ANNUAL REPORT 2012

KORADO®

KORADO®

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FOREWORD FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Business Partners,

while evaluating the 2012, it is necessary to mention that the recovery still did not occur and the world's economic crisis continues. The industry mostly affected by the crisis was construction, which is experiencing a decline for several years now. KORADO, a.s. was similarly affected as it is a direct supplier for the construction industry.

Our company responded by adopting vigorous austerity measures, including lowering the number of employees. The 2012 goal was maintaining the existing market shares and receiving an acceptable margin allowing for a balanced management and a reduction of the Company's debt. This goal was met in 2012.

In 2012, the phenomenon of low selling prices regardless brand or quality continued. The company responded to this situation by introducing a low-cost product, which was able to break into markets that have been dominated by Turkish producers.

Thanks to investments in production technology of bathroom radiators the company was able to reverse the negative trend of decreasing the market share in this segment and in 2012 the company ranked among the top producers and suppliers of bathroom radiators. There is a reasonable assumption that this trend continues in 2013.

In the first quarter of 2012, an important organizational change was carried out, which concerned the whole company. The most significant changes occured in the company's management. Mr. František Menclík, Ludvík Petr and Miroslav Vobora resigned from their managerial positions. They still work in the Board of Directors and the Supervisory Board, respectively. Mr. Vojtěch Čamek was appointed as the new Managing Director, Mr. Miloš Sotona was appointed as the Production Director, Mr. Aleš Zouhar as the Business Director and Mr. Jiří Jeřábek as the new Managing Director deputy for Procurement.

By applying an ongoing pressure on cost reduction, by increasing efficiency of production, by using online auctions in procurement, by significantly improving usage of the KORADO Bulgaria production potential and thanks to the executed organizational change, KORADO, a.s. has been able to become profitable after 2011 when a loss was generated. Thanks to this fact, for the first time in the company's history the dividends can be paid out to shareholders.

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

CORPORATE STRATEGY AND GOALS

KORADO's primary goal for 2013 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, a.s. 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 2013.

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

Risk hedging

A great attention is dedicated to the risks. The catalogue of risks listing risks from strategic through business, financial, personal to operational is a keystone of our strategy of managing risk. Its yearly actualization with the associated discussions brings constantly new inputs and room for improvement. The classification of risks from key through significant to others gives us a clear signal which risks need be to followed with greater care. The cards of risks describing the key risks in detail help in assessing and at the same time in efforts to eliminate identified risk areas. A range of risks is understandably covered by insurance or similar products, simultaneously a maximal emphasis is put on prevention and setting of internal processes eliminating damage in its beginning.

The set out principles are naturally implemented in the whole KORADO Group, including the production site in Bulgaria.

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, a.s. 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 2013, so that they create the best possible conditions for employee recruitment, training, motivation and remuneration. This goal will be achieved primarily by ensuring methodological and administrative support for human resources management.

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

Optimal financing and securing of liquidity

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

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%
	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 and KINGRAD panel radiators, KORALUX tubular radiators and KORATHERM design radiators.

TABLE OF FINANCIAL INDICATORS

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total revenues (CZK million)	2,284	2,552	2,235	2,604	2,725	2,274	1,734	1,576	1,555	1,590
Year-on-year revenue increase/decrease (%)	2%	12%	(12%)	17%	5%	(17%)	(24%)	(9%)	(1%)	2%
EBITDA (Earnings before interest, taxes, depreciation and amortization) (CZK million)	490	720	227	319	317	189	253	183	70	160
EBITDA margin (EBITDA/Total revenue) (%)	21%	28%	10%	12%	12%	8%	15%	12%	4%	10%
Profit/Loss after tax (CZK million)	111	361	37	114	148	27	66	20	(81)	25
Return on equity (EBIT/Assets less Current liabilities) (%)	19%	23%	7%	13%	11%	4%	6%	2%	(4%)	3%
Indebtedness (Bank loans/Equity)	3.97	1.52	1.08	0.68	0.74	0.96	0.55	0.42	0.37	0.28
Quick liquidity (Current assets less inventories/Current liabilities)*)	0.92	0.55	0.55	0.50	0.66	0.48	0.31	0.29	0.26	0.30
Current liquidity (Current assets/Current liabilities)*)	1.13	0.91	0.72	0.72	0.94	0.68	0.51	0.65	0.52	0.54
Total assets (CZK millions)	3,155	2,779	2,464	2,290	2,708	2,935	2,359	2,189	2,083	1,961
Long-term assets/Total assets ratio (%)	72%	72%	75%	76%	70%	75%	86%	88%	87%	87%
Days receivables	98	61	45	38	46	53	41	28	26	30
Days inventories	38	44	45	27	34	47	54	41	39	36
Days payables	109	92	104	85	85	109	121	88	87	93
Average number of employees (person)	684	694	687	662	625	660	571	545	439	437
Productivity (Net profit/Number of employees)	0.16	0.52	0.05	0.17	0.24	0.04	0.12	0.04	(0.18)	0.06

Note:

*) For the purposes of calculating liquidity, 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.

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 2012 the Supervisory Board held seven meetings. In 2012, there were two changes in the composition of the Supervisory Board. On 1 April 2012, Ms. Ludmila Filipová was elected for a Supervisory Board member and replaced Ms. Květoslava Najmanová. On 2 November 2012, Mr. Ernst Bachner replaced Mr. Oliver R. Greene.

Members of the Supervisory Board at 31 December 2012:

Chairman:	Mr. Ludvík Petr
Vice-chairman:	Mr. Jaromír Hejda
Member:	Ms. Hana Vaňousová
Member:	Mr. Ernst Bachner
Member:	Ms. Ludmila Filipová
Member:	Mr. Josef Bíža

Board of Directors

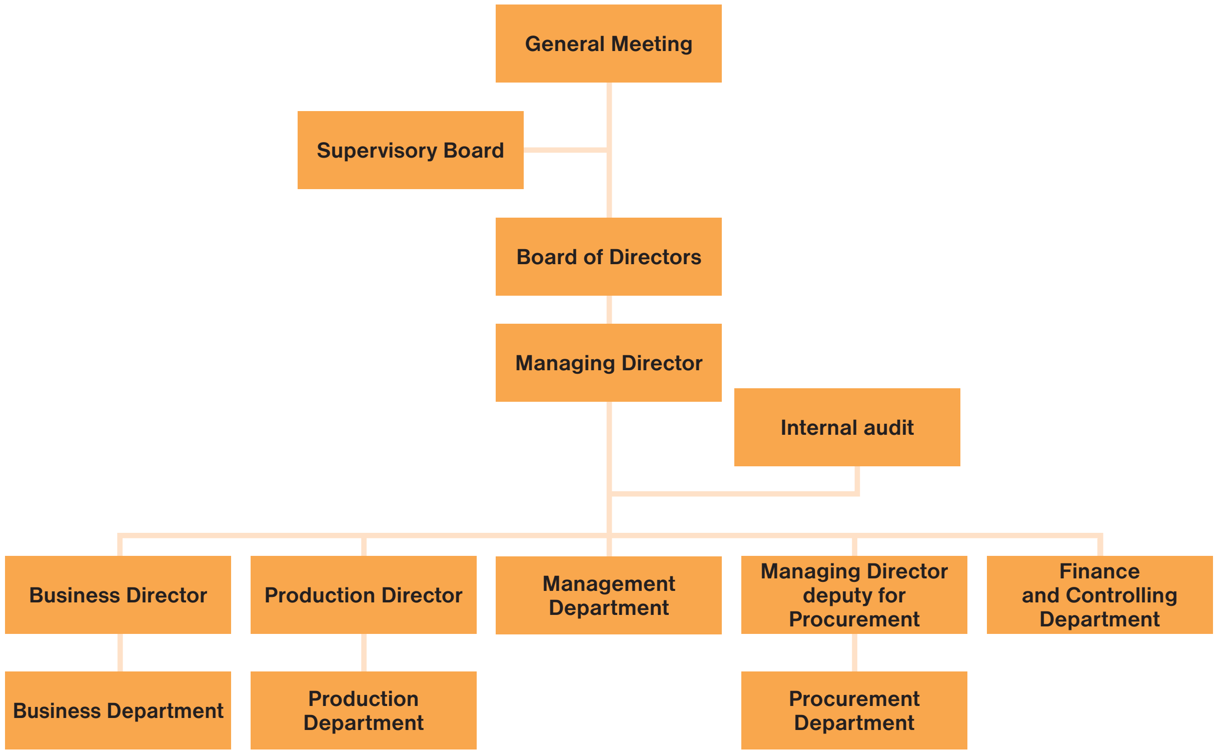
The Board of Directors is the statutory body that manages KORADO, a.s. and acts on its behalf. Board of Directors members are appointed by the Supervisory Board from candidates nominated by the shareholders for a period of five years. The Board of Directors decides on all matters that lay outside the remit of the General Meeting pursuant to the applicable legal regulations or Company Articles of Association. The Board of Directors usually meets monthly.

Members of the Board of Directors at 31 December 2012:

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

Management

The Company is divided into five departments: Administration, Business, Production, Procurement and Finance and Controlling. The following sub-departments are directly controlled by the Managing Director: Internal Audit, Quality Control Supervisor, Human Resources and Payroll, and Information Technologies. Each department is headed by the respective director or Managing Director deputy; all directors are subordinate to the Managing Director. The Company is part of the KORADO Group consolidation unit. In April 2012, changes were made in the management and organization structure of the Company.



As at 31 December 2012, the composition of the management was as follows:

Vojtěch Čamek (born 1956)
Managing Director

In the position of finance and controlling director of KORADO, a.s. since 2002. On 1 April 2012, he was named as a general director of KORADO, a.s. In 1999 – 2001 he 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.

Aleš Zouhar (born 1959)
Business Director

In the position of head of business since 2004. On 1 April 2012, he was named a business director. In 2001 to 2003 he worked as a general director of AMERICAN JAWA Ltd. In 1998 – 2000 he worked as a managing director of MOTOKOV UK Ltd. In 1995 – 1997 he worked in Zetor PDC a.s. In 1990 -1994 general director of SKODA Great Britain Ltd. and in 1984 – 1990 as head of foreign business department in UZOS. Graduate of the Mendel University in Brno, International Business Institute and Cambridge Regional College.

Miloš Sotona (born 1965)
Production Director

Employee in KORADO, a.s. since March 2012. In 2004 – 2011 head of production, production director and head of quality control in GCE Chotěboř. In 2001 – 2004 head of technical preparation of production department in Matsuhita Panasonic Automotive Czech. In 1992 – 2000 employee of Prokop – Mlýnské stroje Pardubice, first in technical development department and since 1995 as head of quality control department. In 1988 – 1992 independent technologist in TMS Pardubice. Graduate of Technical University of Liberec, specialization of engineering technology.

Jiří Jeřábek (born 1949)
Business Director

On 1 April 2012 named as managing director deputy for Procurement. 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. In 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.

Jiří Řezníček (born 1954)
Managing Director of KORADO Bulgaria

Joined KORADO, a.s. in September 2005 as a sales representative. In September 2007 named as managing director of KORADO Bulgaria. In 2002 – 2004 in Gienger s.r.o. Zlín as head of Olomouc centre and deputy director for Olomouc and Eastern Bohemia region. In 1995 – 2011 head of KORADO, a.s. division. In 1991 – 1995 head of operations in Armaturka Česká Třebová, a.s. and as a managing director. In 1983 – 1991 as head of operations in Sigma Česká Třebová, k.p. In 1978 – 1983 as an independent production technologist in Liaz, n.p. Graduate of Brno University of Technology, Faculty of Mechanical Engineering, Automotive and Material Handling and Combustion Engines.

KORADO GROUP

At 31 December 2012, KORADO Group comprised the parent KORADO, a.s. Česká Třebová and five subsidiaries and associates, of which:

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

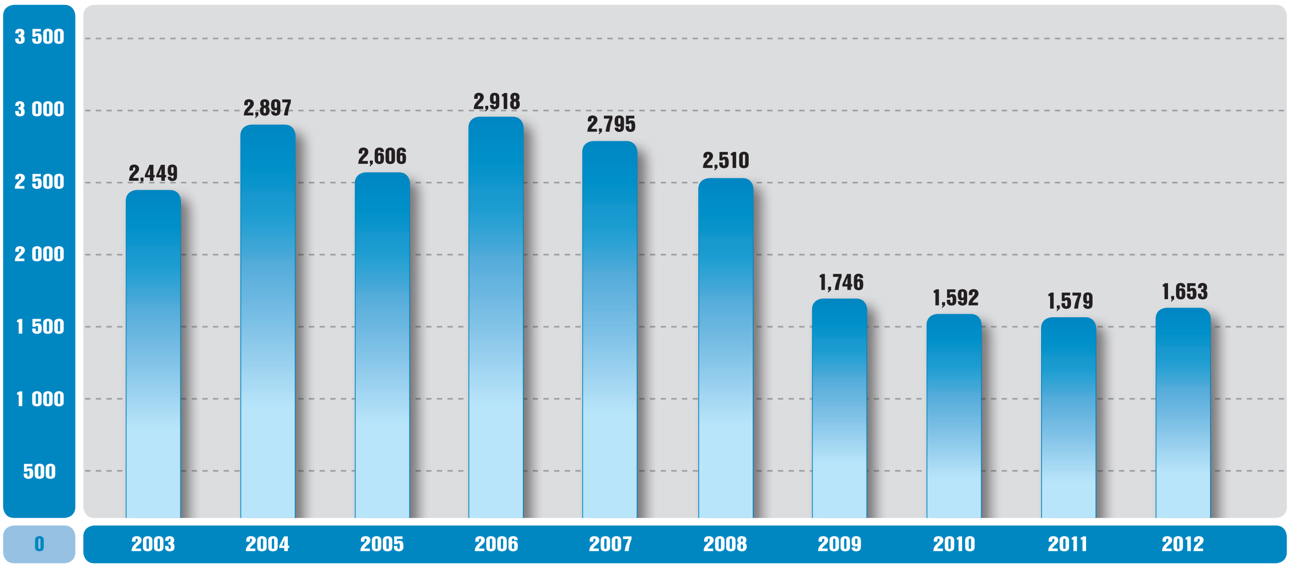
Since 2006, when the Bulgarian subsidiary began more effectively to utilize its panel radiator production capacities within KORADO Group, the process of bringing all corporate, technology and production processes in line with the parent company KORADO in Česká Třebová was completed. The implementation of this project facilitated KORADO Bulgaria's transition into a full-fledged member of KORADO Group. Since 2012, KORADO Bulgaria is a producer of low-branded radiators for the KORADO Group.

