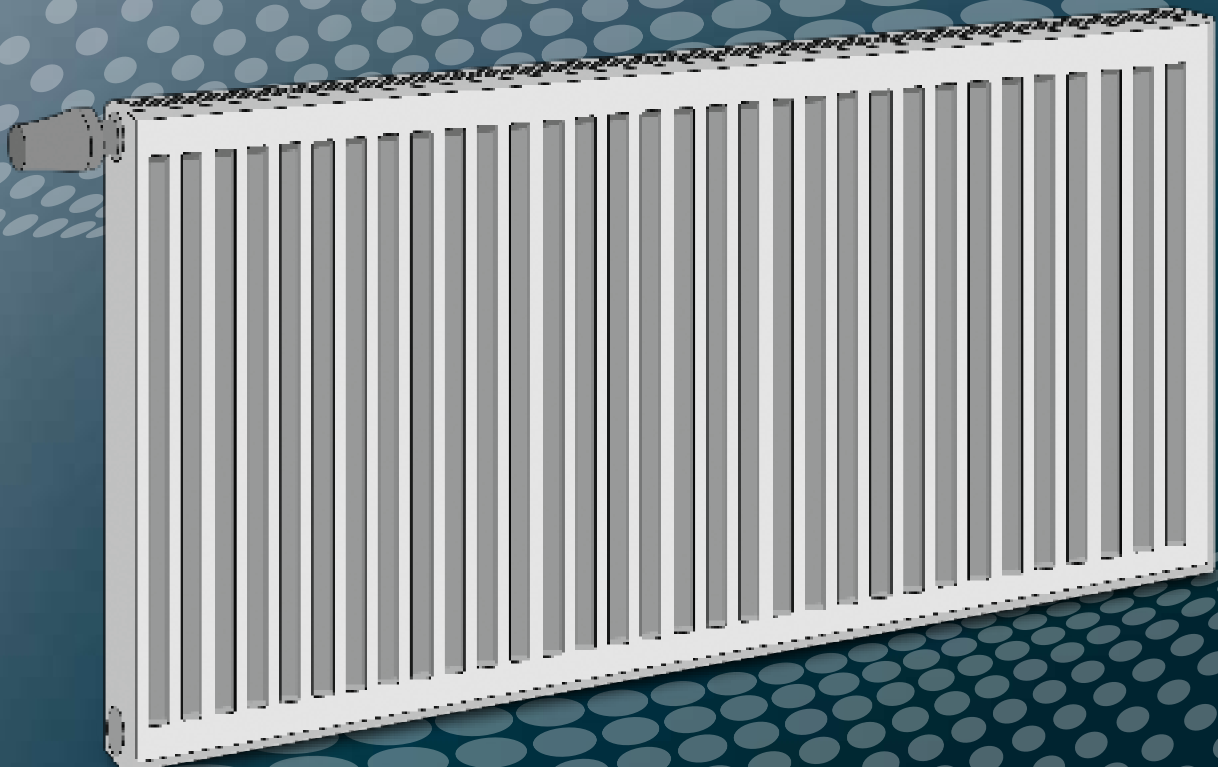
KORADO®

ANNUAL REPORT 2010



KORADO®

ANNUAL REPORT
2010

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FOREWORD FROM THE MANAGING DIRECTOR

Dear Business Partners,

An evaluation of the year 2010 requires that I look back to the latter half of 2008 and the first signs of the crisis that deepened as 2008 came to a close. KORADO, a.s. met this situation head on, adopting and implementing stringent cost-cutting measures allowing us to successfully weather a difficult 2009 and 2010 and greatly reduce debt while staying profitable.

There is no doubt that safe and sensible investment in new technologies for the production of RADIK panel radiators in 2007 (completed in 2008) and for the production of a new line of KORALUX bathroom heating units in 2010 contributed to our success. These investments provided for maximal production flexibility, higher quality products and customer service and reduced costs.

In early 2010, we saw signs of a moderate recovery in the construction industry in 2011. However, these prognoses ultimately proved inaccurate and the recovery forecast was pushed back to 2013.

We had no choice but to react to this new situation and to mobilize further potential cost savings while optimizing production flows to enhance work productivity. We introduced a new work method, which optimally covers customer needs and can instantly respond to stepped up customer timing or quality requirements for our products.

The greatest threat to our Company's continued success is not erratic (mainly stagnant) demand; rather, it is the prevailing uncertainty regarding input material prices, given the pressure to reduce these prices, which continue to rise at regular intervals. I have no doubt we will successfully address this issue, too.

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

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

Once more, thank you for our excellent cooperation in 2010.

František Menclík
Board of Directors Chairman
and Managing Director

CORPORATE STRATEGY AND GOALS

KORADO's primary goal for 2011 is to gradually return to the dynamics of the pre-crisis years while continuing to be a professional business with well-managed processes and maintaining high levels of expertise, technology and administration with a sustained focus on development and investment.

Maintaining market position

The primary objective of the KORADO sales policy in the challenging time ahead is to stabilize existing customer relationships. Thus, our overriding aim is, in collaboration with distributors, to maintain KORADO's exceptionally strong domestic market position and existing market share despite lower projected sales volumes.

Supported by extensive marketing activities at all possible levels, the Company is further upgrading the high quality of supplied goods by improving its readiness to supply the entire product range in a quick and timely manner. The system of active customer relationship management will continue to be key tool in working with customers. This end will be further advanced with the installation of new capillary fitting technology for KORALUX radiator panels.

KORADO Group also intends to enhance customer satisfaction by expanding the radiator product range. The KORADO Design and Development Department is hard at work on heating unit innovations to ensure that even the most exacting requirements of our customers and business partners are met.

Risk hedging

Eliminating and protecting the Company from contingent business and commercial risks remains a crucial task, particularly in today's turbulent business environment stemming from the financial crisis and recession. The credit risk management system, designed to prevent bad debt before it arises and assure the collection of long-standing overdue receivables, will continue to play an important role.

Optimizing radiator production

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

Efficient procurement

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

In the forthcoming period, KORADO will continue to expand its state-of-the-art e-marketing methods, namely the on-line reverse auction. The aim is to step up purchasing efficiency and supplier selection transparency, benchmark KORADO's supplier market position, and diversify 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 2011, so that they create 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.

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

Optimal financing and securing of liquidity

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

Another important objective is the rigorous use of control tools and their application across the entire KORADO Group.

A no less important objective is to continue optimizing the Company's working capital and its financing, which is a task not only for the Finance Department, but above all for the Procurement and Business departments.

COMPANY PROFILE

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

Subject of enterprise:
- Production of central heating radiators
- Production, installation and repair of ventilation equipment
- Production and processing of plastics, including finishing technology
- Accommodation
- Catering
- Purchase of goods for the purpose of their further sale and resale
- Intermediary activity
- Engineering advisory
- Metrological work on industrial products with the exception of official measurements
- Recreational facility operation
- Plumbing and heating
- Production, installation and repair of electrical machines and devices, electronic and telecommunications equipment
- Lease of residential and office space including related services
- Production, sales and servicesnot listed in Annexes 1-3 of the Trade Licensing Act
- Locksmithery, tool making
- Exchange bureau

Joint-stock company KORADO is the Czech Republic's – and one of Europe's – largest manufacturers of steel panel radiators.

KORADO's main production line comprises RADIK panel radiators, KORALUX tubular radiators and KORATHERM design radiators. The Company is continually expanding its product range to include new radiator models, the latest technology and innovative products. A small firm based in Česká Třebová with annual turnover of less than CZK 50 million grew in just a few years into Europe's leading manufacturer of a broad range of heating technologies. The Company's goal is to continue to expand its product line 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 has undergone dynamic growth from a small Czech firm to a successful and ambitious world-class business. The years 1996 and 1997 were a historic milestone for the Company with the construction and launch of a brand new plant for the production of RADIK and KORALUX radiators at a total cost of nearly CZK 3 billion.

Another major KORADO decision was to invest in a fourth production line and related technology. The project, commenced in 2007 and amounting to nearly CZK 600 million, is the second largest investment project in KORADO'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, KORADO 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.

TABLE OF FINANCIAL INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total revenues (in CZK million)	2,093	2,238	2,284	2,552	2,235	2,604	2,725	2,274	1,734	1,576
Year-on-year revenue increase/decrease (%)	(1 %)	7 %	2 %	12 %	(12 %)	17 %	5 %	(17 %)	(24 %)	(9 %)
EBITDA (Earnings before interest, taxes, depreciation and amortization) (CZK million)	98	472	490	720	227	319	317	189	253	183
EBITDA margin (EBITDA/Total revenue) (in %)	5 %	21 %	21 %	28 %	10 %	12 %	12 %	8 %	15 %	12 %
Profit/Loss after tax (CZK million)	(394)	31	111	361	37	114	148	27	66	20
Return on capital (EBIT/Assets less Current liabilities)	(7 %)	14 %	19 %	23 %	7 %	13 %	11 %	4 %	6 %	2 %
Indebtedness (Bank loans/Equity)	6.98	6.23	3.97	1.52	1.08	0.68	0.74	0.96	0.55	0.42
Quick liquidity (Current assets less inventories/Current liabilities*)	1.07	0.89	0.92	0.55	0.55	0.50	0.66	0.48	0.31	0.29
Current liquidity (Current assets/ Current liabilities)*)	1.31	1.06	1.13	0.91	0.72	0.72	0.94	0.68	0.51	0.65
Total assets (CZK million)	3,853	3,671	3,155	2,779	2,464	2,290	2,708	2,935	2,359	2,189
Long-term assets/Total assets ratio (%)	76 %	69 %	72 %	72 %	75 %	76 %	70 %	75 %	86 %	88 %
Days receivables **)	98	98	98	61	45	38	46	53	41	28
Days inventories	50	43	38	44	45	27	34	47	54	41
Days payables	112	110	109	92	104	85	85	109	121	88
Average number of employees (person)	653	683	684	694	687	662	625	660	571	545
Productivity (Net profit/Number of employees)	(0.60)	0.05	0.16	0.52	0.05	0.17	0.24	0.04	0.12	0.04

Note:

*) For the purposes of calculating liquidity, current liabilities only include loan repayments actually effected in 2001–2002. The 2003 figures reflect the intended refinancing of short-term loans in the total amount of CZK 1,274 thousand, due on 30 June 2004, that are not included in current liabilities.

**) In 2003, the Company changed the method of recognizing receivables to include unbilled revenue, formerly recognized in temporary asset accounts.

CORPORATE GOVERNANCE

General Meeting

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

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

Supervisory Board

The Supervisory Board is the top supervisory body of KORADO, a.s., authorized to oversee the performance of the Board of Directors and Company business operations. The composition, performance and authority of the Supervisory Board are laid down in the Commercial Code and Company Articles of Association. The Supervisory Board has six members, of which four are elected and recalled by the General Meeting and two are elected by Company employees pursuant to Section 200 of Act No. 513/1991 Coll., the Commercial Code. The Supervisory Board generally meets once every two months. In 2010, the Supervisory Board held six meetings.

Members of the Supervisory Board at 31 December 2010:

Chairman:	Mr. Ludvík Petr
Vice-chairman:	Mr. Jaromír Hejda
Member:	Ms. Hana Vaňousová
Member:	Mr. Oliver R. Greene
Member:	Ms. Květoslava Najmanová
Member:	Mr. Josef Bíža

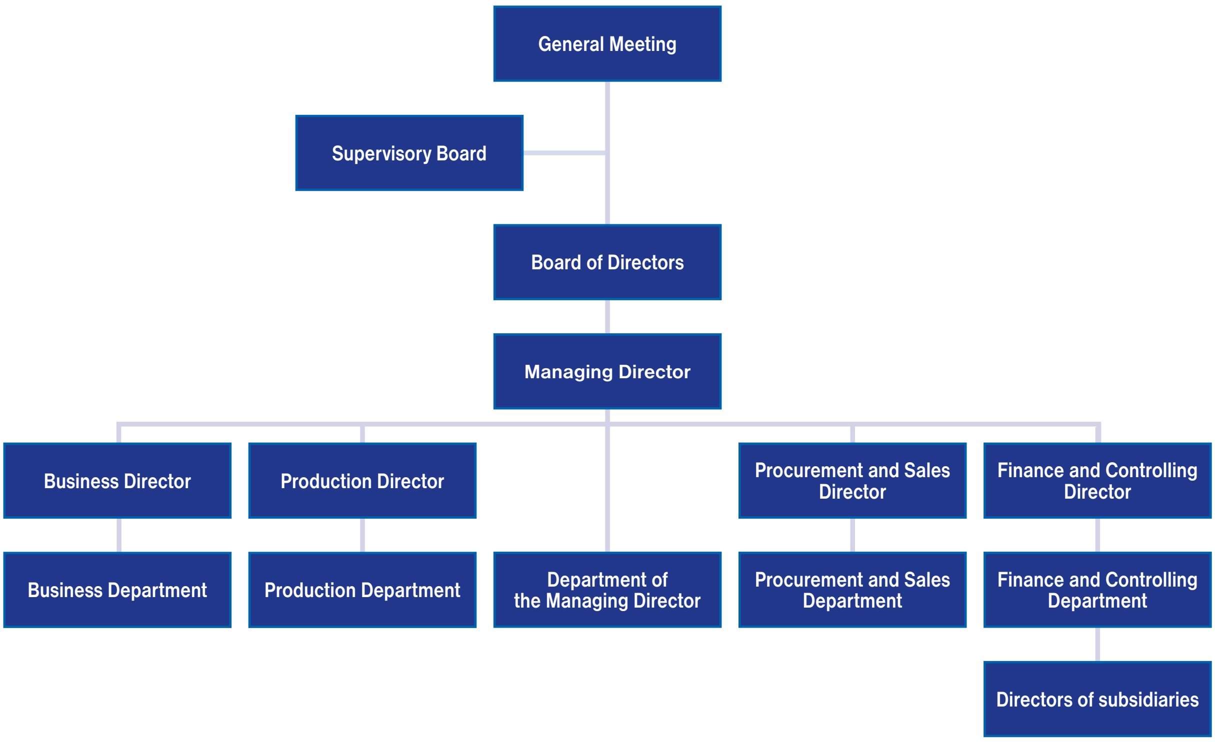
There was one Supervisory Board change in 2010. On 7 October 2010, the employees elected Ms. Hana Vaňousová as a Supervisory Board member to replace Mr. Jindřich Fohl.

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. 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. The Board of Directors usually meets monthly.

Members of the Board of Directors at 31 December 2010:

Chairman:	Mr. František Menclík
Vice-chairman:	Mr. Miroslav Vobora
Member:	Dr. Richard Howard Wilson Brook
Member:	Mr. František Hamáček



Management

The Company is divided into five departments: Managing Director, Business, Production, Procurement and Sales, and Finance and Controlling. The Department of the Managing Director includes the sub-departments: Internal Audit, Quality Control Supervisor, Human Resources and Payroll, and Information Technologies. Each department is headed by the respective director; all directors are subordinate to the Managing Director. The Company is part of the KORADO Group consolidation unit.

František Menclík (born 1943)
Managing Director

Founding member of KORADO. 1999–present, managing director; 1991 - 1999, executive director. In 1968 - 1991 held various management positions at KOVENTA. Secondary school education.

Vojtěch Čamek (born 1956)
Finance and Controlling Director

In the position of finance and controlling director since 2002. In 1992 - 1999 worked with the European Bank for Reconstruction and Development in London; 1982 - 1992, employee of the Czechoslovak State Bank headquarters in Prague. In 1974 - 1982 held administrative positions in several Czech industrial firms. Graduate of the University of Economics in Prague.

Jiří Jeřábek (born 1949)
Business Director

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. In 1990 - 1998 worked at Suomen Motokov OY, Finland, where he was appointed deputy director in 1996. 1987 - 1990, head of the technical documentation and sales department of ZETOR, a.s., Brno; 1982 - 1987, technical director at Suomen Motokov OY, Finland. In 1970 - 1982 held a number of production/technical positions at ZETOR, a.s., Brno. Graduate of the University of Economics in Prague, department of industrial economics.

Ludvík Petr (born 1947)
Production Director

Founding member of KORADO. 2002-present, production director; 1999 - 2002, finance and controlling director; 1991 - 1999, technical director. In 1973 - 1991 held several management and executive positions at KOVENTA. Secondary school education.

Miroslav Vobora (born 1947)
Procurement and Sales Director

Founding member of KORADO. 2002-present, procurement and sales director; 1999 - 2002, production and procurement director; 1991 - 999, business director. In 1968 - 1991 held several management and executive positions at KOVENTA. Secondary school education.

KORADO GROUP

At 31 December 2010, KORADO Group comprised the parent KORADO, a.s., Česká Třebová and six subsidiaries, of which:

5 trading companies	- KORADO Deutschland
	- KORADO Austria (currently inactive)
	- KORADO Polska
	- KORADO Croatia
	- KORADO U.K. (currently inactive)
1 sales company	- KORADO Bulgaria

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 like other equity investments by the Finance and Controlling Department whose representatives serve on the statutory bodies of these companies. Business operations between the parent company and the subsidiaries are conducted through the parent company's Business Department.

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

No controlling 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 has concluded a loan agreement with KORADO Polska. It is a standard agreement concluded at arm's-length prices.

Of all the subsidiaries, only KORADO Bulgaria has taken out bank loans. An investment loan was repaid in March 2010 and an operating revolving loan was repaid in June of the same year.

