Annual Report **2016**

KORADO

…heat for your homes

more than 50 years

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KORADO












LICON


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FOREWORD BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Business Partners,

The year 2016 has come to end. Unfortunately, I must conclude that even during this year, there was no progressive increase in construction production, particularly in the housing and civic facilities sector. On the contrary, these fields in the Czech Republic are in decline also compared to 2015. The situation is similar in Ukraine, sanctions regime of the European Union in relation to the Russian Federation has a large negative influence.
All this has an impact on the behaviour of our customers and on deliveries of our products. It is seen mainly in the requirements for small orders, strict compliance with the time limit of the deliveries and of course in downward pressure on price. Our Company was forced to respond to these influences by changing the nature of production - from mass to customized.
As a result of the European Union decision to introduce duties for the import of cold-rolled steel from Russia and China, there was an enormous increase in prices of input material in the second part of the year. Despite all the saving measures, the Company is not able to eliminate this influence and is forced to transfer these price increases to its customers.
We manage to overcome these challenges not only in the Česká Třebová, but also in subsidiaries KORADO Bulgaria and LICON HEAT thanks to prudent investments. In the Česká Třebová it is mainly investing in technology on manufacturing KORATHERM products and in Bulgaria it is related to the investment in commissioning of a new production line for OTT. In LICON HEAT, there are ongoing investments in innovation of the product portfolio, which will enable us to substantially extend the range and improve the performance of manufactured convectors. Also for the next year the Company is planning further acquisitions, that will provide the extension of Company's products range and because of this more convenience for customers.
Worth mentioning fact is, that all shareholders of the Company agreed to buy all 220 shares, that is 9.16% of the KORADO, a.s., share capital during the fourth quarter of 2016 which was owned by Bedřich Brabec and to transfer the shares directly to the KORADO, a.s. This transaction has been finalized on 10 January 2017.
Despite all above mentioned obstacles the KORADO, a.s., continues to be stable, it maintains and strengthens its market position and is able to face challenging market conditions, create positive financial results, reduce its debt and for the fifth year pay-out each year higher dividends to its shareholders.
It is clear that all the steps described above would not be possible without the support and loyalty of all 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 2017 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.

Business strategy
Business strategy in 2017 still aims to continue the territorial and product transformation in response to legislation changes and customer requirements. Implementation of this strategy will be to some extent marked by an unprecedented increase in steel prices, a key cost component for radiators, caused by the introduction of anti-dumping duties against the Russian Federation and China.

Providing against Risk
Working with business and trade risks and providing for them continues to be one of the primary tasks of the Company, especially in the current turbulent environment which is influenced by many unpredictable factors - uncertainty regarding the future direction of the EU, relations with the Russian Federation, the migration crisis, Brexit, uncertainty associated with exchange rate commitment of ČNB etc. 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.

All those principles are implemented across the KORADO Group, including manufacturing plants in Bulgaria and in Liberec.

Optimising Radiator Production
The aim of this area is a systematic innovative process to improve product quality, optimise production according to market needs, and 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 Group 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 2017, 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 it's financing.

Internal Audit
In the following period Internal Audit will focus on achieving the Group's objectives by systematic and methodical approach to assessing and improving the risk management system, management and control processes and corporate governance of the Company. Internal audit will be a benefit for the Group in continuous ensuring consistently high level of professionalism and quality of work of the entire team and objective-finding information based on risk assessment and understanding of the essence of things in order to maximize their added value for both the company management, as well as statutory bodies. By implementing objective screening process and active intrusion into the nature of examined units and functions within the Group, along with the application of the latest analytical tools and techniques Internal Audit will seek to increase the efficiency of processes and controls.

An integral part will be cooperation of the Internal audit with the external audit.

THE KORADO GROUP

As of 31 December 2016, the KORADO Group consisted of the parent company KORADO, a.s., Česká Třebová and six subsidiaries, which are:

Four trading	- KORADO Deutschland - KORADO Austria (currently not engaged in business) - KORADO Polska - KORADO U. K. (currently not 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 Agreements have 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 there are Loan Agreements concluded between the parent company and the subsidiaries KORADO Polska, LICON HEAT and KORADO Bulgaria. This is a standard agreement under regular market 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 BGN 7 million (about CZK 100 million). These funds were used for further investment development. In particular, investment in the second production line of steel radiators and lines for the manufacture of bathroom radiators.

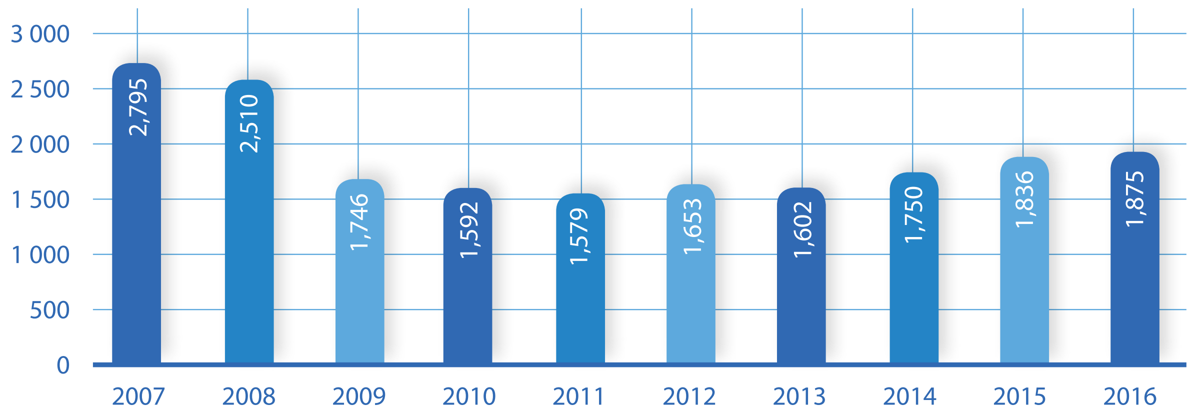
An important step towards expanding our product portfolio occurred in 2013 with the 100% buyout of the company LICON HEAT s.r.o. which has expanded KORADO’s production program to include a complete range of floor, wall, freestanding, bench and special convector radiators.

Sales and Profits of the KORADO Group (CZK Thousand)

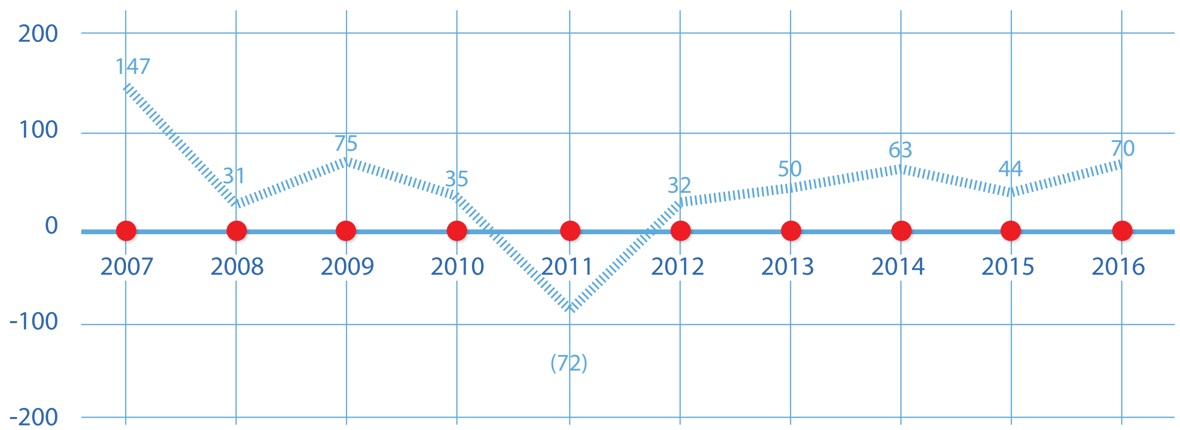
CZK Thousand	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Consolidated sales	2,795,017	2,510,084	1,745,583	1,592,299	1,579,217	1,653,283	1,602,014	1,749,891	1,836,448	1,874,930
Consolidated profits based on IFRS	147,173	31,105	74,912	34,572	(72,369)	32,497	50,343	62,532	43,554	69,896

- 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 (CZK million)

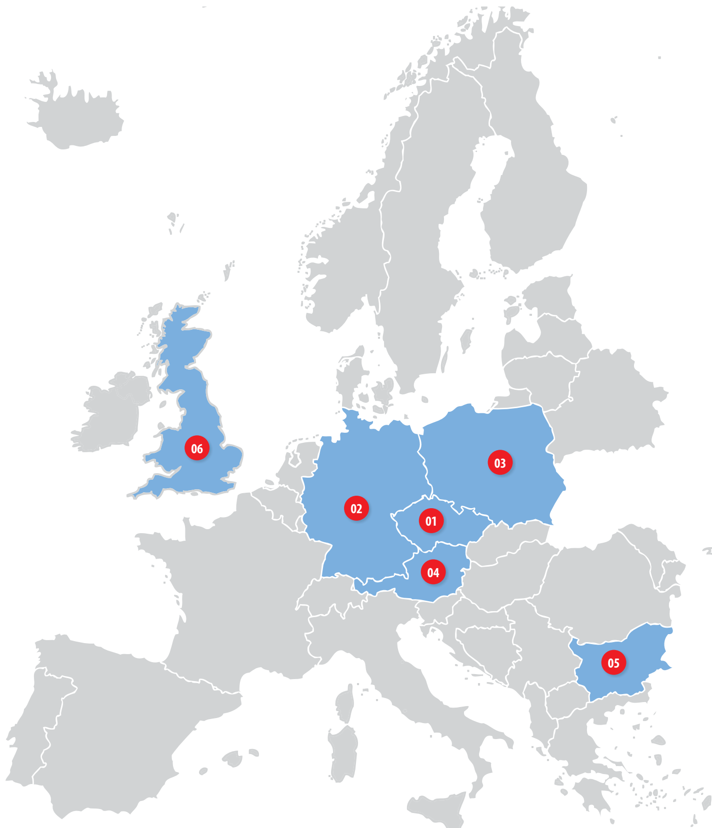


Consolidated Profits for the KORADO Group (CZK million)



Map of Europe with Subsidiaries and Companies Under Direct Control

01 KORADO, a.s.
LICON HEAT s.r.o.
02 KORADO DEUTSCHLAND
03 KORADO POLSKA
04 KORADO AUSTRIA
05 KORADO BULGARIA
06 KORADO U.K.



Composition of the KORADO Group as of 31 December 2016:

Company	Incorporation date	Share capital as at 31.12.2016	Director (Authorized Agent)	Registered office	KORADO, a.s. share	Legal form
KORADO, a.s.	1. 9. 1996	CZK 840,700 ths.	Vojtěch Čamek	Bří Hubálků 869, 560 02 Česká Třebová, Czech Republic	-	Joint-stock company
KORADO Deutschland GmbH	28. 11. 1995	CZK 676 ths.	Leona Vaňková	DR. Wilhelm-Külz- Strasse 61, 155 17 Fürstenwalde, Germany	100%	Limited liability company
KORADO Polska, Sp. z. o. o.	4. 12. 1996	CZK 44,173 ths.	Žaneta Vebrová	Gen.Okulickiego 4, 05-500 Piasecno, Poland	100%	Limited liability company
KORADO Austria, GmbH	1. 7. 1998	CZK 28,371 ths.	Leona Vaňková	Ferstelgasse 6/7, 1090 WIEN, Austria	100%	Limited liability company
KORADO Bulgaria, A. D.	1. 10. 1998	CZK 121,283 ths.	Jiří Řezníček	Gladston 28, 5150 Strajica, Bulgaria	85,58%	Joint-stock company
KORADO U. K. Limited	25. 11. 1998	CZK 32 ths.	Vojtěch Čamek	170 Merton High Street, Wimbledon London, SW19 1AY, England	100%	Limited liability company
LICON HEAT s. r. o.	1. 10. 2013*	CZK 14,500 ths.	Martin Kniha	Na Poříčí 1041/12 110 00 Praha 1 - Nové Město Czech Republic	100%	Limited liability company

Share capital calculated based on the exchange rate as of 31 December 2016
*Date of LICON HEAT inclusion in the KORADO Group

REPORT ON SUBSIDIARIES

KORADO Deutschland GmbH - KORADO Deutschland was founded on 28 November 1995 as a trading company dealing with 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 2016 KORADO Deutschland reported a profit of EUR 118 ths. (CZK 3,187 ths.).

EUR ths.	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total sales	5,007	4,974	4,763	5,090	5,286	4,477	3,080	4,395	5,173	5,489
Profits/Losses	393	(67)	0	0	0	0	71	138	179	118

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

In 2016 KORADO Polska achieved a profit of PLN 515 ths. (CZK 3,192 ths.).

PLN ths.	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total sales	8,351	8,811	8,260	7,542	7,297	7,243	9,242	8,941	11,142	16,473
Profits/Losses	1,044	(1,184)	(682)	461	(816)	95	162	247	312	515

KORADO Austria GmbH - KORADO Austria was founded, in 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 2016 KORADO Austria achieved a financial result of EUR 0.3 ths. (CZK 9 ths.).

EUR ths.	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total sales	0	0	0	0	0	0	1	0	0	0
Profits/Losses	(9)	(4)	(8)	(1)	(1)	1	1	1	(1)	0,3

KORADO Bulgaria A. D. - KORADO Bulgaria was founded in 1998, when KORADO, a.s., purchased the shares of the original production company. At present KORADO, a.s., owns an 85.58 % share in KORADO Bulgaria. The remaining share is owned by local institutional and retail investors. The shares are freely traded on the Bulgarian Stock Exchange in Sofia.

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 January 2015 lead to the first capital increase for KORADO Bulgaria of BGN 2,576,786, divided into 2,576,786 ordinary shares, which are registered as freely transferable shares with voting rights with a nominal value of BGN 1 each. The company thus gained funds of BGN 7,086,162, intended primarily for further investment development. The investment mediator of the transaction was Raiffeisenbank Bulgaria and the parent company also participated in the capital increase. The share of the parent company after this subscription decreased from 98.2 % to 85.7 %.

The company is a fully-fledged part of the KORADO Group with production very similar to that of the parent company – production of steel panel radiators and bathroom radiators.

In 2016 KORADO Bulgaria noticed increase in the export destinations adding Hungary and France. Annual increase in total revenues in 2016 amounted to nearly 19 %. KORADO Bulgaria currently covers markets of Romania, Ukraine, Hungary, France, Bosnia and Herzegovina and of course domestic market. A significant portion of production is traded through the distribution channels of the parent company.

Another important steps in 2016 were the completion of the second phase of the investment program, i.e., installing and launching new production line for the production of bathroom radiators, and the commencement of investments to reduce energy consumption of production space. Insulation project will be completed in 2017.

In 2016 KORADO Bulgaria generated a profit of BGN 2,927 ths. (CZK 40,455 ths.).

BGN ths.	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total sales	24,019	26,392	12,717	13,540	16,252	20,458	17,193	20,912	27,449	32,607
Profits/Losses	(658)	1,527	639	768	931	398	599	1,321	1,932	2,927
Panel radiators produced	374,704	342,558	134,816	166,712	229,129	281,027	238,808	295,187	398,958	433,008

LICON HEAT s.r.o. – it was incorporated into the KORADO Group in 2013. It manufactures convector radiators. Production was taken over from Likov Liberec, with which successfully continues 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 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 technology and a progressive trade policy supported by the ISO 9001 quality management system. KORADO and LICON label products are sold in more than 25 countries in Europe and Asia.

In 2016 LICON HEAT generated a profit totalling CZK 2,436 ths.

