24 101

Source: Gradus-3 AD; FFBH calculations

Loan agreements and credit financial instruments

The table below presents the loans of Gradus-3 as of 31 December 2015, 31 December 2016, and 31 December 2017, respectively.

Type of financing	Creditor	Currency	Amount agreed, BGN `000	Maturity	Amount as of 31 December, BGN `000		
					2015	2016	2017
Overdraft	Bank 1	EUR	16 625	2018	16 334	16 519	6 602
Overdraft	Bank 1	EUR	12 713	2018	12 499	12 422	12 552
Working capital loan	Bank 1	EUR	9 779	2018	-	7 311	35
Working capital	Bank 2	BGN	10 000	2018	8 200	0	3 300

loan

Investment	Bank 2	EUR	1 350	2019	1 222	737	0
loan for working capital	Bank 2	EUR	9 800	2016	9 112	-	-
Overdraft	Bank 3	BGN	12 000	2018	0	0	0
Working capital loan	Bank 3	BGN	2 800	2018	0	0	0
Working capital loan	Bank 3	BGN	15 000	2018 г.	-	0	0
Total bank loans					47 367	36 989	22 489

Source: Gradus-3 AD

Note: "Bank 3" is the same as "Bank 1" in Gradus-1 and Gradus AD; "Bank 1" is the same as "Bank 3" specified in the Gradus AD section;

The total amount of approved limits on working capital financings was BGN 78.8 million, which included BGN 29.8 million to which Gradus-3 is a co-beneficiary with Gradus-1. As of 31.12.2017, BGN 22.5 million were absorbed from working capital loans.

Type of financing	Creditor	Currency	Amount agreed, BGN `000	Maturity	Amount as of 31 December, BGN `000		
					2015	2016	2017
Loan from related parties	Milenium 2000 EOOD	BGN	1 800	2018	0	0	1 800
Total loans from related parties					0	0	1 800

Source: Gradus-3 AD

The table below presents the loans of Gradus-3 and the interest expenses as of 31 December 2015, 31 December 2016, and 31 December 2017, respectively.

	As of 31 December		
	2015	2016	2017
Bank loans, BGN'000	47 367	36 989	22 489
Interest expenses	722	670	558
Loans from related parties, BGN'000	0	0	1 800
Interest expenses	-	-	1

Source: Gradus-3 AD

All bank loans have floating interest rates. The loan from Milenium 2000 EOOD has a fixed rate of 2.5% per annum.

Loan collateral

As of 31 December 2017, the loans of Gradus-3 (see *Capital resources, cash flows, and indebtedness - loan agreements and credit financial Instruments*) were secured by fixed tangible assets worth BGN 6.5 million and inventories worth BGN 11.9 million.

Conditional obligations and commitments

In the normal course of its business, Gradus-3 enters into transactions that result in conditional obligations and are not reflected as liabilities in the statement of financial position. The main items of conditional obligations include:

Conditional obligations

Under an overdraft loan agreement with Bank 3 (Loan 3), Gradus-3 AD and Gradus-1 EOOD are co-beneficiaries. As of 31.12.2017 Gradus-3 AD had no obligations under this loan. Gradus -1 EOOD has an absorbed loan amounting to BGN 10,040 thousand. Gradus-1 EOOD serves the loan on an ongoing basis, without overdue payments on interest and principal.

Gradus 3 is co- debtor under two loan agreements between Gradus-1 EOOD and "Bank 3", with authorized limits of BGN 12,000 thousand and BGN 2,800 thousand. As of 31.12.2017, Gradus-1 EOOD had absorbed amounts of BGN 11,565 thousand and BGN 2,791 thousand respectively. The loans are serviced by Gradus-1 EOOD on an ongoing basis, without overdue payments on interest and principal.

Gradus 3 provided a performance guarantee of BGN 80,000 to secure an obligation of Marina 2003 EOOD to "South-West State Enterprise".

Lawsuits

Gradus-3 is not a defendant in lawsuits.

Capital expenditures

Capital expenditures only include property, machinery, facilities, and equipment costs.

The tables below provide information on the Group's capital expenditures for the periods indicated.

Investment expenses (Amounts in BGN `000)	2013	2014	2015	2016	2017	As of the prospec tus' date
Property, machinery, facilities, and equipment	306	1 548	2 323	431	1 919	30
Intangible assets	0	0	0	0	0	0
Financial assets	0	0	0	0	0	0
Total investment costs	306	1 548	2 323	431	1 919	30

Source: Gradus-3 AD

Investment costs by type Amounts in BGN `000	2013	2014	2015	2016	2017	As of the prospect us' date
Land			833			
Buildings - Warehouses and factory for fodder production	6		177	20	9	
Machinery and equipment for warehouses and fodder plant	18	59	131	75	5	4
Facilities		35	436	232	1 130	26
Sewage treatment plant - buildings and facilities	116	1 433	291	2	769	
Transport vehicles - lifting equipment and cars	163	18	455	52	3	
Other	3	3		50	3	
Total investment costs	306	1 548	2 323	431	1 919	30

Source: Gradus-3 AD

In 2013, the capital expenditures of Gradus-3 were BGN 306 thousand. During that year, the right to construction on the land owned by another (superficies) was purchased and the construction of the "Sewage Treatment Plant" site was started. The expenses made for the sewage treatment plant in 2013 were BGN 116 thousand. The site was accepted and started functioning in 2017, with total expenses for the period from 2013 to 2017 in the amount of BGN 2,611 thousand, of which BGN 70 thousand for buildings and BGN 2,541 thousand for sewage treatment facilities. In 2013, investments were made of BGN 163,000 in transport vehicles.

In 2014, the capital expenditures of Gradus-3 increased by BGN 1.2 million to BGN 1.5 million and almost all funds were spent in the construction of the sewage treatment plant.

In 2015, the capital expenditures of Gradus-3 increased by BGN 775 thousand to BGN 2.3 million. During the year, expenses of BGN 291 thousand were made on the treatment plant. In addition, in 2015 a grain storage facility was purchased in the amount of BGN 1 441 thousand, of which BGN 833 thousand for the land, BGN 177 thousand for buildings, and BGN 431 thousand for facilities. During the year, expenses for purchasing transport vehicles amounting to BGN 455,000 were made.

In 2016, the capital expenditures decreased by BGN 1.9 million to BGN 431 thousand. The reconstruction of the grain storage facility purchased in 2015, where the major part of the funds was directed, began during the year.

In 2017, investment expenses were made of BGN 1.9 million, which was an increase of BGN 1.5 million compared to 2016. Of these, BGN 1,144 thousand were directed to the ongoing reconstruction of the grain storage facility and BGN 769 thousand were spent for the commissioning of the treatment plant.

In 2018, capital expenditures amounting to BGN 30,000 were made to invest in equipment and facilities of the fodder plant.

All the investments made by Gradus-3 during the review period were made in Bulgaria.

Financial review of Milenium 2000 EOOD

Operating results

The table below, prepared for the specified periods, provides specific information on the performance of Milenium 2000 EOOD (Milenium 2000).

Statement of comprehensive income <i>(Amounts in BGN '000)</i>	2015	2016*	2017
Revenue**	59 168	57 143	61 972
Change in inventories	5 736	7 625	4 826
Cost of raw materials	(38 420)	(36 674)	(32 879)
Cost of hired services	(1 998)	(2 163)	(1 894)
Depreciation and amortization costs	(2 056)	(886)	(731)
Personnel costs	(3 969)	(4 383)	(4 464)
Other expenses	(3 143)	(4 342)	(3 986)
Book value of goods sold	(4 333)	(7 151)	(3 367)
Operating profit	10 985	9 169	19 477
Revaluation of investment properties	0	0	1 404
Financial income	33	61	57
Financial expense	(27)	(29)	(11)
Profit before tax	10 991	9 201	20 927
Profit tax expense, net	1 206	590	2 152
Net profit for the year	9 785	8 611	18 775
Other components of comprehensive income			
Articles that will not be reclassified in profit or loss			
Other comprehensive income	-	-	8 193
Total comprehensive income for the year	9 785	8 611	26 968

Source: Milenium 2000 EOOD; FFBH calculations

Note: For the purpose of comparable presentation of the information, the revaluation of investment properties as a result of a change in the accounting policy is shown in a separate line in the financial income. The accounting policy regarding depreciation was changed as of 1 January 2017 and was unified between all Group companies.

* The depreciation costs for 2016 were recalculated.

***"Income" includes income from sales and other income.

Revenue

The table below provides a breakdown of the revenue of Milenium 2000 by type. The total revenue of Milenium 2000 increased by 8.5% in 2017 to BGN 62.0 million. The main components were the sale of finished and other goods and financing.

In 2017, the revenue from the sale of finished products declined by 1.6% due to the natural cyclicity of production, which led to a 3% decrease in the sales of fattened broilers. At the same time, the income from goods decreased by 51.4% due to the fact that the other companies in the Group, producing hatching eggs, directly accessed external customers.

In 2017, there was a 43.8% increase in financing due to higher state compensation for humane stockbreeding. During the year, net income of BGN 7.8 million was realized from the sale of fixed tangible assets, which was related to the sale of the agricultural business of Milenium 2000.

Of the others, the rental income remained almost unchanged in 2017, while the revenue from services doubled to BGN 217 thousand.

Revenue by type (Amounts in BGN `000)	2015	2016	2017
Sale of finished goods	48 636	43 559	42 882
Sale of goods	5 190	8 114	3 947
Sale of services	522	102	217
Rental income	194	245	239
Financing	4 119	4 406	6 335
Other	507	717	8 352
Total	59 168	57 143	61 972
Change on annual basis, %		-3.4%	8.5%

Source: Milenium 2000 EOOD; FFBH calculations

* Other includes the sale of materials, fixed tangible asset, and others.

The following table provides information on the sales of goods of Milenium 2000 by type. The main categories were hatching eggs, fattened broilers, parent flocks, and agricultural produce⁷, representing, respectively, 54.6%, 38.1%, 3.7%, and 3.6% of the amount for 2017. 22% of the production of hatching eggs was realized as an export, while 100% of the broilers were sold to Gradus-1.

Income from production by type (Amounts in BGN `000)	2015	2016	2017
Hatching eggs	21 917	23 353	23 410
Fattened broilers	24 062	16 928	16 329
Parent flocks	1 488	1 814	1 612
Agriculture	1 169	1 464	1 531
Total	48 636	43 559	42 882
Change on annual basis, %		-10.4%	-1.6%

Source: Milenium 2000 EOOD; FFBH calculations

Operating expenses

The table below, prepared for the periods indicated, presents the main components of the operating expenses of Milenium 2000.

⁷ During the restructuring of the Group, the agricultural business of Milenium 2000 was sold in the fourth quarter.

Operating expenses (Amounts in BGN `000)	2015	2016*	2017
Cost of raw materials	38 420	36 674	32 879
Cost of hired services	1 998	2 163	1 894
Depreciation and amortization costs	2 056	886	731
Personnel costs	3 969	4 383	4 464
Other expenses	3 143	4 342	3 986
Book value of goods sold	4 333	7 151	3 367
Total	53 919	55 599	47 321
Change on annual basis, %		3.1%	-14.9%

Source: Milenium 2000 EOOD; FFBH calculations

* The depreciation costs for 2016 were recalculated.

The main components of the operating expenses were the cost of raw materials and the personnel expenses, which accounted for 69.5% and 9.4% of the total operating expenses.

The total operating expenses decreased by 14.9% in 2017 to BGN 47.3 million due to a decrease in all components, excluding the personnel expenses. In 2017, despite the decrease in the average personnel by 4 people (-1%), a growth in the expenses was reported of 1.9% due to the 2.5% increase in the average gross salary.

Financial income and expenditure

The table below, prepared for the periods indicated, presents the main components of the financial income and expenditure of Milenium 2000 by type. In 2017, Milenium increased its interest income to BGN 36,000 due to a growth in the loans to related parties.

Financial income and expenditure (Amounts in BGN `000)	2015	2016	2017
Revaluation of investment properties	-	-	1 404
Interest income	32	10	36
Provisions	1	51	21
Financial income	33	61	1 461
Exchange differences	(5)	(3)	(1)
Bank charges	(22)	(26)	(10)
Financial costs	(27)	(29)	(11)
Financial income/ (expenses), net	6	32	1 450

Source: Milenium 2000 EOOD; FFBH calculations

Profitability

Profitability (Amounts in BGN `000)	2015	Change %	2016	Change %	2017
EBITDA*	13 041	-22.9%	10 055	101.0%	20 208
margin	22.0%		17.6%		32.6%
Operating profit	10 985	-16.5%	9 169	112.4%	19 477
margin	18.6%		16.1%		31.4%
Profit before tax	10 991	-16.3%	9 201	127.4%	20 927
margin	18.6%		16.1%		33.8%
Net profit for the year	9 785	-12.0%	8 611	118.0%	18 775
margin	16.5%		15.1%		30.3%

Source: Milenium 2000 EOOD; FFBH calculations

Note: The accounting policy regarding depreciation was changed as of 1 January 2017 and was unified between all Group companies; the depreciation for 2016 was recalculated.

* Profit before depreciation, financial expenses, and taxes

From the data presented in the report, it can be seen that the operational profitability of Milenium 2000, expressed as EBITDA, doubled in 2017 due to the optimization of the operating expenses as well as the realized net income from the sale of the company's agricultural business.

The additional increase in the profit before tax and the net profit was due to a change in the accounting policy and the introduction of the fair value model for the subsequent valuation of investment properties. As a result, revaluation of the investment properties owned at the amount of BGN 1.4 million was reflected in the statement of comprehensive income. The investment properties are rented out to other subsidiaries in the Group and, therefore, these revaluations are subject to elimination in the consolidated financial statements of Gradus AD.

Other comprehensive income

In 2017, the total comprehensive income increased 3 times to BGN 27.0 million as a result of the introduction of a revaluation model for the reporting of property, machinery, facilities, and equipment and the revaluation of non-current assets.

As of 01.01.2017, Milenium 2000 adopted an accounting policy for the revaluation of the fixed tangible assets to their fair value to be carried out over a three-year period by independent licensed appraisers. In the revaluation made, revaluation reserve of BGN 8.2 million, net of tax, was recognized.

Assets and liabilities

The following table presents the balance sheet of Milenium 2000 EOOD as of the end of the last three financial years.

Statement of financial position <i>(Amounts in BGN `000)</i>	2015*	2016*	2017
Assets			
Non-current assets			
Fixed tangibles assets	20 096	20 019	13 454
Intangibles assets	0	415	574
Investment properties	1 456	1 456	1 456
Deferred tax assets	92	318	0
Total non-current assets	21 644	22 208	15 484
Current assets			
Inventories	10 467	10 291	9 272
Receivables from related parties	9 078	4 735	16 662
Trade and other receivables	2 218	2 423	2 062
Cash and cash equivalents	207	556	807
Other receivables	4	6	32
Total current assets	21 974	18 011	28 803
Total assets	43 618	40 219	44 287
Equity and liabilities			
Equity			
Share capital	5	5	5
Revaluation reserve	8 202	8 202	8 202
Retained earnings	21 532	19 391	26 852
Total equity	29 739	27 598	35 059
Non-current liabilities			
Deferred tax liabilities	0	0	1 024
Other non-current liabilities	486	123	297
Long-term payables to personnel	0	0	55
Total non-current liabilities	486	123	1 376
Current liabilities			
Trade payables	893	1 138	963
Related party payables	11 833	10 379	6 423

Liabilities under loans	0	0	0
Tax liabilities	28	270	26
Payables to personnel	349	385	361
Other current liabilities	290	326	79
Total current liabilities	13 393	12 498	7 852
Total liabilities	13 879	12 621	9 228
Total equity and liabilities	43 618	40 219	44 287

Source: Milenium 2000 EOOD; FFBH calculations

* The data for 2015 and 2016 were recalculated with the revaluations of fixed tangible assets and investment property.

Major components of the total assets of Milenium 2000 are the fixed tangible assets, receivables from related parties, and inventories, which, as of the end of 2017, represented 30.4%, 37.6%, and 20.9% respectively. As of 31 December 2017, the amount of the asset increased by 10.1% or BGN 4.1 million to BGN 44.3 million. The main reason for the asset growth was the increase by BGN 14 million in the receivables from related parties to BGN 16.7 million (about 90% are in the Group). The reason for the change was the natural cyclicity of the business as well as the loans of BGN 5.3 million provided to related parties. The increase in the receivables from related parties was partially offset by a decline of BGN 7.6 million (-32.8%) in the fixed tangible assets due to the sale of the agricultural business of Milenium 2000.

The tables below show the changes in the balance sheet values of the fixed tangible assets (FTA) and the investment properties as of 31 December 2015, 31 December 2016, and 31 December 2017. As noted above, the decrease in the FTA by 32.8% in 2017 was due to the sale of the agricultural business of Milenium 2000.

Balance sheet value of fixed tangible assets as of 31 December	2015*		2016*		2017	
	BGN `000	% of fixed assets	BGN `000	% of fixed assets	BGN `000	% of fixed assets
Land and buildings	9 908	49.3%	11 602	58.0%	7 161	53.2%
Facilities	455	2.3%	445	2.2%	420	3.1%
Machinery and equipment	9 439	47.0%	7 455	37.2%	5 691	42.3%
Transport vehicles	209	1.0%	195	1.0%	99	0.7%
Inventory	27	0.1%	27	0.1%	28	0.2%
Expenditure on acquisition of fixed tangible assets	58	0.3%	295	1.5%	55	0.4%
Total fixed tangible assets	20 096	100.0%	20 019	100.0%	13 454	100.0%

Investment properties	1 456	1 456	1 456
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Source: Milenium 2000 EOOD; FFBH calculations

* The data for 2015 and 2016 were recalculated with the revaluations of fixed tangible assets and investment property.

The total liability for 2017 amounted to BGN 9.2 million, decreasing by 26.9% compared to the previous year. The most significant decrease was reported in the liabilities to related parties by BGN 4 million to BGN 6.4 million. The decrease was partly offset by the recognition of non-current liabilities for deferred taxes related to the revaluations and amounting to BGN 1.0 million.

The main components of the liabilities structure of Milenium 2000 are the liabilities to related parties, trade and other liabilities, and deferred tax liabilities, which amounted, respectively, to 69.6%, 10.4%, and 11.1% of all liabilities at the end of 2017. According to data provided by Milenium 2000, approximately 90% of the receivables from related parties are subject to elimination in the preparation of the consolidated financial statements of Gradus AD.

Capital resources, cash flows and indebtedness

Cash flows

The table below provides information on the net cash flows of Milenium 2000 from operating, investing, and financial activities for the period mentioned as well as on the cash and cash equivalents at the beginning and the end of the reporting periods.

Cash flow statement (Amounts in BGN `000)	2015	2016	2017
Cash flows from operating activities			
Cash receipts from customers	58 856	63 916	64 498
Payments to suppliers and personnel	(53 857)	(56 859)	(52 145)
Commission and exchange rate flows	(26)	(29)	(9)
Profit tax paid / reimbursed	(1 352)	(1 060)	(1 426)
Other operating flows	4 107	5 328	3 604
Net cash flows from / (used in) operating activities	7 728	11 296	14 522
Cash flows from investing activities			
Purchase of property, machinery, facilities, and equipment	(5 136)	(2 053)	(356)
Cash flows related to loans granted to related parties in the Group	0	0	(5 800)
Cash flows related to loans granted to related parties in the Group	0	0	513
Cash flows related to loans granted to other enterprises	0	(193)	(300)
Cash flows related to repayments of loans granted to other enterprises	1 786	0	4
Net cash flows from / (used in) investing activities	(3 350)	(2 246)	(5 939)
Cash flows from financial activities			
Dividends paid	(2 101)	(8 701)	(8 332)
Repaid loans	(2 550)	0	0
Loans received	0	0	0
Net cash flows from / (used in) financial activities	(4 651)	(8 701)	(8 332)
Net increase / (decrease) in cash and cash equivalents	(273)	349	251
Cash and cash equivalents at the beginning of the year	480	207	556
Cash and cash equivalents at the end of the year	207	556	807

Source: Milenium 2000 EOOD; FFBH calculations

Cash flows generated from / (used in) operating activities

The net cash flows generated from operating activities included mainly receipts from customers, payments to suppliers, personnel payments, paid and reimbursed taxes.

In 2017, the net cash flows from operating activities amounted to BGN 14.5 million, which was an increase of 28.6% compared to the previous period. The main reason for the improvement was the decrease of BGN 4.7 million (-8.3%) in the payments to suppliers and personnel, while the receipts from customers increased by 0.9%.

Cash flows generated from / (used in) investing activities

The net cash flows for and from the investing activity of Milenium 2000 included mainly receipts and payments related to the purchase of fixed tangible assets as well as receipts and payments related to loans provided by Milenium 2000.

The investing activities generated a cash outflow of BGN 5.9 million in 2017 or by BGN 3.7 million more than in 2016. The reason for the increase of the negative flows was the net lending for BGN 5.8 million, of which BGN 513 thousand were paid at the end of the period. The lower capital expenditures during the year acted in the opposite direction and the payments for fixed tangible assets decreased by BGN 1.7 million to BGN 0.4 million.

Cash flows generated from / (used in) financial activities

The net cash flows from the financial activities of Milenium 2000 included mainly receipts and payments related to loans and dividends paid to owners.

The financial activities generated a cash outflow of BGN 8.3 million in 2017 compared to minus BGN 8.7 million in 2016. All cash flows from financial activities during the last two financial years were from paid dividends.

Capital resources

Milenium 2000 finances its operations with cash from operating activities. Furthermore, at the date of this Prospectus, Milenium 2000 relied on the following external sources of financing: (i) attracted share capital; (ii) trade payables, including payables to suppliers and advances received.

The main cash needs of Milenium 2000 were related to its operating activities, capital expenditures, and dividend payments to shareholders. According to the Board of Directors, the main sources of cash for Milenium 2000 in the future will be cash from operating activities.

There are no limitations on the use by Milenium 2000 of its capital resources that have affected or could significantly affect, directly or indirectly, the business of the company.

For description of indebtedness, essential credit financial instruments, and loan agreements, to which Milenium 2000 is a party, see "*Indebtedness*". For description of the loans provided by related parties, see "*Related-party transactions*". For description of the future capital needs of Milenium 2000, see "*Current and Planned Investments*" below.

Indebtedness

As of 31 December 2017, Milenium 2000 had no loans from banking institutions and related parties. There were no such as of 31 December 2016 and 31 December 2015 either.

Loan collateral

As of 31 December 2017, Milenium 2000 had no loans from banking institutions and related parties. Milenium 2000 established a mortgage of buildings with a market value of BGN 1,169,000 under a bank loan agreement signed by Gradus-3.

Conditional obligations and commitments

Conditional obligations

Milenium 2000 established a mortgage of buildings with a market value of BGN 1,169,000 under a bank loan agreement signed by Gradus-3.

Lawsuits: Milenium 2000 is not a defendant in lawsuits.

Capital expenditures

Capital expenditures only include property, machinery, facilities, and equipment costs.

The tables below provide information on the Group's capital expenditures for the periods indicated.

Investment expenses (Amounts in BGN `000)	2013	2014	2015	2016	2017	As of the prospec tus' date
Property, machinery, facilities, and equipment	1 435	3 156	5 534	2 935	520	238
Intangibles assets	0	0	0	0	0	0
Financial assets	0	0	0	0	0	0
Total investment costs	1 435	3 156	5 534	2 935	520	238

Source: Milenium 2000 EOOD

Investment costs by type (Amounts in BGN `000)	2013	2014	2015	2016	2017	As of the prospect us' date
Agriculture, incl.						
Agricultural land	355	717	1205	1862	178	-
Machinery, equipment, hardware	441	185	270	11	-	-
Facilities	-	-	11	-	-	-
Computer equipment	-	-	6	6	-	-
Total fixed assets "Agriculture"	796	902	1492	1879	178	-
Poultry farming incl.						
1. Fattening						
Buildings - reconstruction	-	33	-	-	-	113
Machinery, equipment, hardware	254	287	4	241	86	2
Facilities		8			1	-
Computer equipment			1			3
Transport vehicles			52			60
Inventory	1			1		-
Total fixed assets "Fattening"	255	328	57	242	87	178
2. Parents and adolescents						
Machinery, equipment, hardware	376	1923	3959	68	212	6
Reconstruction of a rented asset - buildings				678		
Facilities	6	-	1	7	1	0
Computer equipment	-	1	2	-	21	3
Transport vehicles	2	-	15	58	9	20
Inventory	0	2	8	3	12	7
Total fixed assets "Parents and adolescents"	384	1926	3985	814	255	60
Total fixed assets "Poultry farming"	639	2254	4042	1056	342	238
Total investment costs	1435	3156	5534	2935	520	238

Source: Milenium 2000 EOOD

A major part of the investments (BGN 376 thousand) was aimed at purchasing new equipment for the farms for breeding parent flocks in relation to a project for the expansion of the capacity in this field. The investments in the agricultural activity of the company amounted to a total of BGN 796 thousand. The agricultural activity was sold at the end of 2017.

In 2014, the capital expenditures of Milenium 2000 were again directed to agriculture (purchase of land and machinery - BGN 902 thousand) and expansion of the capacity of parent flocks (BGN 1,923 thousand). The total investments amounted to BGN 3.2 million and included BGN 287 thousand invested in new equipment for the broiler fattening farms.

In 2015, the capital expenses of Milenium 2000 increased by BGN 2.4 million up to 5.5 million BGN. During the year, a project for expanding the production capacity of hatching eggs was completed and the expenses amounted to BGN 4 million. In addition, investments in agriculture were made for BGN 1.5 million, of which BGN 1.2 million were spent for land purchase.

In 2016, the capital expenses decreased by BGN 2.6 million to BGN 2.9 million. During the year, BGN 0.7 million were spent for the reconstruction of a building for parent flocks and BGN 1.9 million were invested in the acquisition of new agricultural land.

In 2017, investment costs for BGN 0.5 million were made, which was a decrease by BGN 2.4 million compared to 2016. Of these, BGN 0.3 million were invested in the equipment of the parent farms and the rest were invested in the purchase of agricultural land.

In 2018, investments have been made in Milenium 2000 amounting to BGN 238 thousand, of which BGN 178 thousand were invested in the fattening of broilers and BGN 60 thousand were invested in the breeding of parents and adolescents.

All the investments made by Milenium 2000 during the review period were made in Bulgaria.

Financial review of Gradus-98 AD

Operating results

The table below which is drawn up for the specified periods provides specific information on the performance of Gradus-98 AD (Gradus-98).

Statement of comprehensive income (Amounts in BGN `000)	2015	2016	2017
Revenue*	33 639	29 483	31 863
Change in inventories	(3 513)	(3 509)	3 117
Cost of raw materials**	(12 049)	(12 305)	(12 535)
Cost of hired services	(952)	(1 070)	(1 363)
Depreciation and amortization costs	(954)	(1 121)	(1 147)
Personnel costs	(1 654)	(1 793)	(2 302)
Other expenses***	(5 331)	(4 907)	(3 160)
Book value of sold goods	(2 555)	(916)	(8 389)
Operating profit	6 631	3 862	6 084
Financial income		1 357	3 126
Financial expenses	(11)	(12)	(36)
Profit before tax	6 620	5 207	9 174
Profit tax expense, net	665	379	407
Net profit for the year	5 955	4 828	8 767
Other components of comprehensive income			
Articles that will not be reclassified in profit or loss			
Other comprehensive income	0	0	26 413

Total comprehensive income for the year	5 955	4 828	35 180
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Source: Gradus-98 AD; FFBH calculations

Note: The accounting policy regarding depreciation has been changed as of 1 January 2017 and it has been unified between all Group companies

* Income include income from sales and other earnings

** Costs on raw materials include costs of raw materials, materials and capitalized own costs

*** Other costs include impairment of assets and other expenses

Revenue

Gradus-98 has a single reporting segment. Gradus-98's operations are organized so that none of them compiles a separate segment in line with IFRS 8 Operating Segments. In this respect, no breakdown of revenue by category of activity is made.

The table below provides a breakdown of Gradus-98 revenue by types. The total sales of Gradus-98 increased by 46.3% in 2017 to BGN 31.8 million. The main contributor is Gradus-98's sales of finished and other goods and financing.

In 2017, the sales of finished goods increased by 7.4% due to the rise in the number and the average selling price of the sold hatching eggs. In 2017, 36.3% of the revenue from breeding eggs came from direct exports (BGN 6.5 million). At the same time, goods sold increased by BGN 8.9 million to BGN 9.7 million due to the Group's business processes. These processes caused a significant proportion of hatching eggs produced by Milenium 2000 to be sold to external customers through Gradus-98. In 2017, 92% of the proceeds from goods were from exports (BGN 8.9 million).

In 2017, there was a 1.8% increase in financing due to an increase in state compensation for humane breeding of poultry.

The other revenue in 2017 decreased by half to BGN 167 thousand.

Income by type* (Amounts in BGN '000)	2015	2016	2017
Sale of finished goods	19 544	17 848	19 169
Sale of goods	3 192	820	9 665
Financing	2 524	2 762	2 811
Other	184	320	167
Total	25 444	21 750	31 812
Change on annual basis, %		-14.5%	46.3%

Source: Gradus-98 AD; FFBH calculations

* Other includes rental income, sale of materials, compensated leave, and others; Revenue from revaluation of agricultural output is not shown in the table

Operating expenditure

The table below, which is drawn up for the specified periods, provides the main components of the operating expenditure of Gradus-98.

Operating expenditure (Amounts in BGN '000)	2015	2016	2017
Costs of raw materials*	12 049	12 305	12 535
Costs of hired services	952	1 070	1 363
Amortization and depreciation costs	954	1 121	1 147
Personnel costs	1 654	1 793	2 302
Other costs**	5 331	4 907	3 160
Book value of sold goods	2 555	916	8 389
Total	23 495	22 112	28 896

Change on annual basis, %**-5.9%****30.7%***Gradus-98 AD; FFBH calculations*

Note: The accounting policy regarding depreciation has been changed as of 1 January 2017 and is unified between all Group companies

** Costs of raw materials includes costs of raw materials, materials and capitalized own costs*

*** Other costs include impairment of assets and other expenses*

The main component of operating expenses is the cost of raw materials, the book value of the goods sold and the personnel costs, which account for 43.4%, 29.0% and 8.0% of the total operating expenses.

Total operating expenses increased by 30.7% in 2017 to BGN 28.9 million. During the year, growth is recorded in hired costs, personnel costs and book value of goods sold by 27.4%, 28.4% and 815.8%, which partially offset the reduction of other expenses by 35.6%. In 2017, despite the lack of change (-1 person) in average staff, the average gross salary increased by 27.8%.

Financial income and expenses

The table below, which is drawn up for the specified periods, presents the main components of the financial income and expenditures of Gradus-98 by types. In 2017, Gradus-98 increased dividend income to BGN 3.1 million, compared to BGN 1.4 million in 2016. The dividends were paid in full by Biser-Oliva AD. In connection with the restructuring of the Group in 2017, Gradus-98 separated its investment in Biser-Oliva AD.

Financial income and expenses (Amounts in BGN `000)	2015	2016	2017
Interest income	0	0	4
Dividend income	0	1 352	3 121
Other	10	1	0
Financial income	10	1 353	3 125
Exchange differences	(8)	0	(12)
Interest expenses	0	0	(1)
Other expenses	(13)	(8)	(22)
Financial expenses	(21)	(8)	(35)
Financial income/ (expenses), net	(11)	1 345	3 090

Source: Gradus-98 AD; FFBH calculations

Profitability

Profitability (Amounts in BGN `000)	2015	Change %	2016	Change %	2017
EBITDA*	7 585	-34.3%	4 983	45.1%	7 231
<i>margin</i>	22.6%		16.9%		22.7%
Operating profit	6 631	-41.8%	3 862	57.5%	6 084
<i>margin</i>	19.7%		13.1%		19.1%
Profit before tax	6 620	-21.3%	5 207	76.2%	9 174
<i>margin</i>	19.7%		17.7%		28.8%
Net profit for the year	5 955	-18.9%	4 828	81.6%	8 767
<i>margin</i>	17.7%		16.4%		27.5%

Source: Gradus-98 AD; FFBH calculations

Note: The accounting policy regarding depreciation has been changed as of 1 January 2017 and is unified between all Group companies

** Profit before depreciation, financial expenses and taxes*

From the data presented in the report, it is clear that the operational profitability of Gradus-98, expressed as EBITDA, increased by 45% in 2017 due to the faster growth of revenues compared to operating costs.

The additional increase in profit before tax and net profit is due to dividends received during the year amounting to BGN 3.1 million.

Other comprehensive income

In 2017, the total comprehensive income increased 7.3 times to BGN 35.2 million as a result of the introduction of a revaluation model for property, plant and equipment and the revaluation of non-current assets.

Since 1 January 2017, an accounting policy has been adopted in Gradus-98 for the revaluation of fixed tangible assets to their fair value to be made for a period of three years by independent licensed appraisers.

A revaluation reserve of BGN 26.4 million net of tax is recognized in the revaluation in 2017.

Assets and liabilities

The following table presents the balance sheet of Gradus-98 AD at the end of the last three financial years.

Statement of financial position (Amounts in BGN `000)	2015	2016	2017
Assets			
Non-current assets			
Fixed tangibles assets	8 054	8 192	36 462
Intangibles assets	43	32	20
Investment properties	363	363	0
Total non-current assets	8 460	8 587	36 482
Current assets			
Inventories	3 177	3 290	3 453
Receivables from related parties	4 786	8 787	11 559
Trade and other receivables	349	293	706
Trade and other receivables	22	39	689
Deferred tax assets	271	207	0
Total current assets	8 605	12 616	16 407
Total assets	17 065	21 203	52 889
Equity and liabilities			
Equity			
Share capital	500	500	500
Revaluation reserve	20	20	26 433
Other reserves*	1 884	1 884	1 884
Retained earnings**	5 955	10 783	19 188
Total equity	8 359	13 187	48 005
Non-current liabilities			
Deferred tax liabilities	0	0	2 355
Other non-current liabilities	0	0	0
Long-term payables to personnel	0	0	36
Total non-current liabilities	0	0	2 391
Current liabilities			
Trade and other payables	94	494	1 004
Related party payables	3 397	1 420	1 077
Bank loans	3 934	5 522	0
Tax liabilities	59	181	18
Payables to personnel	133	212	265
Other current liabilities	1 089	187	129
Total current liabilities	8 706	8 016	2 493
Total liabilities	8 706	8 016	4 884

Total equity and liabilities	17 065	21 203	52 889
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Source: Gradus-98 AD; FFBH calculations

Major components in the total assets of Gradus-98 are fixed tangible assets and related party receivables, which represent 68.9% and 21.9% respectively by the end of 2017. As of 31 December 2017, the amount of the asset rose 2.5 times to BGN 52.9 million. The main reason for the growth is the change in accounting policy and the revaluation of fixed tangible assets. Receivables from related parties also increased by 31.6%, the increase being entirely attributable to related party transactions within the Group, including loans granted.

The tables below show the changes in the balance sheet values of fixed tangible assets and investment property as at 31 December 2015, 31 December 2016 and 31 December 2017. The revaluation of fixed tangible assets at 01.01.2017 amounted to BGN 28 999 thousand.

Balance sheet value of fixed tangible assets	2015		2016		2017	
As of 31 December	BGN `000	% of fixed assets	BGN `000	% of fixed assets	BGN `000	% of fixed assets
Land and buildings	3 489	43.3%	3 421	41.8%	27 487	75.4%
Machinery and equipment	2 798	34.7%	3 085	37.7%	7 534	20.7%
Transport vehicles	143	1.8%	343	4.2%	310	0.9%
Inventory	1 518	18.9%	1 234	15.1%	1 051	2.9%
Expenditure on acquisition of fixed tangible assets	105	1.3%	109	1.3%	80	0.2%
Total fixed tangible assets	8 053	100.0%	8 192	100.0%	36 462	100.0%
Including revaluations					28 999	

Source: Gradus-98 AD; FFBH calculations

The amount of the liability for 2017 amounted to BGN 4.9 million, decreasing by 39.1% compared to the 2016. During the year, all credit and trade payables to related parties amounting to BGN 5.5 million were paid, which is the main reason for the decrease in the liabilities. The decrease is partly offset by the recognition of non-current liabilities for deferred taxes related to the revaluations carried out at the amount of BGN 2.4 million and by the doubling of trade and other payables to BGN 1 million.

The key elements in the structure of Gradus-98 liabilities are liabilities to related parties, trade and other liabilities and deferred tax liabilities, which at the end of 2017 amounted to 22.1%, 20.6% and 48.2 % of the total. The liabilities to related parties are related to the other companies of the Group and are subject to elimination in the consolidated report of Gradus AD.

Capital resources, cash flows and indebtedness

Cash flows

The table below provides information on the net cash flows of Gradus-98 from operating, investing and financing activities for the period mentioned, as well as cash and cash equivalents at the beginning and the end of the reporting periods.

Cash flow statement (Amounts in BGN `000)	2015	2016	2017
Cash flows from operating activities			
Cash receipts from customers	28 282	18 056	30 216
Payments to suppliers and staff	(21 370)	(19 697)	(30 614)
Commission and exchange rate flows	(16)	(1)	(5)
Profit tax paid / recovered	87	(219)	(716)
Other operating flows	(6 209)	1 546	3 770

Net cash flows from / (used in) operating activities	774	(315)	2 651
Cash flows from investing activities			
Purchase of property, machinery, plant and equipment	(1 008)	(1 020)	(191)
Cash flows related to loans granted to related parties in the Group	0	0	(1 000)
Cash flows related to repayments of loans granted to related parties in the Group	0	0	2
Dividends received from investments	0	1 352	3 122
Net cash flows from / (used in) investing activities	(1 008)	332	1 933
Cash flows from financial activities			
Dividends paid	0	0	0
Repaid loans	0	0	(3 530)
Loans received	0	0	(404)
Net cash flows from / (used in) financial activity	0	0	(3 934)
Net increase / (decrease) in cash and cash equivalents	(234)	17	650
Cash and cash equivalents at the beginning of the year	256	22	39
Cash and cash equivalents at the end of the year	22	39	689

Source: Gradus-98 AD; FFBH calculations

Cash flows generated from / (used in) operating activities

Net cash inflows generated by operating activities include mainly receipts from customers, suppliers' payments, staff payments, paid and reimbursed taxes.

In 2017, the net cash flows from operating activities amounted to BGN 2.6 million compared to a negative flow of BGN 0.3 million in 2016. The main reason for the improvement was the upward growth of the revenues from customers in 2017 (+ 67.4%) compared to the increase in payments to suppliers and personnel (+ 55.4%). In addition, other operating flows increased 2.5 times to BGN 3.8 million.

Cash flows generated from / (used in) investing activities

Net cash flows for and from the investment activity of Gradus-98 include mainly receipts and payments related to the purchase of fixed tangible assets, receipts and payments related to loans granted by Gradus-98 and dividends received from investments.

The investment activity generated a positive cash flow of BGN 1.9 million in 2017 or BGN 1.6 million more than in 2016. The reason for the increase was the dividends paid during the year. At the same time, Gradus-98 provided loans amounting to BGN 1 million to Lora-2004.

Cash flows generated from / (used in) financial activity

Net cash flows from the financial activity of Gradus-98 include mainly receipts and payments related to loans and paid dividends to owners.

The financial activity generated an outflow of BGN 3.9 million in 2017 related to paid loans to related parties.

Capital resources

Gradus-98 funds its operations with cash from operating activities. In addition, at the date of this Prospectus, Gradus-98 relies on the following external sources of funding: (i) attracted share capital; (ii) borrowing funds; (iii) trade payables, including payables to suppliers and advances received.

Gradus-98's main cash needs are related to its operating activities, capital expenditures, repayment of loans received, and the payment of dividends to shareholders. According to the Board of Directors, the main sources of funds for Gradus-98 in the future will be cash from the operating activities and loans provided by Gradus AD.

There are no limitations on the use by Gradus-98 of its capital resources that have affected, or could significantly affect, directly or indirectly the company's business.

For a description of indebtedness, essential credit financial instruments and loan agreements under which Gradus-98 is a party, see "*Indebtedness*". For a description of the loans provided by related companies, see "*Related party transactions*". For a description of the future capital needs of Gradus-98, see "*Current and planned investments*" below.

Indebtedness

As of 31 December 2017, Gradus-98 has no loans from banking institutions or related parties.

The table below presents certain information related to the loans and net debt of Gradus-98 as of 31 December 2015, 2016 and 2017 respectively.

Financial liabilities (Amounts in BGN `000)	As of 31 December		
	2015	2016	2017
Current loans			
Bank loans	0	0	0
Loans from related parties of the Group *	3 934	3 934	0
Total current loans	3 934	3 934	0
Non-current loans	0	0	0
Total loans	3 934	3 934	0
Minus: Cash and cash equivalents	22	39	689
Net debt	3 912	3 895	-689

Source: Gradus-98 AD, Calculations of FFBH

* including interest payable

Loan agreements and credit financial instruments

As at 31 December 2015, 31 December 2016, 31 December 2017, Gradus-98 does not have loans from banking institutions.

Type of financing	Creditor	Currency	Amount agreed, BGN `000	Maturity	Amount as of 31 December, BGN `000		
					2015	2016	2017
Loan from related parties	Biser Oliva AD	BGN	3 934	2017 r.	3 934	3 934	0
Total loans from related parties					0	0	3 994

Source: Gradus-98 AD

* including interest payable

As of 31 December 2017, Gradus-98 paid all loans to related parties.

Loan collateral

As at 31 December 2017, Gradus-98 has no loans from banking institutions and related parties. In favor of Gradus-3 AD a pledge of machines and equipment was set up at the amount of BGN 4 427 thousand and a mortgage on buildings amounting to BGN 7 257 thousand.

Conditional obligations and commitments

Conditional obligations

In favor of Gradus-3 AD a pledge of machines and equipment was set up at the amount of BGN 4 427 thousand and a mortgage on buildings amounting to BGN 7 257 thousand.

Lawsuits

Gradus-98 is not a defendant in lawsuits.

Capital expenditures

Capital expenditures include only property, machinery, plant and equipment costs.

The tables below provide information on the Group's capital expenditures for the periods indicated.

Investment expenses <i>(Amounts in BGN `000)</i>	2013	2014	2015	2016	2017	As of the prospec tus' date
Property, machinery, facilities, and equipment	832	1 993	1 148	1 249	346	1 900
Intangible assets	5	24	1	0	0	5
Financial assets	0	0	0	0	0	0
Total investment costs	837	2017	1 149	1 249	346	1 905

Source: Gradus-98 AD

Investment costs by type <i>(Amounts in BGN `000)</i>	2013	2014	2015	2016	2017	As of the prospect us' date
Intangible fixed assets	5	24	1			5
Reconstruction of buildings for breeding of poultry	41	16		113		241
Reconstruction of sanitary check-points	30				14	
Construction of cooling systems for buildings for breeding of poultry	106		284	305		35
Construction of a feeding and watering system	104	45	361	105	319	1 465
Construction of a medicine system				16		
Construction of a ventilation system for buildings for breeding of poultry			51	368	3	
Purchase and construction of heating and air conditioning systems for poultry buildings	399	1101	188	3	8	3
Construction of ash sites			63			
Construction of pipeline		130				56
Purchase of automatic nests – equipment	17	546			2	63
Other investments	135	155	201	339		37
Total investment costs	837	2017	1149	1249	346	1 905

Source: Gradus-98 AD

The capital expenditures in 2013 amounted to BGN 837 thousand. During the year, there were reconstructed buildings for breeding of poultry – BGN 41 thousand and buildings - sanitary check-points amounted at BGN 30 thousand, located in a poultry processing plant in the village of Chervena Voda, Ruse region. Poultry breeding equipment was purchased at the amount of BGN 626 thousand.

In 2014, the capital expenditures increased by BGN 1.2 million to BGN 2 million. The main cost during the year was the purchase of equipment for breeding of poultry in the amount of BGN 1 692 thousand.

In 2015, capital expenditures decreased by BGN 0.9 million to BGN 1.1 million. The main investment was in purchased equipment for breeding of poultry for a total value of BGN 884 thousand.

In 2016, the amount of investments increased slightly to BGN 1.2 million. The investment in reconstruction of buildings for breeding of poultry amounted to BGN 103 thousand. Additionally, BGN 0.8 million was invested in equipment for the breeding of poultry of value.

In 2017, the investments decreased to BGN 346 thousand with almost the whole investment being in equipment for breeding poultry (BGN 332 thousand in total) and the remainder in the reconstruction of buildings.

The expenses incurred in 2018, amount to BGN 1.9 million, of which BGN 1.5 million are aimed at building and modernizing the system for feeding and watering of the poultry.

Gradus-98 has made all the investments during the reviewed period in Bulgaria.

Financial review of Zhyuliv EOOD

Operating results

The table below, which is prepared for the specified periods, provides specific information on the results of Zhyuliv EOOD (Zhyuliv).

Statement of comprehensive income (Amounts in BGN `000)	2015	2016	2017
Revenue*	28 903	29 628	37 926
Changes in production stocks	1,657	(6)	486
Expenditure on raw materials	(23 779)	(23 730)	(25 142)
Expenditure on hired services	(1 245)	(1 490)	(1 610)
Depreciation and amortization costs	(245)	(383)	(401)
Personnel costs	(948)	(1 366)	(1 521)
Other expenses	(322)	(335)	(230)
Book value of goods sold	(83)	(109)	(6 525)
Operating profit	3 938	2 209	2 983
Financial income	30	9	35
Financial expenses	(16)	(17)	(21)
Profit before tax	3 952	2 201	2 997
Income tax expense, net	(169)	(225)	(302)
Net profit for the year	3 783	1 976	2 695
Other comprehensive income	-	-	5 839
Total comprehensive income for the year	3 783	1 976	8 534

Source: Zhyuliv EOOD; FFBH calculations

Note: The accounting policy regarding depreciation has been changed as of 1 January 2017 and is unified between all Group companies

* Income includes income and other operating income, net

Income

The table below provides a breakdown of Zhyuliv revenue by type. Zhyuliv total revenue increased from 28% in 2017 to BGN 37.9 million. The main types of revenue for Zhyuliv are sales of finished products and other goods, respectively, representing 80.9% and 17.9% of the total income.

Sales of finished products increased by 5.2% in 2017 mainly due to 19.6% growth in the number of one-day-old chickens sold (15.4% sales growth in BGN), while the volume of realized production from fattening broilers decreased by 25.7% (26.6% decline in sales in BGN). Revenues from the sale of one-day-old chickens are mainly realized in Romania (74.5% share in the income from the sale of one-day-old chickens) and in Bulgaria (21.8% share) mainly to the other companies in the Group, while the revenues from sale of fattening broilers are realized in full to Gradus-1.

The revenue from the sale of goods increased by BGN 6.7 million in 2017 as a result of the sale of agricultural products - maize worth BGN 6.8 million.

Other earnings are mainly derived from revenues received from financings from compensations for human breeding of poultry that increased by 22.0% in 2017.

Revenue by type (Amounts in BGN `000)	2015	2016	2017
Sale of finished goods	28 388	29 162	30 675
Sale of goods	75	101	6 796
Revenue from services	2	2	12
Other	438	363	443
Total	28 903	29 628	37 926
Change on annual basis, %		2.5%	28.0%

Source: Zhyuliv EOOD; FFBH calculations

Operating expenditure

The table below, which is prepared for the specified periods, presents the main components of the operating expenses of Zhyuliv.

