



"GRADUS" AD

CONSOLIDATED ACTIVITY REPORT

for 2019

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I. Introduction. General information about Gradus Group.

1.1. Information about the Group

The Management presents herewith an Activity Report for Gradus Group for the year of 2019.

Gradus Group consists of the parent company and its seven subsidiary companies:

Parent company

"Gradus" AD (the "Company") is a company registered in Bulgaria in the "Trade Register" at the "Registry Agency" under Unified Identification Code (UIC): 204882907, on 28 November 2017.

It is registered for an unlimited period of time

Registered office address:

Republic of Bulgaria,

6000 Stara Zagora, "Industrialen" Residential District, "Gradus" Poultry Slaughterhouse.

On **30.07.2018**, by Decision No.770 – ПД/30.07.2018, the Financial Supervision Commission entered "Gradus" AD as a public company into the Register of Public Companies and other emitters of securities under Art. 30, para 1, item 3 of the Financial Supervision Commission Act, kept by the Financial Supervision Commission.

The Company's shares are traded on the Main market of the Bulgarian Stock Exchange – segment "**Standart**" and stock exchange code **GR6**.

Subsidiary companies:

As at 31.12.2019 the subsidiary companies are as follows:

- Lora-2004 * (the Company) is registered as a limited liability company (LTD) into the Stara Zagora District Court, under company case No. 332/2004. On 14.12.2017 it was registered into the Commercial Register as EOOD having "Gradus" AD as the sole owner of the capital.

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

- Zhyuliv * (the Company) is registered as a limited liability company (LTD) into the Sliven District Court, under company case No. 369/1997. On 14.12.2017 it was registered into the Commercial Register as EOOD having "Gradus" AD as the sole owner of the capital.

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

- Millenium 2000 * (the Company) is registered as a limited liability company (LTD) by Decision No. 1976/20.12.2001 into the Sliven District Court, under company case No. 948/2001. On 14.12.2017 it was registered into the Commercial Register as EOOD having "Gradus" AD as the sole owner of the capital.

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

- Gradus-1 * (the Company) is registered into the Pazardzhik District Court, under company case No. 732/1995. On 14.12.2017 its legal form was changed to EOOD having "Gradus" AD as the sole owner of the capital.

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

- Gradus-3 ** (the Company) was established on 20.04.1999 by a decision of the Stara Zagora District Court under company case No. 895/1999.

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

- Gradus-98 * ("Biser Oliva-98" AD) was registered on 10.07.1998 by a decision of the Stara Zagora District Court under company case No. 1399/1998. By a decision of the General Meeting of the shareholders of the joint-stock company held on 08.08.2017, the General Meeting of the shareholders took a decision for the change of the Company's name from "Biser Oliva-98" AD to "Gradus-98" AD entered into the Commercial Register on 06.09.2017.

Registered office address: Stara Zagora, "Industrialen" Residential District

- Gold Farm 91 EOOD * (the Company) is registered into the Commercial Register with sole owner of capital "Gradus" AD.

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

* *effective share rate*

** *indirect interest*

Management bodies of the parent company

- General Meeting of the shareholders
- Board of Directors

1.2. Ownership and management of the parent company

“Gradus” AD (parent company) has a single level management system with a Board of Directors consisting of three (3) members. As at 31.12.2019, the Management of the parent company in the face of the Board of Directors has the following members:

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

The parent company has the following capital interest in the subsidiary companies:

- Lora-2004 EOOD – 50 shares with a nominal value of BGN 100 each, representing **100%** of the capital of Lora-2004 EOOD;
- Zhyuliv EOOD – 50 shares with a nominal value of BGN 100 each, representing **100%** of the capital of Zhyuliv EOOD;
- Millenium-2000 EOOD – 10 shares with a nominal value of BGN 500 each, representing **100%** of the capital of Millenium-2000 EOOD;
- Gradus-1 EOOD – 100 shares with a nominal value of BGN 50 each, representing **100%** of the capital of Gradus-1 EOOD;
- Gradus AD participates indirectly in the capital of Gradus-3 AD through the subsidiary company Gradus-1 EOOD – holding 96.00% of the capital of Gradus-3 AD;
- Gradus-98 AD – 49 967 ordinary available registered shares entitled to vote, with a nominal value of BGN 10 each, representing **99.94%** of the capital of Gradus 98 AD;
- Gold Farm 91 EOOD – 3837782 shares with a nominal value of BGN 1 лев each, representing **100%** of the capital of Gold Farm 91 EOOD.

1.3. Subject of activity of the companies within the Group

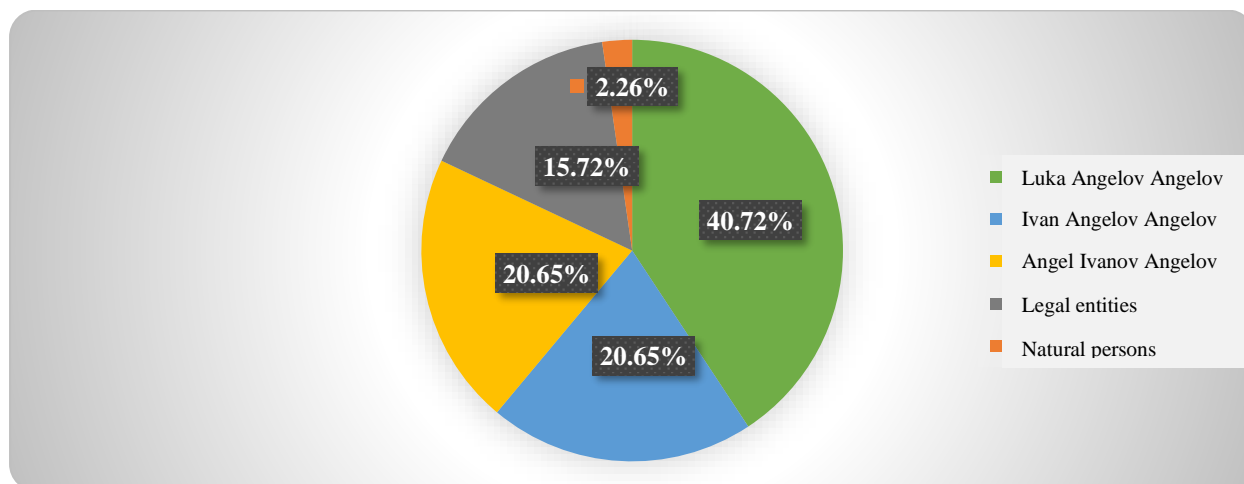
The main subject of activity of the companies within Gradus Group is concentrated in the field of "Poultry-farming", except for companies also having as their subject of activity the "production of combined fodders and trade".

