

# 2010

## ANNUAL REPORT





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# 1. CORPORATE AND GENERAL INFORMATION ABOUT THE COMPANY

- 1.1. BASIC INFORMATION*
- 1.2. COMPANY DESCRIPTION*
- 1.3. CORPORATE GOVERNANCE*
- 1.4. OTHER INFORMATION*

## 1.1. BASIC INFORMATION

Company name: CZECH-KARBON s.r.o.  
Registered office: Ostrava, Moravská Ostrava, Smetanovo náměstí 2/979, PSČ 702 00  
Legal form: limited liability company  
Registered number: 258 46 159

The Company is incorporated by entry in the Companies Register kept by the Regional Court in Ostrava, Section C, File 21431

Date incorporated: 25 October 1999  
Registered capital: CZK thousands 2,000

## At present, CZECH-KARBON s.r.o.

is one of the largest independent electric power traders in the Czech Republic. Our mix of purchasing options serves the function of eliminating the effects of dominant producers and allows us to make use of all options for obtaining the best possible conditions for our customers.

## 1.2. COMPANY DESCRIPTION

CZECH-KARBON s.r.o. (“CZECH-KARBON”) launched electricity trading operations on 1 October 2001 on the basis of a strategic decision by the board of directors of KARBON INVEST a.s. The aim was to centralize and streamline activities related to electricity trading and electricity purchasing for the group’s requirements under the new conditions established following the liberalization of the electricity market. On 1 December 2008, NWR Energy, a.s. became CZECH-KARBON’s sole shareholder. On 21 June 2010, NWR Energy, a.s. was acquired by Dalkia Česká republika and subsequently renamed Dalkia Industry CZ, a.s.

Starting in 2001, CZECH-KARBON, as a member of its original owner’s group, arranged for the gradual transformation of group companies into eligible customers (with the right to choose their supplier) and steadily developed into a powerful trading company wielding extensive know-how in electricity trading on the international stage.

With its close-knit team of staff, CZECH-KARBON is in a position to handle all areas specific to trading in Czech and international wholesale markets: the provision of interna-

tional transmission capacity, trading within the energy systems of neighbouring foreign operators (TenneT TSE 50Hertz Transmission, SEPS and PSE-Operator SA) and sales of electricity to end customers with varying needs and levels of supply.

In 2010, the Company’s electricity purchasing comprised supplies from domestic electricity producers, including those supplying electricity from renewable and secondary sources, as well as from domestic and foreign traders. With a view to improving condi-

tions, CZECH-KARBON also organized for electricity to be supplied from Poland via a 110 kV transmission line to a dedicated island in the Czech Republic formed by some of the mines operated by OKD, a.s.

It is the Company's strategy to make use of the maximum means available to maintain a portfolio of ample liquid products for supply purposes. It is one of the most energetic participants in POWER EXCHANGE CENTRAL EUROPE, a.s. (PXE) and also actively uses its trading licence to trade on Poland's domestic market, where greater opportunities are offered by trading with Polish partners and border trading with Poland.

Besides arranging for the advantageous supplies above, the Company managed to reduce the costs of differences between the quantities of electricity contracted and actually taken (constituting a large proportion of the price), mainly by applying a quality forecasting system and by the highly precise negotiation of customers' load profiles.

Given the level of annual consumption, it is rare to find such accuracy in the arrangements for the load profile for supply to end customers, and the Company is among the best in the Czech Republic at this.

In 2010, CZECH-KARBON also dealt well with the lingering effects of the recession on commodity markets, the main consequence of which was a decrease in electricity consumption among end users.

The Company uses cutting-edge information technology to service and manage electricity consumption. This includes the special internal SAVS information system for serving end customers, which is used to arrange for the required quantity of electricity, automatically evaluate consumption, serve clients and run billing processes in the eFATEP system.

## 1.3. CORPORATE GOVERNANCE

Managing Director: Pavel Luňáček

## 1.4. OTHER INFORMATION

CZECH-KARBON Company has no foreign organizational units and does not engage in any research and development. After the reporting date, no significant events affecting its results occurred in 2011. As at 31 December 2010, the Company did not hold any of its own shares and held no participating interests in other companies.

# 2. MANAGEMENT REPORT

A tall, yellow metal lattice tower for high-voltage power lines stands against a blue sky with scattered white clouds. Several power lines stretch across the frame from the tower towards the left.

**2.1. FOREWORD**

**2.2. OPERATIONS AND PERFORMANCE**



## 2.1. FOREWORD

Dear Trade Partners, Ladies and Gentlemen,

It is my pleasure to present you with CZECH-KARBON's Annual Report and to take stock of 2010, in which we witnessed numerous significant changes.

On 21 June 2010, the Company became part of the Dalkia transnational group, a leading energy business specializing in the production and supply of heat and electricity to households and other clients. Despite the undeniable challenges of this transitional period and the lingering effects of the recession on commodity markets, 2010 can generally be considered a very successful year.

In particular, the 1.8 TWh of electricity supplied to end customers was the highest ever and a rise of more than 10% compared to the previous year. The overall transactions traded amounted to 3.4 TWh, generating revenue of CZK 4 billion and a post-tax profit of CZK 150 million.

Last year was also a period of innovation in areas that CZECH-KARBON had already been successfully nurturing in previous years. Since 2007, we have been an active member of POWER EXCHANGE CENTRAL EUROPE, a.s. (PXE). After PXE launched financial futures trading in early 2010, we established procedures for routine trading and for settlement in this area. Trading in all products at PXE was almost exclusively carried out on a financial basis from mid-2010.

The development and implementation of supporting information technology also continued, with advances in the instruments used by the Company to manage risks arising from differences in the portfolio of end customers and from the volatility of commodity market prices.

In 2011, we will continue to expand our business operations in the Czech energy market. I firmly believe that, building on our vast experience in both the domestic and foreign energy markets and the stable backing provided by the powerful Dalkia group, which CZECH-KARBON joined last year, sure our customers will view us as a sought-after professional partner.



**Pavel Luňáček**  
Managing  
Director

I would like to thank all our trade partners for their cooperation and the trust that they have placed in us, and I hope that we will continue to work together successfully in the coming period.

I would also like to thank the staff for their work, for their patience in the face of change, and for their professional approach, and I also look forward to working with them in 2011.



## 2.2. OPERATIONS AND PERFORMANCE

### BUSINESS ACTIVITIES

Two basic sections carry out CZECH-KARBON's business activities:

#### The Trading Unit

is responsible for the optimization of the purchasing portfolio, the operational balancing of portfolio positions and the development of trading in domestic and foreign transmission systems.

The Trading Unit's principal task is to secure supplies on the wholesale market to meet the needs of the portfolio of end customers. This includes the purchase and optimization of standard and non-standard products on the wholesale market for supply to the portfolio of end customers, ad hoc topping-up on spot markets during the year and, based on revised load profile predictions, management of cost of imbalances on the balancing market.

Besides making purchases on the wholesale market for supplies to end customers, the Section also trades in electricity with other companies on the domestic market and neighbouring foreign markets, especially on an ad hoc short-term basis exploiting current movements in the electricity market. International trading includes the reservation of the necessary cross-border interconnection capacities.