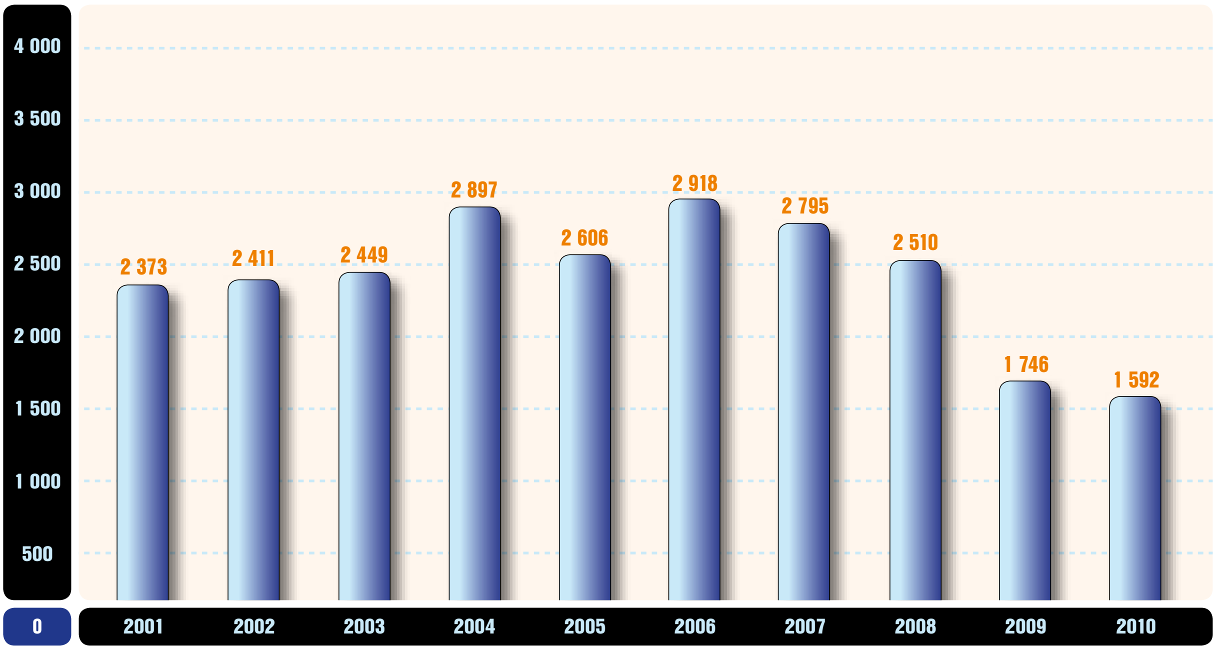
Since 2006, when the Bulgarian subsidiary began more effectively to utilize its panel radiator production capacities within KORADO Group, the process of bringing all corporate, technology and production processes in line with the parent company KORADO in Česká Třebová was completed. The implementation of this project facilitated KORADO Bulgaria's transition into a full-fledged member of KORADO Group. Similarly to the parent, however, the Bulgarian subsidiary was significantly affected by the impact of the global financial crisis and economic recession, the first signs of which appeared in late 2008 and resulted in a sharp drop in panel radiator production compared to preceding years. Since 2009, this subsidiary has supplied all its products to the parent without surface finishing.

KORADOGroup revenues and profit/loss

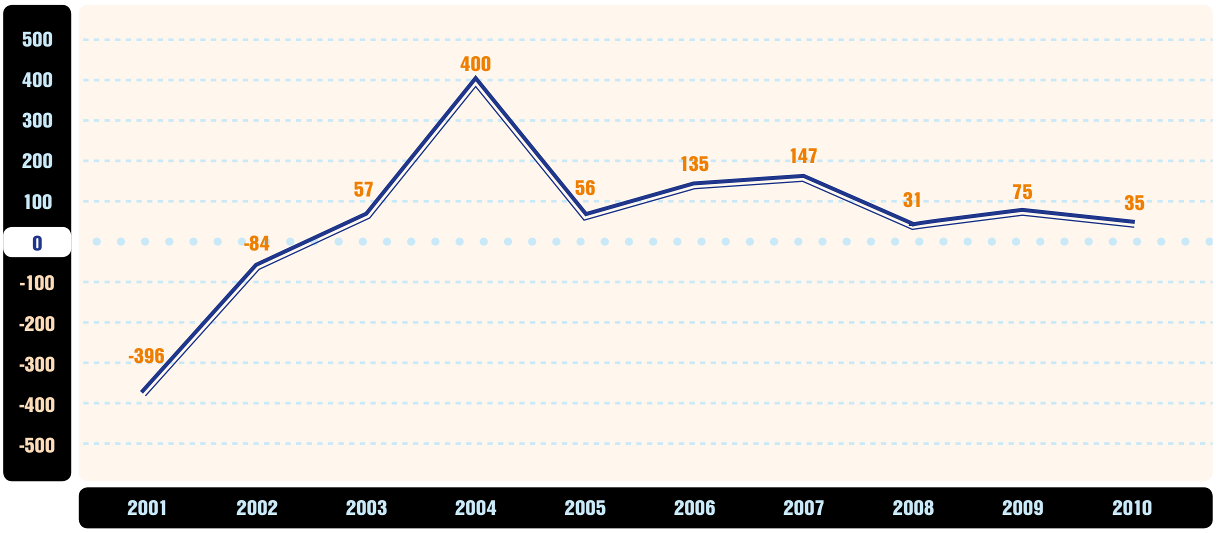
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Consolidated revenues (CZK thousand)	2,372,983	2,411,389	2,448,612	2,896,988	2,605,514	2,917,951	2,795,017	2,510,084	1,745,583	1,592,299
Consolidated profit/loss per IFRS (CZK thousand)	(395,607)	(84,210)	56,644	399,943	55,638	135,428	147,173	31,105	74,912	34,572

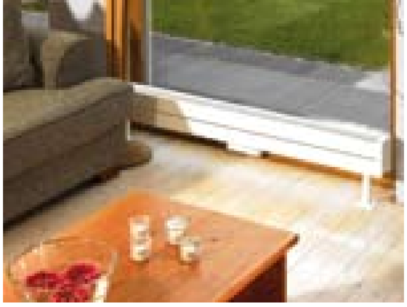
- *The financial results of KORADO Croatia were consolidated using the equity method (the results have not been included in the consolidation since 2009)*
- *Consolidated revenues and consolidated profit/loss in accordance with IFRS for 2008 only include the financial results of KORADO Baltija for Q1 – Q4/2008; this company was sold in June 2008*
- *Consolidated revenues and consolidated profit/loss in accordance with IFRS for 2001 to 2006 include the results of the subsidiary S.A.S., which was sold in November 2006.*

KORADO Group consolidated revenues (CZK mill.)

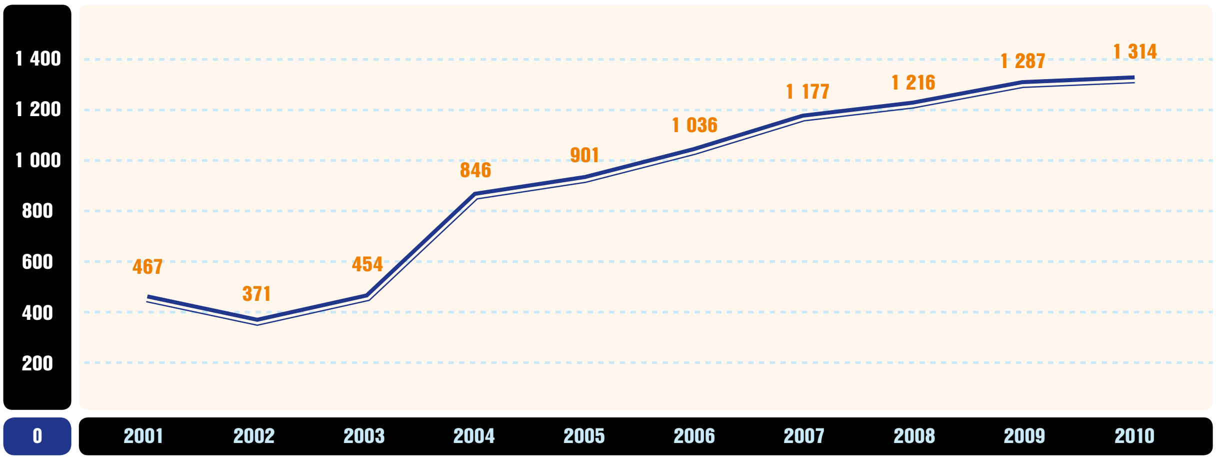


KORADO Group consolidated profit/loss (CZK mill.)



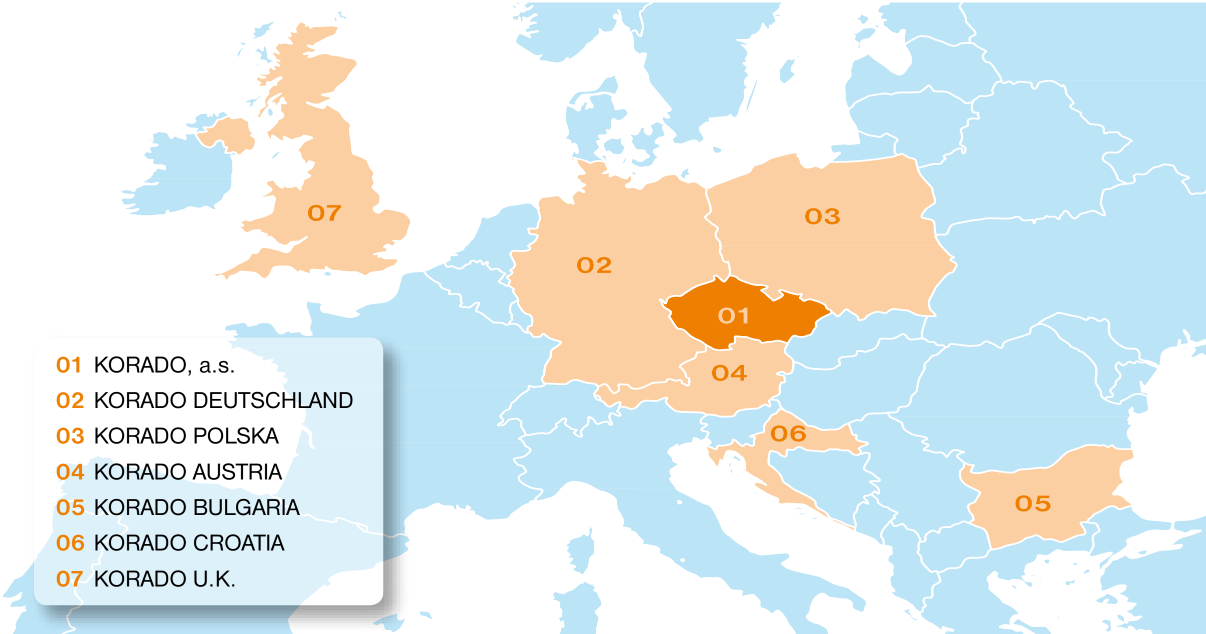


KORADO Group equity (CZK mill.)



DESCRIPTION OF SUBSIDIARIES AND COMPANIES UNDER SIGNIFICANT INFLUENCE

Map of Europe depicting subsidiaries and companies under significant influence



KORADO Group members at 31 December2010:

Company	Date of incorporation	Share capital at 31 December 2010	Director (Authorized Agent)	Registered office	KORADO, a.s. stake	Legal form
KORADO, a.s.	1 September 1996	CZK 840,700 thousand	František Menclík	Bří Hubálků 869 560 02 Česká Třebová Czech Republic	-	Joint-stock company
KORADO DEUTSCHLAND GmbH	28 November 1995	CZK 627 thousand	Marcela Balážová	DR. Wilhelm-Külz-Strasse 61 155 17 Fürstenwalde Germany	100 %	Limited liability company
KORADO Polska, SP. z o.o.	4 December 1996	CZK 45,486 thousand	Žaneta Vebrová	Gen. Okulickiego 4 05-500 Piaseczno Poland	100 %	Limited liability company
KORADO Austria GesmbH	1 July 1998	CZK 26,313 thousand	Leona Vaňková	Ferstelgasse 6/7 1090 WIEN Austria	100 %	Limited liability company
KORADO Bulgaria, AD	1 October 1998	CZK 20,931 thousand	Jiří Řezníček	Gladston 28 5150 Strajica Bulgaria	98,2 %	Joint-stock company
KORADO Croatia, d. o. o.	30 August 1996	CZK 7,153 thousand	Zvonko Miroslavljevič	Stjepana Radiča 24 35000 Slavonski Brod Croatia	51 %	Limited liability company
KORADO UK Limited	25 November 1998	CZK 29 thousand	Vojtěch Čamek	21 Buckle Street, Aldgate East E1 8NN London Great Britain	100 %	Limited liability company

Share capital amounts were translated using the exchange rate effective at 31 December 2010.

KORADO Deutschland GmbH was founded on 28 November 1995 as a trading company engaged in the sale of KORADO brand products on the German and Benelux markets. KORADO, a.s. has a 100% stake in KORADO Deutschland. KORADO Deutschland reported profit/loss of EUR 0 for 2010 due to the fact that profit of EUR 117 thousand (CZK 2,940 thousand) generated through the end 31 December 2010 was used before the annual financial closing to settle a receivable dating back to the year 2000.

At its session of 19 October 2010, the KORADO Deutschland General Meeting decided to effect a supplementary payment from its share capital reduction in an amount of EUR 374 thousand.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total revenues (EUR thousand)	10,786	11,200	8,494	6,527	5,977	5,729	5,007	4,974	4,763	5,090
Profit/loss (EUR thousand)	(132)	(1,485)	581	154	491	498	393	(67)	0	0

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

KORADO Polska reported 2010 profit of PLN 461 thousand (CZK 2,923 thousand).

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total revenues (PLN thousand)	16,733	10,539	8,614	8,914	6,743	7,259	8,351	8,811	8,260	7 542
Profit/loss (PLN thousand)	(207)	(10,364)	(3,860)	3,745	1,442	764	1,044	(1,184)	(682)	461

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

KORADO Austria has been inactive since late 2006, after trading through this subsidiary was terminated and the parent company acquired all its receivables.The subsidiary posted a loss of EUR 1 thousand (CZK 26 thousand) for 2010.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010
Total revenues (EUR thousand)	4,693	5,414	3,209	2,868	3,055	2,223	0	0	0	0
Profit/loss (EUR thousand)	(191)	(2,355)	11	79	103	1,044	(9)	(4)	(8)	(1)

KORADO Bulgaria A.D. – was founded in 1998, when KORADO purchased the shares of a local manufacturing company. KORADO currently has a 98.2 % stake in KORADO Bulgaria. This subsidiary is a manufacturer and all its operations (material procurement, production, sales and finance) are managed by the parent. KORADO Bulgaria's business activity was initially geared towards the Balkan countries (Bulgaria, Greece), the states of the former Yugoslavia and Ukraine. At present, KORADO Bulgaria almost exclusively serves the Bulgarian market.

KORADO Bulgaria posted profit of BGN 768 thousand (CZK 9,925 thousand) for 2010.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total revenues (BGN thousand)	11,465	18,633	17,610	18,303	13,996	17,714	24,019	26,392	12,717	13,540
Profit/loss (BGN thousand)	96	135	41	(362)	(690)	400	(658)	1 527	639	768
Produced panel radiators (units)	102,675	217,724	178,943	195,427	148,926	231,353	374,704	342,558	134,816	166,712

KORADO Croatia d.o.o. – is a trading company founded in 1996 as a joint venture with Agro Eco Commerce. Since its establishment, KORADO, a.s. has held a 51 % stake and Agro Eco Commerce a 49 % stake. Since 2009, KORADO, a.s., has been unable to exercise control over this company due to obstacles created by the other shareholder and ongoing arbitration proceedings.

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

COMPANY HISTORY

1965 Panel radiator production is launchedat the former KOVENTA plant.

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

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

1988 New paint shop put into operation resulting in major quality improvement in radiator surface finishing.

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

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

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

1993 All bank loans facilitating the purchase of the plant are repaid; new investment projects provide for maximum production capacity; the subsidiary KORADO Polska is founded.

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

1995 Business plan is drafted for green-field construction of a new KORADO plant; the subsidiary KORADO Deutschland is founded.

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

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; launch of production in the newly-built Česká Třebová production plant.

1998 Acquisition of a 99% stake in a production plant in Bulgaria and its full consolidation.

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

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

2002 Significant turnaround in Company business – after four consecutive loss-making years, KORADO, a.s., turns profit of CZK 31 million. Restructuring of the major subsidiaries KORADO Polska, KORADO Austria and KORADO Deutschland aimed at boosting 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 loans provided by ČKA redeemed; switch to HVB Bank Czech Republic (today UniCredit Bank Czech Republic); the Company records an all-time high in profit before tax amounting to CZK 375 million.

2005 Significant debt reduction to less than CZK 1 billion. Year-on-year revenues drop to the 2003 figure. Major growth in material costs.

2006 For the first time in its history, the Company manufactures more than 2 million radiators; production of plastics spun off into an independent company that is subsequently sold off; sale of the S.A.S. subsidiary; investment decision made to install a fourth production line.

2007 Investment into the fourth welding line and related technology worth almost CZK 700 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 into fourth welding line and related technology and introduction into operation. This was the second largest investment in KORADO's history and the most extensive investment project since construction of a new plant in 1997. Steel prices soar to all-time highs. A sharp drop in sales in Q4 as a result of the global economic downturn. The KORADO Baltija subsidiary is sold.

2009 Adverse impact of global economic crisis results in a 24 % decline in revenues year-on-year. Rigorous optimization of working capital, significantly improving the Company's financial position.Substantial debt reduction to an all-time low; a 40 % year-on-year decrease in bank loans.

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

FINANCIAL POSITION

The persisting economic crisis again left its mark on KORADO operations in 2010. The drop-off in sales slowed in 2010 compared to the previous two years, despite continuing to fall another 9 % year-on-year. The Company responded to the drop in outputs with substantive cost and working capital savings measures.

Cost-cutting measures

This primarily entailed a 14 % reduction in service costs. The previous year's cost-cutting measures helped reduce personnel costs in 2010 by 5 % year-on-year. There was a radical headcount reduction in support of still higher productivity. This change was carried out in November 2010, and we expect to see most of the associated savings realized in the years to come.

Working capital and debt optimization

During this difficult period, companies are placing more emphasis than ever on working capital optimization. KORADO is no exception. Trade receivable liquidity was improved, days inventory was optimized, a significant portion of bank loans, i.e. CZK 153 million (22 %) was repaid, and current payables decreased year-on-year by CZK 41 million (14 %). Moreover, we made capital investments in bathroom radiators.

