Dalkia Česká republika, a.s.
is a traditional producer and supplier of heat for municipalities and their inhabitants, industrial companies, health and educational facilities, public institutions and shopping and office centres. It is also one of the Czech Republic’s largest independent combined heat and power producers and a major provider of energy services. Dalkia Česká republika is the first independent operator of a cooling network in the country.
1. Corporate and General Information about the Company

1.1. General Information

<table>
<thead>
<tr>
<th>Company name:</th>
<th>Dalkia Česká republika, a.s.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registered office:</td>
<td>28. října 3337/7, Moravská Ostrava, 702 00, Ostrava, Czech Republic</td>
</tr>
<tr>
<td>Legal form:</td>
<td>public limited company (akciová společnost)</td>
</tr>
<tr>
<td>Company number:</td>
<td>451 93 410</td>
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</table>

The Company is incorporated by entry in the Companies Register kept by the Regional Court in Ostrava, under No B 318.

<table>
<thead>
<tr>
<th>Date of formation:</th>
<th>24 April 1992</th>
</tr>
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<tbody>
<tr>
<td>Share capital:</td>
<td>CZK 3,146,446,440</td>
</tr>
</tbody>
</table>

1.2. Corporate Profile

Dalkia Česká republika, a.s. ("Dalkia Česká republika"), a member of the Dalkia in the Czech Republic Group, is one of the largest independent producers of heat and power, in the form of cogeneration, and the first independent cooling network operator on the Czech market. Dalkia is a member of the French multinational group of the same name, which is a European and global leader in energy services and is majority owned by the Veolia Environnement Group, the world’s top provider of environmental services.

The Dalkia Group has been operating on the Czech market for more than 20 years and currently supplies heat to more than 260,000 households in the regions of Moravia-Silesia, Olomouc, Central Bohemia, Karlovy Vary as well as Prague. The main client categories served by Dalkia in the Czech Republic are households, municipalities, industrial companies, health and educational facilities and the tertiary sector. Dalkia’s business is organized in three strategic areas: heating and cooling networks, industrial utilities and energy facilities for buildings.

Dalkia is specialised in heat and power supplies through cogeneration; its cogeneration and trigeneration operations help to
Dalkia Česká republika’s fellow members of the Dalkia in the Czech Republic Group are Dalkia Kolín, a.s., Dalkia Mariánské Lázni, s.r.o., Olterm & TD Olomouc, a.s., AmpluServis, a.s. and Dalkia Industry CZ, a.s., including its two subsidiaries Dalkia Commodities CZ s.r.o. and Dalkia Powerline (operating in Poland).

**Corporate Governance**

**In 2013, the composition of the Board of Directors was as follows:**

- Zdeněk Duba, Chairman
- Laurent Barrieux, Vice-Chairman
- Christophe Johany Lanneluc, Member
- François Leimgruber, Member
- Josef Novák, Member

**In 2013, the composition of the Supervisory Board was as follows:**

- Jean-Michel Mazalerat, Chairman
- Gérard Millière, Vice-Chairman
- Philippe Beaumé, Member (until 24 October 2013)
- Eric Gouy, Member (as of 24 October 2013)
- François Vasse, Member
- Zdeněk Krakovský, Member
- Ladislav Kugler, Member
- Martin Jašek, Member
- Jérôme Ladrière, Member
- Bernard Thomas, Member
- Petr Štulc, Member
- Jan Myšík, Member
- Eva Tmejová, Member

**In 2013, the composition of the Audit Committee was as follows:**

- Philippe Beaumé, Chairman
- Isabelle Picard, Vice-Chairwoman
- Miroslav Novák, Member
Dear Shareholders, Business Associates, Colleagues, Ladies and Gentlemen,

This is the annual report of Dalkia Česká republika, a.s. for 2013, summing up the Company’s business and results in that period.

Last year was hardly a straightforward period for the Czech Republic or the energy sector. As a result of the ongoing economic crisis, orders from industrial companies declined, dampening electricity demand, and electricity prices dropped once more. The imprudent amount of support for renewable energy – solar in particular – combined with EU and Czech legal regulations caused instability on the energy market. The “National Energy Policy” was updated again in 2013: as a result, since 2006 the Czech Republic has not had a validated energy policy. Nor was the weather beneficial for stability in the energy industry. Although in the first quarter of 2013 it was favourable to the heat generating industry, since then, and until spring 2014 there was no winter. As support for energy generation from renewable sources was reduced, the efforts to reduce costs intended for RES promotion resulted in the total phase out of the support for the co-firing of biomass and fossil fuels, while support for the pure firing of renewable and secondary energy sources was restricted as well.

Politically, 2013 was a tumultuous year. It started with the first public election of the Czech Republic’s President, followed by the fall of the coalition government resulting from the outcomes of investigations conducted by Czech Police. Then, surprisingly, the President appointed a caretaker government, which, although it failed to gain the parliament’s confidence, remained in place as the outgoing government until 2014. In response to this decision by the President, the Chamber of Deputies dissolved itself and announced new elections which yielded a totally different coalition. By year-end we saw unemployment reach a record high of 630,000 people.

In these times lacking clear policy and legislation crucial for the energy sector, Dalkia ČR continued to focus on increasing the efficiency of its plants and, in 2013, quickly commissioned boilers that generate energy from biomass in Mariánské Lázně as well as in Vlašim, increased the share of power cogeneration and launched the greening of large plants in Ostrava and Karviná.

Dalkia ČR generated unconsolidated revenues of CZK 8.78 billion in 2013. It continued to strive to cut costs as much as possible, reducing them by 15.9 % in 2013 as compared to 2010.
As to production, Dalkia ČR sold 12,990 Tj of heat (a slight increase), 2,064 GWh of electricity (a slight decline) and 14,159 MWh of cooling energy (an increase).

In 2013, we continued to foster our existing clients and strived to attract new business partners. Many contracts (worth CZK 381 million) with incumbent clients were extended, and 90 brand new contracts were signed, which shows that our endeavours were successful. The supplies of industrial utilities have been on the rise as well. The supply of cooling for OKD mines, the nitrate offering for mines, etc. are typical examples of such partnerships.

Dalkia ČR has always been committed to the regions where it operates. We continue to support culture and sport and help to create new jobs for SME start-ups through our Dalkia ČR Foundation. The number of projects approved since the Foundation’s formation has exceeded 1,000, the number of new durable jobs nearing 2,000. We have once more taken part in the Mini Grants project organized by the Veolia Foundation and intend to keep doing so in 2014 as well. Through our activities, we strive to substantially improve the quality of life of the communities in the Czech Republic’s regions where we operate.

To close, we take this opportunity to thank our customers, partners, colleagues, and our shareholders for the faith they have placed in us and for their contribution to our common goals.

Ing. Zdeněk Duba
Chairman of the Board of Directors

Laurent Barrieux
Vice-Chairman of the Board of Directors

2.2. Operations and Performance

Production and sale of heat, cooling and electricity

Dalkia Česká republika’s core business in 2013 was the production, distribution and sale of heat and cooling, and the generation and sale of electricity, including the provision of ancillary services. Heat and electricity are mainly produced in a combined cycle known as cogeneration, which besides making greater use of the energy contained in fuel is also very green.

Heat production

In 2013, heat was generated using 1,404 boilers, of which 59 were steam boilers and 1,345 were hot and superheated water boilers. Their total installed thermal capacity is 2,906 MW. In all, the boilers generated 28,313 Tj of thermal energy for the production of electricity and supply of heat, which is more or less on a par with 2012.

Of the fuel used to fire the boilers, 86.69 % was comprised of coal (76.49 % hard coal and 10.2% brown coal). Gaseous fuels accounted for 11.07 % (5.68 % coke-oven gas, 4.27 % natural gas and 1.12 % drained (mine) gas). Of the fuel consumed, 2.06% took the form of various types of biomass, and 0.18 % heavy fuel oils and gas oil, which is used primarily to start up the boilers.

In 2013, the heating networks were 733.96 km long, 26 km more than in 2012.

Compared to 2012, heat sales in 2013 were slightly up by 184 Tj to 12,990 Tj, mainly on account of the climatic conditions. Heat purchased from other suppliers rose slightly year on year and stood at 1,321 Tj. Thermal energy was supplied either directly or through distribution companies to 248,134 households.

Revenues from heat and related products rose by CZK 143 million on 2012, amounting to CZK 5,525 million in 2013.
Generation of electricity
Electricity was produced in 14 steam turbines, 10 cogeneration units and four steam microturbines with a total electrical capacity of 377.2 MW.

Electricity was mostly supplied to electricity traders. In 2013, electricity sales totalled 2,064 GWh, which is 61 GWh less than in 2012.

Revenues from sales of electricity and other services related to electricity generation in 2013 amounted to CZK 3,103 million, a drop of CZK 259 million compared to 2012. Revenues from electricity account for 35.34% of Dalkia Česká republika’s total revenues.

Dalkia Česká republika is subject to clearing (it is a “settlement entity”) on the Czech electricity market, and in 2013 again actively provided ancillary services to ČEPS, the operator of the Czech Republic’s transmission system.

Production of cooling
In all, 178 installations generate cooling. Their total cooling capacity is 25.8 MW. The annual volume of cooling supply amounted to 14,159 MWh. The cooling network was 1,108 m long in 2013.

Revenues from the sale of cooling in 2013 came to CZK 33 million, up by CZK 5 million compared to 2012.

Biomass burning
Dalkia Česká republika burns biomass at its boiler plants in an attempt to help mitigate the environmental impact of its operations in all regions where it operates. In 2013, biomass generated 18.8 GWh of electricity, with biomass combustion totalling 58,491 tonnes at the Company’s plants.

Business activities
In 2013 our sales staff secured contracts worth over CZK 561 million, of which CZK 381 million are renewals; it is worth singling out the extension of the lease for the thermal installations of the town of Mariánské Lázně until 2039 (an additional 14 years), which contemplates the construction of a biomass boiler and of a turbine. The conclusion of a five-year contract with MTH, a heat distributor in Kolín, is yet another success.

In addition to the above, 90 new clients have placed their faith in us in all three strategic areas where we operate: in the area of district heating and cooling networks we signed contracts for the connection of an additional 170 Tj, with the Přerov Hospital, the swimming pool in Ostrava, the biomass-fired power plant in Kolín, among others.

In industrial utilities, we continue to expand our contractual cooperation with OKD, the Czech Republic’s largest coal producer, this time with the installation of electricity-generating mine gas engines.
Like in the previous years, services remain a vital part of our business. We acquired 40 new contracts with clients such as the Prague 2 municipality or the new Karlín Hall business centre in Prague (retail, offices, congress centre) where we are going to supply heat and cooling for an area of over 20,000 m².

**Investment**

Our investments focus on the renewal and development of process equipment with a view to improving quality, efficiency, dependability and safety. Our investment program relies on the Company’s mid-term plan.

In 2013 ČEKR’s total capital expenditure stood at CZK 763.5 million. Last year, we invested CZK 741.6 million (structured as shown below), of which CZK 129.7 million were funded by a grant, and an estimated revenue of CZK 30.5 million was recognized.

### CZK 343,200,000

**Environmental projects**

### CZK 161,700,000

**Facility rehabilitation projects, including components (IFRS)**

### CZK 84,200,000

**Development projects to increase production or efficiency**

### CZK 62,200,000

**Commercial and heat-supply projects**

### CZK 71,100,000

**Facility rehabilitation projects, including components (IFRS)**

### CZK 19,200,000

**Other investments**

In terms of investments, 2013 was a year in which we focused on projects aimed at reducing the production of NOx, SOx and particulates emitted by our plants. A description of the most important investments (by nature) is provided below:

**Commercial and heat-supply projects:**

In 2013, we made 88 new connections with an estimated 342 TJ annual increase in heat supply volume.

In Ostrava additional buildings in the Hrabová industrial zone were connected to the district heating system.

The district heating system in Krnov was extended to the housing projects near the hospital. A large portion of heat is co-generated using biomass in Krnov.

In Olomouc, the largest shopping centre in the Olomouc Region – Galerie Šantovka was connected to the district heating network. Galerie Šantovka, designed by the London-based Benoy architects firm, was built in close proximity to the historic city centre, on the site of the former Milo factory. Next to the shopping centre, a residential complex and commercial and office spaces are about to be built on an area of 11 hectares.

In 2013, work in Prague included the construction of several new heating sources, for new (mainly residential) projects such as new gas-fired boiler plants in the western part of the city – Stodůlky.

We continued to cooperate with other heat suppliers; for instance, we installed heat piping and substations in the Štěrboholy borough.

**Facility rehabilitation projects, including component replacement:**

In 2012, projects continued for the upgrading and replacement of existing technologies and components at plants and in district heating networks.

At Třebovice Power Station we repaired Boiler K4 and modernized the associated electrical installations, instrumentation and control systems, including the boiler control system.
At Přívoz Heat and Power Plant the control system of turbine TG9 was modernized.

In all district heating networks, we continued to renew components, such as the DN 600 and DN450 sections of the network in Ostrava Jižní město, or the superheated water feeder (DN400) in Olomouc.

**Strategic projects**
Our long-term investment policy, designed with modern and innovative technical solutions for the Company, is based on the Dalkia Group's sustainable development goals. It focuses on mitigating the environmental impacts of our operations in line with long-term technical plans and schedules we have adopted.

In 2013 we entered into several major contracts, and large greening projects began in Ostrava and Karviná. These are the Company's strategic multi-year projects:

- Desulphurization of Boilers K 3 and 4 at Třebovice Power Station
- Denitrification of Boilers K 3 and 4 at Třebovice Power Station
- Dry fly ash removal from Boilers K 1 to 5 at Třebovice Power Station
- Dry slag removal from Boilers K 1 to 5 at Třebovice Power Station
- Desulphurization of Boilers K 2, 3 and 4 at Karviná Heat and Power Plant
- Denitrification of Boilers K 2, 3 and 4 at Karviná Heat and Power Plant
- Desulphurization of Boilers K14, K13, K12 at Třebovice Power Station
- Denitrification of Boilers K14, K13, K12 at Třebovice Power Station

These projects are aimed at the early reduction of NOx, SOx, and particulate emissions to a level compliant with the Industrial Emissions Directive. The above projects are co-financed from the Operational Programme Environment.

A portion of the steam system in Olomouc (on Hněvotínská street) was converted to a superheated water system. The heat piping was also refurbished at the University Hospital in Olomouc. Another section of the steam system will be converted to superheated water in 2014. All these projects are co-financed from the Operational Programme Environment.

The Company will use its own funds and funds from the Group's cash pooling scheme to meet contractual capital construction obligations.

**Integrated Management System**

In March 2013 Dalkia Česká republika's Integrated Management System underwent a re-certification audit. It passed the audit successfully, without any non-conformities, which confirms the ongoing trend of improvement and the viability of the Integrated Management System.

The extensive enhancements of the IMS are now complete, as the entire Dalkia in the Czech Republic Group is included in a single certification system based on sampling under which each subsidiary holds its own certificate. The centralization of the system yielded the first benefits. Indeed, thanks to the reduction in the individual costs of subsidiaries, total certification costs went down.

The consolidation and unification of the Integrated Management System throughout the Dalkia in the Czech Republic Group is an ongoing project. This unification is aimed at cutting the costs at each company included in the single Integrated Management System. In parallel to the expansion of the integrated system, sub-components of the system are being consolidated to reflect ongoing changes and to keep the IT elements up to date.

In 2013 the scope of Dalkia ČR's integrated system changed only in respect of Dalkia Industry CZ, which completed the second stage of EMS certification and underwent the first stage of OHSAS certification.

A fundamental common element of the Dalkia in the Czech Republic Group's integrated management system is the Sustainable Development Policy, approved by the Country Manager of the Dalkia in the Czech Republic Group in January 2014. To make it available to the general public, the Policy has been published on the www.dalkia.cz website.

The Sustainable Development Policy is an integrated document which states the mandatory requirements of system standards as well as the requirements of the top management in respect of these management sub-systems and lays down rules to which we must adhere. These rules define our approach to the customer, to the environment and to occupational safety and, more recently, also to energy management in line with the ISO 50001 standard, which is under implementation.
We maintain sound relations with our customers not only through our due respect for contractual terms and conditions, but also by listening to our customers and, where possible, meeting any additional requirements they may have.

The system for the monitoring and identification of legal and other requirements was updated and therefore covers all the relevant activities carried out across the Dalkia in the Czech Republic Group. This legislative watch also provides the basis for subsequent compliance evaluations and not only minimizes negative repercussions in terms of the environment and occupational safety but also covers legal requirements for other activities, thus making it possible to prevent, e.g., risks arising from these activities for our own employees and for third-party personnel who work for Dalkia in the Czech Republic.

We address the need to continuously improve the integrated management system by periodically declaring and then pursuing targets aimed at specific areas of the integrated system. Another area where we are making improvements is in the active elimination of any non-conformities we identify, including corrective actions, and in the adoption of recommendations and suggestions to make the system better.

Last year 36 objectives were declared, i.e. five more than in 2012, of which 30 were due to be met in 2013, with the remaining six carried forward.

Seventeen objectives with a fulfilment date in 2013 and announced in 2013 were evaluated and closed, one objective with a fulfilment date in 2013 and announced in 2013 was evaluated and closed in 2014, and two objectives announced at the Company’s headquarters and related to the Foundation were set as annually appraised periodic goals.

The remaining objectives have either been met and await evaluation or are in progress, some of which were extended for future completion.

**Emission trends and the impact of biomass utilization**

In 2013 the emissions of particulate matter (particulates), SO\(_2\) and NO\(_x\) increased as a result of higher production, in particular at Tršbovice Power Station. This increase in emissions could not be mitigated by the burning of biomass in new Boiler K4 at Frýdek-Místek Heat and Power Plant, which reduced the consumption of coal of Boilers K1-K3.

In 2013, the Company’s biomass combustion at production plants with heat input of over 20 MW totalled 118,900 tonnes, 7,527 tonnes less than in the previous year. By replacing lower quality higher CO\(_2\) emitting coal types and partially natural gas, Dalkia Česká republika still managed to cut CO\(_2\) emissions by 108,132 tonnes in 2013, which however is 25,915 tonnes less than in 2012.
Groundwater consumption
The groundwater consumption of the Peak Heating Plant in Olomouc decreased in 2013. This groundwater consumption decline was proportionate to the drop in heat generation. Groundwater consumption at Frýdek-Místek Heat and Power Plant remained comparable to the previous year.

Surface water consumption
In 2013 the consumption of surface water dropped to a 5-year minimum. Overall, we note that the decrease in surface water consumption is attributable mainly to the use of returned condensate, to a lower consumption of conveying water thanks to the wet-to-dry conversion of fly ash removal, to the optimization of cooling water consumption of process units, and to variable climate conditions.

Legionella bacteria
Dalkia Česká republika has entered into contracts with certain customers on the prevention of Legionella outbreaks in accordance with Act No 258/2000 on the protection of public health, and Decree No 252/2004 on sanitary requirements for drinking and hot water. These contracts form the basis for our cooperation with customers in the preparation and implementation of measures to prevent the occurrence of Legionella bacteria. Clients can take up our offer of short- and long-term Legionella control planning, consultations on the implementation of such plans, and communication with the regional public health authority.

Dalkia Česká republika also organizes staff training focused on Legionella. In addition, the potential occurrence of Legionella is monitored at each of the Company’s plants.

Utilization of ash in 2013
In recent years, Dalkia Česká republika has re-used all the ash it produces, especially as backfill after mining activities, in the clean-up and reclamation of former mining sites and other land, in the production of building materials, and as a replacement for the silica sand used in sandblasting. The main purchasers of ash from the individual plants in 2013 were OKD HBZS, GEMEC UNION, TRYMAT, O+H STAVEBNÍ HMOTY and CEMENT HRANICE.

Ash production and disposal at Dalkia Česká republika (tonnes)

REACH
In accordance with the requirements of Regulation (EC) No 1907/2006 of the European Parliament and of the Council concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), Dalkia Česká republika has pre-registered the following substances: fly ash, slag and ash from fluidized bed combustion. In 2010, in cooperation with ORGREZ, we completed the mandatory registration of all the above substances, and based on this registration certain ash products of Dalkia Česká republika are now certified products that are offered as such to customers for various uses. Currently, Třebovice Power Station, Karviná Heat and Power Plant and Přerov Heat and Power Plant are involved in ash certification.

Occupational safety
In 2013, we continued to pay particular attention to accident prevention and improved working conditions. A new informational brochure, this time about safety when working with lifting equipment, was released. Employees are kept
In 2013 Dalkia Česká republika achieved a great success in people management, as it was awarded the Investors in People Silver Standard. Investors in People is the only internationally recognized standard for human resources management and development, placing employees at the heart of an organization’s strategy and efficiency. The IIP Standard is therefore an efficient tool for increasing the qualifications of employees, their flexibility, motivation and work productivity, which in turn helps to improve the performance of the entire firm in line with its strategy.

**Employer of the Year 2013**

On 20 June 2013, Dalkia Česká republika was named the country’s second best employer in the prestigious Employer of the Year 2013 contest at a ceremony held in Prague. This accolade follows on from the regional Moravia-Silesia’s Employer of the Year awards where Dalkia ranked second. The results were announced in Ostrava on 28 May 2013. Dalkia has been placing among the runner ups in this contest for years, which is testament to our long-term high-quality human resources policy and our exceptional approach to our staff as the Company’s most valuable asset.

**Labour relations**

Dalkia Česká republika consistently complies with all labour legislation, the current Collective Agreement, the rules of work and all internal regulations.

**Human resources**

**Investors in People**

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**Labour relations**

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Employee structure

In 2013, Dalkia Česká republika completed the overhaul of its internal organizational structure as part of the 2011-2013 Performance Plan to improve the Company’s work efficiency and productivity in line with its strategic objectives. These organizational changes are accompanied by technical and organizational measures related to the Company’s operations, maintenance and governance and are implemented so as to focus, wherever possible, on those employees eligible for retirement. In 2013 the Distribution and Services Operations underwent a major reorganization.

The average (FTE) number of employees was 1,638, a drop by 42 employees compared to 2012. The headcount at 31 December 2013 was 1,627 employees, of whom 1,332 were male and 295 were female. Broken down by type of business, there were 1,508 employees in the production, distribution and purchase and sale of heat and electricity and 119 employees providing technical services.

The share of employees holding a university degree is 18.1% (220 men and 75 women), while employees who completed secondary school with a maturita (school leaving certificate) account for 39.4% (490 men and 151 women). The average age in 2013 was 46 years. As at 31 December 2013, 74 persons were aged up to 29 years, 296 were in the 30–39 bracket, 592 in the 40–49 bracket, 588 were aged 50–59, and 77 were over 59 years.

As at 31 December 2013, in terms of the total years of service at Dalkia Česká republika, 213 persons had been employed for up to 5 years, 220 for 6–10 years, 76 for 11–15 years, 278 for 16–20 years, 307 for 21–25 years and 533 for over 25 years.

In 2013 Dalkia Česká republika hired 44 new employees, of which 32 were external hires. The hiring related mostly to operations where the replacement of retiring employees has become an important priority.

Employee incentives

Employees receive contractual or tariff-based wages. Contractual wages are intended for managers, traders and key employees, with rules laid down in the wage agreement. Tariff-based wages are for other employees (technical and manual professions) in line with rules laid down in the Collective Agreement. Another motivating factor is the “profit-sharing plan”, paid at the end of the year if the profit is higher than planned.

Employees enjoy numerous benefits under the Collective Agreement concluded for 2013–2015. One of the most significant benefits is the “personal account” amounting to CZK 27,000, allowing employees to choose where to use their allowance from several options: a supplementary pension scheme, life assurance, recreation, health and education services or cultural and sporting events. Additional benefits include catering services at special rates, contributions to children’s recreation and interest-free loans. Dalkia Česká republika pays for employees’ accident insurance with coverage of occupational and other accidents 24 hours a day.

We will continue our social policy in the same spirit in the future because for Dalkia its people are its greatest asset.

Education

The corporate training system ensures not only that the skills needed to pursue particular professions are maintained, but is also a means to improve and increase employee skills and qualifications.

In 2013 Dalkia continued to collaborate with the Institute of Environmental Services (IES), where it increased its share to 30% (Campus VE France – 40%, Veolia Voda ČR – 30%).
In 2013, Dalkia ČR provided staff with 60,320 hours of training, equivalent to more than 8,650 employees trained. Training costs amounted to CZK 12.3 million, with total costs standing at CZK 37.8 million after factoring in logistics and payroll expenses.

The most important training events included “Power Machines”, organized in cooperation with the Technical University of Ostrava (VŠB-TU) for technical professions, a series of Finance courses for non-financial staff, which has long been highly praised, an “Electrician” course, seminars on management and other soft skills (e.g. Assertive communication, Argumentation strategy and tactics), international JIVE and SHERPA workshops, and French and English language courses (111 one-to-one and 18 group classes). At the end of 2013, the PRINCE2 (Projects in Controlled Environments 2) project management training series was launched; it is intended for all those who run projects or take part in them.

Dalkia staff can use the innovative IES e-learning portal which has extended its range every year to include new courses, some of which are also available in English or French versions. The training portal includes Dalkia charters – the Occupational Safety Charter and the Manager’s Charter – as well as an interactive course (Introductory Training), conveying important information about the Veolia and Dalkia in the Czech Republic Groups for new and more established employees alike. The site also includes computer literacy courses and language courses in English and French.

**Evaluation**

Dalkia consistently applies a system of employee management via defined goals. A periodic part of its outreach is appraisal interviews, which line managers conduct with their subordinates. In these interviews, employees on contractual wages are set annual targets, and employees with tariff-based wages are set target bonuses. The findings from interviews form a basis for the employees’ personal training programmes and for the direction to be taken in their careers. Managerial assessments take place according to a uniform method borrowed from the parent company, the France-based Dalkia, and with the same outputs, including an assessment of managerial competencies.

