



Annual Report **2017**





...heat for your homes
more than 50 years





 KORADO®



CONTENTS

FOREWORD BY THE CHAIRMAN OF THE BOARD OF DIRECTORS	5
STRATEGIES AND GOALS OF THE KORADO GROUP	6
GROUP OVERVIEW	
The KORADO Group	7
Report on Subsidiaries	10
Table of Financial Indicators of the Group	12
REPORT ON ACTIVITIES OF THE GROUP	
Sales and Market Position of the KORADO Group	13
Financial Situation	14
Purchase of input material	17
Production and Development	18
Human Resources Management	19
Quality Control System, Ecology and the Environment	20
KORADO, A.S.	
General Company Information	21
Composition of the Company Bodies and Management	22
Company's History in Dates	26
REPORT OF THE SUPERVISORY BOARD	28
INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KORADO, a.s	30
INTERNATIONAL FINANCIAL REPORTING STANDARDS	
CONSOLIDATED FINANCIAL STATEMENTS KORADO GROUP AS OF 31. DECEMBER 2017	
Contents	34
Consolidated Statement of Financial Position	35
Consolidated Statement of Profit or Loss and Other Comprehensive Income	36
Consolidated Statement of Changes in Equity	37
Consolidated Statement of Cash Flows	38
Notes to the Consolidated Financial Statements as of 31 December 2017	39
STANDALONE FINANCIAL STATEMENTS KORADO, A.S., AS OF 31. DECEMBER 2017	
Balance Sheet	60
Income Statement	62
Statement of changes in shareholders' equity for the year ended 31 December 2017	63
Cash-flow statement for the year ended 31 December 2017	64
Notes to non-consolidated financial statements for the year ended 31 December 2017	65

FOREWORD BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Business Partners,

We can describe the year 2017 as one of the most difficult in the past 10 years. Recently there has been no progress in the construction industry, particularly in housing and civil construction. This aspect, which is manifested practically in whole EU and Ukraine, directly affects the demand for our products. The same applies to EU sanctions in relation to the Russian Federation. This situation mainly influences requirements for small orders, strict adherence to the deadline and, of course, price pressure. As I mentioned in the Annual Report 2016, the Group had to switch from mass production to customized.

The EU decision to introduce duties for the import of cold-rolled steel from Russia and China had noticeable impact. The big leap in prices at the beginning of 2017 by approximately EUR 200 per ton represents, for the same volume of production, approximately CZK 150 million of increased production costs. Despite all the saving measures the Company is not able to eliminate such increase in production costs and is forced to pass on these increases to its customers. Systematic work of the entire management has led to a increase in sales prices for our customers. Thanks to strict control of the cost drawdown it was managed to almost eliminate this cost.

However, it can be positively evaluated that even at this time, the investment in the modernization of production in Česká Třebová as well as in KORADO Bulgaria and LICON HEAT was well advanced. LICON HEAT purchased technology for the production of flat ODT front panels and the production of a new line of innovative convectors has successfully begun.

The "test room", which together with the development workshop should contribute to improving existing products



and developing new ones came in the operation and was completed with a second chamber.

Our further intentions in expanding KORADO Group's portfolio of products, which should further enhance the Group's competitiveness, are developing successfully.

The positive trend in trading with the shares of Korado Bulgaria's subsidiary on the Sofia Stock Exchange is a very positive sign.

Despite all the above negatives, the KORADO Group is stabilized, maintains and strengthens its position in the market, faces challenging market conditions, generates positive economic results, reduces debt, and pays permanent dividends.

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.

In Česká Třebová on April 3, 2018

A handwritten signature in blue ink, reading "František Menčík".

*František Menčík
Chairman of the Board
of Directors*

● STRATEGIES AND GOALS OF THE KORADO GROUP

The main objective of the KORADO Group for 2018 is to continue to 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

In response to changes in legislation and customer requirements, the business strategy for 2018 continues in territorial and product transformation. Our capacities will be devoted to introducing innovations in the area of convectors and innovations in the ventilation and recovery segment, together with the preparation of new products.

Providing against Risk

Working with business and trade risks and providing for them continues to be one of the primary tasks of the Company. Continuing turbulent environment 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., fully justifies the strategy thus chosen. 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. 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 2018, human resources will further improve the current processes to provide a sound basis for the selection, training, motivation and remuneration of employees. These goals will be achieved primarily by providing methodological and administrative support for human resources management.

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

Optimum Financing and Securing Liquidity of the Company

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

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

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

Internal Audit

In 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 is 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 2017, 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 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.

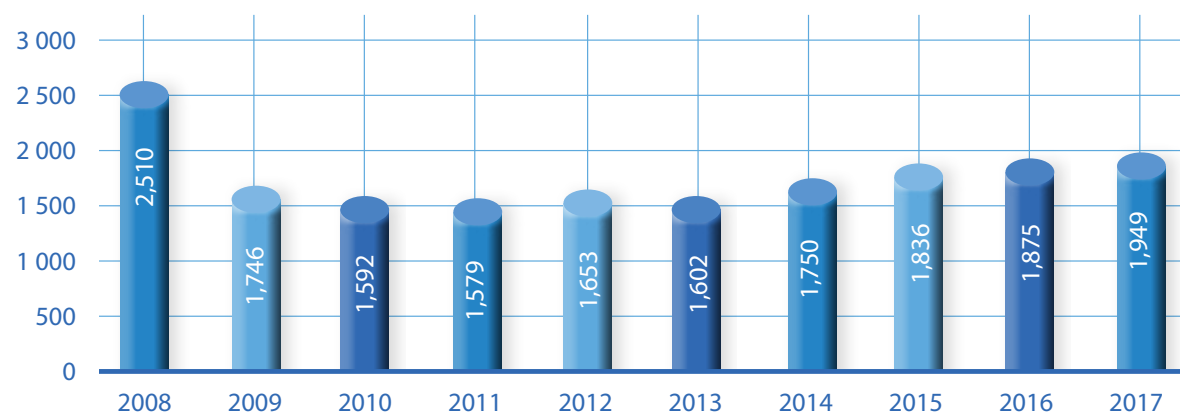
An important step towards expanding our product portfolio occurred in 2013 with the 100% buyout of the company LICON HEAT s.r.o., which has expanded KORADO's production program to include a complete range of floor, wall, freestanding, bench and special convactor radiators.

Sales and Profits of the KORADO Group (CZK Thousand)

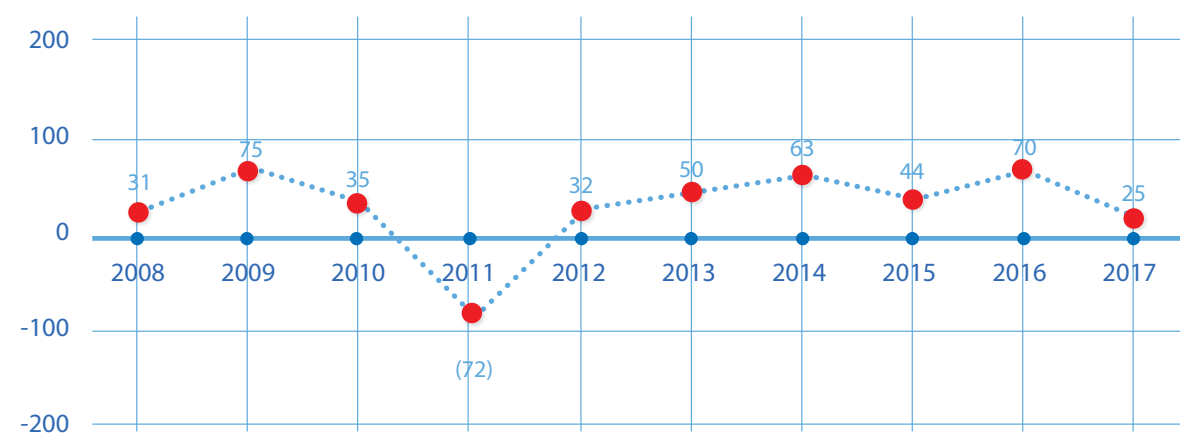
CZK Thousand	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Consolidated sales	2,510,084	1,745,583	1,592,299	1,579,217	1,653,283	1,602,014	1,749,891	1,836,448	1,874,930	1,949,174
Consolidated profits based on IFRS	31,105	74,912	34,572	(72,369)	32,497	50,343	62,532	43,554	69,896	24,604

- 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)

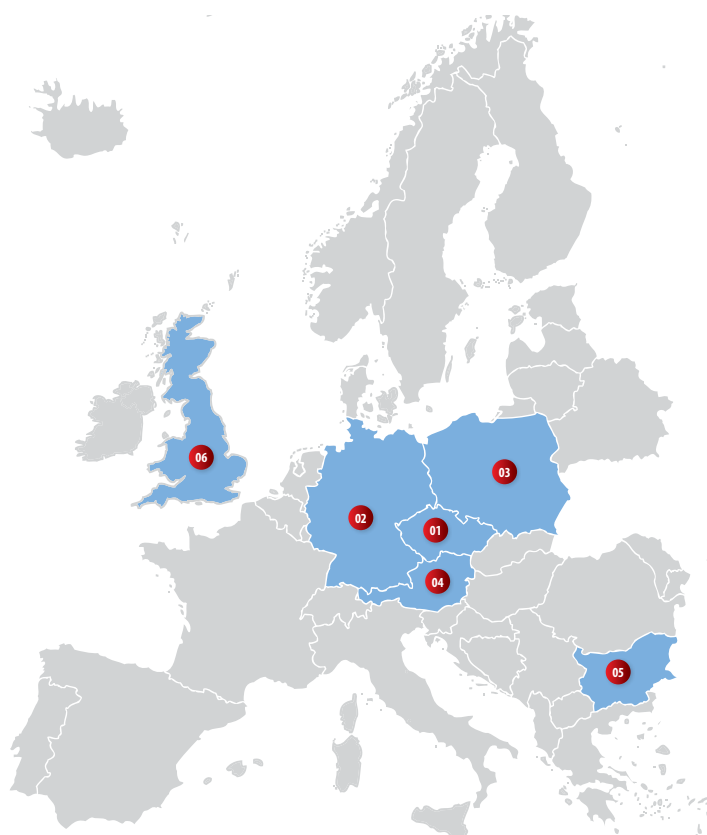


Consolidated Profits for the KORADO Group (CZK million)



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 2017:

společnost	den vzniku	základní kapitál k 31. 12. 2017	ředitel (prokurista)	sídlo	podíl KORADO, a.s.	právní forma
KORADO, a.s.	1. 9. 1996	CZK 840,700 ths.	Vojtěch Čamek	Bří Hubálků 869, 560 02 Česká Třebová, Česká republika	-	Joint-stock company
KORADO Deutschland GmbH	28. 11. 1995	CZK 639 ths.	Leona Vaňková	DR. Wilhelm-Külz- Strasse 61, 155 17 Fürstenwalde, Německo	100 %	Limited liability company
KORADO Polska, Sp. z o. o.	4. 12. 1996	CZK 44,087 ths.	Žaneta Vebrová	Gen.Okulickiego 4, 05-500 Piasecno, Polsko	100 %	Limited liability company
KORADO Austria, GmbH	1. 7. 1998	CZK 26,817 ths.	Leona Vaňková	Ferstelgasse 6/7, 1090 WIEN, Rakousko	100 %	Limited liability company
KORADO Bulgaria, A. D.	1. 10. 1998	CZK 171,956 ths.	Jiří Řezníček	Gladston 28, 5150 Strajica, Bulharsko	83,67 %	Joint-stock company
KORADO U. K. Limited	25. 11. 1998	CZK 29 ths.	Vojtěch Čamek	170 Merton High Street, Wimbledon London, SW19 1AY, Velká Británie	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 Česká republika	100%	Limited liability company

Share capital calculated based on the exchange rate as of 31 December 2017

*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 2017 KORADO Deutschland reported a profit of EUR 75 ths. (CZK 1,963 ths.).

EUR ths.	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total sales	4,974	4,763	5,090	5,286	4,477	3,080	4,395	5,173	5,489	3,877
Profits/Losses	(67)	0	0	0	0	71	138	179	118	75

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 2017 KORADO Polska achieved a profit of PLN 92 ths. (CZK 568 ths.).

PLN ths.	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total sales	8,811	8,260	7,542	7,297	7,243	9,242	8,941	11,142	16,473	10,334
Profits/Losses	(1 184)	(682)	461	(816)	95	162	247	312	515	92

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.

In 2017 KORADO Austria achieved a financial result of EUR (0.2) ths. (CZK (6) ths.).

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.

EUR ths.	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total sales	0	0	0	0	0	1	0	0	0	0
Profits/Losses	(4)	(8)	(1)	(1)	1	1	1	(1)	0.3	(0.2)

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 83.67% 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.

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. 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.

In 2017, the Company increased its share capital by 4,389,538 ordinary shares, which are registered as freely-transferable voting shares with a nominal value of BGN 1 per each.

This increase was realized from the original share premium. The shares were distributed to existing shareholders in a ratio of 2:1 (one new for each existing shares). The company met requirements for admission to the Premium Stock Exchange segment in Autumn 2017, where it has been currently traded.

