



ANNUAL ACTIVITY REPORT

"KORADO BULGARIA" AD

31.12.2017

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

Konechna and Zaha

REGISTERED AND MANAGEMENT ADDRESS

Town of Strazhitsa

28 Gladstone Street

REGISTRATION NUMBER

UIC 814190902

BANKERS

Cibank

DSK Bank

Raiffeisebank

AUDITOR

PricewaterhouseCoopers Audit OOD

Maria Louisa 9-11 Bvrd

Sofia, 1000

To meet our 50-year anniversary with even greater successes

Dear Shareholders,

As Chairman of the Management Board of KORADO-Bulgaria AD it is a pleasure for me to announce that 2017 was another year of prosperous business for the company. This year, we have achieved very good financial results for the year with profit from the activity of BGN 4,778 thousand, despite difficult economic conditions and constantly rising prices of basic materials used in production. These results show sustainability in the development of the company and a growing trend for continuous improvement.



In the past 5 years, we have phased the implementation investment programme amounting to BGN 25 million, of which investments in a new panel radiator production line of BGN 6,150 million, new tube heating unit production line of BGN 4 million, renovation activities of the main production corpus and administrative building of BGN 535 thousand, gasification of the company of BGN 455 thousand, acquisition of land and production facilities of BGN 294 thousand, etc.

In the current year of 2018, which is an anniversary for us, there is a period of stabilisation of the company, a period during which we will continue to work for the affirmation of the KORADO brand as a benchmark for quality and customer satisfaction.

I would like to thank all the leadership of the company, all employees and workers, who, with their energy and high professionalism, have made our company prosperous and we can say that the quality of the products we offer, investing in new technologies and quality frames are prerequisites that KORADO-Bulgaria AD become one of the top 10 manufacturers of radiators in the world, to meet all future challenges and respond to our shareholders' expectations by fulfilling another successful year.

ENG. JIRI REZNICEK
Chairman of MB and Executive Director of
KORADO-BULGARIA AD

Management of KORADO-Bulgaria AD presents the annual activity report and annual financial statements as of 31 December 2017 prepared in accordance with International Financial Reporting Standards (IFRS) 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, incorporated and domiciled at its registered address in the 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 2017, the Company's clients are mostly from the European market. The biggest share of sales is targeted to KORADO AS Czech Republic (*the „parent company”*).

The main suppliers of materials to the Company in 2017 were: Balkan Steel Engineering, Sofia, CZ Ferro steel, Czech Republic, TMS Turkey, Borcelik Turkey, Arselor Metal Romania, Frei Lacke Germany, and CWS Germany.

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

RESEARCH AND DEVELOPMENT ACTIVITIES

In the area of research and development activity, the most important part is the continuing fruitful 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.

In 2017, the implementation of the energy efficiency improvement programme of the Company and the renovation activities of the main production corpus continued.

In the third quarter of 2017, the company invested BGN 294 thousand to acquire a terrain in close proximity to the main production site with the aim to expand its production activities. Negotiations with companies-manufacturers for the acquisition of new production equipment for building a new painting conveyor, which will cover entirely all heating units manufactured by the lines, are ongoing.

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

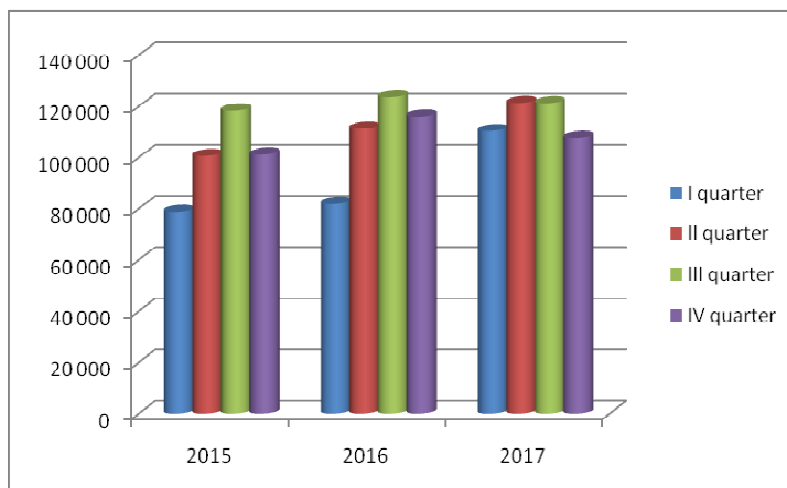
ANALYSIS OF THE OPERATING RESULTS

Manufacture

In 2017, the Company manufactured 460,569 water heating panel radiators, or by 6.36% more than 2016. Marketing activities of the company aim at preserving the share on the existing markets and further developing production.

The radiators manufactured in 2017, as also in the previous years of 2015 and 2016, are shown in the table and graph below:

	I quarter	II quarter	III quarter	IV quarter	Total
2015	78 764	100 673	118 327	101 194	398 958
2016	81 967	111 356	123 672	116 013	433 008
2017	110 416	121 328	121 231	107 594	460 569



87,410 tube heating units were manufactured during the year.

Sales

KORADO-Bulgaria AD sells self-manufactured products, RADIK, KINGRAD production lines, and goods purchased from KORADO Group, including KORALUX tube heating units, KORATHERM designer heating units, convectors providing heating and cooling. The range of solutions is constantly expanded and supplemented by ventilation and heat recovery systems.

Total sales

In 2017, KORADO-Bulgaria AD reported an increase in sales compared to 2016. Sales volumes grew by 14% during the year.

The Bulgarian market

The sales in the territory of the country amount to 15,946 self-manufactured heating units and goods purchased from KORADO Group, or about 3 % of total sales. There is a decrease in sales by 2% over the same period of 2016.

