



**TEDOM**

ANNUAL 08



**report**

TEDOM - Annual report 2008



## CONTENTS:

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Foreword of the general director	5
Auditor´s report on the annual report of TEDOM s.r.o.	7
Basic economic characteristics of TEDOM s.r.o.	9
Auditor´s report to the partners of TEDOM s.r.o.	10
Financial statement 2008 – basic data	11
Commentary on the consolidated group	15
Auditor´s report on the consolidated financial statement	18
Consolidated financial statement for the year 2008	20



## FOREWORD OF THE GENERAL DIRECTOR

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Dear Business Partners,

You have just received this Annual Report on economic figures achieved by TEDOM in 2008. On this occasion I would like to briefly comment the results of 2008 from the viewpoint of our company.

The year 2008 was quite a dynamical year which has brought both positive things and negative impacts for TEDOM s.r.o. As far as those negative are concerned, I would like to emphasise especially the sharp and long-term fostering of the Czech crown value. In comparison with 2007, Czech crown was stronger by more than 20%, which must have had an adverse impact on the creation of added value from the markedly growing sales of cogeneration units and buses to foreign countries. This situation affected all exporters in this country, and I belong among the supporters of the euro introduction as soon as possible so that we can deal with our business activities and shall not try to behave like currency exchange speculators. The deal which was most affected by this fact was the promisingly developing sale of buses to Bulgaria. The end of the year was already influenced by the outset of the economic crisis where the decrease in purchase orders especially from Russia and Baltic countries started to be registered, but at least the Czech crown has returned to more realistic levels.

Concerning positive aspects, I would like to mention especially the fact that the associates have agreed on implementation of relatively a deep restructuring of the TEDOM group. The main objective of this restructuring should be an increase in productivity and effectiveness of the company's activity through:

- Simplification and streamlining of internal relations and communication inside the holding
- Transition from a company of four managers to the company of 4 businesses, i.e. a clear separation and transparency of the sectors which TEDOM deals with and intends to deal also in the future and which are:
  - Production and sale of cogeneration units
  - Production and sale of internal combustion engines
  - Production and sale of buses
  - Production and sale of electricity and heat
- Merger of common activities, such as finance, human resources, marketing, information technologies, purchase, quality and asset management activities at the level of the General Directorate – team of several people managed by the General Director

At the time of creation of this text, the restructuring process is already fully underway and its advantages are obvious.

I continue with some brief information from individual areas.

### **Cogeneration units.**

In the field of production and sale of cogeneration units we registered an increase in revenues by more than 20% and exceeded the boundary of CZK 1 billion. At the same time, however, the profit creation decreased due to the strengthening of the Czech crown value. The desirable return of Czech crown back to more realistic values at the end of the year was then negatively affected by the significant drop of orders especially in the territory of Russia and Baltic countries, which will have significant impacts still in 2009. Conversely, the sales of cogeneration units to other regions continued to grow (in terms of medium values) and we suppose some growth of sales values also in following years, especially thanks to the EU policy focused on CO2 emission savings and expected repeated growth of oil prices. A significant increase in sales volumes is expected in the Czech Republic and Slovakia too. Moreover, we expect a growth of the sales value of cogeneration units mainly in the area of Eastern ASIA where we supply from our TEDOM office in Beijing where we want to establish an autonomous business company in 2009, with a registered office in Beijing.

### **Internal combustion engines.**

The sale of engines registered an annual growth, in particular thanks to purchases of engines for buses and for cogeneration units of a tandem design into the regions of Russia and Baltic countries, generally therefore in particular due to an increased activity in other parts of the holding. The sale of engines to customers out of the holding was stagnating and did not develop in an active way, which will conversely mean a decrease in the production volume in the case of a drop of activities within the holding. Thermal processing of metals was terminated due to the crisis at the end of 2008 as well. An amount of CZK 24 million was invested in the development of engines. The result of these development activities was, among other things, also a series of new bus engines with the commercial mark "CITY" featuring power outputs of 180, 220 and 260 kW, complying with the strictest emission limits known as EURO 5 and EEV, as well as an increase in efficiency of stable biogas engines and completion of the development of a stable natural gas engine with a power output of 200 kW. By the commencement of the restructuring process within the TEDOM holding we have begun also the restructuring of the actual Engine Division in order to rationalise its operation, reduce the costs of energies and especially in order to build up a business section and commence the sale of TEDOM engines out of the holding.

### **Production of buses.**

For 2008 we produced 40 buses, in comparison with the previous year we achieved a double growth. The production was still loss-making, in spite of this number of vehicles, but in a fundamental way we have increased the quality and reliability of our buses. We obtained important orders from the Public Transport Company of Bratislava (20 buses), from Varna and Burgas Public Transport Companies, Bulgaria. We suppose that the transition of the Bus Division to profit figures should be possible from production of 80 to 100 buses per year, provided that this threshold number may still be affected by the development of the exchange rate of Czech crown to EUR, because the production is to be placed especially on foreign markets. For the time being it is possible to assess the development of this business positively but with a strongly positive development I would like to wait until we achieve a stronger market position. The production of buses continues to be a growing purchaser of internal combustion engines from the Engine Division, and therefore forms one of the pillars for increasing the stability of the Engine Division.