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

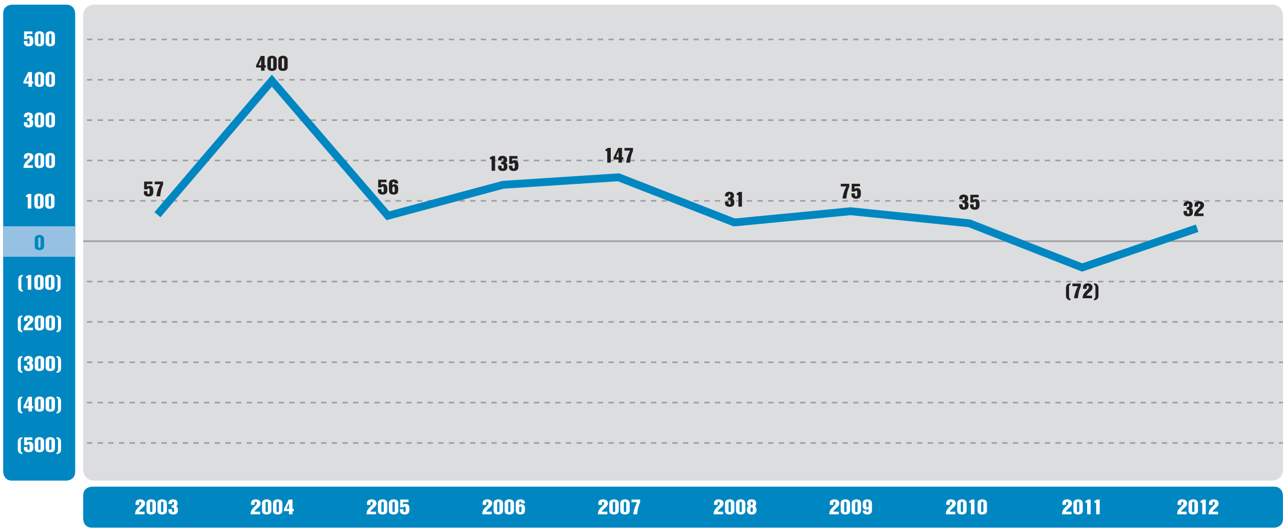
CZK '000	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Consolidated revenues	2,448,612	2,896,988	2,605,514	2,917,951	2,795,017	2,510,084	1,745,583	1,592,299	1,579,217	1,653,283
Consolidated profit/ loss per IFRS	56,644	399,943	55,638	135,428	147,173	31,105	74,912	34,572	(72,369)	32,497

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

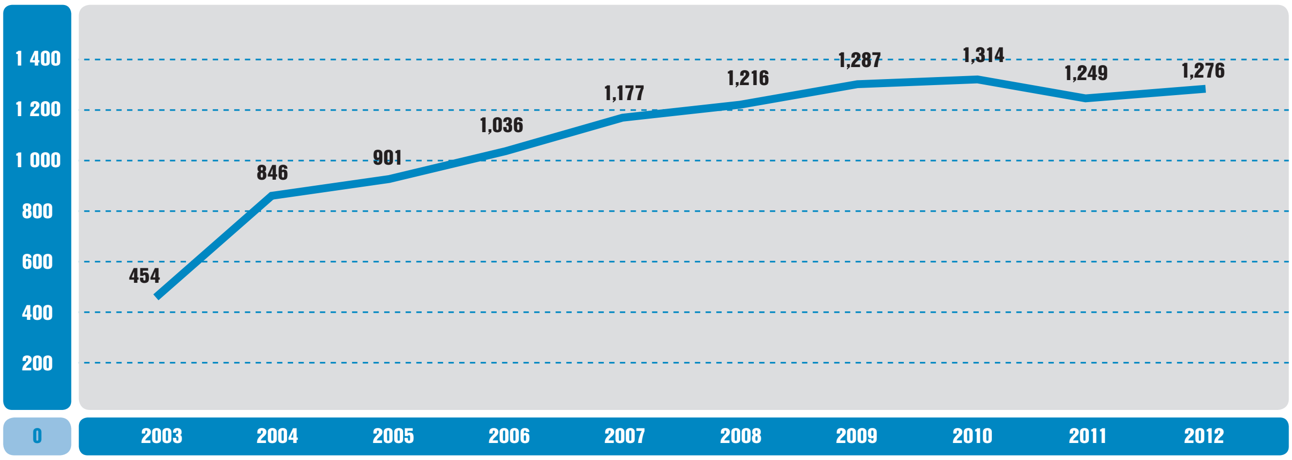
KORADO Group consolidated revenues (CZK million)



KORADO Group consolidated profit/loss (CZK million)

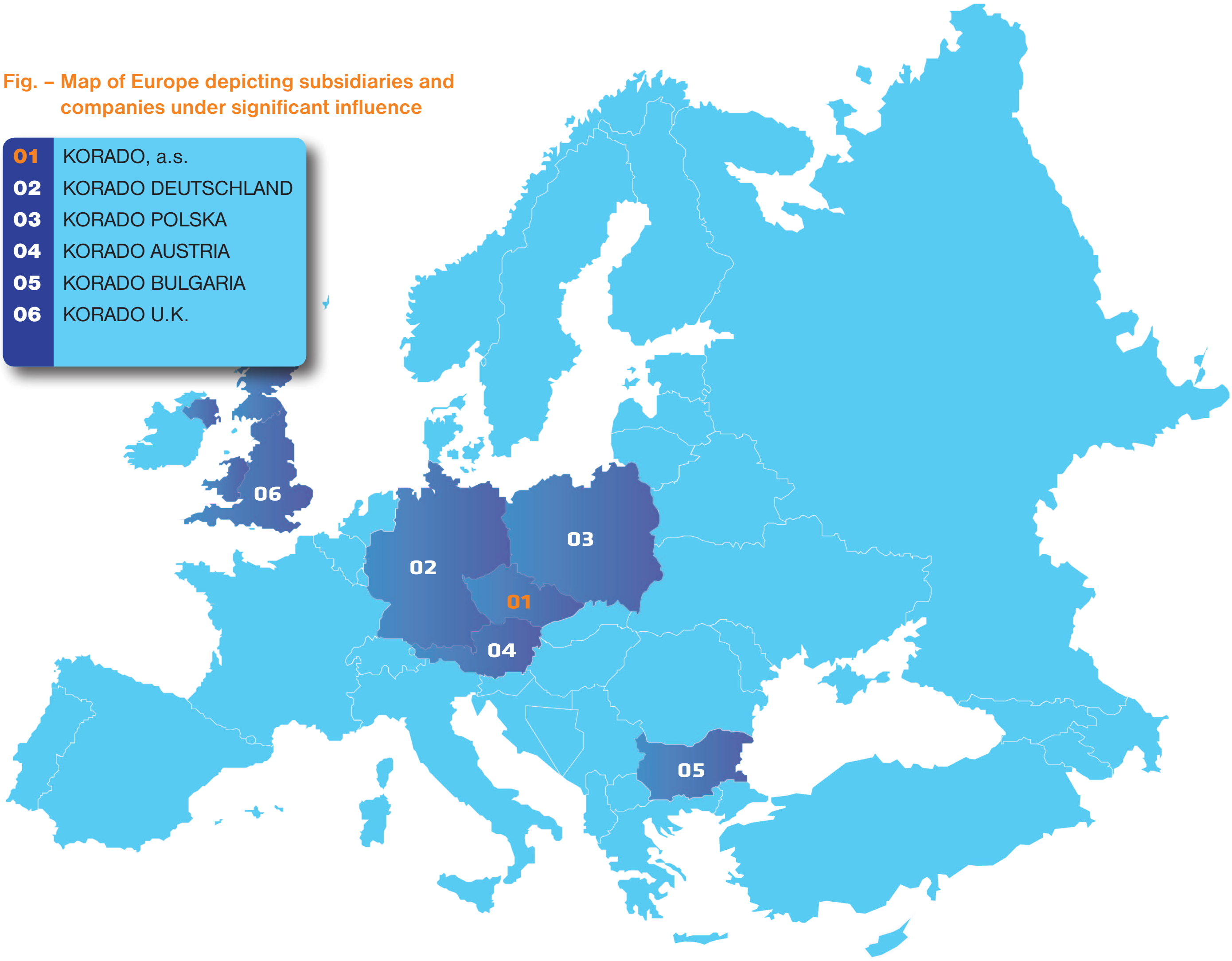


KORADO Group equity (CZK million)



DESCRIPTION OF SUBSIDIARIES AND COMPANIES UNDER SIGNIFICANT INFLUENCE

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



KORADO Group members at 31 December 2012:

Company	Incorporation date	Share capital at 31. 12. 2012	Director (Authorized Agent)	Registered office	KORADO, a.s. stake	Legal form
KORADO, a.s.	1 September 1996	CZK 840,700 thousand	Vojtěch Čamek	Bří Hubálků 869, 560 02 Česká Třebová, Czech Republic	-	Joint-stock company
KORADO Deutschland, GmbH	28 November 1995	CZK 629 thousand	Lucie Kolářová	DR. Wilhelm-Külz-Strasse 61, 155 17 Fürstenwalde, Germany	100%	Limited liability company
KORADO Polska, Sp. z o. o.	4 December 1996	CZK 44,505 thousand	Žaneta Vebrová	Gen. Okulickiego 4, 05-500 Piaseczno, Poland	100%	Limited liability company
KORADO Austria, GesmbH	1 July 1998	CZK 26,397 thousand	Leona Vaňková	Ferstelgasse 6/7, 1090 WIEN, Austria	100%	Limited liability company
KORADO Bulgaria, AD	1 October 1998	CZK 20,998 thousand	Jiří Řezníček	Gladston 28, 5150 Strajica, Bulgaria	98.2%	Joint-stock 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 of Czech National Bank effective at 31 December 2012.

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 2012 due to the fact that profit of EUR 223 thousand (CZK 5,616 thousand) generated through 2012 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	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total revenues	8,494	6,527	5,977	5,729	5,007	4,974	4,763	5,090	5,286	4,477
Profit/loss	581	154	491	498	393	(67)	0	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 2012 profit of PLN 95 thousand (CZK 574 thousand).

PLN '000	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total revenues	8,614	8,914	6,743	7,259	8,351	8,811	8,260	7,542	7,297	7,243
Profit/loss	(3,860)	3,745	1,442	764	1,044	(1,184)	(682)	461	(816)	95

KORADO Austria, GesmbH – KORADO, a.s. has a 100% stake in KORADO Austria was founded in 1998 as a whollyowned subsidiary. KORADO Austria provided sales support for the parent's products in Austria.

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

The subsidiary posted a profit of EUR 1 thousand (CZK 22 thousand) for 2012.

EUR '000	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total revenues	3,209	2,868	3,055	2,223	0	0	0	0	0	0
Profit/loss	11	79	103	1,044	(9)	(4)	(8)	(1)	(1)	1

KORADO Bulgaria, AD – was founded in 1998, when KORADO, a.s. purchased the shares of a local manufacturing company. KORADO, a.s. 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.

KORADO Bulgaria posted profit of BGN 398 thousand (CZK 5,115 thousand) for 2012.

BGN '000	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total revenues	17,610	18,303	13,996	17,714	24,019	26,392	12,717	13,540	16,252	20,458
Profit/loss	41	(362)	(690)	400	(658)	1,527	639	768	931	398
Produced panel radiators	178,943	195,427	148,926	231,353	374,704	342,558	134,816	166,712	229,129	281,027

KORADO Croatia d.o.o. – was 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, which was terminated in 2012 and the company was dissolved.

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

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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.

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 Polska; purchase of a majority stake in transport company S.A.S. a.s.

1997 The European Bank for Reconstruction and Development acquires a stake in the Company; share capital increase to CZK 1,580 million; 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. Subsidiaries KORADO Austria, KORADO Bulgaria and KORADO UK established.

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. Production of a new low-cost radiator began.

2012 Since April 2012, there was a change in the organizational structure and management of the Company. In 2012, there was an increase in sales and the KORADO Group has generated a profit of CZK 32 million.

KORADO SALES AND MARKET POSITION

Market situation
For the construction and heating technology market, 2012 was similar to preceding years, i.e. marked by world-wide economic depression. Despite that, the Group managed to acquire more customers in 2012 than in 2011. 2012 was a year of stabilization for the KORADO brand.

