



# Annual Report

2016



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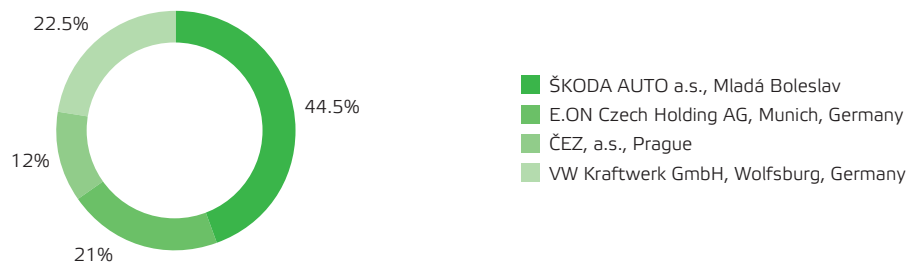
## Company profile

### Basic information

The company ŠKO-ENERGO, s.r.o. is an operating company with the main objective of ensuring complex energy supplies, operation and maintenance of energy facilities for the company ŠKODA AUTO a. s. and heat supplies to the city of Mladá Boleslav. The Company's facilities, particularly heating plant, are leased from its owners ŠKO-ENERGO FIN, s.r.o.

ŠKO-ENERGO, s.r.o. (hereinafter referred to as ŠKO-ENERGO or "the Company") was registered in the Commercial Register on 30 June 1995 under the file mark of section C, insert 38550 and its registered office is in Mladá Boleslav 1, třída Václava Klementa 869, postal code 293 60. The main business activities according to the Articles of Incorporation are production and distribution of heat energy, production and sales of electricity, sales of gas, installation, revision and testing of electrical, pressure and gas equipment, etc. Identification number is 616 75 938.

### Shareholders as at 31 December 2016



## Shareholders

### **ŠKODA AUTO a.s.**

ŠKODA AUTO a.s. (hereinafter referred to as "ŠKODA AUTO") is a company with more than one-hundred-years of tradition of car manufacturing. ŠKODA brand is also one of the oldest automotive brands in the world. The company's business activity is development, production and sale of cars, car components, original spare parts and accessories of ŠKODA brand and rendering of maintenance services.

### **E.ON Czech Holding AG**

The energy companies operating under the E.ON brand are supplying electricity, natural gas and related services to more than 25 million customers. The E.ON Group has been active in Central and Eastern European countries from the beginning of liberalization and uses its vast experience with privatization of energy companies throughout the Europe. Besides the electricity, E.ON has significant shares in companies trading with gas.

### **Volkswagen Kraftwerk GmbH**

VW Kraftwerk GmbH is 100% owned subsidiary of VOLKSWAGEN AG. The company provides services not only within the VW Group, but also to cities, industries and entrepreneurs in the field of supply and energy business, planning the construction of power plants and Facility Management. The main mission is to supply the internationally operating Volkswagen Group with electricity, heat, cooling, natural gas, compressed air and water.

### **ČEZ, a. s.**

The ČEZ Group is an established integrated energy conglomerate. The ČEZ Group is the largest producer of electricity and heat, in the Czech Republic. In most of the territory it is the operator of distribution network and the strongest player on the wholesale and retail electricity markets. The companies from the ČEZ Group mine and sell coal, produce and distribute electricity and heat, trade with electricity and other commodities, sell electricity, heat and natural gas to their final customers and provide additional services. The production portfolio consists of nuclear, coal, gas, water and other renewable sources of energy. The largest shareholder of ČEZ, a. s. is the Czech Republic itself.

## Information on the Supervisory and Statutory Bodies

### Supervisory Board

Composition of the Supervisory Board as at 31 December 2016

#### **Chairman of the Supervisory Board**

##### **Michael Oeljeklaus**

Member of the Board of Directors of ŠKODA AUTO, appointed Chairman of the Supervisory Board of ŠKO-ENERGO on 1 January 2011.

#### **Vice-Chairman of the Supervisory Board**

##### **Gert Wölfel**

Advisor, appointed Vice-Chairman of the Supervisory Board of ŠKO-ENERGO on 1 January 2011.

#### **Members of the Supervisory Board**

##### **Miroslav Krpec**

Chairman of the Board of Directors and General Director of Energotrans a. s., appointed member of the Supervisory Board of ŠKOENERGO on 1 August 2015.

##### **Uwe Wildt**

Head of the department of General purchasing of ŠKODA AUTO, appointed member of the Supervisory Board of ŠKO-ENERGO on 26 November 2014.

##### **Raimund Wunder**

Statutory Representative of VW Kraftwerk GmbH, appointed member of the Supervisory Board of ŠKO-ENERGO on 1 January 2003.

## Statutory representatives of the Company

Statutory Representatives of the Company as at 31 December 2016

### **Jaromír Vorel**

Statutory Representative of the Company, appointed on 1 January 2014.

The entire professional career of Jaromír Vorel was associated with energy industry, both in the Czech Republic and abroad. Before joining the Company Jaromír Vorel worked as a director of Energy Services in the company Unipetrol and managed large investments in Central and Eastern Europe for Air Product Company.

Jaromír Vorel graduated from the Faculty of Mechanical Engineering at the Czech Technical University in Prague.

### **Tomáš Kubín**

Statutory Representative of the Company, appointed on 1 July 2014.

Tomáš Kubín is the Head of Controlling of Production and Logistics in ŠKODA AUTO. Tomáš Kubín has been acting in managerial functions in the area of controlling in ŠKODA AUTO since 1992.

Tomáš Kubín graduated from the Faculty of Mechanization at the Czech University of Life Sciences in Prague.

## Corporate governance & Compliance

Achieving the balance of all shareholders' interests is very important for ŠKO-ENERGO. Fair dealing, openness, transparent management and proper management oversight- these form the foundation of the corporate governance of ŠKO-ENERGO. The Company adheres to the principles of compliance towards its trading partners as well as inside processes.

Therefore, to the extent that corresponds with the Company's legal form and organizational structure, the Company applies the Corporate Governance Code based on the OECD best practices and management processes principles.

### **Respecting of the shareholders' rights, equal treatment of shareholders**

ŠKOENERGO takes into account all applicable provisions of the Act on Corporations and the Company's directives relating to the protection of shareholders' rights. In particular, it provides all relevant information regarding the Company without delay, convenes and conducts its general meetings and ensures equal treatment of all shareholders.

### **Publication and transparency of essential information**

The Statutory Representatives regularly inform, both orally and in writing, the Supervisory Board on the Company's business and current status. Important business matters are communicated immediately. The Statutory Representatives inform the Supervisory Board in particular of the following areas:

- They submit a proposal of the annual budget for the next financial year and a draft of the medium-term plan including investments.
- They present basic information on the Company's assets and financial situation on a quarterly basis.

The Statutory Representatives prepare annual financial statements in compliance with the applicable Czech legislation in the course of the statutory accounting period, no later than by the end of April of the subsequent accounting period.

### **Responsibilities of the Statutory Representatives and the Supervisory Board**

The Statutory Representatives manage the Company's business affairs in accordance with the laws and regulations, Articles of Association, decisions made by the General Meeting and the Supervisory Board and the Rules of Procedure. The Rules of Procedures issued by the General Meeting stipulate what acts of the Statutory Representatives are subject to prior approval of the General Meeting or the Supervisory Board.



**The role of stakeholders in the Company's corporate governance**

Stakeholders include primarily employees, members of the local community, local businesses, schools, suppliers and creditors.

The Company's management take into consideration the impact of their decisions on various stakeholders during the decision making process. The Company's management respects and observes the rights granted to stakeholders by the law.

**Relations with employees**

The Company considers its employees to be the key part of its business. The Company's success depends, among other things, on constant internal development and creation of positive working conditions for its employees. The Company supports involvement of its employees in the running of the Company and enables them to express their concerns, if any, regarding any potential erroneous process which could lead to a breach of laws and other standards.

**Relations with business partners**

In its relations with customers, the Company pays attention to ensuring reliable, safe, and affordable supplies of energy to its key users, ŠKODA AUTO company and the residents of Mladá Boleslav. The Company acts fairly towards all of its suppliers – quality and price are the fundamental aspects of suppliers' selection process. The Company regularly and truthfully informs its creditors about its financial situation.

**Relationship to the environment**

As an energy firm, the Company acknowledges its responsibility to protect the environment. Therefore, it monitors and complies with legislation concerning the environment and limits its emissions to levels below the required parameters.

**Relations with members of the local community**

Within the local community, the Company wants to be a good corporate citizen and is aware of its corporate social responsibility.

**Compliance**

The Company pays special attention to its obligation to respect the laws and internal regulations, ethical and other voluntarily accepted rules. These rules are in accordance with the principles of the VW Group and ŠKODA AUTO Group. Compliance is not limited to business relations, but also applies to all activities within the Company. The Company communicates externally and internally that its conduct in trade and other relations is in compliance with all ethical and legal rules of competition, financial and tax integrity, protection of environment and employee relations, including ensuring of equal opportunities. The Code of conduct summarizes the basic principles of the Company's employees' conduct and serves as an assistance in managing the legal and ethical challenges. The Company is a part of the Ombudsman system of the Volkswagen Group which is designed for notifications in case of corruption and suspicion of corruption.

## Financial results

The Company's financial results are stable in the long term. Production and sales are secured by long-term contracts on purchase of raw materials and energy supplies. The Company invests money efficiently and maintains its facilities in a good condition.

### **Production and supplies of energies**

Supplies of all types of energy were smooth in 2016, in line with contracts and the requirements of ŠKODA AUTO, CENTROTHERM Mladá Boleslav, a. s. and other customers.

There were no major breakdowns or outages of equipment for the production and supply of energy. In the months of June and July regular annual summer revisions were performed on both production units, especially on steam boilers K80 and K90. During the whole plant leave, both steam boilers were simultaneously shut down and during the zero electricity production the heat supply was realized only from reserve boilers of hot water. Year to year, the Company managed to increase the amount of biomass in the fuel mix from 82 to 87 thousand tons.

Total own electricity production of ŠKO-ENERGO amounting to 502.7 GWh increased by 2.2% year-on-year (effect of more frequent use of gas boiler K70 due to favourable natural gas prices). There was also year-on-year decline in production in Vrčlabí plant by 1.4 MWh as a result of the forced shutdown of cogeneration unit in the first quarter of 2016. Cogeneration production of electricity and heat has been, as one of the priorities, present in all three major plants of ŠKODA AUTO since 2014. These plants are located in Mladá Boleslav, Kvasiny and Vrčlabí.

Electricity supplies depend on the needs of ŠKODA AUTO. Production of cars in the ŠKODA AUTO plants in the Czech Republic grew by 12.5% year-on-year. Particularly positive were sales of Octavia and Superb models. However, the electricity consumption in ŠKODA AUTO grew by 1.6% mainly due to higher production of cars in Kvasiny and transmissions in Vrčlabí.

Year 2016 was colder by 0.7°C in average during the heating season which contributed to an annual increase in heat sales of 9.3%.

All additional purchases of electricity amounting to 227 GWh in 2016 were once again purchased as environmentally friendly.

Year-on-year changes in the consumption of supplied energy are summarized in the following table.

**Volumes of supplies**

	UNIT	2016	2015	2016/2015 [%]
<b>Electricity</b>	<b>GWh</b>	<b>611</b>	<b>610</b>	<b>0.16</b>
– of which ŠKODA AUTO	GWh	580	570	1.58
– of which supplies to network	GWh	31	40	(22.5)
<b>Heat</b>	<b>GWh</b>	<b>483</b>	<b>442</b>	<b>9.28</b>
– of which ŠKODA AUTO	GWh	303	275	10.18
– of which CENTROTERM	GWh	164	154	6.49
– of which other	GWh	16	13	23.08
<b>Compressed air</b>	<b>ths. m<sup>3</sup></b>	<b>282,233</b>	<b>296,887</b>	<b>(4.94)</b>
<b>Natural gas</b>	<b>GWh</b>	<b>286</b>	<b>276</b>	<b>3.62</b>
<b>DEMI water</b>	<b>ths. m<sup>3</sup></b>	<b>198</b>	<b>192</b>	<b>3.13</b>
<b>Drinking and surface water</b>	<b>ths. m<sup>3</sup></b>	<b>668</b>	<b>636</b>	<b>5.03</b>
<b>Industrial water</b>	<b>ths. m<sup>3</sup></b>	<b>315</b>	<b>358</b>	<b>(12.01)</b>
<b>Waste water</b>	<b>ths. m<sup>3</sup></b>	<b>1,125</b>	<b>1,098</b>	<b>2.46</b>

**Purchase of raw materials and energy**

Coal and biomass are the main raw materials for the production of electricity and heat. The brown coal is secured by the long-term contract with Severočeské doly Bilina. In 2015 and 2016, the Company tendered and concluded long-term contracts for the supply of biomass with a number of Czech producers. Electricity, gas and CO<sub>2</sub> emission rights are bought on commodity markets in accordance with Volkswagen Group guidelines.

**General procurement**

The Company has harmonised procurement processes with ŠKODA AUTO and utilises the possibility of joint purchases with ŠKODA AUTO using the system of the group.

**Financial results**

The Company's profit of CZK 2.2 million is consistent with the prior year. On the year-on-year basis there was a proportional decrease in income and expenses.