The subject of activity of the companies within the Group is as follows:

- **"Lora-2004" EOOD** – the main activity of the company is Poultry-farming - breeding and realization of fattened birds - broiler chickens;
- **"Zhyuliv" EOOD** – the main activity of the company is fattening of broiler chickens and hatching of chickens. The company is registered into the State Fund "Agriculture" as an agricultural producer;
- **"Millenium 2000" EOOD** – the main activity of the company is Poultry-farming – breeding of parent chickens of broiler chickens, production and realization of breeding eggs, production and realization of fattened broiler chickens;
- **"Gradus-1" EOOD** – the main activity of the company is the processing and realization of products from chicken meat;
- **"Gradus-3"AD** - the main activity of the company is the production of combined fodders to be marketed, containing grains and fodder additives in a ratio according to certain established recipes. In order to exercise the activity, the Company is entered into the Register under Art. 19, para 11 of the Fodders Act and has been granted a Certificate of Approval No. 00041 of 26.01.2007 by the National Grain and Feed Association.
- **"Gradus-98" AD** – the main activity of the company is the production, processing and realization of all types of agricultural and animal production;
- **"Gold Farm 91" EOOD** – the main activity of the company is poultry farming - breeding and realization of fattened birds - broiler chickens.

The parent company and the subsidiary companies execute their activity in the Republic of Bulgaria.

1.4. Shareholding structure as at 31.12.2019



1.5. Board of Directors

Gradus AD has a single level management system with a Board of Directors.

The Board of Directors consists of three (3) members with the following members as at 31.12.2019:

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

The interest of the members of the Board of Directors in trade companies as unlimited liability shareholders, the possessing of more than 25 percents of the capital of another company, as well as their interest in the management of other companies or cooperations as procurators, managers or members of Councils:

Luka Angelov Angelov

1.1. As an unlimited liability shareholder – NO

1.2. Possessing directly over 25 percents of the capital of:

"Equity Invest-1" AD (UIC: 204750154), "Equity Invest-2" LTD (UIC: 204746138), "Energy-2" LTD (UIC: 123655788), "Agro Invest-7" LTD (UIC: 123654743), "Mirena" LTD (UIC: 123655806), "Gold Agro-2005" LTD (UIC: 119642703) "Volf" LTD (UIC: 123760892), "Marieta" EOOD (UIC: 123655770), "Auto Spa Center" LTD (UIC 204959983), "Gradus" AD (UIC: 204882907)

and indirectly through "Gradus" AD:

"Zhyuliv" EOOD (UIC: 119053781), "Millenium 2000" EOOD (UIC: 119591422), "Gradus-98" AD (UIC: 123120561), "Gradus-1" EOOD (UIC: 822132592), "Lora-2004" EOOD (UIC: 123658624), "Gradus-3" AD (UIC: 123152751), "Gold Farm 91" EOOD (UIC 205933500).

and indirectly, through "Marieta" EOOD in "Targovski Dom" EOOD (UIC: 123644254)

1.3. Being a part in the management bodies of:

"Equity Invest-1" AD (UIC: 204750154), "Equity Invest-2" LTD (UIC: 204746138), "Zhyuliv" EOOD, (UIC: 119053781), "Millenium 2000" EOOD (UIC: 119591422), "Gradus-98" AD (UIC: 123120561), "Energy-2" LTD (UIC: 123655788), "Agro Invest-7" LTD (UIC: 123654743), "Gradus-1" EOOD (UIC: 822132592), "Mirena" LTD (UIC: 123655806), "Lora-2004" EOOD (UIC: 123658624), "Gold Agro-2005" LTD (UIC: 119642703), "Gradus-3" AD (UIC: 123152751), "Volf" LTD (UIC: 123760892), "Marieta" EOOD (UIC: 123655770), "Auto Spa Center" LTD (UIC: 204959983), "Biser Oliva" AD (UIC 123036597).

Ivan Angelov Angelov

1.1. As an unlimited liability shareholder – NO

1.2. Possessing directly over 25 percents of the capital of:

"Equity Invest-1" AD (UIC: 204750154), „Ayazmo" (UIC: 201974859), "Mirena" LTD (UIC: 123655806), "Gold Agro-2005" LTD (UIC: 119642703), "Volf" LTD (UIC: 123760892), "Zagora Oil" LTD (UIC: 202473858), "Ralitsa 2004" LTD (UIC 123658631).

1.3. Taking part in the management bodies of:

"Equity Invest-2" LTD (UIC: 204746138), „Ayazmo” (UIC: 201974859), "Zhyuliv" EOOD (UIC: 119053781), "Millenium 2000" EOOD (UIC: 119591422), "Energy-2" LTD (UIC: 123655788), "Agro Invest-7" LTD (UIC: 123654743), "Gradus-1" EOOD (UIC: 822132592), "Mirena" LTD (UIC: 123655806), "Lora-2004" EOOD (UIC: 123658624), "Gold Agro-2005" LTD (UIC: 119642703), "Volf" LTD (UIC: 123760892), "Ralitsa 2004" LTD (UIC: 123658631), "Gold Farm 91" EOOD (UIC: 205933500).

Georgi Aleksandrov Babev

1.1. As an unlimited liability shareholder – NO

1.2. Holding directly over 25 percents of the capital of "LG Auto" LTD (UIC: 205395076)

1.3. Taking part in the management bodies of:

"LG Auto" LTD (UIC: 205395076)

1.6. Audit Committee

The Audit Committee has the following members:

- Radka Dincheva Peneva – Chair of the Audit Committee – until 02 November 2019;
- Dobri Svetlozarov Simeonov - Chair of the Audit Committee – from 02 November 2019;
- Petya Radoslavova Panova – Member of the Audit Committee;
- Georgi Aleksandrov Babev – Member of the Audit Committee.