In 2013 we worked with the outcomes of the ECHOS evaluation which took place in 2012. It entails the group appraisal of selected employees and positions based on Veolia Environnement expertise. The main task for 2013 was to update individual personal growth plans for existing employees and to set up growth plans for new talents and successors. In the last month of 2013 the talent pool comprised 22 employees and the succession pool 59 employees.

Talent management, which is a component of people management, entails the system for working with talents and successors, is a strategic activity of the human resources department that helps to achieve strategic goals set by the top management. Talent management not only drives employees’ growth and the development of competences but also provides an overview of the growth potential within the Company.

**Cooperation with schools**

We are constantly fostering our cooperation with secondary schools and universities. Eighteen university students prepared their student projects and diploma or bachelor theses with us in 2013. We exhibited at the student fairs Kariéra 2013+, hosted by VŠB-TU in Ostrava, and Den firem (Companies Day), organized by the Brno University of Technology. Just as in 2012 we were very actively involved in the “Partnership in Energy” project, aimed at promoting cooperation between universities and the Moravian-Silesian Energy Cluster. As part of this project, three selected students gained practical experience in our firm, and our experts shared their expertise with students at technical conferences hosted by VŠB – TU Ostrava and the Brno University of Technology. Specifically, our experts held lectures on “Operations and maintenance of fluidized bed boilers” and “Experience from operating a biomass-fired power station”. Our cooperation with universities is supported by framework contracts with VŠB-TU Ostrava, Brno University of Technology and the Czech Technical University in Prague.

In 2013, we continued our successful participation in the Veolia Summer School project held in France. Dalkia Česká republika sent three university students as representatives, selected on the basis of the willing cooperation they had shown in summer internships, in the preparation of their diplomas and bachelor theses, and in personal interviews. The aim of this project was to give the students an insight into Veolia Environnement.

In 2013, we continued to work with seven secondary schools by arranging for students to do their internships with us.
Basic organizational structure

Chief Executive Officer

Section of the Finance and Administration Manager

Section of the Business Manager

Section of the Production Manager

Section of the Human Resources Manager

Section of the Legal Relations Manager

Region Northern Moravia

Region Bohemia

Region Central Moravia

Region Eastern Moravia

Employee structure by education

- Lower secondary: 18.1%
- Secondary (no school leaving exam): 40.1%
- Secondary (school leaving exam): 0.4%
- Diploma: 39.4%
- University: 2%

Employee structure by age

- Up to 29 years: 18.2%
- Up to 39 years: 4.7%
- Up to 49 years: 4.5%
- Up to 59 years: 36.4%
- More than 60 years: 13.1%

Employee structure by seniority

- Up to 5 years: 13.5%
- Up to 10 years: 13.1%
- Up to 15 years: 18.9%
- Up to 20 years: 17.1%
- Up to 25 years: 32.8%
- More than 25 years: 4.7%

Average number of employees (FTE) over the past six years (including an indication of changes in shareholdings)

- 2008: 2,323
- 2009: 2,143
- 2010: 1,721
- 2011: 1,717
- 2012: 1,680
- 2013: 1,638

Changes:

- Merger of Dalkia Ostrava into the Ostrava Division
- Spin-off of the Ústí nad Labem Division to become Dalkia Ústí nad Labem

Notes:

- Average number of employees (FTE) including an indication of changes in shareholdings.
Public relations

Information about the Company’s involvement in foundations

Being a socially responsible firm, Dalkia Česká republika helps, through three foundations, not only its employees but also other people in the communities and regions where it operates. While reducing unemployment and supporting the creation of new jobs is the main mission of the Dalkia Česká republika Foundation, the Dalkia Humain Foundation in particular cares for our employees and their family members whom it provides with financial assistance in difficult situations. Dalkia also keeps the environment in mind, and thus it provides grants for projects that have a positive environmental impact through the Dalkia Environment Foundation.

Dalkia Česká republika Foundation

The Dalkia Česká republika Foundation (the “Foundation”) helps to reduce unemployment in the regions where Dalkia Česká republika operates and which are struggling with high numbers of jobless. It is currently supporting micro and small start-ups in Moravian-Silesian and Olomouc Regions. The Foundation channels assistance primarily into community projects in areas such as traditional or unconventional crafts and production, the organization of leisure time activities for children, young people and seniors, services for the local population and households, and social services for the handicapped and families with children.

Besides financial aid, the Foundation provides substantial assistance in the field of consultancy and advisory services. This assistance also involves employees of Dalkia Česká republika, who, as project “sponsors”, provide important support for their “godchildren”, helping them to prepare a business plan and then remaining in contact with them over the first two years of business.

In view of the major emphasis placed by Dalkia Česká republika on its sustainable development policy, the Foundation also holds BVC certificates according to ČSN EN ISO 14001, ČSN EN ISO 9001 and ČSN OHSAS 18001 standards, and the projects accepted for assistance are periodically assessed in the various areas of sustainable development.

The year 2013 was the fourteenth year in a row in which the Foundation helped hardly employable people carry out their good business ideas. Thanks to the Foundation’s grants which stood at CZK 5,042,500 in aggregate, a total of 72 business plans were implemented in 2014 which resulted in the creation of 93 new durable jobs, four of which were for persons with disabilities. Since the Foundation’s formation, 1,055 projects enjoyed support and have created 1,773 new jobs (253 of which have been for persons with disabilities).

The Foundation is grateful to Dalkia Česká republika and its subsidiary OTERM & TD Olomouc for their financial donations.

Most interesting projects in 2013

Karkulka [Little Red Cap] Farm
Mr Začal decided to set up his own farm to grow mushrooms and herbs in a former tavern he owns. The new farmer will grow meadow mushrooms, oyster mushrooms and the main kinds of herbs used in cooking such as basil, thyme, oregano, mint, chives and parsley. He will do so all year round using planting homeboxes and artificial lighting.

Forest Day Care in Lošov
The Pojďte ven, o. s. [Let’s Go Out] civic association seeks to build an open air day care facility. The capacity of the day care will be limited to 15 children aged from three to seven, who will be allowed to spend most of their time outdoors; the children will be served organic food and will be in smaller groups than those in the public nursery system. The creation of this facility will also provide a venue for seminars regarding healthy lifestyle, sustainable development, alternative learning, the teaching of traditional crafts and other activities.

St. Agnes Charity Home
As part of the approved project, the Javorník Charity will build the St. Agnes Charity Home – a special home intended for people who cannot take care of themselves due to conditions such as old age dementia, Alzheimer’s, etc. They will benefit from social services which include accommodation, food, assistance with personal hygiene, mobility development and maintaining of mental fitness.

Raddog – manufacturing and sale of canine accessories
The Raddog Centre will manufacture canine accessories, focussing on working race dog sports. This project will give life to a new firm operating in the manufacturing and sale of dog accessories used on a daily basis by canine trainers in both training and competitions. Accessories will be developed specifically to meet the requirements and needs of handlers and trainers and will be used for track, obedience and protection training.
Ostrava Arborists
Mr David Kudela chose to offer arborist services because he is experienced in this area, having previously worked in that field. The main client categories will include local authorities, firms and individuals who will be offered tree cutting by traditional methods or by the large tree cutting method involving climbing. Apart from the core business, the firm will offer additional services such as preparation of firewood, wood chipping, tree stump grinding, and removal of debris.

Pastry shop and puff pastry production
This is the idea of Mr Štroch from Frýdek-Místek, who will take over the production of puff pastry from his mother and expand it. Part of the pastry will be sold and part will be used to make baked products such as cakes. Only traditional pastry-making processes will be used, and puff pastry production will be extended to include baking. The target groups will include factory and school cafeterias and fast food establishments, retail chains and restaurants as well as ordinary consumers, to whom they will be sold at farmer’s markets.

Cleaning Services
Mrs Agelová from Ostrava had a good idea too. The objects of her business are the cleaning of office and company spaces, building lobbies and households. Mrs Agelová will also offer services such as ironing and carpet or sofa cleaning.

We live in a region which has been suffering from high unemployment for a long time; it is a country-wide issue which concerns each of us. That is why we are so pleased to be able to say that thanks to the Foundation’s work another 93 unemployed persons from the Moravian-Silesian and Olomouc Regions found work in 2014.

Dalkia Humain Foundation
Another endowment fund set up by Dalkia Česká republika is the Dalkia Humain Foundation, set up in 2005 to assist current and former employees who find themselves in difficult situations.

The general purpose of the Dalkia Humain Foundation is specifically fulfilled by the provision of assistance:
• to employees and their family members in difficult personal circumstances
• in the care of a physically or mentally disabled child
• at times of childbirth

In 2013, the Dalkia Humain Foundation received donations from its subsidiaries and the staff of the Dalkia in the Czech Republic Group totalling to CZK 2,227,184 and awarded grants amounting to CZK 1,774,120.

Dalkia Environment Foundation
The Dalkia Environment Foundation was created in 2006 to help finance projects that have a positive impact on the environment.

Grants may be awarded to legal entities for projects implemented in the Czech Republic which satisfy the following criteria: quality, fitness for purpose, guaranteed implementation, returns, project support.

The Foundation supports the following projects:
• Projects mitigating environmental impacts of the generation of energy
• Projects for the use of renewables in energy production
• Projects for the reclamation and rehabilitation of land affected by energy production
• Projects for the supply of heat, especially through the expansion of district heating from central heat generating plants
• Projects in line with the Foundation’s mission and general purpose
• Suppliers of renewable sources

Veolia Foundation – Mini Grants
In 2013 too, Dalkia’s employees were able to take part in the Mini Grants project and apply for a grant of up to CZK 50,000 in order to support the community initiatives in which they were involved in their free time. In this fourth year, 85 people with 101 projects applied for Mini Grants. Dalkia in cooperation with the Veolia Foundation awarded a total of CZK 500,000 for 35 projects. All kinds of leisure activities, the organization of summer camps, and environmental projects dominate among this year’s successful projects.

Interesting sponsorship activities
As a partner and sponsor of many social, cultural and sporting events, Dalkia proves that it is indeed a socially responsible firm. In the regions where it operates, it makes financial and in-kind donations to many events.
In the area of sports Dalkia supported not only the famous extra league ice hockey club HC Vítkovice Steel and the MFK Karviná football team, but also smaller sports clubs and associations. As to supported cultural events, we would like to mention Janáček May, Francophonie Days in Ostrava, among others.

Dalkia also thinks about children, and that is why last year it also supported various activities and competitions for children such as the Rescue swimming training for school pupils or the Music band in Krnov. Dalkia also contributed to nursery schools and elementary schools for equipment they requested such as an interactive board for children in Sviadnov.

Several hospitals and nursing homes received grants as well. They received contributions for the equipment of an outpatient unit, the purchase of a wheelchair and other medical equipment. Dalkia helped, among others, with the refurbishment of an apartment building for youths leaving foster care or the ADRA charity, whom the financial donation will allow to promote volunteering and to properly train volunteers.

**Key advertising activities**

In 2013, Dalkia Česká republika also continued to promote the company under the slogan “Dalkia - Energy in Mind”. Yet, as part of the new advertising campaign the roll ups which are used for both internal and external presentation of the company were totally revamped. Thus, from now on, Dalkia’s presentation relies on the three main objects of businesses or activity types.

There is no doubt that the main achievement in Dalkia’s promotion in 2013 was the production of the lip dub video clip called “Do people fire boilers or dance in this power plant?” The shooting took place at Třebovice Power Station and was performed entirely by Dalkia’s employees. The video was placed on the website and is often and very successfully for company presentation.

In the same year Dalkia organized an Open House Day at Třebovice Power Station. Nearly 1,600 people were eager not only to visit the power station’s operations but also to view photographs and a presentation on this heat and power plant from its origins to the present day, as well as technical objects and models related to its operations.

As to major events in 2013, Dalkia highlights the launch of cooling generation for the ČSA Mine in Karviná, the commissioning of the new biomass-fired power station in Frýdek-Místek or the Heat 2013 Tactical Exercise on the premises of Olomouc Heat and Power Plant, which verified the fitness of the rescue units of both the Olomouc city and Dalkia Česká republika.

Last year several plants celebrated special anniversaries: Třebovice Power Station (80 years), Přívoz Heat and Power Plant (100 years) and Krnov Heat and Power Plant (110 years).

As usual, Dalkia Česká republika was present at the Heating Days that the Czech Association for District Heating held in Brno last year and gave a presentation on its activities at the Savings for Municipalities conference held in Ostrava. At the opportunity of the 19th annual Heating Days, Dalkia received the Achievement of the Year 2012 award in heating and cooling supply systems for its project called “Cooling of the Nová Karolina Complex in Ostrava”.

**Results**

In 2013, Dalkia Česká republika reported a pre-tax profit of CZK 2,158,545,000, which is 7.6% lower than in the previous year (mainly because of lower revenues from the sale and resale of electricity).

Total costs net of income tax amounted to CZK 7,407,210,000 which compared to 2012 is a 3.4% decrease; total revenues amounted to CZK 9,565,755,000 down by 4.3% compared to 2012. The decline in total revenues was attributable mostly to falling electricity sales; total costs went down mostly due to a lower cost of sales.

The operating profit came to CZK 1,583,287,000, which was 6.7% lower than in the previous year, again because of lower revenues from electricity sales.

Financial operations reported a profit of CZK 575,258,000 in 2013, mainly in the wake of dividends received from subsidiaries.

Income tax, including the deferred tax liability, amounted to CZK 341,005,000 and the profit for the accounting period was CZK 1,817,540,000.

Dalkia Česká republika’s financial situation was stable and balanced throughout the year. The Company’s financing was based on the use of its own resources of CZK 2,659 million, generated by operating and investing activities, and sources from the Group’s cash pooling system. These funds were used to acquire non-current assets worth CZK 763 million; further to a resolution of the General Meeting, in 2013 the Company paid dividends totalling CZK 1,809 million.
Year-end financial assets stood at CZK 4 million and included cash in hand, cash in current accounts and short-term securities. Including receivables from cash pooling, the balance of cash and cash equivalents was CZK 316 million.

The Company's total assets at the end of 2013 were CZK 14,274 million, an increase by 1.8% compared to 2012. The increase in total assets is mainly attributable to an increase in current assets.

Non-current assets at the end of 2013 came to CZK 11,668 million, accounting for 81.7% of total assets. This was a drop of CZK 91 million (0.8%) year on year.

Current assets at the end of 2013 were CZK 2,606 million, accounting for 18.3% of total assets. The value of current assets increased by CZK 345 million compared to the previous year.

Year-end equity was CZK 9,407 million, i.e. 65.9% of the Company's total equity and liabilities. Equity recorded a decrease by CZK 87 million (0.9%) compared with the situation as at 1 January 2013.

The total value of borrowings at the end of 2013 was CZK 4,867 million, down by CZK 341 million (7.5%) on the previous year. Borrowings increased mostly as a result of higher trade and other payables.

Business plan

Unfortunately, 2013 was not a year full of pleasant surprises for an energy business - quite the contrary. It was affected by the on-going economic crisis, rising unemployment, dropping prices of electric energy and a decreasing support for the generation of energy from renewable and secondary sources. As if that were not enough, the weather mostly played against heat generating companies, and there were incessant legislative interventions contributing to the deterioration of this business.

These factors forced Dalkia Česká republika to exert maximum efforts in order to maintain or strengthen its market position. In 2013 too Dalkia Česká republika carried on with its “Savings Plan” project which resulted in a 15.9% cost reduction in aggregate from 2010 to 2013.

The results were underpinned by a series of renewed contracts with existing clients and the acquisition of 90 new contracts.

Particular attention was paid to the Dalkia in the Czech Republic Group’s “Sustainable Development Policy” which reflected in the launch of the greening of our plants as well as in additional promotion of the use of renewable and secondary energy sources (biomass, mine gas, coke-oven gas) across the Group.

The completion of new biomass-fired boilers in Mariánské Lázně and Vlašim, supplies of cooling to the OKD mine, the completion of dry ash removal were but a few of our major achievements in 2013.

We must go on with all these activities. The preparation for the next regulatory period in the heating industry, hopefully - finally - the approval of the National Energy Policy, the implementation of EU legislation (the implementation of the Commission Directives on Energy Efficiency being the primary one) as well as other activities are ahead of us. Together with our colleagues, we will continue to strive, to the best of our abilities, to provide high-quality services and to gain more satisfied customers.

Subsidiaries

At the end of 2013, Dalkia Česká republika held controlling interests in five companies: a 66% interest in OLTÉRM & TD Olomouc, a.s.; a 100% interest in AmpluServis, a.s.; a 100% interest in Dalkia Kolín, a.s.; a 100% interest in Dalkia Mariánské Lázně, s.r.o.; a 100 % interest in Dalkia Industry CZ, a.s. Dalkia Industry CZ, a.s. holds a 100% interest in Dalkia Commodities CZ s.r.o. and Dalkia Powerline Sp. z.o.o. All companies are domiciled in the Czech Republic, apart from Dalkia Powerline, which is based in Poland. The registered offices and core business of the subsidiaries are set out in Dalkia Česká republika’s consolidated financial statements.

The parent and subsidiaries keep their accounting under International Accounting Standards.
### Revenue (CZK thousands)

<table>
<thead>
<tr>
<th>Company</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dalkia Česká republika, a.s.</td>
<td>8,780,505</td>
<td>8,883,102</td>
</tr>
<tr>
<td>OLTTERM &amp; TD Olomouc, a.s.</td>
<td>399,444</td>
<td>403,306</td>
</tr>
<tr>
<td>AmpluServis, a.s.</td>
<td>337,758</td>
<td>356,543</td>
</tr>
<tr>
<td>Dalkia Kolin, a.s.</td>
<td>472,243</td>
<td>418,886</td>
</tr>
<tr>
<td>Dalkia Mariánské Lázně, s.r.o.</td>
<td>164,506</td>
<td>156,216</td>
</tr>
<tr>
<td>Dalkia Industry CZ, a.s.</td>
<td>1,923,185</td>
<td>1,856,444</td>
</tr>
<tr>
<td>Dalkia Commodities CZ s.r.o</td>
<td>2,441,358</td>
<td>2,507,990</td>
</tr>
<tr>
<td>Dalkia Powerline Sp. z o.o.</td>
<td>546,013</td>
<td>567,485</td>
</tr>
</tbody>
</table>

### Profit for the period (CZK thousands)

<table>
<thead>
<tr>
<th>Company</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dalkia Česká republika, a.s.</td>
<td>1,817,540</td>
<td>1,990,721</td>
</tr>
<tr>
<td>OLTTERM &amp; TD Olomouc, a.s.</td>
<td>21,007</td>
<td>21,052</td>
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<tr>
<td>AmpluServis, a.s.</td>
<td>5,685</td>
<td>3,025</td>
</tr>
<tr>
<td>Dalkia Kolin, a.s.</td>
<td>73,170</td>
<td>88,991</td>
</tr>
<tr>
<td>Dalkia Mariánské Lázně, s.r.o.</td>
<td>42,053</td>
<td>13,102</td>
</tr>
<tr>
<td>Dalkia Industry CZ, a.s.</td>
<td>410,137</td>
<td>472,445</td>
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<tr>
<td>Dalkia Commodities CZ s.r.o</td>
<td>55,189</td>
<td>79,477</td>
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<tr>
<td>Dalkia Powerline Sp. z o.o.</td>
<td>9,879</td>
<td>16,863</td>
</tr>
</tbody>
</table>

### Revenue from sale of heat and related products (CZK thousands)

<table>
<thead>
<tr>
<th>Company</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dalkia Česká republika, a.s.</td>
<td>5,558,141</td>
<td>5,409,462</td>
</tr>
<tr>
<td>OLTTERM &amp; TD Olomouc, a.s.</td>
<td>354,561</td>
<td>359,640</td>
</tr>
<tr>
<td>AmpluServis, a.s.</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Dalkia Kolin, a.s.</td>
<td>371,917</td>
<td>319,027</td>
</tr>
<tr>
<td>Dalkia Mariánské Lázně, s.r.o.</td>
<td>163,487</td>
<td>155,119</td>
</tr>
<tr>
<td>Dalkia Industry CZ, a.s.</td>
<td>380,500</td>
<td>362,158</td>
</tr>
<tr>
<td>Dalkia Commodities CZ s.r.o</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Dalkia Powerline Sp. z o.o.</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

### Revenue from the sale and presale of electricity and ancillary services (CZK thousands)

<table>
<thead>
<tr>
<th>Company</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dalkia Česká republika, a.s.</td>
<td>3,103,360</td>
<td>3,361,812</td>
</tr>
<tr>
<td>OLTTERM &amp; TD Olomouc, a.s.</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>AmpluServis, a.s.</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Dalkia Kolin, a.s.</td>
<td>97,521</td>
<td>97,263</td>
</tr>
<tr>
<td>Dalkia Mariánské Lázně, s.r.o.</td>
<td>664</td>
<td>326</td>
</tr>
<tr>
<td>Dalkia Industry CZ, a.s.</td>
<td>987,672</td>
<td>918,296</td>
</tr>
<tr>
<td>Dalkia Commodities CZ s.r.o</td>
<td>2,362,307</td>
<td>2,507,958</td>
</tr>
<tr>
<td>Dalkia Powerline Sp. z o.o.</td>
<td>546,013</td>
<td>567,485</td>
</tr>
</tbody>
</table>

### Total assets (CZK thousands)

<table>
<thead>
<tr>
<th>Company</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dalkia Česká republika, a.s.</td>
<td>14,274,089</td>
<td>14,020,090</td>
</tr>
<tr>
<td>OLTTERM &amp; TD Olomouc, a.s.</td>
<td>532,298</td>
<td>528,775</td>
</tr>
<tr>
<td>AmpluServis, a.s.</td>
<td>99,874</td>
<td>130,152</td>
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<tr>
<td>Dalkia Kolin, a.s.</td>
<td>968,391</td>
<td>915,895</td>
</tr>
<tr>
<td>Dalkia Mariánské Lázně, s.r.o.</td>
<td>219,920</td>
<td>108,177</td>
</tr>
<tr>
<td>Dalkia Industry CZ, a.s.</td>
<td>3,432,875</td>
<td>3,405,858</td>
</tr>
<tr>
<td>Dalkia Commodities CZ s.r.o</td>
<td>749,622</td>
<td>644,926</td>
</tr>
<tr>
<td>Dalkia Powerline Sp. z o.o.</td>
<td>177,347</td>
<td>173,725</td>
</tr>
</tbody>
</table>

The consolidated profit for the 2013 accounting period was CZK 1,848,980,000, compared to CZK 1,854,979,000 in 2012.

The full texts of the individual companies' annual reports are published on the Group's website at www.dalkia.cz.
3. Financial Report

3.1. General and Statutory Information

Selected financial data from the unconsolidated financial statements for the last two years (CZK thousands)

In accordance with Section 19(9) of the Accounting Act, the financial statements for 2013 and comparable indicators for the previous period were prepared under International Financial Reporting Standards (IFRS). The Company prepared its consolidated financial statements in accordance with International Accounting Standard IAS 27.

The consolidation scope in 2013 comprised the parent, i.e. Dalkia Česká republika, and subsidiaries, i.e. Olterm & TD Olomouc, AmpluServis, Dalkia Kolín, Dalkia Mariánské Lázně, Dalkia Industry CZ, Dalkia Commodities CZ, Dalkia Powerline and Nadační fond Dalkia pro životní prostředí (the Dalkia Environment Foundation).

The consolidation scope in 2012 comprised Dalkia Česká republika, Olterm & TD Olomouc, AmpluServis, Dalkia Kolín, Dalkia Mariánské Lázně, Dalkia Industry CZ, Dalkia Commodities CZ, Dalkia Powerline and Nadační fond Dalkia pro životní prostředí (the Dalkia Environment Foundation).

The consolidated financial statements are disclosed in this Annual Report together with the unconsolidated financial statements.

<table>
<thead>
<tr>
<th>Selected financial data</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall debt (%)</td>
<td>34.09</td>
<td>32.28</td>
</tr>
<tr>
<td>Return on assets (%)</td>
<td>12.73</td>
<td>14.20</td>
</tr>
<tr>
<td>Current liquidity</td>
<td>0.69</td>
<td>0.65</td>
</tr>
</tbody>
</table>

Information about share capital

The Company’s share capital is CZK 3,146,447,000 and is divided into 78,661,161 registered ordinary shares, each with a nominal value of CZK 40, ISIN CZ0009105904; the Company is not listed on a regulated market.

Rights and obligations attaching to shares issued by the Company are specified in detail in the Articles of Association (especially Chapter II, Articles 9 and 10).

Information about the parent company and the position within the Group

The sole entity with a stake of at least 20% in the Company’s share capital as at 31 December 2013 was Société de Participations et d’Investissements Diversifiés 2 (SPID 2), holding 63.056% of the Company’s shares at year-end. By acting in concert, SPID 2 and Dalkia International are the majority shareholders with an aggregate 73.056% interest in the Company.
According to its certificate of incorporation, SPID 2’s core business comprises all kinds of investments in movable and immovable assets, the management of movable and immovable assets, all kinds of financial and other studies, all kinds of financial transactions, and transactions involving movable and immovable assets directly or indirectly associated with the activities outlined above. SPID 2 is a holding company incorporated under French law, having its registered office in Paris at 33 PCE RONDE 92800 PUTEAUX PARIS LA DEFENSE. It is a wholly-owned subsidiary of Dalkia International (a member of the multinational Veolia Environnement group). SPID 2’s share capital is EUR 13,237,500.

Dalkia International is a company incorporated under French law, having its registered office in Saint-Andre at 37 Avenue Du Maréchal De Lattre De Tassigny. According to its certificate of incorporation, Dalkia International’s core business comprises all capital interests and shareholdings, purchases, take-overs, and mergers of companies of all legal forms headquartered outside France. Dalkia International’s share capital is EUR 1,760,126,700.

