

CORPORATE GOVERNANCE STATEMENT FOR 2018
OF KORADO – Bulgaria AD

The undersigned,

Jiri Reznicek, in my capacity as a representative of **KORADO – Bulgaria AD**, a company, incorporated and existing in accordance with the laws of the Republic of Bulgaria, with head office and address of management in Veliko Tarnovo Region, Strazhitsa Municipality, town of Strazhitsa 5150, 28 Gladstone Street, registered with the Commercial Register of the Registry Agency under UIC 814190902 (hereinafter referred to as the „Company”),

HEREBY DECLARE:

I. Substance and subject-matter of the Corporate Governance Statement

1. This Corporate Governance Statement (hereinafter referred to as the „Statement”) has been prepared in accordance with Article 100n, paragraphs 7 and 8 of POSA and Article 40, paragraphs 1 and 2 of the Accountancy Act and forms an integral part of the annual management report on the Company’s activity for the period 01 January 2018 – 31 December 2018 (hereinafter referred to as the „Reporting period”). The purpose of the Statement is to provide information on the higher criteria and standards implemented by the Company in the area of corporate governance, which the Company intends to implement in future as well. In pursuance with the legal requirements, the Company has published its Statement on the website at: www.korado.bg.

II. Compliance with the Code of Corporate Governance

2. The Company is guided by the principles of good corporate governance. Pursuant to a decision of the Management Board of the Company, as of September 2017 the Company observes, as appropriate, the National Corporate Governance Code (hereinafter referred to as the „NCGC”). Being a member of KORADO Group., the Company complies with any and all internal corporate governance regulations. These regulations include, among others, also:

- (a). Corporate governance key principles policy;
- (b). Code of Ethics; and
- (c). Prevention of corruptive practices rules.

The above internal regulations have been developed in compliance with the effective legislation, the provisions of the Articles of Association of the Company, NCGC, and the corporate governance principles of the Organisation of Economic Cooperation and Development. By applying these regulations, the Company ensures full compliance with corporate governance best practices and standards.

The Company applies the following mandatory requirements:

- protection of shareholders' rights;
- ensuring fair treatment of all shareholders irrespective of the number of shares held by them;
- recognition of stakeholders' rights and promotion of cooperation between the Company and stakeholders;
 - ensuring timely and accurate disclosure of information on all matters relating to the Company, including with regard to its financial performance, property and management;
 - ensuring effective control of Company's management and supervisory bodies and reporting to shareholders.

3. Good corporate governance standards are applied based on the principle “comply or explain”. This requires that in case of deviation from the standards the corporate management of the Company to explain the reasons for the deviation and to disclose them. During the reporting period, there were no deviations or indications of possible deviations.

4. In addition to the above internal regulations, the company has developed and operate effectively the following corporate governance policies and documents:

- (a). Rules of Activity of the Management Board and the Supervisory Board (hereinafter referred to as „MB” and „SB”, respectively);
- (b). Internal control and risk management systems, and financial and information system;
- (c). Remuneration policy applicable to the members of MB and SB; and
- (d). Policy of diversity with respect to the governing, managing, and supervisory authorities of the Company.

During the Reporting period, there were no deviations from the requirements of these company regulations.

5. The Company has implemented a Quality Management System according to ISO 9001:2015 system standard.

The system guarantees a much better quality through the continuous improvement of process management.

III. Internal control system

6. The company has developed and implemented an internal control system. The operating activity in this field is entrusted to a specialist internal group unit – Internal Audit Department, which is part of the structure of the majority shareholder, "KORADO" a.s., Czech Republic, and performs the Group's activity. The activities are subject to an audit plan prepared annually, which contains a description of the envisaged audit engagements in terms of: scope, duration, promoters and participants in the engagement; and estimated results. The Internal Audit Department prepares a report on the completed audit engagement, which contains the main findings, proposed corrective measures and the subsequent activities to be carried out after the audit completion.

The Internal Audit Department reports on its activity to the Audit Committee of the Company. The summarized findings of the Audit Committee from the reporting of the Internal Audit Department are included in the annual report on the activity of the Audit Committee, which is prepared and submitted to the General Meeting of Shareholders of the Company for approval (hereinafter referred to as the „GMS”).

7. In the process of financial reporting for the Reporting period, the internal control takes the form of stocktaking / check-ups of inventories, work in progress, and cash, which are carried out regularly (on a monthly or quarterly basis). At the end of every financial year, the balances of the Company – receivables and payables, are checked-up as well. Accounting adjustments are made currently, according to the inventory lists expressed in values.

