



INTERIM MANAGEMENT REPORT

KORADO-BULGARIA AD

30 June 2018

GENERAL INFORMATION

MANAGEMENT BOARD

JIRI REZNICEK – Chairman of MB and Executive Director
SILVIYA STEFANOVA
JANA HAVLOVA

SUPERVISORY BOARD

TOMAS KOLLERT – Chairman
FRANTISEK HAMACEK
EVA VOBOROVA
JOSEF LASKA
IVAN LYASKOV
EVELINA VELIKOVA

AUDIT COMMITTEE

SNEZNANKA KALOYANOVA
FRANTISEK HAMACEK
MILENA RAYKOVA

LEGAL CONSULTANTS

IVAN ASENOV LYASKOV
Law Firm Konecna and Zacha

REGISTERED AND MANAGEMENT ADDRESS

Town of Strazhitsa
28 Gladstone Street

REGISTRATION NUMBER

UIC 814190902

BANKERS

CIBANK
DSK Bank
Raiffeisebank

AUDITORS

PricewaterhouseCoopers Audit OOD,
9-11 Maria Louisa Blvd.,
1000 Sofia,
Bulgaria

Management of Korado-Bulgaria AD presents the interim management report and interim financial statements as of 30 June 2018 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 27 OF THE ACCOUNTANCY ACT, ARTICLE 100 o, PARAGRAPH 7 OF POSA AND 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 ISSUERS 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 2018 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 2018 are: Balkan Steel Engineering, Sofia, CZ Ferro steel, Czech Republic, TMS Turkey, Borcelik Turkey, Arselor Mital Romania, 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

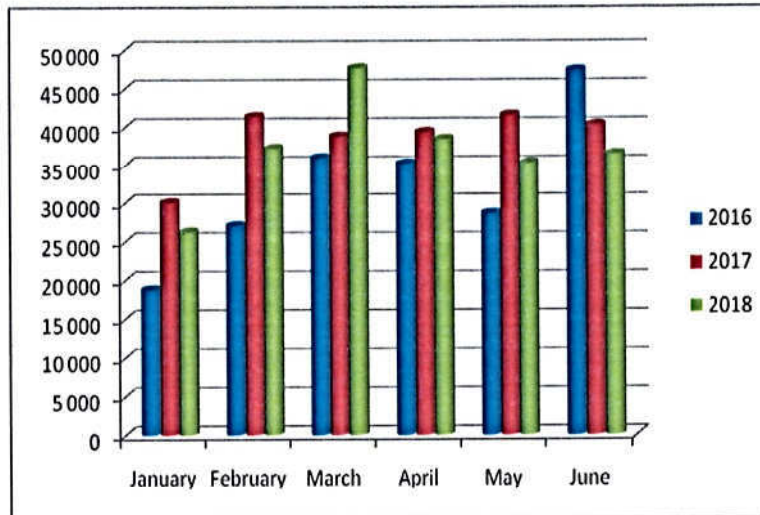
In the first six months of 2018, the Company manufactured 221 617 water heating panel radiators. The Holding's management implements an appropriate marketing strategy aiming at preserving the share on the existing markets and keeping people in jobs.

The radiators manufactured in 2018, as also in the previous years of 2016 and 2017, are shown in the table and graph below:

Year	January	February	March	April	May	June	Total
2016	18 832	27 091	36 044	35 289	28 673	47 394	193 323
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

