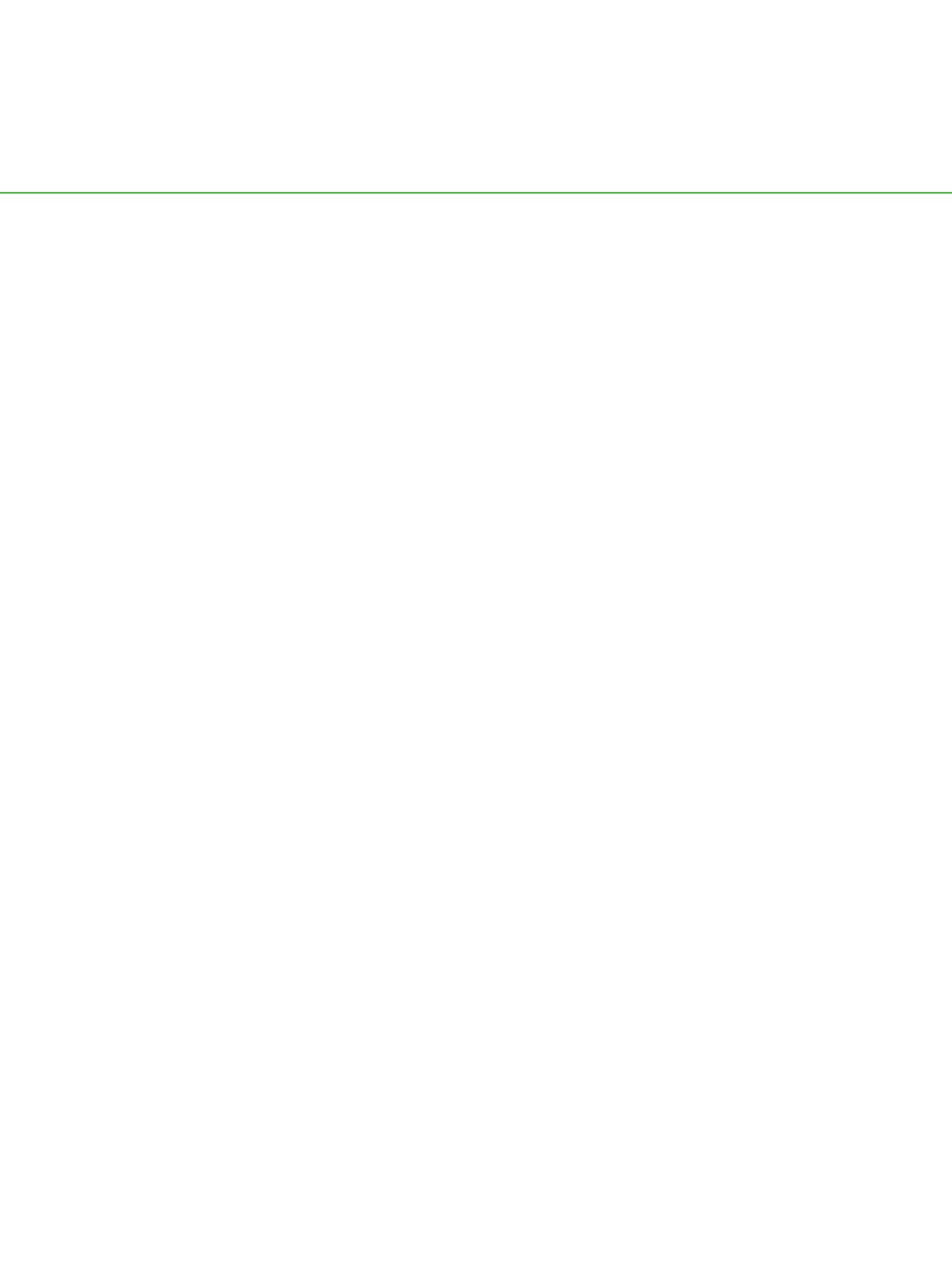


# Annual Report

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## Foreword by the Statutory Representatives

Dear Friends,

This Annual Report that we are presenting to you summarises the results of 2012 and provides information on the Company's long-term strategy and implementation thereof in the current, very turbulent business environment of the energy sector.

The year 2012 again confirmed the Company's stability resulting from long-term contractual relationships with customers as well as suppliers of raw materials and energies. The Company rendered deliveries of required energies and achieved its ambitious financial goals. The Company's turnover increased by 12% year on year to CZK 2,796 million. This was due primarily to growing purchases of energies by the main customer, ŠKODA AUTO, which manufactured a record number of automobiles in 2012, and the Company's assumption of other activities for ensuring supplies of energies for ŠKODA AUTO.

The Company's strategy and long-term goals are focused primarily on fulfilling the requirements of the main customer, ŠKODA AUTO. These requirements mainly include ensuring the security of operations and consistent deliveries of energies. For this reason, even greater emphasis is being placed on facilities maintenance and training of technical personnel. In 2012 operation of all production and distribution facilities was stable and in accordance with the customers' requirements. In mid-2012 the department of ŠKODA AUTO responsible for the energy-distribution mains within buildings and the energy departments of the plants in Kvasiny and Vrchlabí were placed under the Company's control. Thanks to this systemic measure, ŠKO-ENERGO ensures all energy deliveries for ŠKODA AUTO.

Another important objective of the Company is to achieve competitive prices of provided energies and services for ŠKODA AUTO and of heat for the residents of Mladá Boleslav, who are mostly employees of the carmaker. The energy sector

and energy prices are increasingly encumbered by European Union measures raising the costs of energy, due primarily to fees for renewable sources and unpredictable fluctuations in the prices of commodities and CO<sub>2</sub> emissions permits. Therefore, long-term contracts guaranteeing the stability of prices are used for raw-materials purchasing and hedging instruments are used for commodities purchasing.

Reduction of CO<sub>2</sub> emissions and provision of electricity with an increasing share of green electricity comprise value added for ŠKODA AUTO. Therefore, the Company is increasing its generation of electricity from renewable sources and is purchasing the largest possible share of green electricity from other suppliers. At the same time, ŠKO-ENERGO is coping with the European Union's increasing strict requirements and the related Czech legislation for ecological energy production, which is being enforced with economic instruments. The Company is implementing an investment programme that includes co-combustion of biomass, refurbishment of obsolete heating plants, and expansion of hot-water networks. In 2012 the heating in Vrchlabí was refurbished and the hot-water networks serving ŠKODA AUTO facilities and buildings in the industrial zones in Mladá Boleslav were expanded. An important task in the strategy of reducing CO<sub>2</sub> emissions is to engage biomass suppliers. That make it possible to achieve the objective of biomass co-combustion and replacement of up to 30% of brown coal.

The Company's success is increasingly based on the competencies of its employees and their abilities to recognise the changes business environment and to implement changes related thereto. ŠKO-ENERGO's team comprises skilled, responsible and motivated employees. Most of them have linked their occupational and professional growth to employment at the Company, so employee turnover is nearly nonexistent. The reason for

this is interesting work that provides employees with new challenges practically every day and is an opportunity to apply changes in technology, processes and communication. The Company's management strives to select employees who have outstanding professional and personal qualities and to provide them with opportunities in the area of education and space for personal development. This motivates employees to create and support a work environment based on cohesiveness and the desire to achieve set objectives.

Energy is a specific sector that brings together many people of various professions. Often, in the case of some occupations in the heating plant, it takes years of additional education before workers can fill the positions for which they were hired. Therefore, only the best candidates are chosen and great effort is invested in them in terms of education and training.

The year 2012 was characterized by an increased number of trainings and courses for employees in various fields, from computer technology to management skills. Implementation of these training programmes was possible thanks to aid from the Operational Programme Human Resources and Employment.

In conclusion, it is necessary to emphasise that all employees contributed to the Company's good results and they deserve our thanks for their conscientious and exceptional work.



29 March 2013

**Miroslav Žďánský, MBA**  
Statutory Representative

**Vladimír Handlík**  
Statutory Representative

## Company Profile

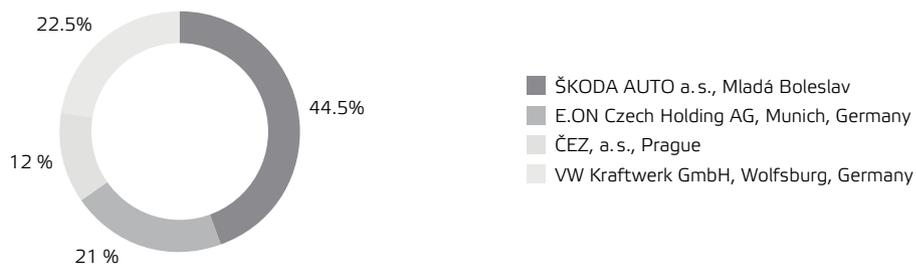
### Basic information

ŠKO-ENERGO is an operating company whose main task it to ensure supplies of energy for the company ŠKODA AUTO a.s. and supplies of heat for the city of Mladá Boleslav. The Company's facilities, particularly the new heating plant, are leased from the its owner, the company ŠKO-ENERGO FIN.

The impetus for establishing ŠKO-ENERGO, s.r.o. (hereinafter referred to as "ŠKO-ENERGO" or the "Company") was a decision of ŠKODA AUTO a.s. (hereinafter referred to as ŠKODA AUTO) to spin off its energy business and provision of energy supplies with the assistance of a consortium comprising two important German energy companies,

RWE AG and OBAG AG (which in 2002 merged with the holding company E.ON). VW Kraftwerk and the regional power company Středočeská energetická a.s. (whose shares were transferred to ČEZ, a.s. in 2007) also became partners. In 2010, RWE Power AG sold its shares to ŠKODA AUTO and VW Kraftwerk GmbH.

### Shareholders as at 31 December 2012



## Shareholders

### **ŠKODA AUTO a. s.**

ŠKODA AUTO is a Czech company with a tradition of manufacturing automobiles dating back more than a century. ŠKODA is one of the world's oldest automobile brands. The Company's subject of business activities comprises particularly development, production and sales of automobiles, components, original parts and accessories under the ŠKODA brand and provision of maintenance services. The Sole shareholder of ŠKODA AUTO is Volkswagen International Finance N.V. with its registered office in Amsterdam of Volkswagen AG. Volkswagen International Finance N.V. is an indirectly wholly-owned subsidiary of VOLKSWAGEN AG.

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

The energy company operating under the brand E.ON supplies electricity, natural gas and related services to more than 25 million customers. Since the very beginning of liberalisation of energy market, the E.ON group has been active in the countries of Central and Eastern Europe, and it uses its extensive experience with the privatisation of energy companies here throughout the Europe. In addition to electricity, E.ON has significant shares in companies gas trading.

### **Volkswagen Kraftwerk GmbH**

VW KRAFTWERK GmbH is a wholly-owned subsidiary of Volkswagen AG. The company provides services not only to the VW concern, but also to cities, industry and companies in the areas of energy trading and supply, power-plant construction planning and facility management. The Company's main task is supplying the internationally operating Volkswagen concern with electric, heat, cooling, natural gas, compressed air, and water.

### **ČEZ, a. s.**

The main subject of the operations of ČEZ, a. s. is generation and sale of electricity and related support for the electricity supply system. At the same time, the company is involved in production, distribution and sale of heat.

ČEZ Group is the largest producer of electricity and heat in the Czech Republic, an operator of distribution systems in most areas of the country, and the strongest entity on the wholesale and retail electricity markets.

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## Information on the Supervisory and Statutory Bodies

### Supervisory Board

Composition of the Supervisory Board as at 31 December 2012

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

**Michael Oeljeklaus** (\* 1963)

Member of the Board of Directors of ŠKODA AUTO, appointed to the position of chairman of the Supervisory Board of ŠKO-ENERGO on 1 January 2011

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

**Gert Wölfel** (\* 1939)

Advisor, appointed to the position of vice-chairman of the Supervisory Board of ŠKO-ENERGO on 1 January 2011

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

**Karlheinz Emil Hell** (\* 1963)

Member of the Board of Directors of ŠKODA AUTO, appointed to the position of member of the Supervisory Board of ŠKO-ENERGO on 12 June 2010

**Raimund Wunder** (\* 1951)

Statutory representative of VW Kraftwerk GmbH, appointed to the position of member of the Supervisory Board of ŠKO-ENERGO on 1 January 2003

**Petr Kreissl** (\* 1967)

Director of Teplárna organizational unit of ČEZ, a. s., appointed to the position of member of the Supervisory Board of ŠKO-ENERGO on 1 October 2012

## Statutory Representatives of the Company

Statutory Representatives of the Company as at 31 December 2012

### **Vladimír Handlík** (\*1947)

Statutory Representative of the Company for the technical area, appointed to the position on 30 June 1995.