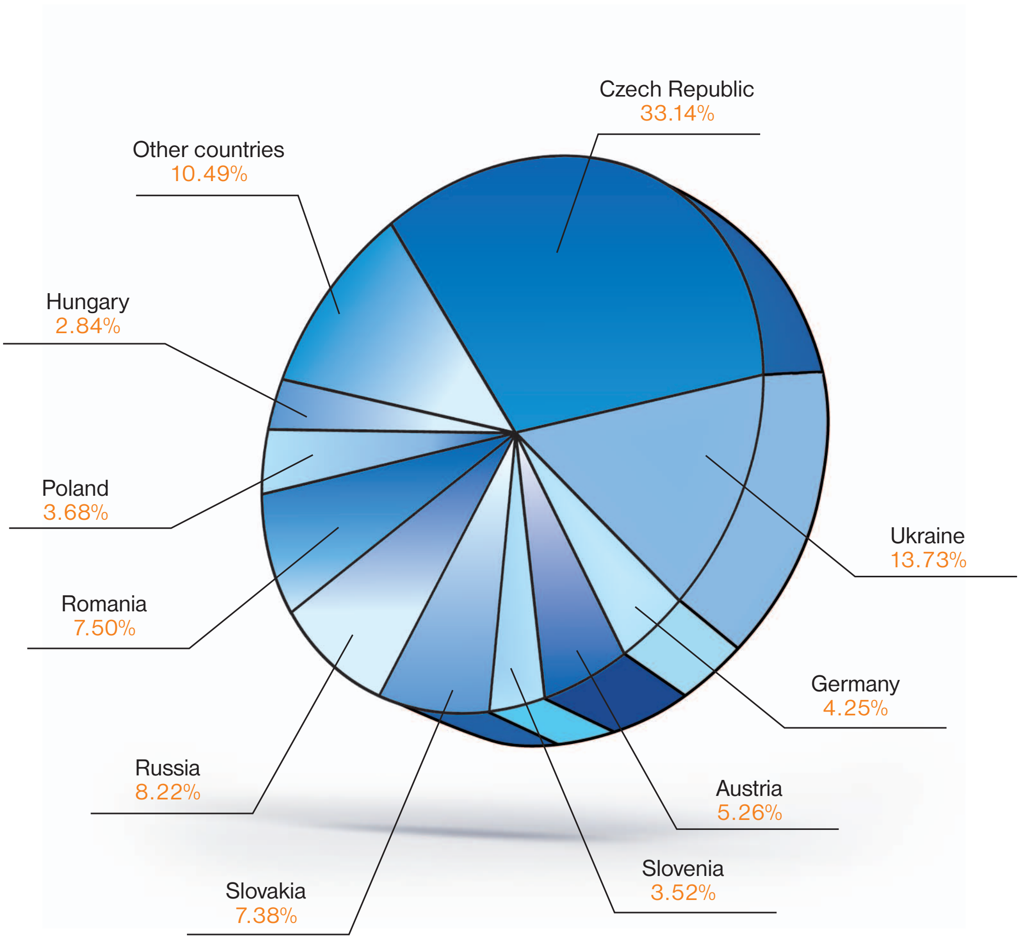
Central and Eastern Europe
Thanks to markets in the Czech Republic, Slovakia, the Ukraine and Russia we continuously held our market position and also prove a marginal increasing trend in that segment.

Western Europe
The goal of the Group is to strengthen the position of the KORADO brand on the Western markets. In 2012, the Group has enlarged its network of sales representatives, mainly in France, Great Britain, Germany and the Netherlands.

Non-European Markets
While searching for new opportunities, the Group has concentrated on more distant destinations, such as Tunisia, Chile, Australia or Argentina. The effort was worth it - a year-to-year increase in these destinations was more than 300% in terms of sold heating bodies compared to 2011.

Product mix
Based on a series of successful innovations concerning bathroom and design heating bodies the Group managed to substantially increase number of sold pieces. In 2012, the Group also focused on innovations of its main product line – desk heating bodies. The goal of the Group is to continue with these innovations in 2013, since the Group considers enlarging its product portfolio a key to continuous success with its customers.

Overview of RADIK panel radiator sales in 2012 by country



FINANCIAL POSITION

Profitability of the KORADO Group

In 2012, the group reached a profit of CZK 32 million. The profit was positively influenced by direct and indirect cost optimization programs which started in prior years, as well as increased production efficiency and new products launched recently.

Working capital and debt optimization

As a result of consistent optimization of working capital and a further decrease in bank loan indebtedness, KORADO, a.s. achieved a year-on-year debt reduction by approximately four percentage points. As at 31 December 2012, the total amount of liabilities including bank loans reached the lowest level in the history of the Company and the indebtedness was 37%.

Bank loans

In 2012, a total of CZK 103 million was paid on bank loans (a 23% reduction).

Investments

No significant investments were made in 2012 – total tangible and intangible fixed asset investments of CZK 11 million were more on the maintenance side.

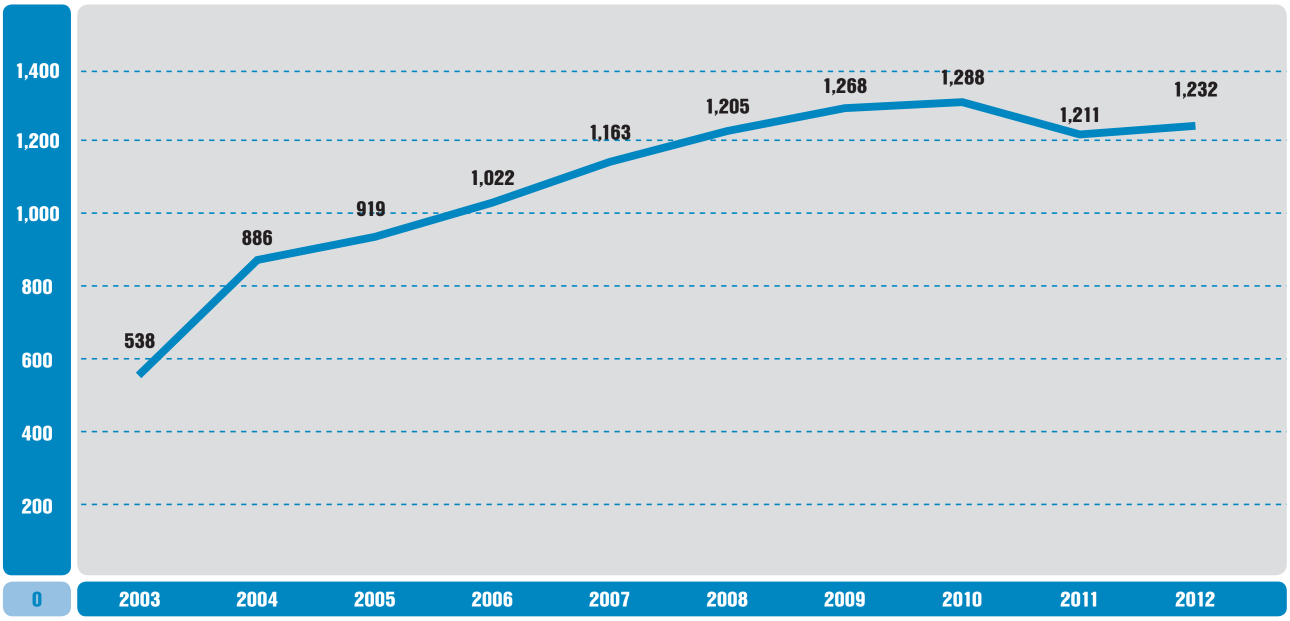
Risk management

In 2012, 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 significant trade receivables. Temporary overdue receivables were successfully solved as part of good customer relationships. The cooperation with insurance companies is of a great benefit to the Group in this respect.

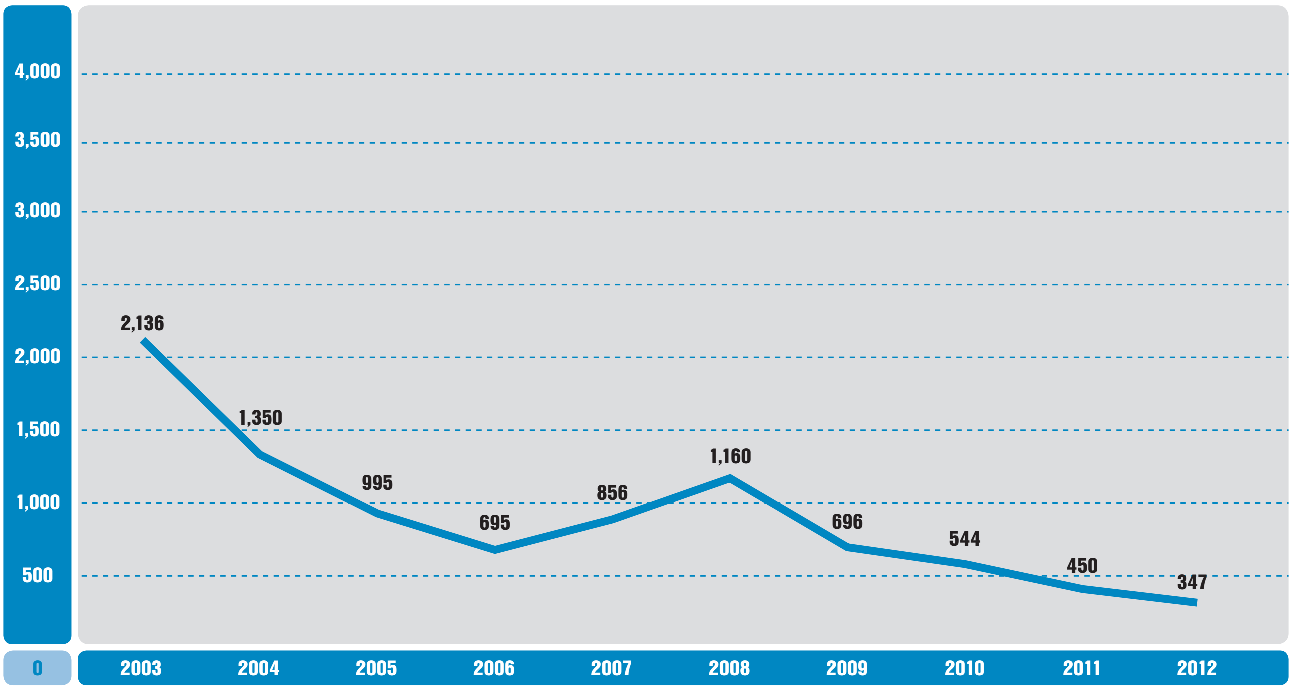
As a result of ongoing negative macroeconomic conditions, one of the major domestic customers of the Company ended its operations in 2012. Nevertheless, the Company has managed to eliminate its exposure in respect of open receivables.

The Company manages foreign exchanges risks by naturally hedging its open foreign exchange positions on revenues side with expense denominated in the same currency.

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 offensive procurement strategy realized by 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. As part of this strategy, the Group managed to achieve favorable material prices.

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 and acquired information shift the procurement decision process into more favorable qualitative and price positions. By establishing a new specialized department, the usage of purchase auctions was extended, thus being used not only for material purchases but also for purchases of services and other non-material purchases.

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 a slight decrease in price. Until June 2012, the prices were rising, and then there was a steady decrease. A similar development is expected for 2013.

Suppliers, stabilization and finding new resources

In 2012, 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 and increasing the objectivity. The evaluation results are analyzed in detail and used in future negotiations.

Sheet metal price development index

PRODUCTION AND DEVELOPMENT

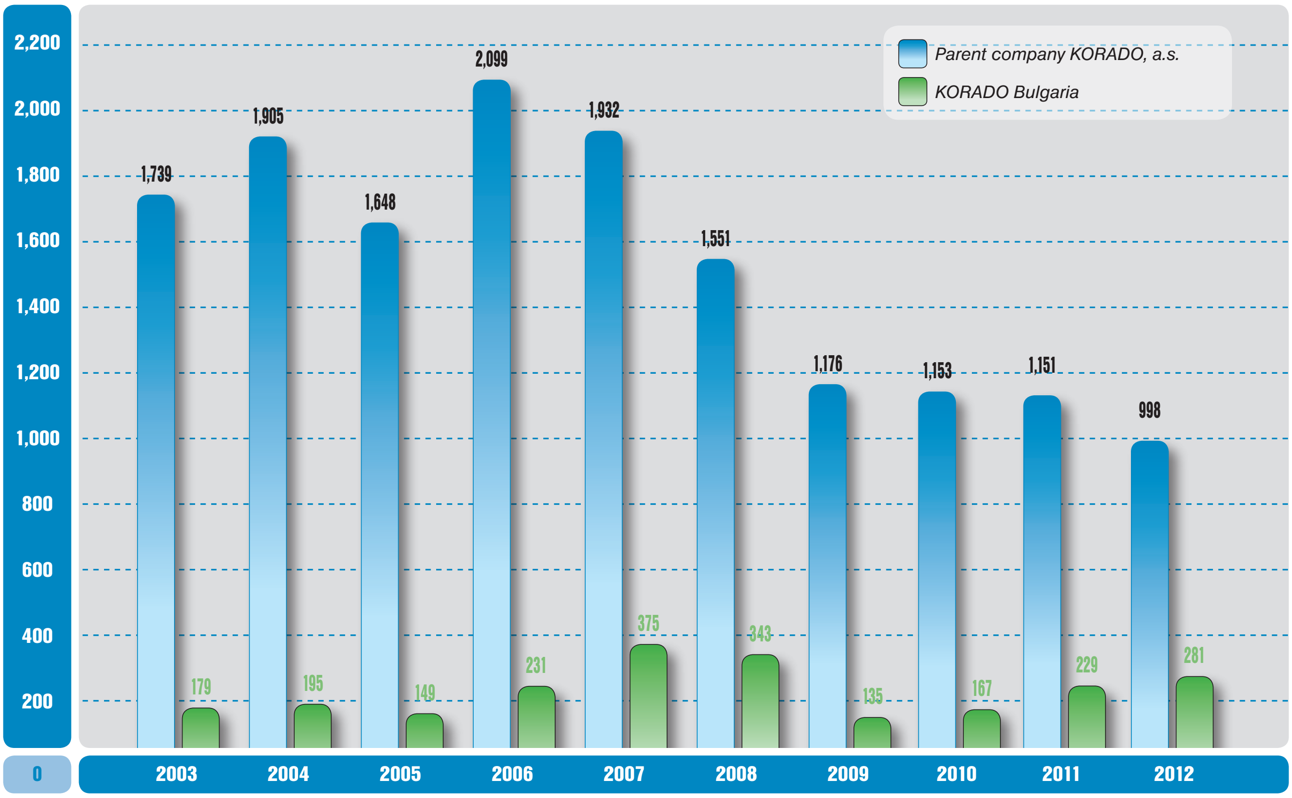
Production
In 2012, production continued to run in two shifts.