Dalkia International’s subsidiaries in the Czech Republic are: Dalkia Česká republika, a.s, Dalkia Projekt, s.r.o. in liquidation, JVCD, a.s and Dalkia s.r.o. Dalkia International’s subsidiaries are involved in the generation and distribution of heat and electricity, energy facility management, cogeneration, services to industrial customers, and facility management services, i.e. the comprehensive operation of buildings. Dalkia operates in Argentina, Australia, Bahrain, Belgium, Brazil, Bulgaria, Canada, China, the Czech Republic, Finland, France, Holland, Hungary, Israel, Italy, Ireland, Lithuania, Luxembourg, Norway, Poland, Portugal, Romania, Russia, Saudi Arabia, Singapore, the Slovak Republic, Spain and the USA.

Dalkia International’s parent company is Dalkia, which is part of the multinational Veolia Environnement.

The subsidiaries of Dalkia Česká republika, a.s. are Olterm & TD Olomouc, a.s., AmpluServis, a.s., Dalkia Kolín, a.s., Dalkia Mariánské Lázně, s.r.o. and Dalkia Industry CZ, a.s.

Dalkia Česká republika, a.s. is not dependent on any other entities in the Dalkia group.

The Company has adopted measures to ensure that there is no abuse of control by the main shareholder by integrating the Veolia – Sarbanes Oxley (SOX) internal control system principles. This control system is regularly assessed and reviewed by the auditor and Audit Committee.

**Information about securities**

On 7 October 2008, the Company’s Board of Directors decided to issue listed bonds with a fixed rate yield worth CZK 1,000,000,000, redeemable in 2015. As at 7 November 2008, the Company had issued bonds forming an issue aggregating a nominal CZK 10,000,000.

**4.24% bonds redeemable in 2015**

<table>
<thead>
<tr>
<th>ISIN:</th>
<th>CZ0003501603</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type:</td>
<td>bearer</td>
</tr>
<tr>
<td>Form:</td>
<td>dematerialized</td>
</tr>
<tr>
<td>Quantity:</td>
<td>1,000</td>
</tr>
<tr>
<td>Listed:</td>
<td>PSE official open market as of 7 November 2008.</td>
</tr>
<tr>
<td>Coupon:</td>
<td>fixed interest rate of 4.24% p.a.</td>
</tr>
<tr>
<td>Interest payable annually on 7 November</td>
<td></td>
</tr>
<tr>
<td>Issue amount:</td>
<td>CZK 10,000,000</td>
</tr>
<tr>
<td>Nominal value:</td>
<td>CZK 10,000</td>
</tr>
</tbody>
</table>

Transfer: The bonds are transferred upon registration of the transfer at the Prague Securities Centre in accordance with the Centre’s applicable regulations. The transferability of the bonds is not restricted, but in accordance with Article 7.3 of the Issue Terms and Conditions, the transfer of bonds at the Prague Securities Centre may be suspended in relation to a redemption or early redemption of the bonds.

**Administrator’s registered office:** Československá obchodní banka, a.s.
Radlická 333/150
150 57 Praha 5

**Bond issue date:** 7 November 2008, 7-year maturity

Interest at 4.24% is payable annually for the period elapsed as at 7 November of each year. The first payment was made on 7 November 2009. Unless the bonds are redeemed early or are bought back by the issuer and cancelled, the nominal value of bonds will be redeemed with a lump-sum payment as at 7 November 2015.
Payments of the nominal value of bonds or interest on the bonds will be made to a person registered as a bond holder at the Prague Securities Centre, or in another statutory register of owners of dematerialized securities in the Czech Republic replacing the Prague Security Centre’s register, or in the register of any other person authorized or responsible for maintaining records of dematerialized securities as at the relevant date. “Relevant date” means the date that precedes the relevant interest payment date or date of final maturity of the bonds by one calendar month.

On 1 July 2010, Centrální depozitář cenných papírů, a.s. took over the securities register until then maintained by the Securities Centre.

Payments relating to the bonds shall be made by credit transfer to an account held by the beneficiary in CZK at a bank in the Czech Republic, communicated in writing to the administrator by the beneficiary at least five working days prior to the payment of interest or maturity of the bonds.

Payments relating to bonds shall be made exclusively in Czech crowns or other lawful tender of the Czech Republic replacing the Czech crown in accordance with generally applicable legislation in the Czech Republic in effect as at the date on which such payments are made.

Rights attaching to the bonds shall be barred by statutes of limitation upon expiry of ten years from the date on which they could have been exercised for the first time.

The bonds establish direct, general, unsecured, unconditional and unsubordinated obligations of the issuer which, in terms of priority of satisfaction, are and will be mutually equal and at least equal to any other current or future unsubordinated and unsecured obligations of the issuer, except those obligations of the issuer where otherwise stipulated by mandatory provisions of the law. The issuer agrees to treat all holders of bonds equally and under the same conditions.

The issue conditions and the prospectus were approved under Czech National Bank Decision No 2008/12899/570 Sp/2008/311/572 of 31 October 2008, which entered into force on 31 October 2008.

Financing
The Company’s financial situation was stable and balanced throughout the year. The Company’s financing was based on the use of its own resources of CZK 2,658,920,000, generated by operating and investing activities, and sources from the Group’s cash pooling system. These funds were used to acquire fixed assets worth CZK 763,253,000; further to a resolution of the General Meeting, in 2013 the Company paid dividends totalling CZK 1,809,207,000.

Year-end financial assets stood at CZK 316,165,000 and included cash in hand, cash in current accounts and cash pooling.

Economic and financial outlook
A profit before tax of CZK 2,100 million is projected for 2014. Revenues are forecast to total CZK 7,800 million. In 2014, the Company expects a stable financial situation without any problems in debt repayment.

Litigation, administrative proceedings and arbitration
No significant court, administrative or arbitration proceedings against the issuer were pending in 2013.

General information about the Company
Dalkia Česká republika, a.s. (a public limited company), having its registered office at 28. října 3337/7, Moravská Ostrava, 702 00 Ostrava (the “Company”), was established under the name Moravskoslezské teplárny a.s. by a sole founder, the National Property Fund of the Czech Republic, seated at Praha 1, Gorkého nám. 32 (the “Founder”), pursuant to a Memorandum of Association (containing the founder’s decision within the meaning of Section 172(2), (3) and Section 171(1) of Act No 513/1991, the Commercial Code) of 24 April 1992 in the form of a notarial deed. As of 7 January 2002, the Company’s name was changed to Dalkia Morava, a.s., and as of 1 January 2004 it was changed again to the present name. The Company was incorporated on 1 May 1992 by entry in the Companies Register on 27 April 1992; it is registered in the Companies Register kept by the Regional Court in Ostrava, File 318. According to the certificate of incorporation, its core business is the generation and distribution of heat and electricity. The Company’s website is at www.dalkia.cz; the telephone number for the registered office is +420 596 609 111.

Changes in the Company’s structure and in the Companies Register in 2013
In June 2013 the staff representative in the Supervisory Board, Mr Zdeněk Krakovský, was re-elected for an another four-year term effective 28 June 2013.

The Annual General Meeting held on 12 June 2013, inter alia, re-elected Mrs Isabelle Picard, Mr Philippe Beauté and Mr Miroslav Novák as members of the Audit Committee for another four years.
On 24 October 2013 Mr Philippe Beauté resigned from his office as member of the Supervisory Board. On the same day, pursuant to the law and to the Company’s Articles of Association, the Supervisory Board discussed his resignation and elected Mr Eric Gouy as an alternate member of the Supervisory Board until the date of the next General Meeting.

Information on governing and supervisory bodies
Chairman of the Board of Directors: Zdeněk Duba, Dalkia Česká republika, a.s., 28. října 3337/7, Moravská Ostrava, 702 00 Ostrava

Vice-Chairman of the Board of Directors, Chief Executive Officer: Laurent Barrieux, Dalkia Česká republika, a.s., 28. října 3337/7, Moravská Ostrava, 702 00 Ostrava

Member of the Board of Directors, Administration and Finance Manager: François Leimgruber, Dalkia Česká republika, a.s., 28. října 3337/7, Moravská Ostrava, 702 00 Ostrava

Member of the Board of Directors, Commercial Manager: Christophe Johany Lanneluc, Dalkia Česká republika, a.s., 28. října 3337/7, Moravská Ostrava, 702 00 Ostrava

Member of the Board of Directors, Production Manager: Josef Novák, Dalkia Česká republika, a.s., 28. října 3337/7, Moravská Ostrava, 702 00 Ostrava

Chairman of the Supervisory Board: Jean-Michel Mazalerat, DALKIA INTERNATIONAL, 36-38 Avenue Kléber, 750 16 Paris, France

Vice-Chairman of the Supervisory Board: Gérard Millière, DALKIA FRANCE, Dalkia Centre-Méditerranée „Le Laser”, 184 Cours Lafayette, 694 41 Lyon Cedex 03, France

Member of the Supervisory Board: Philippe Beauté, DALKIA INTERNATIONAL, 36-38 Avenue Kléber, 750 16 Paris, France – termination of office as of 24 October 2013

Member of the Supervisory Board: Eric Gouy, DALKIA INTERNATIONAL, 36-38 Avenue Kléber, 750 16 Paris, France – appointed to office on 24 October 2013

Member of the Supervisory Board: François Vasse, DALKIA INTERNATIONAL, 36-38 Avenue Kléber, 750 16 Paris, France

Member of the Supervisory Board: Zdeněk Krakovský, Dalkia Česká republika, a.s., Region Northern Moravia, elektrárenská 5562/17, 709 74 Ostrava-třebovice

Member of the Supervisory Board: Ladislav Kugler, Dalkia Česká republika, a.s., Region Northern Moravia, Svobody 5, 709 74 Karviná-Doly

Member of the Supervisory Board: Martin Jašek, ČEZ, a.s., Praha 4, Duhová 2/1444, 140,53 Praha 4

Member of the Supervisory Board: Jerôme Ladrière, DALKIA INTERNATIONAL, 36-38 Avenue Kléber, 750 16 Paris, France

Member of the Supervisory Board: Petr Štulc, ČEZ, a.s., Praha 4, Duhová 2/1444, 140,53 Praha 4

Member of the Supervisory Board: Bernard Thomas, DALKIA INTERNATIONAL, 36-38 Avenue Kléber, 750 16 Paris, France

Member of the Supervisory Board: Jan Myšík, Dalkia Česká republika, a.s., Region Central Moravia, Okružní 19, 779 00 Olomouc

Member of the Supervisory Board: Eva Tmejová, Dalkia Česká republika, a.s., 28. října 3337/7, Moravská Ostrava, 702 00 Ostrava

Activities of members of the Board of Directors in other companies in the Czech Republic
Zdeněk Duba – Chairman of the Board of Trustees of the Dalkia Česká republika Foundation; Vice-Chairman of the Board of Directors of AmplumuServis, a.s.

Laurent Barrieux – Vice-Chairman of the Board of Directors of Olterm & TD Olomouc, a.s.; Chairman of the Supervisory Board of the Dalkia Česká republika Foundation; Chairman of the Supervisory Board of Dalkia Industry CZ, a.s.; sole member of the Board of Directors of JVCD, a.s. and Chairman of the Supervisory Board of Veolia Support Services Česká republika, a.s.
Francois Leimgruber – Chairman of the Supervisory Board of the DALKIA HUMAIN Foundation; Vice-Chairman of the Supervisory Board of AmplusServis, a.s.; member of the Supervisory Board of the Dalkia Česká republika Foundation; Vice-Chairman of the Supervisory Board of Dalkia Industry CZ, a.s.; member of the Supervisory Board of JVCD, a.s. and member of the Board of Directors of Veolia Support Services Česká republika, a.s.

Christophe Johany Lanneluc – member of the Supervisory Board of Olterm & TD Olomouc a.s.; member of the Board of Directors of Dalkia Kolín, a.s.; member of the Supervisory Board of JVCD, a.s.

Josef Novák – Chairman of the Supervisory Board of Dalkia Kolín, a.s. and member of the Supervisory Board of JVCD, a.s.

None of the members of the Board of Directors or the Supervisory Board is compromised by a conflict of interests.

In the 2013 accounting period, members of the Board of Directors and the CEO (senior management) received pecuniary income of CZK 6,963,000 and in-kind income of CZK 650,000 for their employment, plus income of CZK 2,100,000 for their governing body membership from Dalkia Česká republika, a.s. They received CZK 752,000 from entities controlled by the Company for membership of the governing and other bodies of those companies; they received no other income from entities controlled by the Company.

In the 2013 accounting period, members of the Supervisory Board received pecuniary income of CZK 7,111,000 and in-kind income of CZK 547,000 for their employment, plus income of CZK 4,553,000 for their supervisory body membership from Dalkia Česká republika, a.s. They received CZK 288,000 from entities controlled by the Company for membership of the governing and other bodies of those companies; they received no other income from entities controlled by the Company.

The principles under which these staff members receive remuneration from their employer in France are not set out in the Personnel Secondment Agreement and are unknown to the Company. The Company pays remuneration to these persons for their membership in the Company’s Board of Directors.

Members of the Board of Directors and the Supervisory Board are remunerated on the basis of a General Meeting decision laying down the maximum remuneration for each position (Board of Directors: Chairman – a maximum of CZK 50,000 per month; Vice-Chairman – a maximum of CZK 40,000 per month; Member – a maximum of CZK 30,000 per month; Supervisory Board: Chairman – a maximum of CZK 50,000 per month; Vice-Chairman – a maximum of CZK 40,000 per month; Member – a maximum of CZK 30,000 per month); the Chairman of the Supervisory Board has the power to approve the specific amount of remuneration to be paid to each member of the Board of Directors and the Supervisory Board. Further, the Chairman of the Supervisory Board has the authority to decide on the provision, to a member of the Board of Directors or Supervisory Board, of a company car, mobile telephone and personal computer for business and private purposes, including the coverage of operating costs under the conditions laid down by generally applicable legislation.

The Chief Executive Officer and other members of senior management who are not employees of the issuer hold their office under a Personnel Secondment Agreement concluded with DALKIA INTERNATIONAL. These persons receive a salary paid to them directly by their employer, DALKIA in France, under that company’s internal salary rules and compensation policy. Persons with managerial authority who are employees of Dalkia Česká republika, a.s. receive a contractual salary for their employment based on a management contract on an individual salary in accordance with the Company’s internal regulations. A contractual salary consists of a fixed and variable component; the variable component is 50% of the fixed salary component and depends on whether the targeted profit and individual goals are reached. The amount of a contractual salary (both the fixed and variable components) is subject to the Chief Executive Officer’s approval.

In the 2013 accounting year, members of the Supervisory Board (specifically, one person) held 750 Company shares. In this accounting period, none of the members of the Board of Directors, the senior management or relatives of members of the Board of Directors, senior management or Supervisory Board held shares in the Company. No members of the Supervisory Board, the Board of Directors or other persons with managerial authority, or their relatives, entered into an option or similar investment instrument whose value was linked to the Company’s shares, nor was any such agreement concluded on their behalf.

Audit Committee
An Audit Committee comprising Philippe Beauté, Isabelle Picard and Miroslav Novák has been set up at the Company.

No controlling committee or remuneration committee exists at the Company.

Corporate governance – information of an issuer of a listed security
The Company has implemented and applies a control system and risk management system. Risks that relate to the financial reporting process are eliminated by internal control. The main elements of this internal control are the software checking of
reported data in the Vector consolidation tool and the controlled verification of control activities, the separation of functions and the authority of authorizing officers within the scope of SOA404 group controls. The Company’s organizational structure includes a section responsible for risk management. The Company has prepared risk mapping in order to increase the transparency of risks taken in relation to investors and to ensure targeted risk management under action plans adopted by the Company’s management.

The decision-making procedure followed by the Board of Directors, the Supervisory Board and the Audit Committee is fully regulated by the Company’s Articles of Association and conforms to applicable legislation. The Board of Directors takes decisions by a simple majority of its members; the approval of a simple majority of those present is needed to adopt a decision. For the adoption of a decision by the Supervisory Board, the approval of a simple majority of its members is required. The Audit Committee takes decisions by a majority of those members present. Nominations for the appointment and removal of members of the Board of Directors, the Supervisory Board and the Audit Committee, except for any member of the Supervisory Board elected in 2013 in accordance with Section 200 of Act No 513/1991, Commercial Code, shall be submitted by the Board of Directors, in the case of members of the Audit Committee on a proposal from the Supervisory Board; shareholders are not restricted in the exercise of their right to submit nominations during a General Meeting.

The decision-making procedure followed by the General Meeting is fully regulated by the Company’s Articles of Association and conforms to applicable legislation. Voting rights are attached to all shares; there is one vote per share. The General Meeting takes decisions by a majority of the votes of those shareholders present, unless a different majority is required by the Articles of Association in specified matters or by law. The competence of the General Meeting is set out in the Articles of Association and, in its scope, corresponds to the powers laid down by the Commercial Code and other legislation.

The Company adheres to the principles of the Corporate Governance Code applied by the Veolia Environnement Group, which are part of the programme “VEOLIA ENVIRONNEMENT – Ethics, Commitment and Responsibility”. The application of the principles is further formulated and adapted by the Company for the Czech legal environment in the Articles of Association, internal regulations and the comprehensive policy and individual codes of the Company. The corporate culture of the Dalkia in the Czech Republic Group relies on five Charters, each of which covers a different area and each having its own significance: The Employee’s Charter sums up the main principles that all employees should follow in their everyday work, covering topics such as cooperation and communication with colleagues, education, personal growth, etc.; the Manager’s Charter sets out rules of proper management of subordinate colleagues; the Occupational Safety Charter underlines the rules of safe and responsible conduct at the workplace; and the Customer Care Charter sums up the rules for dealing with clients and business partners. The Sustainable Development Policy covers all Integrated Management System standards related to the environment, employees and customers. Together, these five documents form the Code of Ethics of the Dalkia in the Czech Republic Group. The Company complies with the corporate governance system applicable in the Czech Republic.

**Persons Responsible for the Annual Report**

Zdeněk Duba, Chairman of the Board of Directors, born 18 January 1955, Praha 4 – Písnice, Ke Kurtům 374/21. I hereby declare on my honour that the information disclosed in the Annual Report is truthful; no material circumstances which could affect an accurate, correct assessment of the issuer and its issued securities have been omitted or misrepresented.

Zdeněk Duba
Chairman of the Board of Directors

**Persons responsible for auditing the financial statements**

For the last two years the issuer’s financial statements have been audited by auditors of KPMG Česká republika Audit, s.r.o., having its registered office at Pobřežní 648/1a, 186 00 Praha 8, Licence No 71.

The fee for the Company’s 2013 audit was agreed at CZK 4,043,000, including the audit of the consolidated financial statements; the fee for the consolidated group was agreed at CZK 6,710,000, including the consolidated financial statements.

**Availability of documents and materials contained in the Annual Report**

All documents and materials referred to in this Annual Report are available for inspection at the issuer’s registered office at: 28. října 3337/7, Moravská Ostrava, 702,00 Ostrava.
## 3.2. Non-consolidated income statement

### Non-consolidated income statement for the year ended December 31

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Note</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>6</td>
<td>8,780,505</td>
<td>8,883,102</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>7</td>
<td>(6,316,304)</td>
<td>(6,506,666)</td>
</tr>
<tr>
<td>Gross profit</td>
<td></td>
<td>2,444,201</td>
<td>2,376,436</td>
</tr>
<tr>
<td>Distribution expenses</td>
<td>8</td>
<td>(213,882)</td>
<td>(51,470)</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>9</td>
<td>(647,032)</td>
<td>(672,293)</td>
</tr>
<tr>
<td>Results from operating activities</td>
<td></td>
<td>1,583,287</td>
<td>1,697,673</td>
</tr>
<tr>
<td>Finance income</td>
<td>10</td>
<td>625,719</td>
<td>705,055</td>
</tr>
<tr>
<td>Finance costs</td>
<td>10</td>
<td>(50,461)</td>
<td>(67,587)</td>
</tr>
<tr>
<td>Profit before income tax</td>
<td></td>
<td>2,158,545</td>
<td>2,335,141</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>11</td>
<td>(341,005)</td>
<td>(344,420)</td>
</tr>
<tr>
<td>Profit for the period</td>
<td></td>
<td>1,817,540</td>
<td>1,990,721</td>
</tr>
</tbody>
</table>

### Non-consolidated statement of comprehensive income for the year ended December 31

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the period</td>
<td>1,817,540</td>
<td>1,990,721</td>
</tr>
<tr>
<td>Employee benefits – actuarial gains (losses)</td>
<td>(39,067)</td>
<td>(62,194)</td>
</tr>
<tr>
<td>Changes in fair value of cash flow hedge</td>
<td>(55,684)</td>
<td>21,365</td>
</tr>
<tr>
<td>Other comprehensive</td>
<td>(94,751)</td>
<td>(40,829)</td>
</tr>
<tr>
<td>Total comprehensive income for the period</td>
<td>1,722,789</td>
<td>1,949,892</td>
</tr>
</tbody>
</table>

### Non-consolidated statement of financial position as at December 31

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Note</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>12</td>
<td>6,900,559</td>
<td>6,949,262</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>13</td>
<td>305,528</td>
<td>304,571</td>
</tr>
<tr>
<td>Financial interests</td>
<td>14</td>
<td>4,429,227</td>
<td>4,428,227</td>
</tr>
<tr>
<td>Other financial investments</td>
<td>15</td>
<td>32,673</td>
<td>40,605</td>
</tr>
<tr>
<td>Total non-current assets</td>
<td></td>
<td>11,667,987</td>
<td>11,758,665</td>
</tr>
<tr>
<td>Inventories</td>
<td>17</td>
<td>896,003</td>
<td>586,468</td>
</tr>
<tr>
<td>Other financial investments</td>
<td>15</td>
<td>8,010</td>
<td>7,241</td>
</tr>
<tr>
<td>Current tax assets</td>
<td>18</td>
<td>49,505</td>
<td>55,056</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>19</td>
<td>1,336,419</td>
<td>1,347,619</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>20</td>
<td>216,165</td>
<td>265,061</td>
</tr>
<tr>
<td>Total current assets</td>
<td></td>
<td>2,506,102</td>
<td>2,261,425</td>
</tr>
<tr>
<td>Total assets</td>
<td></td>
<td>14,274,089</td>
<td>14,020,090</td>
</tr>
</tbody>
</table>

| Equity               |      |      |      |
| Share capital        |      | 3,146,447 | 3,146,447 |
| Reserves and other capital funds | | 2,287,310 | 2,342,994 |
| Retained earnings    |      | 3,973,641 | 4,004,375 |
| Total equity         |      | 9,407,398 | 9,493,816 |

| Liabilities          |      |      |      |
| Loans and borrowings | 22   | 10,000 | 10,000 |
| Employee benefits    | 23   | 500,595 | 429,876 |
| Provisions           | 24   | 150,239 | 150,175 |
| Deferred tax liabilities | 16 | 447,315 | 455,821 |
| Derivatives          | 26   | 6,178 | 229 |
| Total non-current liabilities | | 1,114,427 | 1,046,101 |
In thousands of CZK

<table>
<thead>
<tr>
<th>Note</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans and borrowings</td>
<td>22</td>
<td>1,501,879</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>25</td>
<td>2,124,412</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>23</td>
<td>23,036</td>
</tr>
<tr>
<td>Provisions</td>
<td>24</td>
<td>36,509</td>
</tr>
<tr>
<td>Derivatives</td>
<td>26</td>
<td>66,428</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td></td>
<td>3,752,264</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td></td>
<td>4,866,691</td>
</tr>
<tr>
<td><strong>Total equities and liabilities</strong></td>
<td></td>
<td>14,274,089</td>
</tr>
</tbody>
</table>

The notes are an integral part of the financial statements.

