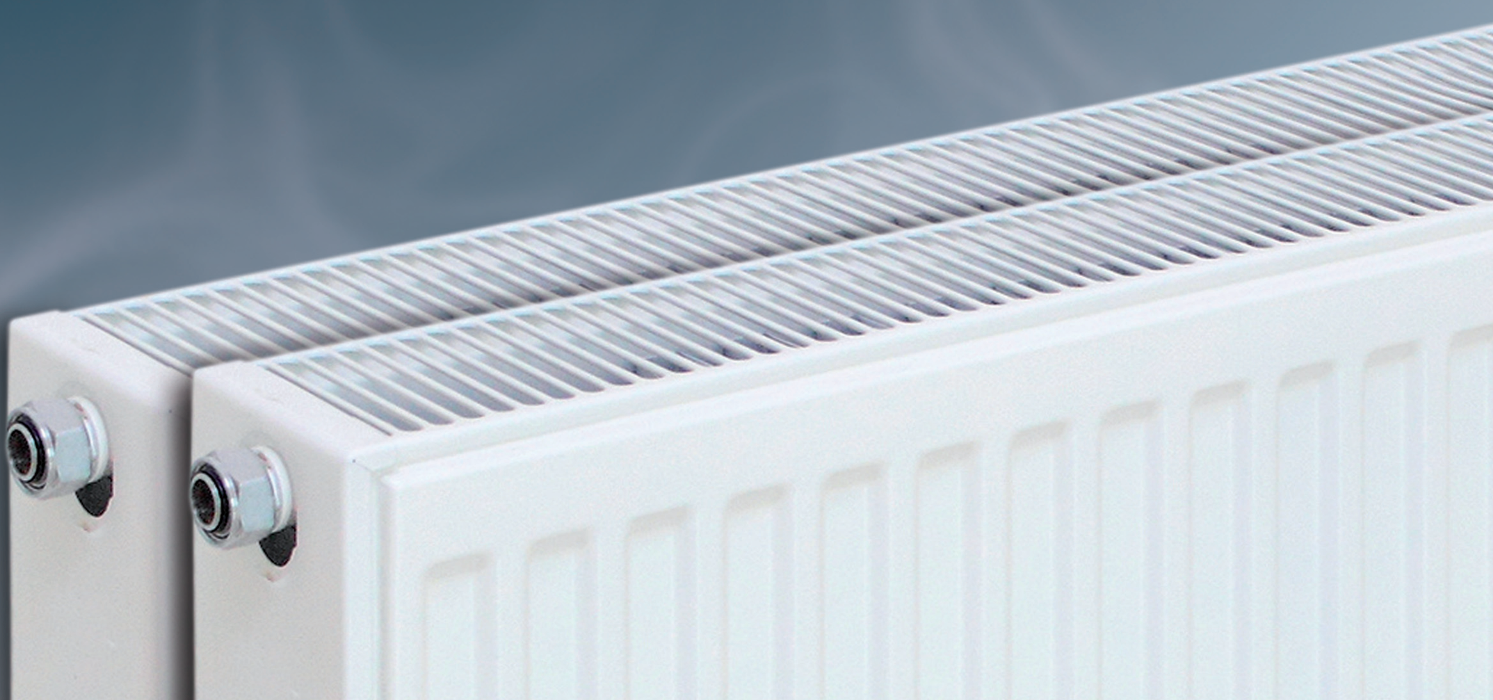
ANNUAL REPORT 2011



KORADO®

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FOREWORD FROM THE MANAGING DIRECTOR

Dear Business Partners,

Evaluating the year 2011, I have to mention right at the beginning that this was the most difficult year in the Company's history since 2002. The world's economic crisis not only continued, but deepened. All available sources maintain that the most affected industry was construction.

Our company, as a direct construction industry supplier, was similarly affected. KORADO, a.s. responded starting in 2009 and 2010, by adopting vigorous austerity measures. Their goal was maintaining the existing market shares and receiving an acceptable margin allowing for a reduction of the Company's debt. We were able to meet this goal in 2010.

Year 2011 was very different. While in the past, brand and quality was the key, in 2011, low sales prices, regardless brand and quality, were the prevailing phenomenon. We have recorded an enormous growth of the low-margin market segment from 17% to the current 30%. Under the pressure of market forces, a number of competitors launched an aggressive price war irrespective of cost, with the only goal of surviving this period. They even purchased non-brand radiators from Turkey.

Aware of this danger, KORADO, a.s. developed a low-cost product and prepared important systemic changes with the goal of eliminating the danger and addressing this market segment.

An on-going pressure on cost reduction, both in the area of internal costs and input material prices, was a prevailing topic in 2011. We continue to optimize production flows with the aim of maximizing productivity increase, and an emphasis on shorter delivery time for our customers.

Despite the fact that the 2011 results of KORADO, a.s. are not satisfactory, I believe that with the implementation of the above-stated measures we will be able to improve our results in 2012 and once again become profitable, as we used to be over the last eight years.

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.

František Menclík
Board of Directors Chairman
and Managing Director

CORPORATE STRATEGY AND GOALS

KORADO's primary goal for 2012 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 or increase KORADO's exceptionally strong domestic market position and existing market share.

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. We have introduced new models of bathroom radiators and thus increased our sales. We expect this trend to continue in 2012.

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.

Optimal financing and securing of liquidity

In the forthcoming period, KORADO's financial focus will be on maintaining sufficient 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.

Risk hedging

Eliminating and protecting the Company from 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 will play an important role in the future.

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 2012, 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.

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 services not listed in Annexes 1-3 of the Trade Licensing Act
- Locksmithery, tool making
- Exchange bureau

Joint-stock company KORADO, a.s. 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 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 and 2011, 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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total revenues (CZK million)	2,238	2,284	2,552	2,235	2,604	2,725	2,274	1,734	1,576	1,555
Year-on-year revenue increase/decrease (%)	7%	2%	12%	(12%)	17%	5%	(17%)	(24%)	(9%)	(1%)
EBITDA (Earnings before interest, taxes, depreciation and amortization) (CZK million)	472	490	720	227	319	317	189	253	183	70
EBITDA margin (EBITDA/Total revenue) (%)	21%	21%	28%	10%	12%	12%	8%	15%	12%	4%
Profit/Loss after tax (CZK million)	31	111	361	37	114	148	27	66	20	(81)
Return on equity (EBIT/Assets less Current liabilities)	14%	19%	23%	7%	13%	11%	4%	6%	2%	(4%)
Indebtedness (Bank loans/Equity)	6.23	3.97	1.52	1.08	0.68	0.74	0.96	0.55	0.42	0.37
Quick liquidity (Current assets less inventories/ Current liabilities)*)	0.89	0.92	0.55	0.55	0.50	0.66	0.48	0.31	0.29	0.26
Current liquidity (Current assets/Current liabilities)*)	1.06	1.13	0.91	0.72	0.72	0.94	0.68	0.51	0.65	0.52
Total assets (CZK millions)	3,671	3,155	2,779	2,464	2,290	2,708	2,935	2,359	2,189	2,083
Long-term assets/Total assets ratio (%)	69%	72%	72%	75%	76%	70%	75%	86%	88%	87%
Days receivables **)	98	98	61	45	38	46	53	41	28	26
Days inventories	43	38	44	45	27	34	47	54	41	39
Days payables	110	109	92	104	85	85	109	121	88	87
Average number of employees (person)	683	684	694	687	662	625	660	571	545	439
Productivity (Net profit/Number of employees)	0.05	0.16	0.52	0.05	0.17	0.24	0.04	0.12	0.04	(0.18)

Note:

*) For the purposes of calculating liquidity, current liabilities only include loan repayments actually effected in 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 2011, the Supervisory Board held five meetings.

Members of the Supervisory Board at 31 December 2011:

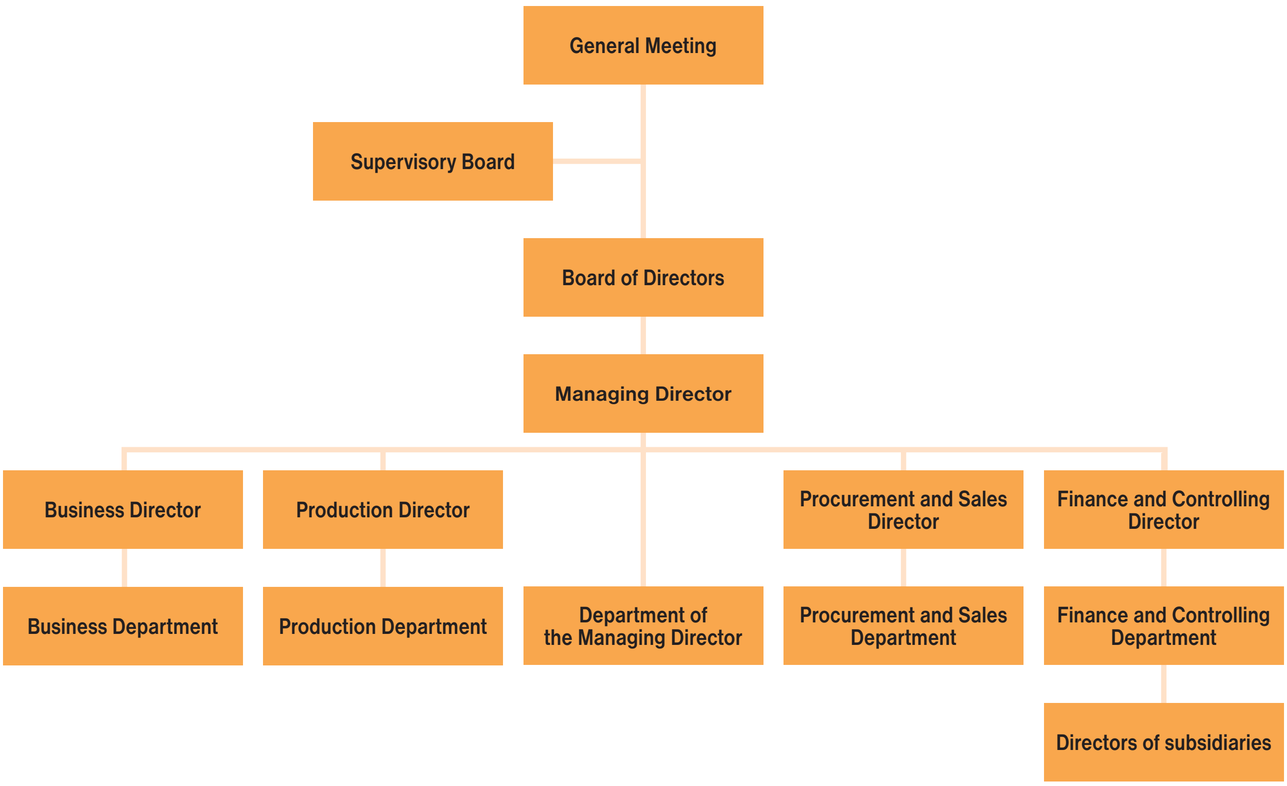
Chairman:	Mr. Ludvík Petr
Vice-chairman:	Mr. Jaromír Hejda
Member:	Ms. Hana Vaňousová
Member:	Mr. Oliver R. Greene
Member:	Ms. Květoslava Najmanová
Member:	Mr. Josef Bíža

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 lay 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 2011:

Chairman:	Mr. František Menclík
Vice-chairman:	Mr. Miroslav Vobora
Member:	Dr. Richard Howard Winston 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.

Ing. Vojtěch Čamek (born 1956)
Finance and Controlling Director

In the position of finance and controlling director since 2002. In 1999 – 2001 was financial and general director of Motokov International affiliations. 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.

Ing. 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; 1991-1999, business director. In 1968-1991 held several management and executive positions at KOVENTA. Secondary school education.

KORADO GROUP

At 31 December 2011, KORADO Group comprised the parent KORADO, a.s. Česká Třebová and six subsidiaries and associates, of which:

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

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

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

No control agreements have been concluded between the parent company KORADO, a.s. and its subsidiaries. The companies are managed on the basis of 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.

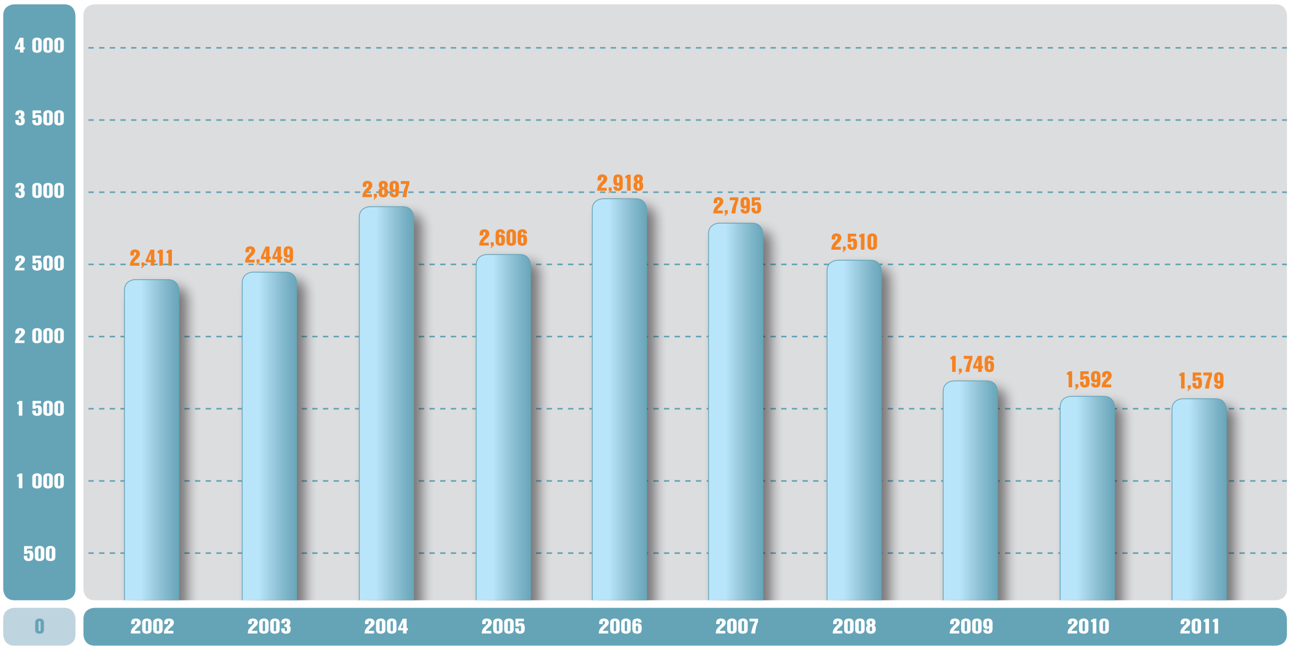
Since 2006, when the Bulgarian subsidiary began more effectively to utilize its panel radiator production capacities within KORADO Group, the process of bringing all corporate, technology and production processes in line with the parent company KORADO in Česká Třebová was completed. The implementation 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.