Start of production of a new heating body
The Company has responded to a decreasing trend in constructions development of a new design of panel radiator with flow-through which is customer controlled, this revolutionary design stands out as being energy-saving, efficient and offering a unique flexible solution for heating. The innovation will be introduced in the ISH world exhibition in Frankfurt in March 2013.

Desk heating bodies covering innovation
For the first time in 15 years, there was a substantial technical and design change in covering of desk heating bodies.

There was a further cooperation with a subsidiary KORADO Bulgaria on stabilization of the lacquering process and technical adjustments on its production line.

Number of produced radiators (parent x KBG)



HUMAN RESOURCES MANAGEMENT

Employee education system

There are safety trainings and further staff training sessions covering advanced legal standards are conducted on a regular basis (e.g. motorized car operators, electricians, welders etc.).

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, a.s. 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

The Company focuses on keeping good working conditions standards for its employees. Motivated employees are key to optimal performance and successful operations of the Group. The priority in employee education is to further technical and professional training of production staff. Employees, even those on shift work, are given access to high-quality on-site dining facilities with a substantial employer subsidy.

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, such as a company car and a phone. A supplementary pension insurance contribution scheme has been in place for many years and the majority of employees take part.

Information distribution and in-house communication

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

KORADO, a.s. is determined to build a stable system enabling all individuals to fully utilize their abilities and skills 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 2012, KORADO's quality management system was re-certified under ISO 9001:2008 standards. A key characteristic of the system is the controlled measurement of process quality, which forms the basis for ongoing system upgrades. This system is a reflection of the very latest management trends.

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

One of three main goals as part of the "Comprehensive care of environmental components in KORADO, a.s." project, was a detailed mapping of risks of ecological harm based on Act No. 167/2008 Coll. prevention of environmental damage and its Remedy. KORADO, a.s. is an operator of two operation activities: no. 1 - operation of a facility subject to an integrated permit under a special law. The second operation activity is no. 9 - treatment for harmful substances according to a special legal regulation. Both rated activities are below the limit of 50 points. As a result, there was no need to work out a detailed risk mapping and assessment and financial assistance for assuring preventive or remedial measures in case of environmental accidents.

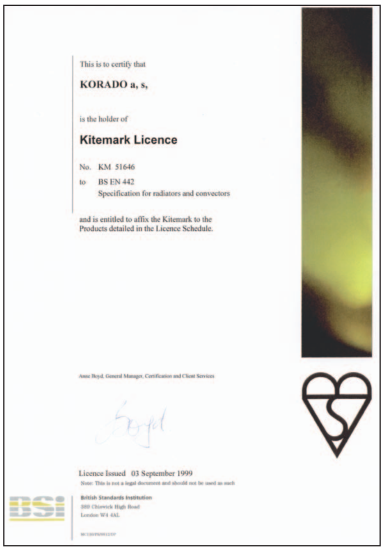
Another major goal oriented to the field of waste management, where the organizational measures improved sorting of plastic waste. Part of the clean plastic sheeting can be further used and thus be of an economic benefit to the originator.

The third goal was drafting new rules of operation for pollution sources. This point was not fulfilled fully due to a number of legislative amendments in this area. The drafting of rules of operation was postponed until 2013.

On 23 May 2012, the Czech Environmental Inspection, Regional Office in Hradec Králové, carried out an announced audit of compliance with the air pollution protection. The audit reviewed legislative compliance for all environmental components included in the integrated license.


KEMA
CERTIFIKÁT
KORADO a.s.
ISO 9001:2008


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.
Licence Issued 03 September 1999

REPORT OF THE SUPERVISORY BOARD

During the year 2012, the Supervisory Board of KORADO, a.s., Inc., met seven times in total. All the meetings of the Supervisory Board achieved the required quorum. At its meetings, the Supervisory Board was apprised of the financial results of the company and of all important activities of the Board of Directors of KORADO, a.s., 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, a.s., Inc. had the following members from January 1, 2012:

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

During 2012, changes in the composition of the Supervisory Board took place. The chairman of the Supervisory Board, Mr. Ludvík Petr, elected by the employees, and the member of the Supervisory Board, Mrs. Květoslava Najmanová, elected as a physical person, announced on February 3, 2012 the resignation from the function of the member of the Supervisory Board of the Company KORADO, a.s. (AG). In accordance with § 66, article 1 of Act No. 513/1991 Coll., the Commercial Code, as amended, the Supervisory Board of the Company approved the extinction of these functions on 31 March 2012. The Extraordinary General Meeting of the Company at its meeting held on March 26, 2012, acknowledged both resignations. Furthermore, the Extraordinary General Meeting elected Mr. Ludvík Petr a member of the Supervisory Board of the Company KORADO, a.s., with effect from April 1,.2012. The Supervisory Board at its 96th meeting elected Mr. Ludvík Petr the chairman of the Supervisory Board. The Supervisory Board acknowledged at its 96th meeting that a new member of the Supervisory Board elected by the employees of the Company KORADO, a.s, according to § 200 of the Commercial Code, had became Mrs. Ludmila Filipová. With effect from August 31, 2012, Mr. Oliver Greene, designed by the shareholder EBRD, resigned from his position of the member of the Supervisory Board of the Company KORADO, a.s. The Supervisory Board at its 100th meeting held on November 2, 2012 co-opted a member of the Supervisory Board Mr. Dr. Ernst Bachner, who had been nominated by the EBRD.

Fulfillment of duties of the Supervisory Board

The Supervisory Board supervised the performance of the Board of Directors of the Company as well as the performance of the Company's business activities. It examined in particular whether its enforcement is in accordance with the provisions of the Commercial Code, other regulations in force, and the Articles of Association of the join-stock Company KORADO, a.s., in force. It monitored regularly and discussed the Company's financial results for the previous periods, the state of its assets, including the information about the status of the accounts receivable. The standard tasks in 2012, which were discussed by the Supervisory Board, included the approval and also a concurrent control of the implementation of the business and financial plan of the Company. The Supervisory Board examined and monitored the implementation of the marketing plan, discussed the Company's financial plan for 2013, dealt with customer´s trading limits for 2012, and periodically reviewed reports on the activities within the Internal Audit. The Supervisory Board was regularly informed by the individual Directors on important analyzes and projects of the Company. On its 95th meeting, the Supervisory Board approved the Strategic plan of the Company KORADO, a.s., for the years 2012-2016. The Supervisory Board acknowledged the information of the Chairman of the Board of Director on the approval a new Organization order of the Company KORADO, a.s., to April 1, 2012 and January 1, 2013. In response to the changes in the Organization order of the Company, the Supervisory Board on its 96th meeting appointed the members of the Finance and Investment Committee according to the submitted proposal. During said period, the Supervisory Board fulfilled the obligations arising from the terms of the Commercial Code, in particular the relevant §§ 197 to 201.

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

The Supervisory Board, or more precisely, 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 103th meeting held on March 29, 2013, 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, 2012, presented by the Board of Directors. The supplements to the regular financial statement and the consolidated financial statement for 2012 are included in the full version in the Annual Report of the company KORADO, a.s., for 2012. Based upon the review of the financial statement, the Supervisory Board recommended the General Meeting to approve the financial statement of the company KORADO, a.s., Inc. and the consolidated financial statement according to the IFRS standards of the KORADO Group as of Dec. 31, 2012.

The Supervisory Board, after having checked the proposal of the Board of Directors to distribute the 2012 financial result (from the profit in the amount of 24,702,059.42 CZK, to use the amount of 1,235,103,- CZK as a contribution to the reserve fund, to use the amount of 14,940,440,- CZK for the payment of dividends, to transfer the amount of 8,526,516.42 CZK to the retained earnings) states, that the proposed distribution of the profit is in accordance with the legal requirements and the statutes of KORADO, a.s, and thus recommends the General Meeting to approve the distribution of the financial result for the 2012 in the manner presented by the company's Board of Directors.

In Česká Třebová on March 29, 2013

Ludvík Petr
Chairman of the Supervisory Board

Jaromír Hejda
Vice-Chairman of the Supervisory Board

AUDITOR'S REPORT INCLUDING THE AUDITOR'S OPINION

ERNST & YOUNG

To the Shareholders of KORADO, a.s.:

I. We have audited the consolidated financial statements of KORADO, a.s. ("the Company") as at 31 December 2012 presented in the annual report of KORADO, a.s. on pages 45 - 73, on which we have issued an auditor's report dated 15 March 2013, presented in the annual report on page 46. We have also audited the separate financial statements of the Company as at 31 December 2012 which are presented in the annual report of the Company on pages 27 - 44 on which we have issued an auditor's report dated 15 March 2013, 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 2012. 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.

Ernst & Young

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

Magdalena Soucek
auditor, licence no. 1291

15 March 2013
Prague, Czech Republic

KORADO®

Financial Statements for the year ended 31 December 2012 together with Auditor's Report

AUDITOR'S REPORT INCLUDING THE AUDITOR'S OPINION

ERNST & YOUNG

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 2012, 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 2012, 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

Magdalena Soucek
Auditor, License No. 1291

15 March 2013
Prague, Czech Republic

BALANCE SHEET - LONG FORM

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

				Gross	Current year Allowances	Net	Prior year 2011 Net
			TOTAL ASSETS	**5,032,235**	**(3,070,875)**	**1,961,360**	**2,082,691**
A.			**STOCK SUBSCRIPTION RECEIVABLE**	**-**	**-**	**-**	**-**
B.			**FIXED ASSETS**	**4,747,735**	**(3,045,690)**	**1,702,045**	**1,813,591**
B.	I.		Intangible assets	182,318	(169,465)	12,853	14,529
B.	I.	1	Foundation and organization expenses	895	(895)	-	-
		2	Research and development	-	-	-	-
		3	Software	178,592	(166,613)	11,979	13,711
		4	Patents, royalties and similar rights	2 369	(1 957)	412	663
		5	Goodwill	-	-	-	-
		6	Other intangible assets	-	-	-	-
		7	Intangible assets in progress	462	-	462	155
		8	Advances granted for intangible assets	-	-	-	-
B.	II.		Tangible assets	4,352,505	(2,713,784)	1,638,721	1,746,833
B.	II.	1	Land	25,163	-	25 163	25 163
		2	Constructions	1,675,894	(620,626)	1,055,268	1,092,030
		3	Separate movable items and groups of movable items	2,580,887	(2,059,829)	521,058	592,350
		4	Perennial crops	-	-	-	-
		5	Livestock	-	-	-	-
		6	Other tangible assets	65,571	(33,329)	32,242	30,743
		7	Tangible assets in progress	3,775	-	3,775	3,464
		8	Advances granted for tangible assets	1,215	-	1,215	3,083
		9	Gain or loss on revaluation of acquired property	-	-	-	-
B.	III.		Financial investments	212,912	(162,441)	50,471	52,229
B.	III.	1	Subsidiaries	159,685	(109,214)	50,471	52,229
		2	Associates	-	-	-	-
		3	Other long-term securities and interests	-	-	-	-
		4	Loans to subsidiaries and associates	53,227	(53,227)	-	-
		5	Other long-term investments	-	-	-	-
		6	Long-term investments in progress	-	-	-	-
		7	Advances granted for long-term investments	-	-	-	-
C.			**CURRENT ASSETS**	**274,375**	**(25,185)**	**249,190**	**259,795**
C.	I.		Inventory	111 365	(1,164)	110,201	130,588
C.	I.	1	Materials	71,886	(826)	71,060	96,308
		2	Work in progress and semi-finished production	7,290	-	7,290	9,100
		3	Finished products	22,821	(243)	22,578	19,639
		4	Livestock	-	-	-	-
		5	Goods	9,368	(95)	9,273	5,541
		6	Advances granted for inventory	-	-	-	-
C.	II.		Long-term receivables	496	-	496	728
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	496	-	496	728
		6	Unbilled revenue	-	-	-	-
		7	Other receivables	-	-	-	-
		8	Deferred tax asset	-	-	-	-
C.	III.		Short-term receivables	160,647	(24,021)	136,626	127,040
C.	III.	1	Trade receivables	148,827	(24,021)	124,806	104,854
		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	7,564	-	7,564	9,177
		7	Short-term advances granted	4,074	-	4,074	2,751
		8	Unbilled revenue	182	-	182	10,258
		9	Other receivables	-	-	-	-
C.	IV.		Short-term financial assets	1,867	-	1,867	1,439
C.	IV.	1	Cash	252	-	252	344
		2	Bank accounts	1,615	-	1,615	1,095
		3	Short-term securities and interests	-	-	-	-
		4	Short-term financial assets in progress	-	-	-	-
D.			**OTHER ASSETS - TEMPORARY ACCOUNTS OF ASSETS**	**10,125**	**-**	**10,125**	**9,305**
D.	I.		Accrued assets and deferred liabilities	10,125	-	10,125	9,305
D.	I.	1	Prepaid expenses	9,002	-	9,002	8,785
		2	Prepaid expenses (specific-purpose expenses)	-	-	-	-
		3	Unbilled revenue	1,123	-	1,123	520

