2013
ANNUAL REPORT


MEDIA
-INTERNET
-LIVE CHAT
KORADO®

CONTENTS

FOREWORD FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Business Partners,

If we look at the year 2013, it is necessary to conclude that economic recovery still lies ahead and the crisis continues. Construction, the industry most affected by the crisis, has experienced several successive years of decline, falling a further 13.2% year on year in 2013. There can be no doubt that KORADO a.s, as a direct construction industry supplier, has been acutely affected by this crisis.

KORADO a.s responded to this troubling situation at the onset of the crisis by adopting vigorous austerity measures, including a headcount reduction at all levels and appropriate administrative measures.

If 2012 was a year of stabilization for KORADO a.s, then 2013 was a year of further favourable developments. We addressed the phenomenon of low selling prices by making maximum use of Korado Bulgaria subsidiary and in so doing managed to sell to markets with no interest in high-end radiators. We enjoyed great success in the production of bathroom radiators thanks to our investment in production technology in 2012. In the past year, we also started to modernize our KORATHERM radiator production facility with the aim of increasing production capacity and enabling us to satisfy growing demand in this market segment.

In October 2013, KORADO a.s made the important acquisition of convector manufacturer LICON HEAT s.r.o. substantially expanding the portfolio of KORADO products. The business results of LICON HEAT s.r.o will, moreover, help improve the KORADO Group bottom line.

Another important undertaking was the purchase of the ODT production line for the subsidiary KORADO Bulgaria. We expect this line, which should be up and running in mid 2014, will significantly improve our position in low-margin markets.

By means of all the above measures In combined with rigorous cost-cutting and improved production efficiency, the parent company and the KORADO Group managed to achieve favourable results, allowing KORADO a.s once again to pay shareholder dividends.

Obviously, we could not have taken these steps without the support and loyalty of all our employees, unions, company bodies, shareholders, commercial lenders, suppliers and customers. To all of you, I would like to express my deep appreciation.

I am confident KORADO a.s will continue to be a reliable partner in the coming years for our suppliers and customers.

František Menclík
Board of Directors Chairman

CORPORATE STRATEGY AND GOALS

The primary goal that KORADO a.s has set for 2014 is to continue our gradual return to the dynamics of the pre-crisis years while continuing to be a professional business with well-managed processes and maintaining high levels of expertise, technology and administration with a sustained focus on development and investment.

Maintaining market position

The primary objective of KORADO a.s sales policy in the challenging time ahead is to stabilize existing customer relationships. Our overriding aim is thus to maintain or increase KORADO a.s. exceptionally strong domestic market position and existing market share in collaboration with distributors.

Supported by extensive marketing activities at all levels, the company is further upgrading the high quality of supplied goods by improving its readiness to deliver the entire product range in a quick and timely manner. We will continue to work on improving the active customer relationship management system. The long-planned acquisition of LICON HEAT s.r.o. was a major step in the expansion of our product portfolio, adding a full range of floor, wall-mounted, freestanding, bench and special convector radiators, which beautifully round out the choice of KORADO radiators from both the technical and design perspectives.

The KORADO Group intends to further improve customer satisfaction by continuing to expand the radiator product range. The addition of convector radiators to the KORADO Group product range is directly tied to our long-term strategy of investing in innovative technologies, new products and product lines to satisfy shifting customer demand.

Risk hedging

The company continues to devote considerable attention to risk management despite a somewhat improved macroeconomic situation. A risk catalogue that enumerates strategic, business, financial, personal and operational risks is updated annually and forms the keystone of our risk management strategy. Firm-wide internal discussions reveal new risks to be added to the risk catalogue which are addressed in the course of the respective year. The classification of risks from key through significant to "other" gives us a clear signal as to which risks call for closer monitoring. Risk cards detailing key risks help with risk assessment and aid in efforts to eliminate identified risk areas. A range of risks is, of course, covered by insurance and other formalized products; at the same time, the company places tremendous emphasis on prevention and on establishing internal processes that address and eliminate the root causes of incurred damage.

These established principles are gradually being implemented throughout the KORADO Group, particularly in the Company's production plants in Bulgaria and Liberec.

Optimizing radiator production

The objectives here are to upgrade radiator production quality through a sustained innovation process, optimize production in accordance with market needs, integrate production on an ongoing basis, support process engineering methods and install new technologies for maximum savings.

Efficient procurement

The key tasks here are to mitigate input risk, safeguard the availability of sufficient amounts of high-quality materials at the best possible price, optimize supplier selection and evaluation, integrate individual KORADO Group procurement activities and perpetually reduce material inventory held while ensuring that sales and production needs are fully covered.

In the forthcoming period, KORADO a.s will continue to expand its state-of-the-art procurement methods with the aim of improving purchasing efficiency and supplier selection transparency, strengthening the company's position among suppliers, and diversifying the supplier portfolio. Of equal importance is stringent adherence to rating rules for our suppliers.

Quality human resources management

Human resources management processes will be subject to further upgrading in 2014 to establish the best possible conditions for employee recruitment, training, motivation and remuneration. This goal will be achieved primarily by ensuring methodological and administrative support for human resources management.

The Company is determined to continue upgrading corporate infrastructure processes related to ISO 9001:2008 standards on a systematic and ongoing basis.

Optimal financing and securing of liquidity

In the forthcoming period, KORADO a.s will focus on maintaining sufficient liquidity and ensuring adequate financial resources to cover all obligations to business partners and financial institutions. This includes establishing sufficient financial reserves for suitable acquisitions.

Other key objectives are to rigorously apply control tools throughout the KORADO Group and, no less importantly, to continue optimizing the company's working capital and financing, a task not only for the Finance and Controlling department, but above all for the Purchase and Sales departments.

Internal audit

In 2014, internal audit will continue to focus on performing an independent and objective assurance role for the company's management and statutory bodies with an emphasis on added value and process improvement.

A new area of focus for internal audit with be oversight of compliance program implementation in all areas of KORADO Group activity. The program, created in compliance with Act No. 418/2011 Coll. on corporate criminal liability and related proceedings, emphasises auditing adherence to the company's own generally binding technical and ethical standards and the avoidance and prevention of criminal acts.

COMPANY PROFILE

Business name:	KORADO a.s
Registered office:	Bří Hubálků 869, 560 02 Česká Třebová
Legal form:	joint-stock company
Incorporated:	in the Commercial Register maintained by the Regional Court in Hradec Králové, Section B, Entry No. 1500
Incorporation date:	1 September 1996
Business reg. No.:	25 25 58 43
Shareholders:	František Menclík .... 9.16 %
	Ludvík Petr .... 9.16 %
	Miroslav Vobora .... 9.16 %
	Ing. Bedřich Brabec .... 9.16 %
	EBRD .... 29.14 %
	Czech Ministry of Finance .... 34.22 %

Subject of enterprise:

- Production of central heating radiators
- Production, installation and repair of ventilation equipment
- Production and processing of plastics, including finishing technology
- Accommodation
- Catering
- Purchase of goods for the purpose of their further sale and resale
- Intermediary activity
- Engineering advisory
- Metrological work on industrial products with the exception of official measurement
- Recreational facility operation
- Plumbing and heating
- Production, installation and repair of electrical machines and devices, electronic and telecommunications equipment
- Lease of residential and office space including related services
- Production, sales and services not listed in Annexes 1-3 of the Trade Licensing Act
- Locksmith, tool making
- Exchange bureau

KORADO, a joint stock company, is the Czech Republic's, and indeed one of Europe's, largest manufacturers of steel panel radiators.

The company's primary production line currently comprises of RADIK and KINGRAD panel radiators, KORALUX tubular radiators and KORATHERM design radiators, though KORADO a.s is continually expanding its product range to include new radiator models, the latest technologies and product innovations. What was once a small firm based in Česká Třebová with annual turnover of less than CZK 50 million grew in just a few years to become Europe's leading manufacturer of a broad range of heating 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 first-rate heating components under the KORADO trademark.

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

Another major KORADO a.s decision was to invest in a fourth production line and ancillary technology. The project, which commenced in 2007 and amounted to nearly CZK 600 million, is the second biggest investment project in company history and the largest financial investment since the new plant launch in 1997. It has boosted work efficiency and increased production capacity, helping to optimize production even amidst the current global economic crisis. Full use of the line is expected after recovery from the current economic crisis.

In 2010-2011, KORADO a.s further invested in the installation of new capillary fitting technology for KORALUX bathroom heating units with the aim of delivering a greater number of units at a lower production cost.

An agreement for the parent company purchased LICON HEAT s.r.o. on 1 October 2013. This new acquisition is of a manufacturer of convectors, which will further round out and expand the Group's product portfolio.

TABLE OF FINANCIAL INDICATORS

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
TOTAL REVENUES (CZK MILLION)	2,552	2,235	2,604	2,725	2,274	1,734	1,576	1,555	1,590	1,482
YEAR-ON-YEAR REVENUE INCREASE/DECREASE (%)	12%	(12%)	17%	5%	(17%)	(24%)	(9%)	(1%)	2%	(7%)
EBITDA (EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION) (CZK MILLION)	720	227	319	317	189	253	183	70	160	147
EBITDA MARGIN (EBITDA/TOTAL REVENUE) (%)	28%	10%	12%	12%	8%	15%	12%	4%	10%	10%
PROFIT/LOSS AFTER TAX (CZK MILLION)	361	37	114	148	27	66	20	(81)	25	26
RETURN ON EQUITY (EBIT/ASSETS LESS CURRENT LIABILITIES)	23%	7%	13%	11%	4%	6%	2%	(4%)	3%	2%
INDEBTEDNESS (BANK LOANS/EQUITY)	1.52	1.08	0.68	0.74	0.96	0.55	0.42	0.37	0.28	0.29
QUICK LIQUIDITY (CURRENT ASSETS LESS INVENTORIES/CURRENT LIABILITIES)	0.55	0.55	0.50	0.66	0.48	0.31	0.29	0.26	0.30	0.49
CURRENT LIQUIDITY (CURRENT ASSETS/CURRENT LIABILITIES)	0.91	0.72	0.72	0.94	0.68	0.51	0.65	0.52	0.54	0.81
TOTAL ASSETS (CZK MILLIONS)	2,779	2,464	2,290	2,708	2,935	2,359	2,189	2,083	1,961	2,010
FIXED ASSETS/TOTAL ASSETS (%)	72%	75%	76%	70%	75%	86%	88%	87%	87%	83%
DAYS RECEIVABLES	61	45	38	46	53	41	28	26	30	33
DAYS INVENTORIES	44	45	27	34	47	54	41	39	36	40
DAYS PAYABLES	92	104	85	85	109	121	88	87	93	101
AVERAGE NUMBER OF EMPLOYEES (PERSONS)	694	687	662	625	660	571	545	439	437	426
PRODUCTIVITY (NET PROFIT/NUMBER OF EMPLOYEES) (CZK MILLION PER EMPLOYEE)	0.52	0.05	0.17	0.24	0.04	0.12	0.04	(0.18)	0.06	0.06

CORPORATE GOVERNANCE

General Meeting

The General Meeting of Shareholders is the highest body of KORADO a.s Its powers and responsibilities are stipulated by the Commercial Code and Company Articles of Association. The Board of Directors convenes a General Meeting once a year.

The bodies executing corporate governance and control functions are as follows:

Supervisory Board

The Supervisory Board is the top supervisory body of KORADO a.s and is authorized to oversee the performance of the Board of Directors and Company business operations. The composition, performance and authority of the Supervisory Board are laid down in the Commercial Code and Company Articles of Association. The Supervisory Board has five members, of which three are elected by the General Meeting and two are elected by company employees. The Supervisory Board, which generally meets once every two months, met five times in 2013. There were four changes in the composition of the Supervisory Board in 2013. Ing. Jaromír Hejda ceased to be a member of the Supervisory Board and, as a result, new vice-chairman Dipl. Ing. Dr. Ernst Bachner was elected effective 1 July 2013. At the KORADO a.s General Meeting of 20 May 2013, Ing. Petr Blažek and Mgr. Silvie Hošková were appointed members of the KORADO a.s Supervisory Board based on nominations submitted by the Czech Ministry of Finance. Mgr. Silvie Hošková resigned effective 1 November 2013.

Members of the Supervisory Board at 31 December 2013:

Chairman:	Ludvík Petr
Vice-chairman:	Dipl. Ing. Dr. Ernst Bachner
Member:	Ing. Hana Vaňousová
Member:	Ing. Petr Blažek
Member:	Ludmila Filipovová

Board of Directors

The Board of Directors is the statutory body that manages KORADO a.s and acts on its behalf. Board of Directors members are appointed by the Supervisory Board from candidates nominated by the shareholders for a period of five years. The Board of Directors decides on all matters that lay outside the remit of the General Meeting pursuant to the applicable legal regulations or Company Articles of Association. There was a change in the composition of the Board of Directors in 2013. On 29 March 2013, Heinrich Georg Stahl was appointed a member of the Board of Directors to replace Richard Howard Wilson Brook. The Board of Directors, which usually meets monthly, met a total of eight times in 2013.

Members of the Board of Directors at 31 December 2013:

Chairman:	František Menclík
Vice-chairman:	Miroslav Vobora
Member:	Heinrich Georg Stahl
Member:	František Hamáček

Management

The Company is divided into five departments: Administration, Business, Production, Procurement, and Finance and Controlling. The company has established an Internal Audit department. The Administration department incorporates the Management System centre, Personnel and Payroll centre and Information Technology centre. Each department is headed by the respective director or deputy managing director; all directors are subordinate to the Managing Director. The Company is part of the KORADO Group consolidation unit.

At 31 December 2013, the composition of KORADO, a.s management was as follows:

Vojtěch Čamek

Chief Executive Officer

KORADO a.s Finance/controlling director from 2002. Appoin-ted KORADO a.s CEO on 1 April 2012. Finance/managing director of Motokov International and its affiliates in 1999-2001. Worked for the European Bank for Reconstruction and Development in London from 1992 to 1999; employed at the Czechoslovak Central Bank, INCL. headquarters in Prague, from 1987 to 1992. Held administrative positions at several Czech industrial enterprises from 1974 to 1982. Graduate of the University of Economics in Prague.

Aleš Zouhar

Executive Director
Sales and Marketing

KORADO a.s head of sales from 2004; appointed Deputy of Sales and Marketing Director on 1 April 2012. CEO at American Jawa Ltd. from 2001 to 2013. Managing director at MOTOKOV UK Ltd. from 1998 to 2000. Sales and Marketing directorof Zetor a.s. and Chairman of the Board of Directors Zetor PDC a.s.from 1995 to 1997. SKODA Great Britain Ltd. managing director from 1990 to 1994 and head of the foreign business department at Zetor s.p. / UZOS from 1984 to 1990. Graduate of Mendel University in Brno, the International Business Institute and Cambridge Regional College.

Miloš Sotona
Executive Director
Production

Employed at KORADO a.s since March 2012 as Executive Director Production. Production Director, Production Manager and Quality Manager, production director and head of quality control at GCE Chotěboř from 2004 to 2011. Production Engineering Manager production preparation department at Matsuhita Panasonic Automotive Czech from 2001 to 2004. In 1992-2000, employed at Prokop – Mlýnské stroje Pardubice, first in the technical development department and, from 1995, as Quality Manager control department. Independent technologist at TMS Pardubice from 1988 to 1992. Graduate of the Faculty of Mechanical Engineering of Liberec Technical University, major in engineering technology.

Jiří Řezníček
Managing Director of
KORADO Bulgaria

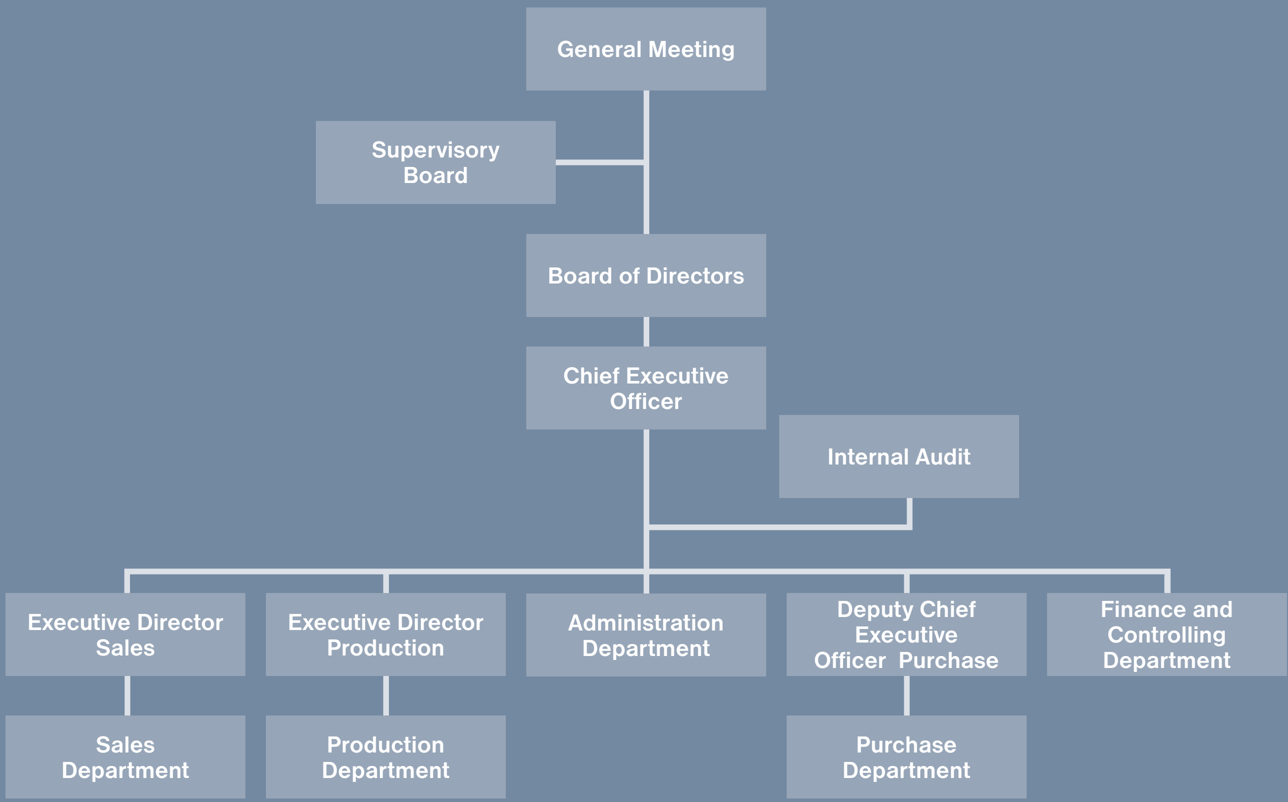
Joined Korado a.s in 2005. Appointed Managing director of KORADO Bulgaria in September 2007. Employed at Gienger s.r.o. Zlín as Manager of its Olomouc centre and deputy director for the Olomouc and Eastern Bohemia region from 2002 to 2004. KORADO a.s division head from 1995 to 2011. Head of operations and then Managing director at Armaturka Česká Třebová, a.s. from 1991 to 1995. Head of operations at Sigma Česká Třebová, k.p. from 1983 to 1991. Independent production technologist at Liaz, n.p. from 1978 to 1983. Graduate of Brno University of Technology, Faculty of Mechanical Engineering, Automotive and Material Handling and Combustion Engines.

Jiří Jeřábek
Deputy Chief Executive
Officer Purchase

Appointed deputy Deputy Chief Executive Officer Purchase for procurement on 1 April 2012. Joined KORADO a.s in September 2002 as business director. 1999-2002 – business director at Finland's Maketek OY in Tampere; 1998-1999 – procurement director at ZETOR, a.s. in Brno. Employed at Suomen Motokov OY, Finland from 1990 to 1998, where he was appointed deputy director in 1996. Graduate of the University of Economics in Prague, Department of Industrial Economics.

Martin Kniha
CEO, LICON HEAT s.r.o.