After significant investments in previous years (a new line for the production of panel and then bathroom radiators), investments in the reduction of the energy intensity of production areas were completed in 2017. The entire production plant is currently completely insulated. During this year, the company also bought an adjoining production facility (approx. 3 hectares of land) including a production and administrative building.

In 2017 KORADO Bulgaria generated a profit of BGN 4,778 ths. (CZK 64,311 ths.).

BGN ths.	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total sales	26,392	12,717	13,540	16,252	20,458	17,193	20,912	27,449	32,607	42,387
Profits/Losses	1,527	639	768	931	398	599	1,321	1,932	2,927	4,778
Panel radiators produced	342,558	134,816	166,712	229,129	281,027	238,808	295,187	398,958	433,008	460,659

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 2017 LICON HEAT generated a loss totalling CZK (6,222) ths.

CZK ths.	2013	2014	2015	2016	2017
Total sales	129,182	104,836	103,388	89,033	73,101
Profits/Losses	7,630	10,664	3,197	2,436	(6,222)

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
TOTAL SALES (MIL. CZK)	2,510	1,746	1,592	1,579	1,653	1,602	1,750	1,836	1,875	1,949
YEARLY CHANGE IN SALES (%)	(10%)	(30%)	(9%)	(1%)	5%	(3%)	9%	5%	2%	4%
EBITDA (NET PROFIT (LOSS) PLUS TAX ON INCOME PLUS INTEREST COSTS PLUS DEPRECIATION) (MIL. CZK)	210	276	207	84	174	179	191	176	210	166
EBITDA MARGIN (EBITDA / TOTAL SALES) (%)	8%	16%	13%	5%	11%	11%	11%	10%	11%	9%
PROFIT/LOSS AFTER TAX (MIL. CZK)	31	75	35	(72)	32	50	63	44	70	25
RETURN ON EQUITY (EBIT / ASSETS MINUS CURRENT LIABILITIES)	10%	6%	2%	(2%)	3%	4%	5%	3%	5%	2%
INDEBTEDNESS (BANK LOANS / EQUITY)	0.97	0.55	0.41	0.36	0.27	0.27	0.26	0.20	0.25	0.19
QUICK RATIO (CURRENT ASSETS MINUS INVENTORY / CURRENT LIABILITIES)	0.30	0.34	0.17	0.29	0.34	0.60	0.79	0.62	0.82	0.32
CURRENT RATIO (CURRENT ASSETS / CURRENT LIABILITIES)	0.47	0.55	0.36	0.60	0.63	1.03	1.23	1.06	1.36	0.88
TOTAL ASSETS (MIL. CZK)	3,002	2,402	2,239	2,117	2,007	2,106	2,203	2,153	2,185	1,990
LONG-TERM ASSETS / TOTAL ASSETS (%)	74%	85%	86%	86%	85%	79%	74%	76%	72%	78%
RECEIVABLE TURNOVER (DAYS)	37	34	28	24	27	32	34	30	25	20
PAYABLE TURNOVER (DAYS)	105	132	103	97	96	107	110	107	103	92
INVENTORY TURNOVER (DAYS)	57	67	49	48	45	52	58	57	63	67

● SALES AND MARKET POSITION OF THE KORADO GROUP

Overview on business activities in 2017

The primary business task was to stabilize customer relationships in connection with rising sales prices due to the important growth of costs, especially fast-rising steel prices.

We continue to intensively focus on regional and product transformations based on the changing demand on the market for end-of-pipe heating elements in Europe. This is mainly the development and use of ventilation units for all kinds of objects.

Central and Eastern Europe

The region in which we continue to maintain a strong market position. We are able to develop historically established relationships with business partners in the region in the long run. Of course, it is where most of our customers that we are supplying with our traditional products come from.

At the same time, we develop as much as possible new products, including ventilating and heat recovery units.

Western Europe

From the assortment point of view, the service and the complexity of the supply together with the delivery of high-quality products, are also appreciated in Western Europe. Continuing development with existing partners and launching cooperation with the new ones motivates us to further innovations in both areas. Great expectations from our partners we heard in the field of convector innovations and extension of the range of ventilation units.

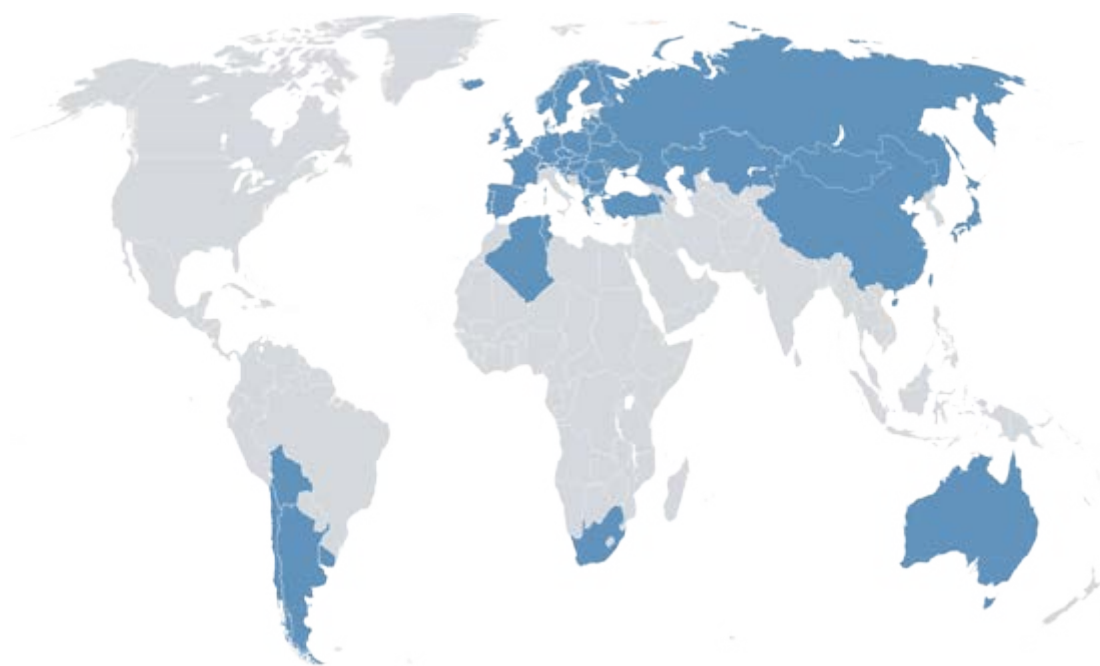
Product development

Changing access to products and systems for indoor building comfort puts high demands on the development of new market segments. Over the last two years, we have increased the human resources capacity in the product area and started working with external specialists and development centers in the academic field. The aim is to move and allocate our resources to the preparation of products whose demand will grow in the next decade.

Overview for 2018

The main objective is to further optimize the supply of our traditional products - radiators. Our capacities will be devoted to introductions and innovations in convectors, new products in the ventilation and recovery segment, together with the preparation of other new products.

● OVERVIEW OF RADIK PANEL RADIATOR SALES IN 2017 ACCORDING TO COUNTRY



● FINANCIAL SITUATION

Profitability of the KORADO Group

In 2017, the KORADO Group generated a profit of CZK 25 mil. On the KORADO Group's performance with a negative reflection of a significant year-on-year rise in steel prices. This negative impact was partly mitigated by increased sales prices.

Optimization of working capital and indebtedness

Debt was kept at a low level as in previous years. Bank debt reached 19% and was the lowest in the last 10 years.

Bank Loans

In 2017, it was necessary to ensure sufficient operational funding for the continued growth of input materials in the area of finance. The overdraft facility was increased to overcome short-term cash flow fluctuations.

All bank loans are repaid in accordance with the terms of repayment. At the end of 2017, a record of the lowest bank debt was achieved in the whole history of the KORADO Group.

Investments

At parent company the testing room for measuring the heat output of the convectors has been commissioned and in newly renovated hall for KORATHERM design radiators a high-capacity saw for cutting profiles and tubes was installed, as well as, the KORATHERM profile closure machine.

Another important investment project was renovation of packaging hall of bathroom and designer radiators in order to optimise average production period.

In December 2017, the LICON HEAT subsidiary installed a line to produce straight header plates for plate radiators.

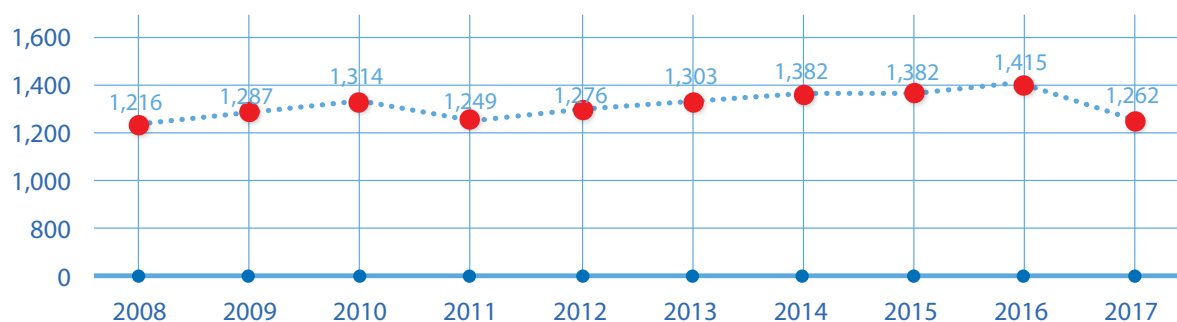
Risk Management

During its existence, the KORADO Group has built up a very stable and financially strong portfolio of customers. The continuing geopolitical tensions in Russia and the Ukraine associated with the macroeconomic slump in these two important markets, however, contributed significantly to payment issues with some of our trading partners. Addressing new customers from non-traditional territories also brings an increased level of credit risk. In this context, the long-term strategy of very strict perceptions of credit risk is more than justified. Also in 2017, 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 2017, several of our smaller Polish customers had payment problems, their debts were solved in cooperation with credit insurance companies.

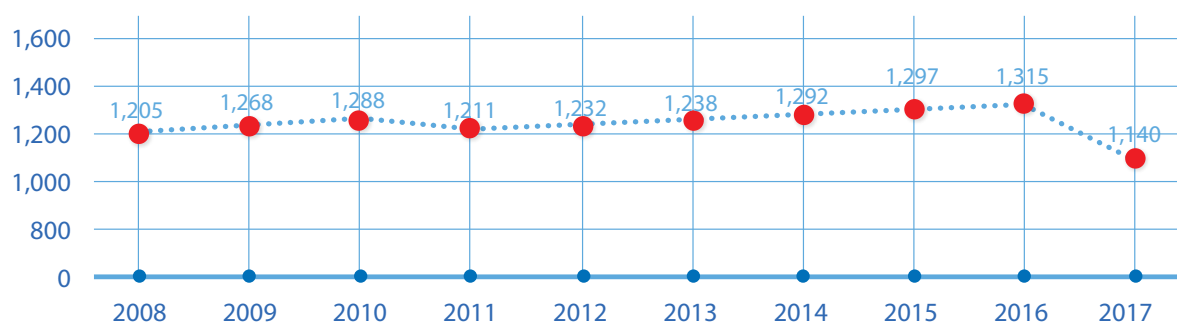
The abandonment of the exchange rate commitment by the ČNB did not have a negative impact on the Company's economic result. The risks associated with the movement of foreign exchange rates are addressed as much as possible through natural hedging. On the income side, we strive to offset the foreign exchange position with costs denominated in the same currency.

The perception of Risk Management in the wider context of the operations of the company led us to further strengthening 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.

