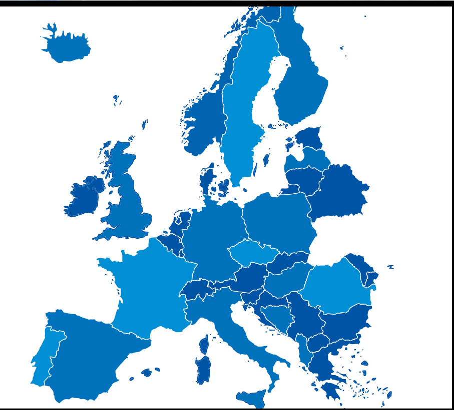
ANNUAL REPORT 2018

KORADO®


KORADO®
… heat for your homes
more than 50 years



LICON





KORADO



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FOREWORD BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Business Partners,

the year 2018 ended. Even during this year no progressive demand for radiators has been made. Although the construction industry is showing growth, but unfortunately not in the housing construction. It is not just a problem in the Czech Republic, but virtually throughout the European Union and Ukraine. Condition from 2017 persists, when price of metal sheets has risen by EUR 200 per ton. This increase in price for European metal sheets producers was allowed by customs duties approved by the European Union to import metal sheets from Russia and Asian countries. Unfortunately, no duties were imposed on the importation into the European Union of metal sheets products from these countries. This artificially created unfair competition in European markets, which is very difficult to eliminate.
In spite of all these negatives, the systematic work of the entire management is about to eliminate these costs adequately. Movements of production co-operations were made to the parent company, which resulted with significant cost savings. The same applies to the reduction of employees. These measures should be fully demonstrated in 2019.
Our further intentions in expanding KORADO Group's portfolio of products, which should further enhance the Group's competitiveness, are developing successfully.
Despite all of the negatives above, 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 thank you.
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, 2019

František Menclík
Chairman of the Board of Directors

STRATEGIES AND GOALS OF THE KORADO GROUP

The main objective of the KORADO Group for 2019 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 2019 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.

Securing against Risk

Working with business and trade risks and hedging them continues to be one of the primary tasks of the KORADO Group. Persisting turbulent environment which is influenced by many unpredictable factors: uncertainty regarding the future direction of the EU, relations with the Russian Federation, the migration crisis, Brexit, commercial conflicts 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. These principles are implemented throughout the KORADO Group, including production 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 in 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 in 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 2019, HR department 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 of controlling tools and their application throughout the KORADO Group.
An equally important goal of the Group will be the continued optimisation of working capital and it's financing.

Internal Audit

The function of an Internal Audit is based on the basic aim that is systematic methodical approach to assessing and improving of the effectiveness of risk management, management and control processes, and corporate governance. In the next period, the role of Internal Audit is that of ensuring independent and objective assurance for company bodies and their management that corporate governance, management and control processes as well as risk management are adequate and effective.
According to the Internal Audit Service's schedule, audits of the management control and compensatory control of conflicting access rights to information systems will be conducted both in the parent company and in the subsidiaries, in order to maximize the added value for the company.
An integral part will be also a cooperation of the Internal audit with the external audit.

THE KORADO GROUP

As of 31 December 2018, the KORADO Group consisted of the parent company KORADO, a.s., Česká Třebová and seven subsidiaries, which are:

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

Three production
- KORADO Bulgaria
- LICON HEAT
- ThermWet

Trading subsidiaries were established 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. Production subsidiaries have gradually joined the group as a result of systematic acquisitions in order to expand the production portfolio.

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 the company was founded, 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 since then have 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.

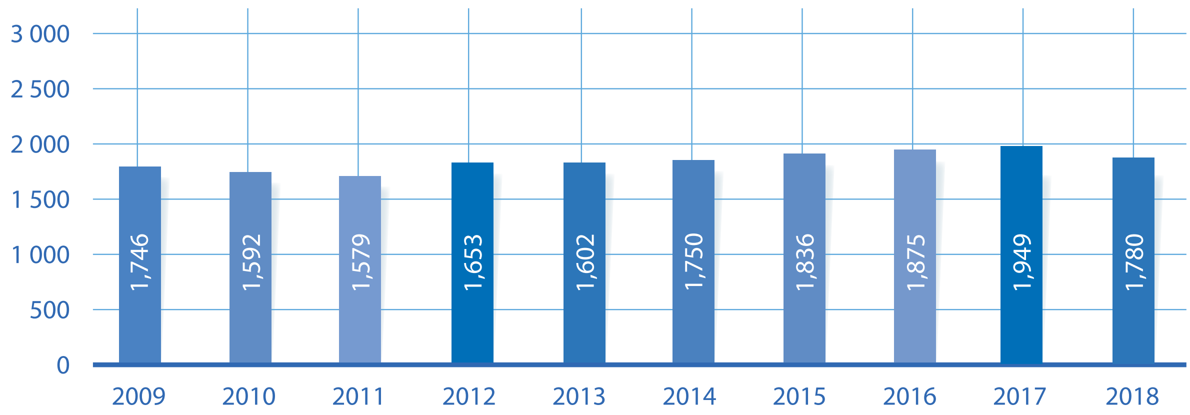
No Controlling Agreements have been concluded between the parent company KORADO, a.s. and its subsidiaries. The cooperation of these companies is based on Distributor Agreements and on the basis of annual financial sales plans. In addition to these Agreements there are Loan Agreements concluded between the parent company and the subsidiaries KORADO Polska, LICON HEAT and KORADO Bulgaria. These are standard agreements 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. 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 panel radiators and lines for the manufacture of bathroom radiators.

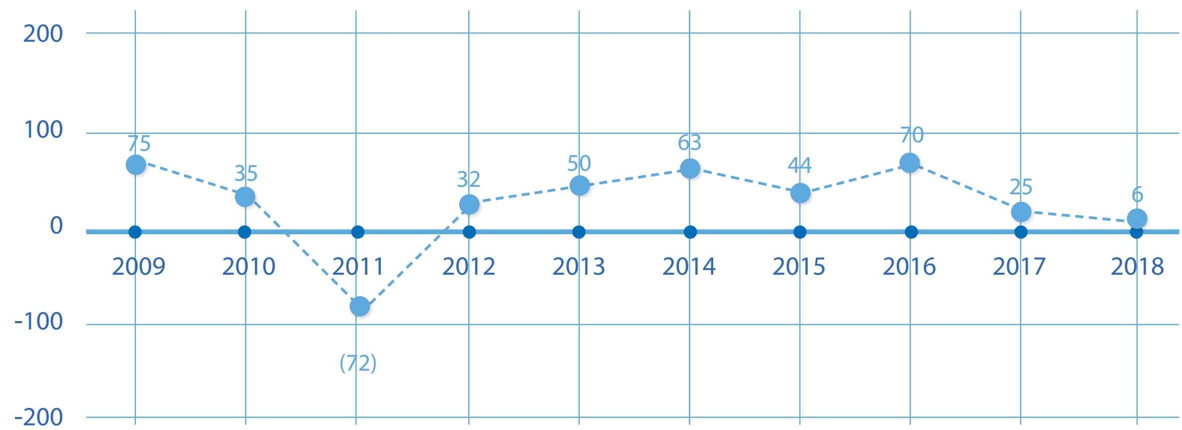
An important step towards expanding our product portfolio occurred in 2013 with the 100% buyout of the company LICON HEAT s.r.o., which has expanded KORADO's production program to include a complete range of floor, wall, freestanding, bench and special convector radiators.
Another significant investment was the buyout of ThermWet in 2018. The company is specialising in controlled air recuperation.

CZK Thousand	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Consolidated sales	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	1,779,880
Consolidated profits based on IFRS	74,912	34,572	-72,369	32,497	50,343	62,532	43,554	69,896	24,604	6,399

Consolidated Sales for the KORADO Group (CZK million)

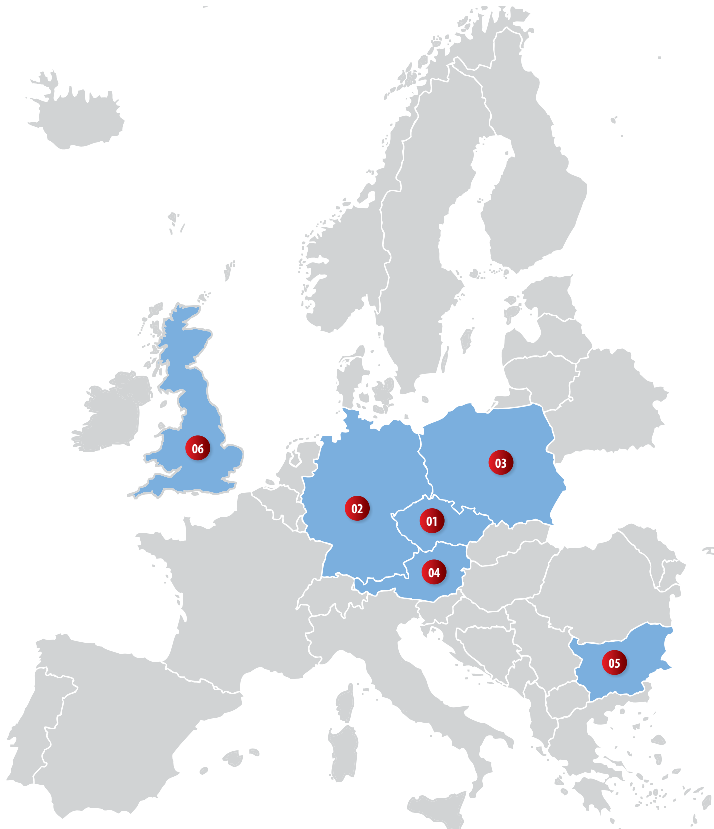


Consolidated Profits for the KORADO Group (CZK million)



Map of Europe with Subsidiaries and Associates

01 KORADO, a.s.
LICON HEAT s.r.o.
ThermWet 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 2018:

Company	Incorporation date	Share capital as at 31. 12. 2018	Director (Authorized Agent)	Registered office	KORADO, a.s. share	Legal form
KORADO, a.s.	1 September 1996	CZK 840,000 ths.	Vojtěch Čamek	Bří Hubálků 869, 560 02 Česká Třebová, Czech Republic	-	Joint-stock company
KORADO Deutschland GmbH	28 November 1995	CZK 643 ths.	Leona Vaňková	DR. Wilhelm-Külz- Strasse 61, 155 17 Fürstenwalde, Germany	100 %	Limited liability company
KORADO Polska, Sp. z. o. o.	4 December 1996	CZK 43,121 ths.	Žaneta Vebrová	Gen.Okulickiego 4, 05-500 Piasecno, Poland	100 %	Limited liability company
KORADO Austria, GmbH	1 July 1998	CZK 27,011 ths.	Leona Vaňková	Ferstelgasse 6/7, 1090 WIEN, Austria	100 %	Limited liability company
KORADO Bulgaria, A. D.	1 October 1998	CZK 173,207 ths.	Jiří Řezníček	Gladston 28, 5150 Strajica, Bulgaria	82,56 %	Joint-stock company
KORADO U. K. Limited	25 November 1998	CZK 29 ths.	Vojtěch Čamek	170 Merton High Street, Wimbledon London, SW19 1AY, Great Britain	100 %	Limited liability company
LICON HEAT s. r. o.	1 October 2013*	CZK 14,500 ths.	Martin Kniha	Na Poříčí 1041/12 110 00 Praha 1 - Nové Město Czech Republic	100%	Limited liability company
ThermWet s. r. o.	6 August 2018**	CZK 200 ths.	Jan Grendel Lukáš Mareda	Vlárská 1454/1 10400 Praha 10 - Uhříněves Czech Republic	100%	Limited liability company

Share capital calculated based on the exchange rate as of 31 December 2018
* Date of LICON HEAT inclusion in the KORADO Group
** Date of TherWet 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 2018 KORADO Deutschland reported a profit of EUR 42 ths. (CZK 1,065 ths.).

EUR ths.	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total sales	4,763	5,090	5,286	4,477	3,080	4,395	5,173	5,489	3,877	2,460
Profits/Losses	0	0	0	0	71	138	179	118	75	42

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 2018 KORADO Polska achieved a financial result of PLN 85 ths. (CZK 510 ths.).

PLN ths.	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total sales	8,260	7,542	7,297	7,243	9,242	8,941	11,142	16,473	10,334	10,126
Profits/Losses	(682)	461	(816)	95	162	247	312	515	92	85

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

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

In 2018 KORADO Austria achieved a financial result of EUR (0.4) ths. (CZK (11) ths.).

EUR ths.	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total sales	0	0	0	0	1	0	0	0	0	0
Profits/Losses	(8)	(1)	(1)	1	1	1	(1)	0.3	(0.2)	(0.4)

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 82.56 % 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.

The share price of KORADO Bulgaria reached the value of BGN 7.15 per share at the end of the year, i.e. an increase of BGN 0.298 per share from the beginning of the year. The market capitalization reached CZK 1,238 million i.e. when compared to 1 January 2018 plus CZK 56 million.

In 2018, the company paid for the first time a half-yearly dividend, which, as one of the few Bulgarian companies, on stock market used the new legislation to allow this alternative.

In 2018 KORADO Bulgaria generated a profit of BGN 5,254 ths. (CZK 68,879 ths.).

BGN ths.	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total sales	12,717	13,540	16,252	20,458	17,193	20,912	27,449	32,607	42,387	43,581
Profits/Losses	639	768	931	398	599	1,321	1,932	2,927	4,778	5,254
Panel radiators produced	134,816	166,712	229,129	281,027	238,808	295,187	398,958	433,008	460,659	467,497

LICON HEAT s.r.o. – A company with many years of tradition in the production of panel radiators has been incorporated into the KORADO Group in 2013. The production is realized in an easily accessible production plant, in the industrial zone „Sever" in Liberec. The existing product offer is gradually being upgraded and expanded to meet the increasing customers' demands for both functionality and design. 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 now create a pleasant climate in many buildings around the world.

In 2018 LICON HEAT generated a loss totalling CZK (8,309) ths.