Operating expenses (Amounts in BGN `000)	2015	2016	2017
Costs of raw materials	23,779	23,730	25,142
Costs of hired services	1 245	1 490	1 610
Amortization and depreciation costs	245	383	401
Personnel costs	948	1 366	1 521
Other expenses	322	335	230
Book value of goods sold	83	109	6,525
Total	26,622	27,413	35,429
Change on annual basis, %		3.0%	29.2%

Source: Zhyuliv EOOD; FFBH calculations

Note: The accounting policy regarding depreciation has been changed as of 1 January 2017 and is unified between all Group companies

The main component of operating expenses is the cost of raw materials and the book value of sold goods, which account for 71.0% and 18.4% of the total operating expenses in 2017, followed by hired service costs and personnel costs with 4.5 % and 4.3% share respectively in total operating costs.

Total operating expenses increased by 29.2% in 2017 to BGN 35.4 million, as a result of the increase in output and sales, as well as due to the substantial growth in the sale of goods. In 2017, the cost of raw materials grew by 6.0%, while the book value of goods sold as a result of cereal trade grew by BGN 6.4 million. Personnel costs recorded a growth of 11.4%, due to a growth of 8.4% the average gross wage in

2017, and the 2.6% increase in average staff numbers. Expenditure on hired services also increased by 8.1% mainly due to the higher costs of hired transport.

Financial income and expenditure

The table below, which is prepared for the periods mentioned, presents the main components of the financial income and expenditure of Zhyuliv by type.

Financial income and expenditure (Amounts in BGN `000)	2015	2016	2017
Interest income	30	9	35
Other financial income	-	-	-
Financial income	30	9	35
Expenditure on foreign exchange operations	(2)	(3)	(5)
Interest expense	-	-	(6)
Other financial expenses	(14)	(14)	(10)
Financial expenses	(16)	(17)	(21)
Financial income / (expenses), net	14	(8)	14

Source: Zhyuliv EOOD; FFBH calculations

Profitability

Profitability (Amounts in BGN `000)	2015	Change %	2016	Change %	2017
EBITDA*	4 183	-38.0%	2 592	30.6%	3 384
<i>margin</i>	14.5%		8.7%		8.9%
Profit from operating activities	3 938	-43.9%	2 209	35.0%	2 983
<i>margin</i>	13.6%		7.5%		7.9%
Profit before tax	3 952	-44.3%	2 201	36.2%	2 997
<i>margin</i>	13.7%		7.4%		7.9%
Net profit for the year	3 783	-47.8%	1 976	36.4%	2 695
<i>margin</i>	13.1%		6.7%		7.1%

Source: Zhyuliv EOOD; FFBH calculations

Note: The accounting policy regarding depreciation has been changed as of 1 January 2017 and is unified between all Group companies

* Profit before depreciation, financial expenses and taxes

In 2017, Zhyuliv operating profitability expressed as EBITDA increased by 30.6% (+ BGN 792 thousand) mainly the largest one-day-old broiler trade, while the margins registered a slight improvement of 0.2 percentage points. Zhyuliv did not record significant revenues and expenses below operating profit as the net profit for 2017 increased by 36.4% or BGN 719 thousand.

Other comprehensive income

In 2017 the total comprehensive income increased to BGN 8.5 million as a result of the introduction of a revaluation model for property, plant and equipment and the revaluation of non-current assets.

From 1 January 2017, an accounting policy for the revaluation of fixed tangible assets to their fair value was adopted in Zhyuliv, to be carried out over a three-year period by independent licensed appraisers.

From the revaluation made in 2017, a revaluation reserve of BGN 5,839 thousand, net of tax was recognized.

Assets and liabilities

The following table presents the balance sheet of Zhyuliv EOOD at the end of the last three financial years.

Statement of financial position (Amounts in BGN `000)	2015	2016	2017
Assets			
Non-current assets			
Fixed tangible assets	1 679	2 681	10 837
Long-term receivables	137	137	0
Deferred tax assets	0	3	0
Total non-current assets	1 816	2 821	10 837
Current assets			
Inventories	1 663	1 544	1 922
Receivables from related parties*	4 258	7 636	8 865
Trade and other receivables**	397	238	1 093
Other receivables***	467	495	489
Cash and cash equivalents	28	12	630
Total current assets	6 813	9 925	12 999
Total assets	8 629	12 746	23 836
Equity and liabilities			
Equity			
Share capital	5	5	5
Revaluation reserve	33	33	5 872
Accumulated gains	7 142	9 118	10 454
Total equity	7 180	9 156	16 331
Non-current liabilities			
Deferred tax liabilities	0	0	669
Long-term payables to staff	0	45	51
Total non-current liabilities	0	45	720
Current liabilities			
Trade and other payables	20	78	8
Payables to related parties****	1 241	3 213	6 608
Tax liabilities	35	103	10
Payables to personnel	88	141	150
Other current liabilities	65	10	9
Total current liabilities	1 449	3 545	6 785
Total liabilities	1 449	3 590	7 505
Total equity and liabilities	8 629	12 746	23 836

Source: Zhyuliv EOOD; FFBH calculations

* Includes receivables from related entities within the Group and outside the Group

** Includes trade receivables from unrelated parties and loans granted to unrelated parties

*** Includes other current receivables and prepaid expenses for future periods

**** Includes liabilities to related entities within the Group and outside the Group

The main components of the total assets of Zhyuliv are fixed assets and related party receivables, which by the end of 2017 represented 45.5% and 37.2% of the total assets respectively. As of 31 December 2017, the amount of the asset increased by 87% (+11.1 million BGN) to BGN 23.8 million. For the increase in total assets contributed the threefold increase (+10.8 million BGN) of fixed tangible assets as a result of the revaluations and the investments made during the year. The increase by BGN 1.2 million of related party receivables also contributed to the growth of total assets as a result of a loan granted to Gradus-1 EOOD in 2017 with a book value at the end of the year amounting to BGN 1.9 million.

The tables below show the changes in the balance sheet values of fixed tangible assets as at 31 December 2015, 31 December 2016 and 31 December 2017. The growth in 2017 is mainly due to the

revaluations made on 1 January 2017, but also to the implementation of the investment program of Zhyuliv.

Balance sheet value of fixed tangible assets	2015		2016		2017	
As of 31 December	BGN `000	% of fixed tangible assets	BGN `000	% of fixed tangible assets	BGN `000	% of fixed tangible assets
Land	139	8.28%	139	5.18%	248	2.29%
Buildings	476	28.35%	1 237	46.14%	5 759	53.14%
Plant and equipment	783	46.63%	1 039	38.75%	4 124	38.05%
Facilities	275	16.38%	260	9.70%	693	6.39%
Transport vehicles	1	0.06%	1	0.04%	8	0.07%
Inventory	5	0.30%	5	0.19%	5	0.05%
Expenditure on acquisition of fixed tangible assets	0	0.00%	0	0.00%	0	0.00%
Total fixed tangible assets	1 679	100.00%	2 681	100.00%	10 837	100.00%
Including revaluations					6 493	

Source: Zhyuliv EOOD; FFBH calculations

The amount of the liability for 2017 amounted to BGN 7.5 million, increasing twice as compared to the previous year. The most significant growth was recorded in liabilities to related parties, which increased by 105.7% (+3.4 million BGN). Deferred tax liabilities also contributed to the growth of Zhyuliv liabilities, increasing by BGN 0.7 million as a result of the revaluations of tangible fixed assets.

The main components of the liabilities structure of Zhyuliv are liabilities to related parties and deferred tax liabilities, which at the end of 2017 amounted to 88% and 8.9% of total liabilities. 99.9% of the liabilities to related parties were liabilities to the other companies of the Group and were subject to elimination in the preparation of consolidated financial statements of Gradus AD.

Capital resources, cash flows and indebtedness

Cash flows

The table below provides information on Zhyuliv net cash flows from operating, investing and financing activities for the period mentioned, as well as cash and cash equivalents at the beginning and end of the reporting periods.

Cash flows statement (Amounts in BGN `000)	2015	2016	2017
Cash flows from operating activities			
Cash receipts from customers	31 103	28 973	40 489
Cash payments to suppliers and staff	(29 796)	(28 832)	(35 933)
Cash payments to personnel *	(892)	(1 332)	(1 518)
Exchange differences and bank charges	(16)	(17)	(14)
Profit tax (paid) / recovered	(83)	(108)	(400)
(Paid) / recovered taxes net of profit tax	0	2 432	3 617
Other operational flows	242	256	266
Net cash flows from / (used in) operating activities	558	1 372	6 507
Cash flows from investment activities *			
Purchase of property, plant and equipment	(569)	(1 487)	(2 219)
Sale of facilities and equipment	0	99	173

Loans granted to related parties	(4 000)	0	(2 125)
Loans repaid to related parties	4 000	0	235
Loans granted to unrelated parties	0	0	(600)
Interest received from related and unrelated parties	0	0	17
Net cash flows from / (used in) investment activities	(569)	(1 388)	(4 519)
Cash flows from financial activities			
Dividends paid	0	0	(1 370)
Loans repaid	0	0	0
Loans received	0	0	0
Cash flows from interests	21	0	0
Net cash flows from / (used in) financial activities	21	0	(1 370)
Net increase / (decrease) in cash and cash equivalents	10	(16)	618
Cash and cash equivalents at the beginning of the year	18	28	12
Cash and cash equivalents at the end of the year *	28	12	630

Source: Zhyuliv EOOD; FFBH calculations

* Cash flows from investing activities are presented aggregated for related parties within the Group and outside the Group

Cash flows generated from / (used in) operating activities

Net cash flows generated by operating activities include mainly receipts from customers, suppliers' payments, staff payments, paid and reimbursed taxes.

In 2017, the net cash flows from operating activities increased by BGN 5.1 million compared to the previous period. The main reasons for the cash flow improvement were the increase by BGN 11.5 million in the receipts from customers and the increase by BGN 1.2 million in the recovered VAT due to the higher exports while the payments to suppliers and personnel increased by BGN 7.1 million.

Cash flows generated from / (used in) investment activities

Net cash flows for and from Zhyuliv investment activities include mainly receipts and payments related to the purchase or sale of tangible fixed assets.

The investment activity generated an outflow of BGN 4.5 million in 2017, which is a growth of outflows of 225.6% as compared to 2016. The reason for this is the growth of BGN 0.7 million in the purchase of property, plant and equipment; and the loans granted, net in the amount of BGN 2.5 million.

Cash flows generated from / (used in) financial activity

Net cash flows from Zhyuliv financial activities include mainly receipts and payments related to loans, as well as interest payments on loans.

The financial activity generated a cash flow of BGN 1.4 million in 2017, formed by paid dividends to the owners.

Capital resources

Zhyuliv finances its operations with cash from operating activities. Additionally, at the date of this Prospectus, Zhyuliv relies on the following external sources of funding: (i) attracted share capital; (ii) liabilities to related parties; (iii) trade payables, including payables to suppliers and advances received.

The main needs of Zhyuliv for cash are related to its operating activities, capital expenses and repayment of liabilities at maturity and payment of dividends to shareholders. According to the Board of Directors, the main sources of money for Zhyuliv will in the future be cash from operating activities.

There are no restrictions on the use by Zhyuliv of its capital resources that have affected, or could significantly affect, directly or indirectly the Company's business.

For a description of indebtedness, significant credit and loan agreements, to which Zhyuliv is a party, see "Indebtedness". For a description of the loans provided by related companies, see "Related party transactions". For a description of future capital needs of Zhyuliv Ltd, see "Current and planned investments" below.

Indebtedness

As of 31 December 2017, Zhyuliv EOOD has no loan agreements with financial institutions or other entities. There are no such agreements as of 31 December 2016 and 31 December 2016.

Loan collateral

As of 31 December 2017, Zhyuliv EOOD has no loan agreements.

Contingent liabilities and commitments

Contingent liabilities

Zhyuliv has no contingent liabilities

Lawsuits

Zhyuliv is not a defendant in lawsuits.

Capital expenditure

Capital expenditure includes only property, plant and equipment costs.

The tables below provide information on the Group's capital expenditures for the periods indicated.

Investment expenses (Amounts in BGN `000)	2013	2014	2015	2016	2017	As of the prospec tus' date
Property, plant and equipment	149	191	623	1 488	2 219	18
Total investment expenses	149	191	623	1 488	2 219	18

Source: Zhyuliv EOOD;

Investment expenses by type Amounts in BGN `000	2013	2014	2015	2016	2017	As of the prospect us' date
Agricultural machinery and equipment for broiler fattening	131	180	215	460	4	-
Agricultural machinery and equipment for hatching of chickens	15	5	407	232	7	17
Gasification of hatchery	2	4	-	-	-	-
Building a fertilizer	1					
Computer equipment		2	1	1	1	1
Heat insulation of roofs in agricultural facilities for fattening of broilers				795		
Purchase of a building for					682	

hatching of one-day-old chickens						
Facilities to a building for hatching of one-day-old chickens					284	
Transport vehicles without cars					8	
Machines and equipment for purchased building for hatching of one-day-old chickens					1 233	
Total investment expenses	149	191	623	1 488	2 219	18

Source: Zhyuliv EOOD;

In 2013 and 2014, Zhyuliv capital expenditures are respectively BGN 149 thousand and BGN 191 thousand being mainly for machinery and equipment for agricultural facilities for broiler fattening.

In 2015, Zhyuliv capital expenditures include machinery and equipment for agricultural facilities for fattening broilers and for agricultural facilities for hatching of chickens.

In 2016, capital expenditures increased by BGN 0.9 million to BGN 1.5 million. In addition to investments in machinery and equipment, an investment of BGN 0.8 million was made for the thermal insulation of 20 broiler hatcheries.

In 2017, investment costs amounted to BGN 2.2 million were made, which is an increase of BGN 0.7 million compared to 2016. Of these, BGN 0.7 million was spent for the purchase of a building for hatching of one-day-old chickens and 1.5 million BGN for facilities, machinery and equipment for the hatching of one-day-old chickens.

In 2018, investments amounting to BGN 18 thousand were made, of which BGN 17 thousand were directed to machines and equipment of the operating hatcheries.

Zhyuliv has made all the investments during the reviewed period in Bulgaria.

Financial Review of “Lora-2004” EOOD

Revenue

The table below covering the specified periods provides specific information about the revenue of “Lora-2004” EOOD (Lora-2004).

Comprehensive Income Report (All amounts in BGN'000)	2015	2016	2017
Revenue*	3 123	7 779	6 727
Change of reserves from unfinished production	-355	337	-341
Expenditure on raw materials and materials	2,281	6,472	5,313
Expenditure on external services	(70)	(130)	(132)
Expenditure on amortization	(132)	(476)*	(230)
Expenditure on personnel	(256)	(459)	(447)
Other expenses	(21)	(92)	(129)
Book value of sold assets	(166)	(106)	0
Operating profit	552	(293)	817
Reassessment of investment properties	-	-	3 353
Financial income	37	0	0
Financial expenses	(76)	(31)	(21)
Profit before taxation	513	(324)	4 149
Expenditure on income tax, net	45	(36)	23
Net profit for the year	468	(288)	4 126
Other Comprehensive Income	-	-	5 879

Total Comprehensive Income for the year	468	(288)	10 005
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Source: "Lora-2004" EOOD; Calculations by FFBH

Note: For the purposes of the comparable presentation of the information, the reassessment of the investment properties as a result of a change in the Accounting Policy is shown on a separate line in Financial Income; The Accounting Policy in regard to amortizations has been changed as at 01.01.2017, being equalized among all companies within the Group.

* The amortization costs for 2016 are recalculated.

** Includes revenue from the sales and other activities.

Income

The Table below presents a breakout of the revenue of Lora-2004 by types. Total revenue of Lora-2004 registers a drop from 13.5% in 2017 to BGN 6.7 million. Main sources of revenue for Lora-2004 consist of sales of finished goods, and, in particular, of fattened broilers, which form 99.5% of the sales of finished goods.

The latter decreased by 16.8% in 2017 mostly due to the 15.5% lower volume. Lora-2004 has realized its sales of finished goods entirely on the Bulgarian market, 99.9% of which to Gradus-1.

The rental income marked an increase by 24.9% up to BGN 597 thousand in 2017, as 55% of it was formed by contracts with other subsidiary companies of "Gradus" AD.

Other income consists of financing income (mostly for humane bird breeding) and from the sales of materials and tangible fixed assets by marking an increase of 27.5% in 2017.

Income by types (All amounts in BGN'000)	2015	2016	2017
Sale of ready production	2 327	6 914	5 754
Sale of goods	194	92	-
Income from rents	302	478	597
Others*	300	295	376
Total	3 123	7 779	6 727
Annual base change, %		149.1%	-13.5%

Source: "Lora-2004" EOOD; Calculations by FFBH

* Includes the sale of materials and tangible fixed assets and financings

Expenditure on operating activity

The Table below covering the specified periods provides the main components of the operating costs for the activity of Lora-2004.

Expenditure on operating activity (All amounts in BGN'000)	2015	2016	2017
Expenditure on raw materials, materials	2 281	6 472	5 313
Expenditure on external services	70	130	132
Expenditure on amortization	132	476	230
Expenditure on personnel	256	459	447
Other expenses	21	92	129
Book value of sold assets	166	106	0
Total	2 926	7 735	6 251
Annual base change, %		164.4%	-19.9%

Source: "Lora-2004" EOOD; Calculations by FFBH

Note: For the purposes of the comparable presentation of the information, the reassessment of the investment properties as a result of a change in the Accounting Policy is shown on a separate line in Financial Income; The Accounting Policy in regards to amortizations has been changed as at 01.01.2017, being equalized among all companies within the Group.

* The amortization costs for 2016 are recalculated.

Main components operating expenses are the costs for raw and other materials, which form 85.0% of the total, followed by staff costs by a share of 7.2 % in the total operating expenses.

The operating expenses decreased by a total of 19.2% in 2017 reaching up to 6.3 BGN million, as a result of the lower sales volume. In 2017 the costs for personnel registered an insignificant drop of 2.6% despite the decrease of the production, due to fixed nature of those expenses, as well as due to the growth by 2.9% of the average gross salary in 2017.

Financial Income and Expenditure

In 2017 Lora-2004 reported expenditure on interests to the amount of 19 BGN thousand as compared to BGN 28 thousand. The Table below covering the specified periods provides the main components of the financial income and expenditure of Lora-2004 by type.

Financial Income and Expenditure (All amounts in BGN'000)	2015	2016	2017
Reassessment of investment properties	-	-	3 353
Other financial income	37	0	0
Financial income	37	0	3 353
Expenditure on interests	(71)	(28)	(19)
Expenditure on bank fees	(5)	(3)	(2)
Financial expenses	(76)	(31)	(21)
Financial income/ (expenses), net	(39)	(31)	(3 332)

Source: "Lora-2004" EOOD; Calculations by FFBH

Profitability

Profitability (All amounts in BGN'000)	2015	Change %	2016	Change %	2017
EBITDA*	684	-73.2%	183	472.1%	1 047
<i>margin</i>	21.9%		2.4%		15.6%
Profit from operating activity	552	N/A	(293)	N/A	817
<i>margin</i>	17.7%		-3.8%		12.1%
Profit before taxation	513	N/A	(324)	N/A	4 149
<i>margin</i>	16.4%		-4.2%		61.7%
Net profit for the year	468	N/A	(288)	N/A	4 126
<i>margin</i>	15.0%		-3.7%		61.3%

Source: "Lora-2004" EOOD; Calculations by FFBH

* Profit before amortizations, financial expenses and taxes

N/A. - not applicable

Based on the data from the Report, it becomes evident that the operating profitability of Lora-2004 expressed as EBITDA increased by nearly 6 times in 2017 due to the optimization of the Company's operating expenses. The additional growth of the profit before taxation and the net profit is due to the introduction of the Fair Value Model upon subsequent valuation of investment properties.

Other Comprehensive Income

In 2017 the total comprehensive income increased up to BGN 10 million as a result of the introduction of a revaluation model upon reporting real properties, machinery, installations and equipment, and the reassessment made of noncurrent assets.

On 01.01.2017 Lora-2004 adopted an Accounting Policy for revaluation of tangible fixed assets up to their fair value to be carried out every 3 years by independent licensed valuation professionals.

Based on the valuation made in 2017, revaluation surplus has been acknowledged amounting to BGN 5 879 thousand, net of taxes.

Assets and Liabilities

The Table below presents the Balance Sheet of “Lora-2004” AD as at the end of the last three financial years.

Balance Sheet Statement (All amounts in BGN'000)	2015*	2016*	2017
Assets			
Noncurrent assets			
Tangible fixed assets	10 972	12 189	13 307
Intangible assets	0	0	14
Investment properties	4 837	4 801	4 801
Assets under deferred taxes	0	36	0
Total noncurrent assets	15 809	17 026	18 122
Current assets			
Material reserves	615	187	710
Receivables from associated parties	855	133	980
Commercial and other receivables	1 296	808	631
Cash and cash equivalents	37	28	24
Total current assets	2 803	1 156	2 345
Total assets	18 612	18 182	20 467
Share capital and liabilities			
Share capital			
Fixed capital	5	5	5
Reserve from further assessments	5 873	5 879	5 879
Accumulated profit	4 017	3 697	4 408
Total share capital	9 895	9 581	10 292
Non-current liabilities			
Liabilities under deferred taxes	0	0	641
Bank loans	1 320	0	0
Total noncurrent liabilities	1 320	0	641
Current liabilities			
ComTrade and other payables	251	159	75
Related party payables	2 224	6 009	5 421
Bank loans	0	147	0
Loans from related parties	0	0	3 994
Tax liabilities	45	24	3
Liabilities to personnel	61	50	41
Other current liabilities	4 816	2 212	0
Total current liabilities	7 397	8 601	9 534
Total liabilities	8 717	8 601	10 175
Total equity and liabilities	18 612	18 182	20 467

Source: “Lora-2004” EOOD; Calculations by FFBH

* The data for 2015 and 2016 are recalculated with the reassessments of the tangible fixed assets and investment properties.

The main components in the total amount of the assets of Lora-2004 are the tangible fixed assets and the investment properties, which as at the end of 2017 were respectively 65% and 23.5% of the total assets. As at 31 December 2017 assets increased by 12.6% or BGN 2.3 million up to BGN 20.5 million. The total growth was favored by the increase by 9.2% or BGN 1.1 million of the tangible fixed assets as a result of the investments made throughout the year. The levels of the material reserves (+BGN 523 thousand) and the receivables from associated parties (+BGN 847 thousand) also contributed to the growth of total assets, which was attributable to the natural cycle of the business. The increase in assets is partially limited by a drop of the carrying value of the commercial and other receivables to the amount of BGN 0.2 million.

The Tables below present the changes in the balance sheet values of the tangible fixed assets and the investment properties as at 31 December 2015, 31 December 2016, and 31 December 2017.

Balance Value of Tangible Fixed Assets as at 31 December	2015*		2016*		2017	
	BGN thousand	% of tangible fixed assets	BGN thousand	% of tangible fixed assets	BGN thousand	% of tangible fixed assets
Lands and buildings	7 797	71.1%	8 030	65.9%	8 383	63.0%
Machinery and equipment	1 444	13.2%	2 450	20.1%	2 501	18.8%
Vehicles	183	1.7%	184	1.5%	243	1.8%
Fixtures and fittings and other tangible fixed assets	8	0.1%	13	0.1%	9	0.1%
Expenditure on the acquisition of tangible fixed assets	1 540	14.0%	1 512	12.4%	2 171	16.3%
Total tangible fixed assets	10 972	100.0%	12 189	100.0%	13 307	100.0%
Investment properties	4 837	100.0%	4 801	100.0%	4 801	100.0%

Source: "Lora-2004" EOOD; Calculations by FFBH

* The data for 2015 and 2016 are recalculated with the reassessments of the tangible fixed assets and investment properties.

The liability for 2017 amounts to 10.2 BGN million, thus marking an increase of 18.3% as compared to the preceding year. The most significant growth was registered for the loans from associated parties, which increased by BGN 4 million. This increase was partially compensated by the decrease of the other current liabilities by BGN 2.2 million, representing paid additional cash instalments of the shareholders.

The main liabilities of Lora-2004 are payables to and loans from related parties, which as at the end of 2017 amounted to 53.3% and 39.3% out of all liabilities. The liabilities to the other companies within the Group are subject to elimination upon preparation of the Consolidated Financial Statement of "Gradus" AD.

Capital resources, cash flows and indebtedness

Cash flows

The Table below presents information about the net cash flows of Lora-2004 from the operating, investment and financial activity during the specified period, as well as about the cash and the cash equivalents at the beginning and end of the periods under review.

Cash Flow Statement (All amounts in BGN'000)	2015	2016	2017
Cash flows from operating activity			
Cash receipts from customers	2 695	9 732	6 846
Cash payments to suppliers and to personnel	(5 283)	(6 354)	(8 215)
Flows from commission and currency exchange rate differences	(5)	(3)	(2)
(Paid)/Reimbursed profit taxes	(17)	(95)	(23)
Other operating flows	767	283	172
Net cash flows from / (used in) operating activity	(1 843)	3 563	(1 222)
Cash flows from investment activity			

(Purchase)/Sale of properties, machinery, installations and equipment	683	(159)	(397)
Net cash flows from / (used in) investment activity	683	(159)	(397)
Cash flows from financial activity			
Repaid loans	(1 244)	(3 413)	(2 779)
Granted loans	2 294	0	4 405
Paid interests	0	0	(11)
Net cash flows from / (used in) financial activity	1 050	(3 413)	1 615
Net increase/ (decrease) in cash and cash equivalents	(110)	(9)	(4)
Cash and cash equivalents at the beginning of the year	147	37	28
Cash and cash equivalents in the end of the year*	37	28	24

Source: "Lora-2004" EOOD; Calculations by FFBH

Cash flows generated from / (used in) operating activities

The net cash flows generated from operating activities mainly consist of receipts from customers, payments to suppliers, payments to personnel, paid and reimbursed taxes.

In 2017 the net cash flows from the operating activity were negative, amounting to BGN 1.2 million, thus representing a drop by BGN 4.8 million as compared to the preceding period. The main reasons for the decline of the cash flow were a drop by BGN 2.9 million (-29.7%) of the receipts from customers, as well as an increase of BGN 1.9 million (+29.3%) of the payments to suppliers and personnel.

Cash flows generated from/ (used in) investment activities

The net cash flows for and from the investment activity of Lora-2004 mainly consist of receipts and payments connected to the purchase or sale of tangible fixed assets.

Investment activities generated a negative cash flow of BGN 0.4 million in 2017 from net purchases of properties, machinery and installations, representing a growth of the outflows from 150% as compared to 2016.

Cash flows generated from/ (used in) financial activities

The net cash flows from the financial activities of Lora-2004 consist primarily of receipts and payments connected with the granting of loans, as well as paid interests under loans.

In 2017 the financial activity generated an inflow of BGN 1.6 million in 2017, formed by loans - mostly by Millenium 2000 to the amount of BGN 3 million, and by Gradus-98 to the amount of BGN 1 million, as well as repaid loans, where the movements under the additional cash contributions by shareholders were accounted for. In 2016 Lora-2004 generated an cash outflow of BGN 3.4 million, which includes equity contributions paid to the shareholders.

Capital Resources

Lora-2004 finances its operations with cash resources from operating activities. In addition, as at the date of the present Prospectus Lora-2004 relies on the following external sources of financing: (i) attracted share capital; (ii) loans from associated parties; (iii) commercial liabilities, including liabilities to suppliers and advances received.

The main needs of Lora-2004 of cash resources are connected with its operating activity, capital expenses, payments on liabilities when due, and the distribution of dividends to shareholders. According to the Board of Directors the main future sources of cash for Lora-2004 shall be operating activities.

There are no limitations in regard to the use by Lora-2004 of its capital resources, which have affected or could significantly affect, directly or indirectly, the Company's activity.

For the description of the indebtedness, the significant credit and loan agreements, under which Lora-2004 is a party, please see "*Indebtedness*". For the description of the loans granted by related parties, please see "*Related-party transactions*". For the description of the future capital needs of Lora-2004, please see "*Current and Planned Investments*" below.

Indebtedness

As at 31 December 2017, the short-term loans of Lora-2004 amounted to BGN 4 million, and as of 31 December 2016 and as of 31 December 2015 their carrying amount was BGN 0.1 million and BGN 0.0 million, respectively. As at 31 December 2017 Lora-2004 had no long-term loans, as those in 2015 to the amount BGN of 1.3 million.

The Table below presents certain information connected with the loans and net debt of Lora-2004 as at 31 December 2015, 2016, and 2017, respectively.

Financial Liabilities (All amounts in BGN'000)	As at 31 December		
	2015	2016	2017
Current loans			
Bank loans	0	147	0
Loans from associated parties within the Group	0	0	3 994
Total current loans	0	147	3 994
Noncurrent loans	1 320	0	0
Total loans	1 320	147	3 994
Minus: Cash resources and cash equivalents	37	28	24
Net debt	1 283	119	3 970

Source: "Lora-2004" EOOD, Calculations by FFBH

Loan agreements and credit financial tools

The Table below presents the loans of Lora-2004 as at 31 December 2015, 2016, and 2017, respectively.

Type of financing	Creditor	Currency	Agreed amount, BGN'000	Date of payment	Amount as at 31 December, BGN'000		
					2015	2016	2017
Investment	Raiffeisen Bank AD	Euro	2 934	2017	1 320	147	0
Total bank loans					1 320	147	0

Source: "Lora-2004" EOOD

Type of financing	Creditor	Currency	Agreed amount, BGN'000	Date of payment	Amount as at 31 December, BGN'000		
					2015	2016	2017
Loan from related parties	Millenium 2000 EOOD	BGN	3 000	2018	0	0	2 992
Loan from related parties	Gradus-98 AD	BGN	1 000	2018	0	0	1 002
Total loans from associated parties					0	0	3 994

Source: "Lora-2004" EOOD

The Table below presents the loans of Lora-2004 and the interest expense as of 31 December 2015, 2016, and 2017, respectively.

As at 31 December		
2015	2016	2017

Bank loans, BGN'000	1 320	147	0
Interest expense	71	28	0
Loans from associated parties, BGN'000	0	0	3 994
Interest expense	-	-	19

Source: "Lora-2004" EOOD

The loans from "Millenium 2000" EOOD and from "Gradus-98" AD have a fixed rate of 2.5% per year.

Loan collateral

As at 31 December 2017 the loans of Lora-2004 (see "Capital resources, cash flows and indebtedness – Loan agreements and credit financial tools") are unsecured.

Contingent liabilities and engagements

Contingent liabilities

As at 31.12.2017 Lora-2004 has no contingent liabilities.

Lawsuits

As at 31.12.2017 Lora-2004 is not a defendant under any lawsuits of various type.

Capital expenses

Capital expenses include only expenditure on property, machinery, installations and equipment.

The Tables below present the information about capital expenses of Lora-2004 for the specified periods.

Investment expenses (All amounts in BGN'000)	2013	2014	2015	2016	2017	As of the prospec tus' date
Property, machinery, installations and equipment	0	3 727	2 961	1 683	854	704
Intangible assets	0	0	0	0	0	0
Financial assets	0	0	0	0	0	0
Total investment expenses	0	3 727	2 961	1 683	854	704

Source: "Lora-2004" EOOD

Investment expenses by types (All amounts in BGN'000)	2013	2014	2015	2016	2017	As of the prospect us' date
Lands		157	-	-	-	-
Buildings		3248	75	34	216	-
Reconstruction-buildings poultry-breeding plant		-	1139	259	356	587
Machinery and equipment		91	957	838	99	7
Installations		231	555	507	96	109
Vehicles		-	190	23	87	-
Computer equipments		-	-	3	-	-
Others		-	45	19	-	1
Total investment expenses		3727	2961	1683	854	704

Source: "Lora-2004" EOOD

The main activity of Lora-2004 is broiler breeding and fattening. Lora-2004 was purchased by the majority owners in 2014, after which it initiated a programme for the reconstruction and replacement of equipment with the purpose of developing an operation for broiler breeding and fattening. The programme is ongoing up to the present moment.

In 2014 the capital expenses of Lora-2004 amounted to BGN 3.7 million, of which BGN 3.2 million in buildings and BGN 0.3 million in machinery and installations. Agricultural land was purchased for the amount of BGN 0.2 million.

In 2015 the capital expenses of Lora-2004 amounted to 3.0 BGN million, BGN 0.8 million less as compared to the preceding year. Throughout the year an investment of BGN 1.1 million was made in reconstruction of buildings, and the remainder was invested in machinery, equipment and vehicles in connection with an increase in the number of broilers bred.

In 2016 the capital expenses marked a decrease by BGN 1.3 million to BGN 1.7 million, of which the amount of BGN 0.3 million was invested in the ongoing reconstruction of the buildings, and the rest was used for purchase of broiler breeding equipment.

In 2017 the investments amounted to BGN 0.9 million, of which BGN 0.6 million for the reconstruction of buildings, and the remainder was invested in equipment and vehicles.

In 2018 investments for BGN 0.7 million targeted towards reconstruction and equipment of existing plants have been carried out.

All investments of Lora-2004 in the period under review took place in Bulgaria.

Current and Planned Investments

The investments described below are the main current and planned investments of Gradus in view of their impact on the activity of the Group and their value. The specified amount of the planned investments is based on the current business development and may be affected by the commercial relations with groups of large clients or from the overall development and perspectives before the segments operated by the Group.

In 2018 the Company's investment plans are mainly connected with:

- The beginning of a project for the expansion of the capacity of the parent herd farms for the purpose of increasing the produced breeding eggs by over 20%. Up to the moment no investments under the project have been made, as the planned investments are to the total amount of BGN 20 million (main expansion for the amount of BGN 15 million and an additional capacity to the preliminary value of BGN 5 million) and will be made within a couple of years. The First Stage investments will include the modernization and equipment of 27 000 square meters of halls for breedings of parent and herds (BGN 11.8 million), simultaneous loading of 120 000 one-day parents (BGN 1.1 million) and working capital (BGN 2.1 million).
- Planned annual investments aimed at boosting the sales of perishable pork sausages that have been already placed on the market and the introduction of new durable boiled-smoked and raw-dried products. The total investments made as of the beginning of the project in the pork sausage production until the end of 2017 amount to BGN 20 million. They include a new processing workshop, as well as marketing and advertising expenses. The total planned investments in the form of development of recipes, marketing expenses and working capital throughout the year amount to BGN 6.7 million, as up to the moment in 2018 there are no realized investments.
- In 2018, the introduction of a new breed of high-margin chicken with nutritional qualities close to those of the backyard chickens. The total amount of the expected investment, including equipment, marketing and working capital, is BGN 4.5 million, BGN 0.5 million of which stipulated for marketing until 2020, and the remaining for use for working capital and re-equipment of the production facilities of Lora. As of the date of the Prospectus the amount of BGN 420 thousand has been invested for the purchase of eggs and re-equipment of an existing farm of "Lora" EOOD.

The test supply has been already financed with company resources, as the funds from the capital increase shall be used for the main supply.

- The introduction of an ERP system for the purpose of achieving optimization in the management and improvement of the mechanisms of planning the Group's resources. Up to this moment, there have been no expenses made around the project, as it is expected that their total amount shall be BGN 3 million and that the introduction shall be completed in 2019.
- Expansion of the transportation capacity of breeding eggs and of meat and meat products. At the moment no investments have been made, but there are plans for the purchase of 5 specialized trucks in total (for transportation of live birds, one-day chickens and fodder) within the period from 2018 until 2019. The investment amounts to BGN 1.6 million.
- Reconstruction of existing bird farms with the purpose of achieving optimizations and energy efficiency of production facilities. The planned investment amounts to BGN 2.5 million, as it is expected that it will be completed between 2018 and 2019.

In 2018 the following other investments have been planned or have already been initiated:

- Repair works have been initiated at "Lora-2004" EOOD of 21 000 square meters of production facilities for broiler breeding – initial stage. There is forthcoming assembly of insulation panels, insulation of walls and purchase of equipment. The investment is to the approximate amount of BGN 8 million (capacity – 400 thousand broilers/turnover). For the period 2019-2020 there are also planned reconstruction of 21 thousand square meters for another 400 thousand broilers.
- The investment above is connected with a project for the expansion of the capacity for fattening of broilers for an entry in the HoReCa segment. The planned investments in calibration equipment and marketing amount to BGN 5.8 million.
- There is a plan for the initiation of a capacity expansion of the existing nurseries. It is expected that the project will start in the end of 2018 or the beginning of 2019.
- Purchase of a refrigerator base for the storage of pork meat. The planned investment is approximately BGN 10 million, as the purpose is to ensure the security of the raw materials and more favorable prices of the raw materials used for pork products.

The realization of some of the investment plans will pass over to the year of 2019.

The investments mentioned above will be realized on the territory of the Republic of Bulgaria.

"Gradus" AD intends to finance its future capital expenses, including the investments specified above, mainly with own funds and with the funds accumulated from the public offering, debt financing will also be used if necessary.

Working Capital Declaration

The Board of Directors hereby declares that in its opinion the Company has sufficient funds in the form of cash and short-term financing in order to ensure additional working capital, if necessary.

Trends and outlook

The information in this Section contains statements regarding the future. They are not a guarantee for the future financial results and actual results of the Group, as it is possible that they significantly differ from those expressed in or implied from this data, regarding the future, due to a number of factors, including, without limitation to those considered below or in other sections of the Prospectus, in particular in "Risk Factors". Investors are persistently urged not to count only on the information presented below with respect to the future. All figures presented in this Section have not been audited or verified.

The pro forma consolidated revenue from sales of finished and other goods of Gradus for the year of 2017 amounts to BGN 214 million due to an increase of the sales of all key segments for the Group. Throughout the year the production of breeding eggs by the subsidiary companies of "Gradus" AD has

remained at a high level of 118 million, which the nurseries of the Group have reached record production of nearly 40 million one-day-old broilers. In the segment of meat and meat products there is a growth reported of 9.4% in the value of the realized poultry products due to a decrease of the competition pressure of import products. At the same time, the pork products have reported a growth of 66% due to the expansion of their range of products. A strong growth of 2.3 times has been marked by the segment of grain trade concentrated in the subsidiary company "Gradus-3" AD, due to the favorable market environment.

The strong demand for the breeding eggs and one-day-old broilers produced within the Group, the successful establishment of new pork products, as well as the growth of the prices of the chicken meat, have continued in 2018 as well. The Management believes that the Group's financial perspectives for 2018 are positive, as there is no expected display of other significant factors having a major impact on the current tendencies in the development of the Group.

Recent Developments

On 24.01.2018 the Group signed an Annex to Credit Agreement-Overdraft with "Bank 1" (Loan 1). The term of use and acquittal was prolonged until 30.09.2018.

On 24.01.2018 the Group signed an Annex to Credit Agreement with "Bank 1" (Loan 2). The term of use and acquittal was prolonged until 30.09.2018.

On 24.01.2018 the Group signed an Annex to Credit Agreement with "Bank 1" (Loan 3). The term of use and acquittal was prolonged until 30.09.2018.

On 30.01.2018 Gradus AD took a decision for its capital increase by up by BGN 100 million, with the issuance of new shares. The capital increase shall take place under the conditions of public offering of "Bulgarian Stock Exchange-Sofia" AD. A decision has been taken for the specific amount of the capital increase and the number of issued shares to be determined on the next meeting.

On 26.03.2018 Gradus AD took a decision for its capital increase by up by BGN 28 million, with the offering of new shares to the Bulgarian Stock Exchange.

As at the date of the present Consolidated Financial Statement Gradus AD has not initiated the procedure of public offering of securities.

There are no other significant changes in the financial or trade position of Gradus's group in the period from 31 December 2017 till the date of the Prospectus.

9. BUSINESS OVERVIEW

General Overview

Gradus AD was founded at the end of 2017 as a holding company which unites the operations of its owners, namely production of hatching eggs, poultry breeding, production of chicken sausages, and trade in grains. Gradus Group is Bulgaria's largest poultry meat producer, with a market share of about 35%, and the second largest producer of hatching eggs in the EU.

Gradus Group was launched in 1992 and since then it has been growing its business through acquisitions as well as organically, through investments in advanced production equipment. During the last 10 years, the company has been investing in all its main business pillars, with its total investments over the period exceeding bgn 118 million.

The Group's main activities are:

- Breeding parent flocks and producing hatching eggs
- Hatching one-day-old chicken
- Fattening broilers
- Producing meat and meat products
- Fodder production
- Trading in agricultural products.

Gradus has a vertically integrated closed production cycle. The Group owns a forage plant entirely for internal usage, with one-shift annual production capacity of 95,000 tonnes. Besides, the holding hatches, with a hatching capacity of 4.2 million hatching eggs; farms for parental flocks, with a loading capacity of 832 thousand parents for broilers; farms for fattening broilers, with a loading capacity of 1.9 million broilers; and owns a poultry processing plant with an annual capacity of 30,000 tonnes of finished and semi-finished meat products. The Group's slaughterhouse is the largest on the Balkans and one of the largest facilities for production and processing of white meats in Europe. Together with the meat processing plant, it has a total built-up area of 24,000 sq. m and is equipped with the most modern production equipment, minimizing the impact of the human factor. The Group owns 33 specialized trucks to transport its products and over 50 different multi-purpose trucks.

The company produces over 150 types of chicken products under the brand "Gradus" and in 2016 it started producing and selling pork sausages under the brand „Az yam!“. The company is the first poultry producer which created its own brand and managed to popularize it, through a carefully planned marketing strategy. Over 90% of the produced meat and sausages are sold domestically, with the company's products being present in all food chains in the country. With respect to the hatching eggs and the one-day-old chickens, the production is almost entirely export-oriented, with the main export destinations being the EU, the Middle East and the Black Sea region.

Gradus AD is owned by Ivan Angelov and Luka Angelov and controls 6 fully-owned subsidiaries. The company has over 1,300 employees.

The production of the Group meets the highest international standards (management, quality, and food safety certificates: IFS Food 6: 2014, ISO 9001:2015, and EN ISO 22000:2005).

In 2017, Gradus Group produced 118 million hatching eggs, 40 million one-day-old broilers, 26,100 tonnes of chicken and meat products, including 1,392 tonnes of pork products. The Company's total consolidated income amounted to BGN 246 million and its net profit came to BGN 39.8 million.

There are no exceptional factors which could exert a significant impact on the Group's core business and markets.

History

Gradus Group was founded by the brothers Luka Angelov and Ivan Angelov in 1992. Since its foundation, the Group has grown into a fully integrated holding for breeding parents for broilers and fattening newly hatched birds. **The company is the largest poultry producer and exporter in Bulgaria.**

The a large own building stock housing the entire chain of production to ensure its closed cycle, the modern equipment of the factories and farms delivered by leading world companies in compliance with the European standards, and the highly qualified staff are the main prerequisites for the rapid growth of the company and its leading position on the market.

At the beginning the fattening was performed in the personal farms of various external fatteners and in hired farms by the poultry farm of the town of Chirpan, and the fattened broilers were toll processed in the poultry slaughterhouses in the towns of stara zagora and aytos, and marketed by companies throughout the country. In 1995, the group purchased a plot in the town of nova zagora and started the construction of a new poultry slaughterhouse for the production of poultry meat and cuts with a capacity of 3,200 pcs. per hour, the construction of which ceased with the purchase of the poultry slaughterhouse in the town of stara zagora in 1998.

The industrial breeding of parents for broilers and fattening of broilers began **in March 1997 with the purchase of 24 buildings from the former poultry farm of the town of Chirpan.** after complete renovation and reconstruction, the old ruined buildings became a modern livestock farm, equipped with the most advanced equipment to provide the necessary microclimate for the fattening of broilers. **In 1998, the purchase of 94 production buildings of the poultry farm** of the town of Yambol took place, followed by their equipment and modernization, by which their turnover of parents⁸ bred for the production of hatching eggs amounts to 400, 000 birds located on 600 decares of agricultural land; **in 2001, 20 buildings were purchased for the fattening of broilers in the poultry farm of Haskovo; in 2003, two buildings were purchased for the fattening of broilers in Nova Zagora; in 2003, the poultry farm in Ruse was purchased with 79 buildings for the breeding of a turnover of 427,000 parents for broilers⁷** located on 2,000 decares of land; **in 2004, two buildings were purchased in Nova Zagora for the fattening of broilers; in 2005, 26 buildings were purchased in Gita area, Chirpan; in 2015, 54 production buildings were purchased for the fattening of broilers, located on 600 decares of land in the poultry farm of Stara Zagora.** All broiler fattening buildings are equipped with most advanced equipment for feeding, watering, ventilation, air conditioning, cooling, and heating produced by leading companies in the sector such as Roxell, Fancom, Pericoli, Gasolec, etc. The complete equipment is fully automated and controlled by a technology set in the software to maintain the required microclimate parameters in the buildings. In addition to the equipment providing optimal conditions for breeding, the facilities for the breeding of parents are equipped with automatic nests, which are an important element in the quality of the hatching eggs in terms of microbiology and high hatching rate, extremely high quality, and a prerequisite for the growing interest and market demand.

The Group owns three hatcheries where about 40 million one-day-old chickens are being hatched on an annual basis, which satisfies the Group's own broiler production and sales in Bulgaria and abroad. **The hatchery in the poultry farm of Yambol was purchased in 1998** as an old unused building located on an area of 800 sq. m. with old and worn out equipment. In 2005, after reconstruction and modernization, it turned into a new modern hatchery equipped with modern incubators and hatchers produced by Hatchtech, Netherlands. **In 2006, the construction of a new hatchery finished located on 2,000 sq. m in the village of Bolyarsko,** again equipped with Hatchtech equipment. **In 2015, a hatchery was purchased and reconstructed in the town of Stara Zagora.** The high degree of mechanization and automation, controlling the entire hatching process gives a very high guarantee for the good quality of hatched chickens and is a prerequisite for the constantly developing market and demand both in the country and abroad.

The production of Fodder mixtures necessary for the entire production process, including fattening of broilers and breeding of hens, is implemented in the fodder production plant in the town of Nova Zagora. The purchased in 2000 semi-destroyed building grew rapidly over the years to become a modern fodder production plant with a capacity of 300 tonnes of daily fodder production, providing all stages of the development of the birds - from the growing parent to the broiler-, and feeding all the Company's birds. **In 2002, the plant was expanded** with a fodder pelleting workshop to ensure a high quality, the latter

⁸ The capacity of breeding parents

guaranteeing a high growth and a low conversion of fodder. By steam processing of fodder mixtures, The equipment of the famous company CPM guarantees highest-quality fodder for birds and destruction of mycotoxins in fodder mixtures. ***In 2010, an automated weight system to be used even with the smallest components of fodder was implemented, being the final phase of the production, and raised the plant to the most modern level, which is rarely found on the Balkans.***

The quality of the produced fodder is highly dependent on the quality of the used materials. In this connection, the supplies of raw materials for the production of fodder - wheat, maize, etc., are strictly monitored and the control is implemented by a modern, newly-built own laboratory to the factory, which maintains all certificates, ensuring the safety and control of the food chain of the produced poultry meat and eggs by the Group.

In 1998, the Group purchased the poultry slaughterhouse in the town of Stara Zagora. The old and incompatible with the modern requirements for hygiene and quality of the production enterprise turned out to be the decisive factor for undertaking the decision to build a new and modern poultry slaughterhouse with an area of 11,000 sq. m. The entire production process is secured with equipment produced by the leader in the branch - Stork, Netherlands, which made the poultry slaughterhouse the most modern one on the Balkans. The entire production process is fully automated, starting from the new line of unloading consistent with the humane treatment of animals up to the end of the production cycle, i.e. the packaging. A new cooling air tunnel, storage areas guaranteeing storage quality to the consumer, complete traceability of the production are all factors that determine the high quality of production, meeting the requirements of the market in Bulgaria and abroad. As of April 2006, the existing building of the poultry slaughterhouse reconstructed and modernized, was put into operation.