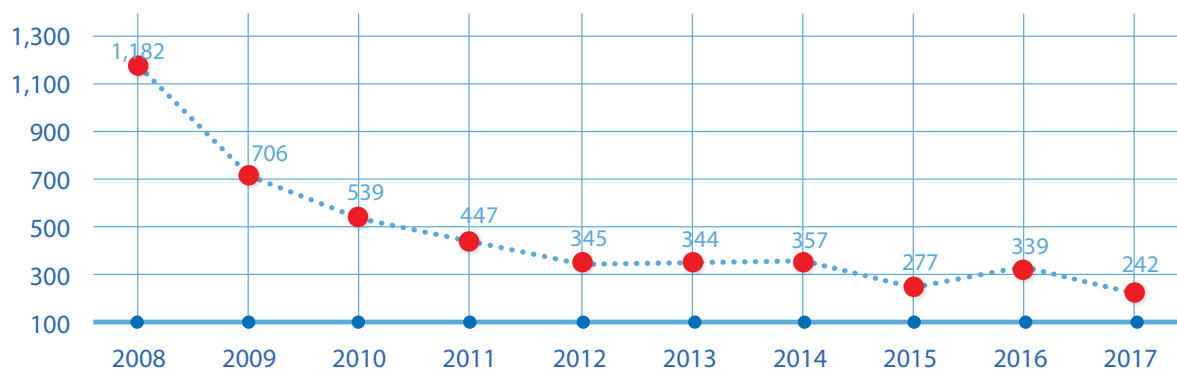
Equity of the KORADO Group (CZK million)



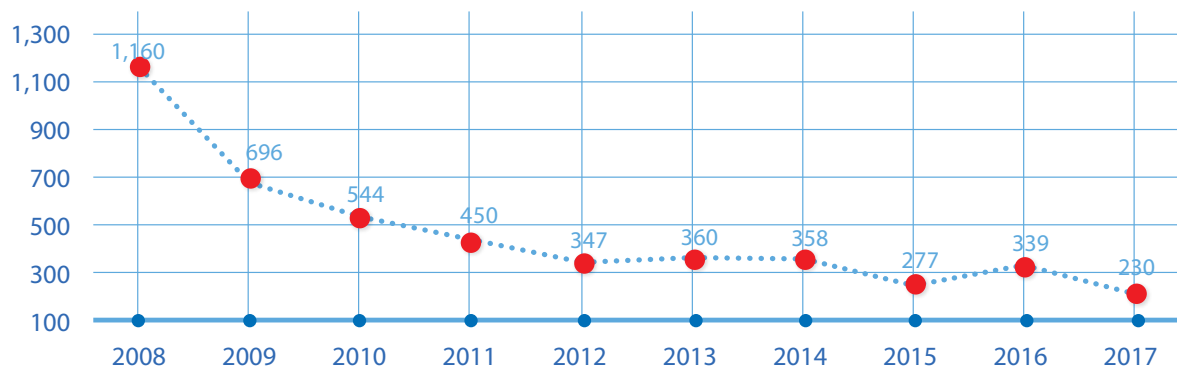
Equity of the Parent Company KORADO, a.s. (CZK million)



Debt of the KORADO Group (CZK million)



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



● PURCHASE OF INPUT MATERIAL

KORADO Group's product focus ranks us among companies with huge economic dependence on raw material and services purchase. The share of processing costs in the total cost price is relatively low, lower than in many other fields. That fact places successful and effective purchase in an important position among those influences that fundamentally affect the success and profitability of the Company.

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 2017 its yearly consumption in the Company exceeded 36 thousand of 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 an anti-dumping measures. The decreasing competitiveness of the steelworks and rolling mills in the EU the European Union has solved by allowing them to transfer in a direct way their inefficiencies to the processors of their products. This trend continues in the early months of 2018.

However, prices have risen and continue to grow also for other components - colors due to the rise of titanium dioxide prices, other components mainly due to wage growth across the EU, including the Czech Republic.

● PRODUCTION AND DEVELOPMENT

Production

In 2017, all our customers' requirements have been met in terms of product quality and supply reliability. Using the synergies of individual production destinations, the KORADO Group has succeeded in eliminating the rapidly changing volume customers' demands in time, while maintaining its optimal cost-effectiveness. The production team supported the KORADO Group in its further development and business activities.

Production of Bathroom Radiators

In 2017, a line for sectioning and production of profiles for KORATHERM design radiators has been commissioned. With this step, the production of design radiators has been automated already in 90% with a positive contribution to quality, design and shortening delivery times for customers and by gradual reduction mainly in personnel costs.

Own production of components

Because of increasing the volume of components purchases needed by the KORADO Group for its own production, we acquired production lines in order to produce these products ourselves. For the time being, the production of flat front panels for plate radiators in LICON HEAT has been started. Painting and assembly is done in the parent company.

Innovating Radiator Production

In 2017, the construction of a second test room for the measurement of heat outputs of convectors was realized. It is achieving very accurate results compared to the accredited state testing room. Furthermore, the assembly and packing processes were acquired on the new line in order to reduce the production time.

● INTERNAL AUDIT AND MANAGEMENT OF HUMAN RESOURCES

Internal audit

In the course of 2017, the Internal Audit function was governed by the revised International and Czech Standards for Professional Internal Audit Practices in force since January 2017. The Internal Audit has provided to the senior management of KORADO, a.s. with both assurance and advisory services to assist in all areas, which affect business. The Internal Audit was based on the approved strategy and targets for 2017. For the support of these targets it paid increased attention to reviewing the effectiveness of all processes along with fraud prevention, monitoring of Compliance programme and risk management. In 2017, the Internal Audit was crucial to both management and administration of the Company through its support for trust, transparency and accountability.

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 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.

We use the quality management system, which is certified according to the ISO 9001: 2008 system standard, to meet the Company's strategy. The results of regular audits show that KORADO demonstrates high ability to permanently provide products and services that meet the customer's requirements and the relevant requirements of laws and regulations.

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.

In connection with Act No. 418/2011 Coll, on corporate criminal liability and proceedings against legal persons, the Compliance Programme is introduced in KORADO Group. Its aim is to prevent the commission of crime and to protect the Company's assets.

The corporate culture of the KORADO Group companies corresponds to a modernly managed company that perceives the needs of customers. It projects them into products and services and considers them as the source of their development as well as the basis for achieving corporate goals.

Ecology and Environmental Protection

Based on the request of the ČIŽP Ol Hradec Králové, in addition to the standard measurement of the source of air pollution - thermal combustion, an extended assessment of the efficiency of the facility was carried out. This was a parallel measurement of emissions at the inlet and outlet of equipment that limits the emission of organic substances from technological processes. All measured values meet the emission limits set by the integrated permit.

In the field of waste management, the quality of discharged technological water and rainwater was monitored in regular periods. The results of individual measurements are continuously evaluated and also meet mandatory emission limits. Thanks to the austerity measures implemented, the consumption of drinking water and the total waste water production decreased significantly.

The chemical substances and mixtures management is regulated by a new version of the written rules on safety, health and environmental protection of hazardous chemical substances and chemical mixtures. Employees handling such substances have been demonstrably familiarized with information on hazardous properties of substances and mixtures, safety, health and environmental protection guidelines, first pre-medical advice and accident procedures during repeated trainings.



● 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:	<table> <tr> <td>Ministry of Finance, Czech Republic</td><td>34.22 %</td></tr> <tr> <td>European Bank for Reconstruction & Development</td><td>29.14 %</td></tr> <tr> <td>KORADO, a.s. (own shares)</td><td>9.16 %</td></tr> <tr> <td>František Menclík</td><td>9.16 %</td></tr> <tr> <td>Ludvík Petr</td><td>9.16 %</td></tr> <tr> <td>Miroslav Vobora</td><td>9.16 %</td></tr> </table>	Ministry of Finance, Czech Republic	34.22 %	European Bank for Reconstruction & Development	29.14 %	KORADO, a.s. (own shares)	9.16 %	František Menclík	9.16 %	Ludvík Petr	9.16 %	Miroslav Vobora	9.16 %
Ministry of Finance, Czech Republic	34.22 %												
European Bank for Reconstruction & Development	29.14 %												
KORADO, a.s. (own shares)	9.16 %												
František Menclík	9.16 %												
Ludvík Petr	9.16 %												
Miroslav Vobora	9.16 %												

Fields of Business:	<ul style="list-style-type: none"> - 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
----------------------------	--

Joint-stock company 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 and KINGRAD steel panel radiators, KORALUX tubular radiators and KORATHERM design radiators. The Company is constantly expanding its production program not only with new models of radiators, but also completely new technology and products. 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.

On 10 January 2017, a transaction, which involved the transfer of all 220 shares owned by Bedřich Brabec, with a nominal value of CZK 350,000 per share (9.16% of the subscribed capital) directly to KORADO, a.s. has been finalized. The reason for this transaction was to simplify the shareholder structure and decision-making processes of the Company. The purchase price of the acquired shares amounted to a total of CZK 115 million. During the period that those shares are owned by the Company itself, no voting rights or entitlement to dividend are attached to them.

Subsequent events

In January 2018, the subsidiary KORADO Polska paid part of the loan of PLN 150 thousand.

No other events occurred after the balance sheet date that would have a material impact on the financial statements as at 31 December 2017.

● 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 2017 the Supervisory Board had five members. The Supervisory Board usually meets once every two months. In 2017, a total of eight meetings of the Supervisory Board were held. During 2017 there were changes in the composition of the Supervisory Board. In view of the fact that the term of office of Ludmila Filipovová, the member of the Supervisory Board, had expired the General Meeting elected on 20 April 2017 Leona Vaňková as a member of the Supervisory Board of KORADO, a.s. pursuant to the results of the election of possible members of the Supervisory Board among the employees. The General Meeting of KORADO, a.s., on 20 April 2017, at the request of a representative of the Ministry of Finance, dismissed from the function of the Supervisory Board member Petr Blažek, proposed by the Ministry of Finance of the Czech Republic.

Composition of the Supervisory Board as of 31 December 2017:

Chairman: Ludvík Petr
Deputy Chairman: Dipl. Ing. Dr. Ernst Bachner
Member: Ing. Hana Vaňousová
Member: Ing. Leona Vaňková
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.

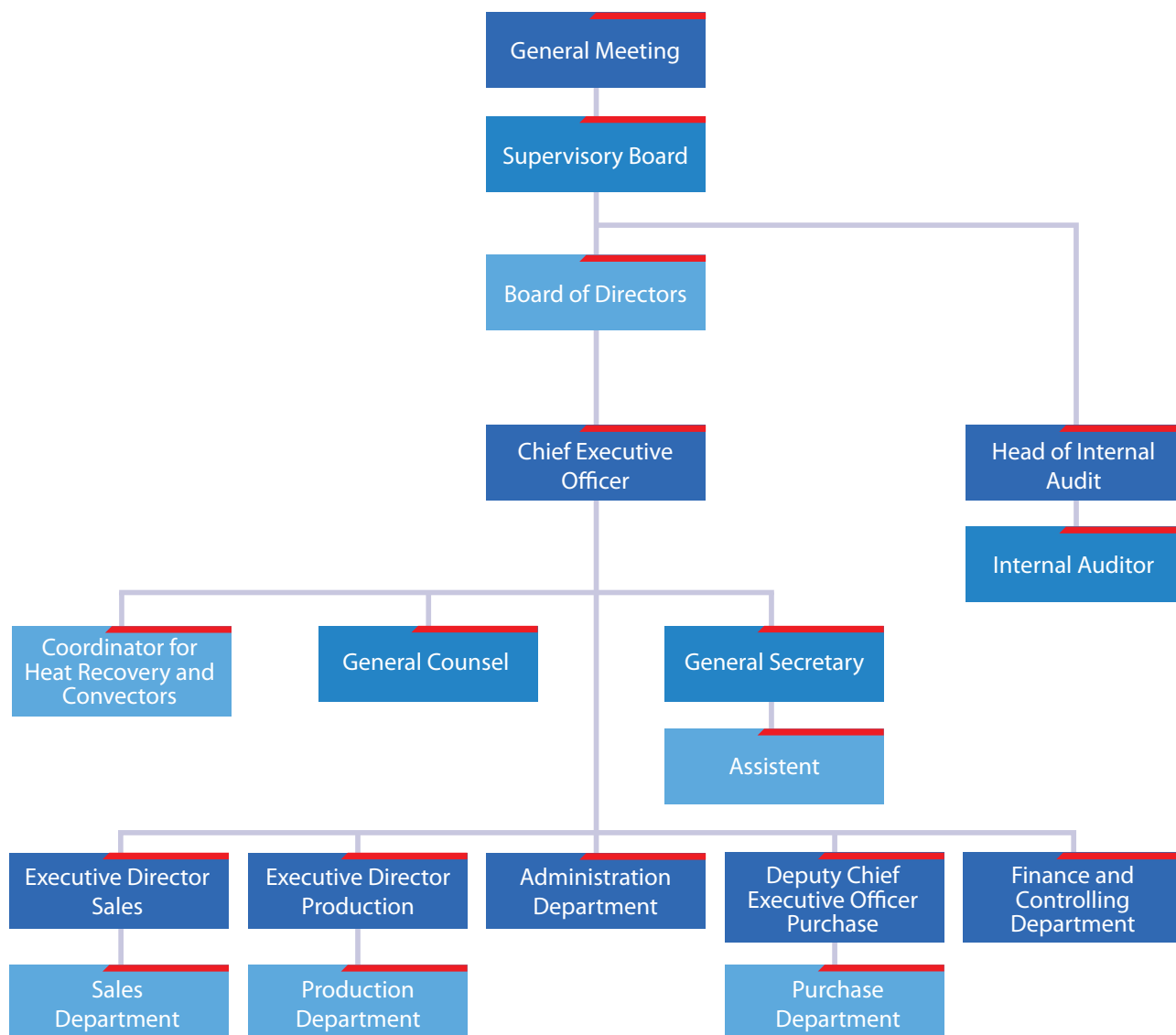
Composition of the Board of Directors as at 31 December 2017:

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.

● ORGANISATIONAL PLAN



As at 31 December 2017, 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. 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 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. 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.



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. Zlín 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.



Martin Kniha (* 1972)

CEO LICON HEAT s.r.o.

In 2013, he was appointed Managing Director of the subsidiary LICON HEAT s.r.o. From 2004 to 2013 he was a partner 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.

