



INTERIM MANAGEMENT REPORT

KORADO-BULGARIA AD

30 June 2019

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

Sneznanka Kaloyanova

Frantisek Hamacek

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

Raiffeisenbank

DSK Bank

UBB

AUDITOR

PricewaterhouseCoopers Audit OOD

Maria Louisa 9-11 Bvrd

Sofia, 1000

Management of Korado-Bulgaria AD presents the interim management report and a full set of interim financial statements as of 30 June 2019 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 APPENDIX 9 TO ARTICLE 33, PARAGRAPH 1, ITEM 3 AND ARTICLE 33 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 2019 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 2019 are: Balkan Steel Engineering, Sofia, CZ Ferro steel, Czech Republic, Borcelik Turkey, Arselor Mital Romania, U.S.Steel Slovak Republik, BemasTurkey, 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

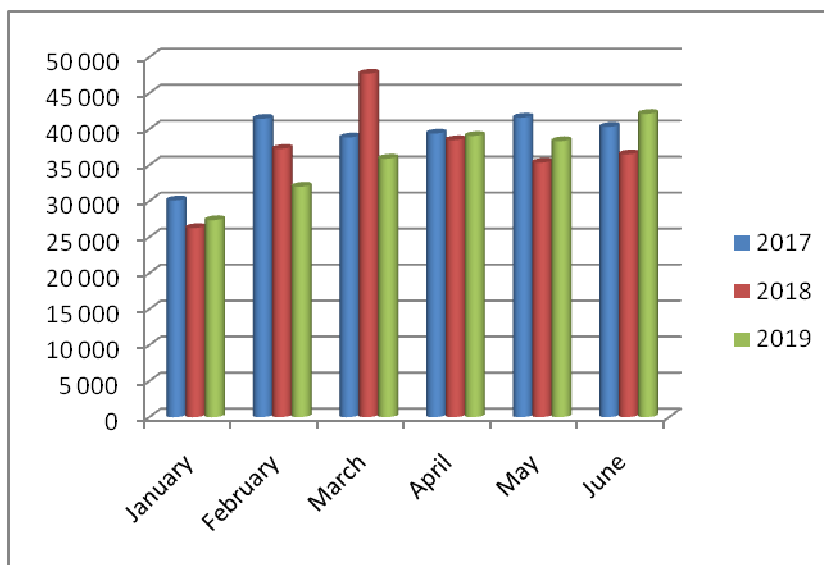
As of 30.06.2019, the Company manufactured 214,831 water heating panel radiators. The Holding's management implements an appropriate marketing strategy aiming at preserving the share on the existing markets and keeping people in jobs.

The radiators manufactured during first six months of 2019, as also in the previous years of 2017 and 2018, are shown in the table and graph below:

ANALYSIS OF THE OPERATING RESULTS (CONTINUED)

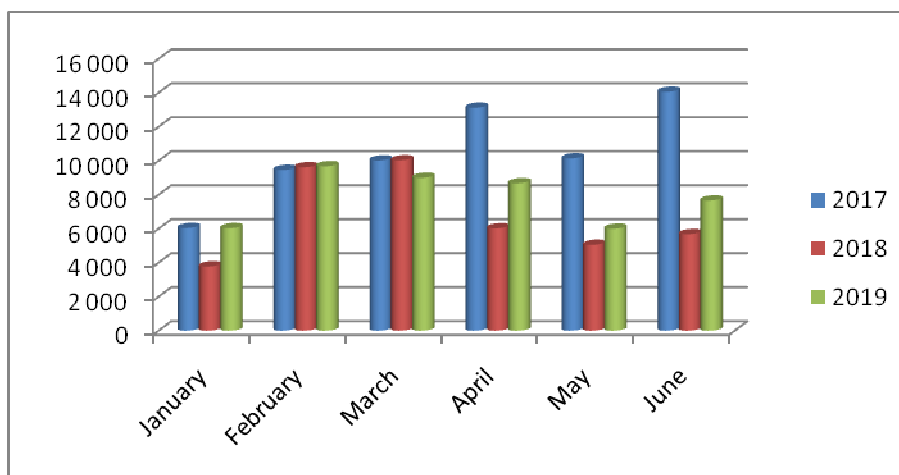
Production (Continued)

