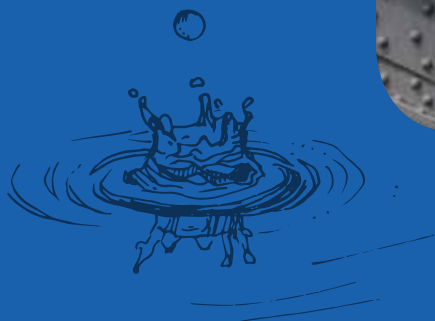




ANNUAL REPORT  
VEOLIA KOMODITY ČR, S.R.O.



2016

#jednaVeolia

## *All life is one*

In Veolia Group, we rely on our awareness that people are part of nature and that the entire ecosystem of our planet is integrated through shared links. By the same token, in their cooperation with each other and their synergies, the Group companies create a single functional whole. We are here for you, whether you need water, energy, or waste management.

**We are #oneVeolia**



**Veolia Komodity ČR, s.r.o.**  
**28. října 3337/7**  
**Moravská Ostrava**  
**702 00 Ostrava**  
**Czech Republic**

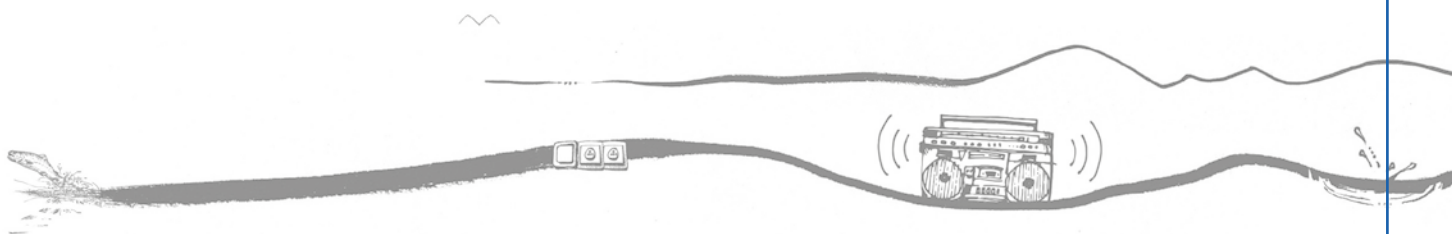
[www.vekom.cz](http://www.vekom.cz)





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# 1. Corporate and General Information about the Company

## 1.1. Basic Information

**Company name:**

Veolia Komodity ČR, s.r.o.

**Registered office:**

28. října 3337/7, Moravská Ostrava, 702 00 Ostrava

**Legal form:**

private limited company

**Company number:**

258 46 159

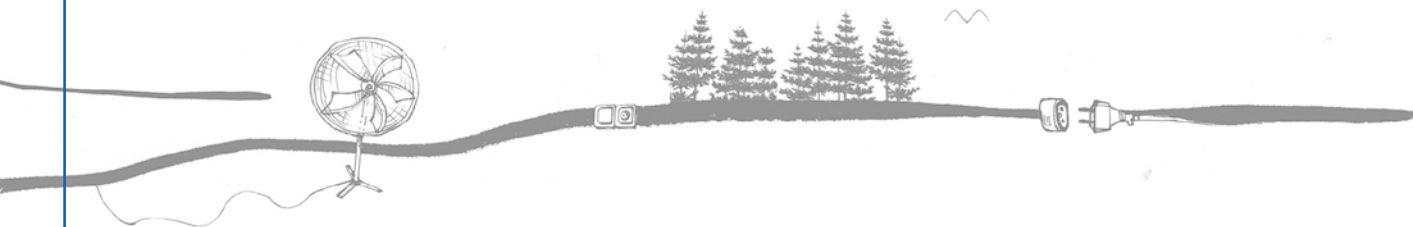
The Company is incorporated in the Companies Register maintained by the Ostrava Regional Court under number C 21431.

**Date incorporated:**

25 October 1999

**Share capital:**

CZK 2,000,000



## 1.2. Company Description

Veolia Komodity ČR, s.r.o. (hereinafter referred to as “Veolia Komodity” or the “Company”) started trading in electricity as CZECH-KARBON s.r.o. on 1 October 2001 in response to the strategic decision by the Board of Directors of KARBON INVEST a.s. The aim was to centralise and streamline electricity trading and electricity purchasing for the Group in the new landscape forming on the liberalised electricity market. On 1 December 2008, NWR Energy, a.s. became the sole member of CZECH-KARBON s.r.o. On 21 June 2010 NWR Energy, a.s. was acquired by Dalkia Česká republika, a.s. (now Veolia Energie ČR, a.s.). Since 2012, Veolia Komodity has been a licensed gas trader. In January 2015, the Company’s sole member, acting in the capacity of the General Meeting, decided to amend the Memorandum of Association and change the Company’s name Dalkia Commodities CZ s.r.o. to the current Veolia Komodity ČR, s.r.o. effective from 1 April 2015. The sole member’s name changed, at the same time, to Veolia Průmyslové služby ČR, a.s. effective from 1 March 2015.

Starting in 2001, Veolia Komodity, 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 an efficient trading company wielding extensive know-how in electricity trading both at home and on the international stage.

With its close-knit team of staff, Veolia Komodity is in a position to handle all areas specific to trading on Czech and international wholesale markets: the provision of international transmission capacities, trading within the energy

systems of neighbouring foreign operators, and sales of electricity and gas to end customers with varying needs and levels of supply.

In 2016, 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 conditions, Veolia Komodity also organised for electricity to be supplied from Poland over a 110 kV transmission line to a dedicated island in the Czech Republic, which is part of the system of mines owned 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 counterparties 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 for trading with Polish partners and cross-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 high-quality prediction system and by the very precise negotiation of its customers’ load profiles.

### KLÍČOVÉ ÚDAJE

Revenue	CZK 2,463,474,000
Employees	8
Electricity supplied	1,7 TWh

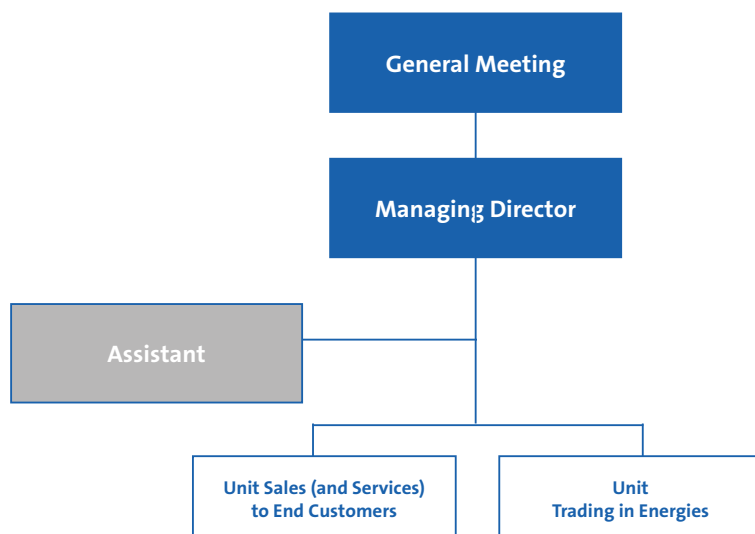




## 1.3. Corporate Governance

**Managing Director:** Pavel Luňáček

## 1.4. Organisational Structure



## 1.5. Other Information

Veolia Komodity has no foreign subsidiaries and no foreign part of the business and does not engage in any research and development. After the balance sheet date, no significant events affecting its results occurred. As at 31 December 2016, the Company did not hold any of its own shares and held no participating interests in other companies.





## 2. Management Report

### 2.1. Foreword

Dear Trading Partners, Ladies and Gentlemen,

I am pleased to present you with this 2016 Annual Report, acquainting you with the results reported by Veolia Komodity for the last year and the plans for 2017.

Last year we supplied 1.7 TWh of electricity to our customers and 0.4 TWh of natural gas, by which, as in previous years, we met the targets for electricity and gas trade and supply. Our customer portfolio encompasses not only major industrial customers, but also those in the transport, education, health and service sectors, and the state administration organisations. Another important activity for us was the purchase of electricity from renewable and secondary sources from independent producers, thanks to which we are able to meet the needs of our customers also in the field of supply with the guarantee of the origin of electricity from renewable sources.

During 2016, the main phase of the implementation of the new information system on electricity and gas trade began, which should be completed in 2017. We expect the new information system to bring about further improvements in the provision of individual services and an increase in the level of customer service.

An important event in 2016 was the extension of cooperation with other Veolia Group companies. This extension did not concern only certain pilot projects in the field of

optimization of electricity and gas trade, which will allow us to offer these new services also to other customers in the future, but also to develop the offer with expert center services, especially in the area of austerity measures.

In the forthcoming year, 2017, we will continue expanding our business operations in the 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 strong Veolia Group, our customers will continue to view us as a sought-after professional partner.

I value highly the confidence placed in us by our trading partners. I thank them for their patronage and look forward to continued flourishing cooperation in the year ahead of us.

I would also like to thank the employees of Veolia Komodity for their professional work.

  
**Ing. Pavel Luňáček**  
Managing Director



## 2.2. Core Values

In its work, the Company relies on core values shared across the Veolia Group: customer focus, innovation, responsibility, respect and solidarity.

### RESPONSIBILITY

Veolia's objective is to take an active part in the shaping of a society committed to sustainable development. It is a key player in the environmental services market and as such it assumes, daily, the responsibility for the meeting of general interests such as, in particular:

- Supporting harmonious development of regions;
- Improving the living conditions of the people affected by its operations, and environmental protection;
- Promoting the business skills of our employees, improving personal safety at work (occupational injury prevention) and creating a sound working environment.

### CUSTOMER FOCUS

Veolia pursues this value by, in particular, striving to continuously improve the efficiency and quality of its services. Veolia promotes transparency and ethical rules as the essential prerequisites for building lasting relationships with its customers. Veolia listens to its customers and provides suitable and innovative solutions that meet their technical, economic and environmental requirements.

### INNOVATION

Research and innovation combine to form the core of the Veolia Group's strategy of developing sustainable solutions and services for the customers, the environment and society at large.

### RESPECT

This value guides the individual conduct of all Veolia Group employees and is expressed by compliance with the law and the Group's internal rules and through the respect shown to others.

### SOLIDARITY

As through its business activity Veolia serves common and shared interests, solidarity is one of its core values in its relationships with all stakeholders. Concretely, this value is expressed by developing solutions which enable the Veolia Group to provide essential services for everyone, which we consider to be one of our major social responsibilities.



# Our Services

## BUSINESS ACTIVITIES

Two basic sections are responsible for Veolia Komodity ČR's business activities:

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

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

In 2016, the Unit for Sales and Services to End Customers arranged for supplies to end customers with a total annual electricity consumption of 1.7 TWh and gas consumption of 0.4 TWh.

We provide full service to end customers on the energy market. We place a major emphasis on supply pricing and on delivering top-quality services. We also provide clients with advice on demand management, the technical conditions for connection and other aspects which ultimately affect the cost of power supply.