Vladimír Handlík joined the Company in 1995 after leaving his position as chief power engineer at ŠKODA AUTO and fully connected his professional life with power engineering at the Mladá Boleslav-based carmaker. He has participated in the ŠKO-ENERGO project from the very beginning and to a great extent was instrumental in its implementation.

He is a graduate of the Czech Technical University (CTU) in Prague, where he specialised in the field of steam boilers and turbines.

From 1977 to 1980 he substantially enhanced his professional education through post-graduate study in the same field at CTU.

### **Miroslav Žďánský, MBA** (\*1958)

Statutory Representative of the Company for the commercial-economic area, appointed to the position on 1 September 2000.

Miroslav Žďánský came to the Company from the position as director of a Czech-American firm active in the administration and development of privatised firms and real estate, where he served for five years. From 1989 to 1995 he worked in management positions in the financial section at the Mladá Boleslav-based carmaker.

He is a graduate of the Faculty of Chemical Engineering at the Institute of Chemical Technology in Prague.

In 1998 he completed his diploma work at the European Business School (Private Wissenschaftliche Hochschule, Schloss Reichartshausen am Rhein, Germany), where he received the title of Master of International Management.

In 2010 he was awarded the title of Master of Business Administration (MBA) from The Open University Business School, Milton Keynes (UK), and the European Energy Manager certificate from the German Chamber of Commerce in Nuremberg.

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## Corporate Social Responsibility

Achieving the balance of all shareholders' interests is very important for ŠKO-ENERGO. Honourable dealing, openness, transparent management practices and proper supervision of the management form the foundation of the corporate governance of ŠKO-ENERGO.

Therefore, the Company applies, to the adequate extent corresponding to its legal form and structure, the Code of Corporate Governance based on OECD principles of best practices and processes in management.

Important information on the Company's ownership structure and statutory bodies and a description of their current composition can be found on pages 4, 6, and 7 of this Annual Report.

### **Observance of shareholders' rights, equal treatment of shareholders**

ŠKO-ENERGO takes into account all applicable provisions of the Commercial Code and the Company's directives relating to 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— orally and in writing—the Supervisory Board of the Company's business situation and position.

Important business matters are communicated immediately. The Statutory Representatives inform the Supervisory Board in particular in the following respects:

- Submission of the annual budget for the subsequent business year and draft the medium-term plan, including investments.
- Quarterly presentation of basic information on the Company's assets and financial situation.
- The Statutory Representatives prepare annual financial statements in compliance with the applicable Czech legal regulations 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 applicable laws, Articles of incorporation, decisions of the General Meeting and the Supervisory Board and the rules of procedure. The rules of procedure, 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.

Considerations regarding the impact of its decisions on various stakeholders are part of the decision-making process of the Company's management. 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 a key part of its business. The Company's success depends on, among other things, continual internal development and creation of positive working conditions for its employees. The Company supports its employees' involvement 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 business partners, the Company exerts itself to ensure reliable, safe, and affordable supplies of energy to its key customers, ŠKODA AUTO and the residents of Mlada Boleslav. The Company acts honourably towards all its suppliers—the fundamental aspects of suppliers selection are quality and price. The Company regularly and truthfully informs its creditors of its financial situation.

**Relationship to the environment**

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

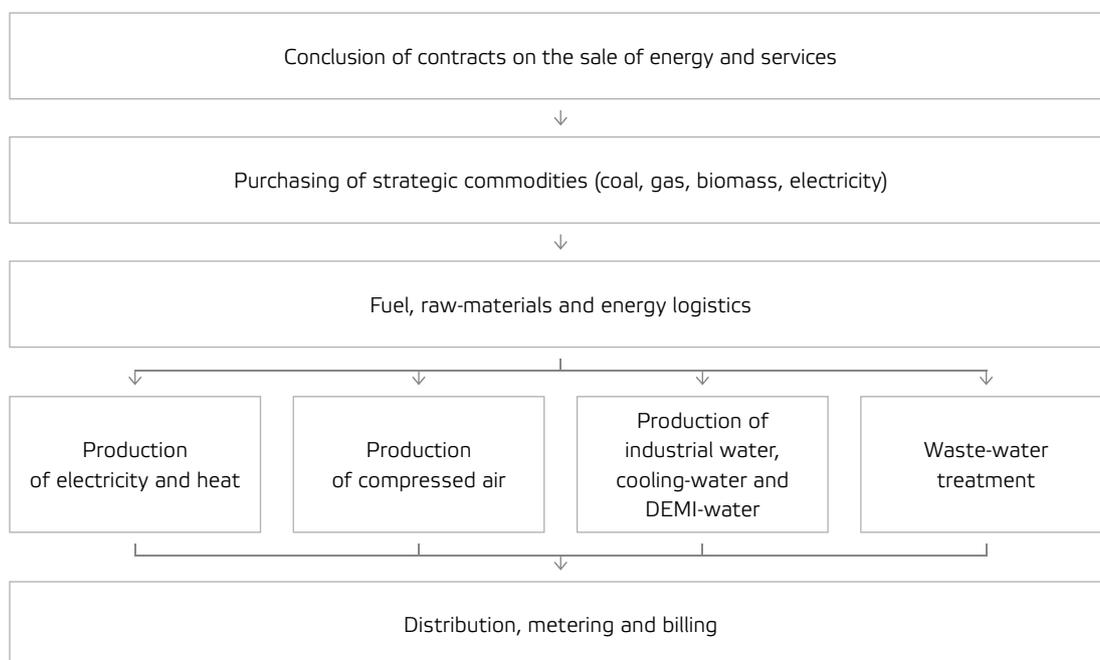
**Relations with members of the local community**

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

## Main Processes

ŠKO-ENERGO completely ensures the provision of electricity, heat, industrial, potable and cooling water, compressed air, and natural gas to ŠKODA AUTO. The Company conducts treatment and drainage of wastewater and surface water from the entire ŠKODA AUTO complex and supplies heat to the city of Mladá Boleslav.

### Schematic of main process



### Overview of the Company's activities

#### **We supply heat to the carmaker ŠKODA AUTO, our main partner**

Thanks to the flawless and systematic maintenance of its equipment including the emissions-measurement control systems, which over the course of many years have not incurred any serious defects, the burden on the environment is

minimised. The heating plant was built following the strict environmental regulations of the European Union. It continues to comply with these regulations and will withstand stricter norms which will come into effect in the coming years.

The heat plant's main generating units are two K80 and K90 high-performance fluid boilers with

steam output of 2×140 t/hour, which currently burn brown coal from the Bílina mines in North Bohemia. Within the framework of reducing atmospheric CO<sub>2</sub>, biomass in the form of pellets is also being used as fuel. The facilities include two extraction condensation turbines from Siemens. In the event of a breakdown of the fluid boilers, reserve capacity is ensured by a K70 steam boiler with output of 60 t/hour whose basic fuel is natural gas. Three hot-water boilers are used to cover peak demand. The fluid boilers form the basis for economical generation of heat and electricity. Gas boilers generate heat for the adjacent ŠKODA AUTO plant in Česana. The Vrchlabí plant and the Kvasiny plant are supplied in the same manner.

**We provide heat to the city of Mladá Boleslav—we supply to 12,000 households**

In addition to 12,000 homes in Mladá Boleslav, more than 200 business entities and institutions use heat supplied via the CENTROTERM distribution network.

**We supply electricity—we have a backup plan**

A 110 kV distribution plant serves for connecting ŠKO-ENERGO to the public grid. This distribution plant is reinforced with separate mains from the system of ČEZ, a.s. because we consider supplying electricity to ŠKODA AUTO to be of key importance. The ŠKO-ENERGO heating plant is connected to the distribution plant at the level of 110 kV. A total of forty-four 22/0.4 kV distribution points on a 22 kV cable system supplies all production facilities of ŠKODA AUTO and some operations of ŠKO-ENERGO.

**We supply compressed air—a speciality for robots**

ŠKODA AUTO uses compressed air primarily in the operations of its welding shop, paint shop and assembly. Production of compressed air is ensured by two compressor stations with turbo-compressors with output of 32,000 Nm<sup>3</sup>/hour, 4×16,000 Nm<sup>3</sup>/hour and 10,000 Nm<sup>3</sup>/hour. Screw compressors that produce compressed air at 1.2 MPa are used for special workstations, particularly for robots.

**We supply operational water—every drop travels six kilometres**

Two million cubic metres of operational water per year travel via gravity feed from the Bradlec

operational water source on the Jizera River to the operation facilities of ŠKODA AUTO and the ŠKO-ENERGO heating plant. Every drop thus travels six kilometres before it reaches the plant and then undergoes purification and subsequent filtration.

**We supply cooling water—vehicle manufacturing would be impossible without it**

Demineralised water is produced by means of chemical treatment of water, which is collected in storage tanks and pumped to the heating plant and paint shop. For the needs of the production operations of ŠKODA AUTO, especially the welding shop and paint shop, cooling water in the Z24 cooling-water station is sufficient. Though the E14A and E14B cooling-water stations have significantly lower parameters, they are fully sufficient for the needs of cooling the robots.

**We treat wastewater from the body paint shop—we take away unwanted metals from it**

The Z17A neutralisation station treats wastewater from the body paint shop by means of ferrous-salts coagulation and alkaline metal agglutination.

**We treat oily wastewater and emulsions—we deal with them**

Such contaminated wastewater derives from the mechanical processing of metals. The Z25 station with vacuum-based evaporation and multistage mechanical pre-treatment is used for treating wastewater from mechanical metal processing.

**We purify water from the rainwater drainage system of the new part of the ŠKODA AUTO complex—we return water to life**

The Z29 station has two reservoirs with a total volume of 19,000 m<sup>3</sup> in which biological purification of discharged water is achieved through intensive airing.

**Distribution, measurement and invoicing—we take care of the whole network**

The company operates and maintains all networks serving for the distribution of energy at the ŠKODA AUTO complex. The gas-distribution system includes an E13 regulation station, which regulates gas from the external DN300, 4.0 MPa high-pressure distribution system at the required operating values.

# Management Report on the Company's Activities in 2012

## Economic Conditions in the Czech Republic

The year 2012 was the year of very diverse messages from the market. Initial positive information indicating an economic revival was later replaced by pessimistic reports about the spread of the financial crisis from Greece to the Italian and Iberian Peninsulas.

In connection with these indications of uncertainty, the indisputable need for bold austerity measures and dynamic reforms greatly influenced the behaviour of ordinary citizens as well as economic entities.

Total gross domestic product (GDP) declined by 1.1% in 2012 according to the Czech Statistical Office. Furthermore, the rate of decline in GDP continually increased (from 0.7% in first quarter to 1.7% in the fourth quarter).

Besides the aforementioned restriction of domestic consumption ensuing from the uncertain impact of political measures on the citizens and companies, weakening of demand on the part of our largest trading partner, Germany, also became increasingly apparent.

Industrial production fell by 1.2% in 2012, which had an impact on the unemployment rate, which had risen to 7.2% at the end of 2012. The greatest decline was recorded in the production of motor vehicles (17.7% decline), manufacture of machines and equipment (14.3% decline), production of rubber and plastic products (16.9% decline) and mining and extraction (19.7% decline).

The average inflation rate in 2012 was 3.3%, with the population incurring significantly higher costs of living (natural gas, electricity, water and sewer) and food (e.g. bread, eggs, sugar and coffee).

Development of the exchange rate of the Czech koruna against the main world currencies was again relatively volatile. The strongest values achieved by the Czech koruna were CZK 24.435/EUR 1 and CZK 18.448/USD 1, whereas the koruna's weakest levels were CZK 25.96/EUR 1 and CZK 21.133/USD 1. The average exchange rate in 2012 was CZK 25.143/EUR 1 and CZK 19.583/USD 1.

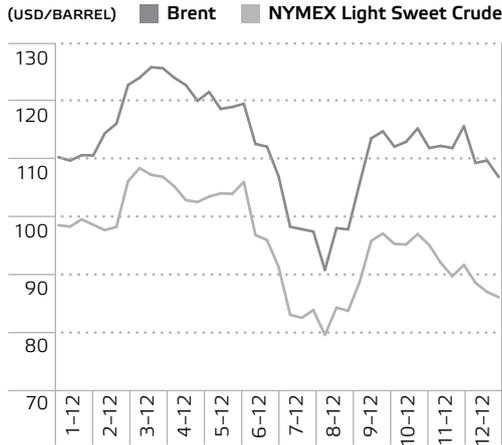
The Czech National Bank is continuing to support the economy through low interest rates as the reasons for leaving the rates at this level have persisted to the present. The two-week repo rate fell from 0.75% to 0.5%, which is a historic low.

