

TEDOM

ANNUAL 09

report



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Foreword of the General Director

Dear Business Partners,

We are pleased to submit to your attention, already on a traditional basis, the Annual Report of TEDOM s.r.o. The year 2009 is the last year when the Annual Report is formed by a summary of the results of economic management of TEDOM s.r.o.

In 2010, all key companies of the TEDOM Group will merge together, and the newly arising company "TEDOM Holding a.s." will become the successor company. This means that TEDOM Holding a.s. will concentrate all business activities of the current group of TEDOM companies together. The reasons for making such extensive changes originate from the historical development of the TEDOM Group.

TEDOM s.r.o. was founded in 1991. Since the very beginning, its main business activity has been formed by CHP units production equipped with gas combustion reciprocating engines running on natural gas. In 1994 we started to operate the district heating systems. In 2003, by purchasing the former production facilities for LIAZ engine production we started to manufacture gas combustion reciprocating engines manufacturing, and subsequently in 2004 we launched bus production.

At the beginning of 2010, Mr. Vlastimil Vildman and Mr. Jiří Kalista, the Partners in the company, sold their business shares. This fact enabled to make huge changes. New shareholders decided about the merge of all company activities into the successor company "TEDOM Holding a.s.". Within the company framework, all individual activities will be concentrated into separate divisions and will be controlled effectively by one head.

The main company goal is a more cost-efficient, less expensive and more transparent business. For our business partners this will mean that their partner will be an economically stronger company which is capable of investing in a long-term and strategic manner. Restructuring process, initiated already in 2007, will be by this step fully completed. Almost twenty-year period of the TEDOM company activities, when historically founded a group of separated companies was controlled by each company partners, is nearly over. In other words: after 20 years, the four companies existing within the framework of the TEDOM Group will be transformed into one strong TEDOM.

The impact of the general economic recession in 2009 was reflected in the results of the TEDOM Group as well. The financial crisis brought the following negative aspects for TEDOM:

- Loss of new orders on the Russian market of cogeneration units in a range of about CZK 500 million,
- Decrease in the demand for buses,
- Decrease of engines sales.

On the other hand, the crisis has brought certain positive aspects too:

- It has become an opportunity for implementation of positive changes leading to cost reduction and business effectiveness increase, in particular in the field of production of engines and buses.
- Inspired by our success we perform restructuring steps in other fields of our activities, in particular in the field of production of cogeneration units.
- That is why the crisis was rather an opportunity than a threat for TEDOM.

Foreword of the General Director

Positives clearly prevailed over negatives, because the group of the TEDOM companies as a whole achieved, in spite of the crisis, a growth in annual profit by 5 % while its sales value dropped by 23 % .

I believe that the restructuring of the TEDOM group completed with the fusion will enable us, in 2010, to fulfil a very ambitious financial plan which presupposes a significant increase in profit, based on a more effective production which will lay the basis for further market development and growth of TEDOM Holding a.s.

For the results achieved we would like to express our thanks especially to our customers who are creators of our long-term success, but also to our colleagues – employees and to our business partners.



Josef Jeleček
General Director

Auditor's Report on the Annual Report of TEDOM s.r.o.

The independent Auditor's report to the partners of TEDOM s.r.o.

On the basis of our audit, on 30. 6. 2009 we issued an auditor's report on the financial statements, which are included in this annual report, and our report was as follows:

"We have audited the accompanying financial statements of TEDOM s.r.o. Company, which comprise the balance sheet as of 31. 12. 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of TEDOM s.r.o. Company as of 31. 12. 2009, and of its financial performance and its cash flows for the year then ended in accordance with Czech accounting regulations."

We have reviewed the correctness of information incorporated in the report on relations between related parties of the Company TEDOM s.r.o. as at 31. 12. 2009. The management of the Company TEDOM s.r.o. is responsible for the preparation of this report. Our responsibility is to express a statement on this report on relations between related parties.

Auditor's Report on the Annual Report of TEDOM s.r.o.

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

Based on our review, nothing has come to our attention that causes us to believe that the accompanying report on relations between related parties of the Company TEDOM s.r.o. as at 31. 12. 2009 contains materially incorrect information.