In 2016, after investing BGN 15 million, the Group opened a new meat processing plant in Stara Zagora (as an extension of the existing one). The new production facility extends on 11,000 sq.m of total area and has a capacity of up to 75 tonnes of finished production per day. The new plant produces pork meat products, including boiled-smoked sausages and delicacies, ham, pate, durable and semi-durable boiled-smoked sausages, raw-dried products, and poultry meat products. The new production facility has packing lines equipped with systems for packaging products in a modified gas environment. Such systems allow the product shelf life to be extended and retain the natural flavour, colour, and texture for a longer period. At each stage of the new production, there are metal detectors mounted to further ensure the safety and security of the products. The new building was designed and built according to the hygienic and technical standards to minimize the possibilities of food contamination.

In 2016, a new brand was launched for the pork meat sausages produced by Gradus AD - "Az yam!", which rapidly gained popularity. **By the end of 2017, 13 pork products were marketed under the brand "Az yam!"** of! from the range of perishable sausages and the company is about to enter the segment of raw-dried and boiled-smoked sausages in this year.

At the beginning of 2009, the Gradus Group's commercial office was founded and based in Sofia. The logistics of the regular supply routes to all major regional cities is ensured in stages. As early as at the end of the same year, Partnership agreements were signed with partners who were significant for their geographic regions. Gradually, the distribution network grew as well as the brand's numeric coverage, which reached 85%⁹ in 2015. **For several years, the active clients of the Company's large traders grew from an average of 900 to 5,000 small shops.** Extremely important for the promotion of the brand was the gradual conclusion of supply contracts with the big international chains present on the Bulgarian market. Within a year, customers such as Mercator, Plus and Carrefour joined Metro and Billa. At the end of 2010, the network of key customers expanded with retailers such as Fantastico, Kaufland, Picadilli, Hit, and Pennie. After the start of the partnerships with Lidl (2012) and Maxima-T-Market (2014), the presence of a branded chicken product was ensured in 100% of the major international retailers on our market. Gradually, the good partnership was developed with the production of own brands (private label).

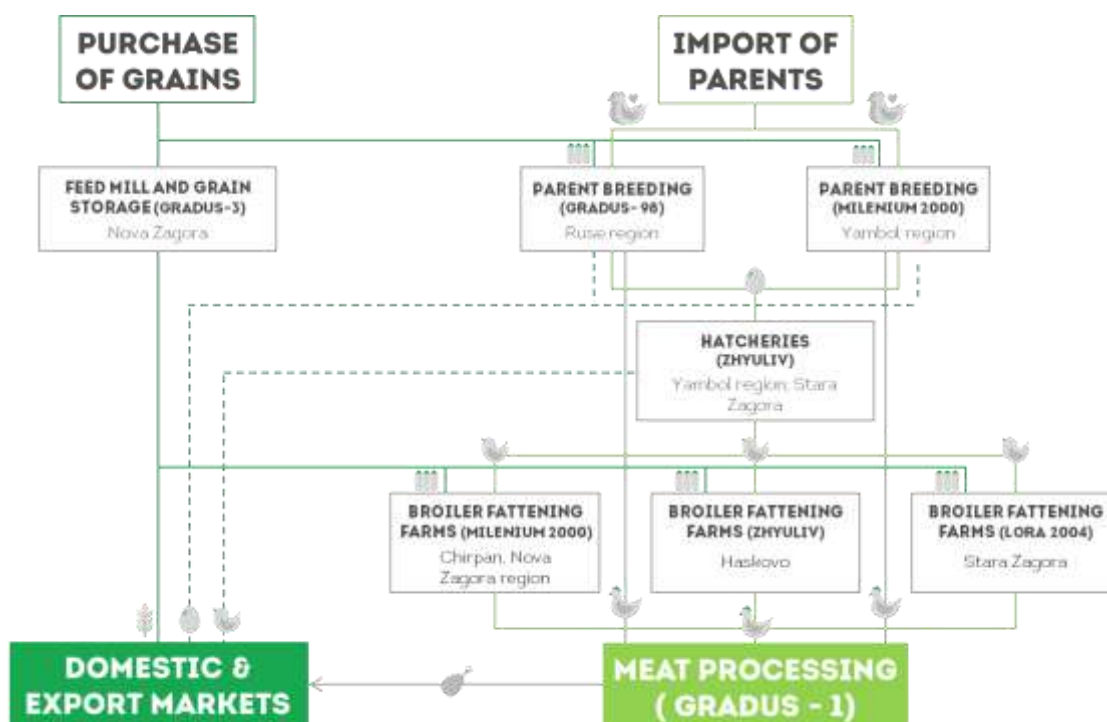
⁹ Self-study of Gradus AD

Group's business structure

Gradus AD owns and controls the following subsidiaries which perform the following activities:

- **Milenium 2000 EOOD** - breeding of parents for the production of eggs and fattening of broilers
- **Lora-2004 EOOD** – fattening of broilers
- **Gradus-1 EOOD** – production of meat and meat products; transportation services for the other companies within the Group (except for Gradus-3 AD)
- **Zhyuliv EOOD** – hatching of one-day-old chickens and fattening of broilers
- **Gradus-98 AD** - breeding parents for the production of eggs
- **Gradus-3 AD** – production of fodder and trade in agricultural products.

The following chart illustrates the Group's business model:

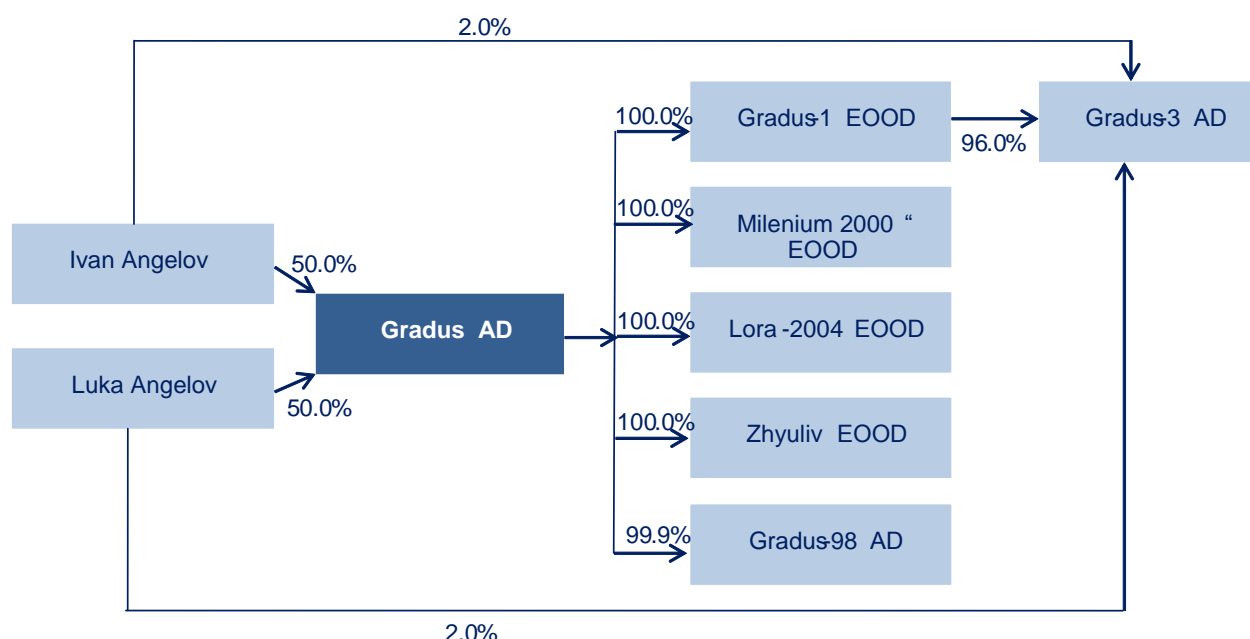


Source: Company

Gradus AD holds directly:

- 100% of the capital of Milenium 2000 EOOD, Lora-2004 EOOD, Gradus-1 EOOD, Zhyuliv EOOD;
- 99.934% of Gradus-98 AD;
- Indirectly, 96% of Gradus-3 AD through Gradus -1 EOOD.

The following chart illustrates the Group's shareholding structure as of the date of the Prospectus:



Source: Company

There are no other companies in which the Group has significant control. Gradus -1 EOOD owns 15 Ecobulpack AD shares (0.15% of the paid-in capital). There are no other entities in which the companies within the Group hold shares or voting rights or for which they are entitled to profit or assets in the event of liquidation. As of the date of the Prospectus, there are no arrangements for mergers, acquisitions or sale of material assets (neither entire entities, nor significant assets) with the participation of the firms within the Holding and there are no arrangements for acquisition of shares of the subsidiaries.

Competitive advantages

the most important competitive advantages of the Group, which would enable it to take advantage of its future growth opportunities and achieve its strategic goals, are listed below:

- ***Vertically integrated holding for production of poultry products and sausages, ensuring high quality as well as low cost***

The Group's business model was built gradually and consistently over the years in order to achieve vertical integration of the stages of poultry production. The focus of the model is process optimization, risk reduction, higher efficiency, stronger market performance and, above all, better financial results. The synergy between the different activities is of key importance for the Group's performance, starting from the high quality of the hatching eggs sold, through the guaranteed by its own fodder quality and optimal chicken meat prime cost, to the unified network of marketing and distribution of local meat products and sausages and the general corporate management. All this allows the Gradus Group to achieve a completely different level of transaction efficiency.

- ***Gradus Group has an exposure to the segments with the greatest potential on the meat product market***

The World consumption of meat is steadily rising along with the population growth and the increased disposable income, with meat consumption rising by around 20kg per person¹⁰ in the last 50 years. Although pork is the most used meat in the world, the potential for poultry meat consumption is the highest and, currently, it is the world's leading animal protein - + 2.4% average annual growth for 2012-2016¹¹. In the basis of this increase in the EU are the countries of Central and Eastern Europe (an annual growth in consumption of 2%-3.5% by 2025).

Poultry meat is the most consumed meat in Bulgaria, with a share of 33% of the meat consumption. In addition to the expectations of steady growth in consumption, the market is projected to grow in value, too, after a long period of deflationary pressure on the chicken prices. The change already began in 2017 and, in combination with the still acceptable fodder prices, is a prerequisite for strong financial performance of the Group in the medium term. In mid-March 2018, chicken meat prices underwent another update in the upward direction.

With its entry into the pork sausage market in 2016, the Group gained access to another high-profitable segment of the consumer basket of Bulgarians. The Company was positioned in the middle segment of the market and, within a year, the monthly volumes and turnovers of the brand "Az yam!" grew by over 50% on an annual basis due to the excellent quality and the extremely developed distribution network. The Expansion of the Group's product line in this segment with the even higher- margin durable sausages (in progress as of the date of the Prospectus) will further expand the opportunities for higher Group's profits.

▪ ***The Group is a leader on the markets on which it operates***

The Group is No.1 on the Bulgarian market in all poultry products produced by it, with about 35% share of the branded poultry meat market¹². Despite the difficult competitive environment in the recent years due to the high volume of low-priced imports, the Gradus Group's products (there are over 150 Gradus branded chicken products) maintain a strong market position due to their taste, guaranteed origin of the meat, and strong marketing strategy for all components: price, quality, distribution, and advertising. This advantage is a key one both for increasing the sales and achieving a better price for the products than the competitors. It is clear that it would be extremely difficult, expensive and time-consuming for potential new entrants to achieve a similar position.

With respect to hatching eggs, the Group is again the market leader. The company is the largest Bulgarian exporter of hatching eggs and the second largest producer in Europe. Annually, the Group sells over 105 million hatching eggs, of which more than 60 million in the form of eggs and 44 million in the form of one-day-old broilers (32 million one-day-old chickens), with customers being other poultry producers and not only in the EU. This has been achieved thanks to the high quality of the products and the long-term contacts with the customers. This is the market position the Group intends to take advantage of to achieve the planned increase in the production of hatching eggs.

The Group entered the sausage market in 2016 with the brand "Az yam!". For its short period of existence, the brand achieved high recognition and the products with this mark were very fast positioned among the leading in the average price segment. The Sales in 2017 reached 1,400 tonnes (890 tonnes for the 9 months of 2016). The Group is seeking an active expansion of this segment and is going to enter the higher-margin segment of raw-dried and boiled-smoked sausages this year, which will further strengthen its market position. Although the Group has entered the sausage market quickly and strongly, it would be difficult to achieve this as a brand new entrant as it requires considerable logistical capacity, advertising, and maintaining high quality products.

¹⁰ Source: UNFAO

¹¹ Source: Rabobank "EU Poultry Outlook 2020"

¹² Source: Company's Data

- ***High quality of production***

A key advantage of the Group over competitors is the closed production cycle and the breeding of own parent flocks. The Ross 308 hybrid breeding technology has its own specifics and the achievement of the set standards and end results is possible in the presence of constant control at each stage. The birds feed on fodder produced by the Group and the high-tech equipment allows a preliminary fertility review to optimize the hatching rates. Thus, the Group ensures the quality of the final product: one-day-old birds without malformations or defects, Salmonella or other infectious diseases, with a standard weight, and a standard or lower mortality rate of the hatching.

The Multilevel and precise quality control continues from the production of eggs to the acceptance of the birds in the meat processing plant, including in all aspects of the humane rearing of the birds, the nutrition by special recipes, and the production of meat under most modern technology standards. The Group's chickens are grown and fed without added hormones and no water, preservatives or phosphates are added to the meat. Moreover, the Group is able to offer a variety of poultry cuts and packages (e.g. packaging of products in a modified gas environment to extend the shelf life of the products, ability to produce the so-called skin packs that give a better presentation of the finished product and also an opportunity to extend the shelf life of the products).

The availability of own broiler production is a major factor that allows the Group to achieve an extremely high quality of the hatching eggs sold. For its export customers, the company selects the highest hatching eggs - over 84%, well above the level of the competitors, which means that the Group's hatching egg market is practically unlimited namely due to the quality.

With respect to pork sausages, the Group relies on the quality in order to position the brand "Az yam!" among the most preferred in the selected price segment. Before entering this market, the Company researches and analyzes the market and the consumer tastes to offer products of higher quality than those of the competitors having the same price. The slaughterhouse has been expanded with the construction of an entirely new and modern sausage and deli production facility, which provides all the necessary tools, equipment, and expertise. All these efforts have been appreciated by the market: for a very short period of time, the products of the brand "Az yam!" managed to gain very strong positions among already recognized and established brands in the sausage and deli market.

- ***Traditionally strong contacts with key export customers***

The Group has established stable long-term relationships with customers buying hatching eggs and one-day-old chickens. The company is famous for its established name, proven permanent product quality, and reliability of supplies thanks to its own specialized transport. As a result, the Group is in a very favourable position to sell its products under the conditions it desires. In order to optimize the selling price, the Group distributes the sales between long-term contracts and ongoing sales. The Gradus Group's customers are mainly from the neighbouring countries, the Middle East, the Black Sea region, with most of them being long-term partners.

- ***Extremely developed distribution network***

The Group's distribution network in Bulgaria is organized to provide coverage by the company's products throughout the country. The company has its own fleet, which provides flexibility and security of supplies. The Sales logistics is complex due to the various destinations, specialized refrigerated transport, and short shelf life of some products but at the same time the process is well structured and operable. The Sales Department of the Group works in close contacts with all retail chains as well as regional distributors throughout the country, with the relationships being clearly regulated, providing security and regularity of supplies and allocating the risks and benefits. The highly developed distribution network is a key factor in the positioning of the products both physically (at the store stand) and in terms of the price (in the consumer basket).

- ***One of the strongest brands in the food industry***

The Group is one of the most recognizable brands in the food industry: the 25-year mark's overall popularity is 99.8%.¹³ The company uses a lot of effort to maintain the high image of the branded products as this provides strong positions in the high price segment where consumers are willing to pay more for proven quality. Maintaining such a strong brand of chicken is practically a precedent for Europe.

Despite its short history (starting in April 2016), the brand "Az yam!", has achieved a 75-% recognizability¹¹, and as penetration ranks among the top three brands on the market after a focused communication campaign. Each product under the brand "Az yam!" bears the stamp "Guaranteed by Gradus", which contributes to greater consumer confidence. Not less important is the large brand coverage achieved thanks to the developed distribution network.

- ***Good positioning on the grain market***

Starting a grain trade to provide raw materials for its fodder plant, the Group is nowadays one of the largest grain traders in Bulgaria. The company has its own warehouse facilities with a total capacity of 90,000 tonnes, which guarantees its flexibility depending on the market conditions. The Group sells its production to global giants such as Glencore, ADM, Cargill and others, with whom it maintains long-term partnerships and they provide markets for the Group's production.

- ***Quality technological equipment***

The Group has invested significant resources in its various production sites and has the most advanced technologies that provide consistently high quality at an optimal cost.

The Equipment for watering and feeding the birds (parents and broilers) was produced by the Belgian company Roxell. The ventilation and cooling systems of the halls (produced by Fancom, Netherlands) as well as the heating systems using natural gas and gas radiators (produced by Gasoleck, Netherlands), are part of the microclimate control system that is computer-controlled. The Production halls for parents are also equipped with automatic nests and a conveyor system for the removal of eggs (produced by the Dutch company Vencomatic).

The hatcheries were fully equipped by HatchTech, a Dutch company that is a world leader and innovator in incubation technology. A hatching technology controls the temperature of the embryo.

The meat processing plant was equipped with the most modern equipment by leading European manufacturers of machinery and equipment for the food industry, minimizing the impact of the human factor. The automated line, related to the production and processing of poultry meat in the slaughterhouse, was equipped with a three-stage technological process control system that is the only one on the Balkans.

The equipment of the fodder plant was produced by the Dutch company CPM, again a world leader in the production of such equipment. The plant uses a high-temperature steam granulation technology, which also ensures the decontamination of fodders.

Thanks to the advanced technology and modern equipment, the Group has achieved very good operating results (hatchability, survival, nutritional ratios) and optimized the Company's costs.

- ***Strategically oriented and experienced management team***

The Group is managed by its owners, who were also founders of the company. They define the Group's strategy and main objectives. Their long experience, strong positions on the home and international market, direct engagement with the operational management are key to the performance of Gradus AD. It can be said that Mr. Ivan Angelov and Mr. Luka Angelov form the modern look of the poultry meat sector in Bulgaria and determine its main trends of development.

¹³ Source: BluePoint

In addition to its owners, the Group also has a strong and experienced management team that is well acquainted with the Group's assets, organizational structure, operations, and business processes as well as with the Group's main markets.

The senior management team has made a significant contribution to the positioning of the Group as a market leader and the expertise and experience of its people will facilitate the effective and successful implementation of the Group's strategy and investment programme. The quality of management has also been one of the most important factors for the stable financial performance of Gradus over the years.

▪ ***Strong financial positions despite the intense competition***

The Group's companies have behaved steadily in the recent years despite the complicated market environment. This was mainly due to the synergies created by the vertical structure of the Group and the strong positions on the markets on which it operates. The Group's companies generated a strong cash flow, which allowed the Investments to be financed almost entirely with internal resources, and at the same time distribution of dividend. By the end of 2017, Gradus AD had consolidated interest liabilities amounting to BGN 47 million and a debt ratio (debt/equity) of 17.5%. At the same time, for the last three years, the Group's companies distributed dividends amounting to BGN 29,582 thousand.

Strategy

The aim of Gradus AD is to achieve a growth of the profit for the shareholders and the value of the Company by following a strategy for investing the funds raised by the offering in a well-developed and stable business model that consolidates the market leadership position, the accumulated experience of the management team, the big facilities and equipment available, and the strong brands of the Group. The key elements of the strategy include:

- Investing in increasing the capacity of the most profitable business of the Group - production of hatching eggs and production of sausages, and deli with pork and chicken products.
- Diversification of the product range in the direction of products with higher profitability – a new breed of boilers with longer breeding and long-lasting sausages with pork meat.
- Improving the market position of the domestic market through constant marketing efforts, including through the introduction of a new brand of chicken meat.
- Geographical diversification of profits by expanding contacts with customers, both on the existing and new export markets for the Group.
- Development of the Group's existing products according to the trends and needs of the market (new packaging, cuts, etc.)
- Optimizing the business processes and increasing the productivity by introducing an ERP system and improving the operational efficiency.
- Optimizing the Group's costs through focused Investments in energy efficiency and additional refrigeration and warehouse facilities that allow a better position by providing raw materials for the production.
- Increasing the sales volumes and profits from chicken meat sales by entering the Hotels Restaurant Cafeteria (HoReCa) sector as well as increasing the export of finished products.
- Expanding the product portfolio by acquiring brands and/or whole enterprises from other sausage producers.

Business plan

Strategic Goals of the Issuer

The main strategic goal of the holding company Gradus AD is to raise capital to finance the investment programme of its subsidiaries. In the event of a successful initial public offering and an increase in the Issuer's capital, it will aim to strengthen and expand its positions as a leading exporter of hatching eggs in Europe and a leading producer of meat and meat products in Bulgaria.

An additional strategic goal is the management and optimization of the processes in the vertically integrated structure for the production of chicken and chicken products covering all the subsidiaries of the Issuer. To achieve this goal, investments are planned in an ERP system (resource planning system).

Key assumptions

The realization of the strategic goals of Gradus depends on several key prerequisites:

- *Provision of necessary funding*

A key event for the implementation of the investment programmes of the subsidiaries of the Issuer is the provision of the necessary funds. In the case of an unsuccessful initial public offering, the investment programme is envisaged to be implemented by means of bank loans and own funds.

- *An upward trend in the price of meat and meat products in the European Union*

Bulgaria is a small open economy and the local prices of meat and meat products are heavily dependent on the quantity and pricing policy of importing companies from major producer countries in Europe such as Poland, Ukraine, and others.

- *Internal demand for the planned new products*

The expert experience of the management of Gradus AD is a major factor in the launch of new brands and product lines. The own studies conducted by the Issuer showed that by the date of this document there was demand for the planned new products.

- *Demand and stability of export markets*

As of the date of this Prospectus, on the targeted export markets there was shortage of hatching eggs of the highest quality as are the ones produced by the subsidiaries of the Issuer. A key assumption is that the situation will remain unchanged until the date of commissioning the new Investments in the hatching egg segment.

- *Raising the capacity of the Issuer's administrative and commercial personnel*

A key assumption in relation to the strategic goals to expand the position of the Group on the local and export market is to invest to increase the capacity and efficiency of the administrative and commercial personnel through the introduction of an ERP system as well as conducting of regular trainings.

Main activities for the next two years

The main activities of the Issuer will consist of managing its subsidiaries and their processes as well as providing financing for their investment programmes. In this regard, the expectations are that, when raising capital equal to the maximum amount of the current initial public offering, the Issuer will implement the entire investment programme specified in the section "Use of Proceeds".

During Its implementation over the next two years, the introduction of new pork products under the brand "Az yam" is expected as well as of the new chicken breed discussed in the section "Use of Proceeds".

Degree of dependence on all key individuals

Key individuals for the Company are the members of its Board of Directors.

The members of the Board of Directors Mr. Ivan Angelov and Mr. Luka Angelov are Co-founders of all the subsidiaries of the Issuer and have many years of experience in industrial poultry farming, trade in hatching eggs, and cereal trade. Their eventual resignation would lead to difficulties in the implementation of the company's business plan. Gradus AD counteracts this risk by investing in the development of the next generation of company's senior management.

Dependence on a limited number of customers and suppliers

- 1) The issuer Gradus AD is a holding company for the Group's companies and as such has no significant clients and suppliers.

- 2) in respect of the Subsidiaries of the Issuer, the following main groups of suppliers may be considered within their respective activities:
 - 1) suppliers of one-day-old parents
 - 2) farmers and local traders of cereals
 - 3) energy suppliers

In the event of a negative event (e.g. bad crops), the performance of the Issuer may be affected to a varying extent, with the suppliers diversification and the clearly formulated long-term contractual relationships being the main mechanism to counteract. For more information, see “*Business Overview - Main Suppliers*”.

With respect to the Subsidiaries of the Issuer, the following main groups of customers may be considered within their respective activities:

- 1) retail chains and distributors;
- 2) business customers for hatching eggs.

Means to control the risks associated with the core customer groups of the subsidiaries of the Issuer are again the diversification and the clearly formulated long-term contractual relationships. For more information, see “*Business Overview - Main Markets and Competitors*” & “*Business Overview - Material Contracts*”

Current and expected competitors on the market

The issuer Gradus AD is a Group dealing with Investments in the food industry. When potential deals are made for the acquisitions of companies in the sector, all natural and legal persons investing in the same sector may be potential competitors.

Regarding the activity of the subsidiaries of the Issuer:

- 1) With respect to the “Hatching Eggs” segment, the Issuer has not identified other Bulgarian companies engaged in the export of hatching eggs. In this regard, the Issuer does not consider that local competitors are expected to appear for this activity. Due to the business specificity and limited duration of the supplies, the foreign competitors are producers of hatching eggs from Central Europe.
- 2) With respect to the “Meat and Meat Products” segment, competitors are all enterprises listed in the section “*Main markets and competitors*”. The Issuer considers that it outperforms its competitors due to its vertical integration, which allows substantial optimization of the production cycle and quality control throughout the chain. In case of successful initial public offering and implementation of the investment programme, it is expected that, the competitive advantages will strengthen.
- 3) With respect to the “Grain Trading” segment, competitors are all local and global grain traders. Key to the segment is the availability of warehouses and the provision of favourable financing conditions for the trade. A successful initial public offering would improve the capital structure of the Issuer and, hence, the financial terms of turnover financing used for the trade in grain.

Necessary assets for the activity not owned by the issuer

The issuer Gradus AD is a holding company that does not carry out direct production activity and therefore does not need any specific production assets. Gradus AD will continue to operate in leased facilities. The only asset that has a significant effect on its future results is the cash that the Issuer seeks to raise through the current initial public offering.

Gradus AD considers that its subsidiaries have the necessary long-term assets to perform their ongoing business. More information on planned Investments in Assets of the Subsidiaries can be obtained from the section “*Investment Plans*”.

Sensitivity analysis in relation to the assumptions made

The development of the Issuer, which is a holding company, is directly dependent on the development of key performance indicators in its subsidiaries. In view of the lack of specific forecast information on the sales revenues of the Issuer and/or profits, no sensitivity analysis in digital form can be presented in this document. The main variables that are expected to have a significant positive or negative impact on the profits of the Issuer are identified.

- Provision of necessary funding

For the company, it is crucial to provide the necessary funding to implement the investment programmes of the subsidiaries. In case of failure of the initial public offering, Gradus AD is ready to implement the investment programme with the help of a combination of bank loans and own funds in order to use the favourable environment for confirming and expanding its position as a leading exporter of hatching eggs in Europe and a leading producer of meat and meat products in Bulgaria.

- The price of meat and meat products in the European Union

The price of meat and meat products in Bulgaria was put under heavy pressure during the period 2014-2016 due to overproduction in the Central European countries, especially Poland, and the limited access to the Russian market due to the economic sanctions imposed on Russia. The future development of the Holding, its investment programme and financial results are expected to remain heavily dependent on risk events that have an impact on the regional meat prices.

- Internal demand for the planned new products

The consumption of chicken meat in Bulgaria is below the average level for Europe. At the same time, chicken meat is the main type of meat for the Bulgarian consumer. Therefore, the future development of the issuer is expected to be dependent on the development of the consumer preferences for chicken, both in Bulgaria and the European Union.

The strengthening of the sales of pork products under the brand "Az yam!" is sensitive to the costs of advertising and marketing, including to the increase of its recognition among the local population.

- Demand by and stability on the export markets

The export production of Gradus AD is dependent on the business plans of the main competitors of the Issuer and is sensitive to the macroeconomic risks on the export markets, including the possibility of tightening / alleviating customs rules and tariffs.

- Raising the capacity of the Issuer's administrative and commercial personnel

The successful expansion of the Issuer's business is in direct connection with the work of the company's sales, marketing, and administrative personnel. In this respect, the improvement of their qualification and resource security is expected to have a significant positive impact on the implementation of the Issuer's business plan.

Products

Gradus AD is a company operating in the meat processing sector, including a vertically integrated business for the production of chicken and chicken products as well as sausages and frankfurters from pork meat. The products of Gradus are produced in a closed cycle that ensures the strict compliance with the company's high standards at every stage of the production.

The product chain for the production of chicken and poultry meat products includes the production of fodder, hatching eggs, and one-day-old broilers; rearing broilers for fattening, for chicken meat and products of processed chicken meat.

Fodder and grain trade

For the production of fodder, the Group purchases the following basic types of grain: wheat, barley, maize, and soybean meal. The produced quantities of fodder are used at about 90-95% for its own

breeding of parents for broilers and broilers for fattening. The fodder plant is the largest in Bulgaria, with an annual capacity of 95 thousand tonnes at one shift. The Group does not intend to change its policy with regard to the fodder produced.

(kg)	2015	2016	2017
Sales of fodder, incl.:	73,997,460	75,447,920	70,733,920
Fodder outside the Group	887,600	1,468,400	3,363,340
Fodder inside the Group	73,109,860	73,979,520	67,370,580

Source: Company

Outside the Group, in the last 3 years the following agricultural production has been realized:

(kg)	2015	2016	2017
Sunflower (incl. striped)	26 021 958	44 983 310	94 882 925
Wheat	8 120 652	2 110 310	52 787 050
Maize	37 720	6 160	33 872 580
Corn silage	1 408 540	4 811 780	-
Coriander	-	-	6 502 917
Rapeseed	248 720	7 641 290	1 226 540
Barley	-	2 167 980	1 198 460
Total	35 837 590	61 720 830	190 470 472

Source: Company

Hatching eggs

The Gradus Group's companies produce hatching eggs for the needs of their own production as well as for sale. For the production of hatching eggs, the Group mainly uses parents of the Ross 308 breed purchased as one-day-old parents from specialized companies in Hungary.

The technology used by the company envisages the production of 168 hen eggs per cycle but the Group has managed to produce 172 eggs per cycle. The average fodder consumption for the production of one egg is 230 grams.

In the production of hatching eggs, the farms of two subsidiary companies of Gradus AD are currently engaged:

Milenium 2000 EOOD: The poultry farms for growing parents and parents are located in the villages of Bolyarsko and Zimnitsa, Region of Yambol, with a loading capacity of 216,633 growing birds and 404,416 breeding parents.

(pcs.)	2015	2016	2017
Hatching eggs produced	58 272 070	66 888 821	67 453 645

Source: Company

Gradus 98 AD: The farm is located in the village of Chervena Voda, Region of Ruse, with a loading capacity of 228,000 growing parents and 427,652 breeding parents.

(pcs.)	2015	2016	2017
Hatching eggs produced	49 302 156	48 861 559	50 726 881

Source: Company

The Sales of hatching eggs are distributed as follows:

(pcs.)	2015	2016	2017
Eggs sold outside the Group	63 621 557	68 445 050	64 418 740
Eggs loaded in the hatcheries of the Group	45 795 730	50 453 765	56 810 160

Source: Company

The Farms for breeding parents meet all the requirements and regulations for the breeding of broilers.

One-day-old broilers

The Group produces one-day-old broilers for the needs of its own production as well as for sale. One-day-old broilers are hatched only from hatching eggs by the above-mentioned farms of Milenium 2000 and Gradus 98.

In the production of one-day-old broilers, hatcheries operated by the subsidiary company Zhyuliv EOOD are currently engaged. The hatcheries are located in the villages of Bolyarsko, region of Yambol and the village of Madzherito, region of Stara Zagora and have a monthly capacity of 4,219,360 hatching eggs.

(Pcs.)	2015	2016	2017
1-day-old chickens for own needs	8 459 251	9 469 973	8 775 275
1-day-old chickens for sale	23 593 160	25 460 820	32 627 492
Total	32 052 411	34 930 793	41 402 767

Source: Company

The average hatchability of the hatching eggs produced by the Group is 81% and for export customers eggs are selected with a hatching rate of over 84% (in most cases reaching 90%). The average hatching rate for the 2017 year reached with the hatching eggs loaded at Zhyuliv was 73%.

The Group hatcheries meet all regulatory requirements.

The Broilers fattened by the Group on the 7 poultry farms in several regions are not sold to outside customers but are all handed over for meat and meat processing to Gradus-1 AD. In 2017, the Group produced 8.7 million fattened chickens. The conversion factor for the Company's broilers was 1.617 kg of fodder per 1 kg of live weight. The Mortality was 3.2%.

In 2018, the Group began the testing rearing of broilers of a new breed with extended rearing time and the import of one-day-old chickens for the purpose.

Chicken meat and products of processed chicken meat

The Group's portfolio includes all kinds of chicken and chicken cuts (fresh and frozen) as well as poultry sausages and delicacies. Poultry meat is grown on Group's own farms. After cutting, processing, and packing, the Group's chicken meat reaches the end-users through the large retailers and wholesale distributors that supply smaller retail sites and the HoReCa channel. Most of the products are marketed under the Gradus brand but some of them are marketed under the brands of large retail chains. More than 150 types of Gradus chicken products are available on the market. In 2016, the Group began to pack its products in a protected/modified environment, which increased by 35% the shelf life guaranteed to customers. The Company also sells chicken products through hot spots at sites of the "Modern Marketing" segment. The Group has the capacity and also produces Halal chicken meat according to the ritual requirements of the Islam and accompanied by the corresponding certificate.

The Group's chicken products meet all quality control standards of the European Union.

Pork meat products

As of the middle of 2016, after the opening of a new meat processing plant, the Group began offering sausages with pork meat, with the raw material being purchased from outside suppliers. By the end of 2017, there were 15 pork products under the brand "Az yam!" of the range of perishable sausages as well as minced meat. An expansion of the "Az yam!" pork sausages product range with durable boiled-smoked and raw-dried sausages is planned.

Sales of meat processing products¹⁴:

(kg)	2015	2016	2017
Fresh products	13,454,462	13,216,372	13,032,275
Frozen products	3,599,330	3,514,091	4,156,224
Sausages with poultry meat	2,789,628	2,363,873	2,748,805
Sausages with pork meat	0	890,838	1,406,308
Total	19,843,420	19,985,174	21,343,612

(BGN)	2015	2016	2017
Fresh products	43,478,379	40,561,969	42,455,915
Frozen products	10,522,584	9,345,884	11,544,588
Sausages with poultry meat	7,330,430	6,095,891	7,261,260
Sausages with pork meat	0	3,560,410	5,924,096
Total	61,331,393	59,564,154	67,185,859

Source: Company

Production quality control, biological safety, humane treatment of birds during transport and slaughter, environmental protection

Quality control

A key quality principle in the Group's work is the creation of conditions for the conscious prevention of potential problems by anticipating and excluding them even before their occurrence. This is a completely different and much deeper approach to quality than the traditional quality control, where finished products are subject to control for defects and the service performed is subject to control with respect to its satisfactory performance.

The benefits of quality assurance in the Group are:

- Consistency of the quality of the produced foodstuffs;
- Money and time saving;
- Reducing the amount of non-compliant products;
- Less complaints from customers;
- Reducing the follow-up service;
- Optimizing the use of resources.

A Quality Management System - ISO 9001:2015 has been introduced in the poultry slaughterhouse and the meat processing plant of the Group. As a result of adopting and implementing the procedures of ISO 9001:2015, the Group has increased and stabilized the quality of its production, gained the confidence of its customers, and strengthened its positions on the market as a producer of poultry meat and meat products.

The benefits to the Company are that consumers earn from getting products that are:

- compliant with the requirements;
- safe and reliable;
- available when needed;

The benefits to the people in the organization are:

- better working conditions;
- increased job satisfaction;

¹⁴ Sales of waste products from broiler processing are not included

- improved health and safety;
- increased employment stability.

The benefits to the owners are that they earn from the:

- increased return on investments;
- improved operational results;
- increased market share;
- increased profits.

The Group has implemented quality control at every stage of the production process.

- Input control for all raw materials and other materials.
- Production control at every stage of the production activity.
- Finished products Packaging control: when packaging foods, only materials, including active materials produced in accordance with the good production practice are used.
- Labelling control: the labelling, presentation, and advertising of the produced foods do not mislead the consumers and meet all labelling requirements of the Bulgarian and European legislation.
- Control of finished products by laboratory tests in accredited laboratories and factory tests.
- Control of transport and distribution of finished products.

Biological security

The Company has introduced a wide range of biosecurity measures to minimize the risk of infections and transmission of diseases at its sites. Based on the hazard analysis and the assessment of the relevant risks, the areas that are critical to security have been identified. They have been appropriately and sufficiently protected to prevent unauthorized access to the identified Access points. Procedures are in place to prevent unauthorized interference and/or to identify signs of unauthorized interference. An appropriate alert system has been defined and its effectiveness is periodically tested.

The visitors policy includes aspects of the Food Protection Plan. The Personnel engaged in handling and loading and in contact with the products has been identified and observes the access policy of the Company. Visitors and external service providers have been identified in the places where products are stored and are registered during access. They have been informed about the site's policy and their access is under control.

At the sites, instructions and procedures have been developed to ensure the site's bio-security such as cleaning and disinfection of the arriving and departing specialized vehicles for the transport of live birds.

All specialized vehicles transporting finished products are controlled for hygiene, disinfection, and suitable for the foods temperature.

Two secured gateways and video surveillance have been mounted on the premises of the whole enterprise.

Biological security of the livestock sites

The livestock farms meet the general and special veterinary and medical requirements to livestock farms for the rearing of farm animals, laid down in the provisions of Ordinance No.44 of 20.04.2006, as last amended in SG No.56/11.07.2017.

On livestock farms for the rearing of farm animals, the following measures are applied to ensure biosecurity:

- They were built according to the requirements of the legal framework for the protection and humane treatment of animals.
- They are Equipped with sufficient water for drinking purposes from own and public water sources. A large part of the sites are located in agricultural lands outside the populated areas and, therefore, cannot be supplied with water from the existing water supply networks. In this connection, own water sources have been built to provide drinking water for birds and for the people working at the site.

- Essential for ensuring biosecurity are the periodic (four times a year) tests at licensed laboratories of the physico-chemical and microbiological analysis of the water from own water sources, complying with Ordinance No.9 on the quality of drinking water.
- All water sources have been equipped with facilities for the purification and disinfection of the water of such sources, using chlorination and antibacterial lamps. The water sources were provided with a use permit issued by the Basin Directorate and are subject to inspection by the latter at least once a year.
- At the entrance of each of the livestock farms, equipment is located for the washing and disinfection of people and transport means entering and leaving the site. Dry and wet pass filters have been built at the sites. Registers of external visitors as well as all arriving and departing vehicles have been introduced. Conditions were created for the washing, drying, and reuse of work clothing and footwear of the workers at the livestock farms. In each of the livestock farms, internal security rules were developed as well as a manager-approved passing regime.
- On every livestock farm, there are persons appointed by the manager and responsible for the control and implementation of the biosecurity measures.
- Good farming practices have been developed based on procedures ensuring biosecurity and on which the relevant records are made.
- Periodic Trainings and seminars are conducted on the provision and implementation of biosecurity measures on livestock farms by specialists from the Thracian University of Stara Zagora.
- For the purpose of preserving biosecurity, the bringing of food products onto the livestock farms is prohibited. The catering of the employees on the farms is entrusted to catering companies registered with and approved by the respective veterinary authorities, with which the Company has signed contracts for food delivery to the sites.
- Every new worker on the farm declares that he/she does not keep poultry in his/her own yard. Regular verification of the declared data is done.
- Before starting work, All workers on the livestock farms are obliged to pass the statutory medical examinations and tests, for which the RHI issues health booklets subject to certification every year.
- To ensure the safety and healthy status of the birds, the livestock farms have been fenced in a way that does not allow free access of people and/or other animals. The Buildings at the sites are disinfected and deratized twice a month according to a plan developed by companies specializing in the fight against rodents and other pests and with which the company have signed maintenance contracts.
- For the prevention of access of wild birds and rodents to the poultry bedding and fodder, special storage silos were built.
- At the boundaries of the sites, carcass collection stations have been built, air-conditioned and with a controlled temperature from 0 to 4°C, for the storing of dead birds until their collection and transportation to an incinerator for disposal. The stations have been fenced in a way that does not allow the access of people or animals.
- Each site has a plan for the disinfection and cleaning of buildings, premises, machines and inventory, and their adjoining outside areas with clearly defined rules and procedures and under the control of the on-site veterinarian.
- On the livestock farms, clearly separated “white” and “black” zones have been built as well as premises on the boundaries between the two zones, in accordance with the requirements of Ordinance No. 44, Section III, Art. 5, 6, 7 and 8.
- The Cleaning and transport of biological waste (poultry manure and bedding) from the livestock farms is carried out according to a schedule, immediately after the birds are brought out of the premises where reared. On the livestock farms, there are no separate areas for bird manure. It is

taken out and transported to a biogas plant in accordance with a contract, without staying on the farm.

Biological security of the poultry slaughterhouse in Stara Zagora

The Biosecurity measures implemented at the Company's slaughterhouse are set at the very entrance of the Company through the so-called controlled access to the buildings. Sanitary-utility units (passes) for the workers and employees have been separated and equipped with bathrooms and dressing rooms for the changing of civilian clothes with working ones.

In order to eliminate the crossing of production routes, the slaughterhouse has been divided into three separate sectors:

- live birds
- meat production
- packaging, cutting, and shipment

Each sector has been equipped with its own pass filter and corridor so that the workers in it do not have access to the other production sectors. The Passing from sector to sector is only possible through controlled access provided by means of individual electronic cards held only by some employees from the technology department, engineering department, and the management staff. This measure ensures the avoidance of contamination between the so-called "dirty" and "clean" production areas. Hygienic gates have been built as an additional biosecurity measure at the entry/exit from/to entrance/entrance, equipped with automatic hygienic equipment letting visitors in only after disinfection of their hands and shoes.

Food and food products are not allowed to be brought onto the territory of the slaughterhouse. For the feeding of the personnel, a certified catering company takes care under a contract signed with the company. Each sector has its own dining room and resting place.

Laundry and drying facilities have been provided for subsequent use of the work clothing. During work, employees are equipped with masks, hats, gloves, and other safety devices to prevent contamination of the products being processed. It is forbidden to employees to use and carry mobile phones in the production premises as well as wear any kind of jewellery or decorations at work. The personnel has undergone compulsory laboratory tests for infectious diseases, which has been reflected in the health booklets issued and certified annually by RHIs. Along the production conveyor, metal detectors have been located to monitor foreign objects in the production.

In each of the sectors of the enterprise, a person has been appointed by order of the manager responsible for biosecurity and authorized to control the implementation of the biosecurity measures and to decide on the introduction of new ones. A biosecurity control system was developed to provide the highest quality of production, on the basis of which the quality certificates were issued to the Company.

Humane treatment of birds during transport and slaughter

The Group's activities strictly observe the fundamental principle of the EU legislation for humane treatment of animals: animals should not be subjected to avoidable pain or suffering.

This principle is reflected in the clear rules to the IQMFSS on the conditions under which birds can be transported and stunned before the slaughter. For the transport of birds from the poultry farms to the poultry slaughterhouse, specialized transport vehicles have been provided, with issued licenses for the transportation of animals at short distance. The requirements for load density are complied with. All birds before slaughter are subjected to stunning as required by the legislation. The Personnel responsible for the humane treatment of birds during transport and slaughter was trained.

Environmental protection

The Company complies with all requirements of the applicable regulatory documents of Bulgaria and the EU in respect of environmental protection and has no environmental problems. The livestock farms with a capacity of more than 40 thousand, the fodder plant and the poultry slaughterhouse have complex permits concerning the environmental, air, water, soil and other environmental protection standards. The annual inspections by the relevant RIEWs by regions for years showed no failure to comply with the conditions

laid down therein, for which protocols were drawn up. The Group has appointed an official to be responsible for the strict compliance with the environmental protection requirements.

Gradus Group's Subsidiaries – General information

Gradus AD

Year of foundation	2017
UIC	204882907
Share capital	BGN 221 million (221 million shares with a nominal value BGN 1)
Shareholders	Mr. Ivan Angelov (50%) and Mr. Luka Angelov (50%)
Address	Stara Zagora, Industrial Area, Gradus Poultry Slaughterhouse

The main activity of the holding is to control, finance, and support the development of its subsidiaries. At the date of Prospectus, Gradus AD had participation in the following companies:

Name	Country of foundation	UIC/PIC:	Percentage of participation
Gradus - 98 AD	Bulgaria	123120561	99.9%
Zhyuliv EOOD	Bulgaria	119053781	100.0%
Milenium 2000 EOOD	Bulgaria	119591422	100.0%
Lora-2004 EOOD	Bulgaria	123658624	100.0%
Gradus - 3 AD	Bulgaria	123152751	96.0%
Gradus - 1 EOOD	Bulgaria	822132592	100.0%

Gradus - 98 AD (by 06.09.2017 - Biser Oliva - 98 AD)

Year of foundation	1998
UIC	123120561
Share capital	BGN 500 thousand (50 thousand shares with a nominal value of BGN10)
Shareholders	Gradus AD (99.9%), 4 natural persons (0.06%)
Address	Stara Zagora, Industrial Area, Gradus Poultry Slaughterhouse

Gradus - 98 AD grows poultry for the production and sale of hatching eggs. The business cycle starts with the purchase of specially selected one-day-old parent birds that are reared as growing parents until week 18 and are then transferred to the parents flocks and begin to lay eggs. The hatching eggs produced by Gradus - 98 AD and Milenium 2000 EOOD are categorized. Depending on the characteristics of the eggs laid and the orders by external customers, the two subsidiaries combine the hatching eggs produced before selecting the ones for export. Eggs that are not sold to external customers are sold to the Group's hatcheries. By the end of their life cycle, parents are sold to Gradus - 1 EOOD - the slaughterhouse of the Group. The production base of Gradus - 98 AD is located in the village of Chervena Voda and the village of Sredna Kula, Region of Ruse. The company was registered as a farmer.

In 2017, Gradus - 98 AD realized 74,195 thousand eggs (own production and purchased from Milenium 2000 EOOD) (2016:51,899 thousand) and reported a total income of 31,863 thousand BGN (2016: 29,483 thousand BGN) and a net profit of BGN 8,767 thousand (2016: BGN 4,828 thousand) for the year. The Assets of the company by the end of 2017 amounted to BGN 52,889 thousand and the liabilities amounted to BGN 4,884 thousand. In 2017, the average number of the company's personnel was 172 people (2016: 170).

Zhyuliv EOOD

Year of foundation	1997
UIC	119053781
Share capital	BGN 5 thousand (50 shares with a nominal value 100 BGN)
Partners	Gradus AD (100%)

Address Stara Zagora, Industrial Area, Gradus Poultry Slaughterhouse

Zhyuliv EOOD operates the Group's hatcheries and sells newly-hatched birds. Hatching eggs produced by Gradus - 98 AD and Milenium 2000 EOOD are sold for hatching to Zhyuliv EOOD. The Company has its own hatchery located on the territory of the village of Bolyarsko, Region of Yambol and hatcheries in the village of Madzherito, region of Stara Zagora hired from Lora - 2004 EOOD and Gradus - 1 EOOD in Yambol. The newly-hatched birds are sold to poultry farms to be fattened and to external customers. The company also grows broilers in its own halls in the village of Voyvodovo, Region of Haskovo. The company was registered as a farmer.