The significant decrease in consumption of materials and energies by CZK 261.4 mil. largely corresponds with the abolition of regulated payments from own electricity generation for local manufacturers. Abolition of allowances on POZE (supported subsidized energy sources), payments for system services from own production and distribution charges resulted in massive annual savings of CZK 235.8 mil. Besides that, there was a sharp decline in cost of additional purchase of electricity primarily due to the aforementioned increase of own production in the heating plant. Moreover, the prices of electricity and natural gas decrease significantly compared to prior year in line with the market development. The Company is trying to support the favourable price development in the area of energy inputs especially by using the standard purchasing tools, mainly gradual fixation combined with spot instruments. The transition from brown coal to biomass is more and more evident in the fuel mix. This transition is not only ecological, but once all revenues from co-burning of biomass are counted in, it is also economical.

The costs of purchased energies decreased by CZK 72.8 million year-on-year, which is mainly attributable to a significant annual decline in commodity price of natural gas. The remaining savings are realised primarily in the area of re-sold electricity where, among other things, a transition to a new system of contributions for renewable sources – application of newly introduced cheaper wattage rate at supply points – resulted also in savings.

Rental expense increased by CZK 189.2 million in year-on-year comparison which is mainly a consequence of targeted creation and release of provision for significant repairs in ŠKO-ENERGO FIN.

Other operating expenses decreased by CZK 8.7 million, from CZK 873.0 million in 2015 to CZK 864.3 million in 2016 (-1%).

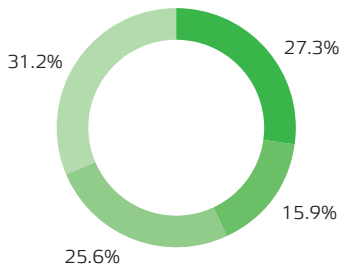
Total operating expenses in the amount of CZK 2,767.4 million decreased by CZK 153.7 million compared to 2015, i.e. by 5.3%. Based on the development in operating costs the operating income amounted to CZK 2,759.6 million and is lower by CZK 151.9 million compared to 2015, which represents a decrease of 5.2%.

The improvement of the financial result by CZK 0.4 million was caused mainly by lower interest rates on financial markets.

#### Operating results:

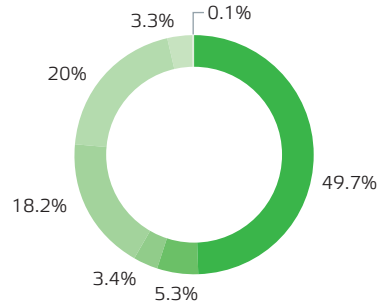
CZK 000's	2016	2015	DIFFERENCE	%
<b>Revenues</b>				
Operating income	2,759,625	2,911,508	(151,883)	(5.2)
Financial income	116	314	(198)	(63.1)
<b>Total</b>	<b>2,759,741</b>	<b>2,911,822</b>	<b>(152,081)</b>	<b>(5.2)</b>
<b>Expenses</b>				
Operating expenses	2,767,415	2,921,107	(153,692)	(5.3)
of which production material and energy	754,608	1,016,024	(261,416)	(25.7)
of which purchased energies	439,840	512,618	(72,778)	(14.2)
of which rent	708,632	519,441	189,191	36.4
of which other operating expenses	864,335	873,024	(8,689)	(1.0)
Financial expenses	639	1,255	(616)	(49.1)
<b>Total</b>	<b>2,768,054</b>	<b>2,922,362</b>	<b>(154,308)</b>	<b>(5.3)</b>
Profit/loss before tax	(8,313)	(10,540)	2,227	21.1
Tax (deferred)	10,483	12,710	(2,227)	(17.5)
<b>Profit/loss for the accounting period</b>	<b>2,170</b>	<b>2,170</b>	<b>0.0</b>	<b>0.0</b>

**Structure of operating expenses**



- Production material and energy
- Purchased energies/power
- Rent
- Other operating expenses

**Structure of operating revenues**



- Electricity
- Gas
- Water
- Services
- Heat
- Compressed air
- Other

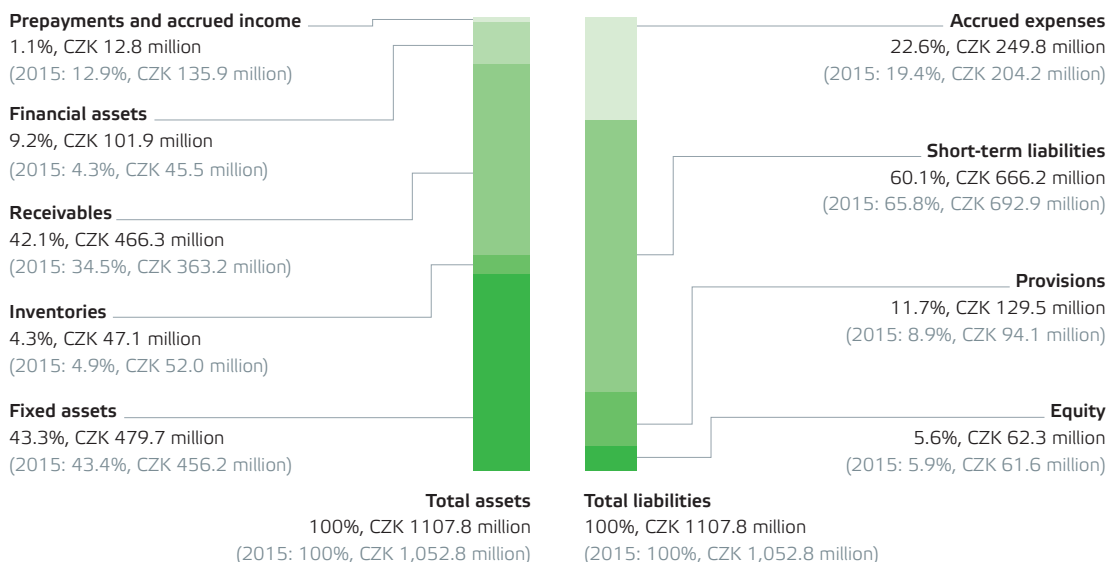
**Development of capital structure and financing**

As at 31 December 2016 the total assets of the Company amounted to CZK 1,107.7 million.

Fixed assets amounted to CZK 479.7 million. This information is commented in detail in the section Investments, technological innovations and facilities management. The current assets balance increased slightly from CZK 460.7 million as at 31 December 2015 to CZK 615.2 million as at 31 December 2016 particularly due to the growth in short-term trade receivables. The Company has no overdue receivables. The optimization of purchased inventories was reflected in the stabilization of their value. Cash in bank and cash in hand in the amount of CZK 101.9 million cover the Company's short-term cashflow needs.

The equity amounted to CZK 62.3 million as at 31 December 2016. This amount includes the profit for 2016, the Company's share capital and the statutory reserve fund. The Company also creates a social fund from its profit, a fund for financing future investments and a fund to cover price risks from its profit. The Company's financial needs are covered by a short-term loan provided by a shareholder. The Company did not draw any bank loan as at 31 December 2016.

### The structure of the balance sheet as at 31 December 2016



### Investment, technological innovation and facilities management

In 2016 the Company put into use investments in the amount of CZK 28.1 million.

In the heating plant total assets in the amount of CZK 12.0 million were put into use.

During 2016, the replacement of fast-switching high-voltage 6 kV substations worth CZK 3.3 million was completed, 2 electric hoists of CZK 1.2 million were installed, measures were taken to ensure safe ventilation in the heating plant over summer – cooling of substations by air conditioning worth CZK 2.0 million and modernization of control systems was carried out in the amount of CZK 1.1 million.

In addition, minor investment actions totalling CZK 3.5 million were conducted (reconstruction of E1A building's elevators, bars for boiler and engine rooms, service platforms, soot blowers for boilers K80 and K90, thermal imager, apparatus for cleaning oil and a lapping machine for armature).

Furthermore the works in the amount of CZK 0.9 million associated with the connection of new electric boiler were completed.

In terms of infrastructure the investments were directed mainly to the hot water pipelines amounting to CZK 1.0 million in the Česana plant. In addition, several devices were purchased (analyzer, measurement detector, hydraulic cutter of high voltage cables and welding power supply) for CZK 1.1 million.

In energy economy section, natural gas pressure reducing station of CZK 9.8 million was put in operation in January 2016 in the Kvasiny plant. Installation of air conditioning in the amount of CZK 0.3 million took place during the year in Vrchlábí and in V12 building. Investment of CZK 0.2 million was also made into the control system of Vrchlábí plant and small investments amounting to CZK 0.1 million took place.

CZK 0.2 million was spent in the software field. Expansion and continuous modernization of the software enable the Company to continually improve the custody of the entrusted equipment.

A technical enhancement of the administrative building in the amount of CZK 2.0 million was completed and new parking lot amounting to CZK 1.1 million was built.

The Company also purchased a web camera in the amount of CZK 0.1 million for online monitoring of falcons nesting on the heating plant chimney.

## Human resources

### **Development of the structure and number of employees**

In 2016 the Company employed 324 employees in average, out of which 229 were workers, 91 technical and administrative staff and 4 management staff. The proportion of women in the total number of employees was 9.1%. The average age of all employees is 46.6 years.

### **Qualifications and further training of employees**

A great attention is paid to professional development, personal growth and development of managerial competences in the education system. Each employee is enrolled in the training process due to the high qualification prerequisites. Further development of technical and administrative staff is determined through a regular conversation with the employee. A mandatory area of education covers training courses for operational staff who carry out activities in their work which are subject to periodic reviews as required by law. General development of employees is promoted through a wide range of internal and external courses, conferences.

Educational program "I am Superman – nothing can happen to me" took place in the Company in 2016. The programme helps to reduce the feeling of invulnerability of employees and enhancing their natural precaution. It also helps to improve corporate culture and broadening communication between all groups of employees.

### **Wage and social policy**

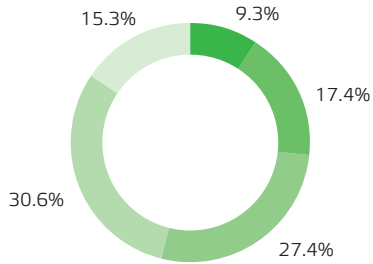
Salaries and remuneration of employees were in the past year conducted in accordance with the principles and agreements in the Collective Agreement. The Company concluded a new Collective Agreement which is effective from 1 April 2015 to 31 March 2018. As part of the social policy the Company offers a range of benefits and working conditions beyond those that are required by law to its employees.

### **Internal communication**

All employee categories take part in the communication. Employees are regularly informed about the Company's goals, tasks and current events through their superiors, the Company's intranet and magazine.

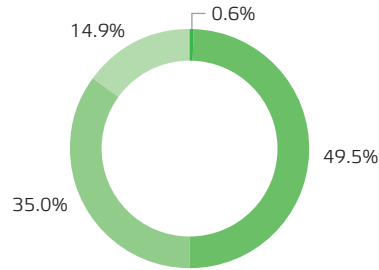


**Age structure of employees**



- age from 18 to 29
- age from 30 to 39
- age from 40 to 49
- age from 50 to 59
- age over 60

**Employees by education**



- primary education, technical school
- qualified worker
- qualified worker with school leaving exam/complete secondary education/higher technical education
- university education

**Occupational health and safety**

The Company implements the program of occupational safety culture change. The aim is to reduce the number of hazardous situations and so called “almost accidents” – the events related to work that could result in injury or damage to health, regardless of their severity, and thus minimize the number of actual injuries. The Company regularly assesses the risks during work activities and change in employees’ behaviour.

## Relationship to the Environment

The Company's fundamental principles in the area of the environment include using the best available technologies with the objective to improve production processes beyond the legislative requirements pertaining to environment protection.

### **The protection of air and climate**

The Company's main goals in the protection of air include maintaining a high standard in the area of minimising gas and solid emissions released into the air as a result of heat and electricity generation. We continuously achieve low values of produced emissions through the proper maintenance of equipment which, due to its parameters, is categorised as BAT technologies. Currently, the Company implements measures to further reduce emissions into the air. This primarily involves intensification of desulphurisation and implementation of denitrification measures (DeNO<sub>x</sub>). New limits for emission of solid pollutants have been met since 2000.

ŠKO-ENERGO reduces greenhouse gas emissions by burning biomass. Due to the fuel base of boilers, space demands and requirements for availability as well as performance of the boilers, the batching of the pellets is realized by separate lines leading directly into the combustion chamber. The high share of burned biomass on production of heat from fluidized boilers was reached after the realization of investments in previous years.

### **Waste management**

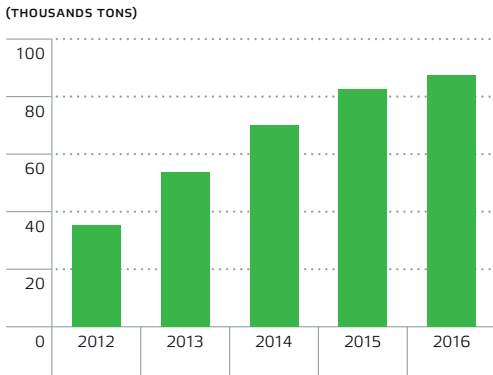
Within the area of waste management, the Company strives to maximally use by-products from energy generation, which are ashes from the coal-fired boilers. Thanks to the cooperation with specialized firms, ashes from the ŠKO-ENERGO heating plant were certified as a construction material, thereby substantially reducing the production of waste by the Company. This product is thus subject to the new European Community legislation in the area of chemical substances pursuant to Commission Regulation EC No. 1907/2006 under the acronym REACH. In accordance with this legislation, the Company completed registration within the ASVEP consortium in 2010. The harmonised standards for using ash in construction materials are currently being amended and as a result, methods for using the materials in such a way that the burden on the environment is minimised are being sought.