BALANCE SHEET - LONG FORM

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

				Current year	Prior year 2011
			TOTAL EQUITY & LIABILITIES	**1,961,360**	**2,082,691**
A.			**EQUITY**	**1,232,480**	**1,210,562**
A.	I.		Basic capital	840,700	840,700
A.	I.	1	Registered capital	840,700	840,700
		2	Own shares and own ownership interests (-)	-	-
		3	Changes in basic capital	-	-
A.	II.		Capital funds	(47,163)	(44,379)
A	II.	1	Share premium (agio)	-	-
		2	Other capital funds	48	48
		3	Gain or loss on revaluation of assets and liabilities	(47,211)	(44,427)
		4	Gain or loss on revaluation of company transformations	-	-
		5	Gain or loss on company transformations	-	-
		6	Gain or loss on revaluation upon company transformations	-	-
A	III.		Reserve funds and other funds created from profit	45,727	45,727
A	III.	1	Legal reserve fund	45,727	45,727
		2	Statutory and other funds	-	-
A.	IV.		Profit (loss) for the previous years	368,514	449,658
	IV.	1	Retained earnings for the previous years	368,514	449,658
		2	Accumulated loss of previous years	-	-
A.	V.		Profit (loss) for the year (+ / -)	24,702	(81,144)
B.			**LIABILITIES**	**716,138**	**864,788**
B.	I.		Provisions	8,956	8,857
B.	I.	1	Provisions created under special legislation	-	-
		2	Provision for pensions and similar obligations	-	-
		3	Provision for corporate income tax	-	-
		4	Other provisions	8,956	8,857
B.	II.		Long-term liabilities	72,161	72,161
B.	II.	1	Trade payables	-	-
		2	Liabilities to group companies with majority control	-	-
		3	Liabilities to group companies with control of 20% - 50%	-	-
		4	Liabilities to partners, co-operative members and participants in association	-	-
		5	Long-term advances received	-	-
		6	Bonds payable	-	-
		7	Long-term notes payable	-	-
		8	Unbilled deliveries	-	-
		9	Other liabilities	-	-
		10	Deferred tax liability	72,161	72,161
B.	III.		Current liabilities	287,661	333,592
B.	III.	1	Trade payables	232,501	266,613
		2	Liabilities to group companies with majority control	31	31
		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	30,420	12,116
		6	Liabilities arising from social security and health insurance	6,195	5,254
		7	Due to government – taxes and subsidies	2,470	1,733
		8	Short-term advances received	2,290	4,071
		9	Bonds payable	-	-
		10	Unbilled deliveries	13,334	43,400
		11	Other liabilities	420	374
B.	IV.		Bank loans and borrowings	347,360	450,178
B.	IV.	1	Long-term bank loans	170,000	280,000
		2	Short-term bank loans	177,360	170,178
		3	Borrowings	-	-
C.			**OTHER LIABILITIES - TEMPORARY ACCOUNTS OF LIABILITIES**	**12,742**	**7,341**
C.	I.		Accrued liabilities and deferred assets	12,742	7,341
C.	I.	1	Accruals	12,736	7,333
		2	Deferred income	6	8

INCOME STATEMENT - LONG FORM

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

				Current year	Prior year 2011
	I.	1	Revenue from sale of goods	276,700	79,865
A.		2	Cost of goods sold	242,646	65,789
	+		**Gross margin**	**34,054**	**14,076**
	II.		Production	1,318,438	1,479,914
	II.	1	Revenue from sale of finished products and services	1,312,915	1,474,656
		2	Change in inventory produced internally	4,048	1,504
		3	Own work capitalized	1,475	3,754
B.			Production related consumption	955,091	1 145,144
B.		1	Consumption of material and energy	801,783	988,607
B.		2	Services	153,308	156,537
	+		**Value added**	**397,401**	**348,846**
C.			Personnel expenses	239,780	266,997
C.		1	Wages and salaries	182,856	211,590
C.		2	Bonuses to members of company or cooperation bodies	1,736	924
C.		3	Social security and health insurance	52,220	51,562
C.		4	Other social costs	2,968	2,921
D.		1	Taxes and charges	1,054	755
E.		1	Amortization and depreciation of intangible and tangible fixed assets	120,372	134,750
	III.		Revenue from sale of intangible and tangible fixed assets and materials	16,554	19,627
	III.	1	Revenues from sale of intangible and tangible fixed assets	942	1,030
		2	Revenue from sale of materials	15,612	18 597
F.			Net book value of intangible and tangible fixed assets and materials sold	16,060	17,565
F.		1	Net book value of intangible and tangible fixed assets sold	556	392
F.		2	Materials sold	15,504	17,173
G.		1	Change in provisions and allowances relating to operations and in prepaid expenses (specific-purpose expenses)	(10,587)	(3,487)
	IV.	1	Other operating revenues	11,029	12,434
H.		2	Other operating expenses	19,628	14,697
	V.	1	Transfer of operating revenues	-	-
I.		2	Transfer of operating expenses	-	-
	*		**Profit or loss on operating activities**	**38,677**	**(50,370)**
	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	1,237	2,777
	X.	1	Interest income	1,638	1,568
N.		2	Interest expense	14,992	16,115
	XI.	1	Other finance income	25,438	18,588
O.		2	Other finance cost	24,822	32,038
	XII.	1	Transfer of finance income	-	-
P.		2	Transfer of finance cost	-	-
	*		**Profit or loss on financial activities**	**(13,975)**	**(30,774)**
Q.			Tax on profit or loss on ordinary activities	-	-
Q.		1	- due	-	-
Q.		2	- deferred	-	-
	**		**Profit or loss on ordinary activities after taxation**	**24,702**	**(81,144)**
	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 (+/-)**	**24,702**	**(81,144)**
	****		**Profit or loss before taxation**	**24,702**	**(81,144)**

CASH FLOW STATEMENT

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

				Current year	Prior year 2011
			Cash flows from operating activities		
Z.			**Profit or loss on ordinary activities before taxation (+/-)**	**24,702**	**(81,144)**
A.	1.		Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	123,422	155,657
A.	1.	1.	Depreciation and amortization of fixed assets and write-off of receivables	126,911	134 772
A.	1.	2.	Change in allowances	(9,449)	5,064
A.	1.	3.	Change in provisions	99	(5,774)
A.	1.	4.	Foreign exchange differences	(7,106)	7,686
A.	1.	5.	(Gain)/Loss on disposal of fixed assets	(386)	(638)
A.	1.	6.	Interest expense and interest income	13,354	14,547
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**	**148,124**	**74,513**
A.	2.		Change in non-cash components of working capital	(24,729)	53,545
A.	2.	1.	Change in inventory	20,398	94
A.	2.	2.	Change in trade receivables	(12,789)	(6,644)
A.	2.	3.	Change in other receivables and in prepaid expenses and unbilled revenue	10,547	(7,148)
A.	2.	4.	Change in trade payables	(36,001)	53,843
A.	2.	5.	Change in other payables, short-term loans and in accruals and deferred income	(6,884)	13,400
A**			**Net cash from operating activities before taxation, interest paid and extraordinary items**	**123,396**	**128,058**
A.	3.	1.	Interest paid	(15,008)	(16,117)
A.	4.	1.	Tax paid	(2)	5
A.	5.	1.	Gains and losses on extraordinary items	-	-
A***			**Net cash provided by (used in) operating activities**	**108,386**	**111,946**
			Cash flows from investing activities		
B.	1.	1.	Purchase of fixed assets	(8,961)	(20,169)
B.	2.	1.	Proceeds from sale of fixed assets	942	1,030
B.	3.	1.	Loans granted	-	-
B.	4.	1.	Interest received	1,638	1,568
B.	5.	1.	Dividends received	-	-
B***			**Net cash provided by (used in) investing activities**	**(6,381)**	**(17,571)**
			Cash flows from financing activities		
C.	1.	1.	Change in long-term liabilities and long-term, resp. short-tem, loans	(101,577)	(96,798)
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**	**(101,577)**	**(96,798)**
F.			**Net increase (decrease) in cash**	**428**	**(2,423)**
P.			**Cash and cash equivalents at beginning of year**	**1,439**	**3,862**
R.			**Cash and cash equivalents at end of year**	**1,867**	**1,439**

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 2012 are as follows:

Menclík František	9.16 %
Petr Ludvík	9.16 %
Vobora Miroslav	9.16 %
Brabec Bedřich	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 2012 were as follows:

Board of Directors

Chair:	Menclík František
Vice-Chair:	Vobora Miroslav
Member:	Brook Richard Howard Wilson
Member:	Hamáček František

Supervisory Board

Chair:	Petr Ludvík
Vice-Chair:	Hejda Jaromír
Member:	Biža Josef
Member:	Vaňousová Hana
Member:	Bachner Ernst
Member:	Filipová Ludmila

In 2012, there were the following changes made in the Commercial register: a Supervisory Board member Květoslava Najmanová was replaced by Ludmila Filipová on 1 April 2012. On 31 August, Mr Oliver R. Green terminated his membership in the Supervisory Board and was replaced by Ernst Bachner on 2 November 2012.

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

As at 31 December 2012, 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 and KORADO UK. As at 31 December 2011, the Company also owned a share in KORADO Croatia d.o.o. (see Note 4c).

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 2012 and 2011.

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 2012. The result of consolidation performed in compliance with International Financial Reporting Standards (IFRS) is consolidated equity at the amount of CZK 1,276,133 thousand, consolidated profit of CZK 32,497 thousand and total consolidated assets of CZK 2,007,311 thousand as at 31 December 2012.

Explanation Added for Translation into English

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in preparing the 2012 and 2011 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 2012 and 2011 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:

	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 2012 and 2011 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.

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 2012 and 2011, 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 2012 and the following years will be 19%.

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

l) Use of Estimates

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

m) Subsequent Events

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

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

4. FIXED ASSETS

a) Intangible Fixed Assets (in CZK thousands)

COST

	At the beginning of the year	Additions	Disposals	Transfers	At the end of the year
Foundation and organization expenses	895	-	-	-	895
Software	174,934	-	-	3,658	178,592
Patents, royalties and similar rights	2,469	-	(100)	-	2,369
Intangibles in progress	155	3,965	-	(3,658)	462
2012 Total	**178,453**	**3,965**	**(100)**	**-**	**182,318**
2011 Total	176,942	1,519	(8)	-	178,543

ACCUMULATED AMORTIZATION

	At the beginning of the year	Amortization during the year	Disposals	At the end of the year	Net book value
Foundation and organization expenses	(895)	-	-	(895)	-
Software	(161,223)	(5,390)	-	(166,613)	11,979
Patents, royalties and similar rights	(1,806)	(251)	100	(1,957)	412
Intangibles in progress	-	-	-	-	462
2012 Total	**(163,924)**	**(5,641)**	**100**	**(169,465)**	**12,853**
2011 Total	(158,169)	(5,763)	8	(163,924)	14,529

The total value of small intangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 5,378 thousand and CZK 4,799 thousand as at 31 December 2012 and 2011, respectively.

b) Tangible Fixed Assets (in CZK thousands)

COST

	At the beginning of he year	Additions	Disposals	Transfers	At the end of the year
Land	25,163	-	-	-	25,163
Buildings	1,675,660	-	-	234	1,675,894
Machinery and equipment	2,579,213	-	(8,107)	2,768	2,573,874
Vehicles	8,039	-	(2,812)	1,786	7,013
Other tangibles	35,765	-	-	3,946	39,711
Art works and collections	25,860	-	-	-	25,860
Tangibles in progress	3,464	7,177	-	(6,866)	3,775
Advances for tangibles	3,083	-	-	(1,868)	1,215
2012 Total	**4,356,247**	**7,177**	**(10,919)**	**-**	**4,352,505**
2011 Total	4,386,620	10,933	(41,306)	-	4,356,247

ACCUMULATED DEPRECIATION

	At the beginning of the year	Depreciation during the year	Disposals	At the end of the year	Net book value
Land	-	-	-	-	25,163
Buildings	(583,630)	(36,996)	-	(620,626)	1,055,268
Machinery and equipment	(1,987,701)	(74,184)	7,551	(2,054,334)	519,540
Vehicles	(7,201)	(1,106)	2,812	(5,495)	1,518
Other tangibles	(30,882)	(2,447)	-	(33,329)	6,382
Art works and collections	-	-	-	-	25,860
Tangibles in progress	-	-	-	-	3,775
Advances for tangibles	-	-	-	-	1,215
2012 Total	**(2,609,414)**	**(114,733)**	**10,363**	**(2,713,784)**	**1,638,721**
2011 Total	(2,521,341)	(128,987)	40,914	(2,609,414)	1,746,833

The total value of small tangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 12,367 thousand and CZK 13,189 thousand as at 31 December 2012 and 2011, respectively.