CZK ths.	2013	2014	2015	2016
Total sales	129,182	104,836	103,388	89,033
Profits	7,630	10,664	3,197	2,436

KORADO U. K. 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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
TOTAL SALES (MIL. CZK)	2,795	2,510	1,746	1,592	1,579	1,653	1,602	1,750	1,836	1,875
YEARLY CHANGE IN SALES (%)	(4%)	(10%)	(30%)	(9%)	(1%)	5%	(3%)	9%	5%	2%
EBITDA (NET PROFIT (LOSS) PLUS TAX ON INCOME PLUS INTEREST COSTS PLUS DEPRECIATION) (MIL. CZK)	335	210	276	207	84	174	179	191	176	210
EBITDA MARGIN (EBITDA/TOTAL SALES) (%)	12%	8%	16%	13%	5%	11%	11%	11%	10%	11%
PROFIT/LOSS AFTER TAX (MIL. CZK)	147	31	75	35	(72)	32	50	63	44	70
RETURN ON EQUITY (EBIT / ASSETS MINUS CURRENT LIABILITIES)	12%	10%	6%	2%	(2%)	3%	4%	5%	3%	5%
INDEBTEDNESS (BANK LOANS / EQUITY)	0.76	0.97	0.55	0.41	0.36	0.27	0.27	0.26	0.20	0.20
QUICK RATIO (CURRENT ASSETS MINUS INVENTORY / CURRENT LIABILITIES)	0.58	0.30	0.34	0.17	0.29	0.34	0.60	0.79	0.62	0.82
CURRENT RATIO (CURRENT ASSETS / CURRENT LIABILITIES)	0.93	0.47	0.55	0.36	0.60	0.63	1.03	1.23	1.06	1.36
TOTAL ASSETS (MIL. CZK)	2,738	3,002	2,402	2,239	2,117	2,007	2,106	2,203	2,153	2,185
LONG-TERM ASSETS / TOTAL ASSETS (%)	70%	74%	85%	86%	86%	85%	79%	74%	76%	72%
DAYS RECEIVABLES (DAYS)	36	37	34	28	24	27	32	34	30	25
DAYS PAYABLES (DAYS)	93	105	132	103	97	96	107	110	107	103
DAYS INVENTORIES (DAYS)	45	57	67	49	48	45	52	58	57	63

SALES AND MARKET POSITION OF THE KORADO GROUP

Overview on business activities in 2016

The European market remains our priority region. Despite the radiator market still showing decreasing trend, we managed to increase or maintain our share in some segments of the European radiator market. Specifically, the fulfilment of our long-term strategy to compensate for the decline in the segment of panel radiators with products in growing segments. In case of bathroom radiators, convectors and local ventilation units as the youngest representative in our offer the 2016 was successful.

Central and Eastern Europe

Long-term cooperation with partners in Central and Eastern Europe provides us with a strong and stable market position both in traditional products and for new products such as the convector body or ventilation and heat recovery units.

Western Europe

Projects which were commenced in the recent years have brought positive benefits across the product portfolio in 2016. Success in this region is based on a comprehensive service that is specifically targeted to individual groups of customer. Success in this region offset the changes in Eastern Europe, particularly in Russia, where in 2016 our import abilities were made difficult. We sense a growing interest in our newest segment of product range, which are the ventilation and heat recovery units.

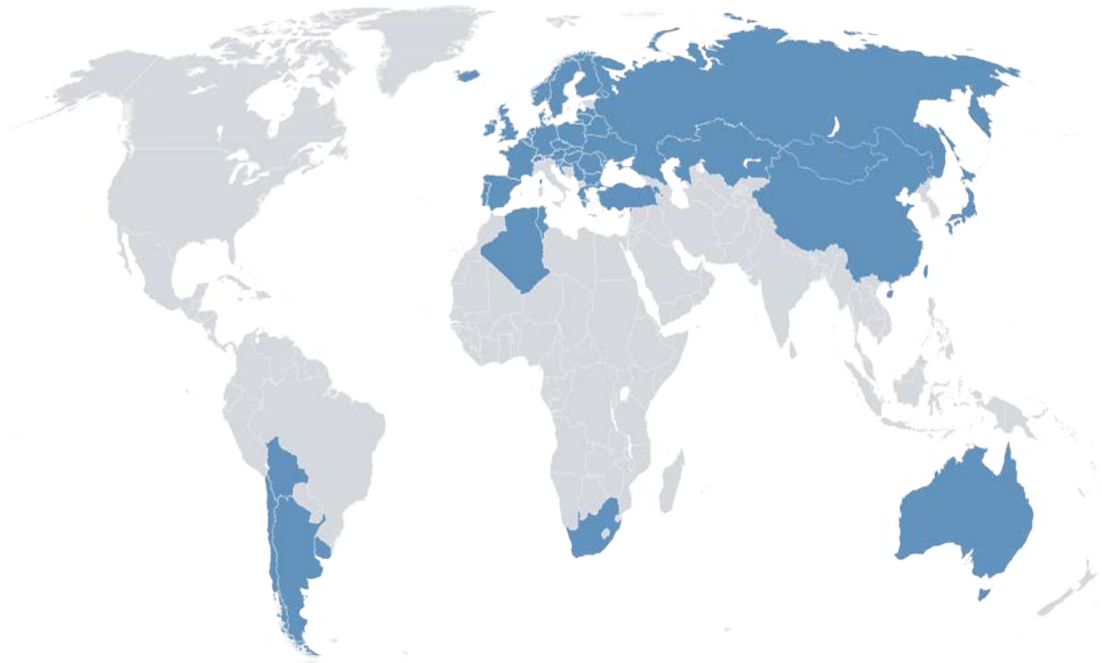
Product development

In 2016, we continued to develop the premium models for major product lines i.e. panel radiators and prepared the foundation for the next stage of development of the premium segment in the bathroom radiators. After three years from the extension of our offer with convector radiators, we have strengthened the position in the most markets in the Western Europe and prepared the modernization of the existing product lines. After the introduction of local recovery units we are preparing to further expand our offer of centralized ventilation and heat recovery units. With this step the KORADO Group returns to the assortment, which we dealt with till the nineties.

Overview for 2017

Business strategy for 2017 continues to aim at continuing territorial and product transformation in response to legislation changes and customer requirements. Implementation of this strategy will be to some extent marked by an unprecedented increase in steel prices, a key cost component for radiators, due to the introduction of anti-dumping duties.

RADIATOR AND CONVECTOR SALES IN 2016 ACCORDING TO COUNTRY



FINANCIAL SITUATION

Profitability of the KORADO Group

KORADO Group generated a profit of 70 million CZK in 2016. The profitability of the Group was positively affected by increase in revenues, which has reached the highest volume since 2009 and also by constant emphasis on optimising costs and increasing production efficiency. On the other hand there was a sharp increase in price of raw material in 2016, which influenced the outcome of the Group more significantly at the end of the year.

Bank Loans

In 2016, there were two new loans drawn to finance investments in the total amount of ca. CZK 150 million (in equivalents). Still, the trend of bank indebtedness reaches a positive declining trend. All bank loans are repaid in accordance with the terms of repayment.

Investments

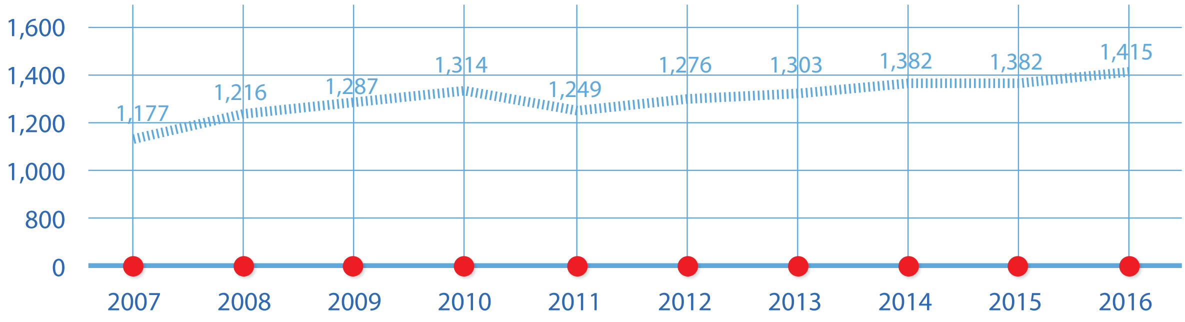
In 2016 at KORADO Bulgaria the investments in new production line for bathroom radiators was finished. At parent company the radiator testing room has been launched and in newly renovated hall for KORATHERM design radiators a high-capacity saw for cutting profiles and tubes was installed. Another important investment project is renovation of packaging hall of bathroom and designer radiators in order to optimise average production period. The updating of the entire information system also took place in the 2016.

Risk Management

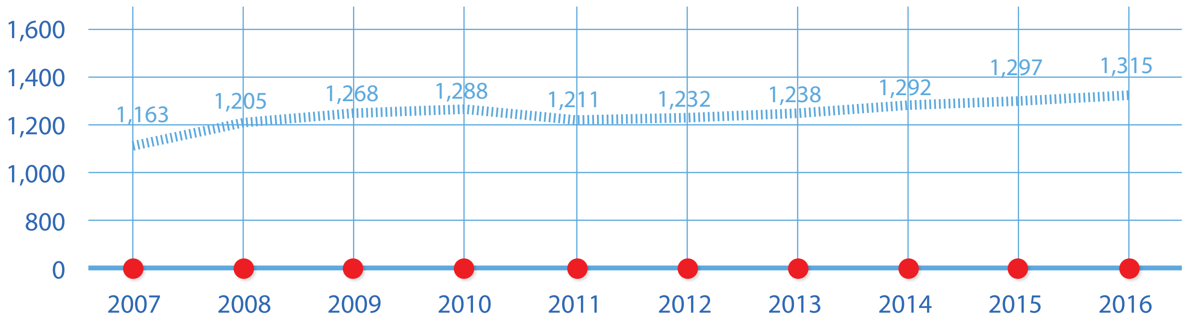
During its existence, the KORADO Group has built up a very stable and financially strong portfolio of customers. The continuing geopolitical tensions in Russia and the Ukraine associated with the macroeconomic slump in these two important markets, however, contributed significantly to payment issues 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 2016, 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. In 2016 one of our significant foreign customers got into restructuring proceedings. Receivable from this customer was paid by one of our co-credit insurance.

The perception of Risk Management in the wider context of the operations of the company 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 rise in commodity prices (in particular cold-rolled sheet), 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.

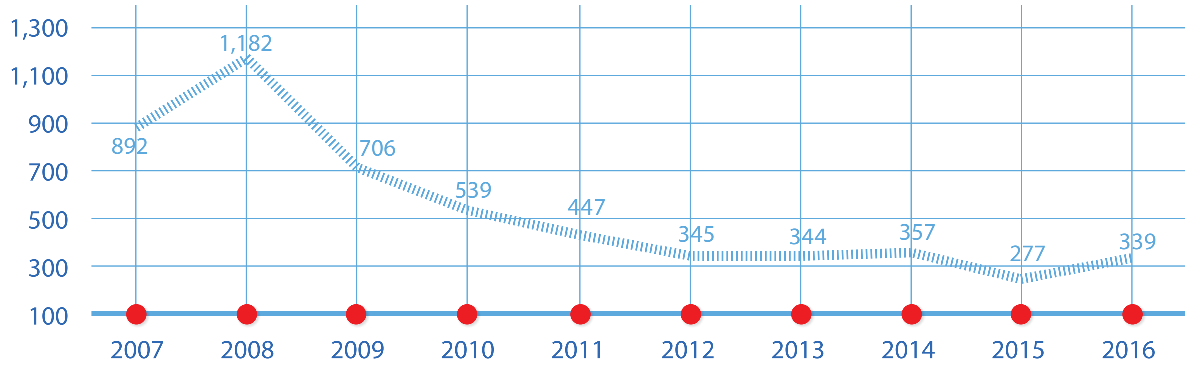
Equity of the KORADO Group (CZK million)



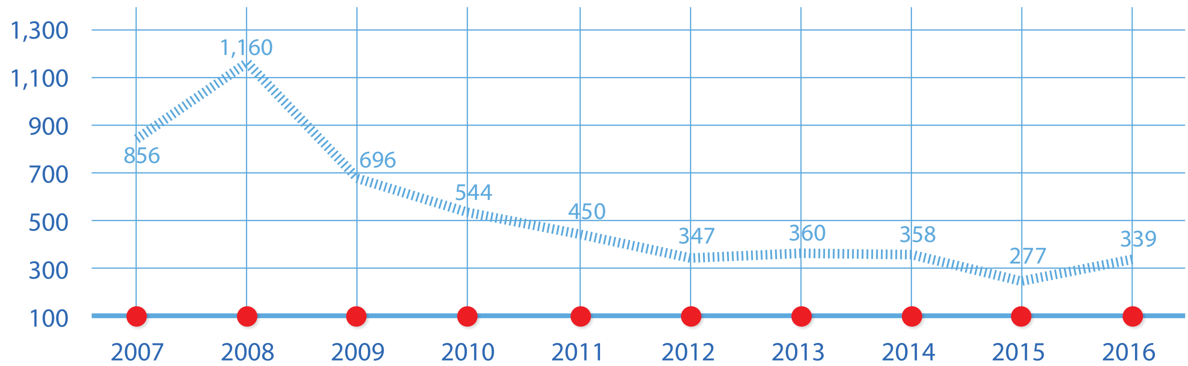
Equity of the Parent Company KORADO, a.s. (CZK million)



Debt of the KORADO Group (CZK million)



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



PURCHASE OF INPUT MATERIAL

KORADO Group ranks among companies with huge economic dependence on raw material and services purchase. Both material and services represent significant part of cost in the final product.

Efficient and professional team of employees from purchasing department has a well-developed and continuously improved procurement methods and processes with which the department works.

All this is enough to create in 2016, as in previous years, favourable conditions for successful purchase. Thus the important assumptions were laid and suitable environment was provided for a successful pricing policy practiced by the Group towards its customers.

The purchase, which is coordinated from one place for all three production plants both in the Czech Republic and Bulgaria, has already reached such a volume that this is becoming a significant factor also for our suppliers and has its important weight in negotiations with them. Work of the whole purchasing department is supported by the tender team and activities of the suppliers rating committee. Also the electronic auctions tool is used with very good results in the purchase department.

The basic material needed for the production of panel radiators is steel in the form of sheets, profiles, tubes, semi-products and other components. In 2016 its yearly consumption in the KORADO Group exceeded 37,000 tons of steel in the form of sheets, profiles and tubes. It is thus clear that the price of steel has a decisive influence on production costs and as a result it has significant effect on the selling prices of final products. Of course there are other production materials not to be ignored such as paints, chemicals, packaging materials and other. However their weight in the cost structure is not so significant. Therefore, in the past year a major threat has become rapidly and uncontrollably exploding price level of steel products in the EU. This process was initiated by the EU institutions by introducing a provisional anti-dumping measures, which in turn were replaced by a specific anti-dumping duties. Steel prices have started to rise at the end of the first quarter and this trend continued throughout the rest of the year. Thanks to the sufficient stocking up, the impact of rising prices began to show up in costs no as late as in the second half of the year and it will fully affect us since the beginning of 2017.

The purchase department proved highly professional even in these difficult conditions, and managed to supply the Group with raw materials and services for optimum achievable prices and conditions. Even in this period the need for further professional growth and education was not overlooked. The department is well prepared for the challenges that lie ahead in the upcoming period.