8. The internal control system has been organised and implemented in such a way as to ensure, to the extent necessary, that:

- The Company adheres to the statutory accounting requirements, observing the applicable legislation and accounting standards, and during the reporting period these are the International Financial Reporting Standards adopted for implementation in the European Union;
- the necessary level of awareness of the relevant addressees of financial information is ensured and maintained;
- the relevant transparency and completeness requirements of financial information and the principle of documentary reasoning are complied with; and
- a set of basic principles are respected by persons engaged in financial accounting, including objectivity, impartiality, independence and transparency.

9. In general, the internal control system ensures efficient reporting and disclosure of information in view of identifying the risks inherent to the Company's activity.

IV. Risk management system

10. The company has developed and implemented a risk management system. The operating activity in this field is entrusted to a specialist internal group unit – Risk Management Department, which is part of the structure of the majority shareholder, "KORADO" a.s., Czech Republic, and performs the Group's activity. The activity consists of identification, measurement and assessment of risks inherent to the Company's operations. It shall also ensure the effective functioning of the reporting and disclosure activities. The Risk Management

Department prepares a report on the assessment and reports on its activity to the Audit Committee at its regular and extraordinary meetings. The summarized findings of the Audit Committee from the reporting of the Department are included in the annual report on the activity of the Audit Committee.

11. In making its investment decision the corporate management of the Company aims at improving the operational and financial stability of the Company, and achieving a validity by employing the results of current and future risk analyses.

V. Composition and functioning of the administrative, management and supervisory bodies and committees

12. The company has a two-tier system of governance and strictly adheres to the principles of transparency and liability of the corporate management. This system includes the following bodies:

- SB comprises 6 (six) members, including independent members in accordance with the requirements of Article 116 , paragraph 2 of POSA. SB operates in compliance with the Articles of Association of the Company and the Rules of Activity of the SB.

- MB comprises 3 (three) members. MB operates in compliance with the Articles of Association of the Company and the Rules of Activity of the MB.

13. The SB and MB are structured in a way that guarantees the professionalism, impartiality and independence of the decisions and actions of their members in relation to the governance and control of the management of the Company.

14. The MB and SB ensure a proper segregation of the functions and responsibilities of their members, subject to the principle of equal right and under the legal requirements, as well as effective participation in the management of the Company in accordance with the interests and rights of shareholders.

15. The members of the MB and SB are elected in a transparent manner, providing timely information in sufficient capacity on the personal and professional qualities of each candidate for a member of the Board in order to ensure that the relevant competent body of the Company will make an informed decision.

16. If a proposal for the election of a new member of the Board is made, the principles of compliance and competence of applicants with the nature of the Company's activities and the nature of the functions and/or powers assigned are respected.

17. The members of the MB and SB of the Company have the necessary qualifications, knowledge and experience to perform properly, in compliance with the highest professional standards, their obligations. The company stimulates the qualification of the members of the MB and SB, and when a new member is to be elected, he/she is acquainted with the Company's overall activity, its financial performance and the main legal aspects related to business operations.

18. In their activity, the members of SB and MB apply the principle of avoidance and prevention of any real or potential conflicts of interest. Moreover, they are obliged to immediately disclose a conflict of interest and to provide shareholders with information about transactions between Company and a Board member or his/her related parties. The policy for the avoidance and disclosure of conflicts of interest is governed by the regulations enumerated in clauses 2 - 4 of the Statement.

19. The members of the MB and SB should fulfil their obligations with the care of responsible merchantship, in a manner that they believe is in the interest of all shareholders of the Company, and to prefer the interests of the Company and shareholders and/or investors in the Company to their own interests. The members of the MB and SB should avoid direct or indirect conflicts between their own interest and the interest of the Company or, should any such conflicts arise, to disclose the said conflicts promptly and fully in writing to the competent body and not participating nor exerting influence on the rest of the members of the SB, and respectively the MB, in decision-making in such cases.

20. The members of the MB and SB are obliged to protect Company's business secrets and not to disclose non- public information even after they cease to be members of the relevant bodies until public disclosure of the relevant circumstances by the Company.

21. In compliance with the requirements of article 114b, paragraph 1 of the Public Offering of Securities Act, the members of the MB and SB are obligated to disclose to the Company, as well as to the Financial Supervision Commission Bulgarian Stock Exchange - Sofia, information regarding:

- the legal persons wherein the said persons hold, directly or indirectly, at least 25 per cent of the votes in the General Meeting or which the said persons control;
- the legal persons whereof the said persons are members of the management bodies or supervisory bodies or managerial agents;
- any current and future transactions of which they are aware and in which, in their opinion, the said persons may be treated as interested parties.