As at 31 December 2012 and 2011, assets with a cost of CZK 57,292 thousand and CZK 57,350 thousand, respectively, and a net book value of CZK 39,162 thousand and CZK 40,220 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 2012 and 2011, assets (buildings, land, machinery and equipment) with a cost of CZK 2,443,148 thousand and CZK 2,442,880 thousand, respectively and a net book value of CZK 1,153,492 thousand and CZK 1,220,750 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	Movements	Balance as at31 December 2011	Movements	Balance as at 31 December 2012
Subsidiaries and Associate	159,532	3,525	163,057	(3,372)	159,685
Loans to subsidiaries	48,931	1,445	50,376	2,851	53,227
Impairment provisions	(158,427)	(2,777)	(161,204)	(1,237)	(162,441)
Total	**50,036**	**2,193**	**52,229**	**(1,758)**	**50,471**

Subsidiaries as at 31 December 2012 were as follows (in CZK thousands):

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

Subsidiaries and an associate 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. As of 31 December 2012, the Company wrote off the investment in KORADO Croatia based on the fact that insolvency proceedings with the Company had been finished.

Financial information about KORADO Bulgaria 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).

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

	2012	2011
KORADO Deutschland	-	-
KORADO Croatia	n/a	(2,102)
KORADO Polska	574	(4,881)
KORADO Bulgaria	5,115	11,699
KORADO Austria	22	(22)
Total	**5,711**	**4,694**

Loan granted to subsidiary as at 31 December was as follows:

	Maturity	2012	2011
KORADO Polska	31 December 2013*	53,227	50,376
Impairment provision		(53,227)	(50,376)
Total		**-**	**-**

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

In 2012 and 2011 interest from a loan to the subsidiary amounted to CZK 1,638 thousand and CZK 1,560 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 2012 and 2011, respectively (see Note 7).

As at 31 December 2012 and 2011, receivables overdue for more than 180 days (from non-related parties) totaled CZK 18,101 thousand and CZK 18,074 thousand, respectively. 100% impairment provisions were created against these receivables.

The maturity of certain receivables of EUR 1,074 thousand (approximately CZK 27,000 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 223 thousand (CZK 5,615 thousand) and EUR 263 thousand (CZK 6,789 thousand), respectively became due as at 31 December 2012 and 2011. As at 31 December 2012 and 2011, the receivable balance is EUR 49 thousand (CZK 1,232 thousand) and EUR 272 thousand (CZK 7,018 thousand) respectively. The amount is shown within trade receivables from KORADO Deutschland (see Note 20).

The Company wrote off irrecoverable receivables of CZK 6,621 thousand and CZK 54 thousand in 2012 and 2011, respectively due to cancellation of bankruptcy proceedings and unsatisfying the claims in bankruptcy proceedings.

Receivables of CZK 86,057 thousand and CZK 74,673 thousand, respectively were pledged as collateral as at 31 December 2012 and 2011 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	Movements	Balance as at 31 December 2011	Movements	Balance as at 31 December 2012
Long-term financial assets	158,427	2,777	161,204	1,237	162,441
Inventory	1,718	(543)	1,175	(11)	1,164
Receivables – statutory	11,516	1,224	12,740	(374)	12,366
Receivables – other	20,350	1,606	21,956	(10,301)	11,655
Total	**192,011**	**5,064**	**197,075**	**(9,449)**	**187,626**

Statutory 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 2012 and 2011 short term financial assets in the amount of CZK 1,603 thousand and CZK 1,224 thousand were pledged as security for loans from UniCredit Bank Czech Republic, a.s. (see Note 13).

9. OTHER ASSETS

As at 31 December 2012 and 2011, prepaid expenses included in particular the costs of CZK 2,565 thousand and CZK 3,573 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 1,008 thousand and CZK 1,466 thousand, respectively, were charged to finance costs in 2012 and 2011. Prepaid expenses also include lease installments, property insurance and software maintenance costs, which are charged to income for the year in which they were incurred.

10. EQUITY

The movements in the capital accounts during 2012 and 2011 were as follows (in CZK thousands):

	Balance as at 31 December 2010	Increase /Transfers	Decrease /Transfers	Balance as at 31 December 2011	Increase /Transfers	Decrease /Transfers	Balance as at 31 December 2012
Number of shares	2,402	-	-	2,402	-	-	2,402
Basic capital	840,700	-	-	840,700	-	-	840,700
Other capital funds	48	-	-	48	-	-	48
Differences arising from revaluation of assets and liabilities	(47,952)	3,525	-	(44,427)	-	(2,784)	(47,211)
Legal reserve fund	44,745	982	-	45,727	-	-	45,727
Retained earnings	430,996	18,662	-	449,658	-	(81,144)	368,514
Profit / (loss) for the current year	19,644	-	(100,788)	(81,144)	105,846	-	24,702

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 2012 and 2011, ownership interests in subsidiaries and associate 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 4 June 2012 and 31 May 2011, respectively, approved the following loss and profit distribution for 2011 and 2010 (in CZK thousands):

Loss for 2011	(81,144)
Allocation to legal reserve fund	-
Undistributed profits added to retained earnings	(81,144)
Retained earnings as at 31 December 2011	449,658
Retained earnings as at 31 December 2012	368,514

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

11. PROVISIONS

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

Provisions	Balance as at 31 December 2010	Movements	Balance as at 31 December 2011	Movements	Balance as at 31 December 2012
Warranty repairs	6,585	(2,087)	4,498	742	5,240
Litigation	3,569	(3,569)	-	-	-
Accrued vacation	4,477	(118)	4,359	(643)	3,716
Total	**14,631**	**(5,774)**	**8,857**	**99**	**8,956**

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 2012 and 2011, the Company had overdue current payables totaling CZK 7 thousand and CZK 11 thousand, respectively.

As at 31 December 2012, unbilled deliveries included, in particular, unbilled deliveries of materials and annual customer bonuses. As at 31 December 2011, unbilled deliveries included, in particular, unbilled deliveries of materials, annual customer bonuses and termination bonuses related to organizational changes, of which unpaid part is classified within Liabilites to employees.

Payables to related parties (see Note 20).

13. BANK LOANS AND BORROWINGS

Bank	Terms / Conditions	Interest rate	Total limit	2012 Amount in foreign currency (EUR)	2012 Amount in CZK thousands	2011 Amount in foreign currency (EUR)	2011 Amount in CZK thousands
UniCredit Bank Czech Republic, a.s.	Long-term	1M PRIBOR + 2.7%	CZK 550 million	-	280,000	-	390,000
UniCredit Bank Czech Republic, a.s.	Operational overdraft*	1D PRIBOR + 2.35%	CZK 30 million	-	-	-	8,613
UniCredit Bank Czech Republic, a.s.	Operational overdraft*	1D EURIBOR + 2.35%	EUR 3,500 thousand	2,679	67,360	1,999	51,565
Total					347,360		450,178
Less current portion					(177,360)		(170,178)
Net					170,000		280,000

* The Company has an option for prolonging the facilities until 25 November 2014.

The interest expense relating to bank loans for 2012 and 2011 was CZK 14,905 thousand and CZK 16,060 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 2012 more than 55%	at 31 December 2011 more than 50%
2. Net debt / EBITDA ratio	at 31 December 2012 less than 2.0	at 31 December 2011 less than 2.5

As at 31 December 2012, the Company met the bank loan covenants. 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 also as at 30 June 2012.

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

	Bank loans	Operational overdraft
2013	110,000	67,360
2014	110,000	-
2015	60,000	-
Total	280,000	67,360

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

15. INCOME TAXES

The Company incurred tax losses as follows (in CZK thousands):

	2012	2011
Profit / (loss) before taxes	24,702	(81,144)
Differences between book and tax depreciation	(25,665)	(47,129)
Creation / (reversal) of impairment provisions	(9,075)	3,840
Creation / (reversal) of provisions	99	(5,774)
Other (e.g. provision to bonuses and its settlement, entertainment expenses, shortages and losses)	(21,987)	39,072
Tax loss	**(31,926)**	**(91,135)**

Based on the tax legislation, the Company is allowed to carry over tax losses incurred from 2008 to 2012 to the next five years. The tax loss which was not used in 2012 and will be carried on to following years amounted to CZK 192,024 thousand as at 31 December 2012.

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

	2012		2011	
Položky odložené daně	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	-	(132,534)	-	(127,536)
Other temporary differences:				
Impairment provision receivables	109	-	109	-
Impairment provision against inventory	221	-	223	-
Provisions and unpaid social and health insurance	1,702	-	7,383	-
Tax loss not claimed	36,485	-	31,322	-
Deferred tax asset from investment incentives	21,856	-	16,338	-
Total	**60,373**	**(132,534)**	**55,375**	**(127,536)**
Net	-	(72,161)	-	(72,161)

In 2008, the Company launched the 4th production line which was financed partially through investment incentives. The amount of potential investment incentive related to capital expenditures already incurred was approximately CZK 170 million as at 31 December 2012 and 2011 and this balance can be drawn as a tax credit until 2019. The Company plans to meet all relevant criteria for drawing these funds and use the investment incentive in the future and, in addition, the Company believes it will generate sufficient taxable profits in the future in order to claim the investment incentive. The Company did not record a deferred tax asset from the investment incentive in full amount as its recovery is uncertain. However, the Company recorded a deferred tax asset of CZK 21,856 thousand and CZK 16,338 thousand, respectively, as at 31 December 2012 and 2011 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 2012 and 2011, assets which are being used by the Company under operating lease arrangements consist of the following (in CZK thousands):

Description	Expense in 2012	Expense in 2011
Copy machines	1,410	1,565
Fork-lift trucks	5,417	5,425
Total	**6,827**	**6,990**

Annual rent expense includes also operational maintenance services.

17. COMMITMENTS AND CONTINGENCIES

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

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

18. REVENUES

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

	2012			2011		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Radiator production	517,771	784,174	1,301,945	620,733	846,151	1,466,884
Other	114,285	173,385	287,670	30,666	56,971	87,637
Total revenues	632,056	957,559	1,589,615	651,399	903,122	1,554,521

In 2012 and 2011, the revenues of the Company were concentrated primarily with the subsidiaries and 15 principal wholesale customers in the Czech Republic and abroad.

19. PERSONNEL AND RELATED EXPENSES

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

	2012		2011	
	Total personnel	Of which directors and managers	Total personnel	Of which directors and managers
Average number of employees	437	23	439	20
Wages and salaries	182,856	*56,851	211,590	*82,212
Social security	52,220	9,024	51,562	7,745
Social cost	2,968	-	2,921	-
Total personnel expenses	**238,044**	**65,875**	**266,073**	**89,957**

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

The members and former members of statutory and supervisory bodies received total remuneration of CZK 1,736 thousand and CZK 924 thousand in 2012 and 2011, respectively.

20. RELATED PARTY INFORMATION

No loans, guarantees, advances or other benefits were granted to members of statutory bodies in 2012 and 2011.

As at 31 December 2012 and 2011, the members of statutory and supervisory bodies and former executive officers held 660 shares of the Company, respectively.

In 2011 and partially in 2012, individuals who are the shareholders were involved in the management of the Company as employees in the ordinary course of business and their salaries and bonuses were included in personnel expenses.

The Company sells products to related parties in the ordinary course of business. Sales were CZK 156,352 thousand and CZK 177,741 thousand in 2012 and 2011, respectively.

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

Related party	2012	2011
KORADO Deutschland	7,905	18,834
KORADO Croatia	-	4,760
KORADO Polska	18,692	18,036
KORADO Bulgaria	2,170	874
Total	**28,767**	**42,504**

The Company purchases products and receives services from related parties in the ordinary course of business. Purchases were CZK 227,443 thousand and CZK 188,821 thousand in 2012 and 2011, respectively.

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

Related party	2012	2011
KORADO Bulgaria	33,405	28,131
KORADO Deutschland	178	-
Total	**33,583**	**28,131**

21. OTHER ITEMS OF INCOME STATEMENT

Other operating expenses include in particular insurance expenses and receivables write-offs. Other operating revenues include in particular revenues from scrap sales and in 2011 also compensation received for machinery insurance.

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

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

22. SUBSEQUENT EVENTS

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

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

23. STATEMENT OF CASH FLOWS (SEE APPENDIX)

The cash flow statement was prepared under the indirect method.

