



INTERIM MANAGEMENT REPORT

KORADO-BULGARIA AD

31 March 2020

MANAGEMENT BOARD

Jiri Reznicek – Chairman of MB and Executive Director

Silviya Stefanova

Jana Havlova

SUPERVISORY BOARD

Tomas Kollert – chairman of SB

Frantisek Hamacek

Eva Voborova

Josef Laska

Ivan Lyaskov

Evelina Miltenova

AUDIT COMMITTEE

Frantisek Hamacek

Sneznanka Kaloyanova

Milena Raykova

LEGAL CONSULTANTS

Ivan Asenov Lyaskov

Konechna and Zaha Legal Firm

REGISTERED AND MANAGEMENT ADDRESS

Town of Strazhitsa

28 Gladstone Street

REGISTRATION NUMBER

UIC 814190902

BANKERS

UBB

DSK Bank

Raiffeisebank

AUDITOR

PricewaterhouseCoopers Audit OOD

Maria Louisa 9-11 Bvrd

Sofia, 1000

Management of Korado-Bulgaria AD presents the interim management report and interim financial statements as of 31 March 2020 prepared in accordance with the International Accounting Standard (IAS) 34 Interim financial statements, as adopted for use in the European Union.

THIS MANAGEMENT REPORT HAS BEEN PREPARED IN ACCORDANCE WITH THE PROVISIONS OF ARTICLE 39 OF THE ACCOUNTANCY ACT, ARTICLE 100M, PARAGRAPH 7, 8 AND 9 OF POSA AND APPENDICES 10 AND 11 TO ARTICLE 32, PARAGRAPH 1, ITEM 2 AND ARTICLE 41 OF ORDINANCE NO 2 OF 17 SEPTEMBER 2003 ON THE PROSPECTUSES TO BE PUBLISHED WHEN SECURITIES ARE OFFERED TO THE PUBLIC OR ADMITTED TO TRADING ON A REGULATED MARKET AND ON DISCLOSURE OF INFORMATION BY THE PUBLIC COMPANIES AND THE OTHER COMPANYS OF SECURITIES

DESCRIPTION OF THE ACTIVITY

Korado-Bulgaria AD (*the „Company”*) is registered with the Commercial Register at the Registry Agency under Unified Identification Code (UIC) 814190902, with registered address and address of management: Republic of Bulgaria, Veliko Tarnovo Region, Strazhitsa Municipality 5150, 28 Gladstone Street.

The main scope of activity of the Company includes: manufacture and sale of heating equipment, domestic and foreign trade in all their varieties, domestic and international transport, representation and agency. The Company may perform also any other types of activities not prohibited by the laws of the Republic of Bulgaria.

The Company has no branches registered in the country and abroad.

Since 1994 the Company has been manufacturing primarily steel water heating panel radiators. The traditional brand KORADO is perceived as a good product of European quality.

In 2020 the Company sells mostly to the European market, with the biggest share of sales being directed to KORADO a.s. Czech Republic (*the „parent company”*).

The main suppliers of materials to the Company in 2020 are: Balkan Steel Engineering, Sofia, CZ Ferro steel, Czech Republic, Borcelik Turkey, Arselor Mital Romania, U. S. Steel Slovak Republik, Bemas Turkey, Commital Turkey, Frei Lacke Germany, and CWS Germany.

The Company does not depend on its suppliers as it is able to choose among numerous companies according to the prices offered, quality and method payment.