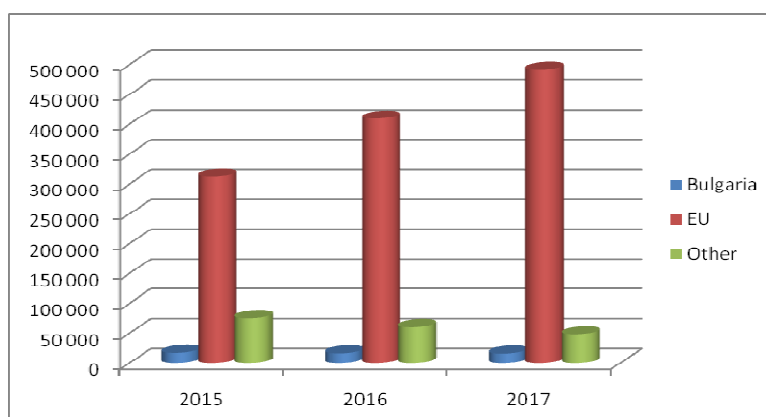
International markets

To EU partners there have been sold 491,487 self-manufactured heating units and goods purchased from KORADO Group, and to countries outside the EU – 48,314 units, which represent a 20% growth in sales within the EU and a 20% decrease in respect of the partners outside the Union. The main partner in 2017 remains KORADO a.s. with a share of 67% of total sales, followed by our partners in Romania with 15% and Ukraine with 8% of total sales over the period.

In 2017, the relationships with the new clients transferred to KORADO-Bulgaria AD in 2016 stabilised and continued to move in a positive direction. It should be noted that the sales to the Hungarian client increased by 279%.

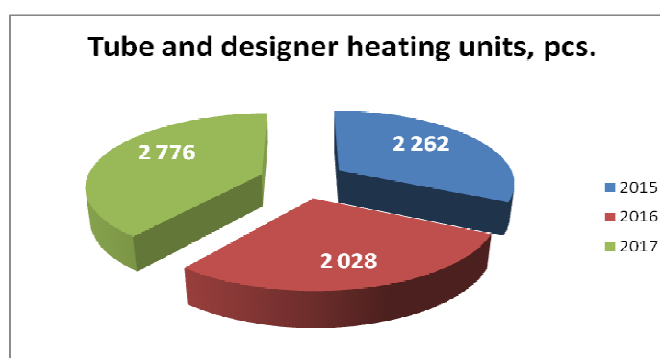
The sales of self-manufactured heating units and goods purchased from KORADO Group in 2017 and the previous years of 2016 and 2015 are shown in the following table and graph:

	2015	2016	2017
Bulgaria	17 260	16 305	15 946
EU	312 099	409 602	491 487
Other	74 920	60 275	48 314
TOTAL	404 279	486 182	555 747



The following table illustrates the number of tube and designer heating units sold over the years of 2015, 2016 and 2017 on the Bulgarian market. The change represents a growth by 40%

	2015	2016	2017
Tube and designer heating units, pcs.	2 262	2 028	2 776



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.

Operating expenses

The structure of operating expenses of the Company was not changed considerably in 2017 compared to the previous year.

Operating result

The Company's operating result for 2017 is a profit after taxes amounting to BGN 4,778 thousand (2016: BGN 2,927 thousand).

The increase in the Company's profit is due mainly to the higher sales revenue, the maximum control of expenses and implementation of rationalization measures in the production. The operating result for the last three years is shown in the following table:

Operating result (BGN'000)	
2015	1,932
2016	2,927
2017	4,778

Share capital as at 31 December 2017

Shareholders	Share	Number of shares	Nominal value (BGN)
KORADO a.s., Czech Republic	83.67%	11 018 564	11 018 564
Legal entities	14.28 %	1 880 482	1 880 482
Individuals	2,05 %	269 568	269 568
TOTAL	100 %	13 168 614	13 168 614

At 31 December 2017 the Company held no shares in the capital of other companies.

The Company has implemented a Quality Management System according to ISO 9001:2008 system standard. The system guarantees a much better quality through the continuous improvement of process management. The certificate is valid until 31 May 2018. In April 2018 the company will shift to ISO 9001:2015 and a re-certification audit will be carried out.

The Company is committed on environmentally responsible behaviour in all aspects of its operations. Its activity complies with the national environmental policy following the principles of the EU Directives and any activities relating thereto, which underlie the effective Bulgarian law in the field of environment. In this context, the processes are managed as follows:

- ✓ Harmful emissions – Plan for the management of solvents and control measurements of emissions of pollutants into the air. Since 2013 the Company has been using natural gas in the technological processes and for heating.
- ✓ Waste waters – periodic measurements of waste waters.
- ✓ Waste – pursuant to the Waste Management Act
- ✓ A contract was signed in 2017 with BULECOPACK AD, an organization that deals with the separate collection and recycling of packaging waste.

All environmental protection activities are supervised by the relevant authorities and certified by protocols and prescriptions.

Human resources

The main human resource processes in 2017 were directed towards improving the qualification of the Company staff as the major resource to achieve the stated objectives and to improve effectiveness.

The average number of staff employed by KORADO-Bulgaria AD as at 31 December 2017 is 231, including 48 women.

- ✓ Employees with higher education degree - 28, including 12 women;
- ✓ Employees with secondary education degree – 185, including 35 women.
- ✓ Employees with elementary education degree – 18, including 1 woman;

- ✓ Management positions occupied by women – 2

To reach a high level of development of professional skills and qualification of workers and employees, professional training, language training, participation in professional training courses and seminars on various topics were organized in 2017.