● 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).
- 2005** Significant debt reduction to less than CZK 1 billion.
- 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.
- 2017** On 10 January 2017, a transaction, which involved the transfer of all 220 shares owned by Bedřich Brabec (9.16% of the subscribed capital) directly to KORADO, a.s has been finalized.
The share price of KORADO Bulgaria reached the value of BGN 6.852 per share at the end of the year, i.e. an increase of BGN 3.319 per share by the beginning of the year. The market capitalization reached CZK 1,182 million, against 1 January 2017 plus CZK 775 million. There was also a massive reduction in debt (bank loans were reduced by CZK 109 million), when the Group bought its own shares in the amount of CZK 115 million, paid dividends in the amount of CZK 46 million, paid an investment of CZK 98 million, and interest on loans of CZK 6 million.

● REPORT OF THE SUPERVISORY BOARD

During the year 2017, there was a total of eight 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 to 19 April 2017:

- 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 BLÁŽEK - Member of the Supervisory Board
- Ing. Jaromír HEJDA - Member of the Supervisory Board

In 2017 there were the following changes in the Supervisory Board membership. Due to the fact that the term of Ludmila Filipová terminated and based on the results of elections of a Supervisory Board member by company employees, the General Meeting of 20 April 2017 elected Leona Vaňková a new member of the Supervisory Board of KORADO, a.s. The General Meeting of 20 April 2017 removed Petr Blážek from his position of a Supervisory Board member nominated by the Ministry of Finance of the Czech Republic based on a request of the Ministry of Finance representative.

The Supervisory Board of KORADO, a.s. had the following members from 20 April to 31 December 2017:

- 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
- Ing. Jaromír HEJDA - Member of the Supervisory Board
- Ing. Leona VAŇKOVÁ - Member of the Supervisory Board

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 2017 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 2017 and periodically discussed the reports on the Internal Audit activities.

The Supervisory Board was regularly informed about the results of interim financial statements that were worked out as a basis for dividends advance payments. The Supervisory Board was presented with regular annual reports presented by the Directors of Purchase, Sales and Production Departments in which they presented to the Supervisory Board members the achieved results,

important analyses and company projects, they defined future plans and strategies leading to cutting costs and increasing the profitability of the KORADO Group.

The Supervisory Board was receiving the regular reports on the course and state of trading with KORADO Bulgaria shares including the information on entering the premium stock exchange market. The Supervisory Board approved on 3 February 2017 the Financial Plan for 2017 including the Marketing Plan for 2017-2019 and Development Strategy of LICON HEAT, s.r.o. On 25 May 2017 the Supervisory Board meeting was held in its subsidiary LICON HEAT, s.r.o. During this meeting its director presented the company activities, innovations related to product portfolio and production base development.

The Supervisory Board on 16 June 2017 approved based on the submitted proposal of the Board of Directors an increase of the registered capital of KORADO Bulgaria A.D. with the share premium.

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 135th meeting held on April 3, 2018, 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 standalone 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, 2017, presented by the Board of Directors. The supplements to the standalone financial statements and the consolidated financial statements for 2017 are included in the full version in the Annual Report of KORADO, a.s., for 2017. 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, 2017.

- The Supervisory Board revised the proposal of the Board of Directors and recommends the General Meeting to use the accounting profit for 2017 of 8,038,169.47 CZK for the payment of profit shares.

- The Supervisory Board recommends the General Meeting to approve payment of profit shares of 20,815 CZK/share; i.e., a total of 49,997,630 CZK.
- The Supervisory Board recommends the General Meeting to use the amount of 41,959,460.53 CZK from the retained earnings account. The first advance on the payment of the profit share was paid in 10/2017 in the amount of 9,999,526 CZK, the second advance was paid in 1/2018 in the amount of 9,999,526 CZK, the third advance is to be paid in 4/2018 in the amount of 9,999,526 CZK and a supplementary payment of the profit share will be in the amount of 19,999,052 CZK.
- The Supervisory Board points out that, in accordance with § 309, paragraph 2, of the Business Corporations Act, a dividend (profit share) cannot be paid on the company's own shares in the company's assets. In the event of approval of the profit distribution by General Meeting, the unpaid share of the profit on company owned shares of 4,579,300 CZK will be automatically transferred to retained earnings at the due date.

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 2017 and as it was presented by the Board of Directors.

In Česká Třebová on April 3, 2018



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 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 2017, the consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated cash flows for the year then ended and notes to the consolidated financial statements, which include 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 2017, 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 financial position of the Company as at 31 December 2017, of its 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 2017, 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 Company in accordance with the Act on Auditors and Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and 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.

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

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

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:

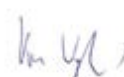
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting 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 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 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 and 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 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.

3 April 2018

PricewaterhouseCoopers Audit, s.r.o.
represented by partner



Ing. Věra Výtvarová
Statutory Auditor, Evidence No. 1930



KORADO Group
INTERNATIONAL FINANCIAL REPORTING
STANDARDS
CONSOLIDATED FINANCIAL STATEMENTS
31 December 2017

● CONTENTS

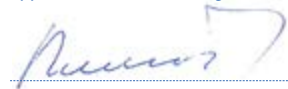
CONSOLIDATED FINANCIAL STATEMENTS		
	Consolidated Statement of Financial Position	35
	Consolidated Statement of Profit or Loss and Other Comprehensive Income	36
	Consolidated Statement of Changes in Equity	37
	Consolidated Statement of Cash Flows	38
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS		
1	KORADO Group and its Operations	39
2	Summary of Significant Accounting Policies	39
3	New Accounting Standards and Interpretations	44
4	New Accounting Pronouncements	44
5	Balances and Transactions with Related Parties	46
6	Property, Plant and Equipment	47
7	Intangible Assets	48
8	Inventories	48
9	Receivables	49
10	Prepayments and other current assets	49
11	Cash and Cash Equivalents	49
12	Share Capital	49
13	Borrowings	50
14	Trade and other payables	51
15	Revenues from Sales of Products and Goods	51
16	Cost of Materials, Energy and Purchased Goods	51
17	Purchased services and rental expenses	51
18	Other operating income	52
19	Other Expenses	52
20	Taxes	52
21	Contingencies and Commitments	53
22	Non-Controlling Interest	53
23	Financial Risk Management	54
24	Management of Capital	56
25	Fair Value Disclosures	56
26	Events After the Reporting Period	57

KORADO GROUP

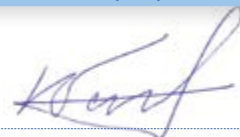
CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2017

(In thousands of CZK)	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment, net	6	1,506,645	1,536,638
Intangible assets, net	7	40,043	40,134
Other non-current assets		4,934	4,961
Deferred tax asset	20	525	617
Total non-current assets		1,552,147	1,582,350
Current assets			
Inventories, net	8	279,480	238,715
Receivables, net	9	84,524	134,510
Prepayments and other current assets	10	13,830	27,102
Cash and cash equivalents	11	60,384	202,405
Total current assets		438,218	602,732
Total assets		1,990,365	2,185,082
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	12	840,700	840,700
Own shares	12	(116,479)	0
Statutory fund	12	116,479	0
Retained earnings and funds	12	423,947	572,719
Translation reserve		(45,641)	(33,042)
Total shareholders' equity attributable to equity holders of the parent		1,219,006	1,380,377
Non-controlling interest		42,671	35,033
Total shareholders' equity		1,261,677	1,415,410
Non-current liabilities			
Long-term borrowings and other long-term debts	13	136,754	238,035
Deferred tax liabilities	20	87,411	82,334
Total non-current liabilities		224,165	320,369
Current liabilities			
Short-term borrowings and current portion of long-term debt	13	113,027	114,309
Trade and other payables	14	384,692	329,248
Provisions		6,804	5,746
Total current liabilities		504,523	449,303
Total equity and liabilities		1,990,365	2,185,082

Approved for issue and signed on 3 April 2018.



František Menclík
Board of Directors Chairman



Vojtěch Čápek
Chief Executive Officer

The accompanying notes on pages 39 to 57 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 2017

(In thousands of CZK)	Note	2017	2016
Revenues from sales of products and goods, net	15	1,949,174	1,874,930
Other operating income	18	17,281	20,491
Cost of materials, energy and purchased goods	16	(1,165,576)	(1,061,172)
Depreciation and amortization	6,7	(121,803)	(121,393)
Wages and salaries	5	(387,053)	(366,709)
Purchased services	17	(225,700)	(225,246)
Other expenses	19	(29,825)	(28,833)
Interest expense, net of capitalized interest		(6,571)	(5,392)
Interest income		43	69
Foreign exchange losses, net		9,447	(3,063)
Other financial expenses, net		(1,428)	(803)
Profit before taxation		37,989	82,879
Income taxes	20	(13,385)	(12,983)
Profit after taxation		24,604	69,896
Other comprehensive income			
Items that may be reclassified subsequently to statement of income:			
Currency translation differences		(14,968)	1,408
Items not to be reclassified subsequently to statement of income:			
Re-measurement losses on defined benefit plans		(677)	(429)
Total other comprehensive income		(15,645)	979
Total comprehensive income		8,959	70,875
Profit after income taxes attributable to:			
Equity holders of the parent company		14,104	64,062
Non-controlling interest	22	10,500	5,834
		24,604	69,896
Total comprehensive income attributable to:			
Equity holders of the parent company		939	65,116
Non-controlling interest	22	8,020	5,759
		8,959	70,875

The accompanying notes on pages 39 to 57 are an integral part of these consolidated financial statements.

● KORADO GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

(In thousands of CZK)	Share Capital	Own shares	Translation Reserve	Statutory fund	Retained Earnings and Funds	Total Equity Attributable to Equity Holders of the Parent	Non-controlling Interest	Total Shareholders' Equity
Balance as at 31 December 2015	840,700	0	(34,463)	0	543,884	1,350,121	32,157	1,382,278
Profit after taxation	0	0	0	0	64,062	64,062	5,834	69,896
Other comprehensive income	0	0	1,421	0	(367)	1,054	(75)	979
Total comprehensive income	0	0	1,421	0	63,695	65,116	5,759	70,875
Dividends	0	0	0	0	(25,000)	(25,000)	(3,131)	(28,131)
Interim dividends	0	0	0	0	(10,000)	(10,000)	0	(10,000)
Disposal of non-controlling interest	0	0	0	0	140	140	248	388
Balance as at 31 December 2016	840,700	0	(33,042)	0	572,719	1,380,377	35,033	1,415,410
Profit after taxation	0	0	0	0	14,104	14,104	10,500	24,604
Other comprehensive income	0	0	(12,599)	0	(566)	(13,165)	(2,480)	(15,645)
Total comprehensive income	0	0	(12,599)	0	13,538	939	8,020	8,959
Dividends	0	0	0	0	(36,334)	(36,334)	(4,821)	(41,155)
Interim dividends	0	0	0	0	(18,167)	(18,167)	0	(18,167)
Purchase of own shares	0	(116,479)	0	0	0	(116,479)	0	(116,479)
Creation of statutory fund	0	0	0	116,479	(116,479)	0	0	0
Sale of the subsidiary's shares	0	0	0	0	8,604	8,604	0	8,604
Disposal of non-controlling interest	0	0	0	0	66	66	4,439	4,505
Balance as at 31 December 2017	840,700	(116,479)	(45,641)	116,479	423,947	1,219,006	42,671	1,261,677

The accompanying notes on pages 39 to 57 are an integral part of these consolidated financial statements.

● KORADO GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

(In thousands of CZK)	Note	2017	2016
OPERATING ACTIVITIES			
Profit before taxation		37,989	82,879
Adjustments for:			
Depreciation and amortization	6, 7	121,803	121,393
Receivables and loans write-off	19	0	786
Financial expenses, net		6,528	5,324
Changes in provisions, net	19	4,394	12,942
Foreign exchange losses, net		(588)	3,063
Gain on sale of property, plant and equipment		(578)	(432)
Other non-cash movements		(502)	0
Changes in assets and liabilities:			
Inventories	8	(45,115)	(25,656)
Receivables and other current assets	9	63,003	(23,815)
Payables and other current liabilities	14	40,538	(64,990)
Income taxes (paid)	20	(8,216)	(3,634)
Net cash from operating activities		219,256	107,860
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	6, 7	(98,148)	(76,167)
Proceeds from sale of property, plant and equipment		424	64
Interest received		43	69
Net cash from investing activities		(97,681)	(76,034)
FINANCING ACTIVITIES			
Loan drawings	13	9,827	155,129
Repayments of debt	13	(112,317)	(87,395)
Change in lease obligation and other long-term payables		(74)	277
Dividends paid	12	(50,239)	(38,131)
Purchase of own shares	12	(116,479)	0
Interest paid, net of capitalized interest		(6,570)	(5,392)
Sale of the subsidiary's shares		8,604	0
Net cash from financing activities		(267,248)	24,488
Net increase in cash		(145,673)	56,314
Cash and cash equivalents at beginning of year		202,405	146,533
Effect of exchange rate changes on cash and cash equivalents		3,652	(441)
Cash and cash equivalents at end of year		60,384	202,405

The accompanying notes on pages 39 to 57 are an integral part of these consolidated financial statements.