In view of the cramped conditions on the Czech market, in its wholesale dealings the Trading Unit tends to concentrate on foreign markets, enabling the Company to add to its purchasing portfolio even when electricity purchasing conditions are unfavourable on the Czech market and to make active use of day-to-day opportunities harnessing the available capacity of interconnections and varying price levels in different countries. This versatility results in contracts on highly favourable terms.

In 2010, the Trading Unit traded approximately 1.6 TWh of electricity at home and abroad. Besides the traditional large energy companies, in 2010 we nurtured equally important cooperation with small electricity producers. This included the purchase of electricity from renewable electricity plants, to which we offer participation in the green premium system supporting renewable resources, introduced in the Czech Republic in 2006. In 2010, the Company purchased 191 GWh from renewable and secondary sources, a 13.61% rise on 2009.

#### The Unit for Servicing and Sales to End Customers

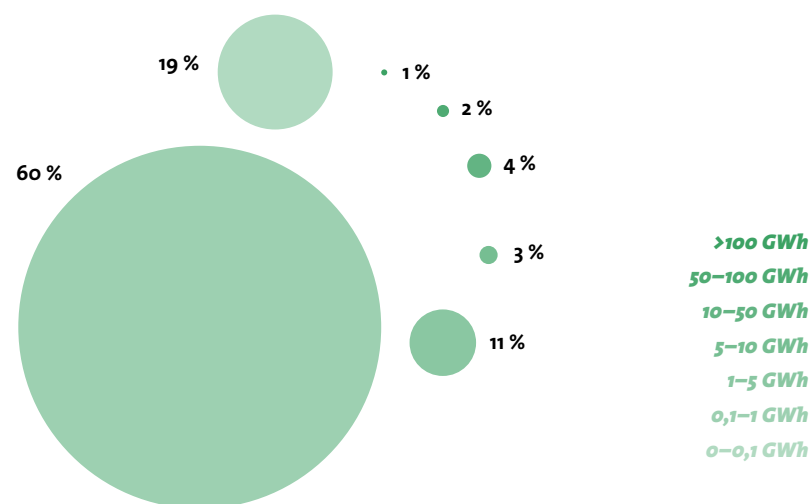
is responsible for electricity sales and comprehensive service provision to end customers.

In 2010, the Unit for Servicing and Sales to End Customers arranged for supplies to end customers with a total annual electricity consumption of 1.845 TWh.

The current portfolio of end customers currently comprises approximately 389 customers with roughly 1,400 supply points fitted with type A, B and C metering, whose needs and supply volumes are very diverse. Besides its traditional coal-mining and coke-producing partners, CZECH-KARBON also served customers in metallurgy, engineering, the automotive and food industries, the tertiary sector, the health sector, etc.

We do our best to provide a full service to end customers on the energy market as they are in an unfavourable position here. We place maximum emphasis on supply prices and on services associated with advice to customers on what to do in order to be more appealing to suppliers. We also provide our clients with advice on demand management,

Portfolio of end customers by volume of electricity taken in 2010



the technical conditions for connection and other aspects which ultimately affect the cost of power supply.

Since 2001, the liberalization of the electricity market has gradually brought about the need to address the requirements of the different customer segments, including households, which became eligible customers on 1 January 2006. As a result, CZECH-KARBON became a supplier for a wide range of customers, from the largest industrial enterprises to households.

In addition to the above, in 2010, the Company's activities focused on improving services to customers, specifically:

**Improving risk management instruments**

The Company regularly evaluates business and financial risks, particularly price, currency and credit risks. We have introduced and periodically evaluate the credit standing of trade partners and customers, actively insure our receivables and regularly update forecasts to reflect developments among end customers.

**Achieving maximum customer satisfaction**

The quality of customer relations is largely determined by how the customer perceives the Company's key competencies, what share of trading is taken up by the firm, its price competitiveness, the quality of other associated products, knowledge of the customer's



business, the level of technology and the intensity of mutual relations. Therefore, we place great emphasis on identifying the needs and requirements of consumers and on creating an attractive range of services for each target segment on the market.

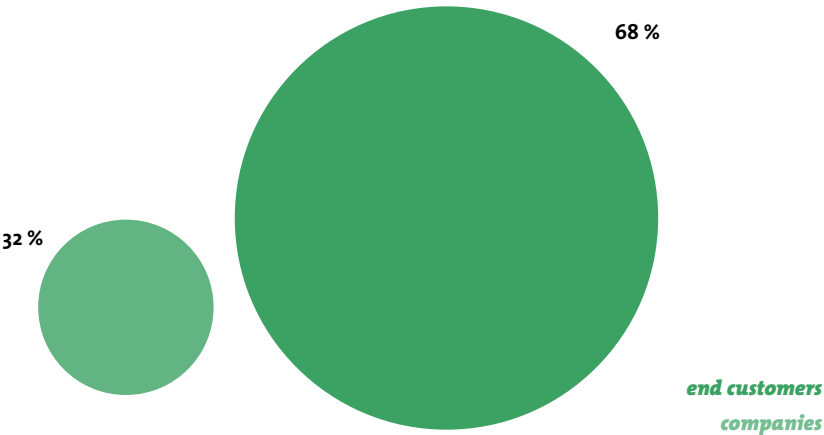
**BUSINESS RESULTS**

Having traded 3.4 TWh of electricity in 2010, the Company ranks among the largest alternative traders and suppliers to end customers.

Indicator (CZK thousands)	Actual 2009	Planned 2010	Actual 2010
Revenues from goods sold	4,957,023	4,294,208	4,326,003
Cost of goods sold	4,602,035	4,269,243	4,228,950
Gross profit	354,988	24,965	97,053

The Company's gross profit was approximately CZK 72 million more than planned, while the profit after tax was CZK 150.3 million, i.e. approximately CZK 32.9 million more than projected by the 2010 business plan (CZK 117.4 million).

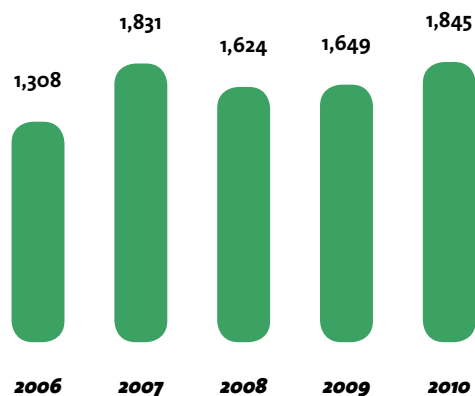
2010 revenue structure (%)



