KORADO®

2014 ANNUAL REPORT

ECO
energy saving

S-CONTROL

CONTENTS

FOREWORD BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Business Partners,

2014 was the sixth year since the global financial crisis began. Unfortunately, with the odd exception, there was no great revival in our key markets last year. As in previous years it was the construction industry that was most affected by the slump, especially housing, for which our firm is a supplier.

Another negative factor was the situation in Ukraine, where construction activities have been declining since 2009. During 2014, sales of our radiators in this market fell by 90,000 units. The situation in Russia is also a cause for concern. Dramatic fluctuations in the value of the rouble might mean a slump in the market for radiators and construction products.

From the very start of the crisis KORADO reacted by cutting its costs, reducing headcount on all levels and taking appropriate organisational measures.

Despite all these negative market developments, thanks to these cost-cutting measures and efficient workflow practices, KORADO's business is stable. We can say with confidence that 2014 was even a year that saw positive developments. By availing ourselves of the low production cost environment in KORADO Bulgaria to its maximum potential, we were able to assert our presence in very price-sensitive markets where there has traditionally been no interest in brand radiators. The investments we made in 2013 and 2014 in production technology for the manufacture of bathroom and KORATHERM radiators and we aim to continue this trend in 2015.

The acquisition of LICON HEAT s.r.o., an important producer of convectors, is beginning to pay dividends, thanks to which we have significantly expanded our product portfolio.

The same can be said for investment in a second welding line at KORADO Bulgaria, which has enabled us to gain a toehold in low-cost markets.

Another important initiative was the secondary public offering (SPO) at KORADO Bulgaria, which was organised successfully in 4Q 2014. The subscription process and the interest shown by investors make it clear that the results reported by KORADO Bulgaria and the group as a whole are perceived positively and seen as offering great potential.

The work carried out across the entire group, sound investments, and a constant drive for cost reductions has enabled the parent company KORADO, a.s. and the entire KORADO Group to post solid profits for 2014. This means that KORADO, a.s. is once more in a position to pay dividends to its shareholders.

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 that KORADO, a.s. will continue to be a strong partner in the coming years for our suppliers and customers.

František Menclík
Chairman of the Board of Directors

CORPORATE STRATEGY AND GOALS

The primary goal that KORADO, a.s. has set for itself in 2015 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 and with a sustained focus on development and investment.

Maintaining market position

The primary objective of our sales policy in the challenging time ahead is to stabilise and improve our cooperation with existing and new customers in Western and Central Europe. Our overriding aim is thus to maintain or increase the company's exceptionally strong domestic market position and existing market share in collaboration with distributors. Unfortunately, given the geopolitical situation in Russia and the Ukraine, we anticipate the construction industry in both these markets will decline during 2015 and markets as a whole in Russia and the Ukraine will drop considerably.

In Western and Central Europe we expect a continuation of consumer preferences for energy-saving and ecological heating products. By expanding our product portfolio to include convectors and by introducing RADIK RC energy-saving leak management technology we are ready to meet these demands.

The top quality of the goods we offer is supported by extensive marketing activities on many different levels and this will be backed up by an improved readiness for rapid, punctual deliveries of the entire range we produce. We will continue to improve our active customer relationship management system.

Risk hedging

Working with business and sales risks and hedging against them remains an important task for the company, especially in light of the current turbulent environment with the reverberations of the financial crisis and economic recession still being felt. Risks of an external and internal character are set out in the Risk Catalogue and ways of eliminating them are being sought. The categorisation of risks includes, for example, strategic, sales, production, financial, personnel and IT. 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 damage incurred. In this respect, the credit risk management system has an important role to play, which restricts the possibility of non-liquid receivables.

These established principles are gradually being implemented throughout the KORADO Group, particularly in the company's production plants KORADO, a.s., KORADO Bulgaria and LICON HEAT.

Optimising 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 permanently reduce inventory turnover 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, thereby 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 policy

Human resources management processes will be subject to further upgrading in 2015 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 its obligations to business partners and financial institutions. This includes establishing sufficient financial reserves for suitable acquisitions.

Other key objectives are to apply rigorously 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 Procurement and Business departments.

Internal audit

In 2015, Internal Audit will review internal processes in accordance with the set objectives and strategies and decide whether risk has been defined correctly and is sufficiently prepared for a dramatically changing environment. The focus will be on cost cutting, compensatory controls of conflicting access rights, and improving the quality of services supplied to customers. It will also focus on the ability to influence and improve actively and in partnership individual processes and the management system of the entire KORADO group with the support and trust of the management, Board of Directors and Supervisory Board.
Internal Audit will continue to review the compliance programme and verify that the company's business policy, ethical standards and related policies have been properly selected.

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:	Czech Ministry of Finance	34.22 %
	EBRD	29.14 %
	Ing. Bedřich Brabec	9.16 %
	František Menclík	9.16 %
	Ludvík Petr	9.16 %
	Miroslav Vobora	9.16 %

Subject of enterprise:

- Production of central heating radiators
- Plumbing and heating
- Hotel services
- Production, installation and repair of electrical machines and devices, electronic and telecommunications equipment
- Locksmith, tool making
- Production, sales and services not listed in Annexes 1-3 of the Trade Licensing Act
- Painting, decorating and varnishing

The joint-stock company KORADO 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 RADIK and KINGRAD panel radiators, KORALUX tubular radiators and KORATHERM designer radiators. The company 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 has grown in just a few years to become one of Europe's leading manufacturers of a broad range of heating technologies. The company's goal is to continue to expand its product range in the future, enabling it to offer its customers a comprehensive range of 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, commenced in 2007 and amounting to nearly CZK 600 million, is the second biggest investment project in the company's 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 to purchase LICON HEAT, s.r.o. was executed in October 2013. This new acquisition is a manufacturer of convector heaters, which complement and expand the Group's product portfolio.

At the year end 2014 KORADO Bulgaria realized a secondary subsription of the share capital at the Stock Exchange in Sofia. Almost two years planned transaction has been successfully realized with the fact that equity of KORADO Bugaria was increased by BGN 7 million (CZK 100 million) approximatelly.

TABLE OF FINANCIAL INDICATORS

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total revenues (CZK million)	2,235	2,604	2,725	2,274	1,734	1,576	1,555	1,590	1,482	1,588
Year-on-year revenue increase/decrease (%)	(12%)	17%	5%	(17%)	(24%)	(9%)	(1%)	2%	(7%)	7 %
EBITDA (earnings before interest, taxes, depreciation and amortisation) (CZK million)	227	319	317	189	253	183	70	160	147	193
EBITDA margin (EBITDA/total revenue) (%)	10 %	12 %	12 %	8 %	15 %	12 %	4 %	10 %	10 %	12 %
Profit/loss after tax (CZK million)	37	114	148	27	66	20	(81)	25	26	79
Return on equity (EBIT / assets less current liabilities)	7 %	13 %	11 %	4 %	6 %	2 %	(4 %)	3 %	2 %	5 %
Indebtedness (bank loans / equity)	1.08	0.68	0.74	0.96	0.55	0.42	0.37	0.28	0.29	0.28
Quick liquidity (current assets less inventories /current liabilities)	0.55	0.50	0.66	0.48	0.31	0.29	0.26	0.30	0.49	0.68
Current liquidity (current assets / current liabilities)	0.72	0.72	0.94	0.68	0.51	0.65	0.52	0.54	0.81	0.98
Total assets (CZK millions)	2,464	2,290	2,708	2,935	2,359	2,189	2,083	1,961	2,010	2,129
Fixed assets / total assets (%)	75 %	76 %	70 %	75 %	86 %	88 %	87 %	87 %	83 %	78 %
Days receivables	45	38	46	53	41	28	26	30	33	39
Days inventories	45	27	34	47	54	41	39	36	40	41
Days payables	104	85	85	109	121	88	87	93	101	108
Average number of employees (persons)	687	662	625	660	571	545	439	437	426	425
Productivity (net profit / number of employees) (CZK million per employee)	0.05	0.17	0.24	0.04	0.12	0.04	(0.18)	0.06	0.06	0.19

General Meeting

The General Meeting of Shareholders is the highest body of KORADO, a.s. Its powers and responsibilities are stipulated by the 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 the company's business operations. The composition, performance and authority of the Supervisory Board are laid down in the Company Articles of Association. As at 31 December 2014 the Supervisory Board has six members. It generally meets once every two months. In 2014 there were four meetings of the Supervisory Board.
In 2014 one change was made to the Supervisory Board. On 1 July 2013 Ing. Jaromír Hejda was re-elected as member.

Members of the Supervisory Board at 31 December 2014:

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

Board of Directors

The Board 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 lie 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 2014. On 18 December 2014 Julian Healy was appointed a member of the Board of Directors to replace Heinricha Georg Stahl. The Board of Directors, which usually meets monthly, met a total of nine times in 2014.

Members of the Board of Directors at 31 December 2014:

Chairman:	František Menclík
Vice-chairman:	Miroslav Vobora
Member:	Julian Healy
Member:	Ing. František Hamáček

Management

The company is divided into five departments: Administration, Sales, Production, Purchase, 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, and all directors are subordinate to the Managing Director. The company is part of the KORADO Group consolidation unit.

At 31 December 2014, the composition of KORADO, a.s management was as follows:

Ing. Vojtěch Čamek

Chief Executive Officer

KORADO, a.s. finance / controlling director from 2002. Appointed KORADO, a.s. CEO on 1 April 2012. Finance / managing director of Motokov International affiliations in 1999-2001. Worked for the European Bank for Reconstruction and Development in London from 1992 to 1999; employed at the Czechoslovak State Bank, including in headquarters in Prague, from 1982 to 1992. Held positions at several Czech industrial enterprises from 1974 to 1982. A graduate of the University of Economics in Prague.

Ing. Jiří Jeřábek

Deputy Chief Executive Officer Purchase

Appointed deputy Chief Executive Officer Purchase 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. Head of the technical documentation and sales department at ZETOR, a.s., Brno from 1987 to 1990; technical director at Suomen Motokov OY, Finland from 1982 to 1987. Held a number of production/technical positions at ZETOR, a.s., Brno from 1970 to 1982. A graduate of the University of Economics in Prague, Department of Industrial Economics.

Ing. Aleš Zouhar

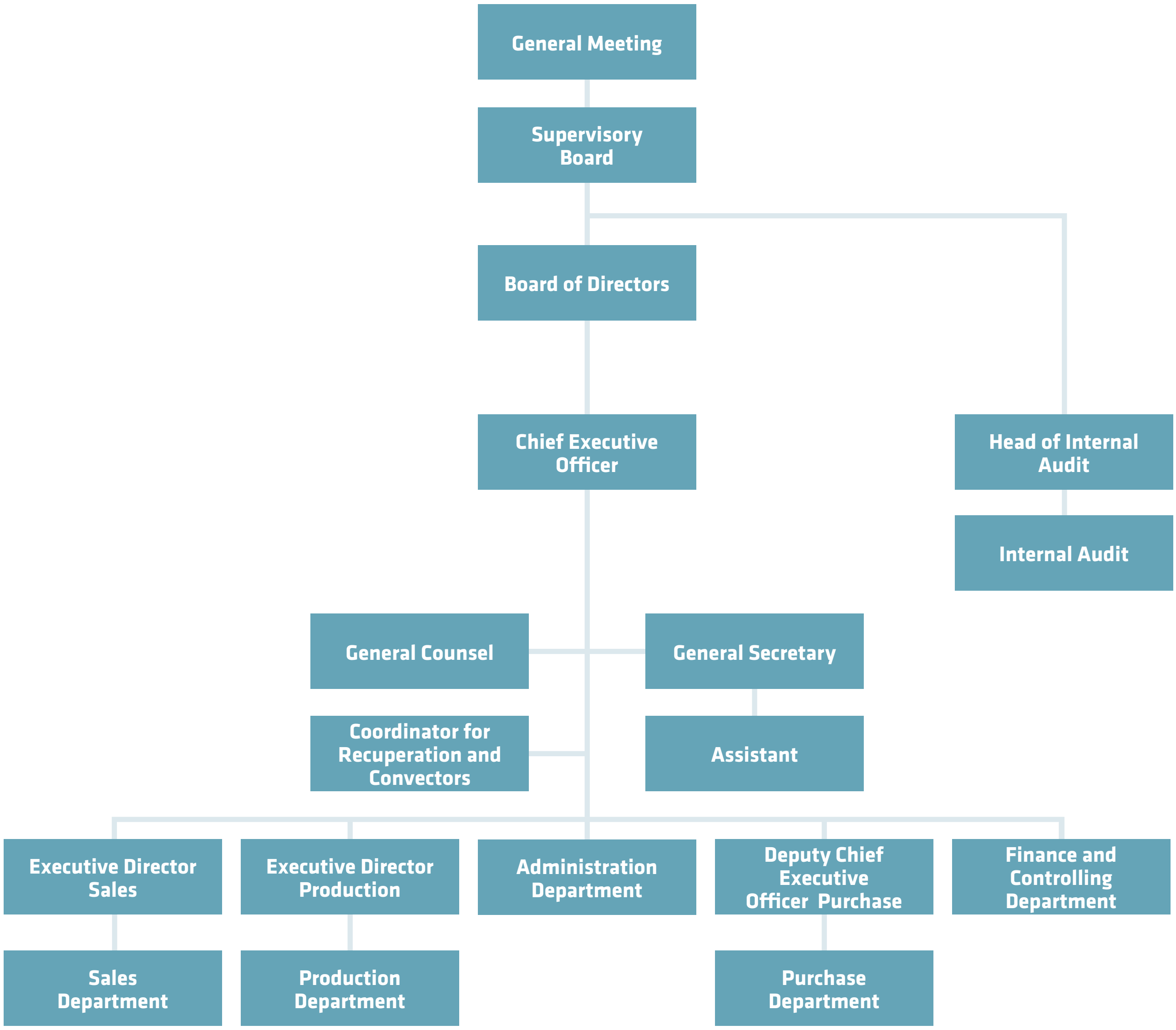
Executive Director Sales and Marketing

KORADO, a.s. head of sales from 2004; appointed Executive Director Sales and Marketing on 1 April 2012. Managing director at AMERICAN JAWA Ltd. from 2001 to 2003. Managing director at MOTOKOV UK Ltd. from 1998 to 2000. Employed at Zetor a.s. from 1995 to 1997 as sales and marketing manager and was chairman of the Board of Directors at Zetor PDC a.s. SKODA Great Britain Ltd. managing director from 1990 to 1994 and head of the foreign business department at UZOS from 1984 to 1990. A graduate of Mendel University in Brno, the International Business Institute and Cambridge Regional College.

Ing. Miloš Sotona
Executive Director Production
Employed at KORADO, a.s. since March 2012 as Executive Director Production. Head of production, Production director and head of quality control at GCE Chotěboř from 2004 to 2011. Head of the technical 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 head of the quality control department. Independent technologist at TMS Pardubice from 1988 to 1992. A graduate of the Faculty of Mechanical Engineering of Liberec Technical University, major in engineering technology.

Ing. Jiří Řezníček
Executive Director of KORADO Bulgaria
Employed at KORADO 1995 - 2001 and since 2005. Joined KORADO, a.s. in September 2005 as a sales representative. Appointed managing director of KORADO Bulgaria in September 2007. Employed at Gienger s.r.o. Zlín as head 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.

Martin Kniha
CEO, LICON HEAT s.r.o.
CEO of the subsidiary 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. A graduate of Technical High School in Liberec.


General Meeting
Supervisory Board
Board of Directors
Chief Executive Officer
Head of Internal Audit
Internal Audit
General Counsel
General Secretary
Coordinator for Recuperation and Convectors
Assistant
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 2014, the KORADO Group comprised the parent company 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, which saw customers in the respective markets served directly by the parent company 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 financial 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 cooperation contracts and annual business and financial plans.