KORADO GROUP

Notes to the Consolidated Financial Statements – 31 December 2017

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 2017 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 stated otherwise.

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

	2017 % of voting and equity share	2016 % of voting and equity share	Country of incorporation	Activity
KORADO Deutschland GmbH	100	100	Germany	Distribution of radiators
KORADO Polska, Sp. z o.o.	100	100	Poland	Distribution of radiators
KORADO Austria, GmbH.	100	100	Austria	Distribution of radiators
KORADO UK	100	100	Great Britain	Distribution of radiators
KORADO Bulgaria, AD	83.67	85.58	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.

The accompanying notes on pages 39 to 57 are an integral part of these consolidated financial statements.

● KORADO GROUP

Notes to the Consolidated Financial Statements – 31 December 2017

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.

Goodwill arising on the inclusion of KORADO Bulgaria AD in the consolidation of KORADO Group as of 1 January 2004 was measured at the date of transition to IFRS according to measures of IFRS 21 at so-called deemed cost being the difference between the cost in the Company's separate financial statements of its investment in KORADO Bulgaria AD and the Company's interest in the carrying amounts of assets and liabilities. Following initial recognition, goodwill is tested for impairment.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

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

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions (i.e. transactions with owners in their capacity as owners).

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:

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

The accompanying notes on pages 39 to 57 are an integral part of these consolidated financial statements.

financial year end in respect of new knowledge of actual assets conditions and related investment plan in future years.

Deferred income taxes

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

The Parent Company included in its calculation of deferred tax a tax credit from investment incentive (see Note 20) in amount of CZK 32,134 thousand as at 31 December 2017 (as at 31 December 2016: CZK 42,020 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 12,643 thousand as at 31 December 2017.

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 accompanying notes on pages 39 to 57 are an integral part of these consolidated financial statements.

● KORADO GROUP

Notes to the Consolidated Financial Statements – 31 December 2017

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 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.

Long-term 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.

Long-term 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 on bank accounts. 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

The accompanying notes on pages 39 to 57 are an integral part of these consolidated financial statements.

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 2017 and 2016, respectively, after adjustments for certain items which are not deductible for taxation purposes. The Czech corporate income tax rate for 2018 will be 19%.

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

Deferred tax assets and liabilities are recognized regardless of when the timing difference is likely to reverse. Deferred tax assets and liabilities are not discounted and are classified as non-current assets (liabilities) in the consolidated 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 recognised 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.

The accompanying notes on pages 39 to 57 are an integral part of these consolidated financial statements.

● KORADO GROUP

Notes to the Consolidated Financial Statements – 31 December 2017

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 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.

Contingent liabilities and assets

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 after reporting date

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

3. New accounting standards and interpretations

The following amended standards became effective for the Group from 1 January 2017, but did not have any material impact on the Group.

- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

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 2018 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 and those to be measured subsequently at fair value through profit or loss.
- 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. If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the solely payments of principal and interest requirement. Debt instruments that meet the solely payments of principal and interest requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as fair value through other comprehensive income. Financial assets that do not contain cash flows that are solely payments of principal and interest must be measured at fair value through profit or loss (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the solely payments of principal and interest condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable

The accompanying notes on pages 39 to 57 are an integral part of these consolidated financial statements.

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.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses 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 expected credit losses on initial recognition of financial assets that are not credit impaired (or lifetime expected credit losses for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime expected credit losses rather than 12-month expected credit losses. 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 has assessed the impact of changes from IFRS 9 on its financial statements as insignificant.

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.

In accordance with the transition provisions in IFRS 15 the Group has elected modified retrospective method with the effect of transition to be recognised as at 1 January 2018 in the consolidated financial statements for the year-ending 31 December 2018 which will be the first year when the Group will apply IFRS 15.

The Group plans to apply the practical expedient available for modified retrospective method. The Group applies IFRS 15 retrospectively only to contracts that are not completed at the date of initial application (1 January 2018). Based on the analysis of the Group's revenue streams for the year ended 31 December 2017, individual contracts' terms and on the basis of the facts and circumstances that exist at that date, in view of modified retrospective method application, the management of the Group is expecting an insignificant impact on its consolidated financial statements from the adoption of the new standard on 1 January 2018.

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.

IFRIC 22 „Foreign currency transactions and advance consideration“ (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

The accompanying notes on pages 39 to 57 are an integral part of these consolidated financial statements.

● KORADO GROUP

Notes to the Consolidated Financial Statements – 31 December 2017

IFRIC 23 „Uncertainty over Income Tax Treatments“ (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).

IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group is currently assessing the impact of the interpretation on its consolidated 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).
- 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).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- 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 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 Notes 10, 14, and 20.

In 2017 and 2016 short-term employee benefits (salaries and bonuses including social and health insurance) related to management personnel of Group companies (36 and 35 people in total, respectively) amounted to CZK 90,946 thousand and CZK 88,067 thousand, respectively.

In 2017 and 2016 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.

The accompanying notes on pages 39 to 57 are an integral part of these consolidated financial statements.

● KORADO GROUP

Notes to the Consolidated Financial Statements – 31 December 2017

6. Property, Plant and Equipment

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

(In thousands of CZK)	Land	Buildings	Plant and equipment	Other	Construction in progress	Total
Cost at 1 January 2016	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 1 January 2017	28,775	948,007	529,455	12,482	17,919	1,536,638
Additions	2,181	2,934	69,360	1,231	22,138	97,844
Disposals	(6)	0	(261)	(1)	0	(268)
Depreciation charge	0	(37,647)	(75,991)	(2,470)	0	(116,108)
Transfers	0	6,098	22,615	0	(28,713)	0
Effect of translation to presentation currency	(182)	(1,271)	(9,711)	(5)	(291)	(11,459)
Carrying amount at 31 December 2017	30,768	918,121	535,467	11,238	11,052	1,506,646
Cost at 31 December 2017	30,768	1,749,646	3,055,284	79,639	11,056	4,926,394
Accumulated depreciation	0	(831,525)	(2,519,818)	(68,402)	(4)	(3,419,749)
Carrying amount at 31 December 2017	30,768	918,121	535,467	11,238	11,052	1,506,645

Included in plant and equipment are assets held under finance leases with a carrying value of CZK 1,333 thousand (2016: CZK 1,838 thousand). See Note 13.

At 31 December 2017 buildings and lands carried at CZK 652,907 thousand (2016: CZK 673,910 thousand) have been pledged to third parties as collateral for borrowings. See Note 21.

The accompanying notes on pages 39 to 57 are an integral part of these consolidated financial statements.

KORADO GROUP

Notes to the Consolidated Financial Statements – 31 December 2017

7. Intangible Assets

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

(In thousands of CZK)	Software	Trademark	Customer contracts	Intangible fixed assets in the course of construction	Goodwill	Total
Cost at 1 January 2016	190,954	4,218	2,716	9,802	13,380	221,070
Accumulated depreciation	(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 1 January 2017	7,159	1,901	1,244	16,454	13,376	40,134
Additions	475	0	0	5,872	0	6,347
Depreciation charge	(4,530)	(713)	(453)	0	0	(5,695)
Transfers	19,011	0	0	(19,011)	0	0
Effect of translation to presentation currency	(10)	0	0	0	(733)	(743)
Carrying amount at 31 December 2017	22,105	1,188	792	3,315	12,643	40,043
Cost at 31 December 2017	212,917	4,218	2,716	3,315	12,643	235,809
Accumulated amortisation	(190,812)	(3,030)	(1,924)	0	0	(195,766)
Carrying amount at 31 December 2017	22,105	1,188	792	3,315	12,643	40,043

8. Inventories

In thousands of CZK	2017	2016
Raw materials	211,620	171,556
Work in progress	11,123	9,501
Finished products	56,736	57,658
Total inventories	279,480	238,715

Excess, obsolete and slow-moving inventory at gross amount of CZK 10,670 thousand and CZK 2,128 thousand has been reduced through the impairment provision account of CZK 5,830 thousand and CZK 1,481 thousand as at 31 December 2017 and 2016, respectively. The impairment provision is determined by management based on the aging analysis of inventory and the estimated realizable value.

Inventories of CZK 192,085 thousand (2016: CZK 151,759 thousand) have been pledged as collateral for borrowings. See Note 21.

The accompanying notes on pages 39 to 57 are an integral part of these consolidated financial statements.

KORADO GROUP

Notes to the Consolidated Financial Statements – 31 December 2017

9. Receivables

In thousands of CZK	2017	2016
Trade receivables	93,082	142,681
Advances paid	4,222	26,299
Other	237	113
Less impairment provision	(13,015)	(34,583)
Total trade and other receivables	84,524	134,510

Movements in the provision for trade receivables are as follows:

In thousands of CZK	2017 Trade receivables	2016 Trade receivables
Provision for impairment at 1 January	34,583	20,980
Additions	4,396	17,600
Amounts written off during the year as uncollectible	(20,554)	0
Reversals	(5,409)	(3,997)
Provision for impairment at 31 December	13,015	34,583

Trade receivables of CZK 77,548 thousand (2016: CZK 106,856 thousand) net of impairment loss provisions are denominated in foreign currency, mainly 79% in Euro (2016: 77%).

Analysis by credit quality of trade receivables is as follows:

In thousands of CZK	2017 Trade receivables	2016 Trade receivables
Total neither past due nor impaired	75,793	93,901
Past due but not impaired		
- less than 90 days overdue	4,218	14,197
- 91 to 180 days overdue	56	0
- 181 to 360 days overdue	0	0
- over 360 days overdue	0	0
Total	80,067	108,098

10. Prepayments and other current assets

In thousands of CZK	2017	2016
VAT receivables	8,420	17,007
Prepayments and other	5,410	10,095
Total Prepayments and other current assets	13,830	27,102

11. Cash and Cash Equivalents

In thousands of CZK	2017	2016
Bank balances payable on demand	59,875	201,720
Cash on hand	509	685
Total cash and cash equivalents	60,384	202,405

The credit quality of bank balances may be summarised as follows at 31 December 2017:

In thousands of CZK	2017 Bank balances payable on demand	2016 Bank balances payable on demand
Neither past due nor impaired		
- A	25,544	155,855
- B	34,331	45,865
Total	59,875	201,720

12. Share Capital

The nominal registered amount of the Company's issued share capital is CZK 840,700 thousand (2016: CZK 840,700 thousand). The total authorised number of ordinary shares 2,402 shares (2016: 2,402 shares) with a par value of CZK 350 thousand per share (2016: CZK 350 thousand per share). All issued ordinary shares are fully paid. Each ordinary share carries equal voting rights (it is currently not possible to perform voting rights to the 220 units of shares that are held by the company).

The shareholders:

(in %)	31 December 2017	31 December 2016
Menclík František	9.16	9.16
Petr Ludvík	9.16	9.16
Vobora Miroslav	9.16	9.16
Brabec Bedřich Ing.	0	9.16
KORADO, a.s.	9.16	0
European Bank for Reconstruction & Development	29.14	29.14
Ministry of Finance, Czech Republic	34.22	34.22
Total	100.00	100.00

In thousands of CZK	2017	2016
Dividends per share declared during the year	19	16

The accompanying notes on pages 39 to 57 are an integral part of these consolidated financial statements.

KORADO GROUP

Notes to the Consolidated Financial Statements – 31 December 2017

In January 2017 the purchase of own shares in the amount of 220 pcs was realized for the price of CZK 115 million. The Company holds shares for resale. As a result of the purchase of own shares Company created a statutory fund of CZK 116,479 thousand, which includes the value of own shares in the amount of CZK 115 million and other acquisition costs of CZK 1,479 thousand.

The general meeting of shareholders decided about the payment of profit share of CZK 49,998 thousand, of which part attributable to own shares in amount of CZK 3,664 thousand was transferred to retained earnings. The profit share paid to non-controlling interest amounted to CZK 4,821 thousand.

On 22 September 2017 the Statutory Representatives decided on the interim dividend payment of CZK 10,000 thousand. On 18 December 2017 the Statutory Representatives decided on the interim dividend payment of CZK 10,000 thousand. Part of the interim dividend payment of the profit attributable to its own shares amounted to CZK 1,833 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.

13. Borrowings

In thousands of CZK	2017	2016
Term loans	241,903	339,098
Promissory notes issued	0	5,296
Finance lease liabilities	2,846	3,497
Other long term liabilities	5,032	4,453
Total borrowings	249,781	352,344

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 2017	1,619	1,227	-	2,847
Less future finance charges				(118)
Present value of minimum lease payments at 31 December 2017				2,729
Minimum lease payments at 31 December 2016	1,643	2,120	-	3,763
Less future finance charges				(266)
Present value of minimum lease payments at 31 December 2016				3,497

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.

The accompanying notes on pages 39 to 57 are an integral part of these consolidated financial statements.

