Annual Report 2015


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2015
KORADO
RADIK RC
S-CONTROL
50
YEARS OF RADIATORS PRODUCTION
KORADO

SAVING ENERGY

S-CONTROL®

CONTENTS

FOREWORD BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Business Partners,

The year 2015 was for the entire KORADO Group very demanding. Even if the statistics say something else, there is still a crisis in the construction industry. The construction of housing and civic facilities is still in decline. This translates into reduced demand for us and downward pressure on prices. The situation is similar in the Ukraine and through the sanction regimen of the EU in relation to the Russian Federation.

The KORADO Group was forced to respond to these negative influences, including the exceptional, one-time costs for repairs to the main plant in Česká Třebová, and, as much as possible, eliminate them. First and foremost a strict regimen was applied to reduce the costs not only of labour, but also of materials. Online auctions were used to their fullest extent for the purchase of selected materials.

The investment in the second production line in the subsidiary KORADO Bulgaria has to a large extent begun showing positive results. This investment has allowed us to be competitive even in low-cost markets.

Integration of the company LICON HEAT into the KORADO Group has also been positive. We have been able to fully exploit the synergies of the product ranges; i.e., radiators and convectors, which has allowed us to gain new customers.

After the initial investment, the production of bathroom radiators stabilised and shows very good results. This year a second production line will be put into operation for the production of bathroom radiators in KORADO Bulgaria. This will allow us to not only increase capacity but primarily to extend the range.

As well, considerable resources have been invested in the production of KORATHERM radiators, which will deliver substantial improvements in quality, increase production capacity and allow expansion of the range.

The introduction of ventilation and heat recovery units to the portfolio of our products will better meet our customers' needs, and here we expect a significant positive synergistic effect.

Thus it is clear that the KORADO Group continues to strengthen its market position and even in these difficult times is able to face challenging market conditions, creating positive financial results, reducing its debt and for the fourth year, increasing its dividends to its shareholders. I believe that 2016 will also to be a successful year for the KORADO Group, despite the continuing negative external influences.

It goes without saying that the steps described above would not be possible without the support and loyalty of the employees, company bodies, shareholders, the lending bank, our suppliers and customers, to all of whom I give my sincere thanks.

I believe that in future years the Korado Group will continue to be a reliable partner both for our suppliers and our customers.

František Menclík
Chairman of the Board
of Directors

STRATEGIES AND GOALS OF THE KORADO GROUP

The main objective of the KORADO Group for 2016 is to continue to gradually return to the pre-crisis dynamics and simultaneously be a professional, process-oriented group, on a high professional, technological and organisational level, which is constantly developing and investing in its resources.

Maintaining Market Position

The aim of the sales policy of the KORADO Group will continue to be, above all, working together with existing customers and searching for new customers in Western and Central Europe. The explicit objective, in cooperation with our distributors, is to protect the exceptionally strong position of KORADO on the Czech market and uphold the current market share or even increase it. Unfortunately, due to the geopolitical situation in Russia and the Ukraine, we assume that the construction industry in these markets will continue their stagnating trend in 2016 and the overall market in Russia and the Ukraine in 2016 will be characterised by relatively low demand.

In Western and Central Europe, we expect continued consumer preference for energy-efficient and environmentally friendly solutions to heating products. Thanks to our investment in expanding the product portfolio with convectors, the introduction of energy-saving RADIK RC radiator with its revolutionary flow-control technology, and sales of decentralised heat recovery and ventilation units, we are ready to meet this demand.

The high quality of our goods, supported by extensive marketing activities at various levels, will be complemented by improved readiness for making quick and timely deliveries of the entire range. A basic tool for working with customers will be to continue strengthening the system of active management in our relationship with them.

Providing against Risk

Working with business and trade risks and providing for them continues to be one of the primary tasks of the group, especially in the current turbulent environment caused by the aftermath of the financial crisis and economic recession. External, and also internal, risks are presented in the "Catalogue of Risks" and methods are actively sought for their elimination. Risk categorisation covers their entire range from strategic and trade, through manufacturing, financial and human resources to IT risks, and so on. Many risks are of course covered by insurance or other similar standardised products, but maximum emphasis is also placed on risk prevention and internal adjustment of processes to eliminate the damage already at the source. A very important role in this area is performed by the credit risk management system, which is designed to prevent the occurrence of bad debts.

Optimising Radiator Production

The aim of this area is a systematic innovative process to improve product quality, optimise production according to market needs, to continuously improve the integration of engineering methods in production, and support processes and the installation of new technologies to achieve maximum savings.

Effective Purchasing

In the area of purchasing, the challenges are to reduce risks at the initial phase, to ensure that all materials are available in the required quantities and quality and at the most favourable price, to optimise the selection and evaluation of suppliers, to integrate individual purchasing activities throughout the KORADO Group and to permanently reduce stock turnover period.

In the period ahead, we will further expand the system of modern purchasing methods in the context of a comprehensive system of purchasing processes (procurement). The aim is to increase purchasing efficiency and transparency in selecting suppliers, fix the position of KORADO on the suppliers' market, and diversify the suppliers' portfolio. An equally important task will be the strict adherence to the rating rules in relation to suppliers.

Taking Care of Human Resources

In 2016, human resources will further improve the current processes to provide a sound basis for the selection, training, motivation and remuneration of employees. These goals will be achieved primarily by providing methodological and administrative support for human resources management.

As part of the business infrastructure, the company intends to further concentrate on continuously improving processes arising from the ISO 9001 standard.

Optimum Financing and Securing Liquidity of the Company

In the financial sector, throughout the following period, the KORADO Group will focus on rigidly maintaining sufficient liquidity for the Group and ensuring the required amount of funds to cover all obligations to all our business partners and financial institutions, including the creation of a fiscal space for suitable acquisitions and investments.

Another important goal is the consistent use controlling tools and their application throughout the KORADO Group.

An equally important goal of the Group will be the continued optimisation of working capital and its financing.

Internal Audit

In 2016, Internal Audit will continue to check on internal processes in accordance with established objectives and strategies and will assess whether risks are defined correctly and whether they are sufficiently prepared for a changing environment. Maximum concentration will be focused on forms of cost reduction, compensation checks on conflicting access rights and improving the quality of products and related services delivered to customers. Internal Audit will also focus on the ability to actively influence and improve the individual processes and the management system of the KORADO Group with the support and trust of Company Management and the Supervisory Board.

Internal Audit will continue to check on the implementation of the Compliance Programme; i.e., verifying the proper establishment of corporate policy, business ethics and related policies.

THE KORADO GROUP

As of 31 December 2015, the KORADO Group consisted of the parent company KORADO, a.s., Česká Třebová and six subsidiaries, which are:

Four trading - KORADO Deutschland
- KORADO Austria (not currently engaged in business)
- KORADO Polska
- KORADO U. K. (not currently engaged in business)

Two production - KORADO Bulgaria
- LICON HEAT

The trading subsidiaries were founded around the mid 1990s, primarily to support the growth in sales on the European markets during the final stages of building the new production plant in Česká Třebová.

All subsidiaries are currently managed by representatives of the parent company in the statutory bodies of each company. Trade relations between the parent company and the subsidiaries are arranged through the Sales Department of the parent company.

Since their inception, the trading subsidiaries have provided services on selected markets for KORADO brand products. In 2002 and 2003, there were significant changes in the operation and management of the largest trading subsidiaries. Customers in these markets have since then been served directly by the parent company in Česká Třebová. This management model significantly reduces costs and increases the efficiency of the individual trading subsidiaries. The result was a turnaround in their financial situations and the gradual return of capital that had been invested in those companies.

No Controlling Agreement has been concluded between the parent company KORADO, a.s. and its subsidiaries. The cooperation of these companies is based on Distributor Agreements and on the basis of annual financial sales plans.

In addition to these Agreements, in 2015 a Loan Agreement was concluded between the parent company and the subsidiary KORADO Polska and LICON HEAT. This is a standard agreement for usual price conditions.

Since 2006, when the Bulgarian subsidiary introduced the process of activating optional reserves in the production of panel radiators within the KORADO Group, full harmonisation has been achieved among all corporate, technical and production processes with the parent company KORADO, a.s. in Česká Třebová. Thanks to the implementation of this project, the subsidiary KORADO Bulgaria is a full-fledged part of the KORADO Group. Since 2012, the company has been the low cost production manufacturer for the KORADO Group. Since 2013, the volume of direct sales of KORADO Bulgaria to end customers has increased. At the end of 2014, KORADO Bulgaria implemented a secondary subscription of share capital on the Stock Exchange in Sofia. After almost two years of planning, this transaction was successfully implemented, increasing the equity of KORADO Bulgaria by about 7 million BGN (about 100 million CZK). These funds were used for further investment development.

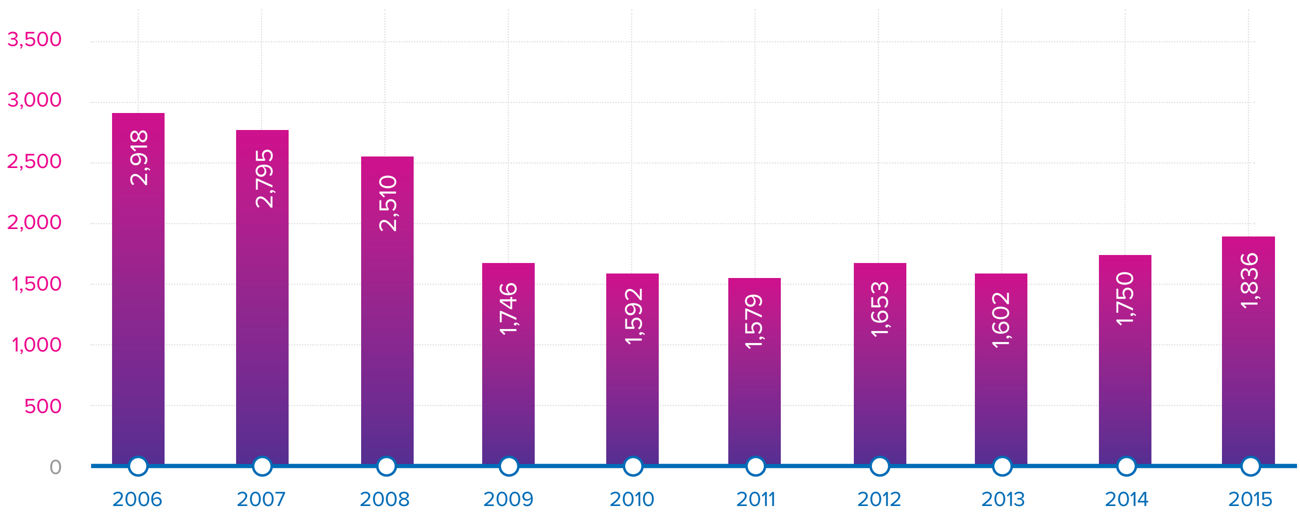
An important step towards expanding our product portfolio occurred in 2013 with the 100% buyout of the company LICON HEAT s.r.o., which has expanded KORADO's production program to include a complete range of floor, wall, free-standing, bench and special convector radiators.

Sales and Profits of the KORADO Group (Thousand CZK)

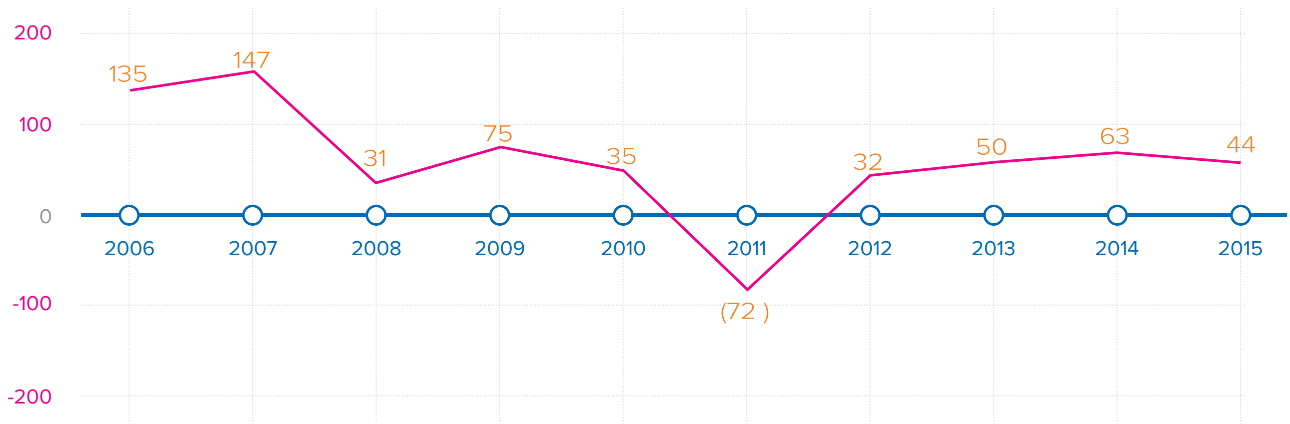
Thousand CZK	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Consolidated sales	2,917,951	2,795,017	2,510,084	1,745,583	1,592,299	1,579,217	1,653,283	1,602,014	1,749,891	1,836,448
Consolidated profits based on IFRS	135,428	147,173	31,105	74,912	34,572	(72,369)	32,497	50,343	62,532	43,554

- *Financial data for the subsidiary KORADO Croatia was consolidated by the equity method (since 2009 data is not included in the consolidation),*
- *Consolidated revenues and consolidated net profit according to IFRS in 2008 includes data from KORADO Baltija only for the period I-V/2008; the company was sold in June 2008*

Consolidated Sales for the KORADO Group (million CZK)



Consolidated Profits for the KORADO Group (million CZK)



Map of Europe with Subsidiaries and Companies Under Direct Control

Composition of the KORADO Group as of 31 Dec. 2015:

Company	Incorporation date	Share capital at 31.12.2015	Director (Authorized Agent)	Registered office	KORADO, a.s. stake	Legal form
KORADO, a.s.	1. 9. 1996	840.7 mil. CZK	Vojtěch Čamek	Bří Hubálků 869 560 02 Česká Třebová, Czech Republic	-	Joint-stock company
KORADO Deutschland GmbH	28. 11. 1995	676 thous. CZK	Leona Vaňková	DR. Wilhelm-Külz-Strasse 61, 155 17 Fürstenwalde, Germany	100%	Limited liability company
KORADO Polska, Sp. z. o. o.	4. 12. 1996	45.716 mil. CZK	Žaneta Vebrová	Gen. Okulickiego 4, 05-500 Piasecno, Poland	100%	Limited liability company
KORADO Austria, GmbH	1. 7. 1998	28.376 mil. CZK	Leona Vaňková	Ferstelgasse 6/7, 1090 Wien, Austria	100%	Limited liability company
KORADO Bulgaria, A. D.	1. 10. 1998	121.318 mil. CZK	Jiří Řezníček	Gladston 28, 5150 Strajica, Bulgaria	85,7%	Joint-stock company
KORADO U. K. Limited	25. 11. 1998	37 thous. CZK	Vojtěch Čamek	170 Merton High Street, Wimbledon London, SW19 1AY, England	100%	Limited liability company
LICON HEAT s. r. o.	1. 10. 2013*	14.5 mil. CZK	Martin Kniha	Na Poříčí 1041/12, 110 00 Praha 1 - Nové Město	100%	Limited liability company

Share capital calculated based on the exchange rate as of 31 Dec. 2015
** Date of inclusion in the KORADO Group*

REPORT ON SUBSIDIARIES

KORADO Deutschland GmbH - KORADO Deutschland was founded 28 Nov. 1995 as a trading company dealing in the sale of KORADO brand products on the markets of Germany, Denmark and the Benelux countries. KORADO, a.s., owns a 100% share in KORADO Deutschland.

In 2015, KORADO Deutschland reported a profit of 179,000 EUR (4,885,000 CZK).

Thous. EUR	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total sales	5,729	5,007	4,974	4,763	5,090	5,286	4,477	3,080	4,395	5,173
Profits	498	393	(67)	0	0	0	0	71	138	179

KORADO Polska, Sp. z. o. o. - KORADO Polska was established 4 Dec. 1996 as a trading company dealing in the sale of KORADO brand products on the Polish market. KORADO, a.s., owns a 100% share in Polska.

In 2015 KORADO Polska achieved a profit of 312,000 PLN (2,038,000 CZK).

Thous. PLN	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total sales	7,259	8,351	8,811	8,260	7,542	7,297	7,243	9,242	8,941	11,142
Profits	764	1,044	(1,184)	(682)	461	(816)	95	162	247	312

KORADO Austria, GmbH - KORADO Austria was established 1 July 1998 as a 100% subsidiary. KORADO Austria arranges operations for the parent company related to the sale of products in Austria.

Since the end of 2006, when the parent company finished trading through its subsidiary KORADO Austria and bought back the receivables of this subsidiary, this company has been inactive.

In 2015, KORADO Austria achieved a financial result of – 1,000 EUR (-29,000 CZK).

Thous. EUR	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total sales	2,223	0	0	0	0	0	0	1	0	0
Profits	1,044	(9)	(4)	(8)	(1)	(1)	1	1	1	(1)

KORADO Bulgaria, A. D. - KORADO Bulgaria was founded on 1 Oct. 1998, when KORADO, a.s., purchased the shares of the original production company. At present KORADO, a.s., owns an 85.7% share in KORADO Bulgaria. It is a manufacturing company, some of whose processes are carried out in collaboration with the parent company. KORADO Bulgaria's operations are mainly focused on the Balkan countries (Bulgaria, Romania, Greece), the former Yugoslavia and the Ukraine.

In 2015, KORADO Bulgaria recorded sales increases in all the company's markets in comparison to the previous year of 2014. The yearly increase in total revenues in 2015 amounted to 31%. The sharpest increase in sales, 140%, occurred in the Ukraine, and another large partner on the Romanian market increased sales by 76%. Sales on the Bulgarian market represent 4% of the total sales of the company.

In 2015, the company increased its equity by means of a secondary subscription of shares. Approval by the Commission for Financial Supervision as of 30 Jan. 2015 lead to the first capital increase for KORADO Bulgaria of about 2,576,786 BGN, divided into 2,576,786 ordinary shares, which are registered as freely transferable shares with voting rights with a nominal value of 1 BGN each. The company thus gained funds of 7,086,162 BGN, intended primarily for other investment development. The investment mediator of the transaction was Raiffeisenbank Bulgaria and the also participated in parent company the capital increase. The share of the parent company after this subscription decreased from 98.2% to 85.7%.

At the General Meeting held on 13 May 2015, the decision was made to pay dividends in the amount of 1,053,489.12 BGN, which is a gross dividend per share of 0.12 BGN.

Other important steps in 2015 were the completion of the first phase of the investment program, i.e., installing and launching a second production line for the production of panel radiators, and the commencement of the second phase of the investment program, insulating and preparing the hall for the installation of production lines for the production of tubular radiators.

In 2015, KORADO Bulgaria generated a profit of 1,932,000 BGN (26,953,000 CZK).

Thous. BGN	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total sales	17,714	24,019	26,392	12,717	13,540	16,252	20,458	17,193	20,912	27,449
Profits	400	(658)	1,527	639	768	931	398	599	1,321	1,932
Panel radiators produced	231,353	374,704	342,558	134,816	166,712	229,129	281,027	238,808	295,187	398,958

LICON HEAT s.r.o. - Manufactures convector radiators under the brand names LICON and KORADO. Production was taken over from Likov Liberec, which thus successfully continued a forty year tradition in the production of convector radiators. In 2009 the company moved to a new modern production plant in the "Sever" industrial zone in Liberec. Production of LICON and KORADO radiators is carried out using the most up-to-date manufacturing technologies. The company LICON HEAT s.r.o. is a consolidated company with modern production equipment and a progressive trade policy supported by the ISO 9001 quality management system. KORADO and LICON products are sold in more than 25 countries in Europe and Asia and the share of exports in total sales is quite large. The main export territories are Russia, Poland, Slovakia, Sweden and Denmark.

In 2015, LICON HEAT generated a profit totalling 3,197,000 CZK.

Thous. CZK	2013	2014	2015
Total sales	129,182	104,836	103,635
Profits	7,630	10,664	3,197

KORADO U. K. Limited is a trading company, which was purchased in 1998. The company is currently not involved in any activity.

