ANNUAL REPORT 2•19

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CONTENTS

REPORT OF THE BOARD OF DIRECTORS ON THE COMPANY'S BUSINESS ACTIVITIES AND ASSETS

Dear Business Partners,

the year 2019 ended and we are one year older again, not only we – the employees, but also the Group. It was not an easy year, not only for our Group, but also for many others in our industry, given the fact that two significant companies in the industry ended up in liquidation, both with large-scale production capacity.

Both companies succumbed to the euphoria that sales volume will save them and began selling radiators below production cost. It is a misconception and both companies failed both logically and economically.

Every crisis is a purification process in a some way. I am pleased that all precaution, including the unpleasant reductions of the staff, which I hope have ended, have beared fruit and thanks to the stable price of steel, have helped, as I have indicated last year, to return to profitability. Especially that 2020 is the jubilee year for the Korado, a.s. as we will celebrate our 30th anniversary.

I definitely don't want to say it is a win. It will still be a huge effort of all of us, workers, technicians, management, but also statutory bodies, to sustain this trend and move on. I believe we can do it together. It is our commitment to a company that has sustained us for 30 years.

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 27, 2020

František Menclík
Chairman of the Board of Directors

STRATEGIES AND GOALS OF THE KORADO GROUP

The main objective of the KORADO Group for 2020 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 2020 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 recuperation 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: Brexit, crisis in the Middle East, the migration crisis, 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 setup 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 2020, 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 financial buffer 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 statutory bodies of the company 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 2019, 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.

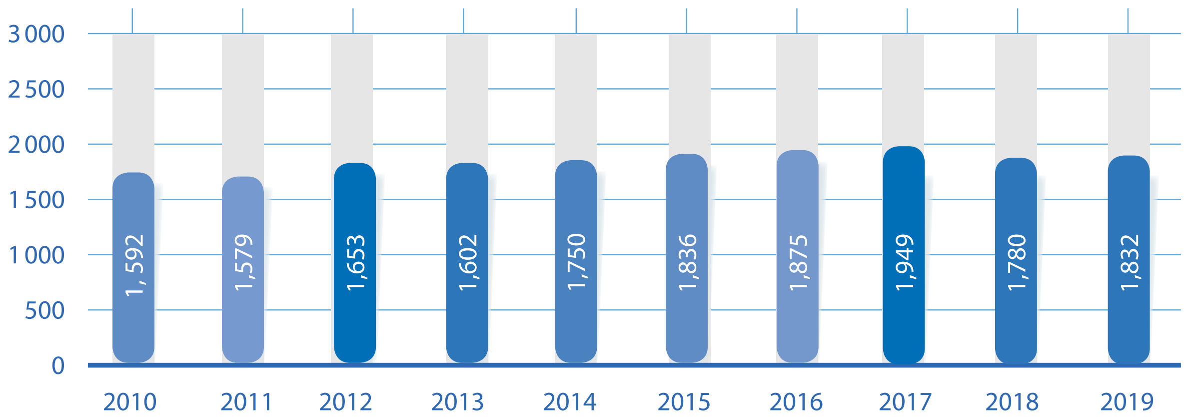
No Controlling Agreements have been concluded between the parent company KORADO, a.s. and its subsidiaries. The cooperation of these companies is based on Distributor Agreements and on the basis of annual financial sales plans. In addition to these Agreements there are Loan Agreements concluded between 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. Since 2013, the number of direct sales from KORADO Bulgaria to the final customers has been steadily increasing. 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.

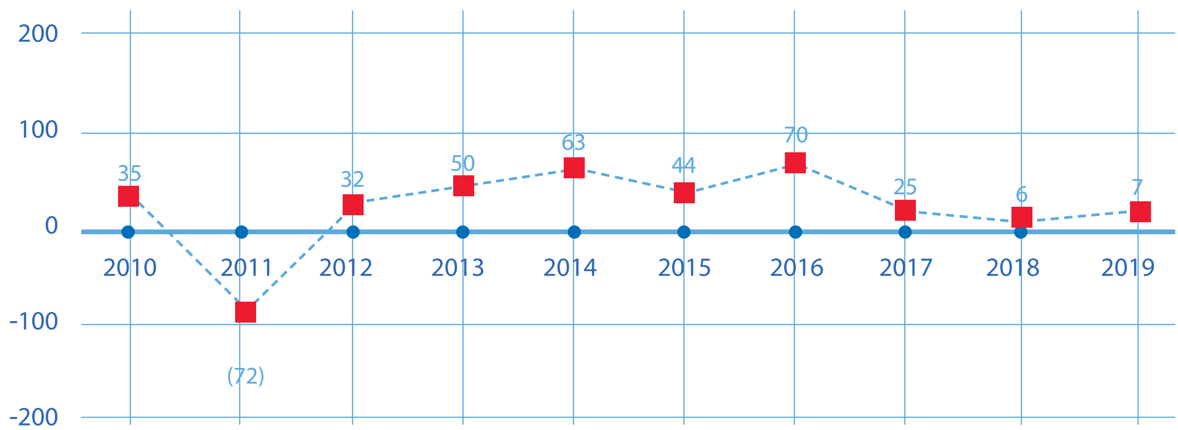
An important step towards expanding our product portfolio occurred in 2013 with the 100% buyout of the company LICON HEAT s.r.o., which has expanded KORADO's production program to include a complete range of floor, wall, freestanding, bench and special convector radiators.
Another significant investment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

CZK Thousand	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Consolidated sales	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	1,832,452
Consolidated profits based on IFRS	34,572	(72,369)	32,497	50,343	62,532	43,554	69,896	24,604	6,399	7,430

Graph Consolidated Sales for the KORADO Group (CZK million)

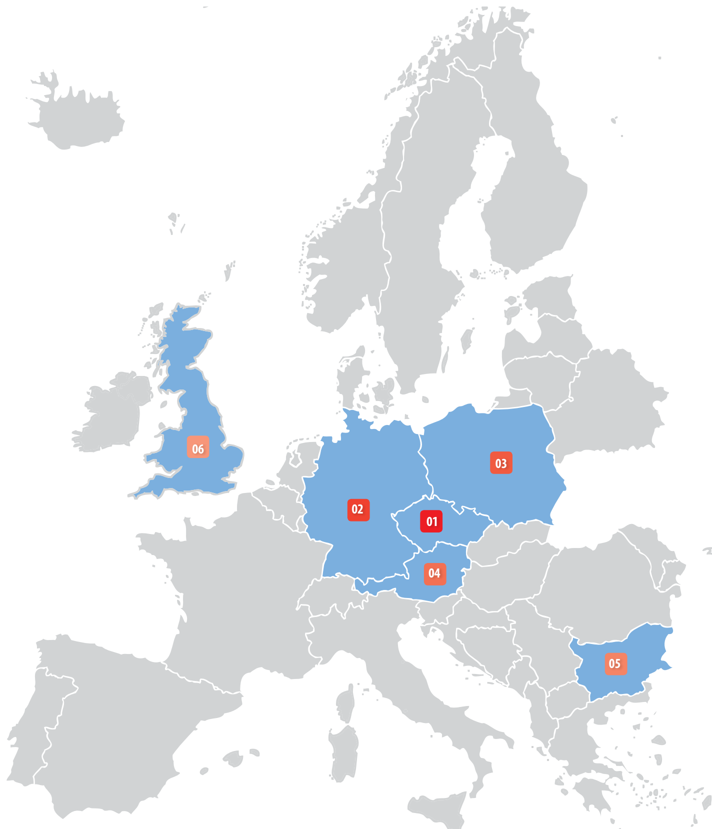


Graph Consolidated Profits for the KORADO Group (CZK million)



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 2019:

Company	Incorporation date	Share capital as at 31. 12. 2019	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 635 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 43,048 ths.	Žaneta Vebrová	Gen.Okulickiego 4, 05-500 Piasecno, Poland	100 %	Limited liability company
KORADO Austria, GmbH	1 July 1998	CZK 26,681 ths.	Leona Vaňková	Ferstelgasse 6/7, 1090 WIEN, Austria	100 %	Limited liability company
KORADO Bulgaria, A. D.	1 October 1998	CZK 171,087 ths.	Jiří Řezníček	Gladston 28, 5150 Strajica, Bulgaria	82.15 %	Joint-stock company
KORADO U. K. Limited	25 November 1998	CZK 30 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 2019
* Date of LICON HEAT inclusion in the KORADO Group
** Date of ThermWet 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 2019 KORADO Deutschland reported a loss of EUR - 31 ths. (CZK - 801 ths.).

EUR ths.	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total sales	5,090	5,286	4,477	3,080	4,395	5,173	5,489	3,877	2,460	1,550
Profits/Losses	0	0	0	71	138	179	118	75	42	(31)

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 2019 KORADO Polska achieved a financial result of PLN 381 ths. (CZK 2,276 ths.).

PLN ths.	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total sales	7,542	7,297	7,243	9,242	8,941	11,142	16,473	10,334	10,126	9,932
Profits/Losses	461	(816)	95	162	247	312	515	92	85	381

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 2019 KORADO Austria achieved a financial result of EUR 0.3 ths. (CZK 7 ths.).

tis. EUR	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Tržby celkem	0	0	0	1	0	0	0	0	0	0
Výsledek hospodaření	(1)	(1)	1	1	1	(1)	0.3	(0.2)	(0.4)	0.3

KORADO Bulgaria, A. D. - KORADO Bulgaria was founded in 1998, when KORADO, a.s. purchased the shares of the original production company. At present KORADO, a.s. owns an 82.15 % 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.

At the end of 2019, the Company implemented a project to distribute its own shares to the Company's employees. This step should support employee loyalty during the time of significant labor market tensions.

The share price of KORADO Bulgaria reached the value of BGN 6.25 per share at the end of the year. The market capitalization reached CZK 1,070 million.

In 2019 KORADO Bulgaria generated a profit of BGN 4,262 ths. (CZK 55,940 ths.).

BGN,ths.	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total, sales	13,540	16,252	20,458	17,193	20,912	27,449	32,607	42,387	43,581	42,304
Profits/Losses	768	931	398	599	1,321	1,932	2,927	4,778	5,254	4,262
Panel, radiators, produced	166,712	229,129	281,027	238,808	295,187	398,958	433,008	460,659	467,497	455,025

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 2019 LICON HEAT generated a profit totaling CZK 1,821 ths.

CZK,ths.	2013	2014	2015	2016	2017	2018	2019
Total, sales	129,182	104,836	103,388	89,033	73,101	97,022	123,808
Profits/Losses	7,630	10,664	3,197	2,436	(6,222)	(8,309)	1,821

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 2019 ThermWet generated loss of CZK (2,771) ths.

CZK ths.	2018	2019
Total sales	12,288	10,526
Profits/Losses	(1,327)	(2,771)

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
TOTAL SALES (MIL. CZK)	1,592	1,579	1,653	1,602	1,750	1,836	1,875	1,949	1,780	1,832
YEARLY CHANGE IN SALES (%)	(9%)	(1%)	5%	(3%)	9%	5%	2%	4%	(9%)	3%
EBITDA (NET PROFIT (LOSS) PLUS TAX ON INCOME PLUS INTEREST COSTS PLUS DEPRECIATION) (MIL. CZK)	207	84	174	179	191	176	210	166	147	189
EBITDA MARGIN (EBITDA / TOTAL SALES) (%)	13%	5%	11%	11%	11%	10%	11%	9%	8%	10%
PROFIT/LOSS AFTER TAX (MIL. CZK)	35	(72)	32	50	63	44	70	25	6	7
RETURN ON EQUITY (EBIT / ASSETS MINUS CURRENT LIABILITIES)	2%	(2%)	3%	4%	5%	3%	5%	2%	2%	3%
INDEBTEDNESS (BANK LOANS / EQUITY)	0.41	0.36	0.27	0.27	0.26	0.20	0.25	0.19	0.20	0.15
QUICK RATIO (CURRENT ASSETS MINUS INVENTORY / CURRENT LIABILITIES)	0.17	0.29	0.34	0.60	0.79	0.62	0.82	0.32	0.37	0.48
CURRENT RATIO (CURRENT ASSETS / CURRENT LIABILITIES)	0.36	0.60	0.63	1.03	1.23	1.06	1.36	0.88	0.94	1.10
TOTAL ASSETS (MIL. CZK)	2,239	2,117	2,007	2,106	2,203	2,153	2,185	1,990	2,032	1,966
LONG-TERM ASSETS / TOTAL ASSETS (%)	86%	86%	85%	79%	74%	76%	72%	78%	74%	74%
RECEIVABLE TURNOVER (DAYS)	28	24	27	32	34	30	25	20	17	18
PAYABLE TURNOVER (DAYS)	103	97	96	107	110	107	103	92	122	124
INVENTORY TURNOVER (DAYS)	49	48	45	52	58	57	63	67	87	89

SALES AND MARKET POSITION OF THE KORADO GROUP

Overview on business activities in 2019

The challenge for our activities was changing product demand in different parts of Europe. Thanks to the expanding portfolio of products and services, we are able to meet the growing demands of our current and new customers. Our customer remains a customer requiring premium quality product and an expanding range of additional services.