In 2007, the Company began sorting produced mixed waste, which comprises 7% of all waste within the "other" category generated by the Company. Since 2008, we have participated in a programme for recycling electronic waste (mainly computer technology and related devices) as part of the "Green Company" project implemented by the company REMA. Thanks to this project, the Company's employees can also return electronic devices for recycling. In the process of treating oily wastewater from ŠKODA AUTO's operations, the Company separates the oils, which are further processed into technical fuel usable in one of the fluid boilers. In this case, roughly 1,000 tonnes of "ŠKO-ENERGO oil emulsion" are used annually.

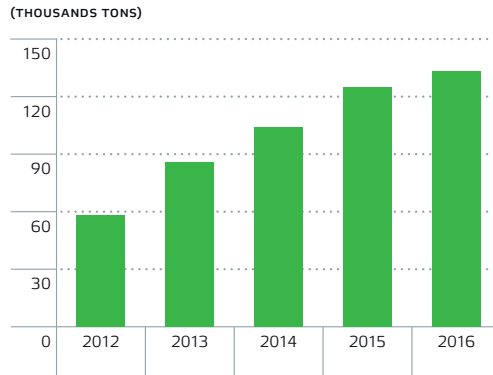
### **Water management**

In the area of water management, the Company's goal is to provide services to ŠKODA AUTO in accordance with strict limits stipulated by the environmental legislation. After 15 years of the operation of the wastewater treatment plant, it is important to conduct preventive maintenance of the equipment, which still fulfils the requirements of the best available technologies. For example, at the rainwater and wastewater treatment station, maintenance of the aeration system and replacements of the sand-gravel filters are regularly carried out.

**The quantity of biomass burned**



**Number of tons of CO<sub>2</sub> emitted from biomass**



The systems of cooling circuits operated by the Company are gradually equipped with TRASAR 3D automated chemical-dosing system, which ensures optimum control of their chemical regimes, thus providing maximum economy both in terms of savings in the purchase of chemical preparations and in extending the useful life of the equipment and minimizing sedimentation. These units are equipped with remote transmission for immediate inspection of the set parameters. The wastewater load is thus concurrently reduced.

**Principles of ŠKO-ENERGO’s environmental conduct**

ŠKO-ENERGO understands environmental protection as a common task in which every employee must participate according to his or her duties, knowledge and abilities. Within the framework of the environmental policy, ŠKO-ENERGO has undertaken to perform the following tasks:

1. To engage in environmental protection on the basis of its own sense of responsibility and its own initiative.
2. To reduce ecological burdens caused by the Company’s activities through the use of new processes and ecological conduct.
3. To use modern technologies and standards if such technologies are technically feasible and economically acceptable during the construction and operation of all facilities.
4. To reduce the amount of emissions released into the air and to use natural resources economically.
5. To perform all routine planned activities pursuant to ecological regulations and other requirements of environmental protection.
6. To ensure occupational safety and the safety of ŠKO-ENERGO facilities at high level and continual improvement.
7. To evaluate the impact on the environment in order to limit environmental risks and safety hazards, prior to the introduction of new processes and installation of new equipment.
8. To promote, through training and dissemination of information, the responsibility of the Company’s employees for the environment.
9. To regularly verify compliance with policies and goals in the area of the environment and the effectiveness of the Company’s environmental management.
10. To carry on an open dialogue with interest groups and to provide information serving for the understanding of adopted goals and results of environmental programmes.

## Risk Management System

The Company considers risk management indispensable in view of the economic development and changes and uncertainties in the energy sector. The standard instruments for risk management in ŠKO ENERGO are insurance, long-term customer-supplier contracts with pricing models, diversification of risk by gradual purchasing and maintenance system. The risk management system also covers data information systems security.

### **The organization of risk management**

The risk management system is set up conceptually so that it upholds the interests of both ŠKO-ENERGO and ŠKODA AUTO, which is one of the shareholders and at the same time, the main customer.

The risk management system comprises identification and risk assessment, risk management in the form of countermeasures and management control.

In the evidence stage, there are two thematic areas of risk, mandatory and optional. The significance of risk is measured on the basis of data, so called Triad. Triad consists of following components: particular risk; countermeasures and managerial control. Compliance risks are also part of the thematic areas.

Each risk is recorded by its designation and name, name of the person responsible for the risk, description of risk; risks cause, the gross effect of risk and net assessment of risk. The calculation of risk score, allowing comparison between different risks is based on the risk evaluation.

At least one countermeasure must exist to each risk. Countermeasure reduces the probability of occurrence or severity of risk. This effect is known as "reduction intensity". Evidence of countermeasure must include activities; description of countermeasure and reduction intensity;

For each countermeasure the managerial control is conducted which guarantees that the countermeasure is implemented and is reasonable.

In the area of data and information systems security the Company has appointed a CISO (Chief Information Security Officer), who implements the standards of the VW Group in the Company.

### **Description of risks and risk management**

Market and legislative risks, currently the most significant risks, can be partially managed by the Company. These risks include volatility of coal, gas and electricity prices and uncertain development of the prices of CO<sub>2</sub> emission rights and legislation affecting the fee for renewables. There are also significant operating and process risks entailed in production outages or breakdowns of distribution systems.

### **Prices of coal and biomass**

Since there is a shortage of brown coal in the Czech Republic its prices are increasing. ŠKO-ENERGO has secured supplies and prices of brown coal by a long-term contract. Its supplier is Severočeské doly Bílina, which will have a virtual monopoly in supplies of sorted coal. In 2014 a long-term contract for the supply of biomass, which secures the required quantity and price the same way as the one for coal, was concluded.

**CO<sub>2</sub> Variability of gas and electricity prices and CO<sub>2</sub> emission permits**

The variability of gas prices has increased nowadays. The liberalization process was completed but a linkage to the price of oil prevails to some extent. The price of gas is affected by imports of liquid natural gas from overseas.

PXE prices are connected to the EEX price which is gradually falling. Decline in the prices is caused by the increasing influence of facilities using renewable sources of energy and their subsidising.

As a result of market surplus, prices of CO<sub>2</sub> emission permits settled at low levels. Emission permits trading system is continuously supported by the European Union, which aims at increasing the price of CO<sub>2</sub> emission permits.

To limit market risks caused by volatility of commodities the Company may use business models allowing gradual purchases of electricity and gas in individual tranches based on the quoted price on stock exchange. CO<sub>2</sub> emission permits may be bought on spot and forward market.

**Operational and process risks**

The most significant operational risk is a breakdown of the heating plant caused by an operational error and possible damage caused to a third party.

Operational and process risks are reduced by regular maintenance of production facilities and equipment, as well as systematic training of personnel and their professional development.

Insurance is an important tool for managing the Company's operational risks. The Company has concluded insurance contracts on assets and against operational breakdowns. All of the Company's assets are insured against natural disasters. In case of operational breakdowns caused by damaged equipment, the insurance companies pay additional costs arising from purchases of energy.

Reduction of operational risks is ensured by the Company's management in conformity with the ISO 9000 (QMS) and 14000 (EMS) standards and with certification of the integrated management system (IMS) pursuant to these standards.

**Risks in the area of information technologies (IT)**

In the area of information technologies, the Company adopted measures against risks involving the availability, confidentiality, and integrity of data. The Company uses information systems and technologies not only for administrative work, but also for managing the production facilities where the maximum possible level of security is required. Systems security is inspected regularly and improved in line with the development of technologies. The Company uses central administration of applications and antivirus protection.

Technical measures for securing the data network are shared with ŠKODA AUTO which uses the best available technologies. The Company is progressively applying all of ŠKODA AUTO's security standards. Despite the Company's intense focus on IT security, these risks cannot be completely eliminated given the fast development of information technologies and the rising global trend of computer crime. The Company's objective is to minimize the consequences of these factors through the active use of the available technologies and improvement of corporate processes.

**The most significant unmanageable risks**

Risks over which the Company has no control and cannot protect itself against are related to the government's tax policy, the amount of fees for renewable resources and subsidies to support energy production from renewable sources. The Company does not use any other tools to hedge itself against the effects of weather which causes decrease in the sales of heat.

## Outlook and goals for the upcoming periods

### Expected development of the business environment

Outlook for the next period is affected by changes in the business environment. Energy development is fundamentally affected by political decisions which lead to regulatory measures. Political pressure to reduce CO<sub>2</sub> emissions peaked at Paris conference COP 21 at the end of 2015. The European Union reflects the conference conclusions to its climate-energetic package and sets targets to reduce CO<sub>2</sub> emissions, use of renewable sources of energy and reduce energetic demands. Liberalization and renewable resources result in low price of electricity on European stock exchanges. At the same time, the market is affected by massive subsidies.

Another important shift can be seen in the development of technologies. Solar and wind energy as well as its storage are trends that influence the global energy industry. The automotive industry is experiencing a significant move toward the electric mobility.

### The Company's main goals

#### Financial goals

The Company's goal is to achieve adequate profit while supplying its customers with energy at competitive prices. The economical production will be based on ongoing and thorough supervision, cost management, and optimal use of the capacity of heating plant facilities.

#### Customer satisfaction

The Company will respond to current development and will supply ŠKODA AUTO with energies under the most favourable conditions possible. One of the crucial goals is to provide consistent and uninterrupted supplies of energy. The basis of the communication strategy for customers consists of emphasising the competitive advantages provided by low energy costs, ecological production, the Company's conduct and its added value for Mladá Boleslav region. The Company will continue to support professional sport and culture in Mladá Boleslav and leisure activities for children and the youth.

#### Strategic purchasing of raw materials and energies

The Company will use the competitive environment for ensuring price-advantageous purchases of raw materials and energies both for its own production as well as for purchasing commodities for ŠKODA AUTO. This primarily concerns electricity, gas, and CO<sub>2</sub> permits, where the Company together with its shareholders will seek out the most favourable means of purchasing. The objective is a long-term contractual relationships for the purchase of coal and biomass.

**Production and energy supplies**

The main objective is to ensure safe and uninterrupted supplies of energy while optimally using the capacity of the facility, reducing the number of unplanned power disruptions and, at the same time, providing ecological operation and using of renewable resources to produce electricity and heat. The Company will continue with energetic utilization of waste and to seek new ways of its use.

**Work safety**

The Company's aim is to decrease the number of accidents and their reduction to a minimum level by changing the Company culture focused on monitoring and recording of "almost accidents".

**Human resource development**

Management of the employees' productivity, development and education of personnel and its creative and motivated approach to own work are the basis for achieving the Company's objectives in all areas. Therefore, strong emphasis will continue to be placed on development of the education system and effective use of invested financial resources. Employees will be offered courses in the areas of professional skills, foreign languages, communication and presentation skills, and computer technology.

**Development of information systems**

In all activities, the Company will increasingly exploit the possibilities of modern information technologies as a tool for improving processes in all management, production, and supporting processes. The foundation for development of this area will be a conception based on the SAP system. Based on the requirement of the VW concern, the Company will implement measures for ensuring data and information security.

**E-mobility**

A new challenge for the Company is to provide infrastructure and services for electro-mobility of ŠKODA AUTO. Apart from building infrastructure in ŠKODA AUTO factories, the Company will seek new business opportunities in this area.





# Financial Statements



## ***Independent auditor's report*** **to the shareholders of ŠKO-ENERGO, s.r.o.**

### *Opinion*

We have audited the accompanying financial statements of ŠKO-ENERGO, s.r.o., with its registered office at Tř. Václava Klementa 869, Mladá Boleslav ("the Company") prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2016, the income statement, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, of its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

### *Basis for Opinion*

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and accepted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Other Information*

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Statutory Body is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge about the Company obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law and regulation, in particular, whether the other information complies with law and regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law and regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

### *Responsibilities of the Statutory Body and Supervisory Board for the Financial Statements*

The Statutory Body is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation and for such internal control as the Statutory Body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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## Shareholders of ŠKO-ENERGO, s.r.o.

### Independent auditor's report

In preparing the financial statements, the Statutory Body is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Statutory Body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

#### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above stated requirements will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.


As part of an audit in accordance with the above stated requirements, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit 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 Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Statutory Body.
- Conclude on the appropriateness of the Statutory Body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Statutory Body and Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

13 April 2017

  
PricewaterhouseCoopers Audit, s.r.o.  
represented by

  
Václav Přemek



Petra Bočáková  
Statutory Auditor, Evidence No. 2253

Translation note

This version of our report is a translation from the original, which was prepared in the Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over this translation.