TABLE OF FINANCIAL INDICATORS OF THE GROUP

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
TOTAL SALES (MIL. CZK)	2,918	2,795	2,510	1,746	1,592	1,579	1,653	1,602	1,750	1,836
YEARLY CHANGE IN SALES (%)	12%	(4%)	(10%)	(30%)	(9%)	(1%)	5%	(3%)	9%	5%
EBITDA (NET PROFIT (LOSS) PLUS TAX ON INCOME PLUS INTEREST COSTS PLUS DEPRECIATION) (MIL. CZK)	372	335	210	276	207	84	174	179	191	176
EBITDA MARGIN (EBITDA/TOTAL SALES) (%)	13%	12%	8%	16%	13%	5%	11%	11%	11%	10%
PROFIT/LOSS AFTER TAX (MIL. CZK)	135	147	31	75	35	(72)	32	50	63	44
RETURN ON EQUITY (EBIT / ASSETS MINUS CURRENT LIABILITIES)	18%	12%	10%	6%	2%	(2%)	3%	4%	5%	3%
INDEBTEDNESS (BANK LOANS / EQUITY)	0.68	0.76	0.97	0.55	0.41	0.36	0.27	0.27	0.26	0.20
QUICK RATIO (CURRENT ASSETS MINUS INVENTORY / CURRENT LIABILITIES)	0.47	0.58	0.30	0.34	0.17	0.29	0.34	0.60	0.79	0.62
CURRENT RATIO (CURRENT ASSETS / CURRENT LIABILITIES)	0.73	0.93	0.47	0.55	0.36	0.60	0.63	1.03	1.23	1.06
TOTAL ASSETS (MIL. CZK)	2,351	2,738	3,002	2,402	2,239	2,117	2,007	2,106	2,203	2,153
LONG-TERM ASSETS / TOTAL ASSETS (%)	75%	70%	74%	85%	86%	86%	85%	79%	74%	76%
DAYS RECEIVABLES (DAYS)	29	36	37	34	28	24	27	32	34	30
DAYS INVENTORIES (DAYS)	89	93	105	132	103	97	96	107	110	107
DAYS PAYABLES (DAYS)	34	45	57	67	49	48	45	52	58	57

SALES AND MARKET POSITION OF THE KORADO GROUP

The Market Situation

The European radiator market still shows a slightly decreasing trend. Even so, in 2015 we succeeded in increasing our year-on-year sales of panel and tubular radiators and thereby strengthening our market position in Europe.

Operations on Individual Markets

Central and Eastern Europe

In the markets of the Czech Republic, Slovakia, Hungary, Slovenia, the Ukraine and Russia, we continue to operate as a leader or a leader in our field. We are maintaining our position here and offer new and innovative solutions in heating including a product range of convectors and decentralised heat recovery and ventilation units.

Western Europe

Another goal for us is to strengthen our brands in Western European markets. In 2015, our activities focused on strengthening our market position in Austria, Belgium, France, Germany and the Netherlands. We also managed to find new business partners in in Western European markets with whom we are developing commercial relations.

Non-European Markets

We continue to supply our products to distant destinations such as Tunisia, Algeria, Chile, Australia and Argentina.

In 2015, we also further strengthened our position as an ultra-low-cost producer of radiators coming from our plant in Bulgaria. Thanks to this, we have improved our competitiveness, particularly in comparison with the high cost producers from Western Europe.

Our Products

Last year we expanded our product portfolio with decentralised ventilation and heat recovery units. This is a further significant expansion of our product range and business offers towards our customers after successfully incorporating convectors into our portfolio following the acquisition of LICON HEAT.

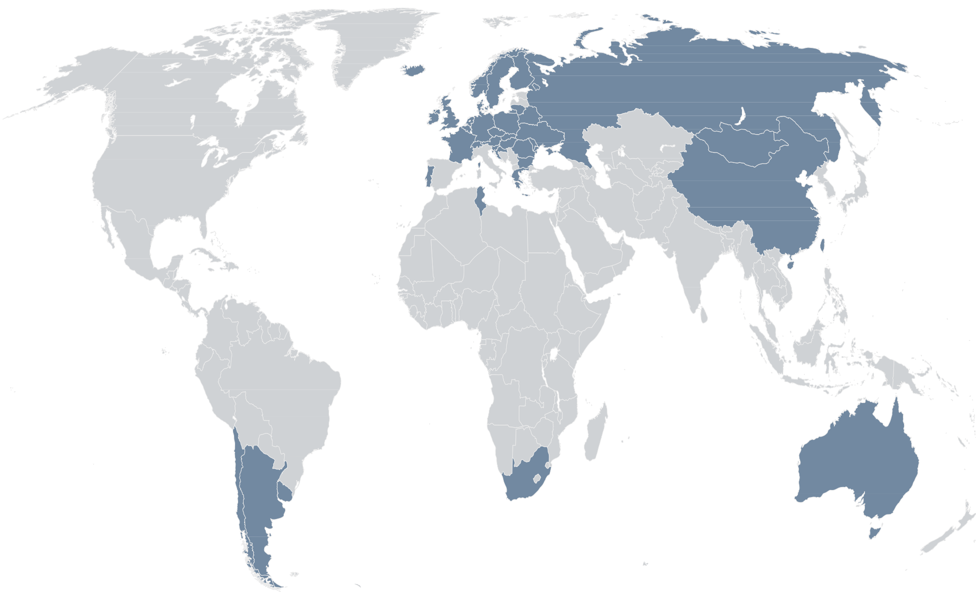
Overview for 2016

For this year we expect to improve collaboration with both existing and new partners in Western and Central Europe. In Russia and the Ukraine, we expect the relatively low construction demand to continue.

In Western and Central Europe, we expect the consumer preference for traditional products to continue; i.e., a wide range of panel and tubular radiators, as well as for modern energy-efficient products and for luxury designer products.

Thanks to our investments in the expansion of our product portfolio, we believe that we can comprehensively cover these consumer preferences and thereby strengthen our market position in 2016.

Overview of RADIK Panel Radiator Sales in 2015 According to Country



Czech Republic	33,31%
Russia	12,07%
Slovakia	8,65%
Poland	5,48%
Ukraine	4,68%
Austria	4,37%
Hungary	4,04%
Germany	3,59%
Romania	3,56%
Sweden	2,70%
Belgium	2,44%
Other countries	15,11%
Total	100,00%

FINANCIAL SITUATION

Profitability of the KORADO Group

In 2015, the KORADO group generated a profit of 44 million CZK. The results of the KORADO Group were positively influenced by cost optimisations launched in recent years, the increase in production efficiency and bringing new products to market.

Bank Loans

In 2015, the trend of declining debt from bank loans continued. The share of bank loans on the balance sheet total at the end of 2015 was almost 14%. In mid-2015, a new loan agreement was signed with a main lending bank to finance investments in new production equipment. This loan has not yet been drawn upon and is being used as a reserve source of funding.

Investments

Construction has started on a radiator testing room in Česká Třebová. Another important investment project was upgrading the paint shop for colour radiators, which was moved closer to the assembly and packaging line, thus optimising production time. For production of KORATHERM design radiators, the production hall has been completely renovated and a machine for laser welding slats was installed, and before the end of the year a new production line was set up for final completion of KORATHERM radiators. The updating of the entire information system was also launched.

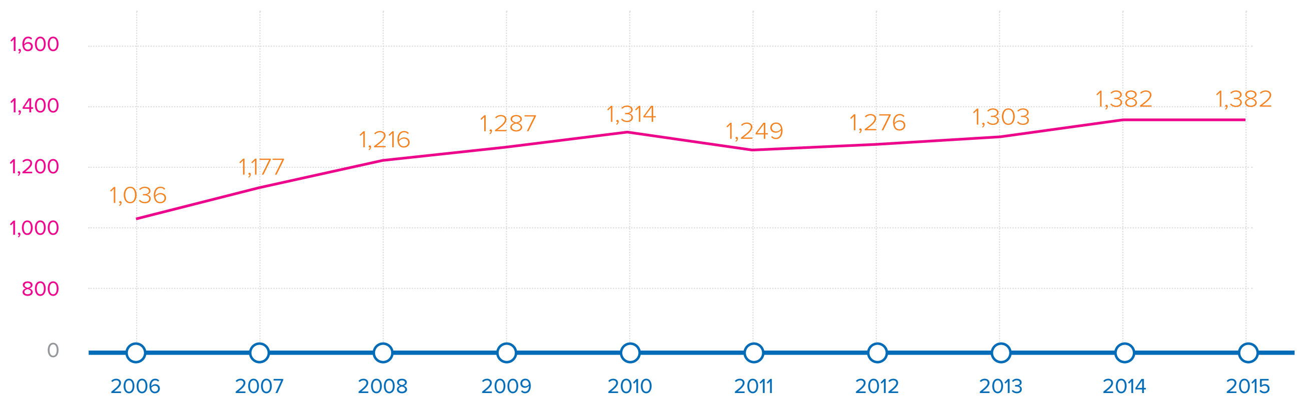
The Bulgarian plant commenced the full adaptation of another production hall for the location of the production line for bathroom radiators.

Risk Management

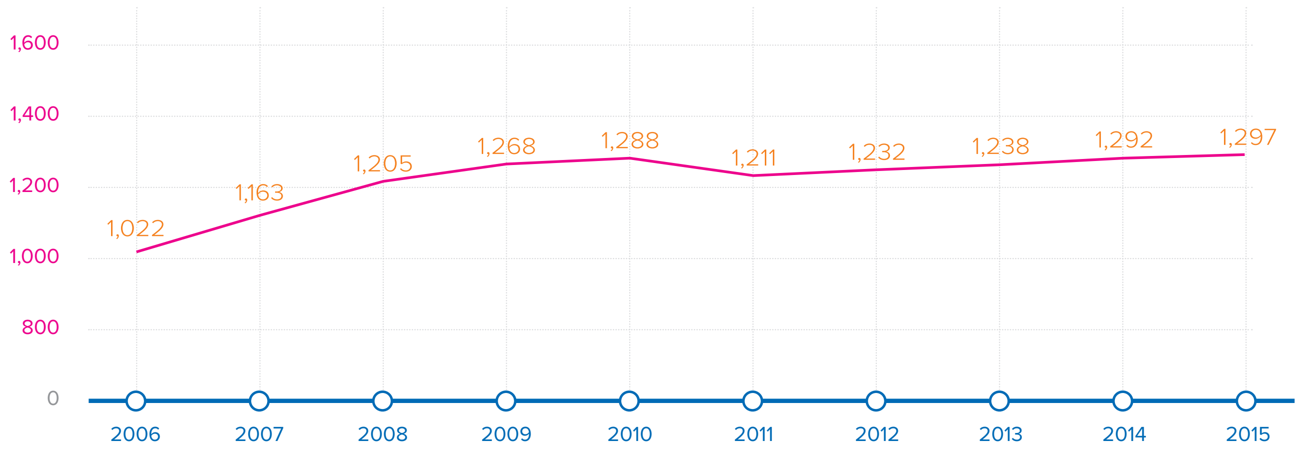
During its existence, the KORADO Group has built up a very stable and financially strong portfolio of customers. The continuing geopolitical tensions in Russia and the Ukraine associated with the macroeconomic slump in these two important markets, however, contributed significantly to payment issues with some of our trading partners. Addressing new customers from non-traditional territories also brings an increased level of credit risk. In this context, the long-term strategy of very strict perceptions of credit risk is more than justified. Also in 2015, as in previous years, the KORADO Group did not suffer any significant damages associated with any failure to pay outstanding debts or questionable payments of receivables; we always managed to resolve all disputes in cooperation with specialised credit insurance.

The perception of Risk Management in the wider context of the operations of the group led us to further strengthen the work with operational risks as well as risks on the part of corporate purchasing. Increased pressure on these points and a significant drop in commodity prices, of course, has also affected our supply environment. From this perspective, the long-term stabilised portfolio of our core suppliers is identified as one of the cornerstones of our purchasing strategy. Another element of this strategy is the never-ending search for alternative suppliers.

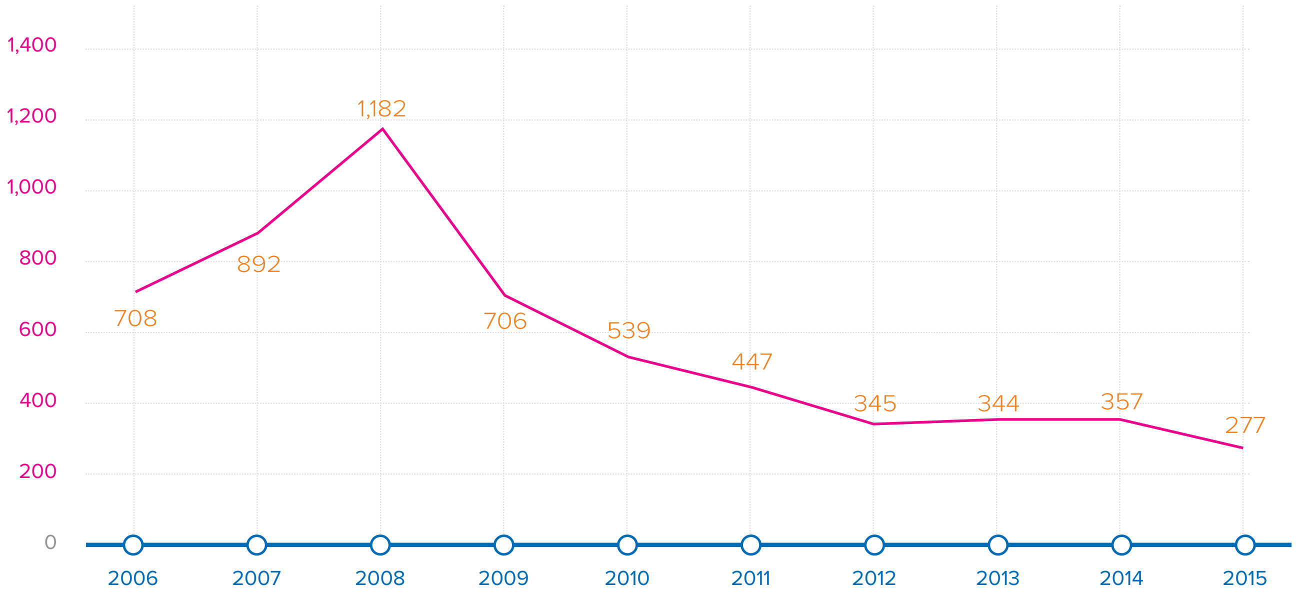
Equity of the KORADO Group (million CZK)



Equity of the Parent Company KORADO, a.s. (million CZK)



Debt of the KORADO Group (million CZK)



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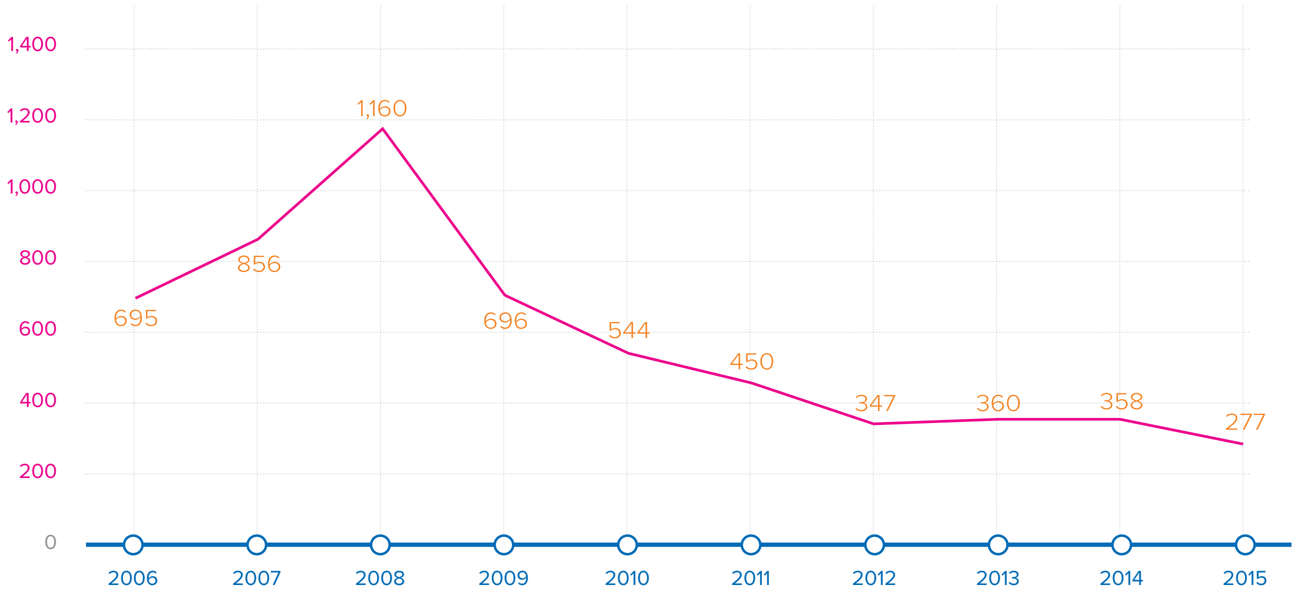


PURCHASE OF INPUT MATERIAL

One of the most important processes of the KORADO Group is the purchase of input material. An efficient production process and subsequent timely distribution of the resulting products to customers are subject to a continuous supply of material. The purchase of input material significantly affects production costs. In the long term, therefore, emphasis is placed on the price of raw materials while maintaining their standard of quality. The use of offensive purchasing strategies implemented with a reasonable risk allowed us to take advantage of favourable pricing conditions in the market in 2015 to achieve optimum material prices, and sales and delivery conditions. This was subject to continuous market research among materials purchased. A strategically vital factor on the one hand, was the systematic work with information on the status and trends of individual market segments as well as the role of specific suppliers on them, and on the other hand, also the internal information and analysis relating to the quality and yield of raw materials from various suppliers.

When providing metal and other strategic components for KORADO Bulgaria and LICON HEAT, the synergic effect of group buying is used. Emphasis is placed both on the cost of the material itself, and on the costs associated with its delivery and processing in production.

An important place in the supply chain is held by the suppliers' rating committee, which shifts the management and decision-making in purchasing into new positions more favourable for ensuring quality and cost-optimised production resources.

Specialised workplaces for tenders further expanded with the use of new, more efficient electronic instruments and thus significantly facilitated and improved enquiry management and purchase auctions. Besides purchasing materials, online auctions are also used for purchasing services and other non-material purchases, mainly dealing with investments.

Purchase of Material

The basic material needed for the production of panel radiators is cold rolled sheet steel. Its yearly consumption in the KORADO Group is in excess of 30,000 tons. During the course of 2015, the check system for qualitative and quantitative parameters of important material inputs was further expanded and improved, critical attention being paid to weighing the sheet metal coils and the amount of scrap metal disposed of. This standard is gradually being applied to other materials purchased. The aim of these measures is to optimise the total material costs while enhancing product quality. These goals could not be achieved without high-quality and timely information and the active participation of the material suppliers. The expanding range of products, and therefore also materials, places increased demands on storage and internal material handling. Solutions are continually being sought and implemented to increase storage capacity and optimise inventories.

Suppliers, Stabilisation and the Search for New Material Resources

The focus in 2015 was, and continues to be, the systematic work with suppliers, who are regularly subjected to rigorous evaluations. Involving others in the supplier evaluation system increases its informative ability and objectivity. The evaluation results are analysed in detail and used when dealing with suppliers in the following period. Stability and long-term partnerships with suppliers remain our priority. As well, the process of verifying supply options is constantly ongoing and intensive technical testing is continuously being conducted. Emphasis is placed on maintaining stable quality, logistics and service parameters while minimising the risk of shopping. In this way, we continually expand the portfolio of qualified suppliers, strengthening the competitive environment of material suppliers. The result is the achievement of optimum purchase prices in combination with other terms and conditions of supply.

PRODUCTION AND DEVELOPMENT

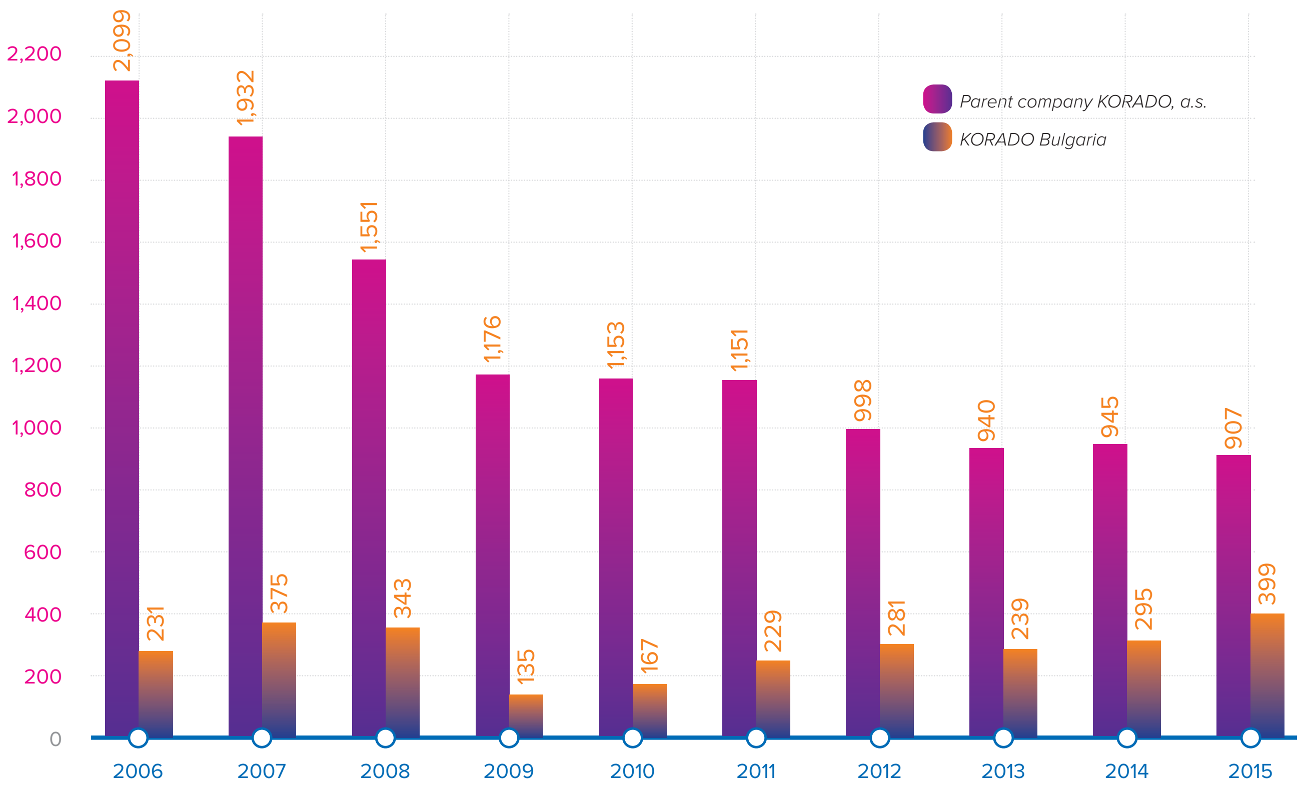
Production
In 2015, production at the parent company proceeded in a two-shift operation for panel radiators and three-shift continuous operation, as needed, for bathroom radiators. Production in KORADO Bulgaria took place in two to three shifts as needed and in LICON HEAT s.r.o. in single-shift operation, extended shifts as needed.

