

20  
17

Annual Report





# Contents

2	The company profile
4	Information on the Supervisory and Statutory Bodies
6	Corporate governance & Compliance
8	Financial conditions in the Czech Republic
10	Financial results
15	Human resources
16	Relationship to the Environment
18	Risk Management System
20	Outlook and goals for the upcoming periods
23	Financial Statements
24	Independent auditor's report
26	Balance Sheet
28	Income Statement
29	Statement of changes in shareholders' equity
30	Cash Flow Statement
31	Notes to the Financial Statements
48	Report on Relations of ŠKO-ENERGO, s.r.o.
54	Used abbreviations

## The company profile

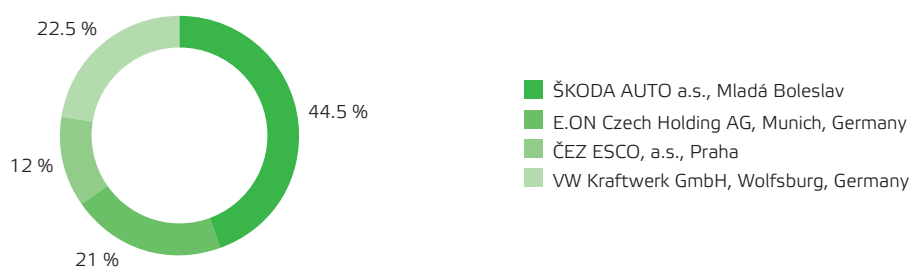
### Basic information

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

ŠKO-ENERGO, s.r.o. (hereinafter referred to as ŠKO-ENERGO or "the Company") was registered in the Commercial Register on 30 June 1995 under the file mark of section C, insert 38550 and its registered office is in Mladá Boleslav 1, třída Václava Klementa 869, postal code 293 60.

The main business activities according to the Articles of Incorporation are production and distribution of heat energy, production and sales of electricity, sales of gas, installation, revision and testing of electrical, pressure and gas equipment, etc. Identification number is 616 75 938.

### Shareholders' shares as at 31 December 2017



## Shareholders

### **ŠKODA AUTO a.s.**

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

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

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

### **Volkswagen Kraftwerk GmbH**

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

### **ČEZ ESCO, a.s.**

ČEZ ESCO (Energy Service Company) is a company that currently consists of thirteen subsidiaries. It provides energy solutions for large corporations, SMEs and public administration. It operates in the Czech Republic and Slovakia and extends its services to other European countries. It offers comprehensive energy services tailored to the specific needs of customers, with emphasis on new technologies and energy efficiency. Ensuring the supply of electricity and gas is natural, as well as the financing of investment in the modernization of operation through realized savings.

## Information on the Supervisory and Statutory Bodies

### Supervisory Board

Composition of the Supervisory Board as at 31 December 2017

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

##### **Michael Oeljeklaus**

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

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

##### **Gert Wölfel**

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

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

##### **Miroslav Krpec**

Chairman of the Board of Directors and General Director of Energotrans, a.s., appointed member of the Supervisory Board of ŠKO-ENERGO on 1 August 2015 until 30 April 2017.

##### **Uwe Wildt**

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

##### **Raimund Wunder**

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

##### **Michal Židek, Ph.D.**

Member of the Board of Directors and Director of the Industrial energy sector of ČEZ ESCO, a.s., appointed as a member of the Supervisory Board on 1 May 2017.

## Statutory Representatives of the Company

Statutory Representatives of the Company as at 31 December 2017

### Jaromír Vorel

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

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

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

### Tomáš Kubín

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

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

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

## Corporate governance & Compliance

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

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

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

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

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

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

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

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

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

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



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

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

The Company's management takes into account the impact of its decisions on different stakeholders during their decision making process. The Company's management respects and observes the rights granted to stakeholders by the law.

**Relations with employees**

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

**Relations with business partners**

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

**Relationship to the environment**

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

**Relations with members of the local community**

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

**Compliance**

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

## Financial conditions in the Czech Republic

The economy of the Czech Republic has been enjoying good results for several years in a row, and especially in the last year of 2017, it was a very dynamic growth. According to the preliminary estimate of the Czech Statistical Office, gross domestic product grew by 4.6%, which is also an excellent result within the European Union. At the same time, the unemployment rate declined, reaching the historically lowest level at the end of the year (2.4%). However, the shortage of workers will become one of the factors that will not allow the economy to continue to have such significant results.

The industry, which has a significant impact on the national economy, grew by 5.7%. Traditionally, this figure was influenced mainly by developments in the motor vehicle manufacturing sector (an increase of 10.3%), followed by the manufacture of electrical equipment (an increase of 9.9%) or metal production (an increase of 4.3%). Even with regard to the development of the economy and the gradual increase of inflation (the average rate was 2.5%), the Czech National Bank ended the intervention in April 2017 and has not been actively involved in the development of the Czech currency exchange rate since then. At the end of the year, for example, the Czech crown strengthened against the common European currency to CZK 25.54 for EUR 1.

The steady success of the economy has led the central bank to take another important step, namely to raise basic interest rates after long five years. The current state of the economy is such that CNB made this increase in 2017 even twice. However, rates are very low and are not a major brake for companies or households that are very active in their consumption.

### The development of commodity prices

The development of commodity prices indicates a significant volatility. Oil prices have long been linked to prices of other commodities and respond to specific conditions in mining and the political situation in the short term.

Brent crude oil prices fluctuated in the spring at around USD 55/barrel after their deep fall in 2016. Since June 2017, there has been a steady growth and in December 2017 rose to USD 67/barrel.

The price increased namely thanks to the ongoing debate of oil-producing countries under OPEC and also beyond OPEC on the possible extension of mining restrictions.

The price of API 2 coal rose sharply from October 2016 due to an unexpected increase in Chinese imports. After its strengthening, when it reached the USD 90/t limit, it began to decline again due to the release of Chinese production quotas, restructuring of the local coal sector and signing up for a renewable energy policy. Since May 2017 the price practically continuously decreased to USD 80/t towards the end of the year. The main drivers of price increases in the second half of 2017 were climatic, security and policy-induced mining restrictions in Australia and China (floods, mining disasters, and China's green policy).

The price of gas after a sharp decline in 2016 rose to EUR 18 at the beginning of the year. Due to warming in March 2017, it returned again to a price level of EUR 16. The price began to increase from August 2017 and was held in a corridor of 17 to 18 EUR/MWh. The main drivers of the price increase were mainly rising prices of other commodities / substitutes for electricity production (especially coal), uncertainty of production in French nuclear power plants, but also planned or unplanned shutdowns on some gas pipelines.

Electricity prices were during the autumn of 2016 driven by steeply rising prices of coal up to the limit of 35 EUR/MWh to follow after coal in decline. Since May 2017 electricity prices have continued to grow to 37 EUR/MWh. The main reasons were particularly expensive coal, natural gas price

**EU Carbon Futures**



ZDROJ: www.eex.com

**Power BL Year Futures**



ZDROJ: www.eex.com

increase, and the production uncertainty of the French nuclear power plants.

CO<sub>2</sub> allowances do not correlate significantly with other commodity prices. Since May 2017, allowances have been growing continuously to around 7 EUR/t by the end of the year. Their volatility remains very high due to numerous political declarations, the demand / supply ratio, the end of back loading and the reform of the whole ETS.

**Legislation**

The European Union continues to promote and deepen its protection policy of climate, environment, sustainability and security of energy supplies, as evidenced by the newly adopted legislation aimed at reducing CO<sub>2</sub> emissions, promoting renewable energy sources and increasing energy efficiency.

The European Commission is planning an extensive Internal Energy Market Reform (“Winter Package”) and published its official proposals on 30 November 2016. The extensive legislative proposal consists of 8 laws (directives and regulations) and about 20 other documents (annexes, reports, etc.). The aim is stronger EU

harmonization in the areas of governance, market model, renewable sources, network operation and regulation, energy efficiency. The year 2017 was a year of discussion and response to this proposal. It is anticipated that the package will come into force at the end of 2018. The directive is subject to transposition into national law, which is expected in 2020.

**Development of the region**

The development of the region is very much influenced by the development of ŠKODA AUTO a.s., one of the most important industrial companies in the Czech Republic.

The year 2017 has been the most successful year in terms of sales and financial results in the history of ŠKODA AUTO in many areas. The Company has achieved record sales, turnover, operating result and operating cash flow.

The financial results of ŠKODA AUTO, to which the inhabitants of the region, most of whom are employed in the region, contribute, are reflected in their relatively high purchasing power and thus the economy of the whole region, which is one of the strongest in the Czech Republic.

## Financial results

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

### Production and supplies of energy

Supplies of all types of energy were smooth in 2017, in line with contracts and requirements of ŠKODA AUTO, CENTROTHERM Mladá Boleslav, a.s. and other customers.

There were no major breakdowns or outages of equipment for the production and supply of energy. In the months of June and July regular annual summer revisions were performed on both production units, especially on steam boilers K80 and K90. During the whole plant leave, both steam boilers were simultaneously shut down and during zero electricity production the heat supply was realized only from reserve boilers of hot water. Year to year, the Company managed to increase the amount of biomass in the fuel mix from 87 to 95 thousand tons.

The total own electricity production of 524.4 GWh increased by 4.3% year-on-year. As a result of the decommissioning of the cogeneration units, the production of the Kvasiny plant fell by 5 GWh year-on-year (-25.4%). The cogeneration of electricity and heat has been one of the priorities since 2014 in all three major plants of ŠKODA AUTO. These

plants are located in Mladá Boleslav, Kvasiny and Vrchlabí.

Electricity supplies depend mainly on the needs of ŠKODA AUTO. Production of cars in the ŠKODA AUTO plants in the Czech Republic increased by 13.3% year-on-year. Especially sales of models produced in Kvasina plant positively impacted the results. However, the electricity consumption in ŠKODA AUTO increased only by 4.3%. A significant increase in the sale of electricity was recorded by the segment of back-to-net supply (+ 58.1%), which is related to the aforementioned boiler operation at weekends at full power.