Date: April 9, 2014

On behalf of the Board of Directors of the Company:

Laurent Barrieux    Francois Leimgruber

Non-consolidated statement of changes in equity

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Share capital</th>
<th>Statutory reserves</th>
<th>Other capital funds</th>
<th>Cash flow hedges</th>
<th>Retained earnings</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at December 31, 2011</td>
<td>3,146,447</td>
<td>629,289</td>
<td>1,716,832</td>
<td>(24,492)</td>
<td>3,829,206</td>
<td>9,297,282</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1,990,721</td>
<td>1,990,721</td>
</tr>
<tr>
<td><strong>Other comprehensive income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee benefits – actuarial gains (losses)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(62,194)</td>
<td>(62,194)</td>
</tr>
<tr>
<td>Changes in fair value of cash flow hedges</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>21,365</td>
<td>–</td>
<td>21,365</td>
</tr>
<tr>
<td>Total other comprehensive income</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>21,365</td>
<td>(62,194)</td>
<td>(40,829)</td>
</tr>
<tr>
<td><strong>Total comprehensive income for the period</strong></td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>21,365</td>
<td>1,928,527</td>
<td>1,949,892</td>
</tr>
<tr>
<td>Transactions with owners, recorded directly in equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends paid to shareholders</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(1,753,358)</td>
<td>(1,753,358)</td>
</tr>
<tr>
<td><strong>Balance at December 31, 2012</strong></td>
<td>3,146,447</td>
<td>629,289</td>
<td>1,716,832</td>
<td>(3,127)</td>
<td>4,004,375</td>
<td>9,493,816</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1,817,540</td>
<td>1,817,540</td>
</tr>
<tr>
<td><strong>Other comprehensive income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee benefits – actuarial gains (losses)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(39,067)</td>
<td>(39,067)</td>
</tr>
<tr>
<td>Changes in fair value of cash flow hedges</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(55,684)</td>
<td>–</td>
<td>(55,684)</td>
</tr>
<tr>
<td>Total other comprehensive income</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(55,684)</td>
<td>(39,067)</td>
<td>(94,751)</td>
</tr>
<tr>
<td><strong>Total comprehensive income for the period</strong></td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(55,684)</td>
<td>1,778,473</td>
<td>1,722,789</td>
</tr>
<tr>
<td>Transactions with owners, recorded directly in equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends paid to shareholders</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(1,809,207)</td>
<td>(1,809,207)</td>
</tr>
<tr>
<td><strong>Balance at December 31, 2013</strong></td>
<td>3,146,447</td>
<td>629,289</td>
<td>1,716,832</td>
<td>(58,811)</td>
<td>3,973,641</td>
<td>9,407,398</td>
</tr>
</tbody>
</table>

Non-consolidated statement of cash flows

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Note</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flow from operating activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit before income tax for the period</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortisation of non-current assets</td>
<td>12, 13</td>
<td>715,727</td>
<td>738,797</td>
</tr>
<tr>
<td>Change in provisions</td>
<td></td>
<td>16,494</td>
<td>(65,122)</td>
</tr>
<tr>
<td>Gain / loss on sale of property, plant and equipment</td>
<td></td>
<td>(23,417)</td>
<td>(23,417)</td>
</tr>
<tr>
<td>Proceeds from dividends</td>
<td>10</td>
<td>608,165</td>
<td>(686,715)</td>
</tr>
<tr>
<td>Net interest income and expense</td>
<td>10</td>
<td>4,583</td>
<td>13,388</td>
</tr>
<tr>
<td>Other non-cash transactions</td>
<td>–</td>
<td>(254)</td>
<td></td>
</tr>
<tr>
<td><strong>Cash flow from operating activities</strong></td>
<td></td>
<td>2,285,886</td>
<td>2,311,818</td>
</tr>
<tr>
<td>Change in receivables</td>
<td></td>
<td>11,474</td>
<td>(88,220)</td>
</tr>
<tr>
<td>Change in current liabilities</td>
<td></td>
<td>367,555</td>
<td>(85,652)</td>
</tr>
<tr>
<td>Change in inventories</td>
<td>(309,535)</td>
<td></td>
<td>32,140</td>
</tr>
<tr>
<td>Income tax paid and tax assessments for previous periods</td>
<td>(325,052)</td>
<td></td>
<td>425,688</td>
</tr>
<tr>
<td><strong>Net cash flow from operating activities</strong></td>
<td></td>
<td>2,032,328</td>
<td>1,744,398</td>
</tr>
</tbody>
</table>
Notes to the non-consolidated financial statements

as at December 31, 2013

1. General information
Dalkia Česká republika, a.s. (“the Company”) is registered in the Czech Republic.

The registered office of the Company is at Ostrava, 28. října 3337/7, 702 00, registered number 45193410.

The principal business activity is the production and distribution of heat and the generation of electricity.

The Company is controlled by a multinational company, Dalkia International SA, and its ultimate parent company is Veolia Environnement – VE SA.

The shareholder structure did not change in 2013. As at December 31, 2013, the share of SPID2 is 63.056%, the share of Dalkia International SA is 10%, the share of ČEZ, a.s. is 15%, the share of EPH Financing I, a.s. is 10%, and minority shareholders make up the balance.

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 December 31, 2013. In accordance with Section 19a (1) of the Act on Accounting, No. 563/1991, the Company, being an issuer of debentures listed on a public market, applies IFRS as adopted by the EU in the preparation of its non-consolidated financial statements.

The financial statements were approved for release by the Company’s Board of Directors on April 9, 2014.

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 and the provision for employee benefits 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.

In particular, information about significant areas of estimation, uncertainty and critical judgement in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes 3 g), 3 h) and 23 and 24.

d) Changes in accounting policies
(i) Standards not applied
A number of new standards, amendments to standards and interpretations are effective for the accounting period beginning on January 1, 2013, 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 (2009) introduces new requirements for the classification and measurement of financial assets. Pursuant to IFRS 9 (2009), financial assets are to be classified and measured on the basis of the business model whose objective is to hold the financial assets and the contractual cash flow characteristics of the financial asset.

IFRS 9 (2010) introduces additional amendments concerning financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010) and (2009) are effective for financial periods beginning on or after January 1, 2015; early application is permitted. The Company expects the adoption of these standards to have an impact on its financial assets but no impact on its financial liabilities.

(ii) Applied standards
For the accounting period beginning on 1 January 2013, the amended IAS 19 (revised) standard came into effect; it was applied in the preparation of these non-consolidated financial statements. The standard now introduced requirements for a more detailed description of the employee benefit plan, describing each of the benefits. The key element of the notes is then a reconciliation of the provisions for employee benefits from the opening balance to the closing balance of the accounting period, including the disaggregation of changes in the provision shown in the income statement and the balance sheet. The notes must also contain a sensitivity analysis of the effect of a change in each major assumption on the size of the provision.

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.

Investments in subsidiaries and associated companies are stated at historical cost. Receivables, liabilities, loans and borrowings are stated at their present/carrying value using the effective interest rate, while adhering to the materiality principle. 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 f).

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 f), 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 shareholders’ contributions. Dividends are recognised as liabilities in the period in which they are declared.

Statutory reserves are created at 5% of the Company’s profit until the amount set in the articles of association is achieved; however, this must be at least 20% of the share capital. Use of statutory reserves is limited to payment of potential future losses.

c) Property, plant and equipment
(i) Owned assets
Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see note 3 f). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

When parts of an item of property, plant and equipment have different useful lives, the individual parts are depreciated separately.

(ii) Leased assets
Leases in terms of which the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. Buildings and equipment acquired by way of a finance lease are stated as financial assets at the lower
of their fair value and the present value of the minimum lease payments at inception of the lease. The valuation is then decreased by accumulated depreciation (see below) and impairment losses (see note 3 f). Lease payments from operating leases are accounted for as described under note 3 j.

(iii) Government grants
Government grants for the acquisition of property, plant and equipment are recognised initially in liabilities at fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant. They are then deducted on a systematic basis in the asset’s carrying value.

(iv) Subsequent expenditures
The Company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item, including the costs associated with necessary inspections and major overhaul, where it is probable that the future economic benefits embodied within the item will flow to the Company and costs can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised directly in the costs of the current period.

(v) Depreciation
Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings and constructions</td>
<td>30–40 years</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>4–20 years</td>
</tr>
<tr>
<td>Other assets</td>
<td>4 years</td>
</tr>
</tbody>
</table>

d) Intangible assets
Intangible assets acquired by the Company are stated at cost less accumulated amortisation (see below) and impairment losses (see note 3 f). 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:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Software</td>
<td>4–5 years</td>
</tr>
<tr>
<td>Other</td>
<td>4–10 years</td>
</tr>
</tbody>
</table>

e) Inventories
Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less associated costs to complete and estimated associated cost to sell the asset. The cost of inventories is determined using the weighted average method and comprises the purchase price and other costs associated with the acquisition, such as freight and storage.

At the date of the statement of financial position the Company reviews the carrying values of inventories. If the realisable value of inventories is lower than the purchase price, the difference is recognised in the income statement.

Emission allowances
Allowances for greenhouse gas emissions ("emission allowances" or EUAs), are presented as inventory and represent the right of the operator of a facility which generates greenhouse gas emissions to release an equivalent of a tonne of CO₂ into the air in a given calendar year. In the financial statements, the granted emission allowances are stated at an acquisition cost of zero. Purchased allowances are stated either at acquisition cost or, if the purchase includes a financial derivative, at fair value. Consumption of emission allowances is recognised using the weighted average method. As at the date of the statement of financial position the Company determines whether there is an indication of impairment of emission allowances. If any such indications exist, the Company assesses whether the recoverable amount of the emission allowances is lower than their book value. Any impairment loss is recognised in profit or loss. If the utilisation of emission allowances in the accounting period is higher than the number of allowances available at the date of the statement of financial position, a provision is established based on the value of allowances that will have to be purchased on the public market in the following period. This provision is measured at the market value of the required emission allowances as at the date of the statement of financial position.

The Company supplies EUAs to third parties and the counterparties undertake to return the allowances as at the date specified in the contract. The Company is entitled to commission for this service. Considering that significant risks and rewards from ownership of EUAs are not transferred to the counterparty, these transactions are not recognised as the sale and purchase of allowances. Therefore, the Company regards such allowances as available and takes this into consideration.
when establishing a provision as at the date of the statement of financial position. The commission that has been received is amortised over the period of the contract and recognised on a straight-line basis in profit or loss.

In 2013, the Company purchased EUA units issued according to the Kyoto protocol that it expects to use in 2013 and beyond. The use of emission allowances and the income from their sale are presented in the non-consolidated income statement in the position “cost of sales”.

f) 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 share 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 inventories (see note 3 e) and deferred tax assets (see note 3 k) 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.

   g) Employee benefits
   The Company’s obligation is the amount of future benefits that employees have earned in return for their service in the current and prior periods. This is calculated using the projected unit credit method. The discount rate is the current rate of return on long-term treasury bonds in the Czech Republic. Any actuarial gains and losses are recognised in profit and loss in the period in which they arise except actuarial gains and losses on post-employment benefits, which are recognised in equity.

   Obligations for contributions to defined contribution pension plans are recognised as an expense in profit and loss when they are due. Changes in defined contribution plans relating to retirement benefits classified as post employment benefits are amortised in profit and loss on a straight-line basis over the average period until the benefits become vested.

h) 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.

   (i) Site restoration
   In accordance with the Company’s published environmental policy and applicable legal requirements, a provision for site restoration and land decontamination is recognised when the land is contaminated. The provision recognised represents the best estimate of the expenditures required to settle the present obligation at the date of the statement of financial position. Changes in the liability that result from a change in the current best estimate of cash flows required to settle the
obligation or a change in the discount rate are added to (or deducted from) the amount recognised as the related assets. However, to the extent that such a treatment would result in negative assets, the effect of the change is recognised in profit or loss.

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

(iii) Other provisions
Other provisions include a provision for asset disposal and other provisions established in connection with the risks related to the Company’s principal activities. Provisions for other risks were reviewed and adjusted based on the best estimates arising from changes in legislation and in estimates.

i) Revenue
Sale of heat, electricity and goods

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

j) 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.

k) 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 current 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.

l) New IFRS standards and IFRIC interpretations not yet adopted
For the year ended December 31, 2013 no new IFRS standards or IFRIC interpretations are valid.

The Company is currently assessing the potential impact of new and alternative standards that are not mandatory for the year ended December 31, 2013 and have not been applied in the preparation of these financial statements. None of these standards are expected to have material impact on the financial statements.

An exception is IFRS 9 Financial Instruments, which introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets shall be classified and measured pursuant to the business model in which such assets exist and pursuant to the features of their contractual cash flows. IFRS 9 (2010) introduces amendments regarding financial liabilities. IASB is currently carrying out a project consisting of limited changes in the requirements for the classification and measurement under IFRS 9 and the introduction of additional requirements to tackle the issue of hedge accounting. IFRS 9 (2010 and 2009) applies for annual period beginning on January 1, 2015 or later; the Company does not plan to adopt these standards early. It is assumed that the adoption of IFRS 9 (2010) may have some impact on the financial assets of the Company, however, it shall have no impact on its financial liability.
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. The Company has in place a review system with regard to the fair value measurement for financial and non-financial assets and liabilities. The Company periodically reviews the measurements and the inputs used for measurement. In determining fair value, the Company uses data available from the market as far as possible. Fair values are then measured 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.

(iv) Employee benefits
Fair value of employee benefits is calculated as the present value of future benefits that employees have earned in return for their service in the current and prior periods. The discount rate is the current rate of return on long-term treasury bonds in the Czech Republic.

5. Financial risk management
The Company has exposure to the following risks:
- credit risk,
- liquidity risk,
- market risk,
- operating risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board reviews and approves the risk management policies described below. The Risk Management Department monitors individual risks and their effect on the Company.

The Audit Committee primarily monitors the process of preparing the non-consolidated financial statements and consolidated financial statements, and assesses the effectiveness of internal controls, internal audit and the risk management system.

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. More than 80 percent of customers have been transacting with the Company for over four years, and losses have occurred infrequently. 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 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. For more information see note 27.

Investments
The Company limits its exposure to credit risk by only investing in liquid securities. The management does not expect any losses from these investments.
As at December 31, 2013, the Company holds cash and cash equivalents in the amount of CZK 316 million (2012: CZK 265 million). Cash and cash equivalents are deposited with banks with high ratings and in cash pooling with the parent company.

**Guarantees**

The Company’s policy is to provide financial guarantees only on an exceptional basis, where required for the purpose of a tender procedure or where the law provides so. As at December 31, 2013, guarantees of CZK 18.5 million were outstanding (2012: CZK 22.5 million).

**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 funds of up to CZK 3,000 million. By this approach, the Company limits the possible impacts of unforeseeable events. In addition, the Company raises funds through bonds issued (see note 22). The 2008 issue of bonds is repayable in 2015. The Company also has the possibility to draw on a credit line from its parent company Dalkia International SA of up to CZK 3,600 million carrying an interest rate at PRIBOR + 2.05 % valid until 30 September 2014. As at 31 December 2013 the Company had not used this option.

**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 not exposed to significant currency risk in the area of sales, purchases and borrowings, as the major portion of these are denominated in Czech currency. For electricity payments in foreign currency (EUR), 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.

**Other market price risks**

In 2013 the Company entered into forward contracts with Veetra, a Veolia Environnement – VE SA group company, for the purchase and sale of emission allowances and certificates at a contractual price.

**Operating risk**

The Company manages production risk with a view to avoiding financial losses and damage. This involves, in particular, the gradual wear and tear of equipment and components of the Company’s power plants, risks related to shutdowns and risks related to insurance.

**Gradual wear and tear of equipment and components**

The influence of operations, as well as of natural processes (e.g. erosion and corrosion), on the technical condition of some equipment and certain components of the production plant constantly increases over time. At the same time, the Company implements a continual major production plant renewal programme in its facilities in order to modernise its production portfolio with a view to realising the Veolia group’s business vision. The Company has prepared a plant renewal programme aimed at reducing energy consumption. Apart from the preparations for renewing its fossil fuel-fired facilities, the Company provides for the firing of biomass. The Company endeavours to adhere to its practices in terms of preventive inspections and maintenance of the equipment and components of its plants, including repairs and replacements, in order to prevent failures and losses.

**Risks related to shutdowns**

Despite the complexity of its production plants, the Company endeavour to eliminate the risk of unscheduled shutdowns or to anticipate their exact frequency or effects, in particular by means of preventive inspections and repairs.

**Insurance of risks**

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

The Board of Directors manages the Company’s capital structure in compliance with the investor’s requirements, focusing on appropriate indebtedness and dividend policy monitoring. The objective is to achieve the right proportion of debt to total assets, and to meet the planned dividend targets. This involves looking for an adequate level of debt, which depends on profit (cash flow) generation, and meeting the average cost of capital and working capital targets planned by the group.

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

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total liabilities</td>
<td>4,866,691</td>
<td>4,526,274</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>(316,165)</td>
<td>(265,061)</td>
</tr>
<tr>
<td>Net debt</td>
<td>4,550,526</td>
<td>4,261,213</td>
</tr>
<tr>
<td>Total equity</td>
<td>9,407,398</td>
<td>9,493,816</td>
</tr>
<tr>
<td>Cash flow from hedges</td>
<td>58,811</td>
<td>3,327</td>
</tr>
<tr>
<td>Adjusted equity</td>
<td>9,466,209</td>
<td>9,496,943</td>
</tr>
<tr>
<td>Debt to adjusted equity</td>
<td>0.48</td>
<td>0.45</td>
</tr>
</tbody>
</table>

6. Revenue

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues from sale of heat and related products</td>
<td>5,558,141</td>
<td>5,409,462</td>
</tr>
<tr>
<td>Revenues from sale and re-sale of electricity and support services</td>
<td>3,103,360</td>
<td>3,361,812</td>
</tr>
<tr>
<td>Other operating revenues</td>
<td>119,004</td>
<td>111,828</td>
</tr>
<tr>
<td>Total</td>
<td>8,780,505</td>
<td>8,883,102</td>
</tr>
</tbody>
</table>

7. Cost of sales

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel expenses</td>
<td>(830,199)</td>
<td>(860,294)</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>(698,354)</td>
<td>(712,809)</td>
</tr>
<tr>
<td>Costs of goods sold excluding electricity</td>
<td>(408,857)</td>
<td>(405,763)</td>
</tr>
<tr>
<td>Cost of purchased electricity</td>
<td>(675,929)</td>
<td>(826,926)</td>
</tr>
<tr>
<td>Consumption of fuel</td>
<td>(2,705,995)</td>
<td>(2,894,314)</td>
</tr>
<tr>
<td>Consumption of raw materials, energy and services</td>
<td>(982,017)</td>
<td>(1,081,536)</td>
</tr>
<tr>
<td>Change in provisions</td>
<td>(6,295)</td>
<td>26,827</td>
</tr>
<tr>
<td>Consumption of emission allowances and change in provision for emission allowances</td>
<td>(30,114)</td>
<td>(31,779)</td>
</tr>
<tr>
<td>Gain realised on sale of emission allowances</td>
<td>1,456</td>
<td>279,928</td>
</tr>
<tr>
<td>Total</td>
<td>(6,336,304)</td>
<td>(6,506,666)</td>
</tr>
</tbody>
</table>

In 2013, the Company realised gains on the sale of emission allowances amounting to CZK 1.5 million (2012: CZK 280 million), disclosed in the income statement in the position “cost of sales” (see note 17).

8. Distribution expenses

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel expenses</td>
<td>(42,905)</td>
<td>(38,187)</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>(16)</td>
<td>(115)</td>
</tr>
<tr>
<td>Change in provisions</td>
<td>(101)</td>
<td>366</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(170,860)</td>
<td>(13,534)</td>
</tr>
<tr>
<td>Total</td>
<td>(213,882)</td>
<td>(51,470)</td>
</tr>
</tbody>
</table>

9. Administrative expenses

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel expenses</td>
<td>(311,574)</td>
<td>(293,532)</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>(17,357)</td>
<td>(25,873)</td>
</tr>
<tr>
<td>Change in provisions</td>
<td>934</td>
<td>28,533</td>
</tr>
<tr>
<td>Management costs</td>
<td>(190,024)</td>
<td>(157,211)</td>
</tr>
<tr>
<td>Cost of raw materials, services and other expenses</td>
<td>(129,011)</td>
<td>(179,210)</td>
</tr>
<tr>
<td>Total</td>
<td>(647,952)</td>
<td>(627,293)</td>
</tr>
</tbody>
</table>
10. Finance income and expenses

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>1,967</td>
<td>1,848</td>
</tr>
<tr>
<td>Dividend income</td>
<td>608,165</td>
<td>668,715</td>
</tr>
<tr>
<td>Foreign exchange gain</td>
<td>12,358</td>
<td>13,555</td>
</tr>
<tr>
<td>Other finance income</td>
<td>3,229</td>
<td>2,937</td>
</tr>
<tr>
<td><strong>Total finance income</strong></td>
<td><strong>625,719</strong></td>
<td><strong>705,055</strong></td>
</tr>
<tr>
<td>Interest expense</td>
<td>(6,550)</td>
<td>(15,236)</td>
</tr>
<tr>
<td>Foreign exchange loss</td>
<td>(8,922)</td>
<td>(9,369)</td>
</tr>
<tr>
<td>Discount of provisions</td>
<td>(12,116)</td>
<td>(19,300)</td>
</tr>
<tr>
<td>Other finance expenses</td>
<td>(22,873)</td>
<td>(23,682)</td>
</tr>
<tr>
<td><strong>Total finance expenses</strong></td>
<td><strong>(50,461)</strong></td>
<td><strong>(67,587)</strong></td>
</tr>
</tbody>
</table>


11. Income tax

**Recognised in the income statement**

<table>
<thead>
<tr>
<th>Current tax in thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current year</td>
<td>(321,126)</td>
<td>(344,688)</td>
</tr>
<tr>
<td>Adjustments for prior years</td>
<td>(7,457)</td>
<td>(3,546)</td>
</tr>
<tr>
<td><strong>Total current tax</strong></td>
<td><strong>(328,583)</strong></td>
<td><strong>(348,234)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Deferred tax in thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effect of the change in temporary differences and the lower tax rate</td>
<td>(12,422)</td>
<td>3,814</td>
</tr>
<tr>
<td><strong>Total income tax expense in income statement</strong></td>
<td><strong>(341,005)</strong></td>
<td><strong>(344,420)</strong></td>
</tr>
</tbody>
</table>

**Reconciliation of effective tax rate**

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before tax</td>
<td>2,158,545</td>
<td>2,335,141</td>
</tr>
<tr>
<td>Income tax calculated using the domestic corporate income tax rate</td>
<td>(410,124)</td>
<td>(443,677)</td>
</tr>
<tr>
<td>Effect of non-deductible expenses</td>
<td>(92,705)</td>
<td>(89,243)</td>
</tr>
<tr>
<td>Effect of tax exempt income</td>
<td>181,197</td>
<td>187,620</td>
</tr>
<tr>
<td>Effect of change in the deferred tax rate</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Effect of tax credits</td>
<td>506</td>
<td>612</td>
</tr>
<tr>
<td>Adjustments for prior years</td>
<td>(7,457)</td>
<td>(3,546)</td>
</tr>
<tr>
<td><strong>Total tax payable</strong></td>
<td><strong>(328,583)</strong></td>
<td><strong>(348,234)</strong></td>
</tr>
<tr>
<td>Total deferred tax</td>
<td>(12,422)</td>
<td>3,814</td>
</tr>
<tr>
<td><strong>Total income tax expense in income statement</strong></td>
<td><strong>(341,005)</strong></td>
<td><strong>(344,420)</strong></td>
</tr>
</tbody>
</table>

Tax overpayment of CZK 49.5 million is reported as the Current tax assets (2012: CZK 55 million) and represents a corporate income tax estimate of CZK 321 million (2012: CZK 345 million), reduced by tax advances in an amount of CZK 370.5 million (2012: CZK 400 million).

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.

12. Property, plant and equipment

<table>
<thead>
<tr>
<th>Acquisition cost in thousands of CZK</th>
<th>Land</th>
<th>Buildings and constructions</th>
<th>Plant and equipment</th>
<th>Under construction and advances</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 2012</td>
<td>444,895</td>
<td>8,705,516</td>
<td>12,133,757</td>
<td>333,203</td>
<td>21,617,371</td>
</tr>
<tr>
<td>Additions/transfers</td>
<td>140</td>
<td>229,721</td>
<td>285,692</td>
<td>472,724</td>
<td>988,277</td>
</tr>
<tr>
<td>Disposals</td>
<td>(1,565)</td>
<td>(129,129)</td>
<td>(90,645)</td>
<td>(550,092)</td>
<td>(771,431)</td>
</tr>
<tr>
<td>Balance at December 31, 2012</td>
<td>443,470</td>
<td>8,806,108</td>
<td>12,328,804</td>
<td>255,835</td>
<td>21,834,217</td>
</tr>
<tr>
<td>Balance at January 1, 2013</td>
<td>443,470</td>
<td>8,806,108</td>
<td>12,328,804</td>
<td>255,835</td>
<td>21,834,217</td>
</tr>
<tr>
<td>Additions/transfers</td>
<td>2,739</td>
<td>142,458</td>
<td>208,659</td>
<td>267,835</td>
<td>621,691</td>
</tr>
<tr>
<td>Disposals</td>
<td>(968)</td>
<td>(24,386)</td>
<td>(75,869)</td>
<td>–</td>
<td>(101,223)</td>
</tr>
<tr>
<td>Balance at December 31, 2013</td>
<td>445,241</td>
<td>8,924,180</td>
<td>12,461,594</td>
<td>523,670</td>
<td>22,354,685</td>
</tr>
</tbody>
</table>
Depreciation and impairment losses in thousands of CZK

<table>
<thead>
<tr>
<th>Land</th>
<th>Buildings and constructions</th>
<th>Plant and equipment</th>
<th>Under construction and advances</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 2012</td>
<td>–</td>
<td>5,166,018</td>
<td>9,266,939</td>
<td>–</td>
</tr>
<tr>
<td>Current year depreciation</td>
<td>–</td>
<td>225,729</td>
<td>431,293</td>
<td>–</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Disposals</td>
<td>–</td>
<td>(16,901)</td>
<td>(88,123)</td>
<td>–</td>
</tr>
<tr>
<td>Balance at December 31, 2012</td>
<td>–</td>
<td>5,274,846</td>
<td>9,610,109</td>
<td>–</td>
</tr>
<tr>
<td>Balance at January 1, 2013</td>
<td>–</td>
<td>5,274,846</td>
<td>9,610,109</td>
<td>–</td>
</tr>
<tr>
<td>Current year depreciation</td>
<td>–</td>
<td>228,555</td>
<td>433,941</td>
<td>–</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Disposals</td>
<td>–</td>
<td>(17,762)</td>
<td>(75,563)</td>
<td>–</td>
</tr>
</tbody>
</table>

Carrying amount in thousands of CZK

<table>
<thead>
<tr>
<th>Land</th>
<th>Buildings and constructions</th>
<th>Plant and equipment</th>
<th>Under construction and advances</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>At January 1, 2012</td>
<td>444,895</td>
<td>3,539,498</td>
<td>2,866,818</td>
<td>331,203</td>
</tr>
<tr>
<td>At December 31, 2012</td>
<td>443,470</td>
<td>3,531,262</td>
<td>2,718,695</td>
<td>255,835</td>
</tr>
<tr>
<td>At December 31, 2013</td>
<td>445,241</td>
<td>3,438,541</td>
<td>2,493,107</td>
<td>523,670</td>
</tr>
</tbody>
</table>

Leased assets

The Company leases production equipment under a number of finance lease agreements. At December 31, 2013, the net carrying amount of leased machinery was CZK 27.5 million (2012: CZK 30 million).

On June 16, 2011, the Company signed a contract on the lease of part of the business with its subsidiary, Dalkia Industry CZ, a.s. The contract became effective on September 1, 2011 and was concluded for a definite period until December 31, 2029.