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

Prepared on:	Signature of accounting unit's statutory body:	Person responsible for accounting:	Person responsible for financial statements:
15 March 2013	**František Menclík** Chairman of the Board of Directors	**Bc. Pavlína Kovářová** Chief accountant	**Ing. Vojtěch Čamek** Chief Executive Officer

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS AT 31 DECEMBER 2012

AUDITOR'S REPORT INCLUDING THE AUDITOR'S OPINION

ERNST & YOUNG

To the Shareholders of KORADO, a.s.:

We have audited the accompanying consolidated financial statements of KORADO Group which comprise the consolidated balance sheet as at 31 December 2012, 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 2012, 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

Magdalena Soucek
Auditor, License No. 1291

15 March 2013
Prague, Czech Republic

KORADO GROUP
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 20122

(In CZK thousands)	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment, net	3	1,678,555	1,782,987
Intangible assets, net	4	25,326	27,338
Other non-current assets		496	728
Deferred tax asset	19	327	1,182
Total non-current assets		**1,704,704**	**1,812,235**
Current assets			
Inventories, net	6	140,317	158,149
Accounts receivable, net	7	132,909	111,709
Prepayments and other current assets	8	18,302	19,046
Income tax receivable		84	82
Cash and cash equivalents	9	10,995	15,972
Total current assets		**302,607**	**304,958**
Total assets		**2,007,311**	**2,117,193**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	10	840,700	840,700
Retained earnings, funds and translation reserve	10	433,914	407,260
Total shareholders' equity attributable to equity holders of the parent		**1,274,614**	**1,247,960**
Non-controlling interest		1,519	1,427
Total shareholders' equity		**1,276,133**	**1,249,387**
Non-current liabilities			
Long-term debt, net of current portion	11	170,523	278,958
Deferred tax liabilities	19	71,420	71,339
Total non-current liabilities		**241,943**	**350,297**
Current liabilities			
Short-term borrowings and current portion of long-term debt	11	176,574	169,170
Payables and other current liabilities	12	306,581	343,123
Provisions for liabilities and charges	13	6,080	5,216
Total current liabilities		489,235	517,509
Total equity and liabilities		**2,007,311**	**2,117,193**

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 2012

(In CZK thousands)	Note	2012	2011
Revenues from sales, net	14	1,653,283	1,579,217
Cost of materials, energy and purchased goods	15	(1,022,927)	(1,004,979)
Depreciation and amortization		(124,436)	(138,673)
Wages and salaries		(271,956)	(288,915)
Purchased services	16	(183,198)	(175,869)
Other expenses, net	17	(5,607)	(9,338)
Interest expense, net of capitalized interest		(15,013)	(16,134)
Interest income		27	33
Exchange rate gains / (losses), net		7,199	(13,250)
Other financial expenses, net	18	(3,147)	(2,985)
Profit / (loss) before income taxes		**34,225**	**(70,893)**
Income taxes	**19**	**(1,728)**	**(1,476)**
Profit / (loss) after income taxes		**32,497**	**(72,369)**
Other comprehensive income:			
Currency translation differences		(5,751)	7,513
Total comprehensive income		26,746	(64,856)
Profit / (loss) after income taxes attributable to:			
Equity holders of the parent		32,405	(72,580)
Non-controlling interest		92	211
		32,497	(72,369)
Total comprehensive income attributable to:			
Equity holders of the parent		26,654	(65,067)
Non-controlling interest		92	211
		26,746	**(64,856)**

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 2012

(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 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**
Profit / (loss) after income taxes	-	-	32,405	32,405	92	32,497
Other comprehensive income	-	(5,751)	-	(5,751)	-	(5,751)
Total comprehensive income	-	(5,751)	32,405	26,654	92	26,746
Balance as at 31 December 2012	**840,700**	**(38,898)**	**472,812**	**1,274,614**	**1,519**	**1,276,133**

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

KORADO GROUP CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

(In CZK thousands)	Note	2012	2011
OPERATING ACTIVITIES			
Profit / (loss) before income taxes		**34,225**	**(70,893)**
Adjustments for:			
Depreciation and amortization		124,436	138,673
Receivables and loans write-off	17	19,009	54
Finance costs, net		14,986	16,101
Change in impairment provisions and provisions, net	17	(17,169)	4,060
Foreign exchange (gains) / losses, net		(7,199)	13,250
Gain on sale of property, plant and equipment	17	(386)	(637)
Changes in assets and liabilities:			
Inventories		17,667	2,923
Receivables and other current assets		(19,381)	(12,725)
Payables and other current liabilities		(38,831)	33,256
Income taxes paid		(794)	(1,392)
Net cash from operating activities		**126,563**	**122,670**
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(17,440)	(21,574)
Proceeds from sale of property, plant and equipment		942	1,030
Interest received		27	33
Change in long-term financial investments and other non-current assets		232	464
Net cash from investing activities		**(16,239)**	**(20,047)**
FINANCING ACTIVITIES			
Debt drawings		8,468	68,278
Repayments of debt		(110,000)	(163,376)
Change in lease obligation		501	(67)
Interest paid, net of capitalized interest		(15,029)	(16,138)
Net cash from financing activities		**(116,060)**	**(111,303)**
Net decrease in cash		**(5,736)**	**(8,680)**
Cash and cash equivalents at beginning of year	**9**	**15,972**	**24,517**
Effect of exchange rate changes on cash and cash equivalents		759	135
Cash and cash equivalents at end of year	**9**	**10,995**	**15,972**

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2012 (In thousand CZK)

1. Parent Company and Group Description

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

As at 31 December 2012 and 2011 the shareholders of the Parent Company were as follows:

Menclík František	9.16 %
Petr Ludvík	9.16 %
Vobora Miroslav	9.16 %
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:

	2012 % of voting rights	2011 % of voting rights	Country of incorporation	Activity
KORADO Deutschland GmbH	100	100	Germany	Distribution of radiators
KORADO Croatia d.o.o. ***	-	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). KORADO Croatia d.o.o. was dissolved in 2012 after insolvency proceedings have been completed.*

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 10.4% and assuming an average 7% annual growth in both sales and in cost of material over the first three years and 18% over the last two years of the 5-year period. An average annual growth in post-tax cash-flows is estimated at 2% over the first three years and 24% over the last two years of the 5-year period before planned changes in working capital. The model also assumes zero growth in perpetuity. If the discount rate increased above 11.3% or the post-tax cash-flows decreased by approximately CZK 18 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 71,093 thousand as at 31 December 2012.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2012 (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 2012 compared to the balance as at 31 December 2011. 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 12,446 thousand as at 31 December 2012.

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.

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 2012 and 2011, respectively, after adjustments for certain items which are not deductible for taxation purposes. The Czech corporate income tax rate for 2013 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 2012:

- IAS 12 Income Taxes – Deferred Taxes (Amendment) effective 1 January 2012
- IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment) effective 1 July 2011
- IFRS 7 Financial Instruments: Disclosures (Amendment) effective 1 July 2011

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

IAS 12 Income Taxes – Deferred Taxes: Recovery of Underlying Assets (Amendment)

The amendment becomes effective for annual periods beginning on or after 1 January 2012. 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 assets. The Group does not currently have any investment property as well as is not using revaluation model therefore this does not affect its financial position or performance.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements (Amendment)

The amendment requires additional disclosures about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment does not currently have an impact on the Group's financial position, performance or its disclosures.

All other standards and interpretations whose application was mandatory for the period beginning on or after 1 January 2012 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 2013 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 amendment becomes effective for annual periods beginning on or after 1 July 2012. The amendment to IAS 1 changes the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment does not change the nature of the items that are currently recognized in OCI, nor do they impact the determination of whether items in OCI are reclassified through profit and loss in future periods. The amendment affects presentation only and there is no impact on the Group's financial position or performance.

IAS 19 Employee benefits (revised)

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

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

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

IFRS 1 First-time Adoption of International Financial Reporting Standards - Government Loans (Amendments)

These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group.

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

The amendment is effective for annual periods beginning on or after 1 January 2013. This amendment requires an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set-off in accordance with IAS 32. The Group is currently assessing the impact of this amended IFRS, but does not expect significant impact on its financial statements and disclosures.

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. In October 2010 the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities and derecognition of financial assets and liabilities. Most of the requirements in IAS 39 for classification and measurement of financial liabilities and derecognition of financial assets and liabilities were carried forward unchanged to IFRS 9. The standard eliminates categories of financial instruments currently existing in IAS 39: available-for-sale and held-to-maturity. According to IFRS 9 all financial assets and liabilities are initially recognized at fair value plus transaction costs.

Financial assets

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

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

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

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

Financial liabilities

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

The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. The standard has not yet been endorsed by EU.

In subsequent phases, the IASB will address general hedge accounting and the impairment of financial assets.

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 judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Control exists when an investor has:

- Power over the investee (defined in IFRS 10 as when the investor has existing rights that give it the current ability to direct the relevant activities)
- Exposure, or rights, to variable returns from its involvement with the investee

and

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

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

IFRS 11 Joint Arrangements

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

Joint control under IFRS 11 is defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. 'Control' in 'joint control' refers to the definition of 'control' in IFRS 10. IFRS 11 also changes the accounting for joint arrangements by moving from three categories under IAS 31 to the following two categories:

- Joint operation - An arrangement in which the parties with joint control have rights to the assets and obligations for the liabilities relating to that arrangement. In respect of its interest in a joint operation, a joint operator must recognize all of its assets, liabilities, revenues and expenses, including its relative share of jointly controlled assets, liabilities, revenue and expenses.
- Joint venture - An arrangement in which the parties with joint control have rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method. The option in IAS 31 to account for joint ventures (as defined in IFRS 11) using proportionate consolidation has been removed.

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

This standard becomes effective for annual periods beginning on or after 1 January 2013. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after 1 January 2014. The Revised standard has currently no impact on the Group but may affect the treatment of future acquisitions.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Some of the more extensive qualitative and quantitative disclosures of IFRS 12 include: provision of summarized financial information for each subsidiary with a material non-controlling interest; description of significant judgments used by management in determining control, joint control and significant influence, and the type of joint arrangement (i.e. joint operation or joint venture); provision of summarized financial information for each individually material joint venture and associate; and description of the nature of the risks associated with an entity's interests in unconsolidated structured entities. This standard becomes effective for annual periods beginning on or after 1 January 2013 and may affect the disclosures in the notes to financial statements. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after 1 January 2014.

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

In October 2012 IASB issued the amendments that are effective for annual periods beginning on or after 1 January 2014. These amendments will apply to investments in subsidiaries, joint ventures and associates held by a reporting entity that meets the definition of an investment entity. An investment entity will account for its investments in subsidiaries, associates and joint ventures at fair value through profit or loss in accordance with IFRS 9 (or IAS 39, as appropriate), except for investments in subsidiaries, associates and joint ventures that provide services that relate only to the investment entity, which would be consolidated or accounted for using the equity method, respectively. An investment entity will measure its investment in another controlled investment entity at fair value. Non-investment entity parents of investment entities will not be permitted to retain the fair value accounting that the investment entity subsidiary applies to its controlled investees. For non-investment entities, the existing option in IAS 28, to measure investments in associates and joint ventures at fair value through profit or loss, will be retained. The Group is currently assessing the impact that this standard could have on the financial position and performance.

IFRS 13 Fair Value Measurement

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

Fair value under IFRS 13 is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (i.e. an 'exit price'). 'Fair value' as used in IFRS 2 Share-based Payments and IAS 17 Leases is excluded from the scope of IFRS 13.

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

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

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

The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Group.

Improvements to IFRSs

In May 2012, the IASB issued amendments to the following standards, primarily with a view to removing inconsistencies and clarifying wording. The amendments become effective for annual periods on or after 1 January 2013 and will have no impact on the financial position or performance of the Group.

IFRS 1 First-time Adoption of International Financial Reporting Standards
This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements
This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment
This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation
This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 Interim Financial Reporting
The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2012 (In thousand CZK)

3. Property, Plant and Equipment, Net

The movements in 2012 were as follows:

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

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**

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2012 (In thousand CZK)

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

Assets	Lien creditor	Carrying amount 31 December 2012	Carrying amount 31 December 2011
Buildings and halls	UniCredit Bank Czech Republic, a.s.	744,090	765,380
Land	UniCredit Bank Czech Republic, a.s.	11,638	11,638
Machinery and equipment	UniCredit Bank Czech Republic, a.s.	397,764	443,732
Receivables	UniCredit Bank Czech Republic, a.s.	86,057	74,673
Bank accounts	UniCredit Bank Czech Republic, a.s.	1,603	1,224
Total		**1,241,152**	**1,296,647**

Assets with a cost of CZK 57,292 thousand and CZK 57,350 thousand were not used by the Company for operational purposes as at 31 December 2012 and 2011 (primarily paintings and buildings). The net book value of these assets was CZK 39,162 thousand and CZK 40,220 thousand as at 31 December 2012 and 2011, respectively. The management of the Company believes that the recoverable value is no less than the recorded net book value.

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

	2012		2011	
	Leased equipment at cost	Net book value of leased equipment	Leased equipment at cost	Net book value of leased equipment
Machinery and vehicles	1,769	848	921	205

Assets which are being used under an operating lease as at 31 December 2012 and 2011 include:

Description	Expense* in 2012	Expense* in 2011
Copy machines	1,410	1,565
Fork lifts	5,417	5,425
Total	**6,827**	**6,990**

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

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

	2012	2011
Within one year	5,875	6,848
After one year but not more than five years	3,846	10,310
Total	**9,721**	**17,158**

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2012 (In thousand CZK)

4. Intangible Assets, Net

The movements in 2012 were as follows:

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

The movements in 2011 were as follows:

	Software	Intangibles in progress	Goodwill	Total
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**

5. Investment in an Associate

In 2012 the investment of the Group in KORADO Croatia d.o.o. was written off since KORADO Croatia d.o.o. was dissolved as part of the insolvency process. As at 31 December 2011, the Group accounted 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 were classified to investment in an associate on the balance sheet. The carrying value of the investment in associate amounted to zero as at 31 December 2011.