The year 2017 was colder by 0.3 °C in average during the heating season which contributed to an annual increase in heat sales of 1.04%.

All additional purchases of electricity amounting to 245 GWh in 2017 were once again purchased as environmentally friendly.

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

**Volume of supplies**

	UNIT	2017	2016	2017/2016 [%]
<b>Electricity</b>	<b>GWh</b>	<b>654</b>	<b>611</b>	<b>7.04</b>
– of which ŠKODA AUTO	GWh	605	580	4.31
– of which supplies to network	GWh	49	31	58.06
<b>Heat</b>	<b>GWh</b>	<b>489</b>	<b>483</b>	<b>1.04</b>
– of which ŠKODA AUTO	GWh	306	303	0.99
– of which CENTROTERM	GWh	165	164	0.61
– of which other	GWh	18	16	12.50
<b>Compressed air</b>	<b>ths. m<sup>3</sup></b>	<b>265,197</b>	<b>282,233</b>	<b>(6.04)</b>
<b>Natural gas</b>	<b>GWh</b>	<b>324</b>	<b>286</b>	<b>13.29</b>
<b>DEMI water</b>	<b>ths. m<sup>3</sup></b>	<b>198</b>	<b>198</b>	<b>0</b>
<b>Drinking and surface water</b>	<b>ths. m<sup>3</sup></b>	<b>745</b>	<b>668</b>	<b>11.53</b>
<b>Industrial water</b>	<b>ths. m<sup>3</sup></b>	<b>314</b>	<b>315</b>	<b>(0.32)</b>
<b>Waste water</b>	<b>ths. m<sup>3</sup></b>	<b>1,206</b>	<b>1,125</b>	<b>7.2</b>

**Purchase of raw materials and energy**

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

**General procurement**

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

**Financial results**

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

The significant year-on-year increase in the cost of purchased energy amounts to CZK 56.6 million, and largely reflects the increase in the production of ŠKODA AUTO cars. Within this cost group, especially the consumption of technological natural gas for paint shops in Kvasiny (+24.9 mil. CZK) and in Mladá Boleslav (+15.9 mil. CZK) has increased, as well as the purchase of electricity for the plant Kvasiny (+11,8 mil. CZK). The Company is trying to take advantage of the favorable price development in the area of energy inputs especially by using the standard purchasing tools, mainly gradual fixation in combination with spot products. Within the fuel mix, the shift from brown coal to biomass is becoming more apparent. This transition is not only ecological, but once all revenues from co-burning of biomass are counted in, it is also economical.

Rental expenses did not almost change year-on-year (marginal savings of CZK 1.1 million).

Other operating expenses increased year-on-year by CZK 49 million from CZK 864.3 million in 2016 to CZK 913.3 million in 2017 (+5.7%). Within this group of costs, especially the repair, service and personnel costs agreed upon by ŠKODA AUTO have increased.

Total operating expenses in the amount of CZK 2,838.9 million thus increased by CZK 71.5 million compared to 2016, ie by 2.6%.

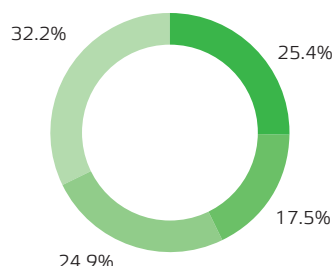
The operating income following the development of operating expenses, was CZK 2,840.3 million, which represents an increase of CZK 80.7 compared to 2016, e.g. 2.9% increase.

There was a minor improvement in the result from financial activities of CZK 0.2 million, mainly due to more favorable interest rates on the financial markets.

### Operating results

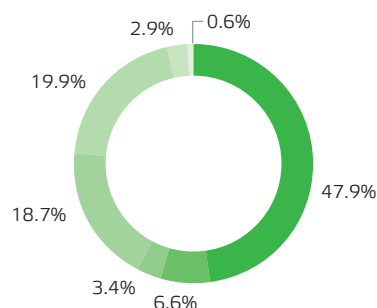
IN THS. CZK	2017	2016	DIFFERENCE	%
<b>Revenues</b>				
Operating income	2,840,295	2,759,625	80,670	2.9
Financial income	377	116	261	225.0
<b>Total</b>	<b>2,840,672</b>	<b>2,759,741</b>	<b>80,931</b>	<b>2.9</b>
<b>Expenses</b>				
Operating expenses	2,838,910	2,767,415	71,495	2.6
– of which production material and energy	721,620	754,608	(32,988)	(4.4)
– of which purchased energies	496,457	439,840	56,617	12.9
– of which rent	707,494	708,632	(1,138)	(0.2)
– of which other operating expenses	913,339	864,335	49,004	5.7
Financial expenses	589	639	(50)	(7.8)
<b>Total</b>	<b>2,839,499</b>	<b>2,768,054</b>	<b>71,445</b>	<b>2.6</b>
Profit/loss before tax	1,173	(8,313)	9,486	(114.1)
Tax (deferred)	997	10,483	(9,486)	(90.5)
<b>Profit/loss for the accounting period</b>	<b>2,170</b>	<b>2,170</b>		

**Structure of operating expenses**



- Raw materials and energy
- Purchased energy
- Rent
- Other operating expenses

**Structure of operating revenues**



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

**Capital expenditures, technological innovation and facilities management**

In 2017 the Company put into use investments in the amount of CZK 75.7 million.

In the heating plant, total assets amounting to CZK 40.7 million were put into use.

During the year 2017, the reconstruction of the hot-water heating system in the amount of CZK 24.6 million was completed, a technical improvement of the heating plant in the amount of CZK 13.6 million was made and modernization of the control systems was carried out in the amount of CZK 2.1 million.

In addition, minor investment actions totaling CZK 0.4 million were conducted (torque wrench, rack drill).

In terms of infrastructure the investments were directed mainly to transformers, in the amount of CZK 18.2 million, to busbar protection in the amount of CZK 6.4 million and to Bradlec heating system in the amount of CZK 2.8 million. Also,

a compressed air dryer of CZK 1.2 million was acquired. The investment to disinfection of drinking water amounted to CZK 0.5 million.

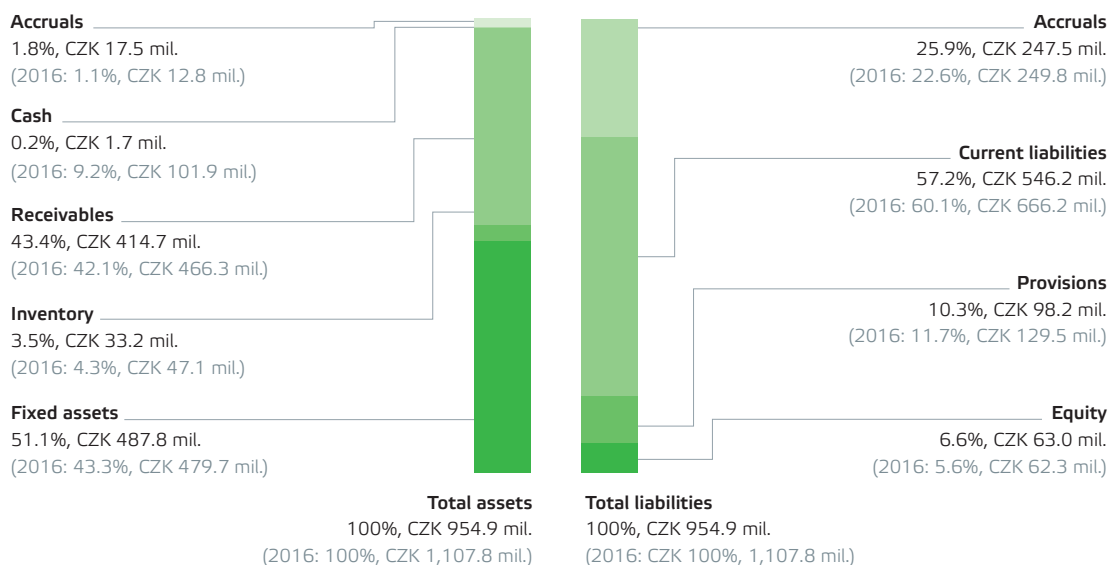
The amount of CZK 0.3 million was invested in the modernization of control systems. A spectrophotometer in the amount of CZK 0.2 million was also acquired.

In the field of energy management, smaller investment projects in the amount of CZK 0.2 million were carried out and air conditioning was installed in E12 in the amount of CZK 0.05 million.

In the field of software, the amount of CZK 1.1 million was invested. Enhanced and ongoing software upgrades enable the Company to continually improve the care of the trusted devices.

A technical enhancement of the administrative building in the amount of CZK 3.8 million was completed. Small investment events amounted to CZK 0.2 million.

### Structure of the balance sheet as at 31 December 2017



### Development of capital structure and financing

As at 31 December 2017 the total assets of the Company amounted to CZK 954.9 million.

Fixed assets amounted to CZK 487.8 million. The development of investments is described in detail in Investment, technological innovation and facilities management section. The value of current assets slightly decreased from CZK 615.2 million as at 31 December 2016 to CZK 449.7 million as at 31 December 2017, mainly as a result of a decrease of short-term receivables. The total value of inventories slightly decreased because of creating of provision to inventory. In the context of optimizing financial flows, the Company is integrated into the Cash Pooling system.

The equity amounted to CZK 63.0 million as at 31 December 2017. This amount includes the profit for 2017, the Company's share capital and the statutory reserve fund. The Company also creates a social fund from its profit, a fund for financing future investments and a fund to cover price risks from its profit. The Company's financial needs are covered by a short-term loan provided by a shareholder. The Company did not draw any bank loan as at 31 December 2017.



## Human resources

### Development of the structure and number of employees

In 2017 the Company employed 335 employees in average, out of which 232 were workers, 99 technical and administrative staff and 4 management staff. The proportion of women in the total number of employees was 9.0%. The average age of all employees is 46.3 years.

