

ANNUAL



2010

..... **report**

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Foreword of the General Director

Dear Business Partners, Dear Customers,

The year 2010 was a turning-point year for the group of TEDOM companies. It was characterised by a merger of important subsidiary and related firms of the TEDOM Group into one newly established successor company "TEDOM a.s." The four key activities within the framework of this company were concentrated, each of them always in a separate division. The individual divisions have their own director, their own organisational structure; they are responsible for their business. Common activities, such as financial management, human resource management, public relations, quality, facility management, etc. are managed from one centre, from the section of the Chief Executive Officer. The merger has led to further increase in effectiveness and simplification of management of the entire holding structure, which will help us very much in further growth of TEDOM that we are planning. Therefore, this merger meant finishing of the profound restructuring of the firm connected with changes in the ownership structure which we initiated already in 2007.

The year 2010 was also the year of new products, new ideas and focus of TEDOM.

As far as operation of energy sources is concerned, hot run of the so-called dispersed power generation plant system consisting of 30 cogeneration units with a total electricity output of 14 MW was launched. The meaning of the dispersed power generation plant system is to concentrate generation from a large number of sources and to offer it to the customer in a guaranteed time and quantity, naturally at a higher price.

In the field of production of cogeneration units, the company introduced, in the middle of the year, a new concept of cogeneration units "Cento" in a view of putting into production from 2011. The sale of the new generation of the Micro units with a capacity of 30 kW was fully underway.

The year 2010 was also characterised by intensive negotiations with the ČEZ Group, focused on the topic of establishment of a joint-venture for operation of decentralised power generation sources, i.e. dispersed power generation plant systems. The negotiations were successful and at the end of 2010 the company "ČEZ Energo s.r.o." was established. We invested our entire power engineering business into this company, except for renewable resource facilities which remain a part of TEDOM a.s. ČEZ invested into the newly arising company the capital resources necessary for further development of the above mentioned sources. The aim of the new company will be the building and subsequent operation of local cogeneration electricity generation sources.

Concerning the Bus Division, we were awarded an important order for the Italy-based company BredaMenarinibus. Nevertheless, we always perceive the acute shortage of orders of the TEDOM buses as a serious problem.

Concerning production of engines, we focus especially on engines for stable applications, i.e. for cogeneration units, and for railroad design of engines with the UIC IIIB emission standard. We also started to deal, in a more active way, with the sale of engines out of the holding area, for example to foreign manufacturers of cogeneration units, source generator sets, etc. The drop in the bus production area was, however, negatively reflected in the results of the Engine Division as well.

While assessing the results achieved last year, however, I consider as a very important fact especially the general development when we managed, in spite of the persisting economic crisis, to increase our turnover in comparison with 2009 and to prepare ourselves for further expansion of the TEDOM company, especially in the field of cogeneration systems.

Výčapy, 30 June 2011



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Josef Jeleček
General Director

Auditor's Report on the Annual Report of TEDOM a.s.

The independent Auditor's report to the Shareholders of TEDOM a.s.

On the basis of our audit, on 27. 4. 2011 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 a.s., base in Výčapy, Výčapy, identification number 28466021, which comprise the balance sheet as of 31. 12. 2010, and the income statement, statement of changes in equity and cash flow statement for the period from 1. 1. 2010 to 31.12. 2010, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body of TEDOM a.s. is responsible for the preparation of financial statements that give a true and fair view in accordance with Czech accounting regulations and for such internal control as statutory body 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 and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those laws and regulations 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 that give a true and fair view 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 a.s. as of 31. 12. 2010, and of its financial performance and its cash flows for the period from 1. 1. 2010 to 31. 12. 2010 in accordance with Czech accounting regulations.

Report on review of the Related Party Transactions Report

We have reviewed the correctness of information incorporated in the report on relations between related parties of the TEDOM a.s. as at 31. 12. 2010. The management of the TEDOM a.s. 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 a.s.

We conducted our procedures in accordance with the International Standard 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.

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 TEDOM a.s. as at 31. 12. 2010 contains materially incorrect information.

Report on the Audit of the Annual Report

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, 12 August 2011

BDO CA s. r. o., Certificate No. 305

Represented by partner:



Jiří Kadlec

Certificate No. 1246



Basic Economic Characteristics of TEDOM a.s.