Based on this contract, Dalkia Industry CZ, a.s. leases to Dalkia Česká republika, a.s. a set of movables, rights and other property that within Dalkia Industry CZ, a.s. had its own separate structure and was identified as “TEPLO OBYVALESTVO”. At December 31, 2013, the net carrying amount of leased assets was CZK 139 million. The Company capitalised the assets at the lower of the present value and net present value of the minimum lease payments as at the start of the leasing. The lease payments are due over the following periods:

<table>
<thead>
<tr>
<th>2013 in thousands of CZK</th>
<th>Paid at December 31, 2013</th>
<th>Future lease payments</th>
<th>Due within 1 year</th>
<th>Due in 1 to 5 years</th>
<th>Due in subsequent years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heat for households</td>
<td>48,360</td>
<td>402,426</td>
<td>21,590</td>
<td>90,766</td>
<td>290,070</td>
</tr>
<tr>
<td>Total</td>
<td>48,360</td>
<td>402,426</td>
<td>21,590</td>
<td>90,766</td>
<td>290,070</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2012 in thousands of CZK</th>
<th>Paid at December 31, 2012</th>
<th>Future lease payments</th>
<th>Due within 1 year</th>
<th>Due in 1 to 5 years</th>
<th>Due in subsequent years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heat for households</td>
<td>27,194</td>
<td>410,464</td>
<td>20,511</td>
<td>86,228</td>
<td>303,725</td>
</tr>
<tr>
<td>Total</td>
<td>27,194</td>
<td>410,464</td>
<td>20,511</td>
<td>86,228</td>
<td>303,725</td>
</tr>
</tbody>
</table>

Based on the contractual conditions, the Company is obliged to purchase the performed improvements after the leasing period.

Assets pledged as security

The Company has no pledged assets as at December 31, 2013.

Grants

In 2013, the Company received a grant for the modernisation and greening of the H&P plant equipment from the “ECO Energy” programme of the Czech Environment Ministry in an amount of CZK 45 million (2012: CZK 92 million) and from the OP Environment in an amount of CZK 116 million (2012: CZK 0 million).

13. Intangible assets

<table>
<thead>
<tr>
<th>Acquisition cost in thousands of CZK</th>
<th>Software</th>
<th>Other*</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 2012</td>
<td>370,431</td>
<td>410,485</td>
<td>780,916</td>
</tr>
<tr>
<td>Additions</td>
<td>10,644</td>
<td>10,698</td>
<td>21,342</td>
</tr>
<tr>
<td>Disposals</td>
<td>(734)</td>
<td>(19,773)</td>
<td>(10,487)</td>
</tr>
<tr>
<td>Balance at December 31, 2012</td>
<td>380,341</td>
<td>410,430</td>
<td>790,771</td>
</tr>
<tr>
<td>Balance at January 1, 2013</td>
<td>380,341</td>
<td>410,430</td>
<td>790,771</td>
</tr>
<tr>
<td>Additions</td>
<td>13,054</td>
<td>5,734</td>
<td>18,788</td>
</tr>
<tr>
<td>Disposals</td>
<td>(794)</td>
<td>–</td>
<td>(794)</td>
</tr>
<tr>
<td>Balance at December 31, 2013</td>
<td>392,601</td>
<td>416,564</td>
<td>809,165</td>
</tr>
</tbody>
</table>
### 3. Financial Report

#### Amortisation expense in thousands of CZK

<table>
<thead>
<tr>
<th></th>
<th>Software</th>
<th>Other*</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 2012</td>
<td>337,481</td>
<td>54,965</td>
<td>392,446</td>
</tr>
<tr>
<td>Current year amortisation</td>
<td>20,812</td>
<td>38,676</td>
<td>59,488</td>
</tr>
<tr>
<td>Disposals</td>
<td>(734)</td>
<td>–</td>
<td>(734)</td>
</tr>
<tr>
<td><strong>Balance at December 31, 2012</strong></td>
<td><strong>357,559</strong></td>
<td><strong>93,641</strong></td>
<td><strong>451,200</strong></td>
</tr>
<tr>
<td>Balance at January 1, 2013</td>
<td>357,559</td>
<td>93,641</td>
<td>451,200</td>
</tr>
<tr>
<td>Current year amortisation</td>
<td>14,456</td>
<td>37,775</td>
<td>52,231</td>
</tr>
<tr>
<td>Disposals</td>
<td>(794)</td>
<td>–</td>
<td>(794)</td>
</tr>
<tr>
<td><strong>Balance at December 31, 2013</strong></td>
<td><strong>371,221</strong></td>
<td><strong>132,416</strong></td>
<td><strong>503,637</strong></td>
</tr>
</tbody>
</table>

#### Carrying amount in thousands of CZK

<table>
<thead>
<tr>
<th></th>
<th>Software</th>
<th>Other*</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>At January 1, 2012</td>
<td>32,950</td>
<td>355,520</td>
<td>388,470</td>
</tr>
<tr>
<td>At December 31, 2012</td>
<td>22,782</td>
<td>317,789</td>
<td>340,571</td>
</tr>
<tr>
<td>At December 31, 2013</td>
<td>21,380</td>
<td>284,148</td>
<td>305,528</td>
</tr>
</tbody>
</table>

* Balance includes mainly the value of the contract with OKK Koksovny, a.s. for the purchase of coke oven gas. The contract is concluded until 2020.

### 14. Financial interests

The Company has investments in the following companies:

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Country</th>
<th>Participating interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>AmpluServis, a.s.</td>
<td>Czech Republic</td>
<td>100 %</td>
</tr>
<tr>
<td>OLTERRM &amp; TD Olomouc, a.s.</td>
<td>Czech Republic</td>
<td>66 %</td>
</tr>
<tr>
<td>Dalkia Kolin, a.s.</td>
<td>Czech Republic</td>
<td>100 %</td>
</tr>
<tr>
<td>Dalkia Mariánské Lázně, s.r.o.</td>
<td>Czech Republic</td>
<td>100 %</td>
</tr>
<tr>
<td>Dalkia Industry CZ, a.s.</td>
<td>Czech Republic</td>
<td>100 %</td>
</tr>
<tr>
<td>Institut environmentálních služeb, a.s.</td>
<td>Czech Republic</td>
<td>30 %</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>AmpluServis, a.s.</td>
<td>18,988</td>
<td>18,988</td>
</tr>
<tr>
<td>OLTERRM &amp; TD Olomouc, a.s.</td>
<td>64,040</td>
<td>64,040</td>
</tr>
<tr>
<td>Dalkia Kolin, a.s.</td>
<td>980,737</td>
<td>980,737</td>
</tr>
<tr>
<td>Dalkia Mariánské Lázně, s.r.o.</td>
<td>87,962</td>
<td>87,962</td>
</tr>
<tr>
<td>Dalkia Industry CZ, a.s.</td>
<td>3,203,439</td>
<td>3,203,439</td>
</tr>
<tr>
<td>Institut environmentálních služeb, a.s.</td>
<td>3,069</td>
<td>2,069</td>
</tr>
<tr>
<td>Provisions for investments</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total in subsidiaries</strong></td>
<td><strong>4,358,235</strong></td>
<td><strong>4,357,235</strong></td>
</tr>
<tr>
<td>Other financial investments held for trading</td>
<td>70,992</td>
<td>70,992</td>
</tr>
<tr>
<td><strong>Total long-term financial investments</strong></td>
<td><strong>4,429,227</strong></td>
<td><strong>4,428,227</strong></td>
</tr>
</tbody>
</table>
15. Other financial investments including derivatives

Long-term financial investments in thousands of CZK

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other financial investments</td>
<td>32,673</td>
<td>40,605</td>
</tr>
</tbody>
</table>

Short-term financial investments including derivatives in thousands of CZK

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial derivatives</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other financial investments</td>
<td>8,010</td>
<td>7,241</td>
</tr>
</tbody>
</table>

As at December 31, 2013, forward contracts to sell EUAs were executed (2012: CZK 0 million); their impact on the statement of the Company’s financial position is not material.

16. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Receivables</th>
<th>Liabilities</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
<td>2012</td>
<td>2013</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>–</td>
<td>–</td>
<td>(602,200)</td>
</tr>
<tr>
<td>Inventories</td>
<td>17,395</td>
<td>16,414</td>
<td>–</td>
</tr>
<tr>
<td>Emission allowances including provision</td>
<td>8,553</td>
<td>14,936</td>
<td>–</td>
</tr>
<tr>
<td>Provisions</td>
<td>117,468</td>
<td>106,169</td>
<td>(3,274)</td>
</tr>
<tr>
<td>Other items</td>
<td>21,075</td>
<td>12,923</td>
<td>(9,606)</td>
</tr>
<tr>
<td>Deferred tax assets / (liabilities)</td>
<td>164,491</td>
<td>150,442</td>
<td>(611,806)</td>
</tr>
</tbody>
</table>

Movement in deferred tax assets and liabilities during the year

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Balance at January 1, 2013</th>
<th>Recognised in income statement</th>
<th>Recognised in equity</th>
<th>Balance at December 31, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>(600,488)</td>
<td>(1,712)</td>
<td>–</td>
<td>(602,200)</td>
</tr>
<tr>
<td>Inventories</td>
<td>16,414</td>
<td>982</td>
<td>–</td>
<td>17,395</td>
</tr>
<tr>
<td>Emission allowances including provision</td>
<td>14,936</td>
<td>(6,383)</td>
<td>–</td>
<td>8,553</td>
</tr>
<tr>
<td>Provisions</td>
<td>102,895</td>
<td>6,706</td>
<td>7,867</td>
<td>117,468</td>
</tr>
<tr>
<td>Other items</td>
<td>10,422</td>
<td>(12,015)</td>
<td>13,061</td>
<td>11,469</td>
</tr>
<tr>
<td>Total</td>
<td>(455,821)</td>
<td>(12,422)</td>
<td>20,928</td>
<td>(447,315)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Balance at January 1, 2012</th>
<th>Recognised in income statement</th>
<th>Recognised in equity</th>
<th>Balance at December 31, 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>(589,675)</td>
<td>(10,813)</td>
<td>–</td>
<td>(600,488)</td>
</tr>
<tr>
<td>Inventories</td>
<td>16,726</td>
<td>(312)</td>
<td>–</td>
<td>16,414</td>
</tr>
<tr>
<td>Emission allowances including provision</td>
<td>(2,804)</td>
<td>(7,740)</td>
<td>–</td>
<td>14,936</td>
</tr>
<tr>
<td>Provisions</td>
<td>93,890</td>
<td>(3,680)</td>
<td>12,685</td>
<td>102,895</td>
</tr>
<tr>
<td>Other items</td>
<td>14,555</td>
<td>879</td>
<td>(5,012)</td>
<td>10,422</td>
</tr>
<tr>
<td>Total</td>
<td>(461,308)</td>
<td>3,814</td>
<td>7,673</td>
<td>(455,821)</td>
</tr>
</tbody>
</table>

17. Inventories

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Material and fuel</td>
<td>884,126</td>
<td>561,743</td>
</tr>
<tr>
<td>Work in progress</td>
<td>334</td>
<td>169</td>
</tr>
<tr>
<td>Emission allowances</td>
<td>11,543</td>
<td>24,556</td>
</tr>
<tr>
<td>Total</td>
<td>896,609</td>
<td>586,468</td>
</tr>
</tbody>
</table>

In 2013, materials and fuels recorded in cost of sales amounted to CZK 2,890 million (2012: CZK 3,078 million). At December 31, 2013, a provision was recognised which reduces the value of inventories by CZK 92 million (2012: CZK 86 million).

Emission allowances

In 2005 the emission trading scheme was introduced in the European Union. The following table summarises movements in the quantity (in thousands of units). Emission allowances are represented by EUA and CER. As described in note 3 e), emission allowances allocated in accordance with the National Allocation Plan and purchased emission allowances are recognised in assets as inventory.
In thousands of tonnes

<table>
<thead>
<tr>
<th>Description</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emission allowances available at January 1, 2012</td>
<td>1,610</td>
</tr>
<tr>
<td>Correction of emission allowance consumption in 2011</td>
<td>21</td>
</tr>
<tr>
<td>Emission allowances allocated in 2012</td>
<td>3,465</td>
</tr>
<tr>
<td>Emission allowances sold in 2012</td>
<td>(1,308)</td>
</tr>
<tr>
<td>Emission allowances purchased in 2012</td>
<td>346</td>
</tr>
<tr>
<td>Emission allowances utilised in 2012 against CO₂ emissions</td>
<td>(2,662)</td>
</tr>
</tbody>
</table>

Emission allowances available at December 31, 2012: 1,472

Emission allowances available at January 1, 2013: 1,472

Correction of emission allowance consumption in 2012: (g)

Emission allowances allocated in 2013: 1,940

Emission allowances sold in 2013: (24)

Emission allowances purchased in 2013: 173

Emission allowances utilised in 2013 against CO₂ emissions: (2,729)

Emission allowances available at December 31, 2013: 827

Actual emissions in 2013 were higher than the emission allowances allocated under the National Allocation Plan as at the date of the financial statements. The Company therefore used allowances from previous years and bought allowances for 2013 (in 2012, actual emissions were lower than allocated allowances).

The Company’s financial statements also carry emission allowances not recorded in the relevant account of the register managed by OTE by the date of the financial statements. This is only a formal procedure and the allocation of emission allowances will be recorded in the register in February. The emission allowances are therefore carried in the balance sheet as at 31 December 2013 to their full extent.

18. Current tax assets

In thousands of CZK

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>49,505</td>
<td>55,036</td>
</tr>
<tr>
<td>Total</td>
<td>49,505</td>
<td>55,036</td>
</tr>
</tbody>
</table>

19. Trade and other receivables

In thousands of CZK

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade receivables due from related parties</td>
<td>132,796</td>
<td>103,264</td>
</tr>
<tr>
<td>Trade receivables due from third parties</td>
<td>1,111,943</td>
<td>1,142,076</td>
</tr>
<tr>
<td>Other receivables</td>
<td>91,680</td>
<td>102,279</td>
</tr>
<tr>
<td>Total</td>
<td>1,336,419</td>
<td>1,347,619</td>
</tr>
</tbody>
</table>

At December 31, 2013 trade receivables are shown net of provisions for doubtful debts of CZK 191 million (2012: CZK 195 million) arising from the likely impairment of receivables from the individual debtors.

20. Cash and cash equivalents

In thousands of CZK

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current bank accounts</td>
<td>2,296</td>
<td>126,261</td>
</tr>
<tr>
<td>Bank deposits</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Cash in hand</td>
<td>1,394</td>
<td>1,576</td>
</tr>
<tr>
<td>Total cash</td>
<td>3,690</td>
<td>127,937</td>
</tr>
<tr>
<td>Cash pooling with subsidiaries – receivable</td>
<td>312,475</td>
<td>137,714</td>
</tr>
<tr>
<td>Total cash and cash equivalents</td>
<td>316,165</td>
<td>265,061</td>
</tr>
<tr>
<td>Cash pooling payables</td>
<td>(1,481,438)</td>
<td>(1,509,253)</td>
</tr>
<tr>
<td>Total cash in compliance with statement of cash flows</td>
<td>(1,165,273)</td>
<td>(1,244,192)</td>
</tr>
</tbody>
</table>

Since 2007, the Company has been involved in a cash pool between Veolia and Société Générale through a contract with Komerční banka. The Company is also involved in a cash pool arrangement with its subsidiaries. As at December 31, 2013 the net payable from the cash pool with subsidiaries is CZK 95 million (2012: net payable of CZK 353 million).
21. Capital and reserves

Reconciliation of movement in capital and reserves
At December 31, 2013, the authorised share capital comprised 78,661,161 ordinary registered shares with a par value of CZK 40 (2012: 78,661,161 ordinary registered shares with a par value of CZK 40).

The holders of ordinary shares are entitled to dividends if these are approved by the General Meeting. Each ordinary share carries one voting right, to be exercised at General Meetings. All shares carry the same rights in respect of the surplus assets upon the Company’s liquidation.

Other capital funds
Other capital funds primarily include the recorded effect of mergers in the 2001–2007 periods with companies fully controlled by the same entity, TEPLÁRNÝ Karviná, a.s., EKOTERM ČESKÁ REPUBLIKA a.s., Teplářna Ústí nad Labem, a.s., PPC Trnicky a.s. and Dalkia Ostrava, a.s.

Dividend per share
In the profit distribution decision, the Company announced dividends of CZK 1,809 million (2012: CZK 1,753 million). Dividend per share for 2013 amounts to CZK 23 (2012: CZK 22.29).

22. Loans and borrowings
This note contains an overview of contractual conditions applicable to the Company’s interest-bearing loans and borrowings. Note 27 contains more detailed information about the credit risk and the interest rate risk to which the Company is exposed.

Non-current liabilities

<table>
<thead>
<tr>
<th></th>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unsecured bond issues</td>
<td></td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Long-term loans and borrowings</td>
<td></td>
<td>10,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

Current liabilities

<table>
<thead>
<tr>
<th></th>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest payable on loan from Dalkia International SA</td>
<td>2,085</td>
<td>4,547</td>
<td></td>
</tr>
<tr>
<td>Unpaid dividends</td>
<td>18,356</td>
<td>18,852</td>
<td></td>
</tr>
<tr>
<td>Cash pooling with parent company and subsidiaries</td>
<td>1,481,438</td>
<td>1,509,253</td>
<td></td>
</tr>
<tr>
<td>Total short-term loans and borrowings</td>
<td>1,501,879</td>
<td>1,532,652</td>
<td></td>
</tr>
</tbody>
</table>

As at December 31, 2013, the Company had a net payable resulting from the cash pool with Dalkia International SA and with subsidiaries of CZK 1,169 million (2012: net payable of CZK 1,372 million), which was recognised in cash (see note 20).

Terms and debt payment schedule
Secured bank loans
Dalkia Česká republika, a.s. had no secured bank loans as at December 31, 2013 and December 31, 2012.

Unsecured bond issues

<table>
<thead>
<tr>
<th></th>
<th>In thousands of CZK</th>
<th>Total</th>
<th>Within 1 year</th>
<th>1–2 years</th>
<th>2–5 years</th>
<th>More than 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008 bond issue (fixed at 4.24%)</td>
<td>10,000</td>
<td>–</td>
<td>10,000</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>10,000</td>
<td>–</td>
<td>10,000</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

The Company may utilise bank credit lines of CZK 330 million and EUR 2.5 million and loan from parent company of CZK 3,600 million. Neither the credit lines nor the loan have been used as at December 31, 2013.

23. Employee benefits
Under the collective agreement, the Company is obliged to pay benefits to employees who have worked for the Company for a certain fixed period of time. In addition, it is also obliged to provide its retired former employees with a contribution for personal electricity consumption.
Movements in the liability for defined benefit obligations

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liability for defined benefit obligations as at January 1</td>
<td>459,995</td>
<td>380,124</td>
</tr>
<tr>
<td>Adjustment of opening balances under amended IAS 19</td>
<td>61,513</td>
<td>–</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(20,121)</td>
<td>(17,217)</td>
</tr>
<tr>
<td>Current service costs</td>
<td>24,514</td>
<td>19,952</td>
</tr>
<tr>
<td>Amortisation of past service costs</td>
<td>–</td>
<td>8,548</td>
</tr>
<tr>
<td>Interest</td>
<td>11,734</td>
<td>15,387</td>
</tr>
<tr>
<td>Actuarial (gains) losses recognised in equity</td>
<td>(14,578)</td>
<td>74,879</td>
</tr>
<tr>
<td>Actuarial (gains) losses recognised in profit and loss</td>
<td>11,468</td>
<td>7,459</td>
</tr>
<tr>
<td>Decrease in liability as a result of organisational changes</td>
<td>(10,794)</td>
<td>(12,271)</td>
</tr>
<tr>
<td>Other</td>
<td>–</td>
<td>(16,866)</td>
</tr>
<tr>
<td><strong>Liability for defined benefit obligations as at December 31</strong></td>
<td>523,731</td>
<td>459,995</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Non-current</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>500,695</td>
<td>23,036</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>523,731</td>
<td>503,736</td>
</tr>
</tbody>
</table>

Actuarial assumptions

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate at December 31</td>
<td>3.10%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Salary increase rate</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Employee turnover assumption</td>
<td>average 1.15%</td>
<td>average 3.23%</td>
</tr>
</tbody>
</table>

Social security and health insurance contributions recognised in the income statement in 2013 amount to CZK 279 million (2012: CZK 273 million).

Defined benefit liabilities are calculated on the basis of actuarial valuation under IAS 19. This standard requires the use of the “projected unit credit method” and unbiased and mutually compatible actuarial assumptions. The projected unit credit method was used to determine the present value of liability and current service costs.

Demographic assumptions: assumptions about mortality were taken from the 2011 mortality charts for males and females issued by the Czech Statistical Office. The disability assumption was taken from the charts of disabilities monitored by the Company. The assumed number of employees leaving the Company before reaching retirement age is based on expected departures of employees. The same assumptions were used to compute the provision for 2012.

Specific assumptions: the Company assumes that there is an 80% probability that agreements executed for a fixed term will be converted into agreements for an indefinite term. The amount of defined benefit liabilities as at December 31, 2013 takes into account social security contributions and health insurance. Description of risks: the Company does not have a separate plan for assets to cover employee benefit liabilities. Taking into account the annual payments from the plan and the nature of the Company’s business this does not constitute a material risk for the Company.

Sensitivity analysis

The Company carried out a sensitivity analysis of the size of the provision for changes in the actuarial assumptions that influence the defined benefit liabilities. In the event of a change in one of the relevant actuarial assumptions, with other assumptions remaining constant, the defined benefit liabilities would change to the following amounts – based on a sensitivity analysis for assumptions with the most significant impact:

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Discount rate increase +0.25%</th>
<th>Inflation rate increase +0.25%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined benefit liabilities as at December 31, 2013</td>
<td>510,996</td>
<td>534,570</td>
</tr>
<tr>
<td>Current service costs next year</td>
<td>23,916</td>
<td>25,359</td>
</tr>
</tbody>
</table>

Although this analysis does not take into account the timing of the cash flows that are expected under the plan, it provides information about the size of the liability upon a change in the various assumptions.

<table>
<thead>
<tr>
<th></th>
<th>Site restoration</th>
<th>Other provisions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 2013</td>
<td>46,393</td>
<td>140,388</td>
<td>186,781</td>
</tr>
<tr>
<td>Provisions created during the year</td>
<td>–</td>
<td>3,529</td>
<td>3,529</td>
</tr>
<tr>
<td>Provisions used during the year</td>
<td>(89)</td>
<td>(3,651)</td>
<td>(3,740)</td>
</tr>
<tr>
<td>Provisions unused during the year</td>
<td>(203)</td>
<td>–</td>
<td>(203)</td>
</tr>
<tr>
<td>Unwinding of discount</td>
<td>–</td>
<td>381</td>
<td>381</td>
</tr>
<tr>
<td>Balance at December 31, 2013</td>
<td>46,101</td>
<td>140,647</td>
<td>186,748</td>
</tr>
<tr>
<td>Non-current</td>
<td>46,101</td>
<td>104,738</td>
<td>150,239</td>
</tr>
<tr>
<td>Current</td>
<td>–</td>
<td>36,509</td>
<td>36,509</td>
</tr>
</tbody>
</table>

**Site restoration**
The provision for site restoration was reviewed and adjusted so as to represent the best estimate in the light of the change in the use of land and of restoration techniques used.

**Other provisions**
The provision for the disposal of unused assets is the most important other provision.

25. Trade and other payables

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade payables to related parties</td>
<td>271,884</td>
<td>244,798</td>
</tr>
<tr>
<td>Trade payables to third parties</td>
<td>1,689,768</td>
<td>1,427,417</td>
</tr>
<tr>
<td>Other payables</td>
<td>162,760</td>
<td>204,948</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,124,412</td>
<td>1,877,163</td>
</tr>
</tbody>
</table>

Trade payables to related parties include a leasing liability (see note 12) of CZK 162 million (2012: CZK 163 million).

In 2013, other payables included a value added tax liability of CZK 46 million (2012: CZK 54 million).

26. Derivatives

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term derivatives</td>
<td>66,428</td>
<td>3,633</td>
</tr>
<tr>
<td>Long-term derivatives</td>
<td>6,178</td>
<td>229</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>72,606</td>
<td>3,862</td>
</tr>
</tbody>
</table>

Derivative financial instruments represent the fair value of forward contracts to ensure exchange rate risk in the amount of CZK -73 million (2012: CZK -4 million) and are shown in short-term and long-term liabilities.