Bank loans

The loan portfolio was refinanced in 2010 and bank debt hit a record low compared to previous years. The refinancing process and change from a syndicate to a single bank (Unicredit) represented a major show of confidence in the Company and its future growth by the financing bank given the more favourable financing parameters that were provided (lower interest, longer maturity, greater flexibility, less collateral, possibility for acquisitions, etc.).

Investments

In 2010, capital investment of CZK 30 million went into a new bathroom radiator production fitting line.This should not only mean cost savings in bathroom radiator production, but will also bolster the Company's competitive ability.

The Company successfully underwent audits of its fulfilment of the conditions for investment incentives in the form of tax relief granted in 2007. Audits were performed by the Financial Directorate in Hradec Králové and the Czech Ministry of Industry and Trade. The deadline for use of the incentive is ten years.

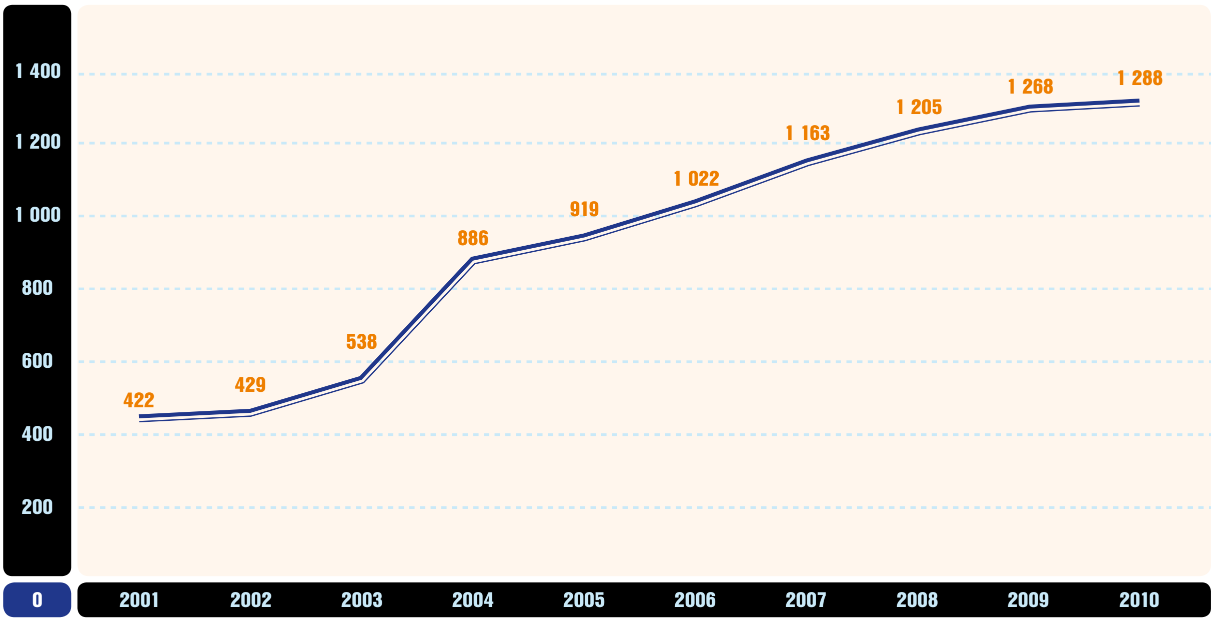
Risk management

Throughout 2010, the Company further tightened its credit policy and, it may be generally said, its overall approach to risk management in terms of financial and, increasingly, other risks (strategic,marketing, production, etc.). Intensive efforts to ensure receivable liquidity and supportability caused trade receivables to report a further year-on-year reduction by 30 %. Unfortunately, some of our smaller business partners entered into bankruptcy in 2010. These cases were resolved together with our credit risk insurer and compensation was received in accordance with the insurance terms. Secure receivables of other customers in certain territories were kept to a record level of 90 % by means of a solid sales and credit policy.

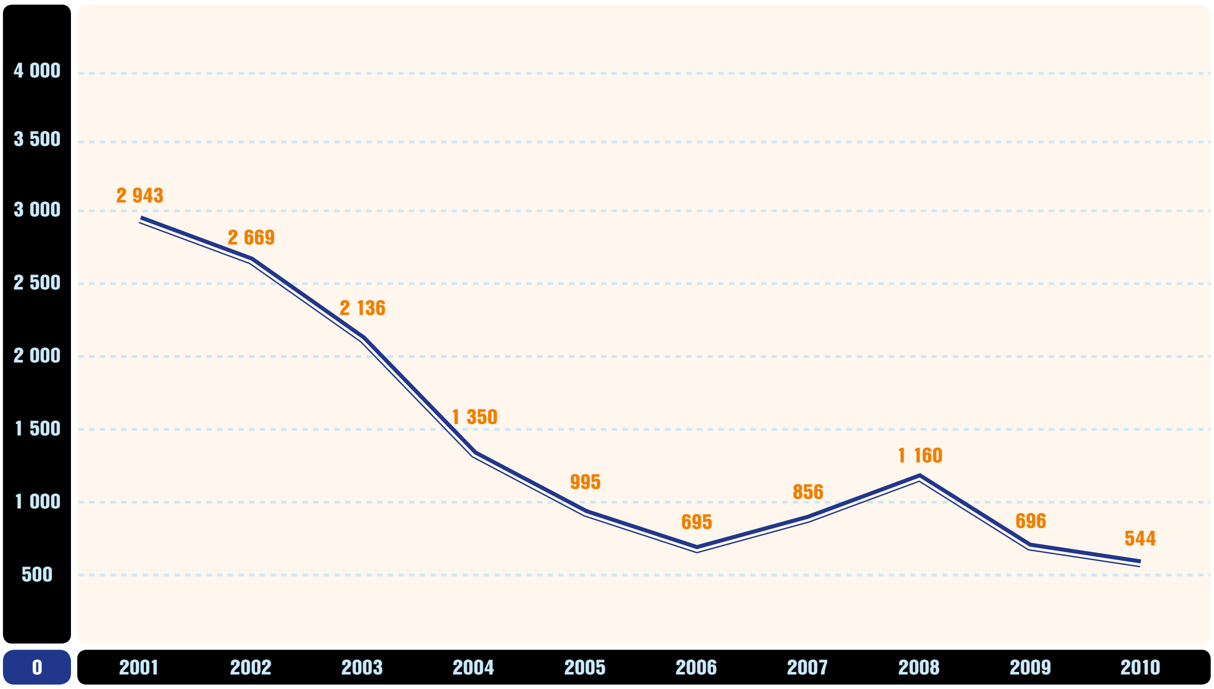
Due to the worsening of the global economic environment, the risk management system connected with our suppliers is also perceived to be a key tool in achieving the most competitive product deliveries possible while guaranteeing full servicing activity on the part of suppliers.

Greater emphasis on managing other categories of risk led to a cross-sectional project led by the Risk Management Department resulting in the creation of a Risk Catalogue containing a categorization of risks and means of their elimination. Work on the catalogue will continue.

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



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



PRODUCTION
MATERIAL PROCUREMENT

The procurement of input material is a very important part of KORADO's production process. Maximum emphasis is placed on quality, sales and delivery terms and, above all, input material prices.

Give the dramatic developments in prices and demand that occurred in 2010, solid cooperation and partnerships with suppliers of priority materials became very important due to their contribution to KORADO's good market position and reputation.

A key element of planning and implementing material procurement is having sufficient in-house and external information. Use of the acquired information makes it easier to ensure high-quality and optimally priced input materials through the procurement management and decision-making process.

The Supplier Rating Committee has become a key part of companywide procurement and has favourably impacted all KORADO's production and non-production units. Electronic auctions create substantial additional savings and have become an important new procurement tool.

Sheet metal prices

In 2010, we continued to see sharp growth in the price of our most important input material – cold-rolled sheet metal, a trend that started in Q3 and accelerated in Q4 2009. Excess demand that exacerbated the ongoing lack of metallurgical material producers'capacities and negative developments in steel production raw material prices (e.g. iron ore and coke) created a strain on KORADO operations.

It is clear from the current dramatic situation that further abrupt changes in supply and demand can be anticipated in future.

Suppliers, stabilization and finding new resources

In 2010, the Company continued to work in a systematic manner with its suppliers while subjecting them to rigorous evaluation. At the same time, the standard process of sourcing new supplies continued while maintaining quality, logistics and service parameters and minimizing procurement risks.

We further optimized the supplier evaluation system, employing solutions which take into account experience gained from working with different suppliers across the entire Company.The evaluation results are analyzed in detail and used in future negotiations.

Days inventory

In 2010, the Company achieved stable days inventory of materials thanks to the efforts of individual procurement staff, the attention devoted to the planning process, communication among KORADO departments and cooperation with suppliers of priority and raw materials.

Sheet metal price development index

Change in sheet metal price compared to opening balance as of 1 January 2001 (in percent).

PRODUCTION AND DEVELOPMENT

In 2010, the Company continued to reduce production shifts. At 1 December 2010, the number of production shifts was reduced from three to two.

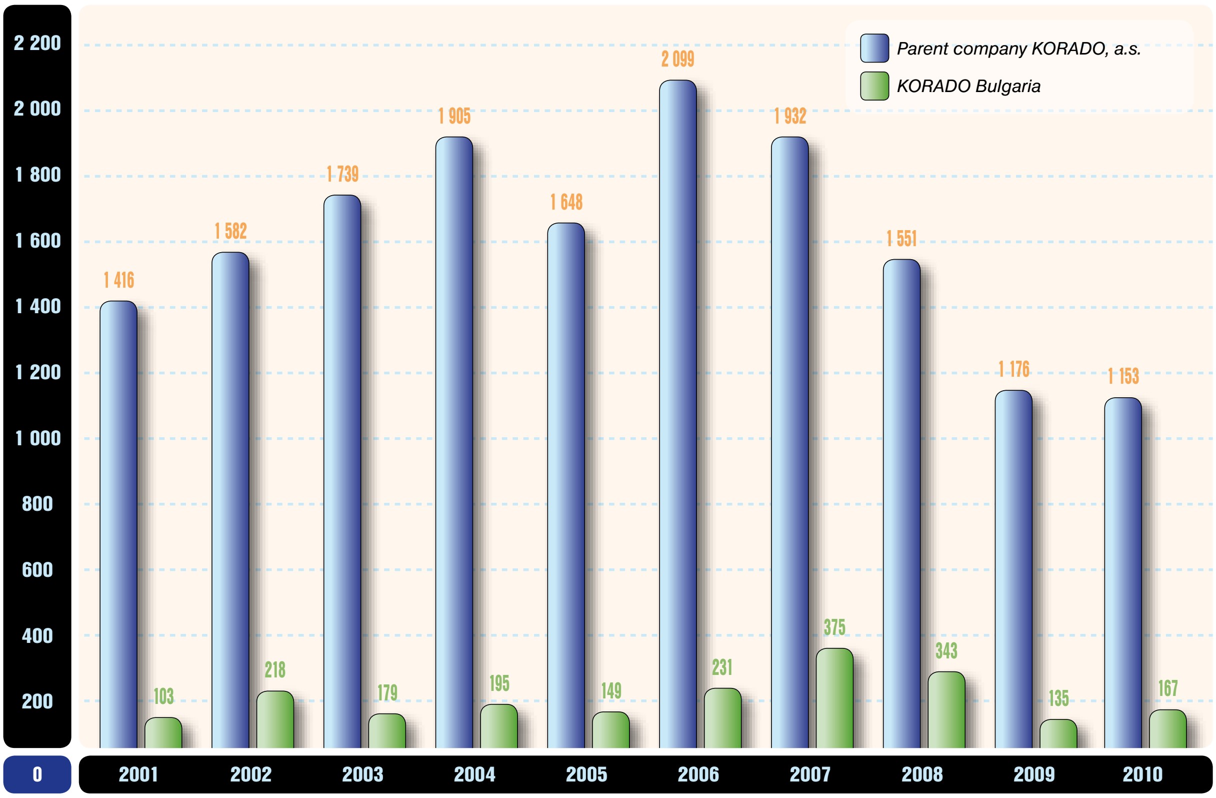
Nonetheless, KORADO continues to regularly manufacture its entire range of products every week.

KORALUX radiator panel production innovation

In 2010, the Company made a capital investment in the installation of capillary fitting technology for KORALUX heating panels in the Company's existing premises. This project means that in 2011, KORADO will be able to deliver a greater number of bathroom radiators at a lower production cost.

All the production technology for fitted tubular panels was brought in over the course of the fourth quarter and installed as received. Production was up and running before the 2010 year-end.

Number of produced panel radiators (parent x KBG)



SALES AND MARKET POSITION

The construction industry continued to feel the effects of the worldwide economic crisis in 2010. Despite the stabilization of the majority of European markets in 2010 – as compared to 2009 when most markets experienced a downturn – revenues reported a year-on-year decline.

KORADO focused on two main areas to address this situation in 2010. The first was adapting to new circumstances on individual markets. Most of this work was directed toward stabilizing relationships with customers for our main commodity – radiator panels. Another key component of our activity was preparing and reaching out to the market for our line of three new tubular radiator panels, which will become available to customers in Q1 2011. Another of our objectives is new market penetration. After performing analyses and studies, we launched a series of projects that are now at the stage of negotiations with potential customers.

In 2010, we once again saw growing interest in the home renovation market, which confirmed we made the right decision in devoting our attention to this market. We are thus continuing to introduce special products for renovation to individual target groups. We gradually established a Pricing and Discount Committee in the course of the year comprising representatives of key departments in order to bolster the dynamic of our business and the corporate expansion strategy. This committee serves to support Business Department management in its commercial and strategic decision-making and the Finance Department with acquisition recommendations.

Europe

The western European markets showed signs of stabilizing in 2010 sooner than those of central and eastern Europe. As the KORADO brand is most active in central and eastern Europe, the stabilization of our key markets still lays ahead.

Czech Republic

The domestic market is by far KORADO's most important, which makes it irreplaceable.The competitive situation in 2010 escalated, especially in KORADO's fight to prevail over other manufacturers in supplying new residential construction projects of all sizes.

Ukraine

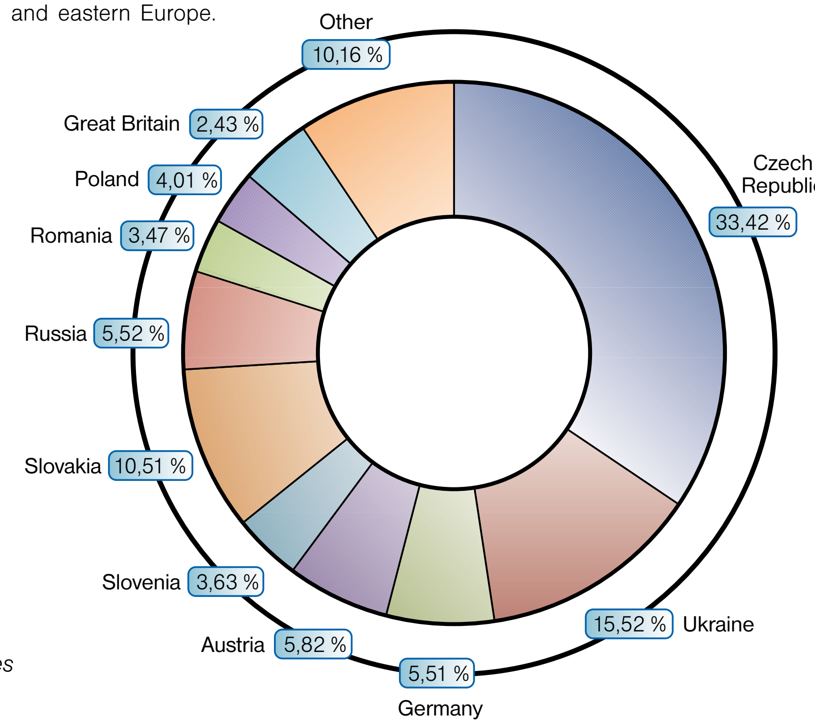
Our good work enabled us to increase sales of panel radiators by 14 % in Ukraine, the second most important market for KORADO. We have established conditions that will motivate further growth in the forthcoming period.

Slovakia

Sales statistics confirm that we have further increased our Slovak market share. We managed to sell our products throughout all of Slovakia, and thanks to the network we have created, the Slovak market continues to have great potential for us.

Austria

Continuing cooperation with Austria's largest specialized wholesaler facilitated 5 % sales growth of panel radiators year-on-year. Our success is in large part due to the service provided on this market by our four sales agents.



Overview of RADIK panel radiator sales in 2010 by country

HUMAN RESOURCES MANAGEMENT

KORADO continuously devotes its attention to maintaining the high standard of our employees' working conditions and environment. Even under difficult circumstances, we incentivize our employees to deliver their best performance as a motivated and qualified work force is key to successful company operation.

Employee education system

The priority in employee education is to further technical and professional training of production staff. An education plan is formulated annually and staff training sessions covering advanced legal standards are conducted on a regular basis (e.g. motorized car operators, electricians, welders).

The primary focus of technical and administrative staff training is maintaining professional expertise and skills in compliance with the requirements associated with the work performed by individual departments and employees.

Employee compensation system

At KORADO, wages are directly tied to the meeting of clearly defined indicators related predominantly to cash flow and profit/loss. Employees are compensated based on their fulfilment of defined indicators.

Incentive system

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

Recreational facilities are also made available to employees under favourable terms. Among other benefits the Company contributes to the life insurance policies of executive staff. A supplementary pension insurance contribution scheme has been in place for many years and the majority of employees take part.

Information distribution and in-house communication

Having sufficient information is critical for efficient management, which is why KORADO 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 is determined to build a stable system enabling all individuals to fully utilize their abilities and skills and develop personally in performing their jobs.

To help acquaint new employees with KORADO's corporate culture, the Company provides them with a "New Employee Manual" summing up key data about the Company and offering practical information.

Goals for 2011

Starting 1 December 2010, the number of production shifts was reduced from three to two while an organizational change meant staff downsizing.

Human resources policy must continue to react flexibly to the ongoing construction industry crisis, including the use of non-standard tools such as shorter work weeks.

QUALITY MANAGEMENT SYSTEM 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, reliable deliveries and reasonable prices.