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

| Indicator | Units | 1 January 2010 | 31 December 2010 |
|--------------------------|-----------|-------------------|---------------------|
| Total assets | thou. CZK | 3 618 538 | 3 748 999 |
| Fixed assets | thou. CZK | 2 249 948 | 2 621 664 |
| Inventories | thou. CZK | 697 218 | 576 136 |
| Receivables | thou. CZK | 363 539 | 308 396 |
| Current financial assets | thou. CZK | 301 757 | 169 407 |
| Other assets | thou. CZK | 6 076 | 73 396 |
| Equity | thou. CZK | 2 053 255 | 1 098 104 |
| Subscribed capital | thou. CZK | 20 000 | 20 000 |
| Liabilities | thou. CZK | 1 545 551 | 2 634 754 |
| Other liabilities | thou. CZK | 19 732 | 16 141 |
| Total sales | thou. CZK | - | 1 806 605 |
| Profit/loss before tax | thou. CZK | - | 59 773 |
| Number of staff | persons | 651 | 653 |

Auditor's Report on the Shareholders of TEDOM a.s.

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

We have audited the accompanying financial statements of TEDOM a.s., based in Výčapy 195, identification number 28466021, which comprise the balance sheet as of 31. 12. 2010, and the income statement, statement of changes in equity and cash flow statement for the period from 1. 1. 2010 to 31. 12. 2010, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body of TEDOM a.s. is responsible for the preparation of financial statements that give a true and fair view in accordance with Czech accounting regulations and for such internal control as statutory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud over.

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 laws and regulations 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 that give a true and fair view 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 a.s. as of 31. 12. 2010, and of its financial performance and its cash flows for the period from 1. 1. 2010 to 31. 12. 2010 in accordance with Czech accounting regulations.

Brno, 27. 4. 2011

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



Jiří Kadlec
Certificate No. 1246



Miroslav Hořícký
Certificate No. 0713

Financial Statement 2010 - Basic Data

Balance Sheet (in CZK-unit: 1000 CZK)

| | 2010 | 1 January 2010 |
|--|------------------|-------------------|
| TOTAL ASSETS | 3 748 999 | 3 618 538 |
| Fixed assets | 2 621 664 | 2 249 948 |
| Intangible assets | 84 881 | 98 719 |
| - software | 2 165 | 3 468 |
| - valuable rights (patents, copyrights, trademarks and brands) | 82 716 | 95 251 |
| Tangible fixed assets | 2 104 340 | 2 079 418 |
| - land | 14 858 | 11 986 |
| - buildings and structures | 239 938 | 232 052 |
| - machinery, equipment, vehicles, fixtures and fittings | 279 646 | 292 164 |
| - tangible fixed assets under construction | 18 940 | 70 107 |
| - advances for tangible fixed assets | 2 557 | 5 200 |
| - valuation differences to acquired assets | 1 548 401 | 1 467 909 |
| Financial assets | 432 443 | 71 811 |
| - investments in subsidiaries | 51 098 | 42 319 |
| - investments in associates | 376 675 | 24 931 |
| -other securities and shares | 240 | 220 |
| - other investments | 4 430 | 4 341 |
| Current assets | 964 572 | 956 995 |
| Inventories | 576 136 | 697 218 |
| - raw material | 225 826 | 190 868 |
| - work-in progress and semi-finished products | 319 632 | 490 089 |
| - finished products | 30 021 | 15 590 |
| - merchandise | 375 | 375 |
| - prepayments on inventories | 282 | 296 |
| Long-term receivables | 14 762 | 23 568 |
| - trade receivables | 1 761 | 10 702 |
| - long-term advances | - | 5 293 |
| - deferred tax receivable | 13 001 | 7 573 |
| Short-term receivables | 293 634 | 339 971 |
| - trade receivables | 195 980 | 229 606 |
| - receivables from controlling entities | 23 985 | 27 601 |
| - government-tax receivables | 44 391 | 31 868 |
| - short-term advances | 21 203 | 34 284 |
| - estimated accrued revenues | 271 | 15 092 |
| - other receivables | 7 804 | 1 520 |
| Current financial assets | 169 407 | 301 757 |
| - cash | 1 633 | 1 916 |
| - bank accounts | 167 774 | 299 841 |
| Prepayments and accrued income | 73 396 | 6 076 |
| - prepaid expenses | 72 674 | 4 233 |
| - accrued income | 722 | 1 843 |