ANALYSIS OF THE OPERATING RESULTS

Production

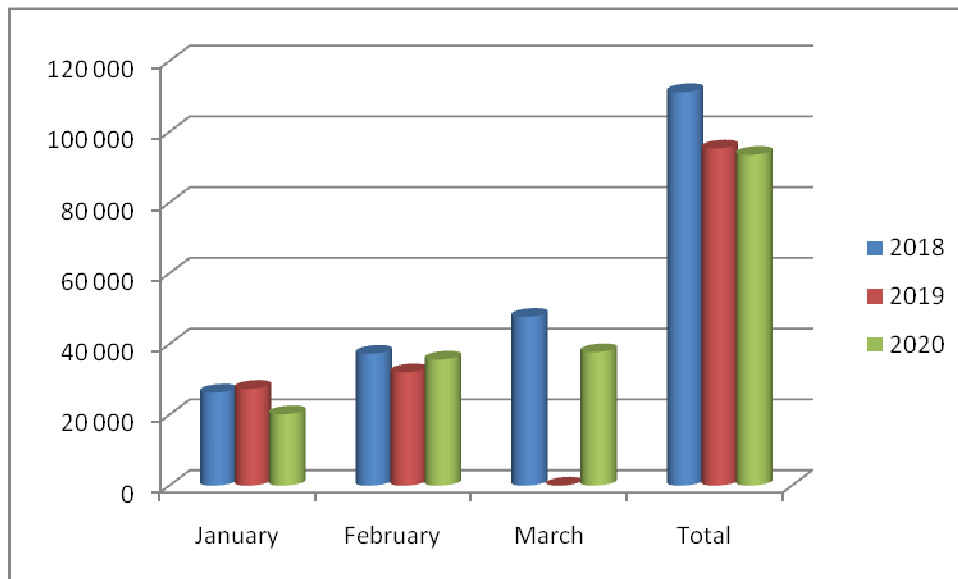
As of 31.03.2020, the Company manufactured 93,522 water heating panel radiators. The Holding's management implements an appropriate marketing strategy aiming at preserving the share on the existing markets and keeping people in jobs.

The radiators manufactured during first quarter of 2020, as also in the previous years of 2018 and 2019, are shown in the table and graph below:

	January	February	March	Total
2018	26 284	37 272	47 712	111 268
2019	27 365	32 017	35 912	95 294
2020	20 176	35 622	37 724	93 522

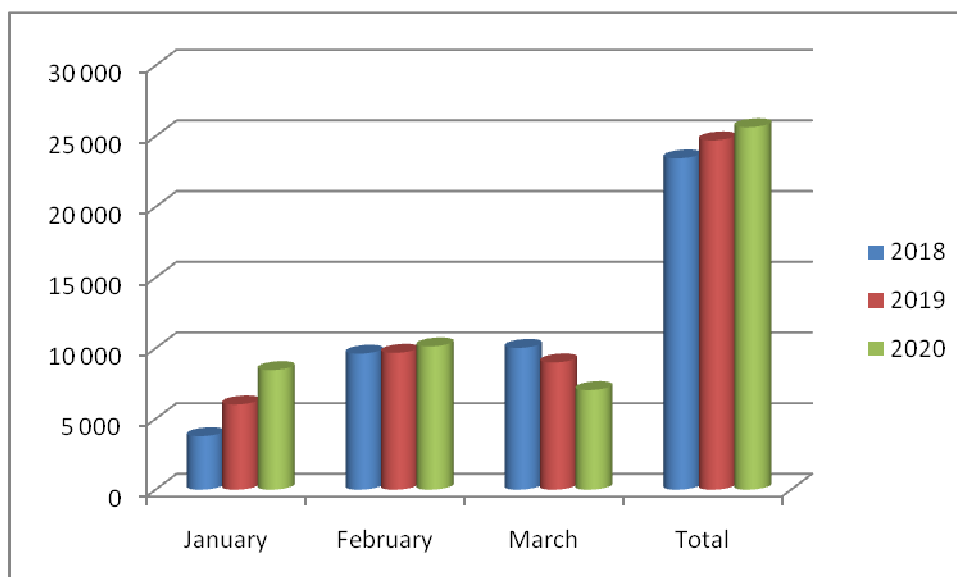
ANALYSIS OF THE OPERATING RESULTS (CONTINUED)

Production (continued)



As of 31.03.2020 Company manufactured 25,640 tubular heating units. The tubular radiators manufactured during first quarter of 2020, as also in the previous years of 2019 and 2018, are shown in the table and graph below:

	January	February	March	Total
2018	3 780	9 620	10 030	23 430
2019	6 030	9 680	9 000	24 710
2020	8 460	10 135	7 045	25 640



ANALYSIS OF THE OPERATING RESULTS (CONTINUED)

Sales

As at 31.03.2020, the major trading partners of the company are KORADO a.s. followed by companies in the European market.

