

REPORT
OF THE MANAGEMENT BOARD OF KORADO-BULGARIA AD FOR PAYMENT OF A 6-MONTH DIVIDEND ON THE GROUNDS OF THE 6-MONTH FINANCIAL STATEMENTS AS OF 30 JUNE 2018

1. INTRODUCTION

1.1. Legal Grounds of the Report

The present report (referred to hereinafter as the “**Report**”) is prepared by the Management Board of Korado-Bulgaria AD (referred to hereinafter respectively as the “**MB**” and the “**Company**”) on the grounds of Art. 115B, Par. 2, item 1 of the Public Offering of Securities Act (referred to hereinafter as the “**POSA**”).

The Report reviews the accounting information, contained in the Interim Financial Statements of the Company as of 30 June 2018, prepared in accordance with International Accounting Standard (IAS) 34 “*Interim Financial Reporting*”, adopted by the EU (referred to hereinafter as the “**Interim Statements as at 30.06.2018**”) and supplements – with regard to the specific subject – matter of the Report – the Interim Activity Report of the Company for the first 6-months of the year 2018.

The Report is presented to the attention of the shareholders of the Company and can be discussed with the members of the MB at the Extraordinary General Meeting of the Shareholder of the Company, planned for 19 September 2018.

1.2. Subject-Matter and Scope of the Report

According to Art. 115B, Par. 2, item 1 of the POSA, the Report contains:

- (a) analysis of the respective parts of the Interim Statements as at 30.06.2018;
- (b) economic groundings of the fact that the Company has sufficient funds for payment of the 6-Month Dividend (as defined below);
- (c) economic groundings of the fact that the payment of the 6-Month Dividend would not lead to indebtedness of the Company to creditors, personnel, budget and other.

2. PROPOSED CONDITIONS OF THE 6-MONTH DIVIDEND

The MB proposes the payment of the 6-month dividend by the Company to the shareholders of the Company based on the Interim Statements as at 30.06.2018 under the following essential terms and conditions:

- *type of dividend:* cash
- *total amount of dividend (gross):* BGN 1 316 861
- *amount of dividend per share (gross):* BGN 0,10
- *period of payment of dividend:* from 01 October 2018 to 19 November 2018

(referred to hereinafter as the “**6-Month Dividend**”).

3. DIVIDEND POLICY OF THE COMPANY

The Company has established and consistently pursues a sustainable dividend policy in the recent years. In that respect the management of the Company welcomes the amendments to the POSA made in the 2017, which introduce the possibility for payment of an interim dividend. Immediately after these amendments the Company studied the 6-Month Dividend (including together with the legal advisers of the Company and in official correspondence with the Financial Supervision Commission) and demonstrated before the investment community the desire for its payment under the condition that the successful course of its business activities continued (as actually happened).

4. AIM OF PAYMENT OF THE 6-MONTH DIVIDEND

As of the present moment the Company follows a steady ascending line of its performance as an issuer on the Main Market of the Bulgarian Stock Exchange, which is evident from the following circumstances, which occurred during the last 12 months:

- capitalisation of profit in the form of new shares, distributed among the shareholders in the second half of the year 2017;
- relocation of the shares of the Company for trading from Standard Segment to Premium Segment; and
- increase in the average price of the shares of the Company for the first six months of the year 2018 r. up to BGN 7.629.

The MB considers that the payment of the 6-Month Dividend would continue this ascending line of market performance and would strengthen the trust and credibility of the portfolio investors (both institutional and individual) in the Company, which the pursued aim is.

5. ANALYSIS OF THE PARTS OF THE INTERIM STATEMENTS 1H18 RELEVANT TO THE 6-MONTH DIVIDEND

5.1. Key Financial Indicators

The MB considers the payment of the 6-Month Dividend is determined mainly by the following financial indicators of the Company:

Financial Indicator	Amount	Notes
Profit before tax	BGN 3 563 thousand	
Current Ratio	3.25	Ratio: short-term assets / short-term liabilities
Quick Liquidity Ratio	1.39	Ratio: short-term receivables + short-term investments + cash / short-term liabilities
Debt to Equity Ratio	41%	Ratio: debt / equity

The referred financial indicators prove that the Company is in a stable financial condition and has good liquidity.

5.2. Review of the Current Assets and Current Liabilities

The parameters of the 6-Month Dividend (amount and period of payment) depend mainly on the amounts on the current assets and the current liabilities of the Company, which according to the Interim Statements as at 30.06.2018 are, as follows:

	30.06.2018 BGN'000
Current assets	
Inventories	7,404
Trade and other receivables	1,363
Trade receivables from related parties	3,571
Cash and cash equivalents	602
Total:	<u>12,940</u>
Current liabilities	
Trade and other payables	3,774
Current tax liabilities	131
Finance lease liabilities	64
Payables to related parties	11
Total	<u>3,980</u>

The current assets significantly exceed the current liabilities.

The payment of the 6-Month Dividend is expected to be made entirely with funds, owned by the Company, out of the current assets.

5.3. Detailed listing of the Liabilities, Relevant to the Possibility for Payment of the 6-Month Dividend

By itself, the payment of the 6-Month Dividend, being a payment to shareholders out of equity, will not lead to indebtedness of the Company to third parties – creditors. Based on this, when proposing the dividend, the MB takes into account the current indebtedness, provided in Art. 115b, Par. 2, item. 1 of the POSA, and namely to creditors, personnel, budget and other, which are, as follows:

	30.06.2018 BGN'000
Payables to suppliers	3,001
Payables to personnel	236
Payables for social securities	102
Other tax liabilities	34
Other	401
Total:	<u>3,774</u>

The essential conditions of these liabilities are:

- the trade liabilities are not interest bearing and are usually settled within 30-60 days;
- the public liabilities are settled in the statutory terms; and
- the other liabilities are not interest-bearing and are usually settled within 30 days.

The decrease of the current assets with the funds, which will be distributed to the shareholders with the payment of the 6-Month Dividend, would not affect their ratio to the current liabilities or result in delay or overdue payments of current liabilities.

5.4. Review of the Net Cash Flow from Operational Activity

According to the Interim Statements as at 30.06.2018, the Company realised net cash flow from operational activity in the amount of BGN 2 941 thousand. In maintaining the course of the operational activity, as expected by the MB, cash flows of similar amount would be sufficient for payment of the 6-Month Dividend.

6. Short-term Expectations on the Development of the Company for the Period from 30 June 2018 to 31 December 2018

The MB expects that in the period, in which is proposed the approval and the payment of the 6-Month Dividend, the Company:

- will uphold the quantitative and quality parameters of its production activity, will uphold stable revenue / cash flow from that activity in accordance with its usual course; and
- will uphold its share in the trade with heating devices on the Bulgarian market and will search for new partners for increasing its share on the European market.

7. CONCLUSIONS

On the grounds of the Interim Statements as at 30.06.2018 the MB considers that:

- The funds of the Company as of 30 June 2018 and which the Company is expected to have in the second half of the year 2018, are sufficient for the payment of the 6-Month Dividend; and
- The payment of the 6-Month Dividend does not threaten the current payment of liabilities of the Company to creditors, personnel, budget and other in the ordinary course of its business.

8. PRESENCE OF THE CONDITIONS FOR THE 6-MONTH DIVIDEND

The MB considers that in the event of resolution of the General Meeting of Shareholders of the Company in that sense, any and all of the conditions provided in Art. 247a of the Commerce Act and in Art. 115b, Par. 2 of the POSA for the payment of the 6-Month Dividend would be in place.