### The Unit for Trading in Energies

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

The Trading Unit's principal task is to procure electricity and gas on the wholesale market to meet the needs of the portfolio of end customers. This includes the purchase and optimisation 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 the cost of imbalances on the balancing market.

Besides making purchases on the wholesale market for supplies to end customers, the Unit also trades in electricity and gas 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 and gas markets. International trading includes the booking of the necessary cross-border interconnection capacities.

## INNOVATION

In 2016, innovation continued to focus 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 evaluated the credit rating of our trading partners and customers, hedge foreign exchange risk, and have regularly updated forecasts to reflect developments among end customers.

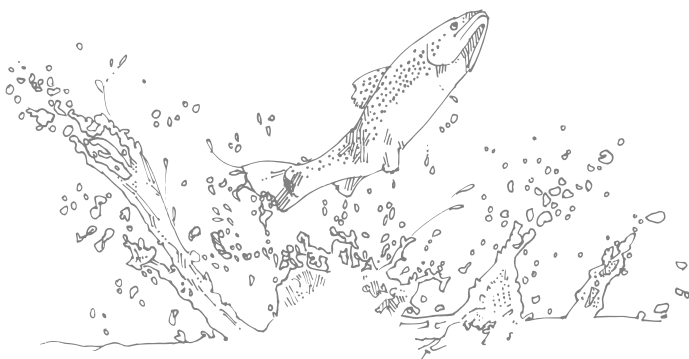
### Achieving maximum customer satisfaction

The quality of customer relationships 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.

## CUSTOMERS

Since 2001, the liberalisation of the electricity market has gradually brought about the need to address the requirements of the different customer segments. As a result, Veolia Komodity has become a supplier for a wide range of customers.

The current portfolio of end customers currently comprises more than 500 customers, whose needs and supply volumes are very diverse. Besides its traditional coal-mining and coke-producing partners, Veolia Komodity also served customers in metallurgy, engineering, the automotive and food industries, state administration, the tertiary sector, the health sector, etc.



**Portfolio of end customers by volume of electricity taken in 2016**

0.4% > 100 GWh

0.6% 50–100 GWh

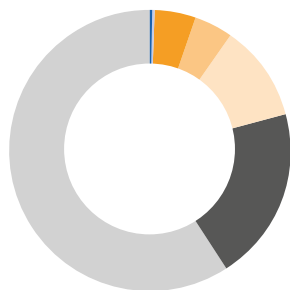
4.4% 5–10 GWh

4.6% 10–50 GWh

11.1% 1–5 GWh

20% 0,1–1 GWh

58.9% 0–0,1 GWh



**Portfolio of end customers by volume of gas taken in 2016**

8% > 100 GWh

38% 1–5 GWh

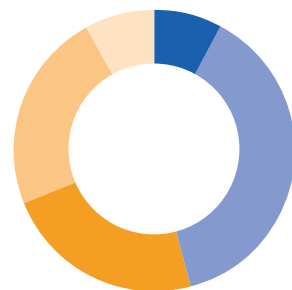
23% 10–50 GWh

23% 0,4–1 GWh

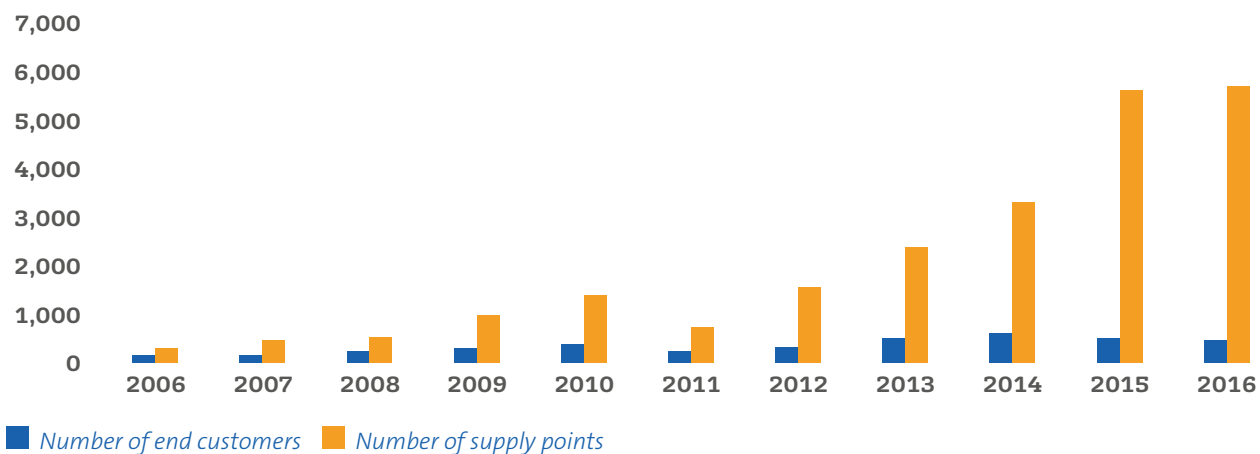
8% 0–0,1 GWh

0% 50–100 GWh

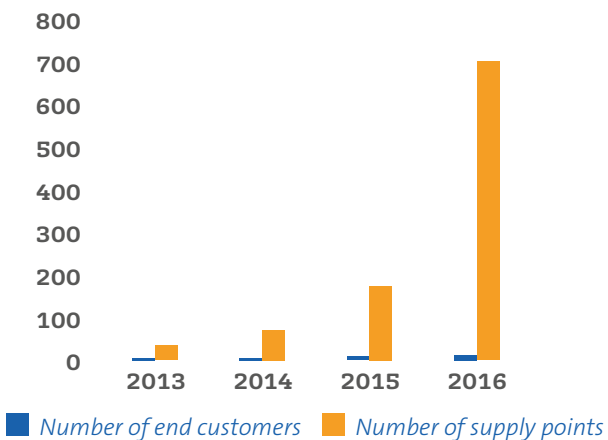
0% 5–10 GWh



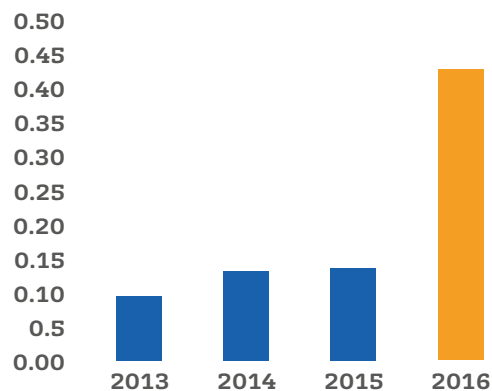
**The growing numbers of electricity deals**



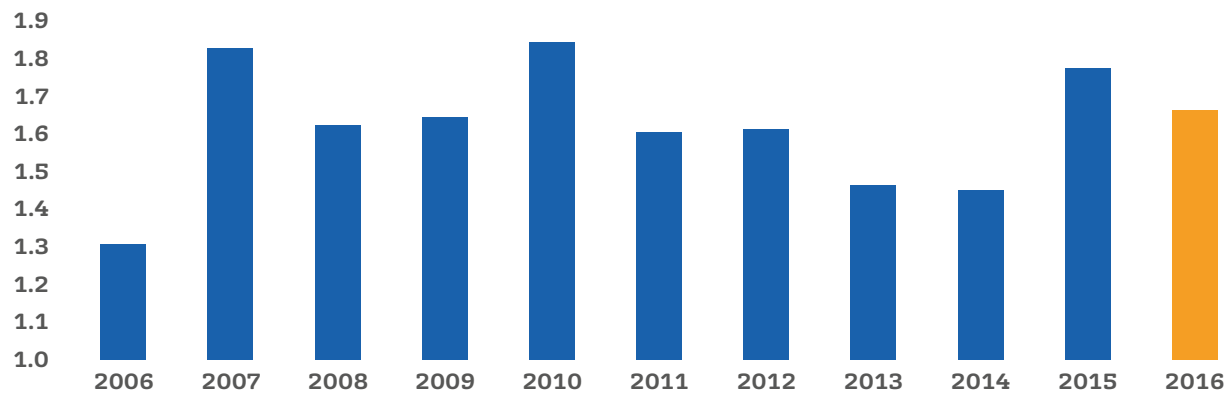
**The growing numbers of gas deals**



**Electricity supply to end customers in TWh**



Gas supply to end customers in TWh



## RESPONSIBILITY

The Sustainable Development Policy approved by Mr Philippe Guitard, Director, Central and Eastern Europe, on 1 July 2016 is the top-level document in Veolia Group's Integrated Management System. The document applies to all Veolia Energie in the Czech Republic Group companies, incorporating not only the mandatory requirements of individual IMS standards, but also the requirements and principles of the senior management, to which we must adhere. These principles define our relationships to customers, the environment, our employees' occupational safety, as well as proper energy management.

In 2016, Veolia Komodity continued to nurture cooperation with independent power producers. This included the purchase of electricity from renewable and secondary sources; it offers these plants participation in the green premium system supporting renewable and secondary sources. In 2016, the Company purchased 278.4 GWh from renewable and secondary sources.

### Human Resources

During the year 2016, the Company employed an average 8 employees, whose average age was 38.9. All employees have university degrees.

## SOLIDARITY

### The Company contributes to the Veolia Foundation and the Veolia Energie Humain ČR Foundation.

2016 was the fourteenth year in which the Veolia Foundation pursued its mission expressed by its slogan "Caring for the Environment and Community".

Besides the traditional program to support the creation of new jobs supporting starting and small entrepreneurs, the popular program MiNiGRANTY VEOLIA for volunteer activities of our employees has continued. The new grant program was presented in its second year to support the quality of life of seniors in the community environment Keep Smiling and other traditional programs of the Veolia Foundation have not stopped either - Water for Africa, The Trout Way and Clean Up the World!

**The Veolia Energie Humain ČR Foundation** was formed in 2005 by Veolia Energie ČR, a.s. with a view to assisting current and former employees who find themselves in difficult situations.

**The general purpose of this Foundation is specifically pursued by providing assistance:**

- to employees and their family members in difficult personal circumstances,
- in care for physically or mentally disabled children,
- upon childbirth.



### 3. Financial Statements for the Year Ended 31 December 2016

**Veolia Komodity ČR, s.r.o.**

#### **Non-consolidated income statement**

**For the year ended 31 December**

*In thousands of CZK*

	<b>Note</b>	<b>2016</b>	<b>2015</b>
Revenue	6	2,463,474	2,496,609
Cost of sales	7	(2,466,891)	(2,455,436)
<b>Gross profit / (loss)</b>		(3,417)	41,173
Administrative expenses	8	(4,337)	(4,265)
<b>Result from operating activities</b>		(7,754)	36,908
Finance income	9	1,608	7,207
Finance costs	9	(5,151)	(10,551)
<b>Profit / (loss) before income tax</b>		(11,297)	33,564
Income tax expense	10	2,052	(6,477)
<b>Profit / (loss) for the period</b>		<b>(9,245)</b>	<b>27,087</b>

The notes are an integral part of the financial statements.