II. Objective review of the development and the results from the Company’s activity, as well as its condition, together with a description of the main risks it faces

2.1. Development of the activity

The companies within Gradus Group have modern production units, as they also constantly strive to expand and modernize the production capacities.

2.2. Result of activity

For the period 01.01.2019 - 31.12.2019, the Group has an operating profit of BGN 19 299 thousand and net profit in the amount of BGN 17 095 thousand (for the period 01.01.2018 - 31.12.2018, the Group reported an operating profit of BGN 16 380 thousand and a net profit of BGN 14 654 thousand).

INCOME

The reported income from sales of the Group in 2019 amounts to BGN 154 530 thousand and includes as follows:

| INCOME | 2019 | 2018 | Change % | Relative share for 2019 % |
|------------------------------------|----------------|----------------|-----------------|----------------------------------|
| Income from sales | | | | |
| Income from the sale of production | 126 590 | 112 829 | 12% | 82% |
| Income from the sale of goods | 27 176 | 27 754 | -2% | 18% |
| Income from the sale of services | 764 | 807 | -5% | - |
| Total income from sales | 154 530 | 141 390 | 9% | 100% |

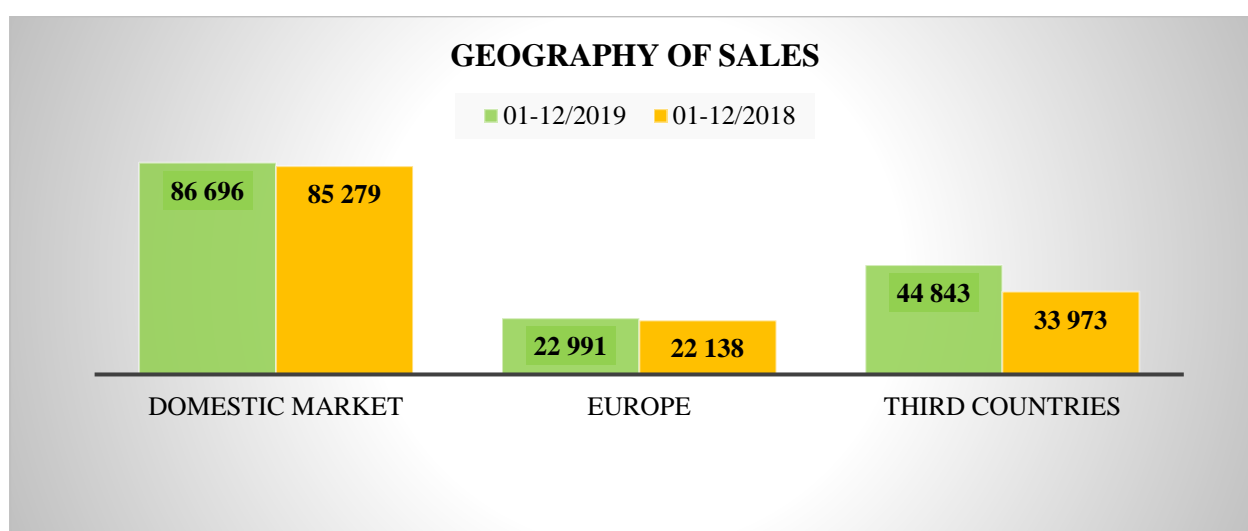
The income from sales for 2019 increased by BGN 13.8 million or by 12% compared to the same period in 2018. This is due to the stabilization of prices on the international markets and the realization of significant quantities abroad. External factors also contributed to better results. It is expected that they will continue in the future and that the Group will be able to take advantage of better opportunities and retain them in the long term.

Income from sales of goods for 2019 decreased slightly by BGN 578 thousand or by 2% from 2018. This is due to sales in Grains and Components segment.

Income from sales of services for 2019 also registered a slight decrease by BGN 43 thousand or by 5% compared to the same period in 2018.

Geography of sales

| | 2019 BGN'000 | 2018 BGN'000 | Change % | Relative share for 2019% |
|-----------------|-------------------------|-------------------------|-----------------|---|
| Domestic market | 86 696 | 85 279 | 2% | 56% |
| Europe | 22 991 | 22 138 | 4% | 15% |
| Third countries | 44 843 | 33 973 | 32% | 29% |
| Total | 154 530 | 141 390 | | 100% |

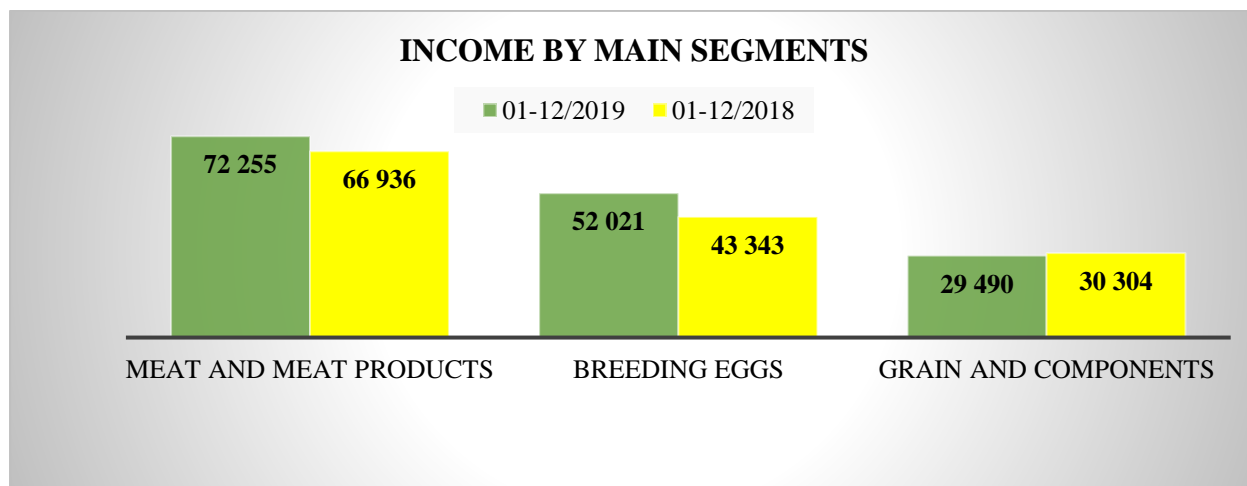


In 2019, The Group reported significant growth OF third-party sales amounting to 32% compared to sales in 2018. The income realized in 2019 in this market include mainly: income from the sale of breeding eggs with a growth of BGN 3 454 thousand or 18% compared to 2018, and income from the sale of grains and components with growth of BGN 7 238 thousand or 50% compared to 2018.