### Qualifications and further training of employees

A great attention is paid to professional development, personal growth and development of managerial competences in the education system. Each employee is enrolled in the training process due to the high qualification prerequisites. Further development of technical and administrative staff is determined through a regular conversation with the employee. A mandatory area of education covers training courses for operational staff who carry out activities in their work which are subject to periodic reviews as required by law. General development of employees is promoted through a wide range of internal and external courses, conferences. In 2017, the Company's employees were involved in the Company's new strategy by 2035. The Company held a conference on the future of energy, followed by strategic workshops. All technical and administrative workers participated in the creation and formulation of the strategy.

### Wage and social policy

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

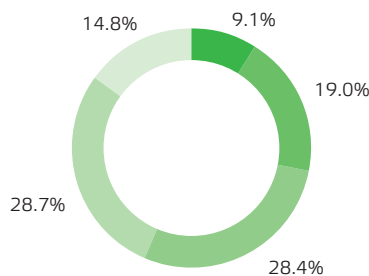
### Internal communication

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

### Occupational health and safety

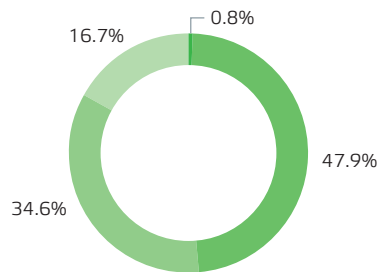
The Company implements the program of occupational safety culture change. The aim is to reduce the number of hazardous situations and so called "almost accidents" – the events related to work that could result in injury or damage to health, regardless of their severity, and thus minimize the number of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

Age structure of employees



- Age from 18 to 29 years old
- Age from 30 to 39 years old
- Age from 40 to 49 years old
- Age from 50 to 59 years old
- Age over 60 years

Employees by educational attainment



- Basic education / vocational school
- Qualified worker
- Full secondary vocational education / higher vocational education / Qualified worker with a school-leaving certificate
- Higher education

## Relationship to the Environment

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

### The protection of air and climate

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

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

### Waste management

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

the materials in such a way that the burden on the environment is minimised are being sought.

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

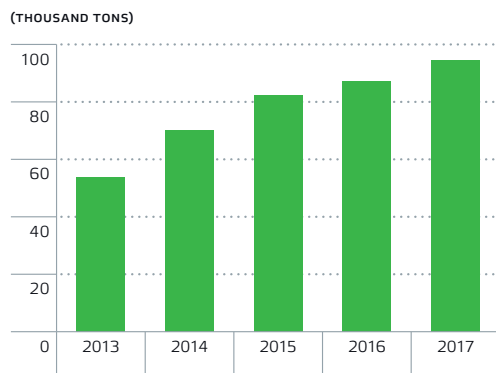
At the same time, the development of waste management and the possibilities of their use for the production of fuel for sources with high efficiency cogeneration production of heat and electricity are monitored. For this, the necessary studies are being processed.

### Water management

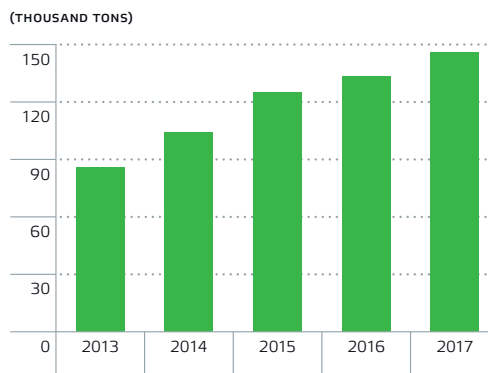
In the area of water management, the Company's goal is to provide services to ŠKODA AUTO in accordance with strict limits stipulated by the environmental legislation. After 15 years of the operation of the wastewater treatment plant, it is important to conduct preventive maintenance of the equipment,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

In order to support the development of production capacities in ŠKODA AUTO, a project for the expansion of the capacity of a wastewater purification plant from the new paint shop with

**The amount of biomass burned**



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



a completion date in 2019 was prepared. The project for the application of reverse osmosis was prepared at the demineralisation station. This will result in a significant reduction of waste water pollution by regeneration waters.

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

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

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

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

## Risk Management System

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

### The organization of risk management

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

The risk management system comprises identification and risk assessment, risk management in the form of countermeasures and management control. Two kinds of risks are recognised – systematic and operative.

A separate area of systematic risk is the area of compliance.

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

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

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

### Description of risks and risk management

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

### Prices of coal and biomass

Since there is a shortage of brown coal in the Czech Republic, ŠKO-ENERGO has secured supplies and prices of brown coal by a long-term contract.

A long-term contract for the supply of biomass, which secures the required quantity and price the same way as the one for coal, was concluded.

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

Volatility of commodity prices is high. This is due to the long-term link of other commodities to the price of oil. Volatility in oil prices also affect the geopolitical influences. CO<sub>2</sub> emission allowances are also very volatile due to political decisions.

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

### Operational and process risks

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

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

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

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

### Operational risks

The most significant operational risks include litigation and GDPR.

To avoid the risk of litigation costs, sufficient accruals are created, including the possible penalties.

The GDPR area is consulted with a professional advisory firm, and in case of necessity, an appropriate action is taken in all GDPR-related areas.

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

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

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

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

### The most significant unmanageable risks

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

## Outlook and goals for the upcoming periods

ŠKO-ENERGO's strategy has long been based primarily on safe and competitive supplies for ŠKODA AUTO. The changes in the business environment and the requirements that arose following the announcement of the "Strategy 2025" of the Mlada Boleslav car producer, led to the development of a new vision and strategy of the Company.

The main pillars of the development and innovation strategy until 2035 are financial stability, digital transformation, comprehensive professional services, but above all the transition to carbonless technology and the construction of infrastructure and the provision of electromobility services for ŠKODA AUTO.

### Mission and vision of the Company

#### Stability

"We are a financially stable company that supplies ŠKODA AUTO with all sources of energy and heat for the city of Mladá Boleslav. We produce and distribute environmentally clean energy with the use of decarbonised technologies. We provide comprehensive services for industrial energy and we reduce energy demands in the area of consumption. We are a good corporate citizen in the region, where we operate."

#### Development and Innovation

"We employ the best professionals in the industry and together we build energy 'smart solutions' for cities and companies. We provide and operate the infrastructure and related services for electromobility in the Czech Republic and we participate in the regulation of the transmission system."

The Company updated its long-term vision in response to the development of the business environment. Energy development is fundamentally affected by political decisions which lead to regulatory measures. Political pressure to reduce CO<sub>2</sub> emissions peaked at Paris conference COP 21 at the end of 2015. The European Union reflects the conference conclusions to its climate-energetic

package and sets targets to reduce CO<sub>2</sub> emissions, use of renewable sources of energy and reduce energetic demands. At the same time, the market is affected by massive subsidies.

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

#### Company Strategy by 2035

The Company's strategy by 2035 is divided into four areas: Smart Factory, Green Energy, Electromobility Services, and the CSR area, which has the name City of Well-Being.

#### "Smart factory"

The construction of "Smart factory" has been of a long-term importance to the main customer, ŠKODA AUTO. The "Smart factory" means the provision of comprehensive professional industrial energy services based on a clever infrastructure and measurement for efficient use of energy. The Company is therefore building a professional team capable of proposing austerity measures and implementing projects to reduce energy consumption.

#### Green Energy

The green energy is another area. An increasingly important role is played by corporate ecology and environmental protection, supported by EU legislation. ŠKO-ENERGO is looking for ways to completely replace fossil fuels with carbon-free technologies.

**Electromobility Services**

Electromobility services include building infrastructure for electromobility in ŠKODA AUTO and finding new opportunities in this area.

**City of Well-Being**

ŠKO-ENERGO wants to help Mladá Boleslav to become a city of well-being. The Company will continue to assist the city in maintaining and developing district heating and participating in the city's energy concept, supplying Mladá Boleslav for a long time with cost-effective heat, ensuring a clean environment and building an infrastructure for electromobility. The strategy also includes support for sport, cultural and educational events in the region.

**The Company's main goals for following period****Financial goals**

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

**Customer satisfaction**

The Company will respond to current development and will supply ŠKODA AUTO with energies under the most favourable conditions possible. One of the crucial goals is still to provide consistent and uninterrupted supplies of energy. The objective of supplying heat to the city of Mladá Boleslav is a price stability.

**Strategic purchasing of raw materials and energies**

The Company will use the competitive environment for ensuring price-advantageous purchases of raw materials and energies both for its own production as well as for purchasing commodities for ŠKODA AUTO. This primarily concerns electricity, gas, and CO<sub>2</sub> permits.

**Production and energy supplies**

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

**Human resource development and health protection**

Management of the employees' productivity, development and education of personnel and its creative and motivated approach to own work are the basis for achieving the Company's objectives in all areas. Therefore, strong emphasis will continue to be placed on development of the education system and effective use of invested financial resources.

Employees will be offered courses in the areas of professional skills, foreign languages, improving of communication and presentation skills, and usage of computer technology.

The Company's aim in the field of work safety is to decrease the number of accidents and their reduction to a minimum level by changing the Company culture.

**Development of information systems**

In all activities, the Company will increasingly exploit the possibilities of modern information technologies as a tool for improving processes in all management, production, and supporting processes.