In addition to the foregoing contracts, the parent company has concluded a loan agreement with KORADO Polska and KORADO Bulgaria and LICON HEAT. 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 within KORADO Group more effectively, the process of bringing all corporate, technological 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 fully-fledged member of the KORADO Group. Like the parent, KORADO Bulgaria was greatly impacted by the global financial crisis and economic recession, whose effects began to be seen in late 2008 and caused a significant fall-off in the production 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 end customers directly supplied by KORADO Bulgaria started to rise in 2013.

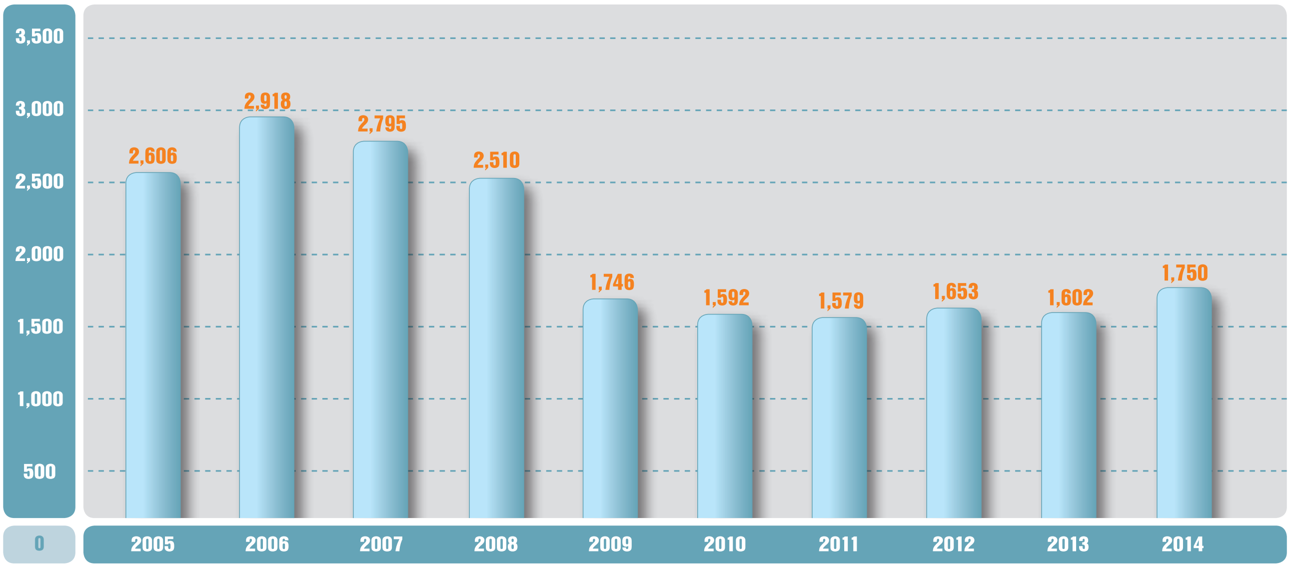
An important step in expanding our product portfolio was the purchase of the company LICON HEAT s.r.o., which has added a full range of floor, wall-mounted, freestanding, bench and special convector radiators to the KORADO Group product portfolio.

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

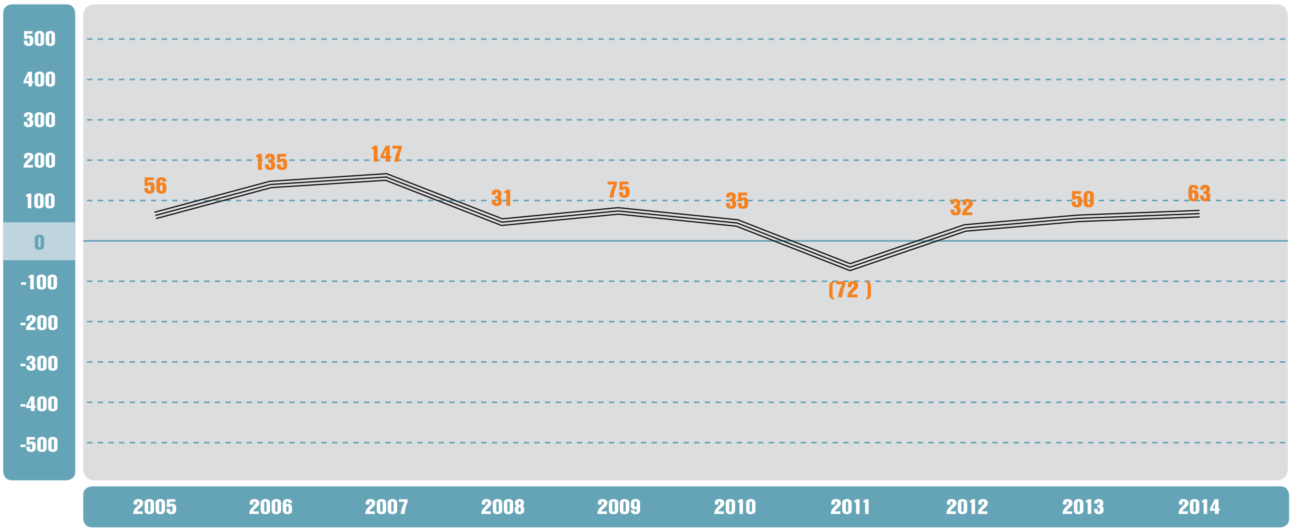
CZK '000	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Consolidated revenues	2,605,514	2,917,951	2,795,017	2,510,084	1,745,583	1,592,299	1,579,217	1,653,283	1,602,014	1,749,891
Consolidated profit/loss per IFRS	55,638	135,428	147,173	31,105	74,912	34,572	(72,369)	32,497	50,343	62,532

- *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*

Graph KORADO Group consolidated revenues (CZK million)



Graph KORADO Group consolidated profit/loss (CZK million)



Graph KORADO Group equity (CZK million)

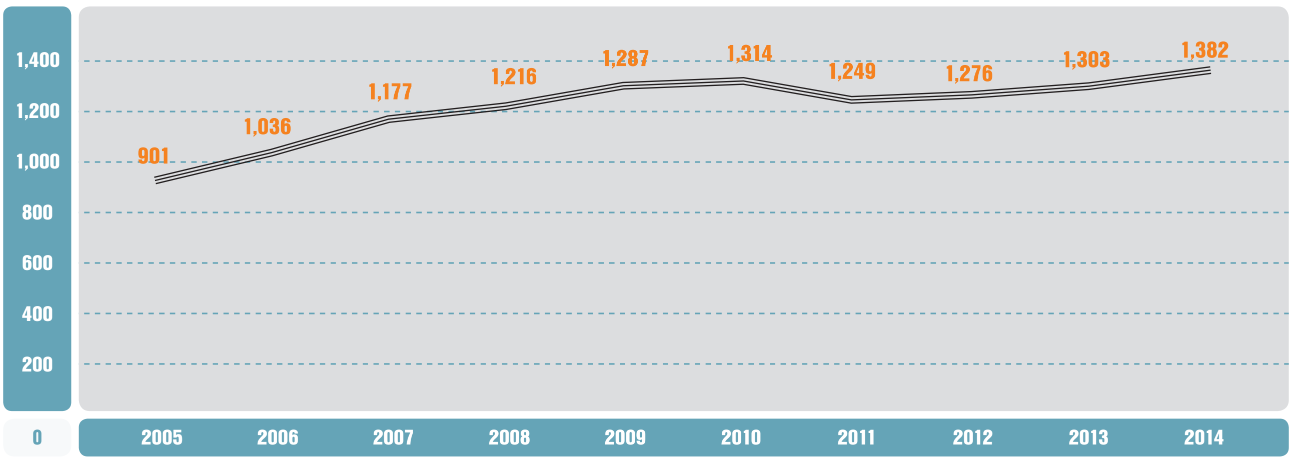
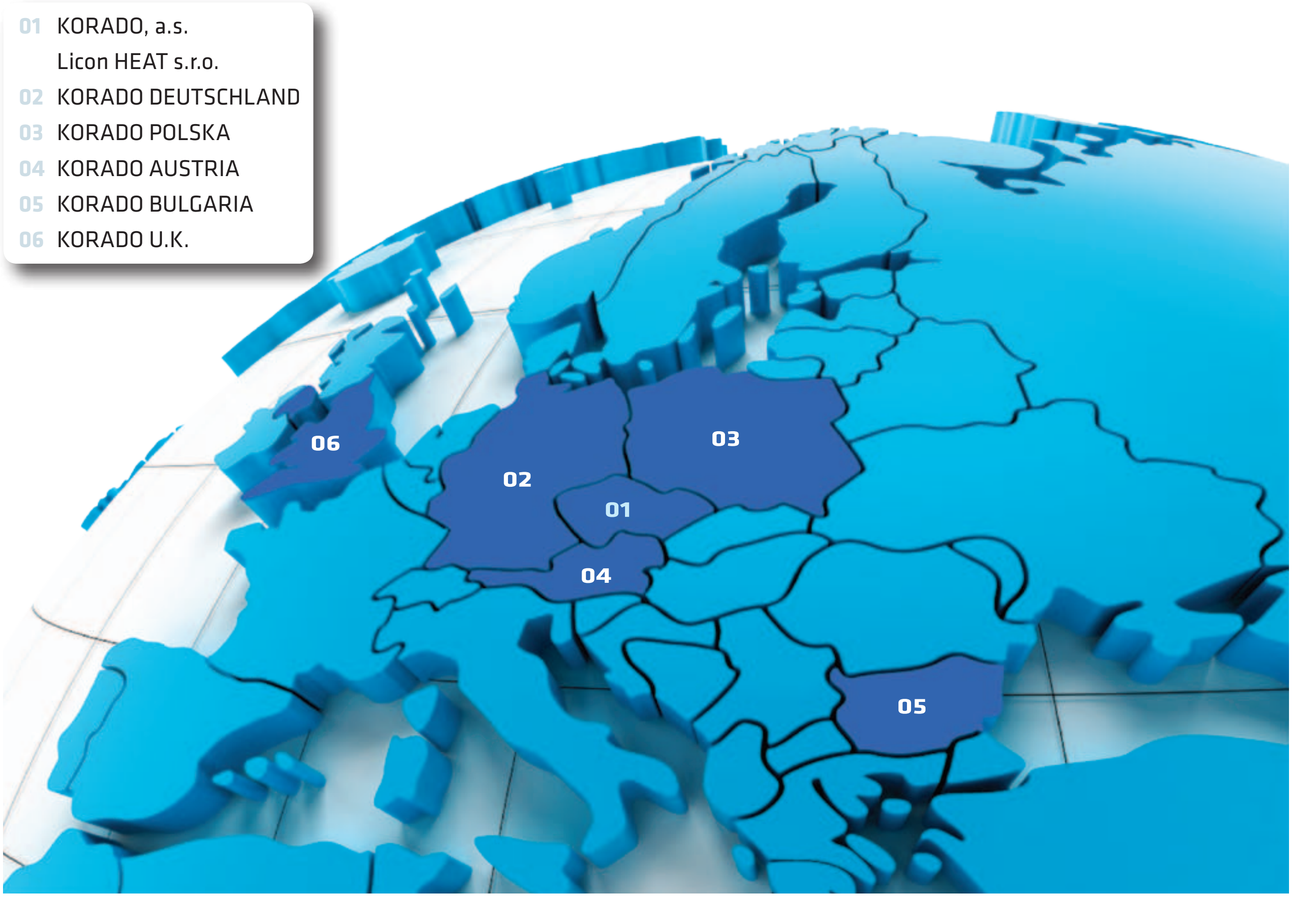


Fig. - Map of Europe showing subsidiaries and associate companies



Složení skupiny KORADO k 31. 12. 2014:

Company	Incorporation date	Share capital at 31.12.2014	Director (Authorized Agent)	Registered office	KORADO, a.s. stake	Legal form
KORADO, a.s.	1 September 1996	CZK 840 700 000	Vojtěch Čamek	Bří Hubálků 869, 560 02 Česká Třebová, Czech Republic	-	Joint-stock company
KORADO Deutschland GmbH	28 November 1995	CZK 693 000	Leona Vaňková	DR. Wilhelm-Külz- Strasse 61, 155 17 Fürstenwalde, Germany	100%	Limited liability company
KORADO Polska, Sp. z. o. o.	4 December 1996	CZK 46 813 000	Žaneta Vebrová	Gen.Okulickiego 4, 05-500 Piasecno, Poland	100%	Limited liability company
KORADO Austria, GmbH	1 July 1998	CZK 29 111 000	Leona Vaňková	Ferstelgasse 6/7, 1090 WIEN, Austria	100%	Limited liability company
KORADO Bulgaria, A. D.	1 October 1998	CZK 91 982 000	Jiří Řezníček	Gladston 28, 5150 Strajica, Bulgaria	98,2%	Joint-stock company
KORADO U. K. Limited	25 November 1998	CZK 36 000	Vojtěch Čamek	66 Prescot Street, E1 8NN London England	100%	Limited liability company
LICON HEAT s. r. o.	1 November 2013	CZK 14 500 000	Martin Kniha	Na Poříčí 1041/12, 110 00 Praha 1 - Nové Město	100%	Limited liability company

Basic capital amounts were converted using the exchange rate of 31 December 2014

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 profita of EUR 138,000 (CZK 3,808,000) for 2014.

EUR '000	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total revenues	5,977	5,729	5,007	4,974	4,763	5,090	5,286	4,477	3,080	4,395
Profit/loss	491	498	393	(67)	0	0	0	0	71	138

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 2014 profita of PLN 247,000 (CZK 1,626,000).

PLN '000	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total revenues	6,743	7,259	8,351	8,811	8,260	7,542	7,297	7,243	9,242	8,941
Profit/loss	1,442	764	1,044	(1,184)	(682)	461	(816)	95	162	247

KORADO Austria GmbH – 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 0.5 thousand (CZK 15,000) for 2014.

EUR '000	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total revenues	3,055	2,223	0	0	0	0	0	0	1	0
Profit/loss	103	1 044	(9)	(4)	(8)	(1)	(1)	1	1	1

KORADO Bulgaria A. D. - 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) and the states of the former Yugoslavia and Ukraine are the primary target markets for KORADO Bulgaria sales.

At the end of 2014, Korado Bulgaria organised a secondary public offering of share capital on the Bulgarian Stock Exchange. The transaction, two years in the making, was successful in that Korado Bulgaria's equity was increased by approximately BGN 7 million (approximately CZK 100 million).

Given the very turbulent situation in the political and banking spheres in Bulgaria and in light of the overall economic development of the area, the subscription was viewed very positively by experts.

The transaction will reduce of KORADO, a.s. from its original 98.2% to 85.70%.

KORADO Bulgaria posted a profit of BGN 1,321,000 (CZK 18,600,000) for 2014.

BGN '000	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total revenues	13,996	17,714	24,019	26,392	12,717	13,540	16,252	20,458	17,193	20,912
Profit/los	(690)	400	(658)	1 527	639	768	931	398	599	1,321
Produced panel radiators	148,926	231,353	374,704	342,558	134,816	166,712	229,129	281,027	238,808	295,187

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, with more than half its sales comprising exports. Key export territories are Russia, Poland, Slovakia, Sweden and Denmark.

LICON HEAT s.r.o. posted profita of CZK 10,664,000 for 2014.

CZK '000	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total revenues	0	0	0	0	0	0	0	0	129,182	104,836
Profit/loss	0	0	0	0	0	0	0	0	7,630	10,664

KORADO U.K. – 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 A multi-point welding line for radiator production is put in operation.

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

1988 A 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 the 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; the 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 an increase in share capital 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 a 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; a significant reduction in interest rate payments coupled with financial stabilization; share capital reduced by the accumulated loss of previous years of CZK 1,027 million; KOB effects subsequent share capital increase of 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 the construction of a new plant. Steel prices soar to all-highs and Q4 sales drop sharply as a result of the global economic downturn. The subsidiary KORADO Baltija is sold.

2009 The adverse impact of the 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.

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.