A significant contribution to our results was the continuation of product consolidation in the radiators segment. All of these steps have contributed to achieving a third position among European panel radiator manufacturers in Europe, with the exception of producers in Turkey

Central and Eastern Europe

It is a very sensitive region, which is significantly influenced by the development of new production capacities. We devote our efforts to adapting to new market conditions. Our customers appreciate our product range variability and fast delivery.

Western Europe

We work with our partners to make adjustments to consolidate the offer of radiators throughout the distribution chain. In addition to a high-quality radiator, we focus on information support for all users of our products, i.e. delivery of a comprehensive product.

Product development

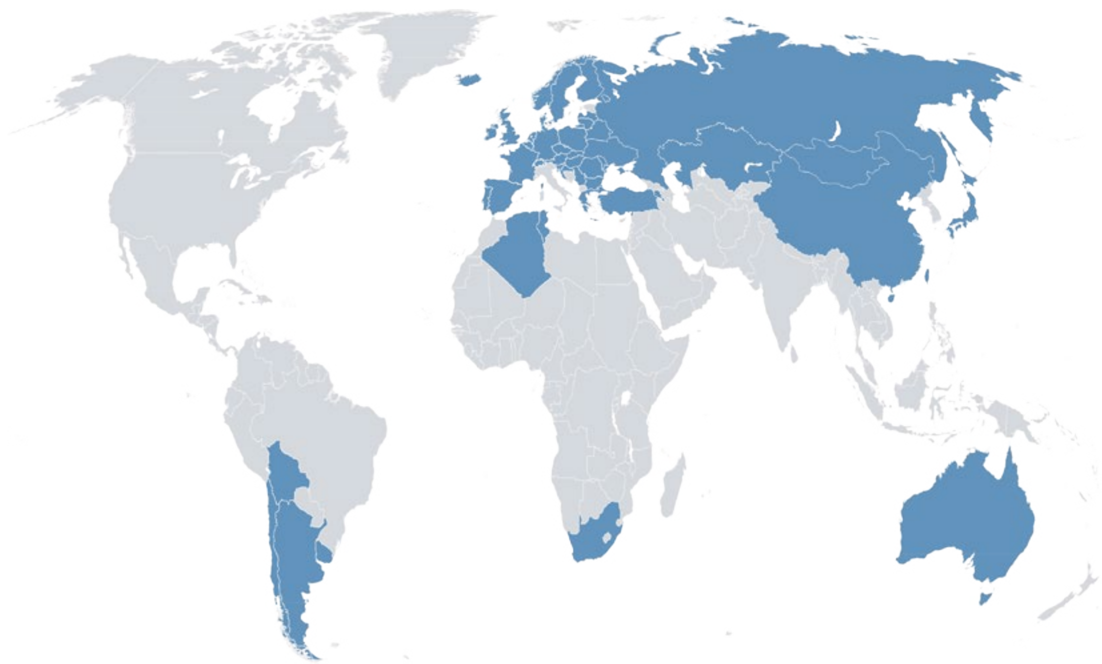
In relation to the change of position of radiators and convectors in the whole system for ensuring the indoor climate of buildings, we are gradually preparing and introducing new design solutions. It is based on the versatility of use, increased efficiency and at the same time the transition from heating itself to ensuring a clean and stable climate in buildings.

We are now focusing our capacities on innovations in the field of controlled ventilation.

Outlook for 2020

In addition to product consolidation on the radiator market, our goal is to take advantage of the ongoing transformation of the entire industry, together with strengthening our position in the field of controlled ventilation.

OVERVIEW OF PANEL RADIATOR SALES IN 2019 BY COUNTRY



FINANCIAL SITUATION

Profitability of the KORADO Group

In 2019, the KORADO Group generated a profit of CZK 7 mil. The year-on-year increase in profit was positively reflected in the conceptual business policy, increased focus on production efficiency, systematic optimization of all cost components and reduction in the number of employees.

Working capital optimalization and indebtedness

The Group maintains a low level of indebtedness, we keep the ratio of debt and equity at a stable level and the bank indebtedness reached 15 % in 2019 and is even lower than in previous year.

Bank Loans

Bank loans were repaid in 2019 in accordance with the terms of credit agreements. During the year all banking covenants were fulfilled. One of the loans (from 2014 year) has already been fully repaid. In 2019, a new bank loan of CZK 65 million was used to finance investments. As at 31 December 2019, bank loans reached a new minimum in the company's history.

Investments

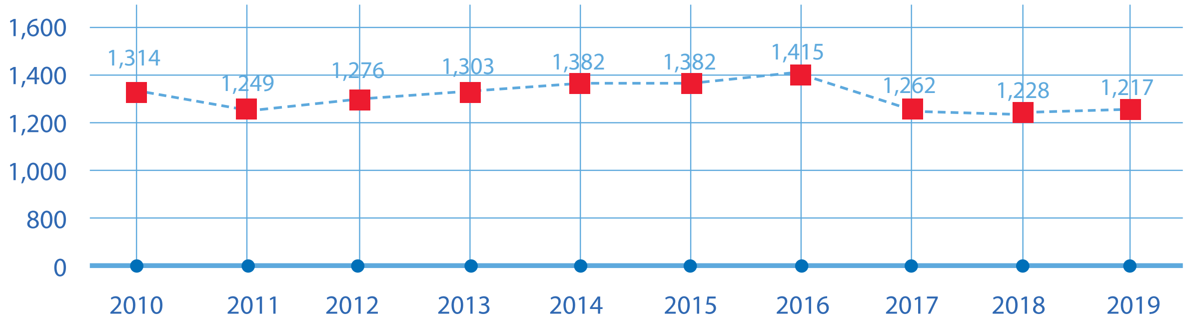
The workplace for the production of central fittings for ODT in the parent company was rebuilt in 2019 and also a new MIG welding source was purchased, eliminating welding errors.
In addition, two single-purpose machines for the production of components for design radiators were designed and manufactured.
At the LICON HEAT Company, another press brake was purchased for the production of straight face plates.

Risk Management

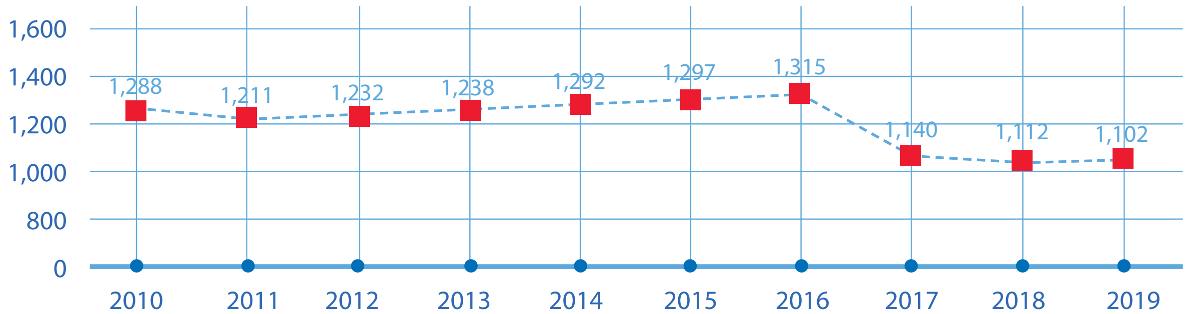
During its existence, the KORADO Group has built up a very stable and financially strong portfolio of customers. However, our participation in a number of Eastern markets (Russia, Ukraine, Belarus, etc.) entails a number of specifics and payments from these territories must be adequately ensured. Addressing new customers from non-traditional territories 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 2019, 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 2019, 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 company's operations led us to further developing of the work with operational risks as well as risks on the part of corporate purchasing. Increased pressure on these points and the turbulence in the commodities market, have also affected our supply environment. From this perspective, the long-term stabilized portfolio of our core suppliers is identified as one of the corner stones of our purchasing strategy. Another element of this strategy is the never-ending search for alternative suppliers.

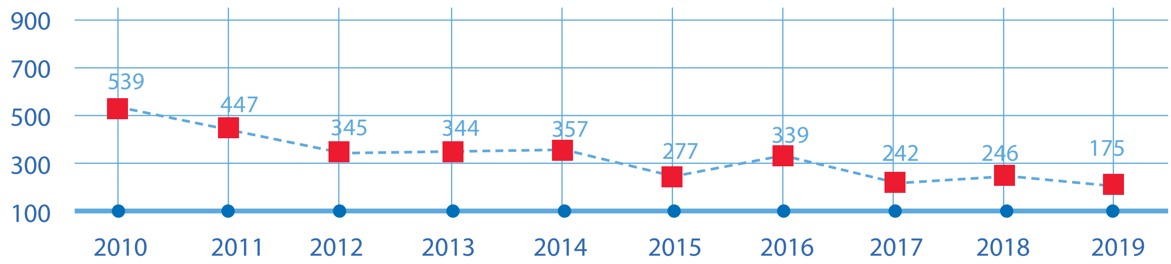
Equity of the KORADO Group (CZK million)



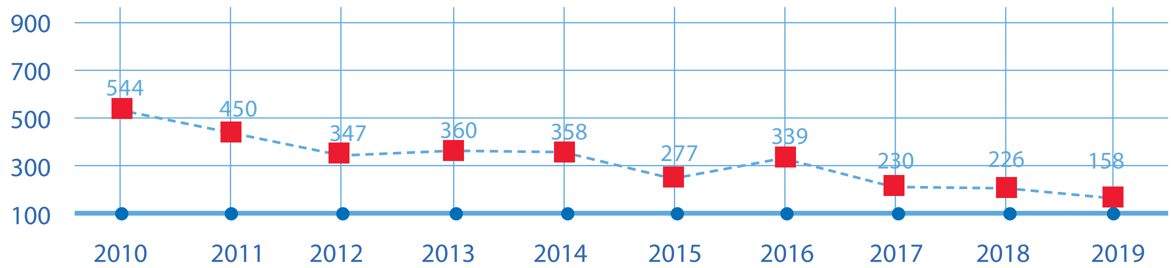
Equity of the Parent Company KORADO, a.s. (CZK million)



Debt of the KORADO Group (CZK million)



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



PURCHASE OF INPUT MATERIAL

A well-functioning purchase is an essential prerequisite for the successful functioning of the whole group. This applies not only to the purchase of materials and energy, but also to the purchase of services, overheads or spare parts. All this takes place before the start of the production process. If such a start is not satisfactorily managed, there is very little room for correction. In this respect, the Purchasing Department met its expectations and succeeded in its activities in 2019.

Prices of steel, as the main material for the production of radiators, remained stable throughout 2019, and the prices of other semi-finished products and components made of steel behaved accordingly. The situation on the steel market was affected by the gradual rise in iron ore prices in the first half of the year, due to a mining disaster in Brazil and the weakening of the automotive sector in the second half of the year, resulting reduction in production capacity in the steel industry. Factors such as uncertainty of Brexit, rising emission allowance prices and tightening protectionist measures on steel imports to EU countries remained unresponsive.

The purchase price was negatively reflected by rising energy prices and rising labor costs. Similar situation was in non-ferrous metals, plastics, paints and chemicals.

All of this has required more effort than ever to provide affordable, flexible and secure supplies for production. Moreover, the difficulty of the expanding range due to the growing needs of our customers cannot be overlooked.

Also previously started projects of optimization of supplier relations continued as well as the improvement of the tendering system.

PRODUCTION AND DEVELOPMENT

Production
In 2019, 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 2019 the robotic workplace was rebuilt to produce central valve garnitures for radiators. New semiautomatic jigs were constructed and a MIG welding source was purchased, eliminating errors in welding operations programs.

Production in the KORADO Bulgaria
At the Bulgarian plant, we focused on improving the quality of bathroom radiator production and optimizing painting. At the end of the year, ODT production with a height of 450 mm was adopted.

Quality
We still maintain high quality production in all product lines throughout the KORADO group.

The company does not provide research and development.