Zhyuliv EOOD sold a total of 39.46 million one-day-old birds in 2017 (2016: 32.99 million), of which 32.63 million were sold to external customers and 6.83 million were realized within the Group. Zhyuliv also realized 3.19 million kg. of broilers (2016: 4.29 million kg) and reported total income of BGN 37,926 thousand (2016: BGN 29,628 thousand) and a net profit of BGN 2,695 thousand (2016: BGN 1,976 thousand). By the end of 2017, The Company's assets amounted to BGN 23,836 thousand. In 2017, the average number of the Company's personnel was 119 people (2016:116).

Milenium -2000 EOOD

Year of foundation	2001
UIC	119591422
Share capital	BGN 5 thousand (10 shares with a nominal value of BGN 500)
Partners	Gradus AD (100%)
Address	Stara Zagora, Industrial Area, Gradus Poultry Slaughterhouse

Milenium 2000 EOOD breeds poultry for the production and sale of fertilized eggs and fattened broilers. The Company performs an almost complete production cycle until meat processing, with the exception of hatching. Just like Gradus - 98 AD, the Company buys specially selected one-day-old parents. The eggs laid are categorized and those with the highest hatchability rate are sold outside the Group and the rest of them are sold for hatching to Zhyuliv EOOD. Milenium 2000 EOOD buys back newly-hatched birds and fattens them. Fattening is carried out on four farms - one owned and three hired from Gradus - 1 EOOD. Grown parents and broilers are sold for further processing to Gradus - 1 EOOD. Until the beginning of the fourth quarter of 2017, Milenium-2000 EOOD owned and leased agricultural land and realized agricultural products.

The production facilities of Milenium 2000 EOOD are located in the town of Chirpan, the village of Rupkite, the town of Nova Zagora, region of Stara Zagora, in the villages of Bolyarsko and Zimnitsa, Region of Yambol, and the village of Ezero, Region of Sliven. The company is registered as a farm.

In 2017, Milenium 2000 EOOD realized 73.72 million eggs (own and purchased from Gradus-98 AD and 5 million birds (2016: 69.46 million and 5.32 million, respectively), and reported income of BGN 61,972 thousand (2016: BGN 57,143 thousand) and a net profit of BGN 26,969 thousand (2016: 8,611 thousand BGN) for the year. The Company's assets as of end-2017 amounted to BGN 44,288 thousand. In 2017, the average number of the Company's personnel was 331 persons (2016: 335).

Lora-2004 EOOD

Year of foundation	2004
UIC	123658624
Share capital	BGN 5 thousand (50 shares with a nominal value of BGN 100)
Partners	Gradus AD (100%)
Address	Stara Zagora, Industrial Area, Gradus Poultry Slaughterhouse

Lora-2004 EOOD operates poultry farms, too, and grows and sells fattened broilers. After the hatching of the eggs at Zhyuliv EOOD, Lora - 2004 EOOD buys newly-hatched birds and fattens them. Fattening is carried out on the poultry farm of the Company in the village of Madzherito, Stara Zagora. The fattened broilers are sold to Gradus - 1 EOOD. The Company also owns a grain storage facility leased to Gradus -

3 AD or external companies. Lora-2004 EOOD does not operate at full capacity and rents part of the unused land of its poultry farms.

In 2017, Lora-2004 EOOD realized 1.64 million birds (2016: 2.07 million) and reported income of BGN 6,727 thousand (2016: BGN 7,779 thousand) and a net profit of BGN 4,126 thousand (2016: a net loss of BGN 288 thousand) for the year. The Company's assets as at the end of 2017 amounted to BGN 20,467 thousand. In 2017, the average number of the Company's personnel was 41 persons (2016: 43).

Gradus - 3 AD

Year of foundation	1999
UIC	123152751
Share capital	459 618 thousand BGN (459,618 shares with a nominal value 1 BGN)
Shareholders	Gradus AD (96%) – indirectly (Gradus - 1 EOOD - 96%)
Address	Stara Zagora, Industrial Area, Gradus Poultry Slaughterhouse

Gradus - 3 AD manufactures compound fodder containing grains and fodder additives, which it sells for food for the birds of the Group. The Company also trades in agricultural products. The Company owns a mill, grain storage facility, and fodder plant in the town of Nova Zagora and if necessary, takes on lease additional grain storage facilities. Gradus - 3 AD also owns specialized and licensed vehicles for the transportation of its products.

In 2017, Gradus - 3 AD realized 70,734 thousand kg of fodder (2016: 75,448 thousand kg) and reported income of BGN 127,886 thousand (2016: BGN 79,881 thousand) and a net profit of BGN 4 230 thousand (2016: BGN 1,287 thousand) for the year. The Company's assets as at the end of 2017 amounted to BGN 64,851 thousand, and its liabilities amounted to BGN 26,744 thousand. In 2017, the average number of the Company's personnel was 73 persons (2016:70).

Gradus - 1 EOOD

Year of foundation	1995
UIC	822132592
Share capital	5 thousand BGN (100 shares with a nominal value 50 BGN)
Partners	Gradus AD (100%)
Address	Stara Zagora, Industrial Area, Gradus Poultry Slaughterhouse

Gradus - 1 EOOD is a poultry slaughterhouse and meat processing plant and manufactures and sells meat products. The poultry processing plant has an annual capacity of 30,000 tonnes of chicken meat, cuts, sausages, semi-finished products, and delicacies. The Gradus-1 EOOD's slaughterhouse is the largest on the Balkans and one of the largest production and processing facilities of white meats in Europe. It has a floorage area of over 10,000 sq. m and is equipped with the most advanced equipment, minimizing the impact of the human factor. The equipment was manufactured by the Dutch company STORK - the world leader in the production of machines, automatons, and lines for the production, processing, and cutting of white meats.

The company buys birds from the other companies in the Group as well as pork meat from external to the Group and processes them into a large assortment of meat products that can be divided into three main categories: chilled and frozen chicken meat of different cuts, sausages of poultry meat, and sausages with pork. The Company also carries out specialized transport services both for its own needs and for the needs of the other Group companies (except for Gradus-3 AD). The services in question are carried out with specialized transport equipment, with Gradus - 1 EOOD having vehicles for the transportation of adolescent birds, fattened birds, and meat products. The Company also manages investment properties, including a storey of a building in the town of Panagyurishte, which it rents, as well as hatcheries, poultry farms, and grain storage facilities, which it rents to the other Group's companies. The slaughterhouse and the meat processing plant are located in the town of Stara Zagora.

In 2017, Gradus - 1 EOOD realized 26,098 tonnes of production and goods (2016: 25,327 tonnes) and reported income of BGN 69,560,000 from sales (2016: BGN 62,130,000) and a net profit of BGN

23,922,000 (2016: 1,000 thousand BGN) for the year. The Assets of the company as at the end of 2017 amounted to BGN 103,526 thousand. In 2017, the average number of the Company's personnel was 495 (2016:451).

Research and development

In view of the nature of its core business, the Company does not carry any out development activities.

The Group's product portfolio includes hatching eggs, one-day-old chickens (broilers), all types of chicken and chicken cuts (fresh and frozen) as well as poultry sausages and delicacies. The following innovations were made in the recent years:

- the commissioning of an entire super modern new line for packaging of part of the products in a protected/modified atmosphere, thereby increasing the shelf life guaranteed to the Company's customers by 35% and achieving a better commercial appearance of the product.
- the opening, in the middle of 2016, adjacent to the poultry slaughterhouse, of a new meat-processing plant for the production of pork meat (perishable, durable-boiled-smoked, raw-dried, etc.) and cooked and heat-processed poultry meat products.

With regard to the new products planned for 2018 (ready meat products), the production and marketing of a new type of chicken (with extended breeding time, original French breed, and yellow color of the skin) is forthcoming as of April-MAY. In the meat processing sector, an extension of the product range is planned with products in 3 new categories under the brand "Az yam!"- flat sausages, sushenitsa, and pudding.

Permits, licenses, and mandatory registrations

Due to the nature of its core business, the Issuer is a subject to licensing and registration regimes for its companies, assets, and operations.

The Issuer has the necessary documents certifying that it meets the veterinary requirements issued by the Regional Food Safety Directorates in the towns of Yambol, Ruse, Stara Zagora, Haskovo and Sliven for its production facilities pursuant to the provisions of Article 137 paragraph 6 of the Veterinary Medicine Act.

Registrations

A reference to the available registrations issued by the Regional Food Safety Directorates

Site	Registration certificate	Location	Type	Capacity (nos.)
Gradus – 1 EOOD	No 101/33141 18.12.2017 for a site of food production	Town of Stara Zagora	Site for the production of meat and meat products	8000/hour*
Milenium 2000 EOOD	No 101/429 05.01.2018 for livestock farm	Yagach area, Region of Stara Zagora	Industrial farm for the rearing of broiler chickens	400 000
Milenium 2000 EOOD	No 101/793 10.01.2018 for livestock farm.	village of Rupkite, Region of Stara Zagora	Industrial farm for the rearing of broiler chickens	550 000
Milenium 2000“ EOOD	No 24/04.01.2018 for livestock farm	village of Bolyarovo Region of Yambol	Poultry farm for: 1) growing parents	216 633
			2) parents for broilers	404 416
			3) broilers	69 000
Milenium 2000 EOOD	No 23/04.01.2018 for livestock farm	village of Zimnitsa Village, Region of Yambol	Poultry farm for the rearing of growing parents for broilers Poultry farm for the rearing of growing parents for broilers	100 694
Milenium 2000 EOOD	No 2244/04.01.2018 for livestock farm	Village of Ezero, Region of Sliven	Poultry farm for the rearing and fattening of broilers	38 000
Lora-2004 EOOD	No 101/372 05.01.2018 for	Village of Madzherito, Region	Industrial farm for the rearing of broiler chickens	392 700

	livestock farm	of Stara Zagora		
Milenium 2000 EOOD	No 2243/04.01.2018 for livestock farm	Town of Nova Zagora, Region of Stara Zagora	Poultry farm for the rearing and fattening of broilers	39 000
Gradus – 98 AD	No 18052/08.09.2017 for livestock farm	Ruse	Poultry farm for the rearing of: 1) growing parents	228 000
Zhyuliv EOOD	No 31/ 05.01.2018 for livestock farm	Village of Voyvodovo, Region of Haskovo	2) parents for broilers	427 652
Zhyuliv EOOD	No 22/ 04.01.2018 for livestock farm	Village of Bolyarovo, Region of Yambol	Industrial farm for the rearing of broiler chickens	410 000
Zhyuliv EOOD	No 101/769 10.01.2018 for livestock farm	Village of Madzherito, Region of Stara Zagora	Hatchery	3 300 000
			Hatchery	919 360

* Capacity of the meat processing plant is 75 tonnes/hour

Group holds certificates for registration of vehicles for the transportation of raw materials and foodstuffs and Certificates for the registration of vehicles for the transportation of 3rd-category animal by-products (ABP)

Permits and licenses

The Group's companies have the necessary complex permits issued by the Ministry of Environment and Water for the operation of the production facilities in compliance with the provisions of the Environmental Protection Act.

Information on the available permits issued by the Ministry of Environment and Waters

Name	IPPC permit	Site
Milenium – 2000 EOOD	No 289-H0/2008	Installation for intensive rearing of poultry (broilers)
Gradus – 1 EOOD	No 283-H0/2008	Installation for intensive broilers breeding
Gradus – 1 EOOD	No 291-H0/2008	Installation for intensive breeding of birds - growing parents, parents and broilers
Gradus – 1 EOOD	No 284-H0/2008	Installation for intensive breeding of growing parents for broilers
Gradus – 1 EOOD	No 460-H0/2013	Slaughterhouse for the production of poultry meat
Zhyuliv EOOD	No 348-H0/2008	Plant for broiler breeding
Gradus – 3 EOOD	No 470-H0/2013	Plant for the production of compound fodder
Lora-2004 EOOD	No 521-H0/2017	Installation for the intensive rearing of poultry - broilers
Gradus-98 AD (village of Sredna Kula)	No 293-H1/2018	Installation for intensive breeding of parent flocks for broilers
Gradus-98 AD (village of Chervena Voda)	No 310-H1/2018	Installation for intensive breeding of parent flocks for broilers
Gradus-98 AD	No 310-H2/2018	Installation for intensive breeding of parent flocks for broilers
Gradus-98 AD (village of Sredna Kula)	No 293-H0/2008	Installation for intensive breeding of parent flocks for broilers
Gradus-98 AD (village of Chervena Voda)	No 310-H0/2008	Installation for intensive rearing of poultry

Source: Company

According to the current legislation, the Group companies have licenses for their transport activities issued by the Ministry of Transport, Information Technology and Communications.

Reference for available licenses:

- License No. 3176 for International carriage of goods by road for hire or reward issued by the Ministry of Transport, Information Technology and Communications to Gradus 1 EOOD pursuant

to Regulation (EC) No.1072/2009 of the European Parliament and of the Council of 21 October 2009

Under this license, Gradus 1 EOOD is authorized to carry out international carriage of goods for hire or reward within the Community, Regulation (EC) No 1072/2009. This license entitles Gradus 1 EOOD to transport (export) outside of the country:

- One-day-old chickens
 - Hatching eggs
 - Live birds
 - Finished production from the poultry slaughterhouse and the meat processing plant
- License No. 14149 for international carriage of goods by road for hire or reward issued by the Ministry of Transport, Information Technology and Communications to Gradus 3 AD pursuant to Regulation (EC) No.1072/2009 of the European Parliament and of the Council of 21 October 2009.

The licenses for international transport are also licenses for freight transport on the territory of the country.

- License No. 08373 for the carriage of goods on the territory of the Republic of Bulgaria given by the Ministry of Transport, Information Technology and Communications to Milenium 2000 EOOD, valid until 5 October 2016.

Certificates

In addition to the local and European legislation, the Group has implemented quality control systems for food safety and meets the criteria certified by international bodies.

Gradus-1 EOOD has the following certificates for implemented systems and production standards issued by TÜV NORD CERT GmbH:

- ISO 9001:2015 Quality Management System
- ISO 22000:2005 – Food Safety Management System
- IFS 6:2014 – Food International Standard

Gradus-3 AD has the following certificates for implemented systems and standards in the production and marketing of compound fodders issued by Bureau Veritas Certification Holding SAS – UK Branch:

- ISO 9001:2015 Quality Management System
- ISO 22000:2005 – Food Safety Management System

Main suppliers

Given the vertical integration of the Group, the main products directly involved in the production process provided by external suppliers are the raw materials for the production of fodder, the one-day-old parent birds, the pork meat, and additives and auxiliary materials for the production of sausages at Gradus - 1 EOOD.

The raw materials supplied by external companies for the preparation of fodder are mainly agricultural production, and specifically selected by technologists additives. Until the second half of 2017, the Group gherw grew some of the raw materials on its own farmland, but during the restructuring process, this activity was removed from the Holding as unrelated to its core business. The Agricultural products purchased from external suppliers include sunflower, corn, wheat, and barley. The supply of agricultural products is substantial and Gradus - 3 maintains relationships with many domestic and foreign suppliers, which allows it to buy at an optimal price/quality ratio. The suppliers in question do not have a significant influence on the negotiation of their production prices and the production processes of Gradus - 3 AD are not dependent on a particular supplier. The supply of mixtures and additives in the required quantities is more limited but the additives used can often be replaced with others without significantly affecting the nutritional qualities of the fodder. Thanks to the expertise of the Gradus - 3 AD technologists, the

company replaces the significantly costly additives, with alternative ones, which reduces the dependence on a particular supplier of mixtures and additives. The main suppliers of company additives are Vijand EAD, Biser Oliva AD and Mixa EOOD.

one-day-old parent birds that are subsequently grown at Gradus 98 AD and Milenium 2000 EOOD for the production of hatching eggs are essential for the entire Group's production cycle. The Birds are imported from Member States of the European Union, and in 2017, the Group imported a total of 859 thousand one-day-old parents (2016: 846 thousand). Birds are delivered according to a schedule throughout the year. The supply of purebred birds in the required quantities is limited and the Group's dependence on the suppliers with whom it works can be considered as essential. In order to reduce this dependence, the Group has built and maintains long-term relationships with its trading partners, with it being a major customer, which allows the negotiation of preferential prices and supply conditions. The Group imports one-day-old parents predominately from Hungary, with Aviagen being its main supplier.

Gradus - 1 EOOD has imposed requirements for ethical and responsible behaviour both on the part of the employees and on the part of the suppliers, which directly or indirectly include the other companies in the Group. The Company management has developed norms and rules of conduct for the staff and suppliers, which all companies providing it with products/services are obliged to observe.

All external suppliers of Gradus-1 EOOD are selected under a free market choice. The selected suppliers are assessed using the methodology of the IQMFSMS (Integrated Quality Management and Food Safety Management System) and, depending on the received assessments, the management identifies two types of suppliers:

- **Main** - suppliers with proven reliability and offering products /services with the best price/quality ratio;
- **Episodic** - suppliers used for incidental needs.

Depending on the degree of impact on the working process, the products/services are divided into two types:

- **Directly participating** in the production process – red meats, additives, etc.;
- **Indirectly influencing** the quality of the production process – for example, technical equipment, facilities, consumables, etc.

The control over the implementation of the supplies is exercised by the person who receives the product /service, and the quality control is verified by means of internal audits that are carried out according to established practices. Typically, the Company concludes framework contracts with its suppliers for a period of one or several years, with the prices and quantities for a given year being specified in the annexes to the contract, which are updated each year. The production plant of Gradus - 1 EOOD is supplied with the following main categories of raw materials, materials and services from external suppliers:

- Main raw materials – red meatst;
- Additional raw materials - spices, supplements, additives and others;
- Auxiliary materials - packaging, wrapping, labels, etc.;
- Services - electricity, gas, water, transport, etc.;
- Technological equipment;

The Company policy in the field of supply through external suppliers is directed to securing supplies from at least two sources and in sufficient quantities in the event of a problem with a particular supplier. The necessary products/services are provided by companies registered under the Food Act and based in EU Member States or in third countries approved for trade with the Member States. All suppliers with whom the company works offer products/services that meet the requirements of the National and European legislation and, if applicable, of the implemented by the Company Integrated Food Quality and Safety Management System according to ISO 9001:2015, ISO 22000: 2005 and IFS 6:2014. On the basis of the

timely supply principle , the Company does not store significant quantities but orders them in advance on a two-or three months” basis.

Major suppliers for the poultry slaughterhouse and meat processing plant of Gradus-1 EOOD are:

- main raw materials – Nova Targovska Kompaniya 2004 AD
- additional raw materials – Thea Trading OOD, Panakom Limited OOD, Bulpro 2004 OOD
- auxiliary materials - Skipter OOD, Intrama Invest EOOD, Sidoreko Foodtex EOOD

The Company is supplied with water from its own water source, with the water corresponding to the quality of drinking water according to the requirements of Ordinance No 9/2001 of MH, MRDPW and MOEW. In case of lack of water supply, sufficient quantity of reserve drinking water is provided from the public water supply system of the town.

In view of the above-mentioned imposed practices and the large supply of products and services by external companies, the production of Gradus-1 EOOD is not dependent on a particular supplier.

Over the past seven years, Gradus-1 EOOD had no significant problems with its suppliers and believes that, unless unforeseen circumstances arise, each of the approved suppliers may provide the necessary quantity in time and with the required quality.

Production capacities, technologies and facilities

The Issuer, through its subsidiaries, has full control of the buildings and facilities, the land on which they were built, and the machines installed in order to perform the regular activity of the company. These include farms for parents breeding in Ruse (village of Chervena Voda) and two farms in the region of Yambol, farms for fattening broilers in the village of Rupkite, Yagach area near Chirpan, the village of Ezerovo near Nova Zagora, town of Nova Zagora and the village of Madzherito near Stara Zagora, a mill in Nova Zagora, a grain storage facility in Nova Zagora, a fodder plant in Nova Zagora, three hatcheries, a poultry slaughterhouse and a meat processing plant. Also, the Group uses its own transport: specialized transport for hatching eggs, one day-old chickens, fodder trucks and refrigerated transport for meat and sausages.

The table below provides information on the main production facilities of the Issuer and its subsidiaries:

Location	Main activity	Area of the production plant	Capacity	Ownership
Stara Zagora	Poultry slaughterhouse	Built-up area 4,896 m ² , total floorage 10,600 m ²	8,000 nos./hour	Gradus EOOD -1
Stara Zagora	Meat processing plant	Built-up area 10,230 m ² , total floorage 13,223.48 m ²	75 tonnes/day	Gradus EOOD -1
Lyubenova Mahala Village	Grain storage facility	Built-up area 7,373 m ²	13,000 tonnes	Gradus EOOD -1
Chirpan	Poultry farm	Built-up area 20,325m ²	400,000 broilers/ loading	Gradus EOOD -1
Gradinarovo Village	Grain storage facility	Built-up area 5,650m ²	12,000 tonnes	Gradus EOOD -1
Preslaven Village	Grain storage facility	Built-up area 2,431 m ²	2,000 tonnes	Gradus EOOD -1
Nova Zagora	Poultry farm	Built-up area 2,200 m ²	39 000 nos. of broilers /loading	Gradus EOOD -1
Ezero Village	Poultry farm	Built-up area 2,200m ²	38,000 nos. of broilers /loading	Gradus EOOD -1
Bolyarso Village and Bezmer Village	Poultry factory	Built-up area 77,340m ²	1) 404,416 nos. Of parents / loading 2) 216,633 nos. of growing parents / loading 3) 69,000 nos. of broilers/ loading	Gradus EOOD -1
Zimnitsa Village	Poultry farm	Built-up area 10,880 m ²	38,000 nos. of broilers /loading	Gradus EOOD -1
Madzherito Village	Poultry farm	Built-up area 51,099 m ²	684,000 nos. of broilers /loading	Lora 2004 EOOD

Madzherito Village		Hatchery	Built-up area 1,857m ²	919,360 eggs /loading	Lora 2004 EODD
Nova Zagora		Fodder plant	Total floorage 6,874 m ²	30 tonnes/hours	Gradus - 3 AD
Nova Zagora		Grain storage facility	Total floorage 815 m ²	16,000 tonnes	Gradus - 3 AD
Chervena Voda Village		Poultry factory	Total floorage 152,287 m ²	1) 427,652 nos. of parents / loading 2) 228,000 growing parents / loading	Gradus - 98 AD
Voyvodovo Village		Poultry farm	Total floorage 24,202 m ²	410,000 nos. of broilers / loading	Zhyuliv EODD
Bolyarovo Village		Hatchery	Total floorage 2,349 m ²	3,300,000 nos. of eggs / loading	Zhyuliv EODD
Chirpan		Fattening farm	Total floorage 35,341m ²	550,000 nos. of broilers / loading .	Milenium 2000 EODD
Nova Zagora		Grain storage facility	Total floorage 7,160m ²	58,000 tonnes	Milenium 2000 EODD

Also important for the Group are the vehicles used in the activity. Currently they include:

- 8 fodder trucks with a capacity of 20 tonnes divided into 4 cells to be able to carry several types of fodder;
- 9 refrigerated meat trucks – 2 by 20 tonnes, 7 by 11 tonnes;
- 5 trucks for live birds – 6.2 thousand broilers of truck capacity;
- 6 trucks for one-day-old chickens, capacity 110,000 per truck;
- 3 Trucks for transportation of eggs with a capacity 306,000 eggs per truck;
- 2 grain trucks;
- Many other vehicles serving the individual sites' operations, where the total number of Group's vehicles is 100.

Sales and marketing

Pricing

Due to its vertical integration, the Group's companies have many intragroup supplies. All purchases-sales of products or services between the Group's companies are made at current market prices for the respective products or services. Current prices depend, in turn, on the market conditions (demand and supply volumes and the prices at which competitors operate), seasonality and supply quantities.

Despite the high quality and proven origin of the one-day-old birds and hatching eggs sold, the Group cannot influence the international market prices and deviate from the current market levels. In the past year, the prices of birds and eggs sold have increased, with medium-term expectations that these trends will remain, but market levels are cyclical and also depend on unpredictable factors such as diseases and trade sanctions. As of the date of the Prospectus, nearly half of the hatching eggs that are sold outside the Group were subject to long-term arrangements and the rest of them were sold on the free market. This provides security for the realization of eggs, while allowing part of the sales to take place under more advantageous conditions.

With regard to the production of Gradus - 1 EOOD (chicken products and sausages with pork), which is mainly sold in Bulgaria, the Company has a national pricing policy that is determined annually. If there is a need for a timely change in the selling prices (in response to the market conditions), a flexible system for their weekly update has been built. Despite the intense competition on the market, the high quality and strong brand of the Company allow it to sell Gradus products at prices above the average market levels. Considering the customer preference for fresh instead of frozen meat in the last 3 years, the average market price of chilled whole chicken is by about 18.5% higher than the average price of frozen whole chicken. For the lower-margin non-branded, non-cut chicken - the so-called "raw chicken", the weekly stock price at the Sofia Stock Exchange is used.

For a more competitive and efficient supply chain, the company also offers discounts to the distributors and retail chains with which it operates, which also reflect on the effective end-prices. The offered discounts are most often based on realized quantity, assortment, coverage, exclusivity, logistics, marketing, etc.

The Group's companies trade in agricultural products outside the Group, mostly including products with exchange-fixed prices (wheat, sunflower, maize, etc.). In order to limit the market risk and realize products under the best possible conditions, the agricultural products are stored indefinitely, depending on the expectations for the conjuncture development.

Marketing and advertisement

In addition to the discounts for distributors and retail chains, the Group's marketing strategy also includes direct marketing targeting the end-user. For 2017, the marketing and advertising costs were BGN 2.1 million, by 45% compared to those for 2016 due to the active campaign for the positioning of the new products from the brand "Az yam!". The main communications channels used are TV, radio, advertising at the points of sale and in the social networks.

The Group was one of the first poultry producers with its own brand in Bulgaria, which succeeded on the market and has since set the communications standards within the branch. The goal of the advertising campaigns is to provide interesting, accessible, and memorable information about the quality and variety of the products offered and to provide consumers with more reasons to buy the Group's products instead of competing products.

One of the most successful marketing initiatives of the Group was in 2011 when the company first put its label on its packaging, which particularly highlighted the lack of added water and preservatives in its products. Thus, the company changed the attitudes of consumers and made other manufacturers adjust their practices and packaging. The subject of added water in chicken remained important in 2012, too, when the Group launched its No Water! campaign with the motto "Water is for drinking and not for eating!". The campaign also included a memorable TV clip that clearly and unambiguously demonstrated

the difference between Gradus products and added-water products. Subsequently, in 2014 and 2015, the Group also realized its "Be a Hero!" campaign, the main goal of which was to build an emotional relationship with consumers by making them aware of the fate of abandoned children. The campaign provided customers with the opportunity to buy a product under the Gradus brand and thus contribute to the construction of a home for children deprived of parental care. Since its opening to this day, More than 30 children were accommodated and then found their homes. A market research conducted at the end of 2015¹⁵ unequivocally proved the exceptional effect of the advertising strategy of the company and the leading position of the Gradus brand in the minds of customers. The main results of the research were as follows:

- Brand's overall popularity – 99.8%;
- General penetration of the brand – 94.5%;
- The first mentioned brand in 68.4% of the cases;
- The favourite brand of 50.3% of the respondents;
- Exclusively consumed brand by 36.8% of the respondents.

In 2015, the brand was also declared a Superbrand. in a research conducted by the independent Swiss Institute ICERTIAS at the end of 2017, Gradus was also declared the brand with the best price/ quality ratio in the freshly-packed meat category and it deserved the right to place on its labels the prestigious "BEST BUY!".

From April 2016, the Gradus Group has been also competing on the pork sausage market with its new brand "Az yam!". Thanks to its effective marketing strategy and the well-developed Gradus distribution network, in December of the same year, "Az yam!" was already among the leading brands on the market, having replaced competing firms with more than 20 years of history. In the market research¹⁶ conducted at the end of 2016, the brand's overall popularity was 76.5%, the spontaneous popularity was 23.3%, and 27.2% of the respondents said they had bought "Az yam!" in the last 3 months. From the creation of the brand until the date of Prospectus, the Group developed 13 products under the brand: classic and spicy frankfurters, 3 types of sausages, 2 types of minced meat, 3 types of sausages (Teleshki /Veal, Hamburgski, and Kamchia) and 3 types of salami (Shpekov, Delicatesen, and Zaralyiski).

Distribution model and main customers

All supplies between the Group's companies, excluding fodder and hatching eggs, are carried out by Gradus - 1 EOOD, with the transport of hatching eggs being performed by Milenium 2000 EOOD and the supply of fodder by Gradus - 3 AD. The Agricultural produce not used for the production of fodder is stored for different periods and sold to large international companies, such as Glencore, Cargil and ADM. The Agricultural products most commonly marketed are sunflower and corn.

The hatching eggs produced are realized almost entirely abroad, with selection being made in advance to select eggs for external customers (the technology is such that the hatching rate is known with an accuracy of 99% before the realization). Until 2016, the produced eggs were realized mostly in the European Union but, due to prospects for larger quantities, the main destinations subsequently became the countries of the Middle East and the Transcaucasus region, as well as other European countries not members of the European Union. It should be noted that in only a few years, the Group has become not only a well-recognized but also a preferred supplier of hatching eggs in the Middle East. The main reasons for this are both the exceptional quality of the product sold and the proximity of our country compared to suppliers from Central and Western Europe. Nearly half of the hatching eggs sold outside the Group are subject of long-term arrangements. Among the long-term customers are Agro Oven, Ukraine, Avi Top S.A., Romania, Afnan Livestock Services, Iraq, Sabudara Ltd, Georgia, etc.

¹⁵ *Источник: Source: Blue Point*

¹⁶ *Источник: Source: Blue Point*

One-day-old birds are sold in Bulgaria and neighbouring countries. The main export destinations are Romania, Greece, Kosovo and Albania. The most significant for the Group are the sales made on the Romanian market where it has become a major and preferred supplier, outpacing both domestic suppliers such as Agrafood, Vis a Vis, Avicola Tartasesti and major European companies such as the Czech company Mach and the Hungarian company Gallus. With each year, the portfolio with customers from Romania increases, with the Romania's sales share being 897% (88% of the quantities) of the one-day-old birds realized outside the Group.

Over the years, the Group has developed a strong distribution network for its own production, founded in 2009 when Gradus-1 EOOD opened its sales office in Sofia. By the end of the same year, the Company signed contracts with key partners such as Metro and Billa, with which it has been working until today, and only a few years later the active customers of the major distributors of the company increased from an average of 900 to 5,000 stores. Currently, among the customers are all international chains of supermarkets present in Bulgaria as well as many wholesalers of food products. The discounts for distributors are in the basis of the distribution network as they, together with the variety and quality of the products produced, strengthen the position of the company as a preferred partner. As of the date of the Prospectus, the Group was in cooperation with 45 regional distributors which together covered the whole country.

The Group's distribution network is very well organized and efficient. It covers the entire country and is structured on a regional basis with sales representatives in all major cities.



Supplies outside Bulgaria are carried out by wholesalers, partners of the company, which also work outside the country. Although the Group realizes its production of processed meat mainly on the domestic market, the demand by foreign companies has increased significantly in recent years and as of the date of this Prospectus, the Group was supplying both to European countries and third countries and countries from the Muslim world. Among the most important regular export destinations are Switzerland, Germany, Belgium, England, Italy, Spain, Denmark, Greece, Romania, Cyprus and Macedonia. Important for the realization in Muslim countries and communities is the ability of the Company to provide large quantities of production according to the ritual requirements of Islam and accompanied by the relevant certificate (Halal certificate).

The Group has adopted a timely-supply policy and its supply chain includes minimal storage, with the supplies to Sofia being made directly from the production base in the town of Stara Zagora every day. The policy in question is implemented through the automated order and supply planning system maintained by the Group maintains to optimize the inventories and courses undertaken. In order to achieve maximum

optimization across the supply chain, the Group provides additional discounts to retailers that are integrated into the system

Important for the distribution network expansion was the company's strategy to build and maintain a direct relationship with the major retail chains in the country. As early as in 2009, apart from Metro and Billa, the Group began working with Mercator, Plus, and Carrefour, and in 2010 it also managed to attract Fantastico, Kaufland, Piccadilly, Pennie, and Hit. The strong expansion continued in 2012 when the Group signed a contract with Lidl, and in 2014 when the Group placed its products at Maxima T-Market, whereby it achieved 100% presence in the major international retailers in the country.

Due to the quality of its production and the relationships maintained by the Group with retail chains, the latter gradually started to develop co-production with the company, with the products being realized under their own brands. As of the date of the Prospectus, the Group operated with all international retail chains in Bulgaria, with the exception of the Macedonian chain "KAM", and some of the co-production chains were Kaufland, Billa, Metro, Lidl, and Fantastico.

The Group distinguishes the following two main distribution channels, through which realizes its ready-made products in Bulgaria:

- The so-called Modern trade, which includes international trade chains that are partners of the company;
- "traditional trade", that includes both local retail chains and the distributors and wholesalers with whom it works.

The production in kilograms realized by distribution channel and by type of production for the last 3 years are as follows:

kgs	2015	2016	2017
Modern trade	5 524 810	5 390 343	6 415 458
Traditional trade	9 916 056	10 399 302	10 543 988
Export	4 402 553	4 195 527	4 384 166
TOTAL	19 843 420	19 985 174	21 343 612

Note: Data does not include sales of waste products from boiler processing

Main markets and competitors

One-day-old chickens

The Group sells one-day-old birds on the domestic market and exports them to several neighbouring countries. Of the total production of one-day-old birds in 2017, with the largest share in the volume of sales - 73% - was the export sales; the own production of poultry meat used 21%, and 6% was the share of the sales on the domestic market. One-day-old birds are exported to Greece, Romania, Kosovo, and Albania. The most significant for the Group are the sales on the Romanian market where it has become major and preferred supplier, outpacing local ones such as Agrafood, Vis and Vis, Avicola Tartasesti and the major European ones such as Czech Mach and Hungarian Gallus.

Sales of one-day-old birds on the domestic market and export for the last 3 years

(pcs.)	2015	2016	2017
Domestic market, outside the Group	2 520 660	2 874 840	2 474 810
European Union, incl.:	21 072 500	22 282 980	30 138 620
Romania	21 072 500	21 753 380	28 835 320
Greece	-	529 600	1 303 300
Third countries, incl.:	-	303 000	14 062
Kosovo	-	283 000	-
Albania	-	20 000	14 062

TOTAL	23 593 160	25 460 820	32 627 492
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(BGN)	2015	2016	2017
Domestic market, outside the Group	1 639 818	1 887 470	1 439 012
European Union, incl.:	13 543 656	14 805 337	19 909 757
Romania	13 543 656	14 444 392	18 965 441
Greece	-	360 945	944 316
Third countries, incl.:	-	244 417	8 801
Kosovo	-	232 290	-
Albania	-	12 126	8 801
TOTAL	15 183 474	16 937 224	21 357 570

Source: Company

At the local market the Group has no significant competitors in the sale of one-day-old birds. The main competitors on the foreign markets are the aforementioned Agrafood Romania, Mach Czech Republic and Gallus Hungary in Romania and Th. Nitsiakos Avee in Greece, which at the same time is a customer of the Group.

The sale of one-day-old chickens requires expensive specialized transport and the shortest possible shipment (not more than 48 hours), which limits the potential new competitors only to regional ones. In addition, raising hens and cocks and hence, hatching eggs and incubating them is quite specific and associated with typical risks (such as parental mortality), the restriction of which requires a very serious financial resource.

Hatching eggs

The Hatching eggs not used for the production of one-day-old birds, are sold outside the Group, and the sale is mainly on foreign markets. Key export markets are countries of the Middle East, Georgia, Azerbaijan, Ukraine and Greece. Nearly 49% of the hatching eggs for sale are subject to long-term agreements and the rest are realized on the free market, which allows the Group to be flexible in its marketing strategy and to realize its sales under the most advantageous terms. It is important that the companies of the Group are not only well-recognized but also preferred suppliers of hatching eggs in the Middle East because of the exceptional quality of their production and the proximity of our country compared to suppliers from Central and Western Europe. The Eggs sold in the Middle East in 2017 were 52.5% of the overseas sales, the realized sales in the countries of South Caucasus were 6.0%, and the sales in the EU – 7.4%. Nearly 34.2% of the sales abroad were made on the Ukrainian market, which is the second largest for the Group after Iraq (40.9%). In Ukraine, the company established long-standing cooperation with a local poultry and poultry meat producer. Similar relationships have been established with a Romanian client, as a result of which Romania reached a share of 6.5% of the export sales in 2017 compared to 2.2% in 2016.

Sales of hatching eggs for the domestic market and export for the last 3 years

(pcs.)	2015	2016	2017
Domestic market, outside the Group	7 965 117	8 426 082	4 420 260
European Union, incl.:	38 695 080	13 810 080	4 417 800
Hungary	10 458 720	1 162 080	-
Romania	8 248 600	1 350 000	3 898 800
France	1 209 600	288 000	-
Greece	12 667 520	11 010 000	519 000
Belgium	2 937 600	-	-
Spain	1 152 000	-	-

Poland	2 021 040	-	-
Third countries, incl.:	16 961 360	46 208 888	55 580 680
Panama	302 400	-	-
Iraq	4 986 000	14 726 648	24 516 000
Azerbaijan	288 000	909 600	511 200
Russia	1 424 160	10 951 560	-
Georgia	-	450 000	2 946 520
Turkey	-	154 080	3 628 800
Ukraine	9 960 800	19 017 000	20 507 760
Jordan	-	-	3 326 400
Armenia	-	-	144 000
TOTAL	63 621 557	68 445 050	64 418 740

(BGN)	2015	2016	2017
Domestic market, outside the Group	2 075 274	705 615	357 165
European Union, incl.:	16 772 675	5 749 987	1 661 814
Hungary	4 597 529	477 294	0
Romania	3 701 302	607 285	1 448 824
France	528 692	98 574	0
Greece	5 299 351	4 566 834	212 990
Belgium	1 218 881	-	-
Spain	622 228	-	-
Poland	804 693	-	-
Third parties, incl.:	8 120 452	17 441 591	22 624 381
Panama	136 032	-	-
Iraq	2 338 817	3 930 240	9 938 820
Azerbaijan	149 269	267 174	213 131
Russia	650 024	4 822 677	-
Georgia	-	150 883	1 334 634
Turkey	-	24 108	1 494 576
Ukraine	4 846 311	8 246 509	8 372 252
Jordan	-	-	1 211 824
Armenia	-	-	59 144
TOTAL	26 968 401	23 897 194	24 643 360

Source: Company

At present, the Group is the second largest producer of hatching eggs in Europe (Wimex, Germany in the first place and Mach, the Czech Republic, in the third place). Given the scale of the production, the Group has no significant competitors in Bulgaria. The most serious competitors on the Middle East markets are Incubel, Belgium; Pluriton, Holland; Wimex, Germany and DanHatch, Denmark.

Due to the specific nature of the activity, which requires significant initial investment in modern technological equipment, the Issuer does not consider that there is a threat of entry of a substantial competitor on the local market. An extremely important competitive advantage for the Holding is its closed production cycle, which allows egg selection, resulting in considerably higher hatching (over 84% for the eggs sold). The consistently high quality allows the Group to conclude long-term sales contracts and ensure security in realization.

Poultry meat and sausages

The ready meat production is mostly realized on the domestic market, but the interest in the products offered by European companies and companies from third countries has grown significantly in the recent years and the Group has begun to export both to Europe and to the Muslim world. Particularly advantageous in terms of realization in Muslim countries and communities is the ability of the Group to produce products in accordance with the ritual requirements of Islam, accompanied by the relevant certificate (Halal certificate). As of the date of the Prospectus, the Group established long-term relationships with customers from Switzerland, Germany, Belgium, Italy, Denmark, Greece, Romania, England, Spain, Cyprus and Macedonia and had regular exports to these countries. A trend of increased interest in the new products and the range of sausages of the brand "Az yam!" can be seen.

Sales of poultry products on the domestic market and export for the last 3 years

(Kgs)	2015	2016	2017
Domestic market	19 944 784	22 317 740	23 766 141
Export market, incl.	5 217 015	2 721 161	2 332 118
Romania	4 774 189	2 284 590	2 054 316
Germany	8 001	8 423	18 568
England	179	-	-
Denmark	-	32 700	7 000
Belgium	-	531	1 920
Spain	-	838	-
Greece	-	79 998	-
Cyprus	153 159	108 253	43 784
Qatar	-	40 000	-
Dubai	12	-	-
Macedonia	181 475	165 828	40 000
Italy	-	-	1 188
Spain	-	-	260
Switzerland	-	-	165 082
Georgia	100 000	-	-
Total	25 161 799	25 038 901	26 098 205

(BGN)	2015	2016	2017
Domestic market	60 105 833	58 409 269	66 263 685
Export market, incl.	1 629 721	1 444 459	1 148 386
Romania	384 421	209 585	376 993
Germany	25 266	25 422	56 394
England	631	-	-
Denmark	-	86 888	18 620
Belgium	-	1 858	6 523
Spain	-	3 632	-
Greece	-	267 995	-
Cyprus	422 015	280 245	117 119
Qatar	-	130 029	-
Dubai	23	-	-
Macedonia	505 946	438 806	103 092
Italy	-	-	4 423

Spain	-	-	1 134
Switzerland	-	-	464 088
Georgia	291 419	-	-
Total	61 735 554	59 853 728	67 412 069

Source: Company

The domestic market for chicken meat is highly competitive mainly because of its large-volume and cheap import. It consists mainly of no name products, where the selling prices and profit margins are low. The market share of such products cannot be accurately estimated (despite the measures taken by the state, there is still a considerable amount of illegal import) but is considered to be over 50%. The main negative issue for imported products is the tendency of changing consumer preferences from frozen to chilled products, the latter with a much shorter durability. The durability of imported products is shortened by the transport period (about 3 days), which significantly limits the time horizon for their realization, making them less attractive to distributors and trade chains.

The Group's focus is on branded products. The entry of a new competitor in the chicken market in the branded product segment is extremely difficult. Over the past 25 years, the Group has invested a substantial resource in promoting the Gradus brand, and the placement of a new brand with similar coverage would require considerable funds and time. In addition to the strong brand, the Group also has an exceptionally well-developed distribution network and quality and wide range of products, allowing it to sell with a premium over the no-name products.

The only other significant producer and competitor on the branded product market is Ametha Holding with the Ludogorsko Pile brand and the company producing the Duke Chicken. From 2015, Ameta Holding has been owned by one of the largest chicken producers in Europe - the German PHW (Paul Vesjohann & Co.), which invests considerable funds in expanding the capacity of the Bulgarian company with a major focus on expanding export markets.

The market share of the Group on the branded chicken meat market in Bulgaria is estimated at 35%¹⁷.

In respect of chicken meat sausages (semi-finished products and boiled-smoked poultry meat delicacies), the Group competes with many national and regional producers, including Bella Bulgaria, Ken, Chicken Group, Mesco, Bravo, Gala, 100-% Chicken, etc. Despite the strong price competition, the Group is the leader in this segment, too, again relying on the quality and brand recognition of Gradus.

The pork meat sausage market is highly competitive and fragmented in all product types and in all price categories. The Group's pork meat sausages compete in the average price segment under the brand "Az yam" With the products of Ken AD, Delicates - 2 OOD (Zhitnitsa), Bella Bulgaria AD (Sachi, Leki), Bonnie Holding AD. The Positioning and sales on this market are heavily dependent on aggressive marketing, which requires a serious cash and time resource. With the brand "Az yam!", the Group capitalizes all of its existing advantages: a well-functioning distribution network, good relationships with the retail chains, and marketing experience to promote its new brand. In addition, every product of the brand "Az yam!" bears the stamp "Guaranteed by Gradus", - t, which also contributes to the customer confidence and rapid brand popularization.

Trade in cereals

The trade in cereals enjoys a growing interest in Bulgaria, attracts many participants, and generates high turnovers. Respectively, the competition between the participants is enormous and the market position depends on the existence of a serious financial resource and large-capacity grain storage facilities, which allow storage while waiting for more appropriate market conditions. Although having the largest grain storage facility in the country, the Group has strong regional competitors in the face of Sevan OOD,

¹⁷ Company details

Cargill Bulgaria EOOD, and Glencore Grain Bulgaria EOOD. Another substantial advantage of the Holding is that it can use the cereals for the production of fodder for its main activity.

The main agricultural crops traded in are sunflower, wheat, and corn. Cereals are sold mostly to the local divisions of world leaders such as Glencore and Bunge, who trust the Group as a long-term partner.

Sales of cereals outside the Group for the last 3 years

(kg)	2015	2016	2017
Sunflower (including striped)	26 021 958	44 983 310	94 882 925
Wheat	8 120 652	2 110 310	52 787 050
Maize	37 720	6 160	33 872 580
Corn silage	1 408 540	4 811 780	-
Coriander	-	-	6 502 917
Rapeseed	248 720	7 641 290	1 226 540
Barley	-	2 167 980	1 198 460
Straw bale (pcs)	216	327	367
Total (without straw)	35 837 590	61 720 830	190 470 472

(BGN)	2015	2016	2017
Sunflower (including striped)	21 197 862	31 171 731	60 225 183
Wheat	2 576 633	697 100	15 265 173
Maize	10 712	1 848	8 160 980
Corn silage	161 982	599 700	-
Coriander	-	-	9 646 384
Rapeseed	203 950	5 681 397	869 491
Barley	-	642 359	359 186
Straw bale (pcs)	19 116	17 648	13 300
Total (without straw)	24 151 139	38 794 135	94 526 397

Source: Company

Material contracts

In the course of its ordinary activities, the subsidiaries of the Group conclude multiple contracts, of which the following have been identified as significant with respect to their importance for the Group's operations:

Cooperation agreements with major international retail chains

These contracts are framework ones and determine the terms of trade between Gradus-1 EOOD and the respective retail chain, including the basic principles and procedures for the supply of goods by the Company under each individual purchase contract. The agreements usually indicate the additional services provided by the chain (e.g. marketing, logistics, etc.) as well as the discounts provided by the Company.

Cooperation agreements with distributors

These contracts are also of paramount importance for the realization of finished products, the maintenance and development of the sales of Gradus-1 EOOD. Essentially, these are contracts for ordinary commercial representation and distribution for the realization of the Issuer's products on the territory of the Republic of Bulgaria. No Distributor is granted exclusive representation rights in the

realization of the finished product. The Standard contracts of this type include: deferred payment terms, requirements for the trader's warehouse facilities and transport means, delivery terms, types of bonuses, trade policy (including planned objectives) of the Company. Gradus - 1 EOOD provides the trader with its price list, in which it determines the type and cost of each product provided for realization by the trader.

Agreements for the supply of one-day-old parent chickens

A supplier of Ross 308 one-day-old chickens - parents for broilers for the subsidiaries Milenium 2000 EOOD and Gradus 98 AD is the Hungarian company Aviagen Kft. The agreement with Aviagen is renewed annually and fixes the quantities of chickens supplied within one-year period. The agreement defines the quality criteria, exact supply times, method and transportation, prices.

Aviagen is committed to providing technology services to the Group's companies and they are committed to rearing the growing the parents as instructed by Aviagen.

Agreement for the sale of hatching eggs with Agro-Oven OOD, Ukraine

This agreement is the only one the size of which defines it as important. Agro-Oven OOD, Ukraine is currently the largest customer of the Group for hatching eggs. The agreement with Agro-Oven OOD is a long-term agreement for a 5-year period, with the value of the supplies in 2017 amounting to just over EUR 7 million. Supply times are set at the end of each previous year. The other terms of the agreement include: commitment to supply within a limited time after shipment, egg quality criteria (including a hatching rate not less than 84%), buyer's obligation to load the eggs in the hatcheries within a specified period, etc.