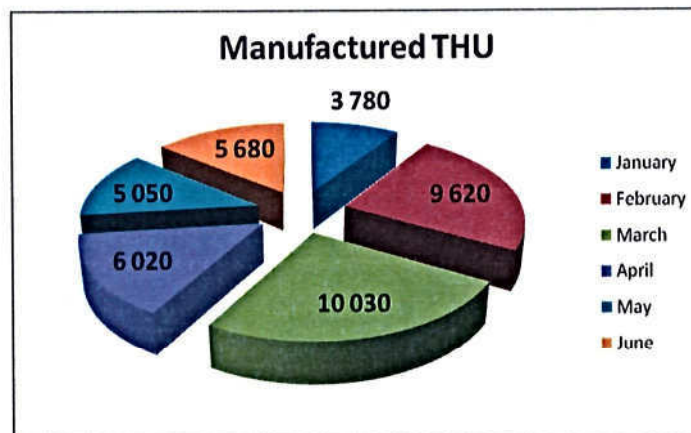
ANALYSIS OF THE OPERATING RESULTS (CONTINUED)

Production (continued)



Manufactured tubular heating units:

	January	February	March	April	May	June
Manufactured THU	3 780	9 620	10 030	6 020	5 050	5 680



ANALYSIS OF THE OPERATING RESULTS (CONTINUED)

Sales

In the first six months of 2018, the major trading partners of the company are KORADO a.s. and companies in the European market.

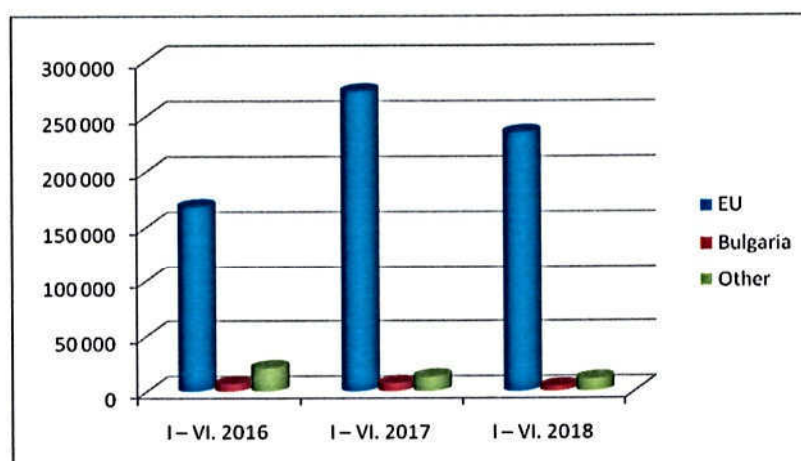
In the first months of 2018, the sales of Korado-Bulgaria AD amount to 250,882 and quantities of goods sold in EU.

The sales in the territory of the country amount to 4,573, or about 2% of total sales.

To EU partners there have been sold 235,206 panel radiators and tubular radiators, and to countries outside the EU 11,103 units.

The sales of radiators in the period 30 June 2018 and the previous years of 2016 and 2017 are shown in the following table and graph:

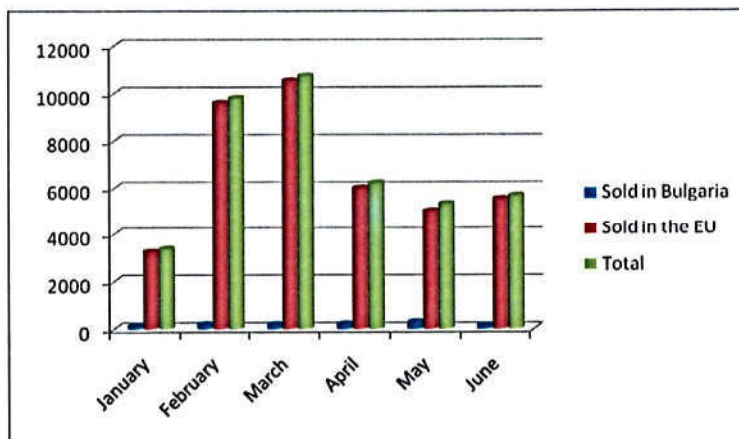
Period	Units	EU	Bulgaria	Other	Total
I – VI. 2016	number	168 258	6 715	20 996	195 969
I – VI. 2017	number	272 518	7 282	13 083	292 883
I – VI. 2018	number	235 206	4 573	11 103	250 882