CZK ths.	2013	2014	2015	2016	2017	2018
Total sales	129,182	104,836	103,388	89,033	73,101	97,022
Profits/Losses	7,630	10,664	3,197	2,436	(6,222)	(8,309)

ThermWet s. r. o. - is the youngest member of the KORADO Group, joining in 2018. KORADO, a.s. perceives and actively responds to changes in HVAC (Heating, ventilation, and air conditioning) and, thanks to the acquisition of ThermWet s.r.o., has expanded its offer by central ventilation systems. ThermWet s.r.o. is a small company, but in conjunction with the KORADO Group, its dynamic growth can be expected not only in the domestic market but also abroad.

In 2018 ThermWet generated a loss of CZK (1,327) ths.

CZK ths.	2018
Total sales	12,288
Profits/Losses	(1,327)

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

TABLE OF FINANCIAL INDICATORS OF THE GROUP

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
TOTAL SALES (MIL. CZK)	1,746	1,592	1,579	1,653	1,602	1,750	1,836	1,875	1,949	1,780
YEARLY CHANGE IN SALES (%)	(30%)	(9%)	(1%)	5%	(3%)	9%	5%	2%	4%	(9%)
EBITDA (NET PROFIT (LOSS) PLUS TAX ON INCOME PLUS INTEREST COSTS PLUS DEPRECIATION) (MIL. CZK)	276	207	84	174	179	191	176	210	166	147
EBITDA MARGIN (EBITDA / TOTAL SALES) (%)	16%	13%	5%	11%	11%	11%	10%	11%	9%	8%
PROFIT/LOSS AFTER TAX (MIL. CZK)	75	35	(72)	32	50	63	44	70	25	6
RETURN ON EQUITY (EBIT / ASSETS MINUS CURRENT LIABILITIES)	6%	2%	(2%)	3%	4%	5%	3%	5%	2%	2%
INDEBTEDNESS (BANK LOANS / EQUITY)	0.55	0.41	0.36	0.27	0.27	0.26	0.20	0.25	0.19	0.20
QUICK RATIO (CURRENT ASSETS MINUS INVENTORY / CURRENT LIABILITIES)	0.34	0.17	0.29	0.34	0.60	0.79	0.62	0.82	0.32	0.37
CURRENT RATIO (CURRENT ASSETS / CURRENT LIABILITIES)	0.55	0.36	0.60	0.63	1.03	1.23	1.06	1.36	0.88	0.94
TOTAL ASSETS (MIL. CZK)	2,402	2,239	2,117	2,007	2,106	2,203	2,153	2,185	1,990	2,032
LONG-TERM ASSETS / TOTAL ASSETS (%)	85%	86%	86%	85%	79%	74%	76%	72%	78%	74%
RECEIVABLE TURNOVER (DAYS)	34	28	24	27	32	34	30	25	20	17
PAYABLE TURNOVER (DAYS)	132	103	97	96	107	110	107	103	92	122
INVENTORY TURNOVER (DAYS)	67	49	48	45	52	58	57	63	67	87

SALES AND MARKET POSITION OF THE KORADO GROUP

Overview on business activities in 2018
The main goal for us was to continue to improve the relationship with our customers, which was important in connection with the significant price changes from the past years, caused by changes in the prices of our main commodity - steel. Another goal was to familiarize our customers with our product consolidation for panel radiators, which will bring unique benefits throughout the entire distribution chain.
We have successfully completed the acquisition of a new product line - the central ventilation units with recuperation. Our current goal in this area is to exploit the synergies within the KORADO Group to grow the activities in the market for this product.

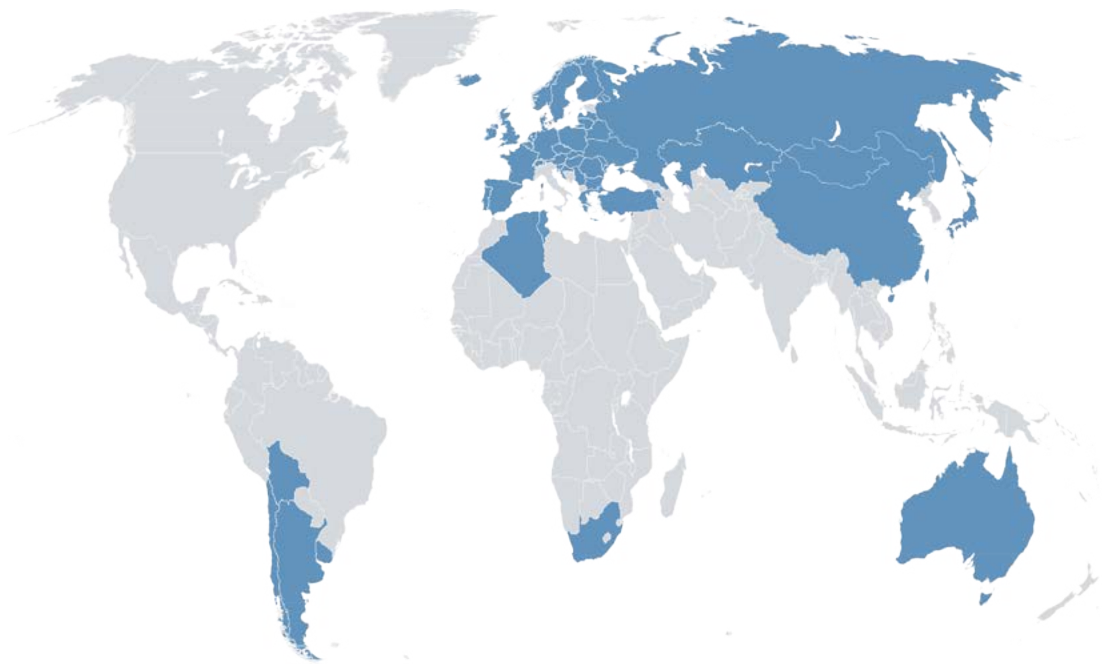
Central and Eastern Europe
Central and Eastern European region has been and is the most important for the KORADO Group. We continue to cooperate on the long-term basis with our partners. It has to be admitted that there is a great development of production capacities in this region, which brings with it an increased competitive environment.

Western Europe
The key to our success is the continued service to our customers, based on the delivery of a quality product.
We are already preparing an expansion of our offer in controlled ventilation for Western European customers.

Product development
The current offer is very wide so our goal is to offer a universal solution for individual products within the comprehensive supply of end-products for TZB. We are gradually starting to implement innovative solutions to develop products and systems that provide indoor building comfort.

Overview for 2019
Our primary goal will be, in the area of panel radiators, to consolidate the range of products bringing benefits throughout the entire distribution chain. In the field of convectors, we will introduce complex and completely innovative products of all ranges. We will continue to focus our capabilities on the development of new products in controlled ventilation.

OVERVIEW OF RADIK PANEL RADIATOR SALES IN 2018 ACCORDING TO COUNTRY



FINANCIAL SITUATION

Profitability of the KORADO Group

In 2018, the KORADO Group generated a profit of CZK 6 mil. Year-to-year decrease was negativelly influenced by the drop in sales volumes of radiators. Sales volume decrease was partially mitigated by increase in sale price and reduction of material and service costs.

Optimization of working capital and indebtedness

Debt was kept at a low level as in previous years. Debt to equity ratio remains stable and bank debt reached 20% which is approximately the same as last year and compared with prior years is one of the lowest levels.

Bank Loans

Bank loans were repaid in 2018 in accordance with the terms of credit agreements. During the year all banking covenants were fulfilled. A new bank loan of CZK 100 million was raised to finance the investments. And yet, at the end of 2018, a record low bank debt was achieved over the entire history of the Korado, a.s..

Investments

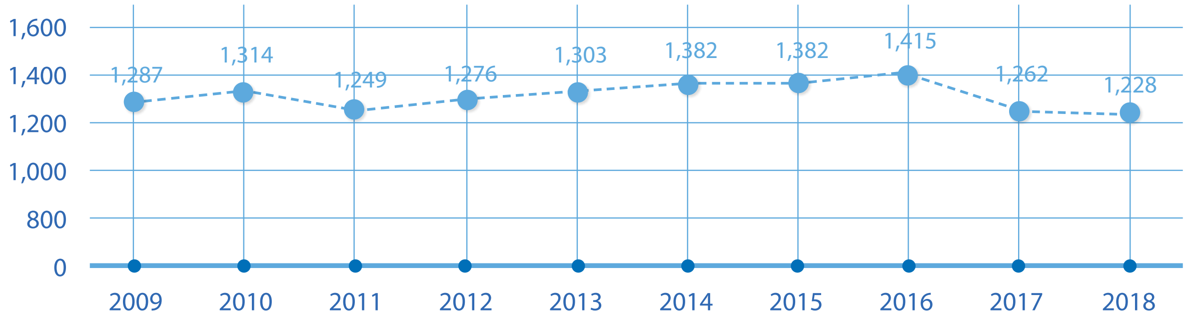
In the parent company, its own workplace for the preparation of center tubes for OTT was commissioned in 2018.
During 2018, the technology for the production of central fittings for ODT and OTT was also purchased and put into operation.
In addition, two robotic welding workplaces, workpiece divisions and CNC bending pipes were put into operation.

Risk Management

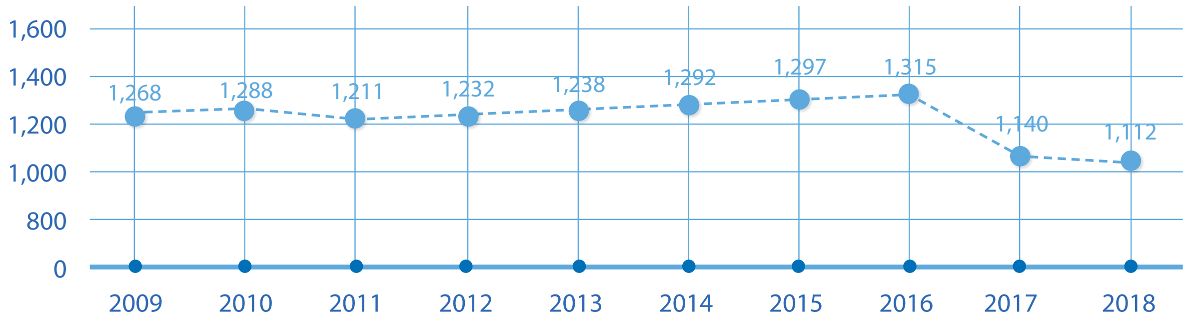
During its existence, the KORADO Group has built up a very stable and financially strong portfolio of customers. The continuing geopolitical tensions in Russia and the Ukraine associated with the macroeconomic slump in these two important markets, however, contributed significantly to payment issues 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 2018, 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 companies. In 2018, several of our smaller Polish customers had payment problems, their debts were solved in cooperation with credit insurance companies.

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

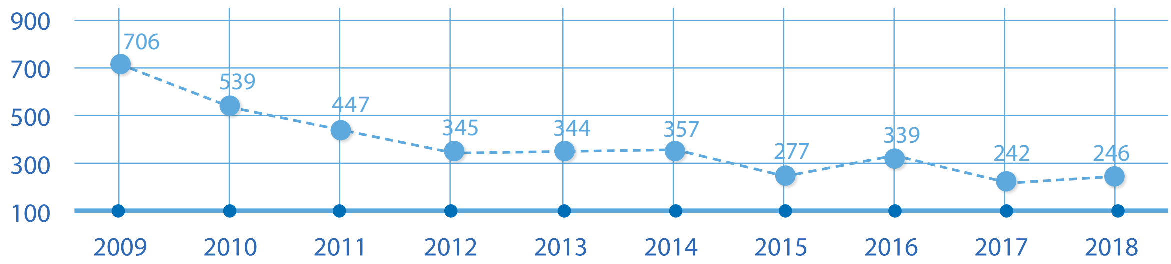
Equity of the KORADO Group (CZK million)



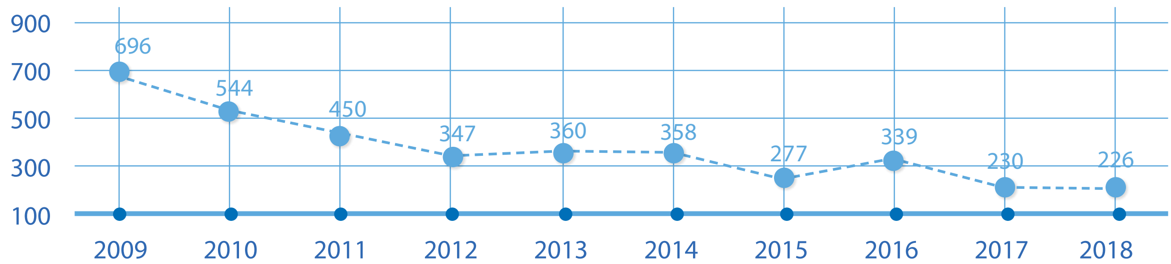
Equity of the Parent Company KORADO, a.s. (CZK million)



Debt of the KORADO Group (CZK million)



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



PURCHASE OF INPUT MATERIAL

At the beginning of each successfull production process, there is a successful purchase of input materials and services. In our case, this fact is accentuated by a large proportion of material costs in the production price of our product – panel radiator. The sensitivity to changes in material costs is therefore high. Similarly, when purchasing services. In both of these major groups, the Purchase Department in 2018 succeeded in principle, despite the rapidly deteriorating conditions.

The year 2018 was marked by a rise in the prices of virtually all materials and components that are essentially used in the production of panel radiators.

It all started with the introduction of EU anti-dumping duties on imports of steel from some of third countries. This was mainly affected by imports of steel from China and Russia. European steel producers immediately took advantage of this fact and increased their sales prices. The prices of the steel sheet, the main material for the production of radiators, jumped and, together with that, the prices of all components made of steel and metal in general. This trend, i.e. a sustained rise in prices, continued throughout the year 2018.

The same development followed with all other materials, such as paints, chemicals, packaging materials, plastics, wood, as well as services such as transport. The share of rising wages, not only in the Czech Republic but also in other EU countries cannot be omitted.

Purchasing Department continued to develop methods and procedures proven in the past, to ensure optimal conditions for successful corporate goals. It also explored the portfolio of potential suppliers and looked for new ways to increase purchasing efficiency. Market conditions are changing rapidly, some traditional suppliers are disappearing and others are coming to their place. Good information support is essential for proper market orientation and KORADO has traditionally been well-established. As a step in the right direction, we see increasing the share of long-term index pricing agreements followed by European agencies.

PRODUCTION AND DEVELOPMENT

Production

In 2018, 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.