**Non-consolidated statement of comprehensive income**

**For the year ended 31 December**

*In thousands of CZK*

	<b>2016</b>	<b>2015</b>
<b>Profit / (loss) for the period</b>	(9,245)	27,087
Changes in fair value of cash flow hedge (may be reclassified to profit or loss) *	(15,058)	(68,394)
<b>Other comprehensive income after taxation</b>	<b>(15,058)</b>	<b>(68,394)</b>
<b>Total comprehensive income for the period</b>	<b>(24,303)</b>	<b>(41,307)</b>

\* Taxation is described in Note  
10.

The notes are an integral part of the financial statements.

**Non-consolidated statement of financial position**

**As at 31 December**

*In thousands of CZK*

	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Assets</b>			
Other financial investments	12	27,181	27,396
Deferred tax assets	13	4,627	--
<b>Total non-current assets</b>		<b>31,808</b>	<b>27,396</b>
Trade and other receivables	15	767,109	628,741
Current tax assets	14	6,255	2,584
Derivatives	12	--	14,996
Cash and cash equivalents	16	103,763	79,248
<b>Total current assets</b>		<b>877,127</b>	<b>725,569</b>
<b>Total assets</b>		<b>908,935</b>	<b>752,965</b>
<b>Equity</b>			
Share capital		2,000	2,000
Reserves and other capital funds		(8,565)	6,493
Retained earnings		192,969	229,301
<b>Total equity</b>		<b>186,404</b>	<b>237,794</b>
<b>Liabilities</b>			
Derivatives	12	911	6,980
Deferred tax liabilities	13	--	1,415
<b>Total non-current liabilities</b>		<b>911</b>	<b>8,395</b>
Trade and other payables	19	698,365	506,361
Provisions	18	13,592	415
Derivatives	12	9,663	--
<b>Total current liabilities</b>		<b>721,620</b>	<b>506,776</b>
<b>Total liabilities</b>		<b>722,531</b>	<b>515,171</b>
<b>Total equity and liabilities</b>		<b>908,935</b>	<b>752,965</b>

The notes are an integral part of the financial statements.

Director:

Pavel Luňáček  
Date: 13 April 2017



**Non-consolidated statement of changes in equity**

<i>In thousands of CZK</i>	<b>Share capital</b>	<b>Statutory reserves</b>	<b>Other capital funds</b>	<b>Cash flow hedges</b>	<b>Retained earnings</b>	<b>Total</b>
<b>Balance at 31 December 2014</b>	<b>2,000</b>	<b>--</b>	<b>--</b>	<b>74,887</b>	<b>238,096</b>	<b>314,983</b>
Profit for the period	--	--	--	--	27,087	27,087
<b>Other comprehensive income</b>						
Changes in fair value of cash flow hedges	--	--	--	(68,394)	--	(68,394)
Total other comprehensive income	--	--	--	(68,394)	--	(68,394)
<b>Total comprehensive income for the period</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(68,394)</b>	<b>27,087</b>	<b>(41,307)</b>
<b>Transactions with owners, recorded directly in equity</b>						
Share of profit paid to members	--	--	--	--	(35,882)	(35,882)
Contribution to other capital funds	--	--	--	--	--	--
<b>Balance at 31 December 2015</b>	<b>2,000</b>	<b>--</b>	<b>--</b>	<b>6,493</b>	<b>229,301</b>	<b>237,794</b>
Profit for the period	--	--	--	--	(9,245)	(9,245)
<b>Other comprehensive income</b>						
Changes in fair value of cash flow hedges	--	--	--	(15,058)	--	(15,058)
Employee benefits – actuarial gains (losses)	--	--	--	--	--	--
Total other comprehensive income	--	--	--	(15,058)	--	(15,058)
<b>Total comprehensive income for the period</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(15,058)</b>	<b>(9,245)</b>	<b>(24,303)</b>
<b>Transactions with owners, recorded directly in equity</b>						
Dividends attributable to shareholders	--	--	--	--	(27,087)	(27,087)
<b>Balance at 31 December 2016</b>	<b>2,000</b>	<b>--</b>	<b>--</b>	<b>(8,565)</b>	<b>192,969</b>	<b>186,404</b>

The notes are an integral part of the financial statements.

**Non-consolidated statement of cash flows**

**For the year ended 31 December**

*In thousands of CZK*

	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b><i>Cash flow from operating activities</i></b>			
Profit before income tax for the period		(11,297)	33,564
Gain / (loss) on sale of property, plant and equipment		(25)	--
Change in provisions		13,177	--
Net interest income and expense	9	945	966
Unrealised exchange rate gains and losses		(222)	923
<b><i>Cash flow from operating activities</i></b>		<b>2,578</b>	<b>35,453</b>
Change in receivables		(139,538)	(155,762)
Change in current liabilities		193,437	174,928
Income tax paid and tax assessments for previous periods		(4,129)	2,433
<b>Net cash flow from operating activities</b>		<b>52,348</b>	<b>57,052</b>
<b><i>Cash flows from investing activities</i></b>			
Change in receivables and other financial assets		215	--
Proceeds from the sale of property, plant and equipment		25	--
<b>Net cash flow from (used in) investing activities</b>		<b>240</b>	<b>--</b>
<b><i>Free operating cash and cash equivalents</i></b>		<b>52,588</b>	<b>57,052</b>
<b><i>Cash flow from financing activities</i></b>			
Interest received		--	--
Interest paid		(986)	(966)
Paid shares of profit		(27,087)	(35,882)
<b>Net cash flow from (used in) financing activities</b>		<b>(28,073)</b>	<b>(36,848)</b>
Net increase (decrease) in cash and cash equivalents		24,515	20,204
Cash and cash equivalents at 1 January		79,248	59,044
<b>Cash and cash equivalents at 31 December</b>	16	<b>103,763</b>	<b>79,248</b>

The notes are an integral part of the financial statements.

**1. General information**

Veolia Komodity ČR, s.r.o. ("the Company") is registered in the Czech Republic.

The registered office of the Company is at 28. října 3337/7, Moravská Ostrava, postcode 702 00, Company No. 258 46 159.

The Company's core business includes trading in electricity, trading in gas, and manufacturing, trade and services not listed in Appendices 1 to 3 to the Trade Licensing Act.

The sole shareholder of Veolia Komodity ČR, s.r.o. is Veolia Průmyslové služby ČR, a.s., having its registered office at Zelená 2061/88a, Ostrava – Mariánské Hory, postcode 709 74.

In 2016, the member did not change and no other changes subject to entry in the Companies Register took place.

**2. Basis of preparation**

**a) Statement of compliance**

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the EU and the Act on Accounting and relevant legislation of the Czech Republic in force as at 31 December 2016. The Board of Directors of Veolia Průmyslové služby ČR, a.s. as the governing body of the sole member of Veolia Komodity ČR, s.r.o. decided, in exercising the powers of the General Meeting, that as of 1 January 2013 Veolia Komodity ČR, s.r.o. will adopt International Accounting Standards for accounting and for the preparation of its financial statements pursuant to Section 19a(7) of Act No 563/1991 on Accounting.

The financial statements have been prepared on the basis of a going concern.

The Company's Director approved the financial statements on 13 April 2017.

**b) Basis of preparation**

The financial statements are presented in Czech crowns, as the functional currency, rounded to the nearest thousand. The financial statements have been prepared on the historical cost basis, except for the derivative financial instruments measured at fair value.

The method of measuring fair value is described in Note 4.

**c) Use of estimates and judgements**

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses as at the date of the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period and in any future periods affected.

**d) *Changes in accounting policies / new IFRS standards and interpretations of IFRIC***

*(i) Standards not applied*

A number of new standards, amendments to standards and interpretations are effective for the accounting period beginning on 1 January 2016, and have not been applied in preparing these non-consolidated financial statements. None of these is expected to have significant effect on the Company's non-consolidated financial statements. Those that may be relevant for the Company are listed below.

IFRS 9 Financial Instruments, issued in July 2014, will replace the current requirements in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidelines for the classification and measurement of financial instruments, including a new forward-looking expected loss impairment model, and a substantially reformed approach to hedge accounting. It also provides guidance for recognising and derecognising financial instruments from IAS 39. IFRS 9 is effective for annual periods beginning on 1 January 2018; however, the Standard is available for earlier application. The Company evaluates the potential impacts of IFRS 9 application on its accounting.

IFRS 15 Revenue from Contracts with Customers creates a comprehensive framework specifying how and when revenue is recognised and in what amount. This will replace the current guidelines for revenue recognition, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 applies to annual reporting periods beginning on or after 1 January 2018; the Standard is available for earlier application.

The Company evaluates the potential impacts of IFRS 15 application on its accounting.

IFRS 16 Leases, issued in January 2016, specifies rules for leases. It will replace existing IAS 17, IFRIC 4 and SIC-15. IFRS 16 sets out new principles for the recognition, measurement, presentation and disclosure of leases. This standard will only be effective from 1 January 2019; it is available for earlier application, but only if the Company also applies IFRS 15.

The Company evaluates the potential impacts of IFRS 16 application on its accounting.

The following amended standards are not expected to have a significant impact on the Company's non-consolidated financial statements.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

IAS 7 New requirements for disclosing liabilities from financing activities

*(ii) Applied standards*

The following new or amended standards, applicable as of 1 January 2016, did not have a significant impact on the Company's non-consolidated financial statements.

IFRS 14 Regulatory Deferral Accounts

Amendment to IAS 1 Presentation of Financial Statements

Amendment to IFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations

Amendment to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation

Amendment to IAS 27 Separate Financial Statements – Equity Method in Separate Financial Statements

**3. Accounting policies**

The accounting policies described below have been applied consistently in all the accounting periods reported in these financial statements.



**a) Foreign currency**

*Foreign currency transactions*

At the beginning of each month, the Company sets a fixed exchange rate based on the Czech National Bank official rate for the first day of the month, which is applied to transactions recorded during that month. At the date of the statement of financial position, foreign currency monetary assets and liabilities are translated at the Czech National Bank official rates for that date. Foreign exchange differences arising on translation of foreign currency monetary assets and liabilities are recognised in profit and loss.

**b) Financial instruments**

*(i) Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in subsidiaries and associated companies, investments held for trading, trade and other receivables, cash and cash equivalents, loans and borrowings, trade and other payables.

Cash and cash equivalents presented in the statement of cash flows include cash, bank deposits and cash in the cash pool. Based on contractual terms and conditions, cash pooling receivables are reported in cash and cash equivalents in the statement of financial position, whereas cash pooling payables are shown in loans and borrowings. For the purpose of the statement of cash flows both cash pool receivables and cash pool payables are presented as cash.

Cash and cash equivalents are stated at nominal value.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement receivables are subsequently carried at their amortised cost less any allowance for impairment (see Note 3 e).

Other non-derivative financial instruments are initially stated at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. If their fair value cannot be reliably determined, the acquisition cost is used. Subsequent to initial recognition, they are measured at cost less any impairment losses (see Note 3 e), or through provisions, depending on the type of financial instrument.

*(ii) Derivative financial instruments*

The Company holds foreign currency contracts to hedge its foreign currency risk exposure.

Derivatives are initially recognised at fair value; attributable transaction costs are recognised in the income statement when incurred. Following initial recognition, derivatives are measured at fair value, and changes therein are then charged to costs or revenues.