KORADO's high standard of quality is achieved through our quality assurance system, which forms the backbone of Company management. Ongoing emphasis is placed on improving the quality of this system.

In 2009, KORADO's quality management system was 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 sets annual goals and strategies, which it successfully fulfils according to adopted criteria. In 2010, the Company adopted a corporate policy establishing the key principles of company management and a code of ethics.

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

The environment

The primary goal in environmental management for 2010 was the preparation and implementation of air quality measurement incompliance with newly amended legislation and the handling of chemical substances and products.

Implementation of environmental management principles focused on these targets:

- compliance with amended legal requirements in individual environment-related areas,
- effective reduction of operating costs and energy use,
- minimization of risks and adverse impacts on all elements of the environment,
- increased trustworthiness as a business partner for investors and banks,
- ongoing improvement of relationships with government agencies and the public,
- preparation to obtain commercially useful qualifications (ISO 14000, EMAS registration).

Also of importance is KORADO's work to assure compliance with new water protection requirements. As a result of a change in the government regulation on the operation of other stationary sources, the Company commenced to measure output of welding lines, a central source of pollution.

On 27 April 2010, the Czech Environmental Inspection, Hradec Králové office, initiated an air protection audit. The audit concluded that emissions fell well below the set limits and found the Company to be in full compliance with the Air Protection Act.

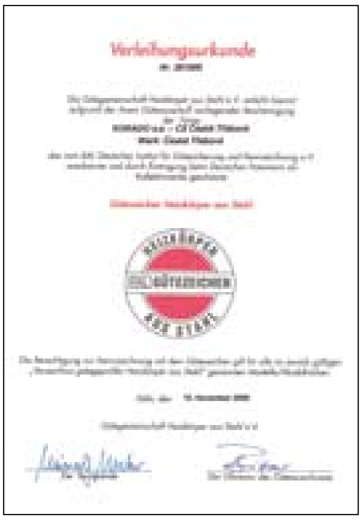
Waste management

Key waste management tasks for 2010 were the adding of collection points in the welding and paint shops and updating of the rules for waste storage site operation.


CERTIFIKÁT

KORADO a.s.

ISO 9001:2008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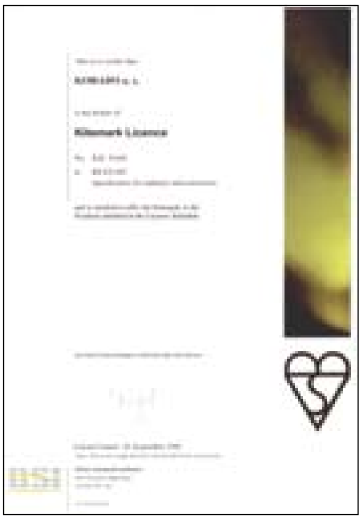
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REPORT OF THE SUPERVISORY BOARD

During the year 2010, the Supervisory Board of KORADO, Inc., met six times in total. All the meetings of the Supervisory Board achieved the required quorum. At its meetings, the Supervisory Board was appraised of the financial results of the company and of all important activities of the Board of Directors of KORADO, Inc.
The Supervisory Board worked in accordance with the approved work plan, which had been coordinated with the work plan of the Board of Directors. Each meeting of the Supervisory Board was attended by the Chairman of the Board of Directors, or by another member thereof.

The Supervisory Board of KORADO, Inc. had the following members from January 1, 2010:

- Mr. Ludvík PETR –Chairman of the Supervisory Board,
- Mr. Jaromír HEJDA –Vice-Chairman of the Supervisory Board
- Mr. Josef BÍŽA –Member of the Supervisory Board
- Mr. Oliver GREENE - Member of the Supervisory Board
- Ms. Květoslava NAJMANOVÁ - Member of the Supervisory Board
- Mr. Jindřich FOHL - Member of the Supervisory Board

The composition of the Supervisory Board changed during the year 2010. On October 27, 2010, the Supervisory Board noted that Ms. Hana Vaňousová became a new member of the Supervisory Board, elected on behalf of the employees of KORADO, Inc., according to the section 200 of the Commercial Code. Ms. Hana Vaňousová replaced Mr. Jindřich Fohl, a long-term member of the Supervisory Board, who died on September 17, 2010.

Fulfillment of duties of the Supervisory Board

The Supervisory Board oversaw the discharge of the responsibilities of the Board of Directors and the implementation of the business activity of the company. Its main duty was to see whether the performance of the Board of Directors was in accordance with the stipulations of the Commercial Code, other valid legal regulations and the valid Articles of Incorporation of the joint-stock company KORADO. The Supervisory Board followed and discussed the company's financial results and the status of property, including information on the state of receivables, on a regular basis. The Supervisory Board performed its control activity in accordance with company's Articles of Incorporation and the legal regulations. The standard tasks which the Supervisory Board dealt with in 2010 contained an on-going monitoring of the fulfillment of the business and financial plan of the company and the financial results for the past period. Other significant areas which the Supervisory Board checked and monitored included mainly the evaluation of the fulfillment of the marketing plan and the discussion on and approval of the Financial Plan of the company for 2011. The Supervisory Board also reviewed the company's plans for extending business activities via acquisitions. The Supervisory Board approved the closing and the conditions of the loan agreement between KORADO, Inc. and UniCredit Bank Czech Republic, Inc. for the refinancing of KORADO's loans. The Supervisory Board approved a change in the Articles of Incorporation of KORADO, Inc. Based upon an Amendment to Act No. 93/2009 Coll., on auditors, Section 17, the auditor must be appointed by the General Meeting of KORADO, Inc. as the Company's supreme body.

On May 28, 2010, the Supervisory Board elected Mr. Ludvík Petr the Chairman of the Supervisory Board for the next term of office, and Mr. Miroslav Vobora and František Menclík the members of the Board of Directors of KORADO, Inc. for the next term of office.
On August 27, the Supervisory Board approved the appointment of members of the Financial Investment Committee of KORADO, Inc., for the next three-year term of office.
During the period in question, the Supervisory Board fulfilled its duties resulting from the wording of the Commercial Code, especially those stipulated in sections 197 to 201.

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

All the members of the Supervisory Board, regularly received minutes from the meetings of the Board of Directors, based upon which they checked the fulfillment of the assigned tasks. The meetings of the Board of Directors were regularly attended by the Chairman of the Supervisory Board or by a commissioned member of the Supervisory Board. 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 of the Board of Directors. 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 91st meeting held on April 1, 2011, the Supervisory Boardwas 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, Inc. and the KORADO Group respectively, as of Dec. 31, 2010, presented by the Board of Directors. The supplements to the regular financial statement and the consolidated financial statement according to the IFRS standards for 2010 are included in the full version in the Annual Report of the KORADO company for 2010. Based upon the review of the financial statement, the Supervisory Board recommended the General Meeting to approve the financial statement of the company KORADO, Inc. and the consolidated financial statement according to the IFRS standards of the KORADO Group as of Dec. 31, 2010.
The Supervisory Board, after having checked the proposal of the Board of Directors to distribute the 2010 profit (from the profit in the amount of 19,644,382.55 CZK, to use the amount of 982,219.00 CZK as a contribution to the reserve fund and to transfer the amount of 18,662,163.55 CZK to the undivided profit), states that the proposed distribution of the profit is in accordance with the legal requirements and the articles of incorporation of KORADO, Inc., and thus recommends the General Meeting to approve the proposal for the 2010 profit distribution in the manner presented by the company's Board of Directors.

In Česká Třebová on April 1, 2011

Ludvík Petr
Chairman of the Supervisory Board

Ing. Jaromír Hejda
Vice-Chairman of the Supervisory Board

INDEPENDENT AUDITOR'S REPORT

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 2010 presented in the annual report of KORADO, a.s. on pages 45 – 72, on which we have issued an auditor's report dated 15 March 2011, presented in the annual report on page 46. We have also audited the separate financial statements of the Company as at 31 December 2010 which are presented in the annual report of the Company on pages 27 – 44 on which we have issued an auditor's report dated 15 March 2011, presented in the annual report of the Company on page 28 (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 respect, with the financial statements. We have checked that the accounting information presented in the annual report on pages 5 – 24 is consistent with that contained in the audited financial statements as at 31 December 2010. 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.

Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the above-mentioned financial statements.

Ernst & Young

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

Petr Vácha

Petr Vácha
Auditor, License No. 1948

15 March 2011
Prague, Czech Republic

Financial Statements for the year ended 31 December 2010 together with Auditor's Report

INDEPENDENT AUDITOR'S REPORT

ERNST & YOUNG

To the Board of Directors of KORADO, a.s.:

We have audited the accompanying financial statements of KORADO, a.s., which comprise the balance sheet as at 31 December 2010, 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. 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 2010, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

Ernst & Young

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

Petr Vácha

Petr Vácha
Auditor, License No. 1948

15 March 2011
Prague, Czech Republic

BALANCE SHEET - LONG FORM

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

				Current year			Prior year 2009
				Gross	Provisions	Net	Net
			TOTAL ASSETS	**5 060 489**	**(2 871 521)**	**2 188 968**	**2 359 256**
A.			**STOCK SUBSCRIPTION RECEIVABLE**				
B.			**FIXED ASSETS**	**4 772 025**	**(2 837 937)**	**1 934 088**	**2 031 702**
B.	I.		Intangible assets	176 942	(158 169)	18 773	16 779
B.	I.	1	Foundation and organization expenses	895	(895)	-	-
		2	Research and development	-	-	-	-
		3	Software	168 210	(155 709)	12 501	15 473
		4	Patents, royalties and similar rights	2 404	(1 565)	839	871
		5	Goodwill	-	-	-	-
		6	Other intangible assets	-	-	-	-
		7	Intangible assets in progress	5 433	-	5 433	435
		8	Advances granted for intangible assets	-	-	-	-
B.	II.		Tangible assets	4 386 620	(2 521 341)	1 865 279	1 958 520
B.	II.	1	Land	25 465	-	25 465	25 785
		2	Buildings	1 676 897	(546 706)	1 130 191	1 168 867
		3	Separate movable items and groups of movable items	2 591 812	(1 945 514)	646 298	725 995
		4	Perennial crops	-	-	-	-
		5	Livestock	-	-	-	-
		6	Other tangible assets	59 495	(29 121)	30 374	31 574
		7	Tangible assets in progress	31 698	-	31 698	2 541
		8	Advances granted for tangible assets	1 253	-	1 253	3 758
		9	Gain or loss on revaluation of acquired property	-	-	-	-
B.	III.		Financial investments	208 463	(158 427)	50 036	56 403
B.	III.	1	Subsidiaries	159 532	(109 496)	50 036	51 229
		2	Associates	-	-	-	-
		3	Other long-term securities andinterests	-	-	-	-
		4	Loans to subsidiaries and associates	48 931	(48 931)	-	-
		5	Other long-term investments	-	-	-	849
		6	Acquisitions of financial investments	-	-	-	4 325
		7	Advances granted for long-term investments	-	-	-	-
C.			**CURRENT ASSETS**	**270 573**	**(33 584)**	**236 989**	**315 381**
C.	I.		Inventory	131 857	(1 718)	130 139	122 716
C.	I.	1	Materials	96 963	(1 358)	95 605	82 948
		2	Work in progress and semi-finished production	8 338	-	8 338	6 926
		3	Finished products	21 486	(287)	21 199	26 352
		4	Livestock	-	-	-	-
		5	Goods	5 070	(73)	4 997	6 468
		6	Advances granted for inventory	-	-	-	22
C.	II.		Long-term receivables	1 192	-	1 192	1 464
C.	II.	1	Trade receivables	1 192	-	1 192	1 464
		2	Receivables from subsidiaries	-	-	-	-
		3	Receivables from associates	-	-	-	-
		4	Receivables from partners, co-operative members and participants in association	-	-	-	-
		5	Long-term advances granted	-	-	-	-
		6	Unbilled revenue	-	-	-	-
		7	Other receivables	-	-	-	-
		8	Deferred tax asset	-	-	-	-
C.	III.		Short-term receivables	133 662	(31 866)	101 796	145 194
C.	III.	1	Trade receivables	127 756	(31 866)	95 890	141 422
		2	Receivables from subsidiaries	-	-	-	76
		3	Receivables from associates	-	-	-	-
		4	Receivables from partners, co-operative members and participants in association	-	-	-	-
		5	Social security and health insurance	-	-	-	-
		6	Due from government - tax receivables	2 267	-	2 267	2 668
		7	Short-term advances granted	2 535	-	2 535	-
		8	Unbilled revenue	859	-	859	767
		9	Other receivables	245	-	245	261
C.	IV.		Short-term financial assets	3 862	-	3 862	46 007
C.	IV.	1	Cash	468	-	468	433
		2	Bank accounts	3 394	-	3 394	45 574
		3	Short-term securities and interests	-	-	-	-
		4	Short-term financial assets in progress	-	-	-	-
D.			**OTHER ASSETS - TEMPORARY ACCOUNTS OF ASSETS**	**17 891**	**-**	**17 891**	**12 173**
D.	I.		Accrued assets and deferred liabilities	17 891	-	17 891	12 173
D.	I.	1	Prepaid expenses	12 527	-	12 527	11 281
		2	Prepaid expenses (specific-purpose expenses)	-	-	-	-
		3	Unbilled revenue	5 364	-	5 364	892

BALANCE SHEET - LONG FORM

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

				Current year	Prior year 2009
			TOTAL EQUITY & LIABILITIES	**2 188 968**	**2 359 256**
A.			**EQUITY**	**1 288 181**	**1 268 381**
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	(47 904)	(48 060)
A	II.	1	Share premium (agio)	-	-
		2	Other capital funds	48	48
		3	Gain or loss on revaluation of assets and liabilities	(47 952)	(48 108)
		4	Gain or loss on revaluation of company transformations	-	-
A	III.		Reserve funds and other funds created from profit	44 745	41 425
A	III.	1	Legal reserve fund	44 745	41 425
		2	Statutory and other funds	-	-
A.	IV.		Profit (loss) for the previous years	430 996	367 921
	IV.	1	Retained earnings for the previous years	430 996	367 921
		2	Accumulated loss of previous years	-	-
A.	V.		Profit (loss) for the year (+/-)	19 644	66 395
B.			**LIABILITIES**	**884 837**	**1 075 512**
B.	I.		Reserves	14 631	11 751
B.	I.	1	Reserves created under special legislation	-	-
		2	Reserve for pensions and similar obligations	-	-
		3	Reserve for corporate income tax	-	-
		4	Other reserves	14 631	11 751
B.	II.		Long-term liabilities	72 161	72 161
B.	II.	1	Trade payables	-	-
		2	Liabilities to subsidiaries	-	-
		3	Liabilities to associates	-	-
		4	Liabilities to partners, co-operative members and participants in association	-	-
		5	Advances received	-	-
		6	Bonds payable	-	-
		7	Notes payable	-	-
		8	Unbilled deliveries	-	-
		9	Other liabilities	-	-
		10	Deferred tax liability	72 161	72 161
B.	III.		Current liabilities	254 443	295 233
B.	III.	1	Trade payables	209 560	245 247
		2	Liabilities to subsidiaries	29	30
		3	Liabilities to associates	-	-
		4	Liabilities to partners, co-operative members and participants in association	-	-
		5	Liabilities to employees	15 775	16 698
		6	Liabilities arising from social security and health insurance	6 303	7 639
		7	Due to government – taxes and subsidies	2 629	2 631
		8	Advances received	751	-
		9	Bonds payable	-	-
		10	Unbilled deliveries	19 048	22 644
		11	Other liabilities	348	344
B.	IV.		Bank loans and borrowings	543 602	696 367
B.	IV.	1	Long-term bank loans	433 602	374 000
		2	Short-term bank loans	110 000	322 367
		3	Borrowings	-	-
C.			**OTHER LIABILITIES - TEMPORARY ACCOUNTS OF LIABILITIES**	**15 950**	**15 363**
C.	I.		Accrued liabilities and deferred assets	15 950	15 363
C.	I.	1	Accruals	15 950	14 863
		2	Deferred income	-	500

INCOME STATEMENT - LONG FORM

Czech StatutoryFinancialStatementForms (in thousandsof Czech crowns)

				Current year	Prior year 2009
	I.	1	Revenuefromsaleofgoods	19 566	29 794
A.		2	Costofgoods sold	16 046	26 622
	+		**Gross margin**	**3 520**	**3 172**
	II.		Production	1 559 218	1 661 599
	II.	1	Revenuefromsaleoffinishedproducts and services	1 556 240	1 704 129
		2	Change in inventoryproducedinternally	(840)	(46 337)
		3	Ownworkcapitalized	3 818	3 807
B.			Productionrelatedconsumption	1 102 757	1 105 720
B.		1	Consumptionofmaterial and energy	955 802	935 335
B.		2	Services	146 955	170 385
	+		**Valueadded**	**459 981**	**559 051**
C.			Personnelexpenses	287 078	303 569
C.		1	Wages and salaries	222 881	242 046
C.		2	Bonuses to membersofcompanyorcooperationbodies	916	924
C.		3	Socialsecurity and healthinsurance	60 165	57 590
C.		4	Othersocialcosts	3 116	3 009
D.		1	Taxes and charges	1 548	1 846
E.		1	Amortization and depreciationofintangible and tangiblefixedassets	144 494	148 937
	III.		Revenuefromsaleofintangible and tangiblefixedassets and materials	8 117	23 477
	III.	1	Revenuesfromsaleofintangible and tangiblefixedassets	2 407	19 223
		2	Revenuefromsaleofmaterials	5 710	4 254
F.			Net bookvalueofintangible and tangiblefixedassets and materials sold	5 079	43 138
F.		1	Net bookvalueofintangible and tangiblefixedassets sold	413	38 744
F.		2	Materials sold	4 666	4 394
G.		1	Change in reserves and provisionsrelating to operations and in prepaidexpenses (specific-purposeexpenses)	9 573	(11 606)
	IV.	1	Otheroperatingrevenues	6 747	15 264
H.		2	Otheroperatingexpenses	18 978	19 572
	V.	1	Transfer ofoperatingrevenues	-	-
I.		2	Transfer ofoperatingexpenses	-	-
	*		**Profit orloss on operatingactivities**	**8 095**	**92 336**
	VI.	1	Revenuefromsaleofsecurities and interests	-	-
J.		2	Securities and interests sold	-	-
	VII.		Incomefromfinancialinvestments	-	-
	VII.	1	Incomefromsubsidiaries and associates	-	-
		2	Incomefromother long-term securities and interests	-	-
		3	Incomefromotherfinancialinvestments	-	-
	VIII.	1	Incomefromshort-term financialassets	-	-
K.		2	Expensesrelated to financialassets	-	-
	IX.	1	Gain on revaluationofsecurities and derivatives	-	-
L.		2	Loss on revaluationofsecurities and derivatives	-	-
M.		1	Change in reserves and provisionsrelating to financialactivities	(15 179)	(1 459)
	X.	1	Interestincome	1 325	5 975
N.		2	Interestexpense	19 098	38 991
	XI.	1	Other finance income	50 301	48 087
O.		2	Other finance cost	36 158	42 471
	XII.	1	Transfer of finance income	-	-
P.		2	Transfer of finance cost	-	-
	*		**Profit orloss on financialactivities**	**11 549**	**(25 941)**
Q.			Tax on profit orloss on ordinaryactivities	-	-
Q.		1	- due	-	-
Q.		2	- deferred	-	-
	**		**Profit orloss on ordinaryactiviesaftertaxation**	**19 644**	**66 395**
	XIII.	1	Extraordinarygains	-	-
R.		2	Extraordinarylosses	-	-
S.		1	Tax on extraordinary profit orloss	-	-
S.		1	- due	-	-
S.		2	- deferred	-	-
	*		**Extraordinary profit orloss**	**-**	**-**
T.		1	Transfer ofshareof profit orloss to partners (+/-)	-	-
	***		**Profitorlossfortheyear (+/-)**	**19 644**	**66 395**
	****		**Profitorlossbeforetaxation**	**19 644**	**66 395**