### Structure of sales by the Trading Unit in 2010 (in CZK billions)



### Electricity supply to end customers (TWh)



### Selected Indicators

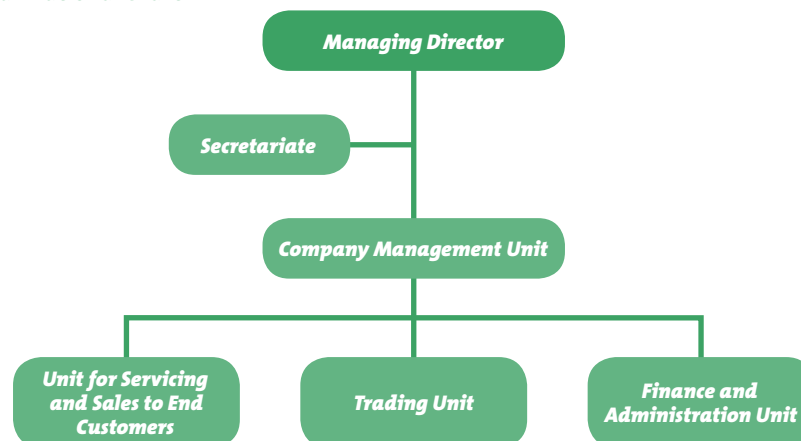
Basic indicators	Unit	2010
Registered capital	CZK thousands	2,000
Equity	CZK thousands	523,983
Dividend paid for 2009	CZK thousands	0
Number of employees (FTE)	persons	11
Productivity: value added per employee per month	CZK	657,985
Statutory provisions	CZK thousands	0
Other provisions	CZK thousands	0
Net profit	CZK thousands	150,315

### Revenue information (CZK thousands)

ACTIVITY	2008		2009		2010	
	Czech Republic	abroad	Czech Republic	abroad	Czech Republic	abroad
Revenue from sales of goods	3,739,298	3,424,789	4,672,400	284,623	3,727,543	598,460
Other	76	--	99	--	46	--
TOTAL	3,739,374	3,424,789	4,672,499	284,623	3,727,589	598,460

### HUMAN RESOURCES

#### Organizational chart



# 3. FINANCIAL REPORT

*3.1. FINANCIAL STATEMENTS*

*3.2. NOTES TO THE FINANCIAL STATEMENTS*

*3.3. SELECTED INDICATORS*



# 3.1. FINANCIAL REPORT

## BALANCE SHEET – ASSETS FOR THE YEAR ENDED 31 DECEMBER 2010 (CZK THOUSANDS)

Označ.	ASSETS	Gross	Current period Adjustment	Net	Prior period Net
	TOTAL ASSETS	1,027,447	(11,963)	1,015,484	991,933
A.	Receivables for subscribed registered capital				
B.	Fixed assets	950	(703)	247	950
B.I.	Intangible fixed assets	439	(192)	247	401
B.I. 3.	Software	439	(192)	247	401
B.I. 6.	Other intangible fixed assets				
B.I. 7.	Intangible fixed assets under construction				
B.II.	Tangible fixed assets	511	(511)		549
B.II. 1.	Land				
B.II. 2.	Buildings				
B.II. 3.	Plant and equipment	511	(511)		549
B.II. 6.	Other tangible fixed assets				
B.II. 7.	Tangible fixed assets under construction				
B.II. 9.	Adjustments to acquired fixed assets				
B.III.	Long-term investments				
B.III. 1.	Investments in group undertakings				
C.	Current assets	996,517	(11,260)	985,257	948,638
C.I.	Inventories				3
C.I. 1.	Raw materials				3
C.II.	Long-term receivables	161,699		161,699	466,904
C.II. 5.	Long-term advances paid	159,262		159,262	440,498
C.II. 8.	Deferred tax asset	2,437		2,437	26,406
C.III.	Short-term receivables	638,386	(11,260)	627,126	293,774
C.III. 1.	Trade receivables	289,359	(11,260)	278,099	282,616
C.III. 2.	Receivables – group undertakings	179,595		179,595	
C.III. 6.	Tax receivables	20,752		20,752	
C.III. 7.	Short-term advances paid	54,653		54,653	35
C.III. 8.	Estimated receivables	94,024		94,024	3,983
C.III. 9.	Other receivables	3		3	7,140
C.IV.	Short-term financial assets	196,432		196,432	187,957
C.IV. 1.	Cash	15		15	35
C.IV. 2.	Bank accounts	196,417		196,417	187,922
D.I.	Deferrals	29,980		29,980	42,345
D.I. 1.	Prepaid expenses	29,980		29,980	40,531
D.I. 3.	Accrued revenues				1,814

## BALANCE SHEET LIABILITIES AND EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010 (CZK THOUSANDS)

Označ.	Equity	Current period	Prior period
	TOTAL EQUITY AND LIABILITIES	1,015,484	991,933
A.	Equity	523,983	389,878
A.I.	Registered capital	2,000	2,000
A.I. 1.	Registered capital	2,000	2,000
A.II.	Capital contributions	(10,430)	5,780
A.II. 3.	Revaluation of assets and liabilities	(10,430)	5,780
A.III.	Reserve funds, undistributable fund and other funds from profit	200	200
A.III. 1.	Statutory reserve fund/Undistributable fund	200	200
A.IV.	Retained earnings/accumulated losses	381,898	314,893
A.IV. 1.	Retained earnings	381,898	314,893
A.V.	Profit (loss) for the current period	150,315	67,005
B.	Liabilities	491,496	600,665
B.I.	Provisions		150,086
B.I. 3.	Income tax provision		3,849
B.I. 3.	Other provisions		146,237
B.II.	Long-term liabilities		
B.II. 10.	Deferred tax liability		
B.III.	Short-term liabilities	491,496	450,577
B.III. 1.	Trade payables	283,230	428,624
B.III. 5.	Payables to employees	309	618
B.III. 6.	Payables to social security and health insurance	184	169
B.III. 7.	Tax liabilities and subsidies	12,700	14,047
B.III. 8.	Short-term advances received	50,081	3,983
B.III. 10.	Estimated payables	132,116	3,079
B.III. 11.	Other payables	12,876	57
B.IV.	Bank loans and overdrafts		2
B.IV. 2.	Short-term bank loans		2
C.I.	Accruals	5	1,390
C.I. 1.	Accrued expenses	5	1,390
C.I. 2.	Deferred revenues		

## PROFIT AND LOSS ACCOUNT FOR THE YEAR 2010 (CZK THOUSANDS)

Označ.	Text	Actual for period	
		current	prior
I.	Revenue from goods	4,326,003	4,957,023
A.	Cost of goods sold	4,228,950	4,602,035
+	Gross profit	97,053	354,988
II.	Revenue from production	46	99
II. 1.	Revenue from own products and services	46	99
B.	Cost of sales	7,613	8,470
B. 1.	Materials and consumables	440	733
B. 2.	Services	7,173	7,737
+	Value added	89,486	346,617
C.	Personnel expenses	12,272	16,542
C. 1.	Wages and salaries	8,638	13,227
C. 2.	Remuneration of board members	125	300
C. 3.	Social security and health insurance expenses	3,438	2,937
C. 4.	Social expenses	70	78
D.	Taxes and charges	86	89
E.	Depreciation of intangible and tangible fixed assets	271	277
III.	Proceeds from disposals of fixed assets and raw material	440	
F.	Net book value of fixed assets and materials sold	488	
G.	Change in provisions and adjustments relating to operating activity and change in complex prepaid expenses	(146,063)	157,184
IV.	Other operating revenues	370	14
H.	Other operating expenses	2,169	2,516
*	Operating profit (loss)	221,074	170,023
X.	Interest revenue	947	2,366
N.	Interest expense	539	1,071
XI.	Other financial revenue	207,275	212,920
O.	Other financial expenses	250,669	300,819
*	Profit (loss) from financial operations	(42,986)	(86,604)
Q.	Income tax on ordinary profit (loss)	27,773	16,899
Q. 1.	- current	2	44,684
Q. 2.	- deferred	27,771	(27,785)
**	Profit (loss) on ordinary activities after tax	150,315	66,520
XIII.	Extraordinary revenue		485
R.	Extraordinary expenses		
*	Extraordinary profit (loss)		485
***	Profit (loss) for the accounting period	150,315	67,005
****	Profit (loss) before tax	178,088	83,904