Own production of components

In 2018 a major project was the commencement of the production of central fittings for panel radiators. Fittings were previously produced in cooperation. However in 2018 it was decided, due to cost savings, for own production, the purchase of technology from cooperation partner was made and in three planned steps the production was relocated and started in the parent company. Within this task, 2 robotic welding workplaces, workpieces for pipe cutting and CNC bending of pipes were also put into operation.

Another project was the development of own workplace for the preparation of center tubes for OTT. This workplace was developed, built and put into operation during 2018. In December 2018, serial production was launched, bringing additional savings on OTT components.

Production in the KORADO Bulgaria company

At the Bulgarian production plant, we focused on increasing the quality of the bathroom radiators. The production of bathroom radiators with a length of 950 mm was adopted and technological modifications were made to the soldering furnace to ensure stability of operation. In addition, a great deal of effort has been spent on finding a varnishing and packaging technology supplier.

INTERNAL AUDIT AND MANAGEMENT OF HUMAN RESOURCES

Internal audit

The internal audit was conducted during 2018 according to the International and Czech Internal Audit Standards and the Medium-term Plan for the years 2018 - 2020. With a large number of audits, it focused on effective control and maximum cost savings. Audit's competence and authority in the risk management system were joined and continuously carried out consulting and advisory work in both parent and subsidiary companies. Outside of audits, the Internal Audit carried out an audit of the compliance with all directives and contracts leaving the KORADO Group. Audit actively participated in the clarification of the new QAD information system for the performance of compensatory access control conflicts and the introduction of a new VEMA personnel and payroll system. It carried out detailed audits of the interim financial statements of the parent company in connection with the payment of dividends to shareholders and statements submitted to the stock market bodies in Bulgaria. Internal audit also checked the correctness of the asset inventory. For all Internal Audit activities, a systematic methodical approach to assessing and improving the effectiveness of risk management, management and control processes, and that corporate governance was pursued throughout the year 2018 to provide independent and objective assurance to company's bodies and management that management and control processes and risk management are appropriate and effective.

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.
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 about the Group and with practical information.

Health Protection

For a long time the KORADO Group belongs among companies with high standards of health and safety at work, which in recent years corresponds to a very low accident rate. To a large extent, regular and vocational training of all Group employees on work safety greatly contributes to this.

QUALITY CONTROL SYSTEM, ECOLOGY AND THE ENVIRONMENT

Reliability and Quality

The product brand name KORADO is a guarantee of high quality, long life, high technical parameters, flawless delivery, and wide range with a corresponding range of prices for customers and business partners.

We use the quality management system, which is certified according to the ISO 9001:2015 system standard, to meet the Company's strategy. The results of regular audits show that KORADO Group 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 and NF for France.

There are also trade 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 the set requirements for the quality of material, construction and production of RADIK, KORALUX and KORATHERM radiators, are consistently met. As are regular inspections.

KORADO is one of the companies certified by the AEO (Authorised Economic Operator).

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

In 2018, KORADO, a.s. received a very good evaluation from a customer audit conducted by the Ethos International, an independent consultant company from Sweden. It is a company that focuses on the sustainable development of production plants, environmental protection and working conditions.

In connection with Act No. 418/2011 Coll, on corporate criminal liability and proceedings against legal persons, the Prevention Programme is introducted 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

In 2018, a change in the integrated permit was made to change the classification of sources of air pollution, metal and plastic grinding. For this source, the operator does not reach the limit set for the listed sources and is newly included among the sources not listed. An updated water management emergency plan was adopted, reflecting changes in the raw materials used.

In the field of chemicals and mixtures management, revision and updating of internal regulation TOP - handling of chemical substances and mixtures was carried out. The supply chain has two-way communication and information exchange on the properties of chemicals and their safe use.

The Company has no organisational branches abroad.

The amendment to the Waste Act has extended the list of products subject to the obligation to take back electrical and electronic equipment. KORADO, a.s. responds to the development of legislative requirements and updates related documentation to meet the obligations of the producer of electrical and electronic equipment.

GENERAL COMPANY INFORMATION

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

Fields of Business:

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

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 related 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. made 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 approximatelly BGN 7 million (about CZK 100 million) through a secondary subscription of the share capital on the Stock Exchange in Sofia.

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. During the period that those shares are owned by the Company itself, no voting rights or entitlement to dividend are attached to them.

In July 2018, ThermWet s.r.o. was bought out. ThermWet is engaged in the production of central ventilation with heat recovery, and is expanding the Group's portfolio.

The Company has no organisational branches abroad.

Subsequent events

No events occurred after the balance sheet date that would have a material impact on the financial statements as at 31 December 2018.

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 2018 the Supervisory Board had five members. The Supervisory Board usually meets once every two months. In 2018, a total of six meetings of the Supervisory Board were held.

During 2018 there were changes in the composition of the Supervisory Board. On 20 May 2018 the term of office of Ernst Bachner had expired. The General Meeting of KORADO, a.s. as on 28 May 2018, at the request of a represenative of the European Bank for Reconstruction and Development, elected for the function of the Supervisory Board member David Ryba.

Composition of the Supervisory Board as of 31 December 2018:

Chairman of the Supervisory Board:	Ludvík Petr
Vice Chairman of the Supervisory Board:	Jaromír Hejda
Member of the Supervisory Board:	Hana Vaňousová
Member of the Supervisory Board:	David Ryba
Member of the Supervisory Board:	Leona Vaňková

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.

Board of Directors decides on all matters that are not reserved to the General Meeting under applicable legislation or the Company Statutes. On 27 May 2018 the term of office of David Ryba had expired. The Supervisory Board as on 14 December 2018 elected for the function of the Board of Directors member Mrs. Mary Ellen Collins.

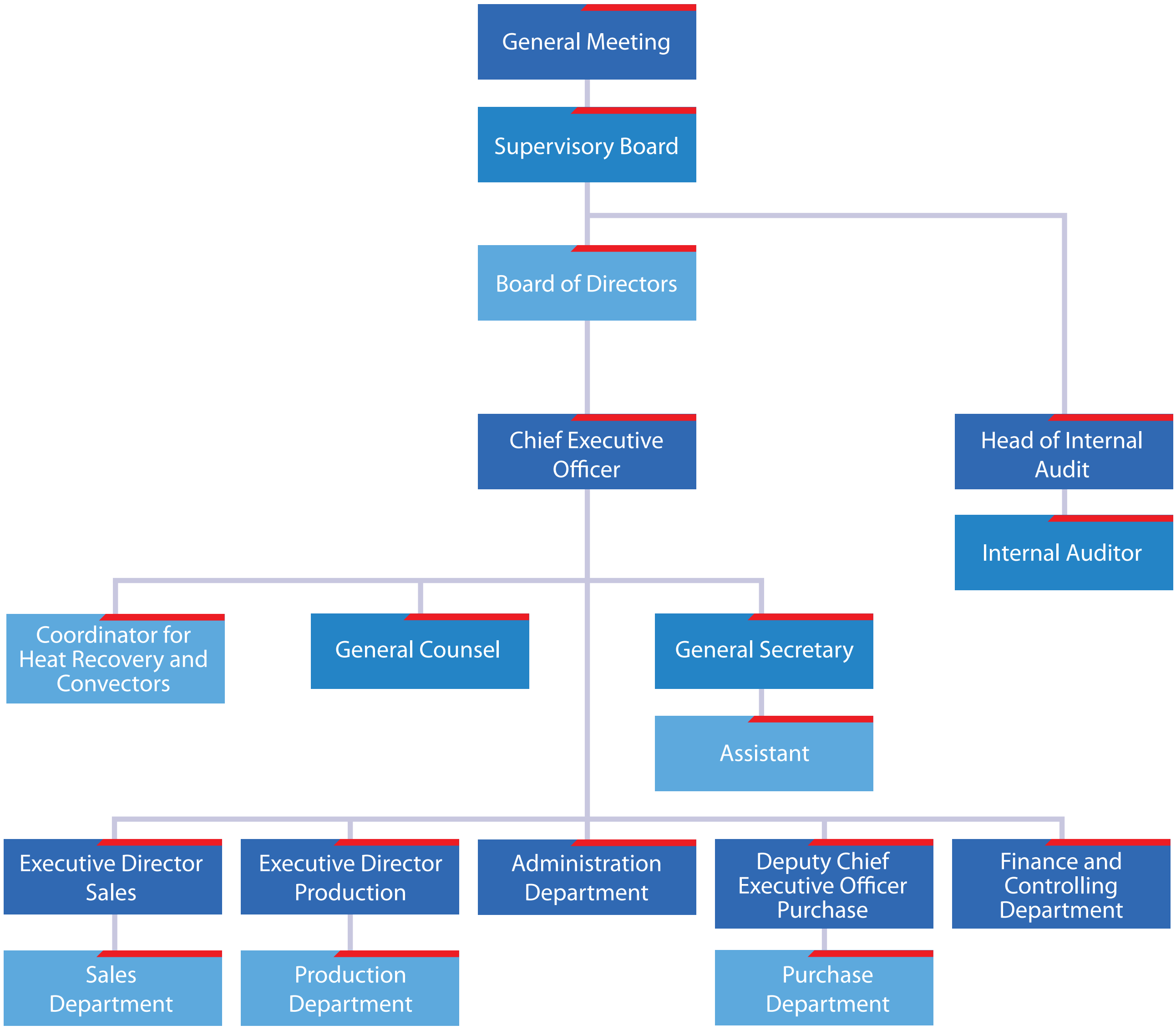
Composition of the Board of Directors as at 31 December 2018:

Chairman of the Board of Directors:	František Menclík
Vice Chairman of the Board of Directors:	Miroslav Vobora
Member of the Board of Directors:	František Hamáček
Member of the Board of Directors:	Mary Ellen Collins

Management

Company is divided into five deparments: Administration, Sales, Production, Purchasing, and Finance and Controlling Department. In October 2018, Finance and Controlling Deparment joined the Centers of Pricing and Controlling, and linked finance and accounting function. 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 2018, Management was composed as follows:

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.

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.

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.

Miloš Sotona (* 1965)
Executive Director Production
At 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.

Jiří Řezníček (* 1954)
Executive Director of KORADO Bulgaria
He was employed In KORADO, a.s. in the period 1995 – 2001 and from 2005 to the present. In September 2007, he was appointed Executive Manager of the subsidiary KORADO Bulgaria. In the period 2002 - 2004 he worked for Gienger s.r.o. Zlin as the Manager of the Olomouc Centre and representative for the region of Olomouc and Eastern Bohemia. In the period 1991 – 1995, he worked at Armaturka, a.s. Česká Třebová as Operations Manager and later as Director of the company. From 1983 – 1991, he was Head of Operations at Sigma K. P. Česká Třebová. In the years 1978 - 1983 in the capacity of independent technologist for the manufacturing company Liaz, n.p. He graduated from the Technical University in Brno, Faculty of Mechanical Engineering, specialising in transport machinery, material handling equipment and internal combustion engines.

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.

2018 On 31 July 2018, an agreement for the purchase of ThermWet s.r.o. by the parent company was signed. ThermWet s.r.o. is concerned with the production of central heating, thereby further complements and extends the portfolio of the Group was made. Purchase and installation of technology for the production of central gaskets for panel radiators.

REPORT OF THE SUPERVISORY BOARD

During the year 2018, there was a total of six meetings of the Supervisory Board of KORADO, a.s. All the meetings of the Supervisory Board reached quorum. The Supervisory Board inquired at its meetings about the financial results of the company and all key activities of the Board of Directors of KORADO, a.s. The Supervisory Board of the company adhered to the approved work plan that had been coordinated with the plan of the Board of Directors. Each meeting of the Supervisory Board was attended by the Chairman of the Board of Directors, or another member of the Board of Directors as well.

The Supervisory Board of KORADO, a.s, had the following members from 1 January to 19 May 2018:

- 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

In 2018 there was the following change in the Supervisory Board membership. The term of Dip. Ing. Dr. Ernst Bachner terminated on the 19th of May 2018. Based on EBRD´s nomination the General Meeting of 28 May 2018 elected Mr. Davida Ryba a new member of the Supervisory Board.

The Supervisory Board of KORADO, a.s, had the following members from 28 May to 31 December 2018:

- Ludvík PETR - Chairman of the Supervisory Board
- Ing. Jaromír HEJDA - Member of the Supervisory Board
- Ing. Hana VAŇOUSOVÁ - Member of the Supervisory Board
- Ing. Leona VAŇKOVÁ - Member of the Supervisory Board
- David RYBA - Member of the Supervisory Board

Mr. Jaromír Hejda was elected the Deputy Chairman of the Supervisory Board on 13th of July 2018.

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 2018 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 2018 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 aimed at reducing 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. The Supervisory Board approved on 9 February 2018 the Financial Plan for 2018 including the Marketing Plan for 2018-2020.

In compliance with the valid Articles of Incorporation of KORADO, a.s. the Supervisory Board of 13 July 2018 approved the Board of Directors´ proposal to acquire a 100-percent share in the company ThermWet.

Based on EBRD´s nomination the Supervisory Board of 14 December 2018 elected Mrs. Mary Ellen Collins a new member of the Board of Directors of KORADO, a.s.

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

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

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

Review of the financial statements

On its 141st meeting held on April 17, 2019, 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, a.s., and the KORADO Group respectively, as of Dec. 31, 2018, presented by the Board of Directors. The supplements to the standalone financial statements and the consolidated financial statements for 2018 are included in the full version in the Annual Report of KORADO, a.s., for 2018. 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, 2018.

- The Supervisory Board revised the proposal of the Board of Directors and recommends the General Meeting to use the accounting profit for 2018 of 14,593,536.60 CZK for the payment of profit shares.
- The Supervisory Board recommends the General Meeting to approve payment of profit shares of 12,489 CZK/share; i.e., a total of 29,998,578 CZK.
- The Supervisory Board recommends the General Meeting to use the amount of 15,405,041.40 CZK from the retained earnings account. The first advance on the payment of the profit share was paid in 10/2018 in the amount of 9,999,526 CZK, the second

advance was paid in 1/2019 in the amount of 9,999,526 CZK and a supplementary payment of the profit share will be in the amount of 9,999,526 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 2,747,580 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 2018 and as it was presented by the Board of Directors.