PRODUCTION AND DEVELOPMENT

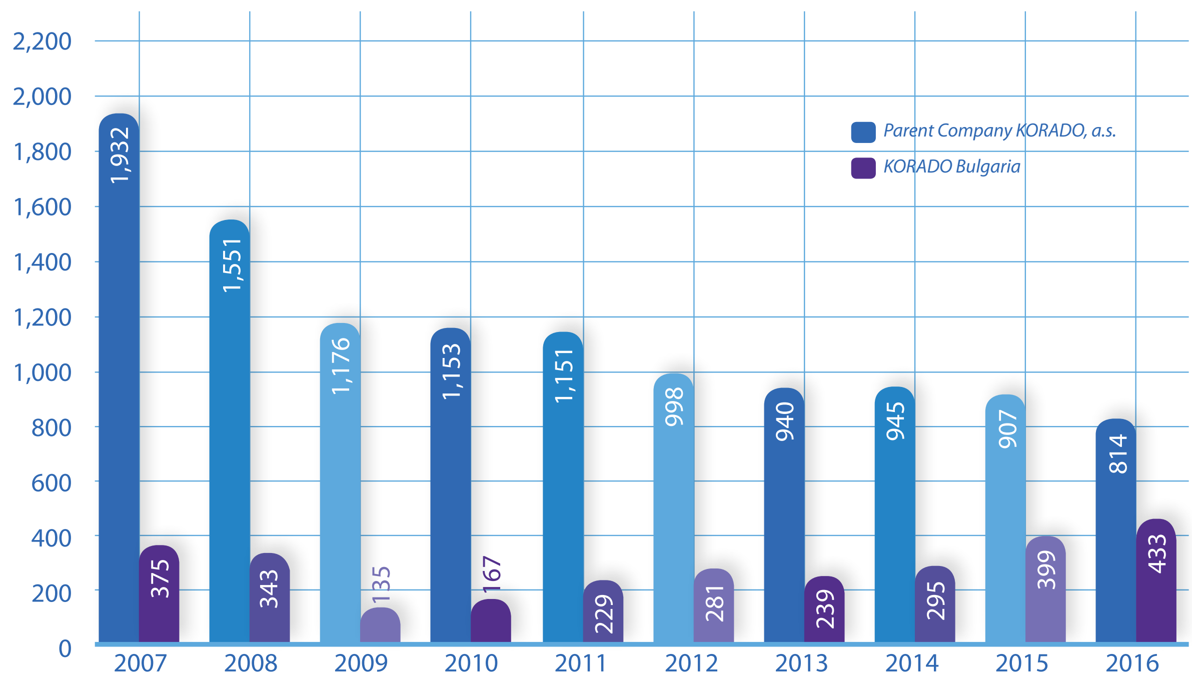
Production
In 2016, production at the parent company proceeded in a two--shift operation for panel radiators and three-shift or continuous operation, if needed, for bathroom radiators. Production in KORADO Bulgaria took place in two to three shifts according to needs and in LICON HEAT s.r.o. in single-shift operation, with extended shifts when needed.

Production of Bathroom Radiators
In KORADO Bulgaria the production in new line for manufacturing of bathroom radiators was fully launched in the first quarter of 2016. The Group thus acquired a modern manufacturing unit with capacity that can satisfy more customers and, ultimately, with this second line the Group has certainty to eliminate production downtime in the event of an unexpected crash of the device in the parent company. Production was quickly developed and in the autumn it has been supplemented by other preparations for producing other types of tubular radiators.

Development of KORATHERM Design Radiators
At the end of 2016, a high-capacity saw for cutting profiles and tubes was installed to the newly renovated hall for KORATHERM design radiators. In the first quarter of 2017 new production line for cutting and KORATHERM profiles production will be added. With this step, the KORATHERM radiators production line will be in 90 % automated, with a positive contribution to quality, design and shortens the delivery period for the customers.

Innovating Radiator Production
In 2016 operation of the testing room for radiators in Česká Třebová has been launched. The testing room is an integral part of development and achieves highly accurate results in comparison with the accredited state testing plant. Another important investment project is renovation of packaging hall of bathroom and designer radiators in order to optimise average production period.

Number of ODT units produced (Parent company x KBG) in thousands of pieces



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 on work safety and for higher legal standards are regularly conducted (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 the indicator related to the Group's operating results. 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 as the motivated and qualified employees are a prerequisite for the successful operation of the company. The priority of education is to improve technical professional training of employees in production. A Group's leading employees are entitled to contribution to the life insurance and to additional benefits. In the long term, a stabilising element is the system of contributions to pension funds, in which the majority of the employees is involved. Employees have the option of quality catering directly in the area of KORADO, a.s., plant, 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. We strive for a stable system that allows the individual to use the skills at work.
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

For a long time the KORADO Group belongs among companies 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 for customers and business partners. The high quality is achieved by a system of quality assurance, which is the backbone of the Company 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 2016 according to the ISO 9001:2008 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, a.s. 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 the 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 they have consistently met the set requirements for the quality of material, construction and production of RADIK and KORALUX radiators and for their regular inspection.

In 2016, we certified Authorised Economic Operator AEO.

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 January 2016 there was an unexpected inspection led by employees of ČIŽP OI Hradec Králové. Inspection checked on compliance with obligations under a valid integrated permit amended by Amendment No. 5 of the Act No. 76/2002 Coll. on integrated pollution prevention and control, and in particular the Act No. 201/2012 Coll. on air protection. As a result of the inspection, no breach of the conditions of the integrated permit or any of the above mentioned laws was found.

Basic assessment of environmental damage risk has been updated depending on regulation changes. For activity No. 1 - operation of facilities subject to an integrated permit and activity No. 10 - management of dangerous chemicals, KORADO, a.s., is below the limit and therefore does not have the obligation to process detailed assessment of the risks of environmental damage.

In the field of waste management, new labelling for all kinds of hazardous waste has been implemented in relation to the amended decree on the waste management, including the new identification sheets of dangerous waste.

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:	Ministry 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 and tubular radiators.

The main production programs of KORADO, a.s., are RADIK 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 world-class firm. 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 CZK 3 billion.

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 CZK 600 million, 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 BGN 7 million (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.

After the balance sheet date, on the 10 January 2017, transfer of 220 shares owned by Ing. Bedřich Brabec (9.16 % share in the share capital of the company) directly to the KORADO, a.s., has been finalized. During the period that those shares are owned by the Company itself, no voting rights or entitlement to dividend are attached to them.

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 2016, the Supervisory Board had six members. The Supervisory Board usually meets once every two months. In 2016, a total of seven meetings of the Supervisory Board were held. In 2016, there were no changes in the composition of the Supervisory Board.

Composition of the Supervisory Board as of 31 December 2016:
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 Meeting under applicable legislation or the Company Statutes.

Composition of the Board of Directors as at 31 December 2016:
Chairman: František Menclík
Deputy Chairman: Miroslav Vobora
Member: David Ryba
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. Since September 2016 new Pricing department was established, which aims to set up an appropriate strategy and pricing policies. 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 at 31 December 2016, Management was composed as follows:

Ing. Vojtěch Čamek (* 1956)
CEO
From 2002, he served as Manager of Finance and Controlling in KORADO, a.s. 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 CEO 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.

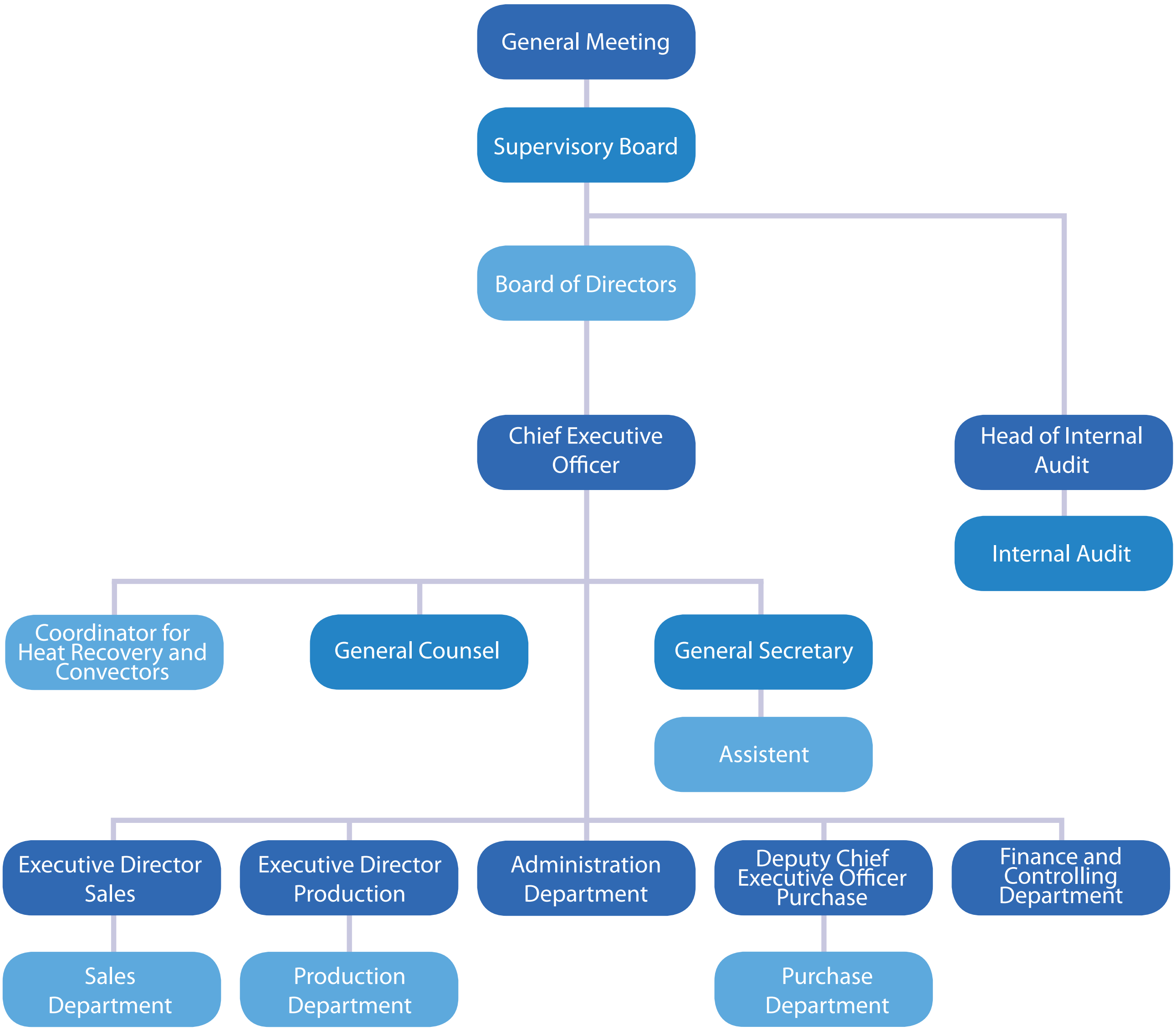
Ing. Aleš Zouhar (* 1959)
Executive Director Sales and Marketing
At KORADO, a.s., he has been employed since 2004 as Sales Manager. On 1 April 2012 he was appointed Sales Manager. In the period 2001 – 2003, he served as CEO of AMERICAN JAWA Ltd. In 1998 – 2000, he was Director of MOTOKOV UK Ltd. In the 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 SKODA Great Britain Ltd. as CEO and in the years 1984 - 1990 he worked at the department of foreign trade. 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.
On 1 October 2013, he was appointed Managing Director of the subsidiary LICON HEAT s.r.o. From 2004 to 2013 he was a partner and executive director in the company. 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'S HISTORY IN DATES

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

1970 Own multipoint welding lines for the production of radiators launched.

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

1988 New paint shop, a significant shift in the quality of the surface finish of radiators commissioned.

1990 The private company KORADO spol s.r.o. was founded, with a registered capital of CZK 100 ths., by the current shareholders, František Menclík, Ludvík Petr, Miroslav Vobora and Ing. Bedřich 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 CZK 5 million.

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 CZK 880 million; construction commenced on a new plant worth nearly CZK 3 billion; 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 CZK 1,580 billion; 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 CZK 1,027 million, followed by an increase of capital by KOB in the form of capitalisation of CZK 287.7 million to CZK 840.7 million.

2002 Significant turning point in the Company performance; after four years of losses, it was again achieved a positive financial result of CZK 31 million. 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 CZK 57 million.

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 profit before tax achieved of CZK 375 million.

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 CZK 600 million. Management system in the largest subsidiary, KORADO Bulgaria, restructured and changed. Highest sales in history, amounting to CZK 2.725 billion.

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 start 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 by 24%. Consistent optimisation of working capital, which led to a significant improvement in the financial situation of the Company. Significant reduction in loan commitments. Yearly decline in bank loans by 40%.

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

2011 Special payment instalment of the long-term bank loan was made of CZK 50 million. 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 CZK 32 million.

2013 On 1 October 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.

2016 KORADO Bulgaria launched new production line for bathroom radiators. The Group KORADO has achieved the highest sales since 2009.

2017 After the balance sheet date, on 10 January 2017, transfer of 220 shares owned by Ing. Bedřich Brabec (9.16% share in the share capital of the company) directly to the KORADO, a.s., has been finalized.

REPORT OF THE SUPERVISORY BOARD

During the year 2016, there was a total of seven 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 2016:
- 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 2016. On May 16, 2016 the General Meeting elected Mrs. Hana Vaňousová a regular member of the Supervisory Board of KORADO, a.s., in correspondence with the employees elections results for the next term.

Discharge of duties of the Supervisory Board

The Supervisory Board supervised the discharge of duties of the Board of Directors of the company and on the company business activities. 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 (Business Corporations) Act, 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 2016 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 2016 and periodically discussed the reports on the Internal Audit activities.
The Chief Executive Officer regularly reported to the Supervisory Board about the evaluation and up-to-date trading with KORADO Bulgaria shares. The Supervisory Board was moreover regularly apprised by company directors of important analyses and company projects. The Supervisory Board was continuously updated about the process of acquisition of KORADO, a.s., shares.
On 1 April 2016, the Supervisory Board elected a new member of the Board of Directors nominated by EBRD. On 9 September 2017, the Supervisory Board agreed with the selection procedure result for a new auditor of KORADO, a.s., and the KORADO Group for the period 2016 – 2018 and recommended to the General Meeting to approve PricewaterhouseCoopers Audit s.r.o., to become the auditor of KORADO, a.s., and the KORADO Group. On 20 December 2016 the Supervisory Board discussed in detail and approved the documentation related to purchase of company's own shares from Bedřich Brabec, natural person, representing a share of 9.16 % in the share capital of KORADO, a.s.
During the mentioned period, the Supervisory Board carried out its duties resulting from the Business Corporations Act, mainly those set forth in Section 446 to Section 455, as well as from the Civil Code, mainly those set forth in Section 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 127th meeting held on March 17, 2017, the Supervisory Board was apprised of the auditor's, PricewaterhouseCoopers, 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, 2016, presented by the Board of Directors. The supplements to the regular financial statements and the consolidated financial statements for 2016 are included in the full version in the Annual Report of KORADO, a.s., for 2016. 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, 2016.

The Supervisory Board revised the proposal of the Board of Directors and recommends that the General Meeting distributes the profit of CZK 51,841,667.73 for the year 2016 as follows:
- An amount of CZK 49,997,630 to be used for the payment of dividends. First deposit for the payment of dividends paid in 10/2016 of CZK 9,999,526, second deposit for the payment of dividends will be paid in 4/2017 of CZK 19,999,052 and supplementary payment will be made in an amount of CZK 19,999,052.
- An amount of CZK 1,844,037.73 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 2016 and as it was presented by the Board of Directors.