CASH FLOW STATEMENT

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

				Current year	Prior year 2009
			Cash flows from operating activities		
Z.			**Profit or loss on ordinary activities before taxation (+/-)**	**19 644**	**66 395**
A.	1.		Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	130 931	174 560
A.	1.	1.	Depreciation and amortization of fixed assets, write-off of receivables and adjustment to acquired property	144 493	149 304
A.	1.	2.	Change in provisions	(8 487)	(14 385)
A.	1.	3.	Change in reserves	2 880	1 322
A.	1.	4.	Foreign exchange differences	(23 734)	(14 218)
A.	1.	5.	(Gain)/Loss on disposal of fixed assets	(1 994)	19 521
A.	1.	6.	Interest expense and interest income	17 773	33 016
A.	1.	7.	Other non-cash movements (e.g. revaluation at fair value to profit or loss, dividends received)	-	-
A*			**Net cash from operating activities before taxation, changes in working capital and extraordinary items**	**150 575**	**240 955**
A.	2.		Change in non-cash components of working capital	(41 232)	71 146
A.	2.	1.	Change in inventory	(6 999)	92 065
A.	2.	2.	Change in trade receivables	30 055	96 316
A.	2.	3.	Change in other receivables and in prepaid expenses and unbilled revenue	(7 984)	20 515
A.	2.	4.	Change in trade payables	(51 793)	(141 460)
A.	2.	5.	Change in other payables, short-term loans and in accruals and deferred income	(4 511)	3 710
A**			**Net cash from operating activities before taxation, interest paid and extraordinary items**	**109 343**	**312 101**
A.	3.	1.	Interest paid	(19 102)	(40 782)
A.	4.	1.	Tax paid	56	14 698
A.	5.	1.	Gains and losses on extraordinary items	-	-
A***			**Net cash provided by (used in) operating activities**	**90 297**	**286 017**
			Cash flows from investing activities		
B.	1.	1.	Purchase of fixed assets	(26 918)	(30 086)
B.	2.	1.	Proceeds from sale of fixed assets	19 457	2 173
B.	3.	1.	Loans granted	76	(2 466)
B.	4.	1.	Interest received	1 325	5 998
B.	5.	1.	Dividends received	-	-
B***			**Net cash provided by (used in) investing activities**	**(6 060)**	**(24 381)**
			Cash flows from investing activities		
C.	1.	1.	Change in long-term liabilities and long-term, resp. short-tem, loans	(126 382)	(455 225)
C.	2.	1.	Effect of changes in basic capital on cash	-	-
C.	2.	2.	Dividends or profit sharing paid	-	-
C.	2.	3.	Effect of other changes in basic capital on cash	-	-
C***			**Net cash provided by (used in) financing activities**	**(126 382)**	**(455 225)**
F.			**Net increase (decrease) in cash**	**(42 145)**	**(193 589)**
P.			**Cash and cash equivalents at beginning of year**	**46 007**	**239 595**
R.			**Cash and cash equivalents at end of year**	**3 862**	**46 007**

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 2010 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 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 2010 were as follows:

Board of Directors

Chair:	Menclík František
Vice-chair:	Vobora Miroslav
Member:	Brook Howard, Dr.
Member:	Hamáček František, Ing.

Supervisory Board

Chair:	Petr Ludvík
Vice-chair:	Hejda Jaromír, Ing.
Member:	Najmanová Květoslava, Ing.
Member:	Bíža Josef, Ing.
Member:	Vaňousová Hana, Ing.
Member:	Greene Oliver R.

The Company owns interests in the following subsidiaries and associates: KORADO Deutschland GmbH, KORADO Polska, Sp. z o.o., KORADO Austria GesmbH., KORADO Bulgaria AD, KORADO Croatia d.o.o. and KORADO UK.

During the meeting on 7 October 2010, the Supervisory Board elected its new member Ing. Hana Vaňousová, who replaced Mr. Fohl. The change was recorded in the Commercial Register on 22 November 2010.

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 2010 and 2009.
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 2010. The result of consolidation performed in compliance with International Financial Reporting Standards (IFRS) is consolidated equity at the amount of CZK 1,314,243 thousand, consolidated profit of CZK 34,572 thousand and total consolidated assets of CZK 2,239,298 thousand as at 31 December 2010.

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 2010 and 2009 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 are amortized over their useful economic lives (which may not exceed five years).

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:

Assets	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 impairment provision.

Loans extended to subsidiaries are carried at their realizable value after impairment provision. Temporary decline in value is recorded on the basis of estimated recoverability of these loans as an impairment provision. Loans and receivables provided to a subsidiary with negative equity as at 31 December 2010 and 2009 are reduced through an impairment provision 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 impairment provision.

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 impairment provision. Additions to the impairment provision account are charged to income.

Receivables sold with recourse (factoring) are recorded at their nominal value as other trade receivables until paid by customer. Cash advances received from the factoring company are presented within short-term liabilities.

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

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

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

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

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

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

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

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

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

As at 31 December 2010 and 2009, 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 or impairment provisions 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 impairment provisions, entertainment expenses, differences between book and tax depreciation, etc.). The statutory tax rate for 2010 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.

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	166,170	-	-	2,040	168,210
Patents, royalties and similar rights	2,216	-	-	188	2,404
Intangibles in progress	435	7,226	-	(2,228)	5,433
Advances for intangibles	-	-	-	-	-
2010 Total	**169,716**	**7,226**	**-**	**-**	**176,942**
2009 Total	167,386	2,414	(84)	-	169,716

ACCUMULATED AMORTIZATION

	At beginning of year	Amortization of year	Disposals	At end of year	Net book value
Foundation and organization expenses	(895)	-	-	(895)	-
Software	(150,697)	(5,012)	-	(155,709)	12,501
Patents, royalties and similar rights	(1,345)	(220)	-	(1,565)	839
Intangibles in progress	-	-	-	-	5,433
Advances for intangibles	-	-	-	-	-
2010 Total	**(152,937)**	**(5,232)**	**-**	**(158,169)**	**18,773**
2009 Total	(148,277)	(4,744)	84	(152,937)	16,779

The total value of small intangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 4,460 thousand and CZK 4,115 thousand as at 31 December 2010 and 2009, respectively.

b) Tangible Fixed Assets (in CZK thousands)

COST

	At beginning of year	Additions	Disposals	Transfers	At end of year
Land	25,785	-	(320)	-	25,465
Buildings	1,677,038	-	(559)	418	1,676,897
Machinery and equipment	2,565,115	-	(253)	18,911	2,583,773
Vehicles	8,039	-	-	-	8,039
Other tangibles	33,184	-	-	451	33,635
Art works and collections	25,860	-	-	-	25,860
Tangibles in progress	2,541	44,401	-	(15,244)	31,698
Advances for tangibles	3,758	2,031	-	(4,536)	1,253
2010 Total	**4,341,320**	**46,432**	**(1,132)**	**-**	**4,386,620**
2009 Total	4,406,120	10,546	(75,346)	-	4,341,320

ACCUMULATED DEPRECIATION

	At beginning of year	Depreciation	Disposals	At end of year	Net book value
Land	-	-	-	-	25,465
Buildings	(508,171)	(39,003)	468	(546,706)	1,130,191
Machinery and equipment	(1,842,826)	(96,837)	253	(1,939,410)	644,363
Vehicles	(4,333)	(1,771)	-	(6,104)	1,935
Other tangibles	(27,470)	(1,651)	-	(29,121)	4,514
Art works and collections	-	-	-	-	25,860
Tangibles in progress	-	-	-	-	31,698
Advances for tangibles	-	-	-	-	1,253
2010 Total	**(2,382,800)**	**(139,262)**	**721**	**(2,521,341)**	**1,865,279**
2009 Total	(2,275,210)	(144,192)	36 602	(2,382,800)	1,958,520

As at 31 December 2010 and 2009, assets with a cost of CZK 55,483 thousand and CZK 54,468 thousand, respectively, and a net book value of CZK 41,409 thousand and CZK 42,389 thousand, respectively, were not used by the Company for production (primarily paintings and recreational facilities including their equipment). Management believes that the recoverable value is no less then the recorded net book value.

As at 31 December 2010 and 2009, assets (buildings, land, machinery and equipment) with a cost of CZK 2,440,234 thousand and CZK 2,826,467 thousand, respectively and a net book value of CZK 1,287,878 thousand and CZK 1,491,601 thousand, respectively were pledged as security for loans from UniCredit Bank Czech Republic, a.s. (see Note 13).

The total value of small tangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 14,928 thousand and CZK 14,148 thousand as at 31 December 2010 and 2009, respectively.

As at 31 December 2009, the Company sold the KORADO Hotel including the land. Revenues from the sale were CZK 17,002 thousand; the net book value including an impairment provision as at the date of sale was CZK 23,674 thousand. In connection with the sale, an impairment provision against tangible fixed assets of CZK 13,929 thousand was released in 2009.

c) Long-Term Financial Investments

Summary of changes in long-term financial investments (in CZK thousands):

	Balance as at 31. 12. 2009	Additions	Disposals	Balance as at 31. 12. 2010
Subsidiaries and associates	173,161	-	(13,629)	159,532
Loans to subsidiaries	51,674	-	(2,743)	48,931
Other long-term investments	849	-	(849)	-
Acquisitions of financial investments	4,325	-	(4,325)	-
Impairment provisions	(173,606)	-	15,179	(158,427)
Total	**56,403**	**-**	**(6,367)**	**50,036**

Subsidiaries and associates as at 31 December 2010 were as follows (in CZK thousands):

Name Registered office	KORADO Deutschland Germany	KORADO Croatia Croatia	KORADO Bulgaria Bulgaria	KORADO Polska Poland	KORADO Austria Austria	KORADO UK Great Britain	Total
Percentage of ownership	100	51	98.2	100	100	100	-
Total assets	24,703	4,767	93,291	15,347	286	29	138,423
Equity	(12,786)	3,833	67,559	(53,135)	(30)	29	5,470
Basic capital	627	7,153	20,931	45,486	26,313	29	100,539
Profit/loss for the current year	-	(2,408)	9,925	2,923	(26)	-	10,414
Acquisition cost of interest	15,411	426	50,037	67,317	26,313	29	159,532
Nominal value of interest	627	3,648	20,554	45,486	26,313	29	96,657
Intrinsic value of interest	-	1,955	66,343	-	-	29	68,327
Impairment provision for investments in subsidiaries and associates	(15,411)	(426)	-	(67,317)	(26,313)	(29)	(109,496)
Impairment provision against loans	-	-	-	(48,931)	-	-	(48,931)
Impairment provision against receivables	(12,786)	(1,400)	-	(4,404)	-	-	(18,590)

In 2010, the Company was not able to exercise control over KORADO Croatia due to restrictions on the part of the other shareholder and pending arbitration proceedings.

Subsidiaries and associates as at 31 December 2009 were as follows (in CZK thousands):

Name Registered office	KORADO Deutschland Germany	KORADO Croatia Croatia	KORADO Bulgaria Bulgaria	KORADO Polska Poland	KORADO Austria Austria	KORADO UK Great Britain	Total
Percentage of ownership	100	51	98.2	100	100	100	-
Total assets	35,554	7,714	88,719	23,022	353	30	155,392
Equity	(6,700)	6,590	60,963	(57,290)	(5)	30	3,588
Basic capital	662	7,528	22,106	46,495	27,789	30	104,610
Profit/loss for the current year	-	(2,784)	8,632	(4,172)	(217)	-	1,459
Acquisition cost of interest	26,183	450	51,229	67,480	27,789	30	173,161
Nominal value of interest	662	3,839	21,708	46,495	27,789	30	100,523
Intrinsic value of interest	-	3,361	59,866	-	-	30	63,257
Impairment provision against investments in subsidiaries and associates	(26,183)	(450)	-	(67,480)	(27,789)	(30)	(121,932)
Impairment provision against loans	-	-	-	(51,674)	-	-	(51,674)
Impairment provision against receivables	(6,710)	-	-	(5,615)	-	-	(12,325)

In 2009, the Company was not able to exercise control over the above company due to restrictions on the part of the other shareholder and pending arbitration proceedings.

Financial information about KORADO Bulgaria 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 impairment provision 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 impairment provision was created against financial investments in subsidiaries and associates whose equity is negative or where another uncertainty exists in the recoverability of investment; an impairment provision was established against loans provided to and receivables from a subsidiary with negative equity up to the negative equity (see Note 7).
On 19 October 2010, the Annual General Meetings of KORADO Deutschland decided on the payment of additional charge amounting to EUR 374 thousand relating to the decrease of basic capital of the company in 2008.

Profit or loss generated by the subsidiaries and associates was as follows (in CZK thousands):

	2010	2009
KORADO Deutschland	-	-
KORADO Croatia	(2,408)	(2,784)
KORADO Polska	2,923	(4,172)
KORADO Bulgaria	9,925	8,632
KORADO Austria	(26)	(217)
Total	**10,414**	**1,459**

Loans granted to subsidiaries as at 31 December were as follows (in CZK thousands):

	Maturity	2010	2009
KORADO Polska	31. 12. 2011*	48,931	51,674
Total loans		**48,931**	**51,674**
Impairment provision		(48,931)	(51,674)
Total		**-**	**-**

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

In 2010 and 2009, interest from loans to subsidiaries amounted to CZK 1,290 thousand and CZK 3,833 thousand, respectively.

Other long-term financial investments as at 31 December were as follows (in CZK thousands):

	2010 Nominal value	2009 Nominal value
Loan to Josef Janda	-	849
Total	-	849

5. INVENTORY

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

6. RECEIVABLES

Impairment provisions against outstanding receivables that are considered doubtful (including receivables ceded to the factoring company Transfinance) were charged to income based on estimated recoverability of receivables in 2010 and 2009, respectively (see Note 7).
As at 31 December 2010 and 2009, receivables overdue for more than 180 days (from non-related parties) totaled CZK 13,252 thousand and CZK 12,566 thousand, respectively.

The Company wrote off irrecoverable receivables of CZK 12 thousand and CZK 397 thousand in 2010 and 2009, respectively due to cancellation of bankruptcy proceedings, etc. Any impairment provisions created against these receivables were reversed.

The Company concluded a contract with a factoring company, Transfinance a.s., for the purchase of receivables with recourse (see Note 3e). The receivables ceded to this company amounted to CZK 38,569 thousand and CZK 17,253 thousand as at 31 December 2010 and 2009, respectively. Impairment provisions against these receivables reflect their recoverability.

The maturity of certain receivables of EUR 1,074 thousand (CZK 26,907 thousand) from KORADO Deutschland was postponed in 2000 and there is no fixed repayment date. Based on the financial results of KORADO Deutschland, portions of these receivables in the amount of EUR 117 thousand (CZK 2,940 thousand) and EUR 117 thousand (CZK 3,096 thousand), respectively became due as at 31 December 2010 and 2009.

Receivables of CZK 58,282 thousand and CZK 107,810 thousand, respectively were pledged as collateral as at 31 December 2010 and 2009 to secure loans granted by UniCredit Bank Czech Republic, a.s. (see Note 13).

Receivables from related parties (see Note 20).

7. IMPAIRMENT PROVISIONS

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

Changes in the impairment provision accounts (in CZK thousands):

Impairment provisions against:	Balance as at 31. 12. 2009	Changes	Balance as at 31. 12. 2010
Long-term financial assets	173,606	(15,179)	158,427
Inventory	2,142	(424)	1,718
Receivables – statutory	11,584	(68)	11,516
Receivables – other	13,166	7,184	20,350
Total	**200,498**	**(8,487)**	**192,011**

Legal impairment provisions are created in compliance with the Act on Provisions.

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

8. SHORT-TERM FINANCIAL ASSETS

As at 31 December 2010 short term financial assets in the amount of CZK 3,465 thousand were pledged as security for loans from UniCredit Bank Czech Republic, a.s. (see Note 13).

9. OTHER ASSETS

As at 31 December 2010 and 2009, prepaid expenses included in particular the costs of CZK 5,039 thousand and CZK 3,440 thousand, respectively, incurred in loan refinancing that have been accrued over the term of the loan and are amortized over the period of loan repayment. Expenses of CZK 3,440 thousand and CZK 1,147 thousand, respectively, were charged to finance costs in 2010 and 2009. Prepaid expenses also include lease installments, property insurance and software maintenance costs, which are charged to income for the year in which they were incurred.