In Česká Třebová on April 17, 2019

Ludvík Petr
Chairman of the Supervisory Board

Ing. Jaromír Hejda
Vice-Chairman of the Supervisory Board

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

Opinion

We have audited:
- the consolidated financial statements of KORADO, a.s., with its registered office at Bří Hubálků 869, Česká Třebová ("the Company") and its subsidiaries (together "the Group") prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2018 and notes to the consolidated financial statements, which include significant accounting policies and other explanatory information, and
- the separate financial statements of the Company prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2018, the income statement, statement of changes in equity and statement of cash flows for the year ended 31 December 2018 and notes to the separate financial statements, which include significant accounting policies and other explanatory information

In our opinion:
- the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, of its consolidated financial performance and its consolidated cash flows for the year ended 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the European Union, and
- the separate financial statements give a true and fair view of the financial position of the Company standing alone as at 31 December 2018, of its financial performance and its cash flows for the year ended 31 December 2018 in accordance with Czech accounting legislation.

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

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group and the Company in accordance with the Act on Auditors and 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 Group and the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group 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 are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

17 April 2019

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

Ing. Věra Výtvarová
Statutory Auditor, Evidence No. 1930

This report is addressed to the shareholders of KORADO, a.s.

KORADO GROUP
INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
31 December 2018

CONTENTS

KORADO GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2018

(In thousands of CZK)	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment, net	7	1,454,142	1,506,645
Intangible assets, net	8	45,503	40,043
Other non-current assets		4,736	4,934
Deferred tax asset	22	633	525
Total non-current assets		**1,505,014**	**1,552,147**
Current assets			
Inventories, net	10	320,280	279,480
Receivables, net	11	81,850	84,524
Prepayments and other current assets	12	27,864	13,830
Cash and cash equivalents	13	96,868	60,384
Total current assets		**526,862**	**438,218**
Total assets		**2,031,876**	**1,990,365**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	14	840,700	840,700
Own shares	14	(116,479)	(116,479)
Statutory fund	14	116,479	116,479
Retained earnings and funds	14	381,896	423,947
Translation reserve		(41,831)	(45,641)
Total shareholders' equity attributable to equity holders of the parent		**1,180,765**	**1,219,006**
Non-controlling interest	24	46,788	42,671
Total shareholders' equity		**1,227,553**	**1,261,677**
Non-current liabilities			
Long-term borrowings	15	144,560	131,722
Other long-term debts		6,709	5,032
Deferred tax liabilities	22	85,074	87,411
Total non-current liabilities		**236,343**	**224,165**
Current liabilities			
Short-term borrowings and current portion of long-term debt	15	103,964	113,027
Trade and other payables	16	458,239	384,692
Provisions		5,777	6,804
Total current liabilities		**567,980**	**504,523**
Total equity and liabilities		**2,031,876**	**1,990,365**

Approved for issue and signed on 17th April 2019.

František Menclík
Board of Directors Chairman

Vojtěch Čamek
Chief Executive Officer

The accompanying notes on pages 39 to 62 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 2018

(In thousands of CZK)	Note	2018	2017
Revenues from sales of products and goods, net	17	1,779,880	1,949,174
Other operating income	20	23,806	17,281
Cost of materials, energy and purchased goods	18	(1,032,858)	(1,165,576)
Depreciation and amortization	7,8	(127,253)	(121,803)
Wages and salaries	6	(386,046)	(387,053)
Purchased services	19	(209,864)	(225,700)
Other expenses	21	(22,221)	(29,825)
Interest expense, net of capitalized interest		(7,888)	(6,571)
Interest income		52	43
Foreign exchange losses, net		(3,886)	9,447
Other financial expenses, net		(1,435)	(1,428)
Profit before taxation		**12,287**	**37,989**
Income taxes	22	(5,888)	(13,385)
Profit after taxation		**6,399**	**24,604**
Other comprehensive income			
Items that may be reclassified subsequently to statement of income:			
Currency translation differences		4,310	(14,968)
Items not to be reclassified subsequently to statement of income:			
Re-measurement losses on defined benefit plans		(1,916)	(677)
Total other comprehensive income		**2,394**	**(15,645)**
Total comprehensive income		**8,793**	**8,959**
Profit / (loss) after income taxes attributable to:			
Equity holders of the parent company		(5,613)	14,104
Non-controlling interest	24	12,012	10,500
		6,399	**24,604**
Total comprehensive income / (loss) attributable to:			
Equity holders of the parent company		(3,339)	939
Non-controlling interest	24	12,132	8,020
		8,793	**8,959**

The accompanying notes on pages 39 to 62 are an integral part of these consolidated financial statements.

KORADO GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(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 1 January 2017	**840,700**	**-**	**(33,042)**	**-**	**572,719**	**1,380,377**	**35,033**	**1,415,410**
Profit after taxation	-	-	-	-	14,104	14,104	10,500	24,604
Other comprehensive income	-	-	(12,599)	-	(566)	(13,165)	(2,480)	(15,645)
Total comprehensive income	**-**	**-**	**(12,599)**	**-**	**13,538**	**939**	**8,020**	**8,959**
Dividends	-	-	-	-	(36,334)	(36,334)	(4,821)	(41,155)
Interim dividends	-	-	-	-	(18,167)	(18,167)	-	(18,167)
Purchase of own shares	-	(116,479)	-	-	-	(116,479)	-	(116,479)
Creation of statutory fund	-	-	-	116,479	(116,479)	-	-	-
Sale of the subsidiary's shares	-	-	-	-	8,604	8,604	-	8,604
Transaction with non-controlling interest	-	-	-	-	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**
Profit after taxation	-	-	-	-	(5,613)	(5,613)	12,012	6,399
Other comprehensive income	-	-	3,810	-	(1,536)	2,274	120	2,394
Total comprehensive income	-	-	3,810	-	(7,149)	(3,339)	12,132	8,793
Dividends	-	-	-	-	(27,251)	(27,251)	(10,417)	(37,668)
Interim dividends	-	-	-	-	(18,167)	(18,167)	-	(18,167)
Sale of the subsidiary's shares	-	-	-	-	10,516	10,516	-	10,516
Transaction with non-controlling interest	-	-	-	-	-	-	2,404	2,404
Balance as at 31 December 2018	**840,700**	**(116,479)**	**(41,831)**	**116,479**	**381,896**	**1,180,765**	**46,788**	**1,227,553**

The accompanying notes on pages 39 to 62 are an integral part of these consolidated financial statements.

KORADO GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

(In thousands of CZK)	Note	2018	2017
OPERATING ACTIVITIES			
Profit before taxation		**12,287**	**37,989**
Adjustments for:			
Depreciation and amortization	7,8	127,253	121,803
Receivables and loans write-off	21	1,213	-
Financial expenses, net		7,836	6,528
Changes in provisions, net	21	(7,839)	4,394
Foreign exchange losses, net		3,886	(588)
Gain on sale of property, plant and equipment		(42)	(578)
Other non-cash movements		(1,536)	(502)
Changes in assets and liabilities:			
Inventories	10	(42,534)	(45,115)
Receivables and other current assets	11	3,209	63,003
Payables and other current liabilities	16	74,864	40,538
Income taxes (paid)	22	(8,382)	(8,216)
Net cash from operating activities		**170,215**	**219,256**
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	7,8	(75,609)	(98,148)
Proceeds from sale of property, plant and equipment		436	424
Acquisition of subsidiaries, net of cash acquired	9	(9,800)	-
Interest received		52	43
Net cash from investing activities		**(84,921)**	**(97,681)**
FINANCING ACTIVITIES			
Loan drawings	15	117,198	9,827
Repayments of debt	15	(113,705)	(112,317)
Change in lease obligation and other long-term payables		1,959	(74)
Dividends paid to Company's shareholders	14	(45,418)	(45,418)
Dividends paid to non-controlling interest	24	(10,417)	(4,821)
Purchase of own shares	14	-	(116,479)
Interest paid, net of capitalized interest		(7,873)	(6,570)
Sale of the subsidiary's shares		10,516	8,604
Net cash from financing activities		**(47,741)**	**(267,248)**
Net increase in cash		**37,553**	**(145,673)**
Cash and cash equivalents at beginning of year		**60,384**	**202,405**
Effect of exchange rate changes on cash and cash equivalents		(1,069)	3,652
Cash and cash equivalents at end of year		**96,868**	**60,384**

The accompanying notes on pages 39 to 62 are an integral part of these consolidated financial statements.

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 2018 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:

	2018 % of voting and equity share	2017 % 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	82.56	83.67	Bulgaria	Manufacturing of radiators
LICON HEAT s.r.o.	100	100	Czech Republic	Manufacturing of convectors
ThermWet s.r.o.	100	-	Czech Republic	Manufacturing of recuperation units

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 principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated.

The preparation of consolidated financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed.

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)

The accompanying notes on pages 39 to 62 are an integral part of these consolidated financial statements.

KORADO GROUP

Notes to the Consolidated Financial Statements – 31 December 2018

- exposure, or rights, to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect its returns

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

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

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

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

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

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

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed with the exception of goodwill arising on the acquisition of KORADO Bulgaria AD. If his 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.

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.

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 and ThermWet s.r.o. Following initial recognition, goodwill is tested for impairment annually.

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.

The accompanying notes on pages 39 to 62 are an integral part of these consolidated financial statements.

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 7).

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

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

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

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

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

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

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

The accompanying notes on pages 39 to 62 are an integral part of these consolidated financial statements.

KORADO GROUP

Notes to the Consolidated Financial Statements – 31 December 2018

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.

Financial instruments
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses ("ECL"). Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Financial instruments – initial recognition
Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other

The accompanying notes on pages 39 to 62 are an integral part of these consolidated financial statements.

observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement

The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment.

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

Under debt instruments, the Group classifies its financial assets into the following categories:

- Financial assets subsequently measured at amortized cost determined by using the effective interest rate method (financial assets at amortized cost)
  In this category, the Group recognizes debt instruments that are held within the business model that is intended to collect all contractual cash flows and which also have contractual cash flows representing only principal and interest payments on the principal outstanding. They are then measured at amortized cost using the effective interest rate method (hereafter referred to as the amortized cost). During the financial years 2018 and 2017, the Group had only trade receivables held to maturity.
- Financial assets subsequently measured at fair value included in profit or loss (financial assets at fair value through profit or loss)
  Within this category, the Group classifies all other debt instruments that cannot be classified into the above categories. These financial assets are held for trading or their contractual cash flows do not represent exclusively the payment of principal and interest on the principal outstanding. Consequently, they are measured at fair value through profit or loss. There were no such assests in financial years 2018 and 2017.

Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial liabilities – classification and subsequent measurement

Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other

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financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Accounts Receivable
Trade and other receivables are recognized initially at fair value and are subsequently carried at amortised costs using the effective interest method 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.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

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 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 2018 and 2017, respectively, after adjustments for certain items which are not deductible for taxation purposes. The Czech corporate income tax rate for 2019 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".

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Revenue Recognition
Revenue is income arising in the course of the Group's ordinary activities (sales of own products and purchased goods). Revenue is recognized in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

Revenue is recognized net of discounts, returns, value added taxes and after eliminating sales within the Group.

The Group manufactures and sells a range of heaters in the wholesale & retail market. Sales are recognized when control of the goods/products has transferred, being when the goods/product are delivered to the customer, the customer has full discretion over the goods/products, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods/products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods/products in accordance with the contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Revenue from the sales with discounts is recognized based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

No element of financing is deemed present as the sales are made with a credit term of 30 - 60 days, which is consistent with market practice. The Group's obligation to repair or replace faulty products under the standard warranty terms is recognized as a provision.

A receivable is recognized when the goods, product are shipped or delivered (depending on actual incoterms) as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The Group's obligation to repair or replace faulty goods under the standard warranty terms is recognised as a provision.

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

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

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

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.

Critical Accounting Estimates and Judgements in Applying Accounting Policies

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 judgements 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.

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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 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 22) in amount of CZK 24,218 thousand as at 31 December 2018 (as at 31 December 2017: CZK 32,134 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 22).

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 22,168 thousand as at 31 December 2018 (as at 31 December 2017: CZK 12,643 thousand).

Impairment of Assets

Financial Instruments

The Group introduced a new impairment model as of 1 January 2018, under which an allowance is recognized before the credit loss arises. This is a new IFRS 9 impairment model reflecting expected credit losses (ECL). With the exception of trade receivables, the Group applies the so-called general approach to impairment for the relevant financial assets. For trade receivables, the Group has taken advantage of the possibility of applying a simplified approach using an impairment matrix.

General approach to impairment
Under the general approach, an entity recognizes an allowance for expected credit losses (ECL) over the life of the financial instrument if there is a significant increase in the credit risk (measured by the probability of default over the life of the asset) from the initial recognition of the financial asset. If, at the reporting date, the credit risk associated with a financial instrument has not significantly increased since initial recognition, the entity shall recognize an allowance for the 12-month expected credit loss. The expected credit loss over the lifetime indicates the expected credit losses that arise as a result of all potential failures during the expected duration of the financial instrument. The 12-month expected credit loss is part of the expected credit losses over the life of a financial instrument that may occur within 12 months from the reporting date.

The group uses the three-step ECL model. Upon initial recognition of a financial asset, unless there is an evidence of a failure, the Group classifies the financial asset to Stage 1 and recognizes allowances corresponding to expected losses over the following 12 months. If the credit risk associated with the financial instrument has not significantly increased since the initial recognition date, the financial asset remains in Stage 1 and the allowance is measured at the date of the financial statement at the 12-month expected credit loss. If a significant increase in credit risk has occurred since the initial recognition date, the Group classifies the financial asset to Stage 2 and recognizes adjustments against the expected loss over the life of the financial asset at the reporting date. If the financial asset meets the definition of a default, the Group transfers it to Stage 3 and recognizes allowance corresponding to the expected loss over the life of the financial asset.

As a potential failure the Group considers a situation where it will not be able to collect any amounts owed under the terms initially agreed. As default indicators the Group considers significant financial difficulties of the borrower, the likelihood that the borrower will enter into bankruptcy or financial restructuring, delay in payments or non-compliance with maturity of the instrument.