In Česká Třebová on March 17, 2017

Ludvík Petr
Chairman of the Supervisory Board

Dip. Ing. Dr. Ernst Bachner
Deputy Chairman of the Supervisory Board

INDEPENDENT AUDITOR'S REPORT
to the shareholders of KORADO, a.s.

Opinion

We have audited:
- the accompanying consolidated financial statements of KORADO, a.s., with its registered office at Bří Hubálků 869, Česká Třebová ("the Company") and its subsidiaries (together "the Group") prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidated balance sheet as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including significant accounting policies and other explanatory information.
- the accompanying separate financial statements of the Company prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2016, the income statement, statement of changes in equity and cash flow statement for the year then ended and notes to the separate financial statements, including significant accounting policies and other explanatory information.

In our opinion:
- the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.
- the accompanying separate financial statements give a true and fair view of the financial position of the Company standing alone as at 31 December 2016, of its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

The consolidated and separate financial statements are further referred to together as financial statements.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group and the Company in accordance with the Act on Auditors and International Ethics Standards Board for Accountants (IESBA) Code of Ethics accepted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the financial statements does not cover the other information. 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 about the Group and the Company obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law and regulation, in particular, whether the other information complies with law and regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:
- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law and regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group and the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Board of Directors and Supervisory Board for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and of the separate financial statements in accordance with Czech accounting legislation and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the financial reporting process.

INDEPENDENT AUDITOR'S REPORT
to the shareholders of KORADO, a.s.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above stated requirements will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
As part of an audit in accordance with the above stated requirements, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal controls relevant to the audit 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 Group and the Company's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors and Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

17 March 2017

represented by partner

Ing. Věra Výtvarová
Statutory Auditor, Evidence No. 1930

KORADO, a.s.
STANDALONE FINANCIAL STATEMENTS
31 December 2016

KORADO®

KORADO, a.s.

Identification number: 25255843 | Legal form: Join stock company | Primary business: Manufacturing of central heating radiators
Balance sheet date: 31 December 2016 | Date of preparation of the financial statements: 17 March 2017

BALANCE SHEET (in thousand Czech crowns)

Ref.					ASSETS	Row	31. 12. 2016 Gross	Provision	Net	31. 12. 2015 Net
a					b	c	1	2	3	4
					TOTAL ASSETS	**001**	**5,491,796**	**(3,458,399)**	**2,033,397**	**2,019,960**
B.					**FIXED ASSETS**	**003**	**5,042,357**	**(3,423,528)**	**1,618,829**	**1,626,609**
B.	I.				Intangible fixed assets	004	207,606	(184,358)	23,248	18,773
B.	I.	2.			Royalties	006	191,251	(184,358)	6,893	8,970
B.	I.	2.	1.		Software	007	187,759	(181,603)	6,156	8,114
B.	I.	2.	2.		Other royalties	008	3,492	(2,755)	737	856
B.	I.	5.			Advances paid and intangible fixed assets in the course of construction	011	16,355	0	16,355	9,803
B.	I.	5.	2.		Intangible fixed assets in the course of construction	013	16,355	0	16,355	9,803
B.	II.				Tangible fixed assets	014	4,399,253	(3,082,024)	1,317,229	1,384,436
B.	II.	1.			Land and constructions	015	1,711,562	(761,667)	949,895	975,273
B.	II.	1.	1.		Land	016	25,462	0	25,462	25,462
B.	II.	1.	2.		Constructions	017	1,686,100	(761,667)	924,433	949,811
B.	II.	2.			Equipment	018	2,583,965	(2,255,738)	328,227	351,733
B.	II.	4.			Other tangible fixed assets	020	78,592	(64,619)	13,973	13,964
B.	II.	4.	3.		Tangible fixed assets - other	023	78,592	(64,619)	13,973	13,964
B.	II.	5.			Advances paid and tangible fixed assets in the course of construction	024	25,134	0	25,134	43,466
B.	II.	5.	1.		Advances paid for tangible fixed assets	025	17,518	0	17,518	2,149
B.	II.	5.	2.		Tangible fixed assets in the course of construction	026	7,616	0	7,616	41,317
B.	III.				Long-term investments	027	435,498	(157,146)	278,352	223,400
B.	III.	1.			Investments - subsidiaries and controlling party	028	292,330	(108,704)	183,626	182,701
B.	III.	2.			Loans and borrowings - subsidiaries and controlling party	029	143,168	(48,442)	94,726	40,699
C.					**CURRENT ASSETS**	**037**	**430,708**	**(34,871)**	**395,837**	**382,315**
C.	I.				Inventories	038	151,759	(1,291)	150,468	135,714
C.	I.	1.			Raw materials	039	97,073	(852)	96,221	87,060
C.	I.	2.			Work in progress and semi-finished products	040	7,065	0	7,065	6,859
C.	I.	3.			Finished goods and goods for resale	041	47,621	(439)	47,182	41,783
C.	I.	3.	1.		Finished goods	042	35,006	(279)	34,727	26,532
C.	I.	3.	2.		Goods for resale	043	12,615	(160)	12,455	15,251
C.	I.	5.			Advances paid for inventory	045	0	0	0	12
C.	II.				Receivables	046	124,071	(33,580)	90,491	123,310
C.	II.	1.			Long-term receivables	047	2	0	2	2
C.	II.	1.	5.		Receivables - other	052	2	0	2	2
C.	II.	1.	5.	2.	Long-term advances paid	054	2	0	2	2
C.	II.	2.			Short-term receivables	057	124,069	(33,580)	90,489	123,308
C.	II.	2.	1.		Trade receivables	058	110,167	(33,580)	76,587	106,061
C.	II.	2.	4.		Receivables - other	061	13,902	0	13,902	17,247
C.	II.	2.	4.	3.	Taxes - receivables from the state	064	7,611	0	7,611	13,211
C.	II.	2.	4.	4.	Short-term advances paid	065	3,993	0	3,993	3,232
C.	II.	2.	4.	5.	Estimated receivables	066	2,249	0	2,249	747
C.	II.	2.	4.	6.	Other receivables	067	49	0	49	57
C.	IV.				Cash	071	154,878	0	154,878	123,291
C.	IV.	1.			Cash in hand	072	459	0	459	611
C.	IV.	2.			Cash at bank	073	154,419	0	154,419	122,680
D.					**Prepayments and accrued income**	**074**	**18,731**	**0**	**18,731**	**11,036**
D.	1.				Prepaid expenses	075	6,989	0	6,989	4,792
D.	3.				Accrued income	077	11,742	0	11,742	6,244

KORADO, a.s.

Identification number: 25255843 | Legal form: Join stock company | Primary business: Manufacturing of central heating radiators
Balance sheet date: 31 December 2016 | Date of preparation of the financial statements: 17 March 2017

BALANCE SHEET (in thousand Czech crowns)

Ref. a				LIABILITIES AND EQUITY b	Row c	31. 12. 2016 5	31. 12. 2015 6
				TOTAL LIABILITIES AND EQUITY	**078**	**2,033,397**	**2,019,960**
A.				**Equity**	**079**	**1,314,658**	**1,296,904**
A.	I.			Share capital	080	840,700	840,700
A.	I.	1.		Share capital	081	840,700	840,700
A.	II.			Share premium and capital contributions	084	(35,431)	(36,345)
A.	II.	2.		Capital contributions	086	(35,431)	(36,345)
A.	II.	2.	1.	Other capital contributions	087	48	48
A.	II.	2.	2.	Assets and liabilities revaluation	088	(35,479)	(36,393)
A.	III.			Other reserves	092	48,268	48,269
A.	III.	1.		Other reserve funds	093	48,268	48,269
A.	IV.			Retained earnings / Accumulated losses	095	419,279	417,901
A.	IV.	1.		Retained earnings	096	419,279	417,901
A.	V.			Profit / (loss) for the current period	099	51,842	41,377
A.	VI.			Less interim dividend declared	100	(10,000)	(14,998)
B.	+ C.			Liabilities	101	701,928	710,570
B.				Provisions	102	6,321	6,434
B.	4.			Other provisions	106	6,321	6,434
C.				Liabilities	107	695,607	704,136
C.	I.			Long-term liabilities	108	310,386	267,911
C.	I.	2.		Liabilities due to financial institutions	112	231,725	195,750
C.	I.	8.		Deferred tax liability	118	78,661	72,161
C.	**II.**			**Short-term liabilities**	**123**	**385,221**	**436,225**
C.	II.	2.		Liabilities due to financial institutions	127	107,600	81,000
C.	II.	3.		Short-term advances received	128	1,955	9,170
C.	II.	4.		Trade payables	129	221,758	306,333
C.	II.	8.		Liabilities - other	133	53,908	39,722
C.	II.	8.	1.	Liabilities to shareholders	134	32	37
C.	II.	8.	3.	Liabilities to employees	136	14,412	12,447
C.	II.	8.	4.	Liabilities for social security and health insurance	137	7,504	6,382
C.	II.	8.	5.	Taxes and state subsidies payable	138	2,843	3,736
C.	II.	8.	6.	Estimated payables	139	28,682	16,684
C.	II.	8.	7.	Other liabilities	140	435	436
D.				Accruals and deferred income	141	16,811	12,486
D.	1.			Accrued expenses	142	16,811	12,486

KORADO, a.s.

Identification number: 25255843 | Legal form: Join stock company | Primary business: Manufacturing of central heating radiators
Balance sheet date: 31 December 2016 | Date of preparation of the financial statements: 17 March 2017

INCOME STATEMENT (in thousand Czech crowns)

Ref.			TEXT	Row	Accounting period 2016	2015
a			b	c	1	2
I.			**Sales of products and services**	**01**	**1,236,092**	**1,238,753**
II.			**Sales of goods**	**02**	**434,276**	**376,229**
A.			Cost of sales	03	1,253,639	1,226,004
A.	1.		Cost of goods sold	04	362,273	319,522
A.	2.		Raw materials and consumables used	05	709,231	723,887
A.	3.		Services	06	182,135	182,595
B.			Changes in inventories of finished goods and work in progress	07	(9,142)	(2,315)
C.			Own work capitalised	08	(8,951)	(9,738)
D.			Staff costs	09	290,486	274,685
D.	1.		Wages and salaries	10	222,215	210,168
D.	2.		Social security, health insurance and other social costs	11	68,271	64,517
D.	2.	1.	Social security and health insurance costs	12	65,187	61,437
D.	2.	2.	Other social costs	13	3,084	3,080
E.			Value adjustments in operating acitivities	14	116,153	102,849
E.	1.		Value adjustments of fixed assets	15	102,823	105,138
E.	1.	1.	Depreciation, amortisation and write off of fixed assets	16	102,823	105,138
E.	2.		Provison for impairment of inventories	18	76	(2,265)
E.	3.		Provison for impairment of receivables	19	13,254	(24)
III.			Operating income - other	20	70,692	51,460
III.	1.		Sales of fixed assets	21	226	1,603
III.	2.		Sales of raw materials	22	47,361	33,924
III.	**3.**		**Other operating income**	**23**	**23,105**	**15,933**
F.			Operating expenses - other	24	56,654	54,197
F.	1.		Net book value of fixed assets sold	25	93	1,176
F.	2.		Net book value of raw materials sold	26	45,454	33,147
F.	3.		Taxes and charges from operating activities	27	1,020	859
F.	4.		Operating provisions and complex prepaid expenses	28	(113)	(482)
F.	5.		Other operating expenses	29	10,200	19,497
	*		Operating result	30	42,221	20,760
IV.			Income from sales of long-term investments - shares	31	27,451	28,240
IV.	1.		Income from sales of investments - subsidiaries or controlling party	32	27,451	28,240
G.			Shares sold	34	132	0
VI.			Interest and similar income	39	2,511	1,842
VI.	1.		Interest and similar income - subsidiaries or controlling party	40	2,478	0
VI.	2.		Other interest and similar income	41	33	1,842
I.			Value adjustments and provisions from financial operations	42	(3,318)	(4,820)
J.			Interest and similar expenses	43	5,188	5,871
J.	2.		Other interest and similar expenses	45	5,188	5,871
VII.			Other financial income	46	2,595	10,524
K.			Other financial expenses	47	14,434	18,938
	*		Financial result	48	16,121	20,617
	**		Net profit / (loss) before taxation	49	58,342	41,377
L.			Tax on profit or loss	50	6,500	0
L.	**2.**		**Tax on profit or loss - deferred**	**52**	**6,500**	**0**
	**		Net profit / (loss) after taxation	53	51,842	41,377
	***		Net profit / (loss) for the financial period	55	51,842	41,377
			Net turnover for the financial period	56	1,773,617	1,707,048

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY for the year ended 31 December 2016

(CZK'000)	Share capital	Reserve fund	Other capital funds	Revaluation reserve	Other profit/(loss) for the previous period	Retained earnings	Advances for payment of profit share	Total
As at 1 January 2015	840,700	48,269	48	**(35,101)**	**(13,000)**	**460,899**	**(10,000)**	**1,291,815**
Fair value gains/(losses) - Investments in subsidiaries and associates	0	0	0	(1,292)	0	0	0	(1,292)
Other profit/(loss) for the previous period	0	0	0	0	(13,000)	(13,000)	0	0
Dividends/profit distribution paid	0	0	0	0	0	(29,999)	10,000	(19,999)
Interim dividend declared	0	0	0	0	0	0	(14,998)	(14,998)
Net profit for the current period	0	0	0	0	0	41,377		41,377
Rounding	0	0	0	0	0	1	0	1
As at 31 December 2015	840,700	48,269	48	(36,393)	0	459,278	(14,998)	1,296,904
Fair value gains/(losses) - Investments in subsidiaries and associates	0	0	0	914	0	0	0	914
Dividends/profit distribution paid	0	0	0	0	0	(39,998)	14,998	(25,000)
Interim dividend declared	0	0	0	0	0	0	(10 000)	(10,000)
Net profit/(loss) for the current period	0	0	0	0	0	51,842	0	51,842
Rounding	0	(1)	0	(1)	0	0	0	(2)
As at 31 December 2016	840,700	48,268	48	(35,480)	0	471,122	(10,000)	1,314,658

KORADO, a.s.

Standalone financial statements for the year ended 31 December 2016

CASH-FLOW STATEMENT for the year ended 31 December 2016

(CZK'000)		2016	2015
	Cash flows from operating activities **Net profit on ordinary activities before tax**	**58,342**	**41,377**
A.1	*Adjustments for non-cash movements:*	*91,360*	*73,431*
A.1.1	Depreciation/amortisation of fixed assets	103,250	105,867
A.1.2	Changes in provisions	9,899	(8,368)
A.1.3	Profit from disposal of fixed assets	(712)	(427)
A.1.4	Profit distribution income	(26,740)	(28,240)
A.1.5	Net interest expense	2,678	4,029
A.1.6	Other non-cash movements	2,985	570
A*	**Net cash flow from operating activities before tax and changes in working capital**	**149,702**	**114,808**
A.2	*Working capital changes:*	*(67,698)*	*64,360*
A.2.1	Changes in receivables and prepayments and accrued income	11,260	34,960
A.2.2	Changes in short-term payables, accrued expenses and deferred income	(64,128)	24,331
A.2.3	Changes in inventories	(14,830)	5,069
A**	**Net cash flow from operating activities before tax**	**82,004**	**179,168**
A.3	Interest paid	(5,188)	(5,871)
A.4	Interest received	2,510	1,842
A.6	Profit distribution received	26,740	28,240
A***	**Net cash flow from operating activities**	**106,066**	**203,379**
	Cash flows from investing activities		
B.1	Acquisition of fixed assets	(52,053)	(74,645)
B.2	Proceeds from the sale of fixed assets	938	1,603
B.3	Loans to related parties	(50,934)	47,619
B***	**Net cash flow from investing activities**	**(102,049)**	**(25,423)**
	Cash flows from financing activities		
C.1	Changes in long- and short-term liabilities	62,570	(136,936)
C.2	*Changes in equity:*		
C. 2.6	Dividends paid	(35,000)	(34,997)
C***	**Net cash flow from financing activities**	**27,570**	**(171,933)**
	Net increase/(decrease) in cash and cash equivalents	**31,587**	**6,023**
	Cash and cash equivalents as at the beginning of the year	**123,291**	**117,268**
	Cash and cash equivalents as at the end of the year	**154,878**	**123,291**

1. General information

1. 1. Introductory information about the Company

KORADO, a.s. ("the Company") was incorporated on 1 September 1996 by the Regional Court in Hradec Králové, Section B, Insert 1500 and has its registered office at Bří Hubálků 869, Česká Třebová. The Company's primary business activities are manufacturing, installing and repairing central heating and ventilation.