22. The MB and SB convene at regular meetings at least once every three months. In compliance with the requirements of the law and Articles of Association of the Company, MB and SB may also take their resolutions non-attended.

23. Minutes shall be drawn up for all decisions of the MB and SB, which shall be signed by the members of the relevant board who have attended the meeting (in the case of resolutions attended), respectively by all members of the relevant board (in case of resolutions non-attended). The minutes shall be recorded and kept by the Investors Relation Director of the Company, who is responsible for their accuracy and completeness.

24. The minutes of MB and SB meetings shall constitute a commercial secret. Facts and circumstances thereof may be published, disclosed or presented in any way to the knowledge of third parties/outside the members of the SB only in compliance with a statutory requirement or by a decision of the MB and respectively, of the SB.

25. The SB shall be entitled to authorise one or more of its members to participate in meetings of the MB of the Company, and to receive materials and information identical to that of the members of the MB. The SB may at any time ask the MB to provide information or report on any matter affecting the Company. The SB, at least once every three months, listens to a report of the MB on the Company's activities.

26. The members of the MB and SB are obliged to lodge a security guarantee within seven days of their election. The amount of the guarantee is determined by the General Meeting of Shareholders and may not be less than the 3-month gross remuneration of the relevant member of the MB, respectively the SB.

27. The Audit Committee is a specialised, mandatory for the Company body, which has its own operational rules and work schedule. Its activity is directed towards improving effectiveness of financial reporting processes, internal control systems and risk management. The Audit Committee makes a substantiated proposal to the General Meeting of Shareholders for the election of an external auditor and monitors the independent financial audit of the Company.

28. The Audit Committee at 31 December 2018 consists of three persons.

29. The members of the Audit Committee have the necessary qualifications and professional experience to perform properly, in compliance with corporate governance best practices, their functions.

VI. Remuneration of the members of the MB and SB

30. In accordance with the legal requirements and the normal corporate governance standards adopted, the amount and structure of remuneration determined in accordance with the Remuneration policy of the members of the MB and SB shall take into account:

- the obligations, responsibilities and contribution of each of the members of the Boards to the activities and performance of the Company;
- the qualifications and professional experience of the Board members and the need to hold in the Company of the most qualified and loyal members;
- the need to match the interests of the Board members with the long-term interests of the Company, with remuneration being formed on the basis of Company's performance and in line with Company's business strategy, objectives, values and long-term business plans;
- remuneration (to the extent applicable) of the members of the MB and SB are defined by the GMS.

VII. Policy of diversity

31. The company shall devote the necessary efforts to prevent discrimination and to ensure equal opportunities for recruitment, regardless of gender, race, nationality, ethnic origin, human genome, citizenship, religion or belief, education, belief, political affiliation, personal or social situation, disability, age, sexual orientation, family status, property situation or any other signs laid down in the applicable legislation.

32. The main criteria and principles of the Policy of diversity in the selection and assessment of the members of the administrative, management and supervisory bodies of the Company are:

- members of these bodies can be natural persons and legal entities having legal capacity, without any restrictions in terms of age, gender, nationality, education;
- only non-discriminatory criteria may be applied as requirements for the appointment of members of these bodies, such as: good reputation, professional experience and managerial skills, depending on the complexity and specifics of the company's operations; and
- the following are also among the goals for achieving compliance with the principles of diversity in the Company's management: independence and objectivity in expression of opinions, taking into account of maximum wide scope of views and interests of a maximum wide range of social groups upon taking decisions, etc.

33. The Company complies with the principle of diversity with respect to the composition of its corporate bodies.

The MB of the Company, by its decision dated 1 March 2017, adopted a Policy of diversity.

34. No cases of discrimination were found in the Company during the reporting period.

VIII. Protection of shareholders' rights

35. The corporate management of the Company guarantees equal treatment of all shareholders, including minority and foreign shareholders, and protects their rights. All shareholders have the right to participate in the GMS and to express their opinion in person or through proxies. The procedures and order of holding GMS facilitates at maximum the shareholders and comply with the principle of undue obstruction or unnecessary increase in costs. Actions shall be taken to encourage the participation of minority shareholders in the GMS. The corporate management shall endeavour to provide at least one MB and SB representative to each GMS to provide information to shareholders and to answer the questions raised in the field of his/her competence and in accordance with the requirements of the law.