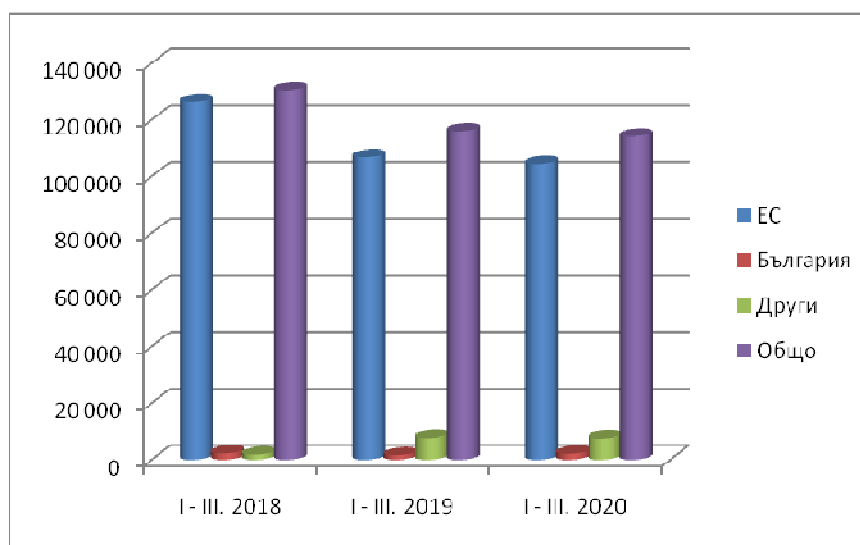
The sales of Korado-Bulgaria AD amount to 114,189, incl. panel radiators, tubular radiators and design radiators.

The sales in the territory of the country amount to 2,149, or about 1.9% of total sales.

To EU partners there have been sold 104,496 panel radiators and tubular radiators, and to countries outside the EU 7,544 units. It is reported a decrease by 2% of total sales over the period. The development of sales of heating units on the Bulgarian market is positive.

The sales of radiators in the period ended 31 March 2020 and the previous years of 2019 and 2018 are shown in the following table and graph:

Period	Units	EU	Bulgaria	Other	Total
I – III. 2018	number	126 333	2 319	1 808	130 460
I – III. 2019	number	106 782	1 564	7 715	116 061
I – III. 2020	number	104 496	2 149	7 544	114 189

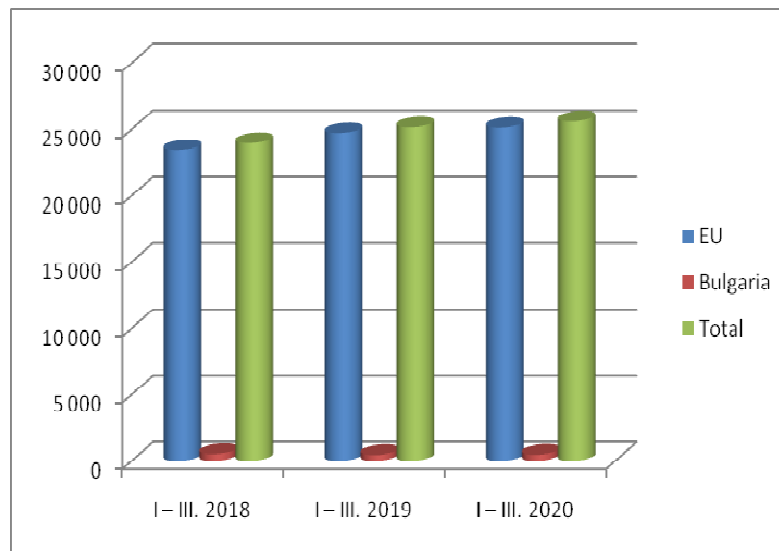


The following table illustrates the number of tubular and designer heating units sold over the the first quarter of 2020 and the previous years of 2019 and 2018 are shown in the following table and graph:

:

Period	Units	EU	Bulgaria	Total
I – III. 2018	number	23 430	520	23 950
I – III. 2019	number	24 710	446	25 156
I – III. 2020	number	25 125	468	25 593

ANALYSIS OF THE OPERATING RESULTS (CONTINUED)



The trade relationships between KORADO-Bulgaria AD and the companies from the economic group are on equal trade footing and no preferences or reliefs are provided on the basis that they are related parties.