# Financial Statements



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

### *Opinion*

We have audited the accompanying financial statements of ŠKO-ENERGO, s.r.o., with its registered office at tř. Václava Klementa 869, Mladá Boleslav 1 ("the Company") prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2017, the income statement, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, of its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

### *Basis for Opinion*

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

### *Other Information*

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

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

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

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

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

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

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

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*PricewaterhouseCoopers Audit, s.r.o., Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic*  
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**Shareholders of ŠKO-ENERGO, s.r.o.**  
**Independent auditor's report**

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

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

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

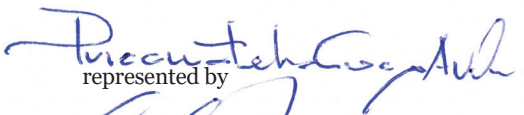
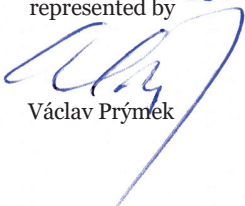
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee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

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

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

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

12 April 2018

  
represented by  
  
Václav Prýmek



Petra Bočáková  
Statutory Auditor, Evidence 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

31 December 2017

(IN THOUSAND CZECH CROWNS)

REF.	ASSETS	ROW	31.12.2017			31.12.2016
			GROSS	PROVISION	NET	NET
A	B	C	1	2	3	4
	<b>TOTAL ASSETS</b>	<b>001</b>	<b>1,509,681</b>	<b>(554,742)</b>	<b>954,939</b>	<b>1,107,728</b>
<b>B.</b>	<b>Fixed assets</b>	<b>003</b>	<b>904,628</b>	<b>(416,874)</b>	<b>487,754</b>	<b>479,688</b>
<b>B. I.</b>	<b>Intangible fixed assets</b>	<b>004</b>	<b>97,738</b>	<b>(24,638)</b>	<b>73,100</b>	<b>71,265</b>
B. I. 2.	Royalties	006	22,837	(22,250)	587	183
B. I. 2. 1.	Software	007	22,837	(22,250)	587	183
B. I. 4.	Other intangible fixed assets	010	74,811	(2,388)	72,423	65,121
B. I. 5.	Advances paid and intangible fixed assets in the course of construction	011	90	-	90	5,961
B. I. 5. 2.	Intangible fixed assets in the course of construction	013	90	-	90	5,961
<b>B. II.</b>	<b>Tangible fixed assets</b>	<b>014</b>	<b>806,890</b>	<b>(392,236)</b>	<b>414,654</b>	<b>408,423</b>
B. II. 1.	Land and constructions	015	284,663	(66,335)	218,328	188,182
B. II. 1. 2.	Constructions	017	284,663	(66,335)	218,328	188,182
B. II. 2.	Equipment	018	489,642	(325,901)	163,741	170,849
B. II. 5.	Advances paid and tangible fixed assets in the course of construction	024	32,585	-	32,585	49,392
B. II. 5. 2.	Tangible fixed assets in the course of construction	026	32,585	-	32,585	49,392
<b>C.</b>	<b>Current assets</b>	<b>037</b>	<b>587,525</b>	<b>(137,868)</b>	<b>449,657</b>	<b>615,241</b>
<b>C. I.</b>	<b>Inventories</b>	<b>038</b>	<b>171,087</b>	<b>(137,868)</b>	<b>33,219</b>	<b>47,111</b>
C. I. 1.	Raw materials	039	171,087	(137,868)	33,219	47,111
<b>C. II.</b>	<b>Receivables</b>	<b>046</b>	<b>414,734</b>	<b>-</b>	<b>414,734</b>	<b>466,249</b>
C. II. 1.	Long-term receivables	047	45,116	-	45,116	44,210
C. II. 1. 4.	Deferred tax asset	051	39,832	-	39,832	38,835
C. II. 1. 5.	Receivables – other	052	5,284	-	5,284	5,375
C. II. 1. 5. 4.	Other receivables	056	5,284	-	5,284	5,375
C. II. 2.	Short-term receivables	057	369,618	-	369,618	422,039
C. II. 2. 1.	Trade receivables	058	188,421	-	188,421	281,312
C. II. 2. 2.	Receivables – subsidiaries and controlling party	059	40,977	-	40,977	-
C. II. 2. 4.	Receivables – other	061	140,220	-	140,220	140,727
C. II. 2. 4. 3.	Taxes – receivables from the state	064	7	-	7	5
C. II. 2. 4. 4.	Short-term advances paid	065	138,582	-	138,582	138,278
C. II. 2. 4. 6.	Other receivables	067	1,631	-	1,631	2,444
<b>C. IV.</b>	<b>Cash</b>	<b>071</b>	<b>1,704</b>	<b>-</b>	<b>1,704</b>	<b>101,881</b>
C. IV. 1.	Cash in hand	072	82	-	82	70
C. IV. 2.	Cash at bank	073	1,622	-	1,622	101,811
<b>D.</b>	<b>Prepayments and accrued income</b>	<b>074</b>	<b>17,528</b>	<b>-</b>	<b>17,528</b>	<b>12,799</b>
D. 1.	Prepaid expenses	075	9,308	-	9,308	5,111
D. 3.	Accrued income	077	8,220	-	8,220	7,688

REF.	LIABILITIES AND EQUITY	ROW	31.12.2017	31.12.2016
A	B	C	5	6
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>078</b>	<b>954,939</b>	<b>1,107,728</b>
<b>A.</b>	<b>Equity</b>	<b>079</b>	<b>63,056</b>	<b>62,339</b>
<b>A. I.</b>	<b>Share capital</b>	<b>080</b>	<b>10,000</b>	<b>10,000</b>
A. I. 1.	Share capital	081	10,000	10,000
<b>A. III.</b>	<b>Other reserves</b>	<b>092</b>	<b>50,886</b>	<b>50,169</b>
A. III. 1.	Other reserve funds	093	1,094	1,094
A. III. 2.	Statutory and other reserves	094	49,792	49,075
<b>A. V.</b>	<b>Profit / (loss) for the current period</b>	<b>099</b>	<b>2,170</b>	<b>2,170</b>
<b>B. + C.</b>	<b>Liabilities</b>	<b>101</b>	<b>644,396</b>	<b>795,615</b>
<b>B.</b>	<b>Provisions</b>	<b>102</b>	<b>98,235</b>	<b>129,454</b>
B. 4.	Other provisions	106	98,235	129,454
<b>C.</b>	<b>Liabilities</b>	<b>107</b>	<b>546,161</b>	<b>666,161</b>
<b>C. II.</b>	<b>Short-term liabilities</b>	<b>123</b>	<b>546,161</b>	<b>666,161</b>
C. II. 4.	Trade payables	129	333,611	325,122
C. II. 8.	Liabilities – other	133	212,550	341,039
C. II. 8. 1.	Liabilities to shareholders	134	90,011	280,040
C. II. 8. 3.	Liabilities to employees	136	20,658	16,990
C. II. 8. 4.	Liabilities for social security and health insurance	137	6,657	5,528
C. II. 8. 5.	Taxes and state subsidies payable	138	11,363	12,620
C. II. 8. 6.	Estimated payables	139	83,861	25,861
<b>D.</b>	<b>Accruals and deferred income</b>	<b>141</b>	<b>247,487</b>	<b>249,774</b>
<b>D. 1.</b>	<b>Accrued expenses</b>	<b>142</b>	<b>247,487</b>	<b>249,774</b>

# Income Statement

31 December 2017

(IN THOUSAND CZECH CROWNS)

REF.	TEXT	ROW	ACCOUNTING PERIOD	
			2017	2016
A	B	C	1	2
<b>I.</b>	<b>Sales of products and services</b>	<b>01</b>	<b>2,319,682</b>	<b>2,290,405</b>
<b>II.</b>	<b>Sales of goods</b>	<b>02</b>	<b>496,460</b>	<b>439,824</b>
<b>A.</b>	<b>Cost of sales</b>	<b>03</b>	<b>2,404,676</b>	<b>2,298,500</b>
A. 1.	Cost of goods sold	04	496,457	439,840
A. 2.	Raw materials and consumables used	05	721,620	754,608
A. 3.	Services	06	1,186,599	1,104,052
<b>D.</b>	<b>Staff costs</b>	<b>09</b>	<b>322,432</b>	<b>297,070</b>
D. 1.	Wages and salaries	10	225,576	212,312
D. 2.	Social security, health insurance and other social costs	11	96,856	84,758
D. 2. 1.	Social security and health insurance costs	12	82,142	75,506
D. 2. 2.	Other social costs	13	14,714	9,252
<b>E.</b>	<b>Value adjustments in operating activities</b>	<b>14</b>	<b>63,755</b>	<b>56,965</b>
E. 1.	Value adjustments of fixed assets	15	49,575	47,031
E. 1. 1.	Depreciation, amortisation and write off of fixed assets	16	49,575	47,031
E. 2.	Provision for impairment of inventories	18	14,180	9,934
<b>III.</b>	<b>Operating income – other</b>	<b>20</b>	<b>24,153</b>	<b>29,396</b>
III. 2.	Sales of raw materials	22	28	12
III. 3.	Other operating income	23	24,125	29,384
<b>F.</b>	<b>Operating expenses – other</b>	<b>24</b>	<b>48,047</b>	<b>114,880</b>
F. 3.	Taxes and charges from operating activities	27	2,621	6,944
F. 4.	Operating provisions and complex prepaid expenses	28	(31,219)	35,359
F. 5.	Other operating expenses	29	76,645	72,577
<b>*</b>	<b>Operating result</b>	<b>30</b>	<b>1,385</b>	<b>(7,790)</b>
<b>VI.</b>	<b>Interest and similar income</b>	<b>39</b>	<b>4</b>	<b>69</b>
VI. 2.	Other interest and similar income	41	4	69
<b>J.</b>	<b>Interest and similar expenses</b>	<b>43</b>	<b>110</b>	<b>385</b>
J. 1.	Interest and similar expenses – subsidiaries or controlling party	44	–	383
J. 2.	Other interest and similar expenses	45	110	2
<b>VII.</b>	<b>Other financial income</b>	<b>46</b>	<b>373</b>	<b>47</b>
<b>K.</b>	<b>Other financial expenses</b>	<b>47</b>	<b>479</b>	<b>254</b>
<b>*</b>	<b>Financial result</b>	<b>48</b>	<b>(212)</b>	<b>(523)</b>
<b>**</b>	<b>Net profit / (loss) before taxation</b>	<b>49</b>	<b>1,173</b>	<b>(8,313)</b>
<b>L.</b>	<b>Tax on profit or loss</b>	<b>50</b>	<b>(997)</b>	<b>(10,483)</b>
L. 2.	Tax on profit or loss – deferred	52	(997)	(10,483)
<b>**</b>	<b>Net profit / (loss) after taxation</b>	<b>53</b>	<b>2,170</b>	<b>2,170</b>
<b>***</b>	<b>Net profit / (loss) for the financial period</b>	<b>55</b>	<b>2,170</b>	<b>2,170</b>
	<b>Net turnover for the financial period = I. + II. + III. + IV. + V. + VI. + VII.</b>	<b>56</b>	<b>2,840,672</b>	<b>2,759,741</b>