Agreements for the sale of cereals

Gradus - 3 concludes seasonal agreements for the sale of cereals with large international grain traders, with such agreements being part of long-term partnerships renewed every year. Such agreements specify the type of product, quality parameters, delivery and payment terms. Prices and quantities are determined by an annex at each delivery. Currently, there are no such effective agreements.

During the past two years preceding the date of the Prospectus, none of the Group's companies was a party to an agreement other than the agreements entered into during the ordinary activities of the Group, which could be defined as significant.

None of the Group's companies entered into any agreements outside the ordinary activities of the Group, which may contain any provisions engaging any of the Group's companies with a liability or vesting it rights, which are material to the Group as of the date of the Prospectus.

With regard to the Group's total bank loans, please see *"Operational and Financial Review - Capital Resources, Cash Flows and Indebtedness - Loan Agreements and Credit Financial Instruments"*.

Insurance coverage

The Group's companies maintain valid Property Insurance policies for all their real estates. The Property risks covered include Industrial Fire (all standard components), Earthquake and Theft. Against industrial fire and earthquakes, the equipment and the movable property of the company, including the cereals stored, are also insured.

The Group's companies maintain a valid Occupational Injury Insurance policy for their employees.

The Group's vehicles have Third Party Liability Insurance and Casco Insurance.

When transporting hatching eggs and live cargo of one-day-old chickens, the's Group companies conclude a Cargo insurance, which covers risks such as loss or damage as a result of an accident, theft or robbery and deterioration of the products due to damage to the vehicle's refrigerating unit (for eggs).

Significant fixed and intangible assets

The Group's main assets are the buildings (and the terrains underneath), the production equipment and vehicles (see *Business Overview - Production Capacities, Technologies and Facilities*). The Group's

activity is highly dependent on these assets and most of the ongoing and planned capital costs are related to their maintenance and development (see *"Operational and Financial Review - Current and Planned Investments"*).

The book value of the main tangible assets as at 31 December 2017 is as follows:

Property, plant and equipment	(thousand BGN)
Land (terrains)	16 466
Building and structures	86 990
Machinery and equipment	33 237
Facilities	22 408
Vehicles	4 461
Farm inventory	1 671
costs of acquisition of tangible fixed assets	4 707
Total Property, plant and equipment	169 940

Source: Audited consolidated financial statements for 2017

As at 31 December 2017, the Group had property, plant and equipment with a book value of BGN 176.3 million, including property, plant and equipment for BGN 170 million (50.3% of the total assets) and investment property for BGN 6.3 million (1.9% of the total assets.) For more information on the Group's fixed assets, please see *"Operational and Financial Review - Assets and Liabilities"*.

The last valuation of the fixed assets and the investments was performed by independent licensed appraisals as at 01.01.2017, and their fair value was determined on the basis of their current market value established.

The most important real estate of the Group were the buildings in which the production took place (halls and factories) and the terrains on which they were built, with a total book value of BGN 103 million (BGN 87 million and BGN 16.5 million for land and terrains, respectively).

The Group has machines with a book value of BGN 33.2 million, which are involved in the daily production cycle.

The means of transport which were mainly specialized trucks for the transport of meat and meat products, broilers, one-day-old chickens and hatching eggs were other essential assets for the Group. Their book value amounted to BGN 4.5 million.

As of the date of the Prospectus, fixed tangible assets with a book value of BGN 42.5 million were pledged as collateral on bank loans.

The Issuer was not aware of any environmental problems that could affect the use of the fixed tangible assets of the Issuer.

The intangible assets significant for the Group's activities were its trademarks Gradus and "Az yam!". The brands were valued at the establishment of the Holding by licensed appraisals at BGN 27.3 million and BGN 26 million, respectively. For more information on the brands in question, see *"Business Review - Intellectual Ownership"*.






Judicial, administrative and arbitration proceedings

In the normal course of its activities, the Group is a party to legal proceedings in connection with its operating activities but Gradus AD is not aware of the existence of any administrative, civil, arbitration or criminal proceedings (including pending or threatened ones, which may be initiated by and against the Group) for the last 12 months and as of the date of the Prospectus, which could have a significant effect on the Group's financial position or profitability.

Intellectual ownership


Brands

At the date of the Prospectus, the Group had registered the following brands:

Image	Request No.	Name	Term of effect	Type	Holder
	1999046844N	GRADUS	15.09.2019	Combined	Gradus - 1 EOOD
	1999046845N	GRADUS	15.09.2019	Combined	Gradus - 1 EOOD
-	2005076080N	GRADUS	18.01.2025	Textual	Gradus - 1 EOOD
-	2005076668N	GRADUS GRADUS	11.02.2025	Textual	Gradus - 1 EOOD
-	2005076991N	GRADUS GRADUS	23.02.2025	Textual	Gradus - 1 EOOD
	2005078914N	GRADUS	19.05.2025	Combined	Gradus - 1 EOOD
	2010116529N	GRADUS	15.10.2020	Combined	Gradus - 1 EOOD
	2015135927N	"Az yam! "	25.02.2025	Combined	Gradus - 1 EOOD

Source: Patent Office of the Republic of Bulgaria (<http://www.bpo.bg/>)

Apart from Bulgaria, the Gradus brand was also registered with the European Union Intellectual Property Office (EUIPO):

	Request No.	Name	Term of effect	Type	Holder
	010643237	Gradus	25.12.2012	Combined	Gradus - 1 EOOD

Source: European Union Office for Intellectual Property (<https://euipo.europa.eu/>)

The Gradus branded chicken products are sold at a considerably higher price than the non-branded chicken sold in bulk and the chicken under other brands. The Group has invested a significant resource in the marketing and promotion of the brand, the latter already having a history of over twenty-five years. The closed production cycle of the Company allows for full quality control and customers can be sure that they buy a quality product of a guaranteed origin. As of the date of the Prospectus, the Group had developed more than 150 Gradus products, and in 2017, it realized 9,604 thousand kilograms of products under the brand as well as income of BGN 32,558 thousand compared to 8,838 thousand and BGN 29,786 thousand for 2016.

"Az yam! Is a first-class brand of sausage products. Although it was only registered in 2016, the brand quickly gained popularity by taking advantage of the good reputation of Gradus. Each product under the brand bears the stamp "Guaranteed by Gradus" which contributes to greater consumer confidence. A significant advantage of "Az yam!" is that the long- presence of Gradus on the market allows for almost instantaneous placement of new products in the showcases of the major retail chains. As of the date of the Prospectus, the Group had developed 13 products under the brand " Az yam!" , and in 2017, it realized 1,406 thousand kilograms of products under the brand and income of BGN 5,924 thousand compared to 868 thousand kilograms and BGN 3,472 thousand, respectively, for 2016.

The Company does not have any other significant intellectual property.

The Issuer has no information about any material disputes concerning the intellectual or industrial property rights owned by the Group or used in its activities or about any threat of occurrence of such disputes. There are no circumstances in which the benefit from or the right to use any of the abovementioned substantial intellectual or industrial property rights may be lost or adversely affected.

Information technologies

The main IT systems in connection with the Group's activities are the information systems in the Gradus Poultry Slaughterhouse.

The whole process - from the reception of live birds to the shipment of ready-made poultry meat products -, goes through a large number of technological operations, most of them automated or semi-automated. For its implementation, computer control is applied at each stage of the production process. In the plant, Several groups of information systems are functioning and are fully integrated:

1. Technology equipment management system. Grading.

- PDSNT – a specialized system for automatic control of the technological equipment from the reception of the basic raw material - live birds, through all technological stages, to the production of poultry meat that is ready for shaping and packaging. The information system performs monitoring, diagnostics, and adjustments of the technological equipment.
Provides production reporting in real time in all of the stages of the production.
- QSNT – automatic product grading system based on imaging diagnostics detecting the defects in the finished product and operating in an integrated manner with the technological equipment management system PDSNT.
- INNOVA – information system for consultation on and analysis of the technological process.

2. Packaging, labelling, storage.

- Own-developed information system for control and management of the production of finished products, performing operation reporting and real-time management of the equipment and providing possibilities for the production by using both methods: MTO (Make-to-order) and MTS (Make-to-stock).
- Stock control and product order system under FIFO and /or FEFO.
- Mobile applications that are part of the information system and provide recording and reporting of operations in real time, at the place of their performance.

3. Logistics, transport

- Own information system for the acceptance of orders from customers and distributors through different information channels.
- Information system for logistic planning and GPS control of vehicles.

Employees

As of the date of the Prospectus, the Group had 1,315 employees, 1,258 of which working in the production department and 57 of them working as administrative staff. The average number of the personnel in 2017 was 1,231 compared to 1,185 in 2016 and 1,117 in 2015.

As of the date of the Prospectus, the Company with the highest number of personnel was Gradus 1 (521), followed by Milenium 2000 (361), and the one with the lowest number of personnel was the parent company Gradus AD (1). The average number of personnel by companies for the past 3 years was as follows:

Company	2015	2016	2017	As of the date of the Prospectus
Gradus AD	-	-	-	1

Gradus – 98	160	170	172	185
Gradus – 3	71	70	73	78
Zhyuliv	88	116	119	123
Gradus – 1	426	451	495	521
Milenium 2000	325	335	331	361
Lora – 2004	47	43	41	46
Total	1,117	1,185	1,231	1,315

The business activity performed by the largest number of employees was 'poultry farming' (715), followed by 'meat processing' (521) and the activity performed by the least number of personnel was 'fodder production' (78). The average number of personnel by activity for the past 3 years was as follows:

Activity	2015	2016	2017	As of the date of the Prospectus
– Parent company	-	-	-	1
Fodder production	71	70	73	78
Poultry farming	620	664	663	715
Meat processing	426	451	495	521
Total	1,117	1,185	1,231	1,315

As of the date of the Prospectus, 8% of the total number of employees had higher education, 40% - had secondary education, and 52% had primary or no education. The average gross annual salary of the personnel in 2017 was BGN 10,930.2, compared to BGN 12,720.0 average for Bulgaria and BGN 10,146.3 for the Group in 2016. The average gross annual salary by company for the last 3 years was as follows:

(BGN)	2015	2016	2017	As of the date of the Prospectus *
Gradus AD	-	-	-	8,100
Gradus - 98	7,909	8,074	10,271	2,886
Gradus - 3	9,371	10,633	11,442	3,551
Zhyuliv	8,988	9,795	10,620	3,956
Gradus - 1	9,494	10,478	11,124	3,004
Milenium 2000	10,168	10,916	11,186	3,800
Lora-2004	8,734	9,018	9,280	4,437

** Data concern the paid labour remunerations for the first quarter*

According to the standards established in the Labour Code, the companies' employees are entitled to higher additional remuneration required by the applicable law for (i) overtime hours; (ii) night shifts; (iii) working on Saturdays, Sundays and during holidays. Employees who work in specific, harmful or hazardous conditions shall receive personal protective equipment and allowances. The Group's employees are entitled to seniority benefits, reimbursement of travel expenses for business trips, and compensation for incapacity for work due to illness. Some Group's companies also provide additional social and other benefits, including additional health insurance, accident insurance, a vehicle, a mobile phone and food vouchers.

The Group's liabilities to its employees as at 31 December 2017 was 1,082 thousand BGN and included BGN 1,040 thousand accrued expenses for remuneration for December and BGN 42 thousand liabilities for unused leaves.

The Group developed training programmes for its employees. The Training policy is specifically directed towards acquiring professional knowledge and understanding of and adherence to health and safety requirements.

The companies within the Group do not hire a significant number of temporary workers.

In order to increase the public confidence in the professionalism and morale of the employees and in accordance with the statutory requirements, the Board of Directors will adopt, upon acquisition of a public status a Code of Ethics aiming to establish standards of ethical and professional conduct and to prevent unlawful acts,. The Code will set the rules for:

- the relations with shareholders, investors, media, the Financial Supervision Commission and the regulated securities market;
- professional behaviour;
- personal behaviour;
- the relations between the employees;
- the avoidance of conflicts of interest;
- the avoidance of misuse of in-house information and for keeping confidentiality.

The Group's companies have no practice of concluding agreements with their employees to ban the conducting of competitive activities.

No collective agreements have been concluded between the Group's companies and their employees. There are no active trade unions in the Group.

The Group's companies are not parties to labour disputes and the Labour Inspection has not applied sanctions to them.

As of the date of this Prospectus, there were no arrangements for the participation of employees in the Company's capital or relating to the distribution of profits.

The employees of the Group's companies have not been granted and will not be granted rights to acquire, free of charge, shares and share equivalents.

10.INDUSTRY OVERVIEW

The Bulgarian economy¹⁸

The prospective development of the Holding and the successful implementation of its corporate strategy depend on the general macroeconomic environment in Bulgaria.

Key macroeconomic indicators for Bulgaria	2013	2014	2015	2016	2017
Gross Domestic Product, million BGN	82 166	83 634	88 571	94 130	98 631*
Annual real rate of change in GDP, %	0.9	1.3	3.6	3.9	3.6
Harmonized Index of Consumer Prices (HICP), annual change, %	- 0.9	- 2.0	- 0.9	- 0.5	1.8
Unemployment, %	11.8	10.7	10.0	8.0	7.1
Average monthly salary, BGN	775	822	878	948	1 060
GDP per capita, BGN	11 310	11 577	12 339	13 206	13 884
Budget (deficit) / surplus, million BGN	- 1440.8	- 3072.9	- 2485.2	1 465.1	845.2
Budget (deficit) / surplus, % of GDP	-1.8%	-3.7%	-2.8%	1.6%	0.9%
Base interest rate	0.02	0.03	0.01	0.00	0.00
Gross external debt, % of GDP	87.9%	92.0%	74.0%	71.1%	66.1%
Current account (deficit) / surplus, % of GDP	1.3%	0.1%	0.0%	2.3%	4.5%
Direct investments in Bulgaria, % of GDP	3.3%	2.7%	5.5%	2.2%	1.9%
Direct investments in Bulgaria, million EUR	1 383.7	1 160.9	2 475.9	1 079.6	950.1
Currency exchange rate of BGN for 1 EUR	Currency exchange rate: 1.95583 BGN for 1 EUR				
Currency exchange rate of BGN for 1 UDS, at the end of the period	1.42	1.61	1.79	1.86	1.63

* Data for 2017 is preliminary.

Source: BNB; NSI

The long-term foreign currency sovereign credit rating of Bulgaria, as determined by the main international rating agencies, is provided in the table below.

Rating agency	Long-term rating	Perspective	Change
Moody's	Baa2	Stable	29 May 2017
Standard & Poor's	BBB-/A-3	Stable	01 December 2017
Fitch	BBB	Stable	01 December 2017

Gross domestic product

During the 2004-2008 period, the Bulgarian economy was growing consistently by a real annual growth rate of around 6%, mostly due to significant inflow of capital from abroad. These flows, primarily directed to the banking and real estate sectors, stimulated the private consumption and the corporate investments. The higher demand for consumer and investment goods increased the current account deficit. In addition, the economic growth led to a labour shortage and higher wages, which, together with the rising food and fuel prices, triggered high inflation.

¹⁸ Sources: As sources of preparation of the section "Bulgarian Economy", statistical data were used from the Bulgarian National Bank, the National Statistical Institute, the Ministry of Finance

The global financial crisis increased the investors' reluctance to take risks, As a result of which the inflow of capital decreased significantly and the Bulgarian economy went into a recession. The lower 2009 foreign direct investments (FDI) were accompanied by rapid deterioration in exports as a result of weaker international demand. The economy responded automatically by reducing the current account deficit and disinflation. Economic activity shrank by 4.2%, but in 2010 it returned to growth with 1.4% real annual increase in GDP. The main driver of this economic reversal was mostly on stronger foreign trade, while the domestic consumption increased by 1.7% on an annual basis, but remained relatively low.

Between 2011 and 2016 the Bulgarian economy continued to expand, but at a slowing pace. The main reason for the slower growth was the overall economic uncertainty in Europe, driven by the debt crisis in the Eurozone. As a result, the GDP reached BGN 80.8 billion in 2011, BGN 82.0 billion in 2012, BGN 82.2 billion in 2013 and BGN 83.6 billion in 2014. The most significant contribution to the positive developments in 2011 and 2013 was the decline in the net imports, which dropped by 36.6% and 74.5% on an annual basis, respectively. In 2012 and 2014, the most significant contributor was the higher domestic consumption, with real annual growth of 2.0% and 2.2%, respectively, also supported by the higher gross fixed capital formation. In 2015 and 2016, the positive trends continued, with the GDP marking 3.6% and 3.9% respective real annual growth to BGN 88.6 and BGN 94.1 billion at current prices, as the net imports turned into net exports and the domestic consumption intensified further.

In line with the overall economic situation in Europe, the 2017 real GDP growth slowed to 3.6%, but remained well above the average for the EU of 2.4% (EU28), with the current prices GDP reaching BGN 98.6 billion. The most significant contribution in 2017 provided the domestic demand which marked 4.5% real growth to BGN 76.5 billion at current prices, while the gross capital formation increased by 3.8%. Net exports shrank to BGN1.5 billion at current prices and turned into net imports of BGN 1.6 billion at inflation-adjusted prices (net exports of BGN 0.1 billion at revised prices in 2016), where the exports marked a real growth of 4.0% to BGN 65.4 billion at current prices and imports growing by 7.2%.

Concerning the contribution by economic sector, the services sector, which formed 67.0% of the gross value added in 2016, increased by real annual growth of 3.3% , the industry sector (28.3% of GVA) grew by 3.2%, and the agriculture (4.7 % of GVA) increased by 5.3%. The services and the industry sectors continued to grow in 2017, increasing by 4.4% and 3.6% on an annual basis to 67.4% and 28.3% of the GVA, respectively while the agriculture (4.3% of VGA) shrunk by 0.1%.

Inflation rate

Influenced mainly by lower international oil and gas prices, the Bulgarian 2016 inflation continued to decline, with the Harmonized Index of Consumer Prices reporting an annual drop of 0.5% towards the end of the year, against a 0.9% as of end-2015. As a result of the more intensive economic activity in 2017, the trend started to revert and the index reported an annual increase of 1.8%, which was first annual inflation since 2012. The most significant growth was recorded in the housing and communal services (+ 4.5%), education (3.9%) and food and non-alcoholic beverages (3.1%), whereas declines were in the communication prices (-1.3%) and in the prices of clothing and footwear (-0.3%).

Employment

The unemployment has emerged as a significant problem of the global economy in the recent years and for Bulgaria it is particularly severe. Nevertheless, the employment in the country has gradually begun to improve since the end of 2013. According to the National Employment Agency, the registered unemployed as of end-2017 decreased by 11.1% on an annual basis to 232 066 and the unemployment dropped by 0.9 p.p. to 7.1%, compared to 7.3% on average for the European Union (EU-28). According to the Agency, the average monthly unemployment in 2017 has been 7.2%, which is the lowest figure in the last 9 years. The Economic activity of the population and labour productivity are improving too.

Balance of payment

The country's balance of payments also shows positive trends, among the most significant of which is the current account being at a surplus in the last years, vs. billions of deficits in the pre-crisis years. The current account surplus in 2016 was EUR 1.1 billion, compared to a deficit of EUR 16.9 million in 2015,

driven mainly by a trade deficit. The current account surplus continued to grow, reaching EUR 2.3 billion by the end of 2017, but this was mostly because the negative primary income balance shrunk by EUR 1.9 billion to EUR 0.5 billion, while the trade deficit increased by EUR 1.1 billion and reverted to EUR 2.1 billion. It should be noted that, despite the higher trade deficit, the exports of goods in January - December 2017 were EUR 25.8 billion, up EUR 2.7 billion more than in the same period of 2016. The capital account tended to shrink from EUR 1.4 billion in 2015 and EUR 1.1 billion in 2016 to EUR 0.5 billion in 2017, which is comparable to the 2010-2013 levels. The financial account increased by EUR 1.3 billion in 2016 and by another EUR 1.7 billion in 2017 to a surplus of EUR 2.3 billion, bringing the overall balance deficit in 2016 to a decrease of EUR 262.3 million to EUR 3.5 billion, while the balance in December of 2017 came to a surplus of EUR 98.9 million. Direct Foreign Investments in Bulgaria continue to decline, shrinking by 12.0% on an annual basis to EUR 950.1 million by the end of 2017.

Public finances

The Bulgarian Government is renowned for its fiscal discipline. For the 2009-2013 periods, Bulgaria was one of the very few countries which managed to reduce their budget deficit to below 5% in 2009 and kept it less than 3% in the following years. In 2014, this changed, and the public finances ending the year with a deficit of 3.7% of GDP. By 2015, the consolidated fiscal program deficit amounted to BGN 2.5 billion (2.8% of GDP), but by 2016 the budget turned to a surplus of BGN 1.5 billion, consisting of national budget deficit of BGN 0.7 billion and European funds surplus of BGN 2.2 billion. It should be noted that this was the first budget surplus for the country since 2008. The consolidated fiscal program ended 2017 with a surplus of BGN 845.2 million (0.9% of GDP), formed by national budget surplus of BGN 309.1 million and European funds surplus of BGN 536.1 million. The positive results were because of both higher revenues, mostly due to more efficient tax collection mechanisms, as well as lower expenditure, a result of the postponement of expenditure on government projects co-financed by the EU.

Indebtedness

the total government debt (including the state-guaranteed debt) increased by EUR 2.1 billion accumulated through the year and reached EUR 14.0 billion (29.1% of GDP) while Bulgaria is also having remarkably "low yields. the government issued 7- and 12-year Eurobonds for a total of nearly EUR 2 billion, with yields of 2.156% and 3.179%, respectively, and in January 2017 the Treasury issued BGN 50 million 10.5-year government bonds at a record low for the country weighted average yield of 1.76%. The positive trends continued throughout 2017, in which the government repaid EUR 1.0 billion Eurobonds, by which the total government debt dropped to EUR 13.0 billion or 25.8% of GDP. It should be noted that Bulgaria continues to be the third in terms of debt-to-GDP in the EU after Estonia and Luxembourg. According to the 2018-201 national budget by the Ministry of Finance, the government debt will range from 23.3-19.4% of the GDP and BGN 24.4-24.2 billion in nominal terms.

Poultry production and meat market

Statistical information

Agricultural sector plays, traditionally, an important role in the Bulgarian foreign trade and economy. Before the collapse of the industry in the 1990s, when agrarian production decreased between 3 to 5 times, the sector's importance revolved primarily around its size. By the beginning of the next Milenium, it had partially recovered, contributing up to 10% to the country's GDP. After Bulgaria's accession to the European Union, the share of the agrarian sector however dropped to below 5% of the GDP, but it remained important for the economy not only because of its production results, but because it boosted rural development and helped maintain national employment level. Notedly, after 2007, agrarian output remains relatively constant and its decreasing share of GDP, which was not due to a declining production growth rate but to the faster development of other sectors. In 2017, agrarian output in Bulgaria recorded a drop of 0.1% on an annual basis to 3.7 billion BGN at current prices, amounting to 3.7% of GDP and 4.3% of GVA per the year.

Despite the low share of agriculture in the GDP and GVA, its portion in the Bulgaria's commodity market was significant and the sector remained important for foreign trade and thus to the country's economy.

According to NSI preliminary data, export, import and agricultural commodity market in 2016 registered an increase of 8.2%, 4.9% and 6.8%, respectively, reaching a relative share of 17.1%, 10.9% and 13.8%. According to preliminary data, import and commodity trading continued to rise during the first half of 2017, by 16.8% and 4.4%, respectively, while the export share declined by 5.3% compared to the corresponding period of 2016.

Approximately 69.9% of the total agricultural exports in 2016 were sold in European Union countries, 10.8% to other OECD countries and 9.3% to the League of Arab Nations.

The most recent NSI data shows that the gross livestock value in Bulgaria at the end of 2017 amounted to BGN 1.9 billion, which was by 2.3% less than 2016. It should be noted that the annual decrease rate in 2017 was less when compared to that in 2016 (-4.9%). As a result of the updated Common Agricultural Policy (CAP) with improved livestock aid, the sector is expected to recover. The largest value-added industries in Bulgaria are the production of milk and dairy products, cattle breeding, pig production, poultry, sheep and goat farming and the production of eggs:

Value of production in the sub-sector stock-breeding:

	Value, current prices (million BGN)		Share of total stock-breeding	Change in value 2017/2016	Change in volume 2017/2016
	2016	2017			
Milk and milk products	654.5	732.3	33.8%	11.9%	-0.3%
Cattle breeding	273.4	281.5	14.1%	3.0%	-4.7%
Pig breeding	291.8	261.2	15.1%	-10.5%	-3.4%
Poultry farming	288.1	232.8	14.9%	-19.2%	-7.5%
Sheep and goat farming	208.3	193.9	10.8%	-6.9%	-10.9%
Eggs	153.6	171.2	7.9%	11.5%	3.2%
Total stock-breeding	1 936.4	1 926.3	100.0%	-0.5%	-2.3%

Source: NSI; the data is preliminary

We should note that, the drop in the prices and volumes of poultry production was not due to structural problems in the industry but to the outbreaks of bird flu at the end of 2016 and the beginning of 2017, with the predominantly waterfowl being affected. As a result of the disease, 464,000 ducks and 71,000 hens were destroyed during the respective period, thus the poultry farmers have suffered various indirect costs because of the interrupted technological processes at their farms.

According to the Agrarian Report of MAFF for 2017, a total of 13.7 million birds were being reared in Bulgaria by the end of 2016, 12.2% less than in 2015, but the Ministry predicted that their number will reach 14.5 million by the end of 2017, increase of 5.8% on an annual basis.

In egg production, it has been extremely important as of recently that the restructuring of the poultry farms be performed in line with the European animal welfare requirements in force since the beginning of 2012. As a result, production was modernized and concentrated in large industrial poultry farms, with mechanized and automated systems for laying up and collecting, and sorting eggs. Important for the favourable development of the sector during the period were also the relatively low fodder prices, as well as the compensations provided to producers for the welfare of the birds. In 2016, a total of BGN 28.2 million was allocated to 320 farmers under the mentioned scheme.

According to MAFF's data as of June 2017, the production of hatching eggs has increased by 14.8% on an annual basis to 223.1 million in 2016, with largest share of broiler eggs production, which increased by 9.5% to 188.7 million, and highest growth rate recorded in laying eggs - 69.1% to 30.4 million.

Despite the difficult 2016 for Bulgarian poultry breeders, the annual poultry meat output increased to 106 469 tonnes, which was 5.2% above the levels harvested in 2015. Data provided by the Union of Poultry Breeders in Bulgaria shows a slight decrease in production by 1.7% in 2017 due to the above problems. The production of poultry meat was characterized by an increased vertical integration and industrialization rate, thus more than 97% of the meat of the country was harvested in specialized slaughterhouses.

Slaughtered birds and poultry meat:

	Slaughtered birds (thousand pcs)			Live weight (tonnes)			Dried meat and by-products (tonnes)		
	2015	2016	16/15	2015	2016	16/15	2015	2016	16/15
Broilers	45 873	46 987	2.4%	97 430	102 474	5.2%	75 798	79 610	5.0%
Ducks	5 274	5 548	5.2%	26 121	28 119	7.6%	20 211	22 475	11.2%
Others	2 766	2 382	-13.9%	7 117	5 953	-16.4%	5 243	4 385	-16.4%
Total	53 913	54 916	1.9%	130 668	136 546	4.5%	101 252	106 469	5.2%

Source: MHFF

According to the Ministry of Agriculture and Food, about 40% of the produced poultry meat was exported abroad, mainly to the EU countries, at relatively high prices compared to the ones offered on the Bulgarian market. The total export of poultry meat in 2016 was 40 956 tonnes, 3% more than the export in 2015, realized at almost 18% higher average export price of 7.15 BGN / kg.

Nearly 95% of the poultry meat exports during the 2017 was realized in the EU, with the largest export destinations being - Greece (16,765 tonnes), Romania (6,658 tonnes) and France (6,522). The EU imports accounted for 99% of total imports during the year, with the largest importers from Poland (46,307 tonnes), Romania (11,663 tonnes), and Hungary (9,323 tonnes).

Poultry is the meat with highest production volume in Bulgaria despite the faster growth of other categories in 2017, it remains the most sought after meat in the country. According to NSI data, the average annual consumption per capita for 2016 was 22.7 kg at an average price of 4.58BGN / kg. The expectation is that poultry meat consumption will gain additional market share, with the main reasons for this being the overall lower meat consumption in Bulgaria in comparison with the EU average and the positive effect of rising incomes, the favourable price/quality ratio of poultry meat and its healthier image due to the low fat content.

Average prices (BGN / kg) and average consumption of meat per capita (kg):

	2014		2015		2016	
	Quantity	Price	Quantity	Price	Quantity	Price
Poultry meat	23.7	4.81	24.0	4.70	22.7	4.58
Pork meat	19.8	7.51	21.4	6.99	21.3	6.89
Lamb and kid meat	2.1	11.22	1.6	11.50	2.2	11.67
Mutton, weaned lamb, goat meat	0.3	6.30	0.2	7.35	0.3	6.76
Mixed mince meat	17.5	6.16	16.6	5.99	15.7	5.98
By-products, offal	6.9	3.33	6.6	3.24	6.4	3.33
Bacon	0.3	4.55	0.2	4.65	0.2	4.97

Source: NSI

On the sausage market a 2.9% decrease was noticed in the volume of sausage produced during 2016, reaching 97.0 thousand tonnes and a total value of BGN 488.5 million, VAT and excise duties excluded, which was by 3.1% more than in 2015. The realized dried, salted and smoked meat products also decreased to 16.4 thousand tonnes (-6.2%), amounting to BGN 99.8 million compared to BGN 101.0 million in 2015¹⁹

The sausage products consumption is dependant on the season, decreasing during the warmer months of the year. The most important factors that influence the market development are the economic situation and the purchasing power of consumers, the prices of fresh meat and the innovations in the sector. According to the most recent NSI data, the average consumption of non-perishable and perishable

¹⁹ Association of meat processors in Bulgaria; NSI

sausages per capita in 2016 was 5.6 kg and 16.3 kg respectively, which exceeds the average consumption of pork meat - the second most consumed in the country.

Although sausages are sold at a high margin, their average prices did not change significantly in the recent years, due to the serious competition in the category. The market is highly fragmented and saturated with many local and foreign brands in all product and price categories, with a small part of the brands being sold throughout the country and the rest being mostly of regional importance. In view of the large competition and trends in the sector, the main opportunities presented to producers are not related to the expansion of the market itself, but to their ability to compete effectively and to displace competing products. The key prerequisites for successful development in the niche are high quality, effective marketing, and long-term relationships with large retail chains.

Analysis and trends²⁰

▪ Increasing meat consumption globally, mostly of poultry meat

World consumption of meat is rising along with population growth and increased disposable income, with meat consumption having increased by around 20 kg per person in the last 50 years. Meat production is expected to grow globally by 16% over the next decade, with growth coming mainly from developing countries.

Potential in poultry meat consumption is the highest and is currently the world's leading animal protein in terms of growth - +2.4% on an average between 2012-2016 and the trend is expected to continue. Although the main reason for this is the expansion of the middle class and the growth of the purchasing power of developing countries, the specificity of the production process and the characteristics of poultry meat allow it to respond quickly and adequately to this growing demand. Namely owing to the sector's ability to closely follow the consumer attitudes and tastes, poultry meat is becoming even more popular and consumed, which leads to additional production growth.

▪ The poultry sector is highly efficient and competitive

The main advantages of poultry meat production are:

- Short production loop. The average duration of the cycle (from a one-day old parent to the finished product) is seven (7) months, which gives the producers a great deal of flexibility and adaptability to market signals and novelties in growing.
- Vertical integration. Integration enables significant savings and control over all aspects of the production cycle
- Characteristics of poultry meat. Poultry meat is accessible, ready for cooking, it lacks religious limitations and has a healthy image.

The short production cycle and the market orientation of the sector enable it to react quickly to crises and reduce the risk of overproduction and inefficiency in the market.

For this reason, the poultry sector is much less dependent on State aid than other agricultural sectors. Since the phasing out of export subsidies in 2013, the sector has not relied on any market interventions at EU level.

▪ Profitability is expected to improve

Prices of poultry meat have dropped in the recent years due to weaker demand, shrinking of the international trade and some regional trade restrictions (the Russian embargo). Since last year, the price upward trend returned and the prospects for the chicken market are improving, also due to the retention of fodder prices at relatively low levels.

²⁰ Sources for this section: UNFAO, AVEC, Rabobank, Institute of Agricultural Economics, IME, NSI

In addition, meat is one of the few agricultural products whose prices are fundamentally predisposed to increase in the medium term due to a slowdown in supply compared to demand.

- **Poultry meat is the only one that is expected to grow in the EU by 2025**

(0.3% annually) reaching 22.8 kg per person in the period's end

CEE, which currently has a lower consumption rate, will be the main driver for poultry sales in the EU (projected annual consumption growth of 2% -3.5% by 2025).

Bulgaria is still far from the average European level, with an annual consumption per capita of around 11 kg. To equalize with other member states, poultry meat consumption in Bulgaria should increase by almost 10% each year.

- **Poultry meat production in Bulgaria is a highly promising sector with a high degree of vertical integration and industrialization**

The comparative advantages of Bulgarian producers are owed to the fact that competition stems from the level of unit costs and minimization of the mortality losses. Bulgaria is a country where fodder costs are among the lowest ones, not only at local but also at European level, which, combined with the rearing conditions optimization and the absence of the fertility factor, contributes to the expected upward development of this sub-sector. This dynamic can also be attributed to domestic demand. Poultry farming satisfies great part of the domestic consumption and is the largest meat export among all in the country. The share of poultry meat in the national meat production is 65%.

Poultry meat producers in Bulgaria do not receive European subsidies. At the end of 2012, a State aid scheme was launched to implement the voluntary commitments for bird welfare (both for fattening and egg-laying), which was renewed in 2018 for a period of five (5) years.

- **Poultry meat is the most consumed meat in Bulgaria with a market share of 33%.**

Poultry meat is the most consumed meat in Bulgaria with a market share of 33%. In addition to expectations of steady growth in consumption, the market is projected to grow in value after a long deflationary pressure on chicken meat prices.

- **Recent changes in the distribution model and consumer attitudes and tastes have taken place in Bulgaria**

The share of retail chains in total meat sales has steadily increased over the past few years and is currently outpacing traditional trade. Accordingly, consumer shopping patterns and their demands for variety and quality of food are changing.

At the same time, an increase was noticed in the disposable income and the willingness of households to choose according to the concept of a healthier and more environmentally friendly life.

As a consequence of the consumption of chicken meat, the following trends are present:

- Raising demand with higher purchasing power, which allows for the imposition of higher-value products (eg "maize chicken")
- Increased sales of chilled meat at the expense of frozen meat, prevailing already in Bulgaria.
- Increasing demand for quality meat - proven provenance and brand - regardless of price. The "Concept of a Different Product" includes requirements for animal breeding conditions, environmental protection, consumer health protection, and preference for local products.

- **The market for processed meat products is highly competitive**

The meat products market is saturated with many Bulgarian and imported brands in all product and price categories. Most recognized producers launched in early 1990s result from the investments made internally.

The market is characterized by considerable fragmentation - there are dozens of enterprises, some of which sell its products all over the country and the rest of them have only local importance. Although the revenues of almost all the top 10 companies for which data are available vary, the processing plants have much better financial position than the meat producers due to higher profit margins.

- **Sausages are the largest segment on the market for processed food**

According to NSI data for 2016, the sausage segment generates over 80% of the sales of processed foods, which predetermines the steady high interest in these products. The largest share of household consumption in 2016 was attributable to perishable sausages - 6.9 kg, while for non-perishable sausages the amount was 3.7 kg. The market did not show an increase in volumes during last year but the value (measured as the average price per kilogram for the period) is maintained, as for the non-perishable sausages there is a small growth - 2%.

Description of the specific legislation governing the Company's activity

The activities of the Group companies are subject to the European and national regulation in the field of stock-breeding, food safety, food trade, environment, and transport.

Basic regulations in the poultry farming

The Group companies comply with the requirements of Directive 2007/43/EC, which sets minimum rules for the protection of chickens reared for meat production. In the local law the activity is regulated by the following basic laws - Food Act, Environmental Protection Act, Stock-Breeding Act, Animal Protection Act and Veterinary Act. In addition, the Group strictly complies with the requirements of local regulations, including Ordinance No.25 of 14.12.2005 on the minimum welfare requirements for laying hens, ORDINANCE No.26 of 5.08.2008 laying down the minimum welfare and protection requirements for broiler breeding, ORDINANCE No.26 of 28.02.2006 on the conditions for protection and welfare of animals during their transport, ORDINANCE No.44 of 20.04.2006 on the veterinary requirements for livestock farms, as well as ORDINANCE No.9 of 16.03.2001 on the quality of water intended for drinking and household purposes.

Basic EU legislation on food safety

The EU Hygiene Package 2004 related to food hygiene legislation, is part of the main regulatory framework at European level on food safety. It merges, harmonizes and simplifies the complex and detailed hygiene requirements in the union. As a normative source at national level, the Veterinary Act is applied to hygiene and veterinary medical requirements. The hygienic package includes:

- Regulation (EC) No 852/2004 of the European Parliament and of the Council of 29 April 2004 on the hygiene of foodstuffs and Regulation (EC) No 853/2004 of the European Union lays down specific hygiene rules for food of animal origin for food business operators. Regulation (EC) No 854/2004 of the European Parliament and of the Council of 29 April 2004 laying down specific rules for the organization of official controls on products of animal origin intended for human consumption

In addition, in the European Union regulations were introduced for the main operating activities of the Group companies, of which the key:

- Commission Regulation (EC) No.543/2008 of 16.06.2008 laying down detailed rules for the implementation of Council Regulation (EC) No.1234/2007 as regards certain standards and the marketing of poultry meat.
- Commission Regulation (EC) No.589/2008 of 23.06.2008 laying down detailed rules for the implementation of Council Regulation (EC) No.1234/2007 as regards the marketing standards for eggs.

Basic legislation on food safety at local level

The activities of Group companies are closely related to the production and marketing of food, an activity subject to a strict regulatory regime. Relative regulation is:

- The Food Act (amended SG No.92 of 17 November 2017): Art.12 et seq. indicates that the production and trade in foodstuffs in the country is carried out only at sites registered by the order of the law, which: 1) meet the hygienic conditions and /or the sanitary requirements determined by a normative act; 2) have developed a technology dossier for the food groups to be produced on the site or applying national standards or standards developed by industry organizations and approved by a competent authority; and 3) have (a) good food production and marketing practices and a hazard analysis system and critical control points or procedures, in accordance with its principles when the overall deployment of the system is not applicable; and (b) Food safety management system; Art.16 indicates that the registration and certificate effect is indefinite.
- The Veterinary Activities Act (amended and supplemented, SG No.17 of 23 February 2018): sets requirements indicating that raw materials and foods of animal origin are placed on the market if they meet the requirements of this Act, the Food Law and the statutory regulations for their implementation. Raw materials and foodstuffs of animal origin which are designated for trade between the Republic of Bulgaria and the Member States shall also be subject to control under the procedures of this law.

The Group companies have all veterinary medical permits that are required to perform their activities. The licenses, permits and patents of the Group are listed in the section “*Business Overview - Intellectual Ownership*”.

Basic regulations concerning environmental protection

The production activities of the Group companies are subject to authorization under Art.117, para.1 of the Environmental Protection Act. The law defines the elements that are subject to control in the operation of installations and facilities, including the application of all appropriate measures to prevent pollution by applying BAT, the avoidance of environmental pollution according to the emission limit values and the environmental quality norms/ standards, efficient energy use, etc. A list of permits is given in section “*Business Overview - Production Capabilities, Technologies and Facilities*”.

Basic regulations related to the transport activities

The transport activities of the Group companies are licensed under Regulation (EC) No.1072/2009 of the European Parliament and of the Council of 21 October 2009 on the common rules for access to the international road haulage market. A list of licenses is listed in “*Business Overview - Intellectual Ownership*”.

Control

The official control by the EU and the control exercised at the national level is mainly regulated by the Law on Veterinary Medicine, the Law on Health, the Consumer Protection Act, the Environmental Protection Act, and other laws and regulations. Group companies are subject to supervision by:

- The Bulgarian Food Safety Agency and the Regional Food Safety Directorates in Yambol, Ruse, Stara Zagora, Haskovo and Sliven.
- Regional Inspectorate for Environment and Water for Yambol, Ruse, Stara Zagora, Haskovo, Sliven and the Executive Environment Agency
- Association for Breeding Material, Sofia.
- Commission for Consumer Protection
- National Statistical Institute
- Paying Agency at the Ministry of Agriculture and Food
- Energy Efficiency Agency

11. GENERAL INFORMATION ABOUT THE COMPANY

Basic information

Name and legal form:	Gradus AD
Headquarters and business address:	Bulgaria, Region of Stara Zagora; Stara Zagora; Industrial Area, Gradus Poultry Processing Plant
Telephone:.....	(+359) 2 421 4065
Website:.....	www.gradus.bg ; www.azyam.bg
Email:.....	info@gradusbg.com
UIC:	204882907

Gradus AD is a joint stock company entered in the Commercial Register with the Registry Agency on 28.11.2017.

The Company's capital consists of BGN 240,000 cash contributions and the following non-cash contributions:

- Ivan Angelov Angelov, with equity participation in the following companies:

(1) 25 shares of Lora - 2004 OOD (UIC 123658624) with a nominal value of BGN 100 each, representing 50% of the capital of the company ,;

(2) 25 shares of Zhyuliv OOD (UIC 119053781) with a nominal value of BGN 100 each, representing 50% of the capital of the company;

(3) 5 shares of Milenium 2000 OOD (UIC 119591422) with a nominal value of BGN 500 each, representing 50% of the capital of the company;

(4) 50 shares of Gradus-1 OOD (UIC 822132592) with a nominal value of 50 BGN each, representing 50% of the capital of the company; and

(5) 24 983 ordinary shares of Gradus - 98 AD (UIC 123120561) with a nominal value of BGN 10 each, representing 49.966% of the capital of the company.

- Luka Angelov Angelov, with equity participation in the following companies:

(1) 25 shares of Lora - 2004 OOD (UIC 123658624) with a nominal value of BGN 100 each, representing 50% of the capital of the company;

(2) 25 shares of Zhyuliv OOD (UIC 119053781) with a nominal value of BGN 100 each, representing 50% of the capital of the company;

(3) 5 shares of Milenium 2000 OOD (UIC 119591422) with a nominal value of BGN 500 each, representing 50% of the share capital;

(4) 50 shares of Gradus - 1 OOD (UIC 822132592) with a nominal value BGN 50 each, representing 50% of the equity of the company; and

(5) 24 984 ordinary shares of Gradus - 98 AD (UIC 123120561) with a nominal value of BGN 10 each, representing 49.968% of the capital of the company.

The existence of the Company is not limited in time.

The Company operates under the Bulgarian law, the provisions of the Articles of Association, and the decisions of the General Meeting.

Scope of business activity

The scope of business activity of the Company is:

Investing in shares of and stakes in companies, management of stakes in Bulgarian and foreign companies; acting as a holding company; acquiring, evaluating and selling patents, and granting licenses to use patents; funding the operations of subsidiaries and associated companies, and any other activity not prohibited by law. Given that the performance of an activity requires an additional authorization, license, or registration, this activity shall be performed after such authorization or license is obtained, or such a registration is made.

The scope of the company's business activity is reflected in Art.4 of the Articles of Association adopted at the Constituent Assembly held on 20 November 2017. It also reflects the issuer's objectives, which are not separately stated in the document.

12. MANAGEMENT AND CORPORATE GOVERNANCE

Gradus AD is a joint-stock company with a one-tier management system. The Company is managed by its Board of Directors. The following description of the composition and powers of the management body has been prepared in accordance with the Commercial Law and with the Articles of Association, adopted at the Constituent Assembly held on 20.11.2017 and declared in the Commercial Register on 28.11.2017. The description is also in accordance with the draft amendment to the Articles of Association adopted by the General Meeting on 26 March 2018, subject to the Company's entry in the Register of Public Companies by the FSC.

General rules

According to the Articles of Association, The members of the Board of Directors are elected for a term of five (5) years and may be re-elected without restrictions. The mandate of the first Board of Directors is three (3) years. The members of the Board of Directors may be dismissed in advance. Any member of the Board of Directors may request to be removed from the Commercial Register by filing a written notification with the Company. The release must be reflected in the Commercial Register Within six (6) months after receiving the notification. If the Company fails to meet this 6 months term,, the member of the Board of Directors may request the change with the Commercial Register himself.

Composition of the Board of Directors

The Board of Directors of Gradus AD consists of three people, appointed by the General Meeting. Members of the Board of Directors could be only natural persons.

An effectively convicted person in Bulgaria of ownership crimes, crimes against the economy or against the financial, tax, or social security system cannot become a member of the Board of Directors. A person who has been a member of the management or supervisory body of a terminated due to insolvency company over the last two (2), regarding which there are still unsatisfied creditors, cannot become a member the Board of Directors.

A member of the Board of Directors cannot have been a member of the management or controlling body of a company for which a breach of obligations to maintain its stock levels under The Oil and Petroleum Products Stocks Act has been established.

Management and Representative Function

The Company is managed and represented by a one-tier system of a Board of Directors, who assigns and empowers one or several executives to manage and represent the Company, with the empowerment being withdrawable at any time.

Rights and liabilities of the members of the Board of Directors

The members of the Board of Directors are obliged to perform their duties with due care, in accordance with the fair and loyal trading practices, and in the best interest of all Companies' shareholders. The members of the Board of Directors must base their decisions on information which they reasonably believe to be credible and complete; they must show loyalty to the company and place its interests and the interests of its shareholders over their own; avoid a direct or indirect conflicts of interest, promptly and fully disclose such conflicts to the other members of the Board of Directors in writing, and neither participate nor exercise influence on the other members in making decisions in such cases. The members of the Board of Directors are not to disseminate non-public information about the Company, including after the end of their mandate, until the Company's public disclosure of the relevant circumstances.

The Board of Directors:

- organizes the implementation of the decisions taken at the General Meetings and exert control over the implementation;
- elects the Executive Director(s), defines the limits of their competences, and monitor and control their activity;
- decides on the long-term strategic cooperations with other companies or to terminate such

cooperations;

- takes decisions regarding establishing and / or terminating a branch;
- takes decisions to increasing the Company's capital, given that it is authorized to do so by a General Meeting;
- Administers (including, but not limited to, transfer, termination, burdenment, etc.) the Company's business or parts of it;
- approves transactions and agreements with Shareholders, members of the Board of Directors or employees of the Company (or members of their families);
- approves borrowing or other utilization of financial liabilities to a third parties in excess of BGN 50,000, either as a result of a single transaction or a series of transactions;
- decides on the participation and / or termination of the participation in other companies in Bulgaria and abroad;
- decides to exercising rights of the Company as a shareholder / partner in subsidiaries;
- decides on granting loans or other forms of financing to other companies in which the Company participates and / or controls;
- decides on disposing of Intellectual Property as well as on granting intellectual property rights belonging to the Company;
- prepares, accepts, and signs prospectuses for public offering of securities issued by the Company;
- Selects and releases the investment intermediaries to administer securities issues by the Company;
- After obtaining a public status, approve execution of transactions other than those specified in Art.114, para.1 of the Public Offering of Securities Act with the participation of interested parties within the meaning of Art.114, para.7 of POSA,
- After receiving a public status, approve execution of transactions under Art.114, para.3 of the POSA by subsidiaries of the Company,
- resolves all matters that are not within the exclusive competence of a General Meeting.

Members of the Board of Directors

As of the date of the Prospectus, the Board of Directors consists of 3 members.