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

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

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

Brno, 2 August 2010

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



Ing Jiří Kadlec
Certificate No. 1246



Basic Economic Characteristics of TEDOM s.r.o.

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

Indicator	Units	2003	2004	2005	2006	2007	2008	2009
Total assets	thou. CZK	532 995	731 551	749 358	1 330 713	1 422 841	1 479 515	3 116 455
Fixed assets	thou. CZK	297 239	338 096	344 737	602 397	498 525	510 007	2 148 021
Inventories	thou. CZK	121 842	186 360	160 848	512 417	620 152	677 057	639 493
Receivables	thou. CZK	95 839	183 162	162 416	137 603	215 610	255 252	307 186
Current financial assets	thou. CZK	16 570	13 746	60 131	37 512	67 403	24 686	17 893
Other assets	thou. CZK	1 505	10 187	21 226	40 784	21 151	12 513	3 862
Equity	thou. CZK	262 360	361 600	430 392	523 935	570 930	657 243	2 028 109
Subscribed capital	thou. CZK	10 000	10 000	10 000	10 000	10 000	10 000	10 000
Liabilities	thou. CZK	267 734	368 564	312 743	802 165	832 483	816 911	1 072 059
Other liabilities	thou. CZK	2 901	1 387	6 223	4 613	19 428	5 361	16 287
Total sales	thou. CZK	578 898	628 577	696 144	692 846	1 406 497	1 844 549	1 381 186
Profit/loss before tax	thou. CZK	77 183	90 558	93 976	82 300	133 696	79 454	114 904
Number of staff	persons	237	346	343	395	470	485	460

Auditor's Report on the Partners of TEDOM s.r.o.

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

We have audited the accompanying financial statements of TEDOM s.r.o. Company, which comprise the balance sheet as of 31. 12. 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of TEDOM s.r.o. Company as of 31. 12. 2009, and of its financial performance and its cash flows for the year then ended in accordance with Czech accounting regulations.

Brno, 30 June 2010

BDO Prima CA s.r.o., Certificate No. 305
Represented by partner:



Ing. Jiří Kadlec
Certificate No. 1246



Financial Statement 2009 – Basic Data

Balance Sheet (in CZK-unit: 1000 CZK)

	2009	2008
TOTAL ASSETS	3 116 455	1 479 515
Fixed assets	2 148 021	510 007
Intangible assets	97 550	84 017
- software	3 231	2 191
- valuable rights (patents, copyrights, trademarks and brands)	94 319	80 665
- intangibles assets under construction	-	1 161
Tangible fixed assets	1 872 426	272 293
- land	8 577	8 577
- buildings and structures	137 076	138 767
- machinery, equipment, vehicles, fixtures and fittings	198 662	138 117
- tangible fixed assets under construction	5 624	14 245
- advances for tangible fixed assets	-	2 359
- valuation differences to acquired assets	1 522 487	-29 772
Financial assets	178 045	153 697
- investments in subsidiaries	143 113	121 535
- investments in associates	34 932	32 162
- other investments	-	-
Current assets	964 572	956 995
Inventories	639 493	677 057
- raw material	176 046	193 544
- work-in progress and semi-finished products	459 421	475 107
- finished products	3 730	8 184
- prepayments on inventories	296	222
Long-term receivables	16 073	2 321
- trade receivables	8 501	-
- long-term advances	7 572	2 321
- deferred tax receivable	-	-
Short-term receivables	291 113	252 931
- trade receivables	200 837	170 471
- receivables from controlling entities	26 604	4 551
- receivables from associates	32 461	35 760
- government-tax receivables	12 755	27 943
- short-term advances	17 336	11 663
- estimated accrued revenues	-48	621
- other receivables	1 167	1 922
Current financial assets	17 893	24 686
- cash	1 719	1 401
- bank accounts	16 174	23 285
Prepayments and accrued income	3 862	12 513
- prepaid expenses	3 430	3 825
- complex prepaid expenses	-	8 605
- accrued income	432	83

Financial Statement 2009 – Basic Data

Balance Sheet (in CZK-unit: 1000 CZK)