27. Financial instruments

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

<table>
<thead>
<tr>
<th></th>
<th>Carrying amount 2013</th>
<th>Carrying amount 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade and other receivables</td>
<td>1,336,419</td>
<td>1,347,619</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>316,165</td>
<td>265,061</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,652,584</td>
<td>1,612,680</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Nominal value 2013</th>
<th>Impairment 2013</th>
<th>Nominal value 2012</th>
<th>Impairment 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not yet due</td>
<td>1,284,980</td>
<td>–</td>
<td>1,313,996</td>
<td>–</td>
</tr>
<tr>
<td>0–90 days overdue</td>
<td>52,146</td>
<td>4,319</td>
<td>34,462</td>
<td>2,745</td>
</tr>
<tr>
<td>90–180 days overdue</td>
<td>6,897</td>
<td>3,323</td>
<td>1,615</td>
<td>476</td>
</tr>
<tr>
<td>180–360 days overdue</td>
<td>4,069</td>
<td>4,031</td>
<td>42,521</td>
<td>41,754</td>
</tr>
<tr>
<td>More than 1 year overdue</td>
<td>179,520</td>
<td>179,520</td>
<td>150,574</td>
<td>150,574</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,527,612</td>
<td>191,193</td>
<td>1,543,168</td>
<td>195,549</td>
</tr>
</tbody>
</table>
Movement in impairment provisions in respect of trade receivables in the course of the year was:

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1</td>
<td>(195,549)</td>
<td>(165,210)</td>
</tr>
<tr>
<td>Use, release and establishment</td>
<td>4,356</td>
<td>(30,339)</td>
</tr>
<tr>
<td><strong>Balance at December 31</strong></td>
<td><strong>(191,193)</strong></td>
<td><strong>(195,549)</strong></td>
</tr>
</tbody>
</table>

**Liquidity risk**

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

At December 31, 2013

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Book value</th>
<th>Contractual cash flow</th>
<th>Within 6 months</th>
<th>6–12 months</th>
<th>1–2 years</th>
<th>2–5 years</th>
<th>More than 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unsecured bond issues</td>
<td>10,000</td>
<td>10,848</td>
<td>–</td>
<td>424</td>
<td>10,424</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Cash pooling with parent company and subsidiaries</td>
<td>1,481,438</td>
<td>1,481,438</td>
<td>1,481,438</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Trade, tax and other payables</td>
<td>2,124,412</td>
<td>2,124,412</td>
<td>2,124,412</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,615,850</td>
<td>3,616,698</td>
<td>3,605,850</td>
<td>424</td>
<td>10,424</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

At December 31, 2012

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Book value</th>
<th>Contractual cash flow</th>
<th>Within 6 months</th>
<th>6–12 months</th>
<th>1–2 years</th>
<th>2–5 years</th>
<th>More than 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unsecured bond issues</td>
<td>10,000</td>
<td>11,272</td>
<td>–</td>
<td>424</td>
<td>424</td>
<td>10,424</td>
<td>–</td>
</tr>
<tr>
<td>Cash pooling with parent company and subsidiaries</td>
<td>1,509,253</td>
<td>1,509,253</td>
<td>1,509,253</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Trade, tax and other payables</td>
<td>1,877,163</td>
<td>1,877,163</td>
<td>1,877,163</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,396,416</td>
<td>3,397,688</td>
<td>3,386,416</td>
<td>424</td>
<td>424</td>
<td>10,424</td>
<td>–</td>
</tr>
</tbody>
</table>

**Currency risk**

To hedge purchases and sales of electricity in foreign currencies (EUR), forward contracts were concluded with the parent company Dalkia International SA (see note 5).

**Interest rate risk**

As at December 31, 2013, the Company has the following interest-bearing financial instruments:

(i) Fixed-rate financial instruments

<table>
<thead>
<tr>
<th>Balance at December 31</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial liabilities</td>
<td>(10,000)</td>
<td>(10,000)</td>
</tr>
</tbody>
</table>

(ii) Variable-rate financial instruments

<table>
<thead>
<tr>
<th>Balance at December 31</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial liabilities</td>
<td>(1,501,879)</td>
<td>(1,532,652)</td>
</tr>
</tbody>
</table>

**Sensitivity analysis of fixed-rate financial instruments**

The Company does not state fixed-rate financial instruments at fair value through profit or loss. The Company has not entered into interest-rate swaps as hedging instruments.

**Sensitivity analysis of variable-rate financial instruments**

The Company does not and did not have any variable-rate financial instruments as at December 31, 2013 and December 31, 2012, respectively.

**Effective interest rate and re-measurement analysis**

The table below shows the effective interest rates of interest-bearing financial assets and liabilities at the date of the statement of financial position and the periods in which they are re-measured.
### Fair values

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Note</th>
<th>Carrying amount</th>
<th>Fair value</th>
<th>Carrying amount</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade and other receivables</td>
<td>19</td>
<td>1,336,419</td>
<td>1,336,419</td>
<td>1,347,619</td>
<td>1,347,619</td>
</tr>
<tr>
<td>Tax assets</td>
<td>18</td>
<td>49,505</td>
<td>49,505</td>
<td>55,036</td>
<td>55,036</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>20</td>
<td>316,165</td>
<td>316,165</td>
<td>265,061</td>
<td>265,061</td>
</tr>
<tr>
<td>Bonds</td>
<td>22</td>
<td>(10,000)</td>
<td>(10,000)</td>
<td>(10,000)</td>
<td>(10,000)</td>
</tr>
<tr>
<td>Interest payable from the cash pool from Dalkia International SA</td>
<td>22</td>
<td>(2,085)</td>
<td>(2,085)</td>
<td>(4,547)</td>
<td>(4,547)</td>
</tr>
<tr>
<td>Unpaid dividends</td>
<td>22</td>
<td>(18,356)</td>
<td>(18,356)</td>
<td>(18,852)</td>
<td>(18,852)</td>
</tr>
<tr>
<td>Cash pooling with Dalkia International SA</td>
<td>22</td>
<td>(1,073,952)</td>
<td>(1,073,952)</td>
<td>(1,018,602)</td>
<td>(1,018,602)</td>
</tr>
<tr>
<td>Cash pooling with subsidiaries</td>
<td>20, 22</td>
<td>(407,486)</td>
<td>(407,486)</td>
<td>(490,651)</td>
<td>(490,651)</td>
</tr>
<tr>
<td>Trade, tax and other payables</td>
<td>11, 25</td>
<td>(2,124,412)</td>
<td>(2,124,412)</td>
<td>(1,877,163)</td>
<td>(1,877,163)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>(1,934,202)</strong></td>
<td><strong>(1,934,202)</strong></td>
<td><strong>(1,752,099)</strong></td>
<td><strong>(1,752,099)</strong></td>
</tr>
</tbody>
</table>

Note: The above figures do not include derivatives.

The method of calculation of fair values is described in note 4.

### Interest rates used to calculate fair values

The interest rates used to discount cash flows were, as far as possible, based on: the interest rate on treasury bonds as at the date of the statement of financial position in respect of derivatives, and the market interest rate in respect of bonds. The rates applied are as follows:

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivatives</td>
<td>0.5%</td>
<td>1.88%</td>
</tr>
<tr>
<td>Bonds</td>
<td>4.24%</td>
<td>4.24%</td>
</tr>
</tbody>
</table>

### 28. Operating leases

Major operating lease agreements include an agreement with the municipality of Krnov until 2026, a lease agreement regarding the heat distribution system of the municipality of Nový Jičín until 2017, a sublease agreement with Teplo-byty, s.r.o. until 2021, and a lease agreement with the Fakultní nemocnice Ostrava for an indefinite period of time and a sublease agreement with Sneo, a.s. until 2021. The lease payments are due over the following periods:

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Total</th>
<th>Within 1 year</th>
<th>1–5 years</th>
<th>More than 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease – Nový Jičín</td>
<td>74,410</td>
<td>18,603</td>
<td>55,807</td>
<td>–</td>
</tr>
<tr>
<td>Lease – Fakultní nemocnice Ostrava</td>
<td>44,795</td>
<td>4,480</td>
<td>17,918</td>
<td>*</td>
</tr>
<tr>
<td>Lease – Krnov</td>
<td>34,254</td>
<td>3,144</td>
<td>11,656</td>
<td>19,454</td>
</tr>
<tr>
<td>Sublease – Teplo-byty Roudnice</td>
<td>12,000</td>
<td>1,500</td>
<td>6,000</td>
<td>4,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>180,407</strong></td>
<td><strong>29,388</strong></td>
<td><strong>98,025</strong></td>
<td><strong>30,597</strong></td>
</tr>
</tbody>
</table>

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

### 29. Related parties

#### Transactions with related parties

The Company is controlled by the multinational company Dalkia International SA and its ultimate parent company, Veolia Environnement – VE SA. The Company has transactions with its subsidiaries (see note 30).

#### 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.
Management personnel compensation comprised

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee compensation</td>
<td>54,516</td>
<td>56,054</td>
</tr>
<tr>
<td>Long term benefits</td>
<td>3,541</td>
<td>2,753</td>
</tr>
<tr>
<td><strong>Total employee compensation</strong></td>
<td><strong>58,057</strong></td>
<td><strong>58,807</strong></td>
</tr>
</tbody>
</table>

**30. 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:

Sale transactions:
- Technical audits performed on behalf of Dalkia International SA
- Re-invoicing of expatriate employees’ living costs
- Transactions with emission allowances and certificates

Purchase transactions:
- Advisory services provided to the Company
- Invoicing of international employees’ salary costs to the Company
- Transactions with emission allowances and certificates

Typical transactions between the Company and its subsidiaries are as follows:

Sales transactions:
- Revenue from the supply of heat and electricity
- Revenue from the supply of materials
- Revenue from the sale of fixed assets
- Revenue from the provision of services

Purchase transactions:
- Technical services, including the analysis of fuel and production equipment usage
- General overhaul and ordinary repairs and maintenance of fixed assets
- Assistance with the assembly of fixed assets and technical inspections
- Rental of office space
- Supply of heat and electricity
- Lease of a part of an enterprise

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

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Veetra</td>
<td>17,381</td>
<td>–</td>
</tr>
<tr>
<td>Dalkia International SA</td>
<td>203,845</td>
<td>27,343</td>
</tr>
<tr>
<td>Dalkia France</td>
<td>13</td>
<td>1,486</td>
</tr>
<tr>
<td>Dalkia Mariánské Lázně, s.r.o.</td>
<td>–</td>
<td>10,405</td>
</tr>
<tr>
<td>OLTERRM &amp; TD Olomouc, a.s.</td>
<td>396</td>
<td>231,646</td>
</tr>
<tr>
<td>AmplusServis, a.s.</td>
<td>185,076</td>
<td>6,950</td>
</tr>
<tr>
<td>Dalkia Kolín, a.s.</td>
<td>38,278</td>
<td>29,520</td>
</tr>
<tr>
<td>SpID2</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Dalkia Industry CZ, a.s.</td>
<td>4,764</td>
<td>91,817</td>
</tr>
<tr>
<td>Dalkia Commodities CZ, s.r.o.</td>
<td>675,58</td>
<td>631,289</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>517,311</strong></td>
<td><strong>1,030,456</strong></td>
</tr>
</tbody>
</table>
A related party provided the Company with a foundation grant of CZK 18 million and this grant is disclosed in the position "cost of sales".

The Company participates in cash pool arrangements with Dalkia International SA and also with its subsidiaries (see notes 20 and 22).

The Company has in place an agreement on the lease of an enterprise with its subsidiary company Dalkia Industry CZ, a.s. (see note 12).

### 31. Capital commitments

The Company concludes contracts for the lease and operation of heating systems for schools, hospitals, residential buildings, and municipal and industrial sites. In accordance with these lease agreements, the Company is committed to provide financing for the modernisation of these leased assets.

### 32. 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 December 31, 2013, or that should be disclosed in the financial statements.

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**Consolidated Financial Statements**

**Consolidated income statement for the year ended December 31**

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Note</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>6</td>
<td>13,078,430</td>
<td>12,977,859</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>7</td>
<td>(9,926,500)</td>
<td>(9,822,057)</td>
</tr>
<tr>
<td>Gross profit</td>
<td></td>
<td>3,151,930</td>
<td>3,155,802</td>
</tr>
<tr>
<td>Distribution expenses</td>
<td>8</td>
<td>(219,121)</td>
<td>(57,015)</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>9</td>
<td>(804,741)</td>
<td>(759,931)</td>
</tr>
<tr>
<td>Result from operating activities</td>
<td></td>
<td>2,128,068</td>
<td>2,338,856</td>
</tr>
<tr>
<td>Finance income</td>
<td>10</td>
<td>186,707</td>
<td>68,698</td>
</tr>
<tr>
<td>Finance costs</td>
<td>10</td>
<td>(48,154)</td>
<td>(79,166)</td>
</tr>
<tr>
<td>Net finance income and costs</td>
<td>138,553</td>
<td>(10,468)</td>
<td></td>
</tr>
<tr>
<td>Profit before income tax</td>
<td></td>
<td>2,368,621</td>
<td>2,328,388</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>11</td>
<td>(417,641)</td>
<td>(473,409)</td>
</tr>
<tr>
<td>Profit for the period</td>
<td></td>
<td>1,848,980</td>
<td>1,854,979</td>
</tr>
</tbody>
</table>

**Attributable to:**

| Interest of parent company shareholders | 1,841,498 | 1,842,866 |
| Non-controlling interests               | 7,482     | 2,113     |
| Profit for the period                    | 1,848,980 | 1,854,979 |
### 3. Financial Report

#### Consolidated statement of comprehensive income for the year ended December 31

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the period</td>
<td>1,848,980</td>
<td>1,854,979</td>
</tr>
<tr>
<td>Employee benefits – actuarial gains (losses)</td>
<td>(41,524)</td>
<td>(63,682)</td>
</tr>
<tr>
<td>Changes in fair value of cash flow hedges</td>
<td>36,654</td>
<td>39,858</td>
</tr>
<tr>
<td>Exchange differences on translation of overseas entities</td>
<td>7,338</td>
<td>6,868</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>2,468</td>
<td>(16,956)</td>
</tr>
<tr>
<td><strong>Total comprehensive income for the period</strong></td>
<td><strong>1,851,448</strong></td>
<td><strong>1,838,023</strong></td>
</tr>
</tbody>
</table>

Attributable to:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest of parent company shareholders</td>
<td>1,844,336</td>
<td>1,830,858</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>7,112</td>
<td>7,165</td>
</tr>
<tr>
<td><strong>Total comprehensive income for the period</strong></td>
<td><strong>1,851,448</strong></td>
<td><strong>1,838,023</strong></td>
</tr>
</tbody>
</table>

#### Consolidated statement of financial position as at December 31

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Note</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>12</td>
<td>9,030,966</td>
<td>9,031,837</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>13</td>
<td>2,276,699</td>
<td>2,369,357</td>
</tr>
<tr>
<td>Financial interests</td>
<td>14</td>
<td>74,061</td>
<td>73,061</td>
</tr>
<tr>
<td>Other financial investments</td>
<td>14</td>
<td>844,384</td>
<td>709,718</td>
</tr>
<tr>
<td>Derivatives</td>
<td>14</td>
<td>71,445</td>
<td>1,759</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td></td>
<td><strong>12,297,555</strong></td>
<td><strong>12,185,732</strong></td>
</tr>
<tr>
<td>Inventories</td>
<td>16</td>
<td>912,027</td>
<td>615,026</td>
</tr>
<tr>
<td>Other financial investments</td>
<td>14</td>
<td>43,010</td>
<td>31,129</td>
</tr>
<tr>
<td>Derivatives</td>
<td>14</td>
<td>56,429</td>
<td>12,120</td>
</tr>
<tr>
<td>Current tax assets</td>
<td>17</td>
<td>74,828</td>
<td>62,117</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>18</td>
<td>1,970,229</td>
<td>1,863,700</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>19</td>
<td>182,020</td>
<td>330,733</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td></td>
<td><strong>3,238,543</strong></td>
<td><strong>2,914,825</strong></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td><strong>15,536,098</strong></td>
<td><strong>15,100,557</strong></td>
</tr>
</tbody>
</table>

**Equity**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td></td>
<td>3,146,447</td>
<td>3,146,447</td>
</tr>
<tr>
<td>Reserves and other capital funds</td>
<td></td>
<td>2,179,901</td>
<td>2,122,172</td>
</tr>
<tr>
<td>Retained earnings</td>
<td></td>
<td>4,489,565</td>
<td>4,509,164</td>
</tr>
<tr>
<td><strong>Equity excl. minority interests</strong></td>
<td></td>
<td><strong>9,812,912</strong></td>
<td><strong>9,777,783</strong></td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td></td>
<td>68,797</td>
<td>69,539</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td></td>
<td><strong>9,881,709</strong></td>
<td><strong>9,847,322</strong></td>
</tr>
</tbody>
</table>

**Liabilities**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans and borrowings</td>
<td>21</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>22</td>
<td>533,029</td>
<td>456,558</td>
</tr>
<tr>
<td>Provisions</td>
<td>23</td>
<td>150,816</td>
<td>150,727</td>
</tr>
<tr>
<td>Derivatives</td>
<td>24</td>
<td>229</td>
<td>229</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>15</td>
<td>901,654</td>
<td>926,507</td>
</tr>
<tr>
<td>Other payables</td>
<td>24</td>
<td>170,041</td>
<td>165,527</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td></td>
<td><strong>1,772,718</strong></td>
<td><strong>1,709,548</strong></td>
</tr>
<tr>
<td>Loans and borrowings</td>
<td>21</td>
<td>1,095,434</td>
<td>1,042,976</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>24</td>
<td>2,618,851</td>
<td>2,408,459</td>
</tr>
<tr>
<td>Current tax payable</td>
<td>24</td>
<td>11,263</td>
<td>10,132</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>22</td>
<td>24,719</td>
<td>32,433</td>
</tr>
<tr>
<td>Provisions</td>
<td>23</td>
<td>44,976</td>
<td>46,054</td>
</tr>
<tr>
<td>Derivatives</td>
<td>25</td>
<td>66,428</td>
<td>3,633</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td></td>
<td><strong>3,881,671</strong></td>
<td><strong>3,543,687</strong></td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td></td>
<td><strong>15,536,098</strong></td>
<td><strong>15,100,557</strong></td>
</tr>
</tbody>
</table>

The notes are an integral part of the financial statements.

Date: April 9, 2014

On behalf of the Board of Directors of the Company:

Laurent Barrieux

Francois Leimgruber
Consolidated statement of changes in equity
Attributable to majority shareholder

### Balance at January 1, 2012

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Share capital</th>
<th>Statutory reserves</th>
<th>Other capital funds</th>
<th>Cash flow hedges</th>
<th>Retained earnings</th>
<th>Total</th>
<th>Controlling interests</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3,146,447</td>
<td>658,064</td>
<td>1,425,505</td>
<td>(31,745)</td>
<td>4,502,011</td>
<td>9,702,700</td>
<td>69,004</td>
<td>9,769,286</td>
</tr>
</tbody>
</table>

### Profit for the period

- – – – – 1,847,866 1,847,866 7,113 1,854,979

### Other comprehensive income

- Employee benefits – actuarial gains (losses) – – – – (63,734) (63,734) 52 (63,682)
- Changes in fair value of cash flow hedges – – – 39,858 – – 39,858
- Exchange differences on translation of overseas entities – (208) – – 7,076 6,868 – 6,868
- Other comprehensive income – (208) – 39,858 (56,658) (17,008) 52 (16,956)

**Total comprehensive income for the period** – (208) – 39,858 1,791,208 1,830,858 7,165 1,838,023

### Transactions with owners, recorded directly in equity

- Allotments – 30,698 – – (30,698) – – –
- Dividends paid to shareholders – – – – (1,753,357) (1,753,357) (6,630) (1,759,987)

**Balance at December 31, 2012** 3,146,447 688,554 1,425,505 8,113 4,509,164 9,777,783 69,539 9,847,322

### Profit for the period

- – – – – 1,841,498 1,841,498 7,482 1,848,980

### Other comprehensive income

- Employee benefits – actuarial gains (losses) – – – – (41,154) (41,154) (370) (41,524)
- Changes in fair value of cash flow hedges – – – 36,654 – – 36,654
- Exchange differences on translation of overseas entities – (615) – – 7,453 7,338 – 7,338
- Other comprehensive income – (615) – 36,654 (33,201) 2,838 (370) 2,468

**Total comprehensive income for the period** – (615) – 36,654 1,808,297 1,844,336 7,112 1,851,448

### Transactions with owners, recorded directly in equity

- Allotments – 18,689 – – (18,689) – – –
- Dividends paid to shareholders – – – – (1,809,207) (1,809,207) (7,854) (1,817,061)

**Balance at December 31, 2013** 3,146,447 706,629 1,425,505 44,767 4,489,565 9,812,912 68,797 9,881,709

---

Consolidated statement of cash flows for the year ended December 31

### Cash flows from operating activities

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Note</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before income tax</td>
<td>11</td>
<td>2,266,621</td>
<td>2,328,388</td>
</tr>
<tr>
<td>Depreciation and amortisation of non-current assets</td>
<td>12,13</td>
<td>914,420</td>
<td>931,370</td>
</tr>
<tr>
<td>Change in provisions</td>
<td>17,800</td>
<td>6,620</td>
<td>7,338</td>
</tr>
<tr>
<td>Gain / loss on sale of property, plant and equipment</td>
<td>(3,690)</td>
<td>23,727</td>
<td></td>
</tr>
<tr>
<td>Proceeds from dividends and profit shares</td>
<td>10</td>
<td>146,767</td>
<td>22,790</td>
</tr>
<tr>
<td>Net interest income and expense</td>
<td>10</td>
<td>3,294</td>
<td>10,520</td>
</tr>
<tr>
<td>Other non-cash transactions</td>
<td>97</td>
<td>6,373</td>
<td></td>
</tr>
</tbody>
</table>

**Cash flow from operating activities** 3,051,775 3,139,852

### Cash flows from investing activities

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Note</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of property, plant and equipment</td>
<td>(1,228,465)</td>
<td>862,783</td>
<td></td>
</tr>
<tr>
<td>Proceeds from the sale of property, plant and equipment</td>
<td>47,318</td>
<td>65,382</td>
<td></td>
</tr>
<tr>
<td>Change in receivables and other financial assets</td>
<td>16,592</td>
<td>5,888</td>
<td></td>
</tr>
<tr>
<td>Dividends received</td>
<td>10</td>
<td>146,767</td>
<td>22,790</td>
</tr>
<tr>
<td>Net cash from (used in) investing activities</td>
<td>(1,017,788)</td>
<td>(780,499)</td>
<td></td>
</tr>
</tbody>
</table>

**Free operating cash and cash equivalents** 1,614,263 1,751,785

### Cash flows from financing activities

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unpaid dividends</td>
<td>2,188</td>
<td>(1,183)</td>
</tr>
<tr>
<td>Repayments of loans, borrowings and finance leases</td>
<td>(5,523)</td>
<td>(232)</td>
</tr>
</tbody>
</table>
3.5. Notes to the Consolidated Financial Statements

as at December 31, 2013

1. General information

Dalkia Česká republika, a.s. ("the Company") is registered in the Czech Republic.

The registered office of the Company is at Ostrava, 28. října 3337/7, 702 00, registered number 45193410.

The consolidated financial statements of the Company for the year ended December 31, 2013 include the Company and its subsidiaries (together referred to as "the Group").

The shareholder structure did not change in 2013. As at December 31, 2013, the share of SPID2 is 63.056%, the share of Dalkia International SA is 10%, the share of ČEZ, a.s. is 15% and the share of EPH Financing I, a.s. is 10%, and minority shareholders make up the balance.

The Group is controlled by a multinational company, Dalkia International SA, and its ultimate parent company is Veolia Environnement – VE SA.

All the companies in the Group have their registered offices in the Czech Republic except Dalkia Powerline Sp. z o.o. The principal business activity is the production and distribution of heat and the generation of electricity. The subsidiaries within the Group are as follows:

OLTERM & TD Olomouc, a.s., Olomouc, Janského 469/8, Post Code: 779 00. The principal business activity is the distribution of thermal energy and hot water.

AmpluServis, a.s., Ostrava, ul. Elektrárenská 5558, Post Code: 709 74. The principal business activities are repairs, production and maintenance of power engineering equipment.

Dalkia Kolín, a.s., Kolín, Tovární 21, Post Code: 280 63. The principal business activity is the production and distribution of heat and the generation of electricity.

Dalkia Mariánské Lázně, s.r.o., Mariánské Lázně, Nádražní náměstí 294, Post Code: 353 01. The principal business activity is the production and distribution of heat.

Nadační fond Dalkia pro životní prostředí, Ostrava, 28. října 3337/7, Post Code: 709 74. It has been established to support projects for environmental improvement.


Dalkia Commodities CZ, s.r.o., Ostrava, 28. října 3337/7, Post Code: 709 74. The principal business activity is trading in electric power.
Dalkia Powerline Sp. z o.o., 43-417 Kaczyce, ul. Morcinka 17, Poland. The principal business activity is trading in electric power.

2. **Basis of preparation**

   **a) Statement of compliance**

   The consolidated 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 December 31, 2013. In accordance with Section 19a (1) of Act on Accounting, No. 563/1991, the parent company, Dalkia Česká republika, a.s., being an issuer of debentures listed on a public market, applies IFRS as adopted by the EU in the preparation of its financial statements and consolidated financial statements.

   The consolidated financial statements were approved for release by the Company's Board of Directors on April 9, 2014.

   **b) Basis of preparation**

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

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

   **c) Use of estimates and judgements**

   The preparation of consolidated financial statements in conformity with IFRS requires the Group's management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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.

   In particular, information about significant areas of estimation, uncertainty and critical judgement in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in notes 3 h), 3 i) and 22 and 23.

   **d) Changes in accounting policies**

   **(i) Standards not applied**

   A number of new standards, amendments to standards and interpretations are effective for the accounting period beginning after January 1, 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have significant effect on the Group's consolidated financial statements. Those that may be relevant for the Group are listed below:


   IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Pursuant to IFRS 9 (2009) financial assets are to be classified and measured on the basis of the business model whose objective is to hold the financial assets and the contractual cash flow characteristics of the financial asset.

   IFRS 9 (2010) introduces additional amendments concerning financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

   IFRS 9 (2010) and (2009) are effective for financial periods beginning on or after January 1, 2015; early application is permitted. The Group expects the adoption of these standards to have an impact on its financial assets but no impact on its financial liabilities.

   **(ii) Applied standards**

   For the accounting period beginning on 1 January 2013, the amended IAS 19 (revised) standard came into effect; it was applied in the preparation of these consolidated financial statements. The standard now introduces requirements for a
more detailed description of the employee benefit plan, describing each of the benefits. The key element of the notes is then a reconciliation of the provisions for employee benefits from the opening balance to the closing balance of the accounting period, including the disaggregation of changes in the provision shown in the income statement and the balance sheet. The notes must also contain a sensitivity analysis of the effect of a change in each major assumption on the size of the provision.

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

a) Basis of consolidation
(i) Subsidiaries
Subsidiaries are the enterprises controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Business combinations including companies fully controlled by the same company
Business combinations include companies or undertakings fully controlled by the same company, where all companies/undertakings participating in the combination are controlled by the same entity/entities before/after the business combination and the control is not temporary. Given the absence of specific guidelines, the Group consistently applied the book value valuation method to all transactions with companies fully controlled by the same company.