Domestic sales, as well as those made in EU countries, have been maintaining their volume reflecting a slight increase over the previous 2018.

Reported income by main segments

| Segments | 2019 BGN'000 | 2018 BGN'000 | Change % | Relative share for 2019% |
|------------------------|-------------------------|-------------------------|-----------------|-------------------------------------|
| Meat and meat products | 72 255 | 66 936 | 8% | 47% |
| Breeding eggs | 52 021 | 43 343 | 19% | 34% |
| Grains and components | 29 490 | 30 304 | -3% | 19% |
| Other | 764 | 807 | -5% | - |
| Total | 154 530 | 141 390 | | 100% |



For the reporting period, the largest share of sales revenue was the Meat and Meat Products segment with 47% of total revenue BGN 154 530 thousand (For the same period last year, the largest share of sales was the Meat and Meat segment products' (47%).

INCOME BY MAIN SEGMENTS AND MY MARKET

| Main segments | Domestic market | | Europe | | Third countries | |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2019 BGN'000 | 2018 BGN'000 | 2019 BGN'000 | 2018 BGN'000 | 2019 BGN'000 | 2018 BGN'000 |
| Meat and meat products | 71 391 | 65 964 | 490 | 776 | 374 | 196 |
| Breeding eggs | 6 670 | 2 589 | 22 501 | 21 358 | 22 850 | 19 396 |
| <i>breeding eggs</i> | <i>5 403</i> | <i>1 239</i> | <i>5 343</i> | <i>1 984</i> | <i>22 850</i> | <i>19 396</i> |
| <i>one-day-old chicks</i> | <i>1 267</i> | <i>1 350</i> | <i>17 158</i> | <i>19 374</i> | - | - |
| Grains and components | 7 871 | 15 923 | - | - | 21 619 | 14 381 |
| Total | 85 932 | 84 476 | 22 991 | 22 134 | 44 843 | 33 973 |

The results in the meat and meat products segment for 2019 reported growth of 7.95% compared to 2018.

The Group's trademarks - Gradus, I Eat and Le Poulet - continue to grow in revenue in 2019.

The Group's estimates made prior to the announcement of the Covid-19 pandemic for 2020 are for growth in volumes realized and the income from sales. The effects of Covid-19 events are difficult to predict and it is virtually impossible to evaluate them at this time. The aim of the company is to maintain sales volume in 2020 compared to that in 2019. If the current situation is quickly overcome, the Group's management expects significant growth in 2021. A major goal for Gradus is to maximize margins and increase sales.

Revenues from sales in breeding eggs segment (breeding eggs and one-day-old chicks) increased by 20%. This is due to the stabilization of prices on the international markets and the realization of significant quantities abroad. Domestic sales results are also rising significantly.

During the reporting period, the Group realized sales of breeding eggs by 48.53% or by BGN 11 million (domestic market - 336.08%, Europe - 169.30%, third countries - 17.81%) compared to the same period of 2018.

In 2019, the Group reported a fall in sales of one-day-old chicks, both on domestic market and in Europe (domestic market by 6%, Europe by 11.44% or BGN 83 thousand less than in the same period of 2018 in the domestic market and by BGN 2.2 million less than in the same period of 2018 in Europe), mainly due to the increase in sales of breeding

eggs. During this period, the Group focuses mainly on the sale of breeding eggs, due to an increase in their price on the European market.

In 2019, it is reported a slight decrease in sales in the Grains and Components segment compared to the previous 2018. This segment is not the Group's primary focus, but with good bargaining power, the Group will benefit from sales.

Optimization and restructuring processes to reduce costs and increase revenue continue.

The reported other income from the activity amount to BGN 15 334 thousand and include as follows:

| OTHER INCOME | 2019 | 2018 | Change % | Relative share for 2019 % |
|--|---------------|---------------|------------|---------------------------|
| Other income from the activity | | | | |
| Income from financings | 10 552 | 11 025 | -4% | 69% |
| Income from rents | 878 | 722 | 22% | 6% |
| Income from reassessment of investment properties | 687 | 486 | 41% | 5% |
| Income from the sale of materials and tangible fixed assets, net | 660 | 440 | 50% | 4% |
| Reassessment of biological assets | 918 | 424 | 117% | 6% |
| Income from reintegration of impairment | 200 | 374 | -47% | 1% |
| Income from compensations | 1 032 | 247 | 318% | 7% |
| Income from actuarial reassessments | 37 | 43 | -14% | - |
| Excesses in inventory | 218 | 78 | 179% | 1% |
| Others | 152 | 157 | -3% | 1% |
| Total other income from the activity | 15 334 | 13 996 | 10% | 100% |

EXPENDITURE

Expenditure on activity

In 2019, the Group reported the following expenditure:

| EXPENDITURE | 2019 | 2018 | Change % | Relative share for 2019 % |
|---|----------------|----------------|-----------|---------------------------|
| Expenditure on the activity | | | | |
| Expenditure by economic elements | | | | |
| Book value of goods sold | 24 643 | 25 551 | -4% | 16% |
| Change of the reserves from finished production | (10 926) | (14 343) | -24% | -7% |
| Expenditure on materials | 81 579 | 78 753 | 4% | 53% |
| Expenditure on external services | 8 676 | 7 483 | 16% | 6% |
| Expenditure on amortizations | 6 753 | 6 119 | 10% | 4% |
| Expenditure on remunerations and social security installments | 26 081 | 23 199 | 12% | 17% |
| Depreciation of assets | 13 517 | 10 695 | 26% | 9% |
| Others | 3 107 | 4 192 | -26% | 2% |
| Total expenditure by economic elements: | 153 430 | 141 649 | 8% | 100% |

In 2019 operating expenses increased by BGN 11.8 million or by 8% compared to 2018. The change is due to an increase in the cost of raw materials and materials, an increase in the cost of external services, staff, depreciation and other operating expenses.