*Cash flow hedging*

Changes in the fair value of derivative hedging instruments designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in the fair value of the derivative are recognised in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, or if it expires or is sold, terminated or exercised, then hedge accounting is discontinued as expected. The cumulative gain or loss previously recognised in equity remains there until the anticipated transaction takes place, and then is charged to costs or revenues.

When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the book value of the asset when the asset is recognised. In other cases the amount recognised in equity is transferred to costs or revenues in the same period that the hedged item affects costs or revenues.

*Other derivatives*

When a derivative financial instrument is not held for trading and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised in profit or loss.

*(iii) Equity*

The share capital comprises fully paid-up member's contributions. Profit distributions are recognised as liabilities in the period in which they are declared.

**c) *Tangible assets***

*(i) Owned assets*

Vehicles are stated at cost less accumulated depreciation (see below) and impairment losses (see Note 3 e). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

*(ii) Depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each item of property, plant and equipment. The estimated useful lives are as follows:

Vehicles	4 years
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**d) *Intangible assets***

Intangible assets acquired by the Company are stated at cost less accumulated amortisation (see below) and impairment losses (see Note 3 e). Purchased software that is integral to the functioning of equipment is capitalised as a part of the equipment.

*Amortisation*

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date the assets are available for use. The estimated useful lives are as follows:

Software	4–5 years
Other	4–5 years

**e) *Impairment***

*(i) Financial assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of financial assets measured at amortised cost using the effective interest rate method is calculated as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that show similar credit risk characteristics. All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. The reversal of an impairment loss is recognised in profit or loss.

*(ii) Non-financial assets*

The carrying amounts of non-financial assets other than deferred tax assets (see Note 3 i) are reviewed at each date of the statement of financial position to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely

independent from other assets and groups. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses recognised in respect of cash-generating units reduce the carrying amount of assets on a pro rata basis.

*Calculation of recoverable amount*

The recoverable amount of an asset or cash-generating unit is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

**f) Provisions**

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic resources will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

A provision for litigation is recognised as soon as it is probable that settlement of legal claims against the Company will result in an outflow of economic resources.

**g) Revenue**

*Sale of gas, electricity and goods*

Revenues from the sale of gas, electricity and goods are recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer.

**h) Expenses**

*(i) Operating lease payments*

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

*(ii) Finance income and expenses*

Finance income and expenses comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, income from dividends and unwinding of the discount on provisions.

**i) Income tax**

Income tax comprises current and deferred tax. Income tax charge is recognised in profit or loss except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates applicable at the first date of the reporting period and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, using the tax rate expected to be valid in the period when the tax asset or liability is expected to be realised.

At the date of the statement of financial position the Company reviews the carrying value of the deferred tax asset. A deferred tax asset is recognised only to the extent that it is probable that such tax asset will be utilised in future periods.

The establishment of deferred tax represents tax consequences subject to the method which the Company expects to use at the end of the reported period to realise or settle the book value of its assets and liabilities. It is assumed for investment property measured at fair value that the book value of the investment property is always realised by sale unless such assumption can be disconfirmed.

**4. Fair value**

Some accounting policies applied by the Company require a fair value to be determined for financial and non-financial assets and liabilities. Fair values are determined either by measurement or using the methods described below.

*(i) Trade and other receivables*

The fair value of trade and other receivables is determined as the present value of future cash flows discounted at the market interest rate as at the date of the statement of financial position.

*(ii) Derivatives*

The fair value of forward contracts for emission allowances and certificates and forward contracts hedging the foreign exchange risk is determined as the discounted difference between the contractual value and the market forward price.

*(iii) Non-derivative financial liabilities*

Fair value for the purpose of reporting in the notes is calculated as the present value of future payments of the face value and interest, discounted at the market interest rate as at the date of the statement of financial position.

**5. Financial risk management**

The Company has exposure to the following risks:

- credit risk,
- liquidity risk,
- market risk,
- operating risk.

The Director has overall responsibility for the establishment and oversight of the Company's risk management framework. The Director reviews and approves the risk management policies described below. Risk is managed internally in cooperation with the parent company.

The Financial Department of the parent company primarily monitors the process of preparing the non-consolidated financial statements, and assesses the effectiveness of internal controls, internal audit and the risk management systems, where applicable.

***Credit risk***

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

*Trade and other receivables*

The exposure to credit risk is influenced mainly by the individual characteristics of each customer, and the Company endeavours to manage and limit this risk. The Company has established a credit policy under which each major customer is analysed individually for creditworthiness before the standard payment and delivery terms and conditions are offered. The review includes external ratings when available, and in some cases references obtained from a specialised firm. Credit limits are established for each customer. Customer analysis and monitoring of observance of the credit limits is carried out by the Collections Department. Customers that fail to keep within the credit limit may have their deliveries suspended, subject to case-by-case assessment. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, their industry and payment history. Deliveries are made on a prepayment basis, with advances reviewed on a continuous

**NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016**

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basis. Customers that are graded as “high risk” are monitored separately, and sometimes a payment schedule is offered to secure debt recovery. Credit risk related to receivables is covered by provisions that are established on an individual basis for receivables with a specific risk of loss, and on a portfolio basis for groups of receivables with similar risks.

As at 31 December 2016, the Company holds cash and cash equivalents in the amount of CZK 103,763,000 (2015: CZK 79,248,000). Cash and cash equivalents are deposited with banks with high ratings.

*Guarantees*

The Company provides guarantees in the form of long-term deposits, i.e. margin deposits and security deposits with suppliers to financially secure deals in electricity, gas and capacity reservation. Otherwise, it provided financial guarantees only on an exceptional basis, where required for the purpose of a tender procedure or where the law provides so. As at 31 December 2016, provided guarantees (in the form of long-term advance payments) of CZK 27,181,000 (2015: CZK 27,396,000) and bank guarantees of CZK 219,010,000 (2015: CZK 45,530,000) were outstanding.

***Liquidity risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company’s approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, not risking damage to its reputation.

The Company uses activity-based costing to cost its products and services, which assists it in monitoring cash flow requirements and optimising its cash return on investments. The Company ensures that it has sufficient cash on demand to meet expected operational expenses through participation in cash pooling within the Veolia Group. Within the cash pooling, the Company may draw a cash loan of up to CZK 500 million. By this approach, the Company limits the possible impacts of unforeseeable events.

***Market risk***

Market risk is the risk that changes in market prices, foreign exchange rates, interest rates, equity prices or prices of emission allowances will affect the Company’s income or the value of financial instruments in its possession.

*Currency risk*

The Company is exposed to significant currency risk in the area of sales and borrowings, as the major portion of these are denominated in foreign currency. For commodity payments in foreign currencies (EUR, PLN) the Company concludes forward contracts to hedge the foreign exchange risk.

*Interest rate risk*

The Company partly covers its exposure to movement in interest rates by obtaining financing mainly from its parent company. This financing is exposed to market risk from movements in interest rates.

***Operating risk***

The Company manages risk with a view to avoiding financial losses and damage.

*Insurance of risks*

The Company has concluded insurance arrangements (e.g. property insurance, third party liability insurance) for its major assets to cover the risks of significant losses.

*Capital management*

The Director manages the Company’s capital structure in compliance with the investor’s requirements, focusing on appropriate indebtedness and dividend policy monitoring.

**NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016**

The Company's debt to equity at the end of the accounting period was as follows:

<i>In thousands of CZK</i>	<b>2016</b>	<b>2015</b>
Total liabilities	722,531	515,171
Cash and cash equivalents	(103,763)	(79,248)
Net debt	618,768	435,923
Total equity	186,404	237,794
Cash flow from hedges	8,565	(6,493)
Adjusted equity	194,969	231,301
Debt to adjusted equity	3.17	1.88

**6. Revenue**

<i>In thousands of CZK</i>	<b>2016</b>	<b>2015</b>
Revenues from sale and re-sale of electricity and ancillary services	2,177,718	2,394,773
Revenues from the sale of gas	285,756	101,836
Total	2,463,474	2,496,609

Revenues from gas sales increased in 2016, mainly due to the larger quantity sold; on the other hand, revenues from the sale and re-sale of electricity decreased due to price changes.

**7. Cost of sales**

<i>In thousands of CZK</i>	<b>2016</b>	<b>2015</b>
Personnel expenses	(7,455)	(6,911)
Costs of goods sold excluding electricity	(279,664)	(106,665)
Cost of purchased electricity	(2,195,995)	(2,411,351)
Consumption of raw materials, energy and services	44,337	69,738
Change in provisions	(28,114)	(247)
Total	(2,466,891)	(2,455,436)

The increase in the cost of sold goods excluding electricity (gas) is due to the growth in the quantities sold compared with 2015; on the other hand, the decrease in the cost of electricity bought is mainly due to the drop in its price.



**NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016**

**8. Administrative expenses**

<i>In thousands of CZK</i>	<b>2016</b>	<b>2015</b>
Management costs	(3,719)	(3,588)
Cost of raw materials, services and other expenses	(618)	(677)
<b>Total</b>	<b>(4,337)</b>	<b>(4,265)</b>

**9. Finance income and expenses**

<i>In thousands of CZK</i>	<b>2016</b>	<b>2015</b>
Interest income	37	127
Foreign exchange gain	1,571	7,080
<b>Total finance income</b>	<b>1,608</b>	<b>7,207</b>
Interest expense	(982)	(1,093)
Foreign exchange loss	(3,022)	(8,410)
Other finance expenses	(1,147)	(1,048)
<b>Total finance expenses</b>	<b>(5,151)</b>	<b>(10,551)</b>

**10. Income tax**

***Recognised in the income statement***

<i>In thousands of CZK</i>		
<b>Current tax</b>	<b>2016</b>	<b>2015</b>
Current year	(529)	(6,301)
Adjustment for prior periods	71	(180)
	<b>(458)</b>	<b>(6,481)</b>
<b>Deferred tax</b>		
Effect of the change in temporary differences and the lower tax rate	2,510	4
<b>Total income tax expense in income statement</b>	<b>2,052</b>	<b>(6,477)</b>

**NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016**

***Reconciliation of effective tax rate***

*In thousands of CZK*

	<b>2016</b>	<b>2015</b>
Profit before tax	(11,297)	33,564
Income tax calculated using the domestic corporate income tax rate	2,146	(6,377)
Effect of non-deductible expenses	(2,675)	(141)
Effect of tax exempt income	--	217
Adjustment for prior periods	71	(180)
Tax payable	(458)	(6,481)
Deferred tax	2,510	4
Total income tax expense in income statement	2,052	(6,477)

An income tax overpayment of CZK 6,218,000 is reported as the Current tax assets (2015: CZK 2,584,000) and represents income tax advances paid in an amount of CZK 6,747,000 (2015: CZK 8,885,000) less the corporate income tax estimate of CZK 529,000 (2015: CZK 6,301,000).

Deferred tax is based on all temporary differences between the carrying and tax value of assets and liabilities, and other temporary differences (tax losses carried forward, if any), multiplied by the tax rate expected to be valid for the period in which the tax asset/liability will be utilised.