RELATED PARTY TRANSACTIONS DISCLOSURE

Besides with its parent company KORADO a.s., Czech Republic, during 2019 and 2018 there have been transactions carried out by the Company with other related parties as well, namely with Licon Heat s.r.o., Czech Republic (a subsidiary of KORADO a.s., Czech Republic).

The related party transactions originate from commercial relationships and loans granted. The loan funds are mainly used for investments.

As at 31 December 2019 and 31 December 2018, the loan liabilities to the parent company amounted to EUR 1 900 thousand.

The total amounts of related party transactions and balances due for the current and previous reporting period are as follows:

Nature		31.03.2020	31.03.2019
		<i>BGN'000</i>	<i>BGN'000</i>
Purchases from related parties			
<i>Ultimate parent company</i>			
Korado a.s. Czech Republic	Purchase of materials and goods	278	1,764
	Purchase of services	11	439
	Purchase of FTAs	-	2
	Interest on loan	16	65
Licon Heat s.r.o. Czech Republic	Purchase of materials and goods	15	43
		320	3,313

RELATED PARTY TRANSACTIONS DISCLOSURE (CONTINUED)

		31.03.2020	31.03.2019
		<i>BGN'000</i>	<i>BGN'000</i>
Sales to related parties			
<i>Ultimate parent company</i>			
Korado a.s. Czech Republic	Sales of products	4,838	5,840
	Sales of materials	60	5
	Other	-	-
		4,898	5,845
		31.03.2020	31.12.2019
		<i>BGN'000</i>	<i>BGN'000</i>
Related party receivables			
<i>Ultimate parent company</i>			
Korado a.s. Czech Republic	Trade receivables	5,384	2,752
		5,384	2,752
Payables to related parties		31.03.2020	31.12.2019
<i>Ultimate parent company</i>		<i>BGN'000</i>	<i>BGN'000</i>
Korado a.s. Czech Republic	Trade payables	15	207
	Interest-bearing loan	3,716	3,716
Licon Heat s.r.o. Czech Republic	Trade payables	11	19
		3,742	3,942

SPECIFIC RISKS INHERENT TO THE COMPANY'S ACTIVITY

The Company's activities expose it to various financial risks, such as market risk (including currency risk, interest rate risk, and other price risk), credit risk and liquidity risk. Management monitors the overall risk exposure and seeks ways to eliminate any potential negative effects on the financial position of the Company, as disclosed in Note 21 to the financial statements.

RESEARCH AND DEVELOPMENT ACTIVITIES

The most important part in the area of research and development activity of the Company is the continuing useful collaboration with the parent company. The project completed, directed towards reducing the costs of maintenance and improving the production efficiency and quality and satisfying the customer's requirements towards the products manufactured, is a good example of that collaboration.

The final stage of the rehabilitation of the main production facilities was completed for meeting the criteria of increasing the energy efficiency and achieving better working conditions for the employees in the Company.

The project aiming at replacing materials supplied by the parent company with Bulgarian supplies continues. Successes and positive results have been achieved in this area.

CORPORATE GOVERNANCE

Pursuant to the effective Commercial Act of Bulgaria, at 31 March 2020 KORADO-Bulgaria AD is a joint-stock company with a two-tier management system: Supervisory Board and Management Board.

Members of the Supervisory Board at 31 March 2020:

1. Tomas Kollert–Chairman of SB
2. Frantisek Hamacek
3. Eva Voborova
4. Josef Laska
5. Ivan Lyaskov
6. Evelina Miltenova

Members of the Management Board at 31 March 2020:

1. Jiri Reznicek – Chairman of MB
2. Silviya Stefanova
3. Jana Havlova

Jiri Reznicek is the Executive Director of the Company.