## FOREWORD OF THE GENERAL DIRECTOR

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### **Electricity generation and heat production.**

After a certain attenuation in the capital expenditure activities in previous years, which was given by uncertainties in electricity and gas prices we did not invest into new projects and for 2009 we have prepared several projects in the field of co-generation sources and renewable energy sources projects in a magnitude of hundreds of millions of Czech crowns. The time when we did not invest any major capital expenditures was used by us to achieve a maximum effectiveness of operation of resources. In the field of the systems of central sources of heat, we invested significant means in a higher efficiency of the systems by adding condensation boilers, increasing the cogeneration operation through capital expenditures aimed at heat accumulation and optimisation of the group regulation system. The work on the central dispatching control of our sources continued. An annual growth was achieved also in the field of electricity generation and heat production. Energy production remains a core sector of the entire TEDOM group and also in the following years this activity will enjoy the largest capital expenditures.

**TEDOM s.r.o. as a whole** achieved an annual growth of revenues by more than 20% and the total turnover of the core firm has exceeded the boundary of CZK 2 billion for the first time in its history.

The consolidated total turnover of the TEDOM holding exceeded CZK 2.3 billion, the economic result (profit) before taxation being higher than CZK 100 million.

I believe that the restructuring of the holding and increase in business activities of the entire group will keep the consolidated results of the TEDOM holding at expected levels even in the future. For the results achieved we would like to express our thanks especially to our customers who are creators of our success lasting already for 18 years.



Josef Jeleček  
General Director, TEDOM

# AUDITOR'S REPORT ON THE ANNUAL REPORT OF TEDOM S.R.O.

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## The Independent Auditor's Report to the Partners of TEDOM s.r.o.

On the basis of our audit, on 3. 6. 2009 we issued an auditor's report on the financial statements, which are included in this annual report, and our report was as follows:

"We have audited the accompanying financial statements of TEDOM s.r.o. Company, which comprise the balance sheet as of 31. 12. 2008, 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 notes.

### Statutory Body's Responsibility for the Financial Statements

The Statutory Body of TEDOM s.r.o. Company is responsible for the preparation and fair presentation of these financial statements in accordance with Czech accounting regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### 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 and the related application guidelines issued by 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 the 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 give a true and fair view of the financial position of TEDOM s.r.o. Company as of 31. 12. 2008, and of its financial performance and its cash flows for the year then ended in accordance with Czech accounting regulations."

We have reviewed the correctness of information incorporated in the report on relations between related parties of the Company TEDOM s.r.o. as at 31. 12. 2008. The management of the Company TEDOM s.r.o. is responsible for the preparation of this report. Our responsibility is to express a statement on this report on relations between related parties.

We conducted our review in accordance with the International Standard on Review Engagements and related national application guidelines issued by Czech Republic's Chamber of Auditors. These Standards require that we plan and perform the review to obtain moderate assurance as to whether the report on relations between related parties is free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit on report on relations between related parties and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying report on relations between related parties of the Company TEDOM s.r.o. as at 31. 12. 2008 contains materially incorrect information.

We have audited also the consistency of the annual report with the above mentioned financial statements. The management of the Company is responsible for the accuracy of this annual report. Our responsibility is to express a statement on the consistency of annual report with financial statements.

# AUDITOR'S REPORT ON THE ANNUAL REPORT OF TEDOM S.R.O.

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We conducted our procedures in accordance with the International Standards on Auditing and related national application guidelines issued by Czech Republic's Chamber of Auditors. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the information in annual report, which describe matters which are subject of disclosure in financial statements are in all material aspects in compliance with related financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion information in annual report is in all material aspects in compliance with the above mentioned financial statements.

Brno, 26 June 2008

BDO Prima CA s. r. o.

Represented by partner:



Ing. Jiří Kadlec  
Certificate No. 1246





## BASIC ECONOMIC CHARACTERISTICS OF TEDOM S.R.O.

### basic economic characteristics of TEDOM s.r.o. in a historical outline

Indicator	Units	2002	2003	2004	2005	2006	2007	2008
<b>Total assets</b>	thou. CZK	482 236	532 995	731 551	749 358	1 330 713	1 422 841	1 479 515
<b>Fixed assets</b>	thou. CZK	253 066	297 239	338 096	344 737	602 397	498 525	510 007
<b>Inventories</b>	thou. CZK	102 957	121 842	186 360	160 848	512 417	620 152	677 057
<b>Receivables</b>	thou. CZK	98 712	95 839	183 162	162 416	137 603	215 610	255 252
<b>Current financial assets</b>	thou. CZK	26 388	16 570	13 746	60 131	37 512	67 403	24 686
<b>Other assets</b>	thou. CZK	1 113	1 505	10 187	21 226	40 784	21 151	12 513
<b>Equity</b>	thou. CZK	203 167	262 360	361 600	430 392	523 935	570 930	657 243
<b>Subscribed capital</b>	thou. CZK	10 101	10 000	10 000	10 000	10 000	10 000	10 000
<b>Liabilities</b>	thou. CZK	277 115	267 734	368 564	312 743	802 165	832 483	816 911
<b>Other liabilities</b>	thou. CZK	1 954	2 901	1 387	6 223	4 613	19 428	5 361
<b>Total sales</b>	<b>thou. CZK</b>	<b>380 488</b>	<b>578 898</b>	<b>628 577</b>	<b>696 144</b>	<b>692 846</b>	<b>1 406 497</b>	<b>1 844 549</b>
<b>Profit/loss before tax</b>	thou. CZK	32 972	77 183	90 558	93 976	82 300	133 696	79 454
<b>Number of staff</b>	persons	108	237	346	343	395	470	485

# AUDITOR'S REPORT TO THE PARTNERS OF TEDOM S.R.O.

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## The Independent Auditor's Report to the Partners of TEDOM s.r.o.

We have audited the accompanying financial statements of TEDOM s.r.o. Company, which comprise the balance sheet as of 31. 12. 2008, 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 notes.

## Statutory Body's Responsibility for the Financial Statements

The Statutory Body of TEDOM s.r.o. Company is responsible for the preparation and fair presentation of these financial statements in accordance with Czech accounting regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## 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 and the related application guidelines issued by 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 disclosure in the financial statements. The procedures selected depend on the auditor's judgment, including the 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 give a true and fair view of the financial position of TEDOM s.r.o. Company as of 31. 12. 2008, and of its financial performance and its cash flows for the year then ended in accordance with Czech accounting regulations.

In Brno on 3 June 2009

BDO Prima CA s. r. o.  
Represented by partner:



Ing. Jiří Kadlec  
Certificate No. 1246



## FINANCIAL STATEMENT 2008 – BASIC DATA

balance sheet (in CZK–unit: 1000 CZK)

	2008	2007
<b>TOTAL ASSETS</b>	<b>1 479 515</b>	<b>1 422 841</b>
<b>Fixed assets</b>	<b>510 007</b>	<b>498 525</b>
Intangible assets	84 017	87 318
– software	2 191	1 370
– valuable rights (patents, copyrights, trademarks and brands)	80 665	85 044
– intangibles assets under construction	1 161	904
Tangible fixed assets	272 293	283 501
– land	8 577	5 491
– buildings and structures	138 767	143 144
– machinery, equipment, vehicles, fixtures and fittings	138 117	165 480
– tangible fixed assets under construction	14 245	819
– advances for tangible fixed assets	2 359	1 500
– valuation differences to acquired assets	–29 772	–32 933
Financial assets	153 697	127 706
– investments in subsidiaries	121 535	101 963
– investments in associates	32 162	25 546
– other investments	0	197
<b>Current assets</b>	<b>956 995</b>	<b>903 165</b>
Inventories	677 057	620 152
– raw material	193 544	145 418
– work-in progress and semi-finished products	475 107	465 881
– finished products	8 184	3 699
– prepayments on inventories	222	5 154
Long-term receivables	2 321	8 488
– trade receivables	0	0
– long-term advances	2 321	3 084
– deferred tax receivable	0	5 404
Short-term receivables	252 931	207 122
– trade receivables	170 471	120 063
– receivables from controlling entities	4 551	948
– receivables from associates	35 760	43 041
– government–tax receivables	27 943	23 932
– short-term advances	11 663	2 948
– estimated accrued revenues	621	14 236
– other receivables	1 922	1 954
Current financial assets	24 686	67 403
– cash	1 401	1 171
– bank accounts	23 285	66 232
<b>Prepayments and accrued income</b>	<b>12 513</b>	<b>21 151</b>
– prepaid expenses	3 825	3 544
– complex prepaid expenses	8 605	17 211
– accrued income	83	396

## FINANCIAL STATEMENT 2008 – BASIC DATA

balance sheet (in CZK–unit: 1000 CZK)