In thousands of CZK	2017	2016
Current		
Term loans	111,411	107,506
Promissory notes issued	-	5,296
Finance lease liabilities	1,616	1,507
Total current borrowings	113,027	114,309

In thousands of CZK	2017	2016
Non-current		
Term loans	130,492	231,592
Finance lease liabilities	1,230	1,990
Other long term liabilities	5,032	4,453
Total non-current borrowings	136,754	238,035
Total borrowings	249,781	352,344

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

In thousands of CZK	2017	2016
Borrowings denominated in:		
CZK	200,754	300,819
EUR	43,997	47,072
BGN	5,031	4,453
Total borrowings	249,781	352,344

Property, plant and equipment, inventories and receivables are pledged as collateral for borrowings of CZK 911,463 thousand (2016: CZK 909,454 thousand). See 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 2017 and 31 December 2016.

KORADO GROUP

Notes to the Consolidated Financial Statements – 31 December 2017

Net debt reconciliation

In thousands of CZK	2017	2016
Cash and cash equivalents	60,384	202,405
Long-term borrowings and other long-term debts	(113,027)	(238,035)
Short-term borrowings and current portion of long-term debt	(136,754)	(114,309)
Total net debt	(189,397)	(149,939)

The table below sets out an analysis of net debt and the movements in the Group's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are:

In thousands of CZK	Assets from financing activities	Liabilities from financing activities		Total
	Cash and cash equivalents	Borrowings	Other liabilities from financing activities	
Net debt 1 January 2017	202,405	(344,394)	(7,950)	(149,939)
Cash Flows	(145,673)	102,490	74	(43,109)
Foreign exchange adjustments	3,652	1	(2)	3,651
Net debt 31 December 2017	60,384	(241,903)	(7,878)	(189,397)

14. Trade and other payables

In thousands of CZK	2017	2016
Trade payables	313,484	274,856
Payables to employees	38,382	38,097
Tax payables	8,846	6,499
Accrued liabilities and other creditors	23,980	9,796
Trade and other payables	384,692	329,248

Trade payables of CZK 155,643 thousand (2016: CZK 133,729 thousand) are denominated in foreign currency, mainly 97% in Euro (2016: 95%).

15. Revenues from sales of products and goods

In thousands of CZK	2017	2016
Sales of radiators	1,901,464	1,831,759
Other	47,710	43,171
Total revenue	1,949,174	1,874,930

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	2017	2016
Materials and supplies	1,094,452	959,133
Energy	40,628	45,524
Purchased goods	30,497	56,515
Total	1,165,576	1,061,172

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

17. Purchased services and rental expenses

In thousands of CZK	2017	2016
Repairs and maintenance	10,222	10,031
Rent	20,100	19,790
Traveling and training expenses	12,954	12,616
Marketing	54,775	55,664
Transportation expenses	40,702	45,849
Legal and advisory services (incl. 2017: CZK 1,853 ths, 2016: CZK 1,851 ths for audit services)	12,471	8,747
Operational services (Cooperation, IT services)	52,957	47,592
Other	21,517	24,957
Total	225,700	225,246

The accompanying notes on pages 39 to 57 are an integral part of these consolidated financial statements.

KORADO GROUP

Notes to the Consolidated Financial Statements – 31 December 2017

18. Other operating income

In thousands of CZK	2017	2016
Income from write off of receivables and insured receivables	176	14,698
Gain on sale of fixed assets	424	64
Income from sale of scrap	6,336	5,729
Other	10,345	0
Total	17,281	20,491

19. Other Expenses

In thousands of CZK	2017	2016
Receivables and loans written off	0	786
Change in impairment provisions and provisions, net	4,394	12,942
Taxes and levies	1,676	1,839
Insurance	8,404	7,813
Other	15,351	5,453
Total	29,825	28,833

20. Taxes

a) Components of income tax expense

Income tax expense comprises the following:

In thousands of CZK	2017	2016
Current tax	8,217	6,398
Deferred tax	5,169	6,585
Income tax expense for the year	13,385	12,983

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 2017 and 2016 income is 19%. The income tax rate applicable to the majority of income of subsidiaries ranges from 10% to 19% (2016: from 10% to 19%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of CZK	2017	2016
Profit before tax	37,989	82,879
Statutory income tax rate	19%	19%
"Expected" income tax, expense	7,218	15,747
Add / (deduct), tax effect of:		
Non-deductible expenses	2,088	2,446
Change in valuation allowance	(383)	(326)
Change in deferred tax asset from tax credit	9,729	(446)
Different tax rate in other countries	(6,410)	(4,267)
Other	1,143	172
Actual income tax expense	13,385	12,983
Effective tax rate	35%	16%

c) Tax loss carry forwards

The Group has unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of CZK 6,616 thousand (2016: CZK 6,999 thousand).

Deferred income taxes at 31 December 2017 and 2016 consist of the following:

In thousands of CZK	2017	2016
Receivables impairment provision	589	178
Inventory impairment provision	1,108	281
Provisions	1,461	1,315
Accumulated losses carried forward	6,143	347
Elimination of intra-group profit from inventories	243	126
Tax credit from investment incentive	32,134	42,020
Other	1,477	2,175
Total deferred tax assets	43,155	46,442
Total deferred tax asset in Statement of Financial Position	525	617
Total deferred tax asset for offset with liability	42,630	45,825
Difference between net book value of non-current assets for accounting and tax purposes	(130,041)	(128,159)
Total deferred tax liabilities	(130,041)	(128,159)
Offset with deferred tax assets	42,630	45,825
Deferred tax liabilities in the Statement of Financial Position	(87,411)	(82,334)

The accompanying notes on pages 39 to 57 are an integral part of these consolidated financial statements.

KORADO GROUP

Notes to the Consolidated Financial Statements – 31 December 2017

Movements in deferred tax liability, net were as follows:

In thousands of CZK	2017	2016
As at 1 January	81,717	75,132
Change in deferred tax recorded in statement of income	5,169	6,585
As at 31 December	86,886	81,717

Out of the total tax losses of subsidiary generated since 1999, CZK 26,462 thousand and CZK 27,995 thousand can be carried forward as of 31 December 2017 and 2016, respectively. In 2017 and 2016 the Company did not account for deferred tax asset arising from tax losses of subsidiary as it is not probable the losses will be utilized. The tax losses from the Parent Company and subsidiary LICON Heat were reflected in deferred tax asset in full as 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 parent 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 2017 and 2016 and this balance can be drawn as a tax credit until 2019.

The Company recorded deferred tax asset of CZK 32,134 thousand as at 31 December 2017 (as at 31 December 2016: CZK 42,020 thousand). The remaining part of deferred tax asset of CZK 143,866 thousand as at 31 December 2017 (as at 31 December 2016: CZK 133,980 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 2017 and 2016.

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	2017	2016
Not later than 1 year	17,350	17,378
Later than 1 year and not later than 5 years	10,237	25,271
Total operating lease commitments	27,587	42,649

Assets pledged and restricted.

At 31 December 2017 the Group has the following assets pledged as collateral:

In thousands of CZK	Note	2017 Asset pledged	2016 Asset pledged
Property	6	11,638	11,638
Plant and equipment	6	641,269	662,272
Receivables	9	66,472	83,785
Inventories	8	192,085	151,759
Total		911,463	909,454

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.

During the year 2017, the Group disposed 169,415 shares of Korado Bulgaria increasing the share of NCI to 16.33%.

The accompanying notes on pages 39 to 57 are an integral part of these consolidated financial statements.

KORADO GROUP

Notes to the Consolidated Financial Statements – 31 December 2017

The following table shows summarized financial information of KORADO Bulgaria AD for the year ended 31 December 2017 and 2016:

In thousands of CZK	2017	2016
Ownership share of non-controlling interest at 31 December	16.33 %	14.42 %
Non-current assets	199,845	209,721
Current assets	148,893	142,845
Non-current liabilities	(6,260)	(6,443)
Current liabilities	(81,124)	(103,173)
Equity	261,354	242,950
Attributable to:		
Equity holders of parent	218,682	207,917
Non-controlling interests	42,671	35,033
Revenues	570,566	450,692
Profit after income taxes	64,311	40,455
Attributable to:		
Equity holders of parent	53,811	34,621
Non-controlling interest	10,500	5,834
Total comprehensive income	49,120	39,933
Attributable to:		
Equity holders of parent	41,100	34,175
Non-controlling interest	8,020	5,758

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.

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 2017 and 2016, the Group did not have any exchange rate hedges in place to mitigate the overall foreign currency exposure.

The accompanying notes on pages 39 to 57 are an integral part of these consolidated financial statements.

KORADO GROUP

Notes to the Consolidated Financial Statements – 31 December 2017

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):

	2017		2016	
	Increase/decrease, in, exchange, rate, *	Effect, on, profit, /, loss, before, tax	Increase/decrease, in, exchange, rate, *	Effect, on, profit, /, loss, before, tax
EUR	+5 %	(7,140)	+5 %	(2,953)
GBP	+5 %	2	+5 %	36
PLN	+5 %	662	+5 %	950
USD	+5 %	6	+5 %	207
EUR	(5 %)	7,140	(5 %)	2,953
GBP	(5 %)	(2)	(5 %)	(36)
PLN	(5 %)	(662)	(5 %)	(950)
USD	(5 %)	(6)	(5 %)	(207)

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

The changes in exchange rates BGN/CZK was not included in the table above due to its insignificance.

Interest rate risk.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates (See Note 11). The floating interest rate is mostly based on PRIBOR and EURLIBOR/EURIBOR rates and for the Československá obchodní banka, a.s. loans it amounted to 2.12% as at 31 December 2017 and 1.74% as at 31 December 2016, 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:

2017		2016	
Increase/decrease in basis points	Effect on profit / loss before tax	Increase/decrease in basis points	Effect on profit / loss before tax
50	(1,150)	50	(1,697)
(50)	1,150	(50)	1,697

The accompanying notes on pages 39 to 57 are an integral part of these consolidated financial statements.

KORADO GROUP

Notes to the Consolidated Financial Statements – 31 December 2017

Liquidity risk. The Group monitors its risk of shortage of funds by considering the maturity of both its financial assets and financial liabilities and expected 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 2017 and 2016 based on contractual undiscounted payments (nominal amount and interest) provided that the Group meets the loan agreement covenants:

31 December 2017	Less than 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Bank and other loans	29,930	88,875	130,032	0	248,837
Finance lease obligations	307	922	1,617	0	2,847
Trade payables	313,484	0	0	0	313,484
Total	343,721	89,797	131,649	0	565,167
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

24. Management of Capital

The Group's main objective in managing capital is to maintain an optimal level of capital ratios that will ensure the development of its business activities, the maximum value for shareholders and the fulfilment of terms and conditions of credit agreements with banks. 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 2017 was CZK 1,219,006 thousand (2016: CZK 1,380,377 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 39 to 57 are an integral part of these consolidated financial statements.

● KORADO GROUP

Notes to the Consolidated Financial Statements – 31 December 2017

Carrying amounts and the estimated fair values of financial instruments as at 31 December 2017 were as follows:

In thousands of CZK	Carrying amount	Fair value
Assets		
Other non-current assets	4,934	4,934
Accounts receivable, net	84,524	84,524
Cash and cash equivalents	60,384	60,384
Liabilities		
Payables and other current liabilities	313,484	313,484
Short-term borrowings and current portion of long-term debt	113,027	113,027
Long-term debt, net of current portion	136,754	136,754

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

26. Events After the Reporting Period

No events have occurred subsequent to year-end that would have a material impact on the financial statements as at 31 December 2017.

The accompanying notes on pages 39 to 57 are an integral part of these consolidated financial statements.



KORADO, a.s.
STANDALONE FINANCIAL STATEMENTS
31 December 2017

● KORADO, a.s.