The present composition of the Board of Directors has been elected for a term of 3 years at the founding meeting of Gradus AD, held on 20.11.2017, and entered into the Commercial Register on 28.11.2017.

The business address of all members of the Board of Directors is:

Bulgaria, Region of Stara Zagora, town of Stara Zagora; Industrial Area, Gradus Poultry Processing Plant.

Brief information about the members of the Board of Directors is provided below:

Ivan Angelov Angelov – Executive Director and Member of the Board of Directors

Ivan Angelov has been Executive Director of Gradus AD since 28.11.2017.

Education: Ivan Angelov graduated from *Ivan Manev* Technical Mining School in Panagyurishte, qualification: Electromechanician (1970-1974).

Professional career:

01.09.2017- until now	Equity Invest-2 OOD, UIC 204746138, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant	Manager
02.11.2001- until now	Zhyuliv EOOD, UIC 119053781, Stara Zagora 6000, Industrial Area, Gradus Poultry	Manager

	Processing Plant	
09.06.2003 - until now	Milenium 2000 EOOD, UIC 119591422, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant	Manager
10.12.2003 - until now	Gradus-2 OOD, UIC 123655788, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant	Manager
17.11.2003 until now	Gradus -7 OOD, UIC 123654743, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant Poultry Processing Plant	Manager
04.04.1995 until now	Gradus-1 EOOD, UIC 822132592, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant	Manager
12.12.2006 - until now	Mirena OOD, UIC 123655806, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant	Manager
11.12.2006 - until now	Lora-2004 EOOD, UIC 123658624, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant	Manager
28.08.2007 - until now	Gold Agro - 2005 OOD, UIC 119642703, Sofia 1000, Lozenets District, 110 B Simeonovsko Shosse, Administrative Building, Office No 22	Manager
11.12.2007- until now	Wolf OOD, UIC 123760892, Stara Zagora 6000, Industrial Area, Administrative Building of Biser Oliva AD, Office No 9	Manager
20.03.2012 - until now	Ayazmo AD, UIC 201974859, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant	Member of the Board of Directors and Executive Director
13.06.2013 - until now	Poultry Breeders Association in Bulgaria , BULSTAT 000682444	Member of the Board of Directors
22.03.2006 until now	Product Board for Eggs, Poultry and Rabbit Meat Association, BULSTAT 175066976	Chairperson
02.01.2014 - until now	Biogas Producers Association, BULSTAT 176638405	Manager of Gradus-2 OOD, which is Chairperson of the Board of Directors

Participation in the ownership of other companies during the last five years and currently:

- Equity Invest - 1 AD, UIC 204750154, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 49.966 % of the equity, directly;
- Equity Invest - 2 OOD, UIC 204746138, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity, directly;
- Gradus - 2 OOD, UIC 123655788, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity, directly;
- Gradus - 7 OOD, UIC 123654743, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity of the company, directly;
- Mirena OOD, UIC 123655806, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity of the company, directly;
- Gold Agro-2005 OOD, UIC 119642703, Sofia 1000, Lozenets District, 110 B Simeonovsko Shosse, Administrative Buidling, Office No 22 - 50% directly of the equity;

- Wolf OOD, UIC 123760892, Stara Zagora 6000, Industrial Area, Administrative Building of Biser Oliva AD, Office No 9.50 % of the equity, directly;
- ET Gradus - Ivan Angelov - 55 , UIC 112038433, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, physical person - trader;
- Zagora Oil OOD, UIC 202473858, Sofia 1700, Lozenets District, 110 B Simeonovsko Shosse, Administrative Building of Martinelli, Fl.4, Office No.21, owns 50% of the equity, directly;
- M.O. Stara Zagora OOD, UIC 123753969, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, owns 22.5% of the equity, directly;
- Zhyuliv EOOD, UIC 119053781, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity of the Company, indirectly through Gradus AD;
- Milenium 2000 EOOD, UIC 119591422, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity of the Company, indirectly through Gradus AD;
- Gradus-98 AD, UIC123120561, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, indirectly through Gradus AD;
- Gradus-1 EOOD, UIC 822132592, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity of the Company, indirectly through Gradus AD;
- Lora-2004 EOOD, UIC 123658624, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity of the Company, indirectly through Gradus AD;
- Gradus-3 AD, UIC 123152751, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, owns 48% of the equity indirectly through Gradus - 1 EOOD and 2 % directly.

Participation in other companies in the last five years and currently:

- Equity Invest - 2 OOD, UIC 204746138, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, Manager;
- Gradus - 2 OOD, UIC 123655788, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, Manager;
- Gradus - 7 OOD, UIC 123654743, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, Manager;
- Mirena OOD, UIC 123655806, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, Manager;
- Gold Agro - 2005 OOD, UIC 119642703, Sofia 1000, Lozenets District, 110B Simeonovsko Shosse, Administrative Building, Office No.22, Manager;
- Wolf OOD, UIC 123760892, Stara Zagora 6000, Industrial Area, Administrative Building of Biser Oliva AD, Office No.9, Manager;
- Ayazmo AD, UIC 201974859, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, Member of the Board of Directors and Executive Director;
- Biogas Producers Association, BULSTAT 176638405, Manager of Gradus - 2 OOD, Chairperson of the Board of Directors;
- Product Board for Eggs, Poultry and Rabbit Meat Association, BULSTAT 175066976, Chairperson;
- Poultry Breeders Association in Bulgaria, BULSTAT 000682444, Member of the Board of Directors.

Luka Angelov Angelov – Chairperson of the Board of Directors

Luka Angelov has been Chairman of the Board of Directors of Gradus AD since 28.11.2017

Education: Luka Angelov graduated from Ivan Manev Technical Mining School in Panagyurishte, qualification: Electromechanician (1978-1981)

Professional career:

01.09.2017- until now	Equity Invest-2 OOD,UIC 204746138, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant	Manager
06.09.2017	Equity Invest-1 AD, UIC 204750154, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant	Member of the Board of Directors and Executive Director
02.11.2001 - until now	Zhyuliv EOOD, UIC 119053781, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant	Manager
09.06.2003 - until now	Milenium 2000 EOOD, UIC 119591422, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant	Manager
28.12.2002 - until now	Gradus-98 AD, UIC123120561, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant	Chairperson of the Board of Director
10.12.2003 - until now	Gradus-2 OOD, UIC 123655788, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant	Manager
17.11.2003 - until now	Gradus -7 OOD, UIC 123654743, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant	Manager
04.04.1995 - until now	Gradus-1 EOOD, UIC 822132592, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant	Manager
12.12.2006 - until now	Mirena OOD, UIC 123655806, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant	Manager
11.12.2006 - until now	Lora-2004 EOOD, UIC 123658624, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant	Manager
28.08.2007 - until now	Gold Agro - 2005 OOD, UIC 119642703, Sofia 1000, Lozenets District, 110 B Simeonovsko Shosse, Administrative Building, Office No.22	Manager
13.09.1999 - until now	Gradus-3 AD, UIC 123152751, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant	Member of the Board of Directors
11.12.2007 - until now	Wolf OOD, UIC 123760892, Stara Zagora 6000, Industrial Area, Administrative Building of Biser Oliva AD, Office No. 9	Manager
19.12.2008 - until now	Marieta EOOD, UIC 123655770, Stara Zagora 6000, Industrial Area, Administrative Building of Biser Oliva AD, Office No.15	Manager
21.12.2007 - until now	Biser Oliva AD, UIC 123036597, Stara Zagora 6000, Industrial Area	Executive member of the Board of Directors
28.07.2004 - until now	Association of School Board of Atanas Burov Professional High School of Economy, BULSTAT 112613421	Member of the Collective Management Body
23.01.2018 - until now	AUTO SPA CENTER OOD, UIC 204959983, Panagyurishte 4500, 3 Rayna Knyagina Street	Manager

Participation in the management of other companies in the last five years and currently:

- Equity Invest - 1 AD, UIC 204750154, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 49.968 % of the equity of the Company, directly;
- Equity Invest - 2 OOD, UIC 204746138, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity of the Company, directly;
- Gradus - 2 OOD, UIC 123655788, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity of the Company, directly;
- Gradus - 7 OOD, UIC 123654743, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity of the Company, directly;
- Mirena OOD, UIC 123655806, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity of the Company, directly;
- Gold Agro-2005 OOD, UIC 119642703, Sofia 1000, Lozenets District, 110B Simenovsko Shosse Blvd., Administrative Building, Office No.22, 50% directly of the equity;
- Wolf OOD, UIC 123760892, Stara Zagora 6000, Industrial Area, Administrative Building of Biser Oliva AD, Office No.9, 50 % of the equity of the Company, directly;
- Marieta EOOD, UIC 123655770, Stara Zagora 6000, Industrial Area, Administrative Building of Biser Oliva AD, Office No.15, 100% of the equity of the Company, directly;
- M.O. Stara Zagora OOD, UIC 123753969, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, owns 22.5% of the equity, directly;
- Biser Distribution OOD, UIC 200090633, Stara Zagora 6000, Industrial Area, Administrative Building of Biser Oliva AD - Office No.11, owns 25% of the equity, directly;
- AUTO SPA CENTER, UIC 204959983, Panagyurishte 4500, 3 Rayna Knyaginya Street, 50% directly, amount of BGN 25;
- Zhyuliv EOOD, UIC 119053781, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity of the company, indirectly through Gradus AD;
- Milenium 2000 EOOD, UIC 119591422, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity of the Company, indirectly through Gradus AD;
- Gradus - 98 AD, UIC123120561, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, indirectly through Gradus AD;
- Gradus - 1 EOOD, UIC 822132592, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity of the Company, indirectly through Gradus AD;
- Lora - 2004 EOOD, UIC 123658624, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity of the Company, indirectly through Gradus AD;
- Gradus - 3 AD, UIC 123152751, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, owns 48% of the equity, indirectly through Gradus-1 EOOD and 2 %, directly;

Participation in management of other companies in the last five years and currently:

- Equity Invest - 1 AD, UIC 204750154, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, Member of the Board of Directors and Executive Director;
- Equity Invest - 2 OOD, UIC 204746138, Stara Zagora 6000 Industrial Area, Gradus Poultry Processing Plant, Manager;
- Gradus - 2 OOD, UIC 123655788, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, Manager;
- Gradus - 7 OOD, UIC 123654743, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, Manager;
- Mirena OOD, UIC 123655806, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, Manager;

- Lora-2004 EOOD, UIC 123658624, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, Manager;
- Gold Agro - 2005 OOD, UIC 119642703, Sofia 1000, Lozenets District, 110B Simeonovsko Shosse, Administrative Building, Office No.22, Manager;
- Wolf OOD, UIC 123760892, Stara Zagora 6000, Industrial Area, Administrative Building of Biser Oliva AD, Office No. 9, Manager;
- Marieta EOOD, UIC 123655770, Stara Zagora 6000, Industrial Area, Administrative Building of Biser Oliva AD, Office No.15, Manager;
- Biser Oliva AD, UIC 123036597, Stara Zagora 6000, Executive Director;
- Association of School Board of Professional High School of Economy "Atanas Burov", BULSTAT 112613421, Member of Collective Management Body.
- AUTO SPA CENTER OOD, UIC 204959983, Panagyurishte 4500, 3 Rayna Knyaginya Street, Manager

Georgi Alexandrov Babev – Member of the Board of Directors of the Company, being an independent person within the meaning of the POSA

Georgi Babev has been a Member of the Board of Directors of Gradus AD since 28.11.2017.

Education:

2011-2012	Higher School of International Albena College	Marketing and Management Bachelor
2009-2010	University of Wales Institute Cardiff	Master of Business Administration
2001-2006	University of Portsmouth	Bachelor, BA (Hons) Intl Finance and Trade

Professional career:

06.07.2017-31.12.2017	Gradus -1 EOOD	Financial Director
01.01.2009-12.10.2016	Pension Insurance Company Allianz Bulgaria	Organizer of Securities Transactions
01.07.2007-31.12.2008	Pension Insurance Company Allianz Bulgaria	Head of Back-Office Department, Investment
11.09.2006-30.06.2007	Pension Insurance Company Allianz Bulgaria	Specialist at Back Office Department, Investment

Georgy Babev has not participated in the management and ownership of other companies over the last five years.

Family relationships

Family relationship Between the Members of the Board of Directors Ivan Angelov Angelov and Luka Angelov Angelov exist- they are brothers.

No family relationship exists between Georgi Babev and the other members of the Board of Directors.

There is a kinship relationship between Ivan Angelov Angelov and Vanya Petkova Angelova / Member of the Board of Directors of Gradus -98 AD/ who are spouses. There is a kinship relationship between Ivan

Angelov Angelov and Angel Ivanov Angelov / Member of the Board of Directors of Gradus - 98 AD/ who are father and son.

There is a kinship relationship between Luka Angelov Angelov and Nedy Stancheva Angelova/ Member of the Board of Directors of Gradus - 3 AD/ who are spouses.

Other information related to the members of the Board of Directors

As of the date of the Prospectus, no member of the Board of Directors has been convicted of the following over the last 5 years:

- convicted of fraud;
- in insolvency, receivership or liquidation;
- Officially publicly criminalized and/or sanctioned by legal or regulatory authorities;
- Disqualified by court from the right to be a member of the administrative, management or supervisory bodies of an issuer.

The above information applies to the members of the Board of Directors the general managers and the other Managers of the other companies within the Group as follows:

- To the extent known to the Group, none of the members of the Board of Directors the general managers and other managers of the companies of the Group are prohibited from acting as members of managing bodies of a company, or had been prohibited to do so over the last five years.
- To the extent known to the Group, no information is available on insolvency cases, initiating or conducting reorganization or liquidation procedures, or appointment of trustees with respect to other companies in which the considered individuals have been appointed members of the Board of Directors general manager or other managers over the last 5 years.
- To the extent known to the Group, none of the Members of the Board of Directors, general managers or other Managers of the companies within the Group has been convicted of fraud over the last 5 years.
- No members of the Board of Directors and Managers have resigned or have been dismissed over the last three years

Conflict of interests

No potential conflicts of interest exist between the obligations of the Members of the Company's Board of Directors and their personal interests or other obligations;

As of the date of the Prospectus, there have been no arrangements or agreements between the major shareholders, customers, suppliers, and others, according to which the members of the Board of Directors of Gradus AD have been elected as members of the management body.

There are no restrictions accepted by the members of the Board of Directors of Gradus AD for the disposal, within a given period, of their securities, except for a temporary ban on the disposal of Gradus AD shares (Lockup) with respect to the Members of the Board of Directors and selling shareholders Ivan Angelov and Luka Angelov.

Every senior manager which is relevant to assess Issuer knowledge and experience in running its economic activity

There are no high-level managers that are involved in determining whether or not the Issuer possesses the proper knowledge and experience in running the economic activity of the latter.

Participation of members of the Board of Directors in the Offering

As of the date of the Prospectus, none of the members of the Board of Directors has indicated intentions to acquire, at their own and someone else's expense, the proposed New Shares. The members of the Board of Directors - Ivan Angelov and Luka Angelov will offer for sale through public offering some of the existing shares of their company.

Remunerations and compensations

The General meeting of the shareholders of Gradus AD, held on 29.12.2017, determined the monthly remuneration of each member of the Board of Directors to be BGN 9,000 (nine thousand). The General Meeting decided that the remuneration would be accrued and paid as of 01.01.2018. given the lack of a full financial 2017, no remuneration had been paid for the considered year.

Members of the BD have not received benefits in kind. Gradus AD has not redeemed or paid retirement benefits to members of its Board of Directors.

Remuneration and indemnities from subsidiaries:

Mr. Ivan Angelov has not received remuneration for 2017 from Zhyuliv EOOD, Gradus -1 EOOD, Milenium 2000 EOOD, Gradus - 98 AD, Gradus - 3 AD, and Lora - 2004 EOOD.

Mr. Luka Angelov has not received remuneration for 2017 from Gradus - 1 EOOD, Milenium 2000 EOOD, Lora - 2004 EOOD, and Zhyuliv EOOD. Mr. Luka Angelov has received remunerations for 2017 from the Gradus - 98 AD - a net remuneration of BGN 21,600 BGN, and Gradus - 3 AD – a gross remuneration of BGN 64,800.

Subsidiaries have not allocated or paid retirement benefits to members of the Board of Directors. All mandatory social security contributions provided under the Social Insurance Code have been made.

Information on the BoD members' contracts with the Company or any of its subsidiaries that provide severance benefits

The contractual relationships of the members of the Board of Directors with the Company or with any of its subsidiaries do not entitle the members of the Board of Directors to severance benefits in excess of those determined by the Bulgarian law (in particular, in case of termination of service/employment relationship he/she is entitled to a compensatory payment for his/her unpaid leave and, in the case of termination of an official/employment relationship on retirement, the employee is entitled to a gross amount of his/her salary for up to 6 months).

Expiration dates for the members of the Board of Directors mandates and the period they have held the position

The current membership was elected for a term of 3 years at the constituent meeting of Gradus AD, held on 20.11.2017. The date of expiration of the current term for taking office by the members of the Board of Directors is 20.11.2020.

Shareholders structure and Information on options for such shares as of the Prospectus date

As of the date of the Prospectus, the members of the Board of Directors - Ivan Angelov and Luka Angelov hold a total of 221,000,000 shares representing 100% of the Company's capital. The individual position of each of them is as follows:

Member of Board of Directors	Number of shares held	Percentage participation in capital
Ivan Angelov	110 500 000	50%
Luka Angelov	110 500 000	50%

Georgi Babev	0	0
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Shares in subsidiaries, owned by members of the Board of Directors are as follows:

Georgi Babev - none.

Ivan Angelov:

- Zhyuliv EOOD, UIC 119053781, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity of the Company through Gradus AD;
- Milenium 2000 EOOD, UIC 119591422, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity of the Company through Gradus AD;
- Gradus-98 AD, UIC123120561, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 49.97% of the equity of the Company through Gradus AD;
- Gradus-1 EOOD, UIC 822132592, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity of the Company through Gradus AD;
- Lora - 2004 EOOD, UIC 123658624, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity of the Company through Gradus AD;
- Gradus - 3 AD, UIC 123152751, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, owns 48% of the equity, indirectly through Gradus-1 EOOD and 2 %, directly;
- Gradus AD, UIC 204882907, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, owns 50% of the equity, directly;

Luka Angelov:

- Zhyuliv EOOD, UIC 119053781, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity of the Company through Gradus AD;
- Milenium 2000 EOOD, UIC 119591422, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity of the Company through Gradus AD;
- Gradus - 98 AD, UIC123120561, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 49.97% of the equity of the Company through Gradus AD;
- Gradus - 1 EOOD, UIC 822132592, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity of the Company - indirectly through Gradus AD;
- Lora - 2004 EOOD, UIC 123658624, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, 50% of the equity of the Company through Gradus AD;
- Gradus - 3 AD, UIC 123152751, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, owns 48% of the equity through Gradus - 1 EOOD and 2 %, directly;
- Gradus AD, UIC 204882907, Stara Zagora 6000, Industrial Area, Gradus Poultry Processing Plant, owns 50% of the equity, directly;

No options for the Company's shares are currently provided To the Members of the Board of Directors or to senior management of the Company.

No arrangements with major shareholders, significant clients, and other counterparties exist, on the basis of which Members of the Board of Directors, general managers and other managers have been elected.

There are no other shares or options convertible into shares held by the members of the Board of Directors, general Managers and other Managers (including their ascendants, descendants, siblings, spouses or other persons in close family relations with them).

No arrangements, other than management contracts, authorizing contracts, service contracts, employment contracts, confidentiality contracts, consultancy contracts, non-competitive business agreements, contracts defining benefits payable on termination of an employment relationship, exist

between the Group companies and the members of the Board of Directors, the general managers, and the other managers.

Details on the Audit Committee of the Company

Upon acquisition of public status, an audit committee would be elected at the first General Meeting of the Company, which would be held after the Company's registration with the FSC in the Register under Art.3, para.1, item 30 of the Financial Supervision Commission Act.

Corporate governance

Gradus AD performs its activity in compliance with the legislation of the Republic of Bulgaria. Upon acquisition of a public status, the Company will comply with the corporate governance regime in the country.

In 2007, the BSE adopted the National Corporate Governance Code (BSE Code), which includes all internationally accepted principles of corporate governance and good practices in the field. The BSE Code is obligatory for the companies whose shares are traded on the BSE.

The BSE Code is applied on the basis of the Compliance or Explanation principle, which means that the Company should comply with the Code's recommendations and, in case of deviation or non-compliance, its management should clarify the reasons for doing so. Information on compliance with the BSE Code is disclosed in the Company's annual report, which is published through a specialized news agency as well as on the company's website.

The Code is a standard for good practice and a mean of communication between stakeholders. The BSE Code takes into account the regulatory framework. Without repeating it, the BSE Code recommends how Bulgarian companies should apply good practices and principles of corporate governance. The rules and norms of the BSE Code are standards for the management and supervision of public companies that have proven their effectiveness over the years. On the basis of the BSE Code, the understanding of corporate governance is a balanced interaction between shareholders, company managers, and stakeholders. Good corporate governance means loyal and responsible corporate leadership, transparency and independence, and corporate responsibility to society.

It proposes rules for shareholders protection, transparency, corporate governance, and consideration of stakeholders, addressed to public companies and companies planning to acquire public status.

Gradus AD would adopt a program for application of the internationally recognized standards for good corporate governance, which would be communicated to the Financial Supervision Commission and implemented by the Company. This program would set out the core principles and principles of good corporate governance of Gradus AD in accordance with internationally recognized standards and in compliance with the provisions of Bulgarian laws and regulations.

13. MAJOR SHAREHOLDERS

Herein below the information about the Company's shareholder structure, direct and indirect stakes of 5% and more than 5% in its capital is based on data provided by the major shareholders of the Company as well as information presented as of the date of the Prospectus.

The major shareholders, who are also members of the Board of Directors and hold directly 5% and more than 5% of the total number of votes of the General Meeting, are:

- Ivan Angelov Angelov, address: Stara Zagora, Industrial Area, Gradus Poultry Processing Plant – holds 110 500 000 shares of BGN 1 par value from the Company's share capital with total share value of 110 500 000 BGN, entitling 110 500 000 votes at the General Meeting of the Shareholders, representing 50% of the Company capital.
- Luka Angelov Angelov, address: Stara Zagora, Industrial Area, Gradus Poultry Processing Plant – holds 110 500 000 shares of BGN 1 par value from the Company's share capital with total share value of BGN 110,500,000, entitling 110,500,000 votes at the General Meeting of the Shareholders, representing 50% of the Company capital.

The aforementioned persons hold the Company shares in their own name and on their own accounts. There is no third party for which Company's shares are held. The company is not aware of any persons within the meaning of Art.146 of POSA.

None of the aforementioned shareholders hold any other voting rights at the General Meeting of the Company.

All shares held by the aforementioned shareholders are ordinary shares and each share entitles its holder to one vote in the General Meeting.

Control over the Company

The above-mentioned persons - Ivan Angelov and Luka Angelov, hold an equal number of shares in the Company capital and control it jointly. No person is entitled to exercise sole control of the Company. The Company is not aware of the existence of arrangements for a subsequent change in Company's control.

Selling Shareholders

Existing shares are offered by Ivan Angelov - 13,888,889 ordinary registered shares representing 6.3% of the share capital of Gradus AD and by Luka Angelov - 13,888,889 ordinary registered shares representing 6.3% of the share capital of Gradus AD prior to the issue of the New Shares.

In addition, in the event of the subscription of all New and Existing shares offered and strong investor interest, Ivan Angelov may offer additionally up to 3,319,444 ordinary registered shares representing 1.3% of the capital of Gradus AD and Luka Angelov - up to 3,319,444 ordinary registered shares, representing 1.3% of the capital of Gradus AD.

Temporary ban on the sale of Shares (Lock-up period)

The current Shareholders have agreed that exclusive of the Shares sold in the Offering (including all Over-Allotted Shares), for a period of 12 months after the date of the Issue registration for trading, not to (A) offer, pledge, sell, sell options or contract to purchases, purchase options, directly or indirectly, to sell, grant any options, rights or warrants for purchase, deposit into depository receipts or otherwise, transfer or dispose of Shares or other securities convertible into or exercisable or exchangeable for Shares; or (B) enter into swap transactions or other contracts to transfer, in whole or in part, directly or indirectly, the economic entity of the ownership of the Shares if the swap transactions described in (A) and (B) above, must be settled by delivery of Shares or such other securities, in cash or otherwise.

14. DILUTION

The size and percentages of dilution resulting from the offering.

Dilution is a reduction in the book value per share as a result of the offering. Dilution is calculated as the difference between the issue price and the pro forma book value per share immediately after the offering.

"**Book value per share** under para.1, item 20 of the POSA is determined using items on the balance sheet statement of the Issuer such as the shareholders' equity of the Issuer, divided by the number of shares issued. As of 31.12.2017, the shareholders' equity at the Issuer's consolidated balance sheet statement is BGN 268,543 thousand. While the shareholders' equity on the Issuer's individual balance sheet is BGN 265,199 thousand. Consequently, the book value per share based on the consolidated financial statement is BGN 1.22 and the book value per share based on the individual financial statement is BGN 1.20.

The issue value of the shares of the capital increase of Gradus AD was determined by the decision, taken at the General Meeting of the Shareholders on 26 March 2018, which sets the minimum issue price at BGN 1.80 per share and a maximum price at BGN 2.35 (two leva and thirty five stotinki) per share.

Dilution of capital (per share) as a result of the offering, based on the consolidated financial statement

	31.12.2017	Minimum subscription	Maximum subscription
At a minim price per share, BGN 1.80			
Total assets (thousand BGN)	339 695	371 790	389 098
Total liabilities (thousand BGN)	69 596	69 596	69 596
Equity (thousand BGN)	268 543	300 638	317 946
Non-controlling interest (thousand BGN)	1 556	1 556	1 556
Number of shares outstanding	221 000 000	239 055 556	248 777 778
Book value per 1 share in BGN	1.22	1.26	1.28
Issue price per 1 share in BGN		1.8	1.8
At maximum cost per share, 2.35 BGN			
Total assets (thousand BGN)	339 695	381 528	404 078
Total liabilities (thousand BGN)	69 596	69 596	69 596
Equity (thousand BGN)	268 543	310 376	332 926
Non-controlling interest (thousand BGN)	1 556	1 556	1 556
Number of shares outstanding	221 000 000	239 055 556	248 777 778
Book value per 1 share in BGN	1.22	1.30	1.34
Issue price per 1 share in BGN		2.35	2.35

Source: Audited Annual Consolidated Financial Statements of Gradus AD for 2017; FFBH calculations

Dilution of capital (per share) as a result of the offering, based on the individual financial statement

	31.12.2017	Minimum subscription	Maximum subscription
At a minim price per share, BGN 1.80			
Total assets (thousand BGN)	265 200	297 295	314 603
Total liabilities (thousand BGN)	1	1	1
Equity (thousand BGN)	265 199	297 294	314 602
Number of shares outstanding	221 000 000	239 055 556	248 777 778
Book value per 1 share in BGN	1.20	1.24	1.26
Issue value per 1 share in BGN		1.8	1.8
At maximum cost per share, 2.35 BGN			
Total assets (thousand BGN)	265 200	307 033	329 583
Total liabilities (thousand BGN)	1	1	1
Equity (thousand BGN)	265 199	307 032	329 582
Number of shares outstanding	221 000 000	239 055 556	248 777 778
Book value per 1 share in BGN	1.20	1.28	1.32
Issue price per 1 share in BGN		2.35	2.35

Source: Audited Annual Individual Financial Statements of Gradus AD for 2017; FFBH calculations

Since the minimum issue price of the new shares (BGN 1.80) is higher than the book value per share on consolidated and individual basis before the capital increase, no dilution of the capital is present, regardless of whether the minimum or maximum amount of the increase is realized.

The value and the percentage of immediate dilution if existing shareholders do not participate in the subscription for the new offering

Upon an increase in the total number of issued shares, the voting right of each share at the General Meeting of the Company is reduced pro rata. The stakes in the dividend distribution and the liquidation value may be impaired as well as some of the other shareholders' rights. This effect is also called dilution.

According to the decision taken at the General meeting of the shareholders of the Issuer, the rights of the existing shareholders to acquire new shares pro rata to their stake in the share capital before the increase are waived. Accordingly, the stakes of existing shareholders in the company's capital will be reduced.

Immediate dilution of the equity stake of Gradus AD of the owners of the share capital

	12/31/2017	Minimum subscription	Maximum subscription
Number of shares in circulation	221 000 000	239 055 556	248 777 778
Stake in share capital per one share	0.00000045%	0.00000042%	0.00000040%
Immediately dilution of stake per share in %		-7.55%	-11.17%

Source: FFBH calculations

Upon completion of the new offering, existing shareholders will have their stakes diluted by between 7.55% and 11.17%, respectively, based on a minimum and maximum capital increase.

Investors should bear in mind that, under the Company's Articles of Association, there are no limitations on the maximum amount of future share issues. For this reason, the shareholders' stakes (as of the date of registration of this capital increase in the commercial register) may be reduced as a result of a future capital increase, provided that they do not participate in them. If, due to a future capital increase, the number of Company shares issued increases at a faster pace than the net asset value of the Company, it may result in a reduction in the net asset value per share of the Company. With the exception of the current capital increase procedure, Gradus AD does not foresee at the time of writing this document:

- issuance of convertible bonds;
- issuance of preferred shares, convertible into ordinary shares;
- grant of any options.

15. RELATED-PARTY TRANSACTIONS

Group enters into and intends to enter into transactions in the future with related parties within the meaning of IAS 24 Related-Party Disclosures (Annex to Regulation (EC) No.1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No.1606/2002 of the European Parliament and of the Council, as amended by Regulation (EC) No.1274/2008 of 17 December 2008 amending Regulation (EC) No.1126/2008 adopting certain international accounting standards in accordance with Council Regulation (EC) No 1606/2002 of the European Parliament and of the Council, in relation to the International Accounting Standard (IAS) 1.

Gradus AD was incorporated on 28.11.2017 and as such it presents transactions with related parties only as of 31.12.2017 and as of the Prospectus date. For the purpose of presenting the full range of related party transactions for the period 2015-2017, data is shown for related-party transactions of the subsidiaries of Gradus AD. Unless otherwise stated, the parties listed below are considered related parties to Gradus AD or its subsidiaries in 2015, 2016 and 2017 and as of the date of the Prospectus (**Related persons**):

- **Parent company:** Gradus AD
- **Subsidiaries:** Gradus - 1 EOOD, Gradus - 3 AD, Milenium 2000 EOOD, Gradus - 98 AD, Zhyuliv EOOD, Lora - 2004 EOOD
- **Owners:** Luka Angelov Angelov, Ivan Angelov Angelov;
- **Through a person with significant influence:** Gradus-7 OOD, Gradus - 2 OOD, Mirena OOD, Gold Agro - 2005 OOD, Ayazmo AD, Marieta EOOD, Trade House EOOD, Wolf OOD, Biser Oliva AD, ET Gradus - Ivan Angelov-55, Equity Invest - 1 AD, Equity Invest-2 OOD, M.O. Stara Zagora OOD, Biser Distribution OOD, Zagora Oil OOD;
- **Members of the Boards of Directors;**

Company is controlled by Luka Angelov Angelov and Ivan Angelov Angelov, who hold 50% of its shares each.

Between 28 November 2017 and 31 December 2017, except for the transactions in this section, the companies in the Group have not entered into any other related-party transactions that are significant on individual or on aggregate basis.

Gradus AD has no related-party transactions on an individual basis during the period between its incorporation and the prospectus date. The tables below provide data on related-party transactions at consolidated level and for the subsidiaries for the Prospectus period.

Consolidated related-party transactions of the Group

Gradus AD		
In BGN thousand	28.11-31.12.2017	As of Prospectus date
Sales	386	730
Gradus - 7 OOD	6	18
Gradus - 2 OOD	50	206
ET Gradus - Ivan Angelov-55	165	415
Biser Oliva AD	29	27
Ivan Angelov Angelov	136	63
		1
Purchases	638	1 594
Gradus -7 OOD	7	39
Gradus -2 OOD	8	87

ET Gradus - Ivan Angelov - 55	345	536
Biser Oliva AD	278	932
Receivables	2 743	3 106
Gradus -7 OOD	983	947
Gradus -2 OOD	1 520	1 734
ET Gradus - Ivan Angelov - 55	112	416
Biser Oliva AD	8	9
Ivan Angelov Angelov	120	-
Loan granted	-	191
Gradus - 7 OOD	-	15
Gradus - 2 OOD	-	167
M.O. Stara Zagora OOD	10	9
Loan receivables	2 204	2 213
M.O. Stara Zagora OOD	2 204	2 213
Accounts payables	479	440
Gradus -7 OOD	12	16
Gradus -2 OOD	11	80
ET Gradus - Ivan Angelov-55	440	279
Biser Oliva AD	13	61
Mirena OOD	3	4

Source: Gradus AD

Transactions with related persons of the Group subsidiaries

Gradus-1 EOOD	For the year ending on 31 December			
In BGN thousand	2015	2016	2017	As of Prospectus date
Sales	4 679	4 964	5 275	1 132
Gradus - 3 AD	321	364	342	67
Milenium 2000 EOOD	1 781	1 944	1 956	441
Zhyuliv EOOD	1 085	1 402	1 453	371
Lora - 2004 EOOD	79	81	103	30
Gradus - 98 AD	396	506	357	67
Gradus - 2 OOD	454	162	135	42
ET Gradus - Ivan Angelov - 55	173	160	150	39
Biser Oliva AD	9	76	75	7
Gradus - 7 OOD	134	-	305	5
Ivan Angelov Angelov	245	269	399	63
Luka Angelov Angelov	-	-	-	1
Mirena OOD	2	-	-	-
Purchases	41 262	35 628	32 265	8 747
Gradus - 3 AD	81	77	73	16

Milenium 2000 EOOD	25 912	18 443	18 233	4 945
Zhyuliv EOOD	9 183	7 151	5 217	1 426
Lora-2004 EOOD	2 311	6 891	5 728	1 548
Gradus -98 AD	1 297	1 273	1 148	269
Gradus -2 OOD	-	6	8	2
ET Gradus - Ivan Angelov - 55	2 474	1 783	1 853	536
Biser Oliva AD	4	4	5	4
Dividends	-	1 041	2 401	-
Biser Oliva AD	-	1 041	2 401	-
Receivables	515	560	1 035	1 012
Gradus - 3 AD	6	36	31	42
Milenium 2000 EOOD	101	135	112	113
Zhyuliv EOOD	75	133	150	148
Lora - 2004 EOOD	13	6	95	87
Gradus - 98 AD	28	90	26	26
Gradus - 2 OOD	291	148	130	180
ET Gradus - Ivan Angelov - 55	1	3	5	42
Biser Oliva AD	-	8	-	1
Gradus - 7 OOD	-	-	366	372
Ivan Angelov Angelov	-	1	120	-
Receivables on dividends	-	665	-	-
Biser Oliva AD	-	665	-	-
Loan granted	-	-	-	-
Gradus - 2 OOD	-	-	-	-
Loan receivables	-	2 168	2 204	2 231
M.O.Stara Zagora OOD	-	2 168	2 204	2 231
Gradus - 2 OOD	-	-	-	-
Accounts payables	12 717	9 037	15 319	21 680
Gradus - 3 AD	7	9	5	6
Milenium 2000 EOOD	8 164	2 137	8 058	13 096
Zhyuliv EOOD	2 595	5 220	4 497	5 786
Lora - 2004 EOOD	821	82	952	815
Gradus - 98 AD	146	1 158	1 682	1 685
Gradus - 2 OOD	-	2	3	6
ET Gradus - Ivan Angelov - 55	888	331	122	279
Biser Oliva AD	96	98	-	5
Ivan Angelov Angelov	-	-	-	4
Loan received	-	-	3 000	-
Milenium 2000 EOOD	-	-	1 000	-
Zhyuliv EOOD	-	-	2 000	-

Outstanding loan payables	-	-	2 413	1 247
Milenium 2000 EOOD	-	-	519	3
Zhyuliv EOOD	-	-	1 894	1 244
Additional capital contributions	-	2 306	-	-
Ivan Angelov Angelov	-	970	-	-
Luka Angelov Angelov	-	1 336	-	-
Additional capital contributions payables	-	19 270	-	-
Ivan Angelov Angelov	-	18 220	-	-
Luka Angelov Angelov	-	1 050	-	-

Source: Gradus-1 EOOD

Gradus-3 AD	For the year ending on 31 December			
In BGN thousand	2015	2016	2017	As of Prospectus date
Sales	41 426	42 239	36 099	8 841
Gradus - 98 AD	8 628	8 114	8 058	1 966
Milenium 2000 EOOD	23 382	21 471	19 665	4 392
Zhyuliv EOOD	5 565	4 418	3 231	1 338
Lora - 2004 EOOD	1 629	4 270	3 641	739
Gradus - 1 EOOD	81	77	73	16
Gradus - 7 OOD	41	-	20	-
Gradus - 2 OOD	51	29	165	79
ET Gradus – Ivan Angelov - 55	1 648	1 293	1 220	311
Biser Oliva AD	401	2 567	26	-
Purchases	6 830	9 180	5 738	1 118
Milenium 2000 EOOD	1 063	859	878	45
Lora - 2004 EOOD	39	-	44	-
Gradus - 1 EOOD	321	364	342	67
Gradus - 7 OOD	1	2	2	-
Gradus - 2 OOD	56	99	98	85
ET Gradus – Ivan Angelov - 55	233	355	373	-
Biser Oliva AD	5 117	7 477	4 001	921
Lora EOOD	-	24	-	-
Transactions with key management	66	-	-	-
Remuneration	66	-	-	-
Receivables	11 147	10 554	6 878	8 291
Gradus - 98 AD	1 686	1 284	712	854
Milenium 2000 EOOD	7 149	4 368	1 850	2 496
Zhyuliv EOOD	435	313	175	734

Lora-2004 EOOD	1 645	4 357	3 965	3 792
Gradus -1 EOOD	7	9	5	6
Gradus -7 OOD	-	-	12	-
Gradus -2 OOD	2	21	54	113
ET Gradus – Ivan Angelov - 55	217	202	105	295
Biser Oliva AD	6	-	-	-
Loan receivables	-	659	-	-
Biser Oliva AD	-	659	-	-
Accounts payables	140	773	660	385
Milenium 2000 EOOD	18	518	611	219
Gradus -1 EOOD	6	36	31	42
Gradus -2 OOD	13	13	8	75
ET Gradus – Ivan Angelov - 55	12	204	-	-
Biser Oliva AD	91	2	10	49
Loan payables	-	-	1 800	1 314
Milenium 2000 EOOD	-	-	1 800	1 314

Source: Gradus-3 AD

Gradus-98 AD	For the year ending on 31 December			
In BGN thousand	2015	2016	2017	As of Prospectus date
Sales	13 007	14 789	14 266	3 700
Zhyuliv EOOD	7 289	7 171	8 823	1 997
Gradus -1 EOOD	1 297	1 273	1 148	269
Milenium-2000 EOOD	3 375	6 218	3 235	1 423
Lora-2004 EOOD	20	37	1 004	-
Gradus - 2 OOD	98	90	56	10
Gradus - 7 OOD	928	-	-	-
Purchases	11 392	9 783	15 498	3 698
Zhyuliv EOOD	-	-	17	59
Gradus - 1 EOOD	396	506	357	67
Milenium - 2000 EOOD	2 174	776	7 066	1 606
Lora - 2004 EOOD	194	-	-	-
Gradus - 3 AD	8 628	8 501	8 058	1 966
Receivables	4 786	8 787	11 559	11 311
Zhyuliv EOOD	220	1 849	5 832	6 411
Gradus - 1 EOOD	146	1 158	1 682	1 685
Milenium - 2000 EOOD	2 955	5 101	3 015	3 175
Lora-2004 EOOD	9	54	1 002	-
Gradus - 2 OOD	21	52	28	41
Gradus - 7 OOD	1 435	572	-	-

Biser Oliva AD		1	-	-
Loan granted	-	-	1 004	-
Lora - 2004 EOOD	-	-	1 004	-
Loan receivables	-	54	1 002	978
Lora - 2004 EOOD	-	54	1 002	978
Accounts payables	7 331	3 008	1 077	1 244
Zhyuliv EOOD	-	-	5	70
Gradus - 1 EOOD	28	90	26	26
Milenium - 2000 EOOD	95	46	334	293
Biser Oliva AD	5 522	1 588	-	-
Gradus - 3 AD	1 686	1 284	712	854
Loan payables	3 934	3 934	-	-
Biser Oliva AD	3 934	3 934	-	-

Source: Gradus-98 AD

Lora - 2004 EOOD	For the year ending on 31 December			
In BGN thousand	2015	2016	2017	As of Prospectus date
Sales	2 671	7 194	6 123	1 657
Gradus - 98 AD	194	-	-	-
Milenium 2000 EOOD	-	5	1	25
Zhyuliv EOOD	34	115	152	44
Gradus - 1 EOOD	2 311	6 891	5 728	1 548
Gradus - 3 AD	39	24	44	-
ET Gradus - Ivan Angelov-55	4	10	4	3
Gradus - 2 OOD	34	70	35	17
Biser Oliva AD	23	79	159	20
Mirena OOD	32	-	-	-
Purchases	2 360	5 919	5 036	1 163
Gradus - 98 AD	20	37	-	-
Milenium 2000 EOOD	78	155	41	11
Zhyuliv EOOD	549	1 326	1 177	380
Gradus - 1 EOOD	79	81	103	30
Gradus - 3 AD	1 629	4 270	3 641	739
ET Gradus - Ivan Angelov - 55	-	-	3	-
Biser Oliva AD	5	50	3	-
Mirena OOD	-	-	65	-
Gradus - 7 OOD	-	-	3	3
Receivables	855	133	980	868
Zhyuliv EOOD	12	13	17	18
Gradus - 1 EOOD	821	82	952	815

ET Gradus -Ivan Angelov - 55	3	-	-	4
Gradus - 2 OOD	11	30	3	24
Biser Oliva AD	8	8	8	8
Milenium 2000 EOOD	-	-	-	-
Accounts payables	2 224	6 009	5 421	5 301
Gradus - 98 AD	9	54	-	-
Milenium 2000 EOOD	21	3	47	61
Zhyuliv EOOD	530	1 589	1 308	1 358
Gradus - 1 EOOD	13	6	95	87
Gradus - 3 AD	1 645	4 357	3 965	3 792
ET Gradus - Ivan Angelov - 55	-	-	3	3
Biser Oliva AD	6	-	-	-
Mirena OOD	-	-	3	-
Loans from related parties	-	-	4 000	-
Gradus -98 AD	-	-	1 000	-
Milenium 2000 EOOD	-	-	3 000	-
Loan payables	-	-	3 994	3 976
Gradus -98 AD	-	-	1 002	978
Milenium 2000 EOOD	-	-	2 992	2 998

Source: Lora-2004 EOOD

Milenium 2000 EOOD

For the year ending on
31 December

In BGN thousand	2015	2016	2017	As of Prospectus date
Sales	39 621	31 766	51 658	9 606
Gradus -1 EOOD	25 913	18 443	18 232	4 945
Zhyuliv EOOD	8 800	10 612	11 079	2 940
Gradus - 98 AD	2 174	776	7 066	1 606
Gradus - 3 AD	1 063	859	878	45
Lora - 2004 EOOD	78	155	41	11
Gradus - 2 OOD	422	811	714	44
Biser Oliva AD	-	17	-	-
ET Gradus - Iv. Angelov - 55	289	91	204	3
Gradus - 7 OOD	878	1	13 444	13
Mirena OOD	4	1	-	-
Purchases	32 805	33 641	28 374	7 121
Gradus - 1 EOOD	1 781	1 944	1 956	441
Zhyuliv EOOD	3 531	3 894	3 079	800
Gradus - 98 AD	3 374	6 218	3 235	1 423
Gradus - 3 AD	23 383	21 471	19 665	4 392

Lora - 2004 EOOD	-	-	1	25
Gradus - 2 OOD	11	2	2	-
Biser Oliva AD	91	83	17	4
ET Gradus - Iv. Angelov - 55	10	29	410	-
Gradus - 7 OOD	624	-	9	36
Receivables	9 078	4 735	11 350	16 172
Gradus - 1 EOOD	8 164	2 135	8 058	13 096
Zhyuliv EOOD	499	862	430	608
Gradus - 98 AD	95	46	334	292
Gradus - 3 AD	18	519	610	219
Lora - 2004 EOOD	21	2	47	61
Gradus - 2 OOD	279	1 150	1 264	1 317
Biser Oliva AD	-	17	-	-
ET Gradus - Iv. Angelov - 55	2	3	2	3
Gradus - 7 OOD	-	-	605	575
Mirena OOD	-	1	-	-
Payables	11 833	10 379	6 423	7 519
Gradus - 1 EOOD	101	135	112	113
Zhyuliv EOOD	1 082	762	1 119	1 717
Gradus - 98 AD	2 955	5 101	3 015	3 175
Gradus - 3 AD	7 149	4 368	1 851	2 496
Biser Oliva AD	9	9	-	5
ET Gradus - Iv. Angelov - 55	3	3	315	-
Gradus - 7 OOD	534	1	11	13
Loans from related parties	-	-	5 800	15
Gradus - 1 EOOD	-	-	1 000	-
Gradus - 3 AD	-	-	1 800	-
Lora - 2004 EOOD	-	-	3 000	-
Gradus - 7 EOOD	-	-	-	15
Loan payables	-	-	5 312	4 315
Gradus - 1 EOOD	-	-	519	3
Gradus - 3 AD	-	-	1 801	1 314
Lora - 2004 EOOD	-	-	2 992	2 998

Source: Milenium 2000 EOOD

Zhyuliv EOOD	For the year ending on 31 December			
In BGN thousand	2015	2016	2017	As of Prospectus date
Sales	13 785	12 825	9 922	2 737
Gradus - 98 AD	-	-	17	59

Gradus - 1 EOOD	9 183	7 151	5 217	1 426
Milenium 2000 EOOD	3 531	3 894	3 079	800
Lora - 2004 EOOD	549	1 326	1 177	380
Gradus - 7 OOD	64	-	-	-
ET Gradus - Iv. Angelov - 55	369	391	384	59
Gradus - 2 OOD	87	61	48	14
Mirena OOD	2	2	-	-
Purchases	23 375	23 991	27 073	6 693
Gradus - 3 AD	5 565	4 418	3 231	1 338
Gradus - 98 AD	7 289	7 171	8 823	1 997
Gradus - 1 EOOD	1 085	1 402	1 453	371
Milenium 2000 EOOD	8 799	10 612	11 079	2 940
Lora - 2004 EOOD	34	115	152	44
Biser Oliva AD	49	32	15	3
Gradus - 7 OOD	554	240	2 319	-
ET Gradus - Iv. Angelov - 55	-	1	1	-
Interest expenses	-	-	11	11
Gradus -1 EOOD	-	-	11	10
Receivables	4 258	7 636	6 971	9 061
Gradus - 98 AD	-	-	5	70
Gradus - 1 EOOD	2 595	5 220	4 497	5 786
Milenium 2000 EOOD	1 082	762	1 119	1 717
Lora-2004 EOOD	530	1 590	1 308	1 358
ET Gradus - Iv. Angelov - 55	8	-	-	71
Gradus - 2 OOD	41	62	42	59
Mirena OOD	2	2	-	-
Loan granted	-	-	2 000	-
Gradus - 1 EOOD	-	-	2 000	-
Loan receivables	-	-	1 894	1 244
Gradus - 1 EOOD	-	-	1 894	1 244
Payables	1 241	3 213	6 608	7 920
Gradus - 3 AD	435	313	175	734
Gradus - 98 AD	220	-	5 832	6 411
Gradus - 1 EOOD	75	133	150	148
Milenium 2000 EOOD	499	862	430	608
Lora - 2004 EOOD	12	13	17	18
Biser Oliva AD	-	1 849	3	2
Gradus - 7 OOD	-	43	1	-

Source: Zhyuliv EOOD

The remunerations of the Board of Directors members are given in section *Management and corporate governance*.