Financial Statement 2010 - Basic Data

Balance Sheet (in CZK-unit: 1000 CZK)

| | 2010 | 1 January 2010 |
|---|------------------|-------------------|
| TOTAL LIABILITIES AND EQUITY | 3 748 999 | 3 618 538 |
| Equity | 1 098 104 | 2 053 255 |
| Subscribed capital | 20 000 | 20 000 |
| - subscribed capital | 20 000 | 20 000 |
| Capital reserves | 238 723 | 1 253 470 |
| - other reserves | 33 497 | 1 210 839 |
| - valuation differences from revaluation of assets and liabilities | 51 004 | 42 631 |
| - valuation differences from revaluation on transformation | 154 222 | - |
| Reserves, indivisible reserve and other revenue reserves | 4 051 | 4 055 |
| - legal reserve/indivisible fund | 4 000 | 4 000 |
| - statutory | 51 | 55 |
| Retained earnings of previous years | 775 557 | 775 730 |
| Profit/loss of current accounting period | 59 773 | 0 |
| Liabilities | 2 634 754 | 1 545 551 |
| Provisions | 47 281 | 49 288 |
| - provision according to special legal regulations | 0 | 3 699 |
| - provision for income tax | 28 000 | 26 688 |
| - other provisions | 19 281 | 18 901 |
| Long-term liabilities | 1 252 498 | 542 973 |
| - other payables | 49 | 68 |
| - other liabilities | 962 336 | 256 200 |
| - deferred tax liabilities | 290 113 | 286 705 |
| Short-term liabilities | 1163 085 | 639 780 |
| - trade payables | 231 614 | 177 010 |
| - payables to controlled and managed organizations | 18 291 | - |
| - payables to partners, cooperative member and participant in association | 352 253 | 67 |
| - payables to employees | 28 290 | 31 147 |
| - payables to social security and health insurance | 6 784 | 6 104 |
| - government-tax payables and subsidies | 15 064 | 14 392 |
| - short-term advances received | 219 653 | 382 013 |
| - estimated accrued items | 24 599 | 28 743 |
| - other payables | 266 537 | 304 |
| Bank loans and borrowings | 171 890 | 313 510 |
| - long-term bank loans | 125 725 | 141 195 |
| - short-term bank loans | 46 021 | 152 017 |
| - other short-term borrowings | 144 | 20 298 |
| Accruals and deferred income | 16 141 | 19 732 |
| - accrued expenses | 5 372 | 6 633 |
| - deferred income | 10 769 | 13 099 |

Financial Statement 2010 - Basic Data

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

| | 2010 |
|---|------------------|
| Sales of goods | 27 040 |
| Costs of goods sold | 20 826 |
| Sale margin | 6 214 |
| Production | 1 779 565 |
| - product and service revenue | 1 868 557 |
| - increase/decrease in finished goods and in work in progress | -140 195 |
| - capitalization | 51 203 |
| Consumption from production | 1 287 054 |
| - consumption of material and energy | 940 864 |
| - services | 346 190 |
| Value added | 498 725 |
| Staff costs | 246 682 |
| - wages and salaries | 179 107 |
| - social security and health insurance costs | 60 745 |
| - other social costs | 6 830 |
| Taxes and fees | 2 166 |
| Depreciation and amortization | 173 628 |
| Proceeds on fixed assets and material | 66 956 |
| - proceeds on sale of fixed assets | 37 101 |
| - proceeds on sale of material | 29 855 |
| Net book value of fixed assets and material sold | 56 301 |
| - net book value of fixed assets sold | 35 954 |
| - material sold | 20 347 |
| Changes in provisions and adjustments relating to operating activities and complex deferred expenses | 36 530 |
| Other operating income | 104 892 |
| Other operating expenses | 35 315 |
| PROFIT/LOSS FROM OPERATING ACTIVITIES | 119 951 |
| Securities sold | 200 |
| Revenues from investments in subsidiaries and associates | 266 |
| Cost of revaluation of securities and derivatives | 1 172 |
| Change in financial reserves and adjustments | 6 543 |
| Interest income | 2 277 |
| Interest expenses | 60 093 |
| Other financial revenues | 40 565 |
| Other financial expenses | 21 816 |
| PROFIT/LOSS FROM FINANCIAL ACTIVITIES | -46 716 |
| Income tax on ordinary activities | 11 925 |
| - due | 32 251 |
| - deferred | -20 326 |
| PROFIT/LOSS FROM ORDINARY ACTIVITIES | 61 310 |
| Extraordinary revenues | 324 |
| Extraordinary expenses | 1 861 |
| PROFIT/LOSS FROM EXTRAORDINARY ACTIVITIES | -1 537 |
| PROFIT/LOSS FOR THE PERIOD | 59 773 |
| PROFIT/LOSS BEFORE TAX | 71 698 |