### Development of Commodity Prices

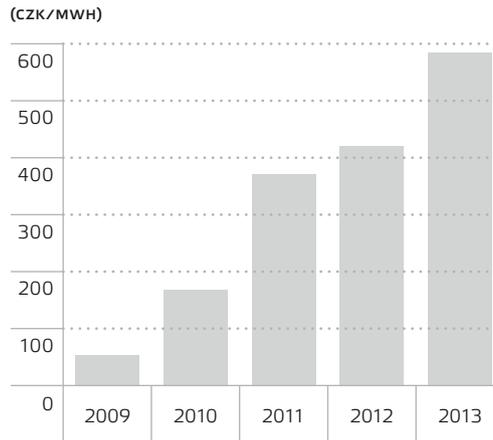
The development of commodity prices on the global and European markets had a direct impact on the commodity prices in the Czech Republic. The prices of oil, oil derivatives, and natural gas in 2012 were again influenced by political instability in the Middle East, whereas in the first half of the year prices gradually declined and then, in the second half, again took on an upward trend.

Conversely, electricity prices are continually decreasing on European exchanges. This is caused by the amount of production from renewable sources with low variable costs. Furthermore, the European Union remains the leader in the effort to prevent climate changes and it is assumed that it will not back away from its policies, despite the fact that this area is currently greatly overshadowed by the eurozone's problems, thanks to which the price of CO<sub>2</sub> emissions permits declined to the historically lowest level since 2008.

**Development of oil prices**



**Fees for renewable sources**



**Situation on the Brown-coal Market in the Czech Republic and its Impact on the Heating Industry**

The pressure to exceed limits on mining brown coal is increasing. Especially Czech heating plants, which are historically connected to central heating supplies, have declared a shortage of coal and have not concluded contracts for the period after 2013. This poses an existential threat for some of these operations.

Three brown-coal mining companies operate in the Czech Republic—Severočeské doly, Sokolovská uhelná and Czech Coal (formerly Mostecká uhelná). Sokolovská uhelná burns the majority of its production part of its production in its own power-plant boilers. In the case of Severočeské doly, its owner – ČEZ – consumes most of its output. Therefore, coal from the Most region is critically important for the market.

This situation could bring about a return to the exceeding of mining limits. However, this cannot be anticipated in the medium-term horizon, as it would lead to the collapse of the current governing coalition.

**Development of the Region**

The region’s development is substantially influenced and stabilised by the success of ŠKODA AUTO and its growth strategy. ŠKODA AUTO again sold a record number of vehicles in 2012. However, there is a more perceptible trend of transferring vehicle manufacturing to the East (China, India, Russia). Vehicle manufacturing at ŠKODA AUTO’s core factories in the Czech Republic thus declined by 4% in comparison with 2011. The region continues to have a low unemployment rate and relatively strong purchasing power.

## Production and Supplies of Energy

The supplies of all energies in 2012 were flawless and in compliance with contracts and requirements of ŠKODA AUTO, CENTROTHERM and other customers. There were no major breakdowns or outages of boilers. In the area of ecology, there were no breaches of the laws and regulations.

Vehicle manufacturing at ŠKODA AUTO's three core plants in the Czech Republic declined by 4%. This was caused primarily by the fall primarily to a fall in demand for production of unassembled vehicles and, in connection with this, the transfer of production to factories outside the Czech Republic

(Russia, China, India). Slight growth in consumption of primary energies (electricity, natural gas, compressed air up to 3%) in 2012 was connected rather with the change in production depth and increased labour productivity at the core factories (increased production of engines and transmissions, energy-intensive automation of production). In addition to this, the year 2012 was colder (by an average of 0.3 °C), resulting in a 4.6% year-to-year increase in sales of heat. A summary of year-to-year changes in energy consumption is provided in the following overview:

### Volumes of supplies

	UNIT	2012	2011	2012/2011 [%]
<b>Electricity</b>	<b>MWh '000</b>	<b>574</b>	<b>567</b>	<b>1.2</b>
– of which ŠKODA AUTO	MWh '000	537	523	2.7
– of which supplies to the grid	MWh '000	37	44	(15.9)
<b>Heat</b>	<b>MWh '000</b>	<b>475</b>	<b>454</b>	<b>4.6</b>
– of which ŠKODA AUTO	MWh '000	299	293	2.0
– of which CENTROTHERM	MWh '000	167	153	9.2
– of which other	MWh '000	9	8	12.5
<b>Compressed air</b>	<b>m<sup>3</sup> '000</b>	<b>321,524</b>	<b>318,315</b>	<b>1.0</b>
<b>Natural gas</b>	<b>GWh</b>	<b>317</b>	<b>315</b>	<b>0.6</b>
<b>DEMI-water</b>	<b>m<sup>3</sup> '000</b>	<b>175</b>	<b>181</b>	<b>(3.3)</b>
<b>Drinking water</b>	<b>m<sup>3</sup> '000</b>	<b>428</b>	<b>413</b>	<b>3.6</b>
<b>Industrial water</b>	<b>m<sup>3</sup> '000</b>	<b>360</b>	<b>319</b>	<b>12.9</b>
<b>Wastewater</b>	<b>m<sup>3</sup> '000</b>	<b>1,238</b>	<b>1,289</b>	<b>(4.0)</b>

## Economic Results

### Income from operations

The Company focuses on achieving stable profits and the lowest possible increase in costs. Fixed costs have been flat in the long-term with no increase, with the exception of personnel costs, in case of which collective bargaining agreements and wage increases are respected. The costs of raw materials and energy rise in accordance with the development on the market and the Company employs standard instruments to hedge against increase of these costs. The Company's economic results are dependent primarily on cogeneration of electricity and heat. Offtake of heat, which is dependent on the weather, has significant effect on the results.

Revenues and costs rose proportionately year-to-year. As a result, the Company's profit in the amount of CZK 2.2 million thus did not change year-to-year.

Operating revenues amounted to CZK 2,929.5 million, an increase of CZK 225.1 million, i.e. 8.3%, in comparison with 2011. Especially increased sales of electricity, including growth of green bonuses for increased generation of electricity from biomass (CZK +131 million, of which a green bonus of CZK +35.8 million), as well as heat (CZK +28 million) and natural gas (CZK +36.9 million) had a positive impact. The growth of revenue from services is also significant (CZK +107.8 million), which is connected to the takeover of operations of the Energy Management Department from ŠKODA AUTO on 1 July 2012 (maintenance and operation of the network of ŠKODA AUTO manufacturing facilities in the amount of 88.2 million for the period 7-12/2012).

If the Company was to maintain the same profit as in the previous year, that meant covering the growth of costs by increasing the prices of energies sold.

The highest growth in operating costs is in the area of consumption of materials and energies (CZK +148.8 million). This growth corresponds with the increased necessity of purchasing energy commodities in order to cover increased demand for primary energies at ŠKODA AUTO. Among

the areas in which the most significant year-to-year growth occurred, it is necessary to mention biomass (CZK +46.7 million, +14,347 tonnes of biomass combusted), as well as the additional purchase of electricity for the main factory complex in Mladá Boleslav (CZK +65.7 million, +16,350 MWh purchased), purchase of heating natural gas (CZK +11.3 million), and growth of mandatory regulated payments from the Company's own production (CZK +13.4 million, primarily from the price increase of the contribution of renewable energy sources from CZK 370 to 419.22/MWh). The Company's own production of electricity in the volume of 480 GWh declined year-on-year by 2.2% (primarily due to the increased offtake of heat within KVET as well as increased regulation of electricity generation on weekends). The Company is striving to eliminate the increase of costs of energy inputs primarily by optimising the fuel mix, particularly by increasing the share of combusted brown coal from 98.7% in 2011 to 99.2% in 2012. These factors are having a very positive impact and represent year-on-year cost savings in the total amount of approximately CZK 3 million.

In the area of costs expended on sales of goods (purchased energy), there was year-on-year growth of CZK 45.5 million (of which technical natural gas accounts approximately for CZK 36 million).

The Company does not have any influence on annuity rent, which comprises 24.2% of all expenses.

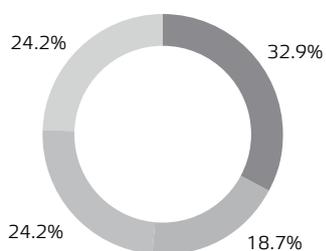
Other operating costs grew by CZK 15.0 million from CZK 693.9 million to CZK 708.9 million, i.e. by 2.2%. The main cause of this was the increase of repair costs and wages, whose development ensues from the collective bargaining agreement within ŠKODA AUTO.

Total operating costs in the amount of CZK 2,924.1 thus represent an increase of CZK 224.2 million, i.e. 8.3%, in comparison with 2011.

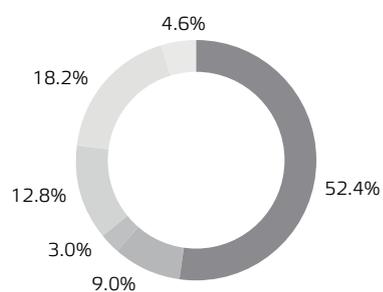
The Company's total financial result improved by CZK 1.1 million year-on-year primarily as a result of lower interest rates in financial markets.

**Income from operations**

IN CZK '000	2012	2011	DIFFERENCE	%
<b>Revenues</b>				
Operating revenues	2,929,483	2,704,377	225,106	8.3
Financial income	491	3,104	(2,613)	(84.2)
<b>Total</b>	<b>2,929,974</b>	<b>2,707,481</b>	<b>222,493</b>	<b>8.2</b>
<b>Expenses</b>				
Operating expenses	2,924,073	2,699,893	224,180	8.3
– of which production materials and energy	961,107	810,287	150,820	18.6
purchased energy	546,543	501,063	45,480	9.1
rent	707,505	694,609	12,896	1.9
other operating expenses	708,918	693,934	14,984	2.2
Financial expenses	3,630	7,308	(3,678)	(50.3)
<b>Total</b>	<b>2,927,703</b>	<b>2,707,201</b>	<b>220,502</b>	<b>8.1</b>
Profit before tax	2,271	280	1,991	711.1
Tax (deferred)	(102)	1,890	(1,992)	(105.4)
<b>Profit for the accounting period</b>	<b>2,169</b>	<b>2,170</b>	<b>(1)</b>	<b>0.0</b>

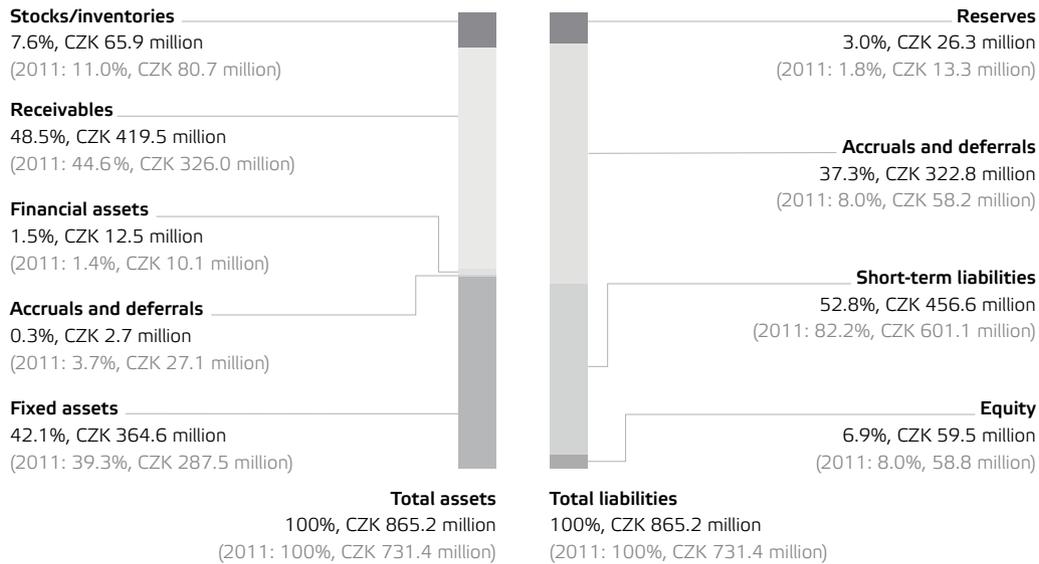
**Structure of operating costs**

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

**Structure of operating revenues**

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

## Structure of the Balance Sheet as at 31 December 2012



### Development of the Capital Structure and Financing

The total assets balance as at 31 December 2012 increased from CZK 731.4 million to CZK 865.2 million. The increase was due mainly to an increase in permanent and current assets.