	2009	2008
TOTAL LIABILITIES AND EQUITY	3 116 455	1 479 515
Equity	2 028 109	657 243
Subscribed capital	10 000	10 000
- subscribed capital	10 000	10 000
Capital reserves	1 418 022	140 295
- other reserves	3 516	3 516
- valuation differences from revaluation of assets and liabilities	159 738	136 779
- valuation differences from revaluation on transformation	1 254 768	-
Reserves, indivisible reserve and other revenue reserves	1 000	1 000
- legal reserve/indivisible fund	1 000	1 000
Retained earnings of previous years	505 749	445 787
Profit/loss of current accounting period	93 337	60 161
Liabilities	1 072 059	816 911
Provisions	48 291	38 282
- provision according to special legal regulations	3 699	31 866
- provision for income tax	25 691	6 416
- other provisions	18 901	-
Long-term liabilities	298 160	6 759
- other payables	-	150
- deferred tax liabilities	298 160	6 609
Short-term liabilities	529 622	613 099
- trade payables	96 752	122 707
- payables to partners, cooperative member and participant in association	-	-
- payables to employees	25 716	23 263
- payables to social security and health insurance	4 210	5 002
- government-tax payables and subsidies	11 757	2 254
- short-term advances received	376 989	442 519
- estimated accrued items	13 982	15 879
- other payables	216	1 475
Bank loans and borrowings	195 986	158 771
- long-term bank loans	76 774	104 803
- short-term bank loans	98 914	53 968
- other short-term borrowings	20 298	-
Accruals and deferred income	16 287	5 361
- accrued expenses	3 135	5 160
- deferred income	13 152	201

Financial Statement 2009 – Basic Data

Profit and loss statements (in CZK-unit: 1000 CZK)

	2009	2008
Sales of goods	20 240	26 453
Costs of goods sold	14 316	16 241
Sale margin	5 924	10 212
Production	1 449 480	1 929 264
- product and service revenue	1 360 946	1 818 096
- increase/decrease in finished goods and in work in progress	-16 663	8 169
- own work capitalized	105 197	102 999
Consumption from production	1 108 700	1 588 079
- consumption of material and energy	938 689	1 343 057
- services	170 011	245 022
Value added	346 704	351 397
Staff costs	188 966	193 219
- wages and salaries	139 273	143 177
- social security and health insurance costs	44 176	45 161
- other social costs	5 517	4 881
Taxes and fees	1 163	1 168
Depreciation and amortization	45 145	42 169
Proceeds on fixed assets and material	28 010	34 548
- proceeds on sale of fixed assets	8 438	25 547
- proceeds on sale of material	19 572	9 001
Net book value of fixed assets and material sold	16 676	26 560
- net book value of fixed assets sold	5 678	21 991
- material sold	10 998	4 569
Changes in provisions and adjustments relating to operating activities and complex deferred expenses	10 642	19 139
Other operating income	14 537	14 355
Other operating expenses	11 236	12 387
PROFIT/LOSS FROM OPERATING ACTIVITIES	115 423	105 658
Securities sold	-	590
Revenues from investments in subsidiaries and associates	275	275
Interest income	2 858	2 342
Interest expenses	7 245	8 361
Other financial revenues	34 087	51 547
Other financial expenses	24 595	70 520
PROFIT/LOSS FROM FINANCIAL ACTIVITIES	5 380	-25 307
Income tax on ordinary activities	21 567	19 293
- due	24 345	7 279
- deferred	-2 778	12 014
PROFIT/LOSS FROM ORDINARY ACTIVITIES	99 236	61 058
Extraordinary revenues	-	-
Extraordinary expenses	5 899	897
PROFIT/LOSS FROM EXTRAORDINARY ACTIVITIES	-5 899	-897
PROFIT/LOSS FOR THE PERIOD	93 337	60 161
PROFIT/LOSS BEFORE TAX	114 904	79 454

Financial Statement 2009 – Basic Data

CASH FLOW statements (in CZK-unit: 1000 CZK)