The Company has no arrangements that are not included in the balance sheet as at 31 December 2016 or 31 December 2015.

The Company updated its Articles of Association that are now fully governed by the new Corporations Act. This fact became effective as at 26 November 2014.

2. Accounting policies

2. 1. Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic relevant for large companies and have been prepared under the historical cost convention.

2. 2. Comparative figures

Based on the amendment to the Act on Accounting and implementing Decree effective from 1 January 2016, individual items of the balance sheet and income statement are presented in a different structure.

In order to ensure the comparability of items presented in the financial statements, the comparative figures were reclassified in accordance with Czech accounting standard no. 24: „The comparative figures for the accounting period beginning in 2016".

2. 3. Intangible fixed assets

All intangible assets with a useful life longer than one year and a unit cost of more than CZK 60 thousand are treated as intangible fixed assets.

Purchased intangible fixed assets are initially recorded at cost, which includes all costs related with its acquisition. All research costs are expensed.

Intangible fixed assets are amortised applying the straight-line method over their estimated useful lives as follows:

Intangible fixed assets	Estimated useful life
Software	4 - 6 years
Royalties	6 years

The amortisation plan is updated during the useful life of the intangible fixed assets based on changes of the expected useful life and anticipated residual value of the intangible fixed assets.

2. 4. Tangible fixed assets

All tangible assets with a useful life longer than one year and a unit cost of more than CZK 40 thousand are treated as tangible fixed assets.

Purchased tangible fixed assets are initially recorded at cost, which includes all costs related with its acquisition. Own work capitalised is recorded at cost.

Tangible fixed assets, except for land which is not depreciated, are depreciated applying the straight-line method over their estimated useful lives as follows:

Tangible fixed assets	Estimated useful life
Constructions	30 – 50 years
Plant, machinery and equipment	8 – 20 years
Motor vehicles	4 - 8 years
Other tangible fixed assets	2 – 4 years

A provision for impairment is created when the carrying value of an asset is greater than its estimated recoverable amount.

Repairs and maintenance expenditures for tangible fixed assets are expensed as incurred.
Technical improvements of tangible fixed assets are capitalised.

The depreciation plan is updated during the useful life of the tangible fixed assets based on the expected useful life and anticipated residual value of the tangible fixed assets.

2. 5. Investments in subsidiaries and investments in associates

Investments in subsidiaries represent ownership interests in enterprises that are controlled by the Company ("the subsidiary").

Investments in subsidiaries and associates are recorded at cost less a provision for diminution in value.

Loans granted are measured at nominal value. Temporary impairment, which is recognized as an adjustment, is quantified by assessing its risk.

2. 6. Inventories

Purchased inventories are stated at the lower of cost and net realisable amount. Cost includes all costs related with its acquisition (mainly transport costs, customs duty, etc.). The weighted average cost method is applied for all disposals.

KORADO, a.s.

Notes to non-consolidated financial statements for the year ended 31 December 2016

Inventories generated from own production, i.e. work-in-progress and finished goods, are stated at the lower of production cost and estimated net realisable amount. Production cost includes direct and indirect materials, direct and indirect wages and production overheads.

A provision is created for slow-moving and obsolete inventory based on an analysis of turnover and individual evaluation of inventories.

2. 7. Receivables

Receivables are stated at nominal value less a provision for doubtful amounts. A provision for doubtful amounts is created on the basis of an ageing analysis and an individual evaluation of the credit worthiness of the customers. Receivables from related parties have not been provided for.

2. 8. Cash and cash equivalents

Cash and cash equivalents include cash in hand, stamps and vouchers and cash in banks, including bank overdrafts.

Cash equivalents are short-term highly liquid investments that can be exchanged for a predictable amount of cash and no significant changes of value over time are expected. Cash equivalents are, for example, deposits with a maturity of less than 3 months from the date of acquisition and liquid debt securities traded in public markets.

The Company has prepared a Cash-flow statement using the indirect method.

2. 9. Foreign currency translation

Transactions denominated in a foreign currency are translated and recorded at the rate of exchange ruling as at the transaction date.

Cash, receivables and liabilities balances denominated in foreign currencies have been translated at the exchange rate published by the Czech National Bank as at the balance sheet date. All exchange gains and losses on cash, receivables and liabilities balances are recorded in the income statement.

Investments in subsidiaries and associates and other investments and securities denominated in a foreign currency, which are not accounted for at fair value, are translated at the year-end exchange rate as published by the Czech National Bank. Any translation difference is recognised in equity, with the exception of held-to-maturity investments, where the translation difference is recognised in the profit and loss account. When investments and securities are measured at fair value, any foreign exchange translation difference is considered to be part of the fair value re-measurement.

The Company treats advances paid for the acquisition of fixed assets or inventories as receivables and therefore these assets are translated at the exchange rate published by the Czech National Bank as at the balance sheet date.

2. 10. Equity

The Company's decision to pay an interim dividend is reflected in the accounting as a decrease in equity and is presented on the balance sheet line - Interim dividend declared. Such an interim dividend or a part thereof is classified as a receivable from shareholders as at the balance sheet date if the Company incurs a loss or achieves lower profit than the value of the originally paid interim dividend.

2. 11. Changes of accounting policies and corrections of prior period errors

Changes to accounting policies (inclusive of deferred tax impact) and corrections of errors arising from incorrect accounting or unrecorded expenses and income in prior periods, if material, are recorded on financial statements line Restatements of retained earnings.

2. 12. Provisions

The Company recognises provisions to cover its obligations or expenses, when the nature of the obligations or expenses is clearly defined and it is probable or certain as at the balance sheet date that they will be incurred, however their precise amount or timing is not known. The provision recognised as at the balance sheet date represent the best estimate of expenses that will be probably incurred, or the amount of liability that is required for their settlement.

2. 13. Employment benefits

The Company recognises a provision relating to untaken holidays.

The Company recognises an estimated payable relating to rewards and bonuses of employees.

Regular contributions are made to the state to fund the national pension plan. The Company also provides contributions to defined contribution plans operated by independent pension funds.

2. 14. Revenue recognition

Sales are recognised when goods are shipped to the customer or services are rendered and are stated net of discounts, and value added tax.

2. 15. Related parties

The Company's related parties are considered to be the following:

- parties, which directly or indirectly control the Company, their subsidiaries and associates;
- parties, which have directly or indirectly significant influence on the Company;
- members of the Company's or parent company's statutory and supervisory boards and management and parties close to such members, including entities in which they have a controlling or significant influence; and/or
- subsidiaries and associates and joint-venture companies.

2. 16. Leases

The costs of assets held under both finance and operating leases are not capitalised as fixed assets. Lease payments are expensed evenly over the life of the lease. Future lease payments not yet due are disclosed in the notes but not recognised in the balance sheet.

2. 17. Interest expense

Interest expense on borrowings to finance the acquisition of intangible and tangible fixed assets are capitalised during the period of completion and preparation of the asset for its intended use. Other borrowing costs are expensed.

2. 18. Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax asset is recognised if it is probable that sufficient future taxable profit will be available against which the asset can be utilised.

2. 19. Subsequent events

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are recognised in the financial statements in the case that these events provide further evidence of conditions that existed as at the balance sheet date.

Where significant events occur subsequent to the balance sheet date but prior to the preparation of the financial statements, which are indicative of conditions that arose subsequent to the balance sheet date, the effects of these events are quantified and disclosed, but are not themselves recognised in the financial statements.

3. Intangible fixed assets

(CZK'000)	1 January 2016	Additions / transfers	Disposals	31 December 2016
Cost				
Software	186,099	1,660	0	187,759
Other royalties	3,415	77	0	3,492
Intangible fixed assets in the course of construction	9,803	6,551	0	16,355
Total	**199,317**	**8,288**	**0**	**207,606**
Accumulated amortisation				
Software	177,985	3,618	0	181,603
Other royalties	2,559	196	0	2,755
Total	**180,544**	**3,814**	**0**	**184,358**
Net book value	**18,773**			**23,248**

(CZK'000)	1 January 2015	Additions / transfers	Disposals	31 December 2015
Cost				
Software	184,055	2,047	3	186,099
Other royalties	3,193	222	0	3,415
Intangible fixed assets in the course of construction	1,785	8,018	0	9,803
Total	**189,033**	**10,287**	**3**	**199,317**
Accumulated amortisation				
Software	174,894	3,094	3	177,985
Other royalties	2,350	209	0	2,559
Total	**177,244**	**3,303**	**3**	**180,544**
Net book value	**11,789**			**18,773**

KORADO, a.s.

Notes to non-consolidated financial statements for the year ended 31 December 2016

4. Tangible fixed assets

(CZK'000)	1 January 2016	Additions / transfers	Disposals	31 December 2016
Cost				
Land	25,462	0	0	25,462
Constructions	1,676,402	9,698	0	1,686,100
Equipment	2,587,043	37,742	40,820	2,583,965
Other tangible fixed assets	50,731	2,867	866	52,732
Art works and collections	25,860	0	0	25,860
Advances paid for tangible fixed assets	2,149	15,369	0	17,518
Tangible fixed assets in the course of construction	41,317	(33,701)	0	7,616
Total	**4,408,964**	**31,975**	**41,686**	**4,399,253**
Accumulated depreciation				
Constructions	726,591	35,075	0	761,667
Equipment	2,235,310	61,247	40,820	2,255,738
Other tangible fixed assets	39,974	2,859	866	41,966
Art works and collections	22,653	0	0	22,653
Total	**3,024,528**	**99,181**	**41,686**	**3,082,024**
Net book value	**1,384,436**			**1,317,229**
(CZK'000)	1 January 2015	Additions / transfers	Disposals	31 December 2015
Cost				
Land	25,163	299	0	25,462
Constructions	1,676,402	0	0	1,676,402
Equipment	2,589,661	8,157	10,775	2,587,043
Other tangible fixed assets	43,819	6,912	0	50,731
Art works and collections	25,860	0	0	25,860
Advances paid for tangible fixed assets	250	1,899	0	2,149
Tangible fixed assets in the course of construction	3,595	37,722	0	41,317
Total	**4,364,750**	**54,989**	**10,775**	**4,408,964**
Accumulated depreciation				
Constructions	691,808	34,784	0	726,591
Equipment	2,179,930	64,979	9,599	2,235,310
Other tangible fixed assets	37,860	2,114	0	39,974
Art works and collections	**22,653**	**0**	**0**	**22,653**
Total	**2,932,251**	**101,877**	**9,599**	**3,024,528**
Net book value	**1,432,499**			**1,384,436**

The information on operating lease commitments is disclosed in Note 13 Commitments and contingent liabilities.

5. Investments in subsidiaries

31 December 2016	Number of shares	Nominal value ('000)	Cost (CZK'000)	Carrying value (CZK'000)	% of capital	2016 net profit/(loss)* (CZK'000)	Net assets* (CZK'000)	2016 dividend income (CZK'000)
Foreign entities								
KORADO Deutschland Fürstenwalde, Germany*		25 EUR	16,617	3,861	100 %	3,187	3,861	4,838
KORADO Bulgaria Strajica, Bulgaria	7,513,137	8,779 BGN	115,753	115,753	85.58 %	40,455	242,950	18,705
KORADO Poland Piasecno, Poland		7,211 PLN	67,545	0	100 %	3,192	(48,442)	0
KORADO Austria* Wien, Austria		1,050 EUR	28,371	0	100 %	9	(11)	0
KORADO UK* London, Great Britain		1 GBP	32	0	100 %	0	32	0
Czech entities								
LICON HEAT Praha 1, Czech Republic		14,500 Kč	64,012	64,012	100 %	2,436	16,945	3,197
Total			**292,330**	**183,626**				**26,740**
Provision for diminution in value			(108,704)					
Net book value			**183,626**					

** Unaudited*

31 December 2015	Number of shares	Nominal value ('000)	Cost (CZK'000)	Carrying value (CZK'000)	% of capital	2015 net profit/(loss)* (CZK'000)	Net assets* (CZK'000)	2015 dividend income (CZK'000)
Foreign entities								
KORADO Deutschland Fürstenwalde, Germany*		25 EUR	16,620	5,092	100 %	4,885	5,514	3,784
KORADO Bulgaria Strajica, Bulgaria	7,523,509	8,779 BGN	113,597	113,597	85.70 %	26,953	224,848	12,643
KORADO Poland Piasecno, Poland		7,211 PLN	67,545	0	100 %	2,038	(53,399)	0
KORADO Austria* Wien, Austria		1,050 EUR	28,377	0	100 %	(29)	(19)	0
KORADO UK* London, Great Britain		1 GBP	37	0	100 %	0	37	0
Czech entities								
LICON HEAT Praha 1, Czech Republic		14,500 Kč	64,012	64,012	100 %	3,197	17,709	11,813
Total			**290,188**	**182,701**				**28,240**
Provision for diminution in value			(107,487)					
Net book value			**182,701**					

** Unaudited*

KORADO, a.s.

Notes to non-consolidated financial statements for the year ended 31 December 2016

The Company is not a member/shareholder having unlimited liability in any undertaking.

Analysis of the change in the provision for the diminution in value of investments in subsidiaries:

Subsidiaries (CZK'000)	2016	2015
As at 1 January	**107,487**	**109,296**
Charge for the year	1,228	1
Released during the year	11	1,810
As at 31 December	**108,704**	**107,487**

6. Other securities and investments

31 December 2016	Loan value in foreign currency ('000)	Loan value (CZK'000)	Interest rate (%)	Allowance (CZK'000)
Foreign				
KORADO Poland	8,624 PLN	52,830	6.5 % p.a.	48,442
KORADO Bulgaria	1,900 EUR	51,338	1M Euribor + 1.65 % p.a.	0
LICON HEAT	39,000 CZK	39,000	1M Pribor + 1.55 % p.a.	0
Total		**143,168**		**48,442**
Provision for diminution in value		(48,442)		
Net book value		**94,726**		
31 December 2015	Loan value in foreign currency ('000)	Loan value (CZK'000)	Interest rate (%)	Allowance (CZK'000)
Foreign				
KORADO Poland	8,624 PLN	54,676	6.5 % p.a.	53,399
LICON HEAT	39,000 CZK	39,000	1M Pribor + 1.55 % p.a.	0
Total		**93,676**		**53,399**
Provision for diminution in value		(53,399)		
Net book value		**40,277**		

7. Inventories

The Company created a provision for inventories as at 31 December 2016 of CZK 1,291 thousand (as at 31 December 2015: CZK 1,215 thousand).