Fixed assets slightly increased from CZK 287.5 million to CZK 364.6 million. This increase is commented in detail in the Investments, Technological Innovation and Facilities Management chapter. The value of current assets increased from CZK 416.8 million as at 31 December 2011 to CZK 497.9 million as at 31 December 2012. This increase was mainly due to an increase in short-term receivables in the category of paid deposits. Optimisation of purchased inventory

showed stabilisation of its value. Cash on the current account and cash in hand amounted to CZK 12.5 million, which is sufficient to cover the short-term needs of the Company.

The equity capital reached the value of CZK 59.5 million as at 31 December 2012. This amount comprises the economic result of 2012, the Company's share capital and statutory reserve fund. The Company also created a social fund from its profits, a fund for financing future investments and a fund to cover price risks. The Company's financial needs are covered by a short-term loan provided by partners. The value of the funds drawn contributed to the increase in the balance of short-term liabilities. The Company had not drawn any bank loans as at 31 December 2011.

**Cash flow statement**

VALUES IN CZK '000	2012
<b>Cash and cash equivalents at the beginning of the period</b>	<b>10,088</b>
Net cash flow from operating activities	243,098
Net cash flow from investing activities	(115,083)
Net cash flow from financing activities	(126,453)
Net increase/decrease in cash	2,372
<b>Cash and cash equivalents at the end of the period</b>	<b>12,460</b>

**Investment, Technological Innovation and Facilities Management**

In 2012 ŠKO-ENERGO activated into operation investments in the total value of CZK 109.3 million. This primarily involved expansion of hot-water networks (CZK 53.3 million), which contributed to the overall improvement of the economy of combined generation of heat and electricity. A hot-water connection was built for the firm D+D REAL s.r.o. in the Kosmonosy area, as was a connection for the newly built Česana south complex of ŠKODA's development department, and a connection for the firm ProSeat s.r.o. in the eastern industrial zone.

Major investments in the area of the hot-water systems included the construction of a new hot-water network in the Vrchlabí plant, which replaced the old steam system. All of these activities in the hot-water area are part of the derogation programme and will bring forth significant savings in the area of CO<sub>2</sub> emissions permits.

Another major investment was the refurbishment of the heating plant at the ŠKODA AUTO plant in

Vrchlabí (CZK 32.5 million). The heat-production technology was changed from steam to hot-water and operation of the heating plant was expanded with one hot-water boiler.

The most significant investment in the heating plant in 2012 was the installation of a central coal-dust suction unit in the coal-grinding facility (CZK 3 million), which contributed substantially to ensuring occupational health and safety. Another big investment event was the start of the installation of a ventilator for cooling the ash separator, which enables operation of the boiler on brown coal even at the upper limits of ash content in coal.

Four Volkswagen automobiles (vans and station wagons) were purchased and put into operation in service of the maintenance department of ŠKO-ENERGO. A new SAP maintenance system was installed, which improved management of entrusted facilities and the possibilities of maintenance planning, while enabling long-term monitoring of the work history in the facilities.

## 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 Company's ecological conduct as part of its corporate culture**

Ecological conduct is an important part of the Company's activities and culture, and it is defined within the Company's policies.

Ecological conduct is an important part of the Company's activities and culture and is stipulated within the Company's policy.

The modern facilities of the heating plant, which began their operation in 1998, ensure a substantial decrease of emissions when compared with the original facilities, and current emissions are safely within the legal limit. The Company's motto has become "Clean energy warms you", which is now an important element in the Company's logo. The Company thus emphasises its strategy of burning biomass and the gradual increase of its consumption in the production of electricity and heat. Ecological conduct is an important element of communication with customers and residents in the region.

Since 2008, the Company has had in place a certified management system pursuant to the ČSN EN ISO 14001 standard, which is the best evidence of reliable, safe and environmentally friendly provision of services within the treatment of wastewater.

ŠKO-ENERGO has also focused its environmental policy on educating the upcoming generation of young people, who possess important potential for environment protection. The Company closely cooperates with the engineering vocational school of ŠKODA AUTO. It also organises ecological excursions to the heating-plant and infrastructure facilities for students within the context of their

studies. Thanks to this, students are familiarised with the generation of heat and electricity using state-of-the-art combustion technology, which is both efficient and environmentally friendly.

### **Protection of air quality**

The Company's main goals in the protection of air quality include maintaining a high standard in the area of minimising gas and solid emissions released into the air as a result of generating heat and electricity. We achieve long-term low values of generated emissions through the proper maintenance of equipment which, due to its parameters, is categorised as BAT technologies. The Company is currently intensively preparing to comply with stricter emissions limits, which will come into force in 2016. This primarily involves intensification of desulphurisation and implementation of denitrification measures (DeNO<sub>x</sub>).

### **Climate protection**

The new Act No. 165/2012, on Support for Generation of Electricity from Renewable Sources, was approved in 2012. The purpose of this act is to contribute to protecting the climate and environment by supporting the generation of electricity from renewable sources. Combustion of biomass is one of the possibilities for reducing emissions of greenhouse gases from fossil fuels. Biomass used for power-generation purposes is either purposefully obtained as a result of production activities or involves the use of waste from agricultural, timber and industrial production. Thanks to the type of boilers installed in the ŠKO-ENERGO plant—i. e. atmospheric fluid-bed boilers with circulating fluidised bed and steam output of 2×140 t/h—it is possible to burn biomass in them. These boilers,

which are currently used to burn brown coal with biomass. Coal is fed by separate lines into the boilers separately from two bunkers, or from both bunkers in the case of burning only brown coal. Given the fuel basis of the boilers, space demands and requirements for the availability and output of the boilers, separate lines have been built for feeding pellets directly into the combustion chamber.

Pellets are pure compressed biomass, which is characterised by a high calorific capacity of approximately 15 MJ/kg with a low ash content. Combustion of brown coal is thus facilitated during full operation of the boilers. ŠKO-ENERGO purchases pellets from manufacturers in Mladá Boleslav region. A project is currently prepared for increasing the performance of existing logistics routes for biomass so that it will be possible to burn 50,000 tonnes per year.

### **Waste Management**

Within the area of waste management, the Company strives to maximally use by-products from energy generation, particularly ash from the coal-fired boilers. Thanks to cooperation with specialist firms ash from the ŠKO-ENERGO heating plant was certified as a construction material, thereby substantially reducing the production of waste within the Company. This product is thus subject to 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 November 2010. Changes in the harmonised standards for using ash in construction materials are currently being rendered and methods are being sought out for using the materials in such a way that the burden on the environment is minimised.

In 2007, the Company began sorting produced mixed waste, which comprises 14% of all waste within the "other" category generated within the Company. Since 2008, we have participated in a programme for recycling electronic waste (mainly computer technology and related devices) within

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.

In cooperation with ŠKODA AUTO, a project has been prepared for the further use of waste with energy content from the operations of both ŠKODA AUTO and ŠKO-ENERGO. A contract on cooperation has been signed with the firm COMPAG MLADÁ BOLESLAV s.r.o. involving cooperation in the use of solid alternative fuel produced from sorted community waste.

### **Water management**

In the area of water management, the Company's goal is to provide services for ŠKODA AUTO in accordance with strict limits stipulated by the environmental legislation. After 15 years of the wastewater treatment plant's operation, it is important to conduct preventive maintenance of the equipment, which still fulfils the requirements of the best available technologies. For example, at the Z29 rainwater and wastewater treatment station, maintenance of the aeration system and replacements of the sand-gravel filters are regularly carried out.

The systems of the most heavily loaded cooling circuits of the heating plant and E14 compressor station are equipped with a 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 lifespan of the equipment and minimising sedimentation. Both 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. During the construction and operation of all facilities, to use modern technologies and standards if such technologies are technically feasible and economically acceptable.
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 the achieved high level and continual improvement thereof.
7. Prior to the introduction of new processes and installation of new equipment, to evaluate their impact on the environment in order to limit environmental risks and safety hazards.
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 has long been committed to identifying key risks and uses standard instruments (insurance, maintenance system) and less-standard means (long-term customer-supplier contracts with pricing models, diversification of risk by gradual purchasing, and financial derivatives). Ensuring the security of data and information systems gains in importance.

### Organisation of risk management

Together with INIS s.r.o., ŠKO-ENERGO regularly updates its risk-management concept. The Company's position is relatively specific due to its unique connection with ŠKODA AUTO, which is one of the Company's co-owners and concurrently its main customer. The risk-management concept takes a comprehensive view of risks in order to ensure that ŠKODA AUTO's interests are sufficiently protected.

The risk-management system was formulated with respect to economic development and changes as well as uncertainty in the energy sector. It contains the basic parameters of the risk-management strategy, map and structured catalogue of risks and

tools for managing key risks. Today, most risks are being managed and the total annual exposure in the amount of CZK 1.5 billion is thus reduced to CZK 110 million.

In order to ensure high-quality risk management, individual risk owners are designated. These are people who monitor the seriousness of risks and seek out and apply the appropriate tools to manage them. Risk committee comprises of risk owners. Designated risk manager manages and coordinates the risk committee and reports significant risks to the Company's management.

### Description of risks and risk management

Market risks, the most significant of current risks, can be partially managed by the Company. These risks include volatility of gas and electricity prices and uncertain development of the prices of CO<sub>2</sub> emissions permits. Operating and process risks are reduced through appropriate insurance.

#### **Volatility of gas and electricity prices**

The price of gas was very volatile in recent year, having become partially independent on oil prices. Liberalisation has allowed large number of traders to enter the market. There is a full range of trading models. Market is fully liberalised and, in the case of gas, enable the direct inflow of Russian gas all the way to final customers. Deliveries of LNG from abroad have an increasing impact on gas price. The price of electricity is very volatile as well. PXE

prices are connected to the EEX price. Volatility is increased by stagnation of industrial production. Subsidies for construction of facilities using renewable sources of energy also have an increasing impact. Significant role is played by uncertain development of CO<sub>2</sub> permit prices and the current surplus of permits on the market. In order to limit these market risks, the Company uses appropriate business models that allow the gradual purchase of electricity and gas in individual tranches based on exchange prices.

ŠKO-ENERGO gradually conducts tenders for electricity supplies. Principle of gradual purchasing in individual tranches substantially eliminates price volatility. Surplus electricity is sold to the grid for the spot price. Summer period is characterized by risk of negative development of electricity prices.

**Volatility of CO<sub>2</sub> permit prices**

ŠKO-ENERGO did not have to purchase permits in the year, because its requirement is lower than the allocation provided free of charge. From the year 2013, the Company will have to purchase CO<sub>2</sub> permits. Amount to be purchased will depend on the possibility of derogation and on the ability to replace coal with biomass in the production process. Price of emissions permits is currently very difficult to predict due to the surplus of permits on the market and the inability of the European Union to amend existing trading rules.

For the purpose of risk mitigation, ŠKO-ENERGO is carrying forward to the year 2013 saved permits for combustion of biomass. In order to mitigate price volatility, the Company uses gradual purchasing and various types of trading.

**Coal prices**

In light of the uncertain breach of mining limits and the anticipated shortage of brown coal in the Czech Republic, pressure to raise prices is expected. Furthermore, possible breakdown in the mine or in the rail network represents the threat of non-delivery of coal in the winter period.

ŠKO-ENERGO has secured deliveries and prices of brown coal through the long-term contracts. Coal supplier is Severočeské doly Bílina, which will have a near to monopoly position in sorted coal supply.

**Operating and process risks**

The most significant operating risks are breakdowns of the heating plan caused by the operational error and possible damage to the third party.

Operating and process risks are reduced by incessant maintenance of production facilities and equipment, as well as systematic training of personnel and their professional development. Insurance is important mean of managing the Company's operating 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 the case of operational breakdowns resulting from damaged equipment, the insurance companies pay additional costs arising from purchase of energy.

Reduction of operating risks is ensured by the Company's integrated management system.

In November 2008, the Company harmonised its management with ISO 9000 (QMS) and 14000 (EMS) standards with certification of the integrated management system (IMS) pursuant to these standards. The certification was conducted by well-known certification firm TÜV SÜD Czech s.r.o. The above mentioned firm verified the Company's reporting of greenhouse-gas emissions and certificate for successful introduction and management of all three auditing systems. For mitigation of other operating risks, the Company employs the RISCO system for occupational safety management; EISORGNET for monitoring, management and reporting in the environmental area; and PALSTAT for management of metrology within the Company.