## 3.2. NOTES ON THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

#### 1.1 Description of entity

Name of entity: CZECH-KARBON s.r.o.  
Registered number: 258 46 159  
Registered office: Smetanovo náměstí 2/979, 702 00 Ostrava - Moravská Ostrava  
Legal form: Limited liability company

The Company's objects of business include:

- purchase of goods for resale;
- intermediation services;
- procurement;
- business, financial, organizational and economic consultancy services;
- electricity trading.

Registered capital: CZK thousands 2,000

The Company is managed by the managing director, who performs work for the Company under a management contract.

#### 1.2 Establishment

CZECH-KARBON s.r.o. (the "Company") is a legal entity. The Company was incorporated on 25 October 1999 by entry in the Companies Register maintained by the Regional Court in Ostrava, Section C, File 21431.

#### 1.3 Ownership structure

The sole member of CZECH-KARBON s.r.o. as of 1 December 2008 is NWR Energy, a.s., Ostrava, Moravská Ostrava, Gregorova 2582/3, 728 37, registered number 278 26 554. On 21 June 2010, NWR Energy, a.s. was acquired by the Dalkia in the Czech Republic Group and has been renamed Dalkia Industry CZ, a.s.

Until 30 November 2008, the sole member of CZECH-KARBON s.r.o. was OKD, a.s., having its registered office at Prokešovo náměstí 6/2020, Ostrava - Moravská Ostrava, 728 30, registered number 268 63 154.

#### 1.4 Changes and amendments to the entry in the Companies Register in the past accounting period

The following changes were entered in the Companies Register in the last period:

The Managing Directors Petr Havlíček and Alice Moháčová resigned with effect as of 21 June 2010. Antonín Klimša, the Chairman of the Supervisory Board, Josef Richter, the Vice-Chairman of the Supervisory Board, Jarmila Ivánková, a member of the Supervisory Board, Radim Tabášek, a member of Supervisory Board, and Petr Otava, a member of the Supervisory Board, resigned from their respective positions with effect as of that same date. This change was entered in the Companies Register on 2 July 2010.

Pavel Luňáček was appointed as Managing Director on 21 June 2010. This change was entered in the Companies Register on 2 July 2010.

#### 1.5 Organizational structure

The Company's Company Management Unit, which is directly accountable to the governing body, is responsible for the Company's performance and results.

The Company has no organizational units abroad.

#### 1.6 Governing and supervisory bodies at the balance-sheet date

Managing Director: Pavel Luňáček

### 2. ACCOUNTING POLICIES AND GENERAL ACCOUNTING PRINCIPLES

The Company's books are kept and the financial statements have been prepared in compliance with Act No 563/1991 on accounting, as amended, decree no 500/2002 implementing certain provisions of Act No 563/1991 on accounting, as amended, for entities that are businesses applying a double-entry bookkeeping system, and Measure of the Ministry of Finance Ref No 281/89 759/2001 establishing a chart of accounts and accounting policies for businesses, and a Measure of the Ministry of Finance.

The Company's accounting respects general accounting principles, in particular the historical cost principle, the accruals principle, the prudence concept and the going concern assumption.

## 2.1 Valuation and depreciation methods

The valuation and depreciation methods applied by the Company in the preparation of the financial statements were as follows:

### 2.1.1 Intangible fixed assets

Intangible fixed assets are stated at cost, which includes the acquisition cost and related costs. These assets are amortized on a straight-line basis over their estimated useful lives (a maximum of five years).

Intangible fixed assets with a cost of not more than CZK 60,000 are charged directly to expenses and entered only in operating records. In 2001, these assets were recorded in the asset accounts of low-value intangible assets and were expensed as a lump sum when they were put into service.

### 2.1.2 Tangible fixed assets

Tangible fixed assets are stated at cost, which includes the purchase price, shipping and other related costs. Tangible fixed assets acquired without consideration are stated at replacement cost and are carried in the account "Other capital contributions".

The costs of improvements to tangible fixed assets are capitalized. Routine repairs and maintenance are expensed.

Tangible fixed assets with a cost of not more than CZK 40,000 are expensed as a lump sum and thereafter maintained only in operating records.

#### 2.1.2.1 Depreciation of tangible fixed assets

Book depreciation is calculated on the basis of cost and the estimated useful life of an asset. Depreciation methods and periods, by asset class, are set out in the table below:

Asset category	Depreciation period (years)
Vehicles	4
Other tangible fixed assets	3

Book depreciation is initiated in the month after an asset is put into service. Upon disposal of an asset, the final book depreciation is charged in the month preceding the month in which the asset is decommissioned.

### 2.1.3 Equity

The Company's registered capital is stated at the amount recorded in the Companies Register maintained by the Regional Court in Ostrava. Any increase or decrease in the registered capital further to a decision of the General Meeting which has not been registered at the balance sheet date is reported as a change in registered capital. Any capital surplus is recorded as additional paid-in capital. Other capital contributions (i.e. the statutory reserve fund) are created by the Company in accordance with its articles of association.

### 2.1.4 Finance leases

Lease payments are expensed in the period in which they are incurred. Lease payments made in advance are recorded as prepaid expenses and are amortized over time. At the end of the lease agreement, the purchase option is exercised. After the purchase of an asset at the residual value, it is recorded at that (residual) value in the operating records of low-value tangible assets.

### 2.1.5 Receivables

Receivables are initially recognized at their nominal value; receivables acquired for consideration or by a contribution are valued at cost. Valuations of doubtful receivables are reduced by means of adjustments.

Adjustments are established for receivables based on an overview where it is shown that their valuation is unrealistic. The Company establishes adjustments for doubtful receivables based on an internal analysis of the solvency of its customers. Where tax adjustments are created for receivables, the procedure under Act No 593/1992 on provisions for the establishment of the income tax base, as amended, is followed.

### 2.1.6 Other assets

Accrued income/prepaid expenses include unrealized MTM (mark-to-market) gains and losses from daily clearing with the Power Exchange Central Europe, a.s., which show a credit (debit) and apply to electricity supply contracts concluded for the next period. The transfer to profit is made on physical delivery of the commodity contract.

### 2.1.7 Foreign-currency transactions

Assets and liabilities denominated in foreign currencies are valued in Czech crowns at the rate prevailing on the date of their creation. At the balance sheet date, all entries in the books are translated into Czech currency at the daily exchange rate published by the Czech National Bank.