INTERNAL AUDIT AND MANAGEMENT OF HUMAN RESOURCES

Internal audit

Internal Audit proceeds in accordance with the Binding Directives of the Institute of Internal Auditors, which include the Principles of Internal Audit Practice, the Code of Ethics, International Standards for the Professional Practice of Internal Audit and the Definition of Internal Audit.

During 2019, the Company's bodies and Ultimate Management were provided with an independent, objective assurance and consulting activity designed to add value, improve an organization's operations and the effectiveness of risk management at both KORADO, a.s. and its subsidiaries.

The internal audits were carried out in accordance with the Internal Audit Plan of Action and the related Conceptual Change in the Functioning of the Internal Audit (from 1 July 2019). Thematically, the internal audits at the KORADO Group focused on control of management of audited entities', setting ownership and responsibility for each activity, evaluating the adequacy of reports and verifying data quality assurance and audit trail. Moreover, the Internal Audit dealt with the control of access rights settings in information systems and related compensatory controls for conflicting access rights.

In addition to the performed audits, the Internal Audit provided advisory services to the parent company's specialized departments during the whole year, when setting up new, respectively change existing processes.

Internal audit also cooperated on updating the Risk Catalog and reviewed statements submitted to the Bulgarian Stock Exchange in Sofia, participated in the process of commenting contracts and revising internal guidelines

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

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

Ecology and Environmental Protection

In connection with legislative changes in the area of air protection, internal regulations were updated - operating rules of pollution sources. In April 2019, the Regional Authority of the Pardubice Region carried out a review of the integrated permit. During the revision, amendments to the integrated permit, which are now included in the present version were discussed.
On 10 September 2019, the CEI inspection group performed an inspection of the fulfilment of conditions and obligations in operated facilities. In conclusion, it was stated that no breach of the binding operating conditions or other legal obligations was found.
The KORADO Group responds to changes in legislation and actively cooperates with Marius Pedersen a.s. to minimize risks and negative impacts on the environment.

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 - Accounting consultancy, book-keeping, tax accounting	

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. The purchase price of the shares acquired was CZK 115 million. During the period that those shares are owned by the Company itself, no voting rights or entitlement to dividend are attached to them.
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.

Subsequent events

The existence of novel coronavirus causing the COVID-19 disease was confirmed in early 2020 and has spread across mainland China and beyond, including Czechia, causing disruptions to businesses and economic activity. As of the issue date of these Financial statements management of the Company did not notice significant decrease of sales. However, the situation is fluid and rapidly evolving we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company. Potential restrictions on free movement of goods would result in decreased revenues and limitation of production. Short-term decrease of sales will be managed given the current good cash position due to low indebtedness. Similarly, the Company is prepared for potential short-term outage of production. Management of the Company will continue to monitor potential impacts and will implement all possible steps to reduce negative effects on the Company and its employees.
Management of the Company assessed potential impacts of COVID-19 on its business activities and concluded that they do not have a significant impact on the going concern of the Company. Financial statements as at 31 December 2019 were prepared on a going concern basis

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 Articles of Association. The Board of Directors usually convenes a General Meeting once a year.

Ultimate management and control of the Company is provided by these statutory 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 2019 the Supervisory Board had five members. The Supervisory Board usually meets once every two months. In 2019, a total of six meetings of the Supervisory Board were held. There were no changes in the composition of the Supervisory Board during 2019. On 30 June 2019 the term of office of Ing. Jaromír Hejda had expired. Members of the Supervisory Board unanimously approved the proposal of the Ministry of Finance to extend Jaromir Hejda's membership in the Supervisory Board by his election as a substitute member of the Supervisory Board until the next General Meeting.

Composition of the Supervisory Board as of 31 December 2019:

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

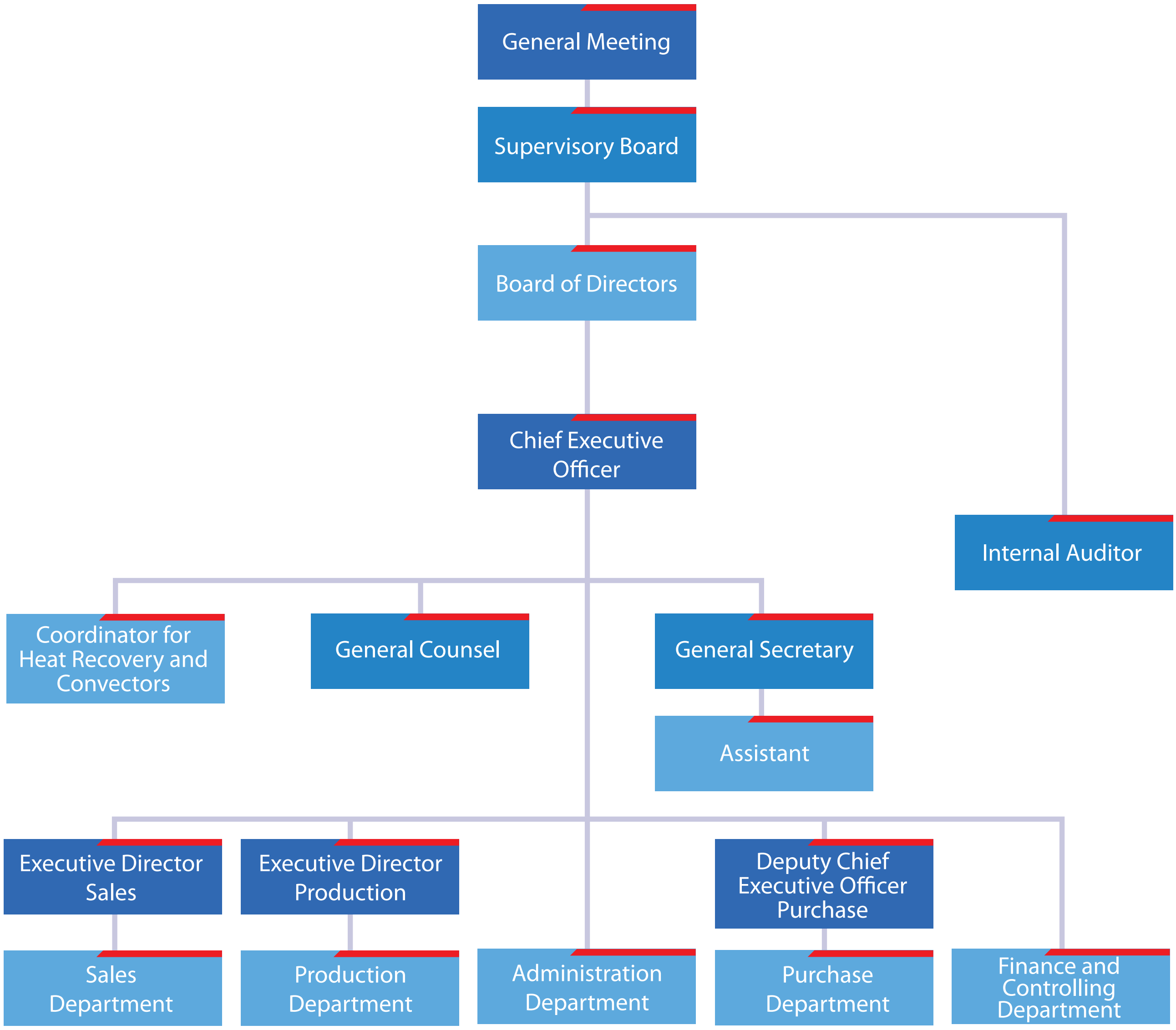
Composition of the Board of Directors as at 31 December 2019:

Chairman of the Board of Directors:	František Menclík
Vice Chairman of the Board of Directors:	Miroslav Vobora
Member of the Board of Directors:	Ing.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. 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 2019, 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
In KORADO, a.s., he has been employed since March 2012 in the position of Production Manager. In the years 2004 - 2011 held the position of Head of Production 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, compared to 1 January 2017 plus CZK 775 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.

2019 Revenues increased year-on-year and historically the lowest bank debt was achieved. The company KORADO Bulgaria implemented a project to distribute its own shares to the company's employees.

REPORT OF THE SUPERVISORY BOARD

During the year 2019, there were a total of six meetings of the Supervisory Board of KORADO, a.s. All the meetings of the Supervisory Board reached a 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 31 December 2019:

- Ludvík PETR - Chairman of the Supervisory Board
- Ing. Jaromír HEJDA - Vice-Chairman 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

There were no changes in the Supervisory Board membership during the year 2019. On 30 June, 2019, Ing. Jaromír Hejda ended his term as a SB member. SB members unanimously approved the proposal of the Ministry of Finance to extend Ing. Jaromír Hejda as a member of the Supervisory Board by electing him as a substitute member of the Supervisory Board until the next General Meeting.

The Supervisory Board supervised the discharge of duties of the Board of Directors of the company and company business activities. It focused mostly on the fact of 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 Company Statutes of KORADO, a.s. On a regular basis it monitored and discussed the financial results for the previous periods, and the state of its assets, including information on the state of receivables. Among the standard tasks that the Supervisory Board dealt with in 2019 was the approval of the Financial Plan, including the Marketing Plan and their ongoing review, and periodically discussed the Internal Audit Activity Reports. The Supervisory Board was also informed of the development of sales of panel, tubular, and design radiators and convectors in Europe, as well as important analyses and projects of the company aimed at reducing costs and increasing profitability of the KORADO Group.

The Supervisory Board agreed with the proposal to select an auditor to verify the financial statements for the years 2019 to 2021, and received interim reports on the course and status of trading in KORADO Bulgaria shares. In June 2019, the Supervisory Board elected Ing. František Hamáček, as a member of the Board of Directors of KORADO, a.s., for the next term of office.

During the stated period, the Supervisory Board carried out its duties resulting from the Business Corporations Act, mainly those set forth in Section 446 to Section 455.

The Supervisory Board, or more precisely, the Chairman of the Supervisory Board, regularly received minutes from the meetings of the Board of Directors, based upon which the Supervisory Board checked the fulfilment 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 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 148th meeting held on May 29, 2020, 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 financial statements of KORADO, as, and the consolidated financial statements of the KORADO Group both prepared as of 31 December 2019, the Board of Directors' proposal for profit distribution, and was acquainted with the auditor's opinion on the financial statements and the consolidated financial statements and their assessment of other information included in the Annual Report.

The Supervisory Board stated that the financial statements of KORADO, a.s., and the consolidated financial statements of the KORADO Group both prepared as of 31 December 2019 comply the with legal regulations and were prepared in compliance with properly maintained accounting.

The Supervisory Board stated that the proposal for profit distribution submitted by the Board of Directors complies with the legal regulations and the Articles of Association of KORADO, a.s.

In Česká Třebová on May 29, 2020

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 2019, 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 2019 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 2019, the income statement, statement of changes in equity and statement of cash flows for the year ended 31 December 2019 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 2019, of its consolidated financial performance and its consolidated cash flows for the year ended 31 December 2019 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 2019, of its financial performance and its cash flows for the year ended 31 December 2019 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.