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

In the area of information technologies, the Company focused on actions against risks involving the availability, confidentiality, and integrity of data. The Company uses information systems and technologies not only for administrative activities, but also for managing production facilities, in the operation of which, the maximum possible level of security is taken into account. Security of the systems is regularly inspected and improved in connection with development of technologies. The Company uses central administration application and antivirus protection. Technical actions 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, because of the rapid 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 company processes.

**The most significant unmanageable risks**

The risks, over which the Company has no influence and cannot guard itself against, are related to the government's tax policy, the amount of fees for renewable sources, and subsidies to support energy from renewable and alternative sources.

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## The Company's Strategy and Goals for the Coming Period

In the current period, marked by economic and legislative changes and uncertainties, primary task of the Company's management is to formulate an effective business strategy. The Supervisory Board assesses this strategy from the perspective of the owners' interests. The core pillars and objectives of this strategy are low energy costs for customers, safety and reliability of supplies and, ecological conduct.

### Anticipated development of business environment

The long-term contractual relationships with ŠKODA AUTO guarantee a stable economic environment for the Company and protects it against fluctuations of national economic influences in the Czech Republic and in Europe. It is necessary to assess commodity prices from the global perspective. According to the International Energy Agency, which published its forecast at the end of 2011, oil and gas prices will continue to rise and to have an impact on energy consumption and savings. Emphasis on energy savings will support further technological innovations in energy production and consumption. The rate of growth in commodity prices and development of technologies will depend on the approach taken by states toward global warming and it is necessary to take various scenarios into consideration.

### Legislative changes and their impact on the Company

The Czech Republic is continuing its implementation of European legislation. The Act on Supported Energy Sources, which came into force on 1 January 2013, is the implementation of Directive 2009/28/EC on Supporting the Use of Energy from Renewable Sources. The reason for adopting this law is the Czech Republic's commitment to have a 13% share of renewable sources of energy by 2020 (determined from gross domestic energy consumption).

The basis of the amount of aid for producing electricity from RSE will be the National Action Plan (hereinafter referred to as "NAP"), which quantifies the proportion (limit) of individual renewable sources in achieving the 13% share of RSE. The Ministry of Industry and Trade is preparing, evaluating, and updating NAP. The Energy Regulatory Office will determine the scope and amount of aid based on the values set forth in NAP. This can be gradually adjusted for individual sources with regard to NAP. If the limits are exceeded during the duration of NAP (i. e. during the period until 2020), it is possible to suspend aid for given RSE (this should be valid for new sources introduced into operation upon exceeding the limits set in NAP).

The provisions pursuant to which co-combustion of biomass in highly efficient co-generation will not be restricted, whose conditions the Company already fulfils, are important for ŠKO-ENERGO.

The purchase of CO<sub>2</sub> emissions permits for production of heat and electricity will be mandatory from 2013. The share of permit purchasing will increase every year.

From 2016, reduced limits will be mandated by the European Union and emissions of discharged sulphur dioxide (SO<sub>2</sub>) and nitrogen oxide (NO<sub>x</sub>) will be penalised when these limits are exceeded. These limits, in force from 2016, will be achievable with low additional investment expenditures for the Company thanks to prudent investments in modern technologies.

**Prepared projects**

ŠKO-ENERGO has focused on projects reducing CO<sub>2</sub> emissions, which also bring about energy savings. For this purpose, the Company uses European Union grants in the form of so-called derogations allowing aid for projects involving the reduction of CO<sub>2</sub> emissions. Within this programme, the Ministry of Environment recognised the Company for investments that will gradually be implemented in the period from 2013 to 2016. This involves projects for increasing the volumes of combusted biomass, expansion of hot-water networks, and refurbishment of power generation for the ŠKODA AUTO factory in Vrchlabí.

Reductions of CO<sub>2</sub> are anticipated in the amount of 120,000 tonnes per year. The prepared project for co-combustion of biomass will enable the potential co-combustion of fuel created by processing municipal waste.

**Financial goals**

The Company's goal is to achieve adequate profit while supplying its customers with energy for favourable prices. The basis of economical production will consist in ongoing and thorough inspection, cost management, and optimum use of the capacity of the heating-plant facilities.

**Customer satisfaction**

The Company will respond to current developments and 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 Company will strive to maintain the satisfaction of existing customers and to gain new ones in the city of Mladá Boleslav. The basis of the communication strategy for customers consists in emphasising the competitive advantages provided by low energy costs, ecological production, the Company's conduct and its beneficence for the Mladá Boleslav region.

**Strategic purchasing of raw materials and energy**

The Company plans to increase the volume of biomass to 80,000 tonnes in 2015. In light of the situation on the biomass market in the Czech Republic, this goal is the greatest challenge facing the Company. The task will be to ensure access to alternative solid fuels produced from sorted municipal waste from ŠKODA AUTO and the city of Mladá Boleslav.

The Company will use the competitive environment for ensuring price-advantageous purchasing 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, in the case of which the Company, together with its shareholders, will seek out the most favourable means of purchasing.

**Human resources development**

The basis for achieving the Company's objectives in all areas is management of the employees' productivity, development and education of personnel and their creative and motivated approach to their work. 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 preparation, language instruction, 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 the means of improving processes in all management, production, and supporting processes. The foundation for development of this area will be a concept based on the SAP system. Based on a requirement of the Volkswagen concern, the Company will implement measures for ensuring data and information security.

## Corporate Strategy

### Mission

ŠKO-ENERGO provides comprehensive care for its biggest customer, ŠKODA AUTO, in meeting its energy needs. The Company concurrently ensures heat supplies and thus comfort for the residents, businesses, and institutions in the city of Mladá Boleslav, thereby ensuring good conditions for their work and private lives.

### Vision

ŠKO-ENERGO is a competitive, coveted and reliable energy supplier which responds in a timely manner to the needs of the market, invests appropriately, earns reasonable profits, and minimises harmful impacts on the environment. The Company cares for its employees and is good citizen of the region and partner of the city of Mladá Boleslav.

### Goals for owners and banking institutions

- Ensure the required profit, return on investments, and repayment of loans;

### Goals for customers

- Provide ŠKODA AUTO with favourably priced supplies of energy and services;
- Provide all customers with safe and reliable supplies of energy;
- Gain new customers in Mladá Boleslav and increase sales of heat;
- Offer residents and businesses in Mladá Boleslav supplies of heat at prices below the level of prices of heat from gas;
- Enable connection to remote heating in new areas of Mladá Boleslav;
- Enhance the Company's positive image among customers

### Goals for employees and the surrounding community

- Qualification, motivation, and satisfaction of employees;
- Corporate culture supporting innovation and teamwork;
- The Company as a good and desirable employer;
- Good relations with institutions, and authorities in the region;
- Targeted application of the principles of Corporate Social Responsibility

### Environmental goals

- Protect the environment on the basis of the Company's own sense of responsibility and initiative;
- Minimise harm to the environment through the use of new processes and ecological behaviour. Use of modern technologies and standards in the construction and operation of all facilities if technically feasible and economically acceptable;
- Maintain a high standard in minimising airborne-emissions;
- Conduct an open dialogue with interest groups and provide them with information serving for the understanding of adopted goals and results of environmental programmes

	<b>Goals of management processes</b>
<b>Company management</b>	<ul style="list-style-type: none"> <li>→ Coordinate company processes, optimise the use of resources and control mechanisms;</li> <li>→ Use process management and continually improve processes;</li> <li>→ Proceed in accordance with the owners' policy;</li> </ul>
← <b>Financial management</b>	<ul style="list-style-type: none"> <li>→ Ensure return on investments and comply with the stipulated financial goals through effective cost management;</li> <li>→ Manage the effective use of facilities for production of electricity and heat and coordinate production with purchasing;</li> <li>→ Manage the Company's pricing policy in accordance with the regulator's directives;</li> <li>→ Effectively use financial resources within the framework of the VW concern</li> </ul>
<b>Quality control and environmental management</b>	<ul style="list-style-type: none"> <li>→ Improve processes ensuring the quality of energy supplies and services agreed with customers;</li> <li>→ Assess the environmental impact of existing and new processes and facilities and adopt such measures that limit ecological and safety risks;</li> <li>→ Support employees' responsibility for quality and the environment through training and provision of information;</li> <li>→ Regularly inspect compliance with policies and goals in the areas of quality and the environment and the functionality of the Company's integrated system of management</li> </ul>
<b>Human resources management</b>	<ul style="list-style-type: none"> <li>→ Ensure that all positions are occupied by qualified and motivated employees;</li> <li>→ Increase the qualifications and development of employees for the purpose of long-term enhancement of their abilities and gaining new knowledge and skills;</li> <li>→ Improve communication, involve employees in management and increase their awareness with the aim of sharing the Company's vision and goals;</li> <li>→ Support a creative and positive approach to new ideas and use appropriate motivational tools for this purpose</li> </ul>
← <b>Assets management</b>	<ul style="list-style-type: none"> <li>→ Take care of entrusted facilities and maintain them in operable condition in order to ensure safe and uninterrupted operation;</li> <li>→ Invest in areas which ensure reduction of CO<sub>2</sub> emissions, reduction of costs, certainty of operation and increased sales of heat</li> </ul>
<b>Risk management</b>	<ul style="list-style-type: none"> <li>→ Qualify and quantify risks and have them continually updated and assessed by the responsible persons;</li> <li>→ Effectively use financial instruments to reduce exchange-rate risks and for sales and purchasing of CO<sub>2</sub> emission allowances;</li> <li>→ Secure prices of purchased electricity and gas through appropriate derivatives on commodity markets and reduce the risks of price volatility through diversification of risks by gradual purchasing;</li> <li>→ Cover operating risks with appropriate insurance</li> </ul>
<b>Innovation</b>	<ul style="list-style-type: none"> <li>→ Monitor media and changes in technologies, regulatory measures and development of the market and in a timely manner provide information for decision-making pertaining to possibilities for reducing CO<sub>2</sub> emissions and improving production of energy;</li> <li>→ Assess possible innovations of processes and facilities, select the most suitable solutions and resources for implementation;</li> <li>→ Plan and implement innovations at the right time</li> </ul>
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	<b>Goals of main processes</b>
<b>Sales and marketing</b>	<ul style="list-style-type: none"> <li>→ Actively seek out new connections in the city of Mladá Boleslav and increase sales of heat;</li> <li>→ Support selected activities in the city of Mladá Boleslav;</li> <li>→ Favourably sell electricity not consumed by ŠKODA AUTO for its production</li> </ul>
<b>Strategic purchasing</b>	<ul style="list-style-type: none"> <li>→ Secure the certainty of supplies and prices of brown coal through long-term contracts;</li> <li>→ Increase the amount of purchased biomass from existing and new suppliers;</li> <li>→ Use the Company's ownership structure for effective purchasing of electricity and gas</li> </ul>
<b>Production, services and distribution</b>	<ul style="list-style-type: none"> <li>→ Optimally use the facilities' capacity and reduce the number of unplanned interruptions of energy supplies;</li> <li>→ Reduce the share of expensive fuels and increase the share of biomass in the fuel mix;</li> <li>→ Ensure ecological operation</li> </ul>
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	<b>Goals of supporting processes</b>
← <b>Informatics</b>	<ul style="list-style-type: none"> <li>→ Use modern information technologies and systems;</li> <li>→ Implement the concept based on SAP and Energis systems supplemented with a suitable superstructure;</li> <li>→ To ensure data and information security</li> </ul>



# Independent Auditor's Report and the Financial Statements

## **Translation note**

This version of the financial statements 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 the financial statements takes precedence over this translation.



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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of ŠKO-ENERGO, s.r.o., identification number 61675938, with registered office at Tř. Václava Klementa 869, Mladá Boleslav 1 ("the Company"), which comprise the balance sheet as at 31 December 2012, the income statement, statement of changes in equity and cash flow statement for the year then ended and notes, including a summary of significant accounting policies ("the financial statements").

#### *Statutory Body's Responsibility for the Financial Statements*

The Statutory Body is responsible for the preparation of the financial statements that give a true and fair view 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.

#### *Auditor's Responsibility*

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

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

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

#### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2012, its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

### **Report on Other Legal Requirements**

#### Report on the Annual Report

In addition we have verified that the other information included in the annual report of the Company for the year ended 31 December 2012 is consistent with the financial statements which are included in this annual report on pages 32–53. The Statutory Body is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements based on our verification procedures.

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**Shareholders of ŠKO-ENERGO, s.r.o.**  
**Independent auditor's report**

## **Report on Other Legal Requirements (continued)**

### *Auditor's Responsibility*

We conducted our verification procedures in accordance with the International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the verification procedures to obtain reasonable assurance about whether the other information included in the annual report which describes matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that the verification procedures performed provide a reasonable basis for our opinion.