In 2010 unbilled revenues include, in particular, a credit note from Korado Bulgaria and in 2009 supplier bonuses.

10. EQUITY

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

The movements in the capital accounts during 2010 and 2009 were as follows (in CZK thousands):

	Balance as at 31. 12. 2009	Increase /Transfers	Decrease /Transfers	Balance as at 31. 12. 2010
Number of shares	2,402	-	-	2,402
Basic capital	840,700	-	-	840,700
Other capital funds	48	-	-	48
Differences arising from revaluation of assets and liabilities	(48,108)	10,568	(10,412)	(47,952)
Legal reserve fund	41,425	3,320	-	44,745
Retained earnings	367,921	63,075	-	430,996
Profit for the current year	66,395	19,644	(66,395)	19,644

As at 31 December 2010 and 2009, ownership interests in subsidiaries and associates denominated in foreign currencies were recalculated at the year-end exchange rate published by the Czech National Bank, with any arising exchange rate differences being posted to revaluation accounts.

The Annual General Meetings held on 30 June 2010 and 30 June 2009, respectively, approved the following profit distribution for 2009 and 2008 (in CZK thousands):

Profit for 2009	**66,395**
Allocation to legal reserve fund	(3,320)
Undistributed profits added to retained earnings	63,075
Retained earnings as at 31 December 2010	430,996

Profit for 2008	**26,895**
Allocation to legal reserve fund	(1,345)
Undistributed profits added to retained earnings	25,551
Retained earnings as at 31 December 2009	367,921

11. PROVISIONS

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

Provisions	Balance as at 31. 12. 2009	Changes	Balance as at 31. 12. 2010
Warranty repairs	6,951	(366)	6,585
Accrued vacation	4,800	(323)	4,477
Ligitation	-	3,569	3,569
Total	**11,751**	**2,880**	**14,631**

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

A provision of CZK 3,569 thousand was created for ongoing legal dispute based on the assessment of the probability of its outcome.

12. CURRENT LIABILITIES

As at 31 December 2010 and 2009, the Company did not have any current liabilities overdue for more than 180 days.

The Company uses the services of a factoring company, Transfinance, a.s. (see Note 6), that pays an advance of 90 % of a maximum limit of financing set for the respective customers. As at 31 December 2010 and 2009, this payable amounted to CZK 38,039 thousand and CZK 24,979 thousand, respectively.

As at 31 December 2010, unbilled deliveries include, in particular, unbilled deliveries of materials and annual customer bonuses. As at 31 December 2009, unbilled deliveries include, in particular, unbilled deliveries of materials and anual management bonuses.
Payables to related parties (see Note 20).

13. BANK LOANS

Bank	Terms	Total limit (in thousands)	2010 (in CZK thousands)	2009 (in CZK thousands)
Long-term loans:				
Unicredit Bank Czech Republic, a.s.	Investment	CZK 495,000	-	180,000
Unicredit Bank Czech Republic, a.s.	Investment	CZK 200,000	-	120,000
Unicredit Bank Czech Republic, a.s.	Investment	EUR 18,000	-	285,822
Unicredit Bank Czech Republic, a.s.	Operational	CZK 550,000	520,000	-
Short-term loans:				
Unicredit Bank Czech Republic, a.s.	Operational overdraft	EUR 8,300	-	110,545
Unicredit Bank Czech Republic, a.s.	Operational overdraft	CZK 30,000	11,245	-
Unicredit Bank Czech Republic, a.s.	Operational overdraft	EUR 3,500	12,357	-
Less current portion			(110,000)	(322,367)
Net			433,602	374,000

As at 25 November 2010, a new bank loan agreement between KORADO, a.s. and UniCredit Bank Czech Republic, a.s. was concluded. Existing bank loans from a syndicate of banks and Bulbank were fully repaid on 30 November 2010 and replaced solely by loans from UniCredit Bank Czech Republic, a.s.

The new investment loans are denominated in Czech crowns. An exchange rate gain from refinancing of CZK 26,377 thousand was booked.

The UniCredit Bank Czech Republic, a.s. loan agreement includes covenants: equity ratio and net debt to EBITDA ratio to be fulfilled by the Company so that the loan structure and interest can be maintained. As at 31 December 2010, the Company failed to meet the Net Debt/EBITDA ratio. After the year-end the Company received a statement approving the breach of the ratio in question. As at 31 December 2009, the loan covenants were fulfilled.

The interest expense relating to bank loans for 2010 and 2009 was CZK 18,543 thousand and CZK 37,362 thousand, respectively.

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

Year	Bank loans
2011	110,000
2012	133,602
2013	110,000
2014	110,000
2015	80,000
Total	**543,602**

Bank loans extended by UniCredit Bank Czech Republic, a.s. are secured by the pledge of movable and immovable assets (see Note 4b), by the pledge of trade receivables (see Note 6), by the pledge of short-term financial assets (see Note 8) and by the cession of receivables from property insurance benefits exceeding CZK 5,000 thousand per insurance claim.

14. OTHER LIABILITIES

Accruals include, in particular, costs of electricity, gas and communications, and bonuses to customers.

15. INCOME TAXES

	2010 (in CZK thousands)	2009 (in CZK thousands)
Profit before taxes	19,644	66,395
Differences between book and tax depreciation	(97,017)	(83,698)
Reversal of impairment provisions	(8,418)	(13,838)
Creation of provisions	2,880	1,322
Other (e.g. receivable write-off, entertainment expenses, shortages and losses)	15,429	36,388
Tax base before adjustments	(67,482)	6,569
Tax loss carry forward used	-	(4,898)
Taxable income / (tax loss)	(67,482)	1,671
Current income tax rate (in %)	19 %	20%
Tax due	-	334
Tax relief	-	(334)
Income tax	**-**	**-**

Based on the tax legislation, the Company is allowed to carry on tax losses incurred in 2008 and 2010 to the next five years. The tax loss which was not used in 2010 and will be carried on to following years amounted to CZK 72,537 thousand as at 31 December 2010.

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

Deferred tax items	2010		2009	
	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	-	(118,464)	-	(126,321)
Other temporary differences:				
Impairment provision receivables	334	-	160	-
Impairment provision against inventory	327	-	407	-
Provisions and unpaid social and health insurance	2,101	-	2,233	-
Tax loss not claimed	13,782	-	27,595	-
Deferred tax asset from investment incentives	29,759	-	23,765	-
Total	**46,303**	**(118,464)**	**54,160**	**(126,321)**
Net	-	(72,161)		(72,161)

In 2008, the Company launched the 4th production line which was financed through investment incentives. The amount of potential investment incentive related to capital expenditures already incurred was approximately CZK 170 million as at 31 December 2010 and 2009. The Company plans to meet all relevant criteria for drawing these funds and use the investment incentive in the future and, in addition, the Company believes to generate sufficient taxable profits in the future in order to claim the investment incentive. The Company did not record a deferred tax asset from the investment incentive in full amount as its recovery is uncertain. However, the Company recorded a deferred tax asset of CZK 29,759 thousand and CZK 23,765 thousand, respectively, as at 31 December 2010 and 2009.

16. LEASES

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

Assets which are being used by the Company under operating leases as at 31 December 2010 and 2009 consist of the following (in CZK thousands):

Description	Expense in 2010	Expense in 2009
Copy machines	1,798	1,817
Fork-lift trucks	5,530	5,710
Total	**7,328**	**7,527**

Annual rent expense includes also operational maintenance services.

Assets which are being used by the Company under finance leases (i.e. the assets are transferred to the Company when the lease term expires) as at 31 December 2010 and 2009 consist of the following (in CZK thousands):

Description	Terms /conditions	Total lease	Cumulated payments made as at 31. 12. 2010	Cumulated payments made as at 31. 12. 2009	Remaining payments as at 31. 12. 2010 Due within one year	Remaining payments as at 31. 12. 2010 Due over one year
Vehicles	2007-2010	3,362	3,362	3,238	-	-
Total		**3,362**	**3,362**	**3,238**	**-**	**-**

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 and finance leases, which are not shown on the balance sheet (see Note 16).

18. REVENUES

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

	2010			2009		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Radiator production	659,401	887,733	1,547,134	793,944	896,010	1,689,954
Other	12,414	16,258	28,672	18,968	25,001	43,969
Total revenues	671,815	903,991	1,575,806	812,912	921,011	1,733,923

In 2010 and 2009 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):

	2010		2009	
	Total personnel	Of which directors and managers	Total personnel	Of which directors and managers
Average number of employees	545	20	571	20
Wages and salaries	222,881	69,248	242,046	84,895
Social security	60,165	8,321	57,590	6,387
Social cost	3,116	-	3,009	-
Total personnel expenses	**286,162**	**77,569**	**302,645**	**91,282**

The members and former members of statutory and supervisory bodies received total remuneration of CZK 916 thousand and CZK 924 thousand in 2010 and 2009, respectively.

20. RELATED PARTY INFORMATION

No loans, guarantees, advances or other benefits were granted to members of statutory bodies in 2010 and 2009.

As at 31 December 2010 and 2009, the members of statutory and supervisory bodies and executive officers held 660 shares of the Company, respectively.

The Company sells products to related parties in the ordinary course of business. Sales were CZK 183,091 thousand and CZK 195,282 thousand in 2010 and 2009, respectively.

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

Related party	2010	2009
KORADO Deutschland	26,427	28,815
KORADO Croatia	4,623	4,944
KORADO Polska	18,016	26,592
KORADO Bulgaria	472	-
Total	**49,538**	**60,351**

The Company purchases products and receives services from related parties in the ordinary course of business. Purchases were CZK 157,134 thousand and CZK 145,911 thousand in 2010 and 2009, respectively.

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

Related party	2010	2009
KORADO Bulgaria	7,695	15,348
KORADO Austria	224	316
Total	**7,919**	**15,664**

Loans to subsidiaries (see Note 4c).

21. SIGNIFICANT ITEMS OF INCOME STATEMENT

Other operating expenses include in particular insurance expenses, accounts receivable, loans and financial investments write-offs. Other finance income and costs include in particular exchange rate gains and losses.

22. SUBSEQUENT EVENTS

As at 25 January 2011, a contract with Transfinance a.s. regarging cession of receivables was terminated. As a result, KORADO, a.s. has drawn additional CZK 30 million of the investment loan from UniCredit Bank Czech Republic, a.s.

UniCredit Bank Czech Republic, a.s., provided the Company with a statement dated 24 February 2011 approving the breach of the Net Debt/EBITDA ratio as at 31 December 2010 (see Note 13).

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:
15 March 2011	**František Menclík** Chairman of the Board of Directors and CEO	**Pavlína Kovářová** Chief accountant	**Ing. Vojtěch Čamek** Finance and Controlling Director

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS AT 31 DECEMBER 2010 TOGETHER WITH REPORT OF INDEPENDENT AUDITORS

KORADO®

INDEPENDENT AUDITOR'S REPORT

ERNST & YOUNG

To the Board of Directors 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 2010, 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.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KORADO Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Ernst & Young

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

Petr Vácha

Petr Vácha
Auditor, License No. 1948

15 March 2011
Prague, Czech Republic

KORADO Group
CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2010

(In CZK thousands)	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment, net	3	1,900,950	2,003,027
Intangible assets, net	4	31,261	29,792
Investments, net	6	-	5,174
Other non-current assets		1,192	1,464
Deferred tax asset	20	1,137	1,243
Total non-current assets		**1,934,540**	**2,040,700**
Current assets			
Inventories, net	7	158,528	138,755
Accounts receivable, net	8	101,475	142,524
Prepayments and other current assets	9	20,151	15,462
Income tax receivable	20	87	143
Cash and cash equivalents	10	24,517	64,278
Total current assets		**304,758**	**361,162**
Total assets		**2,239,298**	**2,401,862**
EQUITY AND LIABILITIE			
Shareholders' equity			
Share capital	11	840,700	840,700
Retained earnings, funds and translation reserve	11	472,327	445,795
Total shareholders' equity attributable to equity holders of the parent		**1,313,027**	**1,286,495**
Non-controlling interest		1,216	820
Total shareholders' equity		**1,314,243**	**1,287,315**
Non-current liabilities			
Long-term debt, net of current portion	12	1,286	378,105
Deferred tax liabilities	20	71,215	71,305
Total non-current liabilities		**72,501**	**449,410**
Current liabilities			
Short-term borrowings and current portion of long-term debt	12	538,631	329,501
Payables and other current liabilities	13	298,073	322,212
Provisions for liabilities and charges	14	15,850	13,424
Total current liabilities		852,554	665,137
Total equity and liabilities		**2,239,298**	**2,401,862**

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

KORADO Group
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

(In CZK thousands)	Note	2010	2009
Revenues from sales, net	15	1,592,299	1,745,583
Cost of materials, energy and purchased goods	16	(924,579)	(961,206)
Depreciation and amortization		(152,486)	(158,031)
Wages and salaries		(306,031)	(322,217)
Purchased services	17	(164,032)	(181,180)
Other expenses, net	18	(14,622)	(15,960)
Interest expense, net of capitalized interest		(19,584)	(40,708)
Interest income		102	2,168
Exchange rate gains, net		31,324	14,456
Other financial expenses, net	19	(7,125)	(6,126)
Profit before income taxes		**35,266**	**76,779**
Income taxes	20	(694)	(1,867)
Profit after income taxes		**34,572**	**74,912**
Other comprehensive income:			
Currency translation differences		(3,319)	(1,360)
Total comprehensive income		**31,253**	**73,552**
Profit after income taxes attributable to:			
Equity holders of the parent		34,393	74,800
Non-controlling interest		179	112
		34,572	**74,912**
Total comprehensive income attributable to:			
Equity holders of the parent		30,857	73,440
Non-controlling interest		396	112
		31,253	**73,552**

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

KORADO Group
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

(In CZK thousands)	Share Capital	Translation Reserve	Retained Earnings and Funds (Note 11)	Total Equity Attributable to Equity Holders of the Parent	Non-controlling Interest	Total Shareholders' Equity
Balance as at 31 December 2008	**840,700**	**(35,764)**	**408,119**	**1,213,055**	**2,591**	**1,215,646**
Profit after income taxes	-	-	74,800	74,800	112	74,912
Other comprehensive income	-	(1,360)	-	(1,360)	-	(1,360)
Total comprehensive income	**-**	**(1,360)**	**74,800**	**73,440**	**112**	**73,552**
Change in non-controlling interest (Note 5)	-	-	-	-	(1,883)	(1,883)
Balance as at 31 December 2009	**840,700**	**(37,124)**	**482,919**	**1,286,495**	**820**	**1,287,315**
Profit after income taxes	-	-	34,393	34,393	179	34,572
Other comprehensive income	-	(3,536)	-	(3,536)	217	(3,319)
Total comprehensive income	**-**	**(3,536)**	**34,393**	**30,857**	**396**	**31,253**
Transaction costs related to business combinations (Note 2u)	-	-	(4,325)	(4,325)	-	(4,325)
Balance as at 31 December 2010	**840,700**	**(40,660)**	**512,987**	**1,313,027**	**1,216**	**1,314,243**

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

KORADO Group
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

(In CZK thousands)	Note	2010	2009
OPERATING ACTIVITIES			
Profit before income taxes		**35,266**	**76,779**
Adjustments for:			
Depreciation and amortization		152,486	158,031
Receivables and loans write-off	18	11,131	397
Finance costs, net		19,482	38,540
Change in impairment provisions and provisions, net	18	(11,890)	(87)
Foreign exchange gains, net		(31,324)	(14,456)
Loss/(gain) on sale of property, plant and equipment	18	(1,993)	5,592
Changes in assets and liabilities:			
Inventories		(19,848)	145,167
Receivables and other current assets		34,815	78,809
Payables and other current liabilities		(38,968)	(159,801)
Income taxes (paid)/recovered		(622)	14,399
Net cash from operating activities		**148,535**	**343,370**
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(48,081)	(41,906)
Proceeds from sale of property, plant and equipment		19,457	2,173
Interest received		102	2,168
Decrease of cash due to change in consolidation method of KORADO Croatia	5	-	(3,275)
Change in long-term financial investments and other non-current assets		1,121	(236)
Net cash from investing activities		**(27,401)**	**(41,076)**
FINANCING ACTIVITIES			
Debt drawings		542,223	62,234
Repayments of debt		(683,064)	(525,282)
Change in lease obligation		(450)	(3,213)
Interest paid, net of capitalized interest		(19,588)	(42,498)
Net cash from financing activities		**(160,879)**	**(508,759)**
Net decrease in cash		**(39,745)**	**(206,465)**
Cash and cash equivalents at beginning of year	**10**	**64,278**	**270,754**
Effect of exchange rate changes on cash and cash equivalents		(16)	(11)
Cash and cash equivalents at end of year	**10**	**24,517**	**64,278**

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2010 (In thousand CZK)

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 2010 and 2009 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 and associates over which the Company exercises control or has significant influence:

	2010 % of voting rights	2009 % of voting rights	Country of incorporation	Activity
KORADO Deutschland GmbH	100	100	Germany	Distribution of radiators
KORADO Croatia d.o.o. ***	51	51	Croatia	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

*** Since 1 January 2009 the Group started to account for the investment in KORADO Croatia d.o.o. using the equity method due to the restrictions on control imposed by the non-controlling shareholder (see Note 5).

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. IFRS as adopted by the European Union which are relevant to and used by the Group do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB).

b) Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention.

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

c) Principles of Consolidation

Business combinations and goodwill

The consolidated financial statements of the Group include the Parent Company and the companies controlled by the Parent Company. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital or has the power to govern the financial and operating policies of the enterprise. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group had control.

Identical accounting principles are used for similar transactions and other accounting events in the consolidated financial statements. If needed, adjustments are made to the financial statements of controlled companies so that the accounting procedures used correspond to the requirements and procedures used by the Group.

Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

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

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.