	2009	2008
Cash and cash equivalents at beginning of accounting period	24 686	67 403
Cash flow from operating activities		
Profit/loss from ordinary activities before taxation	120 803	80 351
Adjustments for non-cash transactions	49 189	44 850
- depreciation of fixed assets	41 983	39 007
- change in adjustments, provisions	6 053	1 001
- profit/loss on disposal of fixed assets	-2 760	-2 966
- dividends received	-275	-275
- net interest expense (+) (except of capitalized interest) and interest income (-)	4 387	6 019
- contingent adjustments and other non-cash transactions	-199	2 064
Net cash flow from operating activities before tax, changes in working capital and extraordinary items	169 992	125 201
Change in non-financial items of working capital	-89 147	-58 231
- increase/decrease in trade and other receivables, including prepayments and accrued income (+/-)	-47 230	-19 916
- increase/decrease in trade payables, including accruals and deferred income (+/-)	-72 700	19 546
- increase/decrease in inventories	30 783	-57 861
- increase/decrease in current financial assets, not belonging to cash and cash equivalents	-	-
Net cash flow from operating activities before taxes and extraordinary items	80 845	66 970
Interest paid, excl. capitalized interests	-7 245	-8 361
Interest received (+)	2 858	2 342
Income tax on ordinary activities paid and additional assessments for past periods (including deposits and refunds)	-7 704	-22 641
Extraordinary revenues and expenses which generate extraordinary trading profit including paid income tax due from extraordinary activities (+/-)	-2 856	-897
Profit-sharing and dividends received	275	275
Net cash flow from operating activities	66 173	37 688
Cash flow from investing activities		
Costs associated acquisition of fixed assets	-118 619	-46 919
Proceeds on sales of fixed assets	8 438	25 547
Loans and borrowings to aliad subjects	-	-
Net cash flow from investing activities	-110 181	-21 372
Cash flow financing activities		
Net effect of changes in long-term liabilities and short-term liabilities, belonging to the financial activities area, to cash and cash equivalents	37 215	-59 033
Net effect of changes in equity on cash and cash equivalents, share profits or possibly legal reserve including advances paid for this increase	-	-
- dividends paid and profit shares including withholding tax paid relating to these demands and including settlement with partners in partnership and general partners in limited partnership	-	-
Net cash from financing activities	37 215	-59 033
Net increase/decrease in cash and cash equivalents	-6 793	-42 717
Cash and cash equivalents at end of period	17 893	24 686

Comentary on the Consolidated Group

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

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

TEDOM s.r.o.

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

Heat output (kW)	Heat sold in 2009 (GJ)	Installed electrical output (kW)	Electricity sold in 2009 (MWh)
12 736	74 625	8 888	27 396

TEPLO IVANČICE, s.r.o.

- operation of a district heating source – Ivančice

Heat output (kW)	Heat sold in 2009 (GJ)	Installed electrical output (kW)	Electricity sold in 2009 (MWh)
11 370	61 251	954	3 222

JESENICKÁ TEPELNÁ SPOLEČNOST s.r.o.

- operation of a district heating source – Jeseník

Heat output (kW)	Heat sold in 2009 (GJ)	Installed electrical output (kW)	Electricity sold in 2009 (MWh)
21 259	62 465	448	1 412

TEDOM ENERGO s.r.o.

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

Heat output (kW)	Heat sold in 2009 (GJ)	Installed electrical output (kW)	Electricity sold in 2009 (MWh)
65 710	250 512	5 767	13 045

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

Installed electrical output (kW)	Electricity sold in 2009 (MWh)
1 908	7 153

TENERGO Brno, a.s.

- operation of district heating sources in Slovakia – Bratislava 0 Devínská Nová Ves, Snina, Želiezovce

Heat output (kW)	Heat sold in 2009 (GJ)	Installed electrical output (kW)	Electricity sold in 2009 (MWh)
41 652	330 446	2 020	8 374

Comentary on the Consolidated Group

Within the group of companies belonging to TE DOM holding, the amount of electrical energy sold in 2009 was **67 560 MWh** and the amount of heat sold was **779 299 GJ**.

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

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

In 2009, the parent company TE DOM s.r.o. operated with a turnover of 1 549 487 thou. CZK and achieved an income of 93 337 thou. CZK.

The whole group of TE DOM holding companies achieved an unconsolidated turnover of 2 196 515 thou. CZK and achieved an unconsolidated income of 115 545 thou. CZK.