## Statement of changes in shareholders' equity

for the year ended 31 December 2017  
(CZK'000)

	SHARE CAPITAL	RESERVE FUND	STATUTORY AND OTHER FUNDS	RETAINED EARNINGS	TOTAL
<b>As at 1 January 2016</b>	<b>10,000</b>	<b>1,094</b>	<b>48,358</b>	<b>2,170</b>	<b>61,622</b>
Statutory and other funds	-	-	717	(717)	-
Profit distribution paid	-	-	-	(1,453)	(1,453)
Net profit for the period	-	-	-	2,170	2,170
<b>As at 31 December 2016</b>	<b>10,000</b>	<b>1,094</b>	<b>49,075</b>	<b>2,170</b>	<b>62,339</b>
Statutory and other funds	-	-	717	(717)	-
Profit distribution paid	-	-	-	(1,453)	(1,453)
Net profit for the period	-	-	-	2,170	2,170
<b>As at 31 December 2017</b>	<b>10,000</b>	<b>1,094</b>	<b>49,792</b>	<b>2,170</b>	<b>63,056</b>

## Cash Flow Statement

for the year ended 31 December 2017  
(CZK'000)

REF.	TEXT	ACCOUNTING PERIOD	
		2017	2016
A	B	1	2
<b>Cash flows from operating activities</b>			
	<b>Net profit/(loss) on ordinary activities before tax</b>	<b>1,173</b>	<b>(8,313)</b>
A. 1.	Adjustments for non-cash movements:	70,654	127,006
A. 1. 1.	Depreciation and amortisation of fixed assets	49,575	47,031
A. 1. 2.	Change in provisions	(17,039)	45,293
A. 1. 5.	Net interest expense	106	316
A. 1. 6.	Other non-cash movements	38,012	34,366
<b>A *</b>	<b>Net cash flow from operating activities before tax and changes in working capital</b>	<b>71,827</b>	<b>118,693</b>
A. 2.	Working capital changes:	156,214	94,289
A. 2. 1.	Change in receivables and prepayments	88,760	30,552
A. 2. 2.	Change in short-term payables and accruals	67,742	68,827
A. 2. 3.	Change in inventories	(288)	(5,090)
<b>A **</b>	<b>Net cash flow from operating activities before tax</b>	<b>228,041</b>	<b>212,982</b>
A. 3.	Interest paid	(110)	(385)
A. 4.	Interest received	4	69
<b>A ***</b>	<b>Net cash flow from operating activities</b>	<b>227,935</b>	<b>212,666</b>
B. 1.	Acquisition of fixed assets	(95,653)	(104,898)
<b>B ***</b>	<b>Net cash flow from investing activities</b>	<b>(95,653)</b>	<b>(104,898)</b>
C. 1.	Change in long- and short-term liabilities	(190,029)	(49,982)
C. 2.	Changes in equity:	(1,453)	(1,453)
C. 2. 6.	Profit distribution paid	(1,453)	(1,453)
<b>C ***</b>	<b>Net cash flow from financing activities</b>	<b>(191,482)</b>	<b>(51,435)</b>
	<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(59,200)</b>	<b>56,333</b>
	<b>Cash and cash equivalents at the beginning of the year</b>	<b>101,881</b>	<b>45,548</b>
	<b>Cash and cash equivalents at the end of the year</b>	<b>42,681</b>	<b>101,881</b>

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



# Notes to the Financial Statements

Year ended 31 December 2017

## 1. General information

### 1.1 Introductory information about the Company

ŠKO-ENERGO, s.r.o. ("the Company") was incorporated on 30 June 1995 by the Municipal Court in Prague, Section C, Insert 38550 and has its registered office at Mladá Boleslav 1, Tř. Václava Klementa 869, Postal code 293 60.

The Company's primary business activities are production and distribution of thermal energy; electricity production and trading; gas trading; construction, inspection and testing of electrical, pressure, gas devices etc. The Company's identification number is 616 75 938.

#### Share of individual shareholders on the share capital as at 31 December 2017 and 2016 were as follows:

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

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

The Company does not have any arrangements that are not included in the balance sheet as at 31 December 2017 or 31 December 2016.

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

## 2. Accounting policies

### 2.1 Basis of preparation

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

### 2.2 Tangible and intangible fixed assets

All intangible (and tangible) assets with a useful life longer than one year and a unit cost of more than CZK 60 thousand (CZK 40 thousand) are treated as intangible (and tangible) fixed assets. Tangible and intangible assets with unit cost of less than CZK 40 thousand are treated as inventory and charged to consumption costs.

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

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

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

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

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

A provision for impairment is created when the carrying value of an asset is greater than its estimated recoverable amount. The estimated recoverable amount is determined based on expected future cash flows generated by this asset.

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

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

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

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

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

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

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

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

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

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

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

### **2.3 Inventories**

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

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

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

### **2.4 Receivables**

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

## 2.5 Cash and cash equivalents

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

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

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

## 2.6 Foreign currency translation

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

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

## 2.7 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.

## 2.8 Employee benefits

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

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

## 2.9 Revenue recognition

Sales are recognised as at the date the services are rendered and on the date of removal of the goods and transfer of the ownership right to the customer and are stated net of discounts and value added tax.

## 2.10 Related parties

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

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

Material transactions and outstanding balances with related parties are disclosed in Notes 11 Related party transactions and 13 Employees.

### 2.11 Leases

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

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

### 2.12 Interest expense

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

### 2.13 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.

### 2.14 Cash-flow statement

The Company has prepared a Cash-flow statement using the indirect method. Cash equivalents represent short-term liquid investments, which are readily convertible for a known amount of cash.

Starting from 2017, the Company uses so-called cash-pooling with the company Volkswagen Group Services S.A. A receivable (liability) that arises from cash-pooling is presented in the Cash-flow statement as a part of the item Cash and Cash equivalents. If the liability arising from cash-pooling represents a form of financing, then it is not presented in the Cash-flow statement as a part of the item Cash and Cash equivalents.

### 2.15 Subsequent events

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

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

### 3. Intangible fixed assets

(CZK'000)	1 JANUARY 2017	ADDITIONS / TRANSFERS	DISPOSALS	31 DECEMBER 2017
<b>Cost</b>				
Software	22,216	771	(150)	22,837
Other intangible fixed assets	68,059	70,750	(63,998)	74,811
Intangible fixed assets in the course of construction	5,961	(5,871)	-	90
<b>Total</b>	<b>96,236</b>	<b>65,650</b>	<b>(64,148)</b>	<b>97,738</b>
<b>Accumulated amortisation</b>				
Software	22,033	367	(150)	22,250
Other intangible fixed assets	2,938	1,321	(1,871)	2,388
<b>Total</b>	<b>24,971</b>	<b>1,688</b>	<b>(2,021)</b>	<b>24,638</b>
<b>Net book value</b>	<b>71,265</b>			<b>73,100</b>

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

As at 31 December 2017, other intangible fixed assets included CZK 69,780 thousand relating to emission allowances (as at 31 December 2016: CZK 65,121 thousand).

#### 4. Tangible fixed assets

(CZK'000)	1 JANUARY 2017	ADDITIONS / TRANSFERS	DISPOSALS	31 DECEMBER 2017
<b>Cost</b>				
Constructions	244,792	39,871	-	284,663
Equipment	459,440	31,052	(850)	489,642
Tangible fixed assets in the course of construction	49,392	(16,807)	-	32,585
<b>Total</b>	<b>753,624</b>	<b>54,116</b>	<b>(850)</b>	<b>806,890</b>
<b>Accumulated depreciation</b>				
Constructions	56,610	9,725	-	66,335
Equipment	288,591	38,160	(850)	325,901
<b>Total</b>	<b>345,201</b>	<b>47,885</b>	<b>(850)</b>	<b>392,236</b>
<b>Net book value</b>	<b>408,423</b>			<b>414,654</b>

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

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

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

(CZK'000)	31 DECEMBER 2017	31 DECEMBER 2016
Amounts paid on existing finance lease contracts	12,539,000	11,852,400
Expected outstanding amounts payable within one year	686,100	686,600
Expected amounts payable after more than one year	566,200	1,252,200
<b>Amounts paid and expected amount of payables from existing contracts</b>	<b>13,791,300</b>	<b>13,791,200</b>

As at 31 December 2017 and 2016, no assets acquired upon the expiration of leases were recognized in the balance sheet.

## 5. Inventories

The Company created a provision for inventories as at 31 December 2017 of CZK 137,868 thousand (as at 31 December 2016: CZK 123,688 thousand).

(CZK'000)	2017	2016
<b>Opening balance as at 1 January</b>	<b>123,688</b>	<b>113,754</b>
Charge for the year	14,180	9,934
<b>Closing balance as at 31 December</b>	<b>137,868</b>	<b>123,688</b>

## 6. Receivables

(CZK'000)	31 DECEMBER 2017	31 DECEMBER 2016
<b>Long-term receivables – other</b>		
Other receivables	5,284	5,375
<b>Total</b>	<b>5,284</b>	<b>5,375</b>
<b>Short-term receivables – other</b>		
Taxes – receivables from the state	7	5
Short-term advances paid	138,582	138,278
Other receivables	1,631	2,444
<b>Total</b>	<b>140,220</b>	<b>140,727</b>

Overdue receivables as at 31 December 2017 amounted to CZK 96,969 thousand (as at 31 December 2016: CZK 85,163 thousand).

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

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

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



## 7. Equity

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

The Company is fully governed by the new Corporations Act (see Note 1) however, it did not use the option not to create a reserve fund.

The general meeting of shareholders approved the financial statements for the year 2016 and decided about the allocation of profit earned in 2016 of CZK 2,170 thousand on 13 June 2017.