	2008	2007
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1 479 515</b>	<b>1 422 841</b>
<b>Equity</b>	<b>657 243</b>	<b>570 930</b>
Subscribed capital	10 000	10 000
– subscribed capital	10 000	10 000
Capital reserves	140 295	114 143
– other reserves	3 516	3 516
– valuation differences from revaluation of assets and liabilities	136 779	110 627
Reserves, indivisible reserve and other revenue reserves	1 000	1 000
– legal reserve/indivisible fund	1 000	1 000
Retained earnings of previous years	445 787	330 879
Profit/loss of current accounting period	60 161	114 908
<b>Liabilities</b>	<b>816 911</b>	<b>832 483</b>
Provisions	38 282	35 043
– provision according to special legal regulations	31 866	15 933
– provision for income tax	6 416	19 110
Long–term liabilities	6 759	1 310
– other payables	150	1 310
– deferred tax liabilities	6 609	0
Short–term liabilities	613 099	578 326
– trade payables	122 707	119 892
– payables to partners, cooperative member and participant in association	0	0
– payables to employees	23 263	21 701
– payables to social security and health insurance	5 002	4 411
– government–tax payables and subsidies	2 254	4 017
– short–term advances received	442 519	420 477
– estimated accrued items	15 879	6 422
– other payables	1 475	1 406
Bank loans and borrowings	158 771	217 804
– long–term bank loans	104 803	133 908
– short–term bank loans	53 968	83 896
<b>Accruals and deferred income</b>	<b>5 361</b>	<b>19 428</b>
– accrued expenses	5 160	19 421
– deferred income	201	7

## FINANCIAL STATEMENT 2008 – BASIC DATA

profit and loss statements (in CZK–unit: 1000 CZK)

	2008	2007
Sales of goods	26 453	32 743
Costs of goods sold	16 241	25 394
<b>Sale margin</b>	<b>10 212</b>	<b>7 349</b>
Production	1 929 264	1 499 718
– product and service revenue	1 818 096	1 373 754
– increase/decrease in finished goods and in work in progress	8 169	44 593
– own work capitalized	102 999	81 371
Consumption from production	1 588 079	1 175 998
– consumption of material and energy	1 343 057	1 011 163
– services	245 022	164 835
<b>Value added</b>	<b>351 397</b>	<b>331 069</b>
Staff costs	193 219	163 630
– wages and salaries	143 177	120 787
– social security and health insurance costs	45 161	38 501
– other social costs	4 881	4 342
Taxes and fees	1 168	1 003
Depreciation and amortization	42 169	43 545
Proceeds on fixed assets and material	34 548	62 510
– proceeds on sale of fixed assets	25 547	52 550
– proceeds on sale of material	9 001	9 960
Net book value of fixed assets and material sold	26 560	51 936
– net book value of fixed assets sold	21 991	46 903
– material sold	4 569	5 033
Changes in provisions and adjustments relating to operating activities and complex deferred expenses	19 139	22 136
Other operating income	14 355	46 221
Other operating expenses	12 387	22 153
<b>PROFIT/LOSS FROM OPERATING ACTIVITIES</b>	<b>105 658</b>	<b>135 397</b>
Securities sold	590	0
Revenues from investments in subsidiaries and associates	275	165
Interest income	2 342	1 623
Interest expenses	8 361	9 622
Other financial revenues	51 547	37 989
Other financial expenses	70 520	31 855
<b>PROFIT/LOSS FROM FINANCIAL ACTIVITIES</b>	<b>–25 307</b>	<b>– 1 700</b>
Income tax on ordinary activities	19 293	18 788
– due	7 279	19 148
– deferred	12 014	–360
<b>PROFIT/LOSS FROM ORDINARY ACTIVITIES</b>	<b>61 058</b>	<b>114 909</b>
Extraordinary revenues	0	0
Extraordinary expenses	897	1
<b>PROFIT/LOSS FROM EXTRAORDINARY ACTIVITIES</b>	<b>–897</b>	<b>–1</b>
<b>PROFIT/LOSS FOR THE PERIOD</b>	<b>60 161</b>	<b>114 908</b>
<b>PROFIT/LOSS BEFORE TAX</b>	<b>79 454</b>	<b>133 696</b>