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

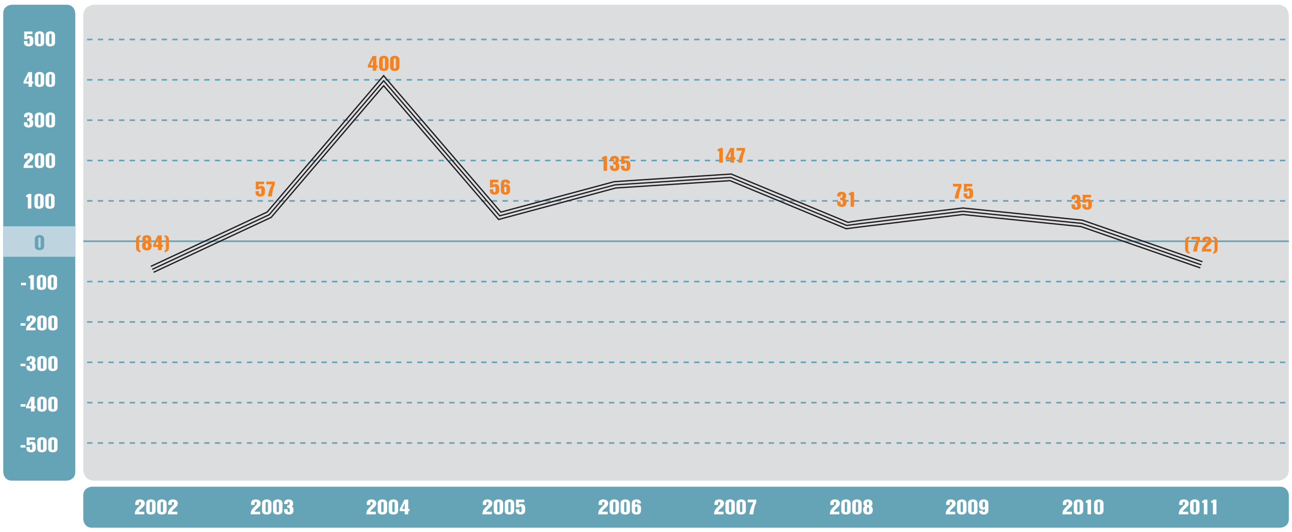
CZK '000	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Consolidated revenues	2,411,389	2,448,612	2,896,988	2,605,514	2,917,951	2,795,017	2,510,084	1,745,583	1,592,299	1,579,217
Consolidated profit/loss per IFRS	(84,210)	56,644	399,943	55,638	135,428	147,173	31,105	74,912	34,572	(72,369)

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

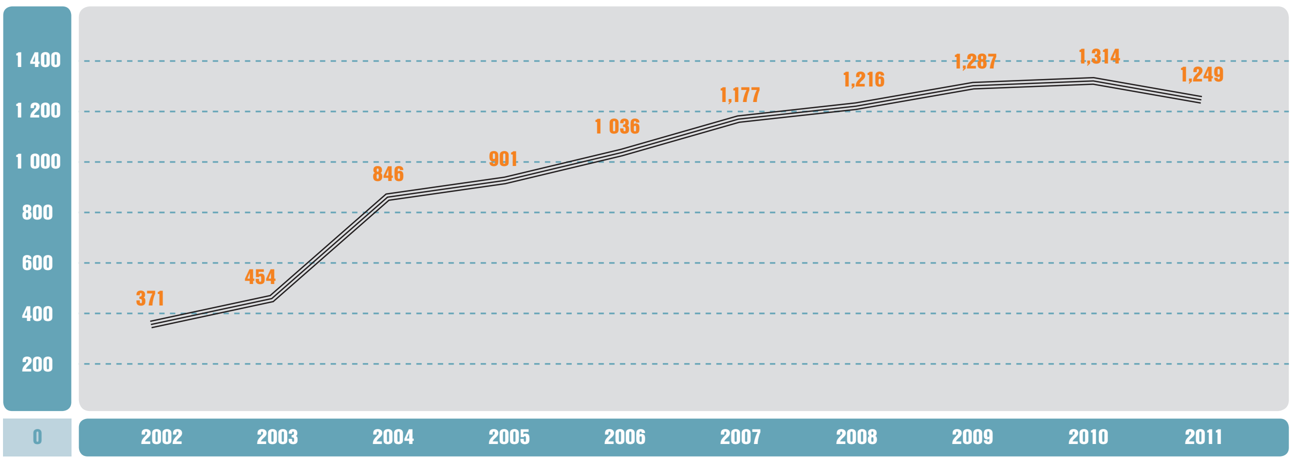
KORADO Group consolidated revenues (CZK million)



KORADO Group consolidated profit/loss (CZK million)

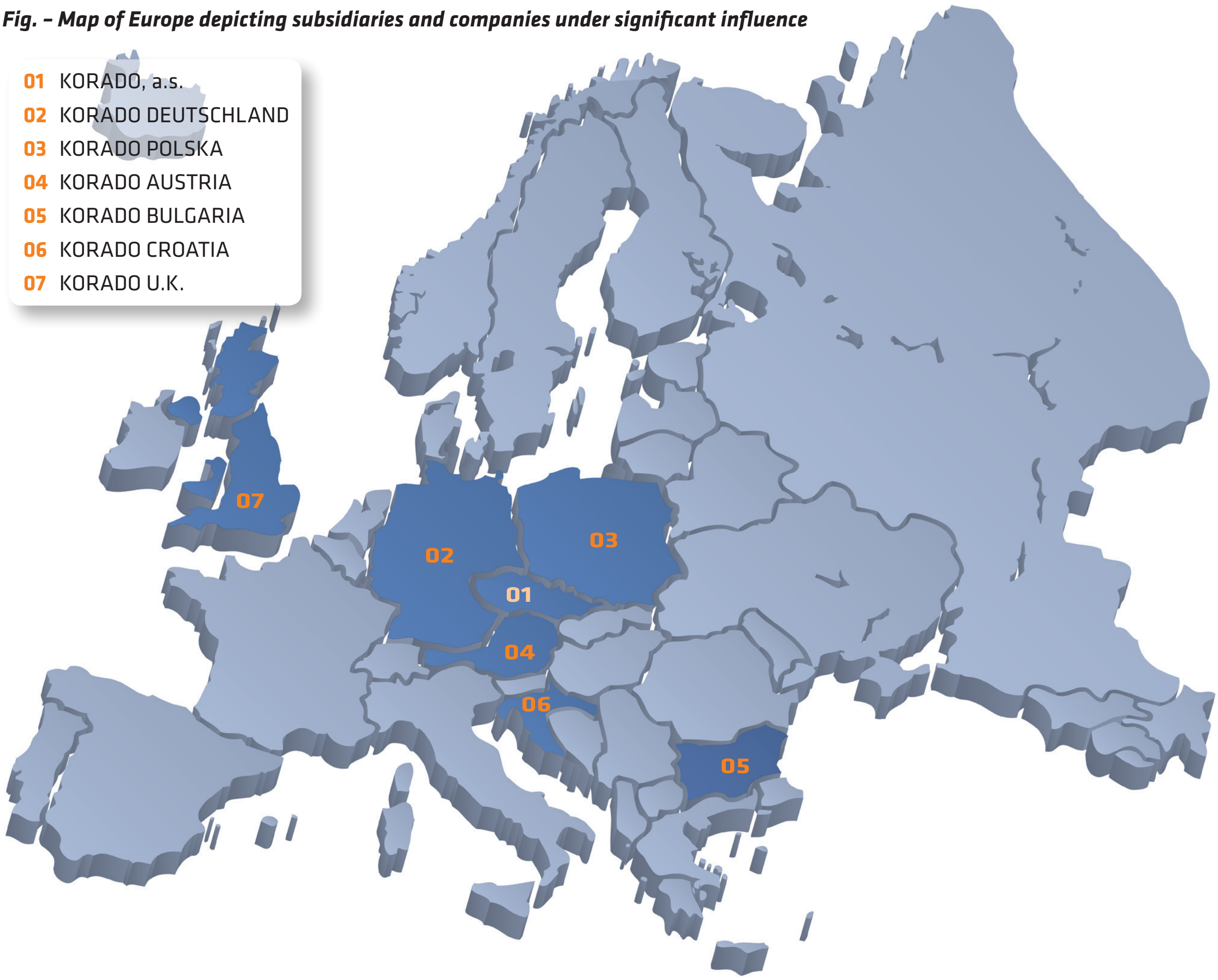


KORADO Group equity (CZK million)



DESCRIPTION OF SUBSIDIARIES AND COMPANIES UNDER SIGNIFICANT INFLUENCE

Fig. – Map of Europe depicting subsidiaries and companies under significant influence



Složení skupiny KORADO k 31. 12. 2011:

Company	Incorporation date	Share capital at 31.12.2011	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 645 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 41,743 thousand	Žaneta Vebrová	Gen. Okulickiego 4, 05-500 Piaseczno, Poland	100%	Limited liability company
KORADO Austria GesmbH	1 July 1998	CZK 27,090 thousand	Leona Vaňková	Ferstelgasse 6/7, 1090 WIEN, Austria	100%	Limited liability company
KORADO Bulgaria AD	1 O ctober 1998	CZK 21,549 thousand	Jiří Řezníček	Gladston 28, 5150 Strajica, Bulgaria	98.2%	Joint-stock company
KORADO Croatia d. o. o.	30 August 1996	CZK 7,212 thousand	Zvonko Miroslavljević	Stjepana Radića 24 35000 Slavonski Brod, Croatia	51 %	Limited liability company
KORADO UK Limited	25 November 1998	CZK 31 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 2011.

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 of EUR 0 for 2011 due to the fact that profit of EUR 263 thousand (CZK 6,789 thousand) generated through 2011 was used before the annual financial closing to settle a re-established liability owed to the parent company dating back to the year 2000.

EUR '000	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total revenues	11,200	8,494	6,527	5,977	5,729	5,007	4,974	4,763	5,090	5,286
Profit/loss	(1,485)	581	154	491	498	393	(67)	0	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 2011 loss of PLN 816 thousand (CZK 4,881 thousand) due to an exchange rate loss on the translation of a loan (PLN 921 thousand).

PLN '000	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total revenues	10,539	8,614	8,914	6,743	7,259	8,351	8,811	8,260	7,542	7,297
Profit/loss	(10,364)	(3,860)	3,745	1,442	764	1,044	(1,184)	(682)	461	(816)

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 22 thousand) for 2011.

EUR '000	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total revenues	5,414	3,209	2,868	3,055	2,223	0	0	0	0	0
Profit/loss	(2,355)	11	79	103	1,044	(9)	(4)	(8)	(1)	(1)

KORADO Bulgaria AD – 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 in close cooperation with the parent. KORADO Bulgaria's business activity was initially geared towards the Balkan countries (Bulgaria, Greece), the states of the former Yugoslavia and Ukraine. Since 2010, KORADO Bulgaria almost exclusively manufactures for KORADO, a.s.

KORADO Bulgaria posted profit of BGN 931 thousand (CZK 11,699 thousand) for 2011.

BGN '000	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total revenues	18,633	17,610	18,303	13,996	17,714	24,019	26,392	12,717	13,540	16,252
Profit/loss	135	41	(362)	(690)	400	(658)	1,527	639	768	931
Produced panel radiators	217,724	178,943	195,427	148,926	231,353	374,704	342,558	134,816	166,712	229,129

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. In 2011, Company executives filed for bankruptcy. The proceeding is still on-going.

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

COMPANY HISTORY

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

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

1987 First 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 98% 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 Czech Consolidation Agency 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 600 million commences. Restructuring of KORADO's largest subsidiary, KORADO Bulgaria, resulting in fundamental change to the subsidiary's management system. KORADO records the highest revenues in its history: CZK 2.725 billion.

2008 Completion of investment 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. 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 economic crisis, sales decline a further 9%. All Group loans are refinanced by a single bank. New capillary fitting technology for KORALUX radiator panels is installed.

2011 An extraordinary instalment of CZK 50 million was made on a long-term bank loan.

FINANCIAL POSITION

The consequences of the on-going economic crisis, especially in construction, once again affected the result of KORADO in 2011. The company recorded another year-on-year decrease in sales, however the pace continued to slow-down, to current 1 per cent year-on-year. The company responded by the introduction of a new product which is expected to contribute to increased competitiveness in markets with low sales margin. The company continued its direct and indirect cost optimization programs aimed at increased production efficiency. Optimization included maximum utilization of the Bulgarian production plant's capacity.

Working capital and debt optimization

During this difficult period, companies are placing more emphasis than ever on working capital optimization, especially on providing liquidity. KORADO is no exception. Trade receivable liquidity was improved, inventory days were optimized. As a result, we achieved a year-on-year debt reduction by approximately five percentage points.

Bank loans

An extraordinary installment of CZK 50 million was made on a long-term bank loan in 2011 and a total of CZK 93 million was paid on bank loans in 2011 (a 17% reduction).

Investments

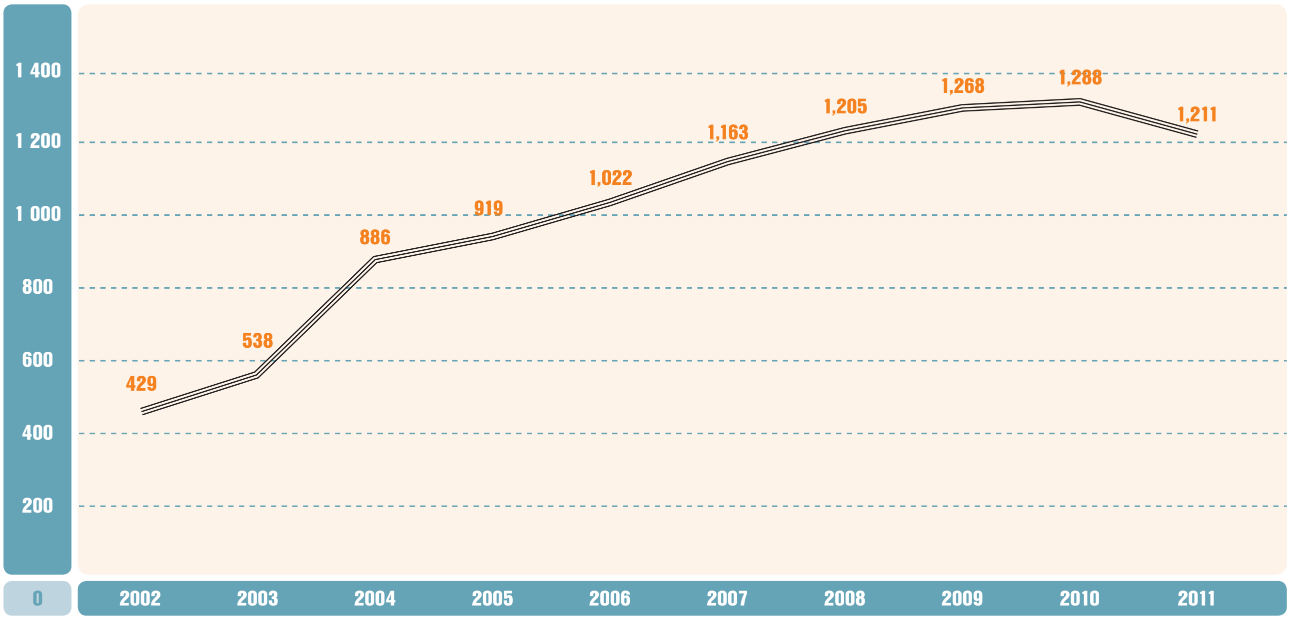
No significant investments were made in 2011 – total tangible and intangible fixed asset investments of CZK 13 million were more on the maintenance side.