Financial Statement 2010 - Basic Data

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

| | 2010 |
|---|-----------------|
| Cash and cash equivalents at beginning of accounting period | 301 757 |
| CASH FLOW FROM OPERATING ACTIVITIES | |
| Profit/loss from ordinary activities before taxation | 73 235 |
| Adjustments for non-cash transactions | 275 429 |
| - depreciation of fixed assets | 173 628 |
| - change in adjustments, provisions | 44 385 |
| - profit/loss on disposal of fixed assets | -1 212 |
| - dividends received | - |
| - net interest expense (+) (except of capitalized interest) and interest income (-) | 57 816 |
| - contingent adjustments and other non-cash transactions | 812 |
| Net cash flow from operating activities before tax, changes in working capital and extraordinary items | 348 664 |
| Change in non-financial items of working capital | -35 098 |
| - increase/decrease in trade and other receivables, including prepayments and accrued income (+/-) | -24 732 |
| - increase/decrease in trade payables, including accruals and deferred income (+/-) | 112 258 |
| - increase/decrease in inventories | 101 892 |
| - increase/decrease in current financial assets, not belonging to cash and cash equivalents | - |
| Net cash flow from operating activities before taxes and extraordinary items | 313 566 |
| Interest paid, excl. capitalized interests | -23 001 |
| Interest received (+) | 2 277 |
| Income tax on ordinary activities paid and additional assessments for past periods (including deposits and refunds) | -37 461 |
| Extraordinary revenues and expenses which generate extraordinary trading profit including paid income tax due from extraordinary activities (+/-) | -348 |
| Profit-sharing and dividends received | - |
| Net cash flow from operating activities | 255 033 |
| CASH FLOW FROM INVESTING ACTIVITIES | |
| Costs associated acquisition of fixed assets | -66 831 |
| Proceeds on sales of fixed assets | 37 366 |
| Loans and borrowings to allied subjects | - |
| Net cash flow from investing activities | -29 465 |
| 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 | -357 918 |
| 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 | -357 918 |
| Net increase/decrease in cash and cash equivalents | -132 350 |
| Cash and cash equivalents at end of period | 169 407 |

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 a.s.

- operation of the district heating source – Volyně, Jeseník, Příbor, Svitavy, Světlá nad Sázavou, Zruč nad Sázavou, Železná Ruda, Smiřice
- **operation of energy sources at the landfills** of Prague, Chvaletice, Modlany, Ostrava, Kozlany, Želeč, Vodňany, Chrást, Křovice, Holasovice, Markvartovice, Hantály, Těmice, Mutěnice, Bohumín, Dačice, Děčín

| Heat output (kW) | Heat sold in 2010 (GJ) | Installed electrical output (kW) | Electricity sold in 2010 (MWh) |
|---------------------|---------------------------|-------------------------------------|-----------------------------------|
| 109 172 | 448 330 | 20 856 | 57 887 |

TEPLO IVANČICE, s.r.o.

- operation of a district heating source – Ivančice

| Heat output (kW) | Heat sold in 2010 (GJ) | Installed electrical output (kW) | Electricity sold in 2010 (MWh) |
|---------------------|---------------------------|-------------------------------------|-----------------------------------|
| 11 370 | 62 163 | 954 | 2 659 |

TENERGO Brno, a.s.

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

| Heat output (kW) | Heat sold in 2010 (GJ) | Installed electrical output (kW) | Electricity sold in 2010 (MWh) |
|---------------------|---------------------------|-------------------------------------|-----------------------------------|
| 35 861 | 334 356 | 2 020 | 7 058 |

Within the group of companies belonging to TE DOM holding, the amount of electrical energy sold in 2010 was **67 604 MWh** and the amount of heat sold was **844 849 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 2010, the parent company TE DOM a.s. operated with a turnover of 2 021 885 thou. CZK and achieved an income of 59 773 thou. CZK.