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 are recognized in profit or loss.

d) Use of Estimates

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

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

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

Impairment of fixed assets

At the end of 2008, the level of demand in the industry relevant to the Group was affected by a downturn. The management of the Company believes the trend to be just temporary. In the opinion of the Company management, the discounted value of future cash flows to be generated up to the end of the useful life of fixed assets ("value in use") will exceed the carrying value of fixed assets; therefore, there is no need to account for additional impairment of fixed assets. The value in use was determined based on a 5-year business plan, using a discount factor of 8.9 % and assuming an average 9.3 % annual growth in sales and approximately 9.9 % annual growth in cost of material over 5-year period. An average growth in post-tax cash-flows is estimated at 6.2 % over next 5 years. The model also assumes zero growth in perpetuity. If the discount rate increased above 10.9 % or the post-tax cash-flows decreased by approximately CZK 40 million or more each year (i.e. resulting in an average growth rate in post-tax cash flows of 2 % or less) and all other variables held constant, the model would indicate additional impairment of fixed assets.

Useful lives and residual values of non-current assets

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

Deferred income taxes

The Group created a provision for deferred income taxes in consideration of the temporary differences. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and the measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of assets and liabilities. Where the final tax-deductible expenses are different from the amounts that were calculated, such differences will impact the current income and deferred tax provisions in the period in which such determination is made. The total amount of net deferred tax liability was CZK 70,078 thousand as at 31 December 2010.

The Parent Company included in its calculation of deferred tax a tax credit from investment incentive (see Note 20) and as a result no change in deferred tax of the Parent Company was recorded in 2010 compared to the balance as at 31 December 2009. The management of the Company believes that future taxable profits will be available against which the unused tax credit can be utilised and plans to meet all relevant criteria for drawing these funds and use the investment incentive in the future.

Goodwill

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

The impairment test involves determining the recoverable amount of the cash-generating unit, which corresponds to the value in use. Value in use is the present value of the future cash flows expected to be derived from a cash-generating unit. Value in use is determined on the basis of an enterprise valuation model and is assessed from a company internal perspective. Value in use is determined based on cash flow projection for a period of five years. The cash flow projection is based on the past experience, as well as on future market trends. The carrying amount of goodwill was CZK 12,406 thousand as at 31 December 2010.

e) Foreign Currency

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

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

The assets and liabilities of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The items from 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 and Investment Property

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

Investment property is also stated at cost less accumulated depreciation and accumulated impairment loss.

The initial cost of property, plant and equipment and paintings comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use including the borrowing costs (see Note 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 consist mainly of software and are valued at their acquisition cost and related expenses.

Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives that generally does not exceed 5 years. The amortization period and the amortization method are reviewed annually at each financial year-end.

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

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

h) Investments

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

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

i) Inventories

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

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

j) Accounts Receivable

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

Receivables sold with recourse (factoring) are recorded at their nominal value as trade receivables until paid by customer. The cash advances received from the factoring company are included in Payables and other current liabilities.

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 % and 20 % for the years ended 31 December 2010 and 2009, respectively, after adjustments for certain items which are not deductible for taxation purposes. The Czech corporate income tax rate for 2011 will be 19 %.

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

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

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

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

o) Revenue Recognition

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

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

p) Provisions

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

q) Leases

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

r) Impairment of Assets

Financial Instruments

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

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

Other Assets

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

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

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

s) Contingencies

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

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

t) Subsequent Events

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

u) New IFRS Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year except as follows. The Group has adopted the following new or amended and endorsed by the EU IFRS and IFRIC interpretations as of 1 January 2010:

- IFRS 3 Business Combinations (Revised)
- IAS 27 Consolidated and Separate Financial Statements (Amended)
- IFRIC 12 Service Concession Arrangements
- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions
- IAS 39 Financial Instruments: Recognition and Measurement (Eligible Hedged Items)
- Improvements to IFRSs (April 2009)

When the adoption of the standard or interpretation is considered to have an impact on the financial statements or performance of the Group, its impact is described below:

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)
The Group adopted the revised standards from 1 January 2010. IFRS 3 (revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill recognized, the reported results in the period when an acquisition occurs and future reported results. IAS 27 (amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

As a result of the adoption of these revised standards the Group charged the transaction costs accumulated until 31 December 2009 related to ongoing acquisitions directly to retained earnings as of 1 January 2010.

Improvements to IFRSs

In April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the amendments relevant for the Group resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

All other standards and interpretations whose application was mandatory for the period beginning on or after 1 January 2010 have no material impact on the Group's consolidated financial statements.

v) New IFRS Standards and Interpretations Not Yet Effective

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 2011 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 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 that must be applied starting 1 January 2013. According to IFRS 9 all financial assets and liabilities are initially recognized at fair value plus transaction costs. The standard also eliminates categories of financial instruments currently existing in IAS 39: available-for-sale and held-to-maturity. In October 2010 the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The requirements related to the fair value option for financial liabilities were changed to address own credit risk. As a result, the changes in liability's credit risk will not affect profit or loss unless the liability is held for trading. In subsequent phases, the IASB will address impairment, hedge accounting and derecognition. The completion of this project is expected in 2011. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets and liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IAS 24 Related Party Disclosure

The amendments to IAS 24 Related Party Disclosures become effective for financial years beginning on or after 1 January 2011 and must be applied retrospectively. The revised standard simplifies the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government and clarifies the definition of a related party. As a result, such a reporting entity is exempt from the general disclosure requirements in relation to transactions and balances with the government and government-related entities. In addition, the revised standard amends the definition of a related party where the associate of an investor is now considered to be a related party to both the investor and its subsidiary whereas two associates of an entity are not regarded as related parties to each other. The Group does not expect significant impact on the related party disclosures.

IFRIC 17 Distributions of Non-cash Assets to Owners

This interpretation is effective for annual periods beginning on or after 1 July 2010 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Group does not expect IFRIC 17 to have an impact on the consolidated financial statements as the Group has not made non-cash distributions to shareholders in the past.

IAS 32 Financial Instruments: Presentation (Classification of Rights Issues)

In October 2009, the IASB issued an amendment to IAS 32 on the classification of rights issues. The amendment is effective for annual periods beginning on or after 1 February 2010. For rights issues offered for a fixed amount of foreign currency current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to an entity's all existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The Group does not expect that the amendment will have an impact on the financial position or performance of the Group.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2010 (In thousand CZK)

IFRS 7 Financial Instruments: Disclosures (Transfers of Financial Assets)

In October 2010, IASB issued an amendment to IFRS 7, which changes the required disclosures to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position. The Group does not expect that the amendment will have an impact on the financial position or performance of the Group.

In May 2010 the Board also issued a collection of amendments to its standards, primarily to remove inconsistencies and clarify wording. The Group has not yet adopted the amendments, but it is anticipated that the changes will have no material effect on the Group's financial statements.

3. Property, Plant and Equipment and Investment Property, Net

The movements in 2010 were as follows:

	Land	Buildings	Machinery & Vehicles	Fixtures	Construction in Progress	Total 2010
COST						
As at 31 December 2009	**29,031**	**1,724,936**	**2,751,112**	**61,350**	**6,305**	**4,572,734**
Additions	-	72	1,428	-	46,433	47,933
Disposals	(320)	(559)	(454)	-	-	(1,333)
Transfers	-	417	18,912	452	(19,781)	-
Translation difference	(172)	(2,545)	(3,898)	(89)	-	(6,704)
As at 31 December 2010	**28,539**	**1,722,321**	**2,767,100**	**61,713**	**32,957**	**4,612,630**
ACCUMULATED DEPRECIATION						
As at 31 December 2009	**-**	**(528,234)**	**(2,011,913)**	**(29,560)**	**-**	**(2,569,707)**
Depreciation	-	(40,781)	(104,694)	(1,671)	-	(147,146)
Disposals	-	559	454	-	-	1,013
Translation difference	-	1,066	3,012	82	-	4,160
As at 31 December 2010	**-**	**(567,390)**	**(2,113,141)**	**(31,149)**	**-**	**(2,711,680)**
Net book value	**28,539**	**1,154,931**	**653,959**	**30,564**	**32,957**	**1,900,950**

The movements in 2009 were as follows:

	Land	Buildings	Machinery & Vehicles	Fixtures	Construction in Progress	Total 2009
COST						
As at 31 December 2008	**31,688**	**1,758,972**	**2,737,838**	**59,208**	**52,260**	**4,639,966**
Additions	-	93	981	38	10,546	11,658
Disposals	(2,600)	(46,742)	(27,330)	(4)	-	(76,676)
Transfers	-	13,454	40,911	2,136	(56,501)	-
Translation difference	(57)	(841)	(1,288)	(28)	-	(2,214)
As at 31 December 2009	**29,031**	**1,724,936**	**2,751,112**	**61,350**	**6,305**	**4,572,734**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
As at 31 December 2008	**-**	**(514,458)**	**(1,926,889)**	**(28,061)**	**-**	**(2,469,408)**
Depreciation	-	(41,811)	(109,836)	(1,525)	-	(153,172)
Disposals	-	27,713	23,876	-	-	51,589
Translation difference	-	322	936	26	-	1,284
As at 31 December 2009	**-**	**(528,234)**	**(2,011,913)**	**(29,560)**	**-**	**(2,569,707)**
Net book value	**29,031**	**1,196,702**	**739,199**	**31,790**	**6,305**	**2,003,027**

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2010 (In thousand CZK)

In December 2009 the Parent Company sold Hotel KORADO which was held for rent for the consideration of CZK 17,002 thousand. The net book value of sold assets related to Hotel KORADO including recorded impairment amounted to CZK 23,674 thousand.

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

Assets	Lien creditor	Carrying amount 31 December 2010	Carrying amount 31 December 2009
Buildings and halls	UniCredit Bank Czech Republic, a.s.	786,679	915,415
	Bulbank	-	75,522
Land	UniCredit Bank Czech Republic, a.s.	11,638	15,618
	Bulbank	-	3,248
Machinery and equipment	UniCredit Bank Czech Republic, a.s.	489,561	560,568
	Bulbank	-	26,590
Receivables	UniCredit Bank Czech Republic, a.s.	58,282	107,810
Inventories	UniCredit Bank Czech Republic, a.s.	-	80,159
Bank accounts	UniCredit Bank Czech Republic, a.s.	3,465	-
Total		**1,349,625**	**1,784,930**

Assets with a cost of CZK 55,483 thousand and CZK 54,468 thousand were not used by the Company for operational purposes as at 31 December 2010 and 2009 (primarily paintings and buildings). The net book value of these assets was CZK 41,409 thousand and CZK 42,389 thousand as at 31 December 2010 and 2009, respectively. The management of the Company believes that the recoverable value is no less than the recorded net book value.

Part of tangible fixed assets consists of items, which were acquired under finance lease arrangements (see Note 12).

The following summarizes assets acquired under finance leases as at 31 December:

	2010		2009	
	Leased equipment at cost	Net book value of leased equipment	Leased equipment at cost	Net book value of leased equipment
Machinery and vehicles	20,052	1,354	20,142	4,231

Assets which are being used under an operating lease as at 31 December 2010 and 2009 include:

Description	Expense* in 2010	Expense* in 2009
Copy machines	1,798	1,817
Fork lifts	5,530	5,710
Total	**7,328**	**7,527**

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

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

	2010	2009
Within one year	5,104	6,875
After one year but not more than five years	7,323	11,648
Total	**12,427**	**18,523**

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2010 (In thousand CZK)

4. Intangible Assets, Net

The movements in 2010 were as follows:

	Software	Intangibles in progress	Goodwill	Total 2010
COST				
As at 31 December 2009	**171,561**	**435**	**12,846**	**184,842**
Additions	32	7,226	-	7,258
Disposals	(702)	-	-	(702)
Transfers	2,228	(2,228)	-	-
Translation difference	(87)	-	(440)	(527)
As at 31 December 2010	**173,032**	**5,433**	**12,406**	**190,871**
ACCUMULATED AMORTIZATION				
As at 31 December 2009	**(155,050)**	**-**	**-**	**(155,050)**
Amortization	(5,340)	-	-	(5,340)
Disposals	702	-	-	702
Translation difference	78	-	-	78
As at 31 December 2010	**(159,610)**	**-**	**-**	**(159,610)**
Net book value	**13,422**	**5,433**	**12,406**	**31,261**

The movements in 2009 were as follows:

	Software	Intangibles in progress	Goodwill	Total 2009
COST				
As at 31 December 2008	**166,482**	**3,416**	**13,071**	**182,969**
Additions	23	2,415	-	2,438
Disposals	(308)	-	-	(308)
Transfers	5,395	(5,395)	-	-
Translation difference	(31)	(1)	(225)	(257)
As at 31 December 2009	**171,561**	**435**	**12,846**	**184,842**
ACCUMULATED AMORTIZATION				
As at 31 December 2008	**(150,525)**	**-**	**-**	**(150,525)**
Amortization	(4,859)	-	-	(4,859)
Disposals	304	-	-	304
Translation difference	30	-	-	30
As at 31 December 2009	**(155,050)**	**-**	**-**	**(155,050)**
Net book value	**16,511**	**435**	**12,846**	**29,792**

5. Investment in an Associate

Since 1 January 2009 the Group started to account for the investment in KORADO Croatia d.o.o. using the equity method due to the restrictions on control imposed by the non-controlling shareholder. The assets and liabilities of the entity as of 1 January 2009 have been reclassified to investment in an associate on the balance sheet. The impairment loss of CZK 1,540 thousand has been recognized in 2009 to reflect the expectations about the future recoverability of the investment in an associate and as a result the carrying value of the investment in associate amounts to zero as at 31 December 2010 and 2009.

KORADO Croatia d.o.o. incurred losses equivalent to CZK 2,408 thousand in 2010 and CZK 2,784 thousand in 2009 and therefore no share of financial result of an associate is recognized in the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2010 (In thousand CZK)

The following table illustrates summarized latest available unaudited financial information of an associate for the year ended 31 December 2010:

	Total assets	Total liabilities	Equity	Revenues	Loss after income taxes
KORADO Croatia d.o.o.	4,767	934	3,833	2,699	(2,408)

The following table illustrates summarized unaudited financial information of an associate for the year ended 31 December 2009:

	Total assets	Total liabilities	Equity	Revenues	Loss after income taxes
KORADO Croatia d.o.o.	7,714	1,124	6,590	5,860	(2,784)

6. Investments, Net

Long-term loans and other financial assets were as follows:

	31 December 2010	31 December 2009
Acquisitions of financial investments	-	4,325
Other loans	-	849
Total	**-**	**5,174**

As at 31 December 2009, acquisitions of financial investments represent mainly capitalized advisory and legal costs related to acquisitions expected in the future. In 2010, the acquisitions were charged to retained earnings as a result of application of revised standards (Note 2).

7. Inventory, Net

The following items are included in inventories:

	31 December 2010	31 December 2009
Raw materials	120,978	95,375
Work-in-progress	8,647	7,277
Finished goods	28,903	36,103
Total	**158,528**	**138,755**

Excess, obsolete and slow-moving inventory at gross amount of CZK 2,491 thousand and CZK 3,055 thousand has been reduced to net realizable value through the impairment provision account of CZK 2,221 thousand and CZK 2,976 thousand as at 31 December 2010 and 2009, respectively. The impairment provision is determined by management based on the aging analysis of inventory.

8. Accounts Receivable, Net

Accounts receivable, net, are as follows:

	31 December 2010	31 December 2009
Trade receivables	88,862	161,986
Advances received	3,268	6,011
Receivables from Transfinance, a.s.	38,569	17,253
Other	245	305
Impairment provision	(29,469)	(43,031)
Total	**101,475**	**142,524**

In 1998, the Company concluded a contract with a factoring company, Transfinance a.s., for the purchase of receivables with recourse, which is still active. The receivables ceded to this company amounted to CZK 38,569 thousand and CZK 17,253 thousand as at 31 December 2010 and 2009, respectively.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2010 (In thousand CZK)

At 31 December 2010 and 2009 the ageing analysis of accounts receivable, net is as follows:

	31 December 2010	31 December 2009
Within due date	90,126	123,027
Past due but not impaired 1):		
Less than 3 months	8,041	12,564
3 – 6 months	-	1,397
6 – 12 months	-	359
More than 12 months	3,308	5,177
Total	**101,475**	**142,524**

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.

Receivables past due more than 12 months of CZK 4,623 thousand relate to the associated company KORADO Croatia d.o.o. An impairment provision of CZK 1,400 thousand was created for the receivables as at 31 December 2010.

Movements in impairment provision for receivables:

	2010	2009
As at 1 January	43,031	44,779
Additions	2,584	1,124
Reversals	(16,146)	(2,872)
As at 31 December	**29,469**	**43,031**

Reversals of impairment provisions to receivables relate mainly to a receivable of KORADO Bulgaria towards FIROGENIS, which was written off in 2010.

9. Prepayments and Other Current Assets

	31 December 2010	31 December 2009
VAT receivable	11,183	5,921
Prepayments and other	8,968	9,541
Total	**20,151**	**15,462**

10. Cash and Cash Equivalents

	31 December 2010	31 December 2009
Cash with banks	23,953	56,026
Cash on hand	564	733
Cash equivalents	-	7,519
Total	**24,517**	**64,278**

As at 31 December 2009, cash equivalents included mainly checks held by the subsidiary KORADO Deutschland GmbH.

11. Shareholders' Equity

Share Capital

The share capital of the Parent Company as at 31 December 2010 and 2009 is comprised of 2,402 registered shares fully subscribed and paid, with a nominal value of CZK 350 thousand per share. All shares have equal voting rights.

Statutory Reserve Fund

In accordance with the Czech regulations, joint stock companies are required to establish an undistributable reserve fund for contingencies against possible future losses and other events. Contributions must be a minimum of 20 % of after-tax profit in the first year in which profits are made and 5 % of profit each year thereafter, until the fund reaches at least 20 % of basic capital. The fund can only be used to offset losses. As at 31 December 2010 and 2009, the balance was CZK 44,745 thousand and CZK 41,425 thousand, respectively, and is reported as a component of Retained earnings, funds and translation reserve.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2010 (In thousand CZK)

Distributable Retained Earnings

Distributable retained earnings of the Parent Company amounted to CZK 401,754 thousand and CZK 382,934 thousand as at 31 December 2010 and 2009, respectively.