(iii) Loss of control
Assets and liabilities of a subsidiary over which the Group has lost control are derecognised from the consolidated statement of financial position including derecognising equity interests attributable to other owners and other items of equity that relate to the subsidiary. The difference between the loss of control and a consideration acquired for the transfer of the controlling interest is recognised in the consolidated income statement. If the Group maintains an interest in its former subsidiary after losing control over it then such interest is measured at fair value as of the date when control was lost.

(iv) Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with affiliates and jointly controlled entities are eliminated to the extent of the Group’s interest in the entity. Unrealised gains arising from transactions with affiliates are eliminated against the investment in the affiliate to the extent of the Group’s interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that the asset’s recoverable amount is not exceeded.

b) Foreign currency
(i) Foreign currency transactions
Transactions in foreign currencies are translated at fixed exchange rates based on the Czech National Bank official rates for the first day of the month in which the transaction occurs. 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.

(ii) Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to CZK at the exchange rate valid at the reporting date. The income and expenses of foreign operations are translated to CZK at the exchange rates valid at the dates of the transactions. For practical reasons, the exchange rate at the date of the transaction is the average exchange rate announced by the parent company for the period in which the given income arose or expense was incurred. Foreign currency differences are recognised in other comprehensive income.

c) Financial instruments
(i) Non-derivative financial instruments
Non-derivative financial instruments comprise investments held for trading, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are initially measured at fair value plus, for instruments not at fair value through income statement, any directly attributable transaction costs. If their fair value cannot be reliably determined, the acquisition cost is used. Other investments include unlisted equity and debt securities that are initially measured at fair value plus transaction cost directly attributable to the acquisition. Subsequent to initial recognition they are measured at cost less any impairment losses (see note 3 g).
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 the accounting policy described in note 3 g).

Cash and cash equivalents presented in the cash flow statement include cash, bank deposits and cash in cash pooling. 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 receivable and cash pool payable are presented as cash.

(ii) Derivative financial instruments
The Group uses derivative financial instruments to hedge its exposure in CO2 emission allowances trading (see note 3 f). The Group further uses currency agreements to hedge its risks connected with foreign exchange movements.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to 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 carrying amount 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 immediately in profit or loss.

(iii) Equity
The share capital comprises fully paid-up shareholders’ contributions. Dividends are recognised as liabilities in the period in which they are declared.

Statutory reserves are created at 5% of parent and subsidiaries’ profit pursuant to legal requirements. Use of statutory reserves is limited to payment of potential future losses.

d) Property, plant and equipment
(i) Owned assets
Items of property, plant and equipment are valued at cost less accumulated depreciation (see below) and impairment losses (see note 3 g). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Leased assets
Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. Buildings and equipment acquired by way of a finance lease are stated as financial assets at the lower of their fair value and the present value of the minimum lease payments at inception of the lease. The valuation is then decreased by accumulated depreciation (see below) and impairment losses (see note 3 g). Lease payments from operating leases are recognised as described under note 3 k).

(iii) Government grants
Government grants for the acquisition of property, plant and equipment are recognised initially in liabilities at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. They are then deducted on a systematic basis in the asset’s carrying value.
(iv) Subsequent expenditures
The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item, including the costs associated with necessary inspections and major overhaul, where it is probable that the future economic benefits embodied within the item will flow to the Group and costs can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised directly in the costs of the current period.

(v) Depreciation
Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings and constructions</td>
<td>30–40 years</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>4–20 years</td>
</tr>
<tr>
<td>Other assets</td>
<td>4 years</td>
</tr>
</tbody>
</table>

(e) Intangible assets

(i) Positive and negative goodwill
Goodwill (positive and negative) represents amounts arising on acquisition of subsidiaries, affiliates and jointly controlled entities (joint ventures). Goodwill (positive and negative) arising on acquisition is recognised and stated as the difference between the acquisition cost and the fair value of identifiable assets and liabilities, including contingent liabilities of a subsidiary or an affiliate. Negative goodwill arising on acquisition is recognised immediately in the profit or loss.

Acquisitions
Goodwill generated on the acquisition of a non-controlling interest in a subsidiary represents the excess of the costs of additional investment over the value of the net assets acquired as at the date of the acquisition.

Subsequent measurement
Goodwill is measured at cost less accumulated impairment losses.

(ii) Other intangible assets
Intangible assets acquired by the Group are stated at cost less accumulated amortisation (see below) and accumulated impairment losses (see note 3 g). Purchased software that is integral to the functioning of equipment is capitalised as a part of the equipment.

(iii) Amortisation
Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at date of the statement of financial position. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Software</td>
<td>4–5 years</td>
</tr>
<tr>
<td>Other</td>
<td>3–5 years</td>
</tr>
<tr>
<td>Agreement with OKK Koksovny, a.s. for the purchase of coke oven gas</td>
<td>10 years</td>
</tr>
<tr>
<td>Framework agreement with OKD, a.s. for the supply of utilities to OKD mines</td>
<td>20 years</td>
</tr>
</tbody>
</table>

(f) Inventories
Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and expected selling expenses. The cost of inventories is determined using the weighted average method and comprises the purchase price and other costs associated with the acquisition such as freight and storage.

At the date of the statement of financial position the Group reviews the carrying values of inventories. A decrease in the value of inventories to the net realisable value compared to the cost is recognised in the income statement for the period in which the decrease in valuation is ascertained.

Emission allowances
Allowances for emissions of greenhouse gases (“emission allowances” or EUAs) are presented as inventory and represent the right of the operator of a facility which generates greenhouse gas emissions to release an equivalent of a tonne of CO₂ into the air in a given calendar year. In the financial statements, the granted emission allowances are stated at an acquisition cost of zero. Purchased allowances are valued either at acquisition cost or, if the purchase includes a financial derivative, at fair value. Consumption of emission allowances is recognised using the weighted average method. As at the date of the statement of financial position the Group determines whether there is an indication of impairment of emission allowances. If any such indications exist, the Group assesses whether the recoverable value of the emission allowances is lower than
their residual value. Any impairment loss is recognised in profit or loss. If the consumption of emission allowances in the accounting period is higher than the number of allowances available at the date of the statement of financial position, a provision is established based on the value of allowances that will have to be purchased on the public market in the following period. This provision is measured at the market value of the required emission allowances as at the date of the statement of financial position.

The Group supplies EUAs to third parties pursuant to agreements and the counterparties undertake to return the allowances by the date specified in the agreement. The Group is entitled to commission for this service. Considering that significant risks and rewards from ownership of EUA are not transferred to the counter-party, these transactions are not recognised as the sale and purchase of allowances. Therefore, the Group regards such emission allowances as available and takes this into consideration when establishing a provision as at the date of the statement of financial position. The commission that has been received is amortised over the period of the contract and recognised on a straight-line basis in the income statement.

In 2013 the Group purchased EUA units issued according to the Kyoto protocol that it expects to use in 2013 and beyond.

The use of emission allowances and the income from their sale are presented in the consolidated income statement in the position “cost of sales”.

g) 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 a financial asset measured at amortised cost is calculated using the effective interest rate method as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. All 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 the profit or loss.

(ii) Non-financial assets

The carrying amounts of non-financial assets other than inventories (see note 3 f) and deferred tax assets (see note 3 I) are reviewed at the 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.

For goodwill, assets with an indefinite useful life and intangible assets not put into use, the asset’s recoverable amount is estimated as at the date of the statement of financial position.

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 connection with cash-generating units are firstly allocated to reduce the carrying amount of goodwill allocated to units and then to reduce the carrying amount of other assets within the unit (group of units) on a pro rata basis.

The goodwill impairment loss is not reversed. For other assets, the impairment losses recorded in the previous periods are recognised at the date of the statement of financial position to determine whether there is any indication that the loss has been reduced or ceased to exist. The impairment loss will be cancelled if there has been a change in the estimates used to determine the recoverable amount. The impairment loss will be cancelled only to such an extent that the asset carrying amount is not higher than the amount that would be determined (net of depreciation) should no impairment loss be recognised.

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.
h) Employee benefits

The Group’s obligation in respect of employee benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods. This is calculated using the projected unit credit method. The discount rate is the current rate of return on long-term treasury bonds in the Czech Republic. Any actuarial gains and losses are recognised in profit and loss in the period in which they arise except actuarial gains and losses on post-employment benefits, which are recognised in equity.

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit and loss when they are due. Changes in defined contribution plans relating to retirement benefits classified as post-employment benefits are amortised in profit and loss on a straight-line basis over the average period until the benefits become vested.

i) Provisions

A provision is recognised in the statement of financial position when the Group 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.

(i) Site restoration

In accordance with the Group’s published environmental policy and applicable legal requirements, a provision for site restoration and land decontamination is recognised when the land is contaminated. The provision recognised represents the best estimate of the expenditures required to settle the present obligation at the date of the statement of financial position. Changes in the liability that result from a change in the current best estimate of cash flows required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognised as the related assets. However, to the extent that such a treatment would result in negative assets, the effect of the change is recognised in profit or loss.

(ii) Litigation

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

(iii) Other provisions

Other provisions include a provision for asset disposal, a provision for compensation for damage caused by emissions and other provisions which are established in connection with the risks related to the Group’s principal activities. Provisions for other risks were reviewed and adjusted based on the best estimates arising from changes in legislation and in estimates.

j) Revenue

Sale of heat, electricity and goods

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

Assets acquired on acquisition related to the distribution of heat and compressed air are evaluated in accordance with IFRIC 4 as a lease receivable and charged as one item. This will be accounted for by increased interest and reduced by amounts that are allocated to fixed payments for customers.

k) 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.

l) Income tax

Income tax comprises current and deferred tax. Income tax charge is recognised in the income statement 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 current year, using tax rates applicable at the first date of the accounting 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 statement of financial position date the Group reviews the carrying values of the deferred tax asset. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which this asset can be utilised.

The establishment of deferred tax represents tax consequences subject to the method which the Group 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.

m) New IFRS standards and IFRIC interpretations not yet adopted

For the year ended December 31, 2013 no new IFRS standards or IFRIC interpretations are valid.

The Group is currently assessing the potential impact of new and alternative standards that are not mandatory for the year ended December 31, 2013 and have not been applied in the preparation of these financial statements. None of these standards are expected to have material impact on the financial statements.

An exception is IFRS 9 Financial Instruments, which introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets shall be classified and measured pursuant to the business model in which such assets exist and pursuant to the features of their contractual cash flows. IFRS 9 (2010) introduces amendments regarding financial liabilities. IASB is currently carrying out a project consisting of limited changes in the requirements for the classification and measurement under IFRS 9 and the introduction of additional requirements to tackle the issue of hedge accounting. IFRS 9 (2010 and 2009) applies for annual periods beginning on January 1, 2015 or later; the Group does not plan to adopt these standards early. It is assumed that the adoption of IFRS 9 (2010) may have some impact on the financial assets of the Group, however, it shall have no impact on its financial liability.

4. Fair value

Some accounting policies applied by the Group 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.

(iv) Employee benefits

Fair value of employee benefits is calculated as the present value of future benefits that employees have earned in return for their service in the current and prior periods. The discount rate is the current rate of return on long-term treasury bonds in the Czech Republic.

5. Financial risk management

The Group has exposure to the following risks:
- credit risk
- liquidity risk
- market risk
- operating risk

The parent company’s Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework. The Board reviews and approves the risk management policies described below. The Risk Management Department monitors individual risks and their effect on the Group.
The Audit Committee primarily monitors the process of preparing the non-consolidated financial statements and consolidated financial statements, assesses the effectiveness of internal controls, internal audit and the risk management system.

Credit risk
Credit risk is the risk of financial loss to the Group 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 Group endeavours to manage and limit this risk. The Group 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. More than 80 percent of customers have been transacting with the Group for over four years, and losses have occurred infrequently. 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 basis. Customers that are graded as “high risk” are monitored separately, and sometimes a repayment 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. For more information see note 26.

Investments
The Group limits its exposure to credit risk by only investing in securities of liquid companies. The management of the Group does not expect any losses from these investments.

As at December 31, 2013, the Group holds cash and cash equivalents in the amount of CZK 182 million (2012: CZK 331 million). Cash and cash equivalents are deposited with banks with high ratings and in cash pooling with the parent company.

Guarantees
The Group’s policy is to provide financial guarantees only on an exceptional basis, where required for the purpose of a tender procedure or where the law provides so. As at December 31, 2013, guarantees of CZK 18.5 million were outstanding (2012: CZK 39.5 million).

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group’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 Group 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 Group ensures that it has sufficient cash on demand to meet expected operational expense through participation in cash pooling within Veolia group. Within the cash pooling, the Group may draw funds of up to CZK 3,000 million. By this approach, the Group limits the possible impacts of unforeseeable events. In addition, the Group has funds obtained from bonds issued (see note 21). The 2008 issue of bonds is repayable in 2015. The Group may also draw on a mid-term credit facility of up to CZK 3,600 million from parent company Dalkia International SA, carrying an interest rate at PRIBOR + 2.05% and valid until September 30, 2014. As at December 31, 2013 the Group had not used this option.

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 Group’s income or the value of financial instruments in its possession.

Currency risk
The Group is not exposed to significant currency risk on sales, purchases and borrowings, as the major portion of these are negotiated in Czech currency. For electricity and fuel payments in foreign currencies (EUR, PLN) the Group concludes forward contracts to hedge the foreign exchange risk.

Interest rate risk
The Group 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.
Other market price risks
In 2013 the Group entered into forward contracts with Veetra, a Veolia Environnement – VE SA Group company, for the purchase and sale of emission allowances and certificates at a contractual price.

Operating risk
The Group manages production risk with a view to avoiding financial losses and damage. This involves, in particular, the gradual wear and tear of equipment and components of its power plants, risks related to shutdowns and risks related to insurance.

Gradual wear and tear of equipment and components
The influence of operations as well as of natural processes (e.g. erosion and corrosion) on the technical condition of some equipment and certain components of the production plant constantly increases over time. At the same time, the Group implements a continual major production plant renewal programme in its facilities in order to modernise its production portfolio with a view to realising the Veolia Group’s business vision. The Group has prepared a plant renewal programme aimed at reducing energy consumption. Apart from the preparations for renewing its fossil fuel-fired facilities, the Group provides for the firing of biomass. The Group endeavours to adhere to its practices in terms of preventive inspections and maintenance of the equipment and components of its plants, including repairs and replacements, in order to prevent failures and losses.

Risks related to shutdowns
Despite the complexity of its production plants, the Group endeavours to eliminate the risk of unscheduled shutdowns or to anticipate exactly their frequency or effects, in particular by means of preventive inspections and repairs.

Insurance of risks
The Group has concluded insurance arrangements (e.g. property, plant and machinery insurance; third party liability insurance) for its major assets and believes that it has covered the risk of all significant losses.

Capital management
The Board of Directors of Dalkia Česká republika, a.s. manages the Group’s capital structure in compliance with investor’s requirements, focusing on appropriate indebtedness and dividend policy monitoring. The objective is to achieve the right proportion of debt to total assets, and to meet the planned dividend targets. This involves looking for an adequate level of debt, which depends on profit (cash flow) generation, and meeting the average cost of capital and working capital targets planned by the Group.

The Group’s debt to equity at the end of the accounting period was as follows.

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total liabilities</td>
<td>5,654,389</td>
<td>5,253,235</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>(182,020)</td>
<td>(330,733)</td>
</tr>
<tr>
<td>Net debt</td>
<td>5,472,369</td>
<td>4,922,502</td>
</tr>
<tr>
<td>Total equity</td>
<td>9,881,709</td>
<td>9,842,322</td>
</tr>
<tr>
<td>Cash flow from hedges</td>
<td>(44,767)</td>
<td>(8,113)</td>
</tr>
<tr>
<td>Adjusted equity</td>
<td>9,836,942</td>
<td>9,834,209</td>
</tr>
<tr>
<td>Debt to adjusted equity</td>
<td>0.56</td>
<td>0.50</td>
</tr>
</tbody>
</table>

6. Revenue

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues from sale of heat and related products</td>
<td>6,552,502</td>
<td>6,341,802</td>
</tr>
<tr>
<td>Revenues from sale and re-sale of electricity and ancillary services</td>
<td>5,727,533</td>
<td>5,833,363</td>
</tr>
<tr>
<td>Revenues from sale of compressed air</td>
<td>511,973</td>
<td>535,802</td>
</tr>
<tr>
<td>Other operating revenues</td>
<td>286,422</td>
<td>266,892</td>
</tr>
<tr>
<td>Total</td>
<td>13,078,430</td>
<td>12,977,859</td>
</tr>
</tbody>
</table>

The majority of the revenue of the Group is realised in the Czech Republic.
7. Cost of sales

<table>
<thead>
<tr>
<th>Item</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel expenses</td>
<td>(1,127,039)</td>
<td>(1,146,294)</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>(891,343)</td>
<td>(894,731)</td>
</tr>
<tr>
<td>Costs of goods sold excluding electricity</td>
<td>(221,143)</td>
<td>(152,654)</td>
</tr>
<tr>
<td>Cost of purchased electricity</td>
<td>(2,061,169)</td>
<td>(2,072,852)</td>
</tr>
<tr>
<td>Fuel consumption</td>
<td>(3,286,775)</td>
<td>(3,527,143)</td>
</tr>
<tr>
<td>Consumption of raw materials, energy and services</td>
<td>(1,295,924)</td>
<td>(2,343,874)</td>
</tr>
<tr>
<td>Change in provisions</td>
<td>(6,945)</td>
<td>21,334</td>
</tr>
<tr>
<td>Consumption of emission allowances and change in provision for emission allowances</td>
<td>(37,418)</td>
<td>(37,115)</td>
</tr>
<tr>
<td>Revenues realised on sale of emission allowances</td>
<td>1,456</td>
<td>331,272</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>(9,926,500)</strong></td>
<td><strong>(9,822,057)</strong></td>
</tr>
</tbody>
</table>

In 2013, the Group realised fewer sales of emission allowances and reported lower revenues from the operation with emission allowances in the amount of CZK 1.5 million (2012: CZK 331 million).

8. Distribution expenses

<table>
<thead>
<tr>
<th>Item</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel expenses</td>
<td>(47,091)</td>
<td>(43,141)</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>(16)</td>
<td>(115)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(172,014)</td>
<td>(13,759)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>(219,121)</strong></td>
<td><strong>(57,015)</strong></td>
</tr>
</tbody>
</table>

9. Administrative expenses

<table>
<thead>
<tr>
<th>Item</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel expenses</td>
<td>(363,933)</td>
<td>(347,607)</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>(23,061)</td>
<td>(37,380)</td>
</tr>
<tr>
<td>Change in provisions</td>
<td>1,772</td>
<td>52,604</td>
</tr>
<tr>
<td>Management costs</td>
<td>(190,024)</td>
<td>(157,163)</td>
</tr>
<tr>
<td>Cost of raw materials, services and other expenses</td>
<td>(229,495)</td>
<td>(270,385)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>(804,741)</strong></td>
<td><strong>(759,931)</strong></td>
</tr>
</tbody>
</table>

10. Finance income and expenses

<table>
<thead>
<tr>
<th>Item</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>3,499</td>
<td>4,273</td>
</tr>
<tr>
<td>Dividend income</td>
<td>146,767</td>
<td>22,790</td>
</tr>
<tr>
<td>Foreign exchange gain</td>
<td>33,211</td>
<td>38,996</td>
</tr>
<tr>
<td>Other finance income</td>
<td>3,230</td>
<td>2,939</td>
</tr>
<tr>
<td><strong>Total finance income</strong></td>
<td><strong>186,707</strong></td>
<td><strong>68,698</strong></td>
</tr>
<tr>
<td>Interest expense</td>
<td>(6,793)</td>
<td>(14,793)</td>
</tr>
<tr>
<td>Foreign exchange loss</td>
<td>(24,597)</td>
<td>(41,104)</td>
</tr>
<tr>
<td>Discount of provisions</td>
<td>(12,925)</td>
<td>(19,010)</td>
</tr>
<tr>
<td>Other finance expenses</td>
<td>(3,839)</td>
<td>(4,259)</td>
</tr>
<tr>
<td><strong>Total finance expenses</strong></td>
<td><strong>(48,154)</strong></td>
<td><strong>(79,166)</strong></td>
</tr>
</tbody>
</table>

11. Income tax

<table>
<thead>
<tr>
<th>Item</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current tax expense in thousands of CZK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current year</td>
<td>(430,697)</td>
<td>(463,451)</td>
</tr>
<tr>
<td>Adjustment for prior periods</td>
<td>(12,392)</td>
<td>(13,731)</td>
</tr>
<tr>
<td><strong>Total current tax expense</strong></td>
<td><strong>(443,089)</strong></td>
<td><strong>(473,409)</strong></td>
</tr>
<tr>
<td>Deferred tax expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect of the change in temporary differences</td>
<td>25,448</td>
<td>3,773</td>
</tr>
<tr>
<td><strong>Total income tax expense in income statement</strong></td>
<td><strong>(417,641)</strong></td>
<td><strong>(473,409)</strong></td>
</tr>
</tbody>
</table>
### Reconciliation of effective tax rate

<table>
<thead>
<tr>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before income tax</td>
<td>2,266,621</td>
<td>2,328,388</td>
</tr>
<tr>
<td>Income tax using the domestic corporate tax rate</td>
<td>(430,658)</td>
<td>(442,394)</td>
</tr>
<tr>
<td>Effect of non-deductible expenses</td>
<td>(142,818)</td>
<td>(125,889)</td>
</tr>
<tr>
<td>Effect of tax exempt income</td>
<td>147,044</td>
<td>103,185</td>
</tr>
<tr>
<td>Effect of tax credits</td>
<td>735</td>
<td>1,647</td>
</tr>
<tr>
<td>Adjustment for prior periods</td>
<td>(12,392)</td>
<td>(13,731)</td>
</tr>
<tr>
<td>Total tax payable</td>
<td>(443,089)</td>
<td>(477,182)</td>
</tr>
<tr>
<td>Total deferred tax</td>
<td>25,448</td>
<td>3,773</td>
</tr>
<tr>
<td>Total income tax expense in income statement</td>
<td>(417,641)</td>
<td>(473,409)</td>
</tr>
</tbody>
</table>

The Group recorded a corporate income tax receivable of CZK 75 million and a corporate income tax payable of CZK 11 million (2012: tax receivable of CZK 62 million and tax payable of CZK 10 million). 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 a uniform tax rate of 19%.

### 12. Property, plant and equipment

#### Acquisition cost in thousands of CZK

<table>
<thead>
<tr>
<th></th>
<th>Land</th>
<th>Buildings and constructions</th>
<th>Plant and equipment</th>
<th>Under construction</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 2012</td>
<td>471,857</td>
<td>10,097,595</td>
<td>12,986,174</td>
<td>641,590</td>
<td>24,197,216</td>
</tr>
<tr>
<td>Additions/transfers</td>
<td>140</td>
<td>310,580</td>
<td>451,232</td>
<td>394,488</td>
<td>1,156,440</td>
</tr>
<tr>
<td>Disposals</td>
<td>(1,565)</td>
<td>(138,201)</td>
<td>(98,428)</td>
<td>(550,092)</td>
<td>(789,286)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Land</th>
<th>Buildings and constructions</th>
<th>Plant and equipment</th>
<th>Under construction</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustments*</td>
<td>31</td>
<td>9,175</td>
<td>239,846</td>
<td>1,340</td>
<td>250,391</td>
</tr>
<tr>
<td>Additions/transfers</td>
<td>2,739</td>
<td>176,630</td>
<td>415,144</td>
<td>391,600</td>
<td>986,113</td>
</tr>
<tr>
<td>Disposals</td>
<td>(1,717)</td>
<td>(51,997)</td>
<td>(82,714)</td>
<td>(163,479)</td>
<td>(298,216)</td>
</tr>
<tr>
<td>Balance at December 31, 2013</td>
<td>470,035</td>
<td>10,403,382</td>
<td>13,911,794</td>
<td>715,447</td>
<td>25,522,658</td>
</tr>
</tbody>
</table>

#### Depreciation and impairment losses

<table>
<thead>
<tr>
<th></th>
<th>Land</th>
<th>Buildings and constructions</th>
<th>Plant and equipment</th>
<th>Under construction</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 2012</td>
<td>141</td>
<td>5,404,969</td>
<td>9,569,608</td>
<td>1,458</td>
<td>14,976,176</td>
</tr>
<tr>
<td>Current year depreciation</td>
<td>–</td>
<td>270,124</td>
<td>508,820</td>
<td>–</td>
<td>778,944</td>
</tr>
<tr>
<td>Disposals</td>
<td>–</td>
<td>(126,973)</td>
<td>(95,614)</td>
<td>–</td>
<td>(222,587)</td>
</tr>
<tr>
<td>Balance at December 31, 2012</td>
<td>141</td>
<td>5,548,120</td>
<td>9,982,814</td>
<td>1,458</td>
<td>15,532,533</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Land</th>
<th>Buildings and constructions</th>
<th>Plant and equipment</th>
<th>Under construction</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 2013</td>
<td>141</td>
<td>5,548,120</td>
<td>9,982,814</td>
<td>1,458</td>
<td>15,532,533</td>
</tr>
<tr>
<td>Adjustments*</td>
<td>11</td>
<td>87,936</td>
<td>174,545</td>
<td>2,152</td>
<td>264,644</td>
</tr>
<tr>
<td>Current year depreciation</td>
<td>6</td>
<td>288,807</td>
<td>514,087</td>
<td>–</td>
<td>802,900</td>
</tr>
<tr>
<td>Disposals</td>
<td>–</td>
<td>(46,714)</td>
<td>(81,671)</td>
<td>–</td>
<td>(128,385)</td>
</tr>
<tr>
<td>Balance at December 31, 2013</td>
<td>158</td>
<td>5,878,149</td>
<td>10,589,775</td>
<td>3,610</td>
<td>16,471,692</td>
</tr>
</tbody>
</table>

#### Carrying amount

<table>
<thead>
<tr>
<th></th>
<th>Land</th>
<th>Buildings and constructions</th>
<th>Plant and equipment</th>
<th>Under construction</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>At January 1, 2012</td>
<td>471,716</td>
<td>4,692,626</td>
<td>3,416,566</td>
<td>640,132</td>
<td>9,221,040</td>
</tr>
<tr>
<td>At December 31, 2012</td>
<td>470,291</td>
<td>4,720,854</td>
<td>3,536,164</td>
<td>484,528</td>
<td>9,031,837</td>
</tr>
<tr>
<td>At December 31, 2013</td>
<td>471,877</td>
<td>4,525,233</td>
<td>3,322,019</td>
<td>711,837</td>
<td>9,030,966</td>
</tr>
</tbody>
</table>

*A modification of the structure of acquisition costs and accumulated depreciation according to the records of the subsidiaries without any influence on valuation.