Simplified approach to impairment
Simplified approach enables entities to report expected credit losses over a period of time without the need to identify a significant increase in credit risk. For trade receivables and contract

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assets that do not have a significant element of financing, an entity recognizes an allowance for expected credit losses over its life (i.e. an entity must always apply a so-called simplified approach). For other trade receivables, other contractual assets, operating lease receivables and finance lease receivables, an accounting policy that can be applied separately to individual asset types (but which applies to all assets of the type) can be selected. An important element of financing exists when the timing of reimbursements agreed by the parties (explicitly or implicitly) results in a significant benefit for the customer or entity to finance the transfer of goods or services to the customer.

Application of simplified approach using impairment matrix
For trade receivables without a significant element of financing, the Group determines the amount of allowances using the impairment matrix. The impairment matrix is based on applying the appropriate rate of loss to unpaid balances of trade receivables (i.e. age analysis of receivables).

When determining the amount of allowances through simplified approach, the Group proceeds in the following steps. The Group first divides its individual trade receivables into certain groups of receivables with similar credit risk characteristics. The Group concurrently identifies the most important factors affecting the credit risk of each group. In the second step, the Group sets a historical loss rate for each group with similar credit risk characteristics. This rate is set for 3 consecutive accounting periods. In the next step, the Group determines the expected loss rate for each group of receivables, which is further subdivided into sub-categories by the number of days past due (e.g. loss rates for non-past due receivables, loss rates for receivables 1-30 days overdue, losses for receivables 31 - 60 days overdue, etc.). In determining the expected loss rate, the Group takes into account whether historical loss rates have been incurred under economic conditions that are consistent with the expected conditions during the exposure period of that portfolio of receivables at the reporting date. In the last step, the Group measures the amount of the allowance based on the current gross amount of receivables multiplied by the expected loss rate.

If the trade receivable is evaluated as irrecoverable, an allowance of 100% is created. Write-offs are recognized in profit or loss under Other operating expenses. In cases where receivables can no longer be recovered from the court (for example, the receivable was time-barred, based on the results of the resolutions due to lack of assets of the bankrupt, the debtor ceased without a legal successor, etc.), receivables are written off against the allowance.

3. Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 9 "Financial Instruments".
The Group adopted IFRS 9, Financial Instruments, from 1 January 2018. The Group elected not to restate comparative figures and recognized any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standards, 1 January 2018.

IFRS 9 classifies all financial assets into three categories: assets subsequently carried at amortized costs using effective interest rate method, assets subsequently measured at fair value through other comprehensive income and assets subsequently measured at fair value through profit or loss. The classification must be performed at the time of acquisition and on initial recognition of financial assets and depends on entity's business model and the contractual cash flow characteristics of the financial instrument. Debt instrument that (i) is held within a business model which objective is to collect contractual cash flows, and (ii) that has contractual cash flows represented only by payments of principal and interest on the outstanding principal amount (i.e. financial instrument has only „basic loan features") are generally measured at amortized costs. Debt instrument shall be measured at fair value through other comprehensive income if both of the following conditions are met: (i) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. All other debt instruments should be measured at fair value recognized in profit or loss. Equity instruments under the scope of IFRS 9 are subsequently measured at fair value. Gains or losses arising from equity instruments are always included in profit or loss except for equity instruments that are not held for trading. An entity may irrevocably elect for these instruments on initial recognition that realized and unrealized gains and losses arising from the investment will be recognized in other comprehensive income. Dividends are included in profit and loss only if they represent a return on investment. This decision may be done separately for each equity instrument.

Impairment methodology
New IFRS 9 has introduced more progressive loss impairment model that will require more timely recognition of expected credit losses compared to incurred-loss model under IAS 39.

In the year 2018, the adoption of IFRS 9 did not have a material impact on measurement of financial instruments in the Group's financial statements, neither did the change in the methodology on measurement of trade receivables and other financial assets.

Adoption of IFRS 15 "Revenue from Contracts with Customers".
IFRS 15 introduces the new core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. The goods or services are transferred when the customer obtains control of these. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. Variable consideration should be included into transaction price at

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such amount to avoid significant risk of considerable revenue reversal in the future. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed. The standard also includes detailed guidance for principal versus agent considerations, repurchase arrangements, bill-and-hold arrangements and some other areas.

The Group adopted the new standard IFRS 15 on January 1, 2018 applying the modified retrospective approach. Under this approach, the Group does not restate the comparative information for the period ended December 31, 2017 using the new IFRS 15 accounting policies. The amended standard did not have any material impact on the Group. Only refund liabilities related to volume discounts are shown in disclosures separately (as at 31 December 2017 included within trade payables).

4. New accounting standards and interpretations

The following amended standards became effective for the Group from 1 January 2018, but did not have any material impact on the Group.

- IFRS 9 "Financial Instruments". The Group adopted IFRS 9, Financial Instruments, from 1 January 2018.
- IFRS 15 "Revenue from Contracts with Customers
- Amendments to IFRS 2 "Share-based Payment" (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4 - „Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (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).
- Annual Improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- 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).
- Amendments to IAS 40 – "Transfers of Investment Property" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

5. New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Group has not early 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). Key features of the new standard are:

- These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. 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 decided that it will apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method, without restatement of comparatives. Right-of-use assets for property leases are measured on transition as if the new rules had always applied. All other right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued expenses).

IFRS 17 „Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group expects to apply the standard to performance guarantees that it issues and is currently assessing the impact of the new standard on its financial statements.

The accompanying notes on pages 39 to 62 are an integral part of these consolidated financial statements.

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.

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). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares. The Group does not expect a material impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, eg in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan—an amendment, curtailment or settlement—takes place, IAS 19 requires to remeasure net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements.
The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The accompanying notes on pages 39 to 62 are an integral part of these consolidated financial statements.

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Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020). The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The amendments are prospective and the Group will apply them and assess their impact from 1 January 2020.

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group is currently assessing the impact of the amendments on its financial statements.

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

6. 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 12, 16, and 22.

In 2018 and 2017 short-term employee benefits (salaries and bonuses including social and health insurance) related to management personnel of Group companies (36 and 36 people in total, respectively) amounted to CZK 81,999 thousand and CZK 90,946 thousand, respectively.

In 2018 and 2017 members of Board of Directors and Supervisory Board of the Parent Company received remuneration of CZK 1,725 thousand and CZK 1,440 thousand, respectively.

The accompanying notes on pages 39 to 62 are an integral part of these consolidated financial statements.

7. 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 2017	28,775	1,743,749	2,992,546	78,430	17,919	4,861,418
Accumulated depreciation	-	(795,742)	(2,463,091)	(65,947)	-	(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)	-	(261)	(1)	-	(268)
Depreciation charge	-	(37,647)	(75,991)	(2,470)	-	(116,108)
Transfers	-	6,098	22,615	-	(28,713)	-
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	-	(831,525)	(2,519,818)	(68,402)	(4)	(3,419,749)
Carrying amount at 1 January 2018	**30,768**	**918,121**	**535,467**	**11,238**	**11,052**	**1,506,646**
Additions	-	3,836	43,965	6,765	9,599	64,165
Disposals	-	-	-	-	-	-
Depreciation charge	-	(37,697)	(80,400)	(2,415)	-	(120,512)
Impact of new investment	-	-	2,437	-	-	2,437
Transfers	-	2,378	1,910	-	(4,288)	-
Effect of translation to presentation currency	39	198	1,129	4	36	1,406
Carrying amount at 31 December 2018	**30,807**	**886,836**	**504,508**	**15,592**	**16,399**	**1,454,142**
Cost at 31 December 2018	30,807	1,756,310	3,102,037	86,335	16,403	4,991,892
Accumulated depreciation	-	(869,474)	(2,597,529)	(70,743)	(4)	(3,537,750)
Carrying amount at 31 December 2018	**30,807**	**886,836**	**504,508**	**15,592**	**16,399**	**1,454,142**

Included in plant and equipment are assets held under finance leases with a carrying value of CZK 1,166 thousand (2017: CZK 1,333 thousand). See Note 15.

At 31 December 2018 buildings and lands carried at CZK 633,607 thousand (2017: CZK 652,907 thousand) have been pledged to third parties as collateral for borrowings. See Note 23.

The accompanying notes on pages 39 to 62 are an integral part of these consolidated financial statements.

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8. 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 2017	193,484	4,218	2,715	16,454	13,376	230,247
Accumulated depreciation	(186,325)	(2,317)	(1,471)	-	-	(190,113)
Carrying amount at 1 January 2017	**7,159**	**1,901**	**1,244**	**16,454**	**13,376**	**40,134**
Additions	475	-	-	5,872	-	6,347
Depreciation charge	(4,530)	(713)	(453)	-	-	(5,695)
Transfers	19,011	-	-	(19,011)	-	-
Effect of translation to presentation currency	(10)	-	-	-	(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)	-	-	(195,766)
Carrying amount at 1 January 2018	**22,105**	**1,188**	**792**	**3,315**	**12,643**	**40,043**
Additions	2,833	-	-	(157)	-	2,676
Depreciation charge	(5,575)	(713)	(453)	-	-	(6,741)
Impact of new aquisition					9,433	9,433
Effect of translation to presentation currency	-	-	-	-	92	92
Carrying amount at 31 December 2018	**19,363**	**475**	**339**	**3,158**	**22,168**	**45,503**
Cost at 31 December 2018	215,483	4,218	2,716	3,158	22,168	247,743
Accumulated amortisation	(196,120)	(3,743)	(2,377)	-	-	(202,240)
Carrying amount at 31 December 2018	**19,363**	**475**	**339**	**3,158**	**22,168**	**45,503**

9. Business Combinations

On 31 July 2018, the Group acquired 100% interests in ThermWet s.r.o. which deals the production and sale of recuperation unit. The acquisition has increased range of products that are offered to customers by the group.

The acquisition-date fair value of the total purchase consideration and its components are as follows:

In thousands of CZK	
Cash cash equivalents	200
Propertly plant and equipment	2,437
Inventory	2,352
Accounts receivables,net	447
Other assets	62
Borrowings	(2,748)
Trade and other payables	(2,064)
Other liabilities	(119)
Total identifiable assets of subsidiary	567
Total purchase consideration and previously held interest in the acquiree	10,000
Less: Cash and cash equivalent of subsidiary acquired	(200)
Outflow of cash and cash equivalent on acquisition	9,800
Goodwill arising from the acquisition	**9,433**

The acquired subsidiary contributed revenue of CZK 4,239 thousand and loss of CZK 1,530 thousand to the Group for the period from the date of acquisition to 31 December 2018. If the acquisition has occurred on 1 January 2018, the contributed revenue for 2018 would have been CZK 12,288 thousand, and profit for 2018 would have been CZK (1,327) thousand.

The goodwill is attributable to ThermWet s.r.o. know how and expected increase of the market. It will not be deductible for tax purposes.

There were no acquisitions in the year ending 31 December 2017.

10. Inventories

In thousands of CZK	2018	2017
Raw materials	224,535	211,620
Work in progress	16,660	11,123
Finished products	79,085	56,736
Total inventories	**320,280**	**279,480**

Inventories of CZK 198,120 thousand (2017: CZK 192,085 thousand) have been pledged as collateral for borrowings. See Note 23.

Excess, obsolete and slow-moving inventory at gross amount of CZK 10,057 thousand (2017: CZK 10,670 thousand) has been reduced through the impairment provision account of CZK 7,565 thousand (2017: CZK 5,830 thousand). The impairment provision is determined by management based on the aging analysis of inventory and the estimated realizable value.

11. Receivables

In thousands of CZK	2018	2017
Trade receivables	80,643	93,082
Advances paid	5,547	4,222
Other	127	237
Less trade receivables provision	(4,467)	(13,015)
Total trade and other receivables	**81,850**	**84,524**

Receivables of CZK 77,600 thousand (2017: CZK 66,472 thousand) have been pledged as collateral for borrowings. See Note 23.

Movements in the provision for trade receivables are as follows:

In thousands of CZK	2018 Trade receivables	2017 Trade receivables
Provision for impairment at 1 January	**13,015**	**34,583**
Additions	2,048	4,396
Amounts written off during the year as uncollectible	(1,213)	(20,554)
Reversals	(9,383)	(5,409)
Provision for impairment at 31 December	**4,467**	**13,015**

Trade receivables of CZK 73,884 thousand (2017: CZK 77,548 thousand) net of impairment loss provisions are denominated in foreign currency, mainly 76% in Euro (2017: 79%).

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

The accompanying notes on pages 39 to 62 are an integral part of these consolidated financial statements.

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Notes to the Consolidated Financial Statements – 31 December 2018

Matrix of impairment for trade receivables at amortized cost

In % of gross value	Expected losses	Gross carrying amount	Allowance
Trade receivables			
- current	0 %	61,913	-
- less than 90 days overdue	3 %	14,666	(403)
- 91 to 180 days overdue	100 %	206	(206)
- 181 to 360 days overdue	100 %	2,905	(2,905)
- over 360 days overdue	100 %	953	(953)
Total trade receivables (gross carrying amount)		**80,643**	
Allowance		(4,467)	
Total trade receivables from contracts with customers (carrying amount)		76,175	

12. Prepayments and other current assets

In thousands of CZK	2018	2017
VAT receivables	18,998	8,420
Prepayments and other	8,866	5,410
Total Prepayments and other current assets	**27,864**	**13,830**

13. Cash and Cash Equivalents

In thousands of CZK	2018	2017
Bank balances payable on demand	96,376	59,875
Cash on hand	492	509
Total cash and cash equivalents	**96,868**	**60,384**

The credit quality of bank balances may be summarized as follows:

In thousands of CZK	2018 Bank balances payable on demand	2017 Bank balances payable on demand
Neither past due nor impaired		
- A	51,095	25,544
- B	45,281	34,331
Total	**96,376**	**59,875**

14. 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 .

The shareholders:

(in %)	31 December 2018	31 December 2017
Menclík František	9.16	9.16
Petr Ludvík	9.16	9.16
Vobora Miroslav	9.16	9.16
KORADO, a.s.	9.16	9.16
European Bank for Reconstruction & Development	29.14	29.14
Ministry of Finance, Czech Republic	34.22	34.22
Total	**100.00**	**100.00**

In thousands of CZK	2018	2017
Dividends per share declared during the year	**19**	**19**

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 (2017: CZK 49,998 thousand), of which part attributable to own shares in amount of CZK 4,580 thousand (2017: CZK 3,664 thousand) was transferred to retained earnings. The profit share paid to non-controlling interest amounted to CZK 10,417 thousand (2017: CZK 4,821 thousand).