Risk management

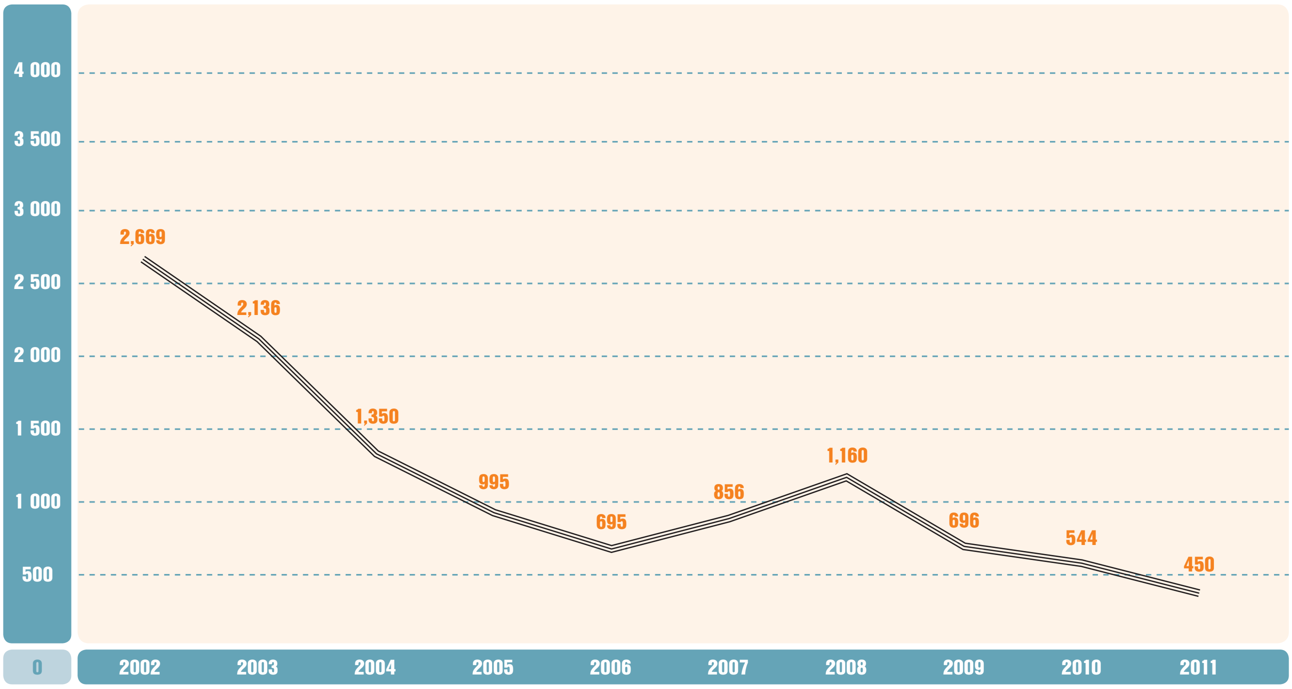
In 2011, the KORADO Group emphasized risk management. As thorough as possible elimination of internal and external risks remains one of the key tasks for the company. Despite the on-going financial crisis, decline of housing construction and related problems facing our clients, during the year, the company did not lose any trade receivables. Owing to good cooperation between the Trade and Risk Management departments we were able to maintain the total amount of provided commercial loans and gain new clients despite strict credit rules. Due to the fact that new clients were found outside of our standard trading territories, credit management had to find new solutions for securing receivables which are being gradually implemented in our everyday work.

Perceiving the risk management within a broader context of the company's operation also led to better risk management on the purchasing side. The vendor portfolio is currently optimized in terms of risk management. The completion of the Risk Catalogue (so-called Risk Map) resulted in a risk perception that is more conceptual (management of trade, strategic, personal, operational, and other risks). For the sake of highly efficient company management, we also emphasized internal risk management.

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



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



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.

The on-going market research and verification of alternative vendor and material opportunities, while fully respecting final product quantitative requirements, was and will be an indivisible part of our procurement process.

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 supervised the proper performance of procurement activities and participated in a comprehensive vendor assessment. The results of the assessment were discussed in detail with respective vendors and we were (and still are) looking for solutions of problematic areas.

Sheet metal prices

Cold-rolled metal sheets are the key input materials for our main product line and represents more than one half of funds spent for input materials. Over the year, this commodity recorded another increase. Sharp 1st quarter hike culminated in the 2nd quarter. The growth dynamic and unpredictability of steel prices together with high monthly fluctuations made the procurement planning difficult and significantly affected inventory amount and turnover.

In the course of the year we adopted different measures affecting metal sheets and other purchased input materials purchasing. Owing to an intensive effort of the purchasing staff and good internal cooperation with other departments, these measures respected qualitative and quantitative requirements for securing materials on a timely basis. This helped to partially eliminate the full impact of steel price increases on our material costs.

Suppliers, stabilization and finding new resources

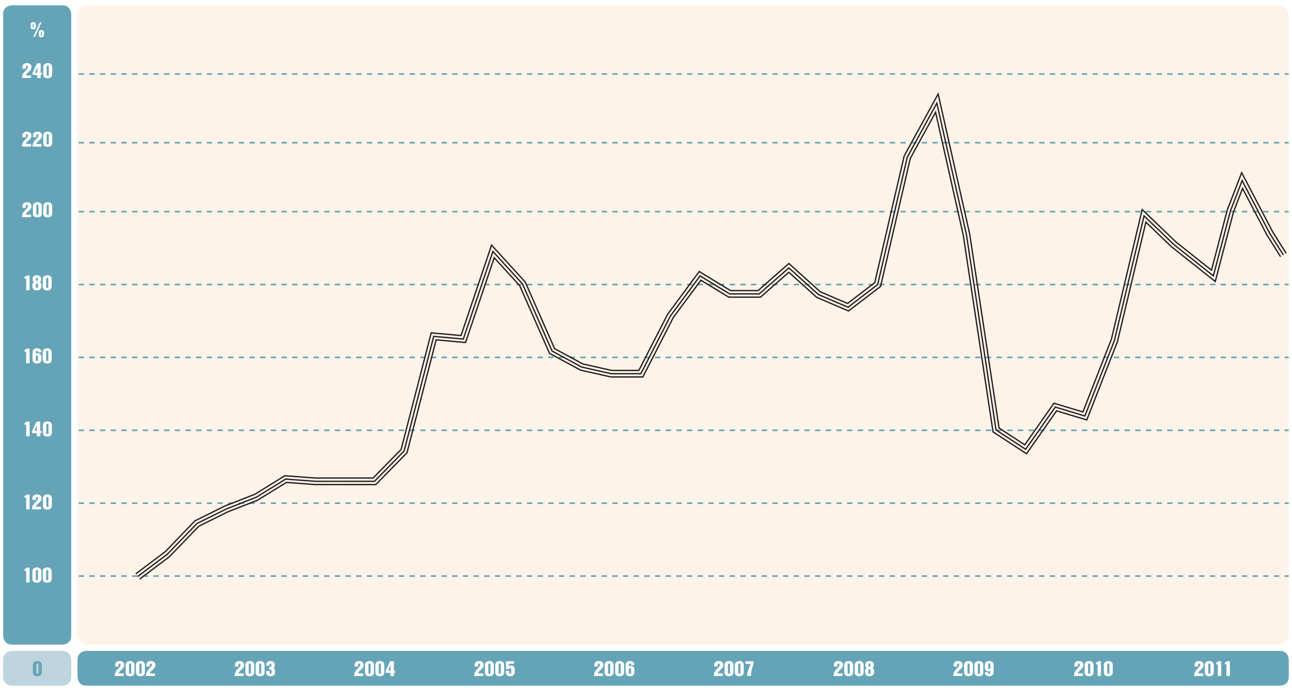
In 2011, the Company continued to work in a systematic manner with its suppliers while subjecting them to rigorous evaluation. At the same time, the standard process of sourcing new supplies continued while maintaining quality, logistics and service parameters and minimizing procurement risks.

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.

Inventory management

In the inventory management area, the central warehouse was re-organized and we continue to expand our use of the inventory system functionalities.

Sheet metal price development index



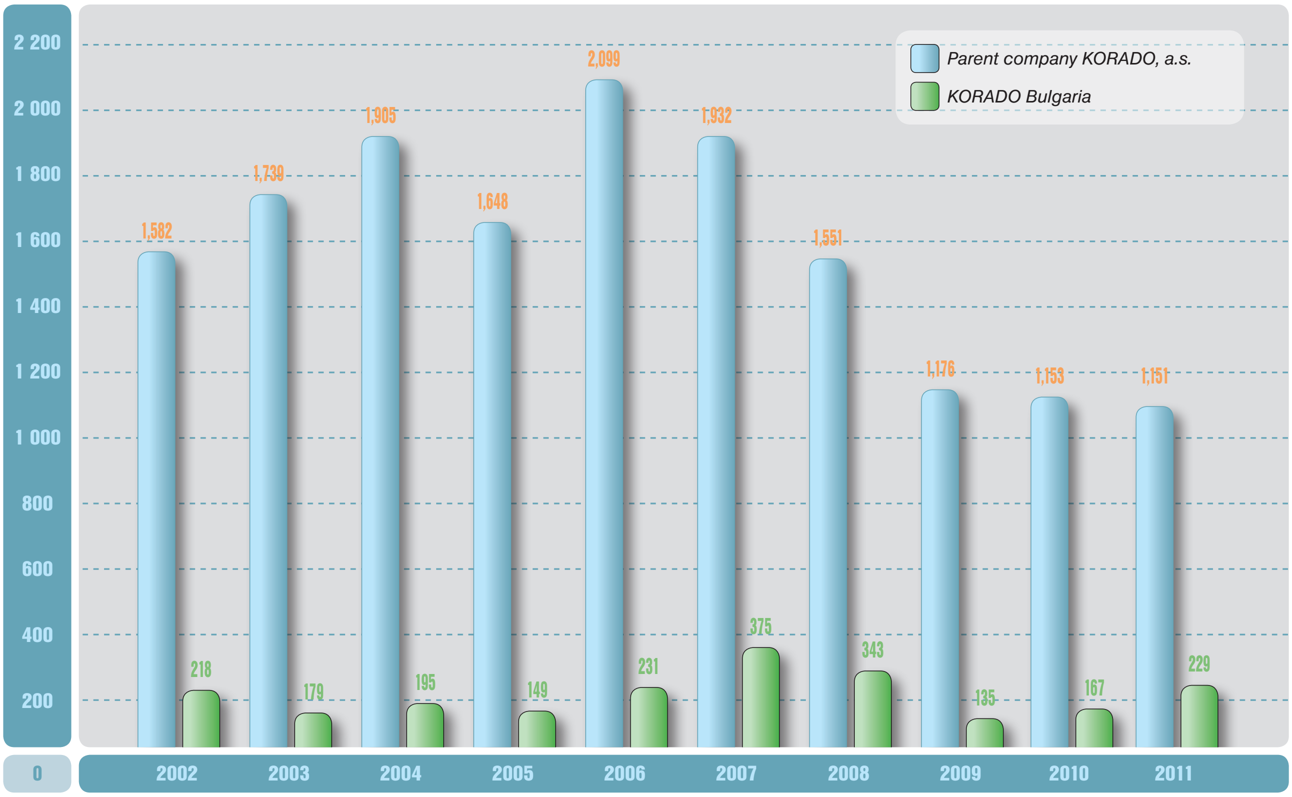
PRODUCTION AND DEVELOPMENT

In 2011, production continued to run in two shifts.

KORALUX radiator production innovation

The main task (continuing from 2010) was putting into operation and familiarization with the production technology of the KORALUX tubular radiators. Owing to the new technology, we have achieved up to a quadruple increase in labor productivity and in the first year of production we were able to manufacture 52% more tubular radiators than in the preceding year.

Number of produced radiators (parent x KBG)



KORADO SALES AND MARKET POSITION

For the construction and heating technology market, 2011 was similar as the preceding years, i.e. marked by the continuing world-wide economic depression. In most European countries, the heating technology market has now stabilized, year-on-year.

For the KORADO brand, 2011 marked the stop of a several year-long reduction in sales of its main product line - panel radiators. In eleven from fifteen key markets we sold higher or the same quantities year-on-year. A very significant change was our offer of brand new bathroom radiator models starting in March 2011. New models were expected for a long time in the market and in the first year we were able to sell 44% more bathroom radiators than in 2010. We expect a similar increase by dozens of percentage points in 2012.

Given the economic situation, customers watch the price very closely – and our offer has to withstand that. Due to changed customer preferences we prepared new, cheaper radiator models for selected markets. These products are finding many new customers and we will continue to develop this segment.

Looking at the European construction market as a whole, there is still clear growth in the re-modeling segment to the detriment of new construction. Products offered by us and specifically developed for remodeling grew 100% year-on-year. This confirms that our decision was correct.

Europe
Central and Eastern European countries are the key region for the KORADO brand. In these countries we were able to achieve the largest increases in sales. According to the current projections, we can expect increased interest in our brand in this region in 2012.