Production of Bathroom Radiators
The complete adaptation of the production hall was launched in KORADO Bulgaria for the location of lines for manufacturing bathroom radiators. All machinery needed for bathroom radiators will be installed in the first quarter of 2016 so that production could start in the second quarter of 2016.

Development of KORATHERM Design Radiators
For this production, the production hall has been completely refurbished and a machine for laser welding slats was installed, and before the end of the year a new production line was set up for final completion of KORATHERM radiators.

Innovating Radiator Production
Construction has begun on a testing room for radiators in Česká Třebová. The testing room will be an integral part of development and will facilitate more detailed and operational testing of new products. The paint shop for colour radiators was upgraded and moved closer to the assembly and packaging line, thus optimising production time.

Panel Radiator Production (Parent x KBG)



HUMAN RESOURCES MANAGEMENT

Training System for Employees

Training for technical and administrative employees is focused primarily on maintaining their professional education and skills, in compliance with the requirements stemming from the workloads of individual departments and employees.

Training sessions are regularly conducted on work safety and for higher legal standards (forklift operators, electricians, welders, crane operators, etc.).

Remuneration System for Employees

Remuneration in the KORADO Group is specifically tied to the fulfilment of specific indicators. The most significant is related to the Group's results and its financial liquidity. Employees are remunerated based on performance indicators defined by the various interest groups, and the system supports objectivity in remuneration and teamwork.

Taking Care of Employees

The KORADO Group focuses attention on maintaining a good standard of working conditions and environment for its employees. Employees are thus adequately motivated for optimum performance.

The priority of education is to improve technical professional training of employees in production.

In the long term, a stabilising element is the system of contributions to pension funds, in which the majority of the employees are involved.

Employees have the option of quality catering directly in the grounds of KORADO a.s., even in shift operations and with a significant contribution from their employer.

Awareness and Internal Communications

A prerequisite for optimum management is the availability of sufficient information; thus, an information system has been introduced for the areas of human resources, training and payroll, which collects data from these areas. The data are processed in regular and quarterly reports, which are available to the company management, in long term series.

Adaptation of new employees to the corporate culture and environment is aided by an initial informative training session and a "Manual for New Employees" with basic information on the Group and with practical information.

Health Protection

The KORADO Group has long been a company with high standards of health and safety at work, which in recent years corresponds to a very low accident rate. To a large extent, regular and vocational training of all Group employees on work safety greatly contributes to this.

QUALITY CONTROL SYSTEM, ECOLOGY AND THE ENVIRONMENT

Reliability and Quality

The product brand name KORADO is a guarantee of high quality, long life, high technical parameters, flawless delivery, and wide range with a corresponding range of prices. The percentage of complaints is well below 1% of total sales.

The high quality is achieved by a system of quality assurance, which is the backbone of the Group management system. The quality assurance system places emphasis on the continuous improvement of its level and increasing the efficiency of the processes.

The quality management system was recertified in 2015 according to the ISO 9001 system standard. One of the main characteristics of the entire system is the managed measurement of processes, which is the basis for the continuous improvement of the system. The system reflects the most modern trends in management.

Every year the KORADO Group establishes Objectives and Strategies, which are met in accordance with the criteria adopted. The Company Policy was adopted, in which are anchored the main principles of corporate governance, and the Code of Ethics has also been adopted.

Ensuring high quality in all processes of the production and sale of radiators has been confirmed by holding on to product certifications for western European countries: RAL for the Federal Republic of Germany, NF for France and BSI for Great Britain.

There are also marks for other important markets, such as the Russian market with the GOST mark, which also serves for the Ukrainian and Belarusian markets. These marks confirm that RADIK and KORALUX radiators have consistently met the set requirements for the quality of material, construction and production and for their regular inspection.

The ISO 9001 quality management system, in combination with the quality marks, guarantees the highest degree of lasting quality for the products and all activities of KORADO on the European and world markets.

Ecology and Environmental Protection

In the first half of the year, increased attention was devoted to recycling electrical equipment and batteries. A system was set up for keeping records and reporting in relation to the environment.

Changes are constantly being made to the REACH legislation governing the area of handling chemicals, which, in the context of providing advice, are applied through the Purchasing Department to the entire company. This is a very detailed activity requiring constant contact with individual suppliers of chemicals. In conjunction with the changes implemented, internal regulations for handling chemicals are updated.

As part of the proceedings, a permit was granted to operate a stationary pollution source and the permit to discharge wastewater was prolonged. Updated operating rules for air pollution sources have been published.

GENERAL COMPANY INFORMATION

Company name:	KORADO, a.s.	
Headquarters:	Bří Hubálků 869, 560 02 Česká Třebová	
Legal form:	joint-stock company	
Recorded:	In the Commercial Registry kept at the District Court in Hradec Králové, Dept. B, Entry 1500	
Registration Date:	1 September 1996	
Co. ID No.:	25 25 58 43	
Company shareholders:	Ministery of Finance, Czech Republic	34.22%
	European Bank for Reconstruction & Development	29.14%
	Ing. Bedřich Brabec	9.16%
	František Menclík	9.16%
	Ludvík Petr	9.16%
	Miroslav Vobora	9.16%

Fields of Business:

- Manufacture of central heating radiators
- Catering
- Plumbing, heating
- Production, installation and repair of electrical machinery and apparatus, electronic and telecommunication equipment
- Metalworking, tool-making
- Production, sales and services not specified in Appendices 1 to 3 of the Trade Act
- Painting, lacquering and varnishing

KORADO is the biggest Czech and one of Europe's largest manufacturers of steel radiators.

The main production programs of KORADO, a.s., are RADIK and KINGRAD steel panel radiators, KORALUX tubular radiators and KORATHERM design radiators. The company is constantly expanding its production program not only with new models of radiators, but also completely new technology and products. From what was once a small firm based in Česká Třebová with an annual turnover of less than CZK 50 million grew in just a few years to become one of Europe's leading manufacturers of a broad range of heating technologies. The company's goal is to continue to expand its product range in the future, enabling it to offer its customers a comprehensive range of top quality heating components under the KORADO trademark.

The history of the company dates back to 1990, when it was established in Česká Třebová. Since then, KORADO, a.s. has undergone dynamic growth from a small Czech firm into a successful and ambitious European business. The years 1996 and 1997 were a historic milestone for the company, as ground was broken for a new production plant for RADIK and KORALUX radiators at a total cost of nearly 3 billion CZK.

A major decision for KORADO, a.s. was to invest in a fourth production line and ancillary machinery, commenced in 2007. This investment of almost 600 million CZK, the second biggest investment project in the company's history and the largest financial investment since the construction of the new plant in 1997, brought with it not only greater production efficiency, but also increased production capacity, which helps to optimise production even today.

In the years 2010 - 2011 KORADO, a.s. implemented further investments in the installation of new machinery for capillary brazing for KORALUX tubular radiators in order to provide a greater number of bathroom radiators with lower production costs.

In October 2013, the parent company purchased the company LICON HEAT. LICON HEAT deals in the production of convectors, thereby further supplementing and expanding the group's portfolio.

At the end of 2014, the parent company successfully participated in increasing the equity in KORADO Bulgaria by some 7 million BGN (about CZK 100 million) through a secondary subscription of the share capital on the Stock Exchange in Sofia.

After overcoming the most difficult crisis years, the company continues to improve its market position and in 2015 achieved the highest sales since 2010.

COMPOSITION OF THE COMPANY BODIES AND MANAGEMENT

General Meeting
The highest body of KORADO, a.s., is the General Meeting, consisting of the Company's shareholders. Its authority and powers are determined by the Company Statutes. The Board of Directors usually convenes a General Meeting once a year.

Ultimate management and control of the company is provided by these bodies:

Supervisory Board
The Supervisory Board is the highest controlling body of KORADO, a.s., which is authorised to oversee the activities of the Board of Directors and the company's business activities. The composition, competence and powers of the Supervisory Board are determined by the Company Statutes. As of 31 December 2015, the Supervisory Board had six members. The Supervisory Board usually meets once every two months. In 2015, a total of six meetings of the Supervisory Board were held. In 2015, there were no changes in the composition of the Supervisory Board.

Composition of the Supervisory Board as of 31 Dec. 2015:

Chairman:	Ludvík Petr
Deputy Chairman:	Dipl. Ing. Dr. Ernst Bachner
Member:	Ing. Hana Vaňousová
Member:	Ing. Petr Blažek
Member:	Ludmila Filipovová
Member:	Ing. Jaromír Hejda

Board of Directors
The Board is the statutory body which manages the activities and operations of the company and acts on behalf of KORADO, a.s. The Board members are elected by the Supervisory Board from persons nominated by shareholders. The term of office for members of the Board is five years. The Board of Directors decides on all matters that are not reserved to the General Assembly under applicable legislation or the Company Statutes. In 2015, the Supervisory Board re-elected Messrs. František Menclík and Miroslav Vobora as members of the Board of Directors for another term.

Composition of the Board of Directors as of 31 Dec. 2015:

Chairman:	František Menclík
Deputy Chairman:	Miroslav Vobora
Member:	Julian Healy
Member:	Ing. František Hamáček

Management
The Company is divided into five departments: the Administration Department, Sales Department, Production Department, Purchasing Department, and Finance and Controlling Department. The Company has also established Internal Audit. Each department is managed by its Director or by a Deputy of the CEO. At the head of Senior Company Management of KORADO, a.s., is the CEO. The company is part of the consolidated KORADO Group.

As of 31 December 2015, Management was composed as follows:

Ing. Vojtěch Čamek (*1956)
Chief Executive Officer
From 2002, in KORADO, a.s., he served as Manager of Finance and Controlling. On 1 April 2012 he was appointed CEO. In the years 1999 – 2001, he was Financial Manager and CEO of an affiliate of Motokov International. From 1992 to 1999 he worked at the European Bank for Reconstruction and Development in London. In the period 1982 – 1992, he worked at the headquarters of the Czechoslovak State Bank in Prague. From 1974 to 1982, he worked in administrative positions in various industrial companies in the country. He graduated from the University of Economics in Prague.

Ing. Jiří Jeřábek (*1949)
Deputy Chief Executive Officer
Purchase
On 1 April 2012, he was appointed Deputy of the CEO for purchasing. In KORADO, a.s., he was employed from September 2002 as Sales Manager. In the period 1999 - 2002 he served as Sales Manager in the company Maketek OY, in Tampere, Finland. In the years 1998 – 1999, he was Manager of Purchasing at Zetor a.s. in Brno. In the period 1990 - 1998 he worked at Suomen Motokov OY, in Finland; from 1996 as Deputy Manager. In the years 1987 – 1990, he worked as head of technical documentation department and sales of Zetor a.s. Brno. In the years 1982 - 1987 he served as technical director of Suomen Motokov OY in Finland; from 1970 to 1982, he held various production and technical positions in Zetor a.s. Brno. He graduated from the University of Economics in Prague, majoring in industrial economics.

Ing. Aleš Zouhar (*1959)
Executive Director Sales and Marketing

At KORADO, a.s., he has been employed since 2004 as Sales Manager. On 1 April 2012 he was appointed Sales Manager. In the period 2001 – 2003, he served as CEO of AMERICAN JAWA Ltd. In 1998 – 2000, he was Director of MOTOKOV UK Ltd. In the period 1995 - 1997 he worked for Zetor a.s. as Sales and Marketing Director and was also chairman of the company Zetor PDC a.s. From 1990 - 1994 he worked for VW Great Britain Ltd. as CEO and in the years 1984 - 1990 he worked at the department of foreign trade UZOS as a Department Manager. He graduated from Mendel University in Brno, the Institute of Foreign Trade and Cambridge Regional College.

Ing. Jiří Řezníček (*1954)
Executive Director
of KORADO Bulgaria

He was employed In KORADO, a.s., in the period 1995 - 2001 and from 2005 to the present. In September 2007, he was appointed Executive Manager of the subsidiary KORADO Bulgaria. In the period 2002 - 2004 he worked for Gienger s.r.o. Zlin as the Manager of the Olomouc Centre and representative for the region of Olomouc and Eastern Bohemia. In the period 1991 – 1995, he worked at Armaturka, a.s. Česká Třebová as Operations Manager and later as Director of the company. From 1983 – 1991, he was Head of Operations at Sigma K. P. Česká Třebová. In the years 1978 - 1983 in the capacity of independent technologist for the manufacturing company Liaz, n.p. He graduated from the Technical University in Brno, Faculty of Mechanical Engineering, specialising in transport machinery, material handling equipment and internal combustion engines.

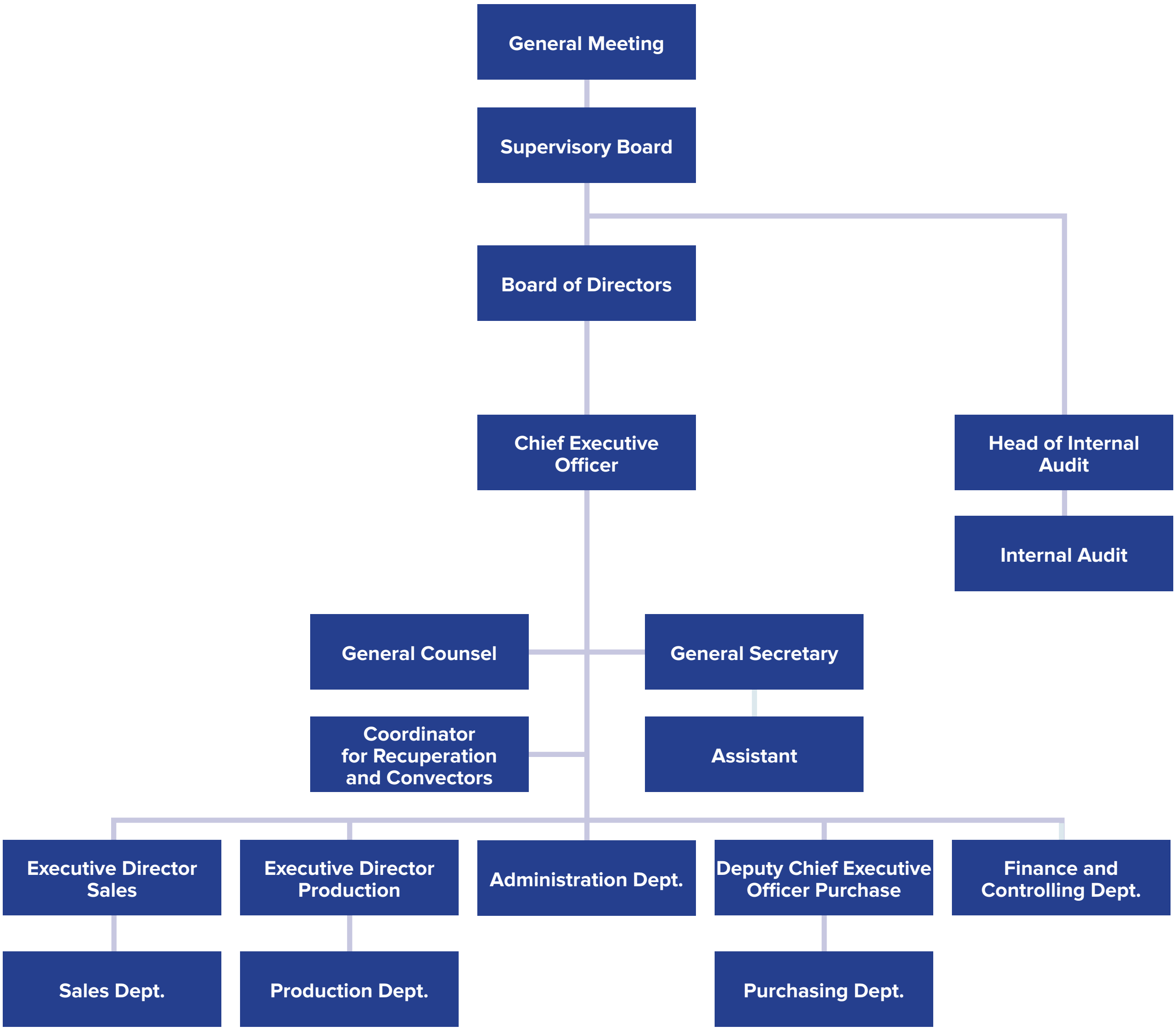
Ing. Miloš Sotona (*1965)
Executive Director Production

In KORADO, a.s., he has been employed since March 2012 in the position of Production Manager. In the years 2004 - 2011 held the position of Head of Production, Production and Quality Manager at GCE Chotěboř. In the period 2001 - 2004 he worked for Matsushita Panasonic Automotive Czech as Head of Technical Production. In the years 1992 - 2000 he worked in Prokop - Milling Machinery Pardubice, first in the Technical Development Department and from 1995 as Head of Quality Assurance. In the period 1988 – 1992, he worked as an independent engineer in the company TMS Pardubice.
He graduated from the Faculty of Mechanical Engineering, Institute of Mechanical and Textile Engineering in Liberec, majoring in engineering technology.

Martin Kniha (*1972)
CEO, LICON HEAT s.r.o.

In 2013, he was appointed Managing Director of the subsidiary LICON HEAT s.r.o. From 2004 to 2013 he was a partner in the company and executive director. In the period 1995-2004 he worked for Likov V. D., first as Technical Manager until 1999 and then in the position of Production Manager and from 2002 as Executive Director. From 1993 to 1995 he worked as an independent reviewer at Rockwell International in Liberec.
He graduated from the Secondary School of Mechanical Engineering in Liberec.

Organisational Plan



COMPANY HISTORY IN DATES

1965 Start of production of panel radiators in the former company Koventa.

1970 Launched own multipoint welding lines for the production of radiators.

1987 Installed first welding line from SCHLATTER, an innovation for radiators, significantly reducing the proportion of manual labour, increasing labour productivity.

1988 Commissioned a new paint shop, a significant shift in the quality of the surface finish of radiators.

1990 The private company KORADO s.r.o. was founded, with a registered capital of 100,000 CSK, was founded by the current shareholders, Messrs. František Menclík, Ludvík Petr, Miroslav Vobora and Ing. Bedrich Brabec.

1991 Privatisation of Koventa by auction and subsequent upgrading of the company and commencement of production, increasing production capacity and introducing continuous operation.

1992 Innovation of panel radiators and expansion of the production program with special radiators.

1993 Repayment of all loans granted by the bank for the purchase of the plant; after further investments, the plant at that time reached maximum production capacity.

1994 First significant share capital increase to 5 million CZK.

1995 Business plan developed for the construction of a new “greenfield” KORADO plant; newly established subsidiary KORADO Deutschland.

1996 Transformation into a stock company and share capital increased to 880 million CZK; construction commenced on a new plant worth nearly 3 billion CZK; other subsidiaries founded - KORADO Moskva, KORADO Baltija KORADO Brod, KORADO Polska and a majority stake was bought in the transport company S.A.S.

1997 Capital entry of the European Bank for Reconstruction and Development (EBRD); share capital increased to 1,580 billion CZK; ISO 9001 certification obtained and of production commenced in the newly built manufacturing plant in Česká Třebová.

1998 Acquisition of a 98% stake in the production plant in Bulgaria and its overall consolidation. Other subsidiaries founded; KORADO Austria, KORADO UK.

1999 Transfer of loans for KORADO, a.s., from Česká spořitelna to Konsolidační banka Praha, s.p.ú. (KOB).

2000 Loan portfolio restructured by KOB, interest burden reduced and the company financially stabilised, registered capital reduced by accumulated losses amounting to 1,027 million CZK, followed by an increase of capital by KOB in the form of capitalisation of 287.7 million to 840.7 million CZK.

2002 Significant turning point in the company; after four years of losses, we again achieved a positive financial result of 31 million CZK. Restructuring of the largest subsidiaries KORADO Polska, KORADO Austria and KORADO Deutschland to increase return on investment.

2003 The process of finding a strategic investor launched in 2001 was terminated without selecting a partner; the influence of the most important shareholder, the European Bank for Reconstruction and Development, on company management grew stronger; for the first time in history, the consolidated profit for the entire KORADO Group reached a positive value of 57 million CZK.

2004 Payment of all loans at the Czech Consolidation Agency and transition to HVB Bank Czech Republic (today UniCredit Bank Czech Republic). The highest ever pretax profit achieved of 375 million CZK.

2005 Significant debt reduction to less than CZK 1 billion. Annual decline in sales to the level of 2003. Significant increase in material costs.

2006 For the first time, the company produced more than two million radiators; separation of plastics manufacturing into a separate company and its subsequent sale; the subsidiary S.A.S. sold off; decision on investment in a fourth welding line.