The cost of raw materials and materials increased by BGN 2.8 million or by 4% in 2019 compared to 2018, mainly due to increased capacity.

Expenditure on external services increased by BGN 1.2 million or by 16% in 2019 compared to 2018.

Depreciation expenses increase by BGN 634 thousand or by 10% in 2019 compared to 2018.

Personnel costs in 2019 increased by BGN 2.9 million or by 12% compared to 2018 based on the increase in the remuneration of the Group's staff.

Expenses for impairment of assets increased by BGN 2.8 million or by 26% compared to 2018 mainly from the impairment of biological assets (parent flocks) by nearly BGN 1 679 thousand. This increase in impairment of biological assets is a consequence of the increased capacity of parent flocks, which will further contribute to the company's performance in future periods.

Other operating expenses decreased by BGN 1,085 thousand or by 26% in 2019 compared to 2018.

FINANCIAL INCOME AND EXPENDITURE

| Financial income | 2019 | 2018 | Change % | Relative share for 2019 % |
|---|------------|------------|----------|---------------------------|
| Income from interests under granted loans | 254 | 165 | 54% | 66% |
| Positive differences from a change of currency exchange rates | 128 | 169 | -24% | 34% |
| Total financial income: | 382 | 334 | | 100% |

| Financial expenditure | 2019 | 2018 | Change % | Relative share for 2019 % |
|---|------------|------------|----------|---------------------------|
| Expenditure on interests under loans received | 155 | 473 | -67% | 38% |
| Bank fees under loans | 217 | 222 | -2% | 53% |
| Interests on leases | 4 | - | - | 1% |
| Other financial expenditure | 32 | - | - | 8% |
| Total financial expenditure: | 408 | 695 | | 100% |

2.3. Key events that have influenced the Group's results and will affect future results

2.3.1. Investments and new products

In 2019, the Group has made investments to expand its core business in the following areas:

Breeding eggs and day-old chicks segment

The market for breeding eggs in 2019 has been stable in terms of prices. The Group is hedged due to the fact that it concludes long-term sales contracts during the year, as well as maintains volumes for free market trading. This guarantees the continuity of the production process as well as the ability to realize volumes at higher prices. For last year, the average selling price of the Group for free market was approximately EUR 0.19, which was 5.5% higher than last year.

The expectations in the medium and long term continue is that the price will continue to rise, but we do not rule out volatility driven by external factors.

On 25.02.2019, a new center for adolescent parents was completed in Ruse, in the subsidiary company "Gradus-98" with parameters: town of Ruse, Center North 3, Adolescent Parents, 12 halls of 864sq.m, Approximate investment: BGN 3 600 000.

In 2019, another parent flock center in Ruse and one broiler center in Stara Zagora were put into operation.

Meat and meat products segment

In pursuance of its investment program, recorded in Prospectus for Public Offering of Securities, "Gradus" AD, through its subsidiary "Gradus-1" EOOD, has made investments in equipment worth BGN 771 554. It includes the purchase of new trucks, containers for the transport of live birds and others.

In 2019, the capacity of the fourth center in the Stara Zagora Poultry Plant of the subsidiary company "Lora – 2004" EOOD was increased by 250,000 birds.

In pursuance of its investment program, recorded in Prospectus for Public Offering of Securities, "Gradus" AD, through its subsidiary company "Lora – 2004" EOOD, has invested in the purchase of a bird catching machine for a total value of BGN 318,000.

A resolution of the Board of Directors was adopted with minutes of 18.12.2019 on the acquisition of the company "Gold Farm – 91" EOOD. The deal seeks to consolidate the production and distribution cycle of products sold under the Gradus brand, part of which has been carried out so far by ET "GRADUS - IVAN ANGELOV - 55", namely fattening live birds. ET "GRADUS - IVAN ANGELOV – 55" is historically the first producer of Gradus products, and its integration into Gradus' corporate group would lead to optimization of certain administrative and operational expenses, as well as better protection of the reputation of the main brand of the Group companies. In view of the above, the whole trading enterprise of ET "GRADUS - IVAN ANGELOV – 55" has been contributed as an in-kind contribution to the capital of "Gold Farm – 91" EOOD, UIC 205933500, which was established at the same time as the in-kind contribution and has no other assets, and does not perform any activity other than the activity of the acquired business company "Gradus" AD has assigned the appraisal of "Gold Farm 91" EOOD to an independent external appraiser.

New products

In 2019, the production and release of new products under all three brands of the Group has been developed and launched.

Under "Le Poulet" brand were added the following proposed products: whole frozen chicken, chilled and frozen slices; The new product under "Ham Sausage" Gradus brand, made entirely of poultry meat, is particularly popular and is present in all retail chains. Attractive new ideas are the grill mix plateaus and crunchy cornflakes bon filets. Various grill offers have been developed for the needs of the market, flavored with popular recipes from around the world. The new products offered under "I eat!" brand are raw-dried products: beef flat sausage and beef sudzhuk sausage. In 2020, we are planning to expand this product range.

Grain trade

Transactions in this segment are not the focus of the Group. However, in 2019, sales of grains and components remain the same as in 2018.

2.3.2. Facts to have a positive impact on the results:

The Group negotiated better interest rates with its banking partners. Strict financial discipline, company ratios, and the Group's public status have led to better interest rates from our banking partners. This will significantly reduce the Group's interest costs in short and long term basis.

The Group is in the process of implementing a complete ERP system. The system will significantly reduce costs and will lead to optimization in long-term plan.

Periodic renegotiation of commercial terms for the services we provide with the purpose of achieving optimization and cost efficiency.

The Group is in the process of optimizing and changing its way of operation to reduce costs and increase its revenue.