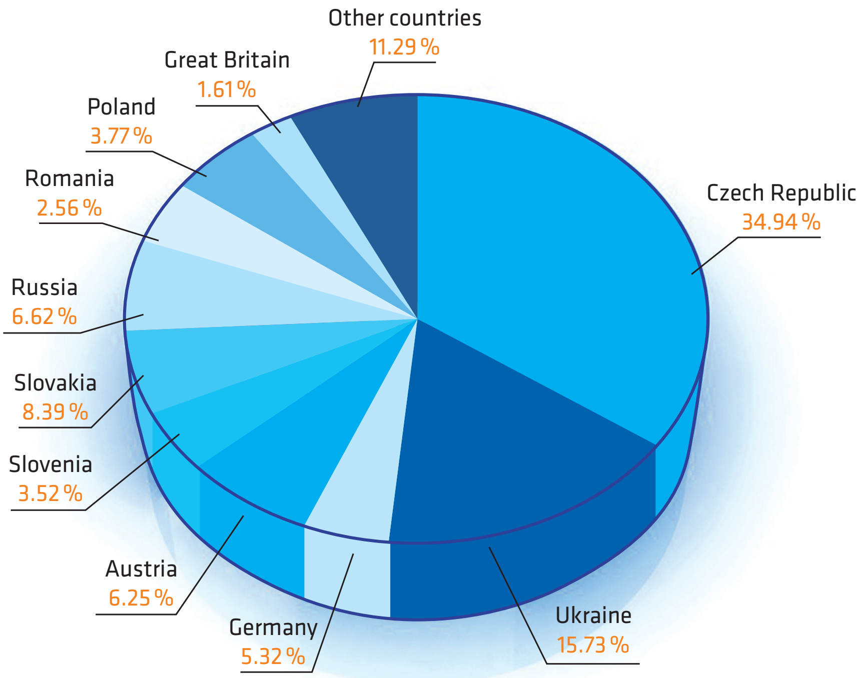
Czech Republic
In our domestic market, we increased the sales volume in each of the three key product groups in 2011. Competition for each new project that will require radiators is still very harsh.

Ukraine
Ukraine is one of the countries where our brand gained additional market share. We maintained our position as a market leader. In 2011, we successfully offered our new bathroom radiators to new customers in Ukraine.

Slovakia
According to preliminary statistics, we have increased our market share in Slovakia in both panel and bathroom radiator segments. The main factor of our success is a broad range of products offered via distributors across Slovakia.

Austria
Mainly owing to high quality services provided by three business representatives, our panel radiator sales in Austria increased by 22% and bathroom radiator sales by 40% year-on-year.

Overview of RADIK panel radiator sales in 2011 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 according to individual interest groups. Thus the system supports objectivity in compensation and team work.

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 for winter recreation are also made available to employees under favourable terms. The Company contributes to the life insurance policies of executive staff among other benefits. 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.

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 and BSI for Great Britain.

The environment

Main goals of the company Marius Pedersen a.s. as part of the "Comprehensive care of environmental components in KORADO, a.s." project, were set at the beginning of the year and include active cooperation and supervision of compliance with the REACH Regulation and the European Parliament Regulation No. 1272/2008.

Another goal was drafting new rules of operation for medium-size pollution sources. This point was not fulfilled due to expected legislative amendments in this area. The drafting of rules of operation was postponed until 2012.

On 6 and 7 September 2011, the Czech Environmental Inspection, Regional Office in Hradec Králové, carried out an announced audit of compliance with the integrated license. The audit reviewed legislative compliance for all environmental components included in the integrated license.


KEMA

CERTIFIKÁT

Číslo: 76809

Systém řízení firmy:

KORADO a.s.
Bří Hubálků 869
560 02 Česká Třebová
Česká republika
IČ: 25255843

včetně jeho zavedení vyhovuje požadavkům normy:

ISO 9001:2008

Obor:
vývoj, výroba, prodej a servis otopných těles

Základ pro vydání tohoto certifikátu:
76809-QUA

Certifikát je platný do: 1.listopadu 2012

Poprvé byl vydán: 15.října 1997

Certifikát upraven: 1.listopadu 2009

KEMA Quality B.V.

drs. G.J. Zoetbrood
Managing Director

drs.A. Diedering
Certification Manager

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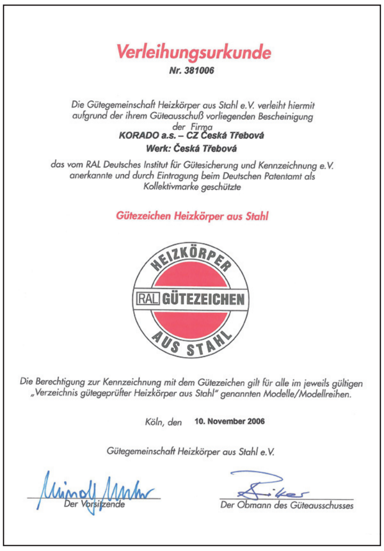
T +31 26 356 2000 F +31 26 352 5800 customer@kema.com www.kema.com Company registration 09085396

Experience you can trust.


Verleihungsurkunde

Nr. 381006

Die Gütegemeinschaft Heizkörper aus Stahl e.V. verleiht hiermit aufgrund der ihrem Güteausschuß vorliegenden Bescheinigung der Firma

KORADO a.s. – CZ Česká Třebová

Werk: Česká Třebová

das vom RAL Deutsches Institut für Gütesicherung und Kennzeichnung e.V. anerkannte und durch Eintragung beim Deutschen Patentamt als Kollektivmarke geschützte

Gütezeichen Heizkörper aus Stahl

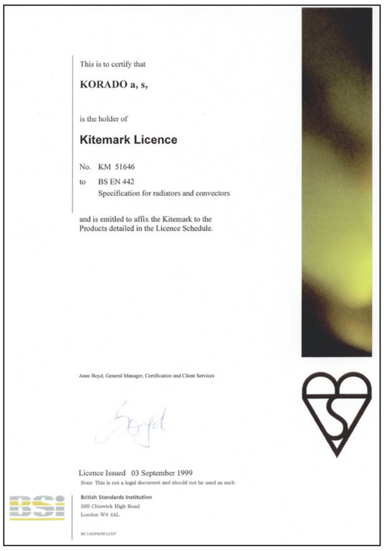
Die Berechtigung zur Kennzeichnung mit dem Gütezeichen gilt für alle im jeweils gültigen „Verzeichnis gütegeprüfter Heizkörper aus Stahl" genannten Modelle/Modellreihen.

Köln, den 10. November 2006

Gütegemeinschaft Heizkörper aus Stahl e.V.

Der Vorsitzende

Der Obmann des Güteausschusses


This is to certify that

KORADO a, s,

is the holder of

Kitemark Licence

No. KM 51646

to BS EN 442
Specification for radiators and convectors

and is entitled to affix the Kitemark to the Products detailed in the Licence Schedule.

Anne Boyd, General Manager, Certification and Client Services

Licence Issued 03 September 1999

Note: This is not a legal document and should not be used as such

BSI

British Standards Institution
389 Chiswick High Road
London W4 4AL

MC130/PS/9812/DP

REPORT OF THE SUPERVISORY BOARD

During the year 2011, the Supervisory Board of KORADO, Inc., met five times in total. All the meetings of the Supervisory Board achieved the required quorum. At its meetings, the Supervisory Board was apprised of the financial results of the company and of all important activities of the Board of Directors of KORADO, 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, 2011:

- Ludvík PETR – Chairman of the Supervisory Board,
- Ing. Jaromír HEJDA – Vice-Chairman of the Supervisory Board
- Ing. Josef BÍŽA – Member of the Supervisory Board
- Oliver GREENE - Member of the Supervisory Board
- Ing. Květoslava NAJMANOVÁ - Member of the Supervisory Board
- Ing. Hana VAŇOUSOVÁ - Member of the Supervisory Board

There was no change in the makeup of the Supervisory Board over the course of 2011. On Oct 27, 2011, Mr. Oliver Greene, member of the Supervisory Board proposed by the shareholder EBRD, was re-elected by the General Meeting of KORADO, Inc., for another term of office.

Fulfillment of duties of the Supervisory Board

The Supervisory Board supervised performance of the activities of the company's Board of Directors and the implementation of the company's commercial activity. It especially inspected whether its performance was in line with the provisions of the Commercial Code, other valid regulations and the valid Articles of Association of the joint stock company KORADO, Inc. It regularly monitored and discussed the company's financial results, the state of its assets, incl. information about the state of receivables. The standard tasks which the Supervisory Board dealt with in 2011, included continuous checks on fulfilment of the company's commercial and financial plan and financial results for the past period. The Supervisory Board audited and checked fulfilment of the marketing plan, as well as discussed the company's Financial Plan for 2012. Among other things, the Supervisory Board also dealt with trade limits for customers of KORADO, Inc. for 2011. At its 91st meeting, the Supervisory Board approved a conclusion of a contract with Ernst & Young to carry out audits of KORADO, Inc. for 2011 – 2013. The Chairman of the Board of Directors regularly provided the Supervisory Board with information about assessment of new criteria adopted at meetings of the Board of Directors of KORADO, Inc.

Over the course of the period in question, the Supervisory Board met its obligations resulting from the provisions of the Commercial Code, especially as stipulated in Section 197 to Section 201.

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

The Supervisory Board, or more precisely, 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 thereof. Any comment the Supervisory Board may have concerning tasks and duties of the Board of Directors, was discussed with the Chairman of the Board of Directors or a commissioned member thereof. The fulfillment of tasks commissioned to the Board of Directors were checked at each meeting of the Supervisory Board. The Supervisory Board states that the Board of Directors and the Top Management provided the Supervisory Board with all materials requested for its activity.

Review of the financial statement

On its 96th meeting held on March 26, 2012, the Supervisory Board was apprised of the auditor's, Ernst & Young, statement regarding the financial statement and the consolidated financial statement according to the IFRS standards. The Supervisory Board reviewed the regular financial statement and the consolidated financial statement according to the IFRS standards, of the KORADO company and the KORADO Group respectively, as of Dec. 31, 2011, presented by the Board of Directors. The supplements to the regular financial statement and the consolidated financial statement according to the IFRS standards for 2011 are included in the full version in the Annual Report of the company KORADO, Inc., for 2011. 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, 2011.

The Supervisory Board, having checked the proposal of the Board of Directors to distribute the 2011 financial result (to transfer the amount of - 81,144,147.34 CZK from the loss of - 81,144,147.34 CZK to the retained earnings), states that the proposed distribution of the book loss is in accordance with the legal requirements and the statutes of KORADO, Inc., and thus recommends the General Meeting to approve the distribution of the financial result for the 2011 in the manner presented by the company's Board of Directors.

In Česká Třebová on March 26, 2012

Ludvík Petr
Chairman of the Supervisory Board

Ing. Jaromír Hejda
Vice-Chairman of the Supervisory Board

AUDITOR'S REPORT INCLUDING THE AUDITOR'S OPINION

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 2011 presented in the annual report of KORADO, a.s. on pages 45 - 71, on which we have issued an auditor's report dated 6 March 2012, presented in the annual report on page 46. We have also audited the separate financial statements of the Company as at 31 December 2011 which are presented in the annual report of the Company on pages 27 - 43 on which we have issued an auditor's report dated 6 March 2012, 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 respects, with the financial statements. We have checked that the accounting information presented in the annual report on pages 5 - 23 is consistent with that contained in the audited financial statements as at 31 December 2011. 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 financial statements described above.

Ernst & Young

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

Petr Vácha

Petr Vácha
Auditor, License No. 1948

6 March 2012
Prague, Czech Republic

Financial Statements for the year ended 31 December 2011 together with Auditor's Report

AUDITOR'S REPORT INCLUDING THE AUDITOR'S OPINION

To the Shareholders of KORADO, a.s.:

We have audited the accompanying financial statements of KORADO, a.s. which comprise the balance sheet as at 31 December 2011, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of KORADO, a.s. see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of KORADO, a.s. as at 31 December 2011, 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

6 March 2012
Prague, Czech Republic

BALANCE SHEET - LONG FORM

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

				Current year		Prior year
				Allowances		2010
			Gross		Net	Net
		TOTAL ASSETS	**5 053 104**	**(2 970 413)**	**2 082 691**	**2 188 968**
A.		**STOCK SUBSCRIPTION RECEIVABLE**	**-**	**-**	**-**	**-**
B.		**FIXED ASSETS**	**4 748 133**	**(2 934 542)**	**1 813 591**	**1 934 088**
B. I.		Intangible assets	178 453	(163 924)	14 529	18 773
B. I.	1	Foundation and organization expenses	895	(895)	-	-
	2	Research and development	-	-	-	-
	3	Software	174 934	(161 223)	13 711	12 501
	4	Patents, royalties and similar rights	2 469	(1 806)	663	839
	5	Goodwill	-	-	-	-
	6	Other intangible assets	-	-	-	-
	7	Intangible assets in progress	155	-	155	5 433
	8	Advances granted for intangible assets	-	-	-	-
B. II.		Tangible assets	4 356 247	(2 609 414)	1 746 833	1 865 279
B. II.	1	Land	25 163	-	25 163	25 465
	2	Constructions	1 675 660	(583 630)	1 092 030	1 130 191
	3	Separate movable items and groups of movable items	2 587 252	(1 994 902)	592 350	646 298
	4	Perennial crops	-	-	-	-
	5	Livestock	-	-	-	-
	6	Other tangible assets	61 625	(30 882)	30 743	30 374
	7	Tangible assets in progress	3 464	-	3 464	31 698
	8	Advances granted for tangible assets	3 083	-	3 083	1 253
	9	Gain or loss on revaluation of acquired property	-	-	-	-
B. III.		Financial investments	213 433	(161 204)	52 229	50 036
B. III.	1	Subsidiaries	163 057	(110 828)	52 229	50 036
	2	Associates	-	-	-	-
	3	Other long-term securities and interests	-	-	-	-
	4	Loans to subsidiaries and associates	50 376	(50 376)	-	-
	5	Other long-term investments	-	-	-	-
	6	Long-term investments in progress	-	-	-	-
	7	Advances granted for long-term investments	-	-	-	-
C.		**CURRENT ASSETS**	**295 666**	**(35 871)**	**259 795**	**236 989**
C. I.		Inventory	131 763	(1 175)	130 588	130 139
C. I.	1	Materials	97 279	(971)	96 308	95 605
	2	Work in progress and semi-finished production	9 100	-	9 100	8 338
	3	Finished products	19 832	(193)	19 639	21 199
	4	Livestock	-	-	-	-
	5	Goods	5 552	(11)	5 541	4 997
	6	Advances granted for inventory	-	-	-	-
C. II.		Long-term receivables	728	-	728	1 192
C. II.	1	Trade receivables	-	-	-	-
	2	Receivables from group companies with majority control	-	-	-	-
	3	Receivables from group companies with control of 20% - 50%	-	-	-	-
	4	Receivables from partners, co-operative members and participants in association	-	-	-	-
	5	Long-term advances granted	728	-	728	1 192
	6	Unbilled revenue	-	-	-	-
	7	Other receivables	-	-	-	-
	8	Deferred tax asset	-	-	-	-
C. III.		Short-term receivables	161 736	(34 696)	127 040	101 796
C. III.	1	Trade receivables	139 550	(34 696)	104 854	95 890
	2	Receivables from group companies with majority control	-	-	-	-
	3	Receivables from group companies with control of 20% - 50%	-	-	-	-
	4	Receivables from partners, co-operative members and participants in association	-	-	-	-
	5	Social security and health insurance	-	-	-	-
	6	Due from government - tax receivables	9 177	-	9 177	2 267
	7	Short-term advances granted	2 751	-	2 751	2 535
	8	Unbilled revenue	10 258	-	10 258	859
	9	Other receivables	-	-	-	245
C. IV.		Short-term financial assets	1 439	-	1 439	3 862
C. IV.	1	Cash	344	-	344	468
	2	Bank accounts	1 095	-	1 095	3 394
	3	Short-term securities and interests	-	-	-	-
	4	Short-term financial assets in progress	-	-	-	-
D.		**OTHER ASSETS - TEMPORARY ACCOUNTS OF ASSETS**	**9 305**	**-**	**9 305**	**17 891**
D. I.		Accrued assets and deferred liabilities	9 305	-	9 305	17 891
D. I.	1	Prepaid expenses	8 785	-	8 785	12 527
	2	Prepaid expenses (specific-purpose expenses)	-	-	-	-
	3	Unbilled revenue	520	-	520	5 364