1.1 Economic indicators (in thou. CZK)

Economic indicators	Total sales			Income		
	2007	2008	2009	2007	2008	2009
TEDOM s.r.o.	1 406 497	1 844 549	1 381 186	114 908	60 161	93 337
TEDOMOVKS s.r.o.	307 379	369 791	191 971	15 617	16 214	-11 086
TEDOM ENERGO s.r.o.	170 579	206 839	293 196	25 281	20 798	19 651
TEPLO IVANČICE, s.r.o.	31 654	40 894	44 841	3 340	3 142	3 847
JESENICKÁ TEPELNÁ SPOLEČNOST s.r.o.	38 109	39 694	39 189	1 903	1 561	1 694
TENERGO Brno, a.s.	192 268	232 541	220 756	5 631	3 188	9 634
HAFFNER CZ s.r.o.	3 357	5 836	3 907	0134	66	-1 337
TEDOM AUTO Slovakia, s.r.o.	135	1 097	21 357	5	03 359	26
TEDOM Cogeneration Equipments (Beijing) Co., Ltd	-	-	112	-	-	-221
Total (unconsolidated)	2 179 657	2 741 241	2 196 515	156 134	101 771	115 545

2009 was a year of stability. The parent company and largely also the subsidiary companies were able to maintain good results, and this way to maintain the prestige and reputation of the company brand.

1.2. Research and development expenses

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

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

Total expenses on research and development expended in 2009:

- TEDOM s.r.o. 23 595 thou. CZK
- TEDOM CHP s.r.o. 12 109 thou. CZK
- Total for holding 35 704 thou. CZK

The expenses on research and development were mostly directed on development of new products and accessories, improvement of useful characteristics and parameters of the existing products, especially in the field of engines and cogeneration. One of the main objectives is formed by energy savings and reduction of pollutant emissions.

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

Within the framework of the restructuring process planned for companies in the TEDOM Group, the fusion by a merger of the following companies will take place:

- **TEDOM CHP s.r.o.**, having its registered office at Hořovice, Masarykova 1436, District of Beroun, Post Code Number 268 01, Company Reg. No.: 43762697,
- **TEDOM s.r.o.**, having its registered office at Třebíč, Výčapy 195, Post Code Number 674 01, Company Reg. No.: 43371931,
- **TEDOM ENERGO s.r.o.**, having its registered office at Třebíč, Výčapy 195, Post Code Number 674 01, Company Reg. No.: 25395416,
- **JESENICKÁ TEPELNÁ SPOLEČNOST s.r.o.**, having its registered office at Jeseník, Mašínova 1055, Post Code Number 790 01, Company Reg. No.: 25386581,
- **TEDOM Holding a.s.**, having its registered office at Praha 1, Olivova 4/2096, Post Code Number 110 00, Company Reg. No.: 28466021.

The fusion by a merger of TEDOM Holding a.s., TEDOM s.r.o., TEDOM CHP s.r.o., TEDOM ENERGO s.r.o., JESENICKÁ TEPELNÁ SPOLEČNOST s.r.o. is taking place in accordance with provisions of Section 2(a) and provisions of Section 61(1) of the Act no. 125/2008 Coll., on transformations of business companies and cooperatives, as amended (hereinafter referred to as “the Transformation Act”).

The companies TEDOM CHP s.r.o., TEDOM s.r.o., TEDOM ENERGO s.r.o. and JESENICKÁ TEPELNÁ SPOLEČNOST s.r.o. (hereinafter referred to as “the Ceasing Companies”) will cease to exist within the framework of the fusion, and all their equity, i.e. the assets and liabilities, including the rights and obligations resulting from the labour-law relations, will pass to the successor company “TEDOM Holding a.s.” (hereinafter referred to as “the Successor Company”).

After the final registration into the Commercial Register of the fusion by a merger, the equity of the Ceasing Companies will pass to the Successor Company, including the rules determined in the “Project of fusion by a merger of TEDOM Holding a.s., TEDOM s.r.o., TEDOM CHP s.r.o., TEDOM ENERGO s.r.o. and JESENICKÁ TEPELNÁ SPOLEČNOST s.r.o.” whose draft version has been drawn up and will be approved by statutory bodies of all the companies involved.

In accordance with the Transformation Act and in accordance with provisions of Section 19(1) of the Act no. 563/1991 Coll., the Accounting Act, as amended, the final Financial Statements of the Successor Company and of the Ceasing Companies were drawn up as of the day preceding the decisive day of the fusion, i.e. as of 31 December 2009.