# Balance Sheet

31 December 2016

(IN THOUSAND CZECH CROWNS)

REF.			ASSETS	ROW	31. 12. 2016			31. 12. 2015	
A			B	C	GROSS 1	PROVISION 2	NET 3	NET 4	
			<b>TOTAL ASSETS</b>	<b>001</b>	<b>1,601,588</b>	<b>(493,860)</b>	<b>1,107,728</b>	<b>1,052,807</b>	
<b>B.</b>			<b>Fixed assets</b>	<b>003</b>	<b>849,860</b>	<b>(370,172)</b>	<b>479,688</b>	<b>456,187</b>	
<b>B. I.</b>			<b>Intangible fixed assets</b>	<b>004</b>	<b>96,236</b>	<b>(24,971)</b>	<b>71,265</b>	<b>73,688</b>	
B. I.	2.		Royalties	006	22,216	(22,033)	182	1,652	
B. I.	2.	1.	Software	007	22,216	(22,033)	182	1,652	
B. I.	4.		Other intangible fixed assets	010	68,059	(2,938)	65,121	62,063	
B. I.	5.		Advances paid and intangible fixed assets in the course of construction	011	5,961	-	5,961	9,973	
B. I.	5.	2.	Intangible fixed assets in the course of construction	013	5,961	-	5,961	9,973	
<b>B. II.</b>			<b>Tangible fixed assets</b>	<b>014</b>	<b>753,624</b>	<b>(345,201)</b>	<b>408,423</b>	<b>382,499</b>	
B. II.	1.		Land and constructions	015	244,792	(56,610)	188,182	191,956	
B. II.	1.	2.	Constructions	017	244,792	(56,610)	188,182	191,956	
B. II.	2.		Equipment	018	459,440	(288,591)	170,849	184,548	
B. II.	5.		Advances paid and tangible fixed assets in the course of construction	024	49,392	-	49,392	5,995	
B. II.	5.	2.	Tangible fixed assets in the course of construction	026	49,392	-	49,392	5,995	
<b>C.</b>			<b>Current assets</b>	<b>037</b>	<b>738,929</b>	<b>(123,688)</b>	<b>615,241</b>	<b>460,693</b>	
<b>C. I.</b>			<b>Inventories</b>	<b>038</b>	<b>170,799</b>	<b>(123,688)</b>	<b>47,111</b>	<b>51,955</b>	
C. I.	1.		Raw materials	039	170,799	(123,688)	47,111	51,955	
<b>C. II.</b>			<b>Receivables</b>	<b>046</b>	<b>466,249</b>	<b>-</b>	<b>466,249</b>	<b>363,190</b>	
C. II.	1.		Long-term receivables	047	44,210	-	44,210	34,368	
C. II.	1.	4.	Deferred tax asset	051	38,835	-	38,835	28,352	
C. II.	1.	5.	Receivables - other	052	5,375	-	5,375	6,016	
C. II.	1.	5.	4.	Other receivables	056	5,375	-	5,375	6,016
C. II.	2.		Short-term receivables	057	422,039	-	422,039	328,822	
C. II.	2.	1.	Trade receivables	058	281,312	-	281,312	196,113	
C. II.	2.	4.	Receivables - other	061	140,727	-	140,727	132,709	
C. II.	2.	4.	3.	Taxes - receivables from the state	064	5	-	5	11,438
C. II.	2.	4.	4.	Short-term advances paid	065	138,278	-	138,278	119,394
C. II.	2.	4.	6.	Other receivables	067	2,444	-	2,444	1,877
<b>C. IV.</b>			<b>Cash</b>	<b>071</b>	<b>101,881</b>	<b>-</b>	<b>101,881</b>	<b>45,548</b>	
C. IV.	1.		Cash in hand	072	70	-	70	98	
C. IV.	2.		Cash at bank	073	101,811	-	101,811	45,450	
<b>D.</b>			<b>Prepayments and accrued income</b>	<b>074</b>	<b>12,799</b>	<b>-</b>	<b>12,799</b>	<b>135,927</b>	
D.	1.		Prepaid expenses	075	5,111	-	5,111	5,347	
D.	3.		Accrued income	077	7,688	-	7,688	130,580	

REF.	LIABILITIES AND EQUITY			ROW	31. 12. 2016	31. 12. 2015
A	B			C	5	6
	<b>TOTAL LIABILITIES AND EQUITY</b>			<b>078</b>	<b>1,107,728</b>	<b>1,052,807</b>
<b>A.</b>	<b>Equity</b>			<b>079</b>	<b>62,339</b>	<b>61,622</b>
<b>A. I.</b>	<b>Share capital</b>			<b>080</b>	<b>10,000</b>	<b>10,000</b>
A. I. 1.	Share capital			081	10,000	10,000
<b>A. III.</b>	<b>Other reserves</b>			<b>092</b>	<b>50,169</b>	<b>49,452</b>
A. III. 1.	Other reserve funds			093	1,094	1,094
A. III. 2.	Statutory and other reserves			094	49,075	48,358
<b>A. V.</b>	<b>Profit / (loss) for the current period</b>			<b>099</b>	<b>2,170</b>	<b>2,170</b>
<b>B. +C.</b>	<b>Liabilities</b>			<b>101</b>	<b>795,615</b>	<b>786,998</b>
<b>B.</b>	<b>Provisions</b>			<b>102</b>	<b>129,454</b>	<b>94,095</b>
B. 4.	Other provisions			106	129,454	94,095
<b>C.</b>	<b>Liabilities</b>			<b>107</b>	<b>666,161</b>	<b>692,903</b>
<b>C. II.</b>	<b>Short-term liabilities</b>			<b>123</b>	<b>666,161</b>	<b>692,903</b>
C. II. 4.	Trade payables			129	325,122	333,925
C. II. 8.	Liabilities – other			133	341,039	358,978
C. II. 8. 1.	Liabilities to shareholders			134	280,040	330,022
C. II. 8. 3.	Liabilities to employees			136	16,990	18,847
C. II. 8. 4.	Liabilities for social security and health insurance			137	5,528	6,125
C. II. 8. 5.	Taxes and state subsidies payable			138	12,620	7
C. II. 8. 6.	Estimated payables			139	25,861	3,977
<b>D.</b>	<b>Accruals and deferred income</b>			<b>141</b>	<b>249,774</b>	<b>204,187</b>
D. 1.	Accrued expenses			142	249,774	204,187

# Income Statement

31 December 2016

(IN THOUSAND CZECH CROWNS)

REF.	TEXT	ROW	ACCOUNTING PERIOD	
			2016	2015
A	B	C	1	2
<b>I.</b>	<b>Sales of products and services</b>	<b>01</b>	<b>2,290,405</b>	<b>2,334,469</b>
<b>II.</b>	<b>Sales of goods</b>	<b>02</b>	<b>439,824</b>	<b>512,619</b>
<b>A.</b>	<b>Cost of sales</b>	<b>03</b>	<b>2,298,500</b>	<b>2,436,659</b>
A. 1.	Cost of goods sold	04	439,840	512,618
A. 2.	Raw materials and consumables used	05	754,608	1,016,024
A. 3.	Services	06	1,104,052	908,017
<b>D.</b>	<b>Staff costs</b>	<b>09</b>	<b>297,070</b>	<b>283,890</b>
D. 1.	Wages and salaries	10	212,312	201,495
D. 2.	Social security, health insurance and other social costs	11	84,758	82,395
D. 2. 1.	Social security and health insurance costs	12	75,506	71,908
D. 2. 2.	Other social costs	13	9,252	10,487
<b>E.</b>	<b>Value adjustments in operating activities</b>	<b>14</b>	<b>56,965</b>	<b>66,758</b>
E. 1.	Value adjustments of fixed assets	15	47,031	58,567
E. 1. 1.	Depreciation, amortisation and write off of fixed assets	16	47,031	58,567
E. 2.	Provision for impairment of inventories	18	9,934	8,191
<b>III.</b>	<b>Operating income – other</b>	<b>20</b>	<b>29,396</b>	<b>64,420</b>
III. 2.	Sales of raw materials	22	12	40
III. 3.	Other operating income	23	29,384	64,380
<b>F.</b>	<b>Operating expenses – other</b>	<b>24</b>	<b>114,880</b>	<b>133,800</b>
F. 3.	Taxes and charges from operating activities	27	6,944	3,034
F. 4.	Operating provisions and complex prepaid expenses	28	35,359	35,307
F. 5.	Other operating expenses	29	72,577	95,459
<b>*</b>	<b>Operating result</b>	<b>30</b>	<b>(7,790)</b>	<b>(9,599)</b>
<b>VI.</b>	<b>Interest and similar income</b>	<b>39</b>	<b>69</b>	<b>140</b>
VI. 2.	Other interest and similar income	41	69	140
<b>J.</b>	<b>Interest and similar expenses</b>	<b>43</b>	<b>385</b>	<b>943</b>
J. 1.	Interest and similar expenses – subsidiaries or controlling party	44	383	941
J. 2.	Other interest and similar expenses	45	2	2
<b>VII.</b>	<b>Other financial income</b>	<b>46</b>	<b>47</b>	<b>174</b>
<b>K.</b>	<b>Other financial expenses</b>	<b>47</b>	<b>254</b>	<b>312</b>
<b>*</b>	<b>Financial result</b>	<b>48</b>	<b>(523)</b>	<b>(941)</b>
<b>**</b>	<b>Net profit / (loss) before taxation</b>	<b>49</b>	<b>(8,313)</b>	<b>(10,540)</b>
<b>L.</b>	<b>Tax on loss</b>	<b>50</b>	<b>(10,483)</b>	<b>(12,710)</b>
L. 2.	Tax on profit or loss – deferred	52	(10,483)	(12,710)
<b>**</b>	<b>Net profit after taxation</b>	<b>53</b>	<b>2,170</b>	<b>2,170</b>
<b>***</b>	<b>Net profit for the financial period</b>	<b>55</b>	<b>2,170</b>	<b>2,170</b>
	<b>Net turnover for the financial period</b>	<b>56</b>	<b>2,759,741</b>	<b>2,911,822</b>

# Statement of Changes in Shareholders' Equity

for the year ended 31 December 2016  
(CZK'000)

	SHARE CAPITAL	RESERVE FUND	STATUTORY AND OTHER FUNDS	RETAINED EARNINGS	TOTAL
<b>As at 1 January 2015</b>	<b>10,000</b>	<b>1,094</b>	<b>47,642</b>	<b>2,161</b>	<b>60,897</b>
Statutory and other funds	-	-	716	(716)	-
Profit distribution paid	-	-	-	(1,445)	(1,445)
Net profit for the period	-	-	-	2,170	2,170
<b>As at 31 December 2015</b>	<b>10,000</b>	<b>1,094</b>	<b>48,358</b>	<b>2,170</b>	<b>61,622</b>
Statutory and other funds	-	-	717	(717)	-
Profit distribution paid	-	-	-	(1,453)	(1,453)
Net profit for the period	-	-	-	2,170	2,170
<b>As at 31 December 2016</b>	<b>10,000</b>	<b>1,094</b>	<b>49,075</b>	<b>2,170</b>	<b>62,339</b>

# Cash Flow Statement

for the year ended 31 December 2016  
(CZK'000)

		2016	2015
<b>Cash flows from operating activities</b>			
	<b>Net loss on ordinary activities before tax</b>	<b>(8,313)</b>	<b>(10,540)</b>
<b>A.1</b>	<b>Adjustments for non-cash movements:</b>	<b>127,006</b>	<b>132,482</b>
A.1.1	Depreciation/amortisation of fixed assets	47,031	58,567
A.1.2	Changes in provisions	45,293	43,498
A.1.5	Net interest expense	316	803
A.1.6	Other non-cash movements	34,366	29,614
<b>A*</b>	<b>Net cash flow from operating activities before tax and changes in working capital</b>	<b>118,693</b>	<b>121,942</b>
<b>A.2</b>	<b>Working capital changes:</b>	<b>94,289</b>	<b>(100,762)</b>
A.2.1	Changes in receivables and prepayments and accrued income	30,552	(43,922)
A.2.2	Changes in short-term payables, accrued expenses and deferred income	68,827	(53,262)
A.2.3	Changes in inventories	(5,090)	(3,578)
<b>A**</b>	<b>Net cash flow from operating activities before tax</b>	<b>212,982</b>	<b>21,180</b>
A.3	Interest paid	(385)	(943)
A.4	Interest received	69	140
<b>A***</b>	<b>Net cash flow from operating activities</b>	<b>212,666</b>	<b>20,377</b>
<b>Cash flows from investing activities</b>			
B.1	Acquisition of fixed assets	(104,898)	(85,555)
<b>B***</b>	<b>Net cash flow from investing activities</b>	<b>(104,898)</b>	<b>(85,555)</b>
<b>Cash flows from financing activities</b>			
C.1	Changes in long- and short-term liabilities	(49,982)	90,000
<b>C.2</b>	<b>Changes in equity:</b>	<b>(1,453)</b>	<b>(1,445)</b>
C.2.6	Profit distribution paid	(1,453)	(1,445)
<b>C***</b>	<b>Net cash flow from financing activities</b>	<b>(51,435)</b>	<b>88,555</b>
	<b>Net increase in cash and cash equivalents</b>	<b>56,333</b>	<b>23,377</b>
	<b>Cash and cash equivalents as at the beginning of the year</b>	<b>45,548</b>	<b>22,171</b>
	<b>Cash and cash equivalents as at the end of the year</b>	<b>101,881</b>	<b>45,548</b>

\* Other non-cash movements include adjustment of emission permits obtained free of charge.



# Notes to the Financial Statements

Year ended 31 December 2016

## 1. General information

### 1.1 Introductory information about the company

ŠKO-ENERGO, s.r.o. ("the Company") was incorporated on 30 June 1995 by the Municipal Court in Prague, Section C, Insert 38550 and has its registered office at Mladá Boleslav 1, Tř. Václava Klementa 869, Postal code 293 60. The Company's primary business activities are production and distribution of thermal energy; electricity production and trading; gas trading; construction, inspection and testing of electrical, pressure, gas devices etc. The Company's identification number is 616 75 938.