Analysis of the change in the provision for inventories:

(CZK'000)	2016	2015
Opening balance as at 1 January	**1,215**	**1,318**
Charge for the year	267	250
Released during the year	191	353
Closing balance as at 31 December	**1,291**	**1,215**

Surpluses from the 2016 inventory stock-counts were CZK 691 thousand (2015: CZK 179 thousand) and shortages were CZK 503 thousand (2015: CZK 242 thousand).

8. Receivables

Overdue receivables as at 31 December 2016 amounted to CZK 43,469 thousand (as at 31 December 2015: CZK 32,342 thousand).

Unsettled receivables as at 31 December 2016 have not been covered by guarantees and none of them are due after more than 5 years.

Analysis of the change in the provision for doubtful receivables:

(CZK'000)	2016	2015
Opening balance as at 1 January	**20,326**	**22,512**
Charge for the year	17,190	3,906
Released during the year	3,509	0
Written off during the year	427	6,092
Closing balance as at 31 December	**33,580**	**20,326**

9. Equity

Authorised and issued share capital:

	31 December 2016		31 December 2015	
	No. of pieces	Carrying value (CZK'000)	No. of pieces	Carrying value (CZK'000)
Ordinary shares of CZK 350,000, fully paid	2,402	840,700	2,402	840,700

The shareholders:

(in %)	31 December 2016	31 December 2015
Menclík František	9.16	9.16
Petr Ludvík	9.16	9.16
Vobora Miroslav	9.16	9.16
Brabec Bedřich Ing.	9.16	9.16
European Bank for Reconstruction & Development	29.14	29.14
Ministry of Finance, Czech Republic	34.22	34.22
Total	**100.00**	**100.00**

KORADO, a.s.

Notes to non-consolidated financial statements for the year ended 31 December 2016

The Company KORADO, a.s. with the registered office at Česká Třebová, Bří Hubálků 869 prepares the consolidated financial statements of the largest group of entities of which the Company forms a part as a subsidiary.

The Company is fully governed by the new Corporations Act (see Note 1) and used the option not to create a reserve fund. This fact is further enabled by the Articles of Association of the Company.

The general meeting of shareholders approved the financial statements for 2015 and decided about the allocation of profit earned in 2015 of CZK 41,377 thousand on 16 May 2016.

Until the date of preparation of these financial statements, the Company has not proposed distribution of the profit earned in 2016.

On 30 September 2016, the Statutory Representatives decided on the interim dividend payment of CZK 10,000 thousand. Such a payment of an interim dividend is subsequently subject to approval by the general meeting of shareholders of the Company. The interim dividend payment was recorded as a decrease in equity.

10. Provisions

(CZK'000)	Warranty repairs	Provision for pension liabilities	Total
Opening balance as at 1 January 2015	**5,239**	**1,677**	**6,916**
Used in the year	472	10	482
Closing balance as at 31 December 2015	**4,767**	**1,667**	**6,434**
Charge for the year	0	137	137
Used in the year	250	0	250
Closing balance as at 31 December 2016	**4,517**	**1,804**	**6,321**

For an analysis of the current and deferred income tax, see Note 18 – Income tax.

11. Payables

Trade and other payables have not been secured against any assets of the Company and are not due after more than 5 years.

12. Bank loans and other borrowings

Analysis of the bank loans:

	Collateral	Interest rate	Currency	Balance as at 31 December 2016 (CZK'000)
Československá obchodní banka, a.s.	real estate, receivables, inventories	Pribor 1M+1.55 %	CZK	195,750
Československá obchodní banka, a.s.	real estate, receivables, inventories	Pribor 1M+1.55 %	CZK	100,000
Československá obchodní banka, a.s.	real estate, receivables	Euribor 1M+1.65 % p.a.	EUR	43,575
Total bank loans				**339,325**

From the loan in the total amount of CZK 100,000 thousand drawn from Československá obchodní banka, a.s., CZK 30,769 thousand have a maturity longer than 5 years.

Bank loans have certain financial covenants attached to them. Violation of these covenants can lead to immediate maturity of the debt.

Certain asset items (real estate, receivables and inventories) are used as collateral for bank loans and other liabilities. Total net book value of such assets as at 31 December 2016 amounted to CZK 909,454 thousand (as at 31 December 2015: CZK 919,456 thousand).

13. Commitments and contingent liabilities

The management of the Company is not aware of any contingent liabilities as at 31 December 2016.

The Company has the following commitments in respect of operating leases:

(CZK'000)	31 December 2016	31 December 2015
Current within one year	5,536	6,038
Due after one year but within five years	5,534	10,848
Total commitments in respect of operating leases	**11,070**	**16,886**

14. Revenue analysis

Revenue analysis:

(CZK'000)	2016	2015
Radiator production		
- domestic	379,334	399,846
- foreign	841,941	818,814
Provided services	14,817	20,093
Total sales of own products and services	**1,236,092**	**1,238,753**
Sales of goods		
- domestic	258,406	219,101
- foreign	175,870	157,128
Total sales of goods	**434,276**	**376,229**

KORADO, a.s.

Notes to non-consolidated financial statements for the year ended 31 December 2016

15. Related party transactions

All material transactions with related parties are presented in this note.

(CZK'000)	2016	2015
Revenues		
Sales of services	11,288	16,554
Sale of products	213,285	182,967
Sales of goods	13,687	8,784
Sale of materials and tangible fixed assets	44,825	29,523
Interest income	2,478	1,803
Total	**285,563**	**239,631**
Costs		
Purchase of goods for resale	349,520	275,783
Services	3,100	642
Total	**352,620**	**276,425**

The following related party balances were outstanding as at:

(CZK'000)	31 December 2016	31 December 2015
Receivables		
Trade receivables	23,275	36,192
Accruals	12,655	5,742
Granted loans, including allowances	94,726	40,277
Total	**130,656**	**82,211**
Liabilities		
Liabilities to companies within the consolidation group	44,348	33,784
Out of which:		
- Trade payables	37,338	30,352
- Accruals	7,010	3,432
Total	**44,348**	**33,784**

The loans receivable and payable bear interest at market interest rates.

Company cars are available to the members of executive board.

16. Employees

	2016		2015	
	number	(CZK'000)	number	(CZK'000)
Emoluments to the Board of Directors / Statutory Body	3	900	3	900
Emoluments to members of the Supervisory Board	3	540	3	540
Wages and salaries to other management	29	69,738	30	70,712
Wages and salaries to other employees	431	151,037	415	138,016
Social security costs		65,187		61,437
Other social costs		3,084		3,080
Wages and salaries total	**466**	**290,486**	**451**	**274,685**

The other management includes top management and other senior staff members who are directly subordinate to them.

Other transactions with the Company's management are described in Note 15 - Related party transactions.

KORADO, a.s.

Notes to non-consolidated financial statements for the year ended 31 December 2016

17. Fees paid and payable to the audit company

The information relating to the fees paid and payable for services performed by the audit company PricewaterhouseCoopers Audit, s.r.o. is included in the consolidated financial statements of the Company.

18. Income tax

The income tax expense analysis:

(CZK'000)	2016	2015
Current tax expense	0	0
Deferred tax expense	6,500	0
Total income tax expense	**6,500**	**0**

The current tax analysis:

(CZK'000)	2016	2015
Net profit before taxation	58,342	41,377
Items increasing the tax base	28,648	25,002
- of which differences between accounting and tax depreciation	15,041	20,025
Items decreasing the tax base	31,965	37,830
- of which dividends received	27,452	28,240
Claimed tax loss	(53,718)	(27,614)
Net taxable profit	1,307	935
Corporate income tax at 19%	**248**	**178**
Tax credit	(248)	(177)
Current tax	**0**	**0**

The deferred tax was calculated at 19 % (the rate enacted for 2016 and subsequent years).

The deferred tax asset/ (liability) analysis:

(CZK'000)	2016	2015
Deferred tax liability arising from:		
Difference between accounting and tax net book value of fixed assets	(124,210)	(127,125)
Total deferred tax liability	**(124,210)**	**(127,125)**
Deferred tax asset arising from:		
Provisions	1,624	2,194
Tax losses carried forward	347	10,352
Tax credit from investment incentive	42,020	41,574
Other deductible temporary differences	1,558	844
Total deferred tax asset	**45,549**	**54,964**
Net deferred tax (liability)	**(78,661)**	**(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 2016 and 2015 and this balance can be drawn as a tax credit until 2019.

The Company recorded deferred tax asset of CZK 42,020 thousand as at 31 December 2016 (as at 31 December 2015: CZK 41,574 thousand). The remaining part of deferred tax asset of CZK 133,980 thousand as at 31 December 2016 (as at 31 December 2015: CZK 134,426 thousand), has not been recognised as it is not probable that future taxable profit will be available against which the unused tax credits can be utilised. The 19% rate has been used to calculate it as at 31 December 2016 and 2015.

The management of the Company is convinced that it will be feasible for the Company to utilize the recognized deferred asset relating to investment incentive. Nevertheless some uncertainty about future utilization exists.

The Company has tax losses as at 31 December 2016 of CZK 1,826 thousand, which can be utilised up to 2017.

19. Subsequent events

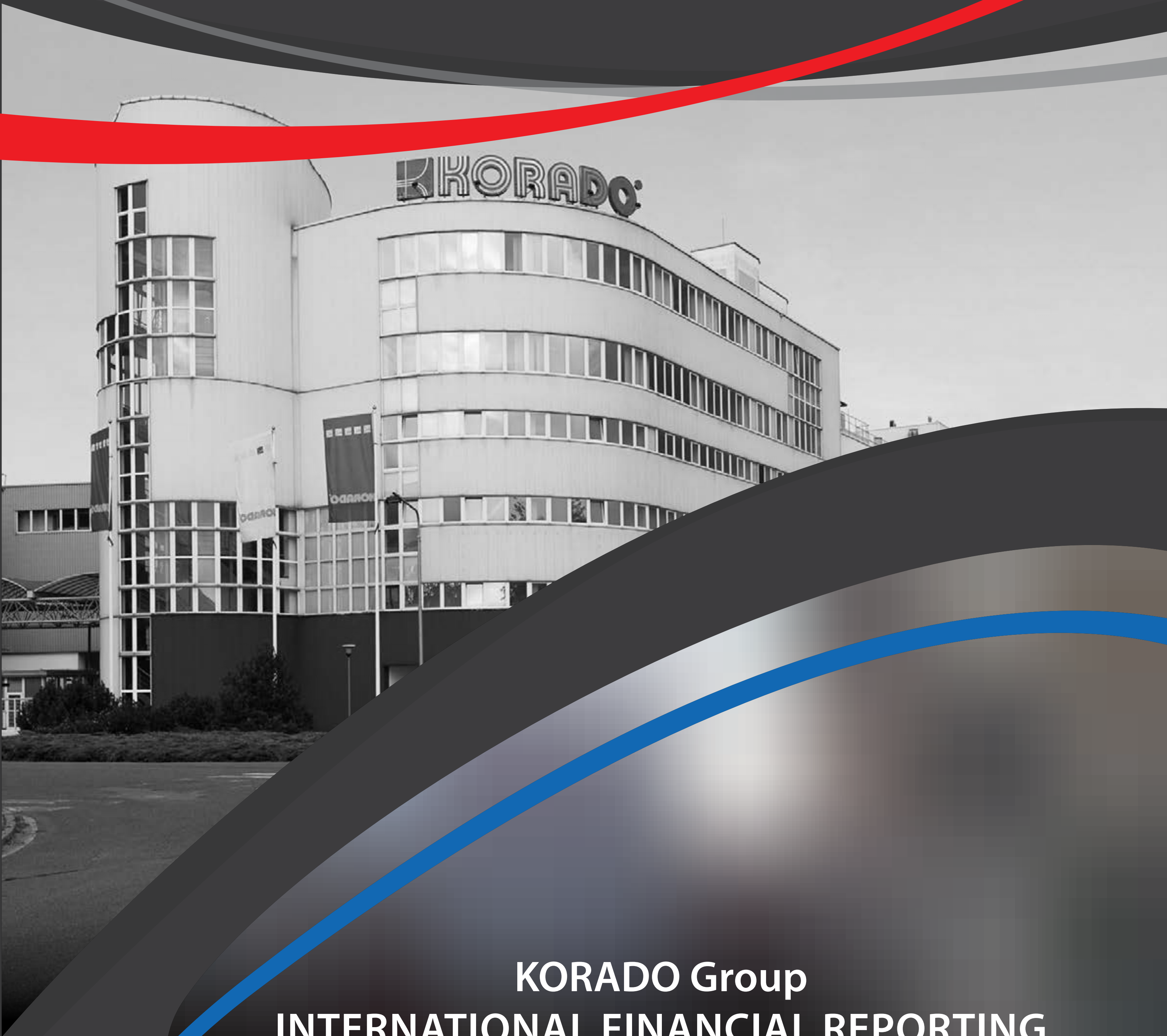
The share buyback of 220 units at a price of CZK 115 mil. was realized in January 2017. The Company holds the shares for further resale.

No events have occurred subsequent to year-end that would have a material impact on the financial statements as at 31 December 2016.

17 March 2017

František Menclík
Chairman of the Board of Directors

Ing. Vojtěch Čamek
Chief Executive Officer



KORADO Group
INTERNATIONAL FINANCIAL REPORTING STANDARDS
CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

KORADO®

CONTENTS

KORADO GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2016

(In thousands of CZK)	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment, net	6	1,536,638	1,598,547
Intangible assets, net	7	40,134	36,817
Other non-current assets		4,961	2,958
Deferred tax asset	20	617	518
Total non-current assets		**1,582,350**	**1,638,840**
Current assets			
Inventories, net	8	238,715	212,507
Trade and other receivables	9	134,510	126,289
Prepayments and other current assets	10	27,102	25,581
Income tax receivable		0	2,765
Cash and cash equivalents	11	202,405	146,533
Total current assets		**602,732**	**513,675**
Total assets		**2,185,082**	**2,152,515**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	12	840,700	840,700
Retained earnings and funds		572,719	543,884
Translation reserve		(33,042)	(34,463)
Total shareholders' equity attributable to equity holders of the parent		**1,380,377**	**1,350,121**
Non-controlling interest		35,033	32,157
Total shareholders' equity		**1,415,410**	**1,382,278**
Non-current liabilities			
Long-term debt, net of current portion	13	238,035	202,553
Deferred tax liabilities	20	82,334	75,650
Total non-current liabilities		**320,369**	**278,203**
Current liabilities			
Short-term borrowings and current portion of long-term debt	13	114,309	81,780
Trade and other payables	14	329,248	404,399
Provisions for liabilities and charges		5,746	5,855
Total current liabilities		**449,303**	**492,034**
Total equity and liabilities		**2,185,082**	**2,152,515**

Approved for issue and signed on 17 March 2017.

František Menclík
Board of Directors Chairman

Vojtěch Čamek
Chief Executive Officer

The accompanying notes on pages 59 to 75 are an integral part of these consolidated financial statements.

KORADO GROUP

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

(In thousands of CZK)	Note	2016	2015
Revenues from sales	15	1,874,930	1,836,448
Other operating income	18	20,491	14,993
Cost of materials, energy and purchased goods	16	(1,061,172)	(1,091,109)
Depreciation and amortization	6, 7	(121,393)	(120,977)
Wages and salaries	5	(366,709)	(342,426)
Purchased services and rental expenses	17	(225,246)	(223,748)
Other expenses	19	(28,833)	(16,108)
Interest expense, net of capitalized interest		(5,392)	(6,036)
Interest income		69	48
Foreign exchange losses, net		(3,063)	(845)
Other financial expenses		(803)	(1,414)
Profit before income taxes		**82,879**	**48,826**
Income taxes	20	(12,983)	(5,272)
Profit after income taxes		**69,896**	**43,554**
Other comprehensive income			
Items that may be reclassified subsequently to statement of income:			
Currency translation differences		1,408	(5,280)
Items not to be reclassified subsequently to statement of income:			
Re-measurement losses on defined benefit plans		(429)	(672)
Total comprehensive income		**70,875**	**37,602**
Profit after income taxes attributable to:			
Equity holders of the parent company		64,062	39,700
Non-controlling interest	22	5,834	3,854
		69,896	43,554
Total comprehensive income attributable to:			
Equity holders of the parent company		65,116	34,410
Non-controlling interest	22	5,759	3,192
		70,875	**37,602**

The accompanying notes on pages 59 to 75 are an integral part of these consolidated financial statements.