On 20 September 2018 the Statutory Representatives decided on the interim dividend payment of CZK 10,000 thousand (2017: CZK 10,000 thousand). On 18 December 2018 the Statutory Representatives decided on the interim dividend payment of CZK 10,000 thousand (2017: CZK 10,000 thousand). Part of the interim dividend payment of the profit attributable to its own shares amounted to CZK 1,833 thousand (2017: 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.

The accompanying notes on pages 39 to 62 are an integral part of these consolidated financial statements.

15. Borrowings

In thousands of CZK	2018	2017
Term loans	244,397	241,903
Other non – bank loans	1,564	-
Finance lease liabilities	2,563	2,846
Total borrowings	**248,524**	**244,749**

In thousands of CZK	2018	2017
Current		
Term loans	102,542	111,411
Other non – bank loans	330	-
Finance lease liabilities	1,092	1,616
Total current borrowings	**103,964**	**113,027**

In thousands of CZK	2018	2017
Non- current		
Term loans	141,855	130,492
Other non – bank loans	1,234	-
Other long term liabilities	1,471	1,230
Total non-current borrowings	**144,560**	**131,722**
Total borrowings	**248,524**	**244,749**

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

In thousands of CZK	2018	2017
Borrowings denominated in:		
CZK	110,780	200,754
EUR	135,181	41,149
BGN	2,563	2,846
Total borrowings	**248,524**	**244,749**

Property, plant and equipment, inventories and receivables are pledged as collateral for borrowings of CZK 909,327 thousand (2017: CZK 911,463 thousand). See Notes 7, 10, 11 and 23.

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 2018 and 31 December 2017.

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 2018	**1,092**	**1,471**	**-**	**2,563**
Less future finance charges				(105)
Present value of minimum lease payments at 31 December 2018				2,458
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

Leased assets with a carrying amount disclosed in Note 7 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 62 are an integral part of these consolidated financial statements.

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Reconciliation of liabilities arising from financing activities

In thousands of CZK	2018	2017
Cash and cash equivalents	96,868	60,384
Long-term borrowings	(144,560)	(131,722)
Short-term borrowings and current portion of long-term debt	(103,964)	(113,027)
Total liabilities from financing activities	**(151,656)**	**(184,365)**

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 reported as financing in the statement of cash flows:

	Assets from financing activities	Liabilities from financing activities		
In thousands of CZK	Cash and cash equivalents	Borrowings	Other liabilities from financing activities	Total
Liabilities from financing activities at 1 January 2017	**202,405**	**(344,394)**	**(2,918)**	**(144,907)**
Cash Flows	(145,673)	102,490	74	(43,109)
Foreign exchange adjustments	3,652	1	(2)	3,651
Liabilities from financing activities at 31 December 2017	60,384	(241,903)	(2,846)	(184,365)
Cash Flows	37,553	3,493	(7,268)	33,778
Foreign exchange adjustments	(1,069)	-	-	(1,069)
Liabilities from financing activities at 31 December 2018	**96,868**	**(238,410)**	**(10,114)**	**(151,656)**

16. Trade and other payables

In thousands of CZK	2018	2017
Trade payables	237,398	181,678
Refund liabilities for volume discounts	161,806	131,806
Payables to employees	32,453	38,382
Tax payables	7,091	8,846
Accrued liabilities and other creditors	19,491	23,980
Trade and other payables	**458,239**	**384,692**

Trade payables of CZK 178,419 thousand (2017: CZK 155,643 thousand) are denominated in foreign currency, mainly 95% in Euro (2017: 97%).

17. Revenues from sales of products and goods

In thousands of CZK	2018	2017
Sales of radiators	1,610,482	1,826,529
Sales of convectors	94,254	69,608
Sales of accessories	41,336	41,520
Other sales	33,808	11,517
Total revenue	**1,779,880**	**1,949,174**

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

In thousands of CZK	2018	2017
Domestic sales	640,616	717,496
Export	1,139,264	1,231,678
- Export – EU	1,002,106	1,047,868
- Export - other	137,158	183,810
Total revenue	**1,779,880**	**1,949,174**

The accompanying notes on pages 39 to 62 are an integral part of these consolidated financial statements.

18. Cost of Materials, Energy and Purchased Goods

In thousands of CZK	2018	2017
Materials and supplies	937,041	1,094,452
Energy	39,455	40,628
Purchased goods	56,362	30,497
Total	**1,032,858**	**1,165,576**

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

19. Purchased services and rental expenses

In thousands of CZK	2018	2017
Repairs and maintenance	8,275	10,222
Rent	20,588	20,100
Traveling and training expenses	12,560	12,954
Marketing	53,133	54,775
Transportation expenses	36,404	40,702
Legal and advisory services (incl. 2018: CZK 1 853 ths, 2017: CZK 1,853 ths for audit services)	11,690	12,471
Operational services (Cooperation, IT services)	47,698	52,957
Other	19,516	21,517
Total	**209,864**	**225,700**

20. Other operating income

In thousands of CZK	2018	2017
Income from write off of receivables and insured receivables	5,244	176
Gain on sale of fixed assets	42	424
Income from sale of scrap	5,136	6,336
Other	13,384	10,345
Total	**23,806**	**17,281**

21. Other Expenses

In thousands of CZK	2018	2017
Receivables and loans written off	1,213	-
Change in impairment provisions and provisions, net	(7,839)	4,394
Taxes and levies	1,671	1,676
Insurance	14,710	14,323
Other	12,466	9,432
Total	**22,221**	**29,825**

22. Taxes

a) Components of income tax expense

Income tax expense comprises the following:

In thousands of CZK	2018	2017
Current tax	8,333	8,217
Deferred tax	(2,445)	5,169
Income tax expense for the year	**5,888**	**13,385**

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 2018 and 2017 income is 19 %. The income tax rate applicable to the majority of income of subsidiaries ranges from 10 % to 19 % (2017: from 10 % to 19 %). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of CZK	2018	2017
Profit before tax	**12,287**	**37,989**
Statutory income tax rate	19 %	19 %
"Expected" income tax, expense	2,335	7,218
Add / (deduct), tax effect of:		
Non-deductible expenses	3,087	2,088
Change in valuation allowance	-	(383)
Change in deferred tax asset from tax credit	7,916	9,729
Different tax rate in other countries	(6,913)	(6,410)
Other	(537)	1,143
Actual income tax expense	5,888	13,385
Effective tax rate	48 %	35 %

c) Tax loss carry forwards

The Group has unrecognized potential deferred tax assets in respect of unused tax loss carry forwards of CZK 6,616 thousand (2017: CZK 6,616 thousand).

Deferred income taxes at 31 December 2018 and 2017 consist of the following:

The accompanying notes on pages 39 to 62 are an integral part of these consolidated financial statements.

KORADO GROUP

Notes to the Consolidated Financial Statements – 31 December 2018

In thousands of CZK	2018	2017
Receivables impairment provision	138	589
Inventory impairment provision	1,435	1,108
Provisions	1,341	1,461
Accumulated losses carried forward	14,116	6,143
Elimination of intra-group profit from inventories	483	243
Tax credit from investment incentive	24,218	32,134
Other	634	1,477
Total deferred tax assets	**42,365**	**43,155**
Total deferred tax asset in Statement of Financial Position	**633**	**525**
Total deferred tax asset for offset with liability	**41,732**	**42,630**
Difference between net book value of non-current assets for accounting and tax purposes	(126,806)	(130,041)
Total deferred tax liabilities	**(126,806)**	**(130,041)**
Offset with deferred tax assets	41,732	42,630
Deferred tax liabilities in the Statement of Financial Position	**(85,074)**	**(87,411)**

Movements in deferred tax liability, net were as follows:

In thousands of CZK	2018	2017
As at 1 January	86,886	81,717
Change in deferred tax recorded in statement of income	(2,445)	5,169
As at 31 December	84,441	86,886

Out of the total tax losses of subsidiary generated since 1999, CZK 26,624 thousand and CZK 26,462 thousand can be carried forward as of 31 December 2018 and 2017, respectively. In 2018 and 2017 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 2018 and 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 24,218 thousand as at 31 December 2018 (as at 31 December 2017: CZK 32,134 thousand). The remaining part of deferred tax asset of CZK 151,782 thousand as at 31 December 2018 (as at 31 December 2017: CZK 143,866 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 2018 and 2017.

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.

23. 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	2018	2017
Not later than 1 year	17,750	17,350
Later than 1 year and not later than 5 years	56,632	10,237
Later than 5 years	12,784	-
Total operating lease commitments	**87,166**	**27,587**

Assets pledged and restricted.

At 31 December 2018 the Group has the following assets pledged as collateral:

In thousands of CZK	Note	2018 Asset pledged	2017 Asset pledged
Property	7	11,638	11,638
Plant and equipment	7	621,969	641,269
Receivables	11	77,600	66,472
Inventories	10	198,120	192,085
Total		**909,327**	**911,463**

24. 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.

During the year 2018, the Group disposed 146,376 shares of Korado Bulgaria increasing the share of NCI to 17.44%. The sale of shares didn't have any material influence on Group control over Korado Bulgaria.

The accompanying notes on pages 39 to 62 are an integral part of these consolidated financial statements.

The following table shows summarized financial information of KORADO Bulgaria AD for the year ended 31 December 2018 and 2017:

In thousands of CZK	2018	2017
Ownership share of non-controlling interest at 31 December	17.44 %	16.33 %
Non-current assets	198,857	199,845
Current assets	206,895	148,893
Non-current liabilities	(57,056)	(54,786)
Current liabilities	(80,391)	(32,598)
Equity	268,304	261,354
Attributable to:		
Equity holders of parent	221,515	218,682
Non-controlling interests	46,788	42,671
Revenues	571,395	570,566
Profit after income taxes	68,879	64,311
Attributable to:		
Equity holders of parent	56,060	53,811
Non-controlling interest	12,132	10,500
Total comprehensive income	**68,192**	**49,120**
Attributable to:		
Equity holders of parent	56,301	41,100
Non-controlling interest	11,892	8,020

25. 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 11.

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 2018 and 2017, 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 62 are an integral part of these consolidated financial statements.

KORADO GROUP

Notes to the Consolidated Financial Statements – 31 December 2018

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):

	2018		2017	
	Increase/decrease in exchange rate *	Effect on profit / loss before tax	Increase/decrease in exchange rate *	Effect on profit / loss before tax
EUR	+5 %	(12,126)	+5 %	(7,140)
PLN	+5 %	1,287	+5 %	662
BGN	+5 %	(138)	+5 %	89
EUR	(5 %)	12,126	(5 %)	7,140
PLN	(5 %)	(1,287)	(5 %)	(662)
BGN	(5 %)	138	(5 %)	(89)

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

The changes in exchange rates USD/CZK and GBP/CZK were 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 15). 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 2.39% as at 31 December 2018 and 2.12% as at 31 December 2017, 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:

2018		2017	
Increase/decrease in basis points	Effect on profit / loss before tax	Increase/decrease in basis points	Effect on profit / loss before tax
50	(1,176)	50	(1,150)
(50)	1,176	(50)	1,150

The accompanying notes on pages 39 to 62 are an integral part of these consolidated financial statements.

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 2018 and 2017 based on contractual undiscounted payments (nominal amount and interest) provided that the Group meets the loan agreement covenants:

31 December 2018	Less than 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Bank and other loans	35,218	71,862	148,252	-	255,332
Finance lease obligations	368	1,103	1,091	-	2,562
Trade payables	399,204	-	-	-	399,204
Total	**434,790**	**72,965**	**149,343**	**-**	**657,098**
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	-	248,837
Finance lease obligations	307	922	1,617	-	2,847
Trade payables	313,484	-	-	-	313,484
Total	**343,721**	**89,797**	**131,649**	**-**	**565,167**

26. 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 2018 was CZK 1,180,765 thousand (2017: CZK 1,219,006 thousand).

The Group has complied with all externally imposed capital requirements throughout 2018 and 2017. These are set out in the Group's loan agreements based on which the Group is required to maintain equity ratio above 58% and net debt/EBITDA ratio less than 3.2.

27. 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 62 are an integral part of these consolidated financial statements.

KORADO GROUP

Notes to the Consolidated Financial Statements – 31 December 2018

Carrying amounts and the estimated fair values of financial instruments as at 31 December 2018 were as follows:

In thousands of CZK	Carrying amount	Fair value
Assets		
Other non-current assets	4,736	4,736
Accounts receivable, net	81,850	81,850
Cash and cash equivalents	96,868	96,868
Liabilities		
Payables and other current liabilities	399,204	399,204
Short-term borrowings and current portion of long-term debt	103,964	103,964
Long-term debt, net of current portion	144,560	144,560

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	131,722	131,722

28. 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 2018.

The accompanying notes on pages 39 to 62 are an integral part of these consolidated financial statements.

KORADO, a.s.
STANDALONE
FINANCIAL STATEMENTS
31 DECEMBER 2018

KORADO, a.s.