Appointed CEO of the subsidairy LICON HEAT s.r.o. effective 1 October 2013. Partner and executive at LICON HEAT s.r.o. from 2004 to 2013. Employed at Likov v.d. from 1995 to 2004, first as a technical manager until 1999 and then as production director and, from 2002, executive director. Worked as an independent controller at Rockwell International in Liberec from 1993 to 1995. Graduate of Technical High School in Liberec.


General Meeting
Supervisory Board
Board of Directors
Chief Executive Officer
Internal Audit
Executive Director Sales
Executive Director Production
Administration Department
Deputy Chief Executive Officer Purchase
Finance and Controlling Department
Sales Department
Production Department
Purchase Department

KORADO Group

At 31 December 2013, KORADO Group comprised the parent KORADO a.s Česká Třebová and six subsidiaries:

4 trading companies
- KORADO Deutschland
- KORADO Austria (currently inactive)
- KORADO Polska
- KORADO UK (currently inactive)

2 manufacturing companies
- KORADO Bulgaria
- LICON HEAT

Most of the subsidiaries were established in the mid-1990s, primarily to boost European market growth during the final construction phase of a new production plant in Česká Třebová.

All subsidiaries are managed by the Finance and Controlling department whose representatives serve on the statutory bodies of these companies. Business operations between the parent company and the subsidiaries are conducted through the parent company's Business department.

Since their inception, the trading subsidiaries have primarily ensured the servicing of KORADO products in selected markets. In 2002 and 2003, substantive changes were made to the operations and management of major trading subsidiaries in that customers in the respective markets began to be served directly by the parent in Česká Třebová. This new management model has resulted in substantial cost savings and increased efficiency at all trading subsidiaries. The outcome was an upturn in their economic results and a gradual return on funds invested in these companies' growth in the past.

No control agreements have been concluded between the parent company KORADO a.s and its subsidiaries. The companies are managed on the basis of co-operation contracts and annual business and financial plans.

In addition to the foregoing contracts, the parent has concluded a loan agreement with KORADO Polska. It is a standard agreement concluded at arm's-length prices.

Since 2006, when the Bulgarian subsidiary began to utilize its panel radiator production capacities more effectively KORADO Group, the process of bringing all corporate, technology and production processes in line with the parent company KORADO in Česká Třebová has been completed. The implementation of this project facilitated KORADO Bulgaria's transition to a full-fledged member of KORADO Group. Like the parent, KORADO Bulgaria was greatly impacted by the global financial crisis and economic recession the effects of which began to be seen in late 2008 and caused a significant fall-off in the demand of panel radiators as compared to previous years. Since 2012, KORADO Bulgaria has served as a producer of low-cost radiators for the KORADO Group. The number of customers directly supplied by KORADO Bulgaria started to rise in 2013.

An important step in expanding our product portfolio was the purchase of the company LICON HEAT s.r.o., which has added a full range of floor, wall-mounted, freestanding, bench and special convector radiators to the KORADO Group product portfolio.

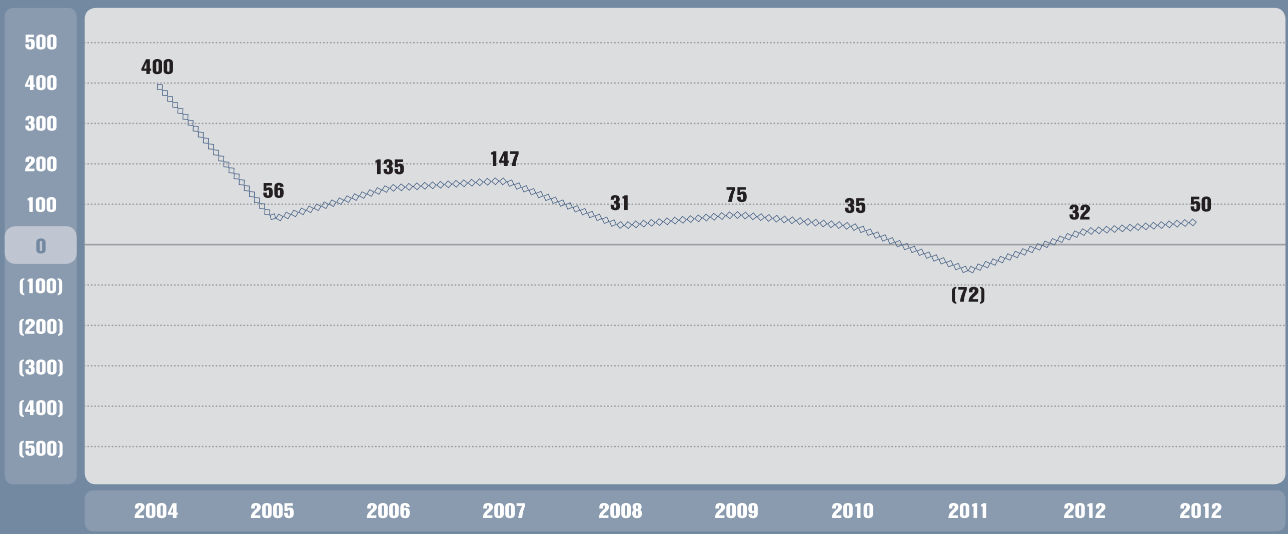
KORADO Group revenues and profit/loss (CZK '000)

CZK '000	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Consolidated revenues	2,896,988	2,605,514	2,917,951	2,795,017	2,510,084	1,745,583	1,592,299	1,579,217	1,653,283	1,602,014
Consolidated profit/loss per IFRS	399,943	55,638	135,428	147,173	31,105	74,912	34,572	(72,369)	32,497	50,343

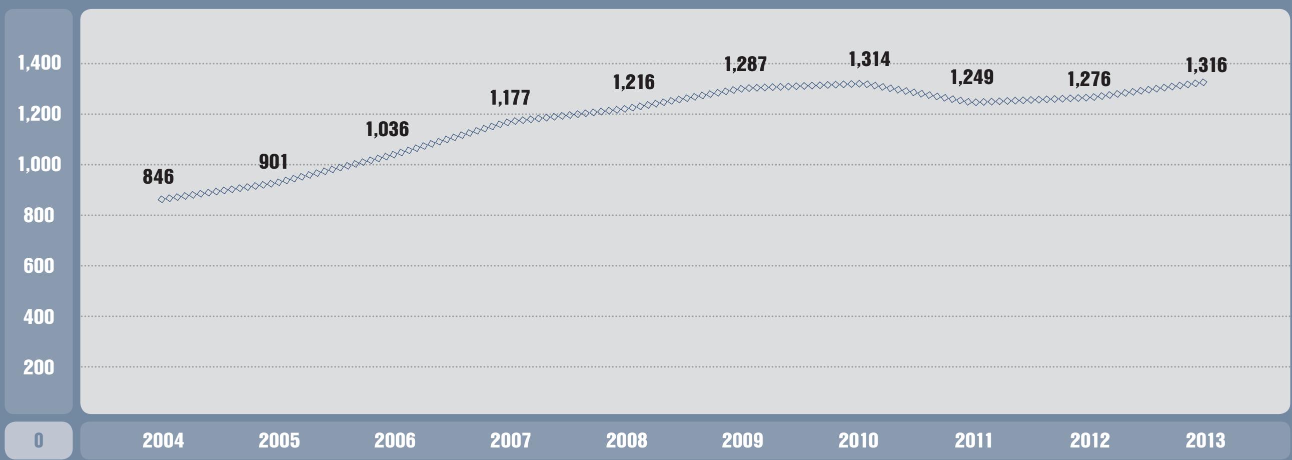
- The financial results of KORADO Croatia were consolidated using the equity method (the results have not been included in the consolidation since 2009)
- Consolidated revenues and consolidated profit/loss in accordance with IFRS for 2008 only include the financial results of KORADO Baltija for months I – 5/2008; this company was sold in June 2008

KORADO Group consolidated revenues (CZK million)

KORADO Group consolidated profit/loss (CZK million)

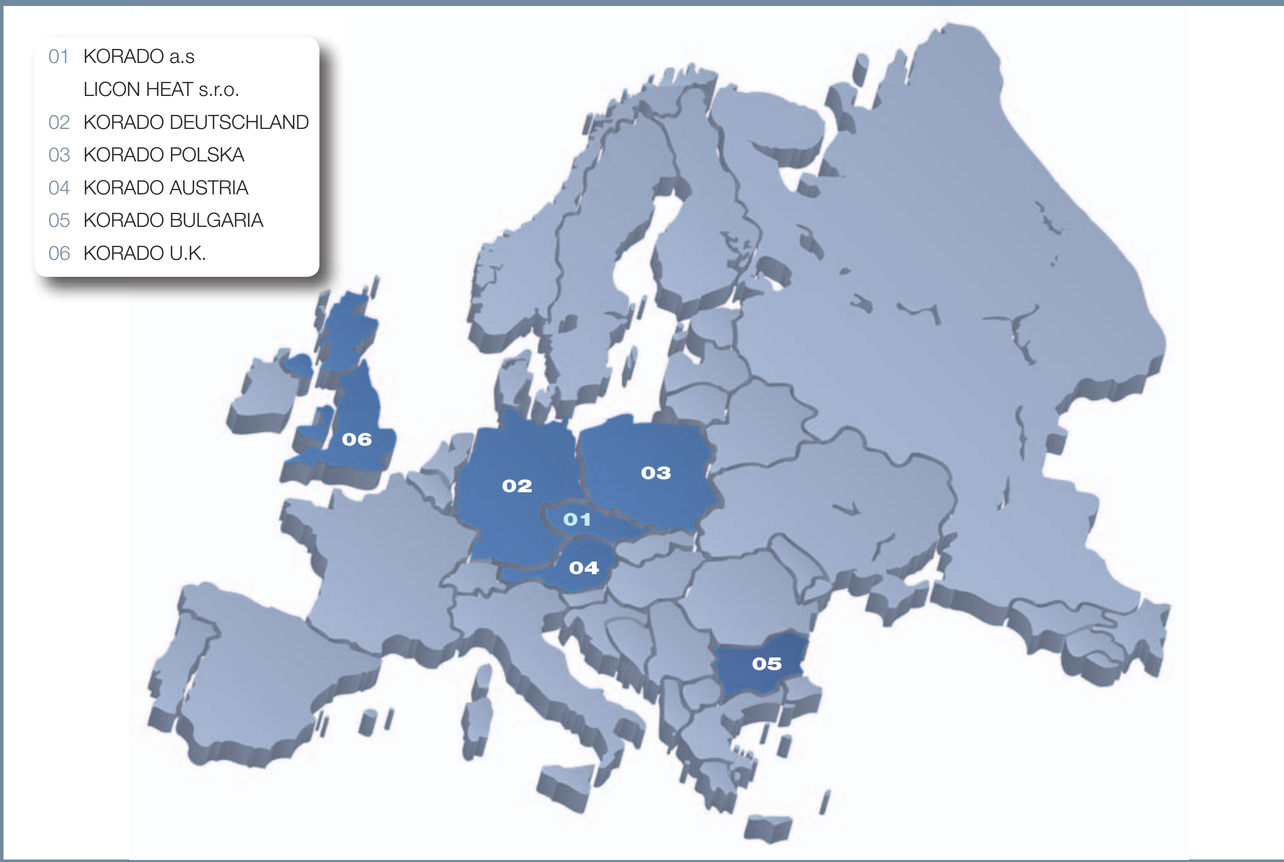


KORADO Group equity (CZK million)



REPORT ON SUBSIDIARIES

Fig. – Map of Europe depicting subsidiaries and associate companies



KORADO Group members at 31 December 2013:

Company	Incorporation date	Share capital at 31.12.2013	Director (Authorized Agent)	Registered office	KORADO a.s stake	Legal form
KORADO a.s	1 September 1996	CZK 840,700 thousand	Vojtěch Čamek	Bří Hubálků 869, 560 02 Česká Třebová, Czech Republic	-	Joint-stock company
KORADO Deutschland GmbH	28 November 1995	CZK 686 thousand	Lucie Kolářová	DR. Wilhelm-Külz-Strasse 61, 155 17 Fürstenwalde, Germany	100 %	Limited liability company
KORADO Polska, Sp. z o. o.	4 December 1996	CZK 47,613 thousand	Žaneta Vebrová	Gen. Okulickiego 4, 05-500 Piaseczno, Poland	100 %	Limited liability company
KORADO Austria GmbH	1 July 1998	CZK 28,796 thousand	Leona Vaňková	Ferstelgasse 6/7, 1090 WIEN, Austria	100 %	Limited liability company
KORADO Bulgaria AD	1 October 1998	CZK 86 975 thousand	Jiří Řezníček	Gladston 28, 5150 Strajica, Bulgaria	98.2 %	Joint-stock company
KORADO UK Limited	25 November 1998	CZK 33 thousand	Vojtěch Čamek	21 Buckle Street, Aldgate East, E1 8NN London, Great Britain	100 %	Limited liability company
LICON HEAT s.r.o.	1 October 2013	CZK 14,500 thousand	Martin Kniha	Na Poříčí 1041/12, 110 00 Praha 1 – Nové Město	100 %	Limited liability company

Basic capital amounts were translated using the exchange rate of 31 December 2013

KORADO Deutschland, GmbH – was founded on 28 November 1995 as a trading company selling KORADO brand products on the German, Danish and Benelux markets. KORADO a.s has a 100% stake in KORADO Deutschland.

KORADO Deutschland reported profit of EUR 71 thousand (CZK 1,848 thousand) for 2013. A portion of profit amounting to EUR 48,754.83 (CZK 1,337 thousand) was used before the annual financial closing to settle a re-established liability owed to the parent company dating back to the year 2000.

EUR '000	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total revenues	6,527	5,977	5,729	5,007	4,974	4,763	5,090	5,286	4,477	3,080
Profit/loss	154	491	498	393	(67)	0	0	0	0	71

KORADO Polska, Sp. z. o. o. – was founded on 4 December 1996 as a trading company selling KORADO brand products on the Polish market. KORADO a.s has a 100% stake in KORADO Polska.

KORADO Polska reported 2013 profit of PLN 162 thousand (CZK 1,002 thousand).

PLN '000	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total revenues	8,914	6,743	7,259	8,351	8,811	8,260	7,542	7,297	7,243	9,242
Profit/loss	3,745	1,442	764	1,044	(1,184)	(682)	461	(816)	95	162

KORADO Austria, GesmbH – was founded in 1998 as a wholly-owned subsidiary. KORADO Austria provided sales support for the parent's products in Austria.

KORADO Austria has been inactive since late 2006, after trading through this subsidiary was terminated and the parent company acquired all its receivables.

The subsidiary posted a profit of EUR 1 thousand (CZK 16 thousand) for 2013.

EUR '000	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total revenues	2,868	3,055	2,223	0	0	0	0	0	0	1
Profit/loss	79	103	1,044	(9)	(4)	(8)	(1)	(1)	1	1

KORADO Bulgaria, AD – was founded in 1998, when KORADO purchased the shares of a local manufacturer. KORADO currently has a 98.2% stake in KORADO Bulgaria. Some processes of this subsidiary are managed in cooperation with the parent. The Balkan countries (Bulgaria, Romania, Greece) are the primary target markets for KORADO Bulgaria sales.

KORADO Bulgaria posted profit of BGN 599 thousand (CZK 7,951 thousand) for 2013.

BGN '000	2004	2005	2006	2007	2008	2009	2010	2011	2012	2012
Total revenues	18,303	13,996	17,714	24,019	26,392	12,717	13,540	16,252	20,458	17,193
Profit/loss	(362)	(690)	400	(658)	1,527	639	768	931	398	599
Produced panel radiators	195,427	148,926	231,353	374,704	342,558	134,816	166,712	229,129	281,027	238,808

LICON HEAT s.r.o. – manufactures LICON brand convector radiators. It took over from the company Likov Liberec, successfully carrying on a forty-year tradition in convector radiator production. In 2009, LICON HEAT s.r.o. relocated to a new, state-of-the-art production plant in the Sever industrial zone in Liberec. Licon radiators are manufactured using the latest production technologies. LICON HEAT s.r.o. is a consolidated company with modern production technology and a progressive business policy supported by an ISO 9001:2008 certified quality management system. LICON products are sold in more than 25 countries in Europe and Asia; more than half of sales are exports. Key export territories are Russia, Poland, Slovakia, Sweden and Denmark.

LICON HEAT s.r.o. posted profit of CZK 7,630 thousand for 2013

CZK ‘000	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total revenues	0	0	0	0	0	0	0	0	0	129,182
Profit/loss	0	0	0	0	0	0	0	0	0	7,630

KORADO UK – is a trading subsidiary acquired in 1998 that is currently inactive.

COMPANY HISTORY

1965 Panel radiator production is launched at the former KOVENTA plant.

1970 Multi-point welding line for radiator production is put in operation.

1987 First SCHLATTER welding line is installed; radiator innovation and substantial reduction in required manual labour; increased work productivity.

1988 New paint shop put into operation, greatly improving the quality of radiator surface finishing.

1990 KORADO, s.r.o., a private limited liability company, is founded with share capital of CZK 100 thousand; the Company's founders are existing shareholders František Menclík, Ludvík Petr, Miroslav Vobora and Ing. Bedřich Brabec.

1991 KOVENTA is privatized via auction; the plant is modernized and production is launched, production capacity is increased and 24-hour operation is introduced.

1992 Innovation of panel radiators; product range expanded to include special radiators.

1993 Repayment of all bank loans facilitating plant purchase; new investment projects provide for maximum production capacity.

1994 First significant increase in share capital to CZK 5 million.

1995 Drafting of business plan for green-field construction of new KORADO plant; the subsidiary KORADO Deutschland is founded.

1996 Transformation into a joint stock company coupled with a share capital increase to CZK 880 million; construction of a new KORADO plant commences at the cost of nearly CZK 3 billion; the subsidiaries KORADO Moscow, KORADO Baltija, KORADO Brod and KORADO Polska established and a majority stake in transport company S.A.S. a.s. purchased.

1997 The European Bank for Reconstruction and Development (EBRD) acquires a stake in the Company; share capital increase to CZK 1,580 billion; ISO 9001 certification obtained; production launched in the newly-built Česká Třebová plant.

1998 Acquisition of a 98% stake in a production plant in Bulgaria and its full consolidation. Subsidiaries KORADO Austria and KORADO UK established and stake in KORADO Bulgaria purchased.

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

2000 KOB restructures the Company's loan portfolio; significant reduction in interest rate payments coupled with financial stabilization; share capital reduced by accumulated loss of previous years of CZK 1,027 million; KOB effects subsequent share capital increase by CZK 287.7 million to CZK 840.7 million in the form of capitalization.

2002 Significant turnaround in Company business – after four consecutive loss-making years, KORADO a.s turns a CZK 31 million profit. Major subsidiaries KORADO Polska, KORADO Austria and KORADO Deutschland are restructured to boost return on capital investments in these companies.

2003 Search for a strategic investor launched in 2001 ends without partner selection; increased participation of the key shareholder, the European Bank for Reconstruction and Development, in Company management; KORADO Group posts a consolidated profit of CZK 57 million and is in the black for the first time ever.

2004 All Czech Consolidation Agency loans repaid; switch to HVB Bank Czech Republic (today UniCredit Bank Czech Republic); the Company posts record pre-tax profit of CZK 375 million.

2005 Significant debt reduction to less than CZK 1 billion. Year-on-year revenues drop to the same level as 2003. Substantial increase in material costs.

2006 For the first time in its history, the Company manufactures more than 2 million radiators; plastics production spun off into an independent company and then sold; sale of subsidiary S.A.S., and decision to invest in a fourth welding line.

2007 Investment in the fourth welding line and ancillary technology worth almost CZK 600 million commences. Restructuring of KORADO's largest subsidiary, KORADO Bulgaria, resulting in fundamental change to the subsidiary's management system. KORADO records the highest revenues in its history: CZK 2.725 billion.