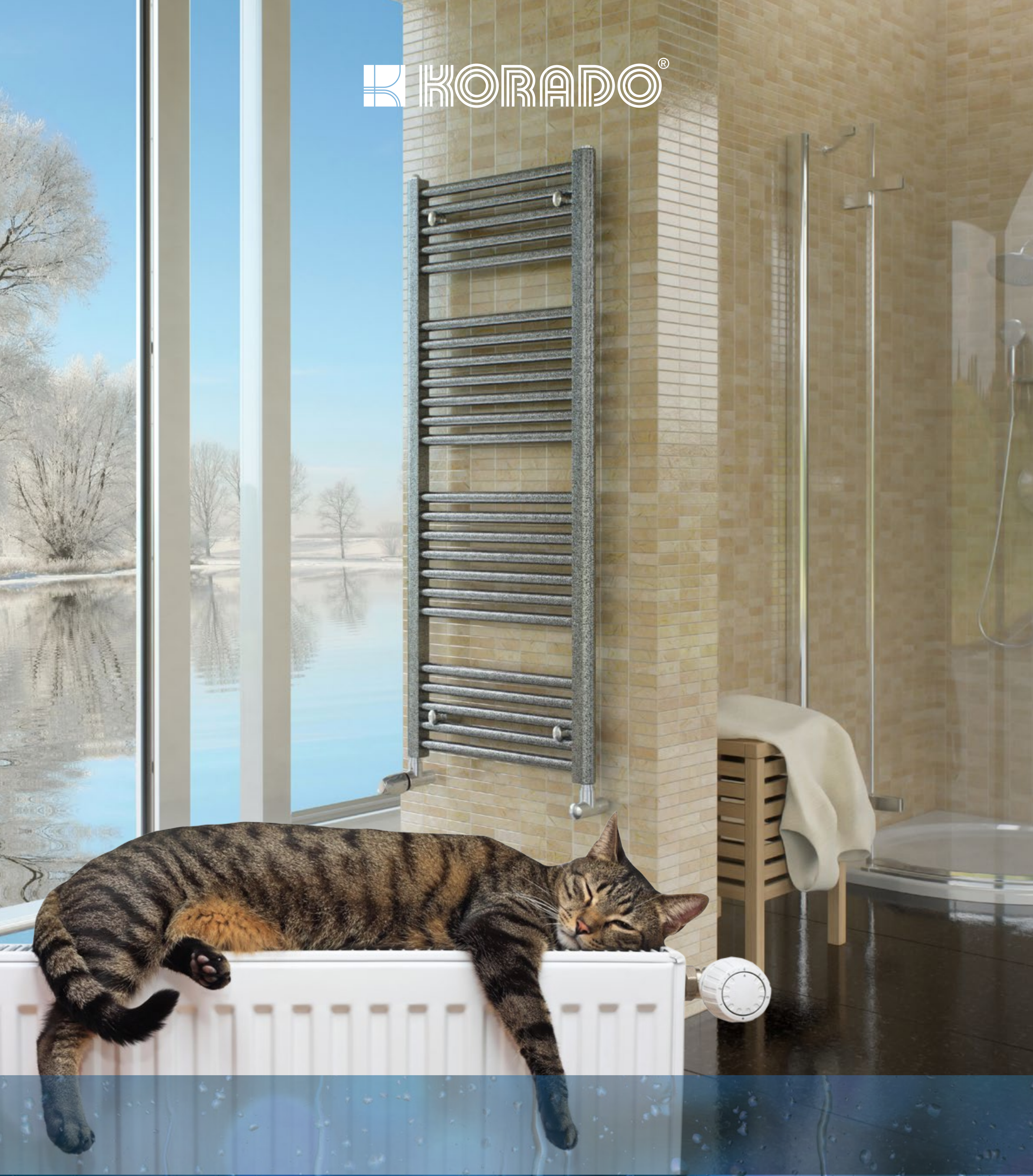
We communicate with the Board of Directors and Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

27 April 2020
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.

Note
Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.



KORADO GROUP
INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
31 December 2019

CONTENTS

KORADO GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2019

In thousands of CZK	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment, net	7	1,347,020	1,454,142
Intangible assets, net	8	41,548	45,503
Right-of-use assets	9	63,711	-
Other non-current assets		4,671	4,736
Deferred tax asset	23	426	633
Total non-current assets		**1,457,376**	**1,505,014**
Current assets			
Inventories, net	11	287,048	320,280
Receivables, net	12	98,606	81,850
Prepayments and other current assets	13	28,405	27,864
Cash and cash equivalents	14	94,799	96,868
Total current assets		**508,858**	**526,862**
Total assets		**1,966,234**	**2,031,876**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	15	840,700	840,700
Own shares	15	(116,479)	(116,479)
Statutory fund	15	116,479	116,479
Retained earnings and funds	15	373,122	381,896
Translation reserve		(44,564)	(41,831)
Total shareholders' equity attributable to equity holders of the parent		**1 169 258**	**1 180 765**
Non-controlling interest	25	48,139	46,788
Total shareholders' equity		**1,217,397**	**1,227,553**
Non-current liabilities			
Long-term borrowings	16	116,528	144,560
Lease liabilities	9	51,733	-
Other long-term debts		5,888	6,709
Deferred tax liabilities	23	105,803	85,074
Total non-current liabilities		**279,952**	**236,343**
Current liabilities			
Short-term borrowings and current portion of long-term debt	16	60,783	103,964
Lease liabilities	9	13,185	-
Trade and other payables	17	389,042	456,831
Provisions		5,683	5,777
Current income tax payable	23	192	1,408
Total current liabilities		**468,885**	**567,980**
Total equity and liabilities		**1,966,234**	**2,031,876**

Approved for issue and signed on 27 April 2020

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 2019

In thousands of CZK	Note	2019	2018
Revenues from sales of products and goods	18	1,832,452	1,779,880
Other operating income	21	16,943	23,806
Cost of materials, energy and purchased goods	19	(1,048,537)	(1,050,609)
Change in inventories	19	(11,190)	17,751
Depreciation and amortization	7,8	(144,344)	(127,253)
Wages and salaries	6	(391,311)	(386,046)
Purchased services	20	(175,453)	(209,864)
Other expenses	22	(32,476)	(22,221)
Interest expense, net of capitalized interest		(9,789)	(7,888)
Interest income		60	52
Foreign exchange losses, net		1,648	(3,886)
Other financial expenses, net		(3,062)	(1,435)
Profit before taxation		**34,941**	**12,287**
Income taxes	23	(27,511)	(5,888)
Profit after taxation		**7,430**	**6,399**
Other comprehensive income			
Items that may be reclassified subsequently to statement of income:			
Currency translation differences		(3,177)	4,310
Items not to be reclassified subsequently to statement of income:			
Re-measurement losses on defined benefit plans		(957)	(1,916)
Total other comprehensive income		**(4,134)**	**2,394**
Total comprehensive income		**3,296**	**8,793**
Profit/(loss) after income taxes attributable to:			
Equity holders of the parent company		(2,556)	(5,613)
Non-controlling interest	25	9,986	12,012
		7,430	**6,399**
Total comprehensive income/(loss) attributable to:			
Equity holders of the parent company		(5,934)	(3,339)
Non-controlling interest	25	9,230	12,132
		3,296	**8,793**

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 2019

(in ths 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 2018	**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**
Dividendy	-	-	-	-	(27,251)	(27,251)	(10,417)	(37,668)
Interim dividens	-	-	-	-	(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**
Profit after taxation	-	-	-	-	(2,556)	(2,556)	9,986	7,430
Other comprehensive income	-	-	(2,733)	-	(645)	(3,378)	(756)	(4,134)
Total comprehensive income	-	-	(2,733)	-	(3,201)	(5,934)	9,230	3,296
Dividends	-	-	-	-	(9,084)	(9,084)	(8,855)	(17,939)
Interim dividends	-	-	-	-	-	-	-	-
Sale of the subsidiary's shares	-	-	-	-	3,511	3,511	-	3,511
Transaction with non-controlling interest	-	-	-	-	-	-	976	976
Balance as at 31 December 2019	**840,700**	**(116,479)**	**(44,564)**	**116,479**	**373,122**	**1,169,258**	**48,139**	**1,217,397**

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 2019

(In thousands of CZK)	Note	2019	2018
OPERATING ACTIVITIES			
Profit before taxation		**34,941**	**12,287**
Adjustments for:			
Depreciation and amortization	7,8	144,344	127,253
Receivables and loans write-off	22	1,629	1,213
Financial expenses, net		9,729	7,836
Changes in provisions, net	22	2,070	(7,839)
Foreign exchange losses, net		(1,648)	3,886
Gain on sale of property, plant and equipment		1,998	(42)
Other non-cash movements		(763)	(1,536)
Changes in assets and liabilities:			
Inventories	11	30,349	(42,534)
Receivables and other current assets	12	(19,463)	3,209
Payables and other current liabilities	17	(61,292)	74,864
Income taxes (paid)	23	(6,526)	(8,382)
Net cash from operating activities		**135,368**	**170,215**
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	7,8	(23,437)	(75,609)
Proceeds from sale of property, plant and equipment		497	436
Acquisition of subsidiaries, net of cash acquired	10	-	(9,800)
Interest received		60	52
Net cash from investing activities		**(22,880)**	**(84,921)**
FINANCING ACTIVITIES			
Loan drawings	16	25,738	117,198
Repayments of debt	16	(95,292)	(113,705)
Payments of principal on leases	9	(11,275)	-
Change in lease obligation and other long-term payables		(2,480)	1,959
Dividends paid to Company's shareholders	15	(18,168)	(45,418)
Dividends paid to non-controlling interest	25	(8,855)	(10,417)
Interest paid, net of capitalized interest		(6,980)	(7,873)
Payments of interest on leases	9	(2,824)	-
Proceeds from sale of the subsidiary's shares		3,628	10,516
Net cash from financing activities		**(116,508)**	**(47,741)**
Net increase in cash		**(4,020)**	**37,553**
Cash and cash equivalents at beginning of year		**96,868**	**60,384**
Effect of exchange rate changes on cash and cash equivalents		1,951	(1,069)
Cash and cash equivalents at end of year		**94,799**	**96,868**

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 2019 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:

	2019 % of voting and equity share	2018 % 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	82.15	82.56	Bulgaria	Manufacturing of radiators
LICON HEAT s.r.o.	100	100	Czech Republic	Manufacturing of convectors
ThermWet s.r.o.	100	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 preparatThe 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 16 effective from 1 January 2019, 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.

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

Subsidiaries are those entities which the Group controls. Specifically, the Group controls an investee if, and only if, the Group has:
- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- exposure, or rights, to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Group's voting rights and potential voting rights.

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

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

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

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

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

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.

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.

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 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

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

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 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 transaction price and are subsequently carried at amortised costs using the effective interest method less an impairment provision for uncollectible amounts.

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 2019 and 1 January 2019 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 a waiver was not received from a lender 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 2019 and 2018, respectively, after adjustments for certain items which are not deductible for taxation purposes. The Czech corporate income tax rate for 2020 will be 19 %.

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

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

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

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

Revenue Recognition

Revenue is 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.

Right-of-use assets

The Group leases various premises, equipment and vehicles. Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- costs to restore the asset to the conditions required by lease agreements.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation on the items of the right-of-use assets is calculated using the straight-line method over their estimated useful lives.

Lease liabilities

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the Group under residual value guarantees,
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Extension options (or period after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Group, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, collateral and conditions.

To determine the incremental borrowing rate, the Group:
- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, and
- makes adjustments specific to the lease, e.g. term, country, currency and collateral.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.
Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise mostly of IT equipment and small items of office furniture with value of CZK 300 thousand or less.

Impairment of non-financial assets
Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Impairment of 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 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 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.

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.

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 recognised deferred tax assets represent income taxes recoverable through future deductions from taxable profits and are recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. This includes temporary difference expected to reverse in the future and the availability of sufficient future taxable profit against which the deductions can be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the business plan are listed in Note 7. Expiration of tax losses is listed in Note 23.

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.

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 2019

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 22,012 thousand as at 31 December 2019 (as at 31 December 2018: CZK 22,168 thousand).

3. Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 16 Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).

The company decided to implement the new standard retrospectively with the cumulative effect of initial application recognized as at the date of initial application of IFRS 16, i.e. 1 January 2019 with the corresponding effect recorded in equity (retained earnings). This means that the data presented for 2018 and 2019 is not comparable.

As required by the standard, this election has been consistently applied to all leases in which the Company is a lessee and sublessor.

Company as the lessee

For all leases, except for short-term leases and leases of low-value assets other than those which are subleased, previously classified as operating leases:

- as at 1 January 2019 the Company has recognised a lease liability measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at 1 January 2019;
- for all leases the Company has elected to recognise a right-of-use asset at an amount equal to the lease liability, adjusted by the amount of prepaid or accrued lease payments relating to those leases recognised in the statement of financial position immediately before the date of initial application.

The Company elected the following practical expedients:

- has applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relied on its assessment of whether leases are onerous applying IAS37 immediately before 1 January 2019 as an alternative to peforming an impairment analysis. The analysis of the onerous contracts as at 31 December 2018 has not resulted in a need to recognise an impairment allowance. The right-of-use assets as at 1 January 2019 were therefore not adjusted for any impairment;
- not to apply the new lessee accounting model to leases for which the lease term ends within 12 months after the date of initial application. Instead, it has accounted for those leases as short-term leases.