### *Opinion*

In our opinion, the other information included in the annual report of the Company for the year ended 31 December 2012 is consistent, in all material respects, with the financial statements.

### Report on review of the Report on Relations

In addition we have also reviewed the accompanying report on relations between the Company and its controlling party and between the Company and the other persons controlled by the same controlling party for the year ended 31 December 2012 (the "Report"). The completeness and accuracy of the Report is the responsibility of the Statutory Body of the Company. Our responsibility is to express our opinion on the Report based on performed review.

### *Scope of Review*

We conducted our review in accordance with Audit standard 56 of the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain limited assurance as to whether the Report is free of material factual misstatement. A review is limited primarily to inquiries of Company personnel, analytical procedures and examination, on a test basis, of factual accuracy of data. A review therefore provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Report has not been properly prepared, in all material respects, in accordance with the requirements of Article 66a of the Commercial Code.

29 March 2013

*Pracovní společnost Audit s.r.o.*  
represented by  
*VPRK*

Václav Prýmek  
Partner

Petra Bočáková  
Statutory Auditor, Licence No. 2253

### Note

Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version

# Balance Sheet

(IN THOUSAND CZECH CROWNS)

REF.	ASSETS	31.12.2012		31.12.2011	
		BRUTTO	PROVISION	NETTO	NETTO
A	B	1	2	3	4
	<b>TOTAL ASSETS</b>	<b>1,132,530</b>	<b>(267,352)</b>	<b>865,178</b>	<b>731,430</b>
<b>B.</b>	<b>Fixed assets</b>	<b>552,164</b>	<b>(187,552)</b>	<b>364,612</b>	<b>287,533</b>
<b>B. I.</b>	<b>Intangible fixed assets</b>	<b>38,368</b>	<b>(17,485)</b>	<b>20,883</b>	<b>16,169</b>
B. I.	1. Software	15,453	(13,906)	1,547	1,776
	2. Other intangible fixed assets	22,915	(3,579)	19,336	11,401
	3. Intangible fixed assets in the course of construction	–	–	–	2,992
<b>B. II.</b>	<b>Tangible fixed assets</b>	<b>513,796</b>	<b>(170,067)</b>	<b>343,729</b>	<b>271,364</b>
B. II.	1. Constructions	188,457	(22,991)	165,466	109,762
	2. Equipment	322,681	(147,076)	175,605	150,489
	3. Tangible fixed assets in the course of construction	2,658	–	2,658	8,944
	4. Advances paid for tangible fixed assets	–	–	–	2,169
<b>C.</b>	<b>Current assets</b>	<b>577,670</b>	<b>(79,800)</b>	<b>497,870</b>	<b>416,752</b>
<b>C. I.</b>	<b>Inventories</b>	<b>145,685</b>	<b>(79,800)</b>	<b>65,885</b>	<b>80,664</b>
C. I.	1. Raw materials	145,685	(79,800)	65,885	80,664
<b>C. II.</b>	<b>Long-term receivables</b>	<b>6,762</b>	<b>–</b>	<b>6,762</b>	<b>8,154</b>
C. II.	1. Other receivables	3,019	–	3,019	4,309
	2. Deferred tax asset	3,743	–	3,743	3,845
<b>C. III.</b>	<b>Short-term receivables</b>	<b>412,763</b>	<b>–</b>	<b>412,763</b>	<b>317,846</b>
C. III.	1. Trade receivables	277,115	–	277,115	217,624
	2. Taxes and state subsidies receivable	5,276	–	5,276	8,259
	3. Short-term advances paid	127,631	–	127,631	77,297
	4. Estimated receivables	–	–	–	1,430
	5. Other receivables	2,741	–	2,741	13,236
<b>C. IV.</b>	<b>Financial assets</b>	<b>12,460</b>	<b>–</b>	<b>12,460</b>	<b>10,088</b>
C. IV.	1. Cash in hand	75	–	75	75
	2. Cash at bank	12,385	–	12,385	10,013
<b>D. I.</b>	<b>Prepayments and accrued income</b>	<b>2,696</b>	<b>–</b>	<b>2,696</b>	<b>27,145</b>
D. I.	1. Prepaid expenses	2,509	–	2,509	2,857
	2. Accrued income	187	–	187	24,288

REF.	LIABILITIES AND EQUITY		31.12.2012	31.12.2011
A	B		6	7
	<b>TOTAL LIABILITIES AND EQUITY</b>		<b>865,178</b>	<b>731,430</b>
<b>A.</b>	<b>Equity</b>		<b>59,470</b>	<b>58,754</b>
<b>A. I.</b>	<b>Share capital</b>		<b>10,000</b>	<b>10,000</b>
A. I.	1.	Share capital	10,000	10,000
<b>A. III.</b>	<b>Reserve fund and other reserves</b>		<b>47,301</b>	<b>46,584</b>
A. III.	1.	Legal reserve fund	1,094	1,094
	2.	Statutory and other reserves	46,207	45,490
<b>A. V.</b>	<b>Profit / (loss) for the current period</b>		<b>2,169</b>	<b>2,170</b>
B.	Liabilities		482,927	614,515
<b>B. I.</b>	<b>Provisions</b>		<b>26,349</b>	<b>13,430</b>
B. I.	1.	Other provisions	26,349	13,430
<b>B. III.</b>	<b>Short-term liabilities</b>		<b>456,578</b>	<b>601,085</b>
B. III.	1.	Trade payables	106,976	15,300
	2.	Liabilities to shareholders and co-ventures	290,000	415,000
	3.	Liabilities to employees	14,458	-
	4.	Liabilities for social security and health insurance	4,589	-
	5.	Taxes and state subsidies payable	18,728	13,656
	6.	Estimated payables	21,818	157,120
	7.	Other payables	9	9
<b>C. I.</b>	<b>Accruals and deferred income</b>		<b>322,781</b>	<b>58,161</b>
C. I.	1.	Accrued expenses	322,781	58,161

# Income Statement

Year ended 31 December 2012

(IN THOUSAND CZECH CROWNS)

REF.	DESCRIPTION	ACCOUNTING PERIOD	
		2012	2011
A	B	1	2
I.	Sales of goods	546,558	501,063
A.	Cost of goods sold	546,543	501,063
+	Gross profit	15	-
II.	Sales of production	2,249,836	1,978,454
II.	1. Sales of own products and services	2,249,836	1,978,454
B.	Cost of sales	1,947,687	1,712,526
B.	1. Raw materials and consumables used	961,107	810,287
	2. Services	986,580	902,239
+	<b>Added value</b>	<b>302,164</b>	<b>265,928</b>
C.	Staff costs	221,136	186,498
C.	1. Wages and salaries	159,256	133,749
	2. Social security and health insurance costs	52,516	45,315
	3. Other social costs	9,364	7,434
D.	Taxes and charges	15,177	22,614
E.	Depreciation and amortisation expense	33,803	32,114
III.	Sales of fixed assets and raw materials	21,234	25,569
III.	1. Sales of fixed assets	21,224	25,549
	2. Sales of raw materials	10	20
G.	Changes in operating provisions and complex prepaid expenses	17,135	14,333
IV.	Other operating income	111,854	199,291
H.	Other operating expenses	142,591	230,745
*	<b>Operating result</b>	<b>5,410</b>	<b>4,484</b>
IX.	Gain on revaluation of securities and derivatives	71	-
L.	Changes in financial provisions	-	1,404
X.	Interest income	54	132
N.	Interest expense	3,164	4,005
XI.	Other financial income	366	2,953
O.	Other financial expenses	466	1,880
*	<b>Financial result</b>	<b>(3,139)</b>	<b>(4,204)</b>
Q.	Tax on profit or loss on ordinary activities	102	(1,890)
Q.	1. - deferred	102	(1,890)
**	<b>Profit or loss on ordinary activities after taxation</b>	<b>2,169</b>	<b>2,170</b>
***	<b>Net profit / (loss) for the financial period</b>	<b>2,169</b>	<b>2,170</b>
****	<b>Net profit / (loss) before taxation</b>	<b>2,271</b>	<b>280</b>

## Statement of Changes in Shareholders' Equity

Year ended 31 December 2012

(czk '000)

	SHARE CAPITAL	STATUTORY RESERVE FUND	STATUTORY AND OTHER FUNDS	RETAINED EARNINGS	TOTAL
<b>As at 1 January 2011</b>	<b>10,000</b>	<b>1,094</b>	<b>44,773</b>	<b>2,170</b>	<b>58,037</b>
Contribution to other funds	-	-	717	(717)	-
Profit distribution paid	-	-	-	(1,453)	(1,453)
Net profit for 2011	-	-	-	2 170	2,170
<b>As at 31 December 2011</b>	<b>10,000</b>	<b>1,094</b>	<b>45,490</b>	<b>2,170</b>	<b>58,754</b>
Contribution to other funds	-	-	717	(717)	-
Profit distribution paid	-	-	-	(1,453)	(1,453)
Net profit for 2012	-	-	-	2,169	2,169
<b>As at 31 December 2012</b>	<b>10,000</b>	<b>1,094</b>	<b>46,207</b>	<b>2,169</b>	<b>59,470</b>

# Cash Flow Statement

Year ended 31 December 2012

(CZK '000)

	2012	2011
<b>Cash flows from operating activities</b>		
<b>Net profit on ordinary activities before tax</b>	<b>2,271</b>	<b>280</b>
<b>A.1 Adjustments for non-cash movements:</b>	<b>47,132</b>	<b>47,055</b>
A.1.1 Depreciation and amortisation of fixed assets	33,803	32,114
A.1.2 Change in provisions	17,135	14,333
A.1.3 Profit from disposal of fixed assets	(21,234)	(25,549)
A.1.4 Net interest expense	3,110	3,873
A.1.5 Other non-cash movements	-	1,404
A.1.6 Other non-cash movements from CER consumption	14,438	20,880
<b>A* Net cash flow from operating activities before tax, and changes in current assets</b>	<b>49,403</b>	<b>47,335</b>
<b>A.2 Working capital changes:</b>	<b>197,615</b>	<b>(108,533)</b>
A.2.1 Change in receivables, prepayments and accrued income	(69,178)	(82,998)
A.2.2 Change in short-term payable, accruals and deferred income	256,229	(12,898)
A.2.3 Change in inventories	10,564	(12,637)
<b>A** Net cash flow from operating activities before tax</b>	<b>247,018</b>	<b>(61,198)</b>
A.3 Interest paid	(3,164)	(4,005)
A.4 Interest received	54	132
<b>A*** Net cash flow from operating activities</b>	<b>243,098</b>	<b>(65,071)</b>
<b>Cash flows from investing activities</b>		
B.1 Acquisition of fixed assets	(136,317)	(52,894)
B.2 Proceeds from the sale of fixed assets	21,234	27,624
<b>B*** Net cash flow from investing activities</b>	<b>(115,083)</b>	<b>(25,270)</b>
<b>Cash flows from financing activities</b>		
C.1 Change in long- and short-term liabilities	(125,000)	78,000
<b>C.2 Changes in equity:</b>	<b>(1,453)</b>	<b>(1,453)</b>
C.2.1 Profit distribution paid	(1,453)	(1,453)
<b>C*** Net cash flow from financing activities</b>	<b>(126,453)</b>	<b>76,547</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2,372</b>	<b>(13,794)</b>
<b>Cash and cash equivalents as at the beginning of the year</b>	<b>10,088</b>	<b>23,882</b>
<b>Cash and cash equivalents as at the end of the year</b>	<b>12,460</b>	<b>10,088</b>

Company made revenue recognition of emission rights sale more precise, consumption of CER is presented as Other non-cash movements. Comparative figures were adjusted.

# Notes to Financial Statements

Year ended 31 December 2012

## 1. General information

### 1.1. Introductory information about the Company

ŠKO-ENERGO, s.r.o. ("the Company") was incorporated on 30 June 1995 under the file mark of section C, insert 38550 and has its registered office at Mladá Boleslav 1, Tr. Václava Klementa 869, postal code 293 60. The Company's primary 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, gas equipment etc. Identification number of the Company is 616 75 938.

The share capital of CZK 10,000,000 was fully repaid.