The whole group of TEDOM companies achieved an unconsolidated turnover of 2 209 364 thou. CZK and achieved an unconsolidated income of 78 704 thou. CZK.

Comentary on the Consolidated Group

2.1 Economic indicators (in thou. CZK)

| Economic indicators | Total sales | Income |
|--|------------------|---------------|
| | 2010 | 2010 |
| TEDOM a.s. | 1 895 597 | 59 773 |
| TEPLO IVANČICE, s.r.o. | 41 830 | 3 945 |
| TENERGO Brno, a.s. | 228 826 | 9 335 |
| TEDOM AUTO Slovakia, s.r.o. | 36 512 | 4 887 |
| TEDOM Cogeneration Equipments (Beijing) Co., Ltd | 2 643 | 26 |
| TEDOM Poland sp.z.o.o. | 3 956 | 738 |
| Total (unconsolidated) | 2 209 364 | 78 704 |

2.2 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 centred 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 a.s. | 26 093 tis. Kč |
| ■ Total | 26 093 tis. Kč |

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

The company "ČEZ Energo, s.r.o.", Company Reg. No.: 290 60 109, having its registered office at Praha 8, Karolinská 661, Post Code No.: 186 00, registered in the Commercial Register administered by the Municipal Court in Prague, Section C, File no. 163691 (hereinafter referred to as "ČEZ Energo, s.r.o.") is a newly established joint-venture of TEDOM a.s., Company Reg. No.: 28466021, having its registered office at Výčapy 195, District of Třebíč, Post Code No.: 674 01 (hereinafter referred to as "TEDOM a.s.") and the ČEZ group. ČEZ Energo, s.r.o. will ensure especially installations and operation of local power generation sources.

TEDOM a.s. separated the power generation projects "KVET" (as of 1 December 2010) into the enterprise branch "TEDOM a.s. – odštěpný závod KVET I" and the enterprise branch "TEDOM a.s. – odštěpný závod KVET II".

The first phase of creation of the joint venture was characterised by the increase in registered capital of ČEZ Energo, s.r.o.. With effectiveness as of 1 January 2011, the Agreement on Investment of a Part of the Enterprise of TEDOM a.s. was concluded on 28 December 2010, within the meaning of provisions of Section 59(f) with an adequate use of provisions of Section 476 et seq. of the Act no. 513/1991 Coll., Commercial Code, as amended.

In the second phase of creation of the joint venture (the 1st half of 2011), TEDOM a.s. will split off the enterprise branch "KVET II" into ČEZ Energo, s.r.o., by way of division by splitting off of the TEDOM company, by a merger with ČEZ Energo, s.r.o. within the meaning of provisions of Section 243(d)(2) of the Act no. 125/2008 Coll., on transformations of business companies and cooperatives, as amended.

As of 31 December 2010, the liability from investment into do ČEZ Energo, s.r.o., not paid up and amounting to CZK 351,809,000 was accounted in association with incorporation of the joint venture – stated in the Balance Sheet on the lines 025 and 107. As of 1 January 2011, the Initial Balance Sheet was drawn up, taking into consideration the separation of the enterprise branch "KVET II". The separation of the enterprise branch "KVET I" will be reflected in the Balance Sheet by the paying up of the above mentioned liability resulting from the investment not paid up (the settlement of this liability will be carried out in 2011 by writing off the assets invested into ČEZ Energo, s.r.o.).

4. Expected development of companies within the consolidated group

In 2010, a merger of all key companies of the TEDOM Group was carried out, the newly incorporated TEDOM a.s. being the successor company. This means that all business activities of the existing group of the TEDOM firms are concentrated in TEDOM a.s. Within the framework of this company, individual activities were concentrated in separate divisions and are managed effectively from one centre. The aim is a more effective, more cost-efficient and more transparent business. These steps enabled arising of an economically strong company capable of investing in a long-term horizon and in a strategic way.

5. Activities in the field of the environment

TEDOM a.s. is holder of the integrated system certificate issued according to the EN ISO 14001:2004 (environmental management system) and EN ISO 9001:2008 (quality system) standards, issued by Lloyd's Register Quality Assurance.