16.SHARE CAPITAL AND RIGHTS AND OBLIGATIONS RELATED TO THE SHARES AND GENERAL MEETING

The information contained in this section is of a general nature and has been prepared in accordance with the laws and regulations applicable as of the date of this Prospectus and the Company's Articles of Association. Therefore, investors should carefully review the Articles of Association and seek advice from a legal adviser for detailed information on the shareholder rights and obligations and the General Meeting.

Share capital

As of the date of this Prospectus, the Company's share capital amounts to BGN 221 000 000. The capital is distributed into 221 000 000 ordinary registered dematerialized shares, with a par value of BGN 1 and entitled to one voting right each. Each issued shares is ordinary, dematerialized, with one voting right at the General Meeting of Shareholders, with a right to receive dividends and liquidation stake pro rata to the par value. The shares are issued in accordance with the Bulgarian legislation. The shares exist in dematerialized form by virtue of their registration with the Bulgarian Central Depository, with address: 6 Tri Ushi Street, Sofia 1303, Bulgaria.

The company has not issued any shares that do not represent capital. Company has not issued convertible or exchangeable securities or warrants. There is no authorized unissued capital, except for the decision taken by the competent authority to increase the capital, related to this Offering.

Company has a commitment to increase its capital according to the decisions of 29.12.2017, 30.01.2018, and 26.03.2018.

To the extent the Company is aware, there is no capital of the Company or of any Group company which is under option or agreed conditionally or unconditionally to be put under option.

200,000 shares were paid in cash. The remainder of the issued shares were subscribed against in-kind contributions, as described above in the General Information section.

None of the subsidiaries of Gradus AD holds shares of the Issuer.

In the period between the one covered by the historical financial information and the date of this Prospectus, the share capital of the Company has not been changed.

The Company will acquire a public status after a capital increase under the Public Offering of Securities Act and will be registered by the Financial Supervision Commission. The ordinary shares of the Company will be registered for trading on the BSE-Sofia.

Apart from the capital increase associated with the public offering, no other increases in capital are planned.

The scope of activity of the Company is Investment in shares and shares of companies, acquisition and management of stakes in Bulgarian and foreign companies; pursuing an activity as a holding company; acquisition, evaluation and sale of patents, transfer of licenses for patents to companies in which it has stakes; provision of financing to companies in which it has stakes, and any other activity not prohibited by law, provided that if an authorization or license is required or a registration to engage in any activity, that activity shall be performed after such authorization or license is obtained and after such registration is made.

The scope of the company's activity is described in Art.4 of the Articles of Association adopted at the Constituent Assembly held on 20.11.2017. It also reflects the Issuer's goals and objectives, which are not separately shown in the document.

The incorporation documents do not foresee it, but under applicable regulations, the disclosure of share ownership is required in certain cases.

Pursuant to the Public Offering of Securities Act, any shareholder who acquires or transfers directly and / or under Art.146 of POSA a voting right at a General Meeting to a public company shall be obliged to notify the Commission and the company itself when:

1. As a result of the acquisition or transfer, voting rights reach, exceed or drop below 5 % or a number, multiple of 5 %, of the number of votes at the General meeting of the Company;
2. Voting right exceed, reach or drop below the thresholds under item 1 as a result of events that lead to changes in the total number of voting rights on the basis of the information disclosed under Art.112e of POSA.

Voting rights shall be calculated on the basis of the total number of voting shares, regardless of whether the exercise of voting rights is restricted. The calculation is made for each class of shares.

The notification obligation shall be executed immediately but not later than 4 working days from the day following the day on which the shareholder or the person under Art.146, para.1 of the POSA becomes aware or informed.

The obligation to notify also applies to the persons provided for in Art.148a of POSA.

Pursuant to POSA, the members of the management and supervisory bodies of the public company, its procurator and the persons who directly or indirectly own at least 25% of the votes at the General meeting of the company or control it, are obliged to declare to the management body of the public company, as well as to the Commission and the regulated market, on which the Company shares are admitted, information on:

1. the legal entities in which they hold, directly or indirectly, at least 25% of the votes at the General Meeting or the entities they control;
2. the legal entities in which management or control bodies they participate or whose procurators they are;
3. their current and future transactions, which they consider might be recognized as related parties.

Increase and decrease of share capital

Issuance of shares

According to the Articles of Association, the Company's share capital may be increased by decision taken at the General Meeting of the Shareholders by:

1. Issuing new shares;
2. The issuance of shares upon the conversion of a convertible bond
3. The payment of a dividend in specie.

The Company's Articles of Association require a resolution on capital increase to be adopted by a 2/3 majority of all issued voting shares.

Rights issue

Upon obtaining a public status, public offering of shares should take place through rights issue and requires the publication of a Prospectus containing detailed information about the company in question and the shares offered. The Prospectus should be approved by the Financial Supervision Commission.

For more information, see below "*Rights and Obligations, attached to the Shares – Pre-emptive rights*".

Issuance of convertible bonds

The procedure for a rights issue also applies to an issue of convertible bonds when a company becomes public.

A resolution to issue convertible bonds can be taken by the General Meeting of the Shareholders.

Stock dividend

The General Meeting may resolve to pay a dividend in specie (conversion of the reserves into capital). The newly issued shares are distributed among the shareholders pro rata to existing shares prior to the increase. Only persons who hold or have acquired shares up to the date which is fourteen days after the resolution of the Shareholders' General Meeting to distribute dividends in specie is entitled to receive new shares. The date corresponds to the date for acquiring the right to the dividend (**Cum-dividend date**).

No restrictions on the distribution of dividends are laid down in the Company's Articles of Association

Registration of share capital increases

An increase of the share capital by any of the above methods as at the date of the registration of the share capital increase in the Bulgarian Commercial Register. The new shares are issued on the date of registration of the capital increase with Central Depository AD.

Share buy-backs

Company may buy back its Shares by resolution of the General Meeting. The buy-back terms (including the maximum number of Shares to be redeemed, the procedure and the timetable, which may be up to five years) must be specified in the resolution of the General Meeting. This resolution shall be taken by a majority of 2/3 of all issued voting shares and shall be registered in the Commercial Register.

A share buy-back may only take place if the net asset value of the Company after redemption is equal to or higher than the sum of the share capital, the reserves and all other funds that the Company is obliged to maintain pursuant its Articles of Association.

Upon acquisition of public status, the company shall be able to reduce its share capital by buying and cancelling its own shares. A public company may buy back more than 3% of its issued shares in one calendar year by way of tender offer procedure. For share buy-back under the 3% limit, the public company is obliged to notify in advance the FSC, as well as to disclose information about the shares bought back pursuant to the information disclosure requirements.

Share capital reduction

Under the current legislation, the General Meeting may resolve to reduce the issued share capital of the Company, indicating the purpose of the reduction and the manner in which it will be performed. The Company's Articles of Association require the resolution to be taken by a two-thirds majority of the Company's capital present at the meeting.

The Company's capital cannot be reduced by forcible cancellation of the shares.

Par value reduction of the shares or cancelling is done for all shareholders pro rata to their share in the capital, unless the General Meeting takes another decision. A reduction in Company's capital is made when the net asset value has dropped below the share capital.

According to Art.162 of the Commerce Act, the minimum par value per share is BGN 1 and the share par value should be set in whole leva. Given this requirement and the fact that the Company shares have a nominal value of BGN 1, the capital of the Issuer cannot be reduced by reducing the par value of its shares.

The Company's Articles of Association contain no provisions that would delay, postpone or prevent a change the control over the Company.

The Company's Articles of Association do not contain any stricter legal provisions governing capital changes.

Rights and Obligations attached to the Shares

Pursuant to the Public Offering of Securities Act and the Company's Articles of Association, the rights of the holders of Shares include, in particular:

The right of disposal of shares

According to Art.111, para.3 of the Public Offering of Securities Act, the shares of the public company are dematerialized, in view of which the transfer restrictions provided by the Commercial Act for the available securities do not apply to their disposal. According to Art.127, para.1 of the Public Offering of Securities Act, their transfer takes effect from its registration with the Central Depository AD.

The Bulgarian legislation provides for restrictions on the transfer of shares blocked by the depository institution, as well as those on which a pledge has been established or a distraint has been imposed. The

transfer prohibition in the case of a pledged shareholding does not apply if the acquirer has been informed about the pledge and has explicitly agreed to acquire the pledged shares, there is an explicit consent of the pledgee with the transfer of the pledged shares (if the pledge creditor's consent required by the Bulgarian Special Pledges Act). Restrictions on the transfer of pledged shares do not apply to the cases of a pledge established on a combination of rights within the meaning of the Special Pledges Act. The prohibition on the transfer of pledged shares does not apply also in the case of the established right of use in favour of the pledgee on the shares pledged under the Financial Collaterals Act, in which case the pledgee has the right to transfer the shares.

The right to participate in the General Meeting and exercise of voting rights

Under the Bulgarian law, shareholders are entitled to participate in the General Meeting and exercise their voting rights in person or through a proxy. A shareholder who intends to participate in the General Meeting through a proxy must authorize his/her proxy in writing or by electronic means.

According to Art. 116, para.1 of the Public Offering of Securities Act, the power of attorney to represent a shareholder should be explicit and be issued in respect of the particular General Meeting, the authorization must include at least: the personal data of the Authorizing Officer and of the Attorney; the number of shares to which the power of attorney applies; the proposed agenda; the draft resolutions in respect of each item on the agenda; as well as the manner of voting on each of the items on the agenda, if applicable; date and signature of the authorizing officer. If the power of attorney does not indicate the voting procedure on each item on the agenda, it must state that the proxy is authorized to vote at his/her discretion. According to Art.116, para.3 of the Public Offering of Securities Act, a company shall submit a power of attorney template together with the materials related to the agenda. A power of attorney template should be posted on the Company's website.

The person authorized shall exercise voting rights in accordance with the instructions of the shareholder granting the power of attorney. The proxy may represent more than one shareholder at the General Meeting of the public company. In this case, the proxy may vote differently on the shares held by the individual shareholders it represents.

Only those persons who have been registered with the Central Depository as shareholders of the Company fourteen days before the date of the General Meeting have the right to vote at the General Meeting (Voting Record Date).

At the request of the Company's representatives, Central Depository AD is required to issue a list of shareholders as per the Voting Record Date. The entry of shareholders in this list is the only prerequisite for their participation and voting at the General Meeting.

Each share gives the right to one vote at the General Meeting. According to Art.111, para.4 of the Public Offering of Securities Act, a public company may not issue privileged shares entitling its holder to more than one vote.

Quorum

The Company's Articles of Association provide that a quorum of at least 50% of the voting issued shares plus one is required in order to hold the General Meeting. In the absence of a quorum, a new meeting is scheduled not earlier than 14 days and it may pass resolutions, regardless of the capital represented at it. The date of the new meeting may also be specified in the invitation for the first meeting.

Majority

The Articles of Association of the Company provide that the following shareholders' resolutions require a majority of two thirds of all issued voting shares:

- Any amendment and supplements of the Articles of Association;
- increase and reduction of share capital;
- termination of Company;

Other resolutions of the General Meeting shall be adopted by a majority of 50% plus one share of all issued voting shares of the capital, unless the law provides for a higher majority.

The General Meeting of the Company shall take a resolution under Art.114, para.1 of the POSA by a majority of 3/4 of the represented capital in the cases of acquiring or disposing of assets, and in the other cases of Art.114, para.1 of the Public Offering of Securities Act - 50% plus one share of the represented capital.

The Company may be transformed with prior written approval from the Financial Supervision Commission. The FSC has the power to apply coercive administrative measures or mandatory instructions and prescriptions to the Company if any resolution of the shareholders at a General Meeting or resolution of the board of directors contradicts the law. The FSC may apply coercive measures also if a resolution of the Company's Board of Directors is detrimental to the interests of the shareholders or other investors.

Resolutions on amendments to the Articles of Association of the Company and its termination shall enter into force upon their entry in the Commercial Register. Any increase or reduction in capital, transformation, appointment or dismissal of a board member and the appointment of a liquidator shall have effect for third parties from the date of entry of the relevant decision in the Commercial Register.

Pre-emptive rights

In the event of an increase in capital, each shareholder shall have a pre-emptive right to subscribe new shares pro rata to its existing holdings. Pursuant to Bulgarian law, the pre-emptive cannot be suspended or restricted in any way.

Pre-emptive rights with respect to rights issue are accrued to those shareholders registered no later than 14 days after the date of the resolution of the General meeting on the capital increase and, if this resolution is taken by the authorized management body - the shareholders who have acquired shares at no later than 7 days after the date of publication of the announcement under Art.92a, para.1 of POSA. Within three working days of the expiration of the 14-day and 7-day term, respectively, the Central Depository shall open accounts for the rights of the entitled persons on the basis of the data of the Shareholders' Book.

When a Company has issued shares of different classes, the above rights apply only to shareholders of the share class in which the new shares are issued. Shareholders of the other classes may only exercise privileged rights if the shareholders of the class in which the new shares are issued do not exercise their pre-emptive rights before the capital increase.

According to Art. 112b, para.6 of the Public Offering of Securities Act, the regulated market, on which shares are admitted to trading, is obliged to admit for trading the rights granted by the Company. Subsequently, the rights can be transferred.

The first date on which pre-emptive rights may be exercised to subscribe for new shares or traded on the regulated market is required to be specified in the announcement of the rights issue. The final date for the exercise of pre-emptive rights must be between fourteen and thirty days from the initial pre-emptive rights transfer date. All pre-emptive rights not exercised within this period shall be publicly offered through an auction organized on the regulated market on the fifth working day following the final date for the transfer of the rights. The auction is held within one day. Any auctioned right must be exercised within ten business days of the auction. The subscription period is at least 30 days. The start of the subscription period coincides with the start of the vesting period. The subscription period shall expire at least 15 working days after the expiry of the vesting period.

Right to request information about the Company at a General meeting

According to Art.115, para.11 of the Public Offering of Securities Act, the members of the management bodies of the Company shall be obliged to respond faithfully, exhaustively and in essence to the shareholders' questions asked at the General Meeting on the economic, financial and commercial activity of the Company, except for circumstances considered as inside information. Shareholders can ask questions regardless if they are related to the agenda or not.

According to Art.115, para.2, item 3 of the Public Offering of Securities Act in the invitation to convene a General Meeting shall state the right of shareholders to make substantive proposals for decisions on any proposal included on the agenda and in compliance with the requirements of the law, and the restriction under Art.118, para.3 of POSA shall apply accordingly. The deadline for the exercise of this right is until the end of discussions on this matter before the voting on the decision at the General Meeting.

***Right to bring actions for revocation or declaring invalid a resolution taken at the General Meeting.
Right to bring an action to protect shareholders' rights***

According to Art.74 of the Commercial Act, any shareholder may bring an action against the Company for the revocation of a resolution taken at the General Meeting when it is contrary to imperative provisions of the Bulgarian law or the Articles of Association of the Company. Any Company shareholder may intervene in the case and defend the claim even if the plaintiff has renounced or withdrawn it. The action is brought before a District Court by Company's registered office. The action shall be brought within 14 days of the date of the relevant General Meeting when the claimant was present or when he/she was regularly invited. In other cases, the claim is filed within 14 days of the notification but not later than 3 months from the day of the General Meeting. According to the case law, the expiry of the aforementioned deadlines does not limit the possibility of bringing an action for a declaration of nullity of a decision, for example a decision which is not adopted but is contained in the agenda or resolutions defined in the law as null and void, e.g. decision for allocation of the profit in the form of new shares, which is not proportional to the shareholding in the capital before the allocation.

Furthermore, according to Art.71 of the Commercial Act, each shareholder may file an action with the District Court by the registered office of the Company to protect the group or individual shareholder rights when violated by a Company body. The above deadlines do not apply to the action brought under Art.71 of the Commerce Act.

Right to participate in the profit

As provided in the Articles of Association of the Company, it has the right to pay 6-month and annual dividends when applying the requirements of Art.247a of the Commerce Act.

Company may pay an interim dividend after the end of the first six months of a given calendar year only if the following conditions are met:

1. Financial statements were prepared for the six-month period in question; there is report based on the accounting information proving that the Company has sufficient funds to pay the dividends and that their payment will not result in the Company indebtedness to creditors, personnel, budget, etc.;
2. The financial result for the 6-month period in question is a profit and there is a decision at a Shareholders' General Meeting on the profit allocation;
3. The amount of funds that may be allocated in accordance with Art.247a of the Commercial Law shall not exceed the total profit such as:
 - (a) the current net result for the period from 1 January to 30 June;
 - (b) retained earnings from previous years;
 - (c) the amount of reserves the allocation of which is not prohibited by law or by the company's Articles of Association;
 - (d) the total amount referred to in letters (a) - (c) shall be reduced by the losses transferred and the legal reserves created in accordance with the requirements of Art.246 of the Commercial Law and/or the mandatory reserves under the Company's Articles of Association;
4. the joint stock company has no commitments and outstanding payables whose repayment period has expired prior to the adoption of the profit distribution decision and, after the payment of the interim dividends, it will be able to meet its liabilities for the current financial year.

Dividends are distributed by resolution of the Shareholders' General Meeting. The dividend proposal is prepared by the Board of Directors as part of the profit distribution proposal. Each share entitles its holder to a dividend pro rata to its holdings in Company's share capital. The right to receive dividends is accrued to shareholders registered in the Central Depository registry on the 14th day following the day of the

General Meeting on which the annual financial report was adopted, respectively the semiannual report and a resolution on the distribution of the profit was taken.

Company is obliged to ensure the payment to shareholders of the dividend voted on the General Meeting within 60 days of the meeting.

The Company shall immediately notify the Commission, the Central Depository and the regulated market of the General Meeting decision on the type and amount of the dividend and the terms and conditions for its payment, including at least one financial institution through which payments will be made.

Annual dividends are paid only if according to the financial statements approved in accordance with Section XI of the Commercial Act for the respective year, the net asset value, less dividends and interest payable, is not less than the amount of the Company's share capital, the Reserve and the other funds that a company is required to form by law of the Articles of Association.

The payment of the dividend is made with the assistance of the Central Depository and in compliance with Ordinance No.8 from 12 November 2003 on the Central Depository of Securities (altered – State Gazette No. 52 of 2013). The payment of a dividend to a proxy is made on the basis of an explicit power of attorney with a notarized signature of the authorizing shareholder which is kept by the Company.

The right to a dividend is forfeited after a 5-year limitation period, which begins from the dividend right occurrence. After expiration of the limitation period, the funds that should have been paid as dividend remain in the Company.

The Bulgarian and foreign shareholders enjoy the same mode with regard to their dividend right and the procedures for their payment (see "*Taxation - Dividends*")

Right to liquidation share of the assets in case of Company liquidation

The Company can be terminated:

1. By decision of the General meeting;
3. If it is declared bankrupt;
4. By a court order by the jurisdiction of company's headquarters and at the prosecutor's request if a company pursues objectives prohibited by law;
5. By decision of the court by the jurisdiction of company's headquarters of the Company and at the prosecutor's request when the net value of the Company's assets under Art. 247a, para.2 CA falls below the amount of the subscribed capital and within one year the General Meeting has not taken a decision to reduce the capital, for transformation or termination;
6. By a decision of the court by the jurisdiction of company's headquarters of the Company and at a prosecutor's request if for 6 months the number of members of the Board of Directors is less than the minimum of three members provided by the law;

Following the termination of the Company (except for insolvency), proceedings for its liquidation follow. The liquidator is appointed and his/her remuneration is determined by the General Meeting of Shareholders (except for the case of forced liquidation). The liquidator is required to finalize the Company's current transactions, collect the Company's receivables, sell its assets and satisfy the creditors' claims. The liquidator is required to invite creditors to file their receivables against the Company through an invitation announced in the Commercial Register and by a message sent to all known creditors. The division of the Company's property, if any, in favour of its shareholders may be made no earlier than six months from the date of this notice and satisfaction of the receivables of all creditors.

Each share entitles its holder to a liquidation share proportional to the par value of the share in the Company's capital. This right arises only if, after the liquidation of the Company and the satisfaction of the receivables of all other creditors, there are assets left to be distributed among the shareholders. The Bulgarian public companies are not allowed to issue privileged shares entitling their holders of privileged rights upon liquidation in the form of an additional liquidation share.

Rights of the minority shareholders

Shareholders who hold together or separately at least five percent (5%) of the shares have the following rights:

Right to bring Company's claims against third parties in the event of inaction of the Company's governing body or controlling authority and the right to bring claims against members of the Company's management or controlling body for damages caused to Company.

According to Art.118, para.1 of the Public Offering of Securities Act, in the event of inaction by the Company's management bodies, which threatens the interests of the Company, these shareholders may bring before the court the claims of the Company against third parties. According to Art.118, para.2, item 1 of the Public Offering of Securities Act, these shareholders may bring an action before the district court for damages caused to the Company by actions or inactions on the part of the members of the management and controlling bodies and of the Company's procurators.

Right to request a General Meeting and to include matters or draft resolutions on issues already included in the agenda

According to Art.118, para.2, item 3 of the Public Offering of Securities Act, these shareholders may ask the district court to convene a General meeting or empower their representative to convene a General Meeting on an agenda set by them. Furthermore, according to Art.118, para.2, item 4 of the Public Offering of Securities Act, these shareholders may request the inclusion of questions and offer proposals for resolutions on already included items on the agenda of the already convened General Meeting under the procedure of Art. 223a of the Commercial Act. The right under Art.118, para.2, item 4 of POSA does not apply when an item on the agenda of the General Meeting is the subject of a resolution under Art.114, para.1 of POSA. These shareholders are not entitled to include on the agenda of the General Meeting new items for taking a decision on them under Art.114, para.1 of POSA.

Right to request the appointment of controllers of the company

According to Art.118, para.2, item 2 of the Public Offering of Securities Act, these shareholders may request from the General Meeting or the district court the appointment of controllers to check the entire financial documentation of the Company and to prepare a report on their findings.

Changes in the rights of the shareholders

In general, the fundamental rights attached to ordinary shares (voting rights, dividend rights and liquidation shares) as described above cannot be limited or excluded.

The provisions of the Commercial Law and the Public Offering of Securities Act, under which these rights are given to shareholders, are of a mandatory nature and therefore the Articles of Association may give additional rights to shareholders but cannot exclude or limit the rights provided by these laws.

Art.113, para.2, item 2 of the Public Offering of Securities Act states that shareholders may be deprived of their pre-emptive rights when the capital increase is necessary for a merger, tender offer for an exchange of shares, or to ensure the rights of holders of warrants or convertible bonds.

Convening a General Meeting

The scope of empowerment and procedural rules of the General Meeting are set out in the Company's Articles of Association. A General Meeting may be either (annual) or extraordinary. The regular Shareholders' General Meeting is held until the end of the first half of the year following the end of the accounting year. In case the losses exceed one second of the capital, the Shareholders' General Meeting shall be held no later than three months after the loss is established.

Upon acquisition of a public status by the Company, its articles of association provide that the General Meeting may also be held by using electronic means through one or more of the following forms:

1. Real-time transmission of the General Meeting;

2. P2P real-time messages allowing Shareholders to participate in the discussion and decision-making at the General Meeting from a distance;
3. Voting mechanism before or during a General Meeting, without the need for a person to participate in a General Meeting.

The matters that must be discussed at the annual General Meeting of a public company are (i) consideration and approval of the management report of the Company's activity and the audited financial statements for the previous financial year; (ii) adoption of resolution on the profit allocation or loss covering; (iii) releasing from responsibility of board members in respect of the previous financial year; (iv) consideration of the report of the Audit Committee on the past financial year and (v) examination of the Investor Relations Director's activity report for the last financial year.

Under the applicable law, the General Meeting of the Company is held at the headquarters of the company - Stara Zagora.

Entities authorized to convene a General Meeting

A General meeting is convened by the Board of Directors.

In addition, a shareholder or shareholders holding at least five percent (5%) of the Company's shares also have the right to request convening of a General Meeting and add items or draft resolutions to the General Meeting agenda (see "*Rights and Obligations attached to the Shares - Rights of the minority shareholders*" / "*Right to request a General Meeting and to include matters or draft resolutions on issues already included in the agenda*").

Manner of convening the General meeting

Until the acquisition of a public status by the Company, according to its Articles of Association, the General Meeting is convened by a written invitation sent to each Shareholder at least 30 (thirty) calendar days before the date of its holding. Upon acquisition of a public status by the Company, the order will be changed, respectively, reflected in the Articles of Association, namely: The General Meeting will be convened by announcing an invitation in the Commercial Register which contains: (i) the name and the registered office of the Company; (ii) the place, date and time of the Meeting; (iii) the type of Meeting (i.e. regular annual or extraordinary); (iv) information on the formalities to be fulfilled for participation in the Meeting and the exercise of the right to vote; (v) the agendas and proposals for resolutions; (vi) information on: the total number of shares and voting rights at the General Meeting at the date of the decision to convene the General Meeting, including the total for each class of shares if the capital is divided into share classes and the shareholders' right to participate in the General Meeting; (vii) Information on the right of shareholders to include items on the agenda of the General Meeting and to make proposals for resolutions on matters on the agenda of the General Meeting and the deadline for the exercise of this right, the invitation may only contain the deadline, in which these rights can be exercised if it indicates the location on the company's website, where more detailed information is available on those rights; (viii) the right of shareholders to make substantive proposals for decisions on any matter included on the agenda and subject to the requirements of the law, such as the limit under Art.118, para.3 of the POSA shall apply accordingly; the deadline for exercising this right is until the discussion on this matter is terminated before the vote of the decision taken at the General Meeting; (ix) the shareholders' right to ask questions during a General Meeting; (x) information on voting rules by a proxy, templates to be used for voting by a proxy, and ways in which the public company will be notified of electronically made authorizations; (xi) voting rules by correspondence or electronic means, as well as information regarding the website on which these rules are published; (xii) The data under Art.115b of the Public Offering of Securities Act, indicating that only the persons registered as shareholders at that date are entitled to participate and vote at the General Meeting; (xiii) an indication of where and how the written material relating to the agenda of the General Meeting was received; (xiv) the website on which the information on the invitation will be published (including the invitation and the items relating to the agenda).

Upon receiving a public status from the Company, its Articles of Association shall provide for the voting rights of the General Meeting to be exercised by the Shareholders prior to the date of the General

Meeting by correspondence by exclusively sending a written statement to the Company on the manner of voting at each point of the agenda of the General Meeting, using mail, including e-mail, courier, or other technically feasible way. Voting by correspondence is valid if the vote is received by the Company no later than the day preceding the date of the General Meeting. If the agenda contains a point for the election of new members of the Board of Directors, the materials related to this point must contain at least the details on the proposed new members, including name, permanent address and professional qualification. The rule also applies to cases where the item or proposal is included on the agenda by a shareholder under Art.118, para.2, item 4 of the Public Offering of Securities Act (see, “*Right to request a General Meeting and to include matters or draft resolutions on issues already included in the agenda*”).

At least 30 days before the date of the General Meeting of the Public Company, the invitation to convene it must be announced in the Commercial Register and disclosed, together with the General Meeting materials, through an information agency that the Company uses to ensure the dissemination of regulated information to the public. Within the same period, the invitation, together with the documents related to the agenda of the General Meeting, must be sent by the Company to the Financial Supervision Commission, the regulated market where the shares of the company are listed and published on its web site for the time from the announcement of the invitation to the Commercial Register until the end of the General Meeting.

Upon acquisition of a public status by the Company, the Board of Directors will adopt voting rules by proxy, correspondence and use of electronic means, as well as for providing information to shareholders through the use of electronic means, necessary to ensure the identification of the shareholders and of the persons who represent them, respectively, the persons who have the right to determine the exercise of the voting right. The rules adopted by the Board of Directors will be published on the Company's website.

The Board of Directors shall determine the manner of holding a General Meeting and exercising the voting rights for each separate General Meeting, and such information shall be provided to the shareholders in the invitation for convening a General Meeting.

Updating the Invitation to Convene a General Meeting

In the event that a shareholder /shareholders submit to the Company issues or draft resolutions announced under Art.118, para.2, item 4 of the Law on Public Offering of Securities on items that have already been included on the agenda of already convened General Meeting of Shareholders, the Company is obliged to update the invitation and to publish it together with the written materials under the conditions and by the order of Art.100t, para.1 and 3, immediately but no later than the end of the working day following the day of receipt of the notification for inclusion of items on the agenda.

Decisions at the General meeting

Decisions may only be adopted at the General Meeting of Shareholders on issues included on the agenda (originally by the Board of Directors - see “*Convening a General Meeting*”, or additionally by the shareholders, see “*Rights of the minority shareholders*”/ “*Right to include questions or draft resolutions on the agenda on already included items*”), unless all the share capital is submitted to the General Meeting and there is no objection to the discussion of a new item.

The right to provide the invitation and the materials related to the agenda of the convened General Assembly before it is held

The Company is obliged to announce the invitation (under Article 115, para.2 of the Public Offering of Securities Act) to the Commercial Register and to disclose it in accordance with Art. 100t, para.1 and 3 of the Act at least 30 days prior to the General Meeting of Shareholders without collecting fees from the shareholders for the preparation and announcement of the call. The invitation under para.2, together with the materials of the General Meeting under Art.224 of the Commercial Law and the forms for voting by proxy and through correspondence, are published on the Company's website for the time from its announcement in the Commercial Register until the end of the General Meeting.

Upon acquisition of a public status by the Company, its Articles of Association shall provide for the Company to be able to use electronic means of providing information to Shareholders, including on the agenda of the General Meeting.

Board of Directors

Company is managed and represented by the one-tier system of the Board of Directors, which assigns and empowers one or several executive members to manage and represent the Company. According to the Articles of Association, the members of the Board of Directors of the Company are elected for a term of five (5) years. The mandate of the first Board of Directors is three (3) years. Members of the Board of Directors may be re-elected without restrictions. The Board of Directors consists of three (3) persons. A member of the Board of Directors may be a legal person.

No person may be a member of the Board of Directors who is convicted at the time of the election with an effective sentence for an offense against ownership, against the economy or against the financial, tax and social security system in Bulgaria or abroad, unless rehabilitated. A person who has been a member of a management or supervisory body of a company discontinued due to bankruptcy in the last two (2) years preceding the date of the bankruptcy decision may not be a member of the Board of Directors if unpaid creditors still remain. A person who has been a manager, a member of a management or controlling body of a company for which a breach of obligations has been established by a punitive decree to establish and maintain its determined levels of stocks under The Oil and Petroleum Products Stocks Act may not be a member of the Board of Directors;

At least one third of the members of the Board of Directors shall be independent persons within the meaning of Art.116a, para.2, items 1-5 of POSA.

Members of the Board of Directors have the same rights and obligations, regardless of the internal division of functions between the members of the Board of Directors and the provisions conferring the right of management of the authorized person(s).

The members of the Board of Directors organize and direct the activity of the Company in accordance with the law, the decisions of the General Meeting and the decisions of the BD.

Board of Directors:

1. Organizes the implementation of the decisions taken at the General Meeting and control this implementation;
2. Elects the Executive Director(s)/representative(s), determines the limits of his/their competence and controls his/their activity;
3. Takes decisions on long-term cooperation essential to the Company on the termination of such cooperation;
4. Takes decisions on the establishment and/or closure of a branch;
5. Takes decisions to increase the capital of the Company, in cases where it is expressly authorized to do so by a General Meeting;
6. Approves the disposal (including, but not limited to, transfer, closure, burdening, etc.) of the Company's business or parts thereof;
7. Approves the conclusion of transactions with Shareholders, members of the Board of Directors or employees of the Company (or members of their families);
8. Approves the taking of a loan or otherwise forming a Company's financial debt to a third party at a value exceeding BGN 50,000 as a result of a single transaction or a series of transactions;
9. Takes decisions on the participation and/or termination of the Company's participation in other companies in the Republic of Bulgaria and abroad;
10. Takes decisions on the exercise of rights of the Company as a shareholder/partner in subsidiaries;

11. Takes decisions on granting a loan or other form of financing to companies in which the Company has equity participation and /or on which it exercises controls;
12. Takes decisions on disposal of Intellectual Property Rights of the Company, as well as on granting rights to objects of Intellectual Property of Company;
13. Prepares, accepts and signs a prospectus for public offering of securities issued by the Company;
14. Selects and releases investment intermediaries which to take over and/or administer the issue of securities issued by the Company, which will be subject to public offering;
15. After obtaining a public status from the Company, it shall approve the conclusion of transactions other than those specified in Art.114, para.1 of the Public Offering of Securities Act with the participation of interested persons within the meaning of Art.114, para.7 of POSA,
16. After obtaining a public status from the Company, it shall approve the conclusion of transactions under Art.114, para.3 of POSA by the subsidiaries of the Company;
17. Resolves all matters which are not within the exclusive competence of the General Meeting.

The General Meeting may release from responsibility a member of the Board of Directors in the presence of an annual financial statement for the previous year, certified by a registered auditor when an independent financial audit has been performed and approved by the General Meeting.

The board of directors deliberates and adopts decisions if at least half of the members are present at the meeting (in person or through the authorization of another member of the Board). Unless otherwise provided by law or by statute, the decisions of the Board of Directors shall be taken by a simple majority of the members of the Board of Directors. A member of the Board of Directors shall not be entitled to vote in the case of approval of a transaction under item 15 and/or item 16 above in respect of which he/she is an interested person within the meaning of Art.114, para.7 of POSA.

The Board of Directors may also make decisions without attending the meeting if all members who can vote by law have given their consent in writing.

In view of the forthcoming public status of the Company, the disclosure obligation set forth in Art.145 of POSA shall apply. Under the above-mentioned provision, any shareholder who acquires or transfers directly and/or under the terms of Art.146 of the Public Offering of Securities Act, a voting right at the General Meeting of a public company, shall be obliged to notify the Commission and the public company of the change in its shareholding where, as a result of the acquisition or transfer, its voting rights reach, exceed or falls below 5% or a multiple of 5% of the number of votes in the General Meeting of the company. Voting rights shall be calculated on the basis of the total number of voting shares, regardless of whether the exercise of voting rights is restricted. The calculation is made for each class of shares.

Decisions, Authorizations and Approvals for current Offering of Securities

The General Meeting of Shareholders of the Company, held on 29.12.2017, authorized the Board of Directors, on the basis of Art.32, item 5 of the Articles of Association, to adopt a decision for increase of the capital by issuing new shares under the terms of an initial public offering, with a nominal value of up to BGN 100 000 000, within two (2) years, by specifying all necessary details.

The Board of Directors adopted a decision on 30 January 2018 to increase the capital of Gradus AD by up to BGN 100 million (BGN 100 million) by issuing new, ordinary, dematerialized, registered, freely transferable voting shares with a nominal value of BGN 1 (one lev). The capital to be increased under the conditions of public offering at the Bulgarian Stock Exchange - Sofia AD. The amount of the capital increase - up to BGN 27 777 778, as well as other details, were determined by a decision taken at the General Meeting of the Shareholders on 26.03.2018. Within the framework of the capital increase, 27,777,778 nos. of new shares, which are ordinary, dematerialized, registered, freely transferable, voting shares and with a nominal value of BGN 1 (one), will be publicly offered.

Simultaneously with the capital increase, the selling shareholders, according to an additional agreement, will publicly offer up to 27,777,778 of existing shares (and up to 6,638,889 of over-allotted shares).

The Board of Directors has elected an investment intermediary to service the capital increase and prepare a Prospectus for public offering - First Financial Brokerage House EOOD. The Financial Supervision Commission should then confirm the Prospectus before it is published.

Public takeover bids

There are no public takeover bids by third parties in respect of shares up to the date of this Prospectus.

No bids for mandatory takeover/merger, redemption or sale in respect of securities are made to the issuer.

Information on the shares subject to the public offering

Type and class of securities

Up to 27,777,778 new, ordinary, registered, dematerialized, freely transferable, voting shares are the subject of the initial public offering, of the Company's capital increase. The shares of this issue are of the same class as the Company shares already issued and give the same rights to their holders.

Simultaneously with the capital increase, the selling shareholders will publicly offer up to 27,777,778 of existing shares (plus an additional 6,638,889 over-allotted shares).

The subscription is deemed to have been successfully completed if at least 18 055 556 of the new shares were subscribed, respectively, 18 055 556 of the existing shares, a total of 36 111 112 offered shares.

The book of shareholders is kept by Central Depository AD, with headquarters and business address in the city of Sofia, 6 Tri Ushi Street.

The shares of the current issue, as the already issued by the Company, will have ISIN code BG1100002184.

Regarding the issue of the securities subject to the present public offering of new and existing shares, the provisions of the Bulgarian legislation apply.

Shares will not be the subject to international offering.

Securities are denominated in BGN. The nominal value of the offered shares is BGN 1 (one).

Transfer and pledging of shares

The transfer of dematerialized shares takes effect from its registration with the Central Depository.

Sales and Purchases of Shares issued by a public company may be executed on a regulated securities market (i.e., BSE), a multilateral trading system or an organized trading system through an Investor Intermediary licensed by the FSC. In particular, for executing share transactions, investors are required to submit buy or sell orders to the selected Investment Intermediary and the transfer of shares outside the regulated market may be made in accordance with a contract for the purchase and sale of shares previously concluded between the parties. Investment Intermediary takes the necessary actions to perform the settlement (execution of the concluded transaction) and its registration with the Central Depository, whereby the shares are transferred from the seller's securities account to the buyer's securities account. The transfer of shares on a donation or inheritance is effected with the registration of the transaction with the Central Depository, which is also performed through Investing Intermediary acting as a registration agent.

The shares may be subject to a special pledge pursuant to the Special Pledges Act and a pledge under the Financial Collateral Arrangements Act. The protection of the rights of the pledge creditor shall be ensured through the registration of such pledges with the Central Depository. In accordance with the provisions of Ordinance No.38 of the Financial Supervision Commission on Investment Requirements, Investment Intermediary is required to ask its customer to declare whether the shares subject to a sale or

exchange order are blocked with the Central Depository, whether a pledge has been established or a distraint has been imposed thereon.

Investment Intermediary is not entitled to execute the order if it has been declared or found that the shares are blocked with the Central Depository, as well as if a pledge has been established or a distraint has been imposed thereon. The prohibition under the preceding sentence in the case of a pledged established does not apply if the acquirer has been informed about the pledge and has expressly agreed to acquire the pledged shares and there is an explicit consent of the pledgee in the cases provided for in the Pledges Act. The prohibition on the transfer of pledged shares does not apply also in the event that the pledge is established on an aggregate within the meaning of the Special Pledges Act. The prohibition on the transfer of pledged shares does not apply also in the case of the established right of use in favour of the pledgee on the shares pledged under the Financial Collaterals Act, in which case the pledgee has the right to transfer the shares.

Such prohibitions also apply if the customer has inside information about the shares or the transaction is a disguised purchase or sale of shares.

A public company may not impose restrictions on the transfer of shares in its capital. The introduction of restrictions by the Company for the transfer of the shares is admissible only after the Company has been written off from the Public Company Register kept by the FSC.

There are no approved or planned increases in the share capital (share capital) of other companies in the Group.

There are no arrangements that may require the issue or redemption of the securities of the companies in the Group.

There are no agreements between the Company shareholders, known to Company, or similar arrangements, including but not limited to:

(a) agreements that create restrictions on the disposal of shares, pledges or other burdens on the Company shares;

(b) agreements granting options (or other rights of purchase) to shares or substantial assets of the Company;

(c) agreements in relation to the exercise of voting rights at the General Meeting of Shareholders of the Company;

(d) agreements in relation to the Company's general policy;

(e) agreements in relation to the transfer of the right of ownership to the Company's shares or substantial assets.

With respect to the companies in the Group, there is no annulment/cancellation of resolution of the shareholders / partners at the General Meeting and contesting the records in the register during the last five financial years, i.e. from 2013 inclusive.

17. TERMS OF OFFERING

Terms of public offering

Gradus AD has decided to increase its capital (authorized by the General Meeting of Shareholders by decision of 29.12.2017, decision of the Board of Directors dated 30.01.2018 and decision taken at the General Meeting of Shareholders 26.03.2018) by issuing up to 27,777,778 new ordinary, dematerialized, nominal, freely transferable shares with a nominal value of BGN 1 offered through a public subscription under the terms of this Prospectus (the **Offering**, respectively the **Capital Increase**). The Capital increase will be deemed successful if at least 18,055,556 New Shares are subscribed.

Simultaneously with the Capital Increase, the Selling Shareholders will sell up to 27,777,778 Existing Shares (and, at the discretion of the Lead Manager, up to 6,638,888 over-allotted shares under the Additional Agreement to the Contract for Sale of Existing Shares). As both new and existing shares are offered simultaneously, the Offering will be deemed successful if at least 36,111,112 shares are subscribed, of which 18,055,556 Existing Shares and 18,055,556 New Shares.

The Price Range of the Offering is from BGN 1.80 (one lev and eighty stotinki) to BGN 2.35 (two leva and thirty five stotinki) per share.

Following the confirmation of the Prospectus, the public offering will be made on the Bulgarian Stock Exchange - Sofia AD (**BSE**), Initial Public Offering Segment, through the IPO Auctions mechanism (**IPO Auctions**). The offering will be carried out through the registration of a temporary issue of shares under the steps outlined in the Rules of Procedure of the Central Depository AD. After the registration of the increase in the Commercial Register and its registration with the Central Depository AD, the Temporary Issue shall be deregistered, while the newly issued shares are added to the issue of Existing Shares.

The date of the public offering is considered the date of publication of the announcement under Art. 92a para.1 of POSA. The Issuer will publish the announcement in a central daily newspaper (Standard newspaper) and on the websites of the Issuer (www.gradus.bg) and the Lead Manager (www.ffbh.bg).

The initial date of purchase of the Offered Shares (the day of the first IPO auction) will be the first business day following the expiration of the 7-day period from the latest date mentioned in the publication of the announcement under Art. 92a, para.1 of POSA and outlined previously. The initial purchase date shall not be later than the first business day following the expiration of 5 business days from the date of the decision of the Board of Directors of BSE-Sofia for admission of the securities to the Initial Public Offering Segment. The offering will continue until the stock is exhausted, but not more than 2 trading sessions.

The Bulgarian legislation provides that the New Shares will be considered issued following the entry of the Capital Increase in the Commercial Register and after their registration with the Central Depository AD. Immediately after their issuance and the subsequent registration of Gradus AD by the Financial Supervision Commission in the Register of Public Companies, the Issuer and/or the Lead Manager will request the issue of the shares of Gradus AD (New and Existing) for trading on the BSE.

The offering is organized and made by First Financial Brokerage House EOOD (**Lead Manager**), and FFBH EOOD will perform functions under the Bulgarian legislation and regulations regarding public companies and under the Contract for servicing and preparation of the Capital Increase and the Contract for the Sale of Existing Shares.

The offer is addressed to: i) Individual investors; and (ii) Institutional Investors. There is no prior distribution of shares. The proposed shares can be fully acquired by Institutional Investors or Individual Investors

The Offering is made in the Republic of Bulgaria. Addressee of the Offered Shares may be all local and non-resident parties, except where this would be a violation of the applicable laws, including Addressee of the Offered Shares may be American entities, only to the extent permitted by the relevant regulations. Foreign investors who are not resident and intend to acquire the Offered Shares should become familiar with the applicable laws in their jurisdictions.

IPO auction

The initial public offering auction will take place at the BSE-Sofia Initial Public Offering Segment and will go through the following stages:

1. *Announcement of auction date, number of securities offered for sale and price range.*
2. *Call Phase of an IPO Auction - entering buy orders by the participants within the pre-announced price range. If a limited purchase order is placed at a price outside this range, it will not be counted as a valid.*

By request of the Lead Manager and in accordance with the parameters of this Prospectus for public offering, the BSE introduces a price range for the auction. Each participant may enter into the trading system an unlimited number of limit and market orders. Each participant sees only their orders and has the ability to edit their parameters during the Call Phase.

3. *Freeze phase - terminating the process of placing orders for purchase.*

During this phase, orders from market participants are not allowed. The sell order of the Lead Manager is entered by the BSE with the parameters specified by the Lead Manager.

4. *Determining the Auction Price and the Executed Volume of Orders*

Satisfaction of the buy orders from the highest auction price to the specified Sale price (the lowest price at which orders will be met) by the Lead Manager is based on the principle of the highest trading volume, respectively the lowest surplus of demand or supply, for the specified price within the announced price range.²¹

All buy Orders for the day are settled at the same price – the Auction Price.

Types of orders

Two types of orders can be submitted - limited and marketable:

- i. A Limited Order is the order for subscription (purchase) of shares by the unit price and number of shares specified therein. With the submission of a Limited Order, each investor agrees to receive shares at the auction price determined at the IPO if the price is lower than or equal to the price it is bidding. Limited orders can be executed in whole or in part;
- ii. Market share is a share subscription order that only contains a total number of shares. With the submission of a Market Ordinance, each investor agrees to receive shares at the IPO auction price. The market order can be completed in full or in part.

The priority of the execution of the market orders is the time of their introduction, while for the limited orders the priority is the price. Market orders are filled with priority.

Timeframe of the offering

Shares will be offered for sale through separate IPO auctions for 2 trading sessions. The bidding scheme will be:

- **Auction Day 1**

Offered Shares - 55 555 556 nos. (27 777 778 nos. of New and 27 777 778 nos. of Existing) ordinary, nominal, dematerialized shares with a nominal value of BGN 1 each of the share capital

²¹ Chapter Three, Section One ("Concluding Transactions Due to Auctions") of Part IV of the Rules of BSE-Sofia AD

of Gradus AD, with a temporary ISIN code issued for auction purposes, will be introduced with sell orders during the Freeze phase by the BSE at a price indicated by the Lead Manager, consistent with the price range defined in this prospectus. Sell orders will be entered for quantity/number of shares divisible by 4. Thus, after the capital increase the sum of Newly issued and Existing shares would be an even number (and would be divisible in two) and such would be the sum from the Existing stock of the Selling shareholders (too would be divisible in two). Each investor with auctioned orders will receive shares of the Temporary Issue, which after registration of the increase and its deregistration will be transformed into equal number of New and Existing Shares according to the procedures of Central Depository AD.

▪ **Auction Day 2**

Offered Shares - The remainder of the unsubscribed shares of the initial package will be entered with sell orders during the Freeze phase, by the BSE at a price specified by the Lead Manager in accordance with the price range specified in the Prospectus. Sell orders will be entered for quantity/number of shares divisible by 4. Thus, after the capital increase the sum of Newly issued and Existing shares would be an even number (and would be divisible in two) and such would be the sum from the Existing stock of the Selling shareholders (too would be divisible in two).

Upon exhaustion of the amount of New and Existing Shares available and strong investment interest, the Lead Manager may offer up to 6,638,888 Over-Allotted Shares under an Additional Agreement to the Sale of Existing Shares Agreement. Over-Allotted shares will be offered within and with the parameters, including the deadline, of the above-mentioned bidding mechanism during the second auction day following the announcement through the stock exchange's bulletin. Sell orders for the Greenshoe stock would be entered in the trading platform of BSE – Sofia AD with even number of shares so that after the sale the sum from the Greenshoe stock of the Selling shareholders would too be an even number (too would be divisible in two).