2.4. Risk factors for activity

The Risk Management Policy of the Group is directed towards identification and analysis of the risks faced by the Group with the purpose of establishing limits for undertaking risks. Based on the analysis made of these risks, the Group develops and introduces the respective controls, through which to address those risks. This Policy, as well as the established risk management controls, are subject to periodic verification with the purpose of reflecting any changes occurred in the external and internal conditions, under which the subsidiary companies operate.

Credit risk

Credit risk mostly results from receivables from clients. The exposition to a credit risk is due to the individual characteristics of each separate client.

The Group manages the credit risk mainly by imposing credit limits on each client individually depending on the volume of the sales and its credit history, as well as through permanent control as regards delayed payments.

Currency risk

In some cases the companies within the Group implement deals denominated in foreign currency. The Group is exposed to a currency risk connected with eventual fluctuations of the currency exchange rate of foreign currencies. As at the moment this risk is connected with fluctuations of the currency exchange rate of the US dollar used by the Group in the trade with agricultural production.

Liquidity risk

Liquidity risk is the risk for the companies within the Group having difficulties upon fulfilling its obligations connected with financial liabilities. The approach towards liquidity management is to make sure, as far as possible, that there would be always sufficient liquidity in order to fulfill its obligations, both under normal and stressful conditions, including without undertaking any unacceptable losses or without causing any damages to the Group's reputation. For this purpose the subsidiary companies maintain credit lines and use short-term loans from banks.

Market risk

Market risk is the risk in case of any change of the market prices, such as currency exchange rate, interest rates or prices of capital instruments, the companies' revenue or the value of their investments being affected. The prices of goods are supervised by the Group's Management. Sales are managed at a local level by applying competitive market prices. The main factors that determine the price changes are the changes of the prices of competitors, as well as changes in the prime cost of the products.

As at the present moment the Management is not aware of any trends and events to have any significant impact on the future activity and results of the Company.

III. Analysis of the main financial and non-financial indicators for the result from the activity, which are related to the economic activity, including information on ecology and employees related matters

3.1. Analysis of the main indicators

In order to achieve a higher efficiency and control of the Group's results, the Management keeps a track of some main indicators connected with the activity. These indicators are mostly directed towards the profit amount, the debt level and efficiency.

- **Gross profit margin (Gross profit from the activity/Sales)**

| | 2019 | 2018 |
|----------------------------|----------------------|----------------------|
| Profit before taxes | 19 299 | 16 380 |
| Income | <u>154 530</u> | <u>141 390</u> |
| Gross profit margin | <u>12.49%</u> | <u>11.58%</u> |

- **EBITDA margin (EBITDA-profit before financial expenditure, taxation and amortization/Sales)**

| | 2019 | 2018 |
|---|----------------------|----------------------|
| EBITDA (Profit before financial expenditure, taxation and amortization) | 26 078 | 22 860 |
| Income | <u>154 530</u> | <u>141 390</u> |
| EBITDA margin | <u>16.88%</u> | <u>16.17%</u> |

Main indicators followed by the Group's Management with respect to the debt amount and the financial stability:

- **Net debt (total debt minus funds)/EBITDA ratio.**

| | 2019 | 2018 |
|---|--------------------|--------------------|
| Interest-bearing debt | | |
| Net debt | 13 184 | 4 709 |
| EBITDA (Profit before financial expenditure, taxation and amortization) | <u>26 078</u> | <u>22 860</u> |
| Net debt/EBITDA | <u>0.51</u> | <u>0.21</u> |

- **Debt/assets ratio (total liabilities/total assets).** By using this indicator the Management follows the part of the assets financed by a debt in some form.

| | 2019 | 2018 |
|--------------------------|--------------------|--------------------|
| Total liabilities | 43 299 | 39 100 |
| Total assets | <u>354 832</u> | <u>363 663</u> |
| Debt/assets ratio | <u>0.12</u> | <u>0.11</u> |

3.2. Non-financial Declaration

"Gradus" presented a Consolidated Non-financial Declaration as a separate document deemed an integral part of the present Report.

The Consolidated Non-financial Declaration includes a description of the Group's Policies and their objectives as regards the activities implemented for environmental protection, the social issues and those connected with employees, their rights, gender equality.

IV. Important events occurred after the date as at which the Annual Consolidated Financial Statement is executed

On March 11, 2020, the World Health Organization declared the state of pandemic due to Coronavirus, and on March 13, 2020, the Bulgarian government has declared a state of emergency in the country. Measures have been introduced to limit the outbreak of the disease, including restrictions on cross-border movement of people, home office work, temporary closing of schools, universities, restaurants, cinemas, theaters, museums and sports facilities, with the exception of retailers, grocery stores and pharmacies.

The Group's management has carefully analyzed the potential effects of the pandemic and the restrictions imposed by the government, expecting a reduction in economic activity and liquidity in general for the country's economy. The necessary steps have been taken to limit the effects of the pandemic, with the Group's management considering the principle of going concern with respect to these financial statements as it has sufficient liquid resources to continue operations in the foreseeable future.

The Group's Management is not aware of any important and material events occurred after 31 December 2019, which would impact the Annual Consolidated Financial Statement.

V. Envisaged future development of the Group

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

- increasing the number of main flocks, increasing the number of fattened broilers, increasing the production and marketing of breeding eggs, as well as achieving full compliance with all European standards for the protection of the environment and the environment;
- full utilization of production capacities and increase in product range and sales volume under "Gradus" and "I Eat!" and "Le Poulet" brands;
- development of existing and new business lines related to the production of high-margin food products.

VI. Activities in the field of scientific researches and developments

For the period under review there were no scientific researches and developments taken place within the Group.

VII. Information about acquisition of own shares, as required by virtue of Art. 187e of the Commercial Act

There were no own shares acquired in the period under review.

VIII. Existence of Company's branches

The Company has no branches.

IX. Financial instruments used by the Company

Financial instruments are described in detail in the note "Financial instruments" to the accompanying consolidated financial statements.

X. Additional information on Annex 10 to Ordinance No. 2 of the Financial Supervision Commission

1. Value and quantity information given as regards the main categories of goods, products and/or granted services, with specification of their share in the income from sales of the emitter as a whole and the changes occurred in the fiscal year.

The information on the value of sales, indicating their share, is set out in this Report in Section II.