Until the date of preparation of these financial statements, the Company has not proposed distribution of the profit earned in 2017.

The shareholders approved on 20 February 2017 the transfer of the ČEZ, a. s. Company's share to the Company ČEZ ESCO, a.s. This change was recorded in the Commercial Register on 4 April 2017.

## 8. Provisions

(CZK'000)	LITIGATION PROVISIONS	CONTRACT LIABILITIES PROVISIONS	PROVISIONS FOR PENSION LIABILITY	TOTAL
<b>Opening balance as at 1 January 2016</b>	<b>68,040</b>	<b>100</b>	<b>25,955</b>	<b>94,095</b>
Charge for the year	33,290	–	28,023	61,313
Used in the year	–	–	(25,954)	(25,954)
<b>Closing balance as at 31 December 2016</b>	<b>101,330</b>	<b>100</b>	<b>28,024</b>	<b>129,454</b>
Charge for the year	30	–	38,265	38,295
Used in the year	(20)	–	(28,024)	(28,044)
Released for the year	(41,470)	–	–	(41,470)
<b>Closing balance as at 31 December 2017</b>	<b>59,870</b>	<b>100</b>	<b>38,265</b>	<b>98,235</b>

Other provisions mostly consist of bonuses for employees and outstanding components of wages and salaries relating to 2017.

As at 31 December 2017 other provisions include also provisions for potential penalties arising from outstanding liabilities in the amount of CZK 59,780,000.

## 9. Payables, commitments, contingent liabilities and liabilities from loan agreements

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

Liabilities to related parties including accrued expenses are disclosed in Note 11.

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

Overdue trade liabilities of CZK 148,257 thousand represent related party liabilities, stated in Note 11 (as at 31 December 2016 of CZK 192,552 thousand).

The management of the Company is not aware of any contingent liabilities as at 31 December 2017.

Capital commitments contracted by the Company were CZK 22,616 thousand as at 31 December 2017 (as at 31 December 2016: CZK 19,761 thousand).

On the basis of concluded operating lease contracts, the Company has been provided automobiles, equipment and facilities.

Credit line of CZK 19,300 thousand has been provided by UniCredit Bank Czech Republic a.s. (as at 31 December 2016: CZK 19,300 thousand) to the Company to finance current assets. As at 31 December 2017 and 2016, the Company has not drawn the credit line.

Company uses credit line of CZK 550,000 thousand provided by the company Volkswagen International Finance NV. Based on the conditions stated in the contract dated 1 October 2010, the Company can choose between fixed or variable interest rate. As at 31 December 2017 the Company has drawn the revolving loan amounting to CZK 90,000 thousand with interest rate of 0.675% p.a. (as at 31 December 2016 loan amounting to CZK 280,000 thousand with interest rate of 0.2750% p.a.) with due date on 5 January 2018.

As at 31 December 2017, the Company records one bank guarantee in the amount of CZK 12,894 thousand.

## 10. Revenue analysis

### Revenue analysis:

(CZK'000)	2017	2016
Electric energy	1,074,227	1,094,011
Heat	545,577	532,955
Compressed air	80,319	89,184
Technical gases and services related to energy supplies	528,241	497,644
Water	74,237	72,735
Other	17,081	3,876
<b>Total sales of own products and services</b>	<b>2,319,682</b>	<b>2,290,405</b>
Electric energy	276,323	263,218
Heat	13,757	12,739
Drinking water	21,132	19,365
Gas	185,248	144,502
<b>Total sales of goods</b>	<b>496,460</b>	<b>439,824</b>

## 11. Related party transactions

The Company was involved in the following related party transactions:

(CZK'000)	2017	2016
<b>Revenues</b>		
Companies with a direct ownership interest		
ŠKODA AUTO a.s.	2,255,968	2,239,785
Other related parties	38,637	16,135
<b>Total</b>	<b>2,294,605</b>	<b>2,255,920</b>
<b>Costs to related parties</b>		
Companies with a direct ownership interest		
ŠKODA AUTO a.s.	28,842	39,331
Other related parties	1,122,684	1,117,104
<b>Interest expense</b>		
Other related parties	105	383
<b>Total</b>	<b>1,151,631</b>	<b>1,156,818</b>

Revenues include sales of goods, products and services.

Costs to related parties include only purchases related to sales activities, especially purchase costs of raw materials, fixed assets, goods and services. Rental costs from sister company ŠKO-ENERGO FIN, s.r.o. and purchase of electricity from ČEZ Prodej, a.s. form the most significant part of these costs.

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

(CZK'000)	31 DECEMBER 2017	31 DECEMBER 2016
<b>Receivables</b>		
Trade receivables		
Companies with a direct ownership interest		
ŠKODA AUTO a.s.	68,745	168,278
Other related parties	9,509	4,110
Advanced payments		
Companies with a direct ownership interest		
ŠKODA AUTO a.s.	182	182
Other related parties	89,587	90,605
<b>Total</b>	<b>168,023</b>	<b>236,175</b>
<b>Liabilities</b>		
Trade payables		
Companies with a direct ownership interest		
ŠKODA AUTO a.s.	4,448	13,063
VW Kraftwerk GmbH	7,283	-
Other related parties	189,280	182,359
Other payables		
Other related parties*)	90,000	280,000
Accrued expenses and estimated payables		
Companies with a direct ownership interest		
ŠKODA AUTO a.s.	66,742	16,033
ČEZ ESCO, a.s.	2,328	-
Other related parties	123,303	91,040
<b>Total</b>	<b>483,384</b>	<b>582,495</b>

\*) Other information about loan to Volkswagen International Finance N.V. are described in Note 9.

**During 2017 and 2016 the Company paid shares on profit to its shareholders in the following amount:**

(CZK'000)	2017	2016
ŠKODA AUTO a.s.	647	647
Volkswagen Kraftwerk GmbH	327	327
E.ON Czech Holding AG	305	305
ČEZ ESCO, a.s. (ČEZ, a. s. in 2016)	174	174
<b>Total</b>	<b>1,453</b>	<b>1,453</b>

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

Members of the Supervisory Board received remuneration of CZK 40 thousand for their activities in 2017 (3 members) and 2016 (2 members). One Statutory Director received remuneration for his activities in 2017 and 2016.

In 2017 and 2016, members of the Supervisory Board and Statutory Representatives of the Company did not receive any guarantees, loans or any other advantages.

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

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

The total fees paid and payable for a statutory audit of the financial statements performed by the audit company PricewaterhouseCoopers Audit, s.r.o. in 2017 amounted to CZK 986 thousand.

## 13. Employees

	2017		2016	
	NUMBER	CZK'000	NUMBER	CZK'000
Emoluments to the Statutory Body	3	9,990	4	10,828
Wages and salaries to other management	5	5,026	4	4,907
Wages and salaries to other employees	329	210,560	320	196,577
Social security costs		82,142		75,506
Other social costs		14,714		9,252
<b>Wages and salaries total</b>	<b>337</b>	<b>322,432</b>	<b>328</b>	<b>297,070</b>

The Company's Statutory Body includes Statutory Representatives and Proxies of the Company, only three of them receive salary for their work.

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

Other transactions with the Company's management are described in Note 11 – Related party transactions.

## 14. Income tax

### The income tax revenue analysis:

(CZK'000)	2017	2016
Deferred tax expense	997	10,483
<b>Total income tax revenue</b>	<b>997</b>	<b>10,483</b>

### The current tax analysis:

(CZK'000)	2017	2016
Net profit before taxation	1,173	(8,313)
Tax non-deductible expenses/non taxable revenues	(1,911)	63,528
Difference between tax and accounting amortisation/depreciation	(4,157)	(5,334)
Utilized reinvestment relief	-	(49,881)
Net taxable profit	-	-
<b>Corporate income tax at 19%</b>	<b>-</b>	<b>-</b>

The deferred tax was calculated at 19% (the rate enacted for 2017 and subsequent years).

### The deferred tax asset analysis:

(CZK'000)	31 DECEMBER 2017	31 DECEMBER 2016
<b>Deferred tax liability arising from:</b>		
Difference between accounting and tax net book value of fixed assets	(25,149)	(24,196)
<b>Total deferred tax liability</b>	<b>(25,149)</b>	<b>(24,196)</b>
<b>Deferred tax asset arising from:</b>		
Provisions	44,860	48,097
Unrealized 10% investment relief for acquired fixed assets	20,121	14,934
<b>Total deferred tax asset</b>	<b>64,981</b>	<b>63,031</b>
<b>Net deferred tax asset</b>	<b>39,832</b>	<b>38,835</b>

## 15. Cash-flow statement

Cash and cash equivalents disclosed in the Cash-flow statement can be analysed as follows:

(CZK'000)	31 DECEMBER 2017	31 DECEMBER 2016
Cash in hand	82	70
Cash at banks	1,622	101,811
Receivable arising from cash-pooling	40,977	-
<b>Total cash and cash equivalents</b>	<b>42,681</b>	<b>101,881</b>

The Company uses cash-pooling with the company Volkswagen Group Services S.A. since 2017.

## 16. Subsequent events

Mr. Raimund Wunder terminated his membership in the Supervisory Board as at 31 January 2018. As at this date Mr. Andreas Neumann was appointed as a new member of Supervisory Board. By the date of preparation of these financial statements, this information has not been registered in the Commercial Register.

No further events have occurred subsequent to year-end that would have a material impact on the financial statements as at 31 December 2017.

12 April 2018

**Jaromír Vorel**  
Statutory Representative



**Miroslav Žďánský**  
Proxy



**Milena Vávrová**  
Chief Accountant

**Tomáš Kubín**  
Statutory Representative





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

Pursuant to Section 82 of the Corporations Act for the financial period of calendar year 2017

The Statutory Representatives of ŠKO-ENERGO, s.r.o., with its registered office at Tr. Václava Klementa 869, Mladá Boleslav 1, Postal Code 293 60, identification no.: 616 75 938, entered in the Commercial Register administered by the Municipal Court in Prague, Section C, File 38550 (hereinafter referred to in this report as the "Company"), have prepared the following report on relationships in the meaning of Section 82 of Act No. 90/2012 Coll., on Corporations Act (hereinafter referred to as the "Corporations Act"), for the financial period of calendar year 2017 (hereinafter referred to as the "Decisive Period").