Identification number: 25255843 | Legal form: Join stock company | Primary business: Manufacturing of central heating radiators
Balance sheet date: 31 December 2018 | Date of preparation of the financial statements: 17 April 2019

BALANCE SHEET (in thousand Czech crowns)

Ref. a				ASSETS b	Row c	31. 12. 2018 Gross 1	Provision 2	Net 3	31. 12. 2017 Net 4
				TOTAL ASSETS	**001**	**5,514,274**	**(3,622,828)**	**1,891,446**	**1,857,604**
B.				**FIXED ASSETS**	**003**	**5,124,337**	**(3,612,609)**	**1,511,728**	**1,557,023**
B.	I.			**Intangible fixed assets**	**004**	**215,517**	**(193,488)**	**22,029**	**24,816**
B.	I.	2.		Royalties	006	212,469	(193,488)	18,981	21,501
B.	I.	2.	1.	Software	007	208,177	(190,208)	17,969	20,468
B.	I.	2.	2.	Other royalties	008	4,292	(3,280)	1,012	1,033
B.	I.	5.		Advances paid and intangible fixed assets in the course of construction	011	3,048	-	3,048	3,315
B.	I.	5.	2.	Intangible fixed assets in the course of construction	013	3,048	-	3,048	3,315
B.	II.			**Tangible fixed assets**	**014**	**4,485,079**	**(3,264,346)**	**1,220,733**	**1,271,662**
B.	II.	1.		Land and constructions	015	1,716,347	(832,292)	884,055	915,917
B.	II.	1.	1.	Land	016	25,455	-	25,455	25,455
B.	II.	1.	2.	Constructions	017	1,690,892	(832,292)	858,600	890,462
B.	II.	2.		Equipment	018	2,676,427	(2,362,677)	313,750	338,362
B.	II.	4.		Other tangible fixed assets	020	86,536	(69,377)	17,159	12,788
B.	II.	4.	3.	Tangible fixed assets - other	023	86,536	(69,377)	17,159	12,788
B.	II.	5.		Advances paid and tangible fixed assets in the course of construction	024	5,769	-	5,769	4,595
B.	II.	5.	1.	Advances paid for tangible fixed assets	025	3,990	-	3,990	-
B.	II.	5.	2.	Tangible fixed assets in the course of construction	026	1,779	-	1,779	4,595
B.	III.			**Long-term investments**	**027**	**423,741**	**(154,775)**	**268,966**	**260,545**
B.	III.	1.		Investments - subsidiaries and controlling party	028	288,478	(108,543)	179,935	170,078
B.	III.	2.		Loans and borrowings - subsidiaries and controlling party	029	135,263	(46,232)	89,031	90,467
C.				**CURRENT ASSETS**	**037**	**362,521**	**(10,219)**	**352,302**	**296,128**
C.	I.			**Inventories**	**038**	**198,120**	**(6,617)**	**191,503**	**186,993**
C.	I.	1.		Raw materials	039	122,940	(5,668)	117,272	130,260
C.	I.	2.		Work in progress and semi-finished products	040	12,206	-	12,206	8,344
C.	I.	3.		Finished goods and goods for resale	041	62,974	(949)	62,025	48,389
C.	I.	3.	1.	Finished goods	042	37,208	(578)	36,630	32,630
C.	I.	3.	2.	Goods for resale	043	25,766	(371)	25,395	15,759
C.	II.			**Receivables**	**046**	**96,369**	**(3,602)**	**92,767**	**82,299**
C.	II.	1.		Long-term receivables	047	7	-	7	2
C.	II.	1.	5.	Receivables - other	052	7	-	7	2
C.	II.	1.	5. 2.	Long-term advances paid	054	7	-	7	2
C.	II.	2.		Short-term receivables	057	96,362	(3,602)	92,760	82,297
C.	II.	2.	1.	Trade receivables	058	76,620	(3,602)	73,018	72,781
C.	II.	2.	2.	Receivables - subsidiaries and controlling party	059	331	-	331	-
C.	II.	2.	4.	Receivables - other	061	19,411	-	19,411	9,516
C.	II.	2.	4. 3.	Taxes - receivables from the state	064	13,814	-	13,814	6,107
C.	II.	2.	4. 4.	Short-term advances paid	065	3,628	-	3,628	3,091
C.	II.	2.	4. 5.	Estimated receivables	066	1,940	-	1,940	149
C.	II.	2.	4. 6.	Other receivables	067	29	-	29	169
C.	IV.			**Cash**	**075**	**68,032**	**-**	**68,032**	**26,836**
C.	IV.	1.		Cash in hand	076	310	-	310	369
C.	IV.	2.		Cash at bank	077	67,722	-	67,722	26,467
D.				**Prepayments and accrued income**	**078**	**27,416**	**-**	**27,416**	**4,453**
D.	1.			Prepaid expenses	079	6,147	-	6,147	4,402
D.	3.			Accrued income	081	21,269	-	21,269	51

KORADO, a.s.

Identification number: 25255843 | Legal form: Join stock company | Primary business: Manufacturing of central heating radiators
Balance sheet date: 31 December 2018 | Date of preparation of the financial statements: 17 April 2019

BALANCE SHEET (in thousand Czech crowns)

Ref. a				LIABILITIES AND EQUITY b	Row c	31. 12. 2018 5	31. 12. 2017 6
				TOTAL LIABILITIES AND EQUITY	**082**	**1,891,446**	**1,857,604**
A.				**Equity**	**083**	**1,111,935**	**1,140,125**
A.	**I.**			**Share capital**	**084**	**724,221**	**724,221**
A.	I.	1.		Share capital	085	840,700	840,700
A.	I.	2.		Own shares held	086	(116,479)	(116,479)
A.	**II.**			**Share premium and capital contributions**	**088**	**(44,435)**	**(47,022)**
A.	II.	2.		Capital contributions	090	(44,435)	(47,022)
A.	II.	2.	1.	Other capital contributions	091	-	48
A.	II.	2.	2.	Assets and liabilities revaluation	092	(44,435)	(47,070)
A.	**III.**			**Other reserves**	**096**	**116,479**	**164,747**
A.	III.	1.		Other reserve funds	097	-	48,268
A.	III.	2.		Statutory and other reserves	098	116,479	116,479
A.	**IV.**			**Retained earnings**	**099**	**319,244**	**308,308**
A.	IV.	1.		Retained earnings	100	319,244	308,308
A.	**V.**			**Profit for the current period**	**102**	**14,593**	**8,038**
A.	**VI.**			**Less interim dividend declared**	**103**	**(18,167)**	**(18,167)**
B.	**+ C.**			**Liabilities**	**104**	**768,138**	**702,327**
B.				**Provisions**	**105**	**6,395**	**7,257**
B.	4.			Other provisions	109	6,395	7,257
C.				**Liabilities**	**110**	**761,743**	**695,070**
C.	**I.**			**Long-term liabilities**	**111**	**219,886**	**203,681**
C.	I.	2.		Liabilities due to financial institutions	115	134,725	118,520
C.	I.	8.		Deferred tax liability	121	85,161	85,161
C.	**II.**			**Short-term liabilities**	**126**	**541,857**	**491,389**
C.	II.	2.		Liabilities due to financial institutions	130	91,282	111,517
C.	II.	3.		Short-term advances received	131	1,613	1,277
C.	II.	4.		Trade payables	132	378,131	313,935
C.	II.	8.		Liabilities - other	136	70,831	64,660
C.	II.	8.	1.	Liabilities to shareholders	137	8,187	8,187
C.	II.	8.	3.	Liabilities to employees	139	13,504	15,659
C.	II.	8.	4.	Liabilities for social security and health insurance	140	7,035	8,480
C.	II.	8.	5.	Taxes and state subsidies payable	141	3,524	4,149
C.	II.	8.	6.	Estimated payables	142	37,482	27,682
C.	II.	8.	7.	Other liabilities	143	1,099	503
D.				**Accruals and deferred income**	**147**	**11,373**	**15,152**
D.	1.			Accrued expenses	148	9,350	15,152
D.	2.			Deferred income	149	2,023	-

KORADO, a.s.

Identification number: 25255843 | Legal form: Join stock company | Primary business: Manufacturing of central heating radiators
Balance sheet date: 31 December 2018 | Date of preparation of the financial statements: 17 April 2019

INCOME STATEMENT (in thousand Czech crowns)

Ref.			TEXT	Row	Accounting period 2017	2016
a			b	c	1	2
I.			**Sales of products and services**	**01**	**1,022,522**	**1,225,445**
II.			**Sales of goods**	**02**	**525,944**	**478,818**
A.			**Cost of sales**	**03**	**1,212,008**	**1,327,906**
A.	1.		Cost of goods sold	04	423,954	386,884
A.	2.		Raw materials and consumables used	05	626,504	756,889
A.	3.		Services	06	161,550	184,133
B.			**Changes in inventories of finished goods and work in progress**	**07**	**(8,725)**	**(205)**
C.			**Own work capitalised**	**08**	**(7,194)**	**(8,282)**
D.			**Staff costs**	**09**	**289,180**	**303,239**
D.	1.		Wages and salaries	10	215,535	228,818
D.	2.		Social security, health insurance and other social costs	11	73,645	74,421
D.	2.	1.	Social security and health insurance costs	12	65,662	68,127
D.	2.	2.	Other social costs	13	7,983	6,294
E.			**Value adjustments in operating acitivities**	**14**	**99,452**	**84,254**
E.	1.		Value adjustments of fixed assets	15	106,648	101,711
E.	1.	1.	Depreciation, amortisation and write off of fixed assets	16	106,648	101,711
E.	2.		Provision for impairment of inventories	18	1,525	3,800
E.	3.		Provision for impairment of receivables	19	(8,721)	(21,257)
III.			**Operating income - other**	**20**	**32,476**	**50,108**
III.	1.		Sales of fixed assets	21	42	239
III.	2.		Sales of raw materials	22	17,759	39,843
III.	3.		Other operating income	23	14,675	10,026
F.			**Operating expenses - other**	**24**	**29,852**	**71,465**
F.	1.		Net book value of fixed assets sold	25	-	154
F.	2.		Net book value of raw materials sold	26	17,313	38,512
F.	3.		Taxes and charges from operating activities	27	834	835
F.	4.		Operating provisions and complex prepaid expenses	28	(862)	936
F.	5.		Other operating expenses	29	12,567	31,028
	*		**Operating result**	**30**	**(33,631)**	**(24,006)**
IV.			Income from sales of long-term investments - shares	31	67,583	42,546
IV.	1.		Income from sales of investments - subsidiaries or controlling party	32	67,583	42,546
G.			Shares sold	34	1,746	2,163
VI.			Interest and similar income	39	2,778	2,513
VI.	1.		Interest and similar income - subsidiaries or controlling party	40	2,751	2,501
VI.	2.		Other interest and similar income	41	27	12
I.			Value adjustments and provisions from financial operations	42	(394)	(1,977)
J.			Interest and similar expenses	43	7,430	6,185
J.	2.		Other interest and similar expenses	45	7,430	6,185
VII.			Other financial income	46	7,809	21,885
K.			Other financial expenses	47	21,164	22,029
	*		**Financial result**	**48**	**48,224**	**38,544**
	**		**Net profit / (loss) before taxation**	**49**	**14,593**	**14,538**
L.			**Tax on profit or loss**	**50**	**-**	**6,500**
L.	2.		Tax on profit or loss - deferred	52	-	6,500
	**		**Net profit / (loss) after taxation**	**53**	**14,593**	**8,038**
	***		**Net profit / (loss) for the financial period**	**55**	**14,593**	**8,038**
			Net turnover for the financial period	**56**	**1,659,112**	**1,821,315**

KORADO, a.s.

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

Balance sheet date: 31 December 2018 | Date of preparation of the financial statements: 17 April 2019

CASH-FLOW STATEMENT (in thousand Czech crowns)

Ref.			TEXT	Accounting period 2018	2017
a			b	1	2
			Cash flows from operating activities		
			Net profit on ordinary activities before tax	**14,593**	**14,538**
A.	1.		Adjustments for non-cash movements:	43,201	66,958
A.	1.	1.	Depreciation and amortisation of fixed assets	106,648	101,711
A.	1.	2.	Change in provisions	(8,451)	(18,497)
A.	1.	3.	(Profit)/loss from disposal of fixed assets	(11,794)	(11,561)
A.	1.	4.	Dividend income	(54,085)	(28,906)
A.	1.	5.	Net interest expense/(income)	4,652	3,672
A.	1.	6.	Other non-cash movements	6,231	20,539
A	*		**Net cash flow from operating activities before tax and changes in working capital**	**57,794**	**81,496**
A.	2.		Working capital changes:	33,691	77,205
A.	2.	1.	Change in receivables and prepayments	(28,589)	23,978
A.	2.	2.	Change in short-term payables and accruals	68,314	93,553
A.	2.	3.	Change in inventories	(6,034)	(40,326)
A	**		**Net cash flow from operating activities before tax**	**91,485**	**158,701**
A.	3.		Interest paid	(7,430)	(6,185)
A.	4.		Interest received	2,778	2,513
A.	6.		Dividends received	54,085	28,906
A	***		**Net cash flow from operating activities**	**140,918**	**183,935**
B.	1.		Acquisition of fixed assets	(63,969)	(53,926)
B.	2.		Proceeds from sale of fixed assets	11,794	11,561
B.	3.		Loans to related parties	1,901	1,576
B	***		**Net cash flow from investing activities**	**(50,274)**	**(40,789)**
C.	1.		Change in long- and short-term liabilities	(4,030)	(109,291)
C.	2.		Changes in equity:	(45,418)	(161,897)
C.	2.	5.	Direct payments from funds	-	(116,479)
C.	2.	6.	Dividends paid	(45,418)	(45,418)
C	***		**Net cash flow from financing activities**	**(49,448)**	**(271,188)**
			Net increase/(decrease) in cash and cash equivalents	**41,196**	**(128,042)**
			Cash and cash equivalents at the beginning of the year	**26,836**	**154,878**
			Cash and cash equivalents at the end of the year	**68,032**	**26,836**

KORADO, a.s.

Standalone financial statements for the year ended 31 December 2018

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY for the year ended 31 December 2018

(in thousand Czech crowns)

(CZK'000)	Share capital	Reserve fund	Other capital funds	Revaluation reserved	Statutory fund	Own shares	Retained Earnings	Interim dividend declared	Total
As at 1 January 2017	**840,700**	**48,268**	**48**	**(35,479)**	**-**	**-**	**471,121**	**(10,000)**	**1,314,658**
Revaluation of investments in subsidiaries	-	-	-	(11,590)	-	-	-	-	(11,590)
Profit distribution paid	-	-	-	-	-	-	(46,334)	10,000	(36,334)
Interim dividend declared	-	-	-	-	-	-	-	(18,167)	(18,167)
Net profit for the current period	-	-	-	-	-	-	8,038	-	8,038
Purchase of own shares	-	-	-	-	-	(116,479)	-	-	(116,479)
Statutory fund charge	-	-	-	-	116,479	-	(116,479)	-	-
Rounding	-	-	-	(1)	-	-	-	-	(1)
As at 31 December 2017	**840,700**	**48,268**	**48**	**(47,070)**	**116,479**	**(116,479)**	**316,346**	**(18,167)**	**1,140,125**
Revaluation of investments in subsidiaries	-	-	-	2,635	-	-	-	-	2,635
Profit distribution paid	-	-	-	-	-	-	(45,418)	18,167	(27,251)
Interim dividend declared	-	-	-	-	-	-	-	(18,167)	(18,167)
Net profit for the current period	-	-	-	-	-	-	14,593	-	14,593
Dissolution of reserve fund	-	(48,268)	-	-	-	-	48,268	-	-
Dissolution of other capital fund	-	-	(48)	-	-	-	48	-	-
As at 31 December 2018	**840,700**	**-**	**-**	**(44,435)**	**116,479**	**(116,479)**	**333,837**	**(18,167)**	**1,111,935**

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.