KORADO GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(In thousands of CZK)	Share Capital	Translation Reserve	Retained Earnings and Funds	Total Equity Attributable to Equity Holders of the Parent	Non-controlling Interest	Total Shareholders' Equity
Balance as at 31 December 2014	**840,700**	**(29,750)**	**539,758**	**1,350,708**	**31,046**	**1,381,754**
Profit after income taxes	0	0	39,700	39,700	3,854	43,554
Other comprehensive income	0	(4,713)	(577)	(5,290)	(662)	(5,952)
Total comprehensive income	0	(4,713)	39,123	34,410	3,192	37,602
Dividends	0	0	(19,999)	(19,999)	(2,081)	(22,080)
Interim dividends	0	0	(14,998)	(14,998)	0	(14,998)
Balance as at 31 December 2015	**840,700**	**(34,463)**	**543,884**	**1,350,121**	**32,157**	**1,382,278**
Profit after income taxes	0	0	64,062	64,062	5,834	69,896
Other comprehensive income	0	1,421	(367)	1,054	(75)	979
Total comprehensive income	0	1,421	63,695	65,116	5,759	70,875
Dividends	0	0	(25,000)	(25,000)	(3,131)	(28,131)
Interim dividends			(10,000)	(10,000)		(10,000)
Disposal of non-controlling interest	0	0	140	140	248	388
Balance as at 31 December 2016	**840,700**	**(33,042)**	**572,719**	**1,380,377**	**35,033**	**1,415,410**

The accompanying notes on pages 59 to 75 are an integral part of these consolidated financial statements.

KORADO GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

(In thousands of CZK)	Note	2016	2015
OPERATING ACTIVITIES			
Profit before income taxes		**82,879**	**48,826**
Adjustments for:			
Depreciation and amortization	6, 7	121,393	120,977
Receivables and loans write-off	19	786	10,641
Financial expenses, net		5,324	5,988
Change in impairment provisions and provisions, net	19	12,942	(3,072)
Foreign exchange losses, net		3,063	845
Gain on sale of property, plant and equipment		(432)	(621)
Changes in assets and liabilities:			
Inventories	8	(25,656)	(8,281)
Receivables and other current assets	9	(23,815)	6,609
Payables and other current liabilities	14	(64,990)	15,682
Income taxes (paid)	20	(3,634)	(6,564)
Net cash from operating activities		**107,860**	**191,030**
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	6, 7	(74,164)	(112,850)
Proceeds from sale of property, plant and equipment		64	2,228
Interest received		69	48
Change in other non-current assets		(2,003)	(201)
Net cash from investing activities		**(76,034)**	**(110,775)**
FINANCING ACTIVITIES			
Loan drawings	13	155,129	0
Repayments of debt	13	(87,395)	(82,132)
Change in lease obligation		277	2,907
Dividends paid		(38,131)	(37,079)
Interest paid, net of capitalized interest		(5,392)	(6,036)
Proceeds from share capital increase in subsidiary		0	33,103
Net cash from financing activities		**24,488**	**(89,237)**
Net increase in cash		**56,314**	**(8,982)**
Cash and cash equivalents at beginning of year		**146,533**	**156,227**
Effect of exchange rate changes on cash and cash equivalents		(441)	(712)
Cash and cash equivalents at end of year		**202,405**	**146,533**

The accompanying notes on pages 59 to 75 are an integral part of these consolidated financial statements.

KORADO GROUP

Notes to the Consolidated Financial Statements – 31 December 2016

1. KORADO Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2016 for KORADO, a.s., (the "Company") and its subsidiaries (the "Group").
The Company was incorporated and is domiciled in the Czech Republic. The Company is a joint stock company limited by shares and was set up in accordance with Czech regulations.

The Group's principal business activity is manufacturing, installing and repairing central heating
and ventilation. The Group's manufacturing facilities are based in Czech Republic and in Bulgaria.
The Company's registered address is Bří Hubálků 869, Česká Třebová, the Czech Republic.
These consolidated financial statements are presented in thousand Czech Crowns („CZK"), unless otherwise stated.

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

	2016 % of voting and equity share	2015 % 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 GesmbH.	100	100	Austria	Distribution of radiators
KORADO UK limited	100	100	Great Britain	Distribution of radiators
KORADO Bulgaria AD	85.6	85.7	Bulgaria	Manufacturing of radiators
LICON HEAT s.r.o.	100	100	Czech Republic	Manufacturing of convectors

2. Summary of Significant Accounting Policies

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.

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.

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.

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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. Following initial recognition, goodwill is tested for impairment annually.

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.

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), (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.

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 accompanying notes on pages 59 to 75 are an integral part of these consolidated financial statements.

The Parent Company included in its calculation of deferred tax a tax credit from investment incentive (see Note 20) in amount of CZK 42,020 thousand as at 31 December 2016 (as at 31 December 2015: CZK 41,574 thousand). 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 this amount can reasonably be expected to be utilized (refer to Note 20).

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 13,376 thousand as at 31 December 2016.

Foreign Currency

The consolidated financial statements are presented in Czech crowns (CZK), which is the Company's functional and the Group's 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 profit or loss.

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 profit or loss 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 profit or loss 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.

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 profit or loss .

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 6).

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.

Intangible Assets

Intangible assets are initially valued at their acquisition cost and related expenses. Intangible assets are recognized if it is

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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. 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.

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.

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 weighted average method. Cost of finished goods and work-in-progress is determined on the basis of actual cost with the use of the weighted average 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.

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 in accordance with the original terms is no longer probable.

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.

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 profit or loss 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.

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.

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 2016 and 2015, respectively, after adjustments for certain items which are not deductible for taxation purposes. The Czech corporate income tax rate for 2017 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

The accompanying notes on pages 59 to 75 are an integral part of these consolidated financial statements.

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 statement of financial position. 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".

Revenue Recognition
Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for the sale of produced heaters. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

The Group manufactures and sells a range of heaters in the wholesale & retail market. Sales of produced heaters are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

The heaters are often sold with volume discounts; customers have a right to return faulty products in the market. Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. The volume discounts are assessed based on anticipated annual purchases.

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.

Trade and other payables
Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method.

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 Statement of Financial Position as a finance lease obligation. The interest element of the rental obligation is charged to the statement of profit or loss so as to produce a constant periodic rate of charge. Financial expenses are directly charged to the profit or loss 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.

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 profit or loss. 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 profit or loss, 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

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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 profit or loss statement. 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 less related transaction costs.

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.

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.

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.

3. Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2016, but did not have any material impact on the Group.

- IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

4. New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Group has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

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- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The Group is currently assessing the impact of the amendment on its financial statements.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements.

Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group will present this disclosure in its 2017 financial statements.

The following other new pronouncements are not expected to have any material impact on the Group when adopted:
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

5. Balances and Transactions with Related Parties

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.
The Czech state has joint control over the Group. The Group decided to apply the exemption from disclosure of individually

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insignificant transactions and balances with the government and parties that are related to the entity because the Czech state has control, joint control or significant influence over such party. Transactions with the state also include taxes which are detailed in Note 20.

In 2016 and 2015 short-term employee benefits (salaries and bonuses including social and health insurance) related to management personnel of Group companies (35 and 36 people in total, respectively) amounted to CZK 88,067 thousand and CZK 88,571 thousand, respectively.

In 2016 and 2015 members of Board of Directors and Supervisory Board of the Parent Company received remuneration of CZK 1,440 thousand and CZK 1,440 thousand, respectively.

6. Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

(In thousands of CZK)	Freehold Land	Buildings	Plant and equipment	Other	Construction in progress	Total
Cost at 1 January 2015	28,568	1,730,433	2,921,378	72,207	3,653	4,756,239
Accumulated depreciation	0	(722,801)	(2,365,962)	(62,857)	0	(3,151,620)
Carrying amount at 1 January 2015	**28,568**	**1,007,632**	**555,416**	**9,350**	**3,653**	**1,604,619**
Additions	0	1,292	12,094	141	102,246	115,773
Disposals	0	0	(1,830)	0	0	(1,830)
Depreciation charge	0	(36,934)	(77,303)	(2,155)	0	(116,392)
Transfers	298	926	13,492	6,912	(21,628)	0
Effect of translation to presentation currency	(90)	(596)	(2,935)	(2)	0	(3,623)
Carrying amount at 31 December 2015	**28,776**	**972,320**	**498,934**	**14,246**	**84,271**	**1,598,547**
Cost at 31 December 2015	28,776	1,731,239	2,927,730	79,206	84,271	4,851,222
Accumulated depreciation	0	(758,919)	(2,428,796)	(64,960)	0	(3,252,675)
Carrying amount at 1 January 2016	**28,776**	**972,320**	**498,934**	**14,246**	**84,271**	**1,598,547**
Additions	0	9,698	44,694	1,157	0	55,549
Disposals	0	(18)	(368)	0	(620)	(1,006)
Depreciation charge	0	(37,468)	(75,901)	(2,921)	0	(116,290)
Transfers	0	3,481	62,250	0	(65,732)	0
Effect of translation to presentation currency	(1)	(6)	(155)	0	0	(162)
Carrying amount at 31 December 2016	**28,775**	**948,007**	**529,455**	**12,482**	**17,919**	**1,536,638**
Cost at 31 December 2016	28,775	1,743,749	2,992,546	78,430	17,919	4,861,418
Accumulated depreciation	0	(795,742)	(2,463,091)	(65,947)	0	(3,324,780)
Carrying amount at 31 December 2016	**28,775**	**948,007**	**529,455**	**12,482**	**17,919**	**1,536,638**

Included in plant and equipment are assets held under finance leases with a carrying value of CZK 1,838 thousand (2015: CZK 1,902 thousand). Refer to Note 13.

At 31 December 2016 buildings and lands carried at CZK 673,910 thousand (2015: CZK 691,831 thousand) have been pledged to third parties as collateral for borrowings. Refer to Note 13.

The accompanying notes on pages 59 to 75 are an integral part of these consolidated financial statements.

7. Intangible Assets

Movements in the carrying amount of intangible assets were as follows:

(In,thousands of CZK)	Software	Trademark	Customer contracts	Intangible in progress	Goodwill	Total
Cost at 1 January 2015	189,317	4,218	2,716	1,784	13,743	211,778
Accumulated depreciation	(179,130)	(891)	(566)	0	0	(180,587)
Carrying amount at 1 January 2015	**10,187**	**3,327**	**2,150**	**1,784**	**13,743**	**31,191**
Additions	289	0	0	10,287	0	10,576
Depreciation charge	(3,420)	(713)	(453)	0	0	(4,586)
Transfers	2,269	0	0	(2,269)	0	0
Effect of translation to presentation currency	(1)	0	0	0	(363)	(364)
Carrying amount at 31 December 2015	**9,324**	**2,614**	**1,697**	**9,802**	**13,380**	**36,817**
Cost at 31 December 2015	190,954	4,218	2,716	9,802	13,380	221,070
Accumulated amortisation	(181,630)	(1,604)	(1,019)	0	0	(184,253)
Carrying amount at 1 January 2016	**9,324**	**2,614**	**1,697**	**9,802**	**13,380**	**36,817**
Additions	1,773	0	0	6,651	0	8,424
Depreciation charge	(3,938)	(713)	(453)	0	0	(5,104)
Effect of translation to presentation currency	0	0	0	1	(4)	(3)
Carrying amount at 31 December 2016	**7,159**	**1,901**	**1,244**	**16,454**	**13,376**	**40,134**
Cost at 31 December 2016	193,484	4,218	2,715	16,454	13,376	230,247
Accumulated amortisation	(186,325)	(2,317)	(1,471)	0	0	(190,113)
Carrying amount at 31 December 2016	**7,159**	**1,901**	**1,244**	**16,454**	**13,376**	**40,134**

8. Inventories

In thousands of CZK	2016	2015
Raw materials	171,556	151,355
Work in progress	9,501	8,945
Finished products	57,658	52,207
Total inventories	**238,715**	**212,507**

Inventories of CZK 151,759 thousand (2015: CZK 136,930 thousand) have been pledged as collateral for borrowings. Refer to Note 13.

Excess, obsolete and slow-moving inventory at gross amount of CZK 2,128 thousand and CZK 2,475 thousand has been reduced to net realizable value through the impairment provision account of CZK 1,481 thousand and CZK 2,032 thousand as at 31 December 2016 and 2015, respectively. The impairment provision is determined by management based on the aging analysis of inventory and the estimated realizable value.

The accompanying notes on pages 59 to 75 are an integral part of these consolidated financial statements.

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9. Trade and other receivables

In thousands of CZK	2016	2015
Trade receivables	142,681	141,670
Advances paid	26,299	5,417
Other	113	182
Less impairment provision	(34,583)	(20,980)
Total trade and other receivables	**134,510**	**126,289**

Movements in the impairment provision for trade and other receivables are as follows:

In thousands of CZK	2016 Trade receivables	2015 Trade receivables
Provision for impairment at 1 January	**20,980**	**23,137**
Additions	17,600	3,503
Reversals	(3,997)	(5,660)
Provision for impairment at 31 December	**34,583**	**20,980**

Trade receivables of CZK 106,856 thousand (2015: CZK 117,770 thousand) net of impairment loss provisions are denominated in foreign currency, mainly 77 % in Euro (2015: 73 %).

Analysis by credit quality of trade receivables is as follows:

In thousands of CZK	2016 Trade receivables	2015 Trade receivables
Total neither past due nor impaired	**93,901**	**99,345**
Past due but not impaired		
- less than 90 days overdue	14,197	15,906
- 91 to 180 days overdue	0	4,089
- 181 to 360 days overdue	0	1,350
- over 360 days overdue	0	0
Total	**108,098**	**126,290**

10. Prepayments and other current assets

In thousands of CZK	2016	2015
VAT receivables	17,007	19,640
Prepayments and other	10,095	5,941
Total Prepayments and other current assets	**27,102**	**25,581**

11. Cash and Cash Equivalents

In thousands of CZK	2016	2015
Bank balances payable on demand	201,720	145,801
Cash on hand	685	732
Total cash and cash equivalents	**202,405**	**146,533**

The credit quality of bank balances may be summarised as follows at 31 December 2016:

In thousands of CZK	2016 Bank balances payable on demand	2015 Bank balances payable on demand
Neither past due nor impaired		
- A	155,855	124,967
- B and lower	45,865	20,834
Total	**201,720**	**145,801**

12. Share Capital

The nominal registered amount of the Company's issued share capital is CZK 840,700 thousand (2015: CZK 840,700 thousand). The total authorised number of ordinary shares 2,402 shares (2015: 2,402 shares) with a par value of CZK 350 thousand per share (2015: CZK 350 thousand per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

In thousands of CZK	2016	2015
Dividends per share declared during the year	**16**	**15**

13. Borrowings

In thousands of CZK	2016	2015
Term loans	339,098	276,507
Promissory notes issued	5,296	0
Finance lease liabilities	3,497	2,980
Other long term liabilities	4,453	4,261
Other loans	0	585
Total borrowings	**352,344**	**284,333**

In thousands of CZK	2016	2015
Current		
Term loans	107,506	80,929
Promissory notes issued	5,296	0
Finance lease liabilities	1,507	851
Total current borrowings	**114,309**	**81,780**

The accompanying notes on pages 59 to 75 are an integral part of these consolidated financial statements.