The explanation of the difference between operating lease commitments disclosed as at 31 December 2018 when applying IAS17 to the lease liabilities recognised as at 1 January 2019 is presented in the table below:

In thousands CZK	1 January 2019
Operating lease commitments as at 31 December 2018 under IAS 17	87,166
Excluded low value assets and short-term leases	(1,145)
Effect of discounting using the incremental borrowing rate at 1 January 2019	(9,829)
Total lease liabilities recognised as at 1 January 2019	**76,192**
Of which are:	
Short-term lease liabilities	**12,594**
Long-term lease liabilities	**63,598**

The following line items were affected by the adjustments and reclassifications made with respect to the amounts recognized at the date of initial application – 1 January 2019:

(in thousands CZK)	IAS 17 31 December 2018	IFRS 16 adjustments	IFRS 16 1 January 2019
Right-of-use assets	-	76,192	76,192
Total non-current assets	1,505,014	76,192	1,581,206
TOTAL ASSETS	**2,031,876**	**76,192**	**2,108,068**
Retained earnings	381,896	-	381,896
Total equity	**1,227,553**	**-**	**1,227,553**
Lease liabilities	-	63,598	63,598
Non-current liabilities	236,343	63,598	299,941
Lease liabilities	-	12,594	12,594
Current liabilities	567,980	12,594	580,574
TOTAL EQUITY AND LIABILITIES	**2,031,876**	**76,192**	**2,108,068**

The weighted average incremental borrowing rate applied to measure lease liabilities is 3.65 %.

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

4. New accounting standards and interpretations

The following amended standards became effective from 1 January 2019, but did not have any material impact on the Group:
- IFRIC 23 „Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- 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).
- 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).
- 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).
- 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).

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 2020 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 does not expect any impact of the amendments on its consolidated financial statements.

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 does not expect any impact of the standard on its consolidated financial statements.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March2018 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.

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.

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

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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 asis 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 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 13, 17, and 23.

In 2019 and 2018 short-term employee benefits (salaries and bonuses including social and health insurance) related to management personnel of Group companies (35 and 36 people in total, respectively) amounted to CZK 80,318 thousand and CZK 81,999 thousand, respectively.

In 2019 and 2018 members of Board of Directors and Supervisory Board of the Parent Company received remuneration of CZK 1,530 thousand and CZK 1,725 thousand, respectively.

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 2018	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 1 January 2019	**30,807**	**886,836**	**504,508**	**15,592**	**16,399**	**1,454,142**
Additions	-	6,526	13,199	725	579	21,029
Disposals	-	-	(988)	-	(702)	(1,690)
Depreciation charge	-	(37,674)	(83,465)	(3,042)	-	(124,181)
Impact of new investment	-	-	-	-	-	-
Transfers	-	160	898	-	(1,058)	-
Effect of translation to presentation						
Currency	(70)	(341)	(1,772)	2	(99)	(2,280)
Carrying amount at 31 December 2019	**30,737**	**855,507**	**432,380**	**13,277**	**15,119**	**1,347,020**
Cost at 31 December 2019	30,737	1,762,230	3,105,252	86,830	15,119	5,000,168
Accumulated depreciation	-	(906,723)	(2,672,872)	(73,553)	-	(3,653,148)
Carrying amount at 31 December 2019	**30,737**	**855,507**	**432,380**	**13,277**	**15,119**	**1,347,020**

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

Included in plant and equipment are assets held under finance leases with a carrying value of CZK 0 thousand (2018: CZK 1,166 thousand). At 31 December 2019 buildings and lands carried at CZK 622,728 thousand (2018: CZK 633,607 thousand) have been pledged to third parties as collateral for borrowings. See Note 24.

Impairment of tangible and intangible assets

Tangible and intangible assets of KORADO parent CGU have been tested for impairment (net book value of KORADO parent CGU assets as at 31 December 2019 amounting to CZK 1,149,769 thousand). Value-in-use calculations are based on KORADO parent long-term business plan for next 5 years. Assumption used for value-in-use calculations to which the recoverable amount is most sensitive is price of steel and discount rate. Management determined the expected development of price of steel based on experience and its market expectations. The discount rate is based on the Company's WACC (Weighted average costs of capital).

The price of steel development reflects expectation of the management for the market price development. If the revised estimated price of steel applied to the discounted cash flows of the KORADO parent CGU had been more than 2 % higher than management's estimates, the Group would need to reduce the carrying value of property, plant and equipment by circa CZK 71,170 thousand. This impairment would be calculated at situation that other factors included in the calculation remains constant. Company however expects that in case there is a price increase of steel this increase will be reflected in sales price of products.

The discount rates used are pre-tax, and reflect specific risks relating to the relevant CGUs. If the revised estimated pre-tax discount rate applied to the discounted cash flows of the KORADO parent CGU had been 1 % higher than management's estimates, the Group would need to reduce the carrying value of property, plant and equipment by CZK 31,200 thousand.

According to value-in-use calculation performed no impairment is required for KORADO parent CGU. No impairment indicators identified for remaining Group's cash generating units.

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 2018	212,917	4,218	2,716	3,315	12,643	235,809
Accumulated depreciation	(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 acquisition					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 amortization	(196,120)	(3,743)	(2,377)	-	-	(202,240)
Carrying amount at 1 January 2019	**19,363**	**475**	**339**	**3,158**	**22,168**	**45,503**
Additions	5,060	-	-	(2,633)	-	2,427
Depreciation charge	(5,548)	(475)	(339)	-	-	(6,362)
Impact of new acquisition	-	-	-	-	-	-
Effect of translation to presentation currency	246	-	-	(110)	(156)	(20)
Carrying amount at 31 December 2019	**19,121**	**-**	**-**	**415**	**22,012**	**41,548**
Cost at 31 December 2019	220,302	4,218	2,716	415	22,012	249,663
Accumulated amortization	(201,181)	(4,218)	(2,716)	-	-	(208,115)
Carrying amount at 31 December 2019	**19,121**	**-**	**-**	**415**	**22,012**	**41,548**

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

9. Right-of-use assets and lease liabilities

The Group leases various premises, equipment and vehicles. Rental contracts are typically made for fixed periods of 4 to 7 years.

Until 31 December 2018 leases of property, plant and equipment were classified as either finance leases or operating leases. Refer Notes 7, 16 and 24. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Group.

The statement of the financial position shows the separate line item for the right-of-use assets, which comprises the following:

In thousands of CZK	IFRS 16 31/12/2019	IFRS 16 1/1/2019
Buildings	44,656	54,245
Plant and equipment	19,055	21,947
Right-of-use assets	**63,711**	**76,192**

In thousands of CZK		Plant and equipment	Total
Balance at 31/12/2018	-	-	-
IFRS 16 Adjustment	54,245	21,947	76,192
Additions	-	1,320	1,320
Depreciation charge	(9,589)	(4,212)	(13,801)
Carrying amount at 31 December 2019	**44,656**	**19,055**	**63,711**

The statement of the financial position shows the separate line item for the lease liabilities, which comprises the following:

In thousands of CZK	IFRS 16 31/12/2019	IFRS 16 1/1/2019
Short-term portion	13,185	12,594
long-term portion	51,733	63,598
Lease liabilities	**64,918**	**76,192**

Interest expense included in finance costs of 2019 was CZK 2,824 thousand.

Expenses relating to short-term leases (included in Purchased services) and to leases of low-value assets that are not shown as short-term leases (included in Purchased services):

In thousands of CZK	2019
Expense relating to short-term leases and leases of low-value assets	4,353

Total cash outflow for leases in 2019 was CZK 14,099 thousand.

10. Business Combinations

On 31 July 2018, the Group acquired 100% interests in ThermWet s.r.o. which deals in the production and sale of recuperation units. 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 share. It will not be deductible for tax purposes.

There were no acquisitions in the year ending 31 December 2019.

11. Inventories

In thousands of CZK	2019	2018
Raw materials	210,500	224,535
Work in progress	14,345	16,660
Finished products	62,203	79,085
Total inventories	**287,048**	**320,280**

Inventories of CZK 164,474 thousand (2018: CZK 198,120 thousand) have been pledged as collateral for borrowings. See Note 24.

Excess, obsolete and slow-moving inventory at gross amount of CZK 12,045 thousand (2018: CZK 10,057 thousand) has been reduced through the allowance account of CZK 10,448 thousand (2018: CZK 7,565 thousand). The allowance is determined by management based on the aging analysis of inventory and the estimated realizable value.

12. Receivables

In thousands of CZK	2019	2018
Trade receivables	96,259	80,643
Advances paid	5,944	5,547
Other	157	127
Less trade receivables provision	(3,754)	(4,467)
Total trade and other receivables	**98,606**	**81,850**

Receivables of CZK 80,533 thousand (2018: CZK 77,600 thousand) have been pledged as collateral for borrowings. See Note 24.

Movements in the provision for trade receivables are as follows:

In thousands of CZK	2019 Trade receivables	2018 Trade receivables
Provision for impairment at 1 January	**4,467**	**13,015**
Additions	-	2,048
Amounts written off during the year as uncollectible	(137)	(1,213)
Reversals	(575)	(9,383)
Provision for impairment at 31 December	**3,754**	**4,467**

Trade receivables of CZK 86,784 thousand (2018: CZK 73,884 thousand) net of impairment loss provisions are denominated in foreign currency, mainly 79% in Euro (2018: 76%).

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.

Matrix of impairment for trade receivables at amortized cost

In % of gross value	Expected losses	Gross carrying amount	Allowance
Trade receivables			
- current	0 %	82,919	0
- less than 90 days overdue	3 %	9,882	(296)
- 91 to 180 days overdue	100 %	1	(1)
- 181 to 360 days overdue	100 %	-	-
- over 360 days overdue	100 %	3,457	(3,457)
Total trade receivables (gross carrying amount)		**96,259**	
Allowance		(3,754)	
Total trade receivables from contracts with customers (carrying amount)		92,505	

13. Prepayments and other current assets

In thousands of CZK	2019	2018
VAT receivables	20,442	18,998
Prepayments and other	7,963	8,866
Total Prepayments and other current assets	**28,405**	**27,864**

14. Cash and Cash Equivalents

In thousands of CZK	2019	2018
Bank balances payable on demand	94,147	96,376
Cash on hand	652	492
Total cash and cash equivalents	**94,799**	**96,868**

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

In thousands of CZK	2019 Bank balances payable on demand	2018 Bank balances payable on demand
Neither past due nor impaired		
- A*	89,075	51,095
- B**	5,072	45,281
Total	**94,147**	**96,376**

*includes Moody's A1, A3 rating and Fitch A- rating
** includes Moody's Baa rating and Fitch BB rating

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

15. Share Capital

The nominal registered amount of the Company's issued share capital is CZK 840,700 thousand (2018: CZK 840,700 thousand). The total authorised number of ordinary shares 2,402 shares (2018: 2,402 shares) with a par value of CZK 350 thousand per share (2018: CZK 350 thousand per share). All issued ordinary shares are fully paid. Each ordinary share carries equal voting rights.

The shareholders:

(in %)	31 December 2019	31 December 2018
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	2019	2018
Dividends per share declared during the year	**8**	**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 on 27 May 2019 about the payment of profit share of CZK 29,999 thousand (2018: CZK 49,998 thousand), of which part attributable to own shares in amount of CZK 2,748 thousand (2018: CZK 4,580 thousand) was transferred to retained earnings. The profit share paid to non-controlling interest amounted to CZK 8,855 thousand (2018: CZK 10,417 thousand).

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.

16. Borrowings

In thousands of CZK	2019	2018
Term loans	174,849	244,397
Other non – bank loans	2,462	1,564
Finance lease liabilities	-	2,563
Total borrowings	**177,311**	**248,524**

In thousands of CZK	2019	2018
Current		
Term loans	59,767	102,542
Other non – bank loans	1,016	330
Finance lease liabilities	-	1,092
Total current borrowings	**60,783**	**103,964**

In thousands of CZK	2019	2018
Non- current		
Term loans	115,082	141,855
Other non – bank loans	1,446	1,234
Other long term liabilities	-	1,471
Total non-current borrowings	**116,528**	**144,560**
Total borrowings	**177,311**	**248,524**

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

In thousands of CZK	2019	2018
Borrowings denominated in:		
CZK	89,639	110,780
EUR	86,444	135,181
BGN	1,228	2,563
Total borrowings	**177,311**	**248,524**

Property, plant and equipment, inventories and receivables are pledged as collateral for borrowings of CZK 867,735 thousand (2018: CZK 909,327 thousand). See Notes 7, 11, 12 and 24.
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 2019 and 31 December 2018.

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 2019	-	-	-	-
Less future finance charges	-	-	-	-
Present value of minimum lease payments at 31 December 2019	-	-	-	-
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

Leased assets with a carrying amount of comparatives 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.