2014 Korado Bulgaria undertook a secondary subscription of share capital on the Bulgarian Stock Exchange and installed a second panel radiator production line. Its bank credit was refinanced and transferred to ČSOB.

KORADO SALES AND MARKET POSITION

Market situation

The year 2014 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, in 2014 we increased year-on-year sales of panel and tubular radiators in the Czech Republic and we can expect to further strengthen our position as a leader in our markets.

Individual markets

Central and Eastern Europe

We continue to be a major player on the markets of the Czech Republic, Slovakia, Hungary, Slovenia, Ukraine and Russia. We have thus maintained our market position while offering innovative heating solutions.

Western Europe

Our aim is to boost our brands on Western European markets. In 2014, we continued to focus on developing the network of sales representatives in Belgium, France, Great Britain, Germany and Holland. We also managed to find new business partners in Western Europe with whom we will expand cooperation in the years to come.

Non-European markets

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

In 2014 we boosted our position as the ultra-low-cost radiator producer in Bulgaria. As a consequence our competitiveness is increasing especially in comparison with high-cost producers from Western Europe.

Products

In 2014 RADIK RC convector heaters and energy saving radiators were fully incorporated into the range of the KORADO Group. This linked directly in to our long-term strategy to invest in new innovative technologies, as well as to new products and product lines that meet rising demand from our customers.

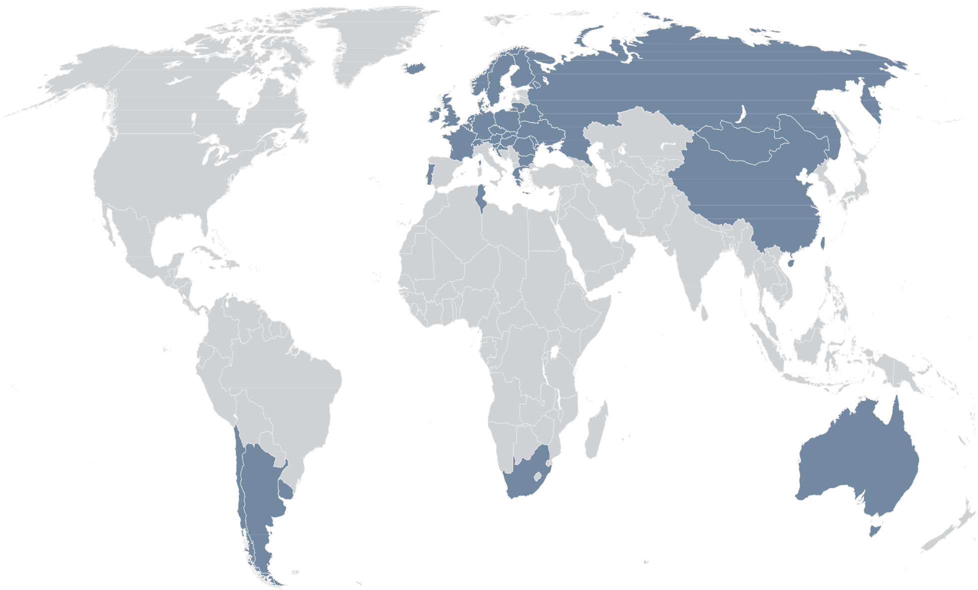
Outlook for 2015

In 2015 we intend to increase our cooperation with existing and new partners in Western and Central Europe. Given the geopolitical situation in Russia and the Ukraine, we anticipate the construction industry will dwindle there and the economies of both countries will shrink considerably.

In Western and Central Europe we expect a continuation of consumer preferences for energy-saving and ecological heating products. By expanding our product portfolio to include convector heaters and introducing RADIK RC energy-saving revolutionary leak management technology, we are ready to meet these demands.

Thanks to these innovations we expect to strengthen our market position in 2015.

Overview of RADIK panel radiator sales in 2014 by country



Czech Republic	35,90%
Russia	12,38%
Slovakia	8,62%
Germany	7,14%
Ukraine	4,70%
Austria	4,39%
Poland	4,35%
Hungary	3,95%
Romania	2,69%
Sweden	2,60%
Slovenia	1,82%
Other countries	11,47%
Total	100,00%

FINANCIAL POSITION

Profitability and its development

Increased turnover of KORADO Group by 10% was affected mainly by growth in sales volume of panel radiators by 5% and further extension of the sale portfolio of new products. The result is an improvement in the profitability and a profit of CZK 63 million.

Optimalization of working capital and indentedness

The company KORADO, a.s. emphasized an optimalization of working capital, as well as in previous years. The result is the growth of liquidity and a decline in debt ratios. Besides this the Company was able to fund an investment in a second production line in Bulgaria from its own resources.

Bank loans

In 2014 all of our loans were refinanced and transferred from UniCredit Bank to Československá obchodní banka. A positive effect was attained through improved financing parameters (significantly lower interest rate, longer maturity periods, more accessible additional resources, cheaper payment system, etc.).

Investments

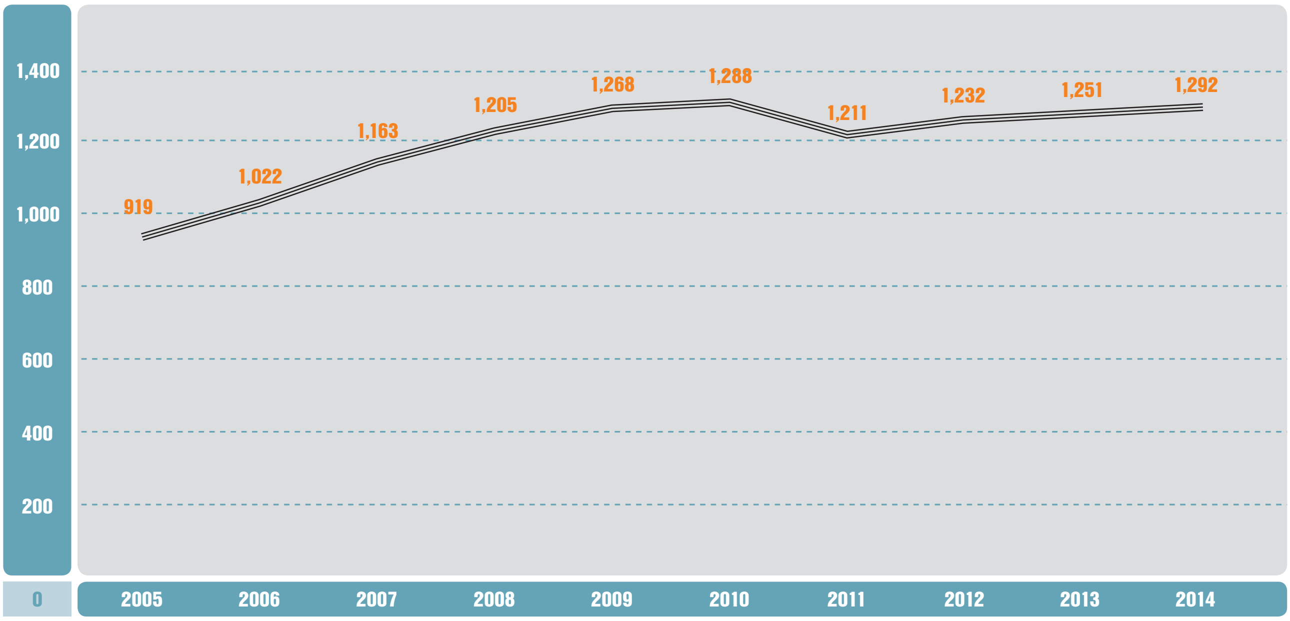
The most significant investment in 2014 was the purchase and installation of a second panel radiator production line at KORADO Bulgaria.

Risk management

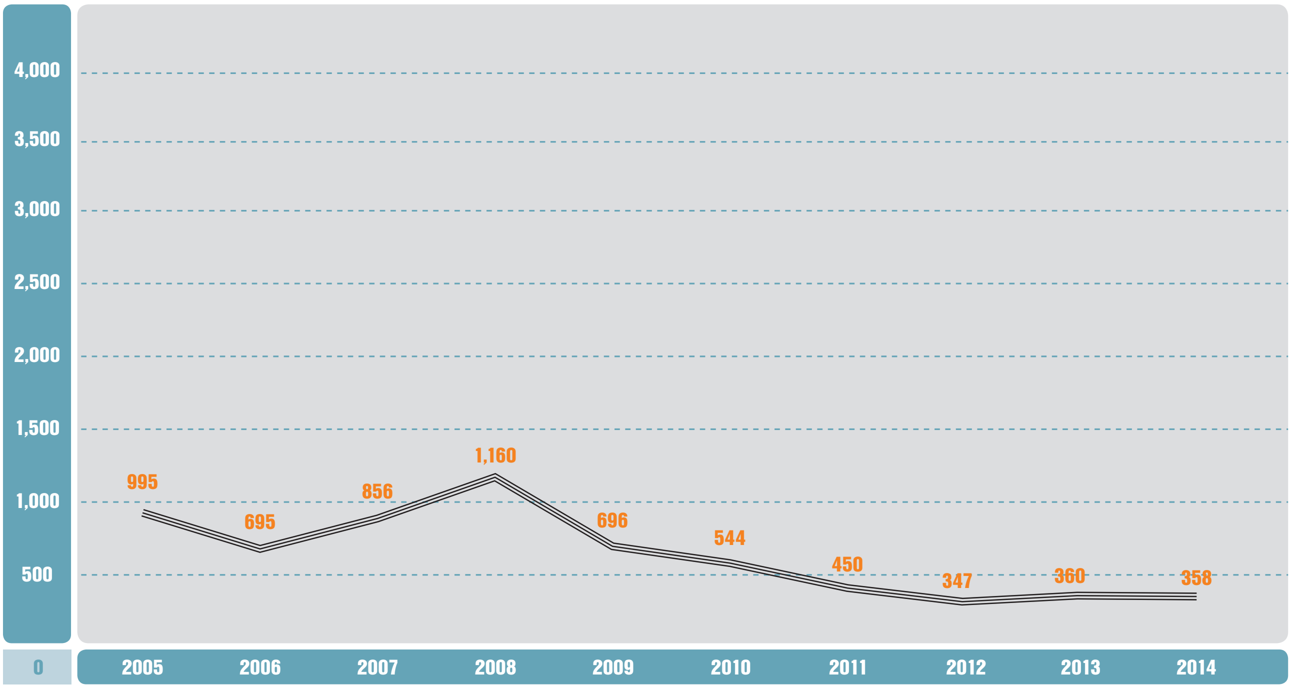
The ongoing economic crisis and associated downturn in residential construction, along with the turbulent political developments in Russian and the Ukraine, are creating significant payment problems for several of our customers. Under these circumstances a stringent approach to credit risk is crucial. Just as in previous years, KORADO, a.s. suffered no significant damage due to unpaid receivables.

The perception of risk management within the wider context of the company's operations led to a greater focus on work with procurement-related risk. Increased external pressures and unfavourable macroeconomic conditions are bound to have an impact on our suppliers. From this perspective the long-term stabilised portfolio of our basic suppliers is one of the foundation stones of our procurement strategy. Another element of this strategy is the never-ending process of finding alternative suppliers.

Parent company KORADO, a.s. equity (CZK million)



Parent company KORADO, a.s. debt (CZK million)



PRODUCTION MATERIAL PROCUREMENT

The smooth supply of materials creates the right conditions for an effective process and the subsequent distribution of goods to customers. The purchase of input material has a crucial impact on production costs. That is why maximum emphasis is placed on input material prices while maintaining their high standard of quality, as well as optimal sales and delivery terms. Favourable material prices are 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 regarding the latest 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 from individual suppliers.

The Supplier Rating Committee plays an indispensible role here, using the information gathered to move the procurement decision-making process towards new relationships and positions that are more advantageous for ensuring high-quality sources at the best price.

The specialist public tender department was expanded last year and the use of new effective auctions was improved. These auctions are used not only to procure materials, but 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 approximately 30,000 tons. When supplying metal and other strategic components to KORADO Bulgaria the synergetic effect of group procurement is drawn on and emphasis is laid both on the cost of the material and the expenses linked with its delivery and processing in production.

During 2014 the company expanded the system in place to control quality indicators and quantitative parameters of key material inputs. Extra attention is paid to the weighing of rolled metal and consigned quantities of scrap iron. This standard is gradually being applied to other purchase materials. The aim is optimise overall material costs and to increase the quality of products. These objectives could not be achieved without immediate and top quality information and the active participation of material suppliers.

Suppliers, stabilisation and the search for new resources

In 2014, 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. Demanding technological trials are part of this process. Emphasis is laid on maintaining stable quality and logistical and servicing parameters while minimising procurement risk. This enables the company to expand the portfolio of qualified suppliers and enhances the competitive environment of suppliers of individual materials.

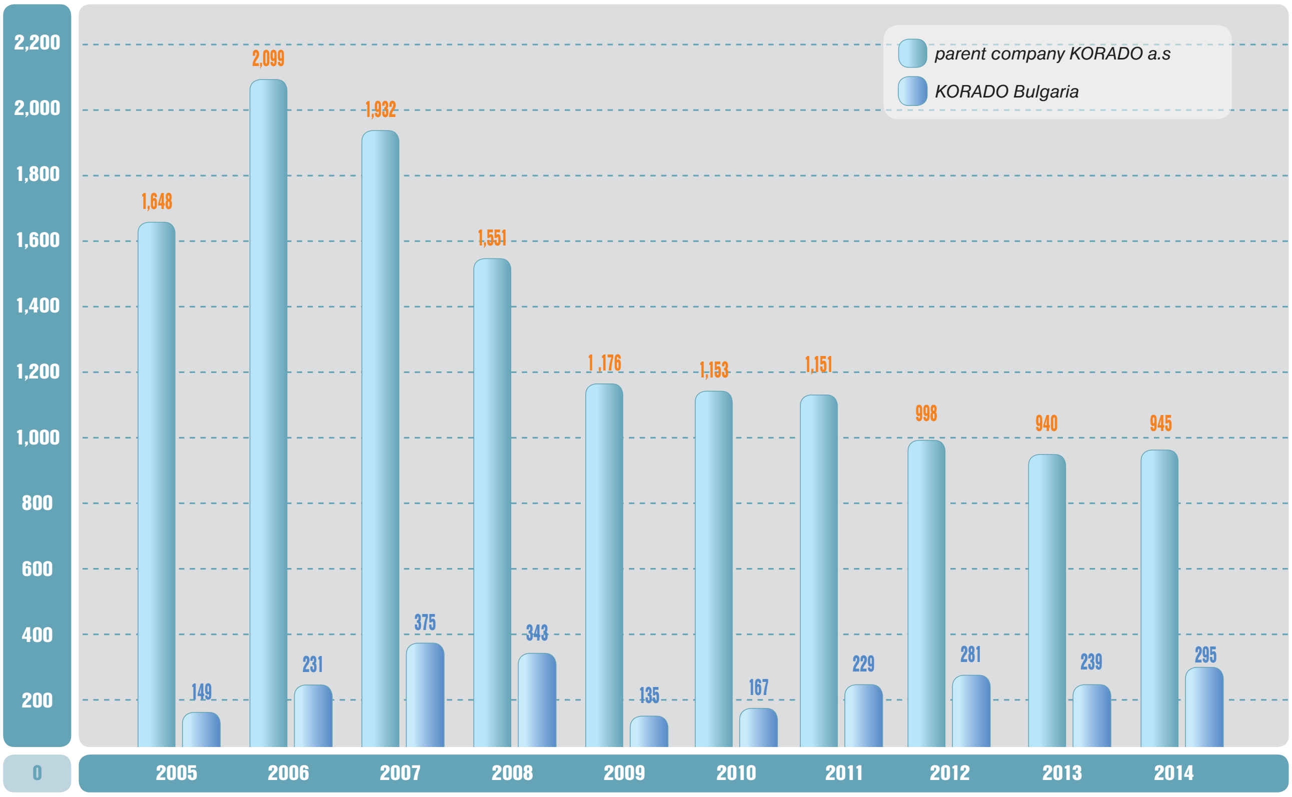
Production
In 2014 production continued to run in two shifts. Technical preparations continued on the optimisation of production processes both at the Česká Třebová plant and at the plant in Strazhitsa, Bulgaria.