BALANCE SHEET - LONG FORM

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

				Current year	Prior year 2010
			TOTAL EQUITY & LIABILITIES	**2 082 691**	**2 188 968**
A.			**EQUITY**	**1 210 562**	**1 288 181**
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	(44 379)	(47 904)
A	II.	1	Share premium (agio)	-	-
		2	Other capital funds	48	48
		3	Gain or loss on revaluation of assets and liabilities	(44 427)	(47 952)
		4	Gain or loss on revaluation of company transformations	-	-
A	III.		Reserve funds and other funds created from profit	45 727	44 745
A	III.	1	Legal reserve fund	45 727	44 745
		2	Statutory and other funds	-	-
A.	IV.		Profit (loss) for the previous years	449 658	430 996
	IV.	1	Retained earnings for the previous years	449 658	430 996
		2	Accumulated loss of previous years	-	-
A.	V.		Profit (loss) for the year (+ / -)	(81 144)	19 644
B.			**LIABILITIES**	**864 788**	**884 837**
B.	I.		Provisions	8 857	14 631
B.	I.	1	Provisions created under special legislation	-	-
		2	Provision for pensions and similar obligations	-	-
		3	Provision for corporate income tax	-	-
		4	Other provisions	8 857	14 631
B.	II.		Long-term liabilities	72 161	72 161
B.	II.	1	Trade payables	-	-
		2	Liabilities to group companies with majority control	-	-
		3	Liabilities to group companies with control of 20% - 50%	-	-
		4	Liabilities to partners, co-operative members and participants in association	-	-
		5	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	333 592	254 443
B.	III.	1	Trade payables	266 613	209 560
		2	Liabilities to group companies with majority control	31	29
		3	Liabilities to group companies with control of 20% - 50%	-	-
		4	Liabilities to partners, co-operative members and participants in association	-	-
		5	Liabilities to employees	12 116	15 775
		6	Liabilities arising from social security and health insurance	5 254	6 303
		7	Due to government – taxes and subsidies	1 733	2 629
		8	Advances received	4 071	751
		9	Bonds payable	-	-
		10	Unbilled deliveries	43 400	19 048
		11	Other liabilities	374	348
B.	IV.		Bank loans and borrowings	450 178	543 602
B.	IV.	1	Long-term bank loans	280 000	433 602
		2	Short-term bank loans	170 178	110 000
		3	Borrowings	-	-
C.			**OTHER LIABILITIES - TEMPORARY ACCOUNTS OF LIABILITIES**	**7 341**	**15 950**
C.	I.		Accrued liabilities and deferred assets	7 341	15 950
C.	I.	1	Accruals	7 333	15 950
		2	Deferred income	8	-

INCOME STATEMENT - LONG FORM

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

				Current year	Prior year 2010
	I.	1	Revenue from sale of goods	79 865	19 566
A.		2	Cost of goods sold	65 789	16 046
	+		**Gross margin**	**14 076**	**3 520**
	II.		Production	1 479 914	1 559 218
	II.	1	Revenue from sale of finished products and services	1 474 656	1 556 240
		2	Change in inventory produced internally	1 504	(840)
		3	Own work capitalized	3 754	3 818
B.			Production related consumption	1 145 144	1 102 757
B.		1	Consumption of material and energy	988 607	955 802
B.		2	Services	156 537	146 955
	+		**Value added**	**348 846**	**459 981**
C.			Personnel expenses	266 997	287 078
C.		1	Wages and salaries	211 590	222 881
C.		2	Bonuses to members of company or cooperation bodies	924	916
C.		3	Social security and health insurance	51 562	60 165
C.		4	Other social costs	2 921	3 116
D.		1	Taxes and charges	755	1 548
E.		1	Amortization and depreciation of intangible and tangible fixed assets	134 750	144 494
	III.		Revenue from sale of intangible and tangible fixed assets and materials	19 627	8 117
	III.	1	Revenues from sale of intangible and tangible fixed assets	1 030	2 407
		2	Revenue from sale of materials	18 597	5 710
F.			Net book value of intangible and tangible fixed assets and materials sold	17 565	5 079
F.		1	Net book value of intangible and tangible fixed assets sold	392	413
F.		2	Materials sold	17 173	4 666
G.		1	Change in provisions and allowances relating to operations and in prepaid expenses (specific-purpose expenses)	(3 487)	9 573
	IV.	1	Other operating revenues	12 434	6 747
H.		2	Other operating expenses	14 697	18 978
	V.	1	Transfer of operating revenues	-	-
I.		2	Transfer of operating expenses	-	-
	*		**Profit or loss on operating activities**	**(50 370)**	**8 095**
	VI.	1	Revenue from sale of securities and interests	-	-
J.		2	Securities and interests sold	-	-
	VII.		Income from financial investments	-	-
	VII.	1	Income from subsidiaries and associates	-	-
		2	Income from other long-term securities and interests	-	-
		3	Income from other financial investments	-	-
	VIII.	1	Income from short-term financial assets	-	-
K.		2	Expenses related to financial assets	-	-
	IX.	1	Gain on revaluation of securities and derivatives	-	-
L.		2	Loss on revaluation of securities and derivatives	-	-
M.		1	Change in provisions and allowances relating to financial activities	2 777	(15 179)
	X.	1	Interest income	1 568	1 325
N.		2	Interest expense	16 115	19 098
	XI.	1	Other finance income	18 588	50 301
O.		2	Other finance cost	32 038	36 158
	XII.	1	Transfer of finance income	-	-
P.		2	Transfer of finance cost	-	-
	*		**Profit or loss on financial activities**	**(30 774)**	**11 549**
Q.			Tax on profit or loss on ordinary activities	-	-
Q.		1	- due	-	-
Q.		2	- deferred	-	-
**			**Profit or loss on ordinary activities after taxation**	**(81 144)**	**19 644**
	XIII.	1	Extraordinary gains	-	-
R.		2	Extraordinary losses	-	-
S.		1	Tax on extraordinary profit or loss	-	-
S.		1	- due	-	-
S.		2	- deferred	-	-
	*		**Extraordinary profit or loss**	**-**	**-**
T.		1	Transfer of share of profit or loss to partners (+/-)	-	-
	***		**Profit or loss for the year (+/-)**	**(81 144)**	**19 644**
	****		**Profit or loss before taxation**	**(81 144)**	**19 644**

CASH FLOW STATEMENT

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

				Current year	Prior year 2010
			Cash flows from operating activities		
Z.			**Profit or loss on ordinary activities before taxation (+/-)**	**(81 144)**	**19 644**
A.	1.		Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	155 657	130 931
A.	1.	1.	Depreciation and amortization of fixed assets and write-off of receivables	134 772	144 493
A.	1.	2.	Change in allowances	5 064	(8 487)
A.	1.	3.	Change in provisions	(5 774)	2 880
A.	1.	4.	Foreign exchange differences	7 686	(23 734)
A.	1.	5.	(Gain)/Loss on disposal of fixed assets	(638)	(1 994)
A.	1.	6.	Interest expense and interest income	14 547	17 773
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**	**74 513**	**150 575**
A.	2.		Change in non-cash components of working capital	53 545	(41 232)
A.	2.	1.	Change in inventory	94	(6 999)
A.	2.	2.	Change in trade receivables	(6 644)	30 055
A.	2.	3.	Change in other receivables and in prepaid expenses and unbilled revenue	(7 148)	(7 984)
A.	2.	4.	Change in trade payables	53 843	(51 793)
A.	2.	5.	Change in other payables, short-term loans and in accruals and deferred income	13 400	(4 511)
A**			**Net cash from operating activities before taxation, interest paid and extraordinary items**	**128 058**	**109 343**
A.	3.	1.	Interest paid	(16 117)	(19 102)
A.	4.	1.	Tax paid	5	56
A.	5.	1.	Gains and losses on extraordinary items	-	-
A***			**Net cash provided by (used in) operating activities**	**111 946**	**90 297**
			Cash flows from investing activities		
B.	1.	1.	Purchase of fixed assets	(20 169)	(26 918)
B.	2.	1.	Proceeds from sale of fixed assets	1 030	19 457
B.	3.	1.	Loans granted	-	76
B.	4.	1.	Interest received	1 568	1 325
B.	5.	1.	Dividends received	-	-
B***			**Net cash provided by (used in) investing activities**	**(17 571)**	**(6 060)**
			Cash flows from financing activities		
C.	1.	1.	Change in long-term liabilities and long-term, resp. short-tem, loans	(96 798)	(126 382)
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**	**(96 798)**	**(126 382)**
F.			**Net increase (decrease) in cash**	**(2 423)**	**(42 145)**
P.			**Cash and cash equivalents at beginning of year**	**3 862**	**46 007**
R.			**Cash and cash equivalents at end of year**	**1 439**	**3 862**

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 2011 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 2011 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.

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 2011 and 2010.
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 2011. The result of consolidation performed in compliance with International Financial Reporting Standards (IFRS) is consolidated equity at the amount of CZK 1,249,387 thousand, consolidated loss of CZK 72,369 thousand and total consolidated assets of CZK 2,117,193 thousand as at 31 December 2011.

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 2011 and 2010 financial statements are as follows:

a) Intangible Fixed Assets

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

Intangible fixed assets with a cost exceeding CZK 60 thousand in 2011 and 2010 are amortized over their useful economic lives.

Amortization

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

	Years
Foundation and organization expenses	5
Software	4 - 6
Royalties	6

b) Tangible Fixed Assets

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

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

Depreciation

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

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 2011 and 2010 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 2011 and 2010, 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 2011 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.

l) Use of Estimates

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

m) Subsequent Events

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

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

4. FIXED ASSETS

a) Intangible Fixed Assets (in CZK thousands)

COST

	At the beginning of year	Additions	Disposals	Transfers	At the end of year
Foundation and organization expenses	895	-	-	-	895
Software	168,210	-	-	6,724	174,934
Patents, royalties and similar rights	2,404	-	(8)	73	2,469
Intangibles in progress	5,433	1,519	-	(6,797)	155
2011 Total	**176,942**	**1,519**	**(8)**	**-**	**178,453**
2010 Total	169,716	7,226	-	-	176,942

ACCUMULATED AMORTIZATION

	At the beginning of year	Amortization during of year	Disposals	At the end of year	Net book value
Foundation and organization expenses	(895)	-	-	(895)	-
Software	(155,709)	(5,514)	-	(161,223)	13,711
Patents, royalties and similar rights	(1,565)	(249)	8	(1,806)	663
Intangibles in progress	-	-	-	-	155
2011 Total	**(158,169)**	**(5,763)**	**8**	**(163,924)**	**14,529**
2010 Total	(152,937)	(5,232)	-	(158,169)	18,773

The total value of small intangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 4,799 thousand and CZK 4,460 thousand as at 31 December 2011 and 2010, respectively.

b) Tangible Fixed Assets (in CZK thousands)

COST

	At the beginning of year	Additions	Disposals	Transfers	At the end of year
Land	25,465	-	(302)	-	25 163
Buildings	1,676,897	-	(1,574)	337	1,675,660
Machinery and equipment	2,583,773	-	(39,430)	34,870	2,579,213
Vehicles	8,039	-	-	-	8,039
Other tangibles	33,635	-	-	2,130	35,765
Art works and collections	25,860	-	-	-	25,860
Tangibles in progress	31,698	9,053	-	(37,287)	3,464
Advances for tangibles	1,253	1,880	-	(50)	3,083
2011 Total	**4,386,620**	**10,983**	**(41,306)**	**-**	**4,356,247**
2010 Total	4,341,320	46,432	(1,132)	-	4,386,620

ACCUMULATED DEPRECIATION

	At the beginning of year	Depreciation during of year	Disposals	At end of year	Net book value
Land	-	-	-	-	25,163
Buildings	(546,706)	(38,408)	1,484	(583,630)	1,092,030
Machinery and equipment	(1,939,410)	(87,721)	39,430	(1,987,701)	591,512
Vehicles	(6,104)	(1,097)	-	(7,201)	838
Other tangibles	(29,121)	(1,761)	-	(30,882)	4,883
Art works and collections	-	-	-	-	25,860
Tangibles in progress	-	-	-	-	3,464
Advances for tangibles	-	-	-	-	3,083
2011 Total	**(2,521,341)**	**(128,987)**	**40,914**	**(2,609,414)**	**1,746,833**
2010 Total	(2,382,800)	(139,262)	721	(2,521,341)	1,865,279

The total value of small tangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 13,189 thousand and CZK 14,928 thousand as at 31 December 2011 and 2010, respectively.

As at 31 December 2011 and 2010, assets with a cost of CZK 53,908 thousand and CZK 55,483 thousand, respectively, and a net book value of CZK 40,187 thousand and CZK 41,409 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 2011 and 2010, assets (buildings, land, machinery and equipment) with a cost of CZK 2,442,880 thousand and CZK 2,440,234 thousand, respectively and a net book value of CZK 1,220,750 thousand and CZK 1,287,878 thousand, respectively were pledged as security for loans from UniCredit Bank Czech Republic, a.s. (see Note 13).