2008 Completion of investment in fourth welding line and ancillary technology and introduction into operation. This was the second largest investment in KORADO's history and the most extensive investment project since construction of a new plant. Steel prices soar to all-time highs and Q4 sales drop sharply as a result of the global economic downturn. The subsidiary KORADO Baltija is sold.

2009 Adverse impact of global economic crisis results in a 24% decline in revenues year-on-year. Rigorous optimization of working capital, significantly improving the Company's financial position. Substantial debt reduction to an all-time low; a 40% year-on-year decrease in bank loans. 2010 Due to the continued economic crisis, sales decline a further 9%. New capillary fitting technology for KORALUX radiator panels is installed.

2010 Due to the continued economic crisis, sales decline a further 9%. All Group loans are refinanced by a single bank. New capillary fitting technology for KORALUX radiator panels is installed.

2011 An extraordinary instalment of CZK 50 million paid on a long-term bank loan. New low-cost radiator production is launched.

2012 The company's organizational structure and management change effective from April 2012. After several years of falling revenues, sales increase in 2012 and the KORADO Group generates a profit of CZK 32 million.

2013 A contract is executed effective 1 October 2013 for the parent company's purchase of LICON HEAT s.r.o., a convector manufacturer. This rounds out and expands the KORADO Group product portfolio.

KORADO SALES AND MARKET POSITION

Market situation

The year 2013 unfolded much like the preceding years for the construction and heating technology market, i.e. it was characterised by world-wide economic depression, and these sectors continued to report falling numbers in terms of market size and new opportunities. Despite these adverse macroeconomic conditions, we increased year-on-year sales of our main product line – panel radiators – in the Czech Republic in 2013 and we can expect to further strengthen our position as a leader on our key market.

Individual markets

Central and Eastern Europe

Thanks to markets in the Czech Republic, Slovakia, Ukraine and Russia, we continued to be a leader in our field. We have thus maintained our market position while offering innovative heating solutions.

Western Europe

Our goal is to strengthen our KORADO brands on western European markets. In 2013, we continued to focus on developing the network of sales representatives in Belgium, France, Great Britain, Germany and Holland.

Non-European Markets

We have continued supplying our high-quality products to far-off destinations like the Maghreb, Chile, Australia and Argentina.

Products

The long-planned acquisition of LICON HEAT s.r.o. was a major step in the expansion of our product portfolio to include a full range of floor, wall-mounted, freestanding, bench and special convector radiators, which beautifully round out the choice of KORADO radiators from both the technical and design perspective. The addition of convector radiators to the KORADO Group product range directly ties in with our long-term strategy to invest in new and innovative technologies as well as new products and product lines to satisfy growing customer demand.

Outlook for 2014

Outlook for 2014

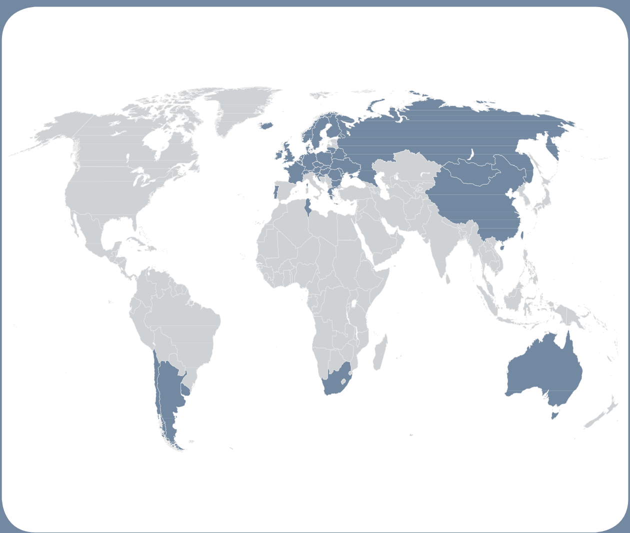
In keeping with the long tradition of the company LICON s.r.o., we will offer new product lines divided into 5 production groups:

KORAFLEX – floor convectors
KORALINE – freestanding convectors and heated benches
KORAWALL – wall-mounted convectors
KORASPACE – facade convectors
KORABASE – heat exchangers

We are also introducing the RADIK X – CONTROL energy-efficient radiator with revolutionary leak control technology, which can yield significant savings of up to 15% on annual heating costs. The RADIK X – CONTROL radiator makes optimal use of radiant heat from the front panel, enabling it to operate in economy mode for most of the heating season with a closed rear panel, and only using maximum output when outside temperatures are extremely low. It is an efficient and environmentally-friendly solution providing the same heating comfort at a significantly lower cost.

Owing in part to these innovations, we expect to strengthen our position on all our markets in 2014.

Overview of RADIK panel radiator sales in 2013 by country



CZ	Czech Republic	404,413	BG	Bulgaria	3,549
UA	Ukraine	126,354	AU	Australia	3,355
SK	Slovakia	88,325	TN	Tunisia	2,709
RU	Russia	80,565	DK	Denmark	1,255
AT	Austria	57,882	HR	Croatia	1,127
PL	Poland	57,786	FR	France	908
RO	Romania	45,040	MD	Moldova	759
HU	Hungary	39,919	FO	Faroe Islands	592
DE	Germany	37,634	GR	Greece	498
SI	Slovenia	26,729	CY	Cyprus	413
SE	Sweden	24,611	AR	Argentina	392
CL	Chile	19,840	UY	Uruguay	306
BE	Belgium	13,948	IS	Iceland	212
FI	Finland	13,720	KZ	Kazakhstan	206
NL	Netherlands	8,850	PT	Portugal	116
BY	Belarus	7,516	CH	Switzerland	90
IE	Ireland	7,230	ZA	South Africa	53
LT	Lithuania	7,206	LU	Luxembourg	19
GB	United Kingdom	5,724	CN	China	3
MN	Mongolia	3,713			

FINANCIAL POSITION

KORADO Group profitability
The KORADO Group posted profit of CZK 50 million in 2013. This figure benefited from cost optimization measures begun in prior years, increased production efficiency and new product launches.

Working capital, debt optimisation
Debt remained at the same low level as the previous year, i.e. total debt and bank debt levels were 38% and 29%, respectively.

Bank loans
In 2013, our loans with UniCredit Bank were refinanced. The line of credit was increased and final maturity was extended. Lower repayments and more favourable interest rates were negotiated, enabling the company to carry out our development plans in 2013.

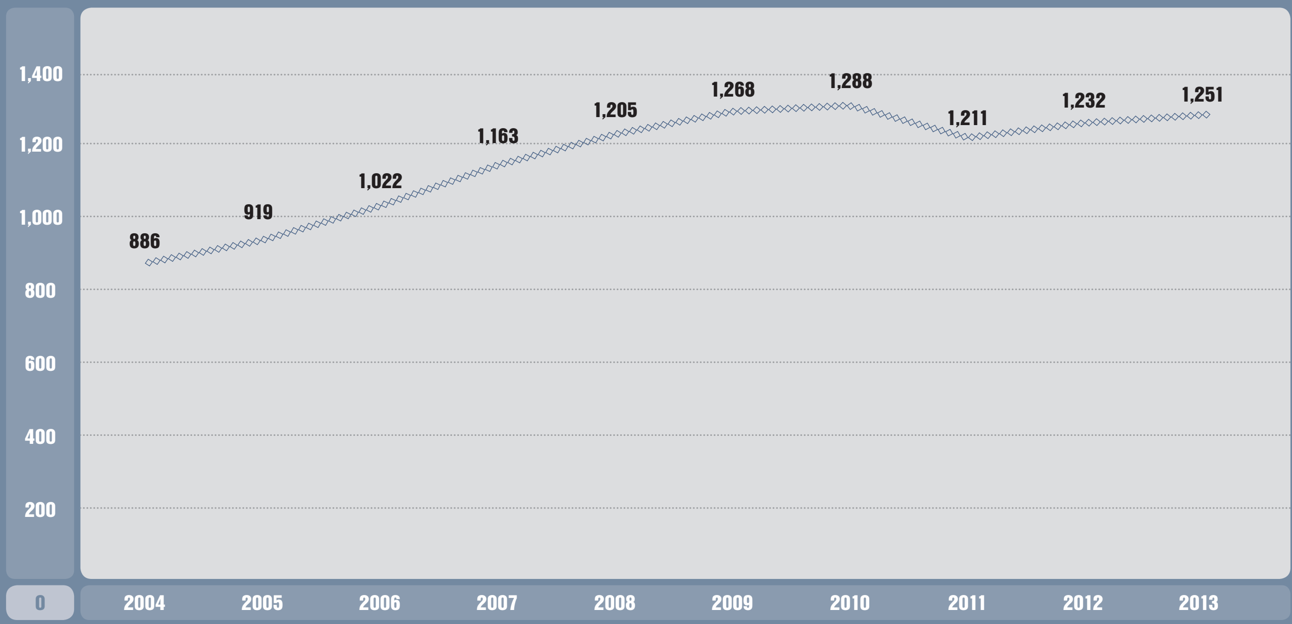
Investments
The most significant investment in 2013 was the purchase of the company LICON HEAT s.r.o, a convector manufacturer. This will further round out and expand the KORADO Group's product portfolio. Another highly significant investment was the purchase of a used panel radiator production line for our plant in Bulgaria. Additionally, truck scales and CCTV systems were installed at both to gates.

Risk management
The ongoing economic crisis and associated downturn in residential construction are creating payment problems for companies operating in this sector. A stringent approach to credit risk is essential when dealing with entities supplying product on open credit with deferred invoice maturity. Just as in previous years, KORADO a.s suffered no significant damage due to unpaid receivables. Occasional payment delays were always handled through excellent customer relations. Several problematic cases were covered by credit insurers. Close co-operation with these insurers or with specialized agencies providing financial information about economic entities has always paid off.

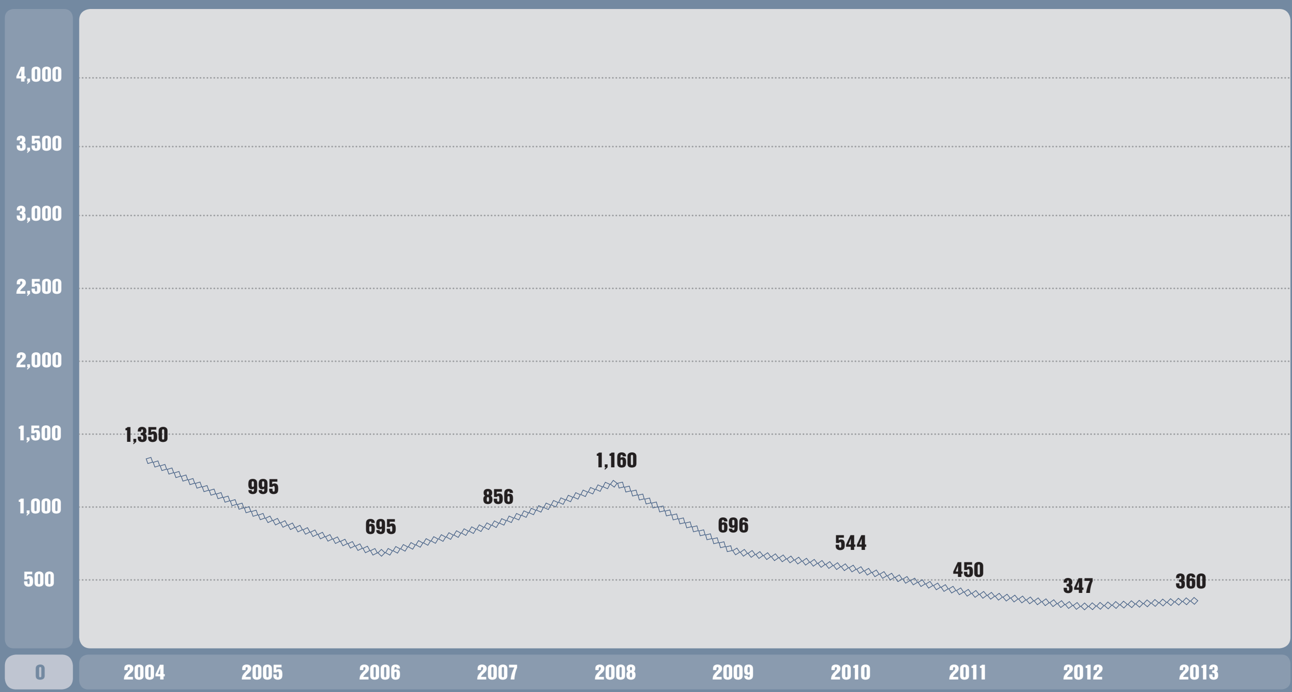
Increased external pressures and unfavourable macroeconomic conditions are bound to have an impact on our suppliers. Last year, our longstanding stable portfolio of key suppliers was only compromised by one case of a partner entering into bankruptcy. From this perspective, finding alternative suppliers is a key company priority.

Controlled devaluation of the Czech Crown (ZCK) had a slightly adverse effect on our results. Foreign exchange risks are addressed to the greatest extent possible by means of "natural hedging", where we attempt to balance foreign exchange positions in revenues with expenses denominated in the same currency.

Parent company KORADO a.s equity (CZK million)



Parent company KORADO a.s debt (CZK million)



PRODUCTION MATERIAL PROCUREMENT

One of the most important components of KORADO's production process is the procurement of input material which has a fundamental impact on production costs and efficiency. That is why maximum emphasis is placed on input material prices whilst maintaining their high standard of quality as well as optimal sales and delivery terms. Favourable material prices were secured by means of an aggressive procurement strategy that accepts a reasonable degree of risk and is based on ongoing market research. It has proven strategically important to work professionally and systematically with information about. The latest situations and trends in individual market segments and the positions of suppliers on those markets as well as internally generated information and analyses pertaining to input materials. The Supplier Rating Committee plays an indispensible role here, using gathered information to move the procurement decision-making process toward new positions that are more advantageous for assuring high-quality sources at the best price. The use of procurement auctions was expanded with the establishment of a specialized department. These auctions are used not only to procure materials, but also services and other non-material purchases, too.

Material procurement

Cold-rolled metal sheets continue to be the key input material for panel radiator production. Annual Group consumption is 30,000 tons.

In material procurement, great importance is attached to price as well as the costs connected with material delivery and processing. In 2013, the company expanded the system in place to control quality indicators and quantitative parameters of key material inputs with the objective of optimising total material costs while enhancing product quality. These objectives could not be achieved without quality and timely information and the active participation of material suppliers. The portfolio of qualified suppliers has continued to grow based on the performance of stringent technology testing.

Suppliers, stabilization and the search for new resources

In 2013, the company continued to work systematically with suppliers that were subject to rigorous evaluation. We optimized the supplier evaluation system, increasing its objectivity by bringing in other company departments. The evaluation results are analyzed in detail and used in future negotiations. Despite the emphasis placed on stability and long-term partnerships with suppliers, the company conducts an ongoing search and selection process for new suppliers that stresses maintaining stable quality, logistical and servicing parameters while minimising procurement risk.

PRODUCTION AND DEVELOPMENT

Production

In 2013, production continued to run in two shifts.

Acquisition of a second production line

A major project that was started in 2013 and will be completed in 2014 is the purchase of a used panel radiator production line for Bulgaria. The purchase of this technology has enabled our production plant in Bulgaria to produce panel radiators of all sizes and types.

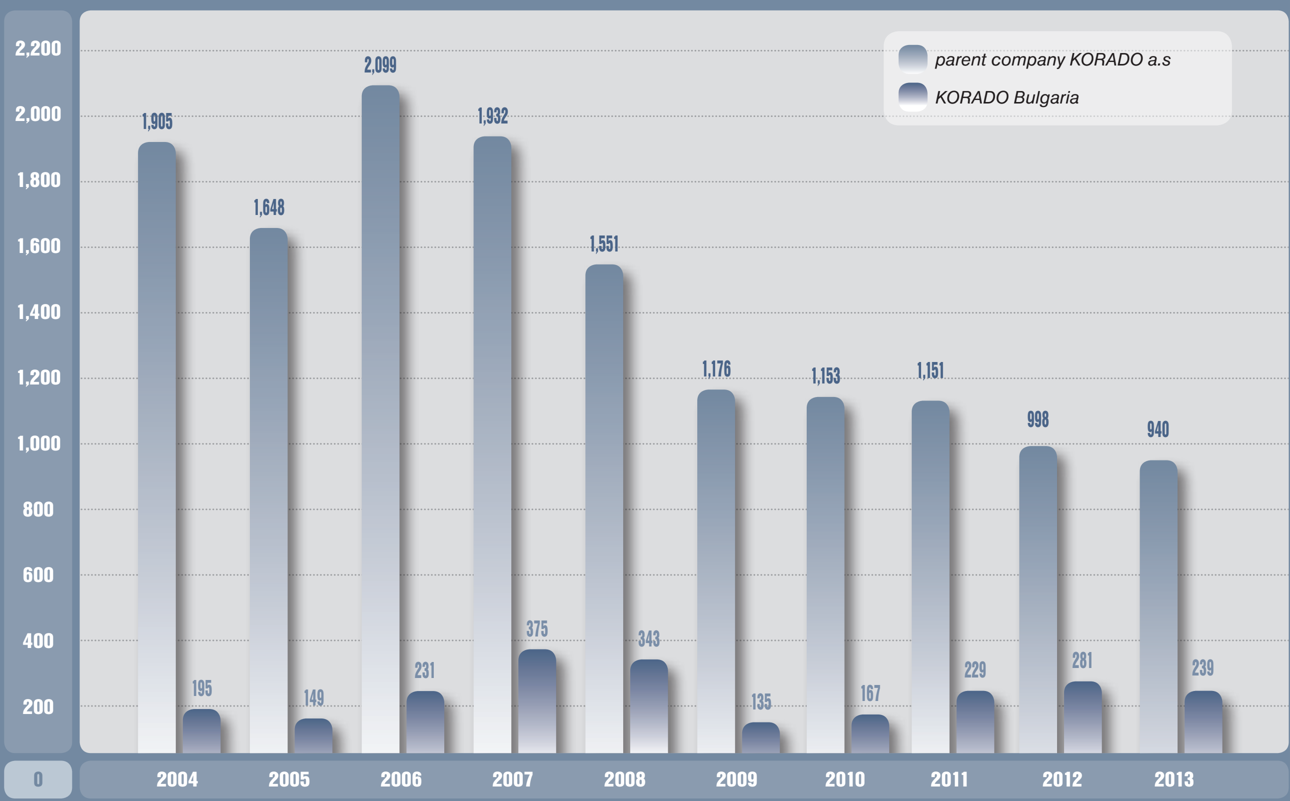
Production launch of a new radiator model

In 2013, the company worked very hard on the revolutionary new RADIK X – CONTROL radiator, which successfully underwent measurement and certification by accredited laboratories in time to commence series production in Q2 2014. Customers can reduce their heating costs with the RADIK X – CONTROL thanks to the variable size of its heat-exchanging surface. A total of 6 patent applications (domestic and international) was filed for various technical design features.

Innovation in panel radiator covers

Production of a new universal side cover for panel radiators was launched in May 2013. Aside from its greater aesthetic appeal, the cover has the added benefit of compact mounting supported by new bracket covers with a minimalist design. The covers went into production in Q4 2013.

Number of produced radiators (CZK '000)



HUMAN RESOURCES MANAGEMENT

Staff education system

Technical and administrative staff training is primarily focused on maintaining professional expertise and skills in compliance with the requirements associated with the work performed by individual departments and employees.

Safety training and other courses covering higher legal standards (e.g. for motorized vehicle operators, electricians, welders) are carried out on a regular basis.

Employee compensation system

At KORADO a.s, wages are directly tied to the meeting of clearly defined indicators related primarily to profit/loss. Employees are compensated based on their fulfilment of set indicators according to individually defined groups, meaning the system supports objectivity in compensation and the recognition of team work.

Incentive system

The company focuses great importance to maintaining a high standard of working conditions. A motivated and qualified workforce is key to successful operations and employees are thus offered incentives for optimal performance.