2007 Investments launched in the fourth welding line and related machinery totalling nearly 600 million CZK. Management system in the largest subsidiary, KORADO Bulgaria, restructured and changed. Highest sales in history, amounting to 2.725 billion CZK.

2008 Completion of the second largest investment in the history of KORADO, a.s., and the largest investment since the construction of the new plant - construction and commissioning of the fourth welding line. Astronomical rise in steel prices to historic highs. Sharp decline in sales in the fourth quarter due to the advent of the global economic recession. Subsidiary KORADO Baltija sold off.

2009 Significant impact of the global economic crisis, which was reflected in a year-on-year decline in revenues of 24%. Consistent optimisation of working capital, which led to a significant improvement in the financial situation of the company. reduction in loan commitments. Yearly decline in bank loans by 40%.

2010 Continuing economic crisis led to a further decline of 9% in annual sales. A new capillary brazing furnace fors KORALUX radiator was installed.

2011 Special payment instalment of the long-term bank loan was made of 50 million CZK. Production of a new low-cost radiator introduced.

2012 Change in management effected in April. After several years of decline in sales, 2012 showed an increase in sales and the KORADO Group generated a profit again, reaching 32 million CZK.

2013 On 1 Oct. 2013, a contract was signed for the purchase of the company LICON HEAT s.r.o. by the parent company. LICON HEAT s.r.o. is engaged in production of convectors, thereby further supplementing and expanding the group's portfolio.

2014 KORADO Bulgaria implemented a secondary subscription of share capital on the Stock Exchange in Sofia and installed a second production line for panel radiators. Bank loans were refinanced, which had been transferred to ČSOB.

2015 Highest sales in the parent company and the Group since 2010. A new production line installed in the parent company for final completion of KORATHERM design radiators. Korado Bulgaria commenced a complete adaptation of their production hall for the installation of production lines for bathroom radiators.

REPORT OF THE SUPERVISORY BOARD

During the year 2015, there was a total of six meetings of the Supervisory Board of KORADO, a.s. All the meetings of the Supervisory Board reached quorum. The Supervisory Board inquired at its meetings about the financial results of the company and all key activities of the Board of Directors of KORADO, a.s. The Supervisory Board of the company adhered to the approved work plan that had been coordinated with the plan of the Board of Directors. Each meeting of the Supervisory Board was attended by the Chairman of the Board of Directors, or another member of the Board of Directors as well.

The Supervisory Board of KORADO, a.s, had the following members from 1 January 2015:
- Ludvík PETR - Chairman of the Supervisory Board
- Dip. Ing. Dr. Ernst BACHNER - Vice-Chairman of the Supervisory Board
- Ing. Hana VAŇOUSOVÁ - Member of the Supervisory Board
- Ludmila FILIPOVOVÁ - Member of the Supervisory Board
- Ing. Petr BLAŽEK - Member of the Supervisory Board
- Ing. Jaromír HEJDA - Member of the Supervisory Board

There were no changes in the Supervisory Board membership during the year 2015.

Discharge of duties of the Supervisory Board

The Supervisory Board supervised the discharge of duties of the Board of Directors of the company and the carrying out of the business activity of the company. It focused mostly on the fact whether its performance had been carried out in compliance with the provisions of the law on companies and cooperatives (Act on Business Corporations), the Civil Code, other legal regulations and the valid Articles of Incorporation of KORADO, a.s. On regular basis it monitored and discussed the financial results for the previous periods, the state of its assets, including information on the state of receivables. The standard tasks of the Supervisory Board in 2015 included the approval and on-going reviews of the fulfillment of company's Business and Financial Plans. The Supervisory Board examined and checked the fulfillment of the Marketing Plan, discussed the Financial Plan, dealt with customers' commercial limits in 2015 and periodically discussed the reports on the Internal Audit activities. The Supervisory Board was presented with the evaluation of the secondary public offering in KORADO Bulgaria at the Sophia Stock Exchange. The Supervisory Board was regularly apprised by the company directors of significant analyses and projects of the company.

On 27 March 2015, the Supervisory Board agreed with the proposal of the Board of Directors that the General Meeting was to decide about the submitted amendment to the Articles of Association of KORADO, a.s.

On 29 May 2015 the Supervisory Board re-elected two members of the Board of Directors, F. Menclík and M. Vobora, for another office term.

During the mentioned period, the Supervisory Board carried out its duties resulting from the Act on Business Corporations, mainly those set forth in § 446 to § 455, as well as from the Civil Code, mainly those set forth in § 159.

Verification of the discharge of the sphere of action of the Board of Directors

The Supervisory Board, or more precisely, Chairman of the Supervisory Board, regularly received minutes from the meetings of the Board of Directors, based upon which the Supervisory Board checked the fulfillment of assigned tasks. The meetings of the Board of Directors were regularly attended by the Chairman of the Supervisory Board or by a commissioned member thereof. Any comment of the Supervisory Board concerning the tasks and duties of the Board of Directors was discussed with the Chairman of the Board of Directors or a commissioned member thereof. The fulfillment of tasks assigned to the Board of Directors was reviewed at each meeting of the Supervisory Board. The Supervisory Board states that the Board of Directors and the Top Management provided the Supervisory Board with all materials requested for its activity.

Review of the financial statements

On its 120th meeting held on April 1, 2016, the Supervisory Board was apprised of the auditor's, Ernst & Young, statement regarding the financial statements and the consolidated financial statements according to the IFRS standards. The Supervisory Board reviewed the regular financial statements and the consolidated financial statements according to the IFRS standards of the KORADO company and the KORADO Group respectively, as of Dec. 31, 2015, presented by the Board of Directors. The supplements to the regular financial statements and the consolidated financial statements for 2015 are included in the full version in the Annual Report of KORADO, a.s., for 2015. Based upon the review of the financial statements, the Supervisory Board recommended to the General Meeting to approve the financial statements of the company KORADO, a.s. and the consolidated financial statements according to the IFRS standards of the KORADO Group as of December 31, 2015.

The Supervisory Board revised the proposal of the Board of Directors and recommends that the General Meeting distributes the profit for the year 2015 as follows:
- The financial result of KORADO, a.s., after taxes as reported in the accounting shows the profit of CZK 41,376,635.95. The amount of CZK 39,998,104 is to be used for the payment of dividends (the first deposit was paid in 12/2015 in the amount of CZK 14,998,088, the second deposit will be paid in 4/2016 in the amount of CZK 9,999,526 and remaining payment will be made in the amount of CZK 15,000,490) and the amount of CZK 1,378,531.95 is to be transferred to retained earnings.

The Supervisory Board stated that the proposed profit distribution complies with the legal regulations and the Articles of Associations of KORADO, a.s. and recommends that the General Meeting approves the proposal to distribute the profit for the year 2015 and as it was presented by the Board of Directors.

In Česká Třebová on April 1, 2016

Ludvík Petr
Chairman of the Supervisory Board

Dip. Ing. Dr. Ernst Bachner
Vice-Chairman of the Supervisory Board

KORADO, a.s.

Financial Statements for the Year Ended 31 DECEMBER 2015

together with Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of KORADO, a.s.:

We have audited the accompanying financial statements of KORADO, a.s., which comprise the balance sheet as at 31 December 2015, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of KORADO, a.s., see Note 1 to the financial statements.

Management's Responsibilities for the Financial Statements

Management is responsible for preparation and presentation of financial statements that give a true and fair view in accordance with accounting principles generally accepted in the Czech Republic, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing as amended by implementation guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of KORADO, a.s., as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

Other Information

Other information comprises information included in the annual report other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information included and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated and whether the annual report has been prepared in accordance with applicable law or regulation. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Petr Vácha

Ernst & Young Audit, s.r.o.
License No. 401

Petr Vácha, Auditor
License No. 1948

18 March 2016
Prague, Czech Republic

K O R A D O , a . s .
B A L A N C E S H E E T - L O N G F O R M

Czech Statutory Financial Statement Forms as at 31 December 2015 (in thousands of Czech crowns)

				Gross	Current year Allowances	Net	Prior year 2014 Net
			TOTAL ASSETS	**5,407,037**	**(3,387,077)**	**2,019,960**	**2,128,814**
A.			**STOCK SUBSCRIPTION RECEIVABLE**				
B.			**FIXED ASSETS**	**4,992,145**	**(3,365,536)**	**1,626,609**	**1,653,972**
B.	I.		Intangible assets	199,317	(180,544)	18,773	11,789
B.	I.	1	Foundation and organization expenses	0	0	0	0
		2	Research and development	0	0	0	0
		3	Software	186,099	(177,985)	8,114	9,161
		4	Patents, royalties and similar rights	3,415	(2,559)	856	843
		5	Goodwill	0	0	0	0
		6	Other intangible assets	0	0	0	0
		7	Intangible assets in progress	9,803	0	9,803	1 785
		8	Advances granted for intangible assets	0	0	0	0
B.	II.		Tangible assets	4,408,964	(3,024,528)	1,384,436	1,432,499
B.	II.	1	Land	25,462	0	25,462	25,163
		2	Constructions	1,676,402	(726,591)	949,811	984,594
		3	Separate movable items and groups of movable items	2,587,043	(2,235,310)	351,733	409,731
		4	Perennial crops	0	0	0	0
		5	Livestock	0	0	0	0
		6	Other tangible assets	76,591	(62,627)	13,964	9,166
		7	Tangible assets in progress	41,317	0	41,317	3,595
		8	Advances granted for tangible assets	2,149	0	2,149	250
		9	Gain or loss on revaluation of acquired property	0	0	0	0
B.	III.		Financial investments	383,864	(160,464)	223,400	209,684
B.	III.	1	Subsidiaries	290,188	(107,487)	182,701	126,247
		2	Associates	0	0	0	0
		3	Other long-term securities and interests	0	0	0	0
		4	Loans and borrowings to subsidiaries and associates	93,676	(52,977)	40,699	27,500
		5	Other long-term investments	0	0	0	0
		6	Long-term investments in progress	0	0	0	55,937
		7	Advances granted for long-term investments	0	0	0	0
C.			**CURRENT ASSETS**	**403,856**	**(21,541)**	**382,315**	**464,863**
C.	I.		Inventory	136,929	(1,215)	135,714	140,680
C.	I.	1	Materials	87,766	(706)	87,060	89,191
		2	Work in progress and semi-finished production	6,859	0	6,859	5,810
		3	Finished products	27,002	(470)	26,532	26,233
		4	Livestock	0	0	0	0
		5	Goods	15,290	(39)	15,251	19,446
		6	Advances granted for inventory	12	0	12	0
C.	II.		Long-term receivables	2	0	2	2
C.	II.	1	Trade receivables	0	0	0	0
		2	Receivables from group companies with majority control	0	0	0	0
		3	Receivables from group companies with control of 20% - 50%	0	0	0	0
		4	Receivables from partners	0	0	0	0
		5	Long-term advances granted	2	0	2	2
		6	Unbilled revenue	0	0	0	0
		7	Other receivables	0	0	0	0
		8	Deferred tax asset	0	0	0	0
C.	III.		Short-term receivables	143,634	(20,326)	123,308	206,913
C.	III.	1	Trade receivables	126,387	(20,326)	106,061	143,250
		2	Receivables from group companies with majority control	0	0	0	47,619
		3	Receivables from group companies with control of 20% - 50%	0	0	0	0
		4	Receivables from partners	0	0	0	0
		5	Social security and health insurance	0	0	0	0
		6	Due from government - tax receivables	13,211	0	13,211	11,229
		7	Short-term advances granted	3,232	0	3,232	2,877
		8	Unbilled revenue	747	0	747	1,874
		9	Other receivables	57	0	57	64
C.	IV.		Short-term financial assets	123,291	0	123,291	117,268
C.	IV.	1	Cash	611	0	611	579
		2	Bank accounts	122,680	0	122,680	116,689
		3	Short-term securities and interests	0	0	0	0
		4	Short-term financial assets in progress	0	0	0	0
D.			**Accrued assets and deferred liabilities**	**11,036**	**0**	**11,036**	**9,979**
D.	I.	1	Prepaid expenses	4,792	0	4,792	4,657
		2	Prepaid expenses (specific-purpose expenses)	0	0	0	0
		3	Unbilled revenue	6,244	0	6,244	5,322

KORADO, a.s.
BALANCE SHEET - LONG FORM
Czech Statutory Financial Statement Forms as at 31 December 2015 (in thousands of Czech crowns)

				Current year	Prior year 2014
			TOTAL EQUITY & LIABILITIES	**2,019,960**	**2,128,814**
A.			**EQUITY**	**1,296,904**	**1,291,815**
A.	I.		Basic capital	840,700	840,700
A.	I.	1	Registered capital	840,700	840,700
		2	Own shares and own ownership interests (-)	0	0
		3	Changes in basic capital	0	0
A.	II.		Capital funds	(36,345)	(35,053)
A.	II.	1	Share premium (agio)	0	0
		2	Other capital funds	48	48
		3	Gain or loss on revaluation of assets and liabilities	(36,393)	(35,101)
		4	Gain or loss on revaluation of corporation transformations	0	0
		5	Gain or loss on corporation transformations	0	0
		6	Gain or loss on revaluation upon corporation transformations	0	0
A.	III.		Funds created from profit	48,269	48,269
A.	III.	1	Reserve fund	48,269	48,269
		2	Statutory and other funds	0	0
A.	IV.		Profit (loss) for the previous years	417,901	368 861
	IV.	1	Retained earnings for the previous years	417,901	381 861
		2	Accumulated loss of previous years	0	0
		3	Other retained earnings for previous years	0	(13,000)
A.	V.	1	Profit (loss) for the year (+/-)	41,377	79,038
A.	V.	2	Approved decision on advances for profit distribution (-)	(14,998)	(10,000)
B.			**LIABILITIES**	**710,570**	**829,215**
B.	I.		Provisions	6,434	6,916
B.	I.	1	Provisions created under special legislation	0	0
		2	Provision for pensions and similar obligations	0	0
		3	Provision for corporate income tax	0	0
		4	Other provisions	6,434	6,916
B.	II.		Long-term liabilities	72,161	72,161
B.	II.	1	Trade payables	0	0
		2	Liabilities to group companies with majority control	0	0
		3	Liabilities to group companies with control of 20% - 50%	0	0
		4	Liabilities to partners	0	0
		5	Long-term advances received	0	0
		6	Bonds payable	0	0
		7	Long-term notes payable	0	0
		8	Unbilled deliveries	0	0
		9	Other liabilities	0	0
		10	Deferred tax liability	72,161	72,161
B.	III.		Current liabilities	355,225	392,388
B.	III.	1	Trade payables	306,333	288,778
		2	Liabilities to group companies with majority control	0	0
		3	Liabilities to group companies with control of 20% - 50%	0	0
		4	Liabilities to partners	37	55,973
		5	Liabilities to employees	12,447	12,811
		6	Liabilities arising from social security and health insurance	6,382	6,442
		7	Due to government – taxes and subsidies	3,736	3,423
		8	Short-term advances received	9,170	512
		9	Bonds payable	0	0
		10	Unbilled deliveries	16,684	24,019
		11	Other liabilities	436	430
B.	IV.		Bank loans and borrowings	276,750	357,750
B.	IV.	1	Long-term bank loans	195,750	276,750
		2	Short-term bank loans	81,000	81,000
		3	Borrowings	0	0
C.	I.		Accrued liabilities and deferred assets	12,486	7,784
C.	I.	1	Accruals	12,486	7,784
		2	Deferred income	0	0

KORADO, a.s.

INCOME STATEMENT - LONG FORM

Czech Statutory Financial Statement Forms as at 31 December 2015 (in thousands of Czech crowns)

			Current year	Prior year 2014
I.		Revenue from sale of goods	376,229	299,701
A.		Cost of goods sold	319,522	255,440
+		**Gross margin**	**56,707**	**44,261**
II.		Production	1,250,806	1,303,034
II.	1	Revenue from sale of finished products and services	1,238,753	1,288,044
	2	Change in inventory produced internally	2,309	5,360
	3	Own work capitalized	9,744	9,630
B.		Production related consumption	906,482	912,414
B.	1	Consumption of material and energy	723,887	752,126
B.	2	Services	182,595	160,288
+		**Value added**	**401,031**	**434,881**
C.		Personnel expenses	274,685	266,364
C.	1	Wages and salaries	208,728	203,073
C.	2	Bonuses to members of corporation management	1,440	1,440
C.	3	Social security and health insurance	61,437	58,730
C.	4	Other social costs	3,080	3,121
D.		Taxes and charges	859	1,221
E.		Amortization and depreciation of intangible and tangible fixed assets	105,138	106,490
III.		Revenue from sale of intangible and tangible fixed assets and materials	35,527	23,759
III.	1	Revenues from sale of intangible and tangible fixed assets	1,603	484
	2	Revenue from sale of materials	33,924	23,275
F.		Net book value of intangible and tangible fixed assets and materials sold	34,323	22,479
F.	1	Net book value of intangible and tangible fixed assets sold	1,176	0
F.	2	Materials sold	33,147	22,479
G.		Change in provisions and allowances relating to operations and in prepaid expenses (specific-purpose expenses)	(2,771)	12,917
IV.		Other operating revenues	15,933	9,624
H.		Other operating expenses	19,497	13,490
V.		Transfer of operating revenues	0	0
I.		Transfer of operating expenses	0	0
*		**Profit or loss on operating activities**	**20,760**	**45,303**
VI.		Revenue from sale of securities and interests	0	0
J.		Securities and interests sold	0	0
VII.		Income from financial investments	28,240	44,862
VII.	1	Income from subsidiaries and associates	28,240	44,862
	2	Income from other long-term securities and interests	0	0
	3	Income from other financial investments	0	0
VIII.		Income from short-term financial assets	0	0
K.		Expenses related to financial assets	0	0
IX.		Gain on revaluation of securities and derivatives	0	0
L.		Loss on revaluation of securities and derivatives	0	0
M.		Change in provisions and allowances relating to financial activities	(4,820)	(2,311)
X.		Interest income	1,842	2,668
N.		Interest expense	5,871	7,950
XI.		Other finance income	10,524	6,374
O.		Other finance cost	18,938	14,530
XII.		Transfer of finance income	0	0
P.		Transfer of finance cost	0	0
*		**Profit or loss on financial activities**	**20,617**	**33,735**
Q.		Tax on profit or loss on ordinary activities	0	0
Q.	1	- due	0	0
Q.	2	- deferred	0	0
**		**Profit or loss on ordinary activities after taxation**	**41,377**	**79,038**
XIII.		Extraordinary gains	0	0
R.		Extraordinary losses	0	0
S.		Tax on extraordinary profit or loss	0	0
S.	1	- due	0	0
S.	2	- deferred	0	0
*		**Extraordinary profit or loss**	**0**	**0**
		Transfer of share of profit or loss to partners (+/-)	0	0
***		**Profit or loss for the year (+/-)**	**41,377**	**79,038**
****		**Profit or loss before taxation**	**41,377**	**79,038**

KORADO, a.s.
CASH FLOW STATEMENT

Czech Statutory Financial Statement Forms as at 31 December 2015 (in thousands of Czech crowns)

				Current year	Prior year 2014
			Cash flows from operating activities		
Z.			**Profit or loss on ordinary activities before taxation (+/-)**	**41,377**	**79,038**
A.	1.		Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	73,431	79,104
A.	1.	1.	Depreciation and amortization of fixed assets and write-off of receivables	105,867	106,825
A.	1.	2.	Change in allowances	(7,886)	9,940
A.	1.	3.	Change in provisions	(482)	665
A.	1.	4.	Foreign exchange differences	570	1,738
A.	1.	5.	(Gain)/Loss on disposal of fixed assets	(427)	(484)
A.	1.	6.	Interest expense and interest income	4,029	5,282
A.	1.	7.	Other non-cash movements (e.g. revaluation at fair value to profit or loss, dividends received)	(28,240)	(44,862)
A*			**Net cash from operating activities before taxation, changes in working capital and extraordinary items**	**114,808**	**158,142**
A.	2.		Change in non-cash components of working capital	64,360	(86,152)
A.	2.	1.	Change in inventory	5,069	(16,180)
A.	2.	2.	Change in trade receivables	38,531	(22,537)
A.	2.	3.	Change in other receivables and in prepaid expenses and unbilled revenue	(3,571)	(67,986)
A.	2.	4.	Change in trade payables	19,289	26,267
A.	2.	5.	Change in other payables, short-term loans and in accruals and deferred income	5,042	(5,716)
A**			**Net cash from operating activities before taxation, interest paid and extraordinary items**	**179,168**	**71,990**
A.	3.	1.	Interest paid	(5,871)	(7,950)
A.	4.	1.	Tax paid	0	49
A.	5.	1.	Gains and losses on extraordinary items	0	0
A***			**Net cash provided by (used in) operating activities**	**173,297**	**64,089**
			Cash flows from investing activities		
B.	1.	1.	Purchase of fixed assets	(74,645)	(43,063)
B.	2.	1.	Proceeds from sale of fixed assets	1,603	484
B.	3.	1.	Loans granted	47,619	(47,619)
B.	4.	1.	Interest received	1,842	2,668
B.	5.	1.	Dividends received	28,240	44,862
B***			**Net cash provided by (used in) investing activities**	**4,659**	**(42,668)**
			Cash flows from financing activities		
C.	1.	1.	Change in long-term liabilities and long-term, resp. short-tem, loans	(136,936)	69,701
C.	2.	1.	Effect of changes in basic capital on cash	0	0
C.	2.	2.	Profit shares paid	(34,997)	(29,999)
C.	2.	3.	Effect of other changes in basic capital on cash	0	0
C***			**Net cash provided by (used in) financing activities**	**(171,933)**	**39,702**
F.			**Net increase (decrease) in cash**	**6,023**	**61,123**
P.			**Cash and cash equivalents at beginning of year**	**117,268**	**56,145**
R.			**Cash and cash equivalents at end of year**	**123 291**	**117 268**

1. DESCRIPTION OF THE COMPANY

KORADO, a.s. ("the Company") is a joint stock company incorporated on 1 September 1996 in the Czech Republic. The Company's registered office is located at Bří Hubálků 869, Česká Třebová, Czech Republic, and the business registration number (IČ) is 252 55 843. The Company is involved in manufacturing, installing and repairing central heating.