The following table illustrates the number of tubular and designer heating units sold over the six months:

	January	February	March	April	May	June
Sold in Bulgaria	118	204	198	223	302	140
Sold in the EU	3 270	9 610	10 550	6 020	5 050	5 560
Total	3 388	9 814	10 748	6 243	5 352	5 700

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, in the first six months of 2018 and 2017 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 2018 and 30 June 2017, 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		30.06.2018	30.06.2017
		<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	920	2,239
	Purchase of services	134	219
	Purchase of FTAs	2	24
	Interest on loan	32	32
Licon Heat s.r.o. Czech Republic	Purchase of materials and goods	11	24
		1,099	2,538

RELATED PARTY TRANSACTIONS DISCLOSURE (CONTINUED)

Nature		30.06.2018	30.06.2017
		<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	12,670	14,239
	Sales of materials	170	9
		12,840	14,248
		30.06.2018	30.06.2017
		<i>BGN'000</i>	<i>BGN'000</i>
Related party receivables			
<i>Ultimate parent company</i>			
Korado a.s. Czech Republic	Trade receivables	3,571	4,258
		3,571	4,258
		30.06.2018	30.06.2017
		<i>BGN'000</i>	<i>BGN'000</i>
Payables to related parties			
<i>Ultimate parent company</i>			
Korado a.s. Czech Republic	Trade payables	6	-
	Interest-bearing loan	3,716	3,716
Licon Heat s.r.o. Czech Republic	Trade payables	5	2
		3,727	3,718

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 30 June 2018 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 2018:

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

Members of the Management Board at 30 June 2018:

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	83.67%	11 018 564	11 018 564
Legal entities	14.24 %	1 875 132	1 875 132
Individuals	2,09 %	274 918	274 918
TOTAL	100 %	13 168 614	13 168 614

At 30 June 2018 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 30 June 2018 is BGN 65 thousand.

Dividends

On 23 May 2018 the General Meeting of Shareholders approved distribution of dividends amounting to BGN 3,424 thousand, gross dividend of BGN 0.26 per share.

The dividends are paid through the system of Central Depository AD and the branches of CIBANK EAD. Their payment commenced on 20 June 2018 and as at the date of the issuance of these financial statements is not completed yet.

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 30 June 2018 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 2018 the member of the Management Board, Silviya Stefanova, held 327 shares of the Company and the member of the Supervisory board Evelina Velikova, 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 2018 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
--------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Shares of the Company were neither acquired nor transferred by the Board members in 2018.

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 in 2018.

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 01.01.2018 г. – 30.06.2018 the issue of shares was traded as follows:

Turnover /BGN/: 526 876

Shares transferred 69 061

Number of transactions 409

According to BSE, the changes in the price of the Company's shares for the first six months of 2018 are as follows:

- ✓ minimum – 6,950 BGN
- ✓ maximum - 8,200 BGN
- ✓ average - 7,629 BGN
- ✓ last - 7,450 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 2018:

- Maintenance of the production volumes amid continued market stagnation aiming at achieving a positive financial result;
- 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 2017 in the territories in which Korado-Bulgaria AD recently conducts its sales (Romania, France, Hungary, Ukraine, and Bosnia and Herzegovina);
- Full utilisation 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.

The Management board expects that the above objectives and forecasts for 2018 to be achieved.

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 recognised liabilities to any 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

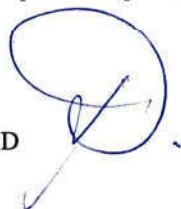
Management is required by Bulgarian legislation to prepare annual and interim financial statements that give a true and fair view of the financial position of the Company as at the period end and of its financial performance and its cash-flows for the period then ended in accordance with IFRS.

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 2018.

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

A handwritten signature in blue ink, consisting of a large, stylized loop and a diagonal stroke, positioned to the right of the name and title.

Town of Strazhitsa
25 July 2018