36. The shareholders have been informed of the rules of convocation and holding a GMS, and of their right to add items to the agenda of a convened GMS and/or to make alternative proposals for a resolution on items already included in the agenda, in strict compliance with any legal restrictions.

37. Materials on the agenda items shall be made available to the shareholders in a timely manner. These materials shall be fair and clear as far as possible. Thus, it is guaranteed that informed decisions will be passed and the shareholders will not be misled.

38. All shareholders of one class are treated equally.

39. In compliance with the requirements of article 114b, paragraph 1 of the Public Offering of Securities Act, the persons holding, directly or indirectly, at least 25 per cent of the votes in the General Meeting of the Company or controlling the company, are obligated to disclose to the Company, as well as to the Financial Supervision Commission Bulgarian Stock Exchange - Sofia, information regarding:

- the legal persons wherein the said persons hold, directly or indirectly, at least 25 per cent of the votes in the General Meeting or which the said persons control;
- the legal persons whereof the said persons are members of the management bodies or supervisory bodies or managerial agents;
- any current and future transactions of which they are aware and in which, in their opinion, the said persons may be treated as interested parties.

IX. Information disclosure system

40. The Information disclosure policy and system, approved by the company, guarantee equality of the information addressees (shareholders, stakeholders, investment society) and prevent abuses in the form of insider dealing. The system for disclosure of information ensures complete, timely, true and understandable information, which enables objective and informed decisions and valuations. The company has implemented in-house rules for the preparation of annual and interim reports, and disclosure procedure.

41. The system for disclosure of information ensures provision and/or disclosure of timely, correct and understandable information in accordance with the requirements of the law and good corporate practices. The

system for disclosure of information ensures access to relevant, sufficient and reliable information about the Company, as well as information about the decisions taken by the GMS.

42. The company maintains its website. The investor section contains internal documents of the Company, information about the shareholders' rights and their participation in the General Meeting of Shareholders, the financial statements for the last 9 years, information about the payment of dividends, as also for personal data protection. This section also contains materials for the forthcoming General Meetings of Shareholders of the Company and information on the decisions passed by the General Meeting of Shareholders.

43. Pursuant to the regulatory requirements, the Company has Investors Relation Director, who has been appointed to ensure due disclosure of regulated information that must be disclosed, and to maintain active communication with shareholders and/or investors in the Company.

44. The Company discloses regulated information that must be disclosed by providing it to the Financial Supervision Commission, Bulgarian Stock Exchange – Sofia and Central Depository and making it available to the general public through the information system of the portal www.X3news.com. Thus, information is disseminated effectively and reaches simultaneously the widest possible range of people in a way that is not discriminatory to them.

45. The Company ensures adequate transparency regarding its commercial activities, financial results, decisions made, and maintains its relationships with investors, media, financial and market analysis at professional level.

X. Information on the existence of takeover/merger bids and according to Article 10, paragraph 1, letters "c", "d", "f", "h" and "i" of Directive 2004/25/ C of the European Parliament and the Council of 21 April 2004 on takeover bids

46. During the reporting period, takeover/merger bids were not sent to the company.

47. Information about direct or indirect significant shareholdings:

- The company is controlled by "KORADO" a.s., Czech Republic, a company holding 82.56% of the share capital of the Company as at 31 December 2018, or 10,872,188 shares.

- In turn, the majority shareholder of "KORADO" a.s. is the Ministry of Finance of the Czech Republic, and other significant shareholders, such as the European Bank for Development and Reconstruction and 3 individuals.

- The sole shareholder with significant shareholding is "KORADO" a.s., Czech Republic, a company registered with the Register of the local court Hradec Králové, Section B, Batch 1500, Czech UIC 25255843.

- At 31 December 2018, 15.41 % - 2,029,394 shares of the Company's capital is held by other legal entities and 2.03% of the capital – 267,032 shares by other individuals; there are no other significant, direct or indirect, shareholdings which must be disclosed.

48. As at 31 December 2018, the company held no shares in the capital of other entities.

XI. Information about the shareholders with special control rights and description of these rights

49. The company has not issued shares with special control rights.

XII. Information about the limitations over the voting rights, such as limitations over the voting rights of the shareholders with a given percent or number of votes, deadline for exercising the voting rights or systems whereby with the company's assistance, the financial rights attaching to the shares are separated from the holding of shares.