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

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

	Balance as at 31 December 2010	Additions	Balance as at 31 December 2011
Subsidiaries and Associates	159,532	3,525	163,057
Loans to subsidiaries	48,931	1,445	50,376
Impairment provisions	(158,427)	(2,777)	(161,204)
Total	**50,036**	**2,193**	**52,229**

Subsidiaries and associates as at 31 December 2011 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	30,947	2,882	103,943	15,963	15	31	153,781
Equity	(6,375)	(3,896)	81,835	(53,487)	(44)	31	18,064
Basic capital	645	7,212	21,549	41,743	27,090	31	98,270
Profit/loss for the current year	-	(2,102)	11,699	(4,881)	(22)	-	4,694
Acquisition cost of interest	15,866	439	52,229	67,402	27,090	31	163,057
Nominal value of interest	645	3,678	21,161	41,743	27,090	31	94,348
Intrinsic value of interest	-	-	80,362	-	-	31	80,393
Impairment provision for investments in subsidiaries and associates	(15,866)	(439)	-	(67,402)	(27,090)	(31)	(110,828)
Impairment provision against loans	-	-	-	(50,376)	-	-	(50,376)
Impairment provision against receivables	(6,375)	(4,760)	-	(3,109)	-	-	(14,244)

In 2011 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 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	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.

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 Meeting 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):

	2011	2010
KORADO Deutschland	-	-
KORADO Croatia	(2,102)	(2,408)
KORADO Polska	(4,881)	2,923
KORADO Bulgaria	11,699	9,925
KORADO Austria	(22)	(26)
Total	**4,694**	**10,414**

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

	Maturity	2011	2010
KORADO Polska	31 December 2012*	50,376	48,931
Impairment provision		(50,376)	(48,931)
Total		**-**	**-**

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

In 2011 and 2010 interest from loans to subsidiaries amounted to CZK 1,560 thousand and CZK 1,290 thousand, respectively.

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 were charged to income based on estimated recoverability of receivables in 2011 and 2010, respectively (see Note 7).

As at 31 December 2011 and 2010, receivables overdue for more than 180 days (from non-related parties) totaled CZK 18,074 thousand and CZK 17,888 thousand, respectively. 100% impairment provisions were created against these receivables.

The Company concluded a contract with a factoring company, Transfinance a.s., for the purchase of receivables with recourse (see Note 3e). The cooperation was terminated in January 2011. The receivables ceded to this company amounted to CZK 38,569 thousand as at 31 December 2010.

The maturity of certain receivables of EUR 1,074 thousand (CZK 27,709 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 263 thousand (CZK 6,789 thousand) and EUR 117 thousand (CZK 2,940 thousand), respectively became due as at 31 December 2011 and 2010.

Receivables of CZK 74,673 thousand and CZK 58,282 thousand, respectively were pledged as collateral as at 31 December 2011 and 2010 to secure loans granted by UniCredit Bank Czech Republic, a.s. (see Note 13).

In 2011 unbilled revenues include, in particular, estimated credit note from KORADO Bulgaria.

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 allowance accounts (in CZK thousands):

Impairment provisions against:	Balance as at 31 December 2010	Changes	Balance as at 31 December 2011
Long-term financial assets	158,427	2,777	161,204
Inventory	1,718	(543)	1,175
Receivables – statutory	11,516	1,224	12,740
Receivables – other	20,350	1,606	21,956
Total	**192,011**	**5,064**	**197,075**

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 2011 and 2010 short term financial assets in the amount of CZK 1,224 thousand and 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 2011 and 2010, prepaid expenses included in particular the costs of CZK 3,573 thousand and CZK 5,039 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 1,466 thousand and CZK 3,440 thousand, respectively, were charged to finance costs in 2011 and 2010. 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.

10. EQUITY

The movements in the capital accounts during 2011 and 2010 were as follows (in CZK thousands):

	Balance as at 31 December 2010	Increase / Transfers	Decrease / Transfers	Balance as at 31 December 2011
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	(47,952)	3,525	-	(44,427)
Legal reserve fund	44 ,745	982	-	45,727
Retained earnings	430,996	18,662	-	449,658
Profit / (loss) for the current year	19,644	(81,144)	(19,644)	(81,144)

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

As at 31 December 2011 and 2010, 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 31 May 2011 and 30 June 2010, respectively, approved the following profit distribution for 2010 and 2009 (in CZK thousands):

Profit for 2010	19,644
Allocation to legal reserve fund	(982)
Undistributed profits added to retained earnings	18,662
Retained earnings as at 31 December 2010	430,996
Retained earnings as at 31 December 2011	449,658

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 2009	367,921
Retained earnings as at 31 December 2010	430,996

11. PROVISIONS

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

Provisions	Balance as at 31 December 2010	Change	Balance as at 31 December 2011
Warranty repairs	6,585	(2,087)	4,498
Litigation	3,569	(3,569)	-
Accrued vacation	4,477	(118)	4,359
Total	**14,631**	**(5,774)**	**8,857**

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

12. SHORT-TERM LIABILITIES

As at 31 December 2011 and 2010, the Company had overdue current payables totaling CZK 11 thousand and CZK 0 thousand, respectively.

As at 31 December 2011, unbilled deliveries include, in particular, unbilled deliveries of materials, annual customer bonuses and termination bonuses related to organizational changes. As at 31 December 2010, unbilled deliveries include, in particular, unbilled deliveries of materials and annual customer bonuses.

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, this payable amounted to CZK 38,039 thousand.

Payables to related parties (see Note 20).

13. BANK LOANS AND BORROWINGS

Bank	Terms / Conditions	Interest rate	Total limit	2011 Amount in foreign currency (EUR)	2011 Amount in CZK thousands	2010 Amount in foreign currency (EUR)	2010 Amount in CZK thousands
UniCredit Bank Czech Republic, a.s.	Long-term	1M PRIBOR + 1.95%*	CZK 550 million	-	390,000	-	520,000
UniCredit Bank Czech Republic, a.s.	Operational overdraft	1D PRIBOR + 1.6%*	CZK 30 million	-	8,613	-	11,245
UniCredit Bank Czech Republic, a.s.	Operational overdraft	1D EURIBOR + 1.6%*	EUR 3,500 thousand	1,999	51,565	493	12,357
Total					450,178		543,602
Less current portion					(170,178)		(110,000)
Net					280,000		433,602

* For 2012 the interest margin will be increased by 0.75 % due to breach of a financial covenant Net Debt / EBITDA as at 31 December 2011.

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 (limit CZK 550 million). An exchange rate gain from refinancing of CZK 26,377 thousand was booked.

The interest expense relating to bank loans for 2011 and 2010 were CZK 16,060 thousand and CZK 18,543 thousand, respectively.

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

1. Equity ratio	at 31 December 2011 more than 50%
2. Net debt / EBITDA ratio	at 31 December 2011 less than 2.5

As at 31 December 2011, the Company failed to meet the Net Debt/EBITDA ratio. The Company received an approval from the Bank for not meeting the above mentioned covenant as at 31 December 2011 and alslo as at 30 June 2012.

As at 31 December 2010, the Company failed to meet the Net Debt/EBITDA ratio. After the year-end the Company received an approval from the Bank for not meeting the above mentioned covenant.

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

	Bank loans	Operational overdraft
2012	110,000	60,178
2013	110,000	-
2014	110,000	-
2015	60,000	-
Total	**390,000**	**60,178**

Management of the Company believes that the Company will be able to generate sufficient financial resources to settle its payables or will be able to ensure adequate bank financing (extend maturity of operational overdrafts).

14. OTHER LIABILITIES

Accruals include, in particular, costs of electricity, gas, communications and transport and are accrued to the period they belong to.

15. INCOME TAXES

The Company calculated tax expense as follows (in CZK thousands):

	2011	2010
Profit / (loss) before taxes	(81,144)	19,644
Differences between book and tax depreciation	(47,129)	(97,017)
Creation / reversal of impairment provisions	3,840	(8,418)
Creation / reversal of provisions	(5,774)	2,880
Other (e.g. provision to bonuses, entertainment expenses, shortages and losses)	39,072	15,429
Taxable income / (tax loss)	(91,135)	(67,482)
Income tax	**-**	**-**

Based on the tax legislation, the Company is allowed to carry on tax losses incurred in 2008, 2010 and 2011 to the next five years. The tax loss which was not used in 2011 and will be carried on to following years amounted to CZK 164,853 thousand as at 31 December 2011.

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

	2011		2010	
Deferred tax items	**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	-	(127,536)	-	(118,464)
Other temporary differences:				
Impairment provision receivables	109	-	334	-
Impairment provision against inventory	223	-	327	-
Provisions and unpaid social and health insurance	7,383	-	2,101	-
Tax loss not claimed	31,322	-	13,782	-
Deferred tax asset from investment incentives	16,338	-	29,759	-
Total	**55,375**	**(127,536)**	**46,303**	**(118,464)**
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 2011 and 2010. 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 16,338 thousand and CZK 29,759 thousand, respectively, as at 31 December 2011 and 2010 based on the review of probability of the amount to be utilized within the short to mid-term period.

16. LEASES

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

As at 31 December 2011 and 2010, assets which are being used by the Company under lease arrangements consist of the following (in CZK thousands):

Description	Expense in 2011	Expense in 2010
Copy machines	1,565	1,798
Fork-lift trucks	5,425	5,530
Total	**6,990**	**7,328**

Annual rent expense includes also operational maintenance services.

As at 31 December 2011 the Company did not register any leased fixed asset. As at 31 December 2010 the Company leased means of transport in the cumulated amount of repayments CZK 3,362 thousand.

17. COMMITMENTS AND CONTINGENCIES

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

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

18. REVENUES

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

	2011			2010		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Radiator production	620,733	846,151	1,466,884	659,401	887,733	1,547,134
Other	30 ,666	56,971	87,637	12,414	16 ,258	28,672
Total revenues	651,399	903,122	1,554,521	671,815	903,991	1,575,806

In 2011 the revenues of the Company were concentrated primarily with the subsidiaries and 10 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):

	2011		2010	
	Total personnel	Of which directors and managers	Total personnel	Of which directors and managers
Average number of employees	439	20	545	20
Wages and salaries	211,590	* 82,212	222,881	69,248
Social security	51,562	7,745	60,165	8,321
Social cost	2,921	-	3,116	-
Total personnel expenses	**266,073**	**89,957**	**286,162**	**77,569**

* Including termination benefits related to organizational changes planned in the first half of 2012.

The members and former members of statutory and supervisory bodies received total remuneration of CZK 924 thousand and CZK 916 thousand in 2011 and 2010, respectively.

20 RELATED PARTY INFORMATION

No loans, guarantees, advances or other benefits were granted to members of statutory bodies in 2011 and 2010.

As at 31 December 2011 and 2010, the members of statutory and supervisory bodies and executive officers held 660 shares of the Company, respectively.

Individuals who are the shareholders are involved in the management of the Company as employees in the ordinary course of business and their salaries and bonuses are included in personnel expenses.

The Company sells products to related parties in the ordinary course of business. Sales were CZK 177,741 thousand and CZK 183,091 thousand in 2011 and 2010, respectively.

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

Related party	2011	2010
KORADO Deutschland	18,834	26,427
KORADO Croatia	4,760	4,623
KORADO Polska	18,036	18,016
KORADO Bulgaria	874	472
Total	**42,504**	**49,538**

The Company purchases products and receives services from related parties in the ordinary course of business. Purchases were CZK 188,821 thousand and CZK 157,134 thousand in 2011 and 2010, respectively.

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

Related party	2011	2010
KORADO Bulgaria	28,131	7,695
KORADO Austria	-	224
Total	**28,131**	**7,919**

21. SIGNIFICANT ITEMS OF INCOME STATEMENT

Other operating expenses include in particular insurance expenses and in 2010 financial investments write-offs. Other operating revenues in 2011 include in particular revenues for scrap and compensation for machine insurance.

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

22. STATEMENT OF CASH FLOWS (SEE APPENDIX)

The cash flow statement was prepared under the indirect method.

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

Prepared on:	Signature of accounting unit's statutory body:	Person responsible for accounting:	Person responsible for financial statements:
6 March 2012	František Menclík Chairman of the Board of Directors and CEO	Pavlína Kovářová Chief accountant	Ing. Vojtěch Čamek Chief Financial Officer

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS AT 31 DECEMBER 2011

KORADO®

AUDITOR'S REPORT INCLUDING THE AUDITOR'S OPINION

To the Shareholders of KORADO, a.s.:

We have audited the accompanying consolidated financial statements of KORADO Group which comprise the consolidated balance sheet as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details of the Group see Note 1 to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the KORADO Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

Ernst & Young

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

Petr Vácha

Petr Vácha
Auditor, License No. 1948

6 March 2012
Prague, Czech Republic

KORADO GROUP CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2011

(In CZK thousands)	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment, net	3	1,782,987	1,900,950
Intangible assets, net	4	27,338	31,261
Other non-current assets		728	1,192
Deferred tax asset	19	1,182	1,137
Total non-current assets		**1,812,235**	**1,934,540**
Current assets			
Inventories, net	6	158,149	158,528
Accounts receivable, net	7	111,709	101,475
Prepayments and other current assets	8	19,046	20,151
Income tax receivable		82	87
Cash and cash equivalents	9	15,972	24,517
Total current assets		**304,958**	**304,758**
Total assets		**2,117,193**	**2,239,298**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	10	840,700	840,700
Retained earnings, funds and translation reserve	10	407,260	472,327
Total shareholders' equity attributable to equity holders of the parent		**1,247,960**	**1,313,027**
Non-controlling interest		1,427	1,216
Total shareholders' equity		**1,249,387**	**1,314,243**
Non-current liabilities			
Long-term debt, net of current portion	11	278,958	1,286
Deferred tax liabilities	19	71,339	71,215
Total non-current liabilities		**350,297**	**72,501**
Current liabilities			
Short-term borrowings and current portion of long-term debt	11	169,170	538,631
Payables and other current liabilities	12	338,252	298,073
Provisions for liabilities and charges	13	10,087	15,850
Total current liabilities		517,509	852,554
Total equity and liabilities		**2,117,193**	**2,239,298**

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 2011

(In CZK thousands)	Note	2011	2010
Revenues from sales, net	14	1,579,217	1,592,299
Cost of materials, energy and purchased goods	15	(1,004,979)	(924,579)
Depreciation and amortization		(138,673)	(152,486)
Wages and salaries		(288,915)	(306,031)
Purchased services	16	(175,869)	(164,032)
Other expenses, net	17	(9,338)	(14,622)
Interest expense, net of capitalized interest		(16,134)	(19,584)
Interest income		33	102
Exchange rate gains / (losses), net		(13,250)	31,324
Other financial expenses, net	18	(2,985)	(7,125)
Profit / (loss) before income taxes		**(70,893)**	**35,266**
Income taxes	19	(1,476)	(694)
Profit / (loss) after income taxes		**(72,369)**	**34,572**
Other comprehensive income:			
Currency translation differences		7,513	(3,319)
Total comprehensive income		(64,856)	31,253
Profit / (loss) after income taxes attributable to:			
Equity holders of the parent		(72,580)	34,393
Non-controlling interest		211	179
		(72,369)	**34,572**
Total comprehensive income attributable to:			
Equity holders of the parent		(65,067)	30,857
Non-controlling interest		211	396
		(64,856)	**31,253**