Acquisition of a second production line
A second panel radiator production line was purchased and installed at KORADO Bulgaria. The equipment was put into operation in November and employees were given training by tool setters from the parent company. Full operation started in January 2015.

New technology for additional surfaces
At the end of the year the production and welding of additional surfaces on the KORATHERM designer radiator was put into serial production and the production of a new welding machine initiated on a laser basis.

Innovations in the production of radiators
Design work on the construction of the company's own laboratory for testing the performance of radiators and for relocating the bathroom radiator paintshop and packing plant was started with the aim of improving the flow of materials and increasing efficiency.

Number of radiators produced (parent x KBG)



Staff training 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 conducted 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 teamwork.

Care for employees

The company attaches 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, even those on shift work, are given access to high-quality on-site dining facilities with a substantial employer subsidy.

The company contributes to the 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 the training and payroll agendas 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 system 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.

Occupational health and safety

The KORADO Group has long focused on a high standard of occupational health and safety, a fact borne out by the very low accident rate during the last few years. A major contribution to this is the specialised training of all employees in health and safety.

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 of a wide range of goods at reasonable prices.

The company's high standard of quality is achieved through the 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 a Code of Ethics with an emphasis on anti-corruption measures.

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 the brands referred to above together guarantee product quality of the highest standard and, indeed, the high quality of all KORADO, a.s. activities on European and international markets.

Ecology and environmental stewardship

Significant efforts during 2014 were put into the preparation of materials for a change of integrated permits based on legislative changes in the protection of the atmosphere and integrated prevention. A completely new requirement was the compilation of basic and source reports as part of an application. As part of a survey of the terrain, samples were taken of underground water and soil. The results were processed in the form of a basic source report containing all of the necessary details.

At the start of July 2014 proceedings were initiated on a change of integrated permit no. 5. Permission was granted to operate specific sources of pollution under Act 201/2012 on the protection of the atmosphere, the new operating regulations of the specific sources were approved, and an updated water management emergency plan was passed.

The requirements of the administrative offices in question were processed into individual documents and a decision was released on a change of integrated permit no. 5 in November 2014. As part of the legislative changes the extent of measurements taken of selected sources of pollution was modified and a moderate reduction introduced of the limits for releasing waste water into the sewage system.

KEMA

CERTIFIKÁT

KORADO a.s.

ISO 9001:2008

Verleihungsurkunde

Nr. 381006

KORADO a.s. – CZ Česká Třebová

Werk: Česká Třebová

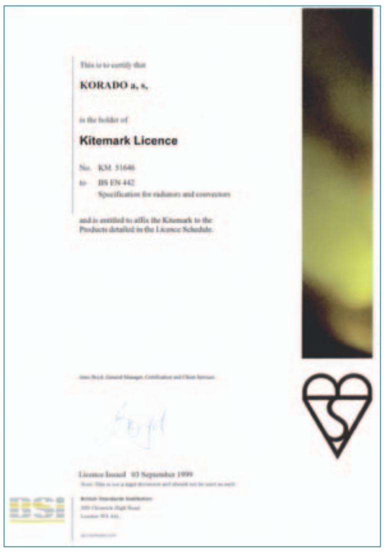
Gütezeichen Heizkörper aus Stahl

Köln, den 10. November 2006

Gütegemeinschaft Heizkörper aus Stahl e.V.

Der Vorsitzende

Der Obmann des Güteausschusses



This is to certify that

KORADO a.s.

is the holder of

Kitemark Licence

BSI

REPORT OF THE SUPERVISORY BOARD

During the year 2014, there was a total of six meetings of the Supervisory Board of KORADO, a.s. All the meetings of the Supervisory Board reached quorum. The Supervisory Board inquired at its meetings about the financial results of the company and all substantial activities of the Board of Directors of KORADO, a.s. The Supervisory Board of the company adhered to the approved work plan that had been coordinated with that of the Board of Directors. Each meeting of the Supervisory Board was attended by the Chairman of the Board of Directors, or another member of the Board of Directors as well.

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

- Ludvík PETR - Chairman of the Supervisory Board
- Dip. Ing. Dr. Ernst BACHNER - Vice-Chairman of the Supervisory Board
- Ing. Hana VAŇOUSOVÁ - Member of the Supervisory Board
- Ludmila FILIPOVOVÁ - Member of the Supervisory Board
- Ing. Petr BLAŽEK - Member of the Supervisory Board

There were changes in the composition of the Supervisory Board during the year 2014. The Supervisory Board, following a nomination by the Ministry of Finance of the Czech Republic,co-opted JUDr. Petr Kusy as a member of the Supervisory Board as of 7 February 2014. Then on 19 May 2014 the General Meeting noted in the resolution no. 142/38 that the membership of JUDr. Petr Kusy in the Supervisory Board of KORADO, a.s., ceased as of 19 May 2014. On its assembly on 30 June 2014, the General Meeting elected Ing. Jaromír Hejda a member of the Supervisory Board, following a proposal of the shareholder the Ministry of Finance of the Czech Republic.

Discharge of duties of the Supervisory Board

The Supervisory Board supervised the discharge of duties of the Board of Directors of the company and the carrying out of the business activity of the company. It focused mostly on the fact whether its performance had been carried out in compliance with the provisions of the law on companies and cooperatives (Act on Business Corporations), the Civil Code, other legal regulations and the valid Articles of Incorporation of KORADO, a.s. On a regular basis it monitored and discussed the financial results of the company for the past periods, the state of its assets, including information on the state of receivables. The standard tasks of the Supervisory board in 2014 included the approval and an on-going check of the fulfillment of company's Business and Financial Plan. The Supervisory Board examined and checked the fulfillment of the Marketing Plan, discussed the Financial Plan, dealt with customers' business limits in 2014 and periodically discussed the reports on the Internal Audit activities. The Supervisory Board was regularly apprised by the directors of significant analysis and projects of the company. The Managing Director informed the Supervisory Board on a regular basis of the progress of the installation of the second production line in the subsidiary KORADO Bulgaria and of the development of the increase of capital via a secondary subscription of shares in KORADO Bulgaria.

On 28 March 2014, the Supervisory Board approved to close a contract with Ernst & Young to carry out an audit of KORADO, a.s, for the years 2014 to 2016. Following the coming into effect of the Act on Business Corporations, the Supervisory Board approved on 11 June 2014 contracts on the discharge of functions of the members of the Board of Directors and on 30 June 2014, the General Meeting approved contracts on the discharge of functions of the members of the Supervisory Board. The Supervisory Board approved on 18 December 2014 the Middle-term Concept of the Internal Audit for the period of 2015 to 2017, as well as the Internal Audit Activity Plan for the year 2015. As of 18 December 2014, the Supervisory Board elected a new member of the Board of Directors of KORADO, a.s, following the nomination of the EBRD.

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

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

The Supervisory Board, or more precisely, Chairman of the Supervisory Board, regularly received minutes from the meetings of the Board of Directors, based upon which SB 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 were checked at each meeting of the Supervisory Board. The Supervisory Board states that the Board of Directors and the Top Management provided the Supervisory Board with all materials requested for its activity.

Review of the financial statement

On its 114th meeting held on March 27, 2015, 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, 2014, presented by the Board of Directors. The supplements to the regular financial statement and the consolidated financial statement for 2014 are included in the full version in the Annual Report of the company KORADO for 2014. Based upon the review of the financial statement, the Supervisory Board recommended the General Meeting to approve the financial statement of the company KORADO and the consolidated financial statement according to the IFRS standards of the KORADO Group as of Dec. 31, 2014.

The Supervisory Board revised the proposal of the Board of Directors and recommends that the General Meeting splits profit for 2014 and pays the retained loss as follows:

- The financial result KORADO, a.s., after taxes as reported in the accounting shows a profit of 79,038,124.79 CZK. An amount of 29,998,578 CZK to be used for the payment of dividends (a deposit for the payment of dividends paid in 12/2014 of 9,999,526 CZK; a supplementary payment will be made in an amount of 19,999,052 CZK) and an amount of 49,039,546.79 CZK transferred to retained earnings.

- The other financial result from previous years accounted in 2014 shows a loss of 13,000,000 CZK and this loss to be paid from the retained earnings of previous years.

The Supervisory Board stated that the proposed profit split and payment of the retained conforms to legal regulations and to the Articles of Associations of KORADO, a.s. and recommends that the General Meeting approves the proposal to split the profit of 2014 and pay the retained loss as it was presented by the Board of Directors.

In Česká Třebová on March 27, 2015

Ludvík Petr
Chairman of the Supervisory Board

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

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 2014 presented in the annual report of KORADO, a.s. on pages 47 - 79, on which we have issued an auditor's report dated 13 March 2015, presented in the annual report on page 48. We have also audited the separate financial statements of the Company as at 31 December 2014 which are presented in the annual report of the Company on pages 29 - 46 on which we have issued an auditor's report dated 13 March 2015, 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 2014. 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.

Petr Vácha

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

Petr Vácha
Auditor, License No. 1948

27 March 2015
Prague, Czech Republic

KORADO®

Financial Statements for the year ended
31 December 2014 together with Auditor's Report

AUDITOR'S REPORT

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 2014, 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 2014, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

Petr Vácha

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

Petr Vácha
Auditor, License No. 1948

13 March 2015
Prague, Czech Republic

BALANCE SHEET - LONG FORM

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

			Current year			Prior year 2013
			Gross	Allowances	Netto	Net (Restated - Note 2)
		TOTAL ASSETS	**5,428,317**	**(3,299,503)**	**2,128,814**	**1,997,380**
A.		**STOCK SUBSCRIPTION RECEIVABLE**				
B.		**FIXED ASSETS**	**4,929,645**	**(3,275,673)**	**1,653,972**	**1,664,349**
B. I.		Intangible assets	189,928	(178,139)	11,789	12,125
B. I.	1	Foundation and organization expenses	895	(895)	0	-
	2	Research and development	-	-	-	-
	3	Software	184,055	(174,894)	9,161	10,915
	4	Patents, royalties and similar rights	3,193	(2,350)	843	212
	5	Goodwill	-	-	-	-
	6	Other intangible assets	-	-	-	-
	7	Intangible assets in progress	1,785	-	1,785	998
	8	Advances granted for intangible assets	-	-	-	-
B. II.		Tangible assets	4,364,750	(2,932,251)	1,432,499	1,531,521
B. II.	1	Land	25,163	-	25,163	25,163
	2	Constructions	1,676,402	(691,808)	984,594	1,019,596
	3	Separate movable items and groups of movable items	2,589,661	(2,179,930)	409,731	460,795
	4	Perennial crops	-	-	-	-
	5	Livestock	-	-	-	-
	6	Other tangible assets	69,679	(60,513)	9,166	17,618
	7	Tangible assets in progress	3,595	-	3,595	8,349
	8	Advances granted for tangible assets	250	-	250	-
	9	Gain or loss on revaluation of acquired property	-	-	-	-
B. III.		Financial investments	374,967	(165,283)	209,684	120,703
B. III.	1	Subsidiaries	235,543	(109,296)	126,247	120,703
	2	Associates	-	-	-	-
	3	Other long-term securities and interests	-	-	-	-
	4	Loans to subsidiaries and associates	83,487	(55,987)	27,500	-
	5	Other long-term investments	-	-	-	-
	6	Long-term investments in progress	55,937	-	55,937	-
	7	Advances granted for long-term investments	-	-	-	-
C.		**CURRENT ASSETS**	**488,693**	**(23,830)**	**464,863**	**317,715**
C. I.		Inventory	141,998	(1,318)	140,680	124,729
C. I.	1	Materials	90,171	(980)	89,191	86,250
	2	Work in progress and semi-finished production	5,810	-	5,810	5,843
	3	Finished products	26,453	(220)	26,233	21,866
	4	Livestock	-	-	-	-
	5	Goods	19,564	(118)	19,446	10,770
	6	Advances granted for inventory	-	-	-	-
C. II.		Long-term receivables	2	0	2	2
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	2
	6	Unbilled revenue	-	-	-	-
	7	Other receivables	-	-	-	-
	8	Deferred tax asset	-	-	-	-
C. III.		Short-term receivables	229,425	(22,512)	206,913	136,839
C. III.	1	Trade receivables	165,762	(22,512)	143,250	121,344
	2	Receivables from group companies with majority control	47,619	-	47,619	-
	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	11,229	-	11,229	9,658
	7	Short-term advances granted	2,877	-	2,877	4,385
	8	Unbilled revenue	1,874	-	1,874	1,452
	9	Other receivables	64	-	64	-
C. IV.		Short-term financial assets	117,268	0	117,268	56,145
C. IV.	1	Cash	579	-	579	618
	2	Bank accounts	116,689	-	116,689	55,527
	3	Short-term securities and interests	-	-	-	-
	4	Short-term financial assets in progress	-	-	-	-
D.		**OTHER ASSETS - TEMPORARY ACCOUNTS OF ASSETS**	**9,979**	**0**	**9,979**	**15,316**
D. I.		Accrued assets and deferred liabilities	9,979	0	9,979	15,316
D. I.	1	Prepaid expenses	4,657	-	4,657	8,202
	2	Prepaid expenses (specific-purpose expenses)	-	-	-	-
	3	Unbilled revenue	5,322	-	5,322	7,114

BALANCE SHEET - LONG FORM

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

				Current year	Prior year 2013 (Restated - Note 2)
			TOTAL EQUITY & LIABILITIES	**2,128,814**	**1,997,380**
A.			**EQUITY**	**1,291,815**	**1,238,322**
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	(35,053)	(39,506)
A	II.	1	Share premium (agio)	-	-
		2	Other capital funds	48	48
		3	Gain or loss on revaluation of assets and liabilities	(35,101)	(39,554)
		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	48,269	46,962
A	III.	1	Reserve fund	48,269	46,962
		2	Statutory and other funds	-	-
A.	IV.		Profit (loss) for the previous years	368,861	364,040
	IV.	1	Retained earnings for the previous years	381,861	377,040
		2	Accumulated loss of previous years	-	-
		3	Other retained earnings of previous years	(13,000)	(13,000)
A.	V.	1	Profit (loss) for the year (+ / -)	79,038	26,126
A.	V.	2	Approved decision on advances for profit distribution (-)	(10,000)	-
B.			**LIABILITIES**	**829,215**	**748,836**
B.	I.		Provisions	6,916	6,251
B.	I.	1	Provisions created under special legislation	-	-
		2	Provision for pensions and similar obligations	-	-
		3	Provision for corporate income tax	-	-
		4	Other provisions	6,916	6,251
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	392,388	310,211
B.	III.	1	Trade payables	288,778	259,198
		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	55,973	33
		5	Liabilities to employees	12,811	13,071
		6	Liabilities arising from social security and health insurance	6,442	5,650
		7	Due to government – taxes and subsidies	3,423	2,222
		8	Short-term advances received	512	3,076
		9	Bonds payable	-	-
		10	Unbilled deliveries	24,019	16,536
		11	Other liabilities	430	10,425
B.	IV.		Bank loans and borrowings	357,750	360,213
B.	IV.	1	Long-term bank loans	276,750	278,000
		2	Short-term bank loans	81,000	68,500
		3	Borrowings	-	13,713
C.			**OTHER LIABILITIES - TEMPORARY ACCOUNTS OF LIABILITIES**	**7,784**	**10,222**
C.	I.		Accrued liabilities and deferred assets	7,784	10,222
C.	I.	1	Accruals	7,784	10,222
		2	Deferred income	-	-