The priority in employee education is to further the technical and professional training of production staff.

Employees, including those on shift work, are given access to high-quality on-site dining facilities with a substantial employer subsidy.

The company contributes to life insurance policies of executive staff, whose other benefits include a company car and a phone.

A supplementary pension insurance contribution scheme has been in place for many years and the majority of employees take part.

Information and in-house communication

Being sufficiently informed is critical for efficient management, which is why KORADO a.s has implemented an information system for human resources and training and payroll that gathers data from these areas. Information is processed and published in regular reports made available to the company's management, providing them with both current and long-term data.

KORADO a.s is determined to build a stable culture enabling all individuals to fully utilize their abilities and skills in performing their jobs.

To help familiarise new employees with the KORADO a.s corporate culture, the company provides them with a New Employee Handbook offering basic facts about the company and other practical information.

QUALITY MANAGEMENT SYSTEM, ECOLOGY AND THE ENVIRONMENT

Quality management

For end consumers and business partners alike, the KORADO brand is a guarantee of high quality, durability, top technical parameters and on-time deliveries.

The company's high standard of quality is achieved through a quality assurance system that forms the backbone of company management. Ongoing emphasis is placed on system improvement.

In 2013, the KORADO a.s quality management system was re-certified under ISO 9001:2008 standards. A key characteristic of the system is the controlled measurement of process quality which forms the basis for ongoing system upgrades. This system is a reflection of the very latest management trends.

KORADO a.s sets an annual Goals and Strategies plan to be fulfilled in compliance with certain criteria. The company has also drafted and adopted a company policy that establishes the key principles of corporate management and ethics.

The high quality of all aspects of radiator production and sales processes was confirmed by the re-certification of our production for western European countries: RAL for Germany, NF for France and BSI for Great Britain.

The company also has access to brands produced on other important markets, e.g. the Russian brand GOST and brands in Ukraine and Belarus. These brands meet the quality, material, construction and production requirements of RADIK and KORALUX radiators; adherence to these requirements is regularly audited.

The ISO 9001 quality management system and above-mentioned brands together guarantee product quality of the highest degree and, indeed, the high quality of all KORADO a.s activities on European and international markets.

Ecology and environmental stewardship

A series of environmental legislation amendments came into effect in 2013: an eco-management auditing scheme amendment of Act No. 185/2001 Coll. on waste and an amendment of Act No. 274/2001 Coll. on water supply and sewerage (a total of 150 amendment items) were adopted. Amendment No. 69/2013 of Act No. 76/2002 Coll. on integrated pollution prevention and limitation constituted another important legislative change. Of greatest significance for KORADO a.s, however, is the newly introduced obligation to prepare a basic report pursuant to § 4a of the Act.

KORADO a.s has responded to the foregoing legislative changes in close cooperation with our longtime partner, Marius Pedersen a.s. In February 2013, the long discussed Change No. 4 of the integrated license was issued. This license permits the construction of a stationary pollution source – the planned construction of a power coating plant in SO 12.

During the year, the company prepared background documents for Change No. 5 IP in response to complex legislative developments. In H1 2014, the company will complete its application for a change in the integrated license, including the submission of a basic report on the soil and groundwater conditions at the Česká Třebová grounds.

A major change affecting waste management took effect on 1 May 2013 – the company changed its scrap metal dealer. This was closely associated with the construction of a weighing system and its use to control material and raw material movements throughout the company's grounds.

KEMA

CERTIFIKÁT

KORADO a.s.

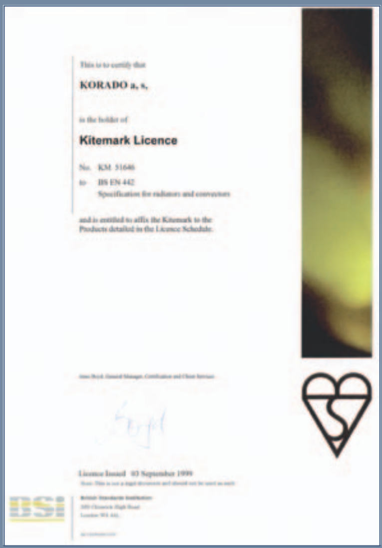
ISO 9001:2008

Verleihungsurkunde

KORADO a.s. – CZ Česká Třebová

Werk: Česká Třebová

HEIZKÖRPER RAL GÜTEZEICHEN AUS STAHL



KORADO a.s.

Kitemark Licence

BSI

REPORT OF THE SUPERVISORY BOARD

During 2013, the Supervisory Board of KORADO a.s., met five times in total. All the meetings of the Supervisory Board achieved the required quorum. At its meetings, the Supervisory Board was apprised of the financial results of the company and of all important activities of the Board of Directors of KORADO a.s The Supervisory Board worked in accordance with the approved work plan, which had been coordinated with the work plan of the Board of Directors. Each meeting of the Supervisory Board was attended by the Chairman of the Board of Directors, or by another member thereof.

The Supervisory Board of KORADO a.s had the following members from January 1, 2013:

- Ludvík PETR – Chairman of the Supervisory Board,
- Ing. Jaromír HEJDA – Vice-Chairman of the Supervisory Board
- Ing. Josef BÍŽA – Member of the Supervisory Board
- Dip. Ing. Dr. Ernst BACHNER - Member of the Supervisory Board
- Ing. Hana VAŇOUSOVÁ - Member of the Supervisory Board
- Ludmila FILIPOVOVÁ - Member of the Supervisory Board

Changes occurred in the composition of the Supervisory Board over the course of 2013. On the basis of voting at the Ordinary General Meeting of KORADO a.s, membership of Ing. Jaromír Hejda and Ing. Josef Bíža in the Supervisory Board of KORADO a.s was terminated as at 30.6.2013. On the basis of termination of membership of J. Hejda, Dipl. Ing. Dr. Ernst Bachner was elected as the new Deputy Chairman as at 1.7.2013. At the meeting of the General Meeting of KORADO a.s on 20.5.2013 and on the basis of nomination, which was sent by the Ministry of Finance of the Czech Republic, Ing. Petr Blažek and Mgr. Silvie Hošková were elected members of the Supervisory Board of KORADO a.s as at 1.7.2013. Mgr. Silvie Hošková resigned from office as a member of the SB as at 1.11.2013. On 6.11.2013, the Chairman of the SB received nomination of JUDr. Petr Kusy as member of the SB.

Fulfillment of duties of the Supervisory Board

The Supervisory Board supervised the performance of the Board of Directors of the company as well as the performance of the company's business activities. It examined in particular whether its enforcement is in accordance with the provisions of the Commercial Code, other regulations in force, and the Articles of Association of the joinstock Company KORADO a.s, in force. It monitored regularly and discussed the company's financial results for the previous periods, the state of its assets, including the information about the status of the accounts receivable. The standard tasks in 2013, which were discussed by the Supervisory Board, included the approval and also a concurrent control of the implementation of the business and financial plan of the Company. The Supervisory Board examined and monitored the implementation of the marketing plan, discussed the company's financial plan for 2014, dealt with customers' trading limits for 2013, and periodically reviewed reports on the activities within internal audit. The Supervisory Board was regularly informed by the individual Directors on important analyzes and projects of the Company.

At its 104th meeting, the Supervisory Board approved proposal of the company Board of Directors for acquisition of 100% of the business shares in LICON HEAT s.r.o. On 1.10.2013, LICON HEAT s.r.o. became part of the KORADO Group. At its 106th meeting, the Supervisory Board approved conclusion of a credit contract with UniCredit Bank Czech Republic, a.s. in the proposed draft for the purpose of financing a 2nd line for the subsidiary KORADO Bulgaria. At its 106th meeting, the Supervisory Board appointed Mr Klaus Wendel as a new member of the Finance and Investment Committee for a period of office the same as the period of office of the current members.

During said period, the Supervisory Board fulfilled the obligations arising from the terms of the Commercial Code, in particular the relevant §§ 197 to 201.

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

The Supervisory Board, or more precisely, Chairman of the Supervisory Board, regularly received minutes from the meetings of the Board of Directors, based upon which they checked the fulfillment of the 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 the Supervisory Board may have concerning tasks and duties of the Board of Directors, was discussed with the Chairman of the Board of Directors or a commissioned member thereof. The fulfillment of tasks commissioned to the Board of Directors was checked at each meeting of the Supervisory Board. The Supervisory Board states that the Board of Directors and the Senior Management provided the Supervisory Board with all materials requested for its activity.

Review of the financial statement

On its 108th meeting held on March 28, 2014, the Supervisory Board was apprised of the auditor's, Ernst & Young, statement regarding the financial statement and the consolidated financial statement according to the IFRS standards. The Supervisory Board reviewed the regular financial statement and the consolidated financial statement according to the IFRS standards, of the KORADO company and the KORADO Group respectively, as of Dec. 31, 2013, presented by the Board of Directors. The supplements to the regular financial statement and the consolidated financial statement for 2013 are included in the full version in the Annual Report of the company KORADO a.s for 2013. Based upon the review of the financial statement, the Supervisory Board recommended the General Meeting to approve the financial statement of the company KORADO a.s and the consolidated financial statement according to the IFRS standards of the KORADO Group as of Dec. 31, 2013.

The Supervisory Board, after having checked the proposal of the Board of Directors to distribute the 2013 financial result (from the profit in the amount of 26,126,269,13 CZK, to use the amount of 1,306,313 CZK as a contribution to the reserve fund, to use the amount of 19,999,052 CZK for the payment of dividends, to transfer the amount of 4,820,904,13 CZK to the retained earnings) states, that the proposed distribution of the profit is in accordance with the legal requirements and the statutes of KORADO a.s and thus recommends the General Meeting to approve the distribution of the financial result for the 2013 in the manner presented by the company's Board of Directors.

In Česká Třebová on March 28, 2014

Ludvík Petr
Chairman of the Supervisory Board

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

AUDITOR'S REPORT INCLUDING THE AUDITOR'S OPINION

ERNST & YOUNG

To the Shareholders of KORADO a.s:

I. We have audited the consolidated financial statements of KORADO a.s ("the company") as at 31 December 2013 presented in the annual report of KORADO a.s on pages 47 - 77, on which we have issued an auditor's report dated 14 March 2014, presented in the annual report on page 48. We have also audited the separate financial statements of the Company as at 31 December 2013 which are presented in the annual report of the company on pages 29 - 46 on which we have issued an auditor's report dated 14 March 2014, presented in the annual report of the Company on page 30 (both referred further as "financial statements").

II. We have also audited the consistency of the annual report with the financial statements described above. The management of KORADO a.s is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report on pages 5 - 25 is consistent with that contained in the audited financial statements as at 31 December 2013. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements described above.

Ernst & Young

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

Petr Vácha

Petr Vácha
auditor, licence no. 1948

28 March 2014
Prague, Czech Republic

KORADO®

Financial Statements for the year ended 31 December 2013 together with Auditor’s Report

AUDITOR'S REPORT INCLUDING THE AUDITOR'S OPINION

To the Shareholders of KORADO a.s:

We have audited the accompanying financial statements of KORADO a.s which comprise the balance sheet as at 31 December 2013, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of KORADO a.s see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of KORADO a.s as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

Ernst & Young

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

Petr Vácha

Petr Vácha
Auditor, License No. 1948

14 March 2014
Prague, Czech Republic

BALANCE SHEET - LONG FORM

Czech Statutory Financial Statement Forms (in thousands of Czech crowns)

				Gross	Current year Allowances	Net	Prior year 2012 Net
			TOTAL ASSETS	**5,183,228**	**(3,172,848)**	**2,010,380**	**1,961,360**
A.			**STOCK SUBSCRIPTION RECEIVABLE**				
B.			**FIXED ASSETS**	**4,828,966**	**(3,151,617)**	**1,677,349**	**1,702,045**
B.	I.		Intangible assets	185,895	(173,770)	12,125	12,853
B.	I.	1	Foundation and organization expenses	895	(895)	-	-
		2	Research and development	-	-	-	-
		3	Software	181,633	(170,718)	10,915	11,979
		4	Patents, royalties and similar rights	2,369	(2,157)	212	412
		5	Goodwill	-	-	-	-
		6	Other intangible assets	-	-	-	-
		7	Intangible assets in progress	998	-	998	462
		8	Advances granted for intangible assets	-	-	-	-
B.	II.		Tangible assets	4,354,773	(2,810,252)	1,544,521	1,638,721
B.	II.	1	Land	25,163		25,163	25,163
		2	Constructions	1,675,939	(656,343)	1,019,596	1,055,268
		3	Separate movable items and groups of movable items	2,578,896	(2,118,101)	460,795	521,058
		4	Perennial crops	-	-	-	-
		5	Livestock	-	-	-	-
		6	Other tangible assets	66,426	(35,808)	30,618	32,242
		7	Tangible assets in progress	8,349		8,349	3,775
		8	Advances granted for tangible assets	-	-	-	1,215
		9	Gain or loss on revaluation of acquired property	-	-	-	-
B.	III.		Financial investments	288,298	(167,595)	120,703	50,471
B.	III.	1	Subsidiaries	231,354	(110,651)	120,703	50,471
		2	Associates	-	-	-	-
		3	Other long-term securities and interests	-	-	-	-
		4	Loans to subsidiaries and associates	56,944	(56,944)	-	-
		5	Other long-term investments	-	-	-	-
		6	Long-term investments in progress	-	-	-	-
		7	Advances granted for long-term investments	-	-	-	-
C.			**CURRENT ASSETS**	**338,946**	**(21,231)**	**317,715**	**249,190**
C.	I.		Inventory	125,818	(1,089)	124,729	110,201
C.	I.	1	Materials	87,186	(936)	86,250	71,060
		2	Work in progress and semi-finished production	5,843	0	5,843	7,290
		3	Finished products	21,983	(117)	21,866	22,578
		4	Livestock	-	-	-	-
		5	Goods	10,806	(36)	10,770	9,273
		6	Advances granted for inventory	-	-	-	-
C.	II.		Long-term receivables	2	0	2	496
C.	II.	1	Trade receivables	-	-	-	-
		2	Receivables from group companies with majority control	-	-	-	-
		3	Receivables from group companies with control of 20% - 50%	-	-	-	-
		4	Receivables from partners, co-operative members and participants in association	-	-	-	
		5	Long-term advances granted	2	-	2	496
		6	Unbilled revenue	-	-	-	-
		7	Other receivables	-	-	-	-
		8	Deferred tax asset	-	-	-	-
C.	III.		Short-term receivables	156,981	(20,142)	136,839	136,626
C.	III.	1	Trade receivables	141,486	(20,142)	121,344	124,806
		2	Receivables from group companies with majority control	-	-	-	-
		3	Receivables from group companies with control of 20% - 50%	-	-	-	-
		4	Receivables from partners, co-operative members and participants in association	-	-	-	-
		5	Social security and health insurance	-	-	-	-
		6	Due from government - tax receivables	9,658	-	9,658	7,564
		7	Short-term advances granted	4,385	-	4,385	4,074
		8	Unbilled revenue	1,452	-	1,452	182
		9	Other receivables	-	-	-	-
C.	IV.		Short-term financial assets	56,145	-	56,145	1,867
C.	IV.	1	Cash	618	-	618	252
		2	Bank accounts	55,527		55,527	1,615
		3	Short-term securities and interests	-	-	-	-
		4	Short-term financial assets in progress	-	-	-	-
D.			**OTHER ASSETS - TEMPORARY ACCOUNTS OF ASSETS**	**15,316**	**-**	**15,316**	**10,125**
D.	I.		Accrued assets and deferred liabilities	15,316	-	15,316	10,125
D.	I.	1	Prepaid expenses	8,202		8,202	9,002
		2	Prepaid expenses (specific-purpose expenses)	-	-	-	-
		3	Unbilled revenue	7,114		7,114	1,123

BALANCE SHEET - LONG FORM

Czech Statutory Financial Statement Forms (in thousands of Czech crowns)

				Current year	Prior year 2012
			TOTAL EQUITY & LIABILITIES	**2,010,380**	**1,961,360**
A.			**EQUITY**	**1,251,322**	**1,232,480**
A.	I.		Basic capital	840,700	840,700
A.	I.	1	Registered capital	840,700	840,700
		2	Own shares and own ownership interests (-)	-	-
		3	Changes in basic capital	-	-
A.	II.		Capital funds	(39,506)	(47,163)
A	II.	1	Share premium (agio)	-	-
		2	Other capital funds	48	48
		3	Gain or loss on revaluation of assets and liabilities	(39,554)	(47,211)
		4	Gain or loss on revaluation of company transformations	-	-
		5	Gain or loss on company transformations	-	-
		6	Gain or loss on revaluation upon company transformations	-	-
A	III.		Reserve funds and other funds created from profit	46,962	45,727
A	III.	1	Legal reserve fund	46,962	45,727
		2	Statutory and other funds	-	-
A.	IV.		Profit (loss) for the previous years	377,040	368,514
	IV.	1	Retained earnings for the previous years	377,040	368,514
		2	Accumulated loss of previous years	-	-
A.	V.		Profit (loss) for the year (+ / -)	26,126	24,702
B.			**LIABILITIES**	**748,836**	**716,138**
B.	I.		Provisions	6,251	8,956
B.	I.	1	Provisions created under special legislation	-	-
		2	Provision for pensions and similar obligations	-	-
		3	Provision for corporate income tax	-	-
		4	Other provisions	6,251	8,956
B.	II.		Long-term liabilities	72,161	72,161
B.	II.	1	Trade payables	-	-
		2	Liabilities to group companies with majority control	-	-
		3	Liabilities to group companies with control of 20% - 50%	-	-
		4	Liabilities to partners, co-operative members and participants in association	-	-
		5	Long-term advances received	-	-
		6	Bonds payable	-	-
		7	Long-term notes payable	-	-
		8	Unbilled deliveries	-	-
		9	Other liabilities	-	-
		10	Deferred tax liability	72,161	72,161
B.	III.		Current liabilities	310,211	287,661
B.	III.	1	Trade payables	259,198	232,501
		2	Liabilities to group companies with majority control	-	31
		3	Liabilities to group companies with control of 20% - 50%	-	-
		4	Liabilities to partners, co-operative members and participants in association	33	-
		5	Liabilities to employees	13,071	30,420
		6	Liabilities arising from social security and health insurance	5 650	6,195
		7	Due to government – taxes and subsidies	2,222	2,470
		8	Short-term advances received	3,076	2,290
		9	Bonds payable	-	-
		10	Unbilled deliveries	16,536	13,334
		11	Other liabilities	10,425	420
B.	IV.		Bank loans and borrowings	360,213	347,360
B.	IV.	1	Long-term bank loans	278,000	170,000
		2	Short-term bank loans	68,500	177,360
		3	Borrowings	13,713	-
C.			**OTHER LIABILITIES - TEMPORARY ACCOUNTS OF LIABILITIES**	**10,222**	**12,742**
C.	I.		Accrued liabilities and deferred assets	10,222	12,742
C.	I.	1	Accruals	10,222	12,736
		2	Deferred income	-	6

INCOME STATEMENT - LONG FORM

Czech Statutory Financial Statement Forms (in thousands of Czech crowns)