In accordance with provisions of Section 73(1) of the Transformation Act, the equity of the Ceasing Companies was valued by the Expert Opinion drawn up by the Expert appointed by the court, namely by Ing. Pavel Hejsek, residing at Praha 2, Anny Letenské 17, Post Code Number: 120 00, who was appointed for this purpose by the Resolution of the Municipal Court in Prague, ref. no. 2Nc4547/2010-24, of 28 May 2010, which has become final on 3 June 2010. The Expert Opinion evaluates the Ceasing Companies as a whole, not any individual items of equity of the Ceasing Companies. Within the framework of this valuation, the Ceasing Companies maintained in their final Financial Statements individual equity components and liabilities in original accounting prices, and the difference between valuation of the company as a whole (valuation of the company’s equity for the purpose of a merger) and the total of the accounting prices of the assets reduced by liabilities was stated as a valuation difference to the assets acquired.

Comentary on the Consolidated Group

The equity valuation for the purpose of the fusion was reflected for individual Ceasing Companies in the final Balance Sheets through the following accounting records:

TEDOM s.r.o.

097200 - Valuation differences from valuation on transformation	418200 - Valuation differences from valuation on transformation	CZK 1 549 096 342,53
418200 - Valuation differences from valuation on transformation	481000 - Valuation differences from valuation on transformation	CZK 294 328 305,00

TEDOM CHP s.r.o.

097200 - Valuation differences from valuation on transformation	418200 - Valuation differences from valuation on transformation	CZK 2 606 391,13
418200 - Valuation differences from valuation on transformation	481000 - Deferred tax liability and receivable	CZK 495 214,00

TEDOM ENERGO s.r.o.

097200 - Valuation differences from valuation on transformation	418200 - Valuation differences from valuation on transformation	CZK 358 727 039,45
418200 - Valuation differences from valuation on transformation	481000 - Deferred tax liability and receivable	CZK 68 158 137,00

The decisive day of the fusion by a merger is **1st January 2010**, from this date any acting of the Ceasing Companies shall be considered, from the accounting point of view, as acting made on the account of the Successor Company. We suppose **the final registration** of the fusion by a merger to be made, according to the approved Time Schedule of the Process of Fusion by a Merger of the Companies within the TEDOM Group, on **1 October 2010**.

4. Expected development of companies within the consolidated group

In 2010, all key companies of the TEDOM Group will make a fusion, and the newly arising company TEDOM Holding a.s. will become the successor company. This means that TEDOM Holding a.s. will concentrate all business activities of the current group of TEDOM companies. Within the framework of this company, individual activities will be concentrated into separate divisions and will be controlled effectively from one centre. The aim is a more cost-efficient, less expensive and more transparent business. This will lead to the arising of an economically strong company which is capable of investing in a long-term and strategic manner.

5. Activities in the field of the environment

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

A strategy of our firm is formed by the use of the most suitable production technologies which cause the least possible burdens on the environment. Our aim is to increase the efficiency of conversion of the input energies and application of low-emission drives in the transport applications, use of biomass in the central supply with heat for towns and communities, and last but not least the energy-efficient use of biogas arising during the decomposition of organic waste. Our effort thus contributes to the fulfilment of the presumptions of the sustainable development. The TEDOM company is certified according to the EN ISO 14001:2004 standards (environmental management system).

Auditor's Report on the Consolidated Financial Statement

Report of independent auditors on auditing the consolidated financial statement as to 31 December 2009 in the TEDOM group of enterprises

Period, for which the audit was performed: 1 January 2009 – 31 December 2009.

Report on the Consolidated financial Statements

We have audited the accompanying consolidated financial statements of TEDOM group, which comprise the balance sheet as of 31 December 2009, and the income statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. Information about TEDOM group is presented in appendix to these financial statements.

The consolidation unit of the TEDOM group of enterprises included, as to 31 December 2009, the following trading companies:

Parent company	TEDOM s.r.o.
Subsidiaries	TEPLO IVANČICE, s.r.o.
	JESENICKÁ TEPELNÁ SPOLEČNOST s.r.o.
	TEDOM ENERGO s.r.o.
	TEDOM AUTO Slovakia, s.r.o.
Affiliated company	TENERGO Brno, a.s.
	TEDOM CHP s.r.o.
	HAFFNER CZ s.r.o..