INCOME STATEMENT - LONG FORM

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

				Current year	Prior year 2013
	I.	1	Revenue from sale of goods	299,701	218,220
A.		2	Cost of goods sold	255,440	182,599
	+		**Gross margin**	**44,261**	**35,621**
	II.		Production	1,303,034	1,267,201
	II.	1	Revenue from sale of finished products and services	1,288,044	1,263,581
		2	Change in inventory produced internally	5,360	(1,803)
		3	Own work capitalized	9,630	5,423
B.			Production related consumption	912,414	887,316
B.		1	Consumption of material and energy	752,126	743,918
B.		2	Services	160,288	143,398
	+		**Value added**	**434,881**	**415,506**
C.			Personnel expenses	266,364	253,038
C.		1	Wages and salaries	203,073	193,118
C.		2	Bonuses to members of company or cooperation bodies	1,440	1,530
C.		3	Social security and health insurance	58,730	55,235
C.		4	Other social costs	3,121	3,155
D.		1	Taxes and charges	1,221	711
E.		1	Amortization and depreciation of intangible and tangible fixed assets	106,490	110,447
	III.		Revenue from sale of intangible and tangible fixed assets and materials	23,759	10,862
	III.	1	Revenues from sale of intangible and tangible fixed assets	484	1,174
		2	Revenue from sale of materials	23,275	9,688
F.			Net book value of intangible and tangible fixed assets and materials sold	22,479	9,840
F.		1	Net book value of intangible and tangible fixed assets sold	-	558
F.		2	Materials sold	22,479	9,282
G.		1	Change in provisions and allowances relating to operations and in prepaid expenses (specific-purpose expenses)	12,917	(6,660)
	IV.	1	Other operating revenues	9,624	10,854
H.		2	Other operating expenses	13,490	16,227
	V.	1	Transfer of operating revenues	-	-
I.		2	Transfer of operating expenses	-	-
*			**Profit or loss on operating activities**	**45,303**	**53,619**
	VI.	1	Revenue from sale of securities and interests	-	-
J.		2	Securities and interests sold	-	-
	VII.		Income from financial investments	44,862	0
	VII.	1	Income from subsidiaries and associates	-	-
		2	Income from other long-term securities and interests	44,862	-
		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	(2,311)	5,153
	X.	1	Interest income	2,668	1,928
N.		2	Interest expense	7,950	10,256
	XI.	1	Other finance income	6,374	20,102
O.		2	Other finance cost	14,530	34,114
	XII.	1	Transfer of finance income	-	-
P.		2	Transfer of finance cost	-	-
	*		**Profit or loss on financial activities**	**33,735**	**(27,493)**
Q.			Tax on profit or loss on ordinary activities	0	0
Q.		1	- due	-	-
Q.		2	- deferred	-	-
	**		**Profit or loss on ordinary activities after taxation**	**79,038**	**26,126**
	XIII.	1	Extraordinary gains	-	-
R.		2	Extraordinary losses	-	-
S.		1	Tax on extraordinary profit or loss	0	0
S.		1	- due	-	-
S.		2	- deferred	-	-
	*		**Extraordinary profit or loss**	**0**	**0**
T.		1	Transfer of share of profit or loss to partners (+/-)	-	-
	***		**Profit or loss for the year (+/-)**	**79,038**	**26,126**
	****		**Profit or loss before taxation**	**79,038**	**26,126**

CASH FLOW STATEMENT

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

				Current year	Prior year 2013
			Cash flows from operating activities		
Z.			**Profit or loss on ordinary activities before taxation (+/-)**	**79,038**	**26 126**
A.	1.		Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	79,104	126,174
A.	1.	1.	Depreciation and amortization of fixed assets and write-off of receivables	106,825	113,763
A.	1.	2.	Change in allowances	9,940	1,200
A.	1.	3.	Change in provisions	665	(2,705)
A.	1.	4.	Foreign exchange differences	1,738	6,204
A.	1.	5.	(Gain)/Loss on disposal of fixed assets	(484)	(616)
A.	1.	6.	Interest expense and interest income	5,282	8,328
A.	1.	7.	Other non-cash movements (e.g. revaluation at fair value to profit or loss, dividends received)	(44,862)	-
A	*****		**Net cash from operating activities before taxation, changes in working capital and extraordinary items**	**158,142**	**152,300**
A.	2.		Change in non-cash components of working capital	(86,152)	(80,072)
A.	2.	1.	Change in inventory	(16,180)	(14,453)
A.	2.	2.	Change in trade receivables	(22,537)	15,426
A.	2.	3.	Change in other receivables and in prepaid expenses and unbilled revenue	(67,986)	(70,020)
A.	2.	4.	Change in trade payables	26,267	(1,127)
A.	2.	5.	Change in other payables, short-term loans and in accruals and deferred income	(5,716)	(9,898)
A	******		**Net cash from operating activities before taxation, interest paid and extraordinary items**	**71,990**	**72,228**
A.	3.	1.	Interest paid	(7,950)	(10,245)
A.	4.	1.	Tax paid	49	35
A.	5.	1.	Gains and losses on extraordinary items	-	-
A	*******		**Net cash provided by (used in) operating activities**	**64,089**	**62,018**
			Cash flows from investing activities		
B.	1.	1.	Purchase of fixed assets	(43,063)	(80,918)
B.	2.	1.	Proceeds from sale of fixed assets	484	1,174
B.	3.	1.	Loans granted	(47,619)	-
B.	4.	1.	Interest received	2,668	1,928
B.	5.	1.	Dividends received	44,862	-
B	*******		**Net cash provided by (used in) investing activities**	**(42,668)**	**(77,816)**
			Cash flows from financing activities		
C.	1.	1.	Change in long-term liabilities and long-term, resp. short-tem, loans	69,701	85,016
C.	2.	1.	Effect of changes in basic capital on cash	-	-
C.	2.	2.	Dividends or profit sharing paid	(29,999)	(14,940)
C.	2.	3.	Effect of other changes in basic capital on cash	-	-
C	*******		**Net cash provided by (used in) financing activities**	**39,702**	**70,076**
F.			**Net increase (decrease) in cash**	**61,123**	**54,278**
P.			**Cash and cash equivalents at beginning of year**	**56,145**	**1,867**
R.			**Cash and cash equivalents at end of year**	**117,268**	**56,145**

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 2014 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 2014 were as follows:

Board of Directors

Chair:	Menclík František
Vice-Chair:	Vobora Miroslav
Member:	Hamáček František, Ing.
Member:	Julian Healy

Supervisory Board

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

In 2014, the following changes were made to the Commercial Register entry: Julian Healy was appointed a Board of Directors member as of 18 December 2014; Ing. Jaromír Hejda was appointed a Supervisory Board member as of 30 June 2014.

As at 31 December 2014, the Company held 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 2014 and 2013.

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 2014. The result of consolidation performed in compliance with International Financial Reporting Standards (IFRS) is consolidated equity at the amount of CZK 1,381,754 thousand, consolidated profit of CZK 62,532 thousand and total consolidated assets of CZK 2,202,918 thousand as at 31 December 2014.

Restatement of 2013 figures

The Company corrected an error related to the valuation of a painting; the painting was originally carried at the balance sheet at CZK 13,000 thousand. The authenticity of the painting has been contested by an independent assessment. As the information could have been reasonably available when the painting was initially measured, the carrying amount was retrospectively reduced by CZK 13,000 thousand. The comparatives were restated accordingly.

The following table summarizes the effects of the restatement on financial statement captions (in CZK thousands):

	Carrying value previously reported as at 31 December 2013	Restatement	Restated carrying value as at 31 December 2013
Other tangible assets	30,618	(13,000)	17,618
Total assets	2,010,380	(13,000)	1,997,380
Other retained earnings for previous years	-	(13,000)	(13,000)
Total equity & liabilities	2,010,380	(13,000)	1,997,380

Explanation Added for Translation into English

These financial statements are presented on the basis of accounting principles and standards generally accepted in the Czech Republic. Certain accounting practices applied by the Company that conform with generally accepted accounting principles and standards in the Czech Republic may not conform with generally accepted accounting principles in other countries.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in preparing the 2014 and 2013 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 2014 and 2013 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 2014 and 2013 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.

Until 2013, a joint-stock company was required to allocate 20% of profit after tax (however, not more than 10% of basic capital) to the legal reserve fund in the first year when profit was generated. In subsequent years, the legal reserve fund was allocated 5% of profit after tax until the fund reached 20% of basic capital. These funds could 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 2014 and 2013, 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 2014 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.

The Company included in its calculation of deferred tax a tax credit from investment incentive (see Note 15) and as a result no change in deferred tax of the Company was recorded in 2014 compared to the balance as at 31 December 2013. The management of the Company believes that future taxable profits will be available against which the unused tax credit can be utilized and plans to meet all relevant criteria for drawing these funds and use the investment incentive in the future. The extent to which the investment tax credit will be utilized depends on the level of taxable profits that will be achieved until 2019. The management of the Company believes that possibly higher investment tax credit can be utilized until 2019 than the one for which deferred tax asset was recognized as at 31 December 2014. However, with regard to uncertainties related to projected taxable profits, the Company recognized deferred tax asset of CZK 40,297 thousand and CZK 30,249 thousand as at 31 December 2014 and 2013. The management of the Company considers this amount can reasonably be expected to be utilized in the medium term (up to 3 years).

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	181,633	-	-	2,422	184,055
Patents, royalties and similar rights	2,369	-	-	824	3,193
Intangibles in progress	998	4,033	-	(3,246)	1,785
2014 Total	**185,895**	**4,033**	**-**	**-**	**189,928**
2013 Total	182,318	3,399	(10)	188	185,895

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	(170,718)	(4,176)	-	(174,894)	9,161
Patents, royalties and similar rights	(2,157)	(193)	-	(2,350)	843
Intangibles in progress	-	-	-	-	1,785
2014 Total	**(173,770)**	**(4,369)**	**-**	**(178,139)**	**11,789**
2013 Total	(169,465)	(4,315)	10	(173,770)	12,125

As at 31 December 2014 and 2013, the total value of small intangible fixed assets, which are not reflected in the accompanying balance sheet was CZK 6,449 thousand and CZK 5,850 thousand, respectively.

b) Tangible Fixed Assets (in CZK thousands)

COST

	At beginning of year	Additions	Disposals	Transfers	At end of year
Land	25,163	-	-	-	25,163
Buildings	1,675,939	-	-	463	1,676,402
Machinery and equipment	2,575,621	-	(2,775)	11,584	2,584,430
Vehicles	3,275	-	-	1,956	5,231
Other tangibles	40,566	-	-	3,253	43,819
Art works and collections	25,860	-	-	-	25,860
Tangibles in progress	8,349	12,502	-	(17,256)	3,595
Advances for tangibles	-	250	-	-	250
2014 Total	**4,354,773**	**12,752**	**(2,775)**	**-**	**4,364,750**
2013 Total	4,352,505	13,892	(11,436)	(188)	4,354,773

ACCUMULATED DEPRECIATION AND ALLOWANCES

	At beginning of year	Depreciation during the year	Disposals	At end of year	Allowance	Net book value
Land	-	-	-	-	-	25,163
Buildings	(656,343)	(35,465)	-	(691,808)	-	984,594
Machinery and equipment	(2,115,921)	(63,978)	2,775	(2,177,124)	-	407,306
Vehicles	(2,180)	(626)	-	(2,806)	-	2,425
Other tangibles	(35,808)	(2,052)	-	(37,860)	-	5,959
Art works and collections	-	-	-	-	(22,653)	3,207
Tangibles in progress	-	-	-	-	-	3,595
Advances for tangibles	-	-	-	-	-	250
2014 Total	**(2,810,252)**	**(102,121)**	**2,775**	**(2,909,598)**	**(22,653)**	**1,432,499**
2013 Total (restated, see Note 2)	(2,713,784)	(106,689)	10,221	(2,810,252)	(13,000)	1,531,521

The total value of small tangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 13,029 thousand and CZK 12,247 thousand as at 31 December 2014 and 2013, respectively.

An allowance of CZK 22,653 thousand was recognized against art works as at 31 December 2014, of which CZK 13,000 thousand represented correction of error of prior periods (see Note 2).

As at 31 December 2014 and 2013, assets with a cost of CZK 2,210,307 thousand and CZK 2,444,815 thousand, respectively, and a net book value of CZK 713,292 thousand and CZK 1,088,383 thousand, respectively, were pledged as security for the loan granted by Československá obchodní banka, a.s. (2014) and by UniCredit Bank Czech Republic, a.s. (2013), respectively (see Note 13).

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

Summary of changes in long-term financial investments:

	Balance as at 31/ 12/ 2012	Movements	Balance as at 31/ 12/ 2013	Movements	Balance as at 31/ 12/ 2014
Subsidiaries and associates	159,685	71,669	231,354	4,189	235,543
Loans to subsidiaries	53,227	3,717	56,944	26,543	83,487
Long-term investments in progress	-	-	-	55,937	55,937
Allowances	(162,441)	(5,154)	(167,595)	2,312	(165,283)
Total	**50,471**	**70,232**	**120,703**	**88,981**	**209,684**

The Company subscribed shares of BGN 3,978 thousand (CZK 55,937 thousand) of subsidiary KORADO Bulgaria on 24 November 2014 and 5 December 2014; the shares are presented within long-term investments in progress.

Subsidiaries as at 31 December 2014 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	28,693	229,426	19,666	37	36	69,562	347,420
Equity	4,528	129,496	(56,707)	9	36	26,325	103,687
Basic capital	693	91,982	46,813	29,111	36	14,500	183,135
Profit for the current year	3,808	18,600	1,626	15	-	10,664	34,713
Acquisition cost of interest	17,050	57,706	67,627	29,112	36	64,012	235,543
Nominal value of interest	693	90,327	46,813	29,111	36	14,500	181,480
Intrinsic value of interest	4,528	127,165	-	9	36	26,325	158,063
Allowance against investments in subsidiaries	(12,521)	-	(67,627)	(29,112)	(36)	-	(109,296)
Allowance against loans	-	-	(55,987)	-	-	-	(55,987)
Allowance against receivables	-	-	(720)	-	-	-	(720)

** After the basic capital of subsidiary KORADO Bulgaria is increased, the percentage of ownership will be reduced to 85.7%.*

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)

As at 1 October 2013, the Company became a 100% owner of LICON HEAT s.r.o.

Financial information about 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 generated by the subsidiaries and associate was as follows:

	2014	2013
KORADO Deutschland	3,808	1,848
KORADO Polska	1,626	1,002
KORADO Bulgaria	18,600	7,951
KORADO Austria	15	16
LICON HEAT	10,664	7,630
Total	**34,713**	**18,447**

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

	Maturity	2014	2013
KORADO Polska	* 31/12/2015	55,987	56,944
LICON HEAT	31/12/2018	27,500	-
Allowance		(55,987)	(56,944)
Total		**27,500**	**-**

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

In 2014 and 2013 interest from loans to subsidiaries amounted to CZK 2,628 thousand and CZK 1,864 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 141,998 thousand and CZK 124,729 thousand were pledged as collateral as at 31 December 2014 and 2013, respectively, to secure the loan granted by Československá obchodní banka, a.s. (2014) and by UniCredit Bank Czech Republic, a.s. (2013), respectively (see Note 13).

6. RECEIVABLES

Allowances against outstanding receivables that are considered doubtful were charged to income based on estimated recoverability of receivables in 2014 and 2013, respectively (see Note 7).

As at 31 December 2014 and 2013, receivables overdue for more than 180 days totaled CZK 10,400 thousand and CZK 10,864 thousand, respectively. 100% allowances were created against these receivables.

The Company wrote off irrecoverable receivables of CZK 395 thousand and CZK 5,263 thousand in 2014 and 2013, respectively due to cancellation of bankruptcy proceedings and unsatisfying the claims in bankruptcy proceedings.