The commitment of workers and employees to follow steadily the principles of integrity and morality in their relationships and to precisely comply with the laws of the countries in which we operate is one of the basic principles underlying the Code of Ethics of KORADO-Bulgaria AD. It is mandatory to follow these principles in the relationships with clients and business partners, as also in personal and business relationships. The company's management expects and requires all employees at all levels to comply unconditionally with the above principles and requirements. Any non-compliance would jeopardise the confidence of our clients, suppliers, employees and other counterparties, and would harm and seriously threaten not only our competitiveness and image, but also our upward development.

KORADO-Bulgaria AD is committed to provide its employees with safe and secure work environment. Safety is particularly critical in our production workshops that are subject to strict work safety regulations. Safety rules applies to each workplace. We comply with all provisions, including with our own policies, which often introduce requirements not covered by law. All employees and other persons working in our premises are well informed about the safety requirements relating to their work. The lack of labour incidents during the last year supports this fact.

In all its business initiatives, KORADO-Bulgaria AD is attempting to be fair and correct company. We compete actively, but do it fairly and by observing all applicable competition laws and equality in the market. We adhere strictly to the laws for the protection of global markets from unfair competition.

KORADO-Bulgaria AD will pursue the highest standards in its activity with the aim 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.

KORADO-Bulgaria AD acknowledges that its efforts to maintain confidence and security of shareholders, employees, clients and all other stakeholders, as well as of the communities where it operates, are of the utmost importance to ensuring the Company's constant development and success.

FINANCIAL RATIOS

Liquidity

General liquidity = Current assets / Current liabilities = BGN 11,402 thousand / BGN 2,496 thousand = **4.57**

Quick liquidity = (Current assets – Inventories) / Current liabilities = (BGN 11,402 thousand – BGN 5,414 thousand) / 2,496 thousand = **2.40**

Absolute liquidity = Cash and cash equivalents / Current liabilities = BGN 1,488 thousand / BGN 2,496 thousand = **0.60**

Net working capital = Current assets – Current liabilities = BGN 11,402 thousand – BGN 2,496 thousand = **BGN 8,906 thousand**

Profitability

Sales profit margin = Gross profit / Sales revenue = BGN 5,311 thousand / BGN 42,630 thousand = **12%**

Return on assets before taxes = Pre-tax profit / Total assets = BGN 5,311 thousand / BGN 26,707 thousand = **20 %**

Return on equity = Comprehensive income / Equity = BGN 4,778 thousand / BGN 20,016 thousand = **24 %**

The amounts of the financial ratios for the last three years are shown in the following table:

Ratio	2015	2016	2017
Liquidity			
General liquidity	2,02	2,75	4,57
Quick liquidity	0,76	1,45	2,40
Absolute liquidity	0,16	0,61	0,60
Net working capital	3,168	6,588	8,906
Profitability			
Sales profit margin	8%	10%	12%
Return on assets before taxes	11%	13%	20%
Return on equity	12%	17%	24%

CORPORATE GOVERNANCE

Pursuant to the effective Commercial Act of Bulgaria, at 31 December 2017 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 December 2017:

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

Members of the Management Board at 31 December 2017:

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

Jiri Reznicek is the Executive Director of the Company.

FINANCIAL RISK MANAGEMENT

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.

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 ON THE PERFORMANCE OF THE RPROGRAM FOR IMPLEMENTATION OF THE INTERNATIONALLY RECOGNISED GOOD CORPORATE GOVERNANCE STANDARDS

1. National Corporate Governance Code

KORADO-Bulgaria AD implements its own long-term good corporate governance program. The program envisages various initiatives in a number of key directions, the performance of which facilitates the achievement of its priority objectives: independence and responsibility of corporate management, protection of the rights of shareholders; ensuring equal treatment of all shareholders (including minority and foreign shareholders); ensuring recognition of the rights of any persons concerned of the Company's management and steady development and encouraging cooperation with them; ensuring timely and precise disclosure of important information on the financial performance, operating results, property and management of KORADO-Bulgaria AD, as required by law; facilitating strategic management of KORADO-Bulgaria AD; efficient control over the activities of the Management Board (MB) and Supervisory Board (SB), and their reporting to all stakeholders.

Having regard to the important role of modern corporate governance in promoting the sustainable development of the national economy of the Republic of Bulgaria and being guided by their commitment to continue implementing the internationally recognized good corporate governance standards, MB and SB of KORADO-Bulgaria AD have decided that the Company shall carry out its activity in compliance with the principles and provisions of the National Corporate Governance Code. Pursuant to decision dated 17 February 2010, the Financial Supervision Commission adopted National Corporate Governance Code that is complied with the internationally recognized good corporate governance standards.

2. Implementation of the National Corporate Governance Code

Management of KORADO-Bulgaria AD implements the National Code of the basis of the principle "comply or explain". The observance of this principle is based on the recommendation of the European Commission on the quality of the reporting in the area of corporate governance.

The main direction in fulfilling the commitments of the Code was bringing all in-house acts of the Company and its overall activity in accordance with the constantly changing effective regulations.

All financial statements of the Company are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by EU and the annual audit is carried out by an independent auditor to ensure the unbiased and objective assessment of the method of preparation and presentation of these financial statements. These financial statements are accompanied by detailed activity reports.

MB and SB manage the Company independently and responsibly, in line with the Company's vision, goals, strategies and the shareholders' interests. They establish and monitor the strategic guidance for developing the Company. MB and SB have established a risk management policy and supervise the development and operation of an internal control and risk management system. MB and SB ensure compliance with statutory, regulatory and contractual obligations of the Company, provide guidelines, approve and monitor the performance of the Company's business plan, significant transactions and activities provided for by in-house regulations. A financial and information system of the Company has been developed and operates reliably.