				Current year	Prior year 2012
	I.	1	Revenue from sale of goods	218,220	276,700
A.		2	Cost of goods sold	182,599	242,646
	+		**Gross margin**	**35,621**	**34,054**
	II.		Production	1,267,201	1,318,438
	II.	1	Revenue from sale of finished products and services	1,263,581	1,312,915
		2	Change in inventory produced internally	(1,803)	4,048
		3	Own work capitalized	5,423	1,475
B.			Production related consumption	887,316	955,091
B.		1	Consumption of material and energy	743,918	801,783
B.		2	Services	143,398	153,308
	+		**Value added**	**415,506**	**397,401**
C.			Personnel expenses	253,038	239,780
C.		1	Wages and salaries	193,118	182,856
C.		2	Bonuses to members of company or cooperation bodies	1,530	1,736
C.		3	Social security and health insurance	55,235	52,220
C.		4	Other social costs	3,155	2,968
D.		1	Taxes and charges	711	1,054
E.		1	Amortization and depreciation of intangible and tangible fixed assets	110,447	120,372
	III.		Revenue from sale of intangible and tangible fixed assets and materials	10,862	16,554
	III.	1	Revenues from sale of intangible and tangible fixed assets	1,174	942
		2	Revenue from sale of materials	9,688	15,612
F.			Net book value of intangible and tangible fixed assets and materials sold	9,840	16,060
F.		1	Net book value of intangible and tangible fixed assets sold	558	556
F.		2	Materials sold	9,282	15,504
G.		1	Change in provisions and allowances relating to operations and in prepaid expenses (specific-purpose expenses)	(6,660)	(10,587)
	IV.	1	Other operating revenues	10,854	11,029
H.		2	Other operating expenses	16,227	19,628
	V.	1	Transfer of operating revenues	-	-
I.		2	Transfer of operating expenses	-	-
	*		**Profit or loss on operating activities**	**53,619**	**38,677**
	VI.	1	Revenue from sale of securities and interests	-	-
J.		2	Securities and interests sold	-	-
	VII.		Income from financial investments	-	-
	VII.	1	Income from subsidiaries and associates	-	-
		2	Income from other long-term securities and interests	-	-
		3	Income from other financial investments	-	-
	VIII.	1	Income from short-term financial assets	-	-
K.		2	Expenses related to financial assets	-	-
	IX.	1	Gain on revaluation of securities and derivatives	-	-
L.		2	Loss on revaluation of securities and derivatives	-	-
M.		1	Change in provisions and allowances relating to financial activities	5,153	1,237
	X.	1	Interest income	1,928	1,638
N.		2	Interest expense	10,256	14,992
	XI.	1	Other finance income	20,102	25,438
O.		2	Other finance cost	34,114	24,822
	XII.	1	Transfer of finance income	-	-
P.		2	Transfer of finance cost	-	-
	*		**Profit or loss on financial activities**	**(27,493)**	**(13,975)**
Q.			Tax on profit or loss on ordinary activities	-	-
Q.		1	- due	-	-
Q.		2	- deferred	-	-
	**		**Profit or loss on ordinary activities after taxation**	**26,126**	**24,702**
	XIII.	1	Extraordinary gains	-	-
R.		2	Extraordinary losses	-	-
S.		1	Tax on extraordinary profit or loss	-	-
S.		1	- due	-	-
S.		2	- deferred	-	-
	*		**Extraordinary profit or loss**	-	-
		1	Transfer of share of profit or loss to partners (+/-)	-	-
	***		**Profit or loss for the year (+/-)**	**26,126**	**24,702**
	****		**Profit or loss before taxation**	**26,126**	**24,702**

CASH FLOW STATEMENT

Czech Statutory Financial Statement Forms (in thousands of Czech crowns)

				Current year	Prior year 2012
			Cash flows from operating activities		
Z.			**Profit or loss on ordinary activities before taxation (+/-)**	**26,126**	**24,702**
A.	1.		Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	126,174	123,422
A.	1.	1.	Depreciation and amortization of fixed assets and write-off of receivables	113,763	126,911
A.	1.	2.	Change in allowances	1,200	(9,449)
A.	1.	3.	Change in provisions	(2,705)	99
A.	1.	4.	Foreign exchange differences	6,204	(7,106)
A.	1.	5.	(Gain)/Loss on disposal of fixed assets	(616)	(386)
A.	1.	6.	Interest expense and interest income	8,328	13,354
A.	1.	7.	Other non-cash movements (e.g. revaluation at fair value to profit or loss, dividends received)	-	-
A	*****		**Net cash from operating activities before taxation, changes in working capital and extraordinary items**	**152,300**	**148,124**
A.	2.		Change in non-cash components of working capital	(80,072)	(24,729)
A.	2.	1.	Change in inventory	(14,453)	20,398
A.	2.	2.	Change in trade receivables	15,426	(12,789)
A.	2.	3.	Change in other receivables and in prepaid expenses and unbilled revenue	(70,020)	10,547
A.	2.	4.	Change in trade payables	(1,127)	(36,001)
A.	2.	5.	Change in other payables, short-term loans and in accruals and deferred income	(9,898)	(6,884)
A	******		**Net cash from operating activities before taxation, interest paid and extraordinary items**	**72,228**	**123,396**
A.	3.	1.	Interest paid	(10,245)	(15,008)
A.	4.	1.	Tax paid	35	(2)
A.	5.	1.	Gains and losses on extraordinary items	-	-
A	*******		**Net cash provided by (used in) operating activities**	**62,018**	**108,386**
			Cash flows from investing activities		
B.	1.	1.	Purchase of fixed assets	(80,918)	(8,961)
B.	2.	1.	Proceeds from sale of fixed assets	1,174	942
B.	3.	1.	Loans granted	-	-
B.	4.	1.	Interest received	1,928	1,638
B.	5.	1.	Dividends received	-	-
B	*******		**Net cash provided by (used in) investing activities**	**(77,816)**	**(6,381)**
			Cash flows from financing activities		
C.	1.	1.	Change in long-term liabilities and long-term, resp. short-tem, loans	85,016	(101,577)
C.	2.	1.	Effect of changes in basic capital on cash	-	-
C.	2.	2.	Dividends or profit sharing paid	(14,940)	-
C.	2.	3.	Effect of other changes in basic capital on cash	-	-
C	*******		**Net cash provided by (used in) financing activities**	**70,076**	**(101,577)**
F.			**Net increase (decrease) in cash**	**54,278**	**428**
P.			**Cash and cash equivalents at beginning of year**	**1,867**	**1,439**
R.			**Cash and cash equivalents at end of year**	**56,145**	**1,867**

1. DESCRIPTION OF THE COMPANY

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

Shareholders holding an interest in the Company's basic capital as at 31 December 2013 are as follows:

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

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

Members of the statutory bodies as at 31 December 2013 were as follows:

Board of Directors

Chair:	Menclík František
Vice-Chair:	Vobora Miroslav
Member:	Heinrich Georg Stahl
Member:	Hamáček František, Ing.

Supervisory Board

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

In 2013, the following changes were made to the Commercial Register entry: a Board of Directors member, Richard Howard Brook, resigned and was replaced by Heinrich Georg Stahl as at 29 March 2013. As at 1 July 2013, the Supervisory Board Vice-Chair, Ing. Jaromír Hejda, was replaced by Dipl. Ing. Dr. Ernst Bachner and a Supervisory Board member, Ing. Josef Bíža, was replaced in his position by Petr Blažek as at the same date.

The organization structure of the Company is formed by five organizational units: Production department, Finance and controlling department, Administration, Procurement department and Business department.

As at 31 December 2013, the Company owns interests in the following subsidiaries: KORADO Deutschland GmbH, KORADO Polska, Sp. z o. o., KORADO Austria GesmbH., KORADO Bulgaria AD, KORADO UK. and LICON HEAT s.r.o.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

The accompanying financial statements were prepared in accordance with the Czech Act on Accounting and the related guidelines as applicable for 2013 and 2012.

The Company is the parent of a group and, as such, is required by the Czech accounting legislation to prepare consolidated financial statements as at 31 December 2013. The result of consolidation performed in compliance with International Financial Reporting Standards (IFRS) is consolidated equity at the amount of CZK 1,315,537 thousand, consolidated profit of CZK 50,343 thousand and total consolidated assets of CZK 2,105,916 thousand as at 31 December 2013.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in preparing the 2013 and 2012 financial statements are as follows:

a) Intangible Fixed Assets

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

Intangible fixed assets with a cost exceeding CZK 60 thousand in 2013 and 2012 are amortized over their useful economic lives.

Amortization

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

	Years
Foundation and organization expenses	5
Software	4 - 6
Patents, royalties and similar rights	6

b) Tangible Fixed Assets

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

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

Depreciation

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

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

c) Financial Assets

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

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

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

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

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

Loans extended to subsidiaries are carried at their realizable value after impairment provision. Temporary diminution in value is recorded on the basis of estimated recoverability of these loans as an allowance. Loans and receivables provided to a subsidiary with negative equity as at 31 December 2013 and 2012 are reduced through an allowance that amounts up to the negative equity.

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

d) Inventory

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

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

e) Receivables

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

f) Equity

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

In the first year in which profit is generated, a joint-stock company should allocate 20% of profit after tax (however, not more than 10% of basic capital) to the legal reserve fund. In subsequent years, the legal reserve fund is allocated 5% of profit after tax until the fund reaches 20% of basic capital. These funds can only be used to offset losses.

g) Provisions and Liabilities

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

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

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

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

h) Financial Leases

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

i) Foreign Currency Transactions

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

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

As at 31 December 2013 and 2012, ownership interests in subsidiaries and associates were recalculated at the year-end exchange rate published by the Czech National Bank, with any arising exchange rate differences being posted to account gain or loss on revaluation of assets and liabilities.

j) Recognition of Revenues and Expenses

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

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

k) Income Tax

The corporate income tax expense is calculated based on the statutory tax rate and book income before taxes, increased or decreased by the appropriate permanent and temporary differences (e.g. non-deductible provisions and allowances, entertainment expenses, differences between book and tax depreciation, etc.). The statutory tax rate for 2013 and the following years will be 19%.

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

l) Use of Estimates

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

m) Subsequent Events

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

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

4. FIXED ASSETS

a) Intangible Fixed Assets (in CZK thousands)

COST

	At beginning of year	Additions	Disposals	Transfers	At end of year
Foundation and organization expenses	895	-	-	-	895
Software	178,592	-	(10)	3,051	181,633
Patents, royalties and similar rights	2,369	-	-	-	2,369
Intangibles in progress	462	3,399	-	(2,863)	998
2013 Total	**182,318**	**3,399**	**(10)**	**188**	**185,895**
2012 Total	178,453	3,965	(100)	-	182,318

ACCUMULATED AMORTIZATION

	At beginning of year	Amortization during the year	Disposals	At end of year	Net book value
Foundation and organization expenses	(895)	-	-	(895)	-
Software	(166,613)	(4,115)	10	(170,718)	10,915
Patents, royalties and similar rights	(1,957)	(200)	-	(2,157)	212
Intangibles in progress	-	-	-	-	998
2013 Total	**(169,465)**	**(4,315)**	**10**	**(173,770)**	**12,125**
2012 Total	(163,924)	(5,641)	100	(169,465)	12,853

As at 31 December 2013 and 2012, the total value of small intangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 5,850 thousand and CZK 5,378 thousand, respectively.

a) Tangible Fixed Assets (in CZK thousands)

COST

	At beginning of year	Additions	Disposals	Transfers	At end of year
Land	25,163	-	-	-	25,163
Buildings	1,675,894	-	-	45	1,675,939
Machinery and equipment	2,573,874	-	(5,849)	7,596	2,575,621
Vehicles	7,013	-	(4,372)	634	3,275
Other tangibles	39,711	-	-	855	40,566
Art works and collections	25,860	-	-	-	25,860
Tangibles in progress	3,775	13,892	-	(9,318)	8,349
Advances for tangibles	1,215	-	(1,215)	-	-
2013 Total	**4,352,505**	**13,892**	**(11,436)**	**(188)**	**4,354,773**
2012 Total	4,356,247	7,177	(10,919)	-	4,352,505

ACCUMULATED DEPRECIATION

	At beginning of year	Depreciation during the year	Disposals	At end of year	Net book value
Land	-	-	-	-	25,163
Buildings	(620,626)	(35,717)	-	(656,343)	1,019,596
Machinery and equipment	(2,054,334)	(67,436)	5,849	(2,115,921)	459,700
Vehicles	(5,495)	(1,057)	4,372	(2,180)	1,095
Other tangibles	(33,329)	(2,479)	-	(35,808)	4,758
Art works and collections	-	-	-	-	25,860
Tangibles in progress	-	-	-	-	8,349
Advances for tangibles	-	-	-	-	-
2013 Total	(2,713,784)	(106,689)	10,221	(2,810,252)	1,544,521
2012 Total	(2,609,414)	(114,733)	10,363	(2,713,784)	1,638,721

The total value of small tangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 12,247 thousand and CZK 12,367 thousand as at 31 December 2013 and 2012, respectively.

As at 31 December 2013 and 2012, assets with a cost of CZK 57,292 thousand and CZK 57,292 thousand, respectively, and a net book value of CZK 38,155 thousand and CZK 39,162 thousand, respectively, were not used by the Company for production (primarily paintings and recreational facilities including their equipment). Management believes that the recoverable value is no less then the recorded net book value.

As at 31 December 2013 and 2012, assets (buildings, land, machinery and equipment) with a cost of CZK 2,444,815 thousand and CZK 2,443,148 thousand, respectively and a net book value of CZK 1,088,383 thousand and CZK 1,153,492 thousand, respectively were pledged as security for loans from UniCredit Bank Czech Republic, a.s. (see Note 13).

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

Summary of changes in long-term financial investments

	Balance as at 31/ 12/ 2011	Movements	Balance as at 31/ 12/ 2012	Movements	Balance as at 31/ 12/ 2013
Subsidiaries and associates	163,057	(3,372)	159,685	71,669	231,354
Loans to subsidiaries	50,376	2,851	53,227	3,717	56,944
Allowances	(161,204)	(1,237)	(162,441)	(5,154)	(167,595)
Total	**52,229**	**(1,758)**	**50,471**	**70,232**	**120,703**

Subsidiaries as at 31 December 2013 were as follows:

Name Registered office	KORADO Deutschland Germany	KORADO Bulgaria Bulgaria	KORADO Polska Poland	KORADO Austria Austria	KORADO UK Great Britain	LICON HEAT Czech Republic	Total
Percentage of ownership	100	98.2	100	100	100	100	-
Total assets	16,376	140,637	22,140	8	33	90,074	269,268
Equity	2,637	99,386	(59,308)	(6)	33	58,566	101,308
Basic capital	686	86,975	47,613	28,796	33	14,500	178,603
Profit for the current year	1,848	7,951	1,002	16	-	7,630	18,447
Acquisition cost of interest	16,866	54,054	67,592	28,796	33	64,012	231,354
Nominal value of interest	686	85,409	47,613	28,796	33	14,500	177,037
Intrinsic value of interest	2,637	97,597	-	-	33	58,566	158,833
Allowance against investments in subsidiaries	(14,229)	-	(67,592)	(28,796)	(33)	-	(110,651)
Allowance against loans	-	-	(56,944)	-	-	-	(56,944)
Allowance against receivables	-	-	(2,364)	-	-	-	(2,364)

Subsidiaries as at 31 December 2012 were as follows:

Name Registered office	KORADO Deutschland Germany	KORADO Bulgaria Bulgaria	KORADO Polska Poland	KORADO Austria Austria	KORADO UK Great Britain	Total
Percentage of ownership	100	98.2	100	100	100	-
Total assets	19,688	114,258	17,926	49	31	151,952
Equity	(597)	84,859	(56,436)	(21)	31	27,836
Basic capital	629	20,998	44,505	26,397	31	92,560
Profit for the current year	-	5,115	574	22	-	5,711
Acquisition cost of interest	15,460	50,471	67,326	26,397	31	159,685
Nominal value of interest	629	20,620	44,505	26,397	31	92,182
Intrinsic value of interest	-	83,331	-	-	31	83,362
Allowance against investments in subsidiaries	(15,460)	-	(67,326)	(26,397)	(31)	(109,214)
Allowance against loans	-	-	(53,227)	-	-	(53,227)
Allowance against receivables	(597)	-	(3,209)	-	-	(3,806)

As at 1 October 2013, the Company became a 100% owner of LICON HEAT s.r.o. As at 31 December 2012, the Company wrote off the investment in KORADO Croatia based on the fact that insolvency proceedings with the Company had been finished.

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

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

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

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

Profit or loss generated by the subsidiaries and associate was as follows:

	2013	2012
KORADO Deutschland	1,848	-
KORADO Polska	1,002	574
KORADO Bulgaria	7,951	5,115
KORADO Austria	16	22
LICON HEAT	7,630	5,553
Total	**18,447**	**11,264**

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

	Maturity	2013	2012
KORADO Polska	31/ 12/ 2014 *	56,944	53,227
Allowance		(56,944)	(53,227)
Total		-	-

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

In 2013 and 2012 interest from a loan to the subsidiary amounted to CZK 1,864 thousand and CZK 1,638 thousand, respectively.

5. INVENTORY

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

Inventories of CZK 124,729 thousand and CZK 0 thousand, respectively, were pledged as collateral as at 31 December 2013 and 2012 to secure loans granted by UniCredit Bank Czech Republic, a.s. (see Note 13).

6. RECEIVABLES

Allowances against outstanding receivables that are considered doubtful were charged to income based on estimated recoverability of receivables in 2013 and 2012, respectively (see Note 7). As at 31 December 2013 and 2012, receivables overdue for more than 180 days totaled CZK 10,864 thousand and CZK 18,101 thousand, respectively. 100% allowances were created against these receivables.

The Company wrote off irrecoverable receivables of CZK 5,263 thousand and CZK 6,621 thousand in 2013 and 2012, respectively due to cancellation of bankruptcy proceedings and unsatisfying the claims in bankruptcy proceedings.

Receivables of CZK 66,845 thousand and CZK 86,057 thousand, respectively, were pledged as collateral as at 31 December 2013 and 2012 to secure loans granted by UniCredit Bank Czech Republic, a.s. (see Note 13).

Receivables from related parties (see Note 20).

7. ALLOWANCES

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

Changes in the allowance accounts (in CZK thousands):

Allowances against:	Balance as at 31/ 12/ 2011	Change in allowances	Balance as at 31/ 12/ 2012	Change in allowances	Balance as at 31/ 12/ 2013
Long-term financial assets	161,204	1,237	162,441	5,154	167,595
Inventory	1,175	(11)	1,164	(75)	1,089
Receivables – statutory	12,740	(374)	12,366	(2,948)	9,418
Receivables – other	21,956	(10,301)	11,655	(931)	10,724
Total	**197,075**	**(9,449)**	**187,626**	**1,200**	**188,826**

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

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

8. SHORT-TERM FINANCIAL ASSETS

As at 31 December 2013 and 2012 short term financial assets in the amount of CZK 55,515 thousand and CZK 1,603 thousand were pledged as security for loans from UniCredit Bank Czech Republic, a.s. (see Note 13).

9. OTHER ASSETS

As at 31 December 2013 and 2012, prepaid expenses include in particular the costs of CZK 2,318 thousand and CZK 2,565 thousand, respectively, incurred in loan refinancing that have been accrued over the term of the loan and are amortized over the period of loan repayment. Expenses of CZK 3,023 thousand and CZK 1,008 thousand, respectively, were charged to finance costs in 2013 and 2012. Prepaid expenses also include lease installments, property insurance and software maintenance costs, which are charged to income for the year in which they were incurred.

10. EQUITY

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

	Balance as at 31/ 12/ 2011	Increase / Transfers	Decrease / Transfers	Balance as at 31/ 12/ 2012	Increase / Transfers	Decrease / Transfers	Balance as at 31/ 12/ 2013
Number of shares	2,402	-	-	2,402	-	-	2,402
Basic capital	840,700	-	-	840,700	-	-	840,700
Other capital funds	48	-	-	48	-	-	48
Differences arising from revaluation of assets and liabilities	(44,427)	-	(2,784)	(47,211)	7,657	-	(39,554)
Legal reserve fund	45,727	-	-	45,727	1,235	-	46,962
Retained earnings	449,658	-	(81,144)	368,514	8,526	-	377,040

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

As at 31 December 2013 and 2012, ownership interests in subsidiaries denominated in foreign currencies were recalculated at the year-end exchange rate published by the Czech National Bank, with any arising exchange rate differences being posted to revaluation accounts.