Shareholders holding an interest in the Company's basic capital as at 31 December 2015 are as follows:

Menclík František	9.16%
Petr Ludvík	9.16%
Vobora Miroslav	9.16%
Brabec Bedřich Ing.	9.16%
European Bank for Reconstruction and Development	29.14%
Ministry of Finance of the Czech Republic	34.22%

The Company is the parent company of the KORADO group and the accompanying financial statements have been prepared as separate financial statements. The Company also prepared the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS").

Members of the statutory bodies as at 31 December 2015 were as follows:

Board of Directors

Chair:	Menclík František
Vice-Chair:	Vobora Miroslav
Member:	Hamáček František, Ing.
Member:	Julian Healy

Supervisory Board

Chair:	Petr Ludvík
Vice-Chair:	Bachner Ernst, Dipl. Ing. Dr.
Member:	Blažek Petr, Ing.
Member:	Vaňousová Hana, Ing.
Member:	Filipová Ludmila
Member:	Hejda Jaromír, Ing.

As at 31 December 2015, the Company held interests in the following subsidiaries: KORADO Deutschland GmbH, KORADO Polska, Sp. z o. o., KORADO Austria GmbH, KORADO Bulgaria AD, KORADO UK and LICON HEAT s.r.o.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

The accompanying financial statements were prepared in accordance with the Czech Act on Accounting and the related guidelines as applicable for 2015 and 2014.
The Company is the parent of a group and, as such, is required by the Czech accounting legislation to prepare consolidated financial statements as at 31 December 2015. The result of consolidation performed in compliance with International Financial Reporting Standards (IFRS) is consolidated equity at the amount of CZK 1,382,278 thousand, consolidated profit of CZK 43,554 thousand and total consolidated assets of CZK 2,152,515 thousand as at 31 December 2015.

Restatement of 2013 figures

The Company corrected an error related to the valuation of a painting; the painting was originally carried at the balance sheet at CZK 13,000 thousand. The authenticity of the painting has been contested by an independent assessment. As the information could have been reasonably available when the painting was initially measured, the carrying amount was retrospectively reduced by CZK 13,000 thousand. The comparatives were restated accordingly.

The following table summarizes the effects of the restatement on financial statement captions (in CZK thousands):

	Carrying value previously reported as at 31 December 2013	Restatement	Restated carrying value as at 31 December 2013
Other tangible assets	30,618	(13,000)	17,618
Total assets	2,010,380	(13,000)	1,997,380
Other retained earnings for previous years	-	(13,000)	(13,000)
Total equity & liabilities	2,010,380	(13,000)	1,997,380

Explanation Added for Translation into English

These financial statements are presented on the basis of accounting principles and standards generally accepted in the Czech Republic. Certain accounting practices applied by the Company that conform with generally accepted accounting principles and standards in the Czech Republic may not conform with generally accepted accounting principles in other countries.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in preparing the 2015 and 2014 financial statements are as follows:

a) Intangible Fixed Assets

Intangible fixed assets are recorded at their acquisition cost and related expenses.

The costs of technical improvements are capitalized. Maintenance expenses are expensed as incurred.

Intangible fixed assets with a cost exceeding CZK 60 thousand in 2015 and 2014 are amortized over their useful economic lives.

Amortization

Amortization is calculated based on the acquisition cost and the estimated useful life of the related asset. The useful economic lives are as follows:

	Years
Software	4 - 6 years
Patents, royalties and similar rights	6 years

b) Tangible Fixed Assets

Tangible fixed assets with a cost exceeding CZK 40 thousand are recorded at their acquisition cost, which consists of purchase price, freight, customs duties and other related costs. Interest and other financial expenses incurred in the construction of tangible fixed assets are also capitalized.

The costs of technical improvements are capitalized. Repairs and maintenance expenses are expensed as incurred.

Depreciation

Depreciation is calculated based on the acquisition cost and the estimated useful life of the related asset. The useful economic lives are as follows:

	Years
Buildings	30 - 50
Machinery and equipment	8 - 20
Vehicles	4 - 8
Other tangible fixed assets	2 - 4

c) Financial Assets

Short-term financial assets consist of liquid valuables, cash in hand and at bank and held-to-maturity debt securities falling due within one year.

Long-term financial assets consist of ownership interests in subsidiaries and associates, loans granted to subsidiaries and other long-term financial assets.

Held-to-maturity securities are securities with a defined maturity that the Company intends and is able to hold to maturity.

Interests and securities are valued at their acquisition cost, which includes the purchase price and direct costs related to the acquisition, e.g. fees and commissions paid to agents and stock exchanges. In respect of debt securities, interest income is recorded observing the matching and accrual principles. Accrued interest income is included in the relevant securities account.

Ownership interests in subsidiaries and associates are valued at acquisition cost. However, if the carrying value of contributions in these companies decreased (e.g., due to low equity), the difference is considered a temporary diminution in value and recorded as an allowance.

Loans extended to subsidiaries are carried at their realizable value after impairment provision. Temporary diminution in value is recorded on the basis of estimated recoverability of these loans as an allowance. Loans and receivables provided to a subsidiary with negative equity as at 31 December 2015 and 2014 are reduced through an allowance that amounts up to the negative equity.

If there is a decrease in the carrying value of long-term financial assets that are not revalued at the balance sheet date, the difference is considered a temporary diminution in value and is recorded as an allowance.

d) Inventory

Purchased inventory is stated at actual cost being determined using the standard costing and price variances. Costs of purchased inventory include acquisition related costs (freight, customs, etc.).

Finished goods and work-in-progress are recorded at standard cost. The cost of inventory produced internally includes direct material and labor costs, depreciation of production equipment, repairs and maintenance of production equipment, maintenance center labor costs, and energy.

e) Receivables

Both long- and short-term receivables are carried at their realizable value after allowance for doubtful accounts. Additions to the allowance account are charged to income.

f) Equity

The basic capital of the Company is stated at the amount recorded in the Commercial Register maintained in the Regional Court. Any increase or decrease in the basic capital made pursuant to the decision of the General Meeting, which was not entered in the Commercial Register as at the balance sheet date, is recorded through changes in basic capital. Other capital funds are established based on a decision of the Company in compliance with its Articles of Association.

Until 2013, a joint-stock company was required to allocate 20% of profit after tax (however, not more than 10% of basic capital) to the legal reserve fund in the first year when profit was generated. In subsequent years, the legal reserve fund was allocated 5% of profit after tax until the fund reached 20% of basic capital. These funds could only be used to offset losses.

g) Provisions and Liabilities
The Company creates provisions for losses and risks if the related purpose, amount and timing can be reliably estimated and the accrual and matching principles are observed.

Long-term liabilities and current liabilities are carried at their nominal values.

Short-term and long-term loans are recorded at their nominal values. Any portion of long-term debt which is due within one year of the balance sheet date is classified as short-term debt.

Accrued expenses and deferred income are carried in other liabilities at unrealized part of their nominal values.

h) Financial Leases
The Company records leased assets by expensing the lease payments and capitalizing the residual value of the leased assets when the lease contract expires and the purchase option is exercised. Lease payments paid in advance are recorded as prepaid expenses and amortized over the lease term.

i) Foreign Currency Transactions
Assets and liabilities whose acquisition or production costs were denominated in foreign currencies are translated into Czech crowns at the exchange rate prevailing as at the transaction date. On the balance sheet date monetary items are adjusted to the exchange rates as published by the Czech National Bank as at 31 December.

Realized and unrealized exchange rate gains and losses were charged or credited, as appropriate, to income for the year.

As at 31 December 2015 and 2014, ownership interests in subsidiaries and associates were recalculated at the year-end exchange rate published by the Czech National Bank, with any arising exchange rate differences being posted to account gain or loss on revaluation of assets and liabilities.

j) Recognition of Revenues and Expenses
Revenues and expenses are recognized on an accrual basis, that is, they are recognized in the periods in which the actual flow of the related goods or services occurs, regardless of when the related monetary flow arises.

The Company recognizes as an expense any additions to provisions for or allowances against risks, losses or physical damage that are known as at the financial statements' date.

k) Income Tax
The corporate income tax expense is calculated based on the statutory tax rate and book income before taxes, increased or decreased by the appropriate permanent and temporary differences (e.g. non-deductible provisions and allowances, entertainment expenses, differences between book and tax depreciation, etc.). The statutory tax rate for 2015 and the following years will be 19%.

The deferred tax position reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for corporate income tax purposes, taking into consideration the period of realization. A deferred tax asset is recorded from investment incentive when the management of the Company believes it will meet all relevant criteria and to the extent to which it is probable that there will be sufficient taxable profits to utilize the incentive within the short- to mid-term period.

The Company included in its calculation of deferred tax a tax credit from investment incentive (see Note 14) and as a result no change in deferred tax of the company was recorded in 2015 compared to the balance as at 31 December 2015. The management of the Company believes that future taxable profits will be available against which the unused tax credit can be utilized and plans to meet all relevant criteria for drawing these funds and use the investment incentive in the future. The extent to which the investment tax credit will be utilized depends on the level of taxable profits that will be achieved until 2019. The management of the Company believes that possibly higher investment tax credit can be utilized until 2019 than the one for which deferred tax asset was recognized as at 31 December 2015. However, with regard to uncertainties related to projected taxable profits, the Company recognized deferred tax asset of CZK 41,574 thousand and CZK 40,297 thousand as at 31 December 2015 and 2014. The management of the Company considers this amount can reasonably be expected to be utilized in the medium term (up to 3 years).

l) Use of Estimates
The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company management prepared these estimates and predictions based on all available relevant information. These estimates and assumptions are based on information available as at the date of the financial statements and may differ from actual results.

m) Subsequent Events
The impact of events that occurred between the balance sheet date and the date of the financial statements preparation is recognized in the financial statements provided these events provide additional evidence about conditions that existed at the date of the balance sheet.

If material events reflecting the facts occurring after the balance sheet date happened between the balance sheet date and the date of the financial statements preparation the consequences of these events are disclosed in the notes to the financial statements but not recognized in the financial statements.

4. FIXED ASSETS

a) Intangible Fixed Assets (in CZK thousands)

COST

	At beginning of year	Additions	Disposals	Transfers	At end of year
Foundation and organization expenses	895	-	(895)	-	-
Software	184,055	-	(3)	2,047	186,099
Patents, royalties and similar rights	3,193	-	-	222	3,415
Intangibles in progress	1,785	10,287	-	(2,269)	9,803
2015 Total	**189,928**	**10,287**	**(898)**	**-**	**199,317**
2014 Total	185,895	4,033	-	-	189,928

ACCUMULATED AMORTIZATION

	At beginning of year	Amortization during the year	Disposals	At end of year	Net book value
Foundation and organization expenses	(895)	-	895	-	-
Software	(174,894)	(3,094)	3	(177,985)	8,114
Patents, royalties and similar rights	(2,350)	(209)	-	(2,559)	856
Intangibles in progress	-	-	-	-	9,803
2015 Total	**(178,139)**	**(3,303)**	**898**	**(180,544)**	**18,773**
2014 Total	(173,770)	(4,369)	-	(178,139)	11,789

As at 31 December 2015 and 2014, the total value of small intangible fixed assets, which are not reflected in the accompanying balance sheet was CZK 7,954 thousand and CZK 6,449 thousand, respectively.

b) Tangible Fixed Assets (in CZK thousands)

COST

	At beginning of year	Additions	Disposals	Transfers	At end of year
Land	25,163	-	-	299	25,462
Buildings	1,676,402	-	-	-	1,676,402
Machinery and equipment	2,584,430	-	(9,247)	8,157	2,583,340
Vehicles	5,231	-	(1,528)	-	3,703
Other tangibles	43,819	-	-	6,912	50,731
Art works and collections	25,860	-	-	-	25,860
Tangibles in progress	3,595	53,090	-	(15,368)	41,317
Advances for tangibles	250	1,899	-	-	2,149
2015 Total	**4,364,750**	**54,989**	**(10,775)**	**-**	**4,408,964**
2014 Total	4,354,773	12,752	(2,775)	-	4,364,750

ACCUMULATED DEPRECIATION

	At beginning of year	Depreciation during the year	Disposals	At end of year	Allowance	Net book value
Land	-	-	-	-	-	25,462
Buildings	(691,808)	(34,784)	-	(726,591)	-	949,811
Machinery and equipment	(2,177,124)	(64,222)	8,516	(2,232,830)	-	350,510
Vehicles	(2,806)	(757)	1,083	(2,480)	-	1,223
Other tangibles	(37,860)	(2,114)	-	(39,974)	-	10,757
Art works and collections	-	-	-	-	(22,653)	3,207
Tangibles in progress	-	-	-	-	-	41,317
Advances for tangibles	-	-	-	-	-	2,149
2015 Total	**(2,909,598)**	**(101,877)**	**9,599**	**(3,001,875)**	**(22,653)**	**1,384,436**
2014 Total	(2,810,252)	(102,121)	2,775	(2,909,598)	(22,653)	1,432,499

The total value of small tangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 18,940 thousand and CZK 13,020 thousand as at 31 December 2015 and 2014, respectively.

An allowance of CZK 22,653 thousand was recognized against art works as at 31 December 2014, of which CZK 13,000 thousand represented correction of error of prior periods (see Note 2).

As at 31 December 2015 and 2014, assets with a cost of CZK 1,129,935 thousand and CZK 1,129,935 thousand, respectively, and a net book value of CZK 680,193 thousand and CZK 713,292 thousand, respectively, were pledged as security for the loan granted by Československá obchodní banka, a.s. (see Note 12).

c) Long-Term Financial Investments (in CZK thousands)

Summary of changes in long-term financial investments:

	Balance as at 31/ 12/ 2013	Movements	Balance as at 31/ 12/ 2014	Movements	Balance as at 31/ 12/ 2015
Subsidiaries and associates	231,354	4,189	235,543	54,645	290,188
Loans to subsidiaries	56,944	26,543	83,487	10,189	93,676
Long-term investments in progress	-	55,937	55,937	(55,937)	-
Allowances	(167,595)	2,312	(165,283)	4,819	(160,464)
Total	**120,703**	**88,981**	**209,684**	**13,716**	**223,400**

The Company subscribed shares of BGN 3,978 thousand (CZK 55,937 thousand) of subsidiary KORADO Bulgaria on 24 November 2014 and 5 December 2014; the shares were presented within long-term investments in progress as at 31 December 2014. In 2015 the subscribed shares were paid and transferred to the Company.

Subsidiaries as at 31 December 2015 were as follows:

Name Registered office	KORADO Deutschland Germany	KORADO Bulgaria Bulgaria	KORADO Polska Poland	KORADO Austria Austria	KORADO UK Great Britain	LICON HEAT Czech Republic	Total
Percentage of ownership	100	85.7	100	100	100	100	
Total assets	26,925	274,025	27,558	31	37	71,432	400,008
Equity	5,514	224,848	(53,399)	(19)	37	17,709	194,690
Share capital	676	121,318	45,716	28,376	37	14,500	210,623
Profit/loss for the current year	4,885	26,953	2,038	(29)	-	3,197	37,044
Acquisition cost of interest	16,620	113,597	67,546	28,377	37	64,012	290,189
Nominal value of interest	676	103,970	45,716	28,376	37	14,500	193,275
Intrinsic value of interest	5,514	192,695	-	-	37	17,709	215,955
Allowance against investments in subsidiaries	(11,105)	-	(67,546)	(28,377)	(37)	-	(107,065)
Allowance against loans	-	-	(53,399)	-	-	-	(53,399)
Allowance against receivables	-	-	-	-	-	-	-

Subsidiaries as at 31 December 2014 were as follows:

Name Registered office	KORADO Deutschland Germany	KORADO Bulgaria Bulgaria	KORADO Polska Poland	KORADO Austria Austria	KORADO UK Great Britain	LICON HEAT Czech Republic	Total
Percentage of ownership	100	98.2	100	100	100	100	
Total assets	28,693	229,426	19,666	37	36	69,562	347,420
Equity	4,528	129,496	(56,707)	9	36	26,325	103,687
Share capital	693	91,982	46,813	29,111	36	14,500	183,135
Profit for the current year	3,808	18,600	1,626	15	-	10,664	34,713
Acquisition cost of interest	17,050	57,706	67,627	29,112	36	64,012	235,543
Nominal value of interest	693	90,327	46,813	29,111	36	14,500	181,480
Intrinsic value of interest	4,528	127,165	-	9	36	26,325	158,063
Allowance against investments in subsidiaries	(12,521)	-	(67,627)	(29,112)	(36)	-	(109,296)
Allowance against loans	-	-	(55,987)	-	-	-	(55,987)
Allowance against receivables	-	-	(720)	-	-	-	(720)

Financial information about LICON HEAT s.r.o. was obtained from its standalone audited financial statements. Information about other companies was obtained from their standalone unaudited financial statements.

The intrinsic value of interest represents the Company's share in the equity of individual companies (positive number or nil).

The nominal value of interest represents the Company's share in the basic capital of individual companies.

Financial information of certain subsidiaries indicates that their equity is lower than the acquisition cost of interest. If the management assumes that a future settlement of the difference is uncertain, an allowance was created against these financial investments in subsidiaries (see Note 7) on the basis of the difference between the acquisition cost and the value of interest in equity (intrinsic value of interest). Full allowance was created against financial investments in subsidiaries whose equity is negative or where another uncertainty exists in the recoverability of investment; an allowance was established against loans provided to and receivables from a subsidiary with negative equity up to the negative equity (see Note 7).

Profit generated by the subsidiaries and associate was as follows:

	2015	2014
KORADO Deutschland	4,885	3,808
KORADO Polska	2,038	1,626
KORADO Bulgaria	26,953	18,600
KORADO Austria	(29)	15
LICON HEAT	3,197	10,664
Total	**37,044**	**34,713**

Loans granted to subsidiaries as at 31 December were as follows:

Company	Terms/ Conditions	2015	2014
KORADO Polska	* 31/ 12/ 2016	54,676	55,987
LICON HEAT	31/ 12/ 2018	39,000	27,500
Allowance		(53,399)	(55,987)
Total		**40,277**	**27,500**

** The loans are granted with one-year maturity and expected to be renewed at the maturity date.*

In 2015 and 2014 interests from the loans to subsidiaries amounted to CZK 1,803 thousand and CZK 2,628 thousand, respectively.

5. INVENTORY

Excess, obsolete and slow-moving inventory has been written down to its estimated net realizable value by an allowance account. The allowance is determined by management based on the aging analysis of inventory (see Note 7).

Inventories of CZK 136,929 thousand and CZK 141,998 thousand were pledged as collateral as at 31 December 2015 and 2014, respectively, to secure the loan granted by Československá obchodní banka, a.s. (see Note 12).

6. RECEIVABLES

Allowances against outstanding receivables that are considered doubtful were charged to income based on estimated recoverability of receivables in 2015 and 2014, respectively (see Note 7).

As at 31 December 2015 and 2014, receivables overdue for more than 180 days totaled CZK 11,022 thousand and CZK 10,400 thousand, respectively. 100% allowances were created against these receivables.

The Company wrote off irrecoverable receivables of CZK 9,257 thousand and CZK 395 thousand in 2015 and 2014, respectively due to cancellation of bankruptcy proceedings and unsatisfying the claims in bankruptcy proceedings.

Receivables of CZK 90,694 thousand and CZK 124,088 thousand were pledged as collateral as at 31 December 2015 and 31 December 2014, respectively to secure the loan granted by Československá obchodní banka, a.s. (see Note 12).

Receivables from related parties (see Note 19).

7. ALLOWANCES

Allowances reflect a temporary diminution in the value of assets (see Notes 4, 5 and 6).

Changes in the allowance accounts (in CZK thousands):

Allowances against:	Balance as at 31/ 12/ 2013 (restated, see Note 2)	Change in allowances	Balance as at 31/ 12/ 2014	Change in allowances	Balance as at 31/ 12/ 2015
Tangible fixed assets	13,000	9,653	22,653	-	22,653
Long-term financial assets	167,595	(2,312)	165,283	(4,819)	160,464
Inventory	1,089	229	1,318	(103)	1,215
Receivables – statutory	9,418	(114)	9,304	(24)	9,280
Receivables – other	10,723	2,485	13,208	(2,162)	11,046
Total	**201,825**	**9,941**	**211,766**	**(7,108)**	**204,656**

Legal allowances are created in compliance with the Act on Provisions.

Allowances against receivables from group companies (see Note 4c).

8. OTHER ASSETS

As at 31 December 2015 and 2014, prepaid expenses include loan refinancing costs, property insurance, marketing costs and software maintenance costs, which are charged to income for the year in which they were incurred. Unbilled revenues include, in particular, transfer pricing adjustments agreed with subsidiaries.