SHARE CAPITAL

Shareholders	Share	Number of shares	Nominal value (BGN)
KORADO a.s., Czech Republic	82.15%	10 817 923	10 857 188
Legal entities	15.86%	2 089 177	2 046 295
Individuals	1,99 %	261 514	265 131
TOTAL	100 %	13 168 614	13 168 614

At 31 March 2020 the Company held no shares in the capital of other companies.

INFORMATION UNDER ARTICLE 187E AND ARTICLE 247 OF THE COMMERCIAL ACT

Remuneration of members of the boards

The remuneration paid to the members of the Management and Supervisory Board for the period ended 31 March 2020 is BGN 32 thousand.

Dividends

On 18 September 2019 the General Meeting of Shareholders approved distribution of dividends amounting to BGN 1.317 thousand, gross dividend of BGN 0.10 per share.

The dividends will be paid through the system of Central Depository AD and the branches of UBB AD. Their payment commenced on 16 October 2019 and as at the date of the issuance of these financial statements is completed.

The unpaid dividends will be paid at the registered address of the Company within the statutory deadlines and by applying the statutory methods.

INFORMATION UNDER ARTICLE 187E AND ARTICLE 247 OF THE COMMERCIAL ACT (CONTINUED)

Shares held by the Company

At 31 March 2020 the Company held no treasury shares.

Shares of the Company owned by the members of the Management and Supervisory Board of the Company

At 31 March 2020 the chairman of Management Board Jiri Reznicek, held 180 shares, the member of the Management Board, Silviya Stefanova, held 507 shares of the Company and the member of the Supervisory board Evelina Miltenova, held 900 shares of the Company.

The other members of the Management and Supervisory Boards hold no shares or bonds of KORADO-Bulgaria AD, or rights to acquire shares and bonds of the Company.

.For the period ended 31 March 2020 there were no changes in the shares owned by the members of the Company's boards.

Rights of the corporate management members to acquire shares and bonds of the Company

There are no plans within the Company or at the group level of KORADO Group for the acquisition of shares or share options by management or employees, relating to the shares of the Company. Rights for the acquisition of bonds of the Company have not been granted to any of the member of the Management Board and/or Supervisory Board.

Participation of the corporate management members in other companies

The members of the Management and Supervisory Boards do not participate in entities as unlimited liability shareholders.

The members of the Management and Supervisory Boards hold more than 25% of the capital of other entities, as follows:

Ivan Lyaskov	<ul style="list-style-type: none">• Smile OOD• Vitop OOD• Esam OOD• Dike-2003 OOD• Citistroy OOD• Krameks OOD
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Shares of the Company were neither acquired nor transferred by the Board members as at 31.03.2020.

Membership in the management board of other entities

The members of the Management Board and Supervisory Board participate in the management of the following entities:

Frantisek Hamacek	<ul style="list-style-type: none">• Korado a.s. – member of the Management board
Tomas Kollert	<ul style="list-style-type: none">• Licon Heat s.r.o. – member of the Supervisory board

Contracts with Board members and their related parties

No contracts, which fall beyond the ordinary course of business or significantly deviate from market conditions, were concluded between members of the Management Board and / or Supervisory Board as at 31.03.2020.

CHANGES IN THE SHARE PRICE OF THE COMPANY

All shares of the issuer are registered and traded on Bulgarian Stock Exchange – Sofia AD, Premium Segment.

Number of shares in circulation: 13 168 614.