We perceive savings of primary energy resources as one of the most important activities for maintaining the life on earth, which is an intrinsic feature of the principle of cogeneration. We use one input fuel for an effective power generation and heat production. In a maximum possible amount we use alternative fuels, such as biogas and landfill gas.

Our aim is to use the state-of-the-art technologies during production with the least possible impacts on the environment. It is not just an obligation for us, but a part of our corporate philosophy. The company perceives environmental aspects during the activities carried out with regard to their impacts. The increase in the efficiency of transformation of input energies and application of low-emission drives in transport, energy use of biogas arising in decomposition of organic waste are our main activities.

This is our contribution to the meeting of the sustainable development preconditions.

Auditor's Report on the Consolidated Financial Statement

Independent Auditor's Report to the Shareholders of TEDOM a.s.

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Statutory Body's Responsibility for the Consolidated Financial Statements

The Statutory Body of TEDOM a.s. is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Czech accounting regulations and for such internal control as statutory body 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 and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those laws and regulations 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 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 of the financial statements that give a true and fair view 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 consolidated financial statements give a true and fair view of the financial position of TEDOM a.s. as of 31. 12. 2010, and of its financial performance for the period from 1. 1. 2010 to 31. 12. 2010 in accordance with Czech accounting regulations.

Brno, 12 August 2010

BDO CA s. r. o., Certificate No. 305

Represented by partner:



Jiří Kadlec

Certificate No. 1246



Consolidated Financial Statement for the Year 2010

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

| | 2010 |
|---|------------------|
| Subscription receivables (for own Equity) | - |
| Fixed assets | 2 731 975 |
| Intangible assets | 84 881 |
| - software | 2 165 |
| - valuable rights | 82 716 |
| - other intangible fixed assets | - |
| - non-finished intangible fixed assets | - |
| Tangible fixed assets | 2 334 740 |
| - land | 15 319 |
| - buildings, halls and structures | 259 797 |
| - machines, devices, transport means etc. | 486 260 |
| - tangible assets under construction | 22 406 |
| - advance payment for tangible fixed assets | 2 557 |
| - adjustments to acquired assets | 1 548 401 |
| Financial investments | 358 002 |
| - shares, ownership investments in enterprises | 1 501 |
| - shares, ownership invest. in enter with substantial influence | 351 831 |
| - other securities and ownership investments | 240 |
| - other financial investments | 4 430 |
| Active consolidation difference | 769 |
| Passive consolidation difference | -46 417 |
| Securities in equivalent | - |
| Current assets | 1 079 771 |
| Inventory | 578 345 |
| - materials | 228 035 |
| - work in progress and semi finished products | 319 632 |
| - products | 30 021 |
| - merchandise | 375 |
| - advance payments for inventory | 282 |
| Long-term receivables | 14 790 |
| - trade receivables | 1 789 |
| - receivables to enterprises with control influence | - |
| - long-term advance payments | 13 001 |
| - other receivables | - |
| - postponed tax receivables | - |
| Short-term receivables | 294 279 |
| - trade receivables | 215 314 |
| - receivables in enterprises with control influence | - |
| - receivables in enterprises with substantial influence | - |
| - receivables from partners and association | - |
| - due to state tax receivables | 46 195 |
| - short-term advance payments | 22 872 |
| - estimated receivables | 271 |
| - other receivables | 9 627 |
| Financial assets | 192 357 |
| - cash | 2 217 |
| - bank accounts | 190 140 |
| Accruals | 76 824 |
| - deferred expenses | 75 298 |
| - accrued revenue | - |
| - foreign currencies exchange losses | 1 526 |
| TOTAL ASSETS | 3 888 570 |