In 2010 (2009), realized and unrealized exchange gains and losses are stated under current-year costs or revenues.

### 2.1.8 Income tax

Income tax for the year comprises current tax and the change in deferred tax.

Current tax includes an estimate of tax calculated from the tax base by applying the tax rate applicable on the first day of the period and any adjustments to tax payable for previous periods.

Deferred tax is based on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, and other temporary differences, using the income tax rates expected to be valid for the period in which the tax asset/liability is to be used.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which this asset can be utilized.

### 2.1.9 Accounting for purchases and sales of electricity

In view of the Company's intention to supply electricity to end customers, the commodity contracts it concludes are classified on the Power Exchange Central Europe, a.s. and the OTC market (the wholesale market) as "own use contracts", i.e. commodity contracts concluded for the purchase, sale or use of a commodity, where it is expected that they will be settled upon final delivery of the commodity to end customers. In this capacity, buying and selling commodity contracts are not regarded as financial derivative instruments concluded for speculative trading purposes.

### 2.1.10 Currency financial derivatives

#### *Hedge accounting*

In accordance with the accounting regulations in place since 2004, the Company decided to apply hedge accounting to report the impacts of the hedging of currency risks.

#### *Derivatives*

The Company uses hedging derivatives (currency forwards) to reduce exchange rate risks associated with payments in foreign currency. Hedging derivatives are carried at fair value. Hedging is fully in line with the parent company's risk management strategy. In its hedge accounting, Company proceeds in accordance with Czech Accounting Standard for Financial Institutions No 110 – Derivatives.

That part of the financial derivatives realized as at the balance sheet date was recognized in profit and loss; the unrealized part was recognized as gains or losses on the revaluation of assets and liabilities and is carried in equity.

### 2.1.11 Classification of advances

The Company classifies those advances expected to be settled after more than one year from the balance sheet date as long-term.

### 2.1.12 Provisioning

An income tax provision is necessary as the financial statements are prepared before the current year tax liability is determined.

The Company also creates provisions for business risks and other operating costs associated with the sale of electricity.

## 2.2 Changes in accounting policies compared to the previous period

In 2010, there were no changes in valuations, depreciation methods and accounting practices compared to the previous period.

## 2.3 Consolidation

In accordance with Section 62 (5) of decree no. 500/2002, the financial statements are incorporated into the consolidated financial statements of Dalkia Česká republika, a.s., having its registered office in Ostrava at 28. října 3123/152. The consolidated financial statements will be published in keeping with Section 62 (6c) of the decree, further to Section 21a of the Accounting Act.

### 3. ADDITIONAL INFORMATION ON THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

#### 3.1 Fixed assets

##### 3.1.1 Intangible fixed assets (CZK thousands)

	Software
Cost	
Balance at 1 January 2010	439
Additions	–
Disposals	–
Transfers	–
Balance at 31 December 2010	439
Accumulated amortization	
Balance at 1 January 2010	38
Amortization expense	153
Accumulated amortization on disposals	–
Transfers	–
Balance at 31 December 2010	192
Net book value at 1 January 2010	401
Net book value at 31 December 2010	247

##### 3.1.2 Tangible fixed assets (CZK thousands)

	Other tangible fixed assets
Cost	
Balance at 1 January 2010	1,353
Additions	57
Disposals	899
Transfers	–
Balance at 31 December 2010	511
Accumulated depreciation	
Balance at 1 January 2010	804
Depreciation expense	118
Accumulated depreciation on disposals	175
Transfers	–
Balance at 31 December 2010	511
Net book value at 1 January 2010	549
Net book value at 31 December 2010	–

Depreciation of tangible fixed assets charged to expenses stood at CZK thousands 271 (2009: CZK thousands 277). The Company has no tangible fixed assets with a market value significantly higher than the value carried in the accounts. The Company has no fixed assets that are pledged or used as collateral. In addition to the above, the Com-

pany owns low-value assets which are recorded in the operating records with a total value of CZK thousands 1,610 (2009: CZK thousands 2,229).

##### 3.1.3 Assets acquired under finance and operating leases

The company had no assets leased under finance leases in 2010. In 2009, total costs associated with finance leases amounted to CZK thousands 225.

The Company has entered into a commercial lease of indefinite duration with the lessor RPG RE Commercial, s.r.o. The annual rent is CZK thousands 1,977 (2009: CZK thousands 2,073).

#### 3.2 Receivables

##### 3.2.1 Long-term receivables

As at 31 December 2010, the Company had long-term receivables of CZK thousands 159,262 (2009: CZK thousands 440,498) arising from advances made.

These advances comprise margin deposits and principals provided to suppliers as financial security for trading in electricity and capacity reservation.

Long-term receivables are advance deposits remitted to the following companies (CZK thousands):

Company	As at 31 December 2009	As at 31 December 2010
OTE, a.s.	22,000	22,000
CAO Central Allocation Office GmbH (ČEPS, a.s.)	11,909	10,024
J.P. Morgan Energy Europe s.r.o. (RBS Sempra Energy Europe s.r.o.)	106,121	16,541
RBS Sempra Energy Europe Limited	69,770	22,317
Centrální depozitář cenných papírů (Central Securities Depository Prague)	230,015	87,710
Other	683	670
Total	440,498	159,262

### 3.2.2 Short-term receivables

The normal maturity period for receivables under contracts is set at 14 days.

Short-term trade receivables total CZK thousands 289,359 (2009: CZK thousands 293,563), of which CZK thousands 18,422 (2009: CZK thousands 24,654) is overdue.

Breakdown of overdue receivables:

	As at 31 December 2009	As at 31 December 2010
up to 30 days overdue	12,428	5,005
up to 90 days overdue	817	1,631
up to 180 days overdue	14	85
up to 360 days overdue	11,377	280
more than 360 days overdue	18	11,421
Total	24,654	18,422

On 31 March 2009, a receivable from MORAVIA ENERGO, a.s. was registered at the Regional Court in Ostrava in bankruptcy proceedings. An adjustment of CZK thousands 10,947 was created for this receivable in 2009.

The Company created an adjustment for overdue receivables of CZK thousands 313 in 2010.

### 3.2.3 Receivables secured by a lien or otherwise

The Company has no receivables secured by a lien or otherwise.

### 3.3 Other assets

Prepaid expenses at 31 December 2010, amounting to CZK thousands 29,980 (2009: CZK thousands 40,531), consist primarily of electricity trading licence fees already paid, the costs already paid to cover charges associated with the trading and clearing of commodity contracts concluded for future periods at the Prague Energy Exchange, and the costs of the fees paid to Česká spořitelna, a.s. in respect of transactions executed for the next period at the Prague Energy Exchange and the settlement of MTM (mark-to-market) gains and losses with the Prague Energy Exchange in accordance with the accounting policies set out in paragraph 2.1.6.