Receivables of CZK 124,088 thousand and CZK 66,845 thousand were pledged as collateral as at 31 December 2014 and 2013, respectively, to secure the loan granted by Československá obchodní banka, a.s. (2014) and UniCredit Bank Czech Republic, a.s. (2013), respectively (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/ 2012 (restated, see Note 2)	Change in allowances	Balance as at 31/ 12/ 2013 (restated, see Note 2)	Change in allowances	Balance as at 31/ 12/ 2014
Tangible fixed assets	13,000	-	13,000	9,653	22,653
Long-term financial assets	162,441	5,154	167,595	(2,312)	165,283
Inventory	1,164	(75)	1,089	229	1,318
Receivables – statutory	12,366	(2,948)	9,418	(114)	9,304
Receivables – other	11,655	(931)	10,723	2,485	13,208
Total	**200,626**	**1,200**	**201,825**	**9,941**	**211,766**

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 short term financial assets in the amount of CZK 55,515 thousand were pledged as security for loans from UniCredit Bank Czech Republic, a.s. (see Note 13).

9. OTHER ASSETS

As at 31 December 2014 and 2013, prepaid expenses include, in particular, the costs of CZK 312 thousand and CZK 2,318 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 2,355 thousand and CZK 3,023 thousand, respectively, were charged to finance costs in 2014 and 2013. Prepaid expenses also include property insurance, marketing costs and software maintenance costs, which are charged to income for the year in which they were incurred. Unbilled revenues include, in particular, transfer pricing adjustments agreed with subsidiaries.

10. EQUITY

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

	Balance as at 31/ 12/ 2012	Increase / Transfers	Decrease / Transfers	Balance as at 31/ 12/ 2013	Increase / Transfers	Decrease / Transfers	Balance as at 31/ 12/ 2014
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	(47,211)	7,657	-	(39,554)	4,453	-	(35,101)
Reserve fund	45,727	1,235	-	46,962	1,307	-	48,269
Retained earnings	368,514	8,526	-	377,040	4,821	-	381,861
Other retained earnings for previous years	(13,000)	-	-	(13,000)	-	-	(13,000)
Approved profit share advances	-	-	-	-	-	(10,000)	(10,000)

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 2014 and 2013, 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.

In 2014 the Company corrected an error made in previous periods; in this respect, the 1 January 2013 balance of other retained earnings for previous years was reduced by CZK 13,000 thousand (see Note 2).

The Company paid profit share advances of CZK 10,000 thousand (CZK 4,163 per share) in December 2014.

The Annual General Meetings held on 19 May 2014 and 20 May 2013, respectively, approved the following profit distribution for 2013 and 2012 (in CZK thousands):

Profit for 2013	26,126
Allocation to reserve fund	(1,307)
Dividend distribution	(19,999)
Undistributed profits added to retained earnings	4,821
Retained earnings as at 31 December 2013	377,040
Retained earnings as at 31 December 2014	381,861

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

11. PROVISIONS

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

Provisions	Balance as at 31/ 12/ 2012	Movements	Balance as at 31/ 12/ 2013	Movements	Balance as at 31/ 12/ 2014
Warranty repairs	5,240	(747)	4,493	746	5,239
Accrued vacation	3,716	(1,958)	1,758	(81)	1,677
Total	**8,956**	**(2,705)**	**6,251**	**665**	**6,916**

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 2014 and 2013, the Company had overdue current payables for more than 180 days totaling CZK 67 thousand and CZK 48 thousand, respectively.

As at 31 December 2014 and 2013, unbilled deliveries represent, in particular, unbilled deliveries of materials, annual customer bonuses and estimated wages.

As at 31 December 2014, the Company had liabilities of CZK 6,442 thousand owing to social security and health insurance premiums.

Payables to related parties (see Note 20).

13. BANK LOANS AND BORROWINGS

				2014	2013
Bank	**Terms**	**Interest rate**	**Total limit**	**Amount in CZK thousands**	**Amount in CZK thousands**
UniCredit Bank Czech Republic, a.s.	Long-term	1M PRIBOR + 2.4%	CZK 145 million	-	130,500
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 housand	-	-
Československá obchodní banka, a.s.	Long-term	1M PRIBOR + 1.55%	CZK 405 million	357,750	-
Československá obchodní banka, a.s.	Short-term	1D PRIBOR / 1D EUR LIBOR + 1.45%	CZK 100 million	-	-
Československá obchodní banka, a.s.	Short-term	1D PRIBOR + 1.45%	CZK 1 million	-	-
Total				357,750	346,500
Less current portion				(81,000)	(68,500)
Net				276,750	278,000

The loans were refinanced in 2014; on 9 April 2014, a loan agreement was entered into with Československá obchodní banka, a.s. As at 30 April 2014, the Company repaid all loans granted by UniCredit Bank, a.s. and drew a new loan with more favorable financing parameters from Československá obchodní banka (significantly lower interest rate, prolonging final maturity, more easily accessible funds, cheaper bank transfers, etc.).

The interest expense relating to bank loans for 2014 and 2013 was CZK 7,856 thousand and CZK 10,115 thousand, respectively.

The loan agreement with Československá obchodní banka, a.s. includes the following terms and conditions to be fulfilled by the Company:

1. Equity ratio	More than 58% at 31 December 2014
2. Net debt / EBITDA ratio	Less than 3.2 at 31 December 2014

The loan agreement with UniCreditBank, a.s. included the following terms and conditions to be fulfilled by the Company:

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

As at 31 December 2014 and 2013, the Company was in compliance with the above conditions.

As at 31 December 2014 and 2013, tangibles (see Note 4b), receivables (see Note 6), inventories (see Note 5) and financial assets (see Note 8) were pledged as security for the loan granted by Československá obchodní banka, a.s. and UniCredit Bank Czech Republic, a. s., respectively. As at 31 December 2013, the loan was also secured by receivables from insurance claims exceeding CZK 5 million per claim.

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

	Bank loans
2015	81,000
2016	81,000
2017	81,000
2018	81,000
2019	33,750
Total	357,750

In 2013 the Company received a loan of EUR 500 thousand from LICON HEAT s.r.o.; the loan was repaid in 2014.

14. OTHER LIABILITIES

Accruals include, in particular, costs of electricity, gas, communications and freight and are charged to income for the year in which they were incurred.

15. INCOME TAXES

Calculation of current income tax (in CZK thousands):	2014	2013
Profit before taxes	79,038	26,126
Differences between book and tax depreciation	13,825	(7,531)
Creation of allowances	10,055	4,146
Creation / (reversal) of provisions	665	(2,705)
Other (e.g. provision to bonuses and its settlement, entertainment expenses, shortages and losses)	15,367	10,558
Dividends received	(44,862)	-
Taxable income	74,088	30,594
Tax loss claimed	(73,174)	(30,594)
Tax base	914	-
Tax rate	19%	19%
Tax	174	-
Tax relief	(174)	-
Current tax expense	-	-

The Company can carry forward tax losses generated from 2010 through 2013 for up to five years. The remaining tax loss carry forward, the benefit of which has not been recognized in the accompanying financial statements, amounted to CZK 85,648 thousand as at 31 December 2014.

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

Deferred tax items	2014		2013	
	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	-	(131,311)	-	(134,020)
Other temporary differences:				
Allowance against receivables	1,016	-	232	-
Allowance against inventory	250	-	207	-
Provisions, unbilled deliveries and unpaid social and health insurance	1,314	-	1,188	-
Tax loss not claimed	16,273	-	29,983	-
Deferred tax asset from investment incentives	40,297	-	30,249	-
Total	**59,150**	**(131,311)**	**61,859**	**(134,020)**
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 176 million as at 31 December 2014 and 2013 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 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 40,297 thousand and CZK 30,249 thousand, respectively, as at 31 December 2014 and 2013. Based on the business plan model, the Company expects to utilize the investment incentive in the medium-term (three years).

16. LEASES

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

As at 31 December 2014 and 2013, assets which are being used by the Company under operating lease arrangements consist of the following (in CZK thousands):

Description	Expense in 2014	Expense in 2013
Copy machines	1,349	1,310
Fork-lift trucks	2,737	4,964
Total	**4,086**	**6,274**

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).

In 2013 the Company, through UniCredit Czech Republic, a. s., provided a bank guarantee of EUR 1,387,500 to secure the liability of 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):

	2014			2013		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Radiator production	499,337	761,853	1,261,190	506,116	743,575	1,249,691
Other	142,247	184,308	326,555	113,265	118,845	232,110
Total revenues	641,584	946,161	1,587,745	619,381	862,420	1,481,801

In 2014, 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):

	2014		2013	
	Total personnel	Of which: directors and managers	Total personnel	Of which: directors and managers
Average number of employees	425	29	426	29
Wages and salaries	203,073	68,490	193,118	66,590
Social security	58,730	13,654	55,235	11,635
Social cost	3,121	-	3,155	-
Total personnel expenses	**264,924**	**82,144**	**251,508**	**78,225**

The members and former members of statutory and supervisory bodies received total bonuses and other remuneration of CZK 2,523 thousand and CZK 3,777 thousand in 2014 and 2013, respectively.

20. RELATED PARTY INFORMATION

No loans, guarantees, advances or other benefits were granted to members of statutory bodies in 2014 and 2013.

As at 31 December 2014 and 2013, the members of statutory and supervisory bodies held 660 shares of the Company, respectively.

The Company sells products to related parties in the ordinary course of business. Sales were CZK 201,498 thousand and CZK 141,249 thousand in 2014 and 2013, respectively.

Short-term receivables from related parties as at 31 December 2014 were as follows (in CZK thousands):

Related party	2014	2013
KORADO Deutschland	13,269	6,645
KORADO Polska	18,996	21,419
KORADO Bulgaria	14,220	2,678
LICON HEAT s.r.o.	9	2,620
Total	**46,494**	**33,362**

The Company granted a loan of CZK 47,619 thousand to subsidiary KORADO Bulgaria in 2014; the loan is due on 31 December 2015.

The Company granted a loan to LICON HEAT s.r.o. in 2014 (see Note 4c).

The Company purchases products and receives services from related parties in the ordinary course of business. Purchases were CZK 229,632 thousand and CZK 162,438 thousand in 2014 and 2013, respectively.

Short-term payables to related parties as at 31 December 2014 were as follows (in CZK thousands):

Related party	2014	2013
KORADO Bulgaria	30,638	22,352
KORADO Deutschland	-	66
LICON HEAT s.r.o.	201	19
Total	**30,839**	**22,437**

The Company had a liability of CZK 55,937 thousand to subsidiary KORADO Bulgaria as at 31 December 2014, arising from the share subscription.

In 2013 the Company received a loan from 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.

The statutory audit fees related to the audit of consolidated financial statements and separate statutory financial statements totalled CZK 1,950 thousand and CZK 2,300 thousand for the year ended 31 December 2014 and 2013, respectively.

22. SUBSEQUENT EVENTS

In January 2015, the Company settled the liability of CZK 55,937 thousand arising from the subscription of shares in subsidiary KORADO Bulgaria (see Note 20); the subscribed shares were registered on 12 February 2015.

The loan granted to subsidiary KORADO Bulgaria was repaid in February 2015 (see Note 20).

23. STATEMENT OF CASH FLOWS (SEE APPENDIX)

The cash flow statement was prepared under the indirect method.

24. 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:
13 March 2015	František Menclík Chairman of the Board of Directors	Ing. Pavlína Kovářová Chief accountant	Ing. Vojtěch Čamek Chief Executive Officer

KORADO®

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS AT 31 DECEMBER 2014

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 2014, 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

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 2014, 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.

Petr Vácha

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

Petr Vácha, Auditor
License No. 1948

13 March 2015
Prague, Czech Republic

KORADO Group
CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2014

(In CZK thousands)	Note	31 December 2014	31 December 2013 (restated Note 2.b)	1 January 2013 (restated Note 2.b)
ASSETS				
Non-current assets				
Property, plant and equipment, net	3	1,604,619	1,614,519	1,665,555
Intangible assets, net	4	31,191	32,534	25,326
Other non-current assets		2,759	2,669	496
Deferred tax asset	19	537	490	327
Total non-current assets		**1,639,106**	**1,650,212**	**1,691,704**
Current assets				
Inventories, net	6	203,792	186,426	140,317
Accounts receivable, net	7	143,269	149,794	132,909
Prepayments and other current assets	8	25,819	22,115	18,302
Share subscription receivable	5	33,766	-	-
Income tax receivable		939	49	84
Cash and cash equivalents	9	156,227	84,320	10,995
Total current assets		**563,812**	**442,704**	**302,607**
Total assets		**2,202,918**	**2,092,916**	**1,994,311**
EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	10	840,700	840,700	840,700
Retained earnings, funds and translation reserve	10	510,008	460,175	420,914
Total shareholders' equity attributable to equity holders of the parent		1,350,708	1,300,875	1,261,614
Non-controlling interest		31,046	1,662	1,519
Total shareholders' equity		**1,381,754**	**1,302,537**	**1,263,133**
Non-current liabilities				
Long-term debt, net of current portion	11	281,919	281,465	170,523
Deferred tax liabilities	19	75,021	74,858	71,420
Total non-current liabilities		**356,940**	**356,323**	**241,943**
Current liabilities				
Short-term borrowings and current portion of long-term debt	11	81,062	68,150	176,574
Payables and other current liabilities	12	376,711	357,251	306,581
Provisions for liabilities and charges	13	6,337	5,858	6,080
Income tax payable		114	2,797	-
Total current liabilities		**464,224**	**434,056**	**489,235**
Total equity and liabilities		**2,202,918**	**2,092,916**	**1,994,311**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

(In CZK thousands)	Note	2014	2013
Revenues from sales, net	14	1,749,891	1,602,014
Cost of materials, energy and purchased goods	15	(1,023,026)	(956,702)
Depreciation and amortization		(116,368)	(116,054)
Wages and salaries		(324,800)	(289,867)
Purchased services	16	(185,723)	(169,738)
Other expenses, net	17	(18,755)	(1,767)
Interest expense, net of capitalized interest		(8,002)	(10,298)
Interest income		68	83
Foreign exchange gains / (losses), net		(1,881)	(4,779)
Negative goodwill	5	-	4,390
Other financial expenses, net	18	(4,433)	(4,848)
Profit before income taxes		**66,971**	**52,434**
Income taxes	19	(4,439)	(2,091)
Profit after income taxes		**62,532**	**50,343**
Other comprehensive income			
Items that may be reclassified subsequently to statement of income:			
Currency translation differences		2,771	4,183
Items not to be reclassified subsequently to statement of income:			
Re-measurement losses on defined benefit plans		(728)	(182)
Total comprehensive income		**64,575**	**54,344**
Profit after income taxes attributable to:			
Equity holders of the parent		62,197	50,200
Non-controlling interest		335	143
		62,532	50,343
Total comprehensive income attributable to:			
Equity holders of the parent		64,240	54,201
Non-controlling interest		335	143
		64,575	**54,344**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

(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 2012, as previously reported	**840,700**	**(37,495)**	**471,409**	**1,274,614**	**1,519**	**1,276,133**
Correction of error (Note 2.b)	-	-	(13,000)	(13,000)	-	(13,000)
Balance as at 1 January 2013, restated	**840,700**	**(37,495)**	**458,409**	**1,261,614**	**1,519**	**1,263,133**
Profit after income taxes	-	-	50,200	50,200	143	50,343
Other comprehensive income	-	4,183	(182)	4,001	-	4,001
Total comprehensive income	-	4,183	50,018	54,201	143	54,344
Dividends	-	-	(14,940)	(14,940)	-	(14,940)
Balance as at 31 December 2013, restated	**840,700**	**(33,312)**	**493,487**	**1,300,875**	**1,662**	**1,302,537**
Profit after income taxes	-	-	62,197	62,197	335	62,532
Other comprehensive income	-	2,771	(728)	2,043	-	2,043
Total comprehensive income	-	2,771	61,469	64,240	335	64,575
Deemed disposal of non-controlling interest (Note 5)	-	791	14,801	15,592	29,049	44,641
Dividends	-	-	(19,999)	(19,999)	-	(19,999)
Interim dividends	-	-	(10,000)	(10,000)	-	(10,000)
Balance as at 31 December 2014	**840,700**	**(29,750)**	**539,758**	**1,350,708**	**31,046**	**1,381,754**