## FINANCIAL STATEMENT 2008 – BASIC DATA

### cash flow statements (in CZK–unit: 1000 CZK)

	2008	2007
<b>Cash and cash equivalents at beginning of accounting period</b>	<b>67 403</b>	<b>37 512</b>
<i>Cash flow from operating activities</i>		
Profit/loss from ordinary activities before taxation	80 351	133 696
Adjustments for non–cash transactions	44 850	82 192
– depreciation of fixed assets	39 007	46 593
– change in adjustments, provisions	1 001	31 785
– profit/loss on disposal of fixed assets	–2 966	–5 647
– dividends received	–275	–165
– net interest expense (+) (except of capitalized interest) and interest income (–)	6 019	7 999
– contingent adjustments and other non–cash transactions	2 064	1 627
<b>Net cash flow from operating activities before tax, changes in working capital and extraordinary items</b>	<b>125 201</b>	<b>215 888</b>
Change in non–financial items of working capital	–58 231	–141 975
– increase/decrease in trade and other receivables, including prepayments and accrued income (+/–)	–19 916	–69 182
– increase/decrease in trade payables, including accruals and deferred income (+/–)	19 546	36 044
– increase/decrease in inventories	–57 861	–108 837
– increase/decrease in current financial assets, not belonging to cash and cash equivalents	0	0
<b>Net cash flow from operating activities before taxes and extraordinary items</b>	<b>66 970</b>	<b>73 913</b>
Interest paid, excl. capitalized interests	–8 361	–9 622
Interest received (+)	2 342	1 623
Income tax on ordinary activities paid and additional assessments for past periods (including deposits and refunds)	–22 641	–9 264
Extraordinary revenues and expenses which generate extraordinary trading profit including paid income tax due from extraordinary activities (+/–)	–897	0
Profit–sharing and dividends received	275	165
<b>Net cash flow from operating activities</b>	<b>37 688</b>	<b>56 815</b>
<i>Cash flow from investing activities</i>		
Costs associated acquisition of fixed assets	–46 919	–51 466
Proceeds on sales of fixed assets	25 547	52 550
Loans and borrowings to allied subjects	0	0
<b>Net cash flow from investing activities</b>	<b>–21 372</b>	<b>1 084</b>
<i>Cash flow financing activities</i>		
Net effect of changes in long–term liabilities and short–term liabilities, belonging to the financial activities area, to cash and cash equivalents	–59 033	–20 838
Net effect of changes in equity on cash and cash equivalents, share profits or possibly legal reserve including advances paid for this increase	0	–7 170
– dividends paid and profit shares including withholding tax paid relating to these demands and including settlement with partners in partnership and general partners in limited partnership	0	–7 170
<b>Net cash from financing activities</b>	<b>–59 033</b>	<b>–28 008</b>
<b>Net increase/decrease in cash and cash equivalents</b>	<b>–42 717</b>	<b>29 891</b>
<b>Cash and cash equivalents at end of period</b>	<b>24 686</b>	<b>67 403</b>

# COMMENTARY ON THE CONSOLIDATED GROUP

## 1. Commentary on business and production intents of the consolidated group

The main business activity of the parent company and subsidiary companies is based on operating heat–energy systems, in the sphere of operating of district heating sources and operating of energy sources on landfills.

### TEDOM s.r.o.

- operation of the district heating source – Volyně
- operation of energy sources at the landfills of Prague, Chvaletice, Modlany, Ostrava

Heat output (kW)	Heat sold in 2008 (GJ)	Installed electrical output (kW)	Electricity sold in 2008 (MWh)
13 088	84 446	8 490	32 470

### TEPLO IVANČICE, s.r.o.

- operation of a district heating source – Ivančice

Heat output (kW)	Heat sold in 2008 (GJ)	Installed electrical output (kW)	Electricity sold in 2008 (MWh)
9 709	54 351	1 044	3 344

### JESENICKÁ TEPELNÁ SPOLEČNOST, s.r.o.

- operation of a district heating source – Jeseník

Heat output (kW)	Heat sold in 2008 (GJ)	Installed electrical output (kW)	Electricity sold in 2008 (MWh)
21 307	67 125	468	1 345

### TEDOM ENERGO s.r.o.

- operation of district heating sources – Příbor, Svitavy, Světlá nad Sázavou, Zruč nad Sázavou, Železná Ruda, Smiřice

Heat output (kW)	Heat sold in 2008 (GJ)	Installed electrical output (kW)	Electricity sold in 2008 (MWh)
56 539	252 653	3 610	10 540

- operation of energy sources at landfills – Kozlany, Želeč, Vodňany, Chrást, Křovice, Holasovice, Markvartovice, Hantály, Těmice, Mutěnice, Bohumín, Dačice

Installed electrical output (kW)	Electricity sold in 2008 (MWh)
1 715	7 040

### TENERGO Brno, a.s.

- operation of district heating sources in Slovakia – Bratislava – Devínská Nová Ves, Snina, Želiezovce

Heat output (kW)	Heat sold in 2008 (GJ)	Installed electrical output (kW)	Electricity sold in 2008 (MWh)
41 652	341 665	1 860	8 309

Within the group of companies belonging to TEDOM holding, the amount of electrical energy sold in 2008 was **63 048 MWh** and the amount of heat sold was **800 240 GJ**.

All the companies aim for maintaining the profits from current projects and for ensuring other projects for a long–term stability of the firms. The most important target of business remains to increase the volume of sales and the profit in particular.

## COMMENTARY ON THE CONSOLIDATED GROUP

### 2. Evaluation of the production and economic situation of the companies of the consolidated entity, including the situation of research and development

In 2008, the parent company TEDOM s.r.o. operated with a turnover of 2 058 784 thou. CZK and achieved an income of 60 161 thou. CZK.

The whole group of TEDOM holding companies achieved an unconsolidated turnover of 2 741 241 thou. CZK and achieved an unconsolidated income of 101 771 thou. CZK.