Reconciliation of liabilities arising from financing activities

In thousands of CZK	2019	2018
Cash and cash equivalents	94,799	96,868
Long-term borrowings	(116,528)	(144,560)
Short-term borrowings and current portion of long-term debt	(60,783)	(103,964)
Lease liabilities	(64,918)	-
Total liabilities from financing activities	**(147,430)**	**(151,656)**

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:

	Liabilities from financing activities			
In thousands of CZK	Borrowings	Lease liabilities	Other liabilities from financing activities	Total
Liabilities from financing activities at 1 January 2018	**(241,903)**	**-**	**(2,846)**	**(244,749)**
Cash payments	113,705	-	-	113,705
Liabilities drawings	(117,198)	-	(1,281)	(118,479)
Foreign exchange adjustments	999	-	-	999
Liabilities from financing activities at 31 December 2018	(244,397)	-	(4,127)	(248,524)
IFRS 16 Adjustment	-	(76,192)	-	(76,192)
Cash payments	95,292	14,098	1,665	111,055
Liabilities drawings	(25,738)	-	-	(25,738)
Interest accrued	-	(2,824)	-	(2,824)
Foreign exchange adjustments	(6)	-	-	(6)
Liabilities from financing activities at 31 December 2019	**(174,849)**	**(64,918)**	**(2,462)**	**(242,229)**

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 2019

17. Trade and other payables

In thousands of CZK	2019	2018
Trade payables	142,400	237,398
Refund liabilities for volume discounts	181,273	161,806
Payables to employees	37,007	32,453
Tax payables	4,441	5,683
Accrued liabilities and other creditors	23,921	19,491
Trade and other payables	**389,042**	**456,831**

Trade payables of CZK 111,883 thousand (2018: CZK 178,419 thousand) are denominated in foreign currency, mainly 96 % in Euro (2018: 95 %).

18. Revenues from sales of products and goods

In thousands of CZK	2019	2018
Sales of radiators	1,645,230	1,610,482
Sales of convectors	110,568	94,254
Sales of accessories	51,596	41,336
Ventilation and recuperation units	12,995	16,732
Other sales	12,063	17,076
Total revenue	**1,832,452**	**1,779,880**

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

In thousands of CZK	2019	2018
Domestic sales (Czech Republic)	623,523	640,616
Export	1,208,929	1,139,264
- Export – EU	1,025,302	1,002,106
- Export - other	183,627	137,158
Total revenue	**1,832,452**	**1,779,880**

19. Cost of Materials, Energy and Purchased Goods

In thousands of CZK	2019	2018
Materials and supplies	954,017	954,792
Energy	39,393	39,455
Purchased goods	55,127	56,362
Change in inventories	11,190	(17,751)
Total	**1,059,727**	**1,032,858**

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

20. Purchased services and rental expenses

In thousands of CZK	2019	2018
Repairs and maintenance	7,203	8,275
Rent	4,353	20,588
Traveling and training expenses	10,844	12,560
Marketing	47,768	53,133
Transportation expenses	43,177	36,404
Legal and advisory services (incl. 2018: CZK 1 853 ths, 2017: CZK 1,853 ths for audit services)	13,620	11,690
Operational services (Cooperation, IT services)	31,507	47,698
Other	16,981	19,516
Total	**175,453**	**209,864**

21. Other operating income

In thousands of CZK	2019	2018
Income from write off of receivables and insured receivables	1,475	5,244
Gain on sale of fixed assets	361	42
Income from sale of scrap	5,244	5,136
Other	9,863	13,384
Total	**16,943**	**23,806**

22. Other Expenses

In thousands of CZK	2019	2018
Receivables and loans written off	1,629	1,213
Change in impairment provisions and provisions, net	2,070	(7,839)
Taxes and levies	1,819	1,671
Insurance	17,825	14,710
Other	9,133	12,466
Total	**32,476**	**22,221**

23. Taxes

a) Components of income tax expense

Income tax expense comprises the following:

In thousands of CZK	2019	2018
Current tax	6,575	8,333
Deferred tax	20,936	(2,445)
Income tax expense for the year	**27,511**	**5,888**

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 2019 and 2018 income is 19 %. The income tax rate applicable to the majority of income of subsidiaries ranges from 10 % to 19 % (2018: from 10 % to 19 %). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of CZK	2019	2018
Profit before tax	**34,941**	**12,287**
Statutory income tax rate	19 %	19 %
"Expected" income tax, expense	6,639	2,335
Add / (deduct), tax effect of:		
Non-deductible expenses	2,312	3,087
Change in valuation allowance	-	-
Change in deferred tax asset from tax credit	24,218	7,916
Different tax rate in other countries	(5,306)	(6,913)
Other	(352)	(537)
Actual income tax expense	27,511	5,888
Effective tax rate	79%	48 %

c) Tax loss carry forwards

The Group has unrecognized potential deferred tax assets in respect of unused tax loss carry forwards of CZK 7,259 thousand (2018: CZK 6,616 thousand). This tax loss relates to subsidiary where is not probable the losses will be utilized.

Total deferred tax asset from accumulated tax losses amount to CZK 12,465 thousand and relates to the tax losses from the Parent Company and subsidiary LICON Heat. Company expects their utilization in future periods in full. This tax losses amounts to CZK 65,604 thousand, out of which CZK 22,208 thousand may be used up to year 2022 and CZK 43,396 thousand up to year 2023.

Deferred income taxes at 31 December 2019 and 2018 consist of the following:

In thousands of CZK	2019	2018
Receivables impairment provision	56	138
Inventory impairment provision	1,985	1,435
Provisions	1,363	1,341
Accumulated losses carried forward	12,465	14,116
Elimination of intra-group profit from inventories	280	483
Tax credit from investment incentive	-	24,218
Other	441	634
Total deferred tax assets	**16,589**	**42,365**
Total deferred tax asset in Statement of Financial Position	**426**	**633**
Total deferred tax asset for offset with liability	**16,163**	**41,732**
Difference between net book value of non-current assets for accounting and tax purposes	(121,966)	(126,806)
Total deferred tax liabilities	**(121,966)**	**(126,806)**
Offset with deferred tax assets	16,163	41,732
Deferred tax liabilities in the Statement of Financial Position	**105,803**	**(85,074)**

Movements in deferred tax liability, net were as follows:

In thousands of CZK	2019	2018
As at 1 January	84,441	86,886
Change in deferred tax recorded in statement of income	20,936	(2,445)
As at 31 December	105,377	84,441

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.

24. 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
Not later than 1 year	17,750
Later than 1 year and not later than 5 years	56,632
Later than 5 years	12,784
Total operating lease commitments	**87,166**

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

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Assets pledged and restricted.

At 31 December 2019 the Group has the following assets pledged as collateral:

In thousands of CZK	Note	2019 Asset pledged	2018 Asset pledged
Property	7	11,638	11,638
Plant and equipment	7	611,091	621,969
Receivables	12	80,533	77,600
Inventories	11	164,474	198,120
Total		**867,736**	**909,327**

25. 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 2019, the Group disposed 54,265 shares of Korado Bulgaria increasing the share of NCI to 17.85 %. The sale of shares didn't have any material influence on Group control over Korado Bulgaria.

The following table shows summarized financial information of KORADO Bulgaria AD for the year ended 31 December 2019 and 2018:

In thousands of CZK	2019	2018
Ownership share of non-controlling interest at 31 December	17.85%	17.44 %
Non-current assets	186,450	198,857
Current assets	183,619	206,895
Non-current liabilities	(54,726)	(57,056)
Current liabilities	(45,665)	(80,391)
Equity	269,678	268,304
Attributable to:		
Equity holders of parent	221,539	221,515
Non-controlling interests	48,139	46,788
Revenues	555,246	571,395
Profit after income taxes	55,940	68,879
Attributable to:		
Equity holders of parent	45,954	56,060
Non-controlling interest	9,986	12,132
Total comprehensive income	**60,174**	**68,192**
Attributable to:		
Equity holders of parent	49,433	56,301
Non-controlling interest	10,742	11,892

26. 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 minimize 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

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

other than the functional currency.

The foreign currency accounts receivable and payable represent an exchange rate risk for the Group. At 31 December 2019 and 2018, the Group did not have any exchange rate hedges in place to mitigate the overall foreign currency exposure.

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

	2019		2018	
	Increase/decrease in exchange rate *	Effect on profit / loss before tax	Increase/decrease in exchange rate *	Effect on profit / loss before tax
EUR	+5 %	(5 784)	+ 5 %	(12 126)
PLN	+5 %	1 211	+ 5 %	1 287
BGN	+5 %	(211)	+ 5 %	(138)
EUR	- 5 %	5 784	- 5 %	12 126
PLN	- 5 %	(1 211)	- 5 %	(1 287)
BGN	- 5 %	211	- 5 %	138

** 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 16). 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 2.62 % as at 31 December 2019 and 2.39 % as at 31 December 2018, 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:

2019		2018	
Increase/decrease in basis points	Effect on profit / loss before tax	Increase/decrease in basis points	Effect on profit / loss before tax
50	(835)	50	(1,176)
(50)	835	(50)	1,176

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 2019 and 2018 based on contractual undiscounted payments (nominal amount and interest) provided that the Group meets the loan agreement covenants:

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 2019

31 December 2019	Less than 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Bank and other loans	15,822	48,009	120,119	-	183,950
Lease liabilities	4,497	13,492	56,515	-	74,504
Trade payables	323,673	-	-	-	323,673
Total	**343,992**	**61,501**	**176,634**	**-**	**582,127**
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**

27. 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 2019 was CZK 1,169,258 thousand (2018: CZK 1,180,765 thousand).

The Group has complied with all externally imposed capital requirements throughout 2019 and 2018. 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.

28. 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.

Carrying amounts and the estimated fair values of financial instruments as at 31 December 2019 were as follows:

In thousands of CZK	Carrying amount	Fair value
Assets		
Other non-current assets	4,671	4,671
Accounts receivable, net	98,606	98,606
Cash and cash equivalents	94,799	94,799
Liabilities		
Payables and other current liabilities	323,673	323,673
Short-term leases liabilities	13,185	13,185
Long-term leases liabilities	51,733	51,733
Short-term borrowings and current portion of long-term debt	60,783	60,783
Long-term debt, net of current portion	116,528	116,528

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

29. Events After the Reporting Period

The existence of novel coronavirus causing the COVID-19 disease was confirmed in early 2020 and has spread across mainland China and beyond, including Czechia, causing disruptions to businesses and economic activity. As of the issue date of these Financial statements management of the Company did not notice significant decrease of sales. However, the situation is fluid and rapidly evolving we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company. Potential restrictions on free movement of goods would result in decreased revenues and limitation of production. Short-term decrease of sales will be managed given the current good cash position due to low indebtedness. Similarly, the Company is prepared for potential short-term outage of production. Management of the Company will continue to monitor potential impacts and will implement all possible steps to reduce negative effects on the Company and its employees.

Management of the Company assessed potential impacts of COVID-19 on its business activities and concluded that they do not have a significant impact on the going concern of the Company. Financial statements as at 31 December 2019 were prepared on a going concern basis.

No other events have occurred subsequent to year-end that would have a material impact on the financial statements as at 31 December 2019.

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

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 2019

KORADO

KORADO, a.s.