9. EQUITY

The movements in the capital accounts were as follows (in CZK thousands):

	Balance as at 31/ 12/ 2013	Increase / Transfers	Decrease / Transfers	Balance as at 31/ 12/ 2014	Increase / Transfers	Decrease / Transfers	Balance as at 31/ 12/ 2015
Number of shares	2,402	-	-	2,402		-	2,402
Basic capital	840,700	-	-	840,700		-	840,700
Other capital funds	48	-	-	48		-	48
Differences arising from revaluation of assets and liabilities	(39,554)	4,453	-	(35,101)	1	(1,293)	(36,393)
Legal reserve fund	46,962	1,307	-	48,269		-	48,269
Retained earnings	377,040	4,821	-	381,861	49,040	(13,000)	417,901
Other retained earnings for previous years	(13,000)	-	-	(13,000)	13,000	-	-
Approved profit share advances	-	-	(10,000)	(10,000)	10,000	(14,998)	(14,998)

The basic capital of the Company consists of 2,402 registered shares fully subscribed and paid, with a nominal value of CZK 350 thousand.

As at 31 December 2015 and 2014, ownership interests in subsidiaries denominated in foreign currencies were recalculated at the year-end exchange rate published by the Czech National Bank, with any arising exchange rate differences being posted to revaluation accounts.

In 2014 the Company corrected an error made in previous periods; in this respect, the 1 January 2013 balance of other retained earnings for previous years was reduced by CZK 13,000 thousand (see Note 2).

The Company paid profit share advances of CZK 10,000 thousand (CZK 4,163 per share) in December 2014.

The Company paid profit share advances of CZK 14,998 thousand (CZK 6,244 per share) in December 2015.

The Annual General Meetings held on 11 May 2015 and 19 May 2014, respectively approved the aforementioned profit distribution for 2014 and 2013, respectively (in CZK thousands).

Profit for 2014	**79,038**
Dividend distribution	(29,999)
Undistributed profits added to retained earnings	49,040
Settlement of accumulated loss by retained earnings	(13,000)
Retained earnings as at 31 December 2014	381,861
Retained earnings as at 31 December 2015	417,901

Profit for 2013	**26,126**
Allocation to reserve fund	(1,307)
Dividend distribution	(19,999)
Undistributed profits added to retained earnings	4,821
Retained earnings as at 31 December 2013	377,040
Retained earnings as at 31 December 2014	381,861

10. PROVISIONS

The movements in the provision accounts were as follows (in CZK thousands):

Provisions	**Balance as at 31/ 12/ 2013**	**Movements**	**Balance as at 31/ 12/ 2014**	**Movements**	**Balance as at 31/ 12/ 2015**
Warranty repairs	4,493	746	5,239	(472)	4,767
Accrued vacation	1,758	(81)	1,677	(10)	1,667
Total	**6,251**	**665**	**6,916**	**(482)**	**6,434**

The provisions for warranty repairs are intended to cover warranty repair costs and are established on the basis of claims statistics.

11. SHORT-TERM LIABILITIES

As at 31 December 2015 and 2014, the Company had overdue current payables for more than 180 days totalling CZK 0 thousand and CZK 67 thousand, respectively.

As at 31 December 2015 and 2014, unbilled deliveries represent, in particular, unbilled deliveries of materials, annual customer bonuses and estimated wages.

As at 31 December 2015, the Company had liabilities of CZK 6,382 thousand owing to social security and health insurance premiums.

Payables to related parties (see Note 19).

12. BANK LOANS AND BORROWINGS

				2015	2014
Bank	**Terms**	**Interest rate**	**Total limit**	**Amount in CZK thousands**	**Amount in CZK thousands**
Československá obchodní banka, a.s.	Long-term	1M PRIBOR + 1.55%	CZK 405 million	276,750	357,750
Československá obchodní banka, a.s.	Short-term	1D PRIBOR / 1D EUR LIBOR + 1.45%	CZK 100 million	-	-
Československá obchodní banka, a.s.	Short-term	1D PRIBOR + 1.45%	CZK 1 million	-	-
Československá obchodní banka, a.s.	Long-term	1M PRIBOR + 1.55% / 1M EURIBOR + 1.65	CZK 50 million	-	-
Total				276,750	357,750
Less current portion				(81,000)	(81,000)
Net				195,750	276,750

The loans were refinanced in 2014; on 9 April 2014, a loan agreement was entered into with Československá obchodní banka, a.s. As at 30 April 2014, the Company repaid all loans granted by UniCredit Bank, a.s. and drew a new loan with more favorable financing parameters from Československá obchodní banka (significantly lower interest rate, prolonging final maturity, more easily accessible funds, cheaper bank transfers, etc.).

In 2015 and 2014, interest expense relating to bank loans was CZK 5,871 thousand and CZK 7,856 thousand, respectively.

The loan agreement with Československá obchodní banka, a.s., includes the following terms and conditions to be fulfilled by the Company:

1. Equity ratio	More than 58% as at 31 December 2015
2. Net debt / EBITDA ratio	Less than 3.2 as at 31 December 2015

As at 31 December 2015 and 2014, the Company was in compliance with the above conditions.

As at 31 December 2015, tangibles (see Note 4b) and receivables (see Note 6) were pledged as security for the loan granted by Československá obchodní banka, a.s.

The aggregate maturities of bank loans (in CZK thousands):

	Bank loans
2016	81,000
2017	81,000
2018	81,000
2019	33,750
Total	276,750

In 2014 the Company repaid a loan of EUR 500 thousand from LICON HEAT s.r.o.

13. OTHER LIABILITIES

Accruals include, in particular, costs of electricity, gas, communications and freight and are charged to income for the year in which they were incurred.

14. INCOME TAXES

Calculation of current income tax (in CZK thousands):	2015	2014
Profit before taxes	41,377	79,038
Differences between book and tax depreciation	19,980	13,825
Creation / (reversal) of allowances	(7,567)	10,055
Creation / (reversal) of provisions	(482)	665
Other (e.g. provision to bonuses and its settlement, entertainment expenses, shortages and losses)	3,606	15,367
Dividends received	(28,240)	(44,862)
Taxable income	28,673	74,088
Tax loss claimed	(28,673)	(73,174)
Tax base	-	914
Tax rate	19%	19%
Tax	-	174
Tax relief	-	(174)
Current tax expense	-	-

The Company can carry forward tax losses generated from 2011 through 2012 for up to five years. The remaining tax loss carryforward which has not been recognized in the accompanying financial statements amounted to CZK 54,485 thousand as at 31 December 2015. It will be recorded when realized.

The Company quantified deferred taxes as follows (in CZK thousands):

Deferred tax items	2015		2014	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Difference between net book value of fixed assets for accounting and tax purposes	-	(127,125)	-	(131,311)
Other temporary differences:				
Allowance against receivables	741	-	1,016	-
Allowance against inventory	231	-	250	-
Provisions, unbilled deliveries and unpaid social and health insurance	1,222	-	1,314	-
Tax loss not claimed	10,352	-	16,273	-
Deferred tax asset from investment incentives	41,574	-	40,297	-
Other	844	-	-	-
Total	**54,964**	**(127,125)**	**59,150**	**(131,311)**
		(72,161)		(72,161)

In 2008, the Company launched the 4th production line which was financed partially through investment incentives. The amount of potential investment incentive related to capital expenditures already incurred was approximately CZK 176 million as at 31 December 2015 and 2014 and this balance can be drawn as a tax credit until 2019. The Company plans to meet all relevant criteria for drawing these funds and use the investment incentive in the future. The Company did not record a deferred tax asset from the investment incentive in full amount as its recovery is uncertain. However, the Company recorded a deferred tax asset of CZK 41,574 thousand and CZK 40,297 thousand, respectively, as at 31 December 2015 and 2014. Based on the business plan model, the Company expects to utilize the investment incentive in the medium-term (three years).

15. LEASES

The Company leases fixed assets, which are not recorded on the balance sheet (see Note 3h).

As at 31 December 2015 and 2014, assets which are being used by the Company under operating leases consist of the following (in CZK thousands):

Description	Expense in 2015	Expense in 2014
Copy machines	1,310	1,349
Fork-lift trucks	2,737	2,737
Vehicles	761	-
Total	**4,808**	**4,086**

Annual rent expense includes also operational maintenance services.

16. COMMITMENTS AND CONTINGENCIES

Small tangible and intangible fixed assets that are not shown on the balance sheet are recorded in an off-balance sheet account (see Note 4a and 4b).

The Company has assets used under operating leases, which are not shown on the balance sheet (see Note 15).

17. REVENUES

The breakdown of revenues on ordinary activities is as follows (in CZK thousands):

	2015			2014		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Radiator production	399,846	818,814	1,218,660	499,337	761,853	1,261,190
Other	219,226	177,097	396,322	142,247	184,308	326,555
Total revenues	619,072	995,911	1,614,982	641,584	946,161	1,587,745

In 2015, the revenues of the Company were concentrated primarily with the subsidiaries and 15 principal wholesale customers in the Czech Republic and abroad.

18. PERSONNEL AND RELATED EXPENSES

The breakdown of personnel expenses is as follows (in CZK thousands):

	2015		2014	
	Total personnel	Of which: directors and managers	Total personnel	Of which: directors and managers
Average number of employees	445	30	425	29
Wages and salaries	208,728	70,712	203,073	68,490
Social security	61,437	14,006	58,730	13,654
Social cost	3,080	-	3,121	-
Total personnel expenses	**273,245**	**84,718**	**264,924**	**82,144**

The members and former members of statutory and supervisory bodies received total bonuses and other remuneration of CZK 1,440 thousand and CZK 1,440 thousand in 2015 and 2014, respectively.

19. RELATED PARTY INFORMATION

In 2015 and 2014, the members of statutory and supervisory bodies, directors and executive officers were granted no loans, guarantees, advances or other benefits.

As at 31 December 2015 and 2014, the members of statutory and supervisory bodies held 660 shares of the Company, respectively.

The Company sells products to related parties in the ordinary course of business. Sales were CZK 237,828 thousand and CZK 201,498 thousand in 2015 and 2014, respectively.

Short-term receivables from related parties as at 31 December were as follows (in CZK thousands):

Related party	2015	2014
KORADO Deutschland	7,823	13,269
KORADO Polska	23,499	18,996
KORADO Bulgaria	-	14,220
LICON HEAT	-	9
Total	**31,322**	**46,494**

In 2014, the Company granted a loan of CZK 47,619 thousand to the subsidiary KORADO Bulgaria; the loan was repaid in February 2015.

In 2014, the Company granted a loan to LICON HEAT s.r.o. (see Note 4c).

The Company purchases products and receives services from related parties in the ordinary course of business. Purchases were CZK 276,252 thousand and CZK 229,632 thousand in 2015 and 2014, respectively.

Short-term payables to related parties as at 31 December 2015 were as follows (in CZK thousands):

Related party	2015	2014
KORADO Bulgaria	18,700	30,638
Korado Polska	2,206	-
LICON HEAT	4,506	201
Total	**25,412**	**30,839**

The Company had a liability of CZK 55,937 thousand to subsidiary KORADO Bulgaria as at 31 December 2014, arising from the share subscription. In January 2015, the Company settled the liability of CZK 55,937 thousand arising from the subscription of shares in subsidiary KORADO Bulgaria; the subscribed shares were registered on 12 February 2015 (see Note 4c).

20. OTHER ITEMS OF INCOME STATEMENT

Other operating expenses include in particular insurance expenses and receivables write-offs. Other operating revenues include in particular revenues from scrap sales and written-off receivables.

Other finance income and costs include in particular exchange rate gains and losses.

The statutory audit fees related to the audit of consolidated financial statements and separate statutory financial statements totalled CZK 1,950 thousand and CZK 1,950 thousand for the year ended 31 December 2015 and 2014, respectively.

21. STATEMENT OF CASH FLOWS (SEE APPENDIX)

The cash flow statement was prepared under the indirect method.

22. STATEMENT OF CHANGES IN EQUITY (SEE NOTE 10)

Prepared on:	Signature of accounting unit's statutory body:	Person responsible for accounting:	Person responsible for financial statements:
18 March 2016	**František Menclík** Chairman of the Board of Directors	**Ing. Pavlína Kovářová** Chief accountant	**Ing. Vojtěch Čamek** Chief Executive Officer

KORADO Group

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS AT

31 DECEMBER 2015

TOGETHER WITH REPORT OF INDEPENDENT AUDITORS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of KORADO, a.s.

We have audited the accompanying consolidated financial statements of KORADO Group which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information. For details of KORADO Group see Note 1 to the consolidated financial statements.

Management's Responsibilities for the Financial Statements

Management is responsible for preparation and presentation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing as amended by implementation guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including an assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of KORADO Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

Other Information

Other information comprises information included in the annual report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information included and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated and whether the annual report has been prepared in accordance with applicable law or regulation. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Petr Vácha

Ernst & Young Audit, s.r.o.
License No. 401

Petr Vácha, Auditor
License No. 1948

18 March 2016
Prague, Czech Republic

K O R A D O   G r o u p
CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2015

(In CZK thousands)	Note	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment, net	3	1,598,547	1,604,619
Intangible assets, net	4	36,817	31,191
Other non-current assets		2,958	2,759
Deferred tax asset	19	518	537
Total non-current assets		**1,638,840**	**1,639,106**
Current assets			
Inventories, net	6	212,507	203,792
Accounts receivable, net	7	126,289	143,269
Prepayments and other current assets	8	25,581	25,819
Share subscription receivable	5	-	33,766
Income tax receivable		2,765	939
Cash and cash equivalents	9	146,533	156,227
Total current assets		**513,675**	**563,812**
Total assets		**2,152,515**	**2,202,918**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	10	840,700	840,700
Retained earnings, funds and translation reserve	10	509,421	510,008
Total shareholders' equity attributable to equity holders of the parent		1,350,121	1,350,708
Non-controlling interest		32,157	31,046
Total shareholders' equity		**1,382,278**	**1,381,754**
Non-current liabilities			
Long-term debt, net of current portion	11	202,553	281,919
Deferred tax liabilities	19	75,650	75,021
Total non-current liabilities		**278,203**	**356,940**
Current liabilities			
Short-term borrowings and current portion of long-term debt	11	81,780	81,062
Payables and other current liabilities	12	404,399	376,711
Provisions for liabilities and charges	13	5,855	6,337
Income tax payable		-	114
Total current liabilities		**492,034**	**464,224**
Total equity and liabilities		**2,152,515**	**2,202,918**

The accompanying notes are an integral part of these consolidated financial statements.

KORADO GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

(In CZK thousands)	Note	2015	2014
Revenues from sales, net	14	1,836,448	1,749,891
Cost of materials, energy and purchased goods	15	(1,091,109)	(1,023,026)
Depreciation and amortization		(120,977)	(116,368)
Wages and salaries		(342,426)	(324,800)
Purchased services	16	(223,748)	(185,723)
Other expenses, net	17	(1,115)	(18,755)
Interest expense, net of capitalized interest		(6,036)	(8,002)
Interest income		48	68
Foreign exchange losses, net		(845)	(1,881)
Other financial expenses, net	18	(1,414)	(4,433)
Profit before income taxes		**48,826**	**66,971**
Income taxes	19	(5,272)	(4,439)
Profit after income taxes		**43,554**	**62,532**
Other comprehensive income			
Items that may be reclassified subsequently to statement of income:			
Currency translation differences		(5,280)	2,771
Items not to be reclassified subsequently to statement of income:			
Re-measurement losses on defined benefit plans		(672)	(728)
Total comprehensive income		**37,602**	**64,575**
Profit after income taxes attributable to:			
Equity holders of the parent		39,700	62,197
Non-controlling interest		3,854	335
		43,554	62,532
Total comprehensive income attributable to:			
Equity holders of the parent		34,410	64,240
Non-controlling interest		3,192	335
		37,602	**64,575**

The accompanying notes are an integral part of these consolidated financial statements.

K O R A D O   G R O U P

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

(In CZK thousands)	Share Capital	Translation Reserve	Retained Earnings and Funds (Note 10)	Total Equity Attributable to Equity Holders of the Parent	Non-controlling Interest	Total Shareholders' Equity
Balance as at 31 December 2013	**840,700**	**(33,312)**	**493,487**	**1,300,875**	**1,662**	**1,302,537**
Profit after income taxes	-	-	62,197	62,197	335	62,532
Other comprehensive income	-	2,771	(728)	2,043	-	2,043
Total comprehensive income	-	2,771	61,469	64,240	335	64,575
Deemed disposal of non-controlling interest (Note 5)	-	791	14,801	15,592	29,049	44,641
Dividends	-	-	(19,999)	(19,999)	-	(19,999)
Interim dividends	-	-	(10,000)	(10,000)	-	(10,000)
Balance as at 31 December 2014	**840,700**	**(29,750)**	**539,758**	**1,350,708**	**31,046**	**1,381,754**
Profit after income taxes	-	-	39,700	39,700	3,854	43,554
Other comprehensive income	-	(4,713)	(577)	(5,290)	(662)	(5,952)
Total comprehensive income	-	(4,713)	39,123	34,410	3,192	37,602
Dividends	-	-	(19,999)	(19,999)	(2,081)	(22,080)
Interim dividends	-	-	(14,998)	(14,998)	-	(14,998)
Balance as at 31 December 2015	**840,700**	**(34,463)**	**543,884**	**1,350,121**	**32,157**	**1,382,278**

The accompanying notes are an integral part of these consolidated financial statements.

KORADO GROUP
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

(In CZK thousands)	Note	2015	2014
OPERATING ACTIVITIES			
Profit before income taxes		**48,826**	**66,971**
Adjustments for:			
Depreciation and amortization		120,977	116,368
Receivables and loans write-off	17	10,641	395
Finance costs, net		5,988	7,935
Change in impairment provisions and provisions, net	17	(3,072)	13,382
Foreign exchange losses, net		845	1,881
Gain on sale of property, plant and equipment	17	(621)	(563)
Changes in assets and liabilities:			
Inventories		(8,281)	(17,851)
Receivables and other current assets		6,609	2,519
Payables and other current liabilities		15,682	29,751
Income taxes (paid) / recovered		(6,564)	(7,896)
Net cash from operating activities		**191,030**	**211,892**
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(112,850)	(126,401)
Proceeds from sale of property, plant and equipment		2,228	68
Interest received		48	889
Change in other non-current assets		(201)	(93)
Net cash from investing activities		**(110,775)**	**(125,537)**
FINANCING ACTIVITIES			
Debt drawings		-	406,606
Repayments of debt		(82,132)	(393,750)
Change in lease obligation		2,907	(218)
Dividends paid		(37,079)	(29,999)
Interest paid, net of capitalized interest		(6,036)	(8,025)
Proceeds from share capital increase in subsidiary	5	33,103	10,875
Net cash from financing activities		**(89,237)**	**(14,511)**
Net increase in cash		**(8,982)**	**71,844**
Cash and cash equivalents at beginning of year	**9**	**156,227**	**84,320**
Effect of exchange rate changes on cash and cash equivalents		(712)	63
Cash and cash equivalents at end of year	**9**	**146,533**	**156,227**

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2015 (In thousand CZK)

1. Parent Company and Group Description

KORADO, a.s. ("the Parent Company" or "the Company") is a Czech Republic joint stock company. It engages primarily in manufacturing, installing and repairing central heating and ventilation. It was incorporated on 1 September 1996 and its legal site is Bří Hubálků 869, Česká Třebová, Czech Republic.

As at 31 December 2015 and 2014 the shareholders of the Parent Company were as follows:

Menclík František	9.16%
Petr Ludvík	9.16%
Vobora Miroslav	9.16%
Ing. Brabec Bedřich	9.16%
European Bank for Reconstruction and Development	29.14%
Ministry of Finance of the Czech Republic	34.22%

KORADO, a.s. is the parent company of the KORADO Group ("the Group"), which includes the following subsidiaries over which the Company exercises control:

	2015 % of voting and equity share	2014 % of voting and equity share	Country of incorporation	Activity
KORADO Deutschland GmbH	100	100	Germany	Distribution of radiators
KORADO Polska, Sp. z o.o.	100	100	Poland	Distribution of radiators
KORADO Austria GmbH	100	100	Austria	Distribution of radiators
KORADO UK	100	100	Great Britain	Distribution of radiators
KORADO Bulgaria AD	86	* 98	Bulgaria	Manufacturing of radiators
LICON HEAT s.r.o.	100	100	Czech republic	Manufacturing of convectors

** In 2014 new share capital was subscribed in subsidiary KORADO Bulgaria AD (Note 5). As a result, the present ownership interest effectively changed from original 98.2% to 85.7%.*

2. Summary of Significant Accounting Policies

a) Statement of Compliance

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

b) Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention, except when IFRS require other measurement basis as disclosed in the accounting policies below.

The financial statements have also been prepared on the going concern basis, as management believes it has access to sufficient financing to ensure the continuity of operations.

c) Principles of Consolidation

Business combinations and goodwill

The consolidated financial statements of the Group include the Parent Company and its subsidiaries.

Subsidiaries are those entities which the Group controls. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group had control.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are recognized in profit or loss as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability are recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Changes in the fair value of contingent consideration classified as equity are not recognized.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed with the exception of goodwill arising on the acquisition of KORADO Bulgaria AD. If this consideration is lower than the fair value of the net assets of the subsidiary acquired ("negative goodwill"), then the Group first reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination. Any excess remaining after the reassessment is recognized immediately in profit or loss.