Impact of other comprehensive income items on deferred tax:

Changes in fair value of cash flow hedges: CZK (18,590,000) before taxation (2015: CZK (84,437,000)); tax CZK 3,532,000 (2015: CZK 16,043,000); CZK (15,058,000) after taxation (2015: CZK (68,394,000)).

**NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016**

**11. Intangible assets**

*In thousands of CZK*

<b>Acquisition cost</b>	<b>Software</b>	<b>Other</b>	<b>Total</b>
Balance at 1 January 2015	--	41,905	41,905
Additions/transfers	--	--	--
Disposals	--	--	--
Balance at 31 December 2015	--	41,905	41,905
Balance at 1 January 2016	--	41,905	41,905
Additions/transfers	--	--	--
Disposals	--	--	--
Balance at 31 December 2016	--	41,905	41,905
<b>Amortisation</b>	<b>Software</b>	<b>Other</b>	<b>Total</b>
Balance at 1 January 2015	--	41,905	41,905
Current year amortisation	--	--	--
Disposals	--	--	--
Balance at 31 December 2015	--	41,905	41,905
Balance at 1 January 2016	--	41,905	41,905
Current year amortisation	--	--	--
Disposals	--	--	--
Balance at 31 December 2016	--	41,905	41,905
<b>Carrying amount</b>	<b>Software</b>	<b>Other</b>	<b>Total</b>
At 1 January 2015	--	--	--
At 31 December 2015	--	--	--
At 31 December 2016	--	--	--

**12. Other financial investments including derivatives**

*In thousands of CZK*

<b>Long-term financial investments including derivatives</b>	<b>2016</b>	<b>2015</b>
Financial derivatives	(911)	(6,980)
Other financial investments	27,181	27,396

Other financial investments include primarily long-term collateral deposited with OTE.

<b>Short-term financial investments including derivatives</b>	<b>2016</b>	<b>2015</b>
Financial derivatives	(9,663)	14,996

**NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016**

Financial derivatives represent the fair value of forward contracts to secure the foreign exchange risk of CZK (10,574,000) and are recorded as current and non-current liabilities (2015: derivatives amounting to CZK 8,016,000 were recorded as current and non-current liabilities).

**13. Deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

<i>In thousands of CZK</i>	<b>Assets</b>		<b>Liabilities</b>		<b>Difference</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Receivables	21	14	--	--	21	14
Derivatives	2,009	--	--	--	2,009	--
Provisions	2,583	79	--	--	2,583	79
Other items	14	15	--	(1,523)	14	(1,508)
Deferred tax assets / (liabilities)	4,627	108	--	(1,523)	4,627	(1,415)

**Movement in deferred tax assets and liabilities during the accounting period**

<i>In thousands of CZK</i>	<b>Balance at 1 January 2016</b>	<b>Recognised in income</b>	<b>Recognised in equity</b>	<b>Balance at 31 December 2016</b>
Receivables	14	7	--	21
Derivatives	(1,523)	--	3,532	2,009
Provisions	79	2,504	--	2,583
Other items	15	(1)	--	14
Total	(1,415)	2,510	3,532	4,627

<i>In thousands of CZK</i>	<b>Balance at 1 January 2015</b>	<b>Recognised in income</b>	<b>Recognised in equity</b>	<b>Balance at 31 December 2015</b>
Receivables	59	(45)	--	14
Derivatives	(17,566)	--	16,043	(1,523)
Provisions	--	79	--	79
Other items	45	(30)	--	15
Total	(17,462)	4	16,043	(1,415)

**NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016**

**14. Current tax assets**

*In thousands of CZK*

	<b>2016</b>	<b>2015</b>
Income tax	6,255	2,584
<b>Total</b>	<b>6,255</b>	<b>2,584</b>

**15. Trade and other receivables**

*In thousands of CZK*

	<b>2016</b>	<b>2015</b>
Trade receivables due from related parties (see Note 29)	267,839	165,442
Trade receivables due from third parties	491,263	416,716
Other receivables	8,007	46,583
<b>Total</b>	<b>767,109</b>	<b>628,741</b>

At 31 December 2016 trade receivables are shown net of provisions for doubtful debts of CZK 16,041,000 (2015: CZK 1,105,000) arising from the likely impairment of receivables from the individual debtors. Most of the provisions cover receivables from debtors in insolvency proceedings.

In 2015, other receivables included a value added tax asset of CZK 38,389,000; in 2016, a value added tax liability of CZK 1,681,000 was recorded as other payables (see Note 19).

**16. Cash and cash equivalents**

*In thousands of CZK*

	<b>2016</b>	<b>2015</b>
Current bank accounts	55,437	68,016
Cash in hand	24	19
<b>Total cash</b>	<b>55,461</b>	<b>68,035</b>
Cash pooling with parent – receivable	48,302	11,213
<b>Cash and cash equivalents</b>	<b>103,763</b>	<b>79,248</b>
Cash pooling payables	--	--
<b>Total cash in compliance with statement of cash flows</b>	<b>103,763</b>	<b>79,248</b>

The Company is involved in a cash pool within the Veolia in the Czech Republic Group. As at 31 December 2016, the receivable from the cash pool within the Group is CZK 48,299,000 (2015: a receivable of CZK 11,213,000) and interest.

**NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016**

**17. Capital and reserves**

*Reconciliation of movement in capital and reserves*

The share capital as at 31 December 2016 is comprised of the member's contribution of CZK 2,000,000 (2015: CZK 2,000,000), which is fully paid-up.

*Reserves and other capital funds*

As at 31 December 2016, reserves and other capital funds are comprised of the re-measurement of hedging derivatives of CZK (8,565,000) (2015: CZK 6,493,000).

*Dividends*

In the profit distribution decision, the Company announced and paid out total dividends of CZK 27,087,000 (2015: CZK 35,882,000).

**18. Provisions**

*In thousands of CZK*

	<b>Other provisions</b>	<b>Total</b>
Balance at 1 January 2016	415	415
Provisions created during the year	14,520	14,520
Provisions used during the year	(1,343)	(1,343)
Provisions unused during the year	--	--
Unwinding of discount	--	--
Balance at 31 December 2016	13,592	13,592
Non-current	--	--
Current	13,592	13,592

In 2016, provisions for bonuses for certain employees were created. Since 2015, this annual bonus has been an unguaranteed part (to which no entitlement exists) of wages. Furthermore, provisions of CZK 13,100,000 (2015: CZK 0) were created for other risks arising from forward contracts.

**19. Trade and other payables**

*In thousands of CZK*

	<b>2016</b>	<b>2015</b>
Trade payables to related parties (see Note 24)	215,355	130,309
Trade payables to third parties	450,845	368,971
Other payables	32,165	7,081
Total	698,365	506,361

In 2016, other payables included an environmental tax liability of CZK 1,345,000 (2015: 1,290,000) and a value added tax liability of CZK 1,681,000 (2015: an asset of CZK 38,389,000).



**NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016**

**20. Financial instruments**

***Credit risk***

Maximum exposure to credit risk as at the date of the statement of financial position was:

<i>In thousands of CZK</i>	<b>Note</b>	<b>Carrying amount 2016</b>	<b>Carrying amount 2015</b>
Trade and other receivables	15	767,109	628,741
Cash and cash equivalents	16	103,763	79,248
<b>Total</b>		<b>870,872</b>	<b>707,989</b>

***Impairment losses***

Fair value of trade, short-term tax and other receivables as at the date of the statement of financial position was:

<i>In thousands of CZK</i>	<b>Nominal value 2016</b>	<b>Impairment 2016</b>	<b>Nominal value 2015</b>	<b>Impairment 2015</b>
Not yet due	755,997	--	618,042	--
0–90 days overdue	8,480	--	9,256	--
90–180 days overdue	1,651	--	43	--
181–360 days overdue	15,088	(14,107)	11	(3)
More than 1 year overdue	1,934	(1,934)	1,102	(1,102)
<b>Total</b>	<b>783,150</b>	<b>(16,041)</b>	<b>628,454</b>	<b>(1,105)</b>

Movement in impairment provisions in respect of trade receivables in the course of the year was:

<i>In thousands of CZK</i>	<b>2016</b>	<b>2015</b>
Balance at 1 January	(1,105)	(1,273)
Use, release and establishment	(14,936)	168
<b>Balance at 31 December</b>	<b>(16,041)</b>	<b>(1,105)</b>

***Liquidity risk***

The following are payments of liabilities by the contractual maturities of financial liabilities, including estimated interest payments:

**At 31 December 2016**

<i>In thousands of CZK</i>	<b>Book value</b>	<b>Contractual cash flow</b>	<b>Within 6 months</b>	<b>6–12 months</b>	<b>1–2 years</b>	<b>2–5 years</b>	<b>More than 5 years</b>
Trade, tax and other payables	698,365	698,365	698,365	--	--	--	--
<b>Total</b>	<b>698,365</b>	<b>698,365</b>	<b>698,365</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>

**NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016**

**At 31 December 2015**

<i>In thousands of CZK</i>	<b>Book value</b>	<b>Contractual cash flow</b>	<b>Within 6 months</b>	<b>6–12 months</b>	<b>1–2 years</b>	<b>2–5 years</b>	<b>More than 5 years</b>
Trade, tax and other payables	506,361	506,361	506,361	--	--	--	--
<b>Total</b>	<b>506,361</b>	<b>506,361</b>	<b>506,361</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>

**Currency risk**

To hedge purchases and sales of electricity in foreign currency (EUR, PLN) forward contracts have been concluded within the Veolia Group.

**Interest rate risk**

As at 31 December 2015 or 31 December 2016, the Company does not have any interest-bearing financial instruments.

**Fair values**

<i>In thousands of CZK</i>	<b>Note</b>	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
		<b>2016</b>	<b>2016</b>	<b>2015</b>	<b>2015</b>
Trade and other receivables	15	767,109	767,109	628,741	628,741
Tax assets	14	6,255	6,255	2,584	2,584
Cash and cash equivalents	16	55,461	55,461	68,035	68,035
Cash pool	16	48,302	48,302	11,213	11,213
Trade, tax and other payables	19	(698,365)	(698,365)	(506,361)	(506,361)
<b>Total</b>		<b>178,762</b>	<b>178,762</b>	<b>204,212</b>	<b>204,212</b>

In accordance with IFRS 7 Financial Instruments: Disclosures, for measuring fair value, the Company uses Level 3 inputs, which are not based on observable market data (objectively unobservable inputs).

**21. Operating leases**

Major operating lease agreements include a lease for non-residential space for an indefinite term, and 5-year leases for cars.

<i>At 31 December 2016 in thousands of CZK</i>	<b>Total</b>	<b>Within 1 year</b>	<b>1–5 years</b>	<b>More than 5 years</b>
Rent – cars	35	35	--	*
Rent – other	6,130	1,226	4,904	*
<b>Total</b>	<b>6,165</b>	<b>1,261</b>	<b>4,904</b>	<b>--</b>

*At 31 December 2015 in thousands of CZK*

Rent – cars	345	290	55	*
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**NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016**

Rent – other	6,220	1,244	4,976	*
Total	6,565	1,534	5,031	--

\*The lease agreement has been concluded for an indefinite period of time with a three-month period of notice.