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

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

(In CZK thousands)	Note	2014	2013
OPERATING ACTIVITIES			
Profit before income taxes		**66,971**	**52,434**
Adjustments for:			
Depreciation and amortization		116,368	116,054
Receivables and loans write-off	17	395	5,302
Finance costs, net		7,935	10,215
Change in impairment provisions and provisions, net	17	13,382	(1,550)
Foreign exchange (gains) / losses, net		1,881	4,779
Negative goodwill	5	-	(4,390)
Gain on sale of property, plant and equipment	17	(563)	(789)
Changes in assets and liabilities:			
Inventories		(17,851)	(24,756)
Receivables and other current assets		2,519	9,547
Payables and other current liabilities		28,751	(4,004)
Income taxes (paid) / recovered		(7,896)	297
Net cash from operating activities		**211,892**	**163,139**
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(126,401)	(30,348)
Proceeds from sale of property, plant and equipment		68	1,174
Acquisition of subsidiary, net of cash acquired	5	-	(30,858)
Interest received		889	83
Change in other non-current assets		(93)	380
Net cash from investing activities		**(125,537)**	**(59,569)**
FINANCING ACTIVITIES			
Debt drawings		406,606	415,490
Repayments of debt		(393,750)	(417,067)
Change in lease obligation		(218)	(211)
Dividends paid		(29,999)	(14,940)
Interest paid, net of capitalized interest		(8,025)	(10,299)
Proceeds from share capital increase in subsidiary	5	10,875	-
Net cash from financing activities		**(14,511)**	**(27,027)**
Net increase in cash		**71,844**	**76,543**
Cash and cash equivalents at beginning of year	**9**	**84,320**	**10,995**
Effect of exchange rate changes on cash and cash equivalents		63	(3,218)
Cash and cash equivalents at end of year	**9**	**156,227**	**84,320**

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 2014 and 2013 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:

	2014 % of voting and equity share	2013 % of voting and equity share	Country of incorporation	Activity
KORADO Deutschland GmbH	100	100	Germany	Distribution of radiators
KORADO Polska, Sp. z o.o.	100	100	Poland	Distribution of radiators
KORADO Austria GesmbH.	100	100	Austria	Distribution of radiators
KORADO UK	100	100	Great Britain	Distribution of radiators
KORADO Bulgaria AD	* 98	98	Bulgaria	Manufacturing of radiators
LICON HEAT s.r.o.	100	100	Czech republic	Manufacturing of convectors

** In 2014 new share capital was subscribed in subsidiary KORADO Bulgaria AD (Note 5). As a result, the present ownership interest effectively changed from original 98.2% to 85.7%.*

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.

Correction of Error

In 2014 the Parent Company corrected an error in the valuation of a painting that was carried on the balance sheet at the amount of CZK 13,000 thousand. Independent assessment proved the painting is not authentic. Since this information could have been reasonably available when the value of the painting had been determined in the past, the Company retrospectively reduced the carrying value of the painting by CZK 13,000 thousand and restated the comparative amounts for the earliest period presented, i.e. 1 January 2013.

The following tables summarize the effect of correction of error on individual lines in the consolidated financial statements:

	2013			2012		
	as previously reported	Effect of correction of error	2013 restated	as previously reported	Effect of correction of error	1 Jan 2013 restated
Property, plant and equipment, net	1,627,519	(13,000)	1,614,519	1,678,555	(13,000)	1,665,555
Total assets	**2,105,916**	**(13,000)**	**2,092,916**	**2,007,311**	**(13,000)**	**1,994,311**
Retained earnings, funds and translation reserve	473,175	(13,000)	460,175	433,914	(13,000)	420,914
Total equity and liabilities	**2,105,916**	**(13,000)**	**2,092,916**	**2,007,311**	**(13,000)**	**1,994,311**

c) Principles of Consolidation

Business combinations and goodwill

The consolidated financial statements of the Group include the Parent Company and its subsidiaries.

Subsidiaries are those entities which the Group controls. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

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

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

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

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

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

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

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

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

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.

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.

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

The level of demand for Group's products has been affected by several adverse changes over the past years: (i) external factors (currency devaluations, sanctions imposed on Russia, war conflict in Ukraine), (ii) decreased spending in the construction industry, (iii) price pressures from competitors, (iv) change in customer behavior with more focus on low prices and less on quality. The management of the Company believes that they will be able to overcome these challenging market conditions by finding new opportunities and customers on current markets or extending the presence at current markets. In the opinion of the Company's management, the discounted value of future cash flows to be generated up to the end of the useful life of fixed assets ("value in use") will exceed the carrying value of fixed assets; therefore, there is no need to account for additional impairment of fixed assets.

The value in use in case of major plant in Ceska Trebova was determined based on a 5-year business plan using a discount factor of 8.7%. An average annual growth in post-tax cash-flows (before working capital changes and capital expenditure) is estimated at 36% over the 5-year period. The model also assumes zero growth in perpetuity. If the expected average annual growth in post-tax cash-flows is less than 19% over this 5-year period, 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 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 2014 compared to the balance as at 31 December 2013. The management of the Company believes that future taxable profits will be available against which the unused tax credit can be utilized and plans to meet all relevant criteria for drawing these funds and use the investment incentive in the future. The extent to which the investment tax credit will be utilized depends on the level of taxable profits that will be achieved until 2019. The management of the Company believes that possibly higher investment tax credit can be utilized until 2019 than the one for which deferred tax asset was recognized as at 31 December 2014. However, with regard to uncertainties related to projected taxable profits, the Company recognized deferred tax asset of CZK 40,297 thousand and CZK 30,249 thousand as at 31 December 2014 and 2013. The management of the Company considers this amount can reasonably be expected to be utilized in the medium term (up to 3 years).

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 13,743 thousand as at 31 December 2014.

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

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

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 2014 and 2013, respectively, after adjustments for certain items which are not deductible for taxation purposes. The Czech corporate income tax rate for 2015 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

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 2014:

- IAS 28 Investments in Associate and Joint Ventures (revised), effective 1 January 2014
- IAS 32 Financial Instruments: Presentation (Offsetting Financial Assets and Financial Liabilities), effective 1 January 2014
- IAS 36 Impairment of Assets (Recoverable Amount Disclosure for Non-Financial Assets), effective 1 January 2014
- IAS 39 Financial Instruments: Recognition and Measurement (Novation of Derivatives and Continuation of Hedge Accounting), effective 1 January 2014
- IFRS 10 Consolidated Financial Statements, effective 1 January 2014
- IFRS 11 Joint Arrangements, effective 1 January 2014
- IFRS 12 Disclosure of Involvement with Other Entities, effective 1 January 2014
- Investment Entities (Amendments to IFRS 10, IFRS 12, IAS 27 and IAS 28)
- IFRIC 21 Levies, effective 1 January 2014

The impact of the adoption of standards or interpretations on the financial statements or performance of the Group is described 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, International Accounting Standards Board ("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 January 1, 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 amendment had no 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 harmonizes 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 amendment had no 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 amendment had no impact on the Group's financial statements.

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 standard had no impact on the Group's financial statements, 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 had no impact on the Group's financial statements.

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 affects 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 standard had no effect on the consolidated financial statements as the parent company does not meet the definition of an investment entity.

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 had no impact on the Group.

All other standards and interpretations whose application was mandatory for the period beginning on or after 1 January 2014 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 2015 or later. Standards and interpretations most relevant to the Group's activities are detailed below:

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.

Impairment

The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model. The ECL model applies to: debt instruments accounted for at amortized cost or at FVOCI; most loan commitments; financial guarantee contracts; contract assets under IFRS 15; and lease receivables under IAS 17 Leases.

Entities are generally required to recognize either 12-months or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition (or when the commitment or guarantee was entered into). For some trade receivables, the simplified approach may be applied whereby the lifetime expected credit losses are always recognized.

Hedge accounting

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.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The standard has not yet been endorsed by EU. Retrospective application is required, but comparative information is not compulsory. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets and liabilities.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the balance sheet and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. This standard will not have any impact on the Group.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014. The standard outlines the principles an entity must apply to measure and recognize revenue. The core principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 will be applied using a five-step model:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The standard has not yet been endorsed by EU. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements.

The amendments clarify:
- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the balance sheet may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The standard has not yet been endorsed by EU. These amendments are not expected to have a significant impact to the Group, but will assist in in applying judgment when meeting the presentation and disclosure requirements.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

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.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint-Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3 Business Combinations, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

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

The Group will apply these improvements from 1 January 2015.

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

The Group will apply these improvements from 1 January 2015.

Annual Improvements to IFRSs 2012 - 2014

In September 2014 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 5	Non-Current Assets Held for Sale and Discontinued Operations
IFRS 7	Financial Instruments: Disclosures
IAS 19	Employee Benefits
IAS 34	Interim Financial Reporting

These improvements have not yet been endorsed by EU.

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

3. Property, Plant and Equipment, Net

The movements in 2014 were as follows:

	Land	Buildings	Machinery & Vehicles	Fixtures	Construction in Progress	Total
COST						
As at 31 December 2013	**28,527**	**1,728,249**	**2,797,733**	**68,936**	**24,643**	**4,648,088**
Additions	-	1,092	19,635	9	92,384	113,120
Disposals	-	-	(3,886)	-	(2,889)	(6,775)
Transfers	-	463	106,769	3,253	(110,485)	-
Translation difference	41	629	1,127	9	-	1,806
As at 31 December 2014	**28,568**	**1,730,433**	**2,921,378**	**72,207**	**3,653**	**4,756,239**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
As at 31 December 2013, restated	**-**	**(684,874)**	**(2,297,586)**	**(51,109)**	**-**	**(3,033,569)**
Depreciation	-	(37,581)	(71,091)	(2,086)	-	(110,758)
Disposals	-	-	3,522	-	-	3,522
Impairment loss recognized	-	-	-	(9,653)	-	(9,653)
Translation difference	-	(346)	(807)	(9)	-	(1,162)
As at 31 December 2014	**-**	**(722,801)**	**(2,365,962)**	**(62,857)**	**-**	**(3,151,620)**
Net book value	**28,568**	**1,007,632**	**555,416**	**9,350**	**3,653**	**1,604,619**

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 AND IMPAIRMENT						
As at 31 December 2012, as previously reported	**-**	**(644,885)**	**(2,230,936)**	**(35,424)**	**-**	**(2,911,245)**
Correction of error (Note 2.b)	-	-	-	(13,000)	-	(13,000)
As at 1 January 2013, restated	**-**	**(644,885)**	**(2,230,936)**	**(48,424)**	**-**	**(2,924,245)**
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, restated	**-**	**(684,874)**	**(2,297,586)**	**(51,109)**	**-**	**(3,033,569)**
Net book value, restated	**28,527**	**1,043,375**	**500,147**	**17,827**	**24,643**	**1,614,519**

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

Assets	Lien creditor	Carrying amount 31 December 2014	Carrying amount 31 December 2013
Buildings and halls	Československá obchodní banka, a.s./ UniCredit Bank Czech Republic, a.s.	701,654	722,644
Land	Československá obchodní banka, a.s./ UniCredit Bank Czech Republic, a.s.	11,638	11,638
Machinery and equipment	UniCredit Bank Czech Republic, a.s.	-	354,102
Receivables	Československá obchodní banka, a.s./ UniCredit Bank Czech Republic, a.s.	124,088	66,845
Inventories	Československá obchodní banka, a.s./ UniCredit Bank Czech Republic, a.s.	141,998	124,729
Bank accounts	UniCredit Bank Czech Republic, a.s.	-	55,515
Total		**979,378**	**1,335,473**

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:

	2014		2013	
	Leased equipment at cost	Net book value of leased equipment	Leased equipment at cost	Net book value of leased equipment
Machinery and vehicles	428	403	1,357	409

Assets which are being used under an operating lease as at 31 December 2014 and 2013 include:

Description	Expense* in 2014	Expense* in 2013
Copy machines	1,349	1,310
Fork lifts	2,737	4,964
Buildings	8,605	2,522
Total	**12,691**	**8,796**

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

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

	2014	2013
Within one year	15,391	12,072
After one year but not more than five years	55,642	23,518
Total	**71,033**	**35,590**

4. Intangible Assets, Net

The movements in 2014 were as follows:

	Software	Trademark	Customer contracts	Intangibles in progress	Goodwill	Total
COST						
As at 31 December 2013	**186,006**	**4,218**	**2,716**	**997**	**13,578**	**207,515**
Additions	67	-	-	4,033	-	4,100
Transfers	3,246	-	-	(3,246)	-	-
Translation difference	(2)	-	-	-	165	163
As at 31 December 2014	**189,317**	**4,218**	**2,716**	**1,784**	**13,743**	**211,778**
ACCUMULATED AMORTIZATION						
As at 31 December 2013	**(174,688)**	**(180)**	**(113)**	**-**	**-**	**(174,981)**
Amortization	(4,444)	(711)	(453)	-	-	(5,608)
Translation difference	2	-	-	-	-	2
As at 31 December 2014	**(179,130)**	**(891)**	**(566)**	**-**	**-**	**(180,587)**
Net book value	**10,187**	**3,327**	**2,150**	**1,784**	**13,743**	**31,191**

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**

5. Changes in the Group

Increase of shares capital in subsidiary KORADO Bulgaria AD

In 2014 KORADO Bulgaria AD decided to increase share capital and offered 2,576,786 new shares in public offering for the total amount of BGN 7,086 thousand. The issue price for one share was 2.75 BGN (nominal value of shares is 1.00 BGN). All new shares were subscribed in December 2014.

The external investors subscribed to 1,143,636 new shares (equivalent to BGN 3,145 thousand) and until 31 December 2014 these external investors paid CZK 10,875 thousand. The Parent Company subscribed to 1,433,150 new shares (equivalent to BGN 3,978 thousand).

After subscription of new shares the ownership interest of the Parent Company in KORADO Bulgaria AD decreased from 98.2% to 85.7% and non-controlling interest held by external investors increased from 1.8% to 14.3%.

The amount due from external investors of CZK 33,766 thousand was presented as Share subscription receivable as at 31 December 2014. The amount due was repaid by all shareholders in February 2015 (see Note 22).

The following table shows summarized financial information of KORADO Bulgaria AD for the year ended 31 December 2014 and 2013:

	2014	2013
Ownership share of non-controlling interest at 31 December	14.3%	1.8%
Non-current assets	139,875	62,753
Current assets	177,137	75,601
Non-current liabilities	(4,409)	(3,690)
Current liabilities	(95,522)	(37,560)
Equity	217,081	97,104
Attributable to:		
Equity holders of parent	186,035	95,442
Non-controlling interests	31,046	1,662
Revenues	294,375	228,328
Profit after income taxes	18,600	7,951
Attributable to:		
Equity holders of parent	18,265	7,808
Non-controlling interest	* 335	143
Total comprehensive income	19,400	8,630
Attributable to:		
Equity holders of parent	19,065	8,487
Non-controlling interest	* 335	143

** The non-controlling interest held by external investors increased from 1.8% to 14.3% in December 2014.*

Acquisition of LICON HEAT s.r.o.

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 and the revenues CZK 1,687,424 thousand.

6. Inventory, Net

The following items are included in inventories:

	31 December 2014	31 December 2013
Raw materials	136,751	137,350
Work-in-progress	7,516	7,534
Finished goods	59,525	41,542
Total	**203,792**	**186,426**

Excess, obsolete and slow-moving inventory at gross amount of CZK 2,664 thousand and CZK 2,342 thousand has been reduced to net realizable value through the impairment provision account of CZK 2,466 thousand and CZK 1,981 thousand as at 31 December 2014 and 2013, respectively. The impairment provision is determined by management based on the aging analysis of inventory and the estimated realizable value.