Since most of the consolidated subsidiaries were established by the Parent Company, no goodwill is recorded in the consolidated financial statements except for the goodwill arising on acquisition of KORADO Bulgaria AD.

Goodwill arising on the first inclusion of KORADO Bulgaria AD in the consolidation of KORADO Group as of 1 January 2004 was measured at deemed cost being the difference between the cost in the Company's separate financial statements of its investment in KORADO Bulgaria AD and the Company's interest in the carrying amounts of assets and liabilities. Following initial recognition, goodwill is tested for impairment.

In addition, the Company elected to use in its first financial statements the exemption described in paragraph 16 of IFRS 1 and to use the fair values of tangible fixed assets as at 1 January 2004 in KORADO Bulgaria AD as its deemed costs at that date.

Non-controlling interest represents the interest in KORADO Bulgaria AD which is not held by the Group.

Identical accounting principles are used for similar transactions and other accounting events in the consolidated financial statements. If needed, adjustments are made to the financial statements of controlled companies so that the accounting procedures used correspond to the requirements and procedures used by the Group.

Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

d) Use of Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that might have a significant risk of causing an adjustment to the carrying amounts of assets and liabilities within the next year are discussed below:

Impairment of fixed assets

The level of demand for Group's products has been affected by several adverse changes over the past years: (i) external factors (currency devaluations, sanctions imposed on Russia, war conflict in Ukraine), (ii) decreased spending in the construction industry, (iii) price pressures from competitors, (iv) change in customer behavior with more focus on low prices and less on quality. The management of the Company believes that they will be able to overcome these challenging market conditions by finding new opportunities and customers on current markets or extending the presence at current markets. In the opinion of the Company's management, the discounted value of future cash flows to be generated up to the end of the useful life of fixed assets ("value in use") will exceed the carrying value of fixed assets; therefore, there is no need to account for additional impairment of fixed assets.

The value in use in case of major plant in Ceska Trebova was determined based on a 5-year business plan using a discount factor of 8.7%. An average annual growth in post-tax cash-flows (before working capital changes and capital expenditure) is estimated at 44% over the 5–year period.

The model also assumes zero growth in perpetuity. If the expected average annual growth in post-tax cash-flows is less than 24% over this 5–year period, all other variables held constant, the model would indicate additional impairment of fixed assets.

Useful lives and residual values of non-current assets

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end in respect of new knowledge of actual assets conditions and related investment plan in future years.

Deferred income taxes

The Group created a provision for deferred income taxes in consideration of the temporary differences. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and the measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of assets and liabilities. Where the final tax-deductible expenses are different from the amounts that were calculated, such differences will impact the current income and deferred tax provisions in the period in which such determination is made.

The Parent Company included in its calculation of deferred tax a tax credit from investment incentive (see Note 19) and as a result no change in deferred tax of the Parent Company was recorded in 2015 compared to the balance as at 31 December 2014. The management of the Company believes that future taxable profits will be available against which the unused tax credit can be utilized and plans to meet all relevant criteria for drawing these funds and use the investment incentive in the future. The extent to which the investment tax credit will be utilized depends on the level of taxable profits that will be achieved until 2019. The management of the Company believes that possibly higher investment tax credit can be utilized until 2019 than the one for which deferred tax asset was recognized as at 31 December 2015. However, with regard to uncertainties related to projected taxable profits, the Company recognized deferred tax asset of CZK 41,574 thousand and CZK 40,297 thousand as at 31 December 2015 and 2014. The management of the Company considers this amount can reasonably be expected to be utilized in the medium term (up to 3 years).

Goodwill

The Group assesses at each reporting date whether there is any indication that goodwill may be impaired taking into consideration both internal and external sources of information. However goodwill does not generate cash flows independently of other assets or groups of assets and the assessment of its carrying value is significantly impacted by the management's assessment of the performance and expected future performance of the operation (cash-generating unit) to which the goodwill relates.

The impairment test involves determining the recoverable amount of the cash-generating unit, which corresponds to the value in use. Value in use is the present value of the future cash flows expected to be derived from a cash-generating unit. Value in use is determined on the basis of an enterprise valuation model and is assessed from a company internal perspective. Value in use is determined based on cash flow projection for a period of five years. The cash flow projection is based on the past experience, as well as on future market trends. The carrying amount of goodwill was CZK 13,380 thousand as at 31 December 2015.

e) Foreign Currency

The consolidated financial statements are presented in Czech crowns (CZK), which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

The assets and liabilities of foreign subsidiaries are translated into presentation currency at the rate of exchange ruling at the balance sheet date. The items in the statement of comprehensive income of foreign subsidiaries are translated at average exchange rates for the year. Components of equity are translated into the presentation currency using the historical rates. The exchange differences arising on the retranslation are taken directly to other comprehensive income in equity. On disposal of a foreign entity, accumulated exchange differences are recognized in the statement of comprehensive income as a component of the gain or loss on disposal.

Goodwill arising on the acquisition of a foreign entity is treated as an asset of the foreign operation and is translated at the closing exchange rate.

f) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statement of comprehensive income.

The initial cost of property, plant and equipment and paintings comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use including the borrowing costs (see Note 2m).

Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to expense in the period in which the costs are incurred. When each major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

Depreciation is provided using the straight-line method at rates based on the following estimated useful lives:

	Years
Buildings, halls and constructions	30 – 50
Computers	4
Machinery and equipment	8 – 20
Vehicles	4 – 8
Other tangible fixed assets	2 – 4

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Construction-in-progress represents plant and properties under construction and is stated at cost.
This includes cost of construction, plant and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

g) Intangible Assets

Intangible assets are initially valued at their acquisition cost and related expenses. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives that generally does not exceed 6 years. The amortization period and the amortization method are reviewed annually at each financial year-end.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed with the exception of goodwill arising on the acquisition of KORADO Bulgaria AD (see Note 2c). Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Costs incurred in order to restore or maintain the future economic benefits that an enterprise can expect from the originally assessed standard of performance of existing intangible assets are recognized as an expense when the restoration or maintenance work is carried out.

h) Investments

All investments are initially recognized at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. If there is a decrease in the carrying value of investments that are not revalued at the balance sheet date, the difference is considered a diminution in value and is recorded as impairment.

Investments include in particular financial investments, and granted loans and borrowings.

i) Inventories

Inventories, including work-in-progress, are valued at the lower of cost and net realizable value. Net realizable value is based on the normal selling price, less further costs expected to be incurred to complete and sell the stock. Cost of purchased inventory is determined on the basis of actual cost with the use of the standard cost method. Cost of finished goods and work-in-progress is determined on the basis of actual cost with the use of the standard costs method.

Costs of purchased inventory include purchase price and related costs of transport, customs duties, etc. For processed inventory, costs include direct material and labour costs and production overheads. Production overhead costs include mainly depreciation, repair and maintenance of the production lines and energy used.

j) Accounts Receivable

Accounts receivable are recognized and carried at original invoice amount less an impairment provision for uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable.

k) Cash and Cash Equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

l) Interest-bearing Loans and Borrowings

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the amortization process.

Any portion of long-term loans and borrowings, which is due within one year of the balance sheet date or for which there was a breach in the loan covenant and the approval of breach was not received until year-end, is classified as short-term.

m) Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds. In determining the amount of borrowing costs eligible for capitalization during a period, any investment income earned on borrowed funds is deducted from the borrowing costs incurred. Borrowing costs other than those which meet the criteria for capitalization are expensed as incurred.

n) Income Taxes

The provision for corporate tax is calculated in accordance with local tax jurisdictions of respective countries. For Czech entities corporate tax is calculated in accordance with Czech tax regulations and is based on the income or loss reported under Czech accounting regulations, adjusted for appropriate permanent and temporary differences from Czech taxable income. In the Czech Republic, income taxes are calculated on an individual company basis as the tax laws do not permit consolidated tax returns. Current income taxes are provided at a rate of 19% for the years ended 31 December 2015 and 2014, respectively, after adjustments for certain items which are not deductible for taxation purposes. The Czech corporate income tax rate for 2016 will be 19%.

Certain items of income and expense are recognized in different periods for tax and financial accounting purposes. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes are provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets and liabilities are recognized regardless of when the timing difference is likely to reverse. Deferred tax assets and liabilities are not discounted and are classified as non-current assets (liabilities) in the consolidated balance sheets. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. A deferred tax liability is recognized for all taxable temporary differences.

The carrying amount of a deferred tax asset is reassessed and reduced at each balance sheet date to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or entire deferred tax asset to be utilized.

Deferred tax assets and liabilities are offset if they relate to income taxes within the same tax jurisdiction and the Group intends to settle its due tax payables and receivables on a “net basis”.

o) Revenue Recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognized net of sales taxes and discounts when delivery has taken place and transfer of risks and rewards has been completed.

Interest is recognized on a time proportion basis that reflects the effective yield on the asset.

p) Provisions

A provision is recognized when, and only when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

q) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognized as assets of the Group at the lower of their fair value at the date of acquisition and the current value of minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. The interest element of the rental obligation is charged to the statement of comprehensive income so as to produce a constant periodic rate of charge. Financial expenses are directly charged to the statement of comprehensive income except for the instances where they are directly associated with the qualifying asset and are capitalized in accordance with accounting rules and procedures regarding borrowing costs. Rentals in respect of operating leases are recognized as an expense on a straight line basis over the lease term.

r) Impairment of Assets

Financial Instruments
Financial instruments are reviewed for impairment at each balance sheet date. For financial assets carried at amortized cost, whenever it is probable that the company will not collect all amounts due according to the contractual terms of receivables or held-to-maturity investments, an impairment or bad debt loss is recognized in the statement of comprehensive income. Reversal of impairment losses previously recognized is recorded when the decrease in impairment loss can be objectively related to an event occurring after the write-down. Such reversal is recorded in income. However, the increased carrying amount is only recognized to the extent it does not exceed what amortized cost would have been, had the impairment not been recognized.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of comprehensive income, is transferred from other comprehensive income to profit or loss. Reversals in respect of equity instruments classified as available for sale are not recognized in profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income. Reversals of impairment losses on debt instruments are reversed through the profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the profit or loss.

Other Assets
Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in income. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction.

Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if this is not possible, for the cash-generating unit to which the asset belongs.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or the losses have decreased. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for that asset in prior years.

s) Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

t) Subsequent Events

Post-year-end events that provide additional information about a company's position at the balance sheet date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

u) New IFRS Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year, except as follows. As of 1 January 2015, the Group adopted the following new or amended standards and interpretations issued by the IASB and adopted by the European Union:

- Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)" Amendments to various standards and interpretations resulting from the annual improvement project of (IFRS 1, IFRS 3, IFRS 13 and IAS 40), primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 18 December 2014 (effective for annual periods beginning on or after 1 January 2015).
- IFRIC 21 – Levies, interpretation adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

The adoption of these improvements and interpretation had no significant impact on the Group's financial statements.

As of the balance sheet date, the following standards, revisions and interpretations adopted by the EU were issued but not yet effective:

- Amendments to IAS 1 – Presentation of Financial Statements – Disclosure Initiative – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016).
- Amendments to IAS 16 – Property, Plant and Equipment and IAS 41 – Agriculture – Bearer Plants – adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016).
- Amendments to IAS 16 – Property, Plant and Equipment and IAS 38- Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation – adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016).
- Amendments to IAS 19 – Employee Benefits – Defined Benefit Plans: Employee contributions – adopted by the

EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015).

- Amendments to IAS 27 – Consolidated and Separate Financial Statements – Equity Method in Separate Financial Statements – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016).
- Amendments to IFRS 11 – Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations – adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016).
- Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)" Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38), primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015).
- Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34), primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The Group decided not to apply these standards, revisions and interpretations before their effective dates. The Group estimates that the adoption of these standards, revisions and interpretations in the period of their first adoption, will have no significant impact on the financial statements.

The Group currently assesses potential impacts of new and revised standards and interpretations that will be binding, and approved by the European Union as of 1 January 2016 or afterwards:

IFRS 9 – Financial Instruments (effective for annual periods beginning on or after 1 January 2018).

IFRS 14 – Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016).

IFRS 15 – Revenue form Contracts with Customers (effective for annual periods beginning on or after 1 January 2018). IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

IFRS 16 – Leases, issued on 29 January 2016 (effective for annual periods beginning on or after 1 January 2019). IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

Amendments to IFRS 10 – Consolidated Financial Statements, IFRS 12 – Disclosure of Interests in Other Entities and IAS 28 – Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016).

Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date deferred indefinitely).

Amendments to IAS 7 – Disclosure Initiative, issued on 29 January 2016 (effective for annual periods beginning on or after 1 January 2017).

Amendments to IAS 12 – Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses, issued on 19 January 2016 (effective for annual periods beginning on or after 1 January 2017).

The Group estimates that the adoption of these standards, amendments and interpretations in the period of their first time adoption will have no significant impact on the financial statements of the Group. IFRS 9, IFRS 15 and IFRS 16 are an exception, the impact of their adoption has no yet been assessed by the Group.

No regulations have been approved for hedge accounting applied to the portfolio of financial assets and financial liabilities, the principles of which the European Union has not yet approved.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2015 (In thousand CZK)

3. Property, Plant and Equipment, Net

The movements in 2015 were as follows:

	Land	Buildings	Machinery & Vehicles	Fixtures	Construction in Progress	Total
COST						
As at 31 December 2014	**28,568**	**1,030,433**	**2,921,378**	**72,207**	**3,653**	**4,756,239**
Additions	-	1,292	12,094	141	102,246	115,773
Disposals	-	-	(14,208)	-	-	(14,208)
Transfers	298	926	13,492	6,912	(21,628)	-
Translation difference	(90)	(1,412)	(5,026)	(54)	-	(6,582)
As at 31 December 2015	**28,776**	**1,731,239**	**2,927,730**	**79,206**	**84,271**	**4,851,222**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
As at 31 December 2014	**-**	**(722,801)**	**(2,365,962)**	**(62,857)**	**-**	**(3,151,620)**
Depreciation	-	(36,934)	(77,303)	(2,155)	-	(116,392)
Disposals	-	-	12,378	-	-	12,378
Translation difference	-	816	2,091	52	-	2,959
As at 31 December 2015	**-**	**(758,919)**	**(2,428,796)**	**(64,960)**	**-**	**(3,252,675)**
Net book value	**28,776**	**972,320**	**498,934**	**14,246**	**84,271**	**1,598,547**

The movements in 2014 were as follows:

	Land	Buildings	Machinery & Vehicles	Fixtures	Construction in Progress	Total
COST						
As at 31 December 2013	**28,527**	**1,728,249**	**2,797,733**	**68,936**	**24,643**	**4,648,088**
Additions	-	1,092	19,635	9	92,384	113,120
Disposals	-	-	(3,886)	-	(2,889)	(6,775)
Transfers	-	463	106,769	3,253	(110,485)	-
Translation difference	41	629	1,127	9	-	1,806
As at 31 December 2014	**28,568**	**1,730,433**	**2,921,378**	**72,207**	**3,653**	**4,756,239**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
As at 31 December 2013	**-**	**(684,874)**	**(2,297,586)**	**(51,109)**	**-**	**(3,033,569)**
Depreciation	-	(37,581)	(71,091)	(2,086)	-	(110,758)
Disposals	-	-	3,522	-	-	3,522
Impairment loss recognized	-	-	-	(9,653)	-	(9,653)
Translation difference	-	(346)	(807)	(9)	-	(1,162)
As at 31 December 2014	**-**	**(722,801)**	**(2,365,962)**	**(62,857)**	**-**	**(3,151,620)**
Net book value	**28,568**	**1,007,632**	**555,416**	**9,350**	**3,653**	**1,604,619**

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2015 (In thousand CZK)

Assets pledged as security for loans as at 31 December were as follows:

Assets	Lien creditor	Carrying amount 31 December 2015	Carrying amount 31 December 2014
Buildings and halls	Československá obchodní banka, a.s.	680,193	701,654
Land	Československá obchodní banka, a.s.	11,638	11,638
Receivables	Československá obchodní banka, a.s.	90,694	124,088
Inventories	Československá obchodní banka, a.s.	136,930	141,998
Total		**919,455**	**979,378**

Part of tangible fixed assets consists of items, which were acquired under finance lease arrangements (see Note 11). The following summarizes assets acquired under finance leases as at 31 December:

	2015		2014	
	Leased equipment at cost	Net book value of leased equipment	Leased equipment at cost	Net book value of leased equipment
Machinery and vehicles	2,016	1,902	428	403

Assets which are being used under an operating lease as at 31 December 2015 and 2014 include:

Description	Expense* in 2015	Expense* in 2014
Copy machines	1,310	1,349
Fork lifts	2,737	2,737
Vehicles	761	-
Buildings	8,587	8,605
Total	**13,395**	**12,691**

** Annual rent expense includes also operational maintenance services.*

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2015	2014
Within one year	17,108	15,391
After one year but not more than five years	40,739	55,642
Total	**57,847**	**71,033**

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2015 (In thousand CZK)

4. Intangible Assets, Net

The movements in 2015 were as follows:

	Software	Trademark	Customer contracts	Intangibles in progress	Goodwill	Total
COST						
As at 31 December 2014	**189,317**	**4,218**	**2,716**	**1,784**	**13,743**	**211,778**
Additions	289	-	-	10,287	-	10,576
Disposal	(898)	-	-	-	-	(898)
Transfers	2,269	-	-	(2,269)	-	-
Translation difference	(23)	-	-	-	(363)	(386)
As at 31 December 2015	**190,954**	**4,218**	**2,716**	**9,802**	**13,380**	**221,070**
ACCUMULATED AMORTIZATION						
As at 31 December 2014	**(179,130)**	**(891)**	**(566)**	**-**	**-**	**(180,587)**
Amortization	(3,420)	(713)	(453)	-	-	(4,586)
Disposal	898	-	-	-	-	898
Translation difference	22	-	-	-	-	22
As at 31 December 2015	**(181,630)**	**(1,604)**	**(1,019)**	**-**	**-**	**(184,253)**
Net book value	**9,324**	**2,614**	**1,697**	**9,802**	**13,380**	**36,817**

The movements in 2014 were as follows:

	Software	Trademark	Customer contracts	Intangibles in progress	Goodwill	Total
COST						
As at 31 December 2013	**186,006**	**4,218**	**2,716**	**997**	**13,578**	**207,515**
Additions	67	-	-	4,033	-	4,100
Transfers	3,246	-	-	(3,246)	-	-
Translation difference	(2)	-	-	-	165	163
As at 31 December 2014	**189,317**	**4,218**	**2,716**	**1,784**	**13,743**	**211,778**
ACCUMULATED AMORTIZATION						
As at 31 December 2013	**(174,688)**	**(180)**	**(113)**	**-**	**-**	**(174,981)**
Amortization	(4,444)	(711)	(453)	-	-	(5,608)
Translation difference	2	-	-	-	-	2
As at 31 December 2014	**(179,130)**	**(891)**	**(566)**	**-**	**-**	**(180,587)**
Net book value	**10,187**	**3,327**	**2,150**	**1,784**	**13,743**	**31,191**

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2015 (In thousand CZK)

5. Changes in the Group

Increase of shares capital in subsidiary KORADO Bulgaria AD

In 2014 KORADO Bulgaria AD decided to increase share capital and offered 2,576,786 new shares in public offering for the total amount of BGN 7,086 thousand. The issue price for one share was 2.75 BGN (nominal value of shares is 1.00 BGN). All new shares were subscribed in December 2014.

The external investors subscribed to 1,143,636 new shares (equivalent to BGN 3,145 thousand) and until 31 December 2014 these external investors paid CZK 10,875 thousand. The Parent Company subscribed to 1,433,150 new shares (equivalent to BGN 3,978 thousand).

After subscription of new shares the ownership interest of the Parent Company in KORADO Bulgaria AD decreased from 98.2% to 85.7% and non-controlling interest held by external investors increased from 1.8% to 14.3%.

The amount due from external investors of CZK 33,766 thousand was presented as Share subscription receivable as at 31 December 2014. The amount due was repaid by all shareholders in February 2015.

The following table shows summarized financial information of KORADO Bulgaria AD for the year ended 31 December 2015 and 2014:

	2015	2014
Ownership share of non-controlling interest at 31 December	14.3%	14.3%
Non-current assets	187,464	139,875
Current assets	86,561	177,137
Non-current liabilities	(6,389)	(4,409)
Current liabilities	(42,789)	(95,522)
Equity	224,848	217,081
Attributable to:		
Equity holders of parent	192,691	186,035
Non-controlling interests	32,157	31,046
Revenues	382,913	294,375
Profit after income taxes	26,953	18,600
Attributable to:		
Equity holders of parent	23,099	18,265
Non-controlling interest	3,854	* 335
Total comprehensive income	22,325	19,400
Attributable to:		
Equity holders of parent	19,133	19,065
Non-controlling interest	3,192	* 335

** The non-controlling interest held by external investors increased from 1.8% to 14.3% in December 2014.*

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2015 (In thousand CZK)

6. Inventory, Net

The following items are included in inventories:

	31 December 2015	31 December 2014
Raw materials	151,355	136,751
Work-in-progress	8,945	7,516
Finished goods	52,207	59,525
Total	**212,507**	**203,792**

Excess, obsolete and slow-moving inventory at gross amount of CZK 2,475 thousand and CZK 2,664 thousand has been reduced to net realizable value through the impairment provision account of CZK 2,032 thousand and CZK 2,466 thousand as at 31 December 2015 and 2014, respectively. The impairment provision is determined by management based on the aging analysis of inventory and the estimated realizable value.