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

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

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

SHAREHOLDER	SHARE IN %	CONTRIBUTION IN CZK'000
ŠKODA AUTO a.s., Mladá Boleslav	44.5	4,450
E.ON Czech Holding AG (Germany)	21	2,100
ČEZ ESCO, a.s., Prague (by 4 April 2017 ČEZ, a. s.)	12	1,200
Volkswagen Kraftwerk GmbH (Germany)	22.5	2,250

1.1.2 VOLKSWAGEN AG, with its registered office in Wolfsburg, Germany, can exercise indirect influence on the Company via the shareholders ŠKODA AUTO a.s., with its registered office in Mladá Boleslav, and Volkswagen Kraftwerk GmbH, with its register office in Wolfsburg, Germany. In case of control via the shareholder ŠKODA AUTO a.s., VOLKSWAGEN FINANCE LUXEMBURG S.A. with its registered office in Luxembourg in Grand Duchy of Luxembourg is the only shareholder of ŠKODA AUTO a.s. Company VOLKSWAGEN FINANCE LUXEMBURG S.A. is a subsidiary of VOLKSWAGEN AG. E.ON SE, with its registered office in Munich, Germany, can exercise indirect influence on the Company via the shareholder E.ON Czech Holding AG. ČEZ, a. s. with its registered office in Prague, can exercise indirect influence on the Company via the shareholders ČEZ ESCO, a.s. Concerning the structure of the business groupings, the Company's Statutory Representatives used data supplied by partners or published by the partners, as well as data in the Commercial Register.

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

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

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

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

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

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

PURCHASE OF GOODS	FINANCIAL SERVICES
ŠKODA AUTO a.s. ČEZ Prodej, s. r. o. Volkswagen Kraftwerk GmbH E.ON Energie, a.s.	ŠKO-ENERGO FIN, s.r.o. E.ON Česká republika, s.r.o. Volkswagen Group Services S.A. VW International Finance N.V.

**3. Overview of mutual contracts**

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

PURCHASE OF GOODS AND SERVICES	SALE OF GOODS AND SERVICES
ŠKODA AUTO a.s.	ŠKODA AUTO a.s.

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

FINANCIAL SERVICES
Volkswagen Group Services S.A.

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

PURCHASE OF GOODS AND SERVICES	SALE OF GOODS AND SERVICES	FINANCIAL SERVICES
ŠKODA AUTO a.s. ČEZ Prodej, s.r.o. ČEZ Distribuční služby, s.r.o. ČEZ Energetické služby, s.r.o. Telco Pro Services, a.s. Volkswagen Insurance Brokers ŠKO-ENERGO FIN, s.r.o. Volkswagen Kraftwerk GmbH E.ON Energie, a.s. ČEZ ESCO, a.s.	ŠKODA AUTO a.s. E.ON Energie, a.s. ŠKO-ENERGO FIN, s.r.o.	VW International Finance N.V. Volkswagen Group Services S.A. E.ON Česká republika, s.r.o. ŠKO-ENERGO FIN, s.r.o.

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

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

**5. Assessment of relationships and risks**

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

Mladá Boleslav, 29 March 2018

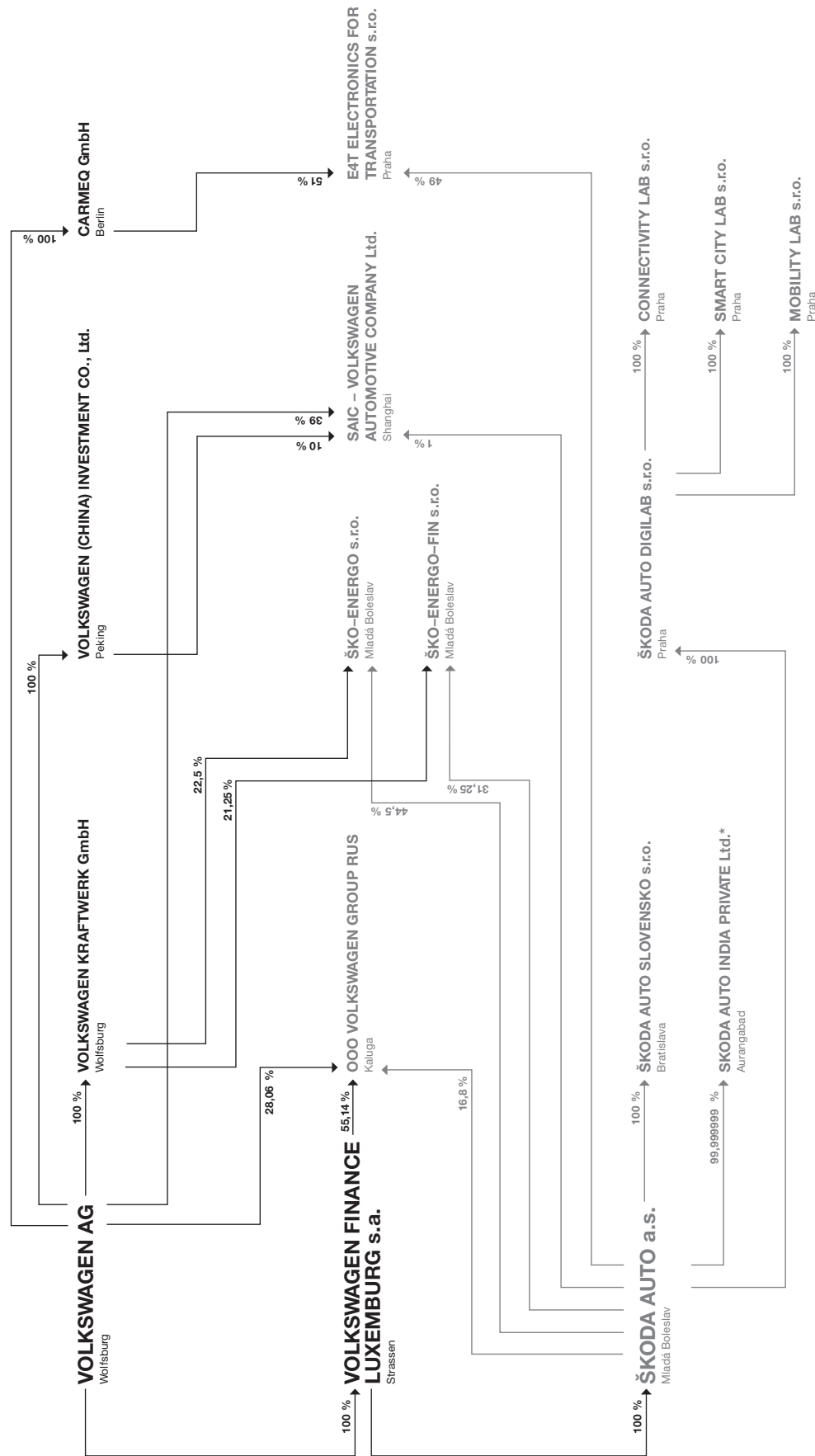
Statutory Representatives:

Jaromír Vorel

Tomáš Kubín

# ŠKODA AUTO a.s. ownership structure

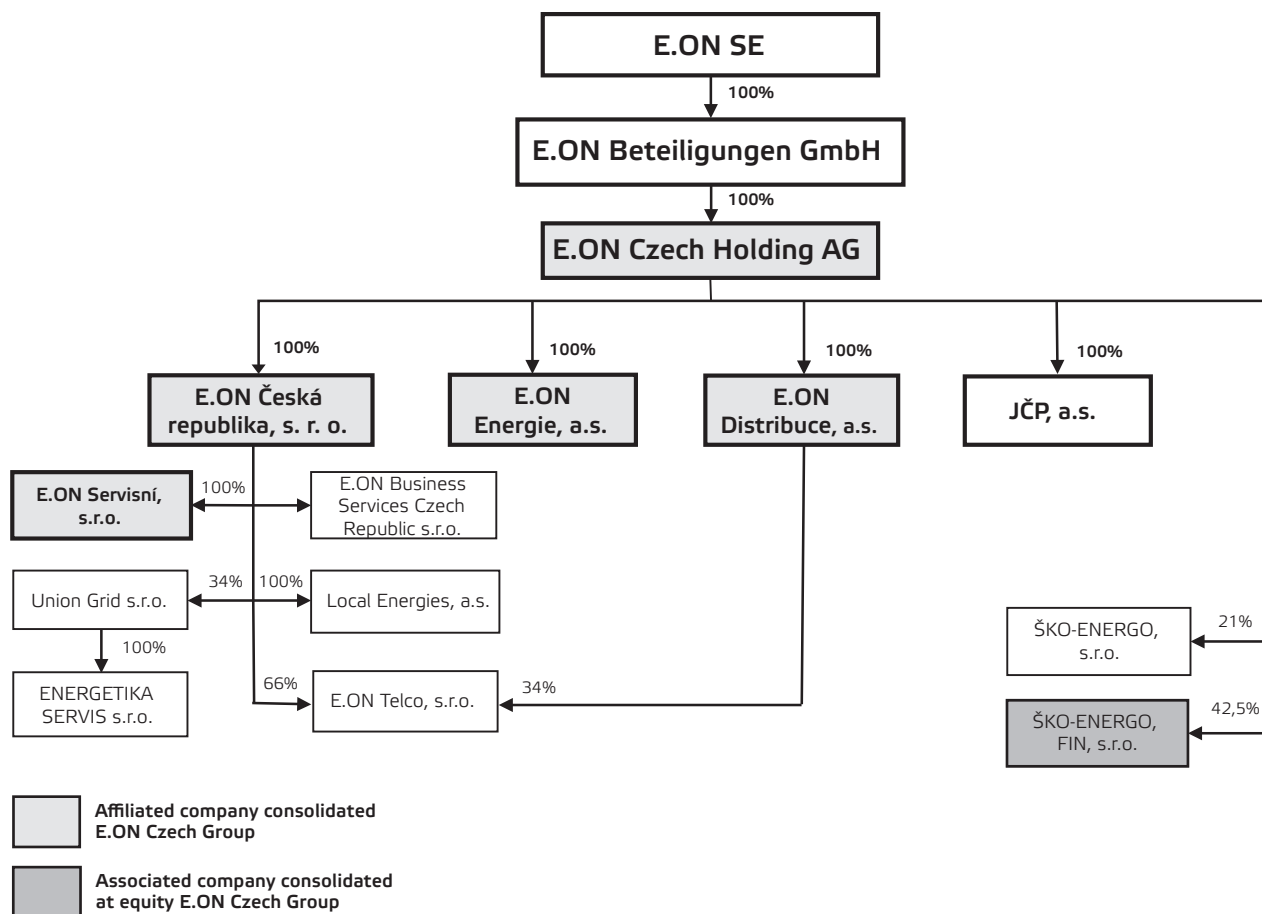
Ownership structure as at 31 December 2017



\*Residual 0.000001% voting rights in SKODA AUTO India Pvt. Ltd. holds company ŠKODA AUTO Deutschland GmbH seated in Weiterstadt, Germany.