**22. Related parties**

***Transactions with related parties***

The Company is controlled by the multinational company Veolia Energie International S.A. and its ultimate parent company, Veolia Environnement – VE SA. The Company is involved in intragroup transactions (see Note 23).

***Transactions with management personnel***

Neither the directors of the Company nor their immediate relatives own any voting shares in the Company. In addition to their salaries, the Company also provides cars and mobile phones for both business and private purposes to directors and executive officers.

**23. Companies in the Group**

***Sales and purchases within the Group***

Typical transactions between the Company and the parent company and other Group companies controlled by its parent company are as follows:

Sales transactions:

- Revenue from the supply of electricity and gas

Purchase transactions:

- Advisory services provided to the Company
- Supply of electricity and distribution services
- Re-invoicing of rent for office space

All significant transactions with related parties were carried out under arm's length conditions.

Related parties include all companies in the Veolia Group. The Company reports only material relationships with these entities.

**NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016**

<i>In thousands of CZK</i>	<b>2016</b>		<b>2015</b>	
	<b>Purchases</b>	<b>Sales</b>	<b>Purchases</b>	<b>Sales</b>
Veolia Energie ČR, a.s.	780,324	276,388	861,045	87,882
Veolia Powerline Kaczyce Sp. z o.o.	167,712	--	390,845	--
OLTERM & TD Olomouc, a.s.	--	15,783	--	2,877
Veolia Energie Mariánské Lázně, s.r.o.	--	10,777	--	--
Institut enviromentálních služeb, a.s.	--	--	54	--
Veolia Energie Kolín, a.s.	--	15,100	--	--
Veolia Průmyslové služby ČR, a.s.	278	115,173	72	153,886
Pražské vodovody a kanalizace, a.s.	--	59,738	--	62,858
MORAVSKÁ VODÁRENSKÁ, a.s.	--	24,402	--	24,489
Severočeské vodovody a kanalizace, a.s.	--	81,142	--	80,329
VODÁRNA PLZEŇ a.s.	--	--	--	15,120
Středočeské vodárny, a.s.	--	21,682	--	22,188
Královéhradecká provozní, a.s.	--	8,371	--	8,628
Vodohospodářská společnost Sokolov, s.r.o.	--	6,499	--	5,927
l. SčV, a.s.	--	8,363	--	6,582
<b>Total</b>	<b>948,314</b>	<b>643,418</b>	<b>1,252,016</b>	<b>470,766</b>

<i>In thousands of CZK</i>	<b>2016</b>		<b>2015</b>	
	<b>Receivables</b>	<b>Payables</b>	<b>Receivables</b>	<b>Payables</b>
Veolia Energie ČR, a.s.	111,103	186,387	40,745	87,920
Veolia Powerline Kaczyce Sp. z o.o.	--	730	--	29,616
OLTERM & TD Olomouc, a.s.	12,733	10,972	3,325	1,824
Veolia Průmyslové služby ČR, a.s.	5,677	7,402	7,628	10,949
Veolia Energie Mariánské Lázně, s.r.o.	2,302	6,575	--	--
Veolia Energie Kolín, a.s.	4,681	3,289	--	--
Pražské vodovody a kanalizace, a.s.	26,845	--	28,281	--
MORAVSKÁ VODÁRENSKÁ, a.s.	15,201	--	11,868	--
Severočeské vodovody a kanalizace, a.s.	18,044	--	40,573	--
VODÁRNA PLZEŇ a.s.	--	--	11,300	--
Středočeské vodárny, a.s.	7,968	--	5,324	--
Královéhradecká provozní, a.s.	6,110	--	6,362	--
Vodohospodářská společnost Sokolov, s.r.o.	2,234	--	4,265	--
l. SčV, a.s.	6,642	--	5,771	--
<b>Total</b>	<b>219,540</b>	<b>215,355</b>	<b>165,442</b>	<b>130,309</b>

Receivables and payables also include provided and accepted advances and estimated assets and, as applicable, estimated liabilities.

The Company is involved in a cash pool with its parent company, Veolia Energie ČR, a.s. (see Note 16). The balance of the receivable from the cash pool is not listed in the above table.

**NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016**

**24. Fees for statutory auditors**

This information is disclosed in notes to the consolidated financial statements prepared for the broadest consolidation group in which the Company is included.

**25. Subsequent events**

No events occurred between the date of the statement of financial position and the date of preparation of the financial statements that would have any material impact on the financial statements as at 31 December 2016, or that should be disclosed in the financial statements.

## 4. Report on Related Parties

### **Report on Relations with Related Parties between the controlling and controlled entities and between the controlled entity and other entities under common control (related parties)**

prepared  
under Section 82 of Act No 90/2012 on commercial companies and cooperatives  
(the Business Corporations Act), as amended, hereinafter also referred to as the “BCA”,

**by the governing body of Veolia Komodity ČR, s.r.o.**  
**having its registered office at 28. října 3337/7, Moravská Ostrava, 702 00 Ostrava**  
**Company No.: 258 46 159,**  
a company incorporated in the Companies Register maintained by the Ostrava Regional Court  
under number C 21431

#### **Contents:**

1. Preamble
2. Specification and description of related parties.
3. Role of the controlled entity, methods and means of control, and evaluation of the advantages and disadvantages arising from relations between the related parties.
4. Overview of agreements between related parties, assessment of damage and compensation for damage under Sections 71 and 72 BCA, and overview of acts made at the instigation or in the interest of the controlling entity or entities controlled by the controlling entity.
5. Conclusion.

## I. Preamble

The report was prepared by the company's governing body under Section 82 of Act No 90/2012 on Commercial Companies and Cooperatives (the Business Corporations Act), as amended, on 21 February 2017.

The accuracy of the data stated herein was submitted for review to the auditors, KPMG Česká republika Audit, s.r.o.

The report has been prepared for the accounting period of 2016.

## II. Specification and description of related parties

### Controlled company

**Name:** Veolia Komodity ČR, s.r.o.  
**Registered office:** 28. října 3337/7, Moravská Ostrava, 702 00 Ostrava  
**Company No.:** 258 46 159  
**Register entry:** C 21431, Companies Register maintained by the Ostrava Regional Court  
**Legal form:** Private limited company  
Hereinafter also referred to as Veolia Komodity ČR, or the controlled/dependent company/entity, or the Company.

### Controlling companies and entities controlling the controlling companies

**Name:** Veolia Průmyslové služby ČR, a.s.  
**Registered office:** Zelená 2061/88a, Mariánské Hory, 709 00 Ostrava  
Delivery number: 70974  
**Company No.:** 278 26 554  
**Register entry:** B 3722, Companies Register maintained by the Ostrava Regional Court  
**Legal form:** Public limited company

**Name:** Veolia Energie ČR, a.s.  
**Registered office:** 28. října 3337/7, Moravská Ostrava, 702 00 Ostrava  
**Register entry:** B 318, Companies Register maintained by the Ostrava Regional Court  
**Company No.:** 451 93 410  
**Legal form:** Public limited company

**Name:** SOCIETE DE PARTICIPATIONS ET D'INVESTISSEMENTS  
DIVERSIFIES 2 (short name: SPID 2)  
**Registered office:** 36-38 Avenue Kléber, 75116 Paris, France  
**Company No.:** 399 345 206 R.C.S. Paris  
**Legal form:** Public limited company  
On 18 May 2016, SPID 2 merged with Veolia Energie International.

**Name:** VEOLIA ENERGIE INTERNATIONAL  
**Registered office:** 21 rue La Boétie, 75008 Paris, France  
**Company No.:** 433 539 566 R.C.S. Paris  
**Legal form:** Public limited company

**Name:** VEOLIA ENVIRONNEMENT-VE  
**Registered office:** 21 rue La Boétie, 75008 Paris, France  
**Company No.:** 403 210 032 R.C.S. Paris  
**Legal form:** Public limited company

### Related parties

**Name:** Energie Projekt ČR, s.r.o., in liquidation  
**Registered office:** Praha 2, Americká 415  
**Company No.:** 257 06 969  
**Register entry:** C 62955, Companies Register maintained by the Prague Municipal Court  
**Legal form:** Private limited company

On 1 April 2016, the company entered into liquidation process.

**Name:** JVCD, a.s.  
**Registered office:** Praha 2, Americká 36/415, postcode 12000  
**Company No.:** 601 93 204  
**Register entry:** B 2321, Companies Register maintained by the Prague Municipal Court  
**Legal form:** Public limited company

**Name:** OLTERM & TD Olomouc, a.s.  
**Registered office:** Janského 469/8, Povel, 779 00 Olomouc  
**Company No.:** 476 77 511  
**Register entry:** B 872, Companies Register maintained by the Ostrava Regional Court  
**Legal form:** Public limited company

**Name:** AmpluServis, a.s.  
**Registered office:** Ostrava-Třebovice, ul. Elektrárenská 5558, postcode 70974  
**Company No.:** 651 38 317  
**Register entry:** B 1258, Companies Register maintained by the Ostrava Regional Court  
**Legal form:** Public limited company

**Name:** Veolia Energie Kolín, a.s.  
**Registered office:** Kolín V., Tovární 21, postcode 28063  
**Company No.:** 451 48 091  
**Register entry:** B 1523, Companies Register maintained by the Prague Municipal Court  
**Legal form:** Public limited company

**Name:** Veolia Energie Mariánské Lázně, s.r.o.  
**Registered office:** Nádražní náměstí 294, Úšovice, 353 01 Mariánské Lázně  
**Company No.:** 497 90 676  
**Register entry:** C 4776, Companies Register maintained by the Plzeň Regional Court  
**Legal form:** Private limited company

**Name:** Veolia Energie Praha, a.s.  
**Registered office:** Na Florenci 2116/15, Nové Město, 110 00 Praha 1  
**Company No.:** 036 69 564  
**Register entry:** B 20284, Companies Register maintained by the Prague Municipal Court  
**Legal form:** Public limited company  
The company joined the Veolia Group on 1 June 2016.