**Share of individual shareholders on the share capital as at 31 December 2016 and 2015 were as follows:**

SHAREHOLDER	SHARE (%)
E.ON Czech Holding AG, Mnichov (Germany)	21.00
VW KRAFTWERK GmbH, Wolfsburg (Germany)	22.50
ŠKODA AUTO a.s., Mladá Boleslav	44.50
ČEZ, a.s., Praha	12.00
<b>Total</b>	<b>100.00</b>

The Company is not a shareholder having unlimited liability in any undertaking.

The Company updated its Articles of Association that are now fully governed by the new Corporations Act. This fact became effective as at 12 September 2014.

The Company does not have any arrangements that are not included in the balance sheet as at 31 December 2016 or 31 December 2015.

## 2. Accounting policies

### 2.1 Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic relevant for large companies and have been prepared under the historical cost convention.

### 2.2 Comparative figures

Based on the amendment to the Act on Accounting and implementing Decree effective from 1 January 2016, individual items of the balance sheet and income statement are presented in a different structure.

In order to ensure the comparability of items presented in the financial statements, the comparative figures were reclassified in accordance with Czech accounting standard no. 24: "The comparative figures for the accounting period beginning in 2016".

### 2.3 Intangible fixed assets

All intangible assets with a useful life longer than one year and a unit cost of more than CZK 60 thousand are treated as intangible fixed assets.

Purchased intangible fixed assets are initially recorded at cost, which includes all costs related with its acquisition.

**Intangible fixed assets are amortised applying the straight-line method over their estimated useful lives as follows:**

INTANGIBLE FIXED ASSETS	ESTIMATED USEFUL LIFE
Software	3–4 years
Other intangible fixed assets	5–8 years

The amortisation plan is updated during the useful life of the intangible fixed assets based on the expected useful life change.

A provision for impairment is created when the carrying value of an asset is greater than its estimated recoverable amount.

Emission allowances are presented by the Company as other intangible fixed assets.

Emission allowances allocated to the Company by the National Allocation Plan are recorded to the account of other intangible fixed assets and to the account taxes and state subsidies payable upon being credited to the Company in the Register of Emission Allowances in the Czech Republic.

Emission allowances allocated to the Company free of charge are recorded at replacement cost. Emission allowances purchased by the Company are recorded at cost.

The consumption of emission allowances is recorded to other operating expenses on the basis of actual CO<sub>2</sub> emissions produced in the period. At the same time the emission allowances liability is released in other operating income, if it is consumption of the allocated emission allowances.

Since 2015 the Company has used hedging method of purchases for future periods. Emission allowances purchased are sorted according to a given key (on percentage basis) to following five periods.

If the number of emission allowances at the balance sheet date is lower than the number of allowances to be disposed, verified by independent expert, the shortage is going to be covered by one-off purchase. However, if the required number of allowances is lower than the minimum trading quantity (10 000 emission allowances), emission allowances allocated for following accounting period would be used.

If the number of purchased emission allowances at the balance sheet date is higher than the number of allowances to be disposed, verified by independent expert, the surplus will be allocated between the following years according to the same key applied for the current purchases.

In case the formal crediting of the allocated emission allowances to the account in the Register of Emission Allowances in Czech Republic took place after the balance sheet date, the consumption of these emission allowances would be recognized in other operating expenses with a corresponding entry to account of estimated payables. Estimated receivables are also accounted for against other operating revenues. These emission allowances are recorded at replacement cost as at the balance sheet date.

Sales of emission allowances are recorded as other operating revenue and are stated at the selling price. At the same time, their book value is disposed from assets.

A provision is created for the deficit in emission allowances to cover their consumption in the disclosed period. A provision for diminution in value is created when the carrying value of emission allowances is greater than its estimated recoverable amount.

#### 2.4 Tangible fixed assets

All tangible assets with a useful life longer than one year and a unit cost of more than CZK 40 thousand are treated as tangible fixed assets.

Purchased tangible fixed assets are initially recorded at cost, which includes all costs related with its acquisition

**Tangible fixed assets, except for land which is not depreciated, are depreciated applying the straight-line method over their estimated useful lives as follows:**

TANGIBLE FIXED ASSETS	ESTIMATED USEFUL LIFE
Constructions	30–45 years
Plant, machinery and equipment	3–30 years
Inventory	0 years
Motor vehicles	5–8 years

The depreciation plan is updated during the useful life of the tangible fixed assets based on the expected useful life change.

A provision for impairment is created when the carrying value of an asset is greater than its estimated recoverable amount.

Repairs and maintenance expenditures for tangible fixed assets are expensed as incurred. Technical improvements of tangible fixed assets are capitalised.

Tangible fixed assets with a unit cost more than CZK 0 thousand and less than CZK 40 thousand are treated as inventory and are expensed upon consumption.

## 2.5 Inventories

Purchased inventories are stated at the lower of cost and net realisable amount. Cost includes all costs related with its acquisition (mainly transport costs, customs duty, etc.). The weighted average cost method is applied for all disposals.

For the purposes of calculation of provision to inventory, inventories of raw material have been divided between the emergency inventory of spare parts held to secure uninterrupted operation of the fixed assets under lease and other inventories.

The provision for the emergency inventory of spare parts is calculated as a percentage from the value of these inventories at the end of each year over the fixed assets finance lease period. The value of the emergency inventory of spare parts will thus decrease on a straight-line basis, and at the end of the finance lease period, the impairment of inventories will be consistent with the decrease in value of the relevant leased assets.

## 2.6 Receivables

Receivables are stated at nominal value less a provision for doubtful amounts. A provision for doubtful amounts is created on the basis of an ageing analysis and an individual evaluation of the credit worthiness of the customers.

## 2.7 Cash and cash equivalents

Cash and cash equivalents include cash in hand, valuables and cash in banks, including bank overdrafts.

Cash equivalents are short-term highly liquid investments that can be exchanged for a predictable amount of cash and no significant changes of value over time are expected. Cash equivalents are, for example, deposits with a maturity of less than 3 months from the date of acquisition and liquid debt securities traded in public markets.

The Company has prepared a Cash-flow statement using the indirect method.

## 2.8 Foreign currency translation

Transactions denominated in a foreign currency are translated and recorded at the exchange rate which is stipulated as the exchange rate valid on the day following the date of its announcement by the Czech National Bank.

Cash, receivables and liabilities balances denominated in foreign currencies have been translated at the exchange rate published by the Czech National Bank as at the balance sheet date. All exchange gains and losses on cash, receivables and liabilities balances are recorded in the income statement.

## 2.9 Changes of accounting policies and corrections of prior period errors

Changes to accounting policies (inclusive of deferred tax impact) and corrections of errors arising from incorrect accounting or unrecorded expenses and income in prior periods, if material, are recorded on financial statements line Restatements of retained earnings.

## 2.10 Provisions

Provisions are recognised when the Company has a present obligation, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

## 2.11 Employee benefits

The Company recognizes a provision relating to untaken holidays and rewards and bonuses of employees. The Company takes into account an expected annual average ratio of payments for social and health insurance and payroll expenses when creating the provision. The provisions are classified as non -tax deductible.

Regular contributions are made to the state to fund the national pension plan. The Company also provides contributions to defined contribution plans operated by independent pension funds.

## 2.12 Revenue recognition

Sales are recognised as at the date the services are rendered and are stated net of discounts and value added tax.

## 2.13 Related parties

The Company's related parties are considered to be the following:

- parties, which directly or indirectly control the Company, their subsidiaries and associates;
- parties, which have directly or indirectly significant influence on the Company;
- members of the Company's or parent company's statutory and supervisory boards and management and parties close to such members, including entities in which they have a controlling or significant influence.

Material transactions and outstanding balances with related parties are disclosed in Note 12 Related party transactions and 13 Employees.

## 2.14 Leases

The costs of assets held under both finance and operating leases are not capitalised as fixed assets. Lease payments are expensed evenly over the life of the lease. Future lease payments not yet due are disclosed in the notes but not recognised in the balance sheet.

On the basis of the operating lease contracts concluded by the Company, the Company was provided

with cars, equipment and premises by ŠKODA AUTO a.s. and on the basis of the finance lease contract, it was provided with all fixed assets from ŠKO-ENERGO FIN, s.r.o. (hereinafter "ŠKO-ENERGO FIN"). The lease contracts and the finance lease contracts do not result, in the case of the Company, in the capitalization of the leased assets; the relevant lease payments therefore influence the profit/(loss) for the current period. Any assets held under finance lease shall be repurchased after the termination of the lease contract.

## 2.15 Interest expense

Interest expense on borrowings to finance the acquisition of intangible and tangible fixed assets are capitalised during the period of completion and preparation of the asset for its intended use. Other borrowing costs are expensed.

## 2.16 Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax asset is recognised if it is probable that sufficient future taxable profit will be available against which the asset can be utilised.

## 2.17 Subsequent events

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are recognised in the financial statements in the case that these events provide further evidence of conditions that existed as at the balance sheet date.

Where significant events occur subsequent to the balance sheet date but prior to the preparation of the financial statements, which are indicative of conditions that arose subsequent to the balance sheet date, the effects of these events are quantified and disclosed, but are not themselves recognised in the financial statements.

### 3. Intangible fixed assets

(CZK'000)	1 JANUARY 2016	ADDITIONS / TRANSFERS	DISPOSALS	31 DECEMBER 2016
<b>Cost</b>				
Software	21,968	248	–	22,216
Other intangible fixed assets	65,001	63,047	(59,989)	68,059
Intangible fixed assets in the course of construction	9,973	(4,012)	–	5,961
<b>Total</b>	<b>96,942</b>	<b>59,283</b>	<b>(59,989)</b>	<b>96,236</b>
<b>Accumulated amortisation</b>				
Software	20,316	1,717	–	22,033
Other intangible fixed assets	2,938	–	–	2,938
<b>Total</b>	<b>23,254</b>	<b>1,717</b>	<b>–</b>	<b>24,971</b>
<b>Net book value</b>	<b>73,688</b>			<b>71,265</b>

(CZK'000)	1 JANUARY 2015	ADDITIONS / TRANSFERS	DISPOSALS	31 DECEMBER 2015
<b>Cost</b>				
Software	21,353	1,580	(965)	21,968
Other intangible fixed assets	50,580	94,352	(79,931)	65,001
Intangible fixed assets in the course of construction	1,693	8,280	–	9,973
<b>Total</b>	<b>73,626</b>	<b>104,212</b>	<b>(80,896)</b>	<b>96,942</b>
<b>Accumulated amortisation</b>				
Software	18,041	3,240	(965)	20,316
Other intangible fixed assets	2,938	–	–	2,938
<b>Total</b>	<b>20,979</b>	<b>3,240</b>	<b>(965)</b>	<b>23,254</b>
<b>Net book value</b>	<b>52,647</b>			<b>73,688</b>

As at 31 December 2016, other intangible fixed assets include CZK 65,121 thousand relating to emission allowances (as at 31 December 2015: CZK 62,063 thousand).

#### 4. Tangible fixed assets

(CZK'000)	1 JANUARY 2016	ADDITIONS / TRANSFERS	DISPOSALS	31 DECEMBER 2016
<b>Cost</b>				
Constructions	239,586	5,206	–	244,792
Equipment	436,805	22,635	–	459,440
Tangible fixed assets in the course of construction	5,995	43,397	–	49,392
<b>Total</b>	<b>682,386</b>	<b>71,238</b>	<b>–</b>	<b>753,624</b>
<b>Accumulated depreciation</b>				
Constructions	47,630	8,980	–	56,610
Equipment	252,257	36,334	–	288,591
<b>Total</b>	<b>299,887</b>	<b>45,314</b>	<b>–</b>	<b>345,201</b>
<b>Net book value</b>	<b>382,499</b>			<b>408,423</b>

(CZK'000)	1 JANUARY 2015	ADDITIONS / TRANSFERS	DISPOSALS	31 DECEMBER 2015
<b>Cost</b>				
Constructions	231,596	7,990	–	239,586
Equipment	417,374	21,663	(2,232)	436,805
Tangible fixed assets in the course of construction	3,988	2,007	–	5,995
<b>Total</b>	<b>652,958</b>	<b>31,660</b>	<b>(2,232)</b>	<b>682,386</b>
<b>Accumulated depreciation</b>				
Constructions	38,765	8,865	–	47,630
Equipment	208,027	46,462	(2,232)	252,257
<b>Total</b>	<b>246,792</b>	<b>55,327</b>	<b>(2,232)</b>	<b>299,887</b>
<b>Net book value</b>	<b>406,166</b>			<b>382,499</b>

The Company uses assets under finance lease contracts that are recorded as tangible fixed assets in the financial statements after the expiration of the lease and ownership transfer.

**Analysis of the lease instalments relating to existing finance lease contracts:**

(CZK'000)	31 DECEMBER 2016	31 DECEMBER 2015
Amounts paid on existing finance lease contracts	11,852,400	11,166,300
Expected outstanding amounts payable within one year	686,600	611,500
Expected amounts payable after more than one year	1,252,200	1,713,500
<b>Amounts paid and expected amount of payables from existing contracts</b>	<b>13,791,200</b>	<b>13,491,300</b>

As at 31 December 2016 and 2015, no assets acquired upon the expiration of leases were recognized in the balance sheet.

## 5. Inventories

The Company created a provision for inventories as at 31 December 2016 of CZK 123,688 thousand (as at 31 December 2015: CZK 113,754 thousand).