Issuer: KORADO Bulgaria AD

Stock exchange code: 4KX

ISIN code: BG11LUSTAT13

In the period 01.01.2020 r. – 31.03.2020 the issue of shares was traded as follows:

Turnover /BGN/: 265 997

Shares transferred 50 918

Number of transactions 190

According to BSE, the changes in the price of the Company's shares as at 31.03.2020 are as follows:

- ✓ minimum – 4.300 BGN
- ✓ maximum – 6.400 BGN
- ✓ average - 5.224 BGN
- ✓ last – 5.150 BGN

Public information required by the Public Information Act has been filed by the Company to Financial Supervision Commission and Bulgarian Stock Exchange within the time limits. This information is also available to shareholders and investors at the Company's website: www.korado.bg and www.X3news.com

Korado-Bulgaria AD is aware that the continued credibility and security of shareholders, employees, customers and all stakeholders, as well as the communities where it operates, is vital for the continuing development and success of the Company.

FUTURE DEVELOPMENT PERSPECTIVES

Management has set the following goals to be achieved in year 2020:

- ✓ Maintain and increase of production capacity;
- ✓ Seeking new partners in order to increase the sales on the Bulgarian market and most of all, of radiators manufactured by using new technology;
- ✓ Preserving the share of trade in heating units on the Bulgarian market;
- ✓ Maintaining the volume of sales at least at the level achieved in 2019 in the territories in which Korado-Bulgaria AD recently conducts its sales (Romania, France, Hungary, Ukraine, and Russia);
- ✓ Full utilization of all benefits of the memberships in KORADO Group;

Korado-Bulgaria AD will pursue the highest standards in its activity, to maintain and develop in the long run its positions won in the competitive environment, in which it has chosen to operate. We are committed to the sustainable development of our society. This requires reaching a balance between short-term and long-term interests and reporting of all economic, ecological and social concerns in taking business solutions.

EVENTS AFTER THE END OF THE REPORTING PERIOD

No significant events have been identified after the end of the reporting period, which could affect the financial statements, as disclosed in Note 22 to the financial statements.

INFORMATION AS PER NOTE 9 OF ORDINANCE 2

1. Change in the individuals controlling the Company

No changes in the individuals controlling the Company were made.

2. Opening of liquidation proceedings

No opening of liquidation proceedings was made as at the date of the issuance of this report.

3. Agreement and completion of significant transactions

No agreement of completion of significant transactions outside the normal course of business were concluded.

4. Decision for conclusion, termination or cancellation of joint venture agreement

No decisions were made for conclusion, termination or cancellation of joint venture agreement

5. Change in the Company's auditors

No change in the Company's auditors was made.

6. Initiation or resolution of court or arbitration proceedings relating to claims or liabilities of the Company with an amount of at least 10% of the Company's equity.

No initiation or resolution of court or arbitration proceedings relating to claims or liabilities of the Company with an amount of at least 10% of the Company's equity.

7. Purchase, sale or pledge of shares in other companies.

No transactions or pledge of shares in other companies were initiated.

OTHER INFORMATION

No changes in the Company's accounting policies were made.

No changes in Korado a.s. Group were made, part of which is the Company. No organizational changes were made in the Company, including:

- Restructuring or sale of companies;
- In-kind contribution;
- Rental of property;
- Non-current investments
- Discontinued operations

OTHER INFORMATION (CONTINUED)

The Company's is not part of current legal, administrative or arbitration proceedings relating to claims or liabilities of the Company with an amount of at least 10% of the Company's equity. The total value of receivables and payables for all proceedings does not exceed 10% of the Company's equity.

The Company has not provided borrowings or guarantees or recognized liabilities to one party or its subsidiary, including related parties.

There is no internal information, which was not made available publicly, directly or indirectly related to the Company and which, if made available, might impact significantly the share price of the Company.

MANAGEMENT'S RESPONSIBILITIES

Management is required by Bulgarian legislation to prepare annual and interim financial statements that give a true and fair view of the financial position of the Company as at the period end and of its financial performance and its cash-flows for the period then ended in accordance with IFRS.

Management confirms that appropriate accounting policies have been used and applied consistently and that reasonable and prudent judgments and estimates have been used in the preparation of the interim financial statements for the period ended 31 March 2020.

Management also confirms that all applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

Management is responsible for keeping proper accounting records, for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Jiri Reznicek
Executive Director
KORADO-Bulgaria AD

Town of Strazhitsa
25 March 2020