SB has adopted an information disclosure and investor relations policy. Following the policy for more transparency in its relationships with shareholders, investors and the public, KORADO-Bulgaria AD has announced the media through which it discloses regulated information: X3-News platform of Service Financial Markets EOOD, owned by Bulgarian Stock Exchange – Sofia AD.

The members of MB and SB base their actions on common principles of integrity and managerial and professional competence, a basis of which is the adopted Code of Ethics. MB and SB report to the General Meeting of Shareholders on their activities. The General Meeting of Shareholders appoints and discharges the members of SB in compliance with the law and the Company's Articles of Association, by observing the principles of continuity and stability of the governing bodies' activities. The members of SB are elected through a transparent procedure, which ensures timely and sufficient information on the applicant's personal and professional skills. Management contracts comply with the requirements of the law, constituent acts and good professional and management practice, and define the competences, rights and obligations of the members of SB and MB, criteria to apply in determining their remuneration, their obligation to be loyal to the Company, as also the grounds for their dismissal.

The number of the members of the governing bodies is defined by the Company's Articles of Association. The composition of Boards is structured in a manner which ensures that their decisions concerning the Company's management will be professional, unbiased and independent. MB and SB have made an appropriate division of tasks and duties among its members. The members of the governing bodies possess appropriate skills and experience, and after being elected new members are introduced to the major legal and financial matters relating to the Company's operations. It is a constant practice to improve the competence and qualification of the members of the governing bodies. Consistency in mandates to ensure the effective operation of the Company and compliance with legal requirements.

The members of the governing bodies have the time required to fulfil their tasks and obligations. The rules of procedure of MB and SB define the maximum number of the companies outside the portfolio of KORADO-Bulgaria AD, in which the members may occupy governing positions. The amount and structure of remuneration of the members of the governing bodies are determined by the General Meeting of Shareholders. They take into account the obligations and contribution of each member, the likelihood of selecting and retaining qualified and loyal members, the need to ensure consistency between the member's interests and the long-term interests of the Company. The independent members of SB receive fixed remuneration. Pursuant to a decision of shareholders, the members of the governing bodies, part of the holding, do not receive remuneration.

The General Meeting of Shareholders adopted a Remuneration Policy applicable to the members of MB and SB, with the objective to support the long-term business goals of the Company and to encourage behaviour that facilitates the creation of value for the shareholders, at the same time ensuring competitive remuneration that is sufficient to attract and retain directors possessing the skills necessary for the successful management and development of the Company. Information on the remuneration of the members of the governing bodies is disclosed in an annual report, a separate document to the annual financial statements of the Company. The Remuneration Policy and the annual report are published on the Company's website.

MB and SB of KORADO-Bulgaria AD have adopted procedures for the avoidance and disclosure of conflicts of interest. These procedure put the members under the obligation to avoid any real or potential conflicts of interest, and if necessary, to disclose immediately any conflicts of interest and to ensure access for the shareholders to information about transactions among them and the Company or their related parties. On the other hand, any conflict of interest within the Company shall be notified to the governing bodies.

Taking into account the specifics of the Company, the SB has judged that an Audit Committee should be established. Simultaneously, following the amendments to the law, the Audit Committee was established by the General Meeting of Shareholders and its composition and mandate were set. The Audit Committee operates on 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, being guided by the established professional requirements, makes a substantiated proposal to the General Meeting of Shareholders for the election of an external auditor. The company has implemented an internal control system, which guarantees the effective functioning of the reporting systems and disclosure of information aimed at identifying the risks inherent to the activity of the Company and facilitating their efficient management.

The corporate governance of KORADO-Bulgaria AD ensures equal treatment for all shareholders, including minority and foreign shareholders, and protects their rights. All shareholders have the right to participate in the General Meeting of Shareholders and to express their opinions. They are able to exercise their right to vote at the General Meeting of Shareholders of the Company through representatives as well. Rules have been adopted for the organization and holding of regular and extraordinary General Meetings of Shareholders, which guarantee equal treatment for all shareholders and the right of each shareholder to express his/her opinion on the agenda topics. The procedures and order for convening a General Meeting of Shareholders do not prevent or make the voting unnecessary more expensive. These procedures encourage the shareholders' participation in the General Meeting of Shareholders, but do not envisage a possibility for remote presence through technical devices as this would make the holding of the General Meeting more onerous. Rules on proxy voting have been adopted. The wording of written materials on the agenda of the General Meeting of Shareholders are specific and clear, and do not mislead the shareholders. All proposals on major corporate events are presented as separate agenda items, including the proposal for profit distribution.

To improve the confidence of shareholders, investors and stakeholders in the Company's management and operations is one of the key tasks of corporate governance. With respect to that, the Company constantly reaffirms its position of a stable institution. In 2012 as well, the approval and implementation of various ways for disclosure of current information on the Company's financial and business performance and important corporate events, and their promotion, continued.

KORADO-Bulgaria AD has approved a policy and system for disclosure of information in compliance with the legal requirements. It guarantees equality of the information addressees (shareholders, stakeholders, investment society) and prevents 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.

The Company maintains its website, which contains corporate information, information about the governing bodies and shareholding structure of KORADO-Bulgaria AD. 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, information on the decisions passed by the General Meeting of Shareholders. Information about initiatives of the Company, for the auditors and the media that publish news about the holding is publicly available. The News section contains information on the periodical publications of the Company, forthcoming events and important information concerning the Company's activity. There is a procedure for payment of prior year's dividends to be followed by the shareholders. The practice of sending timely responses to letters and inquiries of shareholders, including such received by email and their recording in a register duly kept by the Investor relation Directors continues. There is a practice that, irrespective of the nature of the question, the answer shall contain a detailed explanation of the rights of the shareholders of the holding. The procedure for transfer of shares by way of inheritance is described in detail. Each shareholder who, on various occasions, addresses the Company, is thoroughly informed of his rights and provided with information on various matters concerning the activity and current status of the Company, including for the movement of share prices of KORADO-Bulgaria AD on the stock market.