## 3.4 Equity

In 2010, the following changes were made to equity accounts (CZK thousands):

	Balance as at 1 January 2010	Change in fair value of derivatives	Transfer of profit	Dividends	Profit for 2010	Balance as at 31 December 2010
Statutory reserve fund	200	---	---	---	---	200
Registered capital	2,000	---	---	---	---	2,000
Gain or loss on revaluation of assets and liabilities	5,780	(16,210)	---	---	---	(10,430)
Retained earnings	314,893	--	67,005	--	---	381,898
Profit (loss)	67,005	--	(67,005)	---	150,315	150,315
Total	389,878	(16,210)	---	--	150,315	523,983

On 10 May 2010, the sole member, NWR Energy, a.s., acting in the capacity of the general meeting acting through the board of directors, adopted a resolution passing the annual financial statements for 2009 and distribution of profit for 2009.

No decision on the distribution of profit for 2010 had been taken by the balance sheet date.

## 3.5 Liabilities

### 3.5.1 Short-term liabilities

The normal maturity period for payables under contracts is 14 days.

Short-term trade payables total CZK thousands 283,230 (2009: CZK thousands 428,624). The Company has no overdue payables.

### 3.5.2 Other payables

As at 31 December 2010, the balance of advances received was CZK thousands 50,081 (2009: CZK thousands 3,983). These are payables to electricity customers who, in 2010, were required to pay advances under a supply contract concluded with the City of Ostrava, and advances received from the OTE a.s. and Dalkia Industry CZ, a.s.

In accordance with the accounting policies described in point 2.1.10, at 31 December 2010 the Company had open hedging financial derivatives with a fair value of CZK thousands 12,876 – payable (2009: CZK thousands 7,136 – payable).

### 3.5.3 Liabilities secured by a lien or otherwise

The Company has no liabilities that are the subject to guarantees to third parties, liens on Company assets in favour of third parties or otherwise secured.

### 3.5.4 Liabilities towards state institutions

Institution	2009 (CZK thousands)	2010 (CZK thousands)
Statutory social insurance	109	129
Health insurance	60	55
Total payables to social security and health insurance	169	184
Tax on employment income	117	54
Value added tax	10,643	9,823
Environmental tax	3,287	2,823
Total tax liabilities	14,047	12,700

The Company has no overdue liabilities towards state institutions. Social and health insurance and employment tax were paid by the Company by 31 January 2011.

### 3.6 Bank loans and overdrafts

Under a credit line agreement of 26 August 2005, an overdraft facility of CZK thousands 140,000 and EUR thousands 350 was set up. The Company drew on this overdraft facility on several occasions in 2010. On 31 August 2010, the credit line agreement was terminated. As at 31 December 2010, no credit was outstanding (at 31 December 2009: CZK thousands 2).

### 3.7 Contingencies and commitments

Under Contract No 66/2009/OZ with Dopravní podnik města Brna, a.s., Reg. No. 255 08 881, the Company was required to provide a bank guarantee of CZK thousands 17,000 to cover risk attached to the failure to supply electricity. The bank guarantee was issued by Česká spořitelna, a.s. and covers the period from 15 July 2009 to 31 January 2012.

The Company provided a bank guarantee of CZK thousands 15,000 to Green Gas DPB, a.s., Reg. No. 004 94 356, with which it has entered into an agreement on the purchase of energy from renewable and secondary sources.

The bank guarantee was issued by Česká spořitelna, a.s. and covers the period from 28 April 2010 to 31 December 2010.

On 30 March 2009, the Company acceded to a guarantee for a syndicated loan granted by banks to NWR group companies. The participating interest in CZECH-KARBON s.r.o. was pledged to the lending banks. The loan was repaid and the pledge cancelled on 27 April 2010.

### 3.8 Provisions

As at 31 December 2009, a provision of CZK thousands 146,237 was created for other operating costs on account of changes expected in contracted electricity sales volumes and electricity pricing on world markets in 2010. This provision was fully exhausted in 2010.

## 4. INCOME TAX

As at 31 December 2010, no corporate income tax was charged (2009: CZK thousands 46,147).

### 4.1 Deferred tax

Deferred tax was calculated in accordance with the accounting policies described in paragraph 2.1.8.

Deferred tax for 2010 (2009):

Deferred tax items (CZK thousands)	Basis for 2010	Tax rate	Deferred tax asset	Deferred tax liability
Other differences	--	19%	--	--
Gain or loss on revaluation of hedging derivatives	12,826	19%	2,437	--
Provision for other operating costs	--	19%	--	--
Deferred tax asset/ (liability)	--	--	(2,437)	--

Deferred tax items (CZK thousands)	Basis for 2009	Tax rate	Deferred tax asset	Deferred tax liability
Other differences	(121)	19%	--	(23)
Gain or loss on revaluation of hedging derivatives	(7,136)	19%	--	(1,356)
Provision for other operating costs	146,237	19%	27,785	--
Deferred tax asset/ (liability)	--	--	26,406	--

## 5. SEGMENT INFORMATION

Sales revenue information (CZK thousands)

	2009		2010	
	Czech Republic	Europe	Czech Republic	Europe
Sales of electricity to end customers	3,396,008	--	2,956,847	--
Sales of electricity to traders	1,249,683	284,623	770,696	598,460
Emission allowances	26,709	--	--	--
Total	4,672,400	284,623	3,727,543	598,460

## 6. PERSONNEL EXPENSES

2009	Number of employees	Wages and salaries	Social security and health insurance costs	Social expense
Employees	10	5,380	1,856	52
Executives	3	7,847	1,081	26
Total	13	13,227	2,937	78

2010	Number of employees	Wages and salaries	Social security and health insurance costs	Social costs
Employees	9	5,054	1,792	43
Executives	3	3,584	1,646	27
Total	12	8,638	3,438	70

In 2010, the Company paid remuneration of CZK thousands 125 (2009: CZK thousands 300) to members of the Supervisory Board.

### 6.1 Loans, credit, guarantees and other considerations granted to directors, members of the Supervisory Board and managerial personnel

The Company's Managing Directors used company cars until 21 June 2010. The Company's governing bodies, Supervisory Board and management received no loans or credit. The Company contributes to employees' state-subsidized personal pension plans.

## 7. RELATED PARTIES

a) The following related party balances are included in the receivables and payables described in Notes 3.2 and 3.5 (CZK thousands):

Company name	Payables as at 31 December 2010	Receivables as at 31 December 2010
Dalkia Česká republika, a. s.	48,012	179,706
Dalkia Industry CZ, a. s.	25,544	1,679
Dalkia Powerline Sp. z o.o.	50,413	--
Total	123,969	181,385

b) A summary of intra-group transactions is shown in the table below (CZK thousands):

### 1 January 2010 to 21 June 2010 (CZK thousands) – NWR Group:

Company name	Costs 2010	Revenues 2010
OKD, a. s.	1,084	383,793
OKK Koksovny, a. s.	--	46,925
OKD HBZS, a. s.	15	--
NWR Energy, a. s.	9,480	157,250
NWR ENERGETYKA Sp. z o.o.	258,500	--
Celkem	269,079	587,968

### 21 June 2010 to 31 December 2010 (CZK thousands) – Dalkia Group:

Company name	Costs 2010	Revenues 2010
Dalkia Česká republika, a. s.	355,164	651
Dalkia Industry CZ, a. s.	10,778	189,649
Dalkia Powerline Sp. z o.o.	305,004	--
Celkem	670,946	190,300

c) On 31 August 2010, the Company entered into a group cash pooling agreement. Under this agreement, the Company may use the bank accounts of Dalkia Česká republika, a. s. to deposit funds or draw on short-term operating loans of up to CZK thousands 150,000. The Company had no loans from related parties as at either 31 December 2010 or 31 December 2009.