Capital Management

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

The Group primarily monitors capital using the equity ratio which is equity minus goodwill divided by total assets minus goodwill. The Group's goal is to keep this ratio above 50 % in 2010 and 40 % in 2009 which is also consistent with the requirements of banks. In addition, the Group also monitors capital using a net debt to EBITDA ratio, which is bank loans less cash and cash equivalents divided by operating profit plus depreciation. Operating profit is the sum of revenues and expenses above interest expense, net of capitalized interest. The Group's policy is to keep the net debt to EBITDA ratio below 2.5 in 2010 and 3.25 in 2009 which is also consistent with the requirements of banks. The calculation and evaluation of the ratios is done using consolidated numbers:

	31 December 2010	31 December 2009
Equity	1,314,243	1,287,315
Total assets	2,239,298	2,401,862
Less goodwill	(12,406)	(12,846)
Equity less goodwill	1,301,837	1,274,469
Total assets less goodwill	2,226,892	2,389,016
Equity ratio	**58.5%**	**53.3%**
Bank loans	538,564	706,009
Less cash and cash equivalents	(24,517)	(64,278)
Net debt	514,047	641,731
Operating profit	30,549	106,989
Depreciation and amortization	152,486	158,031
EBITDA	183,035	265,020
Net debt/EBITDA ratio	**2.81**	**2.42**

In 2010 the Parent Company failed to meet the Net Debt/EBITDA ratio (see Note 12).

In 2009 the Parent Company complied with the ratio levels required by the banks.

12. Debt

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

	31 December 2010	31 December 2009
Bank loans	-	376,930
Long term portion of lease obligations	-	95
Other	1,286	1,080
Total	**1,286**	**378,105**

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

	31 December 2010	31 December 2009
Current portion of long term debt and short-term borrowings	538,564	329,079
Current portion of lease obligations	67	422
Total	**538,631**	**329,501**

Bank loans consist of the following:

Bank	Terms	Interest rate (%)	Maturity	Total limit (thousands)	2010 Amount in foreign currency (in thousands)	Amount in CZK thousands
KORADO, a.s.						
UniCredit Bank Czech Republic, a.s.	Investment	1M PRIBOR+1.95%	31. 12. 2015	CZK 550,000	-	520,000
UniCredit Bank Czech Republic, a.s.	Operational overdraft	1D PRIBOR+1.6%	25. 11. 2012	CZK 30,000	-	11,245
UniCredit Bank Czech Republic, a.s.	Operational overdraft	1D EURIBOR+1.6%	25. 11. 2012	EUR 3,500	EUR 493	12,357
Bank charges						(5,038)
Total						**538,564**
Less current portion and short-term bank loans						*(538,564)
Net						-

* A total of CZK 429,571 thousand out of this amount was classified within current liabilities due to the failure to meet one of the specified ratios (see below) as at 31 December 2010. However, if all loan covenants were fulfilled, the respective amount would be presented within non-current liabilities.

Bank	Terms	Interest rate (%)	Maturity	Total limit (thousands)	2009 Amount in foreign currency (in thousands)	Amount in CZK thousands
1) KORADO, a.s.						
UniCredit Bank Czech Republic, a.s.	Investment	1M PRIBOR+2.1%	31. 12. 2012	CZK 495,000	-	180,000
UniCredit Bank Czech Republic, a.s.	Investment	1M PRIBOR+2.1%	31. 12. 2012	CZK 200,000	-	120,000
UniCredit Bank Czech Republic, a.s.	Investment	1M EURIBOR+2.1%	31. 12. 2012	EUR 18,000	EUR 10,800	285,822
UniCredit Bank Czech Republic, a.s.	Operational overdraft	1M EURIBOR+2.1%	31. 12. 2010	EUR 4,300	EUR 4,177	110,545
Bank charges						(3,440)
2) KORADO Bulgaria AD						
Bulbank	Investment	1M LIBOR+2.75%	20. 4. 2012	EUR 560	EUR 294	7,789
Bulbank	Operational	1W EURIBOR+6%	15. 5. 2010	EUR 1,250	EUR 200	5,293
Total						**706,009**
Less current portion and short-term bank loans						(329,079)
Net						376,930

The interest expense (net of capitalized interest) related to bank loans for the years ended 31 December 2010 and 2009 amounted to CZK 18,618 thousand and CZK 39,133 thousand.

Bank loans provided to the Group are secured by pledged assets at carrying values of CZK 1,349,625 thousand and CZK 1,784,930 thousand as at 31 December 2010 and 2009, respectively (see Note 3). Bank loans of the Parent Company are also secured by the cession of receivables from property insurance benefits exceeding CZK 5,000 thousand per insurance claim.

As at 25 November 2010, a new bank loan agreement between KORADO, a.s. and UniCredit Bank Czech Republic a.s. was concluded. Existing bank loans from a syndicate of banks and Bulbank were fully repaid on 30 November 2010 and replaced solely by loans from UniCredit Bank Czech Republic, a.s.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2010 (In thousand CZK)

The new investment loans are denominated in Czech crowns. An exchange rate gain from refinancing of CZK 26,377 thousand is included in the consolidated statement of comprehensive income.

The UniCredit Bank Czech Republic, a.s. loan agreement includes covenants: equity ratio and net debt to EBITDA ratio (see Note 11 for detailed calculations) to be fulfilled by the Company so that the loan structure and interest can be maintained.

As at 31 December 2010, the Company failed to meet the Net Debt/EBITDA ratio. After the year-end the Company received a statement approving the breach of the ratio in question. Since the statement provided by the bank was received after the balance sheet date, in accordance with IAS 1, Presentation of Financial Statements, the Company recorded the entire loan provided by UniCredit Bank Czech Republic, a.s., in current liabilities as at 31 December 2010.

As at 31 December 2009, the loan covenants were fulfilled and the bank loans are classified according to their contracted maturities.

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

	31 December 2010	31 December 2009
2010	-	329,079
2011	108,992	197,368
2012	132,595	179,562
2013	108,992	-
2014	108,992	-
2015	78,993	-
	538,564	**706,009**

Future minimum lease payments for finance leases are as follows:

	31 December 2010	31 December 2009
Within one year	80	465
After one year but not more than five years	-	108
Total minimum lease obligations	**80**	**573**
Interest	(13)	(56)
Present value of minimum lease obligations	**67**	**517**
Representing finance lease liabilities:		
- current	67	422
- non-current	-	95

13. Payables and Other Current Liabilities

Current liabilities comprise of the following:

	31 December 2010	31 December 2009
Trade payables	196,226	227,359
Payables to factoring company	38,039	24,979
Payables to employees	23,772	26,187
Accruals and other current liabilities	40,036	43,687
Total	**298,073**	**322,212**

Payables to factoring company represent payables relating to factoring company, Transfinance a.s., that pays an advance of 90 % of the maximum financing limit set in advance for each customer (see Note 8).

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2010 (In thousand CZK)

14. Provisions for Liabilities and Charges

Summary of provisions:

	Warranty provisions	Accrued vacation	Litigation	Other	Total
As at 31 December 2008	**6,338**	**4,215**	**-**	**1,049**	**11,602**
Creation of provisions	6,951	5,035	-	294	12,280
Provisions used	(6,338)	(4,091)	-	(29)	(10,458)
As at 31 December 2009	**6,951**	**5,159**	**-**	**1,314**	**13,424**
Creation of provisions	6,585	4,761	3,569	-	14,915
Provisions used	(6,951)	(5,159)	-	(379)	12,489
As at 31 December 2010	**6,585**	**4,761**	**3,569**	**935**	**15,850**

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

A provision of CZK 3,569 thousand was created for ongoing legal dispute based on the assessment of the probability of its outcome.

15. Revenues from Sales, Net

Activity	2010	%	2009	%
Sales of radiators	1,571,501	98.7%	1,708,627	97.9%
Other	20,798	1.3%	36,956	2.1%
Total	**1,592,299**	**100.0%**	**1,745,583**	**100.0%**

Other sales include mainly sales services.

Sales by region are as follows:

Country	2010	%	2009	%
Czech Republic	672,797	42.3 %	811,148	46.5 %
Ukraine	174,320	10.9 %	147,926	8.5 %
Slovakia	169,288	10.6 %	145,326	8.3 %
Germany	93,392	5.9 %	96,516	5.5 %
Austria	84,434	5.3 %	83,662	4.8 %
Slovenia	60,519	3.8 %	60,519	3.5 %
Russia	59,406	3.7 %	57,699	3.3 %
Romania	47,683	3.0 %	51,651	3.0 %
Poland	47,912	3.0 %	50,493	2.9 %
United Kingdom	43,236	2.7 %	43,236	2.5 %
Bulgaria	22,573	1.4 %	22,573	1.3 %
Greece	19,198	1.2 %	19,198	1.1 %
Other countries	97,541	6.1 %	155,636	8.8 %
Total	**1,592,299**	**100.0 %**	**1,745,583**	**100.0 %**

16. Cost of Materials, Energy and Purchased Goods

	2010	2009
Materials and supplies	849,203	882,444
Energy	58,248	59,278
Purchased goods	17,128	19,484
Total	**924,579**	**961,206**

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2010 (In thousand CZK)

17. Purchased Services

	2010	2009
Repairs and maintenance	8,977	10,857
Rent	9,831	12,443
Travelling and training expenses	10,719	11,830
Marketing expenses and sales promotion	51,570	55,132
Transportation expenses	22,977	25,405
Legal and advisory services	15,021	19,159
Operational services	33,207	34,978
Other	11,730	11,376
Total	**164,032**	**181,180**

18. Other Expenses, Net

	2010	2009
Receivables and loans written off	11,131	397
Change in impairment provisions and provisions, net	(11,890)	(87)
Taxes and levies	2,367	2,572
Loss (gain) on sale of fixed assets	(1,993)	5,592
Other, net	15,007	7,486
Total	**14,622**	**15,960**

19. Other Financial Expenses, Net

	2010	2009
Bank charges	5,194	2,806
Factoring fees	1,532	1,223
Other	399	2,097
Total	**7,125**	**6,126**

20. Taxes

The components of the income tax expense are as follows:

	2010	2009
Current tax	588	299
Deferred tax	106	1,568
Total income tax expense	**694**	**1,867**

Income Tax Legislation

Corporate income tax of the Parent Company is calculated in accordance with the Czech tax regulations at the rate of 19 % and 20 % in 2010 and 2009, respectively.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2010 (In thousand CZK)

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 2010 and 2009 is as follows:

	2010	2009
Profit before tax	35,266	76,779
Statutory income tax rate	19 %	20 %
"Expected" income tax expense	6,701	15,356
Add/(deduct) tax effect of:		
Permanent differences	2,001	4,039
Change in tax rate	-	1,655
Change in valuation allowance	(2,155)	377
Change in deferred tax asset from tax credit	(5,994)	(19,537)
Consolidation adjustments	345	(656)
Other	(204)	633
Actual income tax expense	**694**	**1,867**
Effective tax rate	**2 %**	**2 %**

Deferred income taxes at 31 December 2010 and 2009 consist of the following:

	2010	2009
Receivables impairment provision	1,257	1,131
Inventory impairment provision	378	488
Provisions	2,102	2,233
Accumulated losses carried forward	24,452	40,420
Elimination of intra-group profit from inventories	69	322
Tax credit from investment incentive	29,759	23,765
Other	1,122	1,273
Total deferred tax assets	**59,139**	**69,632**
Less valuation allowance to deferred tax asset	(10,669)	(12,824)
Offset with deferred tax liabilities	(47,333)	(55,565)
Deferred tax assets in the balance sheet	**1,137**	**1,243**
Difference between net book value of non-current assets for accounting and tax purposes	(118,464)	(126,321)
Finance lease	(84)	(549)
Total deferred tax liabilities	**(118,548)**	**(126,870)**
Offset with deferred tax assets	47,333	55,565
Deferred tax liabilities in the balance sheet	**(71,215)**	**(71,305)**

Out of the total tax losses of subsidiaries generated since 1999, CZK 43,980 thousand and CZK 54,567 thousand can be carried forward as of 31 December 2010 and 2009, respectively. In 2010 and 2009, valuation allowance was established in full against deferred tax asset arising from tax losses of subsidiaries as it is not probable the losses will be utilized. The tax losses from the Parent Company were reflected in deferred tax asset in full; the Company expects their utilization in future periods. The deferred tax liability of the Parent Company represents in particular the difference between net book value of non-current assets for accounting and tax purposes.

In 2008, the Parent Company launched the 4th production line which entitled the Company to use the investment incentives. The amount of potential investment incentive related to capital expenditures already incurred is CZK 170 million as at 31 December 2010 and 31 December 2009. The Company plans to meet all relevant criteria for drawing these funds and use the investment incentive in the future. The Company recognized a deferred tax asset from the investment incentive of CZK 29,759 thousand and CZK 23,765 thousand as at 31 December 2010 and 2009, respectively, based on the review of probability of the amount to be utilized within the short to mid-term period (3 - 5 years).

21. Related Party Transactions

As at 31 December 2010 and 2009, members of the Board of Directors and Supervisory Board and directors owned 660 and 660 shares of the Parent Company, respectively.

In 2010 and 2009 management personnel of Group companies (23 and 23 people in total, respectively) received salaries and bonuses including social and health insurance of CZK 78,810 thousand and CZK 92,391 thousand, respectively.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2010 (In thousand CZK)

In 2010 and 2009 members of Board of Directors and Supervisory Board of the Parent Company received remuneration of CZK 916 thousand and CZK 924 thousand, respectively.

For receivables from KORADO Croatia d.o.o. see Note 8.

In 2010 and 2009 there were no transactions with related parties controlled by the Ministry of Finance of the Czech Republic or European Bank for Reconstruction and Development.

22. Financial Instruments and Financial Risk Management

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates (see Note 11). The floating interest rate is mostly based on PRIBOR and EURIBOR rates and for the UniCredit Bank Czech Republic, a.s. loans it amounted to 2.94 % and 2.19 % as at 31 December 2010 and 3.41 % and 2.57 % as at 31 December 2009, 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 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:

2010	Increase/decrease in basis points	Effect on profit before tax
CZK	50	(2,656)
EUR	50	(62)
CZK	(50)	2,656
EUR	(50)	62

2009	Increase/decrease in basis points	Effect on profit before tax
CZK	50	(1,500)
EUR	50	(2,047)
CZK	(50)	1,500
EUR	(50)	2,047

Credit risk

The Group has no uncovered significant concentration of credit risk with any single counter-party or group of counterparties 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 2010 and 2009, the Group did not have any exchange rate hedges in place to mitigate the overall foreign currency exposure.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2010 (In thousand CZK)

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):

	2010		2009	
	Increase/decrease in exchange rate *	**Effect on profit before tax**	**Increase/decrease in exchange rate ***	**Effect on profit before tax**
EUR	+5 %	(3,862)	+5 %	(23,284)
GBP	+5 %	1,605	+5 %	512
PLN	+5 %	1,316	-	-
USD	+5 %	3	+5 %	11
CHF	+5 %	(20)	+5 %	(35)
EUR	(5 %)	3,862	(5 %)	23,284
GBP	(5 %)	(1,605)	(5 %)	(512)
PLN	(5 %)	(1,316)	-	-
USD	(5 %)	(3)	(5 %)	(11)
CHF	(5 %)	20	(5 %)	35

* *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 2010 and 2009 based on contractual undiscounted payments (nominal amount and interest) provided that the Group meets the loan agreement covenants (see Note 12):

31 December 2010	**Less than 3 months**	**3-12 months**	**1-5 years**	**Total**
Bank loans	31,061	91,983	451,797	574,841
Finance lease obligations	17	63	-	80
Trade and other payables	298,073	-	-	298,073
	329,151	**92,046**	**451,797**	**872,994**

31 December 2009	**Less than 3 months**	**3-12 months**	**1-5 years**	**Total**
Bank loans	71,978	273,979	387,367	733,324
Finance lease obligations	189	276	108	573
Trade and other payables	322,212	-	-	322,212
	394,379	**274,255**	**387,475**	**1,056,109**

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.

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.

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

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2010 (In thousand CZK)

Investments

Investments are represented by loans for which the carrying value approximates fair value.

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 2010 were as follows:

	Carrying amount	Fair value
Assets		
Cash and cash equivalents	24,517	24,517
Accounts receivable, net	101,475	101,475
Prepayments and other current assets	20,151	20,151
Liabilities		
Payables and other current liabilities	298,073	298,073
Short-term borrowings and current portion of long-term debt	538,631	538,631
of which long-term portion of debt was classified within current liabilities due to the failure to meet one of the specified ratios (see Note 12)	429,571	429,571
Long-term debt, net of current portion	1,286	1,286

Carrying amounts and the estimated fair values of financial instruments as at 31 December 2009 were as follows:

	Carrying amount	Fair value
Assets		
Cash and cash equivalents	64,278	64,278
Accounts receivable, net	142,524	142,524
Prepayments and other current assets	15,462	15,462
Investments, net	5,174	5,174
Liabilities		
Payables and other current liabilities	322,212	322,212
Short-term borrowings and current portion of long-term debt	329,501	329,501
Long-term debt, net of current portion	378,105	378,105

23. Statutory Auditor's Fees

The statutory audit fees related to the audit of consolidated financial statements and separate statutory financial statements totaled CZK 2,500 thousand and CZK 3,050 thousand for the year ended 31 December 2010 and 2009, respectively.

24. Subsequent Events

UniCredit Bank Czech Republic, a.s., provided the Company with a statement dated 24 February 2011 approving the breach of the Net Debt/EBITDA ratio as at 31 December 2010 (see Note 12).

As at 25 January 2011, a contract with Transfinance, a.s., regarding cession of receivables was terminated. As a result, KORADO, a.s., has drawn additional CZK 30 million of the investment loan from UniCredit Bank Czech Republic, a.s.

SWORN AFFIDAVIT

We hereby certify that the information stated in the Annual Report for the year 2010 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 have been omitted.

František Menclík
Board of the Director Chairman
and Managing Director

Eva Voborová
Controlling Department

Date	Authorized for issue by:	Person responsible for accounting:
	František Menclík	-
15 March 2011	Vojtěch Čamek	Pavlína Kovářová

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