The corporate governance of KORADO-Bulgaria AD ensures efficient relationships with all stakeholders, identified by the Company as such. The policy to stakeholders is compliant with statutory requirements and in conformity with the principles of transparency, reporting and business ethics. A policy for taking into account the stakeholders' interest, which ensures their attraction and guarantees the balance between the development of the Company and the environment, in which it operates, has been developed. Efficient connections with all stakeholders are maintained. The company informs periodically its shareholders, stakeholders and the investment society on significant matters.

KORADO-Bulgaria AD 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 KORADO-Bulgaria AD 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.

In conclusion, we may summarise that the activities of the governing bodies of KORADO-Bulgaria AD in 2017 were compliant with the National Corporate Governance Code and international standards.

The review and the report on the implementation of the program have found that the basic principles have been observed, and namely:

- ✓ Fair presentation and transparency with respect to the occurrence of important corporate events relating to the Company's activity;
- ✓ Protection of the shareholders' rights and their equal treatment;
- ✓ Good corporate governance aiming at attracting the interest of potential investors;
- ✓ Loyalty to the Company;
- ✓ Regular control over the Company's business activity by employees of Internal Audit of the parent company;
- ✓ Compliance with the Code of Ethics with respect to the internal rules of ethics, business behaviour standards, and prevention of abuses in the form of insider dealing.

In the course of the year, through their regular meetings, Management Board and Supervisory Board, and the independent Audit Committee assist in ensuring efficient management of the Company.

The procedure for prior notification to the members of SB and MB of the meetings, and their detailed and precise recording, has been complied with.

As a result of the current control on the activity of the person in charge of investor relations it has been found the following:

- ✓ Timely presentation of reports and current information to the Financial Supervision Commission, Bulgarian Stock Exchange, Central Depository. Information is published on the Company's website at www.korado.bg and presented to the public through the e-media www.X3news.com.
- ✓ Regular keeping of registers for the materials of the General Meeting of Shareholders, minutes of the meetings of MB and SB, reports and current information sent;
- ✓ The deadlines for publication of the official notices convening a General Meeting of Shareholders have been complied with and the notifications required by POSA have been sent;

All quarterly and annual financial statements have been prepared in accordance with International Accounting Standards.

In addition to the above-specified information, the Executive Director has drawn up and signed a Statement of Corporate Governance pursuant to Article 100m, paragraphs 7 – 9 of POSA, which is enclosed to this report and forms an integral part hereof.

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

Dividend

The General Meeting of Shareholders, held on 23 May 2017, passed a decision to distribute dividend amounting to BGN 2,282,559.50. Gross dividend of BGN 0.26 per share.

The dividends were paid through the system of Central Depository AD and the branches of CIBANK EAD. Their payment commenced on 20 June 2017 and was completed on 23 August 2017.

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

ISIN code of issue - BG11LUSTAT13.

Holding of own shares by the Company

In 2017 the Company neither transferred nor acquired own shares. Own shares were not acquired and/or transferred in the year before as well. As at 31 December 2017 the Company held no own shares.

Holding of shares of the Company by the members of the corporate management of the Company

At 31 December 2017, the member of the Management Board, Silviya Stefanova, holds 327 shares of the Company. These shares were acquired on the free market on the conditions of public offering carried out. 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, and no such shares, bonds or rights were acquired in 2017. The member of the Supervisory Board, Evelina Velikova, holds 900 shares of the Company.

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 do not hold more than 25% of the capital of other entities.

Shares of the Company were neither acquired nor transferred by the Board members in 2017.

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 2017.

ADDITIONAL INFORMATION UNDER SECTION IVA OF APPENDIX 10 TO ORDINANCE 2 OF FSC

1. Information given in value or quantitative terms about the main categories of commodities, products and/or provided services, with indication of their share in the revenues from sales of the Company as a whole and the changes that occurred during the reporting fiscal year.

Information is given in the following table:

	Finished product manufactured, Pcs.		Finished products sold (without goods)			
			Quantity		Amount (BGN thousand)	
	2017	2016	2017	2016	2017	2016
Panel radiators	460 569	433 008	461 886	430 096	37,622	29,841
Steel rail bathroom radiators	87 410	50 897	87 410	50 897	4,140	2,280

2. Information about the revenues allocated by separate categories of activities, domestic and external markets as well as information about the sources for supply of materials required for the manufacture of finished products or the provision of services with indication of the degree of dependence in relation to any individual seller or buyer/user

REVENUE	in BGN'000
<i>Net sales revenue:</i>	
1.Finished products	41,762
2.Goods	625
Total revenue	42,387

Sales revenue my markets

- ✓ Domestic market – amounting to BGN 1,622 thousand, representing 4 %.
- ✓ Domestic market - amounting to BGN 40,765 thousand, representing 96%, including sales amounting to BGN 27,095 thousand to Korado AS, Czech Republic – 64%.

Total purchases of materials for 2017 amount to BGN 28,840 thousand. Purchases are concentrated in 6 major suppliers, which constitute 81% of total purchases. The highest share of total purchases has Borcelic Chelik Sinay Tikaret, forming 32% of total purchases.

3. Information about concluded large transactions and such of material importance for the Company's activity.

In the reporting year of 2017, there were no large transactions or such of significant importance to the activity of the Company.

4. Information about the transactions concluded between the Company and related parties during the reporting period, proposals for conclusion of such transactions as well as transactions, which are outside its usual activity or substantially deviate from the market conditions, to which the issuer is a party.