7. Accounts Receivable, Net

Accounts receivable, net, are as follows:

	31 December 2014	31 December 2013
Trade receivables	159,590	161,729
Advances received	5,924	7,287
Other	892	1,153
Impairment provision	(23,137)	(20,375)
Total	**143,269**	**149,794**

At 31 December 2014 and 2013 the ageing analysis of accounts receivable, net is as follows:

	31 December 2014	31 December 2013
Within due date	128,777	127,065
Past due but not impaired[1]:		
Less than 3 months	13,734	22,303
3 – 6 months	717	54
6 – 12 months	7	161
More than 12 months	34	211
Total	**143,269**	**149,794**

[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:

	2014	2013
As at 1 January	20,375	22,516
Additions	5,599	2,229
Reversals	(2,837)	(4,370)
As at 31 December	**23,137**	**20,375**

8. Prepayments and Other Current Assets

	31 December 2014	31 December 2013
VAT receivable	15,070	13,536
Prepayments and other	10,749	8,579
Total	**25,819**	**22,115**

9. Cash and Cash Equivalents

	31 December 2014	31 December 2013
Cash with banks	155,444	83,594
Cash on hand	783	726
Total	**156,227**	**84,320**

10. Shareholders' Equity

Share Capital

The share capital of the Parent Company as at 31 December 2014 and 2013 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.

Distributable Retained Earnings

Distributable retained earnings of the Parent Company amounted to CZK 451,115 thousand and CZK 362,354 thousand as at 31 December 2014 and 2013, respectively.

In 2014 the Parent Company paid dividends of CZK 19,999 thousand (CZK 8,326 per share) and interim dividend of CZK 10,000 thousand (CZK 4,163 per share).

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.

On 9 April 2014, the Company signed a new financing agreement with Československá obchodní banka, a.s. (see Note 11). The new financing agreement includes bank loan covenants which must be fulfilled. The Company monitors net debt / EBITDA ratio which shoud not be higher than 3.2 and equity ratio (equity/total assets) which must be at least 58%. Equity is defined as equity less intangible assets and deferred tax assets and total assets are defined as total assets less intangible assets and deferred tax assets. EBITDA is the operating profit / (loss) (the sum of revenues and expenses presented above interest expense, net of capitalized interest in the consolidated statement of comprehensive income) adjusted for depreciation and amortization and change in impairment provisions and provisions, net. Net debt is defined as bank loans less cash and cash equivalents. Both ratios are evaluated using consolidated financial statements as follows:

	31 December 2014
Equity	1,381,754
Total assets	2,202,918
Less intangible assets	(31,191)
Less deferred tax assets	(537)
Equity less intangible assets, deferred tax assets	1,350,026
Total assets less intangible assets, deferred tax assets	2,171,190
Equity ratio	**62.2%**
Bank loans	357,475
Less cash and cash equivalents	(156,227)
Net debt	201,248
Operating profit / (loss)	81,219
Depreciation and amortization	116,368
Change in impairment provisions and provisions, net	13,382
EBITDA	210,969
Net debt / EBITDA ratio	**0.95**

In 2014 the Parent Company met both ratios.

In 2013, the Group primarily monitored capital using the equity ratio which is equity minus goodwill divided by total assets minus goodwill. The Group's goal was to keep this ratio above 60% in 2013 which is also consistent with the requirements of banks. In addition, the Group also monitored 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 was to keep the net debt to EBITDA ratio below 3.0 in 2013 which is also consistent with the requirements of banks. The calculation and evaluation of the ratios was done using consolidated numbers before restatement of 2013 financial statements recorded in 2014:

	31 December 2013
Equity	1,315,537
Total assets	2,105,916
Less goodwill	(13,578)
Equity less goodwill	1,301,959
Total assets less goodwill	2,092,338
Equity ratio	**62.2%**
Bank loans	344,182
Bank guarantee issued	38,052
Less cash and cash equivalents	(84,320)
Net debt	297,914
Operating profit / (loss)	67,886
Depreciation and amortization	116,054
EBITDA	183,940
Net debt / EBITDA ratio	**1.62**

In 2013 the Parent Company met both ratios.

11. Debt

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

	31 December 2014	31 December 2013
Bank loans	276,475	276,262
Other loans	1,034	1,513
Other	4,410	3,690
Total	**281,919**	**281,465**

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

	31 December 2014	31 December 2013
Current portion of long term debt and short-term borrowings	81,000	67,920
Current portion of lease obligations	62	230
Total	**81,062**	**68,150**

Bank loans of the parent company consist of the following:

					2014	
Bank	**Terms**	**Interest rate (%)**	**Maturity**	**Total limit (thousands)**	**Amount in foreign currency (in thousands)**	**Amount in CZK thousands**
KORADO, a.s.						
Československá obchodní banka, a.s.	Investment	1M PRIBOR+1.55%	24.5.2019	CZK 405,000	-	357,750
Československá obchodní banka, a.s.	Operational overdraft	1D PRIBOR+1.45% 1D EURLIBOR+1.45%	-	CZK 100,000	-	-
Československá obchodní banka, a.s.	Operational overdraft	1D PRIBOR+1.45%	-	CZK 1,000	-	-
Bank charges						(275)
Total						**357,475**
Less current portion						(81,000)
Net						276,475

					2013	
Bank	**Terms**	**Interest rate (%)**	**Maturity**	**Total limit (thousands)**	**Amount in foreign currency (in thousands)**	**Amount in CZK thousands**
KORADO, 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.*

On 9 April 2014, the Company signed a new financing agreement with Československá obchodní banka, a.s. The Company repaid all bank loans with UniCredit Bank, a.s. on 30 April 2014 and drawned a new bank loan from Československá obchodní banka, a.s. The new financing agreement provided the Company with better parameters refinancing (lower interest rate, prolonging final maturity, new finaning sources available, cheaper bank transfers).

The interest expense related to bank loans for the years ended 31 December 2014 and 2013 amounted to CZK 7,856 thousand and CZK 10,115 thousand.

Bank loans provided to the Group are secured by pledged assets at carrying values of CZK 985,643 thousand and CZK 1,335,473 thousand as at 31 December 2014 and 2013, respectively (see Note 3). Bank loans of the Parent Company are also secured by the cession of receivables from property insurance benefits exceeding CZK 10,000 thousand per insurance claim. Bank loans of the Parent Company are also secured by the cession of receivables from inventory insurance benefits exceeding CZK 5,000 thousand per insurance claim.

Loan agreement include 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 2014 and 2013 the Company met the covenants.

At 31 December 2013 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 are as follows:

	31 December 2014	31 December 2013
2014	-	67,920
2015	81,000	67,920
2016	80,920	67,920
2017	80,920	140,422
2018	80,920	-
2019	33,715	-
	357,475	**344,182**

Future minimum lease payments for finance leases are as follows:

	31 December 2014	31 December 2013
Within one year	66	245
After one year but not more than five years	12	69
Total minimum lease obligations	**78**	**314**
Interest	(6)	(24)
Present value of minimum lease obligations	**72**	**290**
Representing finance lease liabilities:		
- current	62	230
- non-current	10	60

12. Payables and Other Current Liabilities

Current liabilities comprise the following:

	31 December 2014	31 December 2013
Trade payables	307,754	301,609
Payables to employees	26,172	25,777
Accruals and other current liabilities	42,785	29,865
Total	**376,711**	**357,251**

13. Provisions for Liabilities and Charges

Summary of provisions:

	Warranty provisions	Other	Total
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**
Creation of provisions	5,539	798	6,337
Provisions used	(5,083)	(775)	(5,858)
As at 31 December 2014	**5,539**	**798**	**6,337**

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	2014	%	2013	%
Sales of radiators	1,710,480	97.7%	1,570,718	98.0%
Other	39,411	2.3%	31,296	2.0%
Total	**1,749,891**	**100.0%**	**1,602,014**	**100.0%**

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

Sales by region are as follows:

Country	2014	%	2013	%
Czech Republic	655,225	37.4%	624,225	39.0%
Ukraine	84,922	4.8%	157,968	9.9%
Slovakia	152,090	8.7%	133,882	8.4%
Austria	98,385	5.6%	94,135	5.9%
Germany	106,291	6.1%	73,192	4.6%
Russia	182,100	10.4%	107,916	6.7%
Slovenia	32,666	1.9%	39,541	2.5%
Poland	79,115	4.5%	71,893	4.5%
Netherlands	25,173	1.4%	17,336	1.1%
Romania	78,416	4.5%	76,807	4.8%
Sweden	30,933	1.8%	27,718	1.7%
United Kingdom	8,506	0.5%	6,983	0.4%
Bulgaria	21,266	1.2%	18,968	1.2%
Hungary	45,765	2.6%	40,798	2.5%
Other countries	149,038	8.6%	110,652	6.9%
Total	**1,749,891**	**100.0%**	**1,602,014**	**100.0%**

15. Cost of Materials, Energy and Purchased Goods

(v tis. Kč)	2014	2013
Materials and supplies	919,342	870,356
Energy	50,629	59,647
Purchased goods	53,055	26,699
Total	**1,023,026**	**956,702**

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

16. Purchased Services

	2014	2013
Repairs and maintenance	7,968	6,974
Rent	14,179	9,850
Travelling and training expenses	12,698	10,597
Marketing	51,284	51,241
Transportation expenses	34,534	26,528
Legal and advisory services	16,127	15,243
Operational services	33,751	31,538
Other	15,182	17,767
Total	**185,723**	**169,738**

17. Other Expenses, Net

	2014	2013
Receivables and loans written off	395	5,302
Change in impairment provisions and provisions, net	13,382	(1,550)
Taxes and levies	2,094	1,413
Gain on sale of fixed assets	(563)	(789)
Other, net	3,447	(2,609)
Total	**18,755**	**1,767**

18. Other Financial Expenses, Net

	2014	2013
Bank charges	3,431	4,354
Other	1,002	494
Total	**4,433**	**4,848**

19. Taxes

The components of the income tax expense are as follows:

	2014	2013
Current tax	4,323	2,535
Deferred tax	116	(444)
Total income tax expense	**4,439**	**2,091**

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 2014 and 2013, 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 2014 and 2013 is as follows:

(v tis. Kč)	2014	2013
Profit before tax	66,971	52,434
Statutory income tax rate	19%	19%
"Expected" income tax expense	12,724	9,962
Add / (deduct) tax effect of:		
Permanent differences	2,832	1,045
Change in valuation allowance	(1,313)	380
Change in deferred tax asset from tax credit	(10,048)	(8,393)
Negative goodwill	-	(834)
Other	244	(69)
Actual income tax expense	4,439	2,091
Effective tax rate	7%	4%

Deferred income taxes at 31 December 2014 and 2013 consist of the following:

	2014	2013
Receivables impairment provision	1,153	246
Inventory impairment provision	468	235
Provisions	1,496	1,449
Accumulated losses carried forward	25,465	40,488
Elimination of intra-group profit from inventories	147	82
Tax credit from investment incentive	40,297	30,249
Other	438	365
Total deferred tax assets	**69,464**	**73,114**
Less valuation allowance to deferred tax asset	(9,192)	(10,505)
Offset with deferred tax liabilities	(59,735)	(62,119)
Deferred tax assets in the balance sheet	**537**	**490**
Difference between net book value of non-current assets for accounting and tax purposes	(134,756)	(136,977)
Total deferred tax liabilities	**(134,756)**	**(136,977)**
Offset with deferred tax assets	59,735	62,119
Deferred tax liabilities in the balance sheet	**(75,021)**	**(74,858)**

Movements in deferred tax liability, net were as follows:

	2014	2013
As at 1 January	74,368	71,093
Change in deferred tax recorded in statement of income	116	(444)
Acquisition of subsidiary	-	3,719
As at 31 December	**74,484**	**74,368**

Out of the total tax losses of subsidiaries generated since 1999, CZK 36,861 thousand and CZK 42,564 thousand can be carried forward as of 31 December 2014 and 2013, respectively. In 2014 and 2013, 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 tax credit related to capital expenditures already incurred is approximately CZK 176 million as at 31 December 2014 and 31 December 2013 and this balance can be drawn until 2019. The Company plans to meet all relevant criteria for drawing these funds and use the investment tax credit in the future. The Company recognized a deferred tax asset from the investment tax credit of CZK 40,297 thousand and CZK 30,249 thousand as at 31 December 2014 and 2013 (see Note 2.d). Total unrecognized portion of deferred tax asset from investment tax credit is approximately CZK 136 million as at 31 December 2014.

20. Related Party Transactions

As at 31 December 2014 and 2013, members of the Board of Directors and Supervisory Board owned 660 and 660 shares of the Parent Company, respectively.

In 2014 and 2013 short-term employee benefits (salaries and bonuses including social and health insurance) related to management personnel of Group companies (36 and 35 people in total, respectively) amounted to CZK 87,540 thousand and CZK 81,378 thousand, respectively.

In 2014 and 2013 members of Board of Directors and Supervisory Board of the Parent Company received remuneration of CZK 2,523 thousand and CZK 3,777 thousand, respectively.

In 2014 and 2013 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 EURLIBOR/EURIBOR rates and for the Československá obchodní banka, a.s. loans it amounted to 1.81% as at 31 December 2014 and UniCredit Bank Czech Republic, a.s. loans to 1.7% - 2.7% and 1.7% as at 31 December 2013, 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:

2014		2013	
Increase/decrease in basis points	Effect on profit / loss before tax	Increase/decrease in basis points	Effect on profit / loss before tax
50	(1,789)	50	(1,733)
(50)	1,789	(50)	1,733

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 2014 and 2013, 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):

	2014		2013	
	Increase/decrease in exchange rate *	Effect on profit / loss before tax	Increase/decrease in exchange rate *	Effect on profit / loss before tax
EUR	+5%	(629)	+5%	(278)
GBP	+5%	77	+5%	140
PLN	+5%	1,414	+5%	1,192
USD	+5%	258	+5%	166
EUR	(5%)	629	(5%)	278
GBP	(5%)	(77)	(5%)	(140)
PLN	(5%)	(1,414)	(5%)	(1,192)
USD	(5%)	(258)	(5%)	(166)

** 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 2014 and 2013 based on contractual undiscounted payments (nominal amount and interest) provided that the Group meets the loan agreement covenants (see Note 10):

31 December 2014	Less than 3 months	3-12 months	1-5 years	Total
Bank and other loans	21,806	64,869	285,087	371,762
Finance lease obligations	16	50	12	78
Payables and other current liabilities	376,711	-	-	376,711
Total	**398,533**	**64,919**	**285,099**	**748,551**

31 December 2013	Less than 3 months	3-12 months	1-5 years	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**

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, Payables and Other Current Liabilities

The carrying amount of receivables, payables and other current liabilities approximates fair value due to the short-term maturity of these financial instruments.

Short-term Debt

The carrying amount approximates fair value because of the short period to maturity of those instruments.

Long-term Debt

The determination of fair value of long-term debt is based on the quoted market price for the same or similar debt instruments or on the current rates available for debt with the same maturity profile. The fair value of long-term debt and other payables with variable interest rates approximates their carrying amounts.

Carrying amounts and the estimated fair values of financial instruments as at 31 December 2014 were as follows:

	Carrying amount	Fair value
Assets		
Other non-current assets	2,759	2,759
Accounts receivable, net	143,269	143,269
Share subscription receivable	33,766	33,766
Cash and cash equivalents	156,227	156,227
Liabilities		
Payables and other current liabilities	376,711	376,711
Short-term borrowings and current portion of long-term debt	81,062	81,062
Long-term debt, net of current portion	281,919	281,919

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
Accounts receivable, net	149,794	149,794
Cash and cash equivalents	84,320	84,320
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

22. Subsequent Events

All amounts due for subscribed additional share capital in KORADO Bulgaria AD were paid in February 2015 (Note 5).

	Authorized for issue by:	Person responsible for accounting:
	František Menclík	-
13 March 2015	Vojtěch Čamek	Zuzana Mrázková

SWORN AFFIDAVIT

We hereby certify that the information stated in the Annual Report for the year 2014 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

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