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 2011

(In CZK thousands)	Share Capital	Translation Reserve	Retained Earnings and Funds (Note 10)	Total Equity Attributable to Equity Holders of the Parent	Non-controlling Interest	Total Shareholders' Equity
Balance as at 31 December 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	-	-	(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**
Profit / (loss) after income taxes	-	-	(72,580)	(72,580)	211	(72,369)
Other comprehensive income	-	7,513	-	7,513	-	7,513
Total comprehensive income	-	7,513	(72,580)	(65,067)	211	(64,856)
Balance as at 31 December 2011	**840,700**	**(33,147)**	**440,407**	**1,247,960**	**1,427**	**1,249,387**

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

KORADO GROUP CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011	2010
OPERATING ACTIVITIES			
Profit / (loss) before income taxes		**(70,893)**	**35,266**
Adjustments for:			
Depreciation and amortization		138,673	152,486
Receivables and loans write-off	17	54	11,131
Finance costs, net		16,101	19,482
Change in impairment provisions and provisions, net	17	4,060	(11,890)
Foreign exchange (gains) / losses, net		13,250	(31,324)
Loss / (gain) on sale of property, plant and equipment	17	(637)	(1,993)
Changes in assets and liabilities:			
Inventories		2,923	(19,848)
Receivables and other current assets		(12,725)	34,815
Payables and other current liabilities		33,256	(38,968)
Income taxes paid		(1,392)	(622)
Net cash from operating activities		**122,670**	**148,535**
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(21,574)	(48,081)
Proceeds from sale of property, plant and equipment		1,030	19,457
Interest received		33	102
Change in long-term financial investments and other non-current assets		464	1,121
Net cash from investing activities		**(20,047)**	**(27,401)**
FINANCING ACTIVITIES			
Debt drawings		68,278	542,223
Repayments of debt		(163,376)	(683,064)
Change in lease obligation		(67)	(450)
Interest paid, net of capitalized interest		(16,138)	(19,588)
Net cash from financing activities		**(111,303)**	**(160,879)**
Net decrease in cash		**(8,680)**	**(39,745)**
Cash and cash equivalents at beginning of year	**9**	**24,517**	**64,278**
Effect of exchange rate changes on cash and cash equivalents		135	(16)
Cash and cash equivalents at end of year	**9**	**15,972**	**24,517**

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011 (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.

AAs at 31 December 2011 and 2010 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:

	2011 % of voting rights	2010 % 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 is recognized in profit or loss.

d) Use of Estimates

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

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

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

Impairment of fixed assets

At the end of 2008, the level of demand in the industry relevant to the Group was affected by a downturn. The management of the Company believes the trend to be just temporary. In the opinion of the Company management, the discounted value of future cash flows to be generated up to the end of the useful life of fixed assets ("value in use") will exceed the carrying value of fixed assets; therefore, there is no need to account for additional impairment of fixed assets. The value in use was determined based on an approved 5-year business plan, using a discount factor of 10% and assuming an average 11% annual growth in both sales and in cost of material over the first three years and 24% over the last two years of the 5-year period. An average annual growth in post-tax cash-flows is estimated at 14% over the first three years and 69% over the last two years of the 5-year period. The model also assumes zero growth in perpetuity. If the discount rate increased above 12.2% or the post-tax cash-flows decreased by approximately CZK 44 million or more each year, all other variables held constant, the model would indicate additional impairment of fixed assets.

Useful lives and residual values of non-current assets

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

Deferred income taxes

The Group created a provision for deferred income taxes in consideration of the temporary differences. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and the measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of assets and liabilities. Where the final tax-deductible expenses are different from the amounts that were calculated, such differences will impact the current income and deferred tax provisions in the period in which such determination is made. The total amount of net deferred tax liability was CZK 70,157 thousand as at 31 December 2011.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011 (In thousand CZK)

The Parent Company included in its calculation of deferred tax a tax credit from investment incentive (see Note 19) and as a result no change in deferred tax of the Parent Company was recorded in 2011 compared to the balance as at 31 December 2010. 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 12,772 thousand as at 31 December 2011.

e) Foreign Currency

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

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

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

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

f) Property, Plant and Equipment

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

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

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

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

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

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

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

Construction-in-progress represents plant and properties under construction and is stated at cost.

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

g) Intangible Assets

Intangible assets 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 6 years. The amortization period and the amortization method are reviewed annually at each financial year-end.

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

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

h) Investments

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

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

i) Inventories

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

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

j) Accounts Receivable

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

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% for the years ended 31 December 2011 and 2010, respectively, after adjustments for certain items which are not deductible for taxation purposes. The Czech corporate income tax rate for 2012 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 2011:

- IAS 24 Related Party Disclosures (amendment) effective 1 January 2011
- IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2010
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments effective 1 July 2010
- Improvements to IFRSs (May 2010)

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:

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 Amendment does not have significant effect on the financial statements of the Group.

All other standards and interpretations whose application was mandatory for the period beginning on or after 1 January 2011 have no material impact on the Group's consolidated financial statements.

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

The Group is currently assessing the potential impacts of the new and revised standards and interpretations that will be effective or adopted by the EU from 1 January 2012 or later. Standards and interpretations most relevant to the Group's activities are detailed below:

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

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and there is no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012. The Group does not currently have any investment property as well as is not using revaluation model therefore this will not affect its financial position or performance.

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.

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

In December 2011, IASB issued an amendment to IFRS 7, which requires an entity to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. The Group is currently assessing the impact of this amended IFRS.

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

In December 2011, IASB issued an amendment to IAS 32, which is intended to clarify existing application issues relating to the offsetting rules and reduce level of diversity in current practise. The Group is currently assessing the impact of this amended IFRS.

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 2015. 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 and derecognition of financial assets and liabilities. Most of the requirements in IAS 39 for classification and measurement of financial liabilities and derecognition of financial assets and liabilities were carried forward unchanged to IFRS 9. The 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. The completion of this project is expected in 2012. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets and liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation - Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Group does not expect the standard will have a significant impact on financial position or performance of the Group.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities - Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Group does not expect the standard will have a significant impact on financial position or performance of the Group.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Some of the more extensive qualitative and quantitative disclosures of IFRS 12 include: provision of summarised financial information for each subsidiary with a material non-controlling interest; description of significant judgements used by management in determining control, joint control and significant influence, and the type of joint arrangement (i.e. joint operation or joint venture); provision of summarised financial information for each individually material joint venture and associate; and description of the nature of the risks associated with an entity's interests in unconsolidated structured entities. This standard becomes effective for annual periods beginning on or after 1 January 2013 and may affect the disclosures in the notes to financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Group does not expect the standard will have a significant impact on financial position or performance of the Group.

IAS 19 Employee benefits (revised)

The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The more significant changes include the following: for defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e. the corridor approach) has been removed; there are new or revised disclosure requirements which include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption; termination benefits will be recognised at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognised under IAS 37; the distinction between short-term and other long-term employee benefits will be based on expected timing of settlement rather than the employee's entitlement to the benefits. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Group does not expect the standard will have a significant impact on financial position or performance of the Group.

IAS 28 Investments in Associate and Joint Ventures (revised)

As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Group does not expect that the amendment will have a significant impact on the financial position or performance of the Group.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011 (In thousand CZK)

Improvements to IFRSs

In May 2010 the IASB issued improvement to IFRS 3. The improvement is effective for annual periods beginning on or after 1 July 2011.

IFRS 3 Business Combinations: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of NCI are to be measured at their acquisition date fair value.

3. Property, Plant and Equipment, Net

The movements in 2011 were as follows:

	Land	Buildings	Machinery & Vehicles	Fixtures	Construction in Progress	Total 2011
COST						
As at 31 December 2010	**28,539**	**1,722,321**	**2,767,100**	**61,713**	**32,957**	**4,612,630**
Additions	-	756	812	29	12,731	14,328
Disposals	(302)	(1,574)	(39,906)	-	-	(41,782)
Transfers	-	337	34,871	2,130	(37,338)	-
Translation difference	91	1,340	2,085	6	-	3,522
As at 31 December 2011	**28,328**	**1,723,180**	**2,764,962**	**63,878**	**8,350**	**4,588,698**
ACCUMULATED DEPRECIATION						
As at 31 December 2010	**-**	**(567,390)**	**(2,113,141)**	**(31,149)**	**-**	**(2,711,680)**
Depreciation	-	(40,239)	(90,794)	(1,802)	-	(132,835)
Disposals	-	1,574	39,853	-	-	41,427
Translation difference	-	(610)	(2,007)	(6)	-	(2,623)
As at 31 December 2011	**-**	**(606,665)**	**(2,166,089)**	**(32,957)**	**-**	**(2,805,711)**
Net book value	**28,328**	**1,116,515**	**598,873**	**30,921**	**8,350**	**1,782,987**

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**

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011 (In thousand CZK)

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

Assets	Lien creditor	Carrying amount 31 December 2011	Carrying amount 31 December 2010
Buildings and halls	UniCredit Bank Czech Republic, a.s.	765,380	786,679
Land	UniCredit Bank Czech Republic, a.s.	11,638	11,638
Machinery and equipment	UniCredit Bank Czech Republic, a.s.	443,732	489,561
Receivables	UniCredit Bank Czech Republic, a.s.	74,673	58,282
Bank accounts	UniCredit Bank Czech Republic, a.s.	1,224	3,465
Total		**1,296,647**	**1,349,625**

Assets with a cost of CZK 53,908 thousand and CZK 55,483 thousand were not used by the Company for operational purposes as at 31 December 2011 and 2010 (primarily paintings and buildings). The net book value of these assets was CZK 40,187 thousand and CZK 41,409 thousand as at 31 December 2011 and 2010, respectively. The management of the Company believes that the recover able value is no less than the recorded net book value.

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

	2011		2010	
	Leased equipment at cost	Net book value of leased equipment	Leased equipment at cost	Net book value of leased equipment
Machinery and vehicles	18,451	205	20,052	1,354

Assets which are being used under an operating lease as at 31 December 2011 and 2010 include:

Description	Expense* in 2011	Expense* in 2010
Copy machines	1,565	1,798
Fork lifts	5,425	5,530
Total	**6,990**	**7,328**

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

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

	2011	2010
Within one year	6,848	5,104
After one year but not more than five years	10,310	7,323
Total	**17,158**	**12,427**

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011 (In thousand CZK)

4. Intangible Assets, Net

The movements in 2011 were as follows:

	Software	Intangibles in progress	Goodwill	Total 2011
COST				
As at 31 December 2010	**173,032**	**5,433**	**12,406**	**190,871**
Additions	27	1,519	-	1,546
Disposals	(705)	-	-	(705)
Transfers	6,797	(6,797)	-	-
Translation difference	(50)	-	366	316
As at 31 December 2011	**179,101**	**155**	**12,772**	**192,028**
ACCUMULATED AMORTIZATION				
As at 31 December 2010	**(159,610)**	**-**	**-**	**(159,610)**
Amortization	(5,838)	-	-	(5,838)
Disposals	705	-	-	705
Translation difference	53	-	-	53
As at 31 December 2011	(164,690)	-	-	(164,690)
Net book value	**14,411**	**155**	**12,772**	**27,338**

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**

5. Investment in an Associate

The Group accounts 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 are classified to investment in an associate on the balance sheet. The carrying value of the investment in associate amounts to zero as at 31 December 2011 and 31 December 2010 respectively.

KORADO Croatia d.o.o. incurred losses equivalent to CZK 2,102 thousand in 2011 and CZK 2,408 thousand in 2010 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 2011 (In thousand CZK)

The following table illustrates summarized latest available unaudited financial information of an associate for the year ended 31 December 2011:

	Total assets	Total liabilities	Equity	Revenues	Loss after income taxes
KORADO Croatia d.o.o.	2,882	6,778	(3,896)	1,051	(2,102)

The following table illustrates summarized 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)

6. Inventory, Net

The following items are included in inventories:

	31 December 2011	31 December 2010
Raw materials	120,231	120,978
Work-in-progress	10,252	8,647
Finished goods	27,666	28,903
Total	**158,149**	**158,528**

Excess, obsolete and slow-moving inventory at gross amount of CZK 2,024 thousand and CZK 2,491 thousand has been reduced to net realizable value through the impairment provision account of CZK 1,556 thousand and CZK 2,221 thousand as at 31 December 2011 and 2010, respectively. The impairment provision is determined by management based on the aging analysis of inventory.

7. Accounts Receivable, Net

Accounts receivable, net, are as follows:

	31 December 2011	31 December 2010
Trade receivables	140,337	88,862
Advances received	4,191	3,268
Receivables from Transfinance, a.s.	-	38,569
Other	7,138	245
Impairment provision	(39,957)	(29,469)
Total	**111,709**	**101,475**

In 1998, the Company concluded a contract with a factoring company, Transfinance a.s., for the purchase of receivables with recourse. The cooperation was terminated in January 2011. The receivables ceded to this company amounted to CZK 0 thousand and CZK 38,569 thousand as at 31 December 2011 and 2010, respectively.

At 31 December 2011 and 2010 the ageing analysis of accounts receivable, net is as follows:

	31 December 2011	31 December 2010
Within due date	109,051	90,126
Past due but not impaired[1]:		
Less than 3 months	2,615	8,041
3 – 6 months	1	-
6 – 12 months	-	-
More than 12 months	42	3,308
Total	**111,709**	**101,475**

[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.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011 (In thousand CZK)

Receivables past due more than 12 months of CZK 4,760 thousand as at 31 December 2011 and CZK 4,623 thousand as at 31 December 2010 relate to the associated company KORADO Croatia d.o.o. An impairment provision of CZK 4,760 thousand and CZK 1,400 thousand was created for the receivables as at 31 December 2011 and 2010.

Movements in impairment provision for receivables:

	2011	2010
As at 1 January	29,469	43,031
Additions	12,481	2,584
Reversals	(1,994)	(16,146)
As at 31 December	**39,957**	**29,469**

In 2011 an impairment provision to receivables from a court claim (CZK 7,138 thousand) and an increase in provision towards KORADO Croatia d.o.o. of CZK 3,360 thousand were created. In 2010 reversals of impairment provisions to receivables relate mainly to a receivable of KORADO Bulgaria towards FIROGENIS, which was written off in 2010.