During the reporting period, there were no transactions, which are outside the usual activity of the Company, and proposals for conclusion of such transactions were not received.

Besides with the parent company KORADO AS, Czech Republic, in 2017, the Company had deals with other related parties as well, such as LICON HEAT, Czech Republic (a 100% subsidiary of KORADO AS, Czech Republic). All related party transactions of the Company are concluded on usual market conditions, including, but not limited to, their price levels. Related party transactions concluded in 2017 are disclosed in Note 18 to the financial statements.

5. Information about events and indicators of unusual for the Company nature, having substantial influence over its operation and the realized revenues and expenses incurred; assessment of their influence over the results during the current year.

In 2017, there were no events or indicators of unusual for the Company nature.

6. Information about off-balance transactions

Off-balance sheet transactions were not concluded in 2017.

7. Information about holdings of the company, about its main investments in the country and abroad (in securities, financial instruments, intangible assets and real estate), as well as the investments in equity securities outside its economic group and the sources/ways of financing.

At 31 December 2017, KORADO-Bulgaria AD held no shares in other companies and/or participations in subsidiaries.

8. Information about the concluded by the Company in its capacity as borrower, loan contracts with indication of the terms and conditions thereof, including the deadlines for repayment as well as information on the provided guarantees and assuming of liabilities.

In January 2016, the Company signed a loan contract with the parent company KORADO a.s. Czech Republic and in February the first tranche of BGN 1,173 thousand was received. In April 2016, the second tranche of BGN 3,520 thousand was received. The total amount of the loan utilized is BGN 4,694 thousand. The loan funds are intended mainly to finance the acquisition and commissioning of a production line for tube heating units - steel rail bathroom radiators, and the first stage of renovation of production corpuses. In October 2016 part of the principle amounting to BGN 978 thousand was paid.

At 31 December 2017 the loan due to the parent company amounted to BGN 3,716 (2016: BGN 3,716) thousand. The loan is long-term and matures on 31 December 2021. The agreed interest rate is 1.65 percentage points + 1M EURIBOR.

Contracts were not concluded and commitments for provision of guarantees and assumption of liabilities were not taken in 2017.

9. Information about the concluded by the Company in its capacity as lender, loan contracts, including the provision of guarantees of any type, including to related persons, with indication of the concrete conditions there under, including the deadlines for repayment and the purpose for which they have been granted.

Contracts were not concluded by the Company in the capacity as a lender and guarantees of any type were not provided by the Company in 2017.

10. Information on the use of the funds from a new issue of securities carried out during the reported period.

By decision of the General Meeting of Shareholders held on 09 August 2017, decision of FSC No. 1220-E of 18 September 2017 and decision of BSE of 20 September 2017, an increase by BGN 4,389,538 of the capital of KORADO-Bulgaria AD has been made with own funds, through the issuance of 4,389,538 ordinary, registered, dematerialised, voting shares with nominal value of BGN 1.00. The shares were listed for trading on 25 September 2017.

11. Analysis of the ratio between the achieved financial results reflected in the financial statement for the fiscal year, and previously published forecasts for these results.

The estimated profit as per the 2017 financial plan amounts to BGN 3,014 thousand. The business result achieved in 2017 amounted to BGN 4,778 thousand.

12. Analysis and assessment of the policy concerning the management of the financial resources with indication of the possibilities for servicing of the liabilities, eventual jeopardizes and measures which the issuer has undertaken or is to undertake with a view to their removal.

In 2017, the Company continued to implement systemically its financial resource management policy and thanks to that, it has sufficient funds to meet its liabilities in 2018. The company's management is of the opinion that there are no threats to such current servicing, which go beyond the ordinary course of the activity. Therefore, measures for the removal of such threats are not envisaged.

Liquidity ratios are described above.

13. Assessment of the possibilities for realization of the investment intentions.

The activity of KORADO-Bulgaria AD is directed primarily towards management of current investments. The investment funds budgeted for 2018 are designated for reconstruction and renovation of the newly acquired production facilities and terrains.

14. Information about occurred during the reporting period changes in the basic principles for management of the Company and its economic group.

The base principles for management of the Company and its economic group have not been changed.

15. Information about the main characteristics of the applied by the Company in the course of preparation of the financial statements internal controls system and risk management system.

In the process of preparation of the financial statements for 2017, internal control activities include stocktaking of inventories carried out once a year and of work in progress carried out on a monthly basis, with all required accounting adjustments according to the inventory lists expressed in values. A control on the waste of inventories is exercised on a monthly basis. Cash is counted on a quarterly basis. At the end of every financial year, the balances of the Company – receivables and payables, are checked-up as well.

Financial control is exercised currently by management and on a quarterly basis by internal auditors of the parent company in accordance with international standards.

16. Information on the changes in the management and supervisory bodies during the reporting fiscal year.

By decision of GMS dated 23 May 2017, a new member of the Supervisory Board was elected – Evelina Velikova. Lutsiya Kolarova was discharged as a member of the Audit Committee and Milena Raykova was appointed as a new member of the Audit Committee. As a new chairman of the Audit Committee was elected Snezhanka Kaloyanova.

17. Information on the amount of the remunerations, rewards and/or the benefits of everyone of the members of the management and control bodies for the fiscal year under review, paid by the Company

Remuneration paid to the members of the managing and control bodies during the reporting financial year amounts to BGN 114 thousand. The individual amount of remuneration fully complies with the decisions of the General Meeting of Shareholders of the Company, which has the exclusive competence to determine these amounts. Besides the cash payments made, there were no other rewards and / or benefits paid to the Board members.

18. For the public companies – information about the owned by the members of the management and of the control bodies, procurators and the senior management shares of the Company, including the shares held by anyone of them separately or as a percent from the shares of each class, as well as provided to them options on securities of the Company by the latter – type and amount of the securities over which the options have been set up, price of exercising of the options, purchase price, if any, and term of the options.