**Name:** Veolia Powerline Kaczyce Sp. z o.o.  
**Registered office:** Morcinka 17, 43-417 Kaczyce, Poland  
**Company No.:** 141 89 229, Regional Registry Court in Bielsko Biala  
**Legal form:** Private limited company

**Name:** Institut environmentálních služeb, a.s.  
**Registered office:** Podolská 15/17, Podolí, 147 00 Praha 4  
**Company No.:** 629 54 865  
**Register entry:** B 9967, Companies Register maintained by the Prague Municipal Court  
**Legal form:** Public limited company

**Name:** Veolia Eau - Compagnie Générale des Eaux  
**Registered office:** 21 rue La Boétie, 75008 Paris, France  
**Company No.:** 572 025 526 R.C.B. Paris  
**Legal form:** Partnership limited by shares

**Name:** VEOLIA CENTRAL & EASTERN EUROPE  
**Registered office:** 21 rue La Boétie, 75008 Paris, France  
**Company No.:** 433 934 809 R.C.B. Paris  
**Legal form:** Public limited company

**Name:** VEOLIA ČESKÁ REPUBLIKA, a.s.  
**Registered office:** Na Florenci 2116/15, Nové Město, 110 00 Praha 1  
**Company No.:** 492 41 214  
**Register entry:** B 2098, Companies Register maintained by the Prague Municipal Court  
**Legal form:** Public limited company



<b>Name:</b>	<b>Pražské vodovody a kanalizace, a.s.</b>
<b>Registered office:</b>	Ke Kablu 971/1, Hostivař, 102 00 Praha 10
<b>Company No.:</b>	256 56 635
<b>Register entry:</b>	B 5297, Companies Register maintained by the Prague Municipal Court
<b>Legal form:</b>	Public limited company
<b>Name:</b>	<b>MORAVSKÁ VODÁRENSKÁ, a.s.</b>
<b>Registered office:</b>	Tovární 1059/41, Hodolany, 779 00 Olomouc
<b>Company No.:</b>	618 59 575
<b>Register entry:</b>	B 1943, Companies Register maintained by the Ostrava Regional Court
<b>Legal form:</b>	Public limited company
<b>Name:</b>	<b>VODOSPOL s. r. o.</b>
<b>Registered office:</b>	Ostravská 169, Klatovy IV, 339 01 Klatovy
<b>Company No.:</b>	483 65 351
<b>Register entry:</b>	C 3931, Companies Register maintained by the Plzeň Regional Court
<b>Legal form:</b>	Private limited company
<b>Name:</b>	<b>Středočeské vodárny, a.s.</b>
<b>Registered office:</b>	Kladno, U Vodojemu 3085, postcode 27280
<b>Company No.:</b>	261 96 620
<b>Register entry:</b>	B 6699, Companies Register maintained by the Prague Municipal Court
<b>Legal form:</b>	Public limited company
<b>Name:</b>	<b>Severočeské vodovody a kanalizace, a.s.</b>
<b>Registered office:</b>	Teplice, Přítkovská 1689, postcode 41550
<b>Company No.:</b>	490 99 451
<b>Register entry:</b>	B 465, Companies Register maintained by the Ústí nad Labem Regional Court
<b>Legal form:</b>	Public limited company
<b>Name:</b>	<b>RAVOS, s.r.o.</b>
<b>Registered office:</b>	Frant. Diepolta 1870, Rakovník II, 26 901 Rakovník
<b>Company No.:</b>	475 46 662
<b>Register entry:</b>	C 19602, Companies Register maintained by the Prague Municipal Court
<b>Legal form:</b>	Private limited company
<b>Name:</b>	<b>Vodohospodářská společnost Sokolov, s.r.o.</b>
<b>Registered office:</b>	Jirího Dimitrova 1619, 356 01 Sokolov
<b>Company No.:</b>	453 51 325
<b>Register entry:</b>	C 2378, Companies Register maintained by the Plzeň Regional Court
<b>Legal form:</b>	Private limited company
<b>Name:</b>	<b>Královéhradecká provozní, a.s.</b>
<b>Registered office:</b>	Vita Nejedlého 893/6, Slezské Předměstí, 500 03 Hradec Králové
<b>Company No.:</b>	274 61 211
<b>Register entry:</b>	B 2383, Companies Register maintained by the Hradec Králové Regional Court
<b>Legal form:</b>	Public limited company
<b>Name:</b>	<b>1. SčV, a.s.</b>
<b>Registered office:</b>	Praha 10, Ke Kablu 971, postcode 10000
<b>Company No.:</b>	475 49 793
<b>Register entry:</b>	B 10383, Companies Register maintained by the Prague Municipal Court
<b>Legal form:</b>	Public limited company
<b>Name:</b>	<b>Česká voda - Czech Water, a.s.</b>
<b>Registered office:</b>	Ke Kablu 971/1, Hostivař, 102 00 Praha 10
<b>Company No.:</b>	250 35 070
<b>Register entry:</b>	B 12115, Companies Register maintained by the Prague Municipal Court
<b>Legal form:</b>	Public limited company
<b>Name:</b>	<b>Solutions and Services, a.s.</b>
<b>Registered office:</b>	Na Florenci 2116/15, Nové Město, 110 00 Praha 1
<b>Company No.:</b>	272 08 320

<b>Register entry:</b>	B 11409, Companies Register maintained by the Prague Municipal Court
<b>Legal form:</b>	Public limited company
<b>Name:</b>	<b>Veolia Support Services Česká republika, a.s.</b>
<b>Registered office:</b>	Na Florenci 2116/15, Nové Město, 110 00 Praha 1
<b>Company No.:</b>	290 60 770
<b>Register entry:</b>	B 18573, Companies Register maintained by the Prague Municipal Court
<b>Legal form:</b>	Public limited company
<b>Name:</b>	<b>Veolia Vedlejší produkty ČR, s.r.o.</b>
<b>Registered office:</b>	Dělnická 6082/34, Poruba, 708 00 Ostrava
<b>Company No.:</b>	24715964
<b>Register entry:</b>	C 63276, Companies Register maintained by the Ostrava Regional Court
<b>Legal form:</b>	Private limited company

*Note No. 1: Schematic diagrams of the Group composed of the controlling and controlled entities as the related parties are shown in Annexes 1 and 2 to this Report.*

*Note No. 2: On 1 February 2017, the following companies joined the Veolia Group in the Czech Republic and became related parties:*

<b>Name:</b>	<b>TEGAMO Waste, s.r.o.</b>
<b>Registered office:</b>	Huťská 1379, 272 01 Kladno
<b>Company No.:</b>	056 47 550
<b>Register entry:</b>	C 268254, Companies Register maintained by the Prague Municipal Court
<b>Legal form:</b>	Private limited company
<b>Name:</b>	<b>EKOSEV, s.r.o.</b>
<b>Registered office:</b>	Huťská 1379, 272 01 Kladno
<b>Company No.:</b>	259 15 819
<b>Register entry:</b>	C 197086, Companies Register maintained by the Prague Municipal Court
<b>Legal form:</b>	Private limited company
<b>Name:</b>	<b>Envir s.r.o.</b>
<b>Registered office:</b>	Huťská 1379, 272 01 Kladno
<b>Company No.:</b>	287 71 419
<b>Register entry:</b>	C 26451, Companies Register maintained by the Hradec Králové Regional Court
<b>Legal form:</b>	Private limited company

### III.

#### **Role of the controlled entity, methods and means of control, and evaluation of the advantages and disadvantages arising from relations between the related parties**

Within the meaning of Section 79 BCA, Veolia Komodity ČR, s.r.o. is a dependent entity within the Group and is subject to joint management under a common policy of strategic management of the Group; for the dependent entity, the above primarily generates advantages from the know-how provided within the Group for performing the controlled entity's business.

The dependent entity is controlled through the sole member acting in the capacity of the general meeting, who has the influence to appoint its representatives to the Company's bodies and so can influence the business management of the Company.

The Company is not exposed to any future or long-term risks as a result of its membership of the Veolia Group and the governing body is not aware of any material future developments that may jeopardise the Company as a result of its belonging to the Group.

### IV.

#### **Overview of agreements between related parties, assessment of damage and compensation for damage under Sections 71 and 72 BCA, and overview of acts made at the instigation or in the interest of the controlling entity or entities controlled by the controlling entity**

## **A. Relations with controlling companies and entities controlling the controlling companies**

### **A1. Veolia Průmyslové služby ČR, a.s.**

Veolia Komodity ČR and Veolia Průmyslové služby, a.s. have the following in place:

Agreements where the Company is the supplier:

- Agreement on Electricity Supply to an Eligible Customer, including amendments;

Agreements where the Company is the customer:

- Agreement on Renewable Electricity Feed-in;
- Agreement on Electricity Distribution;

all of them on an arm's length basis.

Veolia Komodity ČR and Veolia Průmyslové služby ČR, a.s. also have an Agreement on Compensation for Losses Caused by the Connection to the DIN Local Distribution System in place on an arm's length basis.

### **A2. Společnost Veolia Energie ČR, a.s.**

Veolia Komodity ČR and Veolia Energie ČR, a.s. have the following in place:

Agreements where the Company is the supplier:

- Agreement on Bundled Gas Supply;

Agreements where the Company is the customer:

- Service Agreement;
- Agreement on Fund Management in the Group, including implementing addenda;
- Commercial Space Sublease Agreement and Personal Property Lease Agreement;
- EFET Agreement on Bilateral Electricity Trade;

all of them on an arm's length basis.

Veolia Energie ČR, a.s. takes out insurance policies for Veolia Komodity ČR and then re-invoices the costs.

### **A3. SPID2, VEOLIA ENERGIE INTERNATIONAL, VEOLIA ENVIRONNEMENT-VE**

No contracts were concluded or performed, no legal acts were executed or measures taken in relation to these companies, and there were no deliveries or considerations between these companies that control the controlling companies.

## **B. Relations to related parties**

### **B1. OLTERM & TD Olomouc, a.s.**

Veolia Komodity ČR and OLTERM & TD Olomouc, a.s. have in place an Agreement on Bundled Electricity Supply Services and an Agreement on Bundled Gas Supply Services for 2016.

In 2016, the companies entered into an Agreement on Bundled Gas Supply Services for 2017 and an Arrangement on the price for electricity supply of high and low voltage for 2017 (in 2016 no deliveries or considerations).

### **B2. Veolia Energie Mariánské Lázně, s.r.o.**

Veolia Komodity ČR and Veolia Energie Mariánské Lázně, s.r.o. have in place an Agreement on Bundled Gas Supply Services on an arm's length basis.

**B3. Veolia Energie Kolín, a.s.**

Veolia Komodity ČR and Veolia Energie Kolín, a.s. have in place an Agreement on Bundled Gas Supply Services on an arm's length basis.

**B4. Veolia Powerline Kaczyce Sp. z o.o.**

Veolia Komodity ČR and Veolia Powerline Kaczyce Sp. z o.o. have in place an Agreement on Electricity Sale and Trade Compensation Services on an arm's length basis.

**B5. 1. SčV, a.s.**

Veolia Komodity ČR and 1. SčV, a.s. have in place an Agreement on Bundled Electricity Supply Services and an Agreement on Renewable Electricity Feed-in on an arm's length basis.

**B6. Institut environmentálních služeb, a.s.**

Under an Agreement on Cooperation in Employee Education, Institut environmentálních služeb, a.s., provided Veolia Komodity ČR with education of its employees, education record keeping in the personnel system, and regular reporting on education, on an arm's length basis.

**B7. Královehradecká provozní, a.s.**

Veolia Komodity ČR and Královehradecká provozní, a.s. have in place an Agreement on Bundled Electricity Supply Services and an Agreement on Renewable Electricity Feed-in on an arm's length basis.

**B8. MORAVSKÁ VODÁRENSKÁ, a.s.**

Veolia Komodity ČR and MORAVSKÁ VODÁRENSKÁ, a.s. have in place an Agreement on Bundled Electricity Supply Services and an Agreement on Renewable Electricity Feed-in on an arm's length basis.

**B9. Pražské vodovody a kanalizace, a.s.**

Veolia Komodity ČR and Pražské vodovody a kanalizace, a.s. have in place an Agreement on Bundled Electricity Supply Services and an Agreement on Renewable Electricity Feed-in on an arm's length basis.

**B10. RAVOS, s.r.o.**

Veolia Komodity ČR and RAVOS, s.r.o. have in place an Agreement on Bundled Electricity Supply Services on an arm's length basis.