2. Information about the income allocated by separate categories of activities, internal and external markets, as well as information about the sources for supply of materials necessary for the production of goods or provision of services with reflection of the level of dependency as regards every separate seller or buyer/consumer, as in case the relative share of any of them exceeds 10 percents of the expenditure or the income from sales, then information should be provided separately about each person, about his/her share of sales or his/her purchases and relations with the emitter.

The income by separate categories of activities are given in Section II of the present Report.

Main suppliers

In view of the vertical integration of the Group, the main products taking direct part in the production process, which are provided by external suppliers, are the raw materials for the production of fodder, one-day old parent birds, as well as pork meat, additives and subsidiary materials for the production of sausages.

The raw materials supplied by external companies for preparation of fodder are mostly agricultural production and in particular – mixtures and additives selected by technologists.

The agricultural production, which is purchased from external suppliers, includes sunflower, corn, wheat, and barley. There is great offering of agricultural production, and the Group maintains relations with a number of local and foreign suppliers, thus allowing it to purchase the optimum price/quality ratio. The suppliers in question have no material impact upon negotiation of the prices of their production, as the production processes of the Group do not depend on a given supplier. The offering of mixtures and additives in the required quantities is more limited, but the additives used may be often replaced by others without having any material impact on the food qualities of the fodder. Owing to the expert opinion of the technologists of the Group, the Company replaces those additives that have grown more expensive with alternative ones, thus decreasing the level of dependency on a given supplier of mixtures and additives. The main suppliers of additives of the Company are "Viand" EAD, "Biser Oliva" AD and "Mixxa" EOOD. One-day old parent birds, which are consequently bred with the purpose of production of breeding eggs, are of significant importance for the entire production cycle of the Group. Birds are imported from EU member states, as in 2019 the Group imported a total of 950 thousand one-day old parent birds (2018: 859 thousand).

Birds are supplied all year round according to a schedule. The offering of pure-breed birds in the required quantities is limited and the Group's dependency on its suppliers may be defined as significant. In order to decrease this dependency, the Group has built and maintains long-term relations with its trading partners, as the Group is a main client, thus allowing negotiation of preferential prices and terms of supply. The Group imports one-day old parent birds mostly from Hungary, as its main supplier is Aviagen.

There are requirements established at the Group for ethical and responsible behavior both on the part of employees and suppliers, which directly or indirectly also include the other companies within the Group. The Company's Management has developed norms and rules of behaviour intended for the personnel and suppliers, as all companies rendering products/services to the Company are obligated to observe them. All external suppliers of the Group are selected under conditions of free market choice. Selected suppliers are assessed according to a methodology of

implemented IFQSMS (Integrated Food Quality and Safety Management System), and depending on the obtained results the Management distinguishes two types of suppliers:

- main - suppliers with proven reliability and offering products/services of the best price/quality ratio;
- episodic – suppliers with their services used for the satisfaction of unforeseen needs.

Depending on the level of impact on the work process, the products/services are divided into two types, namely:

- taking direct part in the production process – red meat, additives, etc.;
- having an indirect impact on the quality of the manufacturing process – e.g. technical equipment, appliances, consumables, etc.

The control on the performance of supplies is exerted by the person receiving the product/service, as the execution of quality control is verified via internal audits, which are carried out according to established practices. The Group usually enters into frame agreements with its suppliers for a term of one or several years, as the prices and quantities for a given year are specified in the annexes to the agreement, which are updated on an yearly basis. The manufacturing enterprise of the Group supplies the following main categories of raw materials, materials and services from suppliers that are external to the Group:

- Main raw materials – red meat;
- Additional raw materials – seasonings, supplements, additives, etc.;
- Subsidiary materials – packages, covers, labels, etc.;
- Services – electricity, gas, water, transportation activity, etc.;
- Technological equipment;

The Company's policy in the field of supply through suppliers external to the Group is directed towards ensuring supplies from at least two sources and in sufficient quantities, in case of any problem with a given supplier. The necessary products/services are supplied by companies registered according to the Food Act and based in EU member states, approved for trade with the EU member states. All suppliers the Company works with offer products/services that correspond to the requirements of the national laws and the European legislation and, if applicable, to the IFQSMS introduced to the Company, according to ISO 9001:2015, ISO 22000:2005 and IFS 6:2014. Based on the principle of "timely supply", the Group does not store any significant quantities but orders in advance on a two-three month basis.

The main suppliers of the Poultry Slaughterhouse and Meat processing enterprise of the Group are as follows:

- of main raw materials – Nova Targovska Kompaniya 2004 AD
- of additional raw materials – Campus Balkani EOOD, Tea Trading LTD, German Bulgarian Business Group Ltd.
- of subsidiary materials - Skipter LTD, Intrama Invest EOOD, Sidorenko Foodtech EOOD, Bulpro 2004 Ltd.

The production company is supplied with water from its own water source, as the water corresponds to the quality of drinking water according to the requirements of Ordinance No.9/2001 of the Ministry of Health, the Ministry of Regional Development and Public Works, and the Ministry of Environment and Water. In case of missing water supply, the site is provided with sufficient quantities of reserve drinking water from the urban public water main.

In view of the above-described established practices and the strong offering of the products and services, which are supplied by external companies, the production of the Group does not depend on a given supplier. For the last years, the Group has not had any significant problems with its suppliers and believes that, unless unforeseen circumstances occur, every approved supplier may provide the necessary quantity on time and with due quality.

3. Information about concluded large deals and deals of significant importance for the activity of the emitter.

In 2019 there were no large deals of significant importance for the activity of the Group.

4. Information about the deals concluded between the emitter and related parties in the period under review, proposals for conclusion of such deals, as well as deals outside its usual activity or significantly different from the market conditions, under which the emitter or its subsidiary company is a party with specification of the value of the deals, the nature of the relation, and any information necessary for assessing the impact on the financial condition of the emitter.

The information about the deals concluded between Gradus Group and related parties in the period under review is announced in the Note "Related Parties" to the Consolidated Annual Financial Statement.

5. Information about events and indicators of nature that is unusual for the emitter, having a significant impact on its activity, and the income realized by it and the expenses incurred by it; assessment of their impact on the results in the current year.

There are no events and indicators of unusual nature for the Group.