The Annual General Meetings held on 20 May 2013 and 4 June 2012, respectively, approved the following loss and profit distribution for 2012 and 2011 (in CZK thousands):

Profit for 2012	24,702
Allocation to legal reserve fund	(1,235)
Dividend distribution	(14,941)
Undistributed profits added to retained earnings	8,526
Retained earnings as at 31 December 2012	368,514
Retained earnings as at 31 December 2013	377,040

Loss for 2011	(81,144)
Allocation to legal reserve fund	-
Dividend distribution	-
Settlement of loss by retained earnings	(81,144)
Retained earnings as at 31 December 2011	449,658
Retained earnings as at 31 December 2012	368,514

11. PROVISIONS

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

Provisions	Balance as at 31/ 12/ 2011	Movements	Balance as at 31/ 12/ 2012	Movements	Balance as at 31/ 12/ 2013
Warranty repairs	4,498	742	5,240	(747)	4,493
Accrued vacation	4,359	(643)	3,716	(1,958)	1,758
Total	**8,857**	**99**	**8,956**	**(2,705)**	**6,251**

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

12. SHORT-TERM LIABILITIES

As at 31 December 2013 and 2012, the Company had overdue current payables for more than 180 days totaling CZK 48 thousand and CZK 7 thousand, respectively.

As at 31 December 2013, unbilled deliveries represent, in particular, unbilled deliveries of materials, annual customer bonuses and estimated wages. As at 31 December 2012, unbilled deliveries included primarily unbilled deliveries of materials and annual customer bonuses.

As at 31 December 2013, the Company had liabilities of CZK 5 650 thousand owing to social security and health insurance premiums.

Payables to related parties (see Note 20).

13. BANK LOANS AND BORROWINGS

				2013		2012	
Bank	Terms/ Conditions	Interest rate	Total limit	Amount in foreign currency (EUR)	Amount in CZK thousands	Amount in foreign currency (EUR)	Amount in CZK thousands
UniCredit Bank Czech Republic, a.s.	Long-term	1M PRIBOR + 2.4%	CZK 145 million	-	130,500	-	280,000
UniCredit Bank Czech Republic, a.s.	Long-term	1M PRIBOR + 2.0%	CZK 270 million	-	216,000	-	-
UniCredit Bank Czech Republic, a.s.	Short-term	1D PRIBOR + 1.5%	CZK 20 million	-	-	-	-
UniCredit Bank Czech Republic, a.s.	Short-term	1D EURIBOR + 1.5%	EUR 1,300 thousand	-	-	2,679	67,360
Total					346,500		347,360
Less current portion					(68,500)		(177,360)
Net					278,000		170,000

On 15 March 2013, the Company signed a refinancing agreement of the current bank loans with UniCredit Bank Czech Republic, a.s. Major conditions of the refinancing are as follow:

- Increase in the amount of the loan (maximum amount of CZK 415 million for long-term facilities, CZK 20 million and EUR 2 million for overdraft facilities)
- Prolonging final maturity of the long-term facilities until 31 December 2017 including related reduction in repayments
- Change in conditions of bank loan covenants (less restrictive Net Debt / EBITDA ratio and Equity ratio).

The interest expense relating to bank loans for 2013 and 2012 was CZK 10,115 thousand and CZK 14,905 thousand, respectively.

The loan agreement with UniCredit Bank Czech Republic includes the following terms and conditions to be fulfilled by the Company:

1. Equity ratio	More than 60% at 31 December 2013	More than 55% at 31 December 2012
2. Net debt / EBITDA ratio	Less than 3.0 at 31 December 2013	Less than 2.0 at 31 December 2012

As at 31 December 2013, the Company met above stated conditions.

Tangibles (see Note 4b), receivables (see Note 6), inventories (see Note 5) and financial assets (see Note 8) were pledged as security for loans from UniCredit Bank Czech Republic, a. s. In addition, loans are secured by receivables from insurance claims exceeding CZK 5 million.

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

	Bank loans
2014	68,500
2015	68,500
2016	68,500
2017	141,000
Total	346,500

Management of the Company believes that the Company will be able to generate sufficient financial resources to settle its payables or will be able to ensure adequate bank financing.

The Company also received a loan from the company LICON HEAT s.r.o. in the amount EUR 500 thousand with the maturity in 2014.

14. OTHER LIABILITIES

Accruals include, in particular, costs of final settlement of transfer prices with subsidiaries, costs of electricity, gas, communications and transport and are accrued to the period they belong to.

15. INCOME TAXES

Calculation of current income tax (in CZK thousands):	2013	2012
Profit before taxes	26,126	24,702
Differences between book and tax depreciation	(7,531)	(25,665)
Creation / (reversal) of allowances	4,146	(9,075)
Creation / (reversal) of provisions	(2,705)	99
Other (e.g. provision to bonuses and its settlement, entertainment expenses, shortages and losses)	10,558	(21,987)
Taxable income/(tax loss)	30,594	(31,926)
Applied tax loss	(30,594)	-
Current tax expense	**-**	**-**

The Company can carry forward tax losses generated from 2010 through 2012 for up to five years. The remaining tax loss carryforward, the benefit of which has not been recognized in the accompanying financial statements, amounted to CZK 157,806 thousand as at 31 December 2013. It will be recorded when realized.

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

Deferred tax items	2013		2012	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Difference between net book value of fixed assets for accounting and tax purposes	-	(134,020)	-	(132,534)
Other temporary differences:				
Allowance against receivables	232	-	109	-
Allowance against inventory	207	-	221	-
Provisions, unbilled deliveries and unpaid social and health insurance	1,188	-	1,702	-
Tax loss not claimed	29,983	-	36,485	-
Deferred tax asset from investment incentives	30,249	-	21,856	-
Total	**61,859**	**(134,020)**	**60,373**	**(132,534)**
Net		(72,161)		(72,161)

In 2008, the Company launched the 4th production line which was financed partially through investment incentives. The amount of potential investment incentive related to capital expenditures already incurred was approximately CZK 170 million as at 31 December 2013 and 2012 and this balance can be drawn as a tax credit until 2019. The Company plans to meet all relevant criteria for drawing these funds and use the investment incentive in the future and, in addition, the Company believes it will generate sufficient taxable profits in the future in order to claim the investment incentive. The Company did not record a deferred tax asset from the investment incentive in full amount as its recovery is uncertain. However, the Company recorded a deferred tax asset of CZK 30,249 thousand and CZK 21,856 thousand, respectively, as at 31 December 2013 and 2012. Based on the business plan model, the Company expects that it will utilize the investment incentive in the period 2017 - 2019.

16. LEASES

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

As at 31 December 2013 and 2012, assets which are being used by the Company under operating lease arrangements consist of the following (in CZK thousands):

Description	Expense in 2013	Expense in 2012
Copy machines	1,310	1,410
Fork-lift trucks	4,964	5,417
Total	**6,274**	**6,827**

Annual rent expense includes also operational maintenance services.

17. COMMITMENTS AND CONTINGENCIES

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

The Company has assets used under operating leases, which are not shown on the balance sheet (see Note 16).

The Company, through the UniCredit Czech Republic, a. s., provided a bank guarantee of EUR 1,387,500 to secure the liability of the subsidiary KORADO Bulgaria AD for the acquisition of new production equipment.

18. REVENUES

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

	2013			2012		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Radiator production	506,116	743,575	1,249,691	517,771	784,174	1,301,945
Other	113,265	118,845	232,110	114,285	173,385	287,670
Total revenues	619,381	862,420	1,481,801	632,056	957,559	1,589,615

In 2013, the revenues of the Company were concentrated primarily with the subsidiaries and 15 principal wholesale customers in the Czech Republic and abroad.

19. PERSONNEL AND RELATED EXPENSES

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

	2013		2012	
	Total personnel	Of which: directors and managers	Total personnel	Of which: directors and managers
Average number of employees	426	29	437	23
Wages and salaries	193,118	66,590	182,856	*56,851
Social security	55,235	11,635	52,220	9,024
Social cost	3,155	-	2,968	-
Total personnel expenses	**251,508**	**78,225**	**238,044**	**65,875**

* Including termination benefits related to organizational changes planned in the first half of 2012. The amount of the termination benefits remaining unpaid as at 31 December 2012 was CZK 15,833 thousand and was recorded as a liability to employees.

The members and former members of statutory and supervisory bodies received total bonuses and other remuneration of CZK 1,530 thousand and CZK 1,736 thousand in 2013 and 2012, respectively.

20. RELATED PARTY INFORMATION

No loans, guarantees, advances or other benefits were granted to members of statutory bodies in 2013 and 2012.

As at 31 December 2013 and 2012, the members of statutory and supervisory bodies and former executive officers held 660 shares of the Company, respectively.

In part of 2012, individuals in the position of shareholders were involved in the management of the Company as employees in the ordinary course of business and their salaries and bonuses were included in personnel expenses.

The Company sells products to related parties in the ordinary course of business. Sales were CZK 141,249 thousand and CZK 156,362 thousand in 2013 and 2012, respectively.

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

Related party	2013	2012
KORADO Deutschland	6,645	7,905
KORADO Polska	21,419	18,692
KORADO Bulgaria	2,678	2,170
LICON HEAT s.r.o.	2,620	-
Total	**33,362**	**28,767**

The Company purchases products and receives services from related parties in the ordinary course of business. Purchases were CZK 162,438 thousand and CZK 227,443 thousand in 2013 and 2012, respectively.

Short-term payables to related parties as at 31 December 2013 were as follows (in CZK thousands):

Related party	2013	2012
KORADO Bulgaria	22,352	33,405
KORADO Deutschland	66	178
LICON HEAT s.r.o.	19	-
Total	**22,437**	**33,583**

The Company received a loan from the subsidiary LICON HEAT s.r.o. (see Note 13).

21. OTHER ITEMS OF INCOME STATEMENT

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

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

Statutory auditor's fees are disclosed in consolidated financial statements.

22. STATEMENT OF CASH FLOWS (SEE APPENDIX)

The cash flow statement was prepared under the indirect method.

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

Prepared on:	Signature of accounting unit's statutory body:	Person responsible for accounting:	Person responsible for financial statements:
14 March 2014	**František Menclík** Chairman of the Board of Directors	**Bc. Pavlína Kovářová** Chief accountant	**Ing. Vojtěch Čamek** Chief Executive Officer

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS AT 31 DECEMBER 2013

AUDITOR'S REPORT INCLUDING THE AUDITOR'S OPINION

ERNST & YOUNG

To the Shareholders of KORADO a.s:

We have audited the accompanying consolidated financial statements of KORADO Group which comprise the consolidated balance sheet as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details of the Group see Note 1 to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the KORADO Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

Ernst & Young

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

Petr Vácha

Petr Vácha
Auditor, License No. 1948

14 March 2014
Prague, Czech Republic

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2013

(In CZK thousands)	Note	31 December 2013	31 December 2012
ASSETS			
Non-current assets			
Property, plant and equipment, net	3	1,627,519	1,678,555
Intangible assets, net	4	32,534	25,326
Other non-current assets		2,669	496
Deferred tax asset	19	490	327
Total non-current assets		**1,663,212**	**1,704,704**
Current assets			
Inventories, net	6	186,426	140,317
Accounts receivable, net	7	149,794	132,909
Prepayments and other current assets	8	22,115	18,302
Income tax receivable		49	84
Cash and cash equivalents	9	84,320	10,995
Total current assets		**442,704**	**302,607**
Total assets		**2,105,916**	**2,007,311**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	10	840,700	840,700
Retained earnings, funds and translation reserve	10	473,175	433,914
Total shareholders' equity attributable to equity holders of the parent		1,313,875	1,274,614
Non-controlling interest		1,662	1,519
Total shareholders' equity		**1,315,537**	**1,276,133**
Non-current liabilities			
Long-term debt, net of current portion	11	281,465	170,523
Deferred tax liabilities	19	74,858	71,420
Total non-current liabilities		**356,323**	**241,943**
Current liabilities			
Short-term borrowings and current portion of long-term debt	11	68,150	176,574
Payables and other current liabilities	12	357,251	306,581
Provisions for liabilities and charges	13	5,858	6,080
Income tax payable		2,797	-
Total current liabilities		**434,056**	**489,235**
Total equity and liabilities		**2,105,916**	**2,007,311**

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

KORADO Group
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

(In CZK thousands)	Note	2013	2012
Revenues from sales, net	14	1,602,014	1,653,283
Cost of materials, energy and purchased goods	15	(956,702)	(1,022,927)
Depreciation and amortization		(116,054)	(124,436)
Wages and salaries		(289,867)	(271,956)
Purchased services	16	(169,738)	(183,198)
Other expenses, net	17	(1,767)	(5,607)
Interest expense, net of capitalized interest		(10,298)	(15,013)
Interest income		83	27
Exchange rate gains / (losses), net		(4,779)	7,199
Negative goodwill	5	4,390	-
Other financial expenses, net	18	(4,848)	(3,147)
Profit before income taxes		**52,434**	**34,225**
Income taxes	19	(2,091)	(1,728)
Profit after income taxes		**50,343**	**32,497**
Other comprehensive income - items that may be reclassified subsequently to statement of income:			
Currency translation differences		4,001	(5,751)
Total comprehensive income		**54,344**	**26,746**
Profit after income taxes attributable to:			
Equity holders of the parent		50,200	32,405
Non-controlling interest		143	92
		50,343	32,497
Total comprehensive income attributable to:			
Equity holders of the parent		54,201	26,654
Non-controlling interest		143	92
		54,344	**26,746**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

(In CZK thousands)	Share Capital	Translation Reserve	Retained Earnings and Funds (Note 10)	Total Equity Attributable to Equity Holders of the Parent	Non-controlling Interest	Total Shareholders' Equity
Balance as at 31 December 2011	**840,700**	**(33,147)**	**440,407**	**1,247,960**	**1,427**	**1,249,387**
Profit after income taxes	-	-	32,405	32,405	92	32,497
Other comprehensive income	-	(5,751)	-	(5,751)	-	(5,751)
Total comprehensive income	-	(5,751)	32,405	26,654	92	26,746
Balance as at 31 December 2012	**840,700**	**(38,898)**	**472,812**	**1,274,614**	**1,519**	**1,276,133**
Profit after income taxes	-	-	50,200	50,200	143	50,343
Dividends	-	-	(14,940)	(14,940)	-	(14,940)
Other comprehensive income	-	4,001	-	4,001	-	4,001
Total comprehensive income	-	4,001	35,260	39,261	143	39,404
Balance as at 31 December 2013	**840,700**	**(34,897)**	**508,072**	**1,313,875**	**1,662**	**1,315,537**

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

KORADO Group
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

(In CZK thousands)	Note	2013	2012
OPERATING ACTIVITIES			
Profit before income taxes		**52 434**	**34 225**
Adjustments for:			
Depreciation and amortization		116,054	124,436
Receivables and loans write-off	17	5,302	19,009
Finance costs, net		10,215	14,986
Change in impairment provisions and provisions, net	17	(1,550)	(17,169)
Foreign exchange (gains) / losses, net		4,779	(7,199)
Negative goodwill	5	(4,390)	-
Gain on sale of property, plant and equipment	17	(789)	(386)
Changes in assets and liabilities:			
Inventories		(24,756)	17,667
IReceivables and other current assets		9,547	(19,381)
IPayables and other current liabilities		(4,004)	(38,831)
Income taxes (paid) / recovered		297	(794)
Net cash from operating activities		**163,139**	**126,563**
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(30,348)	(17,440)
Proceeds from sale of property, plant and equipment		1,174	942
Acquisition of subsidiary, net of cash acquired	5	(30,858)	-
Interest received		83	27
Change in other non-current assets		380	232
Net cash from investing activities		**(59,569)**	**(16,239)**
FINANCING ACTIVITIES			
Debt drawings		415,490	8,468
Repayments of debt		(417,067)	(110,000)
Change in lease obligation		(211)	501
Dividends paid		(14,940)	-
Interest paid, net of capitalized interest		(10,299)	(15,029)
Net cash from financing activities		**(27,027)**	**(116,060)**
Net increase / (decrease) in cash		**76,543**	**(5,736)**
Cash and cash equivalents at beginning of year	**9**	**10,995**	**15,972**
Effect of exchange rate changes on cash and cash equivalents		(3,218)	759
Cash and cash equivalents at end of year	**9**	**84,320**	**10,995**

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

1. Parent Company and Group Description

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

As at 31 December 2013 and 2012 the shareholders of the Parent Company were as follows:

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

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

	2013 % of voting rights	2012 % of voting rights	Country of incorporation	Activity
KORADO Deutschland GmbH	100	100	Germany	Distribution of radiators
KORADO Polska, Sp. z o.o.	100	100	Poland	Distribution of radiators
KORADO Austria GesmbH.	100	100	Austria	Distribution of radiators
KORADO UK	100	100	Great Britain	Distribution of radiators
KORADO Bulgaria AD	98	98	Bulgaria	Manufacturing of radiators
LICON HEAT s.r.o.	100	-	Czech republic	Manufacturing of convectors

2. Summary of Significant Accounting Policies

a) Statement of Compliance

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

b) Basis of Preparation

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

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

c) Principles of Consolidation

Business combinations and goodwill

The consolidated financial statements of the Group include the Parent Company and the companies controlled by the Parent Company. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital or has the power to govern the financial and operating policies of the enterprise. 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.

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.

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

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

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

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

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

Investment in an associate

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. In case of loss of control of subsidiary where the Group retains significant influence, the Group measures and recognizes any retaining investment at the fair value as at the date of loss of control.

The statement of comprehensive income reflects the share of the results of operations of the associate. If an investor's share of losses of an associate equals or exceeds its interest in the associate, the investor discontinues recognizing its share of further losses. After the investor's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the Parent Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the statement of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

d) Use of Estimates

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

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

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

Impairment of fixed assets

At the end of 2008, the level of demand in the industry relevant to the Group was affected by a downturn. The management of the Company believes the trend to be just temporary. In the opinion of the Company management, the discounted value of future cash flows to be generated up to the end of the useful life of fixed assets ("value in use") will exceed the carrying value of fixed assets; therefore, there is no need to account for additional impairment of fixed assets. The value in use was determined based on an approved 5-year business plan using a discount factor of 9.4%. An average annual growth in post-tax cash-flows is estimated at 7% over the first three years and 26% over the last two years of the 5-year period before planned changes in working capital. The model also assumes zero growth in perpetuity. If the discount rate increased above 9.9% or the post-tax cash-flows decreased by approximately CZK 10 million or more each year, all other variables held constant, the model would indicate additional impairment of fixed assets.

Useful lives and residual values of non-current assets

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

Deferred income taxes

The Group created a provision for deferred income taxes in consideration of the temporary differences. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and the measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of assets and liabilities. Where the final tax-deductible expenses are different from the amounts that were calculated, such differences will impact the current income and deferred tax provisions in the period in which such determination is made. The total amount of net deferred tax liability was CZK 74,368 thousand as at 31 December 2013.

The Parent Company included in its calculation of deferred tax a tax credit from investment incentive (see Note 19) and as a result no change in deferred tax of the Parent Company was recorded in 2013 compared to the balance as at 31 December 2012. The management of the Company believes that future taxable profits will be available against which the unused tax credit can be utilised and plans to meet all relevant criteria for drawing these funds and use the investment incentive in the future.

Goodwill

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

The impairment test involves determining the recoverable amount of the cash-generating unit, which corresponds to the value in use. Value in use is the present value of the future cash flows expected to be derived from a cash-generating unit. Value in use is determined on the basis of an enterprise valuation model and is assessed from a company internal perspective. Value in use is determined based on cash flow projection for a period of five years. The cash flow projection is based on the past experience, as well as on future market trends. The carrying amount of goodwill was CZK 13,578 thousand as at 31 December 2013.

e) Foreign Currency

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

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

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

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

f) Property, Plant and Equipment

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

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

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

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

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

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

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

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

g) Intangible Assets

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

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

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

h) Investments

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges with the investment (until 31 December 2009). Since 1 January 2010, transaction costs related to business combinations are expensed. If there is a decrease in the carrying value of investments that are not revalued at the balance sheet date, the difference is considered a diminution in value and is recorded as impairment.