8. Prepayments and Other Current Assets

	31 December 2011	31 December 2010
VAT receivable	11,139	11,183
Prepayments and other	7,907	8,968
Total	**19,046**	**20,151**

9. Cash and Cash Equivalents

	31 December 2011	31 December 2010
Cash with banks	15,575	23,953
Cash on hand	397	564
Total	**15,972**	**24,517**

10. Shareholders' Equity

Share Capital

The share capital of the Parent Company as at 31 December 2011 and 2010 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 2011 and 2010, the balance was CZK 45,727 thousand and CZK 44,745 thousand, respectively, and is reported as a component of Retained earnings, funds and translation reserve..

Distributable Retained Earnings

Distributable retained earnings of the Parent Company amounted to CZK 324,135 thousand and CZK 401,754 thousand as at 31 December 2011 and 2010, 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 2011 and 50% in 2010 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 / (loss) is the sum of revenues and expenses presented above interest expense, net of capitalized interest in the consolidated statement of comprehensive income. The Group's policy is to keep the net debt to EBITDA ratio below 2.5 in 2011 and 2.5 in 2010 which is also consistent with the requirements of banks. The calculation and evaluation of the ratios is done using consolidated numbers:

	31 December 2011	31 December 2010
Equity	1,249,387	1,314,243
Total assets	2,117,193	2,239,298
Less goodwill	(12,772)	(12,406)
Equity less goodwill	1,236,615	1,301,837
Total assets less goodwill	2,104,421	2,226,892
Equity ratio	**58.8%**	**58.5%**
Bank loans	446,605	538,564
Less cash and cash equivalents	(15,972)	(24,517)
Net debt	430,633	514,047
Operating profit / (loss)	(38,557)	30,549
Depreciation and amortization	138,673	152,486
EBITDA	100,116	183,035
Net debt / EBITDA ratio	**4.30**	**2.81**

In 2011 and 2010 the Parent Company failed to meet the Net Debt / EBITDA ratio (see Note 11).

11. Debt

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

	31 December 2011	31 December 2010
Bank loans	277,435	-
Other	1,523	1,286
Total	**278,958**	**1,286**

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

	31 December 2011	31 December 2010
Current portion of long term debt and short-term borrowings	169,170	538,564
Current portion of lease obligations	-	67
Total	**169,170**	**538,631**

Bank loans consist of the following:

Bank	Terms	Interest rate (%)	Maturity	Total limit (thousands)	2011 Amount in foreign currency (in thousands)	2011 Amount in CZK thousands
KORADO, a.s.						
UniCredit Bank Czech Republic, a.s.	Investment	1M PRIBOR+2.7%*	31.12.2015	CZK 550,000	-	390,000
UniCredit Bank Czech Republic, a.s.	Operational overdraft	1D PRIBOR+2.35%*	25.11.2012	CZK 30,000	-	8,613
UniCredit Bank Czech Republic, a.s.	Operational overdraft	1D EURIBOR+2.35%*	25.11.2012	EUR 3,500	EUR 1,999	51,565
Bank charges						(3,573)
Total						**446,605**
Less current portion and short-term bank loans						(169,170)
Net						277,435

* On 31 December 2011, the margins to all bank loan tranches increased by 0.75% as a result of breach of financial covenants described in Note 10. The increase in the margins is applicable for the period when the Company is breaching financial covenants.

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 Note 10) as at 31 December 2010. However, if all loan covenants were fulfilled, the respective amount would be presented within non-current liabilities.

The interest expense (net of capitalized interest) related to bank loans for the years ended 31 December 2011 and 2010 amounted to CZK 16,060 thousand and CZK 18,618 thousand.

Bank loans provided to the Group are secured by pledged assets at carrying values of CZK 1,296,647 thousand and CZK 1,349,625 thousand as at 31 December 2011 and 2010, 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.

In 2010, an exchange rate gain from refinancing of CZK 26,377 thousand was recorded 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 10 for detailed calculations) to be fulfilled by the Company so that the loan structure and interest can be maintained.

As at 31 December 2011, the Company failed to meet the Net Debt/EBITDA ratio. Before the year-end, the Company received a statement approving the breach of the ratio in question, also for the period ending 30 June 2012. Since the statement provided by the bank was received before the balance sheet date, in accordance with IAS 1, Presentation of Financial Statements, the Company classified the bank loan balance as part of short-term and long-term liabilities in accordance with the repayment schedule specified in the bank loan agreement.

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.

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

	31 December 2011	31 December 2010
2011	-	108,992
2012	169,170	132,595
2013	108,992	108,992
2014	108,992	108,992
2015	59,451	78,993
	446,605	**538,564**

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011 (In thousand CZK)

Future minimum lease payments for finance leases are as follows:

	31 December 2011	31 December 2010
Within one year	-	80
After one year but not more than five years	-	-
Total minimum lease obligations	**-**	**80**
Interest	-	(13)
Present value of minimum lease obligations	**-**	**67**
Representing finance lease liabilities:		
- current	-	67
- non-current	-	-

12. Payables and Other Current Liabilities

Current liabilities comprise of the following:

	31 December 2011	31 December 2010
Trade payables	262,966	196,226
Payables to factoring company	-	38,039
Payables to employees	19,121	23,772
Accruals and other current liabilities	56,165	40,036
Total	**338,252**	**298,073**

Payables to factoring company represent payables relating to factoring company, Transfinance a.s., that paid an advance of 90% of the maximum financing limit set in advance for each customer (see Note 7). The cooperation with Transfinance a.s. was terminated in January 2011.

13. Provisions for Liabilities and Charges

Summary of provisions:

	Warranty provisions	Accrued vacation	Litigation	Other	Total
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**
Creation of provisions	4,498	4,871	-	25	9,394
Provisions used	(6,585)	(4,761)	(3,569)	(242)	(15,157)
As at 31 December 2011	**4,498**	**4,871**	**-**	**718**	**10,087**

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

In 2010 a provision of CZK 3,569 thousand was created for ongoing legal dispute based on the assessment of the probability of its outcome. In 2011 the provision was released and a corresponding impairment provision of CZK 7,138 thousand was created against related receivable (see Note 7).

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011 (In thousand CZK)

14. Revenues from Sales, Net

Activity	2011	%	2010	%
Sales of radiators	1,552,309	98.3%	1,571,501	98.7%
Other	26,908	1.7%	20,798	1.3%
Total	**1,579,217**	**100,0%**	**1,592,299**	**100.0%**

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

Sales by region are as follows:

Country	2011	%	2010	%
Czech Republic	653,070	41.4%	672,797	42.3%
Ukraine	175,688	11.1%	174,320	10.9%
Slovakia	145,641	9.2%	169,288	10.6%
Austria	98,373	6.2%	84,434	5.3%
Germany	97,586	6.2%	93,392	5.9%
Russia	75,477	4.8%	59,406	3.7%
Slovenia	55,807	3.5%	57,119	3.6%
Poland	52,997	3.4%	47,912	3.0%
Netherlands	32,149	2.0%	30,865	1.9%
Romania	32,067	2.0%	47,683	3.0%
Sweden	22,030	1.4%	16,216	1.0%
United Kingdom	19,780	1.3%	27,398	1.7%
Bulgaria	14,039	0.9%	17,130	1.2%
Other countries	104,513	6.6%	94,339	5.9%
Total	**1,579,217**	**100.0%**	**1,592,299**	**100.0%**

15. Cost of Materials, Energy and Purchased Goods

	2011	2010
Materials and supplies	916,424	849,203
Energy	65,852	58,248
Purchased goods	22,703	17,128
Total	**1,004,979**	**924,579**

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

16. Purchased Services

	2011	2010
Repairs and maintenance	11,559	8,977
Rent	9,041	9,831
Travelling and training expenses	8,971	10,719
Marketing expenses and sales promotion	55,848	51,570
Transportation expenses	25,102	22,977
Legal and advisory services	18,764	15,021
Operational services	30,879	33,207
Other	15,705	11,730
Total	**175,869**	**164,032**

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011 (In thousand CZK)

17. Other Expenses, Net

	2011	2010
Receivables and loans written off	54	11,131
Change in impairment provisions and provisions, net	4,060	(11,890)
Taxes and levies	1,353	2,367
Loss (gain) on sale of fixed assets	(637)	(1,993)
Other, net	4,508	15,007
Total	**9,338**	**14,622**

18. Other Financial Expenses, Net

	2011	2010
Bank charges	2,572	5,194
Factoring fees	50	1,532
Other	363	399
Total	**2,985**	**7,125**

19. Taxes

The components of the income tax expense are as follows:

	2011	2010
Current tax	1,397	588
Deferred tax	79	106
Total income tax expense	**1,476**	**694**

Income Tax Legislation

Corporate income tax of the Parent Company is calculated in accordance with the Czech tax regulations at the rate of 19% in 2011 and 2010, respectively.

Income Tax Expense

A reconciliation of the theoretical amount of expected income tax that would arise using the tax rate in the Czech Republic to the actual total income tax expense for the year ended 31 December 2011 and 2010 is as follows:

	2011	2010
Profit / (loss) before tax	(70,893)	35,266
Statutory income tax rate	19%	19%
"Expected" income tax expense / (income)	(13,470)	6,701
Add / (deduct) tax effect of:		
Permanent differences	1,669	2,001
Expiration of accumulated tax losses carried forward	1,502	-
Change in valuation allowance	(350)	(2,155)
Change in deferred tax asset from tax credit	13,421	(5,994)
Consolidation adjustments	(276)	345
Other	(1,020)	(204)
Actual income tax expense	1,476	694
Effective tax rate	(2)%	2%

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011 (In thousand CZK)

Deferred income taxes at 31 December 2011 and 2010 consist of the following:

	2011	2010
Receivables impairment provision	1,059	1,257
Inventory impairment provision	263	378
Provisions	1,683	2,102
Accumulated losses carried forward	41,641	24,452
Elimination of intra-group profit from inventories	18	69
Tax credit from investment incentive	16,338	29,759
Other	6,736	1,122
Total deferred tax assets	**67,738**	**59,139**
Less valuation allowance to deferred tax asset	(10,319)	(10,669)
Offset with deferred tax liabilities	(56,237)	(47,333)
Deferred tax assets in the balance sheet	**1,182**	**1,137**
Difference between net book value of non-current assets for accounting and tax purposes	(127,537)	(118,464)
Finance lease	(39)	(84)
Total deferred tax liabilities	**(127,576)**	**(118,548)**
Offset with deferred tax assets	56,237	47,333
Deferred tax liabilities in the balance sheet	**(71,339)**	**(71,215)**

Out of the total tax losses of subsidiaries generated since 1999, CZK 41,769 thousand and CZK 43,980 thousand can be carried forward as of 31 December 2011 and 2010, respectively. In 2011 and 2010, 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 2011 and 31 December 2010. 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 16,338 thousand and CZK 29,759 thousand as at 31 December 2011 and 2010, respectively, based on the review of probability of the amount to be utilized within the short to mid-term period.

20. Related Party Transactions

As at 31 December 2011 and 2010, members of the Board of Directors and Supervisory Board and directors owned 660 and 660 shares of the Parent Company, respectively.

In 2011 and 2010 short-term employee benefits (salaries and bonuses including social and health insurance) related to management personnel of Group companies (22 and 23 people in total, respectively) amounted to CZK 61,595 thousand and CZK 78,810 thousand, respectively and in 2011 termination benefits in connection with organizational changes planned for 2012 amounted to CZK 30,000 thousand and is included in line Wages and salaries in the consolidated statement of comprehensive income.

In 2011 and 2010 members of Board of Directors and Supervisory Board of the Parent Company received remuneration of CZK 924 thousand and CZK 916 thousand, respectively.

For receivables from KORADO Croatia d.o.o. see Note 7.

In 2011 and 2010 there were no transactions with related parties controlled by the Ministry of Finance of the Czech Republic or European Bank for Reconstruction and Development.

21. Financial Instruments and Financial Risk Management

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates (see Note 11). The floating interest rate is mostly based on PRIBOR and EURIBOR rates and for the UniCredit Bank Czech Republic, a.s. loans it amounted to 2.89% and 2.28% as at 31 December 2011 (excluding the effect of an increased margin described in Note 11) and 2.94% and 2.19% as at 31 December 2010, respectively.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011 (In thousand CZK)

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit / loss before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity and the impact of capitalized interest is not reflected:

	2011	
	Increase/decrease in basis points	Effect on profit before tax
CZK	50	(1,993)
EUR	50	(258)
CZK	(50)	1,993
EUR	(50)	258

	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

Credit risk

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

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

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

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

Foreign Exchange Risk

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

The foreign currency accounts receivable and payable represent an exchange rate risk for the Group. At 31 December 2011 and 2010, 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 2011 (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):

	2011		2010	
	Increase/decrease in exchange rate *	Effect on profit / loss before tax	Increase/decrease in exchange rate *	Effect on profit / loss before tax
EUR	+5%	(6,835)	+5%	(3,862)
GBP	+5%	205	+5%	1,605
PLN	+5%	959	+5%	1,316
USD	+5%	1	+5%	3
CHF	+5%	-	+5%	(20)
EUR	(5%)	6,835	(5%)	3,862
GBP	(5%)	(205)	(5%)	(1,605)
PLN	(5%)	(959)	(5%)	(1,316)
USD	(5%)	(1)	(5%)	(3)
CHF	(5%)	-	(5%)	20

* 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 2011 and 2010 based on contractual undiscounted payments (nominal amount and interest) provided that the Group meets the loan agreement covenants (see Note 11):

31 December 2011	Less than 3 months	3-12 months	1-5 years	Total
Bank loans	31,094	151,727	287,175	469,996
Trade and other payables	338,252	-	-	338,252
	369,346	**151,727**	**287,175**	**808,248**

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**

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

Fair Value

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

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

Cash and Cash Equivalents

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2011 (In thousand CZK)

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

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

Short-term Debt

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

Long-term Debt

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

Carrying amounts and the estimated fair values of financial instruments as at 31 December 2011 were as follows:

	Carrying amount	Fair value
Assets		
Cash and cash equivalents	15,972	15,972
Accounts receivable, net	111,709	111,709
Prepayments and other current assets	19,046	19,046
Liabilities		
Payables and other current liabilities	338,252	338,252
Short-term borrowings and current portion of long-term debt	169,170	169,170
Long-term debt, net of current portion	278,958	278,958

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 11)	429 571	429 571
Long-term debt, net of current portion	1,286	1,286

22. Statutory Auditor's Fees

The statutory audit fees related to the audit of consolidated financial statements and separate statutory financial statements totalled CZK 2,300 thousand and CZK 2,500 thousand for the year ended 31 December 2011 and 2010, respectively.

SWORN AFFIDAVIT

We hereby certify that the information stated in the Annual Report for the year 2011 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*

	Authorized for issue by:	Person responsible for accounting:
	František Menclík	-
6 March 2012	Vojtěch Čamek	Pavlína Kovářová

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