6. Information about deals kept out of balance – nature and business purpose, specification of the financial impact of the deals on the activity, if the risk and benefits related to such deals are significant for the emitter and if the disclosure of such information is significant for the assessment of the financial condition of the emitter.

There are no such deals.

7. Information about holdings of the emitter, about its main investments in the country and abroad (in securities, financial instruments, intangible assets and immovable properties), as well as the investments in share securities outside its economic group and the sources/ways of financing.

Information about the shareholdings of “Gradus” AD is provided in Section I.

8. Information about loan agreements entered into by the emitter, by its subsidiary company or parent company, in their capacity as a lender, with specification of their terms, including of the deadlines for payment, as well as information about provided guarantees and undertaking of liabilities.

The information about loan agreements entered into by the subsidiary companies is given in the Note “Bank Loans” to the Consolidated Annual Financial Statement.

9. Information about loan agreements entered into by the emitter, by its subsidiary company or parent company, in their capacity as a lender, including provision of guarantees of any type, including of related parties, with specification of the specific conditions under them, including of the deadlines for payment, for which the same have been granted.

Information about loans granted by the Group is given in the disclosures to the Consolidated Annual Financial Statement.

10. Information about the use of funds from a completed new emission of securities in the period under review.

“Gradus AD” uses the collected funds by granting current loans of its subsidiary companies, according to the Company's Policy and the Company's Statute.

11. Analysis of the ratio between the achieved financial results entered into the Financial Statement for the financial year, and prognoses for these results published earlier.

The Group has no published prognoses for the respective period.

12. Analysis and assessment of the policy about management of the financial resources with specification of the possibilities for servicing the liabilities, the eventual threats and the measures undertaken or to be undertaken by the emitter in view of their elimination.

At the moment the Group's Management observes the collectability of the receivables and controls the servicing of the liabilities under bank loans and its liabilities.

13. Assessment of the possibilities for realization of the investment intentions with specification of the amount of the available funds and specification of the eventual changes in the structure of financing of this activity.

The planned Investment Program of Gradus Group for 2020 includes investments to the amount of BGN 8,4 million for the acquisition of tangible fixed assets (buildings, machinery, equipment, vehicles) and Management System /ERP/. The funds stipulated for investments are from the funds collected from the initial public offering of the Company.

The Group follows its Investment Program set in the "Prospect for Initial Public Offering", as it duly notifies the shareholders of “Gradus” AD and the public of the investments made.

14. Information about changes occurred in the period under review in the main principles of management of the emitter and its economic group.

Gradus AD manages its investments by setting high but achievable goals as regards the quality, productivity and profitability. Special attention is paid to environmental protection, development of human resources and corporate social liability. In the period under review there were no changes in the main principles of management of “Gradus” AD and its economic group.

15. Information about the main characteristics of the Internal Control System and Risk Management System applied by the emitter in the process of drawing up the financial statements.

The Group has established Internal Control System and Risk Management System. In connection with the process of financial reporting, the financial statements are drawn up in compliance with the International Financial Reporting Standards (IFRS). The current financial and accounting activity of the Company is subject to periodic control and analysis by the management body. The Company has an established practice for periodic discussion of the current financial results from the activity of the companies included into its strategic investment portfolio, in view of ensuring the fulfillment of their business programs and a precise analysis of the possibilities for implementation of future investment projects.

16. Information about changes in the management and supervisory bodies in the fiscal year.

There is no change in the management and supervisory bodies.

Changes in supervisory authorities (Audit Committee):

Radka Dimcheva Peneva - Chairman of the Audit Committee - performs her functions until 31.10.2019, including, due to a notification to the Board of Directors of “Gradus” AD about violation of the requirements for independence of the members of the Audit Committee, defined in Art. 107, para 4 of Independent Financial Audit Act.

On November 2, 2019, by minutes of the meeting of the Board of Directors of “Gradus” AD, the management of the company proposed to the General Meeting of Shareholders to elect for Chairman of the Audit Committee Mr. Dobri Svetlozarov Simeonov meeting the requirements of the Independent Financial Audit Act for member and chairman of the Audit Committee.

17. Information about the amount of the remunerations, awards and/or benefits of/for each of the members of the management and supervisory bodies for the fiscal year, paid out by the emitter, regardless of whether or not included into the emitter's expenditure or resulting from the profit allocation, including:

- a) received amounts and non-monetary remunerations;
- b) conditional or deferred remunerations occurred throughout the year, even if the remuneration is due as at a later moment;
- c) amount due by the emitter or its subsidiary companies for payment of pensions, compensations upon retirement or other similar compensations.

The total amount of accrued remuneration for key management personnel amounts to BGN 2 378 thousand.

18. Information about shares of the emitter held by the members of the management and supervisory bodies, procurators and high-ranking officials, including shares held by each of them separately and as a percentage of the shares from each class, as well as the options on its securities granted to them by the emitter - type and amount of the securities, on which the respective options have been established, price of exercise of the options, purchase price, if any, and term of the options.

As at 31.12.2019 the shares held by the members of the Board of Directors are as follows:

| Name, father's name, family name | Number of shares | % |
|---|-------------------------|----------|
| Ivan Angelov | 99 195 645 | 40.72% |
| Luka Angelov | 50 312 465 | 20.65% |
| Georgi Aleksandrov Babev | 0 | 0 |

19. Information about the agreements known to the Company (including upon completion of the financial year), as a result of which in a future period there may be changes in the relative portion of shares or bonds held by current shareholders or bondholders.

There are no such agreements known.

20. Information about pending court, administrative or arbitrary proceedings concerning liabilities or receivables of the emitter to the amount of at least 10 percents of its share capital.

The Group has no pending court, administrative or arbitrary proceedings, including decisions or requests for termination and announcement of liquidation.

21. Data for the Investor Relations Director, including telephone and correspondence address.

Marieta Babeva
Contact phone: 0883 773 993
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Sofia, 110 B "Simeonovsko Shousse" Blvd., fl. 4, Office 22

28.04.2020

EXECUTIVE DIRECTOR:

/Ivan Angelov/

CHAIRMAN OF THE BOARD OF DIRECTORS:

/Luka Angelov/