50. The financial rights attached to the shares are indissolubly linked to the holding of shares. There are no restrictions on the voting right, besides those imposed by the law as mandatory (such as non-exercising the right to vote by a shareholder who is also a stakeholder in the case of transactions under Article 114 of POSA). Votes are exercised only by open ballot (no secret ballots were held so far) at place where the session of the GMS takes place. Until now, electronic means for remote participation within the meaning of Article 115, paragraph 8 – 10 of POSA were not allowed.

XIII. Information about the provisions about the appointment and dismissal of the members of the company's management bodies and about introduction of amendments to the articles of association

51. Members of the Supervisory Board are appointed and dismissed by the General Meeting of Shareholders on the grounds of a decision passed by ordinary majority. Members of the Management Board are appointed and dismissed by the SB of the Company on the grounds of a decision passed by ordinary majority.

52. A member of the MB and SB can be a natural person with legal capacity, as well as a legal entity. Where a member of the MB and/or SB is a legal entity, it designates a representative(s) for the performance of its duties in the board. If more than one representative have been appointed by a legal entity, only one of them participates in the work of the MB and/or SB. The legal entity is jointly and unlimitedly liable together with the other members of the board for the obligations arising from the actions of its representative.

53. The members of the MB and SB cannot be persons sentenced to imprisonment for wilful crime of general character, as well as persons, who at the time of their appointment were convicted by a final judgment for crime against property, economy or against the financial, tax and social security systems committed in the Republic of Bulgaria or abroad, unless they have been rehabilitated. A member of the MB and SB cannot be also a person, who has been a member of an executive or supervisory body in a company, when it is terminated due to bankruptcy in the past two years preceding the date of the resolution for bankruptcy, if there have been unsatisfied creditors remaining; a person who has been a manager, member of a management or supervisory body of a company, for which was established, through an effective administrative penalty deed, the non-performance of obligations for accumulation and maintenance of the determined levels of reserves under the Bulgarian Oil and Oil Products Reserves Act; and a person who do not meet the requirements of the Articles of Association of the Company.

54. The natural persons who represent the legal entities – members of the MB and/or SB must comply with the requirements applicable to a member of SB and MB.

55. One and the same person cannot be a member of the SB and the MB, at the same time.

56. At least 1/3 of the members of the SB must be independent persons. The independent member of the SB cannot be:

- an employee of a public company;
- a shareholder, who holds, directly or through related parties, at least 25 percent of the votes in the General Meeting or is a related party to the Company;
- a person, who has secret relations with the public company; a member of a management or supervisory body, managerial agent or employee of a commercial company or another legal person under items 2 and 3;
- a related party to another member of a management or supervisory body of the public company.

57. The members of the MB and SB may be re-elected without limitation.

58. The General Meeting of Shareholders is the body exclusively competent to amend and supplement the Articles of Association of the Company. In accordance with the law and Articles of Association of the Company, the required majority to pass such a decision is equal to 2/3 of the voting shares presented or represented at the GMS meeting.

XIV. Information on the powers of the Board members, in particular the right to issue and redeem (buy- back) shares

59. The share capital of the Company amounts to BGN 13,168,614 at 31 December 2018, split into 13,168,614 dematerialized, registered, voting shares with nominal value of BGN 1 each. All shares are of one class. All shares of the Company provides equal rights to their holders. A share gives the right to one vote in GMS, right to dividend and liquidation share proportionate to the share's nominal value.

60. According to the requirements of the Articles of Association and the effective legislation, the decision to issue or buy back shares is among the powers of the GMS. During the reporting period, shares, share options or other financial instruments, envisaged to be provided to or to be subscribed by Board members or key personnel, were not issued by the company. Shares with buy-back preference were not issued by the company.

61. According to the Company's Articles of Association, the General Meeting of Shareholders of the Company has the exclusive power to take decisions on share buy-backs. The decision shall be registered with the



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Commercial Register. The majority required to pass such a decision is equal to 1/2 of the voting shares presented or represented at the GMS meeting.

XV. Miscellaneous

62. The company participates actively in various forms of mutual cooperation with government institutions and non-governmental organisations on corporate government matters. The process of information disclosure by the Company is subject to multiple controls. So far, no violations of the provisions and terms of disclosure have been established. The financial statements are published on the Company's website immediately after they have been forwarded to the regulatory authority and the public, thus providing for controls by the shareholders, investors and all stakeholders.

For KORADO - Bulgaria AD:

A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke, is written over a dashed line.

Jiri Reznicek