On 28 May 2018 the General Meeting of Shareholders approved the transfer of reserve fund to retained earnings.

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 is manufacturing of radiators and central heating units.

The Company has no arrangements that are not included in the balance sheet as at 31 December 2018 or 2017.

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 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.

KORADO, a.s.

Notes to standalone financial statements for the year ended 31 December 2018

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.

3. Intangible fixed assets

(CZK'000)	1 January 2018	Additions / transfers	Disposals	31 December 2018
Cost				
Software	206,270	2,136	229	208,177
Other royalties	3,993	299	-	4,292
Intangible fixed assets in the course of construction	3,315	(267)	-	3,048
Total	**213,578**	**2,168**	**229**	**215,517**
Accumulated amortisation				
Software	185,802	4,635	229	190,208
Other royalties	2,960	320	-	3,280
Total	**188,762**	**4,955**	**229**	**193,488**
Net book value	**24,816**			**22,029**

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

KORADO, a.s.

Notes to standalone financial statements for the year ended 31 December 2018

4. Tangible fixed assets

(CZK'000)	1 January 2018	Additions / transfers	Disposals	31 December 2018
Cost				
Land	25,455	-	-	25,455
Constructions	1,687,385	3,507	-	1,690,892
Equipment	2,640,542	39,338	3,453	2,676,427
Other tangible fixed assets	53,931	6,745	-	60,676
Art works and collections	25,860	-	-	25,860
Advances paid for tangible fixed assets	-	3,990	-	3,990
Tangible fixed assets in the course of construction	4,595	(2,816)	-	1,779
Total	**4,437,768**	**50,764**	**3,453**	**4,485,079**
Accumulated depreciation				
Constructions	796,923	35,369	-	832,292
Equipment	2,302,180	63,950	3,453	2,362,677
Other tangible fixed assets	44,350	2,374	-	46,724
Art works and collections	22,653	-	-	22,653
Total	**3,166,106**	**101,693**	**3,453**	**3,264,346**
Net book value	**1,271,662**			**1,220,733**

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

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

5. Investments in subsidiaries

31 December 2018	Number of shares	Nominal value ('000)	Cost (CZK'000)	Carrying value (CZK'000)	% of capital	2018 net profit/(loss) (CZK'000)	Net assets (CZK'000)	2018 dividend income (CZK'000)
Foreign entities								
KORADO Deutschland Fürstenwalde, Germany*		25 EUR	15,820	1,712	100%	1,065	1,712	1,883
KORADO Bulgaria Strajica, Bulgaria	10,872,188	13,169 BGN	103,845	103,845	82,56%	68,879	268,304	52,202
KORADO Poland Piasecno, Poland		7,211 PLN	67,394	-	100%	510	(46,232)	-
KORADO Austria* Wien, Austria		1,050 EUR	27,012	-	100%	(11)	(27)	-
KORADO UK* London, Great Britain		1 GBP	29	-	100%	-	29	-
Domestic entities								
LICON HEAT Praha 1, Czech Republic		14,500 CZK	64,012	64,012	100%	(8,309)	2,401	-
ThermWet Praha 10, Czech Republic		200 CZK	10,366	10,366	100%	(1,530)	(962)	-
Total			**288,478**	**179,935**				**54,085**
Provision for diminution in value			**(108,543)**					
Net book value			**179,935**					

** Unaudited*

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	-	100%	568	(47,786)	-
KORADO Austria* Wien, Austria		1,050 EUR	26,817	-	100%	(6)	(16)	-
KORADO UK* London, Great Britain		1 GBP	29	-	100%	-	29	-
Domestic entities								
LICON HEAT Praha 1, Czech Republic		14,500 CZK	64,012	64,012	100%	(6,222)	10,709	-
Total			**277,460**	**170,078**				**28,906**
Provision for diminution in value			**(107,382)**					
Net book value			**170,078**					

** Unaudited*

KORADO, a.s.

Notes to standalone financial statements for the year ended 31 December 2018

The decrease in the share of KORADO Bulgaria's share capital is due to the sale of the shares of this subsidiary. In 2018 the proceeds from the sale of these shares were CZK 13,498 thousand (2017: CZK 13,640 thousand).

As at the end of the year, the share price of KORADO Bulgaria amounted to 7.15 BGN/pcs, i.e. an increase of 0.298 BGN/pcs from the beginning of the year. Market capitalization amounted to CZK 1,238 million thus an increase of CZK 56 million from the 1 January 2018. Therefore, the market value of share substantially exceeds carrying amount.

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

	Subsidiaries	
(CZK'000)	**2018**	**2017**
As at 1 January	**107,382**	**108,704**
Charge for the year	1,161	408
Released during the year	0	1,730
As at 31 December	**108,543**	**107,382**

6. Provided loans

31 December 2018	Loan value in foreign currency ('000)	Loan value (CZK'000)	Interest rate (%)	Allowance (CZK'000)
KORADO Poland	7,924 PLN	47,386	1.7% p.a.	46,232
KORADO Bulgaria	1,900 EUR	48,877	1M Euribor + 1.65% p.a.	-
LICON HEAT	39,000 Kč	39,000	1M Pribor + 1.55% p.a.	-
Total		**135,263**		**46,232**
Provision for diminution in value		**(46,232)**		
Net book value		**89,031**		

31 December 2017	Loan value in foreign currency ('000)	Loan value (CZK'000)	Interest rate (%)	Allowance (CZK'000)
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.	-
LICON HEAT	37,000 CZK	37,000	1M Pribor + 1.55% p.a.	-
Total		**138,253**		**47,786**
Provision for diminution in value		**(47,786)**		
Net book value		**90,467**		

7. Inventories

The Company created a provision for inventories as at 31 December 2018 of CZK 6,617 thousand (as at 31 December 2017: CZK 5,092 thousand).

Analysis of the change in the provision for inventories:

(CZK'000)	2018	2017
Opening balance as at 1 January	**5,092**	**1,291**
Charge for the year	1,525	3,847
Released during the year	-	46
Closing balance as at 31 December	**6,617**	**5,092**

8. Receivables

Overdue receivables as at 31 December 2018 amounted to CZK 20,458 thousand (as at 31 December 2017: CZK 12,060 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)	2018	2017
Opening balance as at 1 January	**12,323**	**33,580**
Charge for the year	1,809	4,360
Released during the year	9,317	5,063
Written off during the year	1,213	20,554
Closing balance as at 31 December	**3,602**	**12,323**

9. Equity

Authorised and issued share capital:

	31 December 2018		31 December 2017	
	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 2018	31 December 2017
Menclík František	9.16	9.16
Petr Ludvík	9.16	9.16
Vobora Miroslav	9.16	9.16
KORADO, a.s.	9.16	9.16
European Bank for Reconstruction & Development	29.14	29.14
Ministry of Finance, Czech Republic	34.22	34.22
Total	**100.00**	**100.00**

KORADO, a.s.

Notes to standalone financial statements for the year ended 31 December 2018

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 general meeting of shareholders approved the financial statements for 2017 and decided about the allocation of profit earned in 2017 of CZK 8,038 thousand on 28 May 2018. It was decided to pay a profit share of CZK 49,998 thousand, of which amount of CZK 41,960 thousand was transferred from retained earnings. Part attributable to own shares in amount CZK 4,580 thousand was transferred to retained earnings.

On 28 May 2018 the general meeting of shareholders decided to transfer reserve fund of CZK 48,268 thousand to retained earnings.

On 20 September 2018 the Statutory Representatives decided on the interim dividend payment of CZK 10,000 thousand. On 18 December 2018 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 2017	**4,517**	**1,804**	**6,321**
Charge for the year	890	46	936
Used in the year	-	-	-
Closing balance as at 31 December 2017	**5,407**	**1,850**	**7,257**
Charge for the year	-	-	-
Used in the year	492	370	862
Closing balance as at 31 December 2018	**4,915**	**1,480**	**6,395**

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

11. Payables, commitments and contingent 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 2018 (CZK'000)	Balance as at 31 December 2017 (CZK'000)
Československá obchodní banka, a.s.	Real estate, receivables, inventories	Euribor 1M+1.55%	EUR	34,048	114,750
Československá obchodní banka, a.s.	Real estate, receivables, inventories	O/N Eur Libor +1.45%	EUR	6,467	-
Československá obchodní banka, a.s.	Real estate, receivables	Euribor 1M+1.65% p.a.	EUR	17,202	29,133
Československá obchodní banka, a.s.	Real estate, receivables, inventories	Euribor 1M+1.55%	EUR	68,290	86,154
Československá obchodní banka, a.s.	Real estate, receivables	Pribor 1M+1.55%	CZK	100,000	-
Československá obchodní banka, a.s.	Real estate, Licon Heat receivables	O/N Pribor + 1.45%	CZK	-	-
RaiffeisenBank, a.s.	no collateral	1D Pribor+1.5%	CZK	-	-
Total bank loans				**226,007**	**230,037**

All loans in the total amount of CZK 226,007 thousand (as at 31 December 2017: 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 2018 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 2018 amounted to CZK 909,327 thousand (as at 31 December 2017: CZK 911,463 thousand).

13. Commitments and contingent liabilities

The management of the Company is not aware of any contingent liabilities as at 31 December 2018.

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

(CZK'000)	31 December 2018	31 December 2017
Current within one year	5,449	5,805
Due after one year	19,553	3,822
Total commitments in respect of operating leases	**25,002**	**9,627**

14. Revenue analysis

Revenue analysis:

(CZK'000)	2018	2017
Radiator production		
- domestic	291,572	407,817
- foreign	714,254	802,430
Provided services	16,696	15,198
Total sales of own products and services	**1,022,522**	**1,225,445**
Sales of goods		
- domestic	340,735	311,994
- foreign	185,209	166,824
Total sales of goods	**525,944**	**478,818**

KORADO, a.s.

Notes to standalone financial statements for the year ended 31 December 2018

15. Related party transactions

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

(CZK'000)	2018	2017
Revenues		
Sales of services	9,865	9,121
Sale of products	112,053	151,194
Sales of goods	1,750	4,820
Sale of materials and tangible fixed assets	16,382	38,398
Interest income	2,751	2,501
Income from shares in subsidiaries	54,085	28,906
Total	**196,886**	**234,940**
Costs		
Purchase of goods for resale	376,375	326,199
Purchase of material	64,107	57,434
Services	1,931	2,575
Total	**442,413**	**386,208**

Dividends were distributed as stated in note 9.

The following related party balances were outstanding as at:

(CZK'000)	31 December 2018	31 December 2017
Receivables		
Trade receivables	27,988	26,592
Accruals	21,225	-
Granted loans, including allowances	89,031	90,467
Total	**138,244**	**117,059**
Liabilities		
Liabilities to companies	105,041	55,304
Out of which:		
Trade payables	103,719	51,852
Accruals	1,322	3,452
Total	**105,041**	**55,304**

In 2018, the subsidiary KORADO Poland repaid the part of the loan in amount of PLN 700 thousand.

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

Company cars are available to the members of executive board.

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

	2018		2017	
	number	(CZK'000)	number	(CZK'000)
Emoluments to the Statutory Body	3	900	3	900
Emoluments to members of the Supervisory Board	3	825	3	540
Wages and salaries to other management	29	62,763	30	71,828
Wages and salaries to other employees	416	151,047	443	155,550
Social security costs		65,662		68,127
Other social costs		7,983		6,294
Wages and salaries total	**451**	**289,180**	**479**	**303,239**

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 2018

18. Income tax

The income tax expense analysis:

(CZK'000)	2018	2017
Current tax expense (19 %)	-	-
Deferred tax expense	-	6,500
Total income tax expense	**-**	**6,500**

The current tax analysis:

(CZK'000)	2018	2017
Net profit before taxation	14,593	14,538
Items increasing the tax base	21,925	37,887
- of which differences between accounting and tax depreciation	11,793	-
Items decreasing the tax base	72,344	82,445
- of which differences between accounting and tax	-	13,323
- of which dividends received	67,583	42,494
Claimed tax loss	-	-
Net taxable profit	(35,826)	(30,020)
Corporate income tax at 19%	**-**	**-**
Tax credit	.	-
Current tax	**-**	**-**

The deferred tax was calculated at 19% (the rate enacted for 2018 and subsequent years).

The deferred tax asset/ (liability) analysis:

(CZK'000)	31 December 2018	31 December 2017
Deferred tax (liability) / asset arising from:		
Difference between accounting and tax net book value of fixed assets	(124,551)	(126,885)
Provisions	2,610	2,936
Other deductible temporary differences	-	950
Tax credit from investment incentive	24,218	32,134
Tax losses carried forward	12,562	5,704
Net deferred tax liability	**(85,161)**	**(85,161)**

In 2008, the Company launched the 4th production line which was financed partially through investment incentives. The amount of potential investment incentive related to capital expenditures already incurred was approximately CZK 176 million as at 31 December 2018 (as at 31 December 2017: CZK 176 million) and this balance can be drawn as a tax credit until 2019.

The Company recorded deferred tax asset from investment incentive of CZK 24,218 thousand as at 31 December 2018 (as at 31 December 2017: CZK 32,134 thousand). The remaining part of deferred tax asset of CZK 151,782 thousand as at 31 December 2018 (as at 31 December 2017: CZK 137,366 thousand) has not been recognised as it is not probable that future taxable profit will be available against which the unused tax credits could be utilised. The 19% rate has been used to calculate it as at 31 December 2018 and 2017.

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 2018 of CZK 66,116 thousand (as at 31 December 2017: CZK 30,020 thousand), out of which CZK 30,020 thousand can be utilized up to 2022 and CZK 36,096 thousand up to 2023. The management of the Company is convinced that these tax losses will be utilized in the defined period.

19. Subsequent events

No events occurred after the balance sheet date that would have a material impact on the financial statements as at 31 December 2018.

17 April 2019

František Menclík
Chairman of the Board of Directors