7. Accounts Receivable, Net

Accounts receivable, net are as follows:

	31 December 2015	31 December 2014
Trade receivables	141,670	159,590
Advances received	5,417	5,924
Other	182	892
Impairment provision	(20,980)	(23,137)
Total	**126,289**	**143,269**

At 31 December 2015 and 2014 the ageing analysis of Accounts receivable, net is as follows:

	31 December 2015	31 December 2014
Within due date	104,944	128,777
Past due but not impaired [1]:		
Less than 3 months	15,906	13,734
3 – 6 months	4,089	717
6 – 12 months	1,350	7
More than 12 months	-	34
Total	**126,289**	**143,269**

[1] *Past due but not impaired receivables also include net receivables, for which the Group recorded an impairment provision based on the collective assessment of impairment of receivables that are not individually significant.*

Movements in impairment provision for receivables:

	2015	2014
As at 1 January	23,137	20,375
Additions	3,503	5,599
Reversals	(5,660)	(2,837)
As at 31 December	**20,980**	**23,137**

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2015 (In thousand CZK)

8. Prepayments and Other Current Assets

	31 December 2015	31 December 2014
VAT receivable	19,640	15,070
Prepayments and other	5,941	10,749
Total	**25,581**	**25,819**

9. Cash and Cash Equivalents

	31 December 2015	31 December 2014
Cash with banks	145,908	155,444
Cash on hand	732	783
Total	**146,533**	**156,227**

10. Shareholders' Equity

Share Capital

The share capital of the Parent Company as at 31 December 2015 and 2014 is comprised of 2,402 registered shares fully subscribed and paid, with a nominal value of CZK 350 thousand per share. All shares have equal voting rights.

Distributable Retained Earnings

Distributable retained earnings of the Parent Company amounted to CZK 456,203 thousand and CZK 451,115 thousand as at 31 December 2015 and 2014, respectively.

In 2015 the Parent Company approved total dividends of CZK 29,999 thousand (CZK 12,489 per share) of which CZK 10,000 thousand was paid in 2014 as an interim dividend. In 2015 the Parent Company also paid an interim dividend of CZK 14,998 thousand (CZK 6,244 per share).

In 2014 the Parent Company paid dividends of CZK 19,999 thousand (CZK 8,326 per share).

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business, maximize shareholder value and meet loan covenants specified in agreements with banks.

On 9 April 2014, the Company signed a new financing agreement with Československá obchodní banka, a.s. (see Note 11). The new financing agreement includes bank loan covenants which must be fulfilled. The Company monitors net debt / EBITDA ratio which shoud not be higher than 3.2 and equity ratio (equity/total assets) which must be at least 58%. Equity is defined as equity less intangible assets and deferred tax assets and total assets are defined as total assets less intangible assets and deferred tax assets. EBITDA is the operating profit / (loss) (the sum of revenues and expenses presented above interest expense, net of capitalized interest in the consolidated statement of comprehensive income) adjusted for depreciation and amortization and change in impairment provisions and provisions, net. Net debt is defined as bank loans less cash and cash equivalents. Both ratios are evaluated using consolidated financial statements as follows:

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2015 (In thousand CZK)

	31 December 2015	31 December 2014
Equity	1,382,278	1,381,754
Total assets	2,152,515	2,202,918
Less intangible assets	(36,817)	(31,191)
Less deferred tax assets	(518)	(537)
Equity less intangible assets, deferred tax assets	1,344,943	1,350,026
Total assets less intangible assets, deferred tax assets	2,115,180	2,171,190
Equity ratio	**63.6%**	**62.2%**
Bank loans	276,507	357,475
Less cash and cash equivalents	(146,533)	(156,227)
Net debt	129,974	201,248
Operating profit / (loss)	57,073	81,219
Depreciation and amortization	120,977	116,368
Change in impairment provisions and provisions, net	(3,072)	13,382
EBITDA	174,978	210,969
Net debt / EBITDA ratio	**0.74**	**0.95**

In 2015 and in 2014 the Parent Company met both ratios.

11. Debt

Long-term debt, net of current portion consists of the following:

	31 December 2015	31 December 2014
Bank loans	195,578	276,475
Other loans	586	1,024
Long term portion of lease obligations	2,128	10
Other	4,261	4,410
Total	**202,553**	**281,919**

Short-term borrowings and current portion of long-term debt are as follows:

	31 December 2015	31 December 2014
Current portion of long term debt and short-term borrowings	80,929	81,000
Current portion of lease obligations	851	62
Total	**81,780**	**81,062**

Bank loans of the parent company consist of the following:

Bank	Terms	Interest rate (%)	Maturity	Total limit (thousands)	2015 Amount in foreign currency (in thousands)	2015 Amount in CZK thousands
KORADO, a.s.						
Československá obchodní banka, a.s.	Investment	1M PRIBOR+1.55%	24.5.2019	CZK 405,000	-	276,750
Československá obchodní banka, a.s.	Operational overdraft	1D PRIBOR+1.45% 1D EURIBOR+1.45%	-	CZK 100,000	-	-
Československá obchodní banka, a.s.	Operational overdraft	1D PRIBOR+1.45%	-	CZK 1,000	-	-
Československá obchodní banka, a.s.	Operational overdraft	1M PRIBOR+1.55% 1M EURIBOR+1.65%	22.5.2020	CZK 50,000	-	-
Bank charges						(243)
Total						**276,507**
Less current portion						(80,929)
Net						195,578

Bank	Terms	Interest rate (%)	Maturity	Total limit (thousands)	2014 Amount in foreign currency (in thousands)	2014 Amount in CZK thousands
KORADO, a.s.						
Československá obchodní banka, a.s.	Investment	1M PRIBOR+1.55%	24.5.2019	CZK 405,000	-	357,750
Československá obchodní banka, a.s.	Operational overdraft	1D PRIBOR+1.45% 1D EURLIBOR+1.45%	-	CZK 100,000	-	-
Československá obchodní banka, a.s.	Operational overdraft	1D PRIBOR+1,45%	-	CZK 1,000	-	-
Bank charges						(275)
Total						**357,475**
Less current portion						(81,000)
Net						276,475

On 9 April 2014, the Company signed a new financing agreement with Československá obchodní banka, a.s. The Company repaid all bank loans with UniCredit Bank, a.s. on 30 April 2014 and drawned a new bank loan from Československá obchodní banka, a.s. The new financing agreement provided the Company with better parameters refinancing (lower interest rate, prolonging final maturity, new finaning sources available, cheaper bank transfers).

The interest expense related to bank loans for the years ended 31 December 2015 and 2014 amounted to CZK 5,853 thousand and CZK 7,856 thousand.

Bank loans provided to the Group are secured by pledged assets at carrying values of CZK 919,455 thousand and CZK 979,378 thousand as at 31 December 2015 and 2014, respectively (see Note 3). Bank loans of the Parent Company are also secured by the cession of receivables from property insurance benefits exceeding CZK 10,000 thousand per insurance claim. Bank loans of the Parent Company are also secured by the cession of receivables from inventory insurance benefits exceeding CZK 5,000 thousand per insurance claim.

Loan agreement include covenants: equity ratio and net debt to EBITDA ratio (see Note 10 for detailed calculations) to be fulfilled by the Company so that the loan structure and interest can be maintained. As at 31 December 2015 and 2014 the Company met the covenants.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2015 (In thousand CZK)

The aggregate maturities of bank loans are as follows:

	31 December 2015	31 December 2014
2015	-	81,000
2016	80,929	80,920
2017	80,929	80,920
2018	80,929	80,920
2019	33,720	33,715
	276,507	**357,475**

Future minimum lease payments for finance leases are as follows:

	31 December 2015	31 December 2014
Within one year	977	66
After one year but not more than five years	2,248	12
Total minimum lease obligations	**3,225**	**78**
Interest	(245)	(6)
Present value of minimum lease obligations	**2,980**	**72**
Representing finance lease liabilities:		
- current	851	62
- non-current	2,128	10

12. Payables and Other Current Liabilities

Current liabilities comprise the following:

	31 December 2015	31 December 2014
Trade payables	343,485	307,754
Payables to employees	26,893	26,172
Accruals and other current liabilities	34,021	42,785
Total	**404,399**	**376,711**

13. Provisions for Liabilities and Charges

Summary of provisions:

	Warranty provisions	Other	Total
As at 31 December 2013	**5,083**	**775**	**5,858**
Creation of provisions	5,539	798	6,337
Provisions used	(5,083)	(775)	(5,858)
As at 31 December 2014	**5,539**	**798**	**6,337**
Creation of provisions	5,109	746	5,855
Provisions used	(5,539)	(798)	(5,858)
As at 31 December 2015	**5,109**	**746**	**5,855**

The warranty provision is calculated based on the actual development of the warranty costs taking into account expectations on future developments.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2015 (In thousand CZK)

14. Revenues from Sales, Net

Activity	2015	%	2014	%
Sales of radiators	1,795,299	97.8%	1,710,480	97.7%
Other	41,149	2.2%	39,411	2.3%
Total	**1,836,448**	**100.0%**	**1,749,891**	**100.0%**

Other sales include mainly sales of fittings, assembly complements for radiators and sales of services.

Sales by region are as follows:

Country	2015	%	2014	%
Czech Republic	616,713	33.6%	655,225	37.4%
Ukraine	103,884	5.7%	84,922	4.8%
Slovakia	153,717	8.4%	152,090	8.7%
Austria	97,622	5.3%	98,385	5.6%
Germany	111,626	6.1%	106,291	6.1%
Russia	160,741	8.8%	182,100	10.4%
Slovenia	36,971	2.0%	32,666	1.9%
Poland	87,397	4.8%	79,115	4.5%
Netherlands	34,320	1.9%	25,173	1.4%
Romania	114,356	6.2%	78,416	4.5%
Sweden	30,925	1.7%	30,933	1.8%
Finland	23,302	1.3%	19,190	1.1%
Belgium	48,544	2.6%	28,693	1.6%
United Kingdom	6,563	0.4%	8,506	0.5%
Bulgaria	12,625	0.7%	21,266	1.2%
Hungary	46,710	2.5%	45,765	2.6%
Other countries	150,432	8.2%	101,155	5.8%
Total	**1,836,448**	**100.0%**	**1,749,891**	**100.0%**

15. Cost of Materials, Energy and Purchased Goods

	2015	2014
Materials and supplies	959,011	919,342
Energy	49,507	50,629
Purchased goods	82,591	53,055
Total	**1,091,109**	**1,023,026**

Purchased goods include different specialized products purchased that represent a part of the range of products offered to the customers.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2015 (In thousand CZK)

16. Purchased Services

	2015	2014
Repairs and maintenance	14,313	7,968
Rent	14,962	14,179
Travelling and training expenses	13,907	12,698
Marketing	54,608	51,284
Transportation expenses	39,526	34,534
Legal and advisory services	17,492	16,127
Operational services	39,596	33,751
Other	29,344	15,182
Total	**223,748**	**185,723**

17. Other Expenses, Net

	2015	2014
Receivables and loans written off	10,641	395
Change in impairment provisions and provisions, net	(3,072)	13,382
Taxes and levies	1,766	2,094
Gain on sale of fixed assets	(621)	(563)
Other, net	(7,599)	3,447
Total	**1,115**	**18,755**

18. Other Financial Expenses, Net

	2015	2014
Bank charges	810	3,431
Other	604	1,002
Total	**1,414**	**4,433**

19. Taxes

The components of the income tax expense are as follows:

	2015	2014
Current tax	4,624	4,323
Deferred tax	648	116
Total income tax expense	**5,272**	**4,439**

Income Tax Legislation

Corporate income tax of the Parent Company is calculated in accordance with the Czech tax regulations at the rate of 19% in 2015 and 2014, respectively.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2015 (In thousand CZK)

Income Tax Expense

A reconciliation of the theoretical amount of expected income tax that would arise using the tax rate in the Czech Republic to the actual total income tax expense for the year ended 31 December 2015 and 2014 is as follows:

	2015	2014
Profit before tax	48,826	66,971
Statutory income tax rate	19%	19%
"Expected" income tax expense	9,277	12,724
Add / (deduct) tax effect of:		
Permanent differences	819	2,832
Change in valuation allowance	(1,867)	(1,313)
Change in deferred tax asset from tax credit	(1,277)	(10,048)
Different tax rate in other countries	(2,700)	(1,855)
Other	1,020	2,099
Actual income tax expense	5,272	4,439
Effective tax rate	11%	7%

Deferred income taxes at 31 December 2015 and 2014 consist of the following:

	2015	2014
Receivables impairment provision	651	1,153
Inventory impairment provision	386	468
Provisions	1,420	1,496
Accumulated losses carried forward	17,677	25,465
Elimination of intra-group profit from inventories	109	147
Tax credit from investment incentive	41,574	40,297
Other	1,369	438
Total deferred tax assets	**63,186**	**69,464**
Less valuation allowance to deferred tax asset	(7,325)	(9,192)
Offset with deferred tax liabilities	(55,343)	(59,735)
Deferred tax assets in the balance sheet	**518**	**537**
Difference between net book value of non-current assets for accounting and tax purposes	(130,993)	(134,756)
Total deferred tax liabilities	**(130,993)**	**(134,756)**
Offset with deferred tax assets	55,343	59,735
Deferred tax liabilities in the balance sheet	**(75,650)**	**(75,021)**

Movements in deferred tax liability, net were as follows:

	2015	2014
As at 1 January	74,484	74,368
Change in deferred tax recorded in statement of income	648	116
As at 31 December	**75,132**	**74,484**

Out of the total tax losses of subsidiaries generated since 1999, CZK 29,988 thousand and CZK 36,861 thousand can be carried forward as of 31 December 2015 and 2014, respectively. In 2015 and 2014, valuation allowance was established in full against deferred tax asset arising from tax losses of subsidiaries as it is not probable the losses will be utilized. The tax losses from the Parent Company were reflected in deferred tax asset in full; the Company expects their utilization in future periods. The deferred tax liability of the Parent Company represents in particular the difference between net book value of non-current assets for accounting and tax purposes.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2015 (In thousand CZK)

In 2008, the Parent Company launched the 4th production line which entitled the Company to use the investment incentives. The amount of potential investment tax credit related to capital expenditures already incurred is approximately CZK 176 million as at 31 December 2015 and 31 December 2014 and this balance can be drawn until 2019. The Company plans to meet all relevant criteria for drawing these funds and use the investment tax credit in the future. The Company recognized a deferred tax asset from the investment tax credit of CZK 41,574 thousand and CZK 40,297 thousand as at 31 December 2015 and 2014 (see Note 2d). Total unrecognized portion of deferred tax asset from investment tax credit is approximately CZK 134 million as at 31 December 2015.

20. Related Party Transactions

As at 31 December 2015 and 2014, members of the Board of Directors and Supervisory Board owned 660 and 660 shares of the Parent Company, respectively.

In 2015 and 2014 short-term employee benefits (salaries and bonuses including social and health insurance) related to management personnel of Group companies (36 and 36 people in total, respectively) amounted to CZK 88,571 thousand and CZK 87,540 thousand, respectively.

In 2015 and 2014 members of Board of Directors and Supervisory Board of the Parent Company received remuneration of CZK 2,880 thousand and CZK 2,523 thousand, respectively.

In 2015 and 2014 there were no transactions with related parties controlled by the Ministry of Finance of the Czech Republic or European Bank for Reconstruction and Development.

21. Financial Instruments and Financial Risk Management

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates (see Note 11). The floating interest rate is mostly based on PRIBOR and EURLIBOR/EURIBOR rates and for the Československá obchodní banka, a.s. loans it amounted to 1.75% as at 31 December 2015 and 1.81% as at 31 December 2014, respectively.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit / loss before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity and the impact of capitalized interest is not reflected:

2015		2014	
Increase/decrease in basis points	Effect on profit / loss before tax	Increase/decrease in basis points	Effect on profit / loss before tax
50	(1,384)	50	(1,789)
(50)	1,384	(50)	1,789

Credit risk

The Group has no uncovered significant concentration of credit risk with any single counter-party or group of counter-parties having similar characteristics.

Credit risk arises from the possibility that customers may not be able to settle obligations to the Group within the normal terms of trade. To manage this risk the Group periodically assesses the financial viability of customers.

Since the Group experienced significant weaknesses in its credit management in the past, new procedures were established to manage credit risk, such as control by the application of credit approvals, limits and monitoring procedures.

The maximum exposure to the credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group considers that its maximum exposure is equal to the amount of cash and cash equivalents, loans granted, accounts receivable, prepayments and other assets, net of impairment provision recognized at the balance sheet date.

Foreign Exchange Risk

The Group enters into some contracts denominated in foreign currencies. The Group has transactional currency exposures. Such exposures arise from sales or purchases in currencies other than the functional currency.

The foreign currency accounts receivable and payable represent an exchange rate risk for the Group. At 31 December 2015 and 2014, the Group did not have any exchange rate hedges in place to mitigate the overall foreign currency exposure.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2015 (In thousand CZK)

The following tables demonstrate the sensitivity to a reasonably possible change in the exchange rates between functional currencies and foreign currencies, with all other variables held constant, of the Group's profit before tax (due to the change in the fair value of monetary assets and liabilities):

	2015		2014	
	Increase/decrease in exchange rate *	Effect on profit / loss before tax	Increase/decrease in exchange rate *	Effect on profit / loss before tax
EUR	+5%	232	+5%	(629)
GBP	+5%	78	+5%	77
PLN	+5%	1,346	+5%	1,414
USD	+5%	293	+5%	258
EUR	(5%)	(232)	(5%)	629
GBP	(5%)	(78)	(5%)	(77)
PLN	(5%)	(1,346)	(5%)	(1,414)
USD	(5%)	(293)	(5%)	(258)

** Increase means depreciation of functional currency against foreign currency. Decrease means appreciation of functional currency against foreign currency.*

Liquidity risk

The Group monitors its risk of shortage of funds by considering the maturity of both its financial assets and financial liabilities and projected cash flows from operations. The Group uses bank overdrafts to meet its short-term cash needs and long-term bank loans to finance its long-term investments.

The tables below summarize the maturity profile of the Group's financial liabilities as at 31 December 2015 and 2014 based on contractual undiscounted payments (nominal amount and interest) provided that the Group meets the loan agreement covenants (see Note 10):

31 December 2015	Less than 3 months	3-12 months	1-5 years	Total
Bank and other loans	21,398	63,661	199,717	284,776
Finance lease obligations	244	733	2,248	3,225
Payables and other current liabilities	404,399	-	-	404,399
Total	**426,041**	**64,394**	**201,965**	**692,400**

31 December 2014	Less than 3 months	3-12 months	1-5 years	Total
Bank and other loans	21,806	64,869	285,087	371,762
Finance lease obligations	16	50	12	78
Payables and other current liabilities	376,711	-	-	376,711
Total	**398,533**	**64,919**	**285,099**	**748,551**

The management of the Company believes the Group will be able to generate sufficient cash flows to repay its liabilities or obtain other adequate funding from banks/prolong existing overdraft facilities.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2015 (In thousand CZK)

Fair Value
Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents
The carrying amount of cash and cash equivalents approximates fair value due to the relatively short-term maturity of this financial instrument.

Other non-current assets
The carrying amount of other non-current assets approximates fair value.

Receivables, Payables and Other Current Liabilities
The carrying amount of receivables, payables and other current liabilities approximates fair value due to the short-term maturity of these financial instruments.

Short-term Debt
The carrying amount approximates fair value because of the short period to maturity of those instruments.

Long-term Debt
The determination of fair value of long-term debt is based on the quoted market price for the same or similar debt instruments or on the current rates available for debt with the same maturity profile. The fair value of long-term debt and other payables with variable interest rates approximates their carrying amounts.

Carrying amounts and the estimated fair values of financial instruments as at 31 December 2015 were as follows:

	Carrying amount	Fair value
Assets		
Other non-current assets	2,958	2,958
Accounts receivable, net	126,289	126,289
Cash and cash equivalents	146,533	146,533
Liabilities		
Payables and other current liabilities	404,399	404,399
Short-term borrowings and current portion of long-term debt	81,780	81,780
Long-term debt, net of current portion	202,553	202,553

Carrying amounts and the estimated fair values of financial instruments as at 31 December 2014 were as follows:

	Carrying amount	Fair value
Assets		
Other non-current assets	2,759	2,759
Accounts receivable, net	143,269	143,269
Share subscription receivable	33,766	33,766
Cash and cash equivalents	156,227	156,227
Liabilities		
Payables and other current liabilities	376,711	376,711
Short-term borrowings and current portion of long-term debt	81,062	81,062
Long-term debt, net of current portion	281,919	281,919

	Authorized for issue by:	Person responsible for accounting:
	František Menclík	-
18 March 2016	Vojtěch Čamek	Zuzana Mrázková

SWORN AFFIDAVIT

We hereby certify that the information stated in the Annual Report for the year 2015 is truthful and that no important facts that we were aware of and may have an effect on the accurate and correct assessment of KORADO a.s have been omitted.

František Menclík
Board of Directors Chairman

Eva Voborová
Controlling Department

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YEARS OF RADIATORS PRODUCTION

KORADO®

KORADO

KORADO, a.s.
Bří Hubálků 869
560 02 Česká Třebová

Infoline (free): 800 111 506
e–mail: info@korado.cz
www.korado.cz