#### a) economic indicators ( in thou. CZK)

ECONOMIC INDICATORS	TOTAL SALES			INCOME		
	2006	2007	2008	2006	2007	2008
TEDOM s.r.o.	692 847	1 406 497	1 844 549	77 192	114 908	60 161
TEDOM – VKS s.r.o.	235 436	307 379	369 791	7 223	15 617	16 214
TEDOM ENERGO s.r.o.	162 945	170 579	206 839	17 009	25 281	20 798
TEPLO IVANČICE, s.r.o.	30 303	31 654	40 894	2 340	3 340	3 142
JESENICKÁ TEPELNÁ SPOLEČNOST s.r.o.	41 459	38 109	39 694	1 114	1 903	1 561
TENERGO Brno, a.s.	188 786	192 268	232 541	7 112	5 631	3 188
HAFFNER CZ s.r.o.	2 430	3 357	5 836	-793	-134	66
TEDOM AUTO Slovakia, s.r.o.	0	135	1 097	0	5	-3 359
<b>Total (unconsolidated)</b>	<b>1 790 567</b>	<b>2 179 657</b>	<b>2 741 241</b>	<b>128 247</b>	<b>156 134</b>	<b>101 771</b>

2008 was a year of stability. The parent company and largely also the subsidiary companies were able to maintain good results, and this way to maintain the prestige and reputation of the company brand.

#### b) research and development expenses

In accordance with the business plan of the parent company, we can permanently expect expenses on research and development of the amount of millions of CZK.

The activities are permanently centered on both applied and basic activities, also in collaboration with a third subject – colleges. The results surely belong to intangible assets of the parent company.

Total expenses on research and development expended in 2008:

TEDOM s.r.o.	24 709 thou Kč
TEDOM – VKS s.r.o.	14 383 thou Kč
<b>Total for holding</b>	<b>39 092 thou. CZK</b>

These expenses were largely oriented into the development of the Stirling engine and into further development of the TEDOM engine.

### 3. Data of important events which occurred after the financial statement of the companies

Since January 1, 2009 TEDOM s.r.o. is in the process of restructuring. Along with organization restructure, TEDOM subsequently continuous with financial and economic restructure. The organization restructuring means TEDOM s.r.o. is separated into individual divisions. The main objective of financial and economic restructuring is particularly implementation of the central management of above mentioned internal units in the financial field. This central management is aimed at central planning a analyzing of individual contracts, unification of reports and implementation of central controlling.

With effect from 2 of February 2009 TEDOM - VKS s.r.o. uses a new company name only, which is TEDOM CHP s.r.o. This change is concerned in a company name and does not affect legal status. Even VAT No. was not affected and changed.



### 4. Expected development of companies within the consolidated group

The individual activities dealt with by TEDOM holding have undergone a gradual development during the last years. The core activity, which is formed by production of cogeneration units, was gradually extended by energy-related services, afterwards the product range has been extended with combustion engines and in recent years also with buses. All these activities were included into the holding structure either as separate companies or divisions, or they have been operated directly within the framework of the parent company TEDOM s.r.o. Since some activities in individual companies partly overlap each other, possibly a similar activity is operated in various businesses of the consolidated group, according to company partners decision the company agreed to a holding restructure in January 2009. The aim of this restructuring is to simplify the structure of the holding company as well as its management system, and to make them more transparent according to four basic production activities, simplify management and centralizing of common activities. E. g. finance, personnel system, marketing, information technology, purchase, quality or building administration.

### 5. Activities in the field of the environment

All our production activities are built up on the saving of primary energy resources. This vision is implemented by our company especially through a consistent application of the actual principle of cogeneration, whose effectiveness is based on the fact that from the input fuel we can generate two valuable types of energy at the same time – electrical and thermal energy, while minimising the production loss. Another significant contribution of our products for the environment is formed by the use of landfill gases, biogases and other alternative fuels for the drive of our combustion engines. The ecological advantageousness of our production is underlined by the decentralised generation of energy directly at the consumption area with elimination of transmission loss.

A strategy of our firm is formed by the use of the most suitable production technologies which cause the least possible burdens on the environment.

Our aim is to increase the efficiency of conversion of the input energies and application of low-emission drives in the transport applications, use of biomass in the central supply with heat for towns and communities, and last but not least the energy-efficient use of biogas arising during the decomposition of organic waste. Our effort thus contributes to the fulfilment of the presumptions of the sustainable development.

The TEDOM company is certified according to the EN ISO 14001:2004 standards (environmental management system).

# AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENT

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## Report of independent auditors on auditing the consolidated financial statement as to 31 December 2008 in the TEDOM group of enterprises

Period, for which the audit was performed: 1 January 2008 – 31 December 2008.

### Report on the Consolidated financial Statements

We have audited the accompanying consolidated financial statements of TEDOM group, which comprise the balance sheet as of 31 December 2008, and the income statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. Information about TEDOM group is presented in appendix to these financial statements.