Consolidated Financial Statement for the Year 2010

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

| | 2010 |
|--|------------------|
| Equity | 1 040 637 |
| Registered capital | 20 000 |
| - registered capital | 20 000 |
| - capital changes | - |
| Capital funds | 182 152 |
| - other capital funds | 33 497 |
| - difference from revaluation of assets | -5 567 |
| - difference from revaluation of investments | 154 222 |
| Difference from consolidation adjustments | - |
| Funds from net profit | 4 527 |
| - legal reserve fund | 4 476 |
| - statutory and other funds | 51 |
| Profit/loss of previous period | 773 821 |
| - profit/loss of previous years | 773 821 |
| - retained profit of previous years | - |
| Profit/loss of current period | 60 137 |
| Share in income (loss) in equivalence | - |
| Consolidation reserve fund | - |
| Non-own sources | 2 823 764 |
| Reserves | 48 591 |
| - reserves by special legal regulations | 83 |
| - reserve for income tax | 28 970 |
| - other reserves | 19 538 |
| Long-term payables | 1 259 044 |
| - payables - control and master subject | - |
| - long-term deposits received | 49 |
| - other payables | 962 506 |
| - deferred tax liability | 296 489 |
| Short-term payables | 1 177 355 |
| - trade payables | 256 275 |
| - payables to enterprises with control influence | - |
| - payables to enterprises with substantial influence | - |
| - payables to partners and association | 352 549 |
| - payables to employees | 28 836 |
| - payables to social security | 7 155 |
| - due to state-taxes and subsidies | 16 154 |
| - short-term deposits received | 219 654 |
| - estimated receivables | 27 623 |
| - other payables | 269 109 |
| Bank loans and financial accommodations | 338 774 |
| - long-term bank loans | 285 850 |
| - current bank loans | 52 780 |
| - short-term accommodations | 144 |
| Accruals | 23 312 |
| - accrued expenses | 12 543 |
| - deferred revenues | 10 769 |
| Minority equity | 857 |
| - minority fixed capital | 243 |
| - minority capital funds | 132 |
| - minority pr. funds and income (loss) of the last years | 403 |
| - minority income (loss) of the last years | 79 |
| TOTAL LIABILITIES | 3 888 570 |

Consolidated Financial Statement for the Year 2010

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

| | 2010 |
|--|------------------|
| Revenues from merchandise | 37 682 |
| Expenses of sold goods | 26 146 |
| Sale margin | 11 536 |
| Production consumption | 1 919 241 |
| - revenues from own product and services | 1 964 355 |
| - change of inventory of own production | -140 508 |
| - capitalisation | 95 394 |
| Consumption from production | 1 377 065 |
| - consumption of material and energy | 1 018 783 |
| - services | 358 282 |
| Added value | 553 712 |
| Personal costs | 260 532 |
| - wages and salaries | 189 261 |
| - social security expenses | 63 965 |
| - social expenses | 7 306 |
| Taxes and fees | 2 310 |
| Depreciation and amortization | 203 922 |
| Clearing of consolidation difference | 2 402 |
| Revenues from sale of fixed assets and material | 65 027 |
| - revenues on sale of fixed assets | 37 143 |
| - revenues from materials | 27 884 |
| Net book value of sold fixed assets and materials | 57 669 |
| - net book value of sold fixed assets sold | 35 954 |
| - material sold | 21 715 |
| Changes in reserves and adjustment items in operating area and complex prepaid expenses | 36 767 |
| Other operating revenues | 105 053 |
| Other operating expenses | 35 522 |
| Operating income | 127 070 |
| CONSOLIDATED OPERATING INCOME | 129 472 |

Consolidated Financial Statement for the Year 2010

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

| | 2010 |
|--|----------------|
| Revenues from sale of securities | 266 |
| Securities sold | 200 |
| Cost of revaluation of securities and derivatives | 1 172 |
| Change in financial reserves and adjustments | 6 543 |
| Received interests | 1 436 |
| Paid interests | 65 159 |
| Other financial revenues | 40 758 |
| Other financial expenses | 22 518 |
| Income from financial operations | -53 132 |
| CONSOLIDATION INCOME FROM FINANCIAL OPERATIONS | -53 132 |
| Income tax on current activity | 14 587 |
| - due tax | 34 826 |
| - tax deferred | -20 239 |
| Ordinary income | 59 351 |
| CONSOLIDATION ORDINARY INCOME | 61 753 |
| Extraordinary revenues | 324 |
| Extraordinary expenses | 1 861 |
| Extraordinary income | -1 537 |
| CONSOLIDATION EXTRAORDINARY INCOME | -1 537 |
| Income of current accounting period | 57 814 |
| CONSOLIDATED INCOME FOR THE ACCOUNTING PERIOD WITHOUT EQUIVALENCE | 60 216 |
| - income of current accounting period without minority | 60 137 |
| - minority income of the current accounting period | 79 |
| SHARE IN INCOME IN EQUIVALENCE | - |
| Income before tax | 72 401 |
| CONSOLIDATED INCOME FOR THE ACCOUNTING PERIOD | 60 216 |