On 7 September 2010, the Company joined the cash pooling scheme run by the Dalkia in the Czech Republic Group.

As at 31 December 2010, the Company's receivable from Dalkia Česká republika, a.s. resulting from cash pooling was CZK thousands 179,595.

d) Group relations

The Company has not concluded a controlling agreement with its sole member, Dalkia Industry CZ, a.s. The Report on Related Parties will form a part of the Annual Report.

## **8. AUDIT FEES**

Information about the auditor's fees is set out in the notes to the consolidated financial statements of the Company's ultimate owner.

## **9. OTHER SIGNIFICANT EVENTS**

No significant subsequent events had occurred as at the date of preparation of the financial statements.

# 4. **REPORT** ON **RELATED** PARTIES



## REPORT ON RELATIONS BETWEEN THE CONTROLLING AND CONTROLLED ENTITY AND ON RELATIONS BETWEEN THE CONTROLLED ENTITY AND OTHER ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY (RELATED PARTIES)

Prepared in accordance with Section 66a (9) of Act No 513/1991, the Commercial Code, as amended, by the Managing Director of CZECH-KARBON s.r.o., having its registered office at Ostrava, Moravská Ostrava, Smetanovo náměstí 2/979, registered number: 258 46 159, incorporated in the Companies Register maintained by the Regional Court in Ostrava, Section C, File 21431.

### I. PREAMBLE

This Report has been prepared by the Company's Managing Director in compliance with Section 66a (9) of Act No 513/1991, the Commercial Code, as amended, in conjunction with the first sentence of Section 194 (5) of the Commercial Code.

The disclosures in this Report were delivered for audit to the auditors, KPMG Audit Česká republika Audit, s.r.o., under Section 66a (11) of the Commercial Code.

The Report has been prepared for the accounting period of 2010.

The part of the Report covering the period from 1 January 2010 to 20 June 2010 was prepared on the basis of the methodologies and policies of the NWR Group.

## II. REPORT FOR THE PERIOD FROM 1 JANUARY 2010 TO 20 JUNE 2010

### 1. Identification and description of related parties

For the purposes of this Report, Related Parties shall mean NWR Energy, a.s. (now Dalkia Industry CZ, a.s.) and its sole shareholder, New World Resources N.V., as well as BXR Group Limited and all other companies controlled by BXR Group Limited within the meaning of Section 66a (2) of Act No 513/1991, the Commercial Code, as amended, as known to CZECH-KARBON s.r.o. as at the above date.

### 2. List of agreements executed

Name	Relationship	Subject matter	Value of performance (CZK thousands)
OKD, a. s.	Customer	Electricity supply, Addendum 1 to Contract 37/2009/OZ, 2010 prices	
		Electricity supply, Addendum 6 to Contract 127/SD/VN, 2010 prices	
		Agreement on the payment of the fee for guarantee	
		total	447,192.21
OKK Koksovny, a. s.	Customer	Electricity Supply Agreement	
		total	73,346.73
RPG RE Commercial, s. r. o.	Customer	Electricity supply, Addendum 1 to Contract 314/SD/VN, new supply point	
		Electricity supply, Addendum 1 to Contract 71/2009/OY, 2010 prices	
		total	34.36
RPG RE Land, s. r. o.	Customer	Electricity supply, Addendum 2 to Contract 20/2009/OZ	
		total	75.64
RPG RE Assets, s. r. o.	Customer	Electricity supply, Addendum 1 to Contract 75/2009/OZ	
		total	508.05
Advanced World Transport, a. s.	Customer	Electricity supply, Addendum 7 to Contract 78/SD/VN, 2010 prices	
		total	1,514.44
AWT Rekultivace, a. s.	Customer	Electricity supply, Addendum 8 to Contract 77/SD/VN	
		total	393.57
Green Gas DPB, a. s.	Supplier	Electricity supply from a secondary source, Addendum 12 to Contract 01/2007/DZE	
		Electricity supply from a renewable source, Addendum 13 to Contract 03/2007/OZE	
		total	89,491.03
	Customer	Addendum 15 to Contract 007/2004/OZ, new supply point	
		total	1,999.90
Dalkia Industry, a. s.	Customer	Electricity supply, Addendum 2 to Contract 47/2009/CZ	
		Distribution services, Addendum 4 to Contract 01/2006/DS	
		total	167,345.36
	Supplier	Payment of a fee for guarantee	
		total	9,651.98

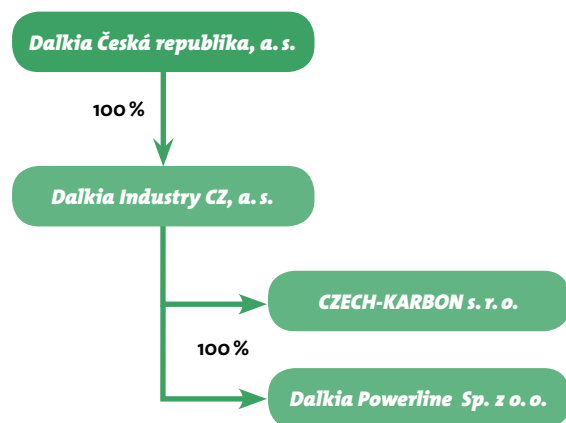
### 3. Description of other legal acts and measures adopted or effected by the controlled entity on behalf or upon initiative of related parties, overview of considerations and declaration of no detriment

Contracts were concluded between related parties on an arm's length basis and CZECH-KARBON s.r.o. suffered no detriment or loss. In all cases, consideration was provided in full for contractual performance. CZECH-KARBON s.r.o. did not make or effect any other legal acts or measures in the interest of related parties.

## III. REPORT FOR THE PERIOD FROM 21 JUNE 2010 TO 31 DECEMBER 2010

### 1. Identification and description of related parties

Diagram of controlling relations



#### Remarks:

On 21 June 2010, Dalkia Česká republika, a.s. bought 100% of the shares of NWR Energy, a.s. and became its sole shareholder. On 24 June 2010, NWR Energy, a.s. was renamed Dalkia Industry CZ, a.s.

#### Controlled company

Company name: CZECH-KARBON s.r.o.

Registered office: Ostrava, Moravská Ostrava, Smetanovo náměstí 2/979, 702 00

File Ref.: Section C, File 21431, Companies Register maintained by the Regional Court in Ostrava

Registered number: 258 46 159

Legal form: limited liability company

Hereinafter also referred to as "Czech-Karbon" or the "controlled company"

#### Controlling company

Company name: Dalkia Industry CZ, a.s.