	January	February	March	April	May	June	Total
2017	30,111	41,445	38,860	39,398	41,604	40,326	231,744
2018	26,284	37,272	47,712	38,484	35,354	36,511	221,617
2019	27,365	32,017	35,912	39,070	38,343	42,124	214,831



As of 30.06.2019 Company manufactured 47,050 tubular heating units. The tubular radiators manufactured during first six months of 2019, as also in the previous years of 2017 and 2018, are shown in the table and graph below:

	January	February	March	April	May	June	Total
2017	6,040	9,460	10,020	13,119	10,141	14,060	62,840
2018	3,780	9,620	10,030	6,020	5,050	5,680	40,180
2019	6,030	9,680	9,000	8,680	6,000	7,660	47,050



ANALYSIS OF THE OPERATING RESULTS (CONTINUED)

Sales

As at 30.06.2019, the major trading partners of the company are KORADO a.s. followed by companies in the European market.

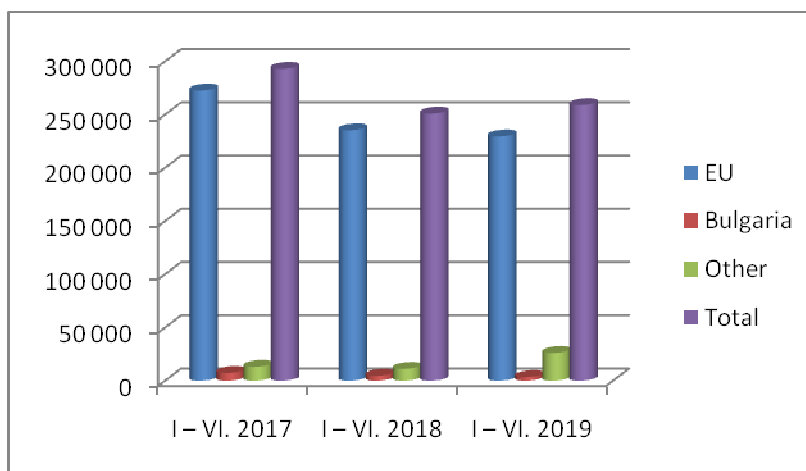
The sales of Korado-Bulgaria AD amount to 258,855, incl. panel radiators, tubular radiators and design radiators.

The sales in the territory of the country amount to 3,394, or about 1.3% of total sales.

To EU partners there have been sold 229,378 panel radiators and tubular radiators, and to countries outside the EU 26,083 units. The decrease by 2% of sold products to EU countries is accompanied by significant growth in countries outside the European Union.

The sales of radiators in the period ended 30 June 2019 and the previous years of 2017 and 2018 are shown in the following table and graph:

Period	Units	EU	Bulgaria	Other	Total
I – VI. 2017	number	272,518	7,282	13,083	292,883
I – VI. 2018	number	235,206	4,573	11,103	250,882
I – VI. 2019	number	229,378	3,394	26,083	258,855