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

i) Inventories

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

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

j) Accounts Receivable

Accounts receivable are recognized and carried at original invoice amount less an impairment provision for uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified. A write-off of the sold receivable that was fully provided for in previous years is shown in net amounts in the statement of comprehensive income, taking into account the effect of the reversal of the provision.

k) Cash and Cash Equivalents

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

l) Interest-bearing Loans and Borrowings

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

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

m) Borrowing Costs

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

n) Income Taxes

The provision for corporate tax is calculated in accordance with local tax jurisdictions of respective countries. For Czech entities corporate tax is calculated in accordance with Czech tax regulations and is based on the income or loss reported under Czech accounting regulations, adjusted for appropriate permanent and temporary differences from Czech taxable income. In the Czech Republic, income taxes are calculated on an individual company basis as the tax laws do not permit consolidated tax returns. Current income taxes are provided at a rate of 19% for the years ended 31 December 2013 and 2012, respectively, after adjustments for certain items which are not deductible for taxation purposes. The Czech corporate income tax rate for 2014 will be 19%.

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

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

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

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

o) Revenue Recognition

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

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

p) Provisions

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

q) Leases

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

r) Impairment of Assets

Financial Instruments

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

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

Other Assets

IAS 36, Impairment of assets, applies to all assets other than inventories, deferred tax assets and financial instruments. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in income. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction.

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

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

s) Contingencies

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

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

t) Subsequent Events

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

u) New IFRS Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for as follows. The Group has adopted the following new or amended and endorsed by EU IFRS and IFRIC interpretations as of 1 January 2013:

- IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (Amendment), effective 1 July 2012
- IAS 19 Employee benefits (revised), effective 1 January 2013
- IFRS 7 Financial Instruments: Disclosures (Amendment), effective 1 January 2013
- IFRS 13 Fair Value Measurement, effective 1 January 2013

The impact of the adoption of standards or interpretations on the financial statements or performance of the Group is described below:

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (OCI)

The amendment is effective for annual periods beginning on or after 1 July 2012. The amendment to IAS 1 changes the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time (for example, upon derecognition or settlement) are presented separately from items that will never be reclassified. The amendment does not change the nature of the items that were recognized in OCI, nor do they impact the determination of whether items in OCI are reclassified through profit and loss in future periods. The amendment affects presentation only and there is no impact on the Group's financial position or performance.

IAS 19 Employee benefits (revised)

The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The more significant changes include the following: for defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e. the corridor approach) has been removed; there are new or revised disclosure requirements which include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption; termination benefits are recognized at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognized under IAS 37; the distinction between short-term and other long-term employee benefits is based on expected timing of settlement rather than the employee's entitlement to the benefits. This standard is effective for annual periods beginning on or after 1 January 2013. Revised standard has no significant impact on the Group.

IFRS 7 Financial Instruments: Disclosures (Offsetting Financial Assets and Financial Liabilities)

The amendment is effective for annual periods beginning on or after 1 January 2013. This amendment requires an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set-off in accordance with IAS 32. The standard has no impact on the Group's financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted.

Fair value under IFRS 13 is defined as "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" (i.e. an 'exit price'). 'Fair value' as used in IFRS 2 Share-based Payments and IAS 17 Leases is excluded from the scope of IFRS 13.

The standard provides clarification on a number of areas, including the following:

- Concepts of 'highest and best use' and 'valuation premise' are relevant only for non-financial assets
- Adjustments for blockage factors (block discounts) are prohibited in all fair value measurements
- A description of how to measure fair value when a market becomes less active

New disclosures related to fair value measurements are also required to help users understand the valuation techniques and inputs used to develop fair value measurements and the effect of fair value measurements on profit or loss.

The standard has no impact on the Group's financial statements.

All other standards and interpretations whose application was mandatory for the period beginning on or after 1 January 2013 have no material impact on the Group's consolidated financial statements.

v) New IFRS Standards and Interpretations either not yet Effective or not yet Adopted by the EU

The Group is currently assessing the potential impacts of the new and revised standards and interpretations that will be effective or adopted by the EU from 1 January 2014 or later. Standards and interpretations most relevant to the Group's activities are detailed below:

IAS 28 Investments in Associate and Joint Ventures (revised)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment does not have an impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation (Offsetting Financial Assets and Financial Liabilities)

In December 2011, IASB issued an amendment to IAS 32, which is intended to clarify existing application issues relating to the offsetting rules and reduce level of diversity in current practice. The amendment is effective for financial statements beginning on or after 1 January 2014. The amendments clarify that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The IAS 32 offsetting criteria require the reporting entity to intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendment clarifies that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion. The Group does not expect the amendment will have an impact on the Group's financial statements.

IAS 36 Impairment of Assets (Recoverable Amount Disclosure for Non-Financial Assets)

The amendment clarifies the disclosure requirements in respect of fair value less costs of disposal. When IAS 36 Impairment of Assets was originally changed as a consequence of IFRS 13, the IASB intended to require disclosure of information about the recoverable amount of impaired assets if that amount was based on fair value less costs to sell. An unintended consequence of the amendments was that an entity would be required to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit was significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. This requirement has been deleted by the amendment.

In addition, the IASB added two disclosure requirements:

- Additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal.
- Information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique. The amendment harmonises disclosure requirements between value in use and fair value less costs of disposal.

The amendment is effective for financial statements beginning on or after 1 January 2014. The Group does not expect the amendment will have an impact on the Group's financial statements.

IAS 39 Financial Instruments: Recognition and Measurement (Novation of Derivatives and Continuation of Hedge Accounting)
The amendment provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument.

The amendment covers novations:
- That arise as a consequence of laws or regulations, or the introduction of laws or regulations
- Where the parties to the hedging instrument agree that one or more clearing counterparties replace the original counterparty to become the new counterparty to each of the parties
- That did not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing.

All of the above criteria must be met to continue hedge accounting under this exception. The amendments cover novations to central counterparties, as well as to intermediaries such as clearing members, or clients of the latter that are themselves intermediaries. For novations that do not meet the criteria for the exception, entities have to assess the changes to the hedging instrument against the derecognition criteria for financial instruments and the general conditions for continuation of hedge accounting.

The amendment is effective for financial statements beginning on or after 1 January 2014. The Group does not expect the amendment will have an impact on the Group's financial statements.

IFRS 9 Financial Instruments – Classification and measurement
The IFRS 9 was originally issued in November 2009 and is intended to replace IAS 39 Financial Instruments: Recognition and measurement. The standard introduces new requirements for classifying and measuring financial assets and liabilities. In October 2010 the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities and derecognition of financial assets and liabilities. Most of the requirements in IAS 39 for classification and measurement of financial liabilities and derecognition of financial assets and liabilities were carried forward unchanged to IFRS 9. The standard eliminates categories of financial instruments currently existing in IAS 39: available-for-sale and held-to-maturity. According to IFRS 9 all financial assets and liabilities are initially recognized at fair value plus transaction costs.

Financial assets
Debt instruments may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if:
- The asset is held within a business model that has the objective to hold the assets to collect the contractual cash flows

and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

All other debt instruments, where the above mentioned conditions are not met, are subsequently measured at fair value.

All equity investment financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity instruments held for trading must be measured at fair value through profit or loss. Entities have an irrevocable choice of recognizing changes in fair value either in OCI or profit or loss by instrument for all other equity investment financial assets

Financial liabilities
For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

Hedge accounting
a new chapter on hedge accounting has been added to IFRS 9. This represents a major overhaul of hedge accounting and puts in place a new model that introduces significant improvements principally by aligning the accounting more closely with risk management. There are also improvements to the disclosures about hedge accounting and risk management.

The standard does not currently indicate the mandatory effective date. The IASB decided to defer the mandatory effective date of IFRS 9 until the date of the completed version of IFRS 9 is known. The standard has not yet been endorsed by EU.

The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets and liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation - Special Purpose Entities, which resulted in SIC-12 being withdrawn. IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures, and associates in separate financial statements.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes

introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Control exists when an investor has:
- Power over the investee (defined in IFRS 10 as when the investor has existing rights that give it the current ability to direct the relevant activities)
- Exposure, or rights, to variable returns from its involvement with the investee

and
- The ability to use its power over the investee to affect the amount of the investor's returns.

This standard is effective for annual periods beginning on or after 1 January 2013. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after 1 January 2014. The Group does not expect the standard will have a significant impact on current Group's interests in other entities, but may affect the treatment of future acquisitions.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities - Non-monetary Contributions by Venturers.

Joint control under IFRS 11 is defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. 'Control' in 'joint control' refers to the definition of 'control' in IFRS 10. IFRS 11 also changes the accounting for joint arrangements by moving from three categories under IAS 31 to the following two categories:
- Joint operation - An arrangement in which the parties with joint control have rights to the assets and obligations for the liabilities relating to that arrangement. In respect of its interest in a joint operation, a joint operator must recognize all of its assets, liabilities, revenues and expenses, including its relative share of jointly controlled assets, liabilities, revenue and expenses.
- Joint venture - An arrangement in which the parties with joint control have rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method. The option in IAS 31 to account for joint ventures (as defined in IFRS 11) using proportionate consolidation has been removed.

Under these new categories, the structure of the joint arrangement is not the only factor considered when classifying the joint arrangement as either a joint operation or a joint venture, which is a change from IAS 31. Under IFRS 11, parties are required to consider whether a separate vehicle exists and, if so, the legal form of the separate vehicle, the contractual terms and conditions, and other facts and circumstances.

This standard becomes effective for annual periods beginning on or after 1 January 2013. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after 1 January 2014. The standard will have no significant impact on the Group.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Some of the more extensive qualitative and quantitative disclosures of IFRS 12 include: provision of summarized financial information for each subsidiary with a material non-controlling interest; description of significant judgments used by management in determining control, joint control and significant influence, and the type of joint arrangement (i.e. joint operation or joint venture); provision of summarized financial information for each individually material joint venture and associate; and description of the nature of the risks associated with an entity's interests in unconsolidated structured entities.

This standard becomes effective for annual periods beginning on or after 1 January 2013 and may affect the disclosures in the notes to financial statements. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after 1 January 2014.

Investment Entities (Amendments to IFRS 10, IFRS 12, IAS 27 and IAS 28)

In October 2012 IASB issued the amendments that are effective for annual periods beginning on or after 1 January 2014. These amendments will apply to investments in subsidiaries, joint ventures and associates held by a reporting entity that meets the definition of an investment entity. An investment entity will account for its investments in subsidiaries, associates and joint ventures at fair value through profit or loss in accordance with IFRS 9 (or IAS 39, as appropriate), except for investments in subsidiaries, associates and joint ventures that provide services that relate only to the investment entity, which would be consolidated or accounted for using the equity method, respectively. An investment entity will measure its investment in another controlled investment entity at fair value. Non-investment entity parents of investment entities will not be permitted to retain the fair value accounting that the investment entity subsidiary applies to its controlled investees. For non-investment entities, the existing option in IAS 28, to measure investments in associates and joint ventures at fair value through profit or loss, will be retained. The amendments will have no effect on the consolidated financial statements.

IFRIC 21 Levies

The interpretation is applicable to all levies other than outflows that are within the scope of other standards (e.g. IAS 12) and fines or other penalties for breaches of legislation. Levies are defined in the interpretation as outflows of resources embodying economic benefits imposed by government on entities in accordance with legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability is recognized before the specified minimum threshold is reached. The interpretation does not address the accounting for the debit side of the transaction that arises from recognizing a liability to pay a levy. Entities look to other standards to decide whether the recognition of a liability to pay a levy would give rise to an asset or an expense under the relevant standards. The interpretation is effective for annual periods beginning on or after 1 January 2014. The new interpretation will have no impact on the Group.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 are intended to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Group does not expect the amendment will have a significant impact on its consolidated financial statements.

Annual Improvements to IFRSs 2010 - 2012

In December 2013 the IASB issued a collection of amendments to IAS and IFRS in which they focused on areas of inconsistency in IFRSs and IASs or where the clarification of wording was required. The following standards were amended:

IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 8	Operating Segments
IFRS 13	Fair Value Measurement
IAS 16	Property, Plant and Equipment
IAS 24	Related Party Disclosures
IAS 38	Intangible Assets

Annual Improvements to IFRSs 2011 - 2013

In December 2013 the IASB issued a collection of amendments to IAS and IFRS in which they focused on areas of inconsistency in IFRSs and IASs or where the clarification of wording was required. The following standards were amended:

IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 3	Business Combinations
IFRS 13	Fair Value Measurement
IAS 40	Investment Property

These changes will have no significant impact on the Group's consolidated financial statements.

3. Property, Plant and Equipment, Net

The movements in 2013 were as follows:

	Land	Buildings	Machinery & Vehicles	Fixtures	Construction in Progress	Total
COST						
As at 31 December 2012	**28,246**	**1,723,268**	**2,765,428**	**67,861**	**4,997**	**4,589,800**
Additions	1	187	6,497	55	31,859	38,599
Acquisition of subsidiary	-	440	21,870	-	-	22,310
Disposals	-	-	(10,344)	-	(2,895)	(13,239)
Transfers	-	45	8,229	855	(9,318)	(189)
Translation difference	280	4,309	6,053	165	-	10,807
As at 31 December 2013	**28,527**	**1,728,249**	**2,797,733**	**68,936**	**24,643**	**4,648,088**
ACCUMULATED DEPRECIATION						
As at 31 December 2012	**-**	**(644,885)**	**(2,230,936)**	**(35,424)**	**-**	**(2,911,245)**
Depreciation	-	(37,783)	(71,074)	(2,526)	-	(111,383)
Disposals	-	-	10,344	-	-	10,344
Translation difference	-	(2,206)	(5,920)	(159)	-	(8,285)
As at 31 December 2013	**-**	**(684,874)**	**(2,297,586)**	**(38,109)**	**-**	**(3,020,569)**
Net book value	**28,527**	**1,043,375**	**500,147**	**30,827**	**24,643**	**1,627,519**

The movements in 2012 were as follows:

	Land	Buildings	Machinery & Vehicles	Fixtures	Construction in Progress	Total
COST						
As at 31 December 2011	**28,328**	**1,723,180**	**2,764,962**	**63,878**	**8,350**	**4,588,698**
Additions	-	334	1,491	49	14,054	15,928
Disposals	-	-	(11,613)	-	-	(11,613)
Transfers	-	967	12,446	3,946	(17,359)	-
Translation difference	(82)	(1,213)	(1,858)	(12)	(48)	(3,213)
As at 31 December 2012	**28,246**	**1,723,268**	**2,765,428**	**67,861**	**4,997**	**4,589,800**
ACCUMULATED DEPRECIATION						
As at 31 December 2011	**-**	**(606,665)**	**(2,166,089)**	**(32,957)**	**-**	**(2,805,711)**
Depreciation	-	(38,809)	(77,468)	(2,478)	-	(118,755)
Disposals	-	-	11,048	-	-	11,048
Translation difference	-	589	1,573	11	-	2,173
As at 31 December 2012	**-**	**(644,885)**	**(2,230,936)**	**(35,424)**	**-**	**(2,911,245)**
Net book value	**28,246**	**1,078,383**	**534,492**	**32,437**	**4,997**	**1,678,555**

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

Assets	Lien creditor	Carrying amount 31 December 2013	Carrying amount 31 December 2012
Buildings and halls	UniCredit Bank Czech Republic, a.s.	722,644	744,090
Land	UniCredit Bank Czech Republic, a.s.	11,638	11,638
Machinery and equipment	UniCredit Bank Czech Republic, a.s.	354,102	397,764
Receivables	UniCredit Bank Czech Republic, a.s.	66,845	86,057
Inventories	UniCredit Bank Czech Republic, a.s.	124,729	-
Bank accounts	UniCredit Bank Czech Republic, a.s.	55,515	1,603
Total		**1,335,473**	**1,241,152**

Assets with a cost of CZK 57,292 thousand and CZK 57,292 thousand were not used by the Company for operational purposes as at 31 December 2013 and 2012 (primarily paintings and buildings). The net book value of these assets was CZK 38,155 thousand and CZK 39,162 thousand as at 31 December 2013 and 2012, respectively. The management of the Company believes that the recoverable value is no less than the recorded net book value.

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

	2013		2012	
	Leased equipment at cost	Net book value of leased equipment	Leased equipment at cost	Net book value of leased equipment
Machinery and vehicles	1,357	409	1,769	848

Assets which are being used under an operating lease as at 31 December 2013 and 2012 include:

Description	Expense* in 2013	Expense* in 2012
Copy machines	1,310	1,410
Fork lifts	4,964	5,417
Buildings	2,522	-
Total	**8,796**	**6,827**

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

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

	2013	2012
Within one year	12,072	5,875
After one year but not more than five years	23,518	3,846
Total	**35,590**	**9,721**

4. Intangible Assets, Net

The movements in 2013 were as follows:

	Software	Trademark	Customer contracts	Intangibles in progress	Goodwill	Total
COST						
As at 31 December 2012	**182,681**	**-**	**-**	**462**	**12,446**	**195,589**
Additions	76	-	-	3,398	-	3,474
Acquisition of subsidiary	148	4,218	2,716	-	-	7,082
Disposals	(10)	-	-	-	-	(10)
Transfers	3,052	-	-	(2,863)	-	189
Translation difference	59	-	-	-	1,132	1,191
As at 31 December 2013	**186,006**	**4,218**	**2,716**	**997**	**13,578**	**207,515**
ACCUMULATED AMORTIZATION						
As at 31 December 2012	**(170,263)**	**-**	**-**	**-**	**-**	**(170,263)**
Amortization	(4,378)	(180)	(113)	-	-	(4,671)
Disposals	10	-	-	-	-	10
Translation difference	(57)	-	-	-	-	(57)
As at 31 December 2013	(174,688)	(180)	(113)	-	-	(174,981)
Net book value	**11,318**	**4,038**	**2,603**	**997**	**13,578**	**32,534**

The movements in 2012 were as follows:

	Software	Intangibles in progress	Goodwill	Total
COST				
As at 31 December 2011	**179,101**	**155**	**12,772**	**192,028**
Additions	30	3,965	-	3,995
Disposals	(100)	-	-	(100)
Transfers	3,658	(3,658)	-	-
Translation difference	(8)	-	(326)	(334)
As at 31 December 2012	**182,681**	**462**	**12,446**	**195,589**
ACCUMULATED AMORTIZATION				
As at 31 December 2011	**(164,690)**	**-**	**-**	**(164,690)**
Amortization	(5,681)	-	-	(5,681)
Disposals	100	-	-	100
Translation difference	8	-	-	8
As at 31 December 2012	(170,263)	-	-	(170,263)
Net book value	**12,418**	**462**	**12,446**	**25,326**

5. Acquisition of Subsidiary

On 1 October 2013, the Group acquired 100% interest in LICON HEAT s.r.o. which deals with the production and sale of heating convectors.

The fair values of acquired identifiable assets and liabilities as of the date of acquisition were as follows:

Property, plant and equipment	22,310
Intangible assets	7,082
Other non-current assets	2,555
Inventory	16,898
Accounts receivable, net	19,618
Cash and cash equivalents	22,364
Prepayments and other current assets	1,575
Debt	(1,895)
Deferred tax liability	(3,719)
Payables and other current liabilities	(20,616)
Total net assets	66,172
Negative goodwill	(4,390)
Total purchase consideration	61,782
Less:	
Cash and cash equivalents in the subsidiary acquired	(22,364)
Payables from acquisition	(8,560)
Cash outflow on acquisition of the subsidiary	30,858

If the combination had taken place at the beginning of the year 2013, the profit for the Group as of 31 December 2013 would have been CZK 64,722 thousand.

6. Inventory, Net

The following items are included in inventories:

	31 December 2013	31 December 2012
Raw materials	137,350	93,627
Work-in-progress	7,534	8,188
Finished goods	41,542	38,502
Total	**186,426**	**140,317**

Excess, obsolete and slow-moving inventory at gross amount of CZK 1,450 thousand and CZK 1,665 thousand has been reduced to net realizable value through the impairment provision account of CZK 1,981 thousand and CZK 1,171 thousand as at 31 December 2013 and 2012, respectively. The impairment provision is determined by management based on the aging analysis of inventory.