Identification number: 25255843 | Legal form: Joint stock company | Primary business: Manufacturing of central heating radiators

Balance sheet date: 31 December 2017 | Date of preparation of the financial statements: 3 April 2018

BALANCE SHEET (in thousand Czech crowns)

Ref. a	ASSETS b	Row c	31. 12. 2017			31. 12. 2016
			Gross 1	Provision 2	Net 3	Net 4
	TOTAL ASSETS	001	5,385,055	(3,527,451)	1,857,604	2,033,397
B.	FIXED ASSETS	003	5,067,059	(3,510,036)	1,557,023	1,618,829
B. I.	Intangible fixed assets	004	213,578	(188,762)	24,816	23,248
B. I. 2.	Royalties	006	210,263	(188,762)	21,501	6,893
B. I. 2. 1.	Software	007	206,270	(185,802)	20,468	6,156
B. I. 2. 2.	Other royalties	008	3,993	(2,960)	1,033	737
B. I. 5.	Advances paid and intangible fixed assets in the course of construction	011	3,315	0	3,315	16,355
B. I. 5. 2.	Intangible fixed assets in the course of construction	013	3,315	0	3,315	16,355
B. II.	Tangible fixed assets	014	4,437,768	(3,166,106)	1,271,662	1,317,229
B. II. 1.	Land and constructions	015	1,712,840	(796,923)	915,917	949,895
B. II. 1. 1.	Land	016	25,455	0	25,455	25,462
B. II. 1. 2.	Constructions	017	1,687,385	(796,923)	890,462	924,433
B. II. 2.	Equipment	018	2,640,542	(2,302,180)	338,362	328,227
B. II. 4.	Other tangible fixed assets	020	79,791	(67,003)	12,788	13,973
B. II. 4. 3.	Tangible fixed assets - other	023	79,791	(67,003)	12,788	13,973
B. II. 5.	Advances paid and tangible fixed assets in the course of construction	024	4,595	0	4,595	25,134
B. II. 5. 1.	Advances paid for tangible fixed assets	025	0	0	0	17,518
B. II. 5. 2.	Tangible fixed assets in the course of construction	026	4,595	0	4,595	7,616
B. III.	Long-term investments	027	415,713	(155,168)	260,545	278,352
B. III. 1.	Investments - subsidiaries and controlling party	028	277,460	(107,382)	170,078	183,626
B. III. 2.	Loans and borrowings - subsidiaries and controlling party	029	138,253	(47,786)	90,467	94,726
C.	CURRENT ASSETS	037	313,543	(17,415)	296,128	395,837
C. I.	Inventories	038	192,085	(5,092)	186,993	150,468
C. I. 1.	Raw materials	039	134,845	(4,585)	130,260	96,221
C. I. 2.	Work in progress and semi-finished products	040	8,344	0	8,344	7,065
C. I. 3.	Finished goods and goods for resale	041	48,896	(507)	48,389	47,182
C. I. 3. 1.	Finished goods	042	32,863	(233)	32,630	34,727
C. I. 3. 2.	Goods for resale	043	16,033	(274)	15,759	12,455
C. II.	Receivables	046	94,622	(12,323)	82,299	90,491
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	94,620	(12,323)	82,297	90,489
C. II. 2. 1.	Trade receivables	058	85,104	(12,323)	72,781	76,587
C. II. 2. 4.	Receivables - other	061	9,516	0	9,516	13,902
C. II. 2. 4. 3.	Taxes - receivables from the state	064	6,107	0	6,107	7,611
C. II. 2. 4. 4.	Short-term advances paid	065	3,091	0	3,091	3,993
C. II. 2. 4. 5.	Estimated receivables	066	149	0	149	2,249
C. II. 2. 4. 6.	Other receivables	067	169	0	169	49
C. IV.	Cash	071	26,836	0	26,836	154,878
C. IV. 1.	Cash in hand	072	369	0	369	459
C. IV. 2.	Cash at bank	073	26,467	0	26,467	154,419
D.	Prepayments and accrued income	074	4,453	0	4,453	18,731
D. 1.	Prepaid expenses	075	4,402	0	4,402	6,989
D. 3.	Accrued income	077	51	0	51	11,742

● KORADO, a.s.

Identification number: 25255843 | Legal form: Joint stock company | Primary business: Manufacturing of central heating radiators

Balance sheet date: 31 December 2017 | Date of preparation of the financial statements: 3 April 2018

BALANCE SHEET (in thousand Czech crowns)

Ref. a	LIABILITIES AND EQUITY b		Row c	31. 12. 2017 5	31. 12. 2016 6
	TOTAL LIABILITIES AND EQUITY		078	1,857,604	2,033,397
A.	Equity		079	1,140,125	1,314,658
A. I.	Share capital		080	724,221	840,700
A. I. 1.	Share capital		081	840,700	840,700
A. I. 2.	Own shares held		082	(116,479)	-
A. II.	Share premium and capital contributions		084	(47,022)	(35,431)
A. II. 2.	Capital contributions		086	(47,022)	(35,431)
A. II. 2. 1.	Other capital contributions		087	48	48
A. II. 2. 2.	Assets and liabilities revaluation		088	(47,070)	(35,479)
A. III.	Other reserves		092	164,747	48,268
A. III. 1.	Other reserve funds		093	48,268	48,268
A. III. 2.	Statutory and other reserves		094	116,479	-
A. IV.	Retained earnings / Accumulated losses		095	308,308	419,279
A. IV. 1.	Retained earnings		096	308,308	419,279
A. V.	Profit / (loss) for the current period		099	8,038	51,842
A. VI.	Less interim dividend declared		100	(18,167)	(10,000)
B. + C.	Liabilities		101	702,327	701,928
B.	Provisions		102	7,257	6,321
B. 4.	Other provisions		106	7,257	6,321
C.	Liabilities		107	695,070	695,607
C. I.	Long-term liabilities		108	203,681	310,386
C. I. 2.	Liabilities due to financial institutions		112	118,520	231,725
C. I. 8.	Deferred tax liability		118	85,161	78,661
C. II.	Short-term liabilities		123	491,389	385,221
C. II. 2.	Liabilities due to financial institutions		127	111,517	107,600
C. II. 3.	Short-term advances received		128	1,277	1,955
C. II. 4.	Trade payables		129	313,935	221,758
C. II. 8.	Liabilities - other		133	64,660	53,908
C. II. 8. 1.	Liabilities to shareholders		134	8,187	32
C. II. 8. 3.	Liabilities to employees		136	15,659	14,412
C. II. 8. 4.	Liabilities for social security and health insurance		137	8,480	7,504
C. II. 8. 5.	Taxes and state subsidies payable		138	4,149	2,843
C. II. 8. 6.	Estimated payables		139	27,682	28,682
C. II. 8. 7.	Other liabilities		140	503	435
D.	Accruals and deferred income		141	15,152	16,811
D. 1.	Accrued expenses		142	15,152	16,811

● KORADO, a.s.

Identification number: 25255843 | Legal form: Joint stock company | Primary business: Manufacturing of central heating radiators

Balance sheet date: 31 December 2017 | Date of preparation of the financial statements: 3 April 2018

INCOME STATEMENT (in thousand Czech crowns)

Ref. a	TEXT b	Row c	Accounting period	
			2017 1	2016 2
I.	Sales of products and services	01	1,225,445	1,236,092
II.	Sales of goods	02	478,818	434,276
A.	Cost of sales	03	1,327,906	1,253,639
A. 1.	Cost of goods sold	04	386,884	362,273
A. 2.	Raw materials and consumables used	05	756,889	709,231
A. 3.	Services	06	184,133	182,135
B.	Changes in inventories of finished goods and work in progress	07	(205)	(9,142)
C.	Own work capitalised	08	(8,282)	(8,951)
D.	Staff costs	09	303,239	290,486
D. 1.	Wages and salaries	10	228,818	222,215
D. 2.	Social security, health insurance and other social costs	11	74,421	68,271
D. 2. 1.	Social security and health insurance costs	12	68,127	65,187
D. 2. 2.	Other social costs	13	6,294	3,084
E.	Value adjustments in operating activities	14	84,254	116,153
E. 1.	Value adjustments of fixed assets	15	101,711	102,823
E. 1. 1.	Depreciation, amortisation and write off of fixed assets	16	101,711	102,823
E. 2.	Provision for impairment of inventories	18	3,800	76
E. 3.	Provision for impairment of receivables	19	(21,257)	13,254
III.	Operating income - other	20	50,108	70,692
III. 1.	Sales of fixed assets	21	239	226
III. 2.	Sales of raw materials	22	39,843	47,361
III. 3.	Other operating income	23	10,026	23,105
F.	Operating expenses - other	24	71,465	56,654
F. 1.	Net book value of fixed assets sold	25	154	93
F. 2.	Net book value of raw materials sold	26	38,512	45,454
F. 3.	Taxes and charges from operating activities	27	835	1,020
F. 4.	Operating provisions and complex prepaid expenses	28	936	(113)
F. 5.	Other operating expenses	29	31,028	10,200
*	Operating result	30	(24,006)	42,221
IV.	Income from sales of long-term investments - shares	31	42,546	27,451
IV. 1.	Income from sales of investments - subsidiaries or controlling party	32	42,546	27,451
G.	Shares sold	34	2,163	132
VI.	Interest and similar income	39	2,513	2,511
VI. 1.	Interest and similar income - subsidiaries or controlling party	40	2,501	2,478
VI. 2.	Other interest and similar income	41	12	33
I.	Value adjustments and provisions from financial operations	42	(1,977)	(3,318)
J.	Interest and similar expenses	43	6,185	5,188
J. 2.	Other interest and similar expenses	45	6,185	5,188
VII.	Other financial income	46	21,885	2,595
K.	Other financial expenses	47	22,029	14,434
*	Financial result	48	38,544	16,121
**	Net profit / (loss) before taxation	49	14,538	58,342
L.	Tax on profit or loss	50	6,500	6,500
L. 2.	Tax on profit or loss - deferred	52	6,500	6,500
**	Net profit / (loss) after taxation	53	8,038	51,842
***	Net profit / (loss) for the financial period	55	8,038	51,842
	Net turnover for the financial period	56	1,821,315	1,773,617

● KORADO, a.s.

Standalone financial statements for the year ended 31 December 2017

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY for the year ended 31 December 2017

(in thousand Czech crowns)

	Share capital	Reserve fund	Other capital funds	Revaluation reserve	Statutory fund	Own shares	Retained earnings / accumulated losses	Advances for payment of profit share	Total
As at 1 January 2016	840,700	48,269	48	(36,393)	0	0	459,278	(14,998)	1,296,904
Asset and liabilities revaluation	0	0	0	914	0	0	0	0	914
Dividends/profit distribution paid	0	0	0	0	0	0	(39,998)	14,998	(25,000)
Paid advances on profit distribution	0	0	0	0	0	0	0	(10,000)	(10,000)
Net profit for the current period	0	0	0	0	0	0	51,842	0	51,842
Rounding	0	(1)	0	0	0	0	(1)	0	(2)
As at 31 December 2016	840,700	48,268	48	(35,479)	0	0	471,121	(10,000)	1,314,658
Asset and liabilities revaluation	0	0	0	(11,590)	0	0	0	0	(11,590)
Dividends/profit distribution paid	0	0	0	0	0	0	(46,334)	10,000	(36,334)
Paid advances on profit distribution	0	0	0	0	0	0	0	(18,167)	(18,167)
Net profit for the current period	0	0	0	0	0	0	8,038	0	8,038
Purchase of own shares	0	0	0	0	0	(116,479)	0	0	(116,479)
Statutory fund charge	0	0	0	0	116,479	0	(116,479)	0	0
Rounding	0	0	0	(1)	0	0	0	0	(1)
As at 31 December 2017	840,700	48,268	48	(47,070)	116,479	(116,479)	316,346	(18,167)	1,140,125

In January 2017 the purchase of own shares in the amount of 220 pcs was realized for the price of CZK 115 million. The Company holds shares for resale.

As a result of the purchase of own shares Company created a statutory fund of CZK 116,479 thousand, which includes the value of own shares in the amount of CZK 115 million and other acquisition costs of CZK 1,479 thousand.

● KORADO, a.s.

Standalone financial statements for the year ended 31 December 2017

CASH-FLOW STATEMENT for the year ended 31 December 2017

(in thousand Czech crowns)

Ref. a	TEXT b	Accounting period	
		2017 1	2016 2
	Cash flows from operating activities		
	Net profit/(loss) on ordinary activities before tax	14,538	58,342
A. 1.	Adjustments for non-cash movements:	66,958	91,360
A. 1. 1.	Depreciation and amortisation of fixed assets	101,711	103,250
A. 1. 2.	Change in provisions	(18,497)	9,899
A. 1. 3.	(Profit)/loss from disposal of fixed assets	(11,561)	(712)
A. 1. 4.	Dividend income	(28,906)	(26,740)
A. 1. 5.	Net interest expense/(income)	3,672	2,678
A. 1. 6.	Other non-cash movements	20,539	2,985
A *	Net cash flow from operating activities before tax and changes in working capital	81,496	149,702
A. 2.	Working capital changes:	77,205	(67,698)
A. 2. 1.	Change in receivables and prepayments	23,978	11,260
A. 2. 2.	Change in short-term payables and accruals	93,553	(64,128)
A. 2. 3.	Change in inventories	(40,326)	(14,830)
A **	Net cash flow from operating activities before tax	158,701	82,004
A. 3.	Interest paid	(6,185)	(5,188)
A. 4.	Interest received	2,513	2,510
A. 6.	Dividends received	28,906	26,740
A ***	Net cash flow from operating activities	183,935	106,066
B. 1.	Acquisition of fixed assets	(53,926)	(52,053)
B. 2.	Proceeds from sale of fixed assets	11,561	938
B. 3.	Loans to related parties	1,576	(50,934)
B ***	Net cash flow from investing activities	(40,789)	(102,049)
C. 1.	Change in long- and short-term liabilities	(109,291)	62,570
C. 2.	Changes in equity:	(161,897)	(35,000)
C. 2. 5.	Direct payments from funds	(116,479)	-
C. 2. 6.	Dividends paid	(45,418)	(35,000)
C ***	Net cash flow from financing activities	(271,188)	27,570
	Net increase/(decrease) in cash and cash equivalents	(128,042)	31,587
	Cash and cash equivalents at the beginning of the year	154,878	123,291
	Cash and cash equivalents at the end of the year	26,836	154,878

● KORADO, a.s.

Notes to standalone financial statements for the year ended 31 December 2017

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.

The Company has no arrangements that are not included in the balance sheet as at 31 December 2017 or 31 December 2016.