At 31 December 2017 the member of MB, Silviya Stefanova, held 327 shares (0.002%) 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. The member of SB, Evelina Velikova, held 900 shares of the Company

19. Information about the known to the Company agreements (including also after the fiscal year closing) as a result of which changes may occur at a future time in the owned percent of shares or bonds by current shareholders and bondholder.

The Company has no information for such agreements.

20. Information about pending court, administrative or arbitration proceedings relating to company's liabilities or receivables of an amount of at least 10 percent of its equity; if the total amount of the Company's liabilities or receivables under all initiated proceedings exceeds 10 per cent of its equity, information shall be submitted for each procedure separately.

As at 31 December 2017, there were no pending court, administrative or arbitration proceedings, involving the Company, relating to liabilities of an amount of at least 10 percent of its equity.

21. Information about the investor relations director, including telephone and address for correspondence.

The person in charge of investor relations is Snezhana Petrova Baycheva,
Correspondence address: town of Strazhitsa, 28 Gladstone Street
e-mail: snezhana.baycheva@korado.bg, tel. 06161 4245

22. Changes in the price of the stocks of the Company

The following decision was taken by the Board of Directors of BSE-Sofia AD, recorded in Minutes No. 60 of 14 November:

With reference to an application for moving the issue of shares issued by KORADO-Bulgaria AD (4KX), filed in accordance with article 43, paragraph 1 of Part III of the Rules for the Admission to Trading, as of 16 November 2017 the Board of Directors of BSE-Sofia AD discontinued the registration of the above-described issue on BSE Main Market, Standard Segment.

On the grounds of article 33, paragraph of Part III of the Rules for the Admission to Trading, as of 16 November 2017 the Board of Directors of BSE-Sofia AD admits the shares issued by KORADO-Bulgaria AD (4KX) to trading on BSE Main Market, Premium Segment.

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

Number of shares in circulation: 13,168,614

Issuer:	KORADO-Bulgaria AD
BSE Code:	4KX
ISIN Code:	BG11LUSTAT13

For the period 01 January 2017 – 31 December 2017 the share issue was traded as follows:

Turnover /BGN/:	BGN 2,694,452
Volume transferred:	382,087 shares
Number of deals:	1,379 deals

According to data of BSE, the movements in the price of the Company's shares in 2017 were as follows:

- ✓ Minimum – BGN 5,250
- ✓ Maximum – BGN 12,700
- ✓ Average – BGN 7,456
- ✓ Final – BGN 6,850

The following graph shows the movements in the price of the Company's shares in 2017:



The company timely submitted to FSC and BSE the statutory information within the relevant deadlines.

X. Analysis and explanation of information pursuant to Appendix 11 to Ordinance 2 of FSC

1. Structure of the Company's capital including the securities that have not been admitted to trading on a regulated market in the Republic of Bulgaria or another Member State, with indication of the different classes of shares, the rights and liabilities attaching to any of the classes of shares and the portion of the total capital which each individual class constitutes.

The share capital of the Company amounts to BGN 13,168,614, split into 13,168,614 registered, non-preference, dematerialized shares with nominal value of BGN 1 each.

All shares of the Company provides equal rights to their holders. A share gives the right to one vote in the General Meeting of Shareholders, right to dividend and liquidation share proportionate to the share's nominal value.

As at 31 December 2017, preference shares were not issued by the Company. According to the law and the Company's Articles of Association, the General Meeting of Shareholders of the Company has the exclusive power to take decisions on their issue.

2. Limitations over the securities transfer, such as limitations for holding of securities or a requirement to obtain approval of the Company or another shareholder.

The law and the Articles of Association do not impose any restrictions on the holding and / or disposal of shares of the Company. It is not necessary to obtain the Company's approval or the approval of any shareholder to such holding and / or disposal.

The transfer of shares is registered with the Shareholders Book, kept by Central Depository AD.

Upon transfer of shares and with respect to their holding the Company complies with all requirements of the Public Offering of Securities Act in its latest version.

3. Information on the direct and indirect holding of 5 or more percent of the voting rights in the Company's General Meeting of Shareholders, including information about the shareholders, the amount of their holding and the manner in which the shares are owned.

More than 5 per cent of the shares of the Company are held directly only by the shareholder KORADO a.s. Czech Republic. This shareholder is registered with the Register of the local court Hradec Králové, Section B, Batch 1500, Date of entry: 01 September 1996, UIC 25255843 /according to the system of Czech Republic/, with registered address and address of management: Czech Republic, město Česká Třebová, okres Ústí nad Orlicí, ulice Bří Hubálku 869, Postal Code 560 02.

The amount of the shareholding of this shareholder as at 31 December 2017 includes 11,018,564 shares or 83.67 per cent of the total shares of the Company.

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

There are no shareholders with special control rights.

5. The control system in exercising the voting right in cases when officials of the company are also its shareholders and when the control is not exercised directly by them.

In the cases when employees of the Company are also shareholders, they should exercise their voting rights personally. If the law stipulates that these shareholders cannot exercise their right to vote when a specific draft decision is to be voted by the General Meeting of Shareholders, then the Chairman of the respective General Meeting of Shareholders shall ensure compliance with that requirement. The Chairman shall ensure that the shares of these shareholders will not be counted as part of the total number of votes, of which the majority for passing a decision is calculated, and shall give guidance to that effect to the vote scrutineers.

6. 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.

The Articles of Association of the Company do not envisage any restrictions on the voting right (besides the restrictions imposed by the law, such as non-exercising the right to vote by stakeholders), deadline for exercising the voting rights or systems, whereby the financial rights attaching to the shares are separated from the holding of shares.