**Analysis of the change in the provision for inventories:**

(CZK'000)	2016	2015
<b>Opening balance as at 1 January</b>	<b>113,754</b>	<b>105,564</b>
Charge for the year	9,934	8,190
<b>Closing balance as at 31 December</b>	<b>123,688</b>	<b>113,754</b>

## 6. Receivables

Overdue receivables as at 31 December 2016 amounted to CZK 85,163 thousand (as at 31 December 2015: CZK 35,567 thousand).

Unsettled receivables as at 31 December 2016 have not been covered by guarantees and none of them are due after more than 5 years.

Other long-term receivables are represented by loans to employees.

The Company has no receivables nor any contingent receivables which are not included in the balance sheet.

Accrued income included as at 31 December 2015 mainly final settlement with the company ŠKO-ENERGO FIN in the amount of CZK 128,492 thousand. As at 31 December 2016 this final settlement is presented in Accrued expenses in the amount of CZK 57,147 thousand.



## 7. Equity

The Company is fully governed by the new Corporations Act (see Note 1) however, it did not use the option not to create a reserve fund. The Company continues to create a reserve fund and its use is governed by its General Meeting, in accordance with the Company's Articles of Association.

The Company does not form a part of any upper consolidation group.

The general meeting of shareholders approved the financial statements for 2015 and decided about the allocation of profit earned in 2015 of CZK 2,170 thousand on 13 May 2016.

Until the date of preparation of these financial statements, the Company has not proposed distribution of the profit earned in 2016.

## 8. Provisions

(CZK'000)	LITIGATION PROVISIONS	CONTRACT LIABILITIES PROVISIONS	LIABILITIES TO EMPLOYEES PROVISIONS	TOTAL
<b>Opening balance as at 1 January 2015</b>	<b>34,750</b>	<b>100</b>	<b>23,937</b>	<b>58,787</b>
Charge for the year	33,290	–	25,954	59,244
Used in the year	–	–	(23,936)	(23,936)
<b>Closing balance as at 31 December 2015</b>	<b>68,040</b>	<b>100</b>	<b>25,955</b>	<b>94,095</b>
Charge for the year	33,290	–	28,023	61,313
Used in the year	–	–	(25,954)	(25,954)
<b>Closing balance as at 31 December 2016</b>	<b>101,330</b>	<b>100</b>	<b>28,024</b>	<b>129,454</b>

Other provisions include mainly provisions for employees' bonuses and outstanding components of wages and salaries relating to 2016. As at 31 December 2016 other provisions include also provisions for potential penalties arising from outstanding liabilities in the amount of CZK 101,330,000.

## 9. Payables, commitments and contingent liabilities

Trade and other payables have not been secured against any assets of the Company and are not due after more than 5 years.

Liabilities to related parties including accrued expenses are disclosed in Note 12.

The Company does not have any overdue payables related to social or health insurance or any other overdue payables to tax authorities or other state institutions.

Overdue trade liabilities of CZK 192,552 thousand represent related party liabilities, stated in Note 12 (as at 31 December 2015 of CZK 182,233 thousand).

Accrued expenses include invoices, received in January 2017, relating to year 2016.

The management of the Company is not aware of any contingent liabilities as at 31 December 2016.

Capital commitments contracted by the Company were CZK 19,761 thousand as at 31 December 2016 (as at 31 December 2015: CZK 8,742 thousand).

### The Company has the following commitments in respect of operational leases:

(CZK'000)	31 DECEMBER 2016	31 DECEMBER 2015
Current within one year	137	–
Due after one year but within five years	207	197
Due after five years	–	–
<b>Total commitments in respect of operational leases</b>	<b>344</b>	<b>197</b>

On the basis of concluded operating lease contracts, the Company has been provided automobiles, equipment and facilities from ŠKODA AUTO a.s.

## 10. Bank loans and other borrowings

A credit line of CZK 19,300 thousand has been provided by UniCredit Bank Czech Republic a.s. (as at 31 December 2015: CZK 20,000 thousand) to the Company to finance current assets. As at 31 December 2016 and 2015, the Company did not draw the credit line.

The Company uses credit line of CZK 550,000 thousand provided by the company Volkswagen International Finance NV. Based on the conditions stated in the contract dated 1 October 2010, the Company can choose between fixed or variable interest rate. As at 31 December 2016 the Company has drawn the revolving loan amounting to CZK 280,000 thousand with interest rate of 0.2750% p.a. (as at 31 December 2015 loan amounting to CZK 330,000 thousand with interest rate of 0.2893% p.a.) with a due date on 6 January 2017.

## 11. Revenue analysis

### Revenue analysis:

(CZK'000)	2016	2015
Electric energy	1,094,011	1,157,844
Heat	532,955	489,900
Compressed air	89,184	120,399
Technical gases and services related to energy supplies	497,644	492,366
Water	72,735	69,683
Other	3,876	4,277
<b>Total sales of own products and services</b>	<b>2,290,405</b>	<b>2,334,469</b>
Electric energy	263,218	291,009
Heat	12,739	11,070
Drinking water	19,365	18,748
Gas	144,502	191,792
<b>Total sales of goods</b>	<b>439,824</b>	<b>512,619</b>

## 12. Related party transactions

The Company was involved in the following related party transactions:

(CZK'000)	2016	2015
<b>Revenues</b>		
Sales of services		
ŠKODA AUTO a.s.	1,799,961	1,891,834
ČEZ Prodej, s.r.o.	15,865	21,306
ČEZ Distribuce, a.s.	-	25,592
ŠKO-ENERGO FIN, s.r.o.	270	333
Sales of goods		
ŠKODA AUTO a.s.	439,824	512,619
<b>Total</b>	<b>2,255,920</b>	<b>2,451,969</b>
<b>Costs</b>		
Purchase of goods for resale		
ČEZ Prodej, a. s	263,218	291,009
ČEZ Distribuce a.s.	-	236,436
Consumption of material and energy		
ČEZ Prodej, a. s	166,419	211,798
Services		
ŠKODA AUTO a.s.	39,331	34,446
ŠKO-ENERGO FIN, s.r.o.	686,598	500,959
ČEZ Distribuční služby, s.r.o.	372	31
ČEZ Energetické služby, s.r.o.	168	-
Telco Pro Services, a.s.	111	-
Volkswagen Insurance Brokers	218	-
VOLKSWAGEN VERSICHERUNGSVERMITTLUNG GMBH	-	290
Volkswagen Procurement Services GmbH	-	1,077
Interest expense		
Volkswagen International Finance NV *)	383	941
<b>Total</b>	<b>1,156,818</b>	<b>1,276,987</b>

## The following related party balances were outstanding as at:

(CZK'000)	31 DECEMBER 2016	31 DECEMBER 2015
<b>Receivables</b>		
Trade receivables		
ŠKODA AUTO a.s.	168,278	81,522
ČEZ Prodej, s.r.o.	3,784	5,462
ČEZ Distribuce, a.s.	-	4,856
ŠKO-ENERGO FIN, s.r.o.	326	402
Advances paid		
ŠKO-ENERGO FIN, s.r.o.	63,994	63,994
ČEZ Prodej, s.r.o.	26,611	19,321
ŠKODA AUTO a.s.	182	-
<b>Total</b>	<b>263,175</b>	<b>175,557</b>
<b>Liabilities</b>		
Trade paybles		
ŠKODA AUTO a.s.	13,063	1,894
ČEZ Distribuce, a.s.	182,233	205,933
ČEZ Distribuční služby, s.r.o	126	8
Other payables		
Volkswagen International Finance NV *)	280,000	330,000
<b>Total</b>	<b>475,422</b>	<b>537,835</b>

\*) Other information about loan from Volkswagen International Finance NV are in Note 10.

**During 2016 and 2015 the Company paid dividends to its shareholders in the following amount:**

(CZK'000)	2016	2015
ŠKODA AUTO a.s.	647	643
Volkswagen Kraftwerk GmbH	327	325
E.ON Czech Holding AG	305	304
ČEZ, a.s.	174	173
<b>Total</b>	<b>1,453</b>	<b>1,445</b>

The Company provides the members of management with the possibility to conclude a life insurance to secure themselves on retirement.

Members of the Supervisory Board received remuneration for their activities in 2016 and 2015. One Statutory Director received remuneration for his activities in 2016 and 2015.

Company car is made available for use by one of the Statutory Representatives.

In 2016 and 2015, members of the Supervisory Board and Statutory Representatives of the Company did not receive any guarantees, loans or any other advantages.

### 13. Employees

	2016		2015	
	NUMBER	(CZK'000)	NUMBER	(CZK'000)
Emoluments to the Statutory Body	4	10,828	4	10,457
Wages and salaries to other management	4	4,907	4	4,335
Wages and salaries to other employees	320	196,577	320	186,702
Social security costs	-	75,506	-	71,909
Other social costs	-	9,252	-	10,487
<b>Wages and salaries total</b>		<b>297,070</b>		<b>283,890</b>

The Company's statutory body includes statutory representatives and proxies of the Company, only three of them receive remuneration for their performance.

Other management includes senior staff members of the Company directly reporting to the members of the Statutory Body and members of the Supervisory board.

Other transactions with the Company's management are described in Note 12 – Related party transactions.

### 14. Fees paid and payable to the audit company

Total fees paid and payable for statutory audit of financial statements of 2016 performed by the company PricewaterhouseCoopers Audit, s.r.o. amounted to CZK 986 thousand.

## 15. Income tax

### The income tax expense analysis:

(CZK'000)	2016	2015
Deferred tax expense	10,483	12,710
<b>Total income tax expense</b>	<b>10,483</b>	<b>12,710</b>

### The current tax analysis:

(CZK'000)	2016	2015
Net loss before taxation	(8,313)	(10,540)
Tax non-deductible expenses	63,528	55,025
Difference between tax and accounting amortisation/depreciation	(5,334)	(2,082)
Utilized reinvestment relief	(49,881)	(42,403)
Net taxable profit	-	-
<b>Corporate income tax at 19%</b>	<b>-</b>	<b>-</b>

The deferred tax was calculated at 19% (the rate enacted for 2015 and subsequent years).

### The deferred tax asset analysis:

(CZK'000)	31 DECEMBER 2016	31 DECEMBER 2015
<b>Deferred tax liability arising from:</b>		
Difference between accounting and tax net book value of fixed assets	(24,196)	(23,109)
<b>Total deferred tax liability</b>	<b>(24,196)</b>	<b>(23,109)</b>
<b>Deferred tax asset arising from:</b>		
Provisions	48,097	39,491
Unrealized 10% investment relief for acquired fixed assets	14,934	11,970
<b>Total deferred tax asset</b>	<b>63,031</b>	<b>51,461</b>
<b>Net deferred tax asset</b>	<b>38,835</b>	<b>28,352</b>



## 16. Subsequent events

The shareholders agreed to transfer the business share of CEZ, a.s. to CEZ ESCO, a.s. on 20 February 2017. This information was entered in the Commercial register on 4 April 2017.

No other events have occurred subsequent to year-end that would have a material impact on the financial statements as at 31 December 2016.

13 April 2017



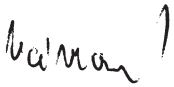
**Jaromír Vorel**  
Statutory Representative



**Tomáš Kubín**  
Statutory Representative



**Miroslav Žďánský**  
Proxy



**Milena Vávrová**  
Chief Accountant

# Report on Relations of ŠKO-ENERGO, s.r.o.

Pursuant to Section 82 of the Corporations Act for the financial period of calendar year 2016

The Statutory Representatives of ŠKO-ENERGO, s.r.o., with its registered office at Tr. Václava Klementa 869, Mladá Boleslav 1, Postal Code 293 60, identification no.: 616 75 938, entered in the Commercial Register administered by the Municipal Court in Prague, Section C, File 38550 (hereinafter referred to in this report as the "Company"), have prepared the following report on relationships in the meaning of Section 82 of Act No. 90/2012 Coll., on Corporations Act (hereinafter referred to as the "Corporations Act"), for the financial period of calendar year 2016 (hereinafter referred to as the "Decisive Period").

## 1. Structure of relationships, the role of the Company and the method and means of control

1.1 According to information available to the Statutory Representatives of the Company:

1.1.1 Throughout the entire Decisive Period, the Company's shareholders were consistently:

SHAREHOLDER	SHARE IN %	CONTRIBUTION IN CZK'000
ŠKODA AUTO a.s., Mladá Boleslav	44.5	4,450
E.ON Czech Holding AG (Německo)	21	2,100
ČEZ, a.s., Praha	12	1,200
Volkswagen Kraftwerk GmbH (Německo)	22.5	2,250

1.1.2 VOLKSWAGEN AG, with its registered office in Wolfsburg, Germany, can exercise indirect influence on the Company via the shareholders ŠKODA AUTO a.s., with its registered office in Mladá Boleslav, and Volkswagen Kraftwerk GmbH, with its register office in Wolfsburg, Germany. In case of control via the shareholder ŠKODA AUTO a.s., VOLKSWAGEN FINANCE LUXEMBURG S.A. with its registered office in Luxembourg in Grand Duchy of Luxembourg is the only shareholder of ŠKODA AUTO a.s. Company VOLKSWAGEN FINANCE LUXEMBURG S.A. is a subsidiary of VOLKSWAGEN AG. E.ON SE, with its registered office in Munich, Germany, can exercise indirect influence on the Company via the shareholder E.ON Czech Holding AG.