Registered office: Ostrava, Moravská Ostrava, Gregorova 2582/3, 728 37

File Ref.: Section B, File 3722, Companies Register maintained by the Regional Court in Ostrava

Registered number: 278 26 554

Legal form: public limited company

Hereinafter also referred to as "Dalkia Industry", the "controlling company" or "DIN".

#### Entities controlling the controlling company

Company name: Dalkia Česká republika, a.s.

Registered office: Ostrava, 28. října 3123/152, 709 74

File Ref.: Section B, File 318, Companies Register maintained by the Regional Court in Ostrava

Registered number: 451 93 410

Legal form: public limited company

Hereinafter also referred to as "Dalkia Česká republika", the "controlling company" or "DČR".

#### Other entities controlled by the controlling company:

Company name: Dalkia Powerline Spółka z ograniczoną odpowiedzialnością

Registered office: ul. Gustawa Morcinka 17, 43-417 Kaczyce, Rzeczpospolita Polska

File Ref.: Sąd Rejonowy w Bielsku - Białej VIII Wydział Gospodarczy Krajowego Rejestru Sądowego

Registered number: NIP: PL525-24-11-277, REGON: 141189229

Legal form: Spółka z ograniczoną odpowiedzialnością [limited liability company]

Hereinafter also referred to as "Dalkia Powerline" or "other entity controlled by the controlling company".

**2. Description of agreements executed and performed, other legal acts and measures adopted or effected by the controlled entity in the interest or upon initiative of related parties, list of considerations and declaration of no detriment**

**A. Relations to the controlling company and entities controlling the controlling company**

**A1. Dalkia Industry CZ, a. s.**

1. Contractual relations  
Agreements on distribution services and electricity supply and on liability insurance, a vehicle lease and a vehicle purchase were executed and delivered on an arm's length basis between Czech-Karbon and Dalkia Industry.
2. Other legal acts and measures  
No other legal acts or measures were adopted or effected between Dalkia Industry and the controlled company, i.e. Czech-Karbon.
3. Considerations and declaration of no detriment  
Consideration was paid in amounts and in a manner corresponding to arm's length relations; invoicing corresponded to the actual expenditure. Czech-Karbon suffered no detriment or loss in this relationship.

**A2. Dalkia Česká republika, a.s.**

1. Contractual relations  
Individual commercial agreements on the purchase and sale of electricity were executed and delivered on an arm's length basis between Czech-Karbon and Dalkia Česká republika.
2. Other legal acts and measures  
No other legal acts or measures were adopted or effected between Česká republika and Czech-Karbon.
3. Considerations and declaration of no detriment  
Consideration was paid in amounts and in a manner corresponding to arm's length relations; invoicing corresponded to the actual expenditure. Czech-Karbon suffered no detriment or loss in this relationship.

**B. Relations with other entities controlled by the controlling company**

**B1. Dalkia Powerline Spółka z ograniczoną odpowiedzialnością**

1. Contractual relations  
Agreements on distribution services and electricity supply were executed and delivered on an arm's length basis between Czech-Karbon and Dalkia Powerline.
2. Other legal acts and measures  
No other legal acts or measures were adopted or effected between Dalkia Powerline and the controlled company, i.e. Czech-Karbon.
3. Considerations and declaration of no detriment  
Consideration was paid in amounts and in a manner corresponding to arm's length relations; invoicing corresponded to the actual expenditure. Czech-Karbon suffered no detriment or loss in this relationship.

**IV. CONCLUSION**

The Company's Managing Director notes that in the period under review the controlled company suffered no detriment or loss in its relations with the controlling entity or in relations between related parties. Furthermore, the Company's Managing Director notes that the Report is complete and disclosure of other information, in particular such as would extend the scope or depth of the disclosures made herein, is subject to trade secrecy under Section 17 of the Commercial Code and non-disclosure under Section 194 of the Commercial Code.

Ostrava, 31 March 2011

  
Ing. Pavel Luňáček  
Managing Director

# 5. AUDITOR'S REPORT







KPMG Česká republika Audit, s.r.o.  
28. října 3117/81  
702 00 Ostrava  
Česká republika

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Internet: www.kpmg.cz

This document is an English translation of the Czech auditor's report.  
Only the Czech version of the report is legally binding.

## Independent Auditor's Report to the Member of CZECH-KARBON s.r.o.

### Financial statements

On the basis of our audit, on 4 February 2011 we issued an auditor's report on the Company's statutory financial statements, which are included in this annual report, and our report was as follows:

"We have audited the accompanying financial statements of CZECH-KARBON s.r.o., which comprise the balance sheet as of 31 December 2010, and the income statement for the year then ended, and the notes to these financial statements including a summary of significant accounting policies and other explanatory notes. Information about the company is set out in Note 1 to these financial statements.

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

The statutory body of CZECH-KARBON s.r.o. is responsible for the preparation of financial statements that give a true and fair view in accordance with Czech accounting legislation and for such internal controls as the statutory body determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

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

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

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

KPMG Česká republika Audit, s.r.o., a Czech limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Obchodní společnost s ručením  
limitovanou se sídlem  
28. října 3117/81,  
702 00 Ostrava, Česká republika  
IČ: 48610181  
DIČ: CZ000001088



### Opinion

In our opinion, the financial statements give a true and fair view of the assets and liabilities of CZECH-KARBON s.r.o. as of 31 December 2010, and of its expenses, revenues and net result for the year then ended in accordance with Czech accounting legislation."

### Report on relations between related parties

We have reviewed the factual accuracy of the information disclosed in the report on relations between related parties of CZECH-KARBON s.r.o. for the year ended 31 December 2010. The responsibility for the preparation and factual accuracy of this report rests with the Company's statutory body. Our responsibility is to express our view on the report on relations based on our review.

We conducted our review in accordance with Auditing Standard No. 56 of the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain limited assurance as to whether the report on relations is free of material misstatement. A review is limited primarily to inquiries of the Company's personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the report on relations and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that would lead us to believe that the report on relations between related parties of CZECH-KARBON s.r.o. for the year ended 31 December 2010 contains material factual misstatements.

### Annual report

We have audited the consistency of the annual report with the audited financial statements. This annual report is the responsibility of the Company's statutory body. Our responsibility is to express our opinion on the consistency of the annual report with the audited financial statements based on our audit.

We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance that the information disclosed in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the audited financial statements. We believe that the audit we have conducted provides a reasonable basis for our audit opinion.

In our opinion, the information disclosed in the annual report is, in all material respects, consistent with the audited financial statements.

Ostrava  
31 March 2011

KPMG Česká republika Audit, s.r.o.  
Licence number 71

Eric Stelfox  
Partner

**TRANSLATION**

Otakar Hora  
Partner  
Licence number 1197



This Annual Report was prepared by the Economic and Administration Department of CZECH-KARBON and the Communication Department of Dalkia Česká republika.

Maquette: Dalkia, Veolia Environnement.

Photographs from the Czech Republic: Dalkia Group's archive in the CR, Christophe Majani d'Inguibert.

Annual Report concept and production: Communication Department of Dalkia Česká republika in cooperation with Agentura API.





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