In thousands of CZK	2016	2015
Non- current		
Term loans	231,592	195,578
Finance lease liabilities	1,990	2,129
Other long term liabilities	4,453	4,261
Other loans	0	585
Total non-current borrowings	**238,035**	**202,553**
Total borrowings	**352,344**	**284,333**

The Group's borrowings are denominated in currencies as follows:

In thousands of CZK	2016	2015
Borrowings denominated in: - CZK	300,819	277,093
- EUR	47,072	2,979
- BGN	4,453	4,261
Total borrowings	**352,344**	**284,333**

Property, plant and equipment, inventories and receivables are pledged as collateral for borrowings of CZK 909,454 thousand (2015: CZK 919,455 thousand). Refer to Notes 6, 8, 9 and 21. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group. The Group was in compliance with covenants at 31 December 2016 and 31 December 2015.

Finance leases

Minimum lease payments under finance leases and their present values are as follows:

In thousands of CZK	Due in 1 year	Due between 1 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2016	**1,643**	**2,120**	**0**	**3,763**
Less future finance charges				(266)
Present value of minimum lease payments at 31 December 2016				3,497
Minimum lease payments at 31 December 2015	977	2,248	0	3,225
Less future finance charges				(245)
Present value of minimum lease payments at 31 December 2015				2,980

Leased assets with a carrying amount disclosed in Note 6 are effectively pledged for finance lease liabilities as the rights to the leased asset revert to the lessor in the event of default.

14. Trade and other payables

In thousands of CZK	2016	2015
Trade payables	274,856	355,959
Payables to employees	38,097	31,333
Tax payables	6,499	3,737
Accrued liabilities and other creditors	9,796	13,370
Trade and other payables	**329,248**	**404,399**

Trade payables of CZK 133,729 thousand (2015: CZK 180,735 thousand) net of impairment loss provisions are denominated in foreign currency, mainly 95 % in Euro (2015: 87 %).

15. Analysis of Revenue

In thousands of CZK	2016	2015
Sales of radiators	1,831,759	1,795,299
Other	43,171	41,149
Total revenue	**1,874,930**	**1,836,448**

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

16. Cost of Materials, Energy and Purchased Goods

In thousands of CZK	2016	2015
Materials and supplies	959,133	959,011
Energy	45,524	49,507
Purchased goods	56,515	82,591
Total	**1,061,172**	**1,091,109**

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

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17. Purchased services and rental expenses

In thousands of CZK	2016	2015
Repairs and maintenance	10,031	14,313
Rent	19,790	14,962
Traveling and training expenses	12,616	13,907
Marketing	55,664	54,608
Transportation expenses	45,849	39,526
Legal and advisory services (incl. 2016: CZK 1 851 ths, 2015: CZK 1 950 ths for audit services)	8,747	17,492
Operational services (Cooperation, IT services)	47,592	39,596
Other	24,957	29,344
Total	**225,246**	**223,748**

18. Other operating income

In thousands of CZK	2016	2015
Income from write off of receivables and insured receivables	14,698	8,528
Gain on sale of fixed assets	64	621
Income from sale of scrap	5,729	5,832
Other	0	12
Total	**20,491**	**14,993**

19. Other Expenses

In thousands of CZK	2016	2015
Receivables and loans written off	786	10,641
Change in impairment provisions and provisions, net	12,942	(3,072)
Taxes and levies	1,839	1,766
Insurance	7,813	6,772
Other	5,453	1
Total	**28,833**	**16,108**

20. Income Taxes

a) Components of income tax expense

Income tax expense comprises the following:

In thousands of CZK	2016	2015
Current tax	6,398	4,624
Deferred tax	6,585	648
Income tax expense for the year	**12,983**	**5,272**

b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Group's 2016 and 2015 income is 20%. The income tax rate applicable to the majority of income of subsidiaries ranges from 10% to 19% (2015: from 10% to 19%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of CZK	2016	2015
Profit before tax	**82,879**	**48,826**
Statutory income tax rate	19 %	19 %
"Expected" income tax, expense	15,747	9,277
Add / (deduct),tax effect of:		
Non-deductible expenses	2,446	819
Change in valuation allowance	(326)	(1,867)
Change in deferred tax asset from tax credit	(446)	(1,277)
Different tax rate in other countries	(4,267)	(2,700)
Other	172	1,020
Actual income tax expense	12,983	5,272
Effective tax rate	16 %	11 %

c) Tax loss carry forwards

The Group has unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of CZK 6,999 thousand (2015: CZK 7,325 thousand).

Deferred income taxes at 31 December 2016 and 2015 consist of the following:

In thousands of CZK	2016	2015
Receivables impairment provision	178	651
Inventory impairment provision	281	386
Provisions	1,315	1,420
Accumulated losses carried forward	7,346	17,677
Elimination of intra-group profit from inventories	126	109
Tax credit from investment incentive	42,020	41,574
Other	2,175	1,369
Total deferred tax assets	53,441	63,186
Less valuation allowance to deferred tax asset	(6,999)	(7,325)
Offset with deferred tax liabilities	(45,825)	(55,343)
Deferred tax assets in the Statement of Financial Position	617	518
Difference between net book value of non-current assets for accounting and tax purposes	(128,159)	(130,993)
Total deferred tax liabilities	(128,159)	(130,993)
Offset with deferred tax assets	45,825	55,343
Deferred tax liabilities in the Statement of Financial Position	(82,334)	(75,650)

The accompanying notes on pages 59 to 75 are an integral part of these consolidated financial statements.

Movements in deferred tax liability, net were as follows:

In thousands of CZK	2016	2015
As at 1 January	75,132	74,484
Change in deferred tax recorded in statement of income	6,585	648
As at 31 December	81,717	75,132

Out of the total tax losses of subsidiaries generated since 1999, CZK 27,995 thousand and CZK 29,988 thousand can be carried forward as of 31 December 2016 and 2015, respectively. In 2016 and 2015, 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.

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 2016 and 2015 and this balance can be drawn as a tax credit until 2019.

The Company recorded deferred tax asset of CZK 42,020 thousand as at 31 December 2016 (as at 31 December 2015: CZK 41,574 thousand). The remaining part of deferred tax asset of CZK 133,980 thousand as at 31 December 2016 (as at 31 December 2015: CZK 134,426 thousand), has not been recognised as it is not probable that future taxable profit will be available against which the unused tax credits can be utilised. The 19% rate has been used to calculate it as at 31 December 2016 and 2015.

The management of the Company is convinced that it will be feasible for the Company to utilize the recognized deferred asset relating to investment incentive. Nevertheless some uncertainty about future utilization exists.

21. Contingencies and Commitments

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In thousands of CZK	2016	2015
Not later than 1 year	17,378	17,108
Later than 1 year and not later than 5 years	25,271	40,739
Total operating lease commitments	**42,649**	**57,847**

Assets pledged and restricted.

At 31 December 2016 the Group has the following assets pledged as collateral:

In thousands of CZK	Note	2016 Asset pledged	2015 Asset pledged
Property	6	11,638	11,638
Plant and equipment	6, 7	662,272	680,193
Receivables	9	83,785	90,694
Inventories	8	151,759	136,930
Total		**909,454**	**919,455**

22. Non-Controlling Interest

Increase of share 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.

During the year 2016, the Group disposed 10,372 shares of Korado Bulgaria increasing the share of NCI to 14.42 %.

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The following table shows summarized financial information of KORADO Bulgaria AD for the year ended 31 December 2016 and 2015:

In thousands of CZK	2016	2015
Ownership share of non-controlling interest at 31 December	14.42 %	14.3 %
Non-current assets	209,721	187,464
Current assets	142,845	86,561
Non-current liabilities	(6,443)	(6,389)
Current liabilities	(103,173)	(42,789)
Equity	242,950	224,848
Attributable to:		
Equity holders of parent	207,917	192,691
Non-controlling interests	35,033	32,157
Revenues	450,692	382,913
Profit after income taxes	40,455	26,953
Attributable to:		
Equity holders of parent	34,621	23,099
Non-controlling interest	5,834	3,854
Total comprehensive income	**39,933**	**22,325**
Attributable to:		
Equity holders of parent	34,175	19,133
Non-controlling interest	5,758	3,192

23. Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk.
The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties or groups of counterparties. Limits on the level of credit risk are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 9.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

Market risk.
The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity instruments, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

Currency risk.
In respect of currency risk, management sets limits on the level of exposure by currency and in total. The positions are monitored monthly.

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 2016 and 2015, the Group did not have any exchange rate hedges in place to mitigate the overall foreign currency exposure.

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):

	2016		2015	
	Increase/decrease, in,exchange,rate,*	Effect,on,profit,/,loss, before,tax	Increase/decrease, in,exchange,rate,*	Effect,on,profit,/,loss, before,tax
EUR	+5 %	(2,953)	+5 %	232
GBP	+5 %	36	+5 %	78
PLN	+5 %	950	+5 %	1,346
USD	+5 %	207	+5 %	293
EUR	(5 %)	2,953	(5 %)	(232)
GBP	(5 %)	(36)	(5 %)	(78)
PLN	(5 %)	(950)	(5 %)	(1,346)
USD	(5 %)	(207)	(5 %)	(293)

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

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. 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 1.74 % as at 31 December 2016 and 1.75 % as at 31 December 2015, 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:

2016		2015	
Increase/decrease in basis points	Effect on profit / loss before tax	Increase/decrease in basis points	Effect on profit / loss before tax
50	(1,697)	50	(1,384)
(50)	1,697	(50)	1,384

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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 2016 and 2015 based on contractual undiscounted payments (nominal amount and interest) provided that the Group meets the loan agreement covenants:

31 December 2016	Less than 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Bank and other loans	30,135	87,661	224,092	12,578	354,466
Finance lease obligations	411	1,232	2,120	0	3,763
Trade payables	274,856	0	0	0	274,856
Total	**305,402**	**88,893**	**226,212**	**12,578**	**633,085**
31 December 2015	Less than 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Bank and other loans	21,398	63,661	199,717		284,776
Finance lease obligations	244	733	2,248		3,225
Trade payables	355,959	0	0		355,959
Total	**377,601**	**64,394**	**201,965**		**643,960**

24. Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The amount of capital that the Group managed as of 31 December 2016 was CZK 1,380,377 thousand (2015: CZK 1,350,121 thousand).

25. Fair Value Disclosures

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:

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.

The accompanying notes on pages 59 to 75 are an integral part of these consolidated financial statements.

Carrying amounts and the estimated fair values of financial instruments as at 31 December 2016 were as follows:

In thousands of CZK	Carrying amount	Fair value
Assets		
Other non-current assets	4,961	4,961
Accounts receivable, net	134,510	134,510
Cash and cash equivalents	202,405	202,405
Liabilities		
Payables and other current liabilities	274,856	274,856
Short-term borrowings and current portion of long-term debt	114,309	114,309
Long-term debt, net of current portion	238,035	238,035

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

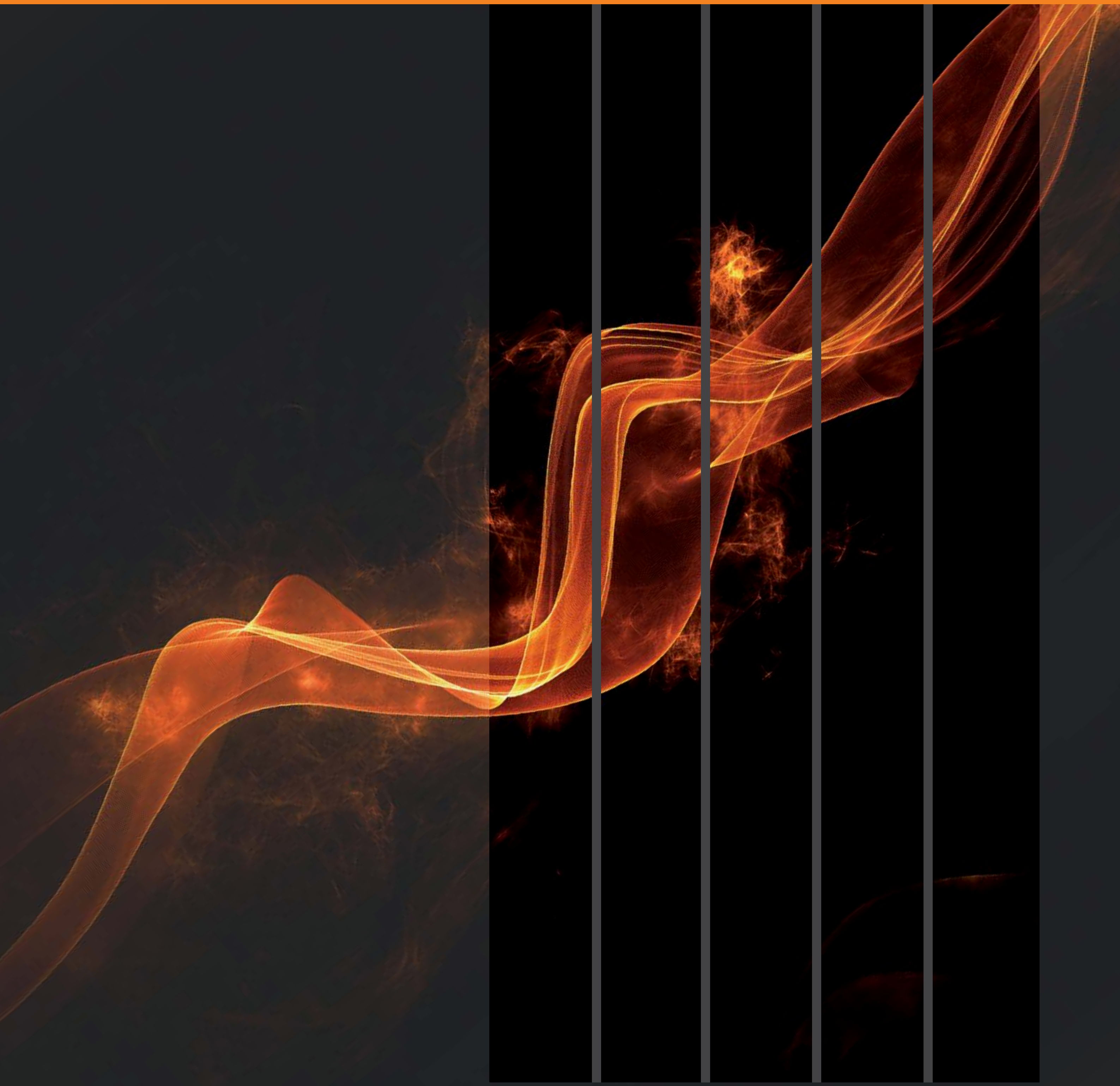
In thousands of CZK	Carrying amount	Fair value
Assets		
Other non-current assets	2,958	2,958
Accounts receivable, net	126,289	126,289
Cash and cash equivalents	146,533	146,533
Liabilities		
Payables and other current liabilities	355,959	355,959
Short-term borrowings and current portion of long-term debt	81,780	81,780
Long-term debt, net of current portion	202,553	202,553

26. Events After the Reporting Period

The share buyback of 220 units at a price of CZK 115 mil. was realized in January 2017. The Company holds the shares for further resale.

No events have occurred subsequent to year-end that would have a material impact on the financial statements as at 31 December 2016.

The accompanying notes on pages 59 to 75 are an integral part of these consolidated financial statements.



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