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.

The Company is not an unlimited liability partner to any company.

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. Intangible and tangible fixed assets

All intangible (and tangible) assets with a useful life longer than one year and a unit cost of more than CZK 60 thousand (CZK 40 thousand) are treated as intangible (and tangible) fixed assets.

Purchased intangible (and tangible) fixed assets are initially recorded at cost, which includes all costs related with its acquisition. All research costs are expensed. Own manufactured fixed assets are valued at own cost.

Intangible and tangible fixed assets (except land which is not depreciated) are amortised / depreciated 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
Tangible fixed assets	Estimated useful life
Constructions	30 - 50 years
Property, plant and equipment	8 - 20 years
Motor vehicles	4 - 8 years
Other tangible fixed assets	2 - 4 years

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

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 intangible and tangible fixed assets are capitalised.

2. 3. 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. 4. 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.

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. 5. 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. 6. 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

● KORADO, a.s.

Notes to standalone financial statements for the year ended 31 December 2017

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. 7. 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.

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. 8. 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. 9. 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. 10. Employment benefits

The Company creates 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. 11. 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. 12. 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. 13. 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. 14. 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. 15. 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. 16. 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.

● KORADO, a.s.

Notes to standalone financial statements for the year ended 31 December 2017

3. Intangible fixed assets

(CZK'000)	1 January 2017	Additions / transfers	Disposals	31 December 2017
Cost				
Software	187,759	18,511	0	206,270
Other royalties	3,492	501	0	3,993
Intangible fixed assets in the course of construction	16,355	(13,040)	0	3,315
Total	207,606	5,972	0	213,578
Accumulated amortisation				
Software	181,603	4,199	0	185,802
Other royalties	2,755	205	0	2,960
Total	184,358	4,404	0	188,762
Net book value	23,248			24,816
(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	6,552	0	16,355
Total	199,317	8,289	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

● KORADO, a.s.

Notes to standalone financial statements for the year ended 31 December 2017

4. Tangible fixed assets

(CZK'000)	1 January 2017	Additions / transfers	Disposals	31 December 2017
Cost				
Land	25,462	0	7	25,455
Constructions	1,686,100	1,285	0	1,687,385
Equipment	2,583,965	69,949	13,372	2,640,542
Other tangible fixed assets	52,732	1,199	0	53,931
Art works and collections	25,860	0	0	25,860
Advances paid for tangible fixed assets	17,518	(17,518)	0	0
Tangible fixed assets in the course of construction	7,616	(3,021)	0	4,595
Total	4,399,253	51,894	13,379	4,437,768
Accumulated depreciation				
Constructions	761,667	35,256	0	796,923
Equipment	2,255,738	59,814	13,372	2,302,180
Other tangible fixed assets	41,966	2,384	0	44,350
Art works and collections	22,653	0	0	22,653
Total	3,082,024	97,454	13,372	3,166,106
Net book value	1,317,229			1,271,662
(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	35,076	0	761,667
Equipment	2,235,310	61,248	40,820	2,255,738
Other tangible fixed assets	39,974	2,859	867	41,966
Art works and collections	22,653	0	0	22,653
Total	3,024,528	99,183	41,687	3,082,024
Net book value	1,384,436			1,317,229

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

● KORADO, a.s.

Notes to standalone financial statements for the year ended 31 December 2017

5. Investments in subsidiaries

31 December 2017	Number of shares	Nominal value ('000)	Cost (CZK'000)	Carrying value (CZK'000)	% of capital	2017 net profit/(loss) (CZK'000)	Net assets (CZK'000)	2017 dividend income (CZK'000)
Foreign entities								
KORADO Deutschland Fürstenwalde, Germany*		25 EUR	15,706	2,542	100%	1,963	2,542	3,156
KORADO Bulgaria Strajica, Bulgaria	11,018,564	13,169 BGN	103,524	103,524	83.67%	64,311	261,354	25,750
KORADO Poland Piasecno, Poland		7,211 PLN	67,372	0	100%	568	(47,786)	0
KORADO Austria* Wien, Austria		1,050 EUR	26,817	0	100%	(6)	(16)	0
KORADO UK* London, Great Britain		1 GBP	29	0	100%	0	29	0
Domestic entities								
LICON HEAT Praha 1, Czech Republic		14,500 CZK	64,012	64,012	100%	(6,222)	10,709	0
Total			277,460	170,078				28,906
Provision for diminution in value			(107,382)					
Net book value			170,078					

* Unaudited

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
Domestic entities								
LICON HEAT Praha 1, Czech Republic		14,500 CZK	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

● KORADO, a.s.

Notes to standalone financial statements for the year ended 31 December 2017

The decrease in the share of KORADO Bulgaria's share capital is due to the sale of the shares of this subsidiary. In 2017 the proceeds from the sale of these shares were CZK 13,640 thousand.

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

Subsidiaries (CZK'000)	2017	2016
As at 1 January	108,704	107,487
Charge for the year	408	1,228
Released during the year	1,730	11
As at 31 December	107,382	108,704

6. Other securities and investments

31 December 2017	Loan value in foreign currency (‘000)	Loan value (CZK'000)	Interest rate (%)	Allowance (CZK'000)
Foreign				
KORADO Poland	8,624 PLN	52,727	1.7% p.a.	47,786
KORADO Bulgaria	1,900 EUR	48,526	1M Euribor + 1.65% p.a.	0
LICON HEAT	37,000 CZK	37,000	1M Pribor + 1.55% p.a.	0
Total		138,253		47,786
Provision for diminution in value		(47,786)		
Net book value		90,467		
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	1.7% 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		

● KORADO, a.s.

Notes to standalone financial statements for the year ended 31 December 2017

7. Inventories

The Company created a provision for inventories as at 31 December 2017 of CZK 5,092 thousand (as at 31 December 2016: CZK 1,291 thousand).

Analysis of the change in the provision for inventories:

(CZK'000)	2017	2016
Opening balance as at 1 January	1,291	1,215
Charge for the year	3,847	267
Released during the year	46	191
Closing balance as at 31 December	5,092	1,291

8. Receivables

Overdue receivables as at 31 December 2017 amounted to CZK 12,060 thousand (as at 31 December 2016: CZK 43,469 thousand).

Unsettled receivables 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)	2017	2016
Opening balance as at 1 January	33,580	20,326
Charge for the year	4,360	17,190
Released during the year	5,063	3,509
Written off during the year	20,554	427
Closing balance as at 31 December	12,323	33,580

9. Equity

Authorised and issued share capital:

	31 December 2017		31 December 2016	
	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 2017	31 December 2016
Menclík František	9.16	9.16
Petr Ludvík	9.16	9.16
Vobora Miroslav	9.16	9.16
Brabec Bedřich Ing.	0	9.16
KORADO, a.s.	9.16	0
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 standalone financial statements for the year ended 31 December 2017

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 has subscribed to the Commercial Companies Act as a whole (see note 1) and has taken advantage of the option not to create a reserve fund, which is also permitted by the Company's Articles of Association. The Company's statutory body determines the distribution of the existing reserve fund.

The general meeting of shareholders approved the financial statements for 2016 and decided about the allocation of profit earned in 2016 of CZK 51,842 thousand on 20 April 2017. It was decided to pay a profit share of CZK 49,998 thousand, of which

part attributable to own shares in amount of CZK 3,664 thousand was transferred to retained earnings. The remaining part of the 2016 profit, worth CZK 1,884 thousand was transferred to the undistributed profit of previous years.

On 22 September 2017 the Statutory Representatives decided on the interim dividend payment of CZK 10,000 thousand. On 18 December 2017 the Statutory Representatives decided on the interim dividend payment of CZK 10,000 thousand. Part of the interim dividend payment of the profit attributable to its own shares amounted to CZK 1,833 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 2016	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
Charge for the year	890	46	936
Used in the year	0	0	0
Closing balance as at 31 December 2017	5,407	1,850	7,257

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

11. Liabilities

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

Except the below stated, the Company did not provide any material assurances that would not have been recognized in the balance sheet.

12. Bank loans and other borrowings

Analysis of the bank loans:

	Collateral	Interest rate (%)	Currency	Balance as at 31 December 2017 (CZK'000)
Československá obchodní banka, a.s.	Real estate, receivables, inventories	Pribor 1M+1.55% p.a.	CZK	114,750
Československá obchodní banka, a.s.	Real estate, receivables, inventories	Pribor 1M+1.55% p.a.	CZK	86,154
Československá obchodní banka, a.s.	Real estate, receivables, inventories	Euribor 1M+1.65 % p.a.	EUR	29,133
Total bank loans				230,037

● KORADO, a.s.

Notes to standalone financial statements for the year ended 31 December 2017

All loans in the total amount of CZK 230,037 thousand drawn from Československá obchodní banka, a.s., 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. As at 31 December 2017 Company met those covenants.

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 2017 amounted to CZK 911,463 thousand (as at 31 December 2016: CZK 909,454 thousand).

13. Commitments and contingent liabilities

The management of the Company is not aware of any contingent liabilities as at 31 December 2017.

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

(CZK'000)	31 December 2017	31 December 2016
Current within one year	5,805	5,536
Due after one year but within five years	3,822	5,534
Total commitments in respect of operating leases	9,627	11,070

14. Revenue analysis

Revenue analysis:

(CZK'000)	2017	2016
Radiator production		
- domestic	407,817	379,334
- foreign	802,430	841,941
Provided services	15,198	14,817
Total sales of own products and services	1,225,445	1,236,092
Sales of goods		
- domestic	311,994	258,406
- foreign	166,824	175,870
Total sales of goods	478,818	434,276

● KORADO, a.s.

Notes to standalone financial statements for the year ended 31 December 2017

15. Related party transactions

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

(CZK'000)	2017	2016
Revenues		
Sales of services	9,121	11,288
Sale of products	151,194	213,285
Sales of goods	4,820	13,687
Sale of materials and tangible fixed assets	38,398	44,825
Interest income	2,501	2,478
Total	206,034	285,563
Costs		
Purchase of goods for resale	326,199	349,520
Services	2,575	3,100
Total	328,774	352,620

The following related party balances were outstanding as at:

(CZK'000)	31. prosince 2017	31. prosince 2016
Receivables		
Trade receivables	26,592	23,275
Accruals	0	12,655
Granted loans, including allowances	90,467	94,726
Total	117,059	130,656
Liabilities		
Liabilities to companies	55,304	44,348
Out of which:		
Trade payables	51,852	37,338
Accruals	3,452	7,010
Total	55,304	44,348

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

Company cars are available to the members of executive board.

● KORADO, a.s.

Notes to standalone financial statements for the year ended 31 December 2017

16. 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 parent company.

17. Employees

	2017		2016	
	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	30	71,828	29	69,738
Wages and salaries to other employees	443	155,550	431	151,037
Social security costs		68,127		65,187
Other social costs		6,294		3,084
Wages and salaries total	479	303,239	466	290,486

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 standalone financial statements for the year ended 31 December 2017

18. Income tax

The income tax expense analysis:

(CZK'000)	2017	2016
Current tax expense	0	0
Deferred tax expense	6,500	6,500
Total income tax expense	6,500	6,500

The current tax analysis:

(CZK'000)	2017	2016
Net profit before taxation	14,538	58,342
Items increasing the tax base	37,887	28,648
- of which differences between accounting and tax depreciation	0	15,041
Items decreasing the tax base	82,445	31,965
- of which differences between accounting and tax	13,323	0
- of which dividends received	42,494	27,452
Claimed tax loss	0	(53,718)
Net taxable profit	(30,020)	1,307
Corporate income tax at 19%	0	248
Tax credit	0	(248)
Current tax	0	0

The deferred tax was calculated at 19% (the rate enacted for 2017 and subsequent years).

The deferred tax asset/ (liability) analysis:

(CZK'000)	31 December 2017	31 December 2016
Deferred tax liability arising from:		
Difference between accounting and tax net book value of fixed assets	(126,885)	(124,210)
Total deferred tax liability	(126,885)	(124,210)
Deferred tax asset arising from:		
Provisions	2,936	1,624
Tax losses carried forward	5,704	347
Tax credit from investment incentive	32,134	42,020
Other deductible temporary differences	950	1,558
Total deferred tax asset	41,724	45,549
Net deferred tax (liability)	(85,161)	(78,661)

● KORADO, a.s.

Notes to standalone financial statements for the year ended 31 December 2017

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 2017 and this balance can be drawn as a tax credit until 2019.

The Company recorded deferred tax asset of CZK 32,134 thousand as at 31 December 2017 (as at 31 December 2016: CZK 42,020 thousand). The remaining part of deferred tax asset of CZK 137,366 thousand as at 31 December 2017 (as at 31 December 2016: CZK 133,980 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 2017 and 2016.

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 2017 of CZK 30,020 thousand, which can be utilised up to 2022.

19. Subsequent events

In January 2018, the subsidiary KORADO Polska paid part of the loan of PLN 150 thousand. No other events occurred after the balance sheet date that would have a material impact on the financial statements as at 31 December 2017.

3 April 2018



František Menclík
Chairman of the Board of Directors