#### Share of individual shareholders on the share capital as at 31 December 2012 and 2011:

SHAREHOLDER	(%)
E.ON Czech Holding AG, Munich (Germany)	21.0
ŠKODA AUTO a.s., Mladá Boleslav	44.5
ČEZ, a.s., Prague	12.0
VOLKSWAGEN KRAFTWERK GmbH, Wolfsburg (Germany)	22.5

#### The Statutory representatives as at 31 December 2012 and 31 December 2011 were as follows:

NAME
Vladimír Handlík
Miroslav Žďánský, MBA

#### The members of the Supervisory Board as at 31 December 2012 were as follows:

NAME	PERIOD IN CHARGE
Gert Wölfel	from 30 June 1995
Raimund Wunder	from 1 January 2003
Karlheinz Emil Hell	from 12 June 2010
Michael Oeljeklaus	from 1 November 2010
Peter Kreissl	from 1 October 2012
Jaroslav Kužel	from 1 May 2010 until 30 September 2012

**The members of the Supervisory Board as at 31 December 2011 were as follows:**

NAME	PERIOD IN CHARGE
Gert Wölfel	from 30 June 1995
Raimund Wunder	from 1 January 2003
Jaroslav Kužel	from 1 May 2010
Karlheinz Emil Hell	from 12 June 2010
Michael Oeljeklaus	from 1 November 2010

The Company's management is functionally divided into technical and trade management. The trade management is represented by the business Statutory Representative. Besides the technical Statutory Representative, the technical management is also represented by a manager of the area of infrastructure and other energies, the heating plant operations manager and manager of energy management.

## 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 and have been prepared under the historical cost convention except for derivatives which are shown at fair value.

### 2.2. Intangible fixed asset

All intangible assets with a useful life longer than one year and a unit cost more than CZK 60,000 are treated as intangible fixed asset.

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 ASSET	ESTIMATED USEFUL LIFE
Software	3–4 years
Other intangible fixed assets	5–8 years

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.

The emission rights liability is released into other operating income in the same period when relating expenses are incurred.

The consumption of emission allowances is recorded to other operating expenses annually as at the balance sheet date on the basis of actual CO<sub>2</sub> emissions produced in the period.

The first-in-first-out method is applied for all disposals of emission allowances.

Sales of emission rights 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.

**2.3. Tangible fixed assets**

All tangible assets with a useful life longer than one year and a unit cost of more than CZK 40,000 are treated as tangible fixed assets.

Acquired 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 ASSET	ESTIMATED USEFUL LIFE
Buildings and constructions	30–45 years
Plant, machinery and equipment	3–30 years
Motor vehicles	5–8 years

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

Repairs and maintenance expenditures of tangible fixed assets are expensed as incurred. Technical improvements of fixed assets exceeding CZK 40,000 per item per year are capitalised.

Tangible fixed assets with useful lives longer than one year a unit cost less than CZK 40,000 are treated as inventory and are expensed upon consumption.

**2.4. 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.

The provision for other inventories is created on the basis of an analysis of slow-moving and obsolete inventories and individual evaluation of inventories.

**2.5. 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 individual evaluation of the credit worthiness of the customers.

**2.6. Cash and cash equivalents**

Cash and cash equivalents include cash in hand, stamps and vouchers 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.

**2.7. Foreign currency translation**

Transactions denominated in a foreign currency are translated and recorded at the exchange rate of the Czech National Bank 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.

**2.8. Derivative financial instruments**

The overall strategy of risk management of the Company concentrates on unpredictability of financial markets and the main aim is to minimize its potential negative impacts on financial results of the Company. The Company uses financial derivative instruments - currency forwards as hedging against foreign currency instability risks. The Company does not carry any speculative transactions.

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently re-measured at their fair value. Fair value of forward currency agreements is calculated as discounted value of estimated future cash flows. The Company uses fair value stated by a bank for determination of fair value.

All derivatives are presented in Other receivables or in Other payables when their fair value is positive or negative, respectively.

Changes in the fair value of derivatives held for trading are included in gain or loss on revaluation of securities and derivatives.

**2.9. Revenue recognition**

Sales are recognised upon the performance of services and upon the dispatch of goods and the transfer of their ownership to the customer and are stated net of discounts and Value Added Tax.

**2.10. 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 of 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 capitalisation of

the leased assets; the relevant lease payments therefore influence the profit / (loss) for the current period. Any assets under finance lease shall be purchased after the termination of the lease contract.

#### **2.11. 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.

#### **2.12. Employment benefits**

The Company recognises a provision relating to untaken holidays.

The Company recognises a provision relating to 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 estimated payable.

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.

#### **2.13. Interest costs**

Interest costs 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. Other interest costs are expensed.

#### **2.14. 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.

#### **2.15. Related parties**

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

- parties, of which the Company is a subsidiary or an associate, directly or indirectly, and other subsidiaries of these parties; and/or
- members of the Company's or parent Company's statutory and supervisory bodies and management and parties close to such members, including entities in which they have a controlling or significant influence,
- companies, which are associates of either the parties, of which the Company is subsidiary, directly or indirectly; or the companies which are subsidiaries of the parties of which the Company is subsidiary.

Material transactions and outstanding balances with related parties are disclosed in Note 14.

#### **2.16. Cash flow statement**

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

#### **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 disclosed, but are not themselves recognised in the financial statements.

### 3. Intangible and tangible fixed assets

(CZK '000)	1 JANUARY 2012	ADDITIONS / TRANSFERS	DISPOSALS	31 DECEMBER 2012
<b>Cost</b>				
Software	13,520	1,933	–	15,453
Other intangible fixed assets	14,940	156,189	(148,214)	22,915
Intangible fixed assets in the course of construction	2,992	–	(2,992)	–
Buildings and constructions	127,740	60,717	–	188,457
Equipment	272,561	51,705	(1,585)	322,681
Tangible fixed assets in the course of construction	8,944	–	(6,286)	2,658
Advance payments for tangible fixed assets	2,169	–	(2,169)	–
<b>Total</b>	<b>442,866</b>	<b>270,544</b>	<b>(161,246)</b>	<b>552,164</b>
<b>Accumulated amortisation/ depreciation</b>				
Software	11,744	2,162	–	13,906
Other intangible fixed assets	3,539	40	–	3,579
Buildings and constructions	17,978	5,013	–	22,991
Equipment	122,072	26,588	(1,584)	147,076
<b>Total</b>	<b>155,333</b>	<b>33,803</b>	<b>(1,584)</b>	<b>187,552</b>
<b>Net book value</b>	<b>287,533</b>			<b>364,612</b>

(CZK '000)	1 JANUARY 2011	ADDITIONS / TRANSFERS	DISPOSALS	31 DECEMBER 2011
<b>Cost</b>				
Software	13,520	–	–	13,520
Other intangible fixed assets	10,760	197,708	(193,528)	14,940
Intangible fixed assets in the course of construction	2,243	749	–	2,992
Buildings and constructions	114,641	13,099	–	127,740
Equipment	255,178	17,383	–	272,561
Tangible fixed assets in the course of construction	10,330	(1,386)	–	8,944
Advance payments for tangible fixed assets	–	2,169	–	2,169
<b>Total</b>	<b>406,672</b>	<b>229,722</b>	<b>(193,528)</b>	<b>442,866</b>
<b>Accumulated amortisation/ depreciation</b>				
Software	9,409	2,335	–	11,744
Other intangible fixed assets	3,483	56	–	3,539
Buildings and constructions	13,778	4,200	–	17,978
Equipment	96,549	25,523	–	122,072
<b>Total</b>	<b>123,219</b>	<b>32,114</b>	<b>–</b>	<b>155,333</b>
<b>Net book value</b>	<b>283,453</b>			<b>287,533</b>

As at 31 December 2012 the item Other intangible fixed assets included emission allowances in the amount of CZK 19,332,000 (as at 31 December 2011: CZK 11,357,000).

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 after the ownership transfer.

**The lease instalments relating to existing contracts can be analysed as follows:**

(CZK '000)	31 DECEMBER 2012	31 DECEMBER 2011
Amounts paid on existing finance lease contracts	9,188,300	8,428,200
Outstanding amounts payable within one year	659,800	685,029
Amounts payable after more than one year	3,537,600	4,198,794
<b>Amounts paid and payable from existing contracts</b>	<b>13,385,700</b>	<b>13,312,023</b>

As at 31 December 2012 and 2011, no assets acquired upon the expiration of leases were recognised in the balance sheet.

**4. Inventories**

(CZK '000)	31 DECEMBER 2012	31 DECEMBER 2011
Raw materials	145,685	156,249
Provision	(79,800)	(75,585)
<b>Net book value</b>	<b>65,885</b>	<b>80,664</b>

**The change in the provision for inventories can be analysed as follows:**

(CZK '000)	2012	2011
<b>Opening balance as at 1 January</b>	<b>75,585</b>	<b>64,175</b>
Charge for the year	4,215	11,410
<b>Closing balance as at 31 December</b>	<b>79,800</b>	<b>75,585</b>

**5. Receivables**

(CZK '000)	31 DECEMBER 2012	31 DECEMBER 2011
Trade receivables - current	277,115	217,624
Other receivables - current	135,648	100,222
<b>Net book value of short-term receivables</b>	<b>412,763</b>	<b>317,846</b>
Long-term receivables - current	3,019	4,309
Deferred tax receivable	3,743	3,845
<b>Total long-term receivables</b>	<b>6,762</b>	<b>8,154</b>
<b>Total net book value of receivables</b>	<b>419,525</b>	<b>326,000</b>

Unsettled receivables have not been secured and none of them are due after more than 5 years.

Other receivables include mainly advance payments in the amount of CZK 127,631,000 (as at 31 December 2011: CZK 77,297,000) and Value Added Tax receivable in the amount of CZK 4,265,000 (as at 31 December 2011: CZK 7,233,000).

Long-term receivables are represented by loans to employees amounting to CZK 3,019,000 (as at 31 December 2011: CZK 4,309,000).

## 6. Equity

The statutory reserve fund is created from the profit of the Company according to law and may not be distributed to shareholders, but may be used to offset losses only. In compliance with the relevant provisions of the Commercial Code, the Company contributes 5% of its annual net profit to the statutory reserve fund until the balance of this reserve reaches 10% of the share capital. The statutory reserve fund reached 10% of the share capital in 2004.

The general meeting of the shareholders approved the financial statements for 2011 and decided about the allocation of profit earned in 2011 of CZK 2,170,000 on 10 July 2012.

Allocation of the net profit of CZK 2,169,000 for 2012 was not approved by the date of preparation of the financial statements.

## 7. Provisions

(CZK '000)	OTHER PROVISIONS
<b>Opening balance as at 1 January 2011</b>	<b>10,508</b>
Charge for the year	11,861
Used in the year	(8,939)
<b>Closing balance as at 31 December 2011</b>	<b>13,430</b>
Charge for the year	25,262
Used in the year	(12,343)
<b>Closing balance as at 31 December 2012</b>	<b>26,349</b>

Other provisions include mainly provisions for employees' bonuses and outstanding components of wages and salaries relating to 2012.

Corporate income tax and deferred tax calculation is disclosed in Note 11.

## 8. Liabilities and accruals

(CZK '000)	31 DECEMBER 2012	31 DECEMBER 2011
<b>Trade payables – current</b>	<b>106,976</b>	<b>15,300</b>
Liabilities to shareholders – current	290,000	415,000
Other payables – current	59,602	170,785
<b>Total other payables</b>	<b>349,602</b>	<b>585,785</b>
<b>Total short-term liabilities</b>	<b>456,578</b>	<b>601,085</b>

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

Liabilities to related parties and accruals are disclosed in Note 14.

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.

## 9. Bank loans and other borrowings

Credit line of CZK 20,000,000 has been provided by UniCredit Bank Czech Republic a.s. (as at 31 December 2011: CZK 20,000,000) to the Company to finance current assets. As at 31 December 2012 and 2011, the Company has not drawn the credit line.

The bank consortium consisting of Commerzbank AG, Prague office, as the head of the group, and UniCredit Bank Czech Republic a.s. as a group partner provided to ŠKO-ENERGO FIN a loan agreement amounting to DEM 220,000,000. The purpose of the loan is to finance the construction of heating plant and other infrastructure facilities, held by the Company under finance lease with ŠKO-ENERGO FIN, and to provide operating loans to the Company and to ŠKO-ENERGO FIN.

Besides ŠKO-ENERGO FIN, the loan is also guaranteed by the Company and by the shareholders of ŠKO-ENERGO FIN.

To secure the claims of the bank resulting from the loan agreements, the Company assigns to the banks in compliance with Section 554 of the Civil Code all its current and future receivables and other rights ensuing from the contractual relationships of the Company. For the guarantee purposes, in compliance with Section 553 of the Civil Code, the Company assigns to the bank its ownership to all its existing coal supplies and to the coal supplies to which the Company acquires an ownership right by 30 June 2015 or until the termination of the contractual relationship. Besides the above, the Company pledges to the banks its receivable from UniCredit Bank Czech Republic a.s. relating to the payment of the balances from the operating funds account and from the transfer account, and its requirement from Komerční banka, a.s. to pay balances from the accounts.