## E.ON ownership structure

Ownership structure as at 31 December 2017





pokračování

100 %	CEZ ESCO Poland B.V.	67582267	Nizozemsko	Amsterdam Zuidoostr, Hogehilweg 5D, PSC 1101 CA
90 %	ESKO Energy s.p.a.	0000678975	Polsko	Marklowice, ul. Wolny Ludow 21, PSC 44-321
99,90 %	ESCO CITY I sp. z o.o.	0000698269	Polsko	Warszawa, Aleje Jerozolimskie 61, PSC 00-697
99,90 %	ESCO CITY II sp. z o.o.	0000699507	Polsko	Warszawa, Aleje Jerozolimskie 61, PSC 00-697
99,90 %	ESCO CITY III sp. z o.o.	0000698805	Polsko	Warszawa, Aleje Jerozolimskie 61, PSC 00-697
100 %	CEZ ESCO Poland B.V. s.p.a.	0000618608	Polsko	Warszawa, Aleje Jerozolimskie 61, PSC 00-697
100 %	Green Vii sp. z o.o.	0000516701	Polsko	Warszawa, ul. Marynarska 11, PSC 02-674
92 %	CEZ ESCO GmbH	HRB 513963	Německo	Jena, Göschwitz Straße 56, PSC 07745
100 %	TGA Elektro Holding Deutschland GmbH	HRB 120304	Německo	Hamburg, Neuer Wall 10, PSC 20354
100 %	Elevation GmbH	HRB 45601	Německo	Jena, Göschwitz Straße 56, PSC 07745
100 %	ETZ Elektro AG	HRB 504087	Německo	Jena, Göschwitz Straße 56, PSC 07745
100 %	Horst Hanzel Kommunikationsysteme GmbH	HRB 26144 P	Německo	Werder (Havel), Melestraße 2, PSC 14542
100 %	EAB Elektroanlagen GmbH Rhein/Main	HRB 41069	Německo	Dietzenbach, Dieselstraße 8, PSC 63128
100 %	EAB Automation Solutions GmbH	HRB 23022	Německo	Pirmasens, Delaware Avenue 23-25, PSC 66953
100 %	ETS Efficient Technical Solutions GmbH	HRB 4844	Německo	Essen, Holzstr. 7-9, PSC 45441
100 %	ETS Efficient Technical Solutions GmbH	HRB 509730	Německo	Brilon, Ketteler Straße 31, PSC 59929
100 %	ETS Efficient Technical Solutions Shanghai Co. Ltd.	20062276	Čína	Shanghai, Room 716, No. 2158 Wan Yuan Road, PSC 201103
100 %	Haus3 GmbH	HRB 506134	Německo	Jena, Prüssingstr. 41, PSC 07745
100 %	Rudolf Fritz GmbH	HRB 508918	Německo	Rüsselheim, Hans-Sachs-Straße 19, PSC 65428
100 %	CEZ Erneuerbare Energien Services GmbH	HRB 141626	Německo	Hamburg, Am Sandtorkai 74, PSC 20457
100 %	CEZ Erneuerbare Energien Services GmbH	HRB 141607	Německo	Hamburg, Am Sandtorkai 74, PSC 20457
100 %	Windpark Föhren-Linden GmbH & Co. KG	HRA 23953	Německo	Hamburg, Am Sandtorkai 74, PSC 20457
100 %	CEZ Windparks Lee GmbH	HRB 30409	Německo	Bremen, Stephanitorbolwerk 3, PSC 28217
100 %	Windpark Frauenmark III GmbH & Co. KG	HRA 26112	Německo	Bremen, Stephanitorbolwerk 3, PSC 28217
100 %	Windpark Chaintz-Zehlingen GmbH & Co. KG	HRA 26116	Německo	Bremen, Stephanitorbolwerk 3, PSC 28217
100 %	Windpark Zandelfort GmbH & Co. KG	HRA 26699	Německo	Bremen, Stephanitorbolwerk 3, PSC 28217
100 %	CEZ Windparks Luv GmbH	HRB 30201	Německo	Bremen, Stephanitorbolwerk 3, PSC 28217
100 %	Windpark Gremersdorf GmbH & Co. KG	HRA 27087	Německo	Bremen, Stephanitorbolwerk 3, PSC 28217
100 %	Windpark Messinghausen GmbH & Co. KG	HRA 24214	Německo	Bremen, Stephanitorbolwerk 3, PSC 28217
100 %	Windpark Baben Erweiterung GmbH & Co. KG	HRA 25725	Německo	Bremen, Stephanitorbolwerk 3, PSC 28217
100 %	Windpark Nandorf GmbH & Co. KG	HRA 25228	Německo	Bremen, Stephanitorbolwerk 3, PSC 28217
100 %	CEZ Windparks Nordwind GmbH	HRB 26044	Německo	Bremen, Stephanitorbolwerk 3, PSC 28217
100 %	Windpark Badow GmbH & Co. KG	HRA 24600	Německo	Bremen, Stephanitorbolwerk 3, PSC 28217
100 %	CESANO Mobilienversteigerung GmbH & Co. KG	HRA 43178	Německo	Worms, Energie-Allee 1, PSC 55286
25,50 %	Juwi Wind Germany 100 GmbH & Co. KG	HRA 41847	Německo	Worms, Energie-Allee 1, PSC 55286
100 %	BANDIA Mobilienversteigerung GmbH & Co. KG	HRA 43179	Německo	Worms, Energie-Allee 1, PSC 55286
100 %	CEZ France SAS	830572699	Francie	Toulouse Cedex 5, 2 Rue du Libre Echange Ca 95893, PSC 31506
100 %	Ferme Eolienne de la Nouvelle SAS	813057817	Francie	Toulouse Cedex 5, 2 Rue du Libre Echange Ca 95893, PSC 31506
100 %	Ferme Eolienne de Neuville-aux-Bois SAS	797909546	Francie	Toulouse Cedex 5, 2 Rue du Libre Echange Ca 95893, PSC 31506
100 %	Ferme Eolienne de Saint-Laurent-de-Céris SAS	807395454	Francie	Toulouse Cedex 5, 2 Rue du Libre Echange Ca 95893, PSC 31506
100 %	Ferme Eolienne de la Tronquoy SAS	813057981	Francie	Toulouse Cedex 5, 2 Rue du Libre Echange Ca 95893, PSC 31506
100 %	Ferme Eolienne des Breuils SAS	811797331	Francie	Toulouse Cedex 5, 2 Rue du Libre Echange Ca 95893, PSC 31506
100 %	Ferme Eolienne de la Grande Cloie SAS	807395512	Francie	Toulouse Cedex 5, 2 Rue du Libre Echange Ca 95893, PSC 31506
100 %	Ferme Eolienne de Germain SAS	819634361	Francie	Toulouse Cedex 5, 2 Rue du Libre Echange Ca 95893, PSC 31506
100 %	Ferme Eolienne de Saint-Pierre SAS	822597252	Francie	Toulouse Cedex 5, 2 Rue du Libre Echange Ca 95893, PSC 31506
100 %	Ferme Eolienne de Séguin SAS	819459017	Francie	Toulouse Cedex 5, 2 Rue du Libre Echange Ca 95893, PSC 31506

Česká republika - Ministerstvo financí ČR  
 dceřiné společnosti Ministerstva financí ČR (ČEZ, a. s.)  
 dceřiné společnosti ČEZ, a. s.  
 vnuky ČEZ, a. s.

právníky ČEZ, a. s.  
 právníky ČEZ, a. s.  
 právníky ČEZ, a. s.  
 právníky ČEZ, a. s.

člen koncernu ČEZ  
 zaniklá/prodaná společnost - člen koncernu ČEZ  
 zaniklá/prodaná společnost

## Used abbreviations

API 2	American Petroleum Institute 2 The primary price reference for physical and over-the-counter coal contracts in northwest Europe
ASVEP	Association for Energy Products Use
BAT	the Best Available Technology
CENTROTHERM	CENTROTHERM Mladá Boleslav, a.s.
CO <sub>2</sub>	carbon dioxide
COP21	United Nations Climate Change Conference
CSR	Corporate Social Responsibility
ČEZ	ČEZ, a. s.
ČR	Czech Republic
DEMI-water	demineralized water
EEX	European Energy Exchange
EU ETS	European Union Emissions Trading System
GDPR	General Data Protection Regulation – Regulation 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data
IT	the Information technologies
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
OZE	Renewable energy sources
PXE	Power Exchange Central Europe
REACH	Registration, Evaluation and authorisation of Chemical substances
ŠKODA AUTO	ŠKODA AUTO a.s.
ŠKO-ENERGO FIN	ŠKO-ENERGO FIN, s.r.o.
ŠKO-ENERGO or Company	ŠKO-ENERGO, s.r.o.
VW	VOLKSWAGEN AG





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