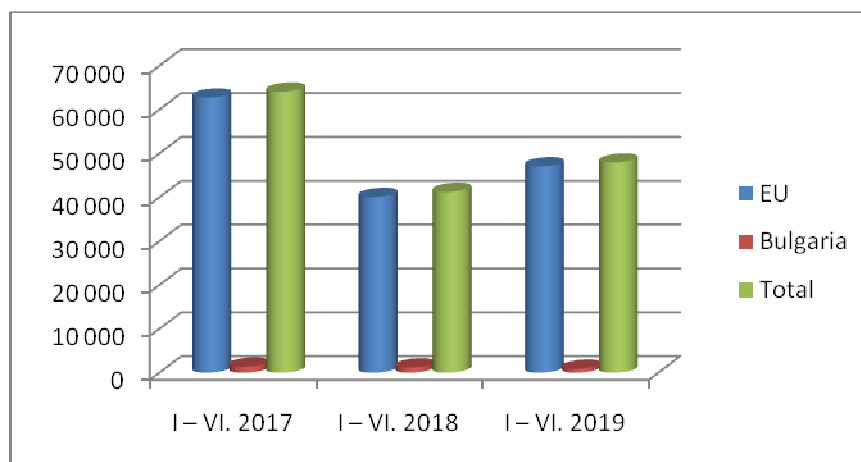


The following table illustrates the number of tubular and designer heating units sold over the first six months of 2019 and the previous years of 2017 and 2018 are shown in the following table and graph:

Period	Units	EU	Bulgaria	Total
I – VI. 2017	number	62,720	1,372	64,092
I – VI. 2018	number	40,060	1,167	41,227
I – VI. 2019	number	47,050	858	47,908

ANALYSIS OF THE OPERATING RESULTS (CONTINUED)

Sales (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 30 June 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		30.06.2019	30.06.2018
		<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	469	920
	Purchase of services	123	134
	Purchase of FTAs	3	2
	Interest on loan	32	32
Licon Heat s.r.o. Czech Republic	Purchase of materials and goods	37	11
		664	1,099

RELATED PARTY TRANSACTIONS DISCLOSURE (CONTINUED)

		30.06.2019	30.06.2018
		<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	13,151	12,670
	Sales of materials	5	170
		13,156	12,840
Related party receivables			
<i>Ultimate parent company</i>			
Korado a.s. Czech Republic	Trade receivables	4,728	6,320
		4,728	6,320
Payables to related parties			
<i>Ultimate parent company</i>			
Korado a.s. Czech Republic	Trade payables	97	39
	Interest-bearing loan	3,716	3,716
Licon Heat s.r.o. Czech Republic	Trade payables	11	4
		3,824	3,759

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 19 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 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 30 June 2019 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 30 June 2019:

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

CORPORATE GOVERNANCE (CONTINUED)

Members of the Management Board at 30 June 2019:

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	82,45%	10,857,188	10,857,188
Legal entities	15,55%	2,047,417	2,047,417
Individuals	2,00 %	264,009	264,009
TOTAL	100 %	13,168,614	13,168,614

At 30 June 2019 the Company held no shares in the capital of other companies.

INFORMATION UNDER ARTICLE 187EANDARTICLE 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 30 June 2019 is BGN 64 thousand.

Dividends

On 15 May 2019 the General Meeting of Shareholders approved distribution of dividends amounting to BGN 2,502,036.66, gross dividend of BGN 0.19 per share.

The dividends are paid through the system of Central Depository AD and the branches of UBB AD. Their payment commenced on 12 June 2019.

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

Shares held by the Company

At 30 June 2019 the Company held no treasury shares.

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

At 30 June 2019 the member of the Management Board, Silviya Stefanova, held 327 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 30 June 2019 there were no changes in the shares owned by the members of the Company's boards.

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

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 30.06.2019.

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 30.06.2019.

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 01.01.2019 r. – 30.06.2019 the issue of shares was traded as follows:

CHANGES IN THE SHARE PRICE OF THE COMPANY (CONTINUED)

Turnover /BGN/:	420,234
Shares transferred	59,872
Number of transactions	235

According to BSE, the changes in the price of the Company's shares as at 30.06.2019 are as follows:

- ✓ minimum – 6.700 BGN
- ✓ maximum – 7.250 BGN
- ✓ average - 7.019 BGN
- ✓ last – 7.000 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 2019:

- ✓ 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 2018 in the territories in which Korado-Bulgaria AD recently conducts its sales (Romania, France, Hungary, Ukraine, and Bosnia and Herzegovina);
- ✓ 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 20 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

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 30 June 2019.

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 July 2019