7. Accounts Receivable, Net

Accounts receivable, net, are as follows:

	31 December 2013	31 December 2012
Trade receivables	161,729	150,735
Advances received	7,287	4,122
Other	1,153	568
Impairment provision	(20,375)	(22,516)
Total	**149,794**	**132,909**

At 31 December 2013 and 2012 the ageing analysis of accounts receivable, net is as follows:

	31 December 2013	31 December 2012
Within due date	127,065	121,135
Past due but not impaired 1):		
Less than 3 months	22,303	11,265
3 – 6 months	54	-
6 – 12 months	161	509
More than 12 months	211	-
Total	**149,794**	**132,909**

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

Movements in impairment provision for receivables:

	2013	2012
As at 1 January	22,516	39,957
Additions	2,229	147
Reversals	(4,370)	(17,588)
As at 31 December	**20,375**	**22,516**

8. Prepayments and Other Current Assets

	31 December 2013	31 December 2012
VAT receivable	13,536	11,034
Prepayments and other	8,579	7,268
Total	**22,115**	**18,302**

9. Cash and Cash Equivalents

	31 December 2013	31 December 2012
Cash with banks	83,594	8,129
Cash equivalents	-	2,527
Cash on hand	726	339
Total	**84,320**	**10,995**

Cash equivalents include mainly checks held by the subsidiary KORADO Deutschland GmbH.

10. Shareholders' Equity

Share Capital

The share capital of the Parent Company as at 31 December 2013 and 2012 is comprised of 2,402 registered shares fully subscribed and paid, with a nominal value of CZK 350 thousand per share. All shares have equal voting rights.

Statutory Reserve Fund

In accordance with the Czech regulations, joint stock companies are required to establish an undistributable reserve fund for contingencies against possible future losses and other events. Contributions must be a minimum of 20% of after-tax profit in the first year in which profits are made and 5% of profit each year thereafter, until the fund reaches at least 20% of basic capital. The fund can only be used to offset losses. As at 31 December 2013 and 2012, the balance was CZK 46,962 thousand and CZK 45,727 thousand, respectively, and is reported as a component of Retained earnings, funds and translation reserve.

Distributable Retained Earnings

Distributable retained earnings of the Parent Company amounted to CZK 362,354 thousand and CZK 344,818 thousand as at 31 December 2013 and 2012, respectively.

Capital Management

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

The Group primarily monitors capital using the equity ratio which is equity minus goodwill divided by total assets minus goodwill. The Group's goal is to keep this ratio above 60% in 2013 and 55% in 2012 which is also consistent with the requirements of banks. In addition, the Group also monitors capital using a net debt to EBITDA ratio, which is bank loans and bank guarantees issued less cash and cash equivalents divided by operating profit plus depreciation. Operating profit / (loss) is the sum of revenues and expenses presented above interest expense, net of capitalized interest in the consolidated statement of comprehensive income. The Group's policy is to keep the net debt to EBITDA ratio below 3.0 in 2013 and 2.0 in 2012 which is also consistent with the requirements of banks. The calculation and evaluation of the ratios is done using consolidated numbers:

	31 December 2013	31 December 2012
Equity	1,315,537	1,276,133
Total assets	2,105,916	2,007,311
Less goodwill	(13,578)	(12,446)
Equity less goodwill	1,301,959	1,263,687
Total assets less goodwill	2,092,338	1,994,865
Equity ratio	**62.2 %**	**63.3 %**
Bank loans	344,182	344,795
Bank guarantee issued	38,052	-
Less cash and cash equivalents	(84,320)	(10,995)
Net debt	297,914	333,800
Operating profit / (loss)	67,886	45,159
Depreciation and amortization	116,054	124,436
EBITDA	183,940	169,595
Net debt / EBITDA ratio	**1.62**	**1.97**

In 2013 and 2012 the Group met both ratios.

11. Debt

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

	31 December 2013	31 December 2012
Bank loans	276,262	168,443
Other loans	1,513	-
Other	3,690	2,080
Total	**281,465**	**170,523**

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

	31 December 2013	31 December 2012
Current portion of long term debt and short-term borrowings	67,920	176,352
Current portion of lease obligations	230	222
Total	**68,150**	**176,574**

Bank loans consist of the following:

					2013	
Bank	Terms	Interest rate (%)	Maturity	Total limit (thousands)	Amount in foreign currency (in thousands)	Amount in CZK thousands
KORADO a.s, a.s.						
UniCredit Bank Czech Republic, a.s.	Investment	1M PRIBOR+2.4%	31.12.2017	CZK 145,000	-	130,500
UniCredit Bank Czech Republic, a.s.	Investment	1M PRIBOR+2.0%	31.12.2017	CZK 270,000	-	216,000
UniCredit Bank Czech Republic, a.s.	Operational overdraft	1D PRIBOR+1.5%	15.3.2015*	CZK 20,000	-	-
UniCredit Bank Czech Republic, a.s.	Operational overdraft	1D EURIBOR+1.5%	15.3.2015*	EUR 1,300	-	-
Bank charges						(2,318)
Total						**344,182**
Less current portion						(67,920)
Net						276,262

** The Parent Company has an option to prolong its overdraft financing by 15 March 2017.*

					2012	
Bank	Terms	Interest rate (%)	Maturity	Total limit (thousands)	Amount in foreign currency (in thousands)	Amount in CZK thousands
KORADO a.s, a.s.						
UniCredit Bank Czech Republic, a.s.	Investment	1M PRIBOR+2.7%	31.12.2015	CZK 550,000	-	280,000
UniCredit Bank Czech Republic, a.s.	Operational overdraft	1D PRIBOR+2.35%	30.6.2013	CZK 30,000	-	-
UniCredit Bank Czech Republic, a.s.	Operational overdraft	1D EURIBOR+2.35%	30.6.2013	EUR 3,500	EUR 2,679	67,360
Bank charges						(2,565)
Total						**344,795**
Less current portion						(176,352)
Net						168,443

On 15 March 2013, the Company signed a refinancing agreement of the current bank loans with UniCredit Bank Czech Republic, a.s. Major conditions of the refinancing are as follow:

- Increase in the amount of the loan (maximum amount of CZK 415 million for long-term facilities, CZK 20 million and EUR 2 million for overdraft facilities)
- Prolonging final maturity of the long-term facilities until 31 December 2017
- Change in conditions of bank loan covenants (less restrictive Net Debt / EBITDA ratio and Equity ratio).

The interest expense (net of capitalized interest) related to bank loans for the years ended 31 December 2013 and 2012 amounted to CZK 10,115 thousand and CZK 14,905 thousand.

Bank loans provided to the Group are secured by pledged assets at carrying values of

CZK 1,335,473 thousand and CZK 1,241,152 thousand as at 31 December 2013 and 2012, respectively (see Note 3). Bank loans of the Parent Company are also secured by the cession of receivables from property insurance benefits exceeding CZK 5,000 thousand per insurance claim.

The UniCredit Bank Czech Republic, a.s. loan agreement includes covenants: equity ratio and net debt to EBITDA ratio (see Note 10 for detailed calculations) to be fulfilled by the Company so that the loan structure and interest can be maintained. As at 31 December 2013 and 2012 both covenants were met.

The Company, through the UniCredit Bank Czech Republic, a.s., provided a bank guarantee of EUR 1,387,500 to secure the liability of the subsidiary KORADO Bulgaria AD for the acquisition of new production equipment.

The aggregate maturities of bank loans assuming the loan covenants and terms are complied with:

	31 December 2013	31 December 2012
2013	-	176,352
2014	67,920	108,992
2015	67,920	59,451
2016	67,920	-
2017	140,422	-
	344,182	**344,795**

Future minimum lease payments for finance leases are as follows:

	31 December 2013	31 December 2012
Within one year	245	244
After one year but not more than five years	69	296
Total minimum lease obligations	**314**	**540**
Interest	(24)	(39)
Present value of minimum lease obligations	**290**	**501**
Representing finance lease liabilities:		
- current	230	222
- non-current	60	279

12. Payables and Other Current Liabilities

Current liabilities comprise the following:

	31 December 2013	31 December 2012
Trade payables	301,609	236,952
Payables to employees	25,777	28,007
Accruals and other current liabilities	29,865	41,622
Total	**357,251**	**306,581**

13. Provisions for Liabilities and Charges

Summary of provisions:

	Warranty provisions	Other	Total
As at 31 December 2011	**4,498**	**718**	**5,216**
Creation of provisions	5,240	148	5,388
Provisions used	(4,498)	(26)	(4,524)
As at 31 December 2012	**5,240**	**840**	**6,080**
Creation of provisions	5,083	775	5,858
Provisions used	(5,240)	(840)	(6,080)
As at 31 December 2013	**5,083**	**775**	**5,858**

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

14. Revenues from Sales, Net

Activity	2013	%	2012	%
Sales of radiators	1,570,718	98.0%	1,619,326	97.9%
Other	31,296	2.0%	33,957	2.1%
Total	**1,602,014**	**100.0%**	**1,653,283**	**100.0%**

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

Sales by region are as follows:

Country	2013	%	2012	%
Czech Republic	624,225	39.0%	636,604	38.5%
Ukraine	157,968	9.9%	200,498	12.1%
Slovakia	133,882	8.4%	129,923	7.9%
Austria	94,135	5.9%	95,967	5.8%
Germany	73,192	4.6%	84,327	5.1%
Russia	107,916	6.7%	101,492	6.1%
Slovenia	39,541	2.5%	46,206	2.8%
Poland	71,893	4.5%	53,381	3.2%
Netherlands	17,336	1.1%	27,088	1.6%
Romania	76,807	4.8%	83,167	5.0%
Sweden	27,718	1.7%	22,963	1.4%
United Kingdom	6,983	0.4%	13,234	0.8%
Bulgaria	18,968	1.2%	18,418	1.1%
Other countries	151,450	9.5%	140,015	8.6%
Total	**1,602,014**	**100.0%**	**1,653,283**	**100.0%**

15. Cost of Materials, Energy and Purchased Goods

	2013	2012
Materials and supplies	870,356	936,582
Energy	59,647	63,347
Purchased goods	26,699	22,998
Total	**956,702**	**1,022,927**

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

16. Purchased Services

	2013	2012
Repairs and maintenance	6,974	8,039
Rent	9,850	8,985
Travelling and training expenses	10,597	8,403
Marketing expenses and sales promotion	51,241	57,119
Transportation expenses	26,528	36,707
Legal and advisory services	15,243	17,463
Operational services	31,538	30,793
Other	17,767	15,689
Total	**169,738**	**183,198**

17. Other Expenses, Net

	2013	2012
Receivables and loans written off	5,302	19,009
Change in impairment provisions and provisions, net	(1,550)	(17,169)
Taxes and levies	1,413	1,596
Gain on sale of fixed assets	(789)	(386)
Other, net	(2,609)	2,557
Total	**1,767**	**5,607**

18. Other Financial Expenses, Net

	2013	2012
Bank charges	4,354	2,522
Other	494	625
Total	**4,848**	**3,147**

19. Taxes

The components of the income tax expense are as follows:

	2013	2012
Current tax	2,535	792
Deferred tax	(444)	936
Total income tax expense	**2,091**	**1,728**

Income Tax Legislation

Corporate income tax of the Parent Company is calculated in accordance with the Czech tax regulations at the rate of 19% in 2013 and 2012, respectively.

Income Tax Expense

A reconciliation of the theoretical amount of expected income tax that would arise using the tax rate in the Czech Republic to the actual total income tax expense for the year ended 31 December 2013 and 2012 is as follows:

	2013	2012
Profit before tax	52,434	34,225
Statutory income tax rate	19%	19%
"Expected" income tax expense	9,962	6,503
Add / (deduct) tax effect of:		
Permanent differences	1,045	1,440
Change in valuation allowance	380	(194)
Change in deferred tax asset from tax credit	(8,393)	(5,518)
Negative goodwill	(834)	-
Other	(69)	(503)
Actual income tax expense	2,091	1,728
Effective tax rate	4%	5%

Deferred income taxes at 31 December 2013 and 2012 consist of the following:

	2013	2012
Receivables impairment provision	246	135
Inventory impairment provision	235	221
Provisions	1,449	1,702
Accumulated losses carried forward	40,488	46,610
Elimination of intra-group profit from inventories	82	145
Tax credit from investment incentive	30,249	21,856
Other	365	908
Total deferred tax assets	**73,114**	**71,577**
Less valuation allowance to deferred tax asset	(10,505)	(10,125)
Offset with deferred tax liabilities	(62,119)	(61,125)
Deferred tax assets in the balance sheet	**490**	**327**
Difference between net book value of non-current assets for accounting and tax purposes	(136,977)	(132,535)
Finance lease	-	(10)
Total deferred tax liabilities	**(136,977)**	**(132,545)**
Offset with deferred tax assets	62,119	61,125
Deferred tax liabilities in the balance sheet	**(74,858)**	**(71,420)**

Movements in deferred tax liability, net were as follows:

	2013	2012
As at 1 January	71,093	70,157
Change in deferred tax recorded in statement of income	(444)	936
Acquisition of subsidiary	3,719	-
As at 31 December	**74,368**	**71,093**

Out of the total tax losses of subsidiaries generated since 1999, CZK 42,564 thousand and CZK 41,071 thousand can be carried forward as of 31 December 2013 and 2012, respectively. In 2013 and 2012, valuation allowance was established in full against deferred tax asset arising from tax losses of subsidiaries as it is not probable the losses will be utilized. The tax losses from the Parent Company were reflected in deferred tax asset in full; the Company expects their utilization in future periods. The deferred tax liability of the Parent Company represents in particular the difference between net book value of non-current assets for accounting and tax purposes.

In 2008, the Parent Company launched the 4th production line which entitled the Company to use the investment incentives. The amount of potential investment incentive related to capital expenditures already incurred is CZK 170 million as at 31 December 2013 and 31 December 2012 and this balance can be drawn as a tax credit until 2019. The Company plans to meet all relevant criteria for drawing these funds and use the investment incentive in the future. The Company recognized a deferred tax asset from the investment incentive of CZK 30,249 thousand and CZK 21,856 thousand as at 31 December 2013 and 2012, respectively. Based on the business plan model, the Parent Company expects that it will utilize the investment incentive in the period 2017 - 2019.

20. Related Party Transactions

As at 31 December 2013 and 2012, members of the Board of Directors and Supervisory Board and directors owned 660 and 660 shares of the Parent Company, respectively.

In 2013 and 2012 short-term employee benefits (salaries and bonuses including social and health insurance) related to management personnel of Group companies (35 and 25 people in total, respectively) amounted to CZK 81,378 thousand and CZK 67,083 thousand, respectively.

In 2013 and 2012 members of Board of Directors and Supervisory Board of the Parent Company received remuneration of CZK 1,530 thousand and CZK 1,736 thousand, respectively.

In 2013 and 2012 there were no transactions with related parties controlled by the Ministry of Finance of the Czech Republic or European Bank for Reconstruction and Development.

21. Financial Instruments and Financial Risk Management

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates (see Note 11). The floating interest rate is mostly based on PRIBOR and EURIBOR rates and for the UniCredit Bank Czech Republic, a.s. loans it amounted to 1.7% - 2.7% and 1.7% as at 31 December 2013 and 3.0% and 2.4% as at 31 December 2012, 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:

	2013	
	Increase/decrease in basis points	Effect on profit / loss before tax
CZK	50	(1,733)
EUR	50	-
CZK	(50)	1,733
EUR	(50)	-

	2012	
	Increase/decrease in basis points	Effect on profit / loss before tax
CZK	50	(1,400)
EUR	50	(337)
CZK	(50)	1,400
EUR	(50)	337

Credit risk

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

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

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

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

Foreign Exchange Risk

The Group enters into some contracts denominated in foreign currencies. The Group has transactional currency exposures. Such exposures arise from sales or purchases in currencies other than the functional currency. The Group tries to naturally hedge against exchange risks when acquiring tangible assets in foreign currency by borrowing in the same currency.

The foreign currency accounts receivable and payable represent an exchange rate risk for the Group. At 31 December 2013 and 2012, the Group did not have any exchange rate hedges in place to mitigate the overall foreign currency exposure.

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

	2013		2012	
	Increase/decrease in exchange rate *	Effect on profit / loss before tax	Increase/decrease in exchange rate *	Effect on profit / loss before tax
EUR	+5%	(278)	+5%	(4,454)
GBP	+5%	140	+5%	93
PLN	+5%	1,192	+5%	935
USD	+5%	166	+5%	247
EUR	(5%)	278	(5%)	4,454
GBP	(5%)	(140)	(5%)	(93)
PLN	(5%)	(1,192)	(5%)	(935)
USD	(5%)	(166)	(5%)	(247)

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

Liquidity risk

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

The tables below summarize the maturity profile of the Group's financial liabilities as at 31 December 2013 and 2012 based on contractual undiscounted payments (nominal amount and interest) provided that the Group meets the loan agreement covenants (see Note 10):

31 December 2013	Less than 3 months	3-12 months	1 rok - 5 let	Total
Bank and other loans	19,044	56,501	288,801	364,345
Finance lease obligations	61	184	69	314
Payables and other current liabilities	357,251	-	-	357,251
Total	**376,356**	**56,685**	**288,870**	**721,910**

31. 12. 2012	Less than 3 months	3-12 months	1 rok - 5 let	Total
Bank loans	29,061	153,454	171,232	353,747
Finance lease obligations	61	183	296	540
Payables and other current liabilities	306,581	-	-	306,581
Total	**335,703**	**153,637**	**171,528**	**660,868**

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

Fair Value

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

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

Cash and Cash Equivalents

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

Other non-current assets

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

Receivables, Prepayments and Other Current Assets, Payables and Other Current Liabilities

The carrying amount of receivables, prepayments and other current assets, 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 2013 were as follows:

	Carrying amount	Fair value
Assets		
Other non-current assets	2,669	2,669
Cash and cash equivalents	84,320	84,320
Accounts receivable, net	149,794	149,794
Prepayments and other current assets	22,115	22,115
Liabilities		
Payables and other current liabilities	357,251	357,251
Short-term borrowings and current portion of long-term debt	68,150	68,150
Long-term debt, net of current portion	281,465	281,465

Carrying amounts and the estimated fair values of financial instruments as at 31 December 2012 were as follows:

	Carrying amount	Fair value
Assets		
Other non-current assets	496	496
Cash and cash equivalents	10,995	10,995
Accounts receivable, net	132,909	132,909
Prepayments and other current assets	18,302	18,302
Liabilities		
Payables and other current liabilities	306,581	306,581
Short-term borrowings and current portion of long-term debt	176,574	176,574
Long-term debt, net of current portion	170,523	170,523

22. Statutory Auditor’s Fees

The statutory audit fees related to the audit of consolidated financial statements and separate statutory financial statements totalled CZK 2,300 thousand and CZK 2,300 thousand for the year ended 31 December 2013 and 2012, respectively.

	Authorized for issue by:	Person responsible for accounting:
	František Menclík	-
14 March 2014	Vojtěch Čamek	Zuzana Mrázková

SWORN AFFIDAVIT

We hereby certify that the information stated in the Annual Report for the year 2012 is truthful and that no important facts that we were aware of and may have an effect on the accurate and correct assessment of KORADO a.s have been omitted.

František Menclík
Board of Directors Chairman

Eva Voborová
Controlling Department

Published in 2014 by KORADO a.s
Coordination: Eva Voborová
Design, Photography: M.C.O.M., s.r.o.
Production: M.C.O.M., s.r.o., Hradec Králové
Print: ReproPaint s.r.o.

KORADO

KORADO a.s
Bří Hubálků 869, 560 02 Česká Třebová, Czech Republic
tel.: +420 465 506 111, fax: +420 465 533 126
e-mail: info@korado.cz, www.korado.com