Identification number: 25255843 | Legal form: Join stock company | Primary business: Manufacturing of central heating radiators
Balance sheet date: 31 December 2019 | Date of preparation of the financial statements: 27 April 2020

BALANCE SHEET (in thousand Czech crowns)

Ref.					ASSETS	Row	31. 12. 2019 Gross	Provision	Net	31. 12. 2018 Net
a					b	c	1	2	3	4
					TOTAL ASSETS	**001**	**5,472,211**	**(3,729,709)**	**1,742,502**	**1,891,446**
B.					**FIXED ASSETS**	**003**	**5,137,664**	**(3,716,254)**	**1,421,410**	**1,511,728**
B.	I.				**Intangible fixed assets**	**004**	**217,793**	**(198,533)**	**19,260**	**22,029**
B.	I.	2.			Royalties	006	217,377	(198,533)	18,844	18,981
B.	I.	2.	1.		Software	007	212,295	(194,861)	17,434	17,969
B.	I.	2.	2.		Other royalties	008	5,082	(3,672)	1,410	1,012
B.	I.	5.			Advances paid and intangible fixed assets in the course of construction	011	416	-	416	3,048
B.	I.	5.	2.		Intangible fixed assets in the course of construction	013	416	-	416	3,048
B.	II.				**Tangible fixed assets**	**014**	**4,494,654**	**(3,364,145)**	**1,130,509**	**1,220,733**
B.	II.	1.			Land and constructions	015	1,722,816	(867,804)	855,012	884,055
B.	II.	1.	1.		Land	016	25,455	-	25,455	25,455
B.	II.	1.	2.		Constructions	017	1,697,361	(867,804)	829,557	858,600
B.	II.	2.			Equipment	018	2,682,036	(2,423,947)	258,089	313,750
B.	II.	4.			Other tangible fixed assets	020	87,216	(72,394)	14,822	17,159
B.	II.	4.	3.		Tangible fixed assets - other	023	87,216	(72,394)	14,822	17,159
B.	II.	5.			Advances paid and tangible fixed assets in the course of construction	024	2,586	-	2,586	5,769
B.	II.	5.	1.		Advances paid for tangible fixed assets	025	-	-	-	3,990
B.	II.	5.	2.		Tangible fixed assets in the course of construction	026	2,586	-	2,586	1,779
B.	III.				**Long-term investments**	**027**	**425,217**	**(153,576)**	**271,641**	**268,966**
B.	III.	1.			Investments - subsidiaries and controlling party	028	286,632	(109,694)	176,938	179,935
B.	III.	2.			Loans and borrowings - subsidiaries and controlling party	029	138,585	(43,882)	94,703	89,031
C.					**CURRENT ASSETS**	**037**	**306,928**	**(13,455)**	**293,473**	**352,302**
C.	I.				**Inventories**	**038**	**174,524**	**(10,050)**	**164,474**	**191,503**
C.	I.	1.			Raw materials	039	117,412	(8,795)	108,617	117,272
C.	I.	2.			Work in progress and semi-finished products	040	8,662	-	8,662	12,206
C.	I.	3.			Finished goods and goods for resale	041	48,450	(1,255)	47,195	62,025
C.	I.	3.	1.		Finished goods	042	29,874	(733)	29,141	36,630
C.	I.	3.	2.		Goods for resale	043	18,576	(522)	18,054	25,395
C.	II.				**Receivables**	**046**	**93,175**	**(3,405)**	**89,770**	**92,767**
C.	II.	1.			Long-term receivables	047	7	-	7	7
C.	II.	1.	5.		Receivables - other	052	7	-	7	7
C.	II.	1.	5.	2.	Long-term advances paid	054	7	-	7	7
C.	II.	2.			Short-term receivables	057	93,168	(3,405)	89,763	92,760
C.	II.	2.	1.		Trade receivables	058	70,462	(3,405)	67,057	73,018
C.	II.	2.	2.		Receivables - subsidiaries and controlling party	059	650	-	650	331
C.	II.	2.	4.		Receivables - other	061	22,056	-	22,056	19,411
C.	II.	2.	4.	3.	Taxes - receivables from the state	064	16,937	-	16,937	13,814
C.	II.	2.	4.	4.	Short-term advances paid	065	3,601	-	3,601	3,628
C.	II.	2.	4.	5.	Estimated receivables	066	1,489	-	1,489	1,940
C.	II.	2.	4.	6.	Other receivables	067	29	-	29	29
C.	IV.				**Cash**	**075**	**39,229**	**-**	**39,229**	**68,032**
C.	IV.	1.			Cash in hand	076	363	-	363	310
C.	IV.	2.			Cash at bank	077	38,866	-	38,866	67,722
D.					**Prepayments and accrued income**	**078**	**27,619**	-	**27,619**	**27,416**
D.	1.				Prepaid expenses	079	4,846	-	4,846	6,147
D.	3.				Accrued income	081	22,773	-	22,773	21,269

KORADO, a.s.

Identification number: 25255843 | Legal form: Join stock company | Primary business: Manufacturing of central heating radiators
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BALANCE SHEET (in thousand Czech crowns)

Ref. a				LIABILITIES AND EQUITY b	Row c	31. 12. 2019 5	31. 12. 2018 6
				TOTAL LIABILITIES AND EQUITY	**082**	**1,742,502**	**1,891,446**
A.				**Equity**	**083**	**1,101,863**	**1,111,935**
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**	**(45,625)**	**(44,435)**
A.	II.	2.		Capital contributions	090	(45,625)	(44,435)
A.	II.	2.	2.	Assets and liabilities revaluation	092	(45,625)	(44,435)
A.	**III.**			**Other reserves**	**096**	**116,479**	**116,479**
A.	III.	2.		Statutory and other reserves	098	116,479	116,479
A.	**IV.**			**Retained earnings**	**099**	**306,587**	**319,244**
A.	IV.	1.		Retained earnings	100	306,587	319,244
A.	**V.**			**Profit for the current period**	**102**	**201**	**14,593**
A.	**VI.**			**Less interim dividend declared**	**103**	**-**	**(18,167)**
B.	**+ C.**			**Liabilities**	**104**	**626,221**	**768,138**
B.				**Provisions**	**105**	**6,275**	**6,395**
B.	4.			Other provisions	109	6,275	6,395
C.				**Liabilities**	**110**	**619,946**	**761,743**
C.	**I.**			**Long-term liabilities**	**111**	**215,262**	**219,886**
C.	I.	2.		Liabilities due to financial institutions	115	109,930	134,725
C.	I.	8.		Deferred tax liability	121	105,332	85,161
C.	**II.**			**Short-term liabilities**	**126**	**404,684**	**541,857**
C.	II.	2.		Liabilities due to financial institutions	130	48,210	91,282
C.	II.	3.		Short-term advances received	131	94	1,613
C.	II.	4.		Trade payables	132	322,108	378,131
C.	II.	8.		Liabilities - other	136	34,272	70,831
C.	II.	8.	1.	Liabilities to shareholders	137	30	8,187
C.	II.	8.	3.	Liabilities to employees	139	13,399	13,504
C.	II.	8.	4.	Liabilities for social security and health insurance	140	6,973	7,035
C.	II.	8.	5.	Taxes and state subsidies payable	141	2,613	3,524
C.	II.	8.	6.	Estimated payables	142	10,768	37,482
C.	II.	8.	7.	Other liabilities	143	489	1,099
D.				**Accruals and deferred income**	**147**	**14,418**	**11,373**
D.	1.			Accrued expenses	148	12,041	9,350
D.	2.			Deferred income	149	2,377	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 2019 | Date of preparation of the financial statements: 27 April 2020

INCOME STATEMENT (in thousand Czech crowns)

Ref. a			TEXT b	Row c	Accounting period 2019 1	2018 2
I.			**Sales of products and services**	**01**	**1,065,247**	**1,022,522**
II.			**Sales of goods**	**02**	**471,378**	**525,944**
A.			**Cost of sales**	**03**	**1,154,311**	**1,212,008**
A.	1.		Cost of goods sold	04	380,178	423,954
A.	2.		Raw materials and consumables used	05	630,848	626,504
A.	3.		Services	06	143,285	161,550
B.			**Changes in inventories of finished goods and work in progress**	**07**	**10,681**	**(8,725)**
C.			**Own work capitalised**	**08**	**(6,380)**	**(7,194)**
D.			**Staff costs**	**09**	**278,789**	**289,180**
D.	1.		Wages and salaries	10	208,104	215,535
D.	2.		Social security, health insurance and other social costs	11	70,685	73,645
D.	2.	1.	Social security and health insurance costs	12	63,113	65,662
D.	2.	2.	Other social costs	13	7,572	7,983
E.			**Value adjustments in operating acitivities**	**14**	**112,764**	**99,452**
E.	1.		Value adjustments of fixed assets	15	109,528	106,648
E.	1.	1.	Depreciation, amortisation and write off of fixed assets	16	109,528	106,648
E.	2.		Provision for impairment of inventories	18	3,433	1,525
E.	3.		Provision for impairment of receivables	19	(197)	(8,721)
III.			**Operating income - other**	**20**	**16,546**	**32,476**
III.	1.		Sales of fixed assets	21	2	42
III.	2.		Sales of raw materials	22	7,730	17,759
III.	3.		Other operating income	23	8,814	14,675
F.			**Operating expenses - other**	**24**	**19,591**	**29,852**
F.	2.		Cost of raw materials sold	26	7,954	17,313
F.	3.		Taxes and charges from operating activities	27	825	834
F.	4.		Operating provisions and complex prepaid expenses	28	(120)	(862)
F.	5.		Other operating expenses	29	10,932	12,567
	*		**Operating result**	**30**	**(16,585)**	**(33,631)**
IV.			Income from sales of long-term investments - shares	31	47,281	67,583
IV.	1.		Income from sales of investments - subsidiaries or controlling party	32	47,281	67,583
G.			Shares sold	34	716	1,746
VI.			Interest and similar income	39	3,215	2,778
VI.	1.		Interest and similar income - subsidiaries or controlling party	40	3,187	2,751
VI.	2.		Other interest and similar income	41	28	27
I.			Value adjustments and provisions from financial operations	42	(1,199)	(394)
J.			Interest and similar expenses	43	6,402	7,430
J.	2.		Other interest and similar expenses	45	6,402	7,430
VII.			Other financial income	46	8,906	7,809
K.			Other financial expenses	47	16,526	21,164
	*		**Financial result**	**48**	**36,957**	**48,224**
	**		**Net profit / (loss) before taxation**	**49**	**20,372**	**14,593**
L.			**Tax on profit or loss**	**50**	**20,171**	**-**
L.	2.		Tax on profit or loss - deferred	52	20,171	-
	**		**Net profit / (loss) after taxation**	**53**	**201**	**14,593**
	***		**Net profit / (loss) for the financial period**	**55**	**201**	**14,593**
			Net turnover for the financial period	**56**	**1,612,573**	**1,659,112**

KORADO, a.s.

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Balance sheet date: 31 December 2019 | Date of preparation of the financial statements: 27 April 2020

CASH-FLOW STATEMENT (in thousand Czech crowns)

Ref.			TEXT	Accounting period 2019	2018
a			b	1	2
			Cash flows from operating activities		
			Net profit on ordinary activities before tax	**20,372**	**14,593**
A.	1.		Adjustments for non-cash movements:	69,908	43,201
A.	1.	1.	Depreciation and amortisation of fixed assets	109,528	106,648
A.	1.	2.	Change in provisions	1,917	(8,451)
A.	1.	3.	(Profit)/loss from disposal of fixed assets	(3,908)	(11,794)
A.	1.	4.	Dividend income	(42,659)	(54,085)
A.	1.	5.	Net interest expense/(income)	3,187	4,652
A.	1.	6.	Other non-cash movements	1,843	6,231
A	*		**Net cash flow from operating activities before tax and changes in working capital**	**90,280**	**57,794**
A.	2.		Working capital changes:	(56,240)	33,691
A.	2.	1.	Change in receivables and prepayments	2,715	(28,589)
A.	2.	2.	Change in short-term payables and accruals	(82,550)	68,314
A.	2.	3.	Change in inventories	23,595	(6,034)
A	**		**Net cash flow from operating activities before tax**	**34,040**	**91,485**
A.	3.		Interest paid	(6,402)	(7,430)
A.	4.		Interest received	3,215	2,778
A.	6.		Dividends received	42,659	54,085
A	***		**Net cash flow from operating activities**	**73,512**	**140,918**
B.	1.		Acquisition of fixed assets	(16,514)	(63,969)
B.	2.		Proceeds from sale of fixed assets	3,908	11,794
B.	3.		Loans to related parties	(3,677)	1,901
B	***		**Net cash flow from investing activities**	**(16,283)**	**(50,274)**
C.	1.		Change in long- and short-term liabilities	(67,865)	(4,030)
C.	2.		Changes in equity:	(18,167)	(45,418)
C.	2.	6.	Dividends paid	(18,167)	(45,418)
C	***		**Net cash flow from financing activities**	**(86,032)**	**(49,448)**
			Net increase/(decrease) in cash and cash equivalents	**(28,803)**	**41,196**
			Cash and cash equivalents at the beginning of the year	**68,032**	**26,836**
			Cash and cash equivalents at the end of the year	**39,229**	**68,032**

KORADO, a.s.