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

REN - TEDOM Ltd., E.T.E. o.o.o., TEDOM TRUCK s.r.o., TEDOM Cogeneration Equipments (Beijing) Co., Ltd.

Statutory Body's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Auditor's Report on the Consolidated Financial Statement

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 consolidated financial statements give a true and fair view of the financial position of TEDOM group as of 31 December 2009, and of its financial performance for the year then ended in accordance with Czech accounting regulations.

Brno, 19 June 2009

BDO Prima CA s.r.o.
KA ČR Certificate No. 305
Marie Steyskalové 14
616 00 Brno



Ing. Jiří Kadlec
Certificate No. 1246

Consolidated Financial Statement for the Year 2009

CONSOLIDATED BALANCE SHEET (IN CZK-UNIT: 1000 CZK)

	2009	2008
Subscription receivables (for own Equity)	-	-
Fixed assets	2 712 204	568 142
Intangible assets	98 482	85 127
- software	3 231	2 198
- valuable rights	95 251	81 768
- other intangible fixed assets	-	-
- non-finished intangible fixed assets	-	1 161
Tangible fixed assets	2 614 503	487 695
- land	9 095	9 065
- buildings, halls and structures	190 645	183 672
- machines, devices, transport means etc.	457 067	283 638
- tangible assets under construction	69 948	37 371
- advance payment for tangible fixed assets	5 470	2 524
- adjustments to acquired assets	1 882 278	028 575
Financial investments	1 400	348
- shares, ownership investments in enterprises	1 094	-
- shares, ownership invest. in enter with substantial influence	86	172
- other securities and ownership investments	220	176
- other financial investments	-	-
Active consolidation difference	-14 163	1 033
Passive consolidation difference	1 114	015 161
Securities in equivalents	10 868	9 100
Current assets	1 076 527	1 046 542
Inventory	643 952	681 492
- materials	180 192	197 959
- work in progress and semi finished products	459 734	475 127
- products	3 730	8 184
- advance payments for inventory	296	222
Long-term receivables	18 276	7 407
- trade receivables	10 703	2 642
- receivables to enterprises with control influence	-	-
- long-term advance payments	7 573	2 329
- other receivables	-	-
- postponed tax receivables	-	2 436
Short-term receivables	344 071	288 785
- trade receivables	229 665	184 401
- receivables in enterprises with control influence	365	1 464
- receivables in enterprises with substantial influence	32 461	35 760
- receivables from partners and association	-	-
- due to state tax receivables	28 700	36 971
- short-term advance payments	36 353	27 555
- estimated receivables	15 092	621
- other receivables	1 435	2 013
Financial assets	70 228	68 858
- cash	2 227	1 786
- bank accounts	68 001	67 072
Accruals	7 732	23 432
- deferred expenses	6 760	10 216
- accrued revenue	-	8 605
- foreign currencies exchange losses	972	4 611
TOTAL ASSETS	3 796 463	1 638 116

Consolidated Financial Statement for the Year 2009

CONSOLIDATED BALANCE SHEET (IN CZK-UNIT: 1000 CZK)