**B11. Severočeské vodovody a kanalizace, a.s.**

Veolia Komodity ČR and Severočeské vodovody a kanalizace, a.s. have in place an Agreement on Bundled Electricity Supply Services on an arm's length basis..

**B12. Solutions and Services, a.s.**

Veolia Komodity ČR and Solutions and Services, a.s. have in place a Master Agreement on Electrical Energy Supply for the years 2015 to 2019, gradual purchases, on an arm's length basis.

**B13. Středočeské vodárny, a.s.**

Veolia Komodity ČR and Středočeské vodárny, a.s. have in place an Agreement on Bundled Electricity Supply Services on an arm's length basis.

**B14. Vodohospodářská společnost Sokolov, s.r.o.**

Veolia Komodity ČR and Vodohospodářská společnost Sokolov, a.s. have in place an Agreement on Bundled Electricity Supply Services and an Agreement on Renewable Electricity Feed-in on an arm's length basis.

**B15. VODOSPOL s. r. o.**

Veolia Komodity ČR and VODOSPOL s.r.o. have in place an Agreement on Bundled Electricity Supply Services on an arm's length basis.

**B16. Other related parties**

No contracts were concluded or performed, no legal acts were made, and no deliveries or considerations were provided between Veolia Komodity ČR and other related companies within the Group.

**C. Overview of acts carried out at the instigation or in the interest of controlling entities**

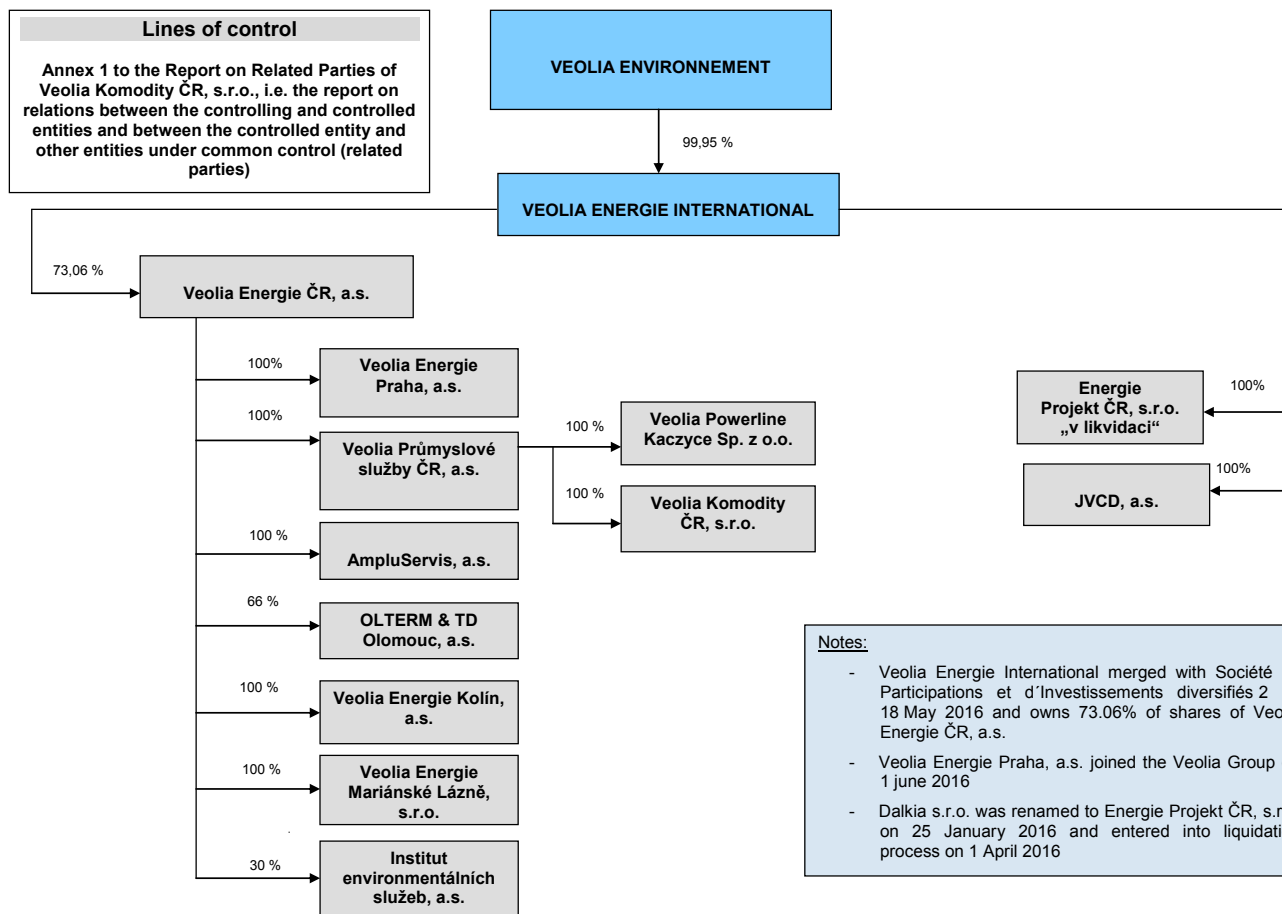
In 2016, no acts were carried out at the instigation or in the interest of the controlling entity or entities controlled by the controlling entity concerning assets in excess of 10% of the controlled entity's equity and the controlled entity was not inhibited from making certain acts or strategic decisions due to control over the Company and due to controlling entities' interest or instigation

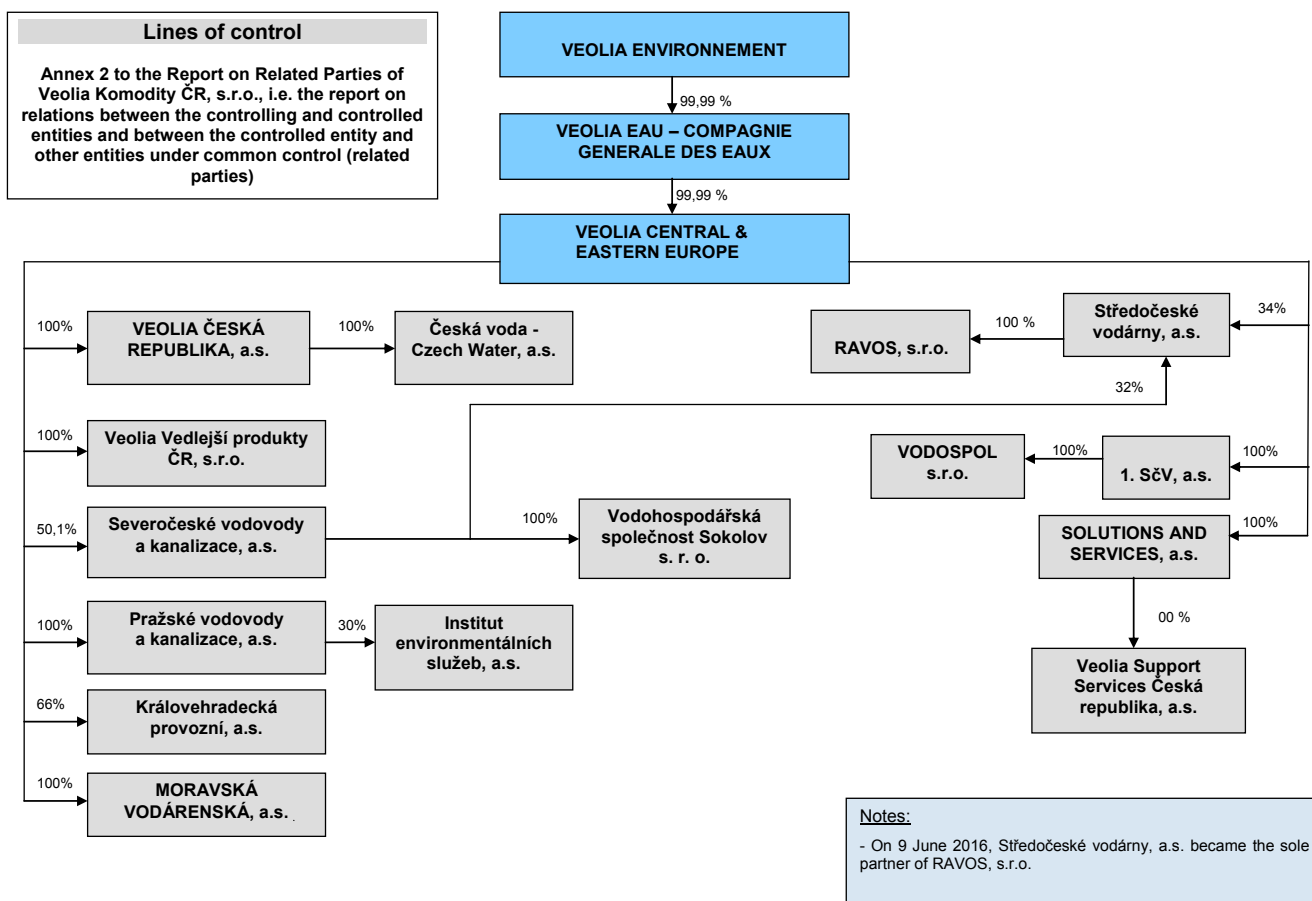
**V.  
Conclusion**

On the basis of the information stated above the Managing Director notes that in the period under review, the controlled entity did not suffer damage as a result of its relationships with the controlling entity or related parties. Furthermore, the governing body notes that the Report is complete and that the disclosure of any additional information, in particular such as would extend the scope or depth of the disclosures made herein, is subject to trade secrecy under Section 504 of Act No 89/2012, the Civil Code.

Ostrava, 21 February 2017

  
.....  
Pavel Luňáček  
Managing Director





## 5. Auditor's Report



**KPMG Česká republika Audit, s.r.o.**

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This document is an unsigned 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 Veolia Komodity ČR, s.r.o.**

#### ***Opinion***

We have audited the accompanying financial statements of Veolia Komodity ČR, s.r.o. ("the Company"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

#### ***Basis for Opinion***

We conducted our audit in accordance with the Act on Auditors, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations 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 the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



### ***Other Information***

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the annual report other than the financial statements and our auditor's report. 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 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 laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those 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 matters that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- the other information has been prepared in accordance with applicable laws and regulations.

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. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

### ***Responsibilities of the Statutory Body for the Financial Statements***

The statutory body is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union 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.

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.

### ***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 regulations 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 regulations, we exercise professional judgment and maintain professional skepticism 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 control.
- Obtain an understanding of internal control 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 control.
- 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 disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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.

#### ***Statutory Auditor Responsible for the Engagement***

Petr Sikora is the statutory auditor responsible for the audit of the financial statements of Veolia Komodity ČR, s.r.o. as at 31 December 2016, based on which this independent auditor's report has been prepared.

Ostrava  
13 April 2017

*Signed by*

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

*Signed by*

Petr Sikora  
Partner  
Registration number 2001

This Annual Report was prepared by the Department of Managing Director of Veolia Komodity ČR and by the Communication Department of Veolia Energie ČR.

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Annual Report prepared on 13. April 2017.