KORADO Croatia d.o.o. incurred losses equivalent to CZK 0 thousand and CZK 2,102 thousand in 2012 and 2011 respectively and therefore no share of financial result of an associate was recognized in the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2012 (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)

6. Inventory, Net

The following items are included in inventories:

	31 December 2012	31 December 2011
Raw materials	93,627	120,231
Work-in-progress	8,188	10,252
Finished goods	38,502	27,666
Total	**140,317**	**158,149**

Excess, obsolete and slow-moving inventory at gross amount of CZK 1,665 thousand and CZK 2,024 thousand has been reduced to net realizable value through the impairment provision account of CZK 1,171 thousand and CZK 1,556 thousand as at 31 December 2012 and 2011, 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 2012	31 December 2011
Trade receivables	150,735	140,337
Advances received	4,122	4,191
Other	568	7,138
Impairment provision	(22,516)	(39,957)
Total	**132,909**	**111,709**

At 31 December 2012 and 2011 the ageing analysis of accounts receivable, net is as follows:

	31 December 2012	31 December 2011
Within due date	121,135	109,051
Past due but not impaired[1)]:		
Less than 3 months	11,265	2,615
3 – 6 months	-	1
6 – 12 months	509	-
More than 12 months	-	42
Total	**132,909**	**111,709**

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

Receivables past due more than 12 months of CZK 4,760 thousand as at 31 December 2011 related to the associated company KORADO Croatia d.o.o. An impairment provision of CZK 4,760 thousand was created for the receivables as at 31 December 2011 and the receivables were written off in 2012 (refer to Note 5).

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2012 (In thousand CZK)

Movements in impairment provision for receivables:

	2012	2011
As at 1 January	39,957	29,469
Additions	147	12,481
Reversals	(17,588)	(1,993)
As at 31 December	**22,516**	**39,957**

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 2012, reversals of impairment provision to receivables related mainly to receivables written-off which were fully provided for in prior year.

8. Prepayments and Other Current Assets

	31 December 2012	31 December 2011
VAT receivable	11,034	11,139
Prepayments and other	7,268	7,907
Total	**18,302**	**19,046**

9. Cash and Cash Equivalents

	31 December 2012	31 December 2011
Cash with banks	8,129	15,575
Cash equivalents	2,527	-
Cash on hand	339	397
Total	**10,995**	**15,972**

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

10. Shareholders' Equity

Share Capital

The share capital of the Parent Company as at 31 December 2012 and 2011 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 2012 and 2011, the balance was CZK 45,727 thousand and CZK 45,727 thousand, respectively, and is reported as a component of Retained earnings, funds and translation reserve.

Distributable Retained Earnings

Distributable retained earnings of the Parent Company amounted to CZK 344,818 thousand and CZK 324,135 thousand as at 31 December 2012 and 2011, 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 55% in 2012 and 50% in 2011 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 2.0 in 2012 and 2.5 in 2011 which is also consistent with the requirements of banks. The calculation and evaluation of the ratios is done using consolidated numbers:

	31 December 2012	31 December 2011
Equity	1,276,133	1,249,387
Total assets	2,007,311	2,117,193
Less goodwill	(12,446)	(12,772)
Equity less goodwill	1,263,687	1,236,615
Total assets less goodwill	1,994,865	2,104,421
Equity ratio	**63.3%**	**58.8%**
Bank loans	344,795	446,605
Less cash and cash equivalents	(10,995)	(15,972)
Net debt	333,800	430,633
Operating profit / (loss)	45,159	(38,557)
Depreciation and amortization	124,436	138,673
EBITDA	169,595	100,116
Net debt / EBITDA ratio	**1.97**	**4.30**

In 2012 the Parent Company met both ratios. In 2011 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 2012	31 December 2011
Bank loans	168,443	277,435
Other	2,080	1,523
Total	**170,523**	**278,958**

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

	31 December 2012	31 December 2011
Current portion of long term debt and short-term borrowings	176,352	169,170
Current portion of lease obligations	222	-
Total	**176,574**	**169,170**

Bank loans consist of the following:

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

* *The Parent Company has an option to prolong its overdraft financing by 25 November 2014.*

Bank	Terms	Interest rate (%)	Maturity	Total limit (thousands)	2011 Amount in foreign currency (in thousands)	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.*

The interest expense (net of capitalized interest) related to bank loans for the years ended 31 December 2012 and 2011 amounted to CZK 14,905 thousand and CZK 16,060 thousand.

Bank loans provided to the Group are secured by pledged assets at carrying values of CZK 1,241,152 thousand and CZK 1,296,647 thousand as at 31 December 2012 and 2011, respectively (see Note 3). Bank loans of the Parent Company are also secured by the cession of receivables from property insurance benefits exceeding CZK 5,000 thousand per insurance claim.

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

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.

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

	31 December 2012	31 December 2011
2012	-	169,170
2013	176,352	108,992
2014	108,992	108,992
2015	59,451	59,451
	344,795	**446,605**

Future minimum lease payments for finance leases are as follows:

	31 December 2012	31 December 2011
Within one year	244	-
After one year but not more than five years	296	-
Total minimum lease obligations	**540**	**-**
Interest	(39)	-
Present value of minimum lease obligations	**501**	**-**
Representing finance lease liabilities:		
- current	222	-
- non-current	279	-

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2012 (In thousand CZK)

12. Payables and Other Current Liabilities

Current liabilities comprise the following:

	31 December 2012	31 December 2011
Trade payables	236,952	262,966
Payables to employees	28,007	23,992
Accruals and other current liabilities	41,622	56,165
Total	**306,581**	**343,123**

13. Provisions for Liabilities and Charges

Summary of provisions:

	Warranty provisions	Litigation	Other	Total
As at 31 December 2010	**6,585**	**3,569**	**935**	**11,089**
Creation of provisions	4,498	-	25	4,523
Provisions used	(6,585)	(3,569)	(242)	(10,396)
As at 31 December 2011	**4,498**	**-**	**718**	**5,216**
Creation of provisions	5,240	-	148	5,388
Provisions used	(4,498)	-	(26)	(4,524)
As at 31 December 2012	**5,240**	**-**	**840**	**6,080**

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

In 2011 the provision relating to a legal dispute was released and a corresponding impairment provision of CZK 7,138 thousand was created against related receivable (see Note 7).

14. Revenues from Sales, Net

Activity	2012	%	2011	%
Sales of radiators	1,619,326	97.9%	1,552,309	98.3%
Other	33,957	2.1%	26,908	1.7%
Total	**1,653,283**	**100.0%**	**1,579,217**	**100.0%**

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

Sales by region are as follows:

Country	2012	%	2011	%
Czech Republic	636,604	38.5%	653,070	41.4%
Ukraine	200,498	12.1%	175,688	11.1%
Slovakia	129,923	7.9%	145,641	9.2%
Austria	95,967	5.8%	98,373	6.2%
Germany	84,327	5.1%	97,586	6.2%
Russia	101,492	6.1%	75,477	4.8%
Slovenia	46,206	2.8%	55,807	3.5%
Poland	53,381	3.2%	52,997	3.4%
Netherlands	27,088	1.6%	32,149	2.0%
Romania	83,167	5.0%	32,067	2.0%
Sweden	22,963	1.4%	22,030	1.4%
United Kingdom	13,234	0.8%	19,780	1.3%
Bulgaria	18,418	1.1%	14,039	0.9%
Other countries	140,015	8.6%	104,513	6.6%
Total	**1,653,283**	**100.0%**	**1,579,217**	**100.0%**

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2012 (In thousand CZK)

15. Cost of Materials, Energy and Purchased Goods

	2012	2011
Materials and supplies	936,582	916,424
Energy	63,347	65,852
Purchased goods	22,998	22,703
Total	**1,022,927**	**1,004,979**

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

16. Purchased Services

	2012	2011
Repairs and maintenance	8,039	11,559
Rent	8,985	9,041
Travelling and training expenses	8,403	8,971
Marketing expenses and sales promotion	57,119	55,848
Transportation expenses	36,707	25,102
Legal and advisory services	17,463	18,764
Operational services	30,793	30,879
Other	15,689	15,705
Total	**183,198**	**175,869**

17. Other Expenses, Net

	2012	2011
Receivables and loans written off	19,009	54
Change in impairment provisions and provisions, net	(17,169)	4,060
Taxes and levies	1,596	1,353
Gain on sale of fixed assets	(386)	(637)
Other, net	2,557	4,508
Total	**5,607**	**9,338**

18. Other Financial Expenses, Net

	2012	2011
Bank charges	2,522	2,572
Factoring fees	-	50
Other	625	363
Total	**3,147**	**2,985**

19. Taxes

The components of the income tax expense are as follows:

	2012	2011
Current tax	792	1,397
Deferred tax	936	79
Total income tax expense	**1,728**	**1,476**

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2012 (In thousand CZK)

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 2012 and 2011, 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 2012 and 2011 is as follows:

	2012	2011
Profit / (loss) before tax	34,225	(70,893)
Statutory income tax rate	19%	19%
"Expected" income tax expense / (income)	6,503	(13,470)
Add / (deduct) tax effect of:		
Permanent differences	1,440	1,669
Expiration of accumulated tax losses carried forward	-	1,502
Change in valuation allowance	(194)	(350)
Change in deferred tax asset from tax credit	(5,518)	13,421
Consolidation adjustments	(330)	(276)
Other	(173)	(1,020)
Actual income tax expense	1,728	1,476
Effective tax rate	5%	(2)%

Deferred income taxes at 31 December 2012 and 2011 consist of the following:

	2012	2011
Receivables impairment provision	135	1,059
Inventory impairment provision	221	263
Provisions	1,702	1,683
Accumulated losses carried forward	46,610	41,641
Elimination of intra-group profit from inventories	145	18
Tax credit from investment incentive	21,856	16,338
Other	908	6,736
Total deferred tax assets	**71,577**	**67,738**
Less valuation allowance to deferred tax asset	(10,125)	(10,319)
Offset with deferred tax liabilities	(61,125)	(56,237)
Deferred tax assets in the balance sheet	**327**	**1,182**
Difference between net book value of non-current assets	-132 535	-127 537
for accounting and tax purposes	(132,535)	(127,537)
Finance lease	**(10)**	**(39)**
Total deferred tax liabilities	(132,545)	(127,576)
Offset with deferred tax assets	**61,125**	**56,237**
Deferred tax liabilities in the balance sheet	**(71,420)**	**(71,339)**

Out of the total tax losses of subsidiaries generated since 1999, CZK 41,071 thousand and CZK 41,769 thousand can be carried forward as of 31 December 2012 and 2011, respectively. In 2012 and 2011, 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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2012 (In thousand CZK)

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 2012 and 31 December 2011 and this balance can be drawn as a tax credit until 2019. The Company plans to meet all relevant criteria for drawing these funds and use the investment incentive in the future. The Company recognized a deferred tax asset from the investment incentive of CZK 21,856 thousand and CZK 16,338 thousand as at 31 December 2012 and 2011, 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 2012 and 2011, members of the Board of Directors and Supervisory Board and directors owned 660 and 660 shares of the Parent Company, respectively.

In 2012 and 2011 short-term employee benefits (salaries and bonuses including social and health insurance) related to management personnel of Group companies (25 and 22 people in total, respectively) amounted to CZK 67,083 thousand and CZK 61,595 thousand, respectively and in 2011 termination benefits in connection with organizational changes planned for 2012 amounted to CZK 30,000 thousand and were included in line Wages and salaries in the consolidated statement of comprehensive income and in Payables and other current liabilities in the consolidated balance sheet as at 31 December 2011, out of which CZK 15,833 thousand remains unpaid as at 31 December 2012.

In 2012 and 2011 members of Board of Directors and Supervisory Board of the Parent Company received remuneration of CZK 1,736 thousand and CZK 924 thousand, respectively.

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

In 2012 and 2011 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 3.04% and 2.43% as at 31 December 2012 and 3.64% and 3.03% as at 31 December 2011 (including the effect of an increased margin described in Note 11), respectively.

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

	2012	
	Zvýšení / pokles bazických bodů	Dopad na výsledek hospodaření před zdaněním
CZK	50	(1,400)
EUR	50	(337)
CZK	(50)	1,400
EUR	(50)	337

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2012 (In thousand CZK)

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 2012 and 2011, the Group did not have any exchange rate hedges in place to mitigate the overall foreign currency exposure.

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

	2012		2011	
	Increase/decrease in exchange rate *	**Effect on profit / loss before tax**	**Increase/decrease in exchange rate ***	**Effect on profit / loss before tax**
EUR	+5%	(4,454)	+5%	(6,835)
GBP	+5%	93	+5%	205
PLN	+5%	935	+5%	959
USD	+5%	247	+5%	1
EUR	(5%)	´4,454	(5%)	6,835
GBP	(5%)	(93)	(5%)	(205)
PLN	(5%)	(935)	(5%)	(959)
USD	(5%)	(247)	(5%)	(1)

* *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 2012 and 2011 based on contractual undiscounted payments (nominal amount and interest) provided that the Group meets the loan agreement covenants (see Note 11):

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2012 (In thousand CZK)

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	343,123	-	-	343,123
Total	**374,217**	**151,727**	**287,175**	**813,119**

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.

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 2012 were as follows:

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

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	343,123	343,123
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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2012 (In thousand CZK)

22. Statutory Auditor's Fees

The statutory audit fees related to the audit of consolidated financial statements and separate statutory financial statements totalled CZK 2,300 thousand and CZK 2,300 thousand for the year ended 31 December 2012 and 2011, respectively.

23. Subsequent Events

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

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

	Authorized for issue by:	Person responsible for accounting:
	František Menclík	-
15 March 2013	Vojtěch Čamek	Zuzana Mrázková

SWORN AFFIDAVIT

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

František Menclík
Board of Directors Chairman

Eva Voborová
Controlling Department

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