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

Balance sheet date: 31 December 2019 | Date of preparation of the financial statements: 27 April 2020

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousand Czech crowns)

	Share capital	Other capital funds	Revaluation reserve	Own shares	Interim dividend declared	Reserve fund	Statutory fund	Retained earnings	Total
As at 1 January 2018	**840,700**	**48**	**(47,070)**	**(116,479)**	**(18,167)**	**48,268**	**116,479**	**316,346**	**1,140,125**
Fair value gains/(losses) - investments in subsidiaries and associates	0	0	2,635	0	0	0	0	0	2,635
Dividends/profit distribution paid	0	0	0	0	18,167	0	0	(45,418)	(27,251)
Interim dividend declared	0	0	0	0	(18,167)	0	0	0	(18,167)
Net profit/(loss) for the current period	0	0	0	0	0	0	0	14,593	14,593
Dissolution of other capital fund	0	(48)	0	0	0	0	0	48	0
Dissolution of reserve fund	0	0	0	0	0	(48,268)	0	48,268	0
As at 31 December 2018	**840,700**	**0**	**(44,435)**	**(116,479)**	**(18,167)**	**0**	**116,479**	**333,837**	**1,111,935**
Fair value gains/(losses) - investments in subsidiaries and associates	0	0	(1,190)	0	0	0	0	0	(1,190)
Dividends/profit distribution paid	0	0	0	0	18,167	0	0	(27,250)	(9,083)
Net profit/(loss) for the current period	0	0	0	0	0	0	0	201	201
As at 31 December 2019	840,700	0	**(45,625)**	**(116,479)**	**0**	**0**	**116,479**	**306,788**	**1,101,863**

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.

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 recognized in equity, with the exception of held-to-maturity investments, where the translation difference is recognized in the income statement.

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 2019	Additions / transfers	Disposals	31 December 2019
Cost				
Software	208,177	4,118	-	212,295
Other royalties	4,292	790	-	5,082
Intangible fixed assets in the course of construction	3,048	(2,632)	-	416
Total	**215,517**	**2,276**	**-**	**217,793**
Accumulated amortisation				
Software	190,208	4,653	-	194,861
Other royalties	3,280	392	-	3,672
Total	**193,488**	**5,045**	**-**	**198,533**
Net book value	**22,029**		**-**	**19,260**

(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**

4. Tangible fixed assets

(CZK'000)	1 January 2019	Additions / transfers	Disposals	31 December 2019
Cost				
Land	25,455	-	-	25,455
Constructions	1,690,892	6,469	-	1,697,361
Equipment	2,676,427	10,293	4,684	2,682,036
Other tangible fixed assets	60,676	680	-	61,356
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	1,779	807	-	2,586
Total	**4,485,079**	**14,259**	**4,684**	**4,494,654**
Accumulated depreciation				
Constructions	832,292	35,512	-	867,804
Equipment	2,362,677	65,954	4,684	2,423,947
Other tangible fixed assets	46,724	3,017	-	49,741
Art works and collections	22,653	-	-	22,653
Total	**3,264,346**	**104,483**	**4,684**	**3,364,145**
Net book value	**1,220,733**			**1,130,509**
(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**

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

Tangible assets have been tested for impairment. Testing resulted in no impairment of tangible assets. Impairment testing was performed using value-in-use calculations that are based on long-term business plan for next 5 years which was prepared based on management assumptions about future development of the Company. Assumption used for value-in-use calculations to which the recoverable amount is most sensitive is price of steel and discount rate. Management however assumes that potential increase in steel costs will be reflected in selling prices.

KORADO, a.s.

Notes to standalone financial statements for the year ended 31 December 2019

5. Investments in subsidiaries

31 December 2019	Number of shares	Nominal value ('000)	Cost (CZK'000)	Carrying value (CZK'000)	% of capital	2019 net profit/(loss) (CZK'000)	Net assets (CZK'000)	2019 dividend income (CZK'000)
Foreign entities								
KORADO Deutschland Fürstenwalde, Germany*		25 EUR	15,626	-	100%	(801)	(158)	1,066
KORADO Bulgaria Strajica, Bulgaria	10,817,923	13,169 BGN	102,560	102,560	82.15%	55,940	269,678	41,593
KORADO Poland Piasecno, Poland		7,211 PLN	67,357	-	100%	2,276	(43,880)	-
KORADO Austria* Wien, Austria		1,050 EUR	26,681	-	100%	7	(20)	-
KORADO UK* London, Great Britain		1 GBP	30	-	100%	-	30	-
Domestic entities								
LICON HEAT Praha 1, Czech Republic		14,500 CZK	64,012	64,012	100%	1,821	4,221	-
ThermWet Praha 10, Czech Republic		200 CZK	10,366	10,366	100%	(2,771)	(3,733)	-
Total			**286,632**	**176,938**				
Provision for diminution in value			**(109,694)**					
Net book value			**176,938**					

** Unaudited*

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			**(107,382)**					
Net book value			**179,935**					

** Unaudited*

The decrease in the share of KORADO Bulgaria's share capital is due to the sale of the shares of this subsidiary. In 2019 the proceeds from the sale of these shares were CZK 4,622 thousand (2018: CZK 13,498 thousand).

As at the end of the year, the share price of KORADO Bulgaria amounted to 6.25 BGN/pcs. Market capitalization amounted to CZK 1,069 million (2018: CZK 1,238 million). 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)	2019	2018
As at 1 January	**108,543**	**107,382**
Charge for the year	1,519	1,161
Released during the year	368	-
As at 31 December	**109,694**	**108,543**

6. Provided loans

31 December 2019	Loan value in foreign currency ('000)	Loan value (CZK'000)	Interest rate (%)	Allowance (CZK'000)
Foreign entities				
KORADO Poland	7,924 PLN	47,306	1.7 % p.a.	43,882
KORADO Bulgaria	1,900 EUR	48,279	1M Euribor + 1.65 % p.a.	-
ThermWet	4,000 CZK	4,000	1M Pribor + 1,55 % p.a.	-
Total		**138,585**		**43,882**
Provision for diminution in value		**(43,882)**		
Net book value		**94,703**		
31 December 2018	Loan value in foreign currency ('000)	Loan value (CZK'000)	Interest rate (%)	Allowance (CZK'000)
Foreign entities				
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 CZK	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**		

7. Inventories

The Company created a provision for inventories as at 31 December 2019 of CZK 10,050 thousand (as at 31 December 2018: CZK 6,617 thousand).

Analysis of the change in the provision for inventories:

(CZK'000)	2019	2018
Opening balance as at 1 January	**6,617**	**5,092**
Charge for the year	3,433	1,525
Released during the year	-	-
Closing balance as at 31 December	**10,050**	**6,617**

8. Receivables

Overdue receivables as at 31 December 2019 amounted to CZK 7,580 thousand (as at 31 December 2018: CZK 20,458 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)	2019	2018
Opening balance as at 1 January	**3,602**	**12,323**
Charge for the year	307	1,809
Released during the year	217	9,317
Written off during the year	287	1,213
Closing balance as at 31 December	**3,405**	**3,602**

9. Equity

Authorised and issued share capital:

	31 December 2019		31 December 2018	
	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 2019	31 December 2018
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 2019

TThe 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.

On 28 May 2018 the general meeting of shareholders decided- to transfer reserve fund to retained earnings.

The general meeting of shareholders approved the financial statements for 2018 and decided about the allocation of profit earned in 2018 of CZK 14,594 thousand on 27 May 2019. It was decided to pay a profit share of CZK 29,999 thousand, of which amount of CZK 15,405 thousand was transferred from retained earnings. Part attributable to own shares in amount CZK 2,748 thousand was transferred to retained earnings.

10. Provisions

(CZK'000)	Warranty repairs	Provision for pension liabilities	Total
Opening balance as at 1 January 2018	**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**
Charge for the year	-	211	211
Used in the year	331	-	331
Closing balance as at 31 December 2019	**4,584**	**1,691**	**6,275**

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 2019 (CZK'000)	Balance as at 31 December 2018 (CZK'000)
Československá obchodní banka, a.s.	Real estate, receivables, inventories	Euribor 1M+1.55 %	EUR	-	34,048
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 %	EUR	4,998	17,202
Československá obchodní banka, a.s.	Real estate, receivables, inventories	Euribor 1M+1.55 %	EUR	49,057	68,290
Československá obchodní banka, a.s.	Real estate, receivables	Pribor 1M+1.55 %	CZK	80,000	100,000
Československá obchodní banka, a.s.	Real estate, receivables, inventories	Euribor 1M+1.55 %	EUR	24,085	-
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				**158,140**	**226,007**

Loans in the total amount of CZK 158,140 thousand (as at 31 December 2018: CZK 226,007 thousand) drawn from Československá obchodní banka, a.s., have a maturity up to 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 2019 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 2019 amounted to CZK 845,899 thousand (as at 31 December 2018: CZK 909,327 thousand).

13. Commitments and contingent liabilities

The management of the Company is not aware of any contingent liabilities as at 31 December 2019.

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

(CZK'000)	31 December 2019	31 December 2018
Current within one year	4,631	5,449
Due after one year	17,225	19,553
Total commitments in respect of operating leases	**21,856**	**25,002**

14. Revenue analysis

Revenue analysis:

(CZK'000)	2019	2018
Radiator production		
- domestic	309,735	291,572
- foreign	740,208	714,254
Provided services	15,304	16,696
Total sales of own products and services	**1,065,247**	**1,022,522**
Sales of goods		
- domestic	308,553	340,735
- foreign	162,825	185,209
Total sales of goods	**471,378**	**525,944**

15. Related party transactions

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

(CZK'000)	2019	2018
Revenues		
Sales of services	8,925	9,865
Sale of products	91,314	112,053
Sales of goods	2,391	1,750
Sale of materials and tangible fixed assets	4,829	16,382
Interest income	3,187	2,751
Income from shares in subsidiaries	42,659	54,085
Total	**153,305**	**196,886**
Costs		
Purchase of goods for resale	333,560	376,375
Purchase of material	57,519	64,107
Services	1,648	1,931
Total	**392,727**	**442,413**

Dividends were distributed as stated in note 9.

The following related party balances were outstanding as at:

(CZK'000)	31 December 2019	31 December 2018
Receivables		
Trade receivables	19,725	27,988
Accruals	22,381	21,225
Granted loans, including allowances	94,703	89,031
Total	**136,809**	**138,244**
Liabilities		
Liabilities to companies	54,234	105,041
Out of which:		
Trade payables	52,670	103,719
Accruals	1,564	1,322
Total	**54,234**	**105,041**

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

	2019		2018	
	number	(CZK'000)	number	(CZK'000)
Emoluments to the Statutory Body	3	900	3	900
Emoluments to members of the Supervisory Board	3	630	3	825
Wages and salaries to other management	26	57,947	29	62,763
Wages and salaries to other employees	387	148,627	416	151,047
Social security costs		63,113		65,662
Other social costs		7,572		7,983
Wages and salaries total	**419**	**278,789**	**451**	**289,180**

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.

18. Income tax

The income tax expense analysis:

(CZK'000)	2019	2018
Current tax expense (19 %)	-	-
Deferred tax expense	20,171	-
Total income tax expense	**20,171**	**-**

The current tax analysis:

(CZK'000)	2019	2018
Net profit before taxation	20,372	14,593
Items increasing the tax base	54,126	21,925
- of which differences between accounting and tax depreciation	24,119	11,793
Items decreasing the tax base	66,416	72,344
- of which differences between accounting and tax depreciation	-	-
- of which dividends received and sales of shares	47,281	67,583
Claimed tax loss	8,082	-
Tax base	-	(35,826)
Corporate income tax at 19 %	**-**	**-**
Tax credit	-	-
Current tax	**-**	**-**

The deferred tax was calculated at 19 % (the rate enacted for 2019 and subsequent years).

The deferred tax asset/ (liability) analysis:

(CZK'000)	31 December 2019	31 December 2018
Deferred tax (liability) / asset arising from:		
Difference between accounting and tax net book value of fixed assets	(119,933)	(124,551)
Provisions and allowances	3,157	2,610
Tax credit from investment incentive	-	24,218
Tax losses carried forward	11,444	12,562
Net deferred tax liability	**(105,332)**	**(85,161)**

The Company has tax losses as at 31 December 2019 of CZK 60,151 thousand (as at 31 December 2018: CZK 66,116 thousand) out of which CZK 22,208 thousand can be utilized up to 2022 and CZK 37,943 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

The existence of novel coronavirus causing the COVID-19 disease was confirmed in early 2020 and has spread across mainland China and beyond, including Czechia, causing disruptions to businesses and economic activity. As of the issue date of these Financial statements management of the Company did not notice significant decrease of sales. However, the situation is fluid and rapidly evolving we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company. Potential restrictions on free movement of goods would result in decreased revenues and limitation of production. Short-term decrease of sales will be managed given the current good cash position due to low indebtedness. Similarly, the Company is prepared for potential short-term outage of production. Management of the Company will continue to monitor potential impacts and will implement all possible steps to reduce negative effects on the Company and its employees.

Management of the Company assessed potential impacts of COVID-19 on its business activities and concluded that they do not have a significant impact on the going concern of the Company. Financial statements as at 31 December 2019 were prepared on a going concern basis.

27 April 2020

František Menclík
Chairman of the Board of Directors