The consolidation unit of the TEDOM group of enterprises included, as to 31 December 2008, the following trading companies:

<b>Parent company:</b>	TEDOM s.r.o.
<b>Subsidiaries:</b>	TEPLO IVANČICE, s.r.o. JESENICKÁ TEPELNÁ SPOLEČNOST s.r.o. TEDOM ENERGO s.r.o. TEDOM AUTO Slovakia, s.r.o.
<b>Affiliated companies:</b>	TENERGO Brno, a.s. TEDOM – VKS s.r.o. HAFFNER CZ s.r.o. TEDOM TRUCK s.r.o.

According to decision of parent company, in accordance with the Notice of Ministry of Finance of the Czech Republic, file number: 500/2002, following subsidiaries do not enter to the consolidation:

REN–TEDOM Ltd.  
E.T.E.o.o.o.

### Statutory Body's Responsibility for the Consolidated Financial Statements

The Statutory Body of Parent Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Czech accounting regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### 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 and the related application guidelines issued by 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 the 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.

# AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENT

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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 give a true and fair view of the financial position of TEDOM group as of 31 December 2008, and of its financial performance for the year then ended in accordance with Czech accounting regulations.

Brno, 19 June 2009

BDO Prima CA s.r.o.  
Marie Steyskalové 14/315  
616 00 Brno



Ing. Jiří Kadlec  
Certificate No. 1246

## CONSOLIDATED FINANCIAL STATEMENT FOR THE YEAR 2008

consolidated balance sheet (in CZK–unit: 1000 CZK)

	2008	2007
<b>Subscription receivables (for own Equity)</b>	<b>0</b>	<b>0</b>
<b>Fixed assets</b>	<b>568 142</b>	<b>566 222</b>
Intangible assets	85 127	87 813
– software	2 198	1 372
– valuable rights	81 768	85 044
– other intangible fixed assets	0	0
– non–finished intangible fixed assets	1 161	1 397
Tangible fixed assets	487 695	483 095
– land	9 065	5 975
– buildings, halls and structures	183 672	197 116
– machines, devices, transport means etc.	283 638	307 583
– tangible assets under construction	37 371	2 388
– advance payment for tangible fixed assets	2 524	1 636
– adjustments to acquired assets	–28 575	–31 603
Financial investments	348	899
– shares, ownership investments in enterprises	0	163
– shares, ownership invest. in enter with substantial influence	172	86
– other securities and ownership investments	176	453
– other financial investments	0	197
Active consolidation difference	1 033	1 112
Passive consolidation difference	–15 161	–14 503
Securities in equivalents	9 100	7 806
<b>Current assets</b>	<b>1 046 542</b>	<b>1 000 987</b>
Inventory	681 492	623 453
– materials	197 959	148 719
– work in progress and semi finished products	475 127	465 881
– products	8 184	3 699
– advance payments for inventory	222	5 154
Long–term receivables	7 407	10 094
– trade receivables	2 642	0
– receivables to enterprises with control influence	0	0
– long–term advance payments	2 329	3 092
– other receivables	0	0
– postponed tax receivables	2 436	7 002
Short–term receivables	288 785	236 191
– trade receivables	184 401	132 695
– receivables in enterprises with control influence	1 464	110
– receivables in enterprises with substantial influence	35 760	41 141
– receivables from partners and association	0	0
– due to state tax receivables	36 971	29 942
– short–term advance payments	27 555	16 084
– estimated receivables	621	14 236
– other receivables	2 013	1 983
Financial assets	68 858	131 249
– cash	1 786	1 573
– bank accounts	67 072	129 676
<b>Accruals</b>	<b>23 432</b>	<b>23 336</b>
– deferred expenses	10 216	5 034
– accrued revenue	8 605	17 211
– foreign currencies exchange losses	4 611	1 091
<b>TOTAL ASSETS</b>	<b>1 638 116</b>	<b>1 590 545</b>

## CONSOLIDATED FINANCIAL STATEMENT FOR THE YEAR 2008

consolidated balance sheet (in CZK–unit: 1000 CZK)