A timely notification of over-allocation will be made in due time.

The offering will continue until the amount of Offered Shares (New, Existing and Over-Allotted) is exhausted or the 2-day Offer Period expires.

Price

After the approval of the Prospectus, the Lead Manager will apply for the admission of the shares of the Initial Public Offering Segment to BSE-Sofia AD, which will also specify the price range of the offering according to the approved Prospectus. This range will be announced in the Official Bulletin of the BSE as the minimum and maximum price of shares at the start of the offering. Orders outside this range will be considered invalid.

BSE-Sofia will announce the date and time for each auction in its official bulletin. The same information will be available on the website of FFBH EOOD ().

The price at each auction will be formed according to the aforementioned auction methodology.

Offering Currency

All monetary amounts relating to the Offering will be in Bulgarian leva.

Disclosure of information in relation to Offering

Except as otherwise provided in this section of the Offering Terms and Conditions, information regarding the circumstances related to the Offering of Shares of BSE-Sofia AD, which is subject to disclosure to the public under this Section or under the applicable law, will be published on the Investor Intermediary's website ().

Address and contact person

Investors who are interested in the securities offered can contact the Lead Manager:

First Financial Brokerage House EOOD

Address: Sofia, 2 Enos Street

Contact person: Stoyan Nikolov

Telephone: +359 2 460 64 24

E-mail: Stoian.Nikolov@ffbh.bg

Investors may also apply to any investment intermediary, member of Bulgarian Stock Exchange - Sofia AD.

Start of the Offering and initial date for shares purchase

The date of public offering is considered the date of publication of the announcement under Art.92a, para.1 of POSA. The Issuer will publish the announcement in a central daily newspaper (Standard newspaper) and on the websites of the Issuer () and of the Lead Manager (). The announcement of the offering may only be published if the Financial Supervision Commission has confirmed the Prospectus.

The prospectus and other relevant information will also be available to the public at the address of the Lead Manager.

The initial date of purchase of the Offered Shares (the day of the first IPO auction) will be the first business day following the expiration of the 7-day period from the latest date mentioned in the publication of the announcement under Art. 92a, para.1 of POSA and outlined previously.. The initial purchase date shall not be later than the first business day following the expiration of 5 business days from the date of the decision of the Board of Directors of BSE - Sofia AD for admission of the securities to the Primary Public Offering Segment.

Deadline for purchase / transfer of shares

The deadline for the purchase / transfer of shares of the Offered Shares is no later than 4 working days from the auction start date, including it (includes the maximum bidding period of 2 trading sessions and the two-day settlement period).

Offering schedule

The final schedule of the offering will be announced after approval of Prospectus by FSC on the websites of Gradus AD () and FFBH EOOD ().

The expected schedule was prepared on the assumption that FSC approves Prospectus on 13.06.2018. In this case, the expected date of publication of the announcement under Art.92a, para.1 of POSA is 15.06.2018, and the expected date of the first auction is 25.06.2018.

Expected end date of the offer is 26.06.2018.

Possibility for extending the term for offering the shares

The provision of Art.84, para.1 and 2 of the Public Offering of Securities Act provides for the principle of extending the subscription period for a public offering once with the corresponding corrections to the prospectus and notifying the FSC as well as announcing the extension of the term through the BSE bulletin and the mass media. In this case, the last day of the extended term is considered as the closing date of the Offering.

Termination, deferment or suspension of the Offering

The Company reserves the right, after consulting the Lead Manager, to terminate or postpone the Offering under the conditions below and without giving any reason. The Board of Directors of the Company takes a decision to terminate or postpone the Offering and the Issuer is obliged to notify the FSC, the BSE and the investors immediately, but not later than the next business day following the decision taking and making the relevant publications at the places indicated in *"Public announcement of the results of the Offering"*.

Offering will be terminated if at least 18,055,556 New Shares, or 18,055,556 Existing Shares, are not subscribed and paid. The Issuer shall disclose this fact in the public notice of the results of the Offering listed in *"Public announcement of the results of the Offering"*. The offering will also be terminated if the listing of the New Shares Register and the Capital Increase is refused. By the date of the first auction at the latest, the Offering may be suspended or postponed until the end of 2018 and in the event of certain adverse events, including force majeure, relevant to the success of the Offering (e.g. financial market failure, terrorist attacks, natural disasters, etc.).

In case of failure of the public offering, the Issuer or the Lead Manager within 7 days informs the bank in which the special account for the result of the subscription is opened and publishes on the web pages of the Issuer and the Lead Manager an invitation to the persons who have subscribed securities, in which it announces the terms and the procedure for returning the sums raised by declaring the invitation for disclosure in the Commercial Register and publishing it in the daily newspaper under Art.92a, para.2 of POSA. The Issuer or the Lead Manager notifies in writing also Central Depository AD for the above circumstance within the term under Art.89, para.4 of the POSA and declares to prepare a list of the members of Central Depository AD, who participated in the Offering, containing the number of the financial instruments they have and their clients have acquired and the amount they have paid for their acquisition. Central Depository AD prepares and sends lists to all members through which it has purchased financial instruments from the temporary issue, with data about the customers who have bought them and the amounts to be repaid.

Public offering may be revoked or suspended, incl. after the commencement of trading at the Primary Public Offering Segment, and in the following cases:

- In case of detecting violations of the POSA, the acts for its implementation, decisions of the FSC or of the Deputy Chairperson, as well as when the exercise of control activity by the FSC or by the Deputy Chairperson or the interests of the investors are threatened, the FSC, respectively the Deputy Chairperson in charge of the Investment Activity Supervision Division may suspend the sale or execution of transactions with certain securities for up to 10 consecutive working days (Art.212, para.1, item 4 of the POSA);
- In the period between issuance of the Prospectus confirmation and the closing date of the public offering, the Issuer, the Offeror or the person asking for the admission of the securities to trading on a regulated market shall be obliged by the end of the next working day after the occurrence, respectively the knowledge of a material new error or inaccuracy related to the information contained in the prospectus that may influence the valuation of the securities offered, to prepare an addendum to the prospectus and present it to the FSC. The FSC shall pronounce on the Prospectus addendum within 7 working days of its receipt and when additional information and documents were requested - from their receipt. The FSC refuses to approve the addendum to the Prospectus if the requirements of the Public Offering of Securities Act and its implementing acts are not complied with. In this case, the FSC may terminate the public offering or the trading of the securities by the order of Art.212. (Art.85, para.4 of the POSA);
- When establishing violations of the MFIA, the acts for its implementation, the applicable acts of the European Union or other internal acts of the trading venues approved by the Commission, decisions of FSC or of the Deputy Chairman, as well as when preventing the exercise of control activities by the FSC or the Deputy Chairman or threaten the interests of the investors, the FSC, respectively the Deputy Chairperson in charge of the Investment Activity Supervision Division

may suspend the trading of certain financial instruments or remove from trading on a regulated market or from another trading system financial instruments (Art.276, para.1, items 4 and 9 of the MFIA);

- The Market Operator may stop trading in financial instruments or remove from trading financial instruments that do not meet the requirements set out in the regulated market rules if this would not significantly harm the interests of investors and the proper functioning of the market (Art.181, para.1 of the MFIA);
- To prevent and terminate the administrative violations under the Law on the Application of Measures against Market Abuse with Financial Instruments of the applicable acts of the European Union, to prevent and remedy the harmful consequences thereof, as well as when preventing the exercise of control activities by the FSC or the Deputy Chairperson or when the interests of the investors are threaten, the Deputy Chairperson may suspend the trading of certain financial instruments (Art.20, para.3, item 3 of the Law on the Application of Measures against Market Abuse with Financial Instruments).

Ability to reduce / increase the number of offered shares

The present offering is for 55 555 556 shares, of which 27 777 778 New and 27 777 778 Existing ordinary registered dematerialized shares of nominal value BGN 1 each. There is no possibility to reduce the number of securities offered, therefore there is no possibility in this connection for overpayments.

The offering will be made to the Initial Public Offering Segment of the BSE, and each investor with auction-rated orders will receive an equal number of New and Existing Shares. If not more than 18,055,556 New Shares (total 36,111,112 New and Existing Shares) are subscribed and paid, the offering will be deemed unsuccessful and will be terminated.

Upon exhaustion of the amount of New and Existing Shares offered and the presence of strong investment interest, the Lead Manager may offer up to 6,638,888 over-allotted shares. The offering of the over-allotted shares will be made on the same parameters as the original 55 555 556 shares.

Minimum and maximum number of shares that can be acquired by one person

Each person may acquire at least one share and at most such number that is equal to the Offered Shares.

Terms and procedure for purchase of shares, including terms for filling in forms and submission of documents by investors; terms, procedure and deadline for withdrawal of any order for purchase of shares

Acquisition of shares shall be effected by submitting of a order to the authorized investment intermediary - First Financial Brokerage House EOOD, Sofia, or to the investment intermediaries, members of the Central Depository AD. Purchase of shares is made by submitting an order that complies with the legal requirements and should have the following minimum content:

A) Individuals:

1. The names and the unique client number of the person and his / her representative and, if such numbers are not assigned, the following data: the full name, PIN, place of residence and address;
2. Issuer, Issue ISIN code and number of shares to which the order relates;
3. Type of order - limited or market
4. Date, time and place of the order submission;
5. Unit price and total value of the order;
6. Signature of the person submitting the order.

B) legal persons:

1. The company and the unique client number of the person and his / her proxy, and if such numbers are not assigned - the following data: company, UIC, tax number, headquarters and address of the client;
2. Data on item 2–5 of letter “A” above.

B) Foreign physical / juridical person - similar identification data under A or B above, as well as the data under items 2 to 5 of letter “A” above;

When accepting an order, the person accepting the order checks the identity of the client or his representative. Legal persons submit orders through their legal representatives, which identify themselves with an identity document. Physical persons file the orders personally, identifying themselves with an identity document. The order may also be filed by an attorney who identifies himself/herself with a notarized explicit power of attorney.

In case the person who wishes to submit an order for participation in the Offering with an investment intermediary is not a client of the respective Investment Intermediary, he signs an investment intermediary agreement with him, to which the following documents are attached:

(a) a certified copy of a certificate of current registration from the commercial register of the applicants - legal entities; (b) translated and legalized documents for the registration of foreign legal entities; (c) an original of a power of attorney certified by a notary in the event of a contract through a proxy. Foreign physical persons apply a legalized original translation of the pages of their identity card (passport) containing full name information; document number; date of issue (if any); nationality; address (if any in the document), and usually a copy of the translated pages of the identity document containing other information, including the person's photo.

When submitting an order to an Investment Intermediary with which the client's accounts are kept, the relevant provisions of the applicable legislation shall apply.

The investor may withdraw his order only if it has not yet been executed. The investor may renounce the purchased shares under the terms and conditions of Art.85, para.6 in relation to para.2 of POSA.

Settlement of Offering and Transfer of the Shares Offered

The Company's shares are registered with the Central Depository AD.

Each investor with auctioned orders will receive shares of the temporary issue, which after the registration of the increase or deregistration will be transformed into equal number of New and Existing Shares (from the initial package) according to the procedures of Central Depository AD.

Transfer of shares from the Temporary Issue of Investors with Classified Orders in the Offering shall be effected by the Central Depository AD within the usual time limit of 2 business days from the settlement of the transaction.

Upon completion of the offering, an entry in the Commercial Register of the Capital Increase and the New Shares is due on or around 03.07.2018, after which the Central Depository AD is expected to register the New Shares and the Capital Increase.

Investors for whose account purchases of the Offered Shares are entered into, pay the relevant amounts to the Investment Intermediary through which they have placed the purchase orders, according to the specific arrangements and in compliance with the applicable regulations, rules and procedures. The investment intermediaries pay the shares purchased for their clients and/or for their own account under the terms of delivery against payment and according to the rules of the Central Depository AD.

Following the conclusion of a transaction for the purchase of shares of the Issuer and their payment, the shares remain blocked under a sub-account with the Investment Intermediary whose customer is the buyer until the registration of the issue for trading on a regulated market. All share acquisition transactions are processed and settled in the clearing and settlement system of the Central Depository AD in

accordance with the general procedure. Acquired shares are recorded on client accounts with the Investment Intermediaries through which they are purchased. After registering the capital increase in the Commercial Register, the Central Depository AD registers the issue with a permanent ISIN code and the shares of the capital increase are officially registered in the accounts of the persons who have acquired shares of the Offering with the same Investment Intermediaries with which they have submitted their orders for the purchase and the accounts of the temporary issue have been opened.

If the purchase and/or settlement instructions provided on behalf of an investor for the purpose of the transfer of Proposed Shares are incomplete or inaccurate, or are submitted at a later date of the settlement date in the Offering, the Offered Shares will be transferred to its Securities Account at a later date following the submission of additional or accurate data by the Investor concerned or submitted as instructed by the Investment Intermediary. The Issuer, the Selling Shareholders and the Investment Intermediaries shall not be liable for the unsuccessful transfer of Proposed Shares, provided that a Investor has provided incomplete or inaccurate instructions or has submitted instructions at a later time specified by the Investment Intermediary for the purpose of the Offering of the Offered shares.

Notifications of crediting the securities accounts of the Investors with the Offered Shares will be passed on to the Investors in accordance with the rules of the relevant Investment Intermediary that manages its securities account. The Issuer, the Selling Shareholders and the Lead Manager do not plan the transfer of any supporting documents regarding the Offered Shares upon the acceptance of such Shares within the Offering.

Subsequent trading in the Shares (Existing / Over-Allotted and New Shares) will take place in accordance with the rules and operating procedures of BSE-Sofia AD and Central Depository AD after the registration of the entire issue for trading on a regulated market.

Terms, order and payment terms for the offered shares

Acquired shares are paid to the account of the respective Investment Intermediary where the order is placed, upon the submission of the order or within the settlement period. The investment intermediaries pay the shares purchased for their clients and/or for their own account under the terms of delivery against payment and according to the rules of the Central Depository AD.

The Lead Manager, respectively the Investment Intermediaries, shall submit a message to the Central Depository AD for each purchase / sale of shares of the Share issue. A special account has been opened to which shall be received the payment of the Shares (the account under Art.89, para.1 of the Public Offering of Securities Act) after the end of the Auction settlement. The proceeds of the sale of the Shares will remain blocked on the special account and will not be available before the subscription and the registration of the capital increase in the Commercial Register (Art.89, para.2 of the POSA).

Upon registration of the capital increase of Gradus AD in the Commercial Register, the funds in the special account will be released and made available to the Company, respectively the funds from the sale of the Existing / Over-Allotted Shares - to the Selling Shareholders.

Public announcement of the results of the Offering

Within three working days of completion of the second auction of the Offering, the Company will notify FSC and BSE - Sofia AD of the results of the Offering, including the total number of Subscribed and Purchased Offered Shares. This information will be published in the Standard newspaper and also on the Company and Lead Manager websites.

The Issuer or the Lead Manager shall immediately notify the Commission of the final price and the final number of the securities offered and shall inform the public by publishing this information pursuant to Art. 92a, para.5 POSA.

The procedure for the exercise of the right to purchase before others, the transferability of subscription rights and the treatment of non-exercised subscription rights

The capital increase through the issue of New Shares does not give rise to any rights under para.1, item 3 of the Supplementary Provisions of the Public Offering of Securities Act as Gradus AD will acquire the status of a public company after successful capital increase and its entry in the Commercial register, as well as in the register of public companies, kept by the FSC.

Marketing plan and allocation of shares

Groups of potential investors to whom the shares are offered

All investors may, on equal terms, participate in the offering through the purchase of shares within the specified time frame.

Indication whether shareholders with significant participation or members of the board of directors of the Issuer intend to acquire offered shares or whether a person intends to acquire more than 5 per cent of the offered shares, insofar as such information is known to the issuer.

To the extent that the Company has such information, the shareholders and the members of the Board of Directors of Gradus AD do not intend to acquire any of the Offered Shares.

Company has no information as to whether a person intends to acquire more than 5 percent of the offered shares.

Disclosure of pre-allocation. Grounds for privileged offering of shares to a particular group of investors

There is no plan for the prior allotment of shares, respectively announcement of a pre-allotment of the bid is not applicable and admissible in the present proceedings.

There is no basis for the preferred offering of the shares to certain groups of investors (including current shareholders, members of the Company's Board of Directors, current or former employees of the Issuer).

Notification of applicants for an allotted amount

Notifications for crediting the securities accounts of the Investors with the Offered Shares will be passed on to investors in accordance with the rules of the relevant investment intermediary that manages its securities account. The Issuer and / or the Lead Manager will request the share issue from Gradus AD (new and existing) shares for trading on BSE-Sofia AD after the entry of the Capital Increase in the Commercial Register and after their registration with the Central Depository AD, as well as with the FSC.

Subscription exceeding the subscription amount

Subscription exceeding the subscription amount (New Shares proposed for subscription) is not applicable and admissible in the present proceedings.

Upon exhaustion of the amount of New and Existing Shares and available strong investment interest, the Lead Manager may offer additionally up to 6,638,888 Over-allotted Shares under an Additional Agreement to the Contract for Sale of Existing Shares. The over-allotted shares will be offered within and under the parameters, including the time limit, of the original package of New and Existing Shares.

Determination of the offer price

Price at which the shares will be offered

The Offered Price Range is BGN 1.80 (one lev and eighty stotinki) up to BGN 2.35 (two leva and thirty five stotinki) per share.

The Price Range of Offering for all Offered Shares is in accordance with the decision of the General Meeting of Shareholders / Board of Directors of March 26, 2018, which sets a minimum issue value of BGN 1.80 (one lev and eighty stotinki) per share and a maximum issue value of BGN 2.35 per share (two leva and thirty-five stotinki) per share.

The minimum and maximum issue values are determined on the basis of a complex analysis consisting of various financial metrics, expected Group development, risk factors, global and regional macroeconomic

dynamics etc. as well as the will of the Issuer to achieve a diverse shareholder base. The conducted financial analysis is based on a wide variety of accepted valuation methods including market multiples, comparable companies, discounted cash flow and dividend discount. In the market multiples approach, a group of 15 public companies in the same sector and operating across Europe, emerging markets and globally, which are focused on the main business as the Group namely poultry and meat products. For the selected companies P/E (price to earnings per share), EV/EBITDA (company value to earnings before interest, taxes, depreciation and amortization) and P/B (price to book value of equity per share). Their median values are 10.36 for P/E, 8.20 for EV/EBITDA and 1.77 for P/B. The minimum issue price is based on the weighted average value of their outcomes (BGN 1.88 per share) and is in accordance with the will of the Issuer for a diverse investor base. The upper end of the price interval is based on three separate valuations of the non-monetary contribution of the daughter company in the equity of Gradus AD. The value of the contributions amounts to BGN 544 million or 2.46 per share. Again, the maximum value is in accordance with the will of the Issuer for a diverse investor base.

This price range will be announced in the Official Bulletin of the BSE as the minimum and maximum price of the shares at the start of the offering below, respectively, over which Orders will not be satisfied. BSE-Sofia AD will announce the date and time for each Auction in the Trading System and its Official Bulletin. The same information will be available on the FFBH website (www.ffbh.bg).

The price at each auction will be formed according to the auction methodology described above.

The Offered Price will be the same for both Individual Investors and Institutional Investors.

Costs to be borne by the investor who buys and pays shares

Individual Investors and Institutional Investors will not pay any additional costs or fees in connection with the Submission of Purchase Orders, except for the costs associated with the opening and maintenance of a securities account (such costs will not arise if the Investor already has such an account) and/or brokerage commissions according to the relevant agreements or according to the internal rules of the legal entity that accepts such a Purchase Orders or bank charges if such are deducted.

Each investor may purchase at least one share and at most the total number of Offered Shares.

Transactions in financial instruments from the subscription are made on a regulated market and are not taxable. For more information, see the Taxation section.

Limitation of the advantageous rights of current shareholders of Gradus AD

According to a decision of the General meeting of the Shareholders of the Issuer of March 26, 2018, the capital increase is made through the public offering of the New Shares. Therefore, the General Meeting of Shareholders of March 26, 2018 has adopted a decision to revoke the privileged rights of existing shareholders to acquire a portion of the new shares in proportion to their share in the capital prior to the increase. Shareholders have taken advantage of the opportunity provided in the Commercial Code.

There is no discrepancy between the cost of public offering and the effective cash outflows for the members of management bodies or senior management or affiliates, for securities acquired by them in transactions over the past year or which they are entitled to acquire.

Placement and underwriting

Terms of the contract with the investment intermediary authorized to make the offering

The offering is organized and performed by First Financial Brokerage House EOOD, with business address: Sofia, 2 Enos Street, Fl. 4. The Lead Manager commits to make the greatest effort to market Offering and to provide assistance to international and local investors to subscribe for New Shares and acquire Existing Shares. Also, the Lead Manager will prepare the necessary documents for all stages of the public offering, will technically perform the Offering through the IPO Auction and will conduct other procedural actions as provided by the applicable legislation and this Prospectus.

Pursuant to the Contract on the Service and Preparation of the Capital Increase and the Contract for the Sale of Existing Shares, First Financial Brokerage House EOOD, Sofia is obliged to perform:

- i. Positioning of investment opportunity;
- ii. Preliminary assessment of Gradus AD;
- iii. Preparation and organization of a presentation for investors;
- iv. Consulting on the regulatory requirements in relation to public offering of securities;
- v. Communication with FSC, BSE, Central Depository and other institutions;
- vi. Preparation of a prospectus and documents related to the public offering and subscription of shares;
- vii. Consulting the process, preparing a schedule, recommending a offering structure;
- viii. Consulting and managing a marketing strategy in connection with the public offering of securities;
- ix. Consulting on the price range of offering and technical realization;
- x. Managing and coordinating the process of public offering, consulting on other related issues.

The existence of a takeover arrangement. Number of shares in the placement of which the investment intermediary is engaged under a contract with the Company

Upon the sale of the shares, the II First Financial Brokerage House EOOD, Sofia, undertakes to abest effort to place the Offered Shares without being obliged to acquire shares at its own expense or to commit to the marketing of a certain number of shares.

Name, headquarters and business address of all payment or depository institutions involved in the offering

The depository institution regarding the offered shares is Central Depository AD, with headquarters and management address: Sofia, 6 Tri Ushi Street.

Investment intermediaries are required to store the funds of their clients with a credit or other institution pursuant to Art.93, para.1 of the Markets in Financial Instruments Act. Investment Intermediary, when establishing a relationship with a client, shall inform him/her of the institution where the client's cash will be stored or received in connection with a given order for a transaction with shares of the Company.

The special bank account in connection with the offering will be opened at UniCredit Bulbank AD, with headquarters and business address: Sofia, 7 Sveta Nedelya Square.

Information on the commissions agreed with the Investment Intermediary that will offer the share issue

For the preparation and servicing of the capital increase of the Issuer, including but not limited to consulting on the regulatory requirements related to the public offering of securities, preparation of the necessary documents for all stages of the public offering and communication with FSC, BSE, Central Depository and other institutions, the Lead Manager will receive a fixed remuneration from Gradus AD amounting to BGN 40,000.

In the event that the Offering is successful, the Lead Manager will also receive a performance fee as follows:

- a) at the achieved Offer Price up to BGN 1.99 per share - 1.1% of the funds raised;
- b) at the achieved Offer Price in the range of 1.99 BGN to 2.17 BGN - 1.2% of the funds raised;
- c) at the achieved Offer Price over 2.17 BGN - the remuneration under b) plus 2.5% of the raised funds for the excess over 2.17 BGN of the Offered Price.

The performance fee is payable by the Issuer and by the Selling Shareholders, respectively for the value of the New and Existing / Over-Allotted Shares.

Delivery of Offered Shares and Admittance for Trading

Indication whether the securities offered are or will be subject to application for admission to trading on a regulated market

Immediately after the registration of the capital increase in the Commercial Register and subject to the regulatory procedures, the Issuer shall file an application with the Central Depository for the registration of the New Shares and with the Financial Supervision Commission for listing of the Company and the Shares in the register of public companies kept by it. Immediately after the last registration, the Issuer will file an application with the BSE-Sofia for the acceptance of all Trading Shares and will propose for the initial price of the trade in the Shares to determine the weighted average bidding price of the IPO auctions. Trading in the Shares will commence at the date set by the Board of Directors of BSE - Sofia AD on or about 20.07.2018. Until the commencement date for trading on BSE - Sofia AD both the shares of the Temporary Issue and the Existing Shares will remain blocked at the respective sub-accounts of the II in the Central Depository AD.

Transactions with shares issued by a public company registered in Bulgaria are regulated in detail in the Law on the Public Offering of Securities, the Markets in Financial Instruments Act and the implementing regulations thereof, in the Regulations of BSE - Sofia AD and the Regulations of Central Depository AD.

Information about another public or private subscription for securities of a Company of the same or another class that is organized simultaneously

There is no other public or private offering of securities of the same or another class to be organized simultaneously with the shares offered in this Prospectus.

Simultaneously with this Prospectus, there are no other regulated or equivalent markets to which, to the best of the knowledge of the Issuer, securities of the same class will be admitted to trading or have already been admitted. Shareholders have not declared or stated in any way the intention to sell or purchase shares after they have been admitted to trading.

Investment intermediaries who assume liabilities to provide liquidity through buy and sell quotes

No investment intermediaries are engaged to assume liabilities to provide liquidity of the issue through buy and sell quotes.

Stabilization

Price stabilization actions will not be undertaken in the current Offering.

Expenditure for public offering

Expenditure for public offering

The following table lists the principal costs directly related to the public offering of securities, the amount of which is variable and depends on the amount of the Lead Manager's performance fee.

All costs listed below are at the expense of the Issuer:

Confirmation of a prospectus by FSC	5 000 BGN
Registration of an increase in Central Depository AD	1 000 BGN
Publication of a message on public offering (estimated value)	400 BGN
Admission to trading on BSE - Sofia AD	600 BGN
Remuneration of the II*	590 000 BGN
Enter an increase in the Trade Register	15 BGN

TOTAL**597 015 BGN**

** Upon reaching the maximum subscription amount of the New Shares and at a minimum Offering Price of BGN 1.80.*

In case of maximum subscribed New shares at the maximum price of the range, the remuneration of the Lead Manager equals BGN 887 631.

Estimated proceeds from the Offering depend on the amount realized from the Offering and the achieved offered price, being in the range below:

	Maximum Subscription Amount for New Shares (27 777 778 nos.)		Minimum Subscription Amount for New Shares (18 055 556 nos.)	
	<i>Total proceeds, BGN</i>	<i>Net proceeds, BGN</i>	<i>Total proceeds, BGN</i>	<i>Net proceeds, BGN</i>
Minimum price of the Offering (BGN 1.80)	50 000 000	49 402 985	32 500 000	32 095 485
Maximum price of the Offering (BGN 2.35)	65 277 778	64 383 133	42 430 555	41 832 580

18. TAXATION

This information is of a general nature and does not represent an exhaustive analysis of the tax consequences related to the acquisition, possession or sale of the shares under the relevant tax legislation. Investors should therefore consult their tax, financial and legal advisers on a case-by-case basis.

General information

The general information set out in this section on certain taxes due in the Republic of Bulgaria is applicable to the holders of Shares, including domestic and non-resident.

Local legal entities are legal entities and unincorporated companies registered in Bulgaria, as well as the European Societas established under Regulation (EC) No.2157/2001 and the European Cooperative Societies established under Regulation (EC) No.2157/2001, 1435/2003, whose registered office is in Bulgaria and which are entered in a Bulgarian Register.

Local natural persons are natural persons, irrespective of their nationality, with permanent address in Bulgaria, or who reside in Bulgaria for more than 183 days in any 12-month period. Local are also the persons whose centre of vital interests (which is determined by the family, ownership, place of employment, occupation or business activity or the place where the person manages his / her ownership) is located in Bulgaria, as well as persons sent abroad by the Bulgarian state, its bodies and/or organizations, Bulgarian enterprises and the members of their families.

Local legal entities and individuals are called generally **Bulgarian Owners**.

Foreign persons (legal and physical) are those who do not meet the above definitions. They are collectively called **Non-Bulgarian Owners**.

This statement is not exhaustive and is intended solely to serve as general guidance and should therefore not be considered a legal or tax advice to any shareholder. Accordingly, the Company strongly recommends potential investors to consult with tax advisers on the overall tax consequences, including the consequences of Bulgarian legislation and the treatment by the Bulgarian authorities of the acquisition, ownership and disposal of shares.

The following information complies with the applicable regulations at the date of issue of this Prospectus and the Company is not responsible for any subsequent changes in the legislation and the regulatory framework on the taxation of share income.

Dividends

A tax is levied on the taxable income:

1. Dividends in favour of a sole trader;
2. Dividends and liquidation shares in favour of:
 - a) a local or foreign natural person from a source in Bulgaria;
 - b) resident natural person from source abroad;
 - c) foreign legal entities, except when the dividends are realized by a foreign legal entity through a permanent establishment in the country;
 - d) local legal entities that are not traders, including municipalities.

Exceptions to the rules of taxation exist in cases where dividends and liquidation shares are distributed in favour of:

1. A local legal entity that participates in the capital of a company as a representative of the state;
2. Contractual fund;
3. A foreign legal entity which is a resident for tax purposes of a Member State of the European Union or of another State - party to the Agreement on the European Economic Area, except for the cases of hidden distribution of profits.

Income from dividends distributed by a company is subject to withholding tax at a rate of five percent (5%) on the gross amount of dividends (Art.38, para.1 in conjunction with Art.46, para.3 of the Taxes Act on the Income of Natural Persons and Art.194, para.1 of Art.200, para.1 of the Corporate Income Tax Act).

Tax profits are not recognized as a result of the allocation of dividends by resident legal entities and by non-resident taxpayers of a Member State of the European Union or of another State - party to the Agreement on the European Economic Area. The tax treatment of dividends paid by a company to foreign legal entities - resident for tax purposes in a Member State of the European Union or a State which is a party to the Agreement on the European Economic Area should be governed by the law of the respective Member State of the European Union or a party to the Agreement on the European Economic Area. Company assumes the responsibility for the withholding tax in cases where there is a statutory requirement for this in the applicable tax laws.

Capital gains

In accordance with the provisions of the Personal Income Tax Act, the income from transactions received by Bulgarian natural persons or foreign natural persons established for tax purposes in a Member State of the European Union or in another state belonging to the European Economic Area, with participations shares of collective investment schemes and of national investment funds, shares, rights and government securities executed in regulated markets within the meaning of Art.152, para.1 and 2 of the Markets in Financial Instruments Act (i.e., a multilateral system organized and/or managed by a market operator that meets or assists in meeting the interests of buying and selling financial instruments to multiple third parties through the system and in compliance with its non-discretionary rules in a way the outcome of which is the conclusion of a contract in respect of financial instruments admitted to trading under its rules and/or systems, licensed and operating on a regular basis in accordance with the required of the Markets in Financial Instruments Act and its implementing acts, and any multilateral system that is licensed and operates in accordance with the requirements of Directive 2014/65/EC), rights are securities entitling to subscribe a certain number of shares in relation to a decision to increase the capital; income from transactions concluded in the form of redemption by collective investment schemes and national investment funds admitted to public offering in the country or in another Member State of the European Union or in a State - party to the Agreement on the European Economic Area, as well as income from transactions concluded under the terms and procedure of a tender offering within the meaning of the Public Offering of Securities Act or similar transactions by type in another Member State of the European Union or in a State - party to the Europe Agreement (Art.13 (1) (3) in conjunction with paragraph 1 (11) of the Supplementary Provisions and Art.37 (7) of the Income Tax Act of the Physical persons).

Capital gains from the disposal of financial instruments realized under the terms of para.1, item 21 of the Additional Provisions of the Corporate Income Tax Act (Art.196 of the Corporate Income Tax Act) is not subject to withholding tax.

Income from transactions with Company's shares (realized capital gains) as well as generally with financial assets received by foreign natural persons from third countries other than the above, are subject to a final tax of ten per cent (10%) on the taxable income (Art.37, para.1, Item 12 and Art.46, para.1 of the Personal Income Taxes Act).

With the realized capital gain from disposition of financial instruments, the accounting financial result is reduced (Art.44, para.1 in conjunction with para.1, item 21 of the Supplementary Provisions of the Corporate Income Tax Act). However, it should be borne in mind that the loss on disposal of financial instruments is not recognized as a tax expense and the financial result increases with it (Art. 44, para.2 of the Corporate Income Tax Act).

Tax incentives in respect of share gains do not apply to transactions that are not disposals of financial instruments (for example, purchases and sales of shares concluded outside a regulated market, other than a tender offering). The capital gains on such transactions executed in Bulgaria by foreign shareholders are subject to Bulgarian tax rules. Unless a double taxation convention applies, such income is subject to withholding tax of ten per cent (10%) on the positive difference between the sale price and its documented acquisition price. The capital gains on such transactions executed by Bulgarian shareholders

are subject to taxation in accordance with the general rules of the Corporate Income Tax Act and the Personal Income Tax Act.

Taxes on transfer

No state fees are due for the transfer of shares.

The procedure for the application of the tax relief for foreign persons provided for in the Double Taxation Avoidance Agreement (DTAA) entered into force is regulated in Chapter Sixteen, Section III of the Tax - Insurance Procedure Code (TIPC). When the total amount of the realized income exceeds BGN 500,000, the foreign person should certify to the Bulgarian revenue authorities the existence of the grounds for application of the DTAA. The foreign shareholder is entitled to the relevant tax relief by submitting a request, as per the for provided, accompanied by evidence certifying: (a) that it is a resident of the state with which Bulgaria has concluded the relevant DTAA (by submitting a certificate issued by the tax authorities of the state concerned, or otherwise, in accordance with the customary practice of the foreign tax administration); b) that it is the holder of the dividend from the Shares (by filing a declaration); (c) that it does not have a permanent establishment or a fixed base in the territory of the Republic of Bulgaria with which the income from dividends is effectively linked (by filing a declaration); and (d) that all applicable requirements of the relevant DTAA are met (by presenting an official document or other written evidence). Further, additional documentation should be provided to the Bulgarian Revenue Authorities certifying the type, amount and grounds for dividends, such as the Shareholder's decision at the General Meeting to distribute dividends and a document certifying the number of shares held (e.g. depository receipt). The request for application of the DTAA, accompanied by the necessary documents, must be submitted to the Bulgarian revenue authorities for each non-Bulgarian holder immediately after the adoption of the decision of the Shareholders at the General Meeting of the Company approving the distribution of dividends. If the Bulgarian revenue authorities refuse the tax exemption, a company is required to withhold the full size of 5% of the tax due on the dividends paid. The shareholder whose application for tax exemption is refused may appeal against the decision. If the total amount of dividends or any other income paid by the Issuer does not exceed BGN 500,000 per year, the foreign holder is not obliged to file a request for application of the DTTA to the Bulgarian revenue authorities. He must, however, certify to the company the existence of the aforementioned circumstances and submit the above documents, certifying the grounds for the application of the DTTA by the Company.

19.ADDITIONAL INFORMATION

This Prospectus has been prepared in relation to the Offering solely for the purpose of allowing the potential investor to decide whether to invest in the Offered Shares. The information contained in the Prospectus is provided by the Company and the other sources listed in the Prospectus.

Documents available for review

This Prospectus will be made available for the period of validity of Prospectus on the website of Gradus AD (www.gradus.bg) and on the website of the investment intermediary (www.ffbh.bg). The Company's Articles of Association and Financial Statements, as well as the financial statements of Gradus AD's daughter companies, will be published on the Company's website (www.gradus.bg).

Independent registered auditors

Gradus AD was incorporated at the end of 2017 and has not yet prepared financial statements. The Company's Annual Financial Statements for 2017 were audited by Baker Tilly Klitou and Partners OOD. Baker Tilly Klitou and Partners OOD is a registered audit firm in compliance with the Bulgarian Independent Financial Audit Act with headquarters and business address: Sofia 1000, 5 Stara Planina Str., Fl.5. After the audit of the Company's Annual Financial Statements for 2017 it has expressed its unqualified audit opinion thereon.

Baker Tilly Klitou and Partners OOD is a member of the Institute of Chartered Accountants in Bulgaria (Reg. No.129) with managers Marius Klitou and Krasimira Radeva (registered auditor under No 0678). Responsible for the audit of the Company's Annual Financial Statements for 2017, on behalf of Baker Tilly Klitou and Partners OOD is Krasimira Radeva with working address Sofia, Stara Planina 5, floor 5. Miss Radeva is a member of the Institute Of Certified Public Accountants.

SPO Baker Tilly Klitou and Partners OOD declares that, to the best of their knowledge, the historical financial information contained in the Prospectus for Public Offering of Gradus Shares, derived from the audited consolidated financial statements of Gradus AD for 2017, is correct and corresponds to all material aspects of those contained in the audited consolidated financial statements of Gradus AD for 2017.

This Prospectus for Public Offering contains Pro forma consolidated financial information for Gradus AD and a report by the independent auditors Baker Tilly Klitou and Partners OOD that this information was properly prepared on the basis stated in the notes and that the basis is consistent with the accounting policies of the Issuer.

The Prospectus does not contain information from the Company's interim financial statements.

Preparation of Financial Reports

For the preparation of the Financial Statements for 2017 is responsible Mrs Krasimira Kirkova, the compiler of the financial statements of Gradus AD.

Persons participating in the Offering

In addition to the Issuer and the Selling Shareholders, the following entities participate in the Offering:

Investment intermediary

The investment intermediary of the offering is First Financial Brokerage House EOOD with headquarters and management address in Sofia, 2 Enos Street. The relations between the investment intermediary and the Issuer, regulated by a contract for consulting services in relation to servicing and preparation of capital increase, depend on the proceeds of the sale of the Offered Shares. See Terms of Offering - Expenditure on Public Offering.

Law firm

Some legal issues related to the public offering are consulted by Zhingov, Guginski, Kyuchukov and Velichkov Law Firm with headquarters and business address in Sofia, 10 Tsar Osvoboditel Blvd. The fee payable to legal advisors is not dependent on the successful implementation of the public offering. Legal consultants may in the future provide legal services to the Company and the Selling Shareholders.

Consultations on legal issues related to the public offering are also provided by the consulting firm Pretium Advisors EOOD with headquarters and business address in Sofia, 242 Gotse Delchev Area, Ap.78. The remuneration paid to the consultant does not depend on the successful implementation of the public offering. Possibly, Pretium Advisors EOOD will provide legal services to the Company and / or Selling Shareholders in the future.

Except for the above interests, there are no other interests (including conflicts of interest) of organizations or individuals which are essential to the Offering.

Information from experts and third parties

In the Prospectus no use information derived from specially prepared expert opinions or reports was used.

Prospectus contains information provided by the following sources (third parties):

- The public company, the Issuer of the offered shares – Gradus AD
- Subsidiaries of the Economic Group of the Issuer – Gradus - 1 EOOD, Milenium 2000 EOOD, Lora-2004 EOOD, Zhyuliv EOOD, Gradus-98 AD, Gradus - 3 AD
- BNB – statistics from the BNB website (www.bnb.bg);
- NSI – statistics from the NSI website (www.nsi.bg);
- Ministry of Finance - statistics from the website of the Ministry of Finance (www.minfin.bg);
- Ministry of Agriculture, Food and Forestry of the Republic of Bulgaria - Statistics
- FSC - information and normative documents from the FSC website (www.fsc.bg);
- BSE - information from the BSE website (www.bse-sofia.bg);
- Association of Meat Processors in Bulgaria - annual reports
- Institute of Agricultural Economics, report on the Trends for Meat Sector Development
- Institute for Market Economics, Report on the Market of Meat and Meat Products in Bulgaria
- Patent Office of the Republic of Bulgaria (<http://www.bpo.bg/>)
- European Union Intellectual Property Office (<https://euipo.europa.eu/>)
- Food and Agriculture Organization of the United Nations (UNFAO) – Statistics and Reports
- Rabobank, EU Poultry Outlook 2020 Report
- Association of Poultry Processors and Poultry Trade in the EU countries (AVEC), 2016 Annual Report
- Market research and quantitative research of BluePoint for the brand positions of the company Gradus and “Az yam!” on the Bulgarian market

The information provided in the Prospectus from these sources is accurately reproduced and to the extent that the responsible persons are aware of and can verify the information published by these third parties, no facts have been omitted that would make the reproduced information inaccurate or misleading.

20.ABBREVIATIONS AND DEFINITIONS

The definitions below are used throughout this Prospectus unless the context otherwise implies.

BGN	Bulgarian Lev – the currency of Bulgaria
EBITDA	Profit before interest, taxes and depreciation
ERP	Enterprise Resource Planning (A system for joint planning of a company's resources)
AD	Abbreviation for a joint-stock company incorporated under the laws of Bulgaria
GDP	Gross Domestic Product
BNB	Bulgarian National Bank
BSE, Bulgarian Stock Exchange	Bulgarian Stock Exchange - Sofia AD
Annual Financial Statements	Audited Consolidated Financial Statements of the Company for the years ended 31 December 2013, 2012, and 2011, included in the Prospectus
Group of Gradus, Gradus Group, Group	The economic group in which Gradus AD is a controlling legal entity, with subsidiaries subject to consolidation
Dividend Date	This is the date on which are entitled to receive a dividend the shareholders of the Company who own or have acquired shares on the date that is the 14 th day after adoption of the decision at the General Meeting by the Shareholders for allocation of dividend.
VAT	Value Added Tax
MIFID Directive	Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on the markets in financial instruments amending the Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing the Council Directive 93/22/EEC
Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC
FTA	Fixed Tangible Assets
Dollar, USD	Legal currency in the United States
Company, Issuer	Gradus AD
State-Member	Member State of the European Economic Area
Subsidiaries	Subsidiaries of the Economic Group of Gradus AD – Gradus - 1 EOOD, Milenium 2000 EOOD, Lora-2004 EOOD, Zhyuliv EOOD, Gradus - 98 AD, Gradus - 3 AD
EU	European Union
EAD	Abbreviation for a single-member joint-stock company established under the laws of Bulgaria

EOOD	Abbreviation for a single-member limited liability company established under the laws of Bulgaria
Issuer	Gradus AD
EU	European Union
Markets in Financial Instruments Act, MFIA	Bulgarian Markets in Financial Instruments Act (State Gazette, No.15 of 16 February 2018 in effect from 16 February 2018)
Public Offering of Securities Act, POSA	The Bulgarian Public Offering of Securities Act (Official Gazette, No.114 of 30 December 1999 with amendments)
VATA	Value Added Tax Act
CITA	Corporate Income Tax Act
Individual investors	Investors who are natural persons and have the right to submit Purchase Orders for Offered Shares in the Offering.
Institutional investors	Investors who have the right to participate in the book-building process and / or to submit Purchase Orders for the Offered Shares at the invitation of the Global Coordinators who are (i) qualified investors within the meaning of Art.2 (1) (f) (i) of the Prospectus Directive; (ii) central banks, international organizations and national governments within the meaning of Art.2 (f) (ii) of the Prospectus Directive; (iii) other legal entities within the meaning of Art.2 (f) (ii) of the Prospectus Directive, and (iv) investment asset management companies that act for and on behalf of legal entities, organizational units or natural persons.
II, Investment Intermediary	First Financial Brokerage House EOOD, business address in Sofia, 2 Enos Street, Fl.4 and 5.
BSE Code	National Code of Corporate Governance since 2007, adopted by BSE
FSC, Financial Supervision Commission	Financial Supervision Commission, which is a specialized state body in the Republic of Bulgaria for regulating and overseeing the non-banking financial sector (capital market, insurance, pension insurance).
MAFF	Ministry of Agriculture, Food and Forestry
MCC	International accounting standards adopted by the EU
IFRS	Institutional Investors
NSI	National Statistical Institute
General Meeting	General meeting of the shareholders of the Company
OOD	Limited Liability Company, incorporated under the laws of the Republic of Bulgaria
TFP	Transitional and final provisions
Purchase Orders	Purchase Order for Offered Shares that is submitted in the Offering
Rules for Trading on BSE	Rules for trading on the exchange in effect since 23 February 2018

The rules of the Central Depository	Rulebook of the Central Depository AD, in effect since 01 January 2014 reflecting changes, approved with decision № 1434-CD from 13.11.2017 of the Deputy Chairman of the Financial Supervision commission regulating the supervision of investment activities.
Selling shareholders	Ivan Angelov Angelov and Luka Angelov Angelov
Prospectus	This Prospectus, prepared in Bulgarian for the purposes of the proceedings before the FSC and confirmed by the FSC.
Offered Shares	The new shares proposed for subscription in the Company's capital increase, the Shares, the ownership of the Selling Shareholders and the Over-Allotted Shares, which the Offering Manager is entitled to further allocate
Offering	Public offering of ordinary shares issued by Gradus AD, each with nominal value of BGN 1, subject to this Prospectus.
Public Message	Public announcement made in connection with the Offering and Listing of the BSE
FFBH	First Financial Brokerage House EOOD, with headquarters and business address in Sofia, Bulgaria (investment intermediary).
DFI	Direct foreign investments
Regulation 809/2004	Regulation (EC) No 809/2004 of the FSC of 29 April 2004 on the application of Directive 2003/71/EC of the European Parliament and of the Council as regards the information contained in the prospectuses and the form, inclusion by reference and publication of such prospectuses and the distribution of advertisements
AGS	Average Gross Salary
Board of Directors, BD	Board of Directors of the Company
Commercial Law	Bulgarian Commercial Law (State Gazette, No.48 of 18 June 1991 with all amendments)
Articles of Association	Articles of Association of the Company
Financial Statements for 2017	Audited Consolidated Financial Statements of the Company to and for the year ended 31 December 2017
HoReCa	Hotels, restaurants, cafés (a marketing term encompassing the distribution channels that serve those sectors)
CD, Central Depository	Central Depository AD, Bulgaria
Central Bank	BNB
CEU	Central and Eastern Europe

21. RESPONSIBILITY STATEMENT

The undersigned persons, in their capacity as representatives of Gradus AD, as Issuer and in the capacity of Offerors of Securities, with their signatures, declare the circumstances set forth in section “*Responsibility Statement*” on page ii above.

Ivan Angelov Angelov
Executive Director

Luka Angelov Angelov
Chairperson of the Board of Directors

The undersigned person, in her capacity as representative of First Financial Brokerage House EOOD, Investment Intermediary and Offering Manager, with her signature, declares the circumstances set forth in section “*Responsibility Statement*” on page ii above.

Nadezhda Mihaylova Dafinkicheva
Manager

COMPANY

Gradus AD

Ivan Angelov Angelov - Executive Director

Luka Angelov Angelov - Chairperson of the Board of Directors

Georgi Aleksandrov Babev – Member of the Board of Directors

***Address: Gradus Poultry Slaughterhouse, Industrial Area,
Stara Zagora,
Region of Stara Zagora,
Bulgaria***

INVESTMENT INTERMEDIARY

First Financial Brokerage House EOOD

Nadezhda Mihaylova Dafinkicheva – Manager

***Address: 2 Enos Street
1408 Sofia, Bulgaria***

REGISTERED AUDITOR of Gradus AD

SOP Baker Tilly Klitou and Partners OOD

Krasimira Ivanova Radeva - Manager

***Address: 5 Stara Planina Street, Fl. 5,
Sofia 1000, Bulgaria***

PERSON RESPONSIBLE FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

Krasimira Kirkova

Compiler of the Financial Statements of Gradus AD

***Address: Gradus Poultry Slaughterhouse, Industrial Area,
Stara Zagora,
Region of Stara Zagora,
Bulgaria***