Votes at the General Meeting of Shareholders are exercised in person by the shareholder or his/her proxy through a ballot-paper, which is given to him at the time of registration for participation in the meeting. The ballot-paper specifies the number of votes of each shareholder according to information provided by Central Depository AD. Voting shall be by open ballot, unless for the specific case the shareholders decide that it should be by secret ballot.

If the number of shareholders registered for participation in the meeting requires so, the Company is able to provide them with a technical device, through which the votes can be exercised electronically, and to thoroughly explain to them how to use it. For the avoidance of any doubts, this is a device for personal voting at the meeting and not electronic means for remote participation in the meeting within the meaning of Article 115, paragraph 8 – 10 of POSA.

7. Agreements among the shareholders, which are known to the company and which may result in limitations over the transfer of shares or the voting right.

The company is not aware of and it has not been notified of any agreements among the shareholders, which may result in limitations over the transfer of shares and/or the voting rights.

8. The provisions about the appointment and dismissal of the members of the company's management bodies and about introduction of amendments and supplements to the articles of association.

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. The limitations imposed by POSA on the election of independent members of the Supervisory Board are taken into account. 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.

In the interest of clarity and rationality, the provisions of the Company's Articles of Association relevant to this one and the following items, on which grounds and the effective law, the actions, laid down in these items, have been carried out, are referred to below.

Below are set out the provisions of the Articles of Association regulating the election of members of the two bodies, namely:

- Mandate – Articles 67 and 68
- Composition – Article 69 – stipulates the general requirements to be complied with by the Board members.
- Independent Board members – Articles 70 and 71
- Quorum, Majority and Minutes – Article 72 to Article 75
- Rights and Obligations, Responsibility – Article 76 to Article 81
- Contracts with Boards Members and Related Parties – Article 82

The special provisions regulating the operations of the Supervisory Board are stipulated in Articles 83 to 90, as follows:

- Composition – Articles 83 and 84
- Powers – Article 85
- Quorum and Majority – Article 86
- Operations – Article 87 to Article 89
- Report and liability – Article 90

The special provisions regulating the operations of the Management Board are stipulated in Articles 91 to 99, as follows:

- Mandate – Article 91 – 93
- Representation – Article 94
- Quorum and Majority – Article 95 и Article 96
- Minutes – Article 97
- Operations – Article 98
- Responsibility – Article 99

The General Meeting of Shareholders is the body exclusively competent to amend and supplement the Articles of Association of the Company as stipulated in the provisions of Article 50, paragraph 1, item 1, and to carry out the activities relating thereto, such as: Holding General Meetings – Article 51–53, Convocation – Article 54, Inclusion of items in agenda – Article 55, Quorum – Article 61, Majority – Article 63, Resolutions – Article 64.

The provisions of Article 50, paragraph 1, item 4 of the Articles of Association regulate the election of members of the Supervisory Board in connection with the approved and described above procedure for passing decisions by the GMS.

9. The powers of the company’s management bodies, including the right to take decisions for the issue and redemption of shares in the company.

The General Meeting of Shareholders of the Company has the following powers:

- amends and supplements the Articles of Association of the Company;
- increases and decreases the capital;
- transforms and terminate the Company;
- determines the number, elects and dismisses the members of the Supervisory Board and determines their remuneration;
- determines the remuneration of the members of the Management Board, including the right to receive a portion of the Company’s profit, as well as the right to acquire shares and bonds of the Company;
- appoints and dismisses registered auditors;
- approves the Annual Financial Statements after they are certified by the appointed registered auditors;
- appoints and dismisses the members of the independent Audit Committee;
- resolves on the issue of privileged shares and bonds;
- appoints the liquidators in the event of termination of the Company, except for the case termination by bankruptcy;
- releases from liability the members of the Supervisory Board and the Management Board of the Company;
- approves proposals for the guidelines of the Company’s development and proposals for long-term and mid-term business plans;
- approves the reports on the Company’s activity, including the reports on the financial and the sales policy, as well as the status of its assets;
- approves the distribution of profit proposed by the Supervisory Board;
- approves the transactions, for which POSA requires such an approval;
- resolves on all other matters within its competence according to the law and the Articles of Association.

The Supervisory Board of the Company has the following powers:

- appoints and dismisses the members of the Management Board;
- supervises the work of the Management Board;
- approves the Rules of Activity of the Management Board;
- gives prior consent to certain resolutions of the Management Board;
- reviews and approves the Annual Financial Statements, the Report on Activity of the Company and the proposal for distribution of its profit;
- resolves on the disposal of immovable property of the Company, including the establishment of liens and property rights over them;

- approves the annual business plan for the activity of the Company and the budget for the subsequent financial year;
- approves every transaction of the Company, which deviates from the approved business plan and budget by more than 15%;

The Management Board is competent to carry out any other activities on the Company's management, unless the law stipulates that these activities shall be carried out by another body.

10. Significant contracts of the company which give rise to action, have been amended or terminated due to change in the control of the company upon carrying out of obligatory tender offer and the consequences thereof, save for the cases when the disclosure of such information may cause serious damages to the company; the exception of the previous sentence shall not apply in the cases when the company must disclose information by virtue of the law.

The Company has no significant contracts concluded, which correspond to the type and nature described herein, including giving rise to action upon the occurrence of these conditions.

11. Agreements between the company and its management bodies or officials for payment of compensation upon quitting or dismissal without legal grounds or upon termination of the labour relations due to reasons, related to a tender offer

Agreements between the Company and its management bodies for payment of compensation on any reasons, including those laid down herein, have not been concluded.

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;

MANAGEMENT'S RESPONSIBILITIES

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

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 financial statements for the period ended 31 December 2017.

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
12 March 2018