Concerning the structure of the business groupings, the Company's Statutory Representatives used data supplied by partners or published by the partners, as well as data in the Commercial Register.

1.1.3 The Company operates a heating plant in Mladá Boleslav, which it leases from ŠKO-ENERGO FIN, s.r.o., which is controlled by the same controlling entities, and its primary role is to cover energy requirements of ŠKODA AUTO. Electricity is supplied from the distribution network and related services are provided to the Company by companies, controlled by company ČEZ, a. s.

1.2 According to information available to the Statutory Representatives, the Company does not have any participation in other commercial companies domestically or abroad.

1.3 Control can be exerted via a decision of the general meeting or, as the case may be, a decision of the shareholders outside of the general meeting. One vote is allotted for each CZK 1,000 contribution of a shareholder. A fundamentally limiting factor in the exercise of influence on the part of an individual entity or group of entities is the requirement of unanimity for adoption of a decision. Important legal actions can be subject to the prior consent of the Company's Supervisory Board.

According to the provisions of Section 78(2)(d) of the Corporations Act, shareholders in a limited liability company are considered to be persons acting in concert. If a decision of the general meeting or a decision of the shareholders is adopted, then all the shareholders are controlling entities in view of the requirement of unanimity. In addition to ČEZ, a. s., the controlling entities are VOLKSWAGEN AG via ŠKODA AUTO a. s. and Volkswagen Kraftwerk GmbH and E.ON SE via E.ON Czech Holding AG as the ultimate parent companies.

## 2. Overview of actions carried out at the behest of or in the interest of the controlling entities or entities controlled thereby if such actions pertain to the Company's assets.

During the Decisive Period, the Company did not carry out, at the behest of or in the interest of the controlling entities or an entity controlled by these controlling entities, any other actions that would pertain to the assets exceeding 10% of the equity determined according to the latest financial statements as at 31 December 2016 (i.e. CZK 6,234,000).

PURCHASE OF GOODS	FINANCIAL SERVICES
ŠKODA AUTO a.s. ČEZ Prodej, s. r. o. Volkswagen Kraftwerk GmbH	ŠKO-ENERGO FIN, s.r.o. VW International Finance NV

## 3. Overview of mutual contracts

### 3.1 Contracts concluded among the Company and the controlling entities during the Decisive Period:

PURCHASE OF GOODS AND SERVICES	SALE OF GOODS AND SERVICES
ŠKODA AUTO a.s. E.ON Energie, a.s.	ŠKODA AUTO a.s.

### 3.2 Contracts concluded among the Company and other entities controlled by the controlling entities during the Decisive Period:

The Company has not entered into any such agreement.

### 3.3 In the Decisive Period, the Company carried out transactions on the basis of contracts concluded among the Company and controlling entities and the Company and entities controlled by the controlling entities in the Decisive period or in past periods in the following areas:

PURCHASE OF GOODS AND SERVICES	SALE OF GOODS AND SERVICES	FINANCIAL SERVICES
ŠKODA AUTO a.s. ČEZ Prodej, s. r. o. ČEZ Distribuční služby, s. r. o. ČEZ Energetické služby, s.r.o. Telco Pro Services, a.s. Volkswagen Insurance Brokers ŠKO-ENERGO FIN, s.r.o. Volkswagen Kraftwerk GmbH	ŠKODA AUTO a.s.	VW International Finance NV

## 4. Assessment of damage and compensation for such damage

With respect to the facts set forth in Articles 2 and 3 above, the Company did not incur any damage.

## 5. Assessment of relationships and risks

In the Company's mutual relationships with the controlling entities and an entity controlled by the controlling entities, the advantages ensuing from the long-term nature of the contracts set forth in Article 3 above and from the solvency of the contractual partners, which renders these relationships stable, are prevalent. No apparent disadvantages or apparent risks ensue from the mutual relationships for the Company.

Mladá Boleslav, 31 March 2017

Statutory representatives:

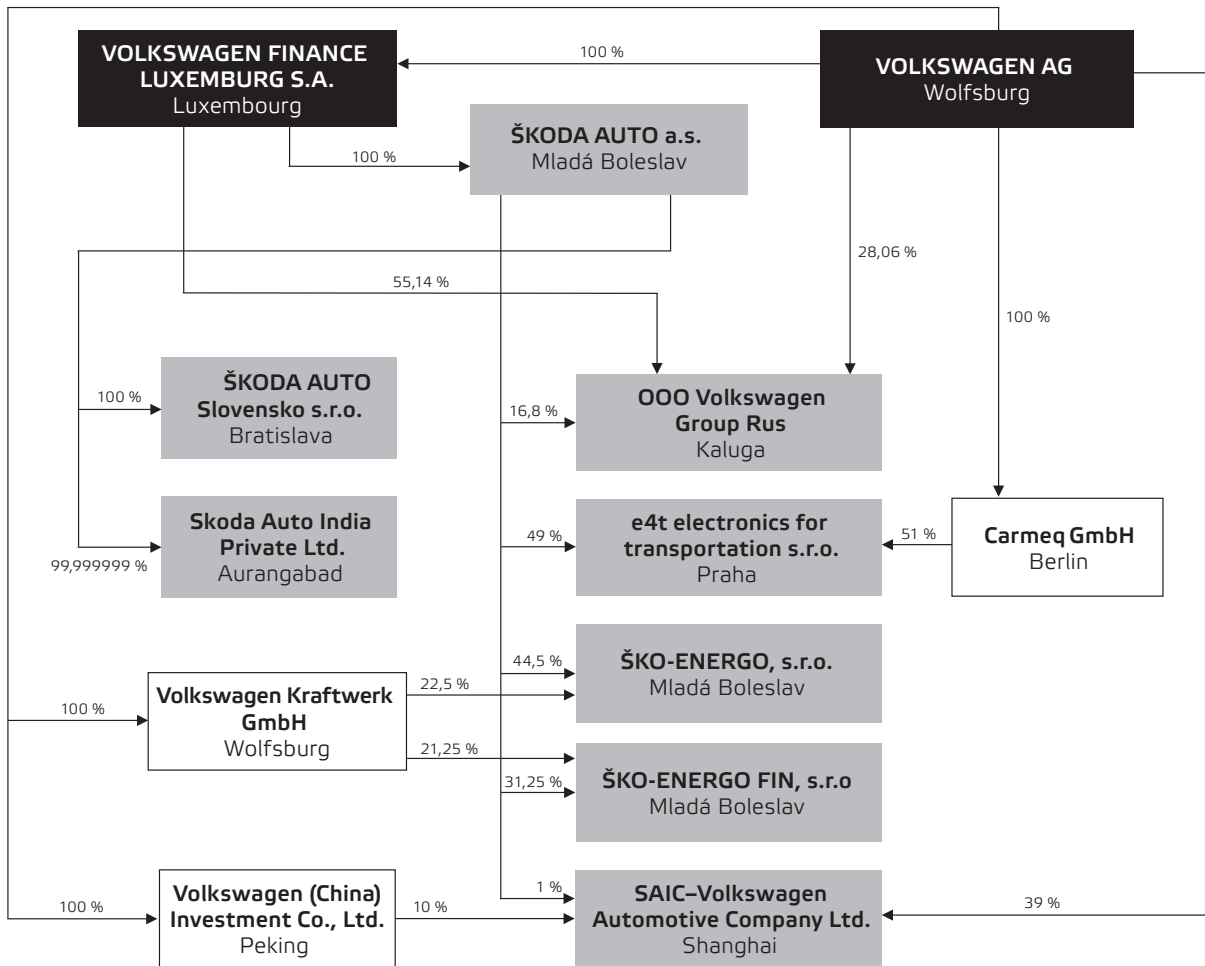


Jaromír Vorel

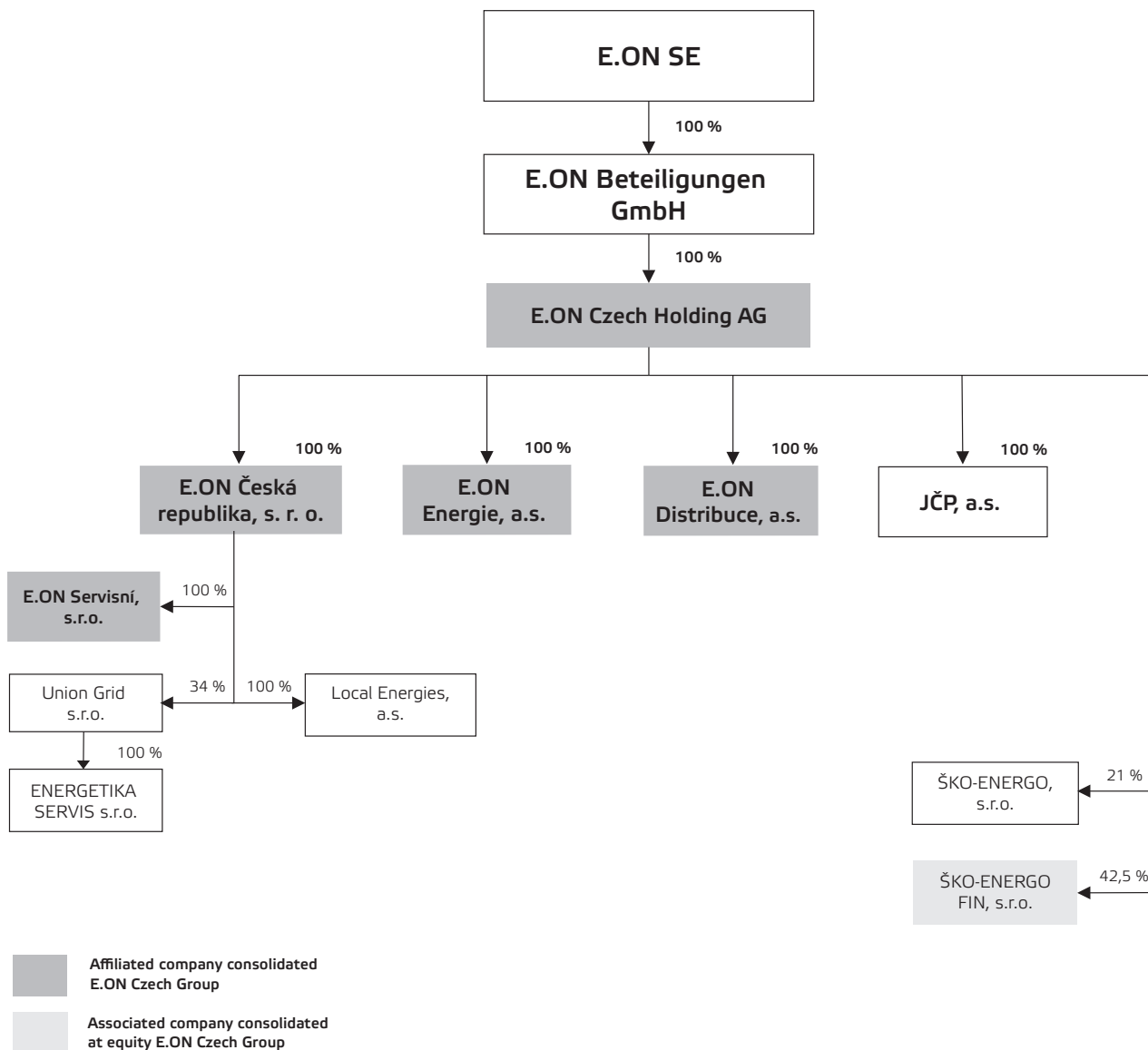


Tomáš Kubín

ŠKODA AUTO a.s. ownership structure



E.ON ownership structure



# ČEZ, a.s. ownership structure

Česká republika – Ministerstvo financí			
69,78 %	ČEZ, a.s.*	40,78 %	Severočeské mlékárny, a.s. Teplice
100 %	Severočeské doly a.s.*		konkurz zrušen pro nedostatek majetku
100 %	PRODECO, a.s.*	46,99 %	Ormlík, a.s.v likvidaci
100 %	SD – Kolejová doprava, a.s.*		v konkurzu
100 %	Revitrans, a.s.*	71,89 %	BH CAPITAL, a.s. v likvidaci
100 %	Energetické centrum s.r.o.*	100 %	CEPRO, a.s.
100 %	ČEZ Distribuce, a. s.*	100 %	GALILEO REAL, k.s.
100 %	ČEZ ENERGOSERVIS spol. s r.o.*		komplementář je IMOB a.s.
100 %	ČEZ Distribuční služby, s.r.o.*	100 %	MERO CR, a.s.
100 %	ČEZ ICT Services, a. s.*	100 %	MERO Germany AG
100 %	Telco Pro Services, a. s.*	54,35 %	Kongresové centrum Praha, a.s.
100 %	ČEZ zákaznické služby, s.r.o.*	100 %	Český Aeroholding, a.s.
100 %	ČEZTJ, a.s.v likvidaci	100 %	Letiště Praha, a. s.
	zánik 6. 9. 2016	100 %	Czech Airlines Handling, a.s.
51,05 %	LOMY MORINA spol. s r.o.	100 %	B. aircraft, a.s.
100 %	ČEZ Energetické produkty, s.r.o.*	100 %	Czech Airlines Technics, a.s.
40 %	In PROJEKT LOUNY ENGINEERING s.r.o.	100 %	Realitní developerská, a.s.
100 %	ČEZ Inženýring, s.r.o.*	100 %	Sky Venture a.s.
99,80 %	Inven Capital, investiční fond, a.s.	100 %	Whitelines Industries a.s.
	zvýšení základního kapitálu 2. 5. 2016,	100 %	THERMAL-F, a. s.
	změna názvu 1. 9. 2016 (původně ČEZ Nová energetika, a.s.),		zvýšení základního kapitálu 29. 9. 2016
	zvýšení základního kapitálu 30. 9. 2016 a 18. 10. 2016	100 %	PRISKO a.s.
100 %	ČEZ Teplárenská, a.s.*	19,74 %	České aerolinie a.s.
100 %	MARTIA a.s.*		změna sídla 1. 7. 2016, změna vlastníka 17. 10. 2016
55,83 %	Teplné hospodářství města Ústí nad Labem s.r.o.	43,68 %	Česká exportní banka, a.s.
100 %	Teplu Klášterec s.r.o.		zvýšení základního kapitálu
66,67 %	OSC, a.s.	100 %	IMOB a.s.
52,46 %	UJV Řez, a. s.	49 %	MUFIS a.s.
100 %	Centrum výzkumu Řez s.r.o.	96,50 %	VIPAP VIDEM KRŠKO d.d.
100 %	Výzkumný a zkušební ústav Plzeň s.r.o.		sídlo ve Slovinsku
40 %	Nuclear Safety & Technology Centre s.r.o.	84,31 %	LEVAS d.o.o.
100 %	Ústav aplikované mechaniky Brno, s.r.o.	16 %	ENOVIP d.o.o.
100 %	EGP INVEST, spol. s r.o.	100 %	VIPAP Vertriebs und Handels GmbH
100 %	ČEZ ESCO, a.s.*	11,38 %	ZEL-EN d.o.o.
	zvýšení základního kapitálu 3. 8. 2016	100 %	JUNIOR centrum, a.s. v likvidaci
50,10 %	ČEZ Energo, s.r.o.	100 %	CENTRUM - F, a.s. v likvidaci
100 %	ČEZ Energetické služby, s.r.o.*		zánik 21. 1. 2016
100 %	EVC s.r.o.	96,85 %	HOLDING KLADNO a.s."v likvidaci"
	zvýšení podílu 22. 11. 2016	40 %	Exportní garanční a pojišťovací společnost,a.s.
51 %	ČEZ LDS s.r.o.	100 %	STROJÍRNÝ TATRA PRAHA,a.s.v likvidaci
	vznik 29. 12. 2016	100 %	Výzkumný a zkušební letecký ústav, a.s.
100 %	ČEZ Solární, s.r.o.		VZLU TECHNOLOGIES, a.s.
	nabytí podílu 10. 2. 2016, změna názvu 7. 3. 2016 (původně juwi, s.r.o.)		VZLU TEST, a.s.
100 %	AZ KLIMA a.s.		SERENUM, a.s.
	nabytí podílu 30. 9. 2016, změna sídla 1. 2. 2017		
100 %	AZ KLIMA SK s.r.o.		
	nabytí podílu 30. 9. 2016		
100 %	AZ VENT s.r.o.		
	nabytí podílu 30. 9. 2016, změna sídla 25. 1. 2017		
75 %	ENESA a.s.		
	změna vlastníka 4. 1. 2016 a 6. 1. 2016		
100 %	Energocentrum Vitkovice, a. s.*		
	změna vlastníka 7. 7. 2016		
100 %	ČEZ Bohumice a.s.*		
49 %	Jadrová energetická společnost Slovenska, a. s.		
	JESS Invest, s. r. o.		
	zánik sloučením s nástupnickou společností		
	Jadrová energetická společnost Slovenska, a. s., 9. 1. 2016		
12 %	SKO-ENERGO, s.r.o.		
5 %	SKO-ENERGO FIN, s.r.o.		
100 %	ČEZ Obnovitelné zdroje, s.r.o.*		
99 %	ČEZ Recyklace, s.r.o.		
99,60 %	ČEZ OZ uzavřený investiční fond a.s.	0,39 %	
		0,02 %	
100 %	ČEZ Korporátní služby, s.r.o.*		
100 %	Energotrans, a.s.*		
95 %	Areál Treboradice, a.s.*		
100 %	ČEZ Prodej, s.r.o.*		
100 %	Energie2 Prodej, s.r.o.		
	nabytí podílu 22. 6. 2016, zánik lůží s ČEZ Prodej, s.r.o., 1. 1. 2017		
100 %	Elektrárna Pocerady, a.s.*		
100 %	Elektrárna Tisová, a.s.*		
	změna vlastníka 2. 1. 2017		
100 %	Elektrárna Melník III, a. s.*		
100 %	Elektrárna Dětmárovice, a.s.*		
100 %	Elektrárna Témelín II, a. s.*		
	zvýšení základního kapitálu 5. 10. 2016, zvýšení základního kapitálu 21. 12. 2016		
100 %	Elektrárna Duhovany II, a. s.		
	zvýšení základního kapitálu 5. 10. 2016, zvýšení základního kapitálu 21. 12. 2016		
100 %	SKODA PRAHA a.s.*		
100 %	EGL, a.s. v likvidaci		
	zánik 13. 7. 2016		
100 %	SKODA PRAHA Invest s.r.o.		
100 %	ČEZ Bulgaria EAD		
100 %	ČEZ Trade Bulgaria EAD		
67 %	ČEZ Elektro Bulgaria AD		
100 %	TEC Varna EAD		
100 %	ČEZ Poland Distribution B.V.		
100 %	Baltic Green Construction sp. z o.o.		
	změna vlastníka 18. 8. 2016		
100 %	Baltic Green I sp. z o.o.		
100 %	Baltic Green II sp. z o.o.		
100 %	Baltic Green III sp. z o.o.		
100 %	Baltic Green VI sp. z o.o.		
100 %	Baltic Green V sp. z o.o.		
100 %	Baltic Green VIII sp. z o.o.		
100 %	Baltic Green IX sp. z o.o.		
	vznik 6. 4. 2016		
100 %	Baltic Green X sp. z o.o.		
	vznik 12. 7. 2016		
100 %	A.E. Wind S.A.		
	snížení základního kapitálu 27. 6. 2016, změna právní formy 31. 3. 2016		
100 %	Eco-Wind Construction S.A.		
100 %	Baltic Green VII sp. z o.o. v likvidaci		
	vstup do likvidace 1. 9. 2016		
100 %	Elektrownie Wiatrowe Lubiechowo sp. z o.o. v likvidaci		
	vstup do likvidace 1. 9. 2016		
100 %	Farma Wiatrowa Lesce sp. z o.o. v likvidaci		
	vstup do likvidace 1. 9. 2016		
100 %	Farma Wiatrowa Wilkolasz-Bychawa sp. z o.o. v likvidaci		
	vstup do likvidace 1. 9. 2016		
100 %	Baltic Green IV sp. z o.o. v likvidaci		
	vstup do likvidace 1. 9. 2016		
100 %	Mesa Energy sp. z o.o. v likvidaci		
	vstup do likvidace 1. 9. 2016		

99 %	CEZ Polska sp. z o.o. změna vlastníka 18. 8. 2016	1 %
100 %	CEZ Chorzow S.A.	
100 %	CEZ Skawina S.A.	
100 %	CEZ ESCO Poland B.V. vznik 8. 4. 2016	
99,97 %	CEZ ESCO Polska sp. z o.o. vznik 12. 5. 2016	0,03 %
100 %	CEZ Erneuerbare Energien Beteiligungs GmbH vznik 31. 5. 2016	
100 %	Windpark FOHREN-LINDEN GmbH & Co. KG nabytí podílu 16. 12. 2016	
100 %	wpd Windparks Lee GmbH nabytí podílu 21. 12. 2016	
100 %	Windpark Frauenmark III GmbH & Co. KG nabytí podílu 21. 12. 2016	
100 %	Windpark Cheinitz-Zethlingen GmbH & Co. KG nabytí podílu 21. 12. 2016	
100 %	Windpark Zagelsdorf GmbH & Co. KG nabytí podílu 21. 12. 2016	
100 %	wpd Windparks Luv GmbH nabytí podílu 21. 12. 2016	
100 %	Windpark Gremersdorf GmbH & Co. KG nabytí podílu 21. 12. 2016	
100 %	Windpark Mengerlinghausen GmbH & Co. KG nabytí podílu 21. 12. 2016	
100 %	Windpark Naundorf GmbH & Co. KG nabytí podílu 21. 12. 2016	
100 %	Windpark Baben Erweiterung GmbH & Co. KG nabytí podílu 21. 12. 2016	
100 %	wpd Windparks Nordwind GmbH nabytí podílu 21. 12. 2016	
100 %	Windpark Badow GmbH & Co. KG nabytí podílu 21. 12. 2016	
100 %	CEZ Erneuerbare Energien Verwaltungs GmbH vznik 1. 6. 2016	
100 %	CEZ Silesia B.V. zánik fúzí s CEZ Poland Distribution B.V. 18. 8. 2016	
100 %	CEZ Produkty Energetyczne Polska sp. z o.o.	
100 %	CEZ Trade Polska sp. z o.o.	
100 %	CEZ Towarowy Dom Maklerski sp. z o.o.	
100 %	CEZ Srbija d.o.o.	
67 %	CEZ Razpredelenie Bulgaria AD	
100 %	CEZ ICT Bulgaria EAD	
99,99 %	CEZ Vanzare S.A. změna sídla 29. 2. 2016	
99,99 %	CEZ Romania S.A. 100 % TMK Hydroenergy Power S.R.L.	
100 %	CEZ Bulgarian Investments B.V.	
100 %	Free Energy Project Oreshets EAD	
100 %	Bara Group EOOD	
99,99 %	CEZ Trade Romania S.R.L.	0,01 %
100 %	CEZ Ukraine LLC	
100 %	CEZ Hungary Ltd.	
100 %	CEZ MH B.V.	
100 %	CEZ Slovensko, s.r.o.	
100 %	CEZ Deutschland GmbH změna sídla 29. 2. 2016	
100 %	CEZ International Finance B.V.	
37,36 %	Akenerji Elektrik Üretim A.Ş.	
100 %	Akenerji Elektrik Enerjisi İthalat İhracat ve Toptan Ticaret A.Ş.	
100 %	Egemen Elektrik Üretim A.Ş.	
100 %	AK-EL Yalova Elektrik Üretim A.Ş.	
100 %	AK-EL Kemah Elektrik Üretim ve Ticaret A.Ş.	
100 %	Akenerji Doğal Gaz İthalat İhracat ve Toptan Ticaret A.Ş.	
100 %	CEZ Finance Ireland Ltd. zánik 30. 12. 2016	
100 %	CEZ International Finance Ireland Ltd. vstup do likvidace 18. 3. 2016, zánik 30. 12. 2016	
50 %	Akceoz Enerji A.Ş.	
100 %	Sakarya Elektrik Dağıtım A.Ş.	
100 %	Sakarya Elektrik Perakende Satış A.Ş.	
50 %	CM European Power International B.V.	
51 %	CM European Power Slovakia s. r. o. prodej podílu CEZ, a. s., 30. 11. 2016, prodej podílu CM European Power International B.V. 2. 12. 2016	24,50 %
99,99 %	Tomis Team S.A. zvýšení základního kapitálu a podílu 19. 2. 2016, zvýšení základního kapitálu a podílu 9. 12. 2016	
100 %	M.W. Team Invest S.R.L. zvýšení základního kapitálu 9. 12. 2016	
100 %	Taidana Limited zánik 6. 2. 2016	
99,98 %	Ovidiu Development S.R.L. zvýšení základního kapitálu a podílu 19. 2. 2016, zvýšení základního kapitálu a podílu 9. 12. 2016	0,02 %
100 %	Shared Services Albania Sh.A. v likvidaci	
99,99 %	Distributie Energie Oltenia S.A. změna sídla 29. 2. 2016, změna názvu 3. 1. 2017 (původní název CEZ Distributie S.A.)	

Česká republika – Ministerstvo financí ČR  
dceřiné společnosti Ministerstva financí ČR (ČEZ, a. s.)  
vnučky ČEZ, a. s.  
prapravnuky ČEZ, a. s.  
prapravnuky ČEZ, a. s.  
vnučky Ministerstva financí ČR  
prapravnuky Ministerstva financí ČR

\* člen koncernu ČEZ

## Used abbreviations

ASVEP	Association for Energy Products Use
BAT	the Best Available Technology
CENTROTHERM	CENTROTHERM Mladá Boleslav, a.s.
CO <sub>2</sub>	carbon dioxide
COP21	United Nations Climate Change Conference
ČEZ	ČEZ, a. s.
DEMI-water	demineralized water
EEX	European Energy Exchange
IT	the Information Technologies
NO <sub>x</sub>	nitrogen oxides
OECD	Organisation for Economic Co-operation and Development
PXE	Power Exchange Central Europe
REACH	Registration, Evaluation and authorisation of Chemical substances
RSE	Renewable sources of energy
SO <sub>2</sub>	sulfur dioxide
ŠKODA AUTO	ŠKODA AUTO a.s.
ŠKO-ENERGO FIN	ŠKO-ENERGO FIN, s.r.o.
ŠKO-ENERGO or the Company	ŠKO-ENERGO, s.r.o.
VW	VOLKSWAGEN AG





**PUBLISHED BY:**

© ŠKO-ENERGO, s.r.o.

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**2016 ANNUAL REPORT CLOSING DATE:** 31 March 2017

**GRAPHIC DESIGN:** Jan Forejt / Formall