	2009	2008
Equity	2 218 010	637 470
Registered capital	10 000	10 000
- registered capital	10 000	10 000
- capital changes	-	-
Capital funds	1 482 558	-5 919
- other capital funds	3 515	5 479
- difference from revaluation of assets	-625	01 888
- difference from revaluation of investments	1 479 658	09 520
Difference from consolidation adjustments	10	10
Funds from net profit	2 151	1 986
- legal reserve fund	2 096	1 951
- unparted fund	55	35
Profit/loss of previous period	625 257	544 453
- profit/loss of previous years	626 498	545 092
- retained profit of previous years	-1 241	-639
Profit/loss of current period	90 433	81 507
Share in income (loss) in equivalence	-2 484	1 294
Consolidation reserve fund	10 095	4 149
Non-own sources	1 460 886	940 873
Reserves	50 353	40 765
- reserves by special legal regulations	3 805	31 866
- reserve for income tax	27 647	8 899
- other reserves	18 901	
Long-term payables	374 155	18 074
- payables - control and master subject	-	-
- long-term deposits received	68	88
- other payables	2 531	3 031
- deferred tax liability	371 556	14 955
Short-term payables	640 122	657 849
- trade payables	183 944	154 650
- payables to enterprises with control influence	-616	225
- payables to enterprises with substantial influence	304	-
- payables to partners and association	-	180
- payables to employees	27 137	24 664
- payables to social security	4 955	5 829
- due to state-taxes and subsidies	13 465	2 449
- short-term deposits received	377 496	442 954
- estimated receivables	30 902	21 250
- other payables	2 535	5 648
Bank loans and financial accommodations	396 256	224 185
- long-term bank loans	249 847	145 851
- current bank loans	126 111	78 334
-	20 298	
Accruals	27 837	32 695
- accrued expenses	14 366	32 207
- deferred revenues	13 471	488
Minority equity	89 730	27 078
- minority fixed capital	3 202	321
- minority capital funds	56 291	-1 832
- minority pr.funds and income (loss) of the last years	25 367	23 662
- minority income (loss) of the last years	4 770	4 926
TOTAL LIABILITIES	3 796 463	1 638 116

Consolidated Financial Statement for the Year 2009

PROFIT AND LOSS STATEMENTS (IN CZK-UNIT: 1000 CZK)

	2009	2008
Revenues from merchandise	20 390	27 490
Expenses of sold goods	14 817	17 199
Sale margin	5 573	10 291
Production consumption	1 866 630	2 289 154
- revenues from own product and services	1 677 492	2 171 805
- change of inventory of own production	-16 350	8 190
- capitalisation	205 488	109 159
Consumption from production	1 443 899	1 864 973
- consumption of material and energy	1 229 217	1 576 988
- services	214 682	287 985
Added value	428 304	434 472
Personal costs	221 666	224 101
- wages and salaries	163 947	166 760
- social security expenses	51 259	51 647
- social expenses	6 460	5 694
Taxes and fees	1 811	1 838
Depreciation and amortization	77 600	63 363
Clearing of consolidation difference	1 079	1 060
Revenues from sale of fixed assets and material	25 518	35 936
- revenues on sale of fixed assets	9 252	27 165
- revenues from materials	16 266	8 771
Net book value of sold fixed assets and materials	19 488	27 328
- net book value of sold fixed assets sold	8 168	22 759
- material sold	11 320	4 569
Changes in reserves and adjustment items in operating area and complex prepaid expenses	10 597	19 370
Other operating revenues	14 827	14 298
Other operating expenses	10 956	12 870
Operating income	126 531	135 836
CONSOLIDATED OPERATING INCOME	127 610	136 896

Consolidated Financial Statement for the Year 2009

CONSOLIDATED PROFIT AND LOSS STATEMENT (IN CZK – UNIT: 1000 CZK)

	2009	2008
Revenues from sale of securities	-	170
Securities sold	-	923
Received interests	2 360	3 440
Paid interests	12 208	12 659
Other financial revenues	34 130	53 599
Other financial expenses	26 668	71 654
Income from financial operations	-2 386	-28 027
CONSOLIDATION INCOME FROM FINANCIAL OPERATIONS	-2 386	-28 027
Income tax on current activity	24 120	22 505
- due tax	27 572	10 731
- tax deferred	-3 452	11 774
Ordinary income	100 025	85 304
CONSOLIDATION ORDINARY INCOME	101 104	86 364
Extraordinary revenues	-	966
Extraordinary expenses	5 901	897
Extraordinary income	-5 901	69
CONSOLIDATION EXTRAORDINARY INCOME	-5 901	69
Income of current accounting period	94 124	85 373
CONSOLIDATED INCOME FOR THE ACCOUNTING PERIOD WITHOUT EQUIVALENCE	95 203	86 433
- income of current accounting period without minority	90 433	81 507
- minority income of the current accounting period	4 770	4 926
SHARE IN INCOME IN EQUIVALENCE	-2 484	1 294
Income before tax	118 244	107 878
CONSOLIDATED INCOME FOR THE ACCOUNTING PERIOD	92 719	87 727