Company uses credit line of CZK 550,000,000, provided by the company Volkswagen International Finance NV. Based on the conditions stated in the contract from 1 October 2010, the Company can choose between fixed and variable interest rate. As at 31 December 2012 the Company has drawn the loan amounting to CZK 290,000,000 with interest rate 0.685% p.a. (as at 31 December 2011 loan amounting to CZK 415,000,000 with interest rate 1.075% p.a.).

## 10. Derivative financial instruments

As at 31 December 2012, Company does not have any open position from derivative financial instruments.

(CZK '000)	31 DECEMBER 2011		
	FAIR VALUE		NOMINAL AMOUNT
	POSITIVE	NEGATIVE	
Currency forwards	19	91	3,517
<b>Total trading agreements</b>	<b>19</b>	<b>91</b>	<b>3,517</b>

Changes in fair value of trading derivatives are recorded in the Income Statement.

Certain derivative transactions, although providing effective economic hedges under the Company's risk management positions, do not qualify for hedge accounting under Czech accounting rules. Therefore, they are presented above as trading derivatives.

## 11. Income tax

The income tax expense can be analysed as follows:

(CZK '000)	2012	2011
Deferred tax income / (expense)	102	(1,890)
<b>Total income tax</b>	<b>102</b>	<b>(1,890)</b>

Current tax can be analysed as follows:

(CZK '000)	2012	2011
Net profit before taxation	2,271	280
Tax-non deductible expenses	37,894	41,659
Difference between tax and accounting depreciation	(12,978)	(9,891)
Non-taxable income	(45)	(45)
Utilised investment relief	(27,172)	(32,003)
Tax base	-	-
<b>Corporate income tax at 19%</b>	<b>-</b>	<b>-</b>

The deferred tax was calculated at 19% (the rate enacted for 2012 and subsequent years).

**Deferred tax asset can be analysed as follows:**

(CZK '000)	31 DECEMBER 2012	31 DECEMBER 2011
Provisions	5,006	2,551
Difference between the accounting and tax net book value of fixed assets	(18,876)	(16,109)
Unrealised 10% investment relief for acquired fixed assets	2,451	3,042
Provision to inventories	15,162	14,361
<b>Net deferred tax asset</b>	<b>3,743</b>	<b>3,845</b>

**12. Revenue analysis****Revenue from operating activities can be analysed as follows:**

(CZK '000)	2012	2011
Electric energy	1,189,110	1,069,533
Heat	503,765	475,541
Compressed air	129,690	118,506
Technical gases and services related to energy supplies	352,375	244,616
Water	69,962	65,852
Other	4,934	4,406
<b>Total sales of own products and services</b>	<b>2,249,836</b>	<b>1,978,454</b>
Electric energy	277,281	268,552
Heat	4,953	5,219
Drinking water	14,657	14,114
Gas	249,667	213,178
<b>Total sales of goods</b>	<b>546,558</b>	<b>501,063</b>
<b>Total revenue from operating activities</b>	<b>2,796,394</b>	<b>2,479,517</b>

All revenues in 2012 and 2011 were realized on domestic market.

### 13. Employees

	2012	2011
Members of management	5	4
Average number of other staff	282	239
<b>Total number of employees</b>	<b>287</b>	<b>243</b>

The Company's management includes two Statutory Representatives, the Head of Infrastructure and Other Energies, the Head of the Heating Plant Operations and the Head of Energy Management.

(CZK '000)	MANAGEMENT	OTHER STAFF	TOTAL
<b>2012</b>			
Wages and salaries	12,936	146,320	159,256
Social security costs	4,398	48,118	52,516
Other social costs	2,344	7,020	9,364
<b>Total staff costs</b>	<b>19,678</b>	<b>201,458</b>	<b>221,136</b>
<b>2011</b>			
Wages and salaries	9,999	123,750	133,749
Social security costs	3,399	41,916	45,315
Other social costs	1,842	5,592	7,434
<b>Total staff costs</b>	<b>15,240</b>	<b>171,258</b>	<b>186,498</b>

Other transactions with the Company's management are described in Note 14.

## 14. Related party transactions

The Company was involved in the following related party transactions:

(CZK '000)	2012	2011
<b>Revenues</b>		
ŠKODA AUTO a. s.	2,466,539	2,183,282
ČEZ Prodej, s. r. o.	23,638	40,939
ČEZ Distribuce, a. s.	124,173	91,906
ŠKO-ENERGO FIN, s. r. o.	415	384
<b>Total revenues</b>	<b>2,614,765</b>	<b>2,316,511</b>
<b>Costs</b>		
ŠKO-ENERGO FIN, s. r. o.	692,668	684,904
ŠKODA AUTO a. s.	13,292	8,058
ČEZ Prodej, s. r. o.	526,950	452,380
ČEZ Distribuce, a. s.	216,185	202,707
ČEZ Distribuční služby, s. r. o.	16	–
Pragoplyn	–	76,184
<b>Total costs</b>	<b>1,449,111</b>	<b>1,424,233</b>

These transactions were realized under standard market conditions.

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

(CZK '000)	31 DECEMBER 2012	31 DECEMBER 2011
<b>Receivables</b>		
– trade receivables		
ŠKODA AUTO a. s.	186,036	130,096
ČEZ Prodej, s. r. o.	1,176	8,632
ČEZ Distribuce, a. s.	34,607	26,169
ŠKO-ENERGO FIN, s. r. o.	495	461
– prepayments, accrued income and estimated receivables		
ŠKODA AUTO a. s.	–	24,024
<b>Total receivables and accruals</b>	<b>222,314</b>	<b>189,382</b>
<b>Liabilities</b>		
– trade payables		
ŠKODA AUTO a. s.	11,678	–
ČEZ Prodej, s. r. o.	58,227	–
– other liabilities to shareholders		
Volkswagen International Finance NV	290,000	415,000
– accruals, deferred income and estimated payables		
ŠKODA AUTO a. s.	92,430	20,505
ČEZ Prodej, s. r. o.	35,168	39,515
ČEZ Distribuce, a. s.	16,450	18,236
ŠKO-ENERGO FIN, s. r. o.	114,610	54,337
Pragoplyn	–	4 895
<b>Total liabilities and accruals</b>	<b>618,563</b>	<b>552,488</b>

Significant decrease of trade payables and increase of accruals resulted from legislative changes in Value added tax.

The loans payable bear interest at market interest rates.

**During 2012 and 2011 the Company paid dividends to its shareholders in the following amount:**

(CZK '000)	2012	2011
ŠKODA AUTO a.s.	647	647
Volkswagen Kraftwerk GmbH	327	327
E.ON Czech Holding AG	305	305
ČEZ, a.s.	174	174
<b>Total</b>	<b>1,453</b>	<b>1,453</b>

The Company gives the management the possibility to conclude a life insurance to secure themselves in old age.

No remuneration was paid to the members of the Supervisory Board for their activities in 2012 and 2011, nor did they receive any guarantees, loans or other advantages.

## 15. Commitments

As at 31 December 2012 the Company has concluded contracts for capital expenditures in the total amount of CZK 11,117,000 (as at 31 December 2011: CZK 2,424,000). The Company had no material capital commitments other than the above mentioned and future commitments resulting from the finance lease agreement (see Note 3).

## 16. Contingent liabilities

The management of the Company is not aware of any significant unrecorded contingent liabilities as at 31 December 2012 and 2011.

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

The total fees paid and payable for services performed by the audit company  
PricewaterhouseCoopers Audit, s.r.o.:

(CZK '000)	2012	2011
Statutory audit of financial statements	1,096	995
<b>Total fees paid and payable to the audit company</b>	<b>1,096</b>	<b>995</b>

## 18. Subsequent events

No events have occurred subsequent to year-end that would have a material impact on the financial statements as at 31 December 2012.

29 March 2013



**Miroslav Žďánský, MBA**  
Statutory Director



**Vladimír Handlík**  
Statutory Director



**Milena Vávrová**  
Chief Accountant

## Report on Relations between Related Parties

Report on Relations between ŠKO-ENERGO, s.r.o. as the Controlled Entity and its parent companies as the Controlling Entities, and other entities controlled by them, in the financial year commencing on 1 January 2012 and ending on 31 December 2012.

**This Report on Relations between Related Parties concerning the following companies was drawn up pursuant to section 66a(9) of the Commercial Code no. 513/1991 Collection of Laws ("CC"):**

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**VOLKSWAGEN Aktiengesellschaft** (Germany), through holdings in ŠKODA AUTO a.s., Mladá Boleslav and Volkswagen Kraftwerk GmbH (Germany)

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**E.ON ENERGIE AG** (Germany), through holdings in E.ON Czech Holding AG (Germany)

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**ČEZ, a.s.**, Prague

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(hereinafter the "Controlling Entities" or "Related Entities") as the controlling entities, and ŠKO-ENERGO, s.r.o. Mladá Boleslav (hereinafter the "Controlled Entity" or "Related Entity") as the controlled entity, and concerning the Controlled Entity and other entities controlled by the Controlling Entities (hereinafter also the "Related Entities") in the financial year commencing on 1 January 2012 and ending on 31 December 2012 (hereinafter the "financial year").

Pursuant to the relevant legislation (s.66a and s.66b of Act no. 513/1991 Coll., as amended), all members shall be deemed the Controlling Entities so long as they act in concert, such as in the case of ŠKO-ENERGO, s.r.o.

This report was drawn up in order to comply with the information duty pursuant to section 66a (9) of the Commercial Code no. 513/1991 Coll., as amended.

**The Controlling Entities held the following shares in the Controlled Entity:**

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

The distribution of the votes of the shareholders is described in the Memorandum of Association as follows: "Each CZK 1,000 of the contribution of a shareholder equals a vote."

The following contracts were executed, measures taken and other legal acts performed by and among the Related Entities pursuant to section 66a(9) of the Commercial Code no. 513/1991 Coll., in the financial year:

#### Contracts Executed

In the financial year, following contracts were executed by and between the Controlled Entity and the Controlling Entities, and by and between the Controlled Entity and any other entities controlled by the Controlling Entities:

PURCHASE OF GOODS AND SERVICES	SALE GOODS AND SERVICES	FINANCIAL SERVICES
ŠKODA AUTO a.s. ČEZ Prodej, s.r.o. ČEZ Distribuce, s.r.o. ČEZ Distribuční služby, s.r.o.	ŠKODA AUTO a.s.	VW International Finance NV

#### Other Legal Actions

No legal actions were performed in the financial year to the benefit of the Controlling Entities, and/or the Controlled Entities by the Controlling Entities, over and above any regular legal acts performed by the Controlling Entities while exercising their rights of the members of the Controlled Entity.

#### Other Measures, Benefits and Disadvantages

No other measures were adopted or taken in the financial year in the interest of or inspired by the Controlling Entities, and/or any other entities controlled by the Controlling Entities, by the Controlled Entity, over and above any regular measures taken by the Controlled Entity in relation to the Controlling Entities in their capacity of the shareholders of the Controlled Entity.

#### Considerations Paid and Received

No considerations were paid or received in the financial year in the interest of or inspired by the Controlling Entities, and/or other entities controlled by the Controlling Entities, by the Controlled Entity, over and above any regular considerations paid or received by the Controlled Entity in relation to its Controlling Entities in their capacity of the shareholders of the Controlled Entity.

The overall value of any transactions involving Related Entities in the financial year is disclosed in the Note 14 in the notes to financial statements.

The Controlled Entity did not incur any loss or damage due to the execution of any contracts, any other legal actions, and other measures or considerations paid or received.

Mladá Boleslav, on 29 March 2013.



**Miroslav Žďánský, MBA**  
Statutory Representative



**Vladimír Handlík**  
Statutory Representative

## Used abbreviations

ŠKO-ENERGO or the Company	ŠKO-ENERGO, s. r. o.
ŠKO-ENERGO FIN	ŠKO-ENERGO FIN, s. r. o.
ŠKODA AUTO	ŠKODA AUTO a. s.
CENTROTHERM	CENTROTHERM Mladá Boleslav, a. s.
OECD	Organisation for Economic Co-operation and Development
CO <sub>2</sub>	carbon dioxide
SO <sub>2</sub>	sulfur dioxide
NO <sub>x</sub>	nitrogen oxides
GDP	gross domestic product
KVET	Combined production of heat and power
NAP	National allocation plan
RSE	Renewable sources of energy
PXE	Power Exchange Central Europe
EEX	European Energy Exchange
DEMI-water	demineralized water



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