	2008	2007
<b>Equity</b>	<b>637 470</b>	<b>553 937</b>
<b>Registered capital</b>	<b>10 000</b>	<b>10 000</b>
– registered capital	10 000	10 000
– capital changes	0	0
Capital funds	–5 919	–6 375
– other capital funds	5 479	5 490
– difference from revaluation of assets	–1 888	–11 521
– difference from revaluation of investments	–9 520	–354
Difference from consolidation adjustments	10	10
Funds from net profit	1 986	1 872
– legal reserve fund	1 951	1 855
– unparted fund	35	17
Profit/loss of previous period	544 453	314 389
– profit/loss of previous years	545 092	315 283
– retained profit of previous years	–639	–894
Profit/loss of current period	81 507	229 902
Share in income (loss) in equivalence	1 294	1 065
Consolidation reserve fund	4 149	3 084
<b>Non–own sources</b>	<b>940 873</b>	<b>968 220</b>
Reserves	40 765	40 563
– reserves by special legal regulations	31 866	15 933
– reserve for income tax	8 899	24 630
Long–term payables	18 074	13 553
– payables – control and master subject	0	788
– long–term deposits received	88	107
– other payables	3 031	4 910
– deferred tax liability	14 955	7 748
Short–term payables	657 849	622 143
– trade payables	154 650	150 992
– payables to enterprises with control influence	225	–2 738
– payables to enterprises with substantial influence	0	3 861
– payables to partners and association	180	0
– payables to employees	24 664	22 588
– payables to social security	5 829	5 032
– due to state–taxes and subsidies	2 449	4 426
– short–term deposits received	442 954	420 978
– estimated receivables	21 250	14 298
– other payables	5 648	2 706
Bank loans and financial accommodations	224 185	291 961
– long–term bank loans	145 851	189 645
– current bank loans	78 334	102 316
<b>Accruals</b>	<b>32 695</b>	<b>45 742</b>
– accrued expenses	32 207	45 609
– deferred revenues	488	133
<b>Minority equity</b>	<b>27 078</b>	<b>22 646</b>
– minority fixed capital	321	407
– minority capital funds	–1 832	–1 843
– minority pr.funds and income (loss) of the last years	23 662	17 967
– minority income (loss) of the last years	4 926	6 115
<b>TOTAL LIABILITIES</b>	<b>1 638 116</b>	<b>1 590 545</b>

## CONSOLIDATED FINANCIAL STATEMENT FOR THE YEAR 2008

### consolidated balance sheet (in czk–unit: 1000 czk)

	2008	2007
Revenues from merchandise	27 490	32 421
Expenses of sold goods	17 199	25 394
<b>Sale margin</b>	<b>10 291</b>	<b>7 027</b>
Production consumption	2 289 154	1 807 122
– revenues from own product and services	2 171 805	1 678 035
– change of inventory of own production	8 190	44 593
– capitalisation	109 159	84 494
Consumption from production	1 864 973	1 400 728
– consumption of material and energy	1 576 988	1 187 413
– services	287 985	213 315
<b>Added value</b>	<b>434 472</b>	<b>413 421</b>
Personal costs	224 101	189 470
– wages and salaries	166 760	140 420
– social security expenses	51 647	44 117
– social expenses	5 694	4 933
Taxes and fees	1 838	1 223
Depreciations of intangible and tangible assets	63 363	63 682
Clearing of consolidation difference	1 060	89 601
Revenues from sale of fixed assets and materials	35 936	75 779
– revenues from sale of fixed assets	27 165	65 966
– revenues from materials	8 771	9 813
Net book value of sold fixed assets and materials	27 328	55 066
– net book value of sold fixed assets	22 759	50 024
– material sold	4 569	5 042
Changing in reserves and adjustment items in operating area and complex prepaid expenses	19 370	22 532
Other operating revenues	14 298	46 801
Other operating expenses	12 870	23 898
<b>Operating income</b>	<b>135 836</b>	<b>180 130</b>
<b>CONSOLIDATED OPERATING INCOME</b>	<b>136 896</b>	<b>269 731</b>

## CONSOLIDATED FINANCIAL STATEMENT FOR THE YEAR 2008

consolidated balance sheet (in CZK–unit: 1000 CZK)

	2008	2007
Revenues from sale of securities	170	0
Securities sold	923	
Received interests	3 440	1 664
Paid interests	12 659	14 470
Other financial revenues	53 599	38 320
Other financial expenses	71 654	33 420
Income from financial operations	–28 027	–7 906
<b>CONSOLIDATION INCOME FROM FINANCIAL OPERATIONS</b>	<b>–28 027</b>	<b>–7 906</b>
Income tax on current activity	22 505	25 653
– due tax	10 731	25 631
– tax deferred	11 774	22
Ordinary income	85 304	146 571
<b>CONSOLIDATION ORDINARY INCOME</b>	<b>86 364</b>	<b>236 172</b>
Extraordinary revenues	966	0
Extraordinary expenses	897	159
Extraordinary income	69	–159
<b>CONSOLIDATION EXTRAORDINARY INCOME</b>	<b>69</b>	<b>–159</b>
Income of current accounting period	85 373	146 412
<b>CONSOLIDATED INCOME FOR THE ACCOUNTING PERIOD WITHOUT EQUIVALENCE</b>	<b>86 433</b>	<b>236 013</b>
– income of current accounting period without minority	81 507	27 209
– minority income of the current accounting period	4 926	6 115
<b>SHARE IN INCOME IN EQUIVALENCE</b>	<b>1 294</b>	<b>1 065</b>
Income before tax	107 878	172 065
<b>CONSOLIDATED INCOME FOR THE ACCOUNTING PERIOD</b>	<b>87 727</b>	<b>237 078</b>



**Annual report** 2008

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