### Leased assets

The Group leases production equipment under a number of finance lease agreements. At December 31, 2013, the net carrying amount of leased machinery, thermal equipment and constructions was CZK 39 million (2012: CZK 43 million).

The Group uses a production facility based on a lease agreement with the municipality of Mariánské Lázně, valid until 2024. In 2013, it concluded an amendment extending the term of lease until 2039 which will become effective on 1 January 2015 provided that by 31 December 2014 the lessee modernises the heat production facility in Mariánské Lázně connected to the construction of a cogeneration plant which is to produce heat and electricity from renewable sources.

The lease payments are due over the following periods.
3. Financial Report

2013  Leasing liability at December 31, 2013  Paid at December 31, 2013  Due within 1 year  Due in 1 to 5 years  Due in subsequent years

Production facility  16,281  10,238  2,048  8,190  12,286

Total  16,281  10,238  2,048  8,190  12,286

Assets pledged as security
The Group has no pledged assets as at the reporting date.

Grants
In 2013 the Group received a grant for the modernisation and greening of the H&P plant equipment from the “ECO Energy” programme of the Czech Environment Ministry in an amount of CZK 81 million (2012: CZK 192 million) and from the OP Environment in an amount of CZK 131 million (2012: CZK 0 million).

13. Intangible assets

<table>
<thead>
<tr>
<th>Acquisition cost in thousands of CZK</th>
<th>Software</th>
<th>Other**</th>
<th>Goodwill</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 2012</td>
<td>381,744</td>
<td>1,422,067</td>
<td>1,183,086</td>
<td>2,986,897</td>
</tr>
<tr>
<td>Additions</td>
<td>13,236</td>
<td>12,224</td>
<td>–</td>
<td>25,460</td>
</tr>
<tr>
<td>Disposals</td>
<td>(2,034)</td>
<td>(9,931)</td>
<td>(1,965)</td>
<td></td>
</tr>
<tr>
<td>Balance at December 31, 2012</td>
<td>392,946</td>
<td>1,424,360</td>
<td>1,183,086</td>
<td>3,000,392</td>
</tr>
</tbody>
</table>

| Balance at January 1, 2013          | 392,946  | 1,424,360| 1,183,086| 3,000,392|
| Adjustments*                        | 3,412    | 82       | –        | 3,494 |
| Additions                           | 13,537   | 6,476    | –        | 20,013|
| Disposals                           | (1,007)  | –        | (1,007)  |       |
| Balance at December 31, 2013        | 408,888  | 1,430,918| 1,183,086| 3,022,892|

<table>
<thead>
<tr>
<th>Amortisation expense</th>
<th>Software</th>
<th>Other**</th>
<th>Goodwill</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 2012</td>
<td>345,815</td>
<td>159,269</td>
<td>–</td>
<td>505,084</td>
</tr>
<tr>
<td>Current year amortisation</td>
<td>22,311</td>
<td>105,852</td>
<td>–</td>
<td>128,163</td>
</tr>
<tr>
<td>Disposals</td>
<td>(2,034)</td>
<td>(178)</td>
<td>–</td>
<td>(2,212)</td>
</tr>
</tbody>
</table>

| Balance at January 1, 2013 | 366,092 | 264,943 | –        | 631,035 |
| Adjustments*              | 3,328    | 1,317   | –        | 4,645 |
| Current year amortisation | 16,227   | 95,293  | –        | 111,520 |
| Disposals                 | (1,007)  | –       | (1,007)  |       |
| Balance at December 31, 2013 | 384,640 | 361,553 | –        | 746,193 |

<table>
<thead>
<tr>
<th>Carrying amount</th>
<th>Software</th>
<th>Other**</th>
<th>Goodwill</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>At January 1, 2012</td>
<td>35,929</td>
<td>1,262,798</td>
<td>1,183,086</td>
<td>2,481,813</td>
</tr>
<tr>
<td>At December 31, 2012</td>
<td>26,854</td>
<td>1,159,417</td>
<td>1,183,086</td>
<td>2,399,357</td>
</tr>
<tr>
<td>At December 31, 2013</td>
<td>24,248</td>
<td>1,069,365</td>
<td>1,183,086</td>
<td>2,276,699</td>
</tr>
</tbody>
</table>

*A modification of the structure of acquisition costs and accumulated depreciation according to the records of the subsidiaries without any influence on valuation.

**The balance consists mainly of intangible assets recognised upon the acquisition of NWR Energy, a.s. (Dalkia Industry CZ, a.s.). In particular, this includes the value of the contract with: OKK Koksovny, a.s. for the purchase of coke oven gas until 2020; and the value of the framework agreement with OKD, a.s. for deliveries of utilities, such as compressed air and heat, until 2029; and other contracts for the sale of electricity.

14. Other financial investments including derivatives

<table>
<thead>
<tr>
<th>Long-term financial investments including derivatives in thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial interests</td>
<td>74,061</td>
<td>73,061</td>
</tr>
<tr>
<td>Other financial investments</td>
<td>844,384</td>
<td>709,718</td>
</tr>
<tr>
<td>Derivatives</td>
<td>71,445</td>
<td>1,759</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Short-term financial investments including derivatives in thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivatives</td>
<td>56,429</td>
<td>12,120</td>
</tr>
<tr>
<td>Other financial investments</td>
<td>43,010</td>
<td>31,129</td>
</tr>
</tbody>
</table>
The Group does not own any financial investments held for trading. As at December 31, 2013 long-term and short-term derivatives represent the fair value of forward contracts to hedge a foreign exchange risk.

15. Deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

<table>
<thead>
<tr>
<th>Assets Liabilities Net</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>In thousands of CZK</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
</tr>
<tr>
<td>Other investments</td>
</tr>
<tr>
<td>Inventories</td>
</tr>
<tr>
<td>Emission allowances including provision</td>
</tr>
<tr>
<td>Provisions</td>
</tr>
<tr>
<td>Other items</td>
</tr>
<tr>
<td>Deferred tax assets / (liabilities)</td>
</tr>
</tbody>
</table>

Movement in deferred tax assets and liabilities during the accounting period

<table>
<thead>
<tr>
<th>In thousands of CZK Balance at January 1, 2013</th>
<th>Recognised in income statement</th>
<th>Recognised in equity</th>
<th>Balance at December 31, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>(1,049,601)</td>
<td>3,824</td>
<td>–</td>
</tr>
<tr>
<td>Other investments</td>
<td>(37,339)</td>
<td>37,339</td>
<td>–</td>
</tr>
<tr>
<td>Inventories</td>
<td>18,165</td>
<td>808</td>
<td>–</td>
</tr>
<tr>
<td>Emission allowances including provision</td>
<td>15,346</td>
<td>(7,351)</td>
<td>–</td>
</tr>
<tr>
<td>Provisions</td>
<td>109,243</td>
<td>8,045</td>
<td>8,335</td>
</tr>
<tr>
<td>Other items</td>
<td>17,679</td>
<td>(17,216)</td>
<td>(8,931)</td>
</tr>
<tr>
<td>Total</td>
<td>(926,507)</td>
<td>25,449</td>
<td>(596)</td>
</tr>
</tbody>
</table>

16. Inventories

<table>
<thead>
<tr>
<th>In thousands of CZK Balance at January 1, 2012</th>
<th>Recognised in income statement</th>
<th>Recognised in equity</th>
<th>Balance at December 31, 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>(1,035,439)</td>
<td>(14,162)</td>
<td>–</td>
</tr>
<tr>
<td>Other investments</td>
<td>(37,339)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Inventories</td>
<td>18,769</td>
<td>(604)</td>
<td>–</td>
</tr>
<tr>
<td>Emission allowances including provision</td>
<td>(2,141)</td>
<td>17,487</td>
<td>–</td>
</tr>
<tr>
<td>Provisions</td>
<td>104,917</td>
<td>(8,708)</td>
<td>13,034</td>
</tr>
<tr>
<td>Other items</td>
<td>17,692</td>
<td>9,337</td>
<td>(9,350)</td>
</tr>
<tr>
<td>Total</td>
<td>(933,541)</td>
<td>3,350</td>
<td>3,684</td>
</tr>
</tbody>
</table>

In 2013, materials and fuel recorded in cost of sales amounted to CZK 3,198 million (2012: CZK 3,862 million). At December 31, 2013, a provision was recognised which reduces the value of inventories by CZK 100 million (2012: CZK 96 million).

Emission allowances
In 2005 the emission trading scheme was introduced in the European Union. The following table summarises the movements in the quantity (in thousands of units). Emission allowances are represented by EUA and CER. As described in note 3 f), emission allowances allocated in accordance with the National Allocation Plan are recognised in assets as inventory.

<table>
<thead>
<tr>
<th>In thousands of tonnes Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correction of emission allowance consumption in 2011</td>
</tr>
<tr>
<td>Emission allowances allocated in 2012</td>
</tr>
<tr>
<td>Emission allowances sold in 2012</td>
</tr>
<tr>
<td>Emission allowances purchased in 2012</td>
</tr>
<tr>
<td>Emission allowances utilised in 2012 against CO2 emissions</td>
</tr>
<tr>
<td>Emission allowances available at December 31, 2012</td>
</tr>
</tbody>
</table>
Correction of emission allowance consumption in 2012 (2)
Emission allowances allocated in 2013 2,153
Emission allowances sold in 2013 (24)
Emission allowances purchased in 2013 256
Emission allowances utilised in 2013 against CO₂ emissions (3,003)
Emission allowances available at December 31, 2013 913

* Also recognised in the financial statements are emission allowances that were not recorded in the respective account in the register managed by the OTE. As this is a purely formal procedure and the allocation of allowances will be recorded in the register in February, these allowances are recognised in full in the balance sheet as at December 31, 2013.

Actual emissions in 2013 were higher than the emission allowances allocated under the National Allocation Plan as at the date of the statement of financial position. The Group therefore used allowances from previous years and bought allowances for 2013 (in 2012, actual emissions were lower than allowances allocated).

The Group generated revenues from the sale of emission allowances of CZK 1 million (2012: CZK 331 million), which was reported in cost of sales in the consolidated income statement.

17. Current tax assets

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>74,828</td>
<td>62,117</td>
</tr>
<tr>
<td>Total</td>
<td>74,828</td>
<td>62,117</td>
</tr>
</tbody>
</table>

18. Trade and other receivables

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade receivables due from related parties</td>
<td>5,303</td>
<td>6,430</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>1,779,678</td>
<td>1,674,268</td>
</tr>
<tr>
<td>Other receivables</td>
<td>185,248</td>
<td>183,002</td>
</tr>
<tr>
<td>Total</td>
<td>1,970,229</td>
<td>1,863,700</td>
</tr>
</tbody>
</table>

At December 31, 2013 trade receivables are shown net of provisions for doubtful debts of CZK 222 million (2012: CZK 226 million) arising from the likely impairment of receivables from the individual debtors.

19. Cash and cash equivalents

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current bank accounts</td>
<td>137,756</td>
<td>245,053</td>
</tr>
<tr>
<td>Bank deposits</td>
<td>42,253</td>
<td>83,337</td>
</tr>
<tr>
<td>Cash in hand</td>
<td>2,011</td>
<td>2,343</td>
</tr>
<tr>
<td>Total cash</td>
<td>182,020</td>
<td>330,733</td>
</tr>
<tr>
<td>Total cash and cash equivalents</td>
<td>182,020</td>
<td>330,733</td>
</tr>
<tr>
<td>Cash pooling with Dalkia International SA - payable</td>
<td>(1,073,952)</td>
<td>(1,018,602)</td>
</tr>
<tr>
<td>Total cash in compliance with cash flow statement</td>
<td>(891,932)</td>
<td>(687,869)</td>
</tr>
</tbody>
</table>

Since 2007, the Group has been involved in a cash pool between Veolia and Société Générale through a contract with Komerční banka.

20. Capital and reserves

At December 31, 2013, the authorised share capital comprised 78,661,161 ordinary registered shares with a par value of CZK 40 (2012: 78,661,161 ordinary registered shares with a par value of CZK 40).

Statutory reserves are created at 5% of the profit at the level of individual companies until the amount set in the articles of association is achieved; however, this must be at least 10% or 20% of the share capital according to the legal form of individual companies. Use of statutory reserves is limited to payment of potential future losses.

The holders of ordinary shares are entitled to dividends if these are approved by the General Meeting. Each ordinary share bears one voting right to be exercised at General Meetings of entities. All shares bear the same rights in respect of the surplus assets upon the liquidation of subsidiaries.

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.

Other capital funds
Other capital funds primarily include the recorded effect of mergers in the 2001–2007 period with companies fully
controlled by the same entity, TEPLÁRNÝ Karviná, a.s., EKOTERM ČESKÁ REPUBLIKA a.s., Teplárna Ústí nad Labem, a.s., PPC
Trmice a.s. and Dalkia Ostrava, a.s.

Dividend per share
In its profit distribution decision the Group announced dividends of CZK 1,817 million (2012: CZK 1,760 million). The
dividend per share for 2013 amounts to CZK 23.10 (2012: CZK 22.37).

21. Loans and borrowings
This note provides information about the contract terms applicable to the Group’s interest-bearing loans and borrowings.
For more information about the Group’s exposure to credit and interest rate risks see note 26.

Non-current liabilities

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unsecured bond issues</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Total non-current liabilities</td>
<td>10,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

Current liabilities

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest payable on the loan from Dalkia International SA</td>
<td>2,085</td>
<td>4,548</td>
</tr>
<tr>
<td>Cash pooling with Dalkia International SA</td>
<td>1,073,952</td>
<td>1,018,602</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>19,397</td>
<td>19,826</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>1,095,434</td>
<td>1,042,976</td>
</tr>
</tbody>
</table>

Terms and debt repayment schedule
Secured bank loans
The Group had no secured bank loans as at December 31, 2013 and December 31, 2012.

Unsecured bond issues

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Total</th>
<th>Within 1 year</th>
<th>1–2 years</th>
<th>2–5 years</th>
<th>More than 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>The 2008 bond issue (fixed, 4.24%)</td>
<td>10,000</td>
<td>–</td>
<td>10,000</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>10,000</td>
<td>–</td>
<td>10,000</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

The Group may utilise bank credit lines of CZK 330 million and EUR 2.5 million and a loan from parent company of CZK 3,600
million. As at December 31, 2013 the Group did not use any of these options.

22. Employee benefits
Under the collective agreement, the Group is obliged to pay substantial benefits to employees who have worked for the
Group for a certain fixed period of time. In addition, the Group is also obliged to provide its retired former employees with a
contribution for personal electricity consumption.

Movement in the liability for defined benefit obligations

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liability for defined benefit obligations as at January 1</td>
<td>488,991</td>
<td>431,602</td>
</tr>
<tr>
<td>Adjustment of opening balances under amended IAS 19</td>
<td>68,591</td>
<td>–</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(22,042)</td>
<td>(19,288)</td>
</tr>
<tr>
<td>Current service costs</td>
<td>26,685</td>
<td>21,981</td>
</tr>
<tr>
<td>Amortisation of past service costs</td>
<td>–</td>
<td>9,231</td>
</tr>
<tr>
<td>Interest</td>
<td>12,545</td>
<td>16,471</td>
</tr>
<tr>
<td>Actuarial (gains) losses recognised in equity</td>
<td>(19,744)</td>
<td>79,715</td>
</tr>
<tr>
<td>Actuarial (gains) losses recognised in profit and loss</td>
<td>12,395</td>
<td>8,238</td>
</tr>
<tr>
<td>Other</td>
<td>1,121</td>
<td>(43,314)</td>
</tr>
<tr>
<td>Adjustment of liability as a result of organisational changes</td>
<td>(10,794)</td>
<td>(12,645)</td>
</tr>
<tr>
<td>Liability for defined benefit obligations as at December 31</td>
<td>557,748</td>
<td>488,991</td>
</tr>
<tr>
<td>Short-term portion of liability for defined benefit obligations</td>
<td>24,719</td>
<td>32,433</td>
</tr>
<tr>
<td>Long-term portion of liability for defined benefit obligations</td>
<td>533,029</td>
<td>456,558</td>
</tr>
</tbody>
</table>
### Actuarial assumptions

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate at December 31</td>
<td>3.1%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Salary increase rate</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Employee turnover assumption</td>
<td>average 1.15 % p.a.</td>
<td>average 3.23 % p.a.</td>
</tr>
</tbody>
</table>

Social security and health insurance expenses recognised in the income statement in 2013 amount to CZK 363 million (2012: CZK 354 million).

Defined benefit liabilities are calculated on the basis of actuarial valuation under IAS 19. This standard requires the use of the “projected unit credit method” and requires the use of unbiased and mutually compatible actuarial assumptions. The projected unit credit method was used to determine the present value of liability and current service costs.

Demographic assumptions: assumptions about mortality were taken from the 2011 mortality charts for males and females issued by the Czech Statistical Office. The disability assumption was taken from the charts of disabilities monitored by the Group. The assumed number of employees leaving the Group before reaching the retirement age is based on expected departures of employees. The same assumptions were used to compute the provision for 2012.

Specific assumptions: the Group assumes that there is an 80% probability that agreements executed for a fixed term will be converted into agreements for an indefinite term. The amount of defined benefit liabilities as at December 31, 2013 takes into account social security contributions and health insurance. Description of risks: the Group does not have a separate plan for assets to cover employee benefit liabilities. Taking into account the annual payments from the plan and the nature of the Group’s business this does not constitute a material risk for the Group.

### Sensitivity analysis

The Group carried out a sensitivity analysis of the size of the provision for changes in the actuarial assumptions that influence the defined benefit liabilities. In the event of a change in one of the relevant actuarial assumptions, with other assumptions remaining constant, the defined benefit liabilities would change to the following amounts — based on a sensitivity analysis for assumptions with the most significant impact:

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Discount rate increase +0.25%</th>
<th>Inflation rate increase +0.25%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined benefit liabilities as at December 31, 2013</td>
<td>544,172</td>
<td>569,422</td>
</tr>
<tr>
<td>Current service costs next year</td>
<td>26,015</td>
<td>27,584</td>
</tr>
</tbody>
</table>

Although this analysis does not take into account the timing of the cash flows that are expected under the plan, it provides information about the size of the liability upon a change in the various assumptions.

### 23. Provisions

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Site restoration</th>
<th>Litigation</th>
<th>Other provisions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 2012</td>
<td>46,429</td>
<td>48,000</td>
<td>174,152</td>
<td>268,581</td>
</tr>
<tr>
<td>Provisions created during the year</td>
<td>–</td>
<td>–</td>
<td>12,339</td>
<td>12,339</td>
</tr>
<tr>
<td>Provisions used during the year</td>
<td>(36)</td>
<td>–</td>
<td>(32,847)</td>
<td>(32,883)</td>
</tr>
<tr>
<td>Provisions unused during the year</td>
<td>–</td>
<td>(48,000)</td>
<td>(7,169)</td>
<td>(55,169)</td>
</tr>
<tr>
<td>Unwinding of discount</td>
<td>–</td>
<td>–</td>
<td>3,913</td>
<td>3,913</td>
</tr>
<tr>
<td>Balance at December 31, 2012</td>
<td>46,393</td>
<td>–</td>
<td>150,388</td>
<td>196,781</td>
</tr>
<tr>
<td>Non-current</td>
<td>46,393</td>
<td>–</td>
<td>104,334</td>
<td>150,727</td>
</tr>
<tr>
<td>Current</td>
<td>–</td>
<td>–</td>
<td>46,054</td>
<td>46,054</td>
</tr>
<tr>
<td>Balance at January 1, 2013</td>
<td>46,393</td>
<td>–</td>
<td>150,388</td>
<td>196,781</td>
</tr>
<tr>
<td>Provisions created during the year</td>
<td>–</td>
<td>–</td>
<td>6,566</td>
<td>6,566</td>
</tr>
<tr>
<td>Provisions used during the year</td>
<td>(89)</td>
<td>–</td>
<td>(7,734)</td>
<td>(7,823)</td>
</tr>
<tr>
<td>Provisions unused during the year</td>
<td>(203)</td>
<td>–</td>
<td>(299)</td>
<td>(502)</td>
</tr>
<tr>
<td>Unwinding of discount</td>
<td>–</td>
<td>–</td>
<td>381</td>
<td>381</td>
</tr>
<tr>
<td>Balance at December 31, 2013</td>
<td>46,101</td>
<td>–</td>
<td>149,691</td>
<td>195,792</td>
</tr>
<tr>
<td>Non-current</td>
<td>46,101</td>
<td>–</td>
<td>104,715</td>
<td>150,816</td>
</tr>
<tr>
<td>Current</td>
<td>–</td>
<td>–</td>
<td>44,976</td>
<td>44,976</td>
</tr>
</tbody>
</table>

### Site restoration

The provision for site restoration was reviewed and adjusted so as to represent the best estimate in the light of the change in the use of land and of restoration techniques used.

### Other provisions

The provision for the disposal of unused assets is the most important other provision.
24. Trade and other payables (current and non-current)

**Non-current**

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other payables</td>
<td>171,041</td>
<td>165,527</td>
</tr>
<tr>
<td>Total</td>
<td>171,041</td>
<td>165,527</td>
</tr>
</tbody>
</table>

**Current**

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade payables to related parties</td>
<td>54,216</td>
<td>5,230</td>
</tr>
<tr>
<td>Trade payables – third parties</td>
<td>2,319,014</td>
<td>2,099,396</td>
</tr>
<tr>
<td>Other payables</td>
<td>265,621</td>
<td>303,833</td>
</tr>
<tr>
<td>Total</td>
<td>2,638,851</td>
<td>2,408,459</td>
</tr>
</tbody>
</table>

**25. Derivatives**

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current derivatives</td>
<td>66,428</td>
<td>3,633</td>
</tr>
<tr>
<td>Non-current derivatives</td>
<td>6,178</td>
<td>229</td>
</tr>
<tr>
<td>Total</td>
<td>72,606</td>
<td>3,862</td>
</tr>
</tbody>
</table>

Financial derivatives represent the fair value of forward contracts to secure a foreign exchange risk of CZK 72,606 thousands (2012: CZK 3,862 thousands) and are recorded as current and non-current liabilities.

**26. Financial instruments**

**Credit risk**

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

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Note</th>
<th>Carrying amount 2013</th>
<th>Carrying amount 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade and other receivables</td>
<td>18</td>
<td>1,970,229</td>
<td>1,863,700</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>19</td>
<td>182,020</td>
<td>330,733</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>2,152,249</strong></td>
<td><strong>2,194,433</strong></td>
</tr>
</tbody>
</table>

**Impairment losses**

The fair value of trade and other receivables was:

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Nominal value 2013</th>
<th>Impairment 2013</th>
<th>Nominal value 2012</th>
<th>Impairment 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not yet due</td>
<td>1,877,993</td>
<td>–</td>
<td>1,811,388</td>
<td>–</td>
</tr>
<tr>
<td>0–90 days overdue</td>
<td>87,159</td>
<td>4,319</td>
<td>52,271</td>
<td>2,768</td>
</tr>
<tr>
<td>90–180 days overdue</td>
<td>12,018</td>
<td>3,767</td>
<td>2,200</td>
<td>719</td>
</tr>
<tr>
<td>180–360 days overdue</td>
<td>6,262</td>
<td>5,175</td>
<td>51,699</td>
<td>50,351</td>
</tr>
<tr>
<td>More than 1 year overdue</td>
<td>208,786</td>
<td>172,219</td>
<td>172,219</td>
<td>172,219</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,192,218</td>
<td>221,989</td>
<td>2,089,777</td>
<td>226,077</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1</td>
<td>(226,077)</td>
<td>(186,035)</td>
</tr>
<tr>
<td>Recognised impairment losses</td>
<td>4,088</td>
<td>(40,042)</td>
</tr>
<tr>
<td><strong>Balance at December 31</strong></td>
<td><strong>(221,989)</strong></td>
<td><strong>(226,077)</strong></td>
</tr>
</tbody>
</table>

**Liquidity risk**

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

At December 31, 2013

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Carrying amount</th>
<th>Contractual cash flow</th>
<th>Within 6 months</th>
<th>6–12 months</th>
<th>1–2 years</th>
<th>2–5 years</th>
<th>More than 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unsecured bond issues</td>
<td>10,000</td>
<td>10,848</td>
<td>–</td>
<td>424</td>
<td>10,424</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>2,819,892</td>
<td>2,853,201</td>
<td>2,638,601</td>
<td>674</td>
<td>14,424</td>
<td>12,003</td>
<td>187,499</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,829,892</strong></td>
<td><strong>2,864,049</strong></td>
<td><strong>2,638,601</strong></td>
<td><strong>674</strong></td>
<td><strong>14,424</strong></td>
<td><strong>12,003</strong></td>
<td><strong>187,499</strong></td>
</tr>
</tbody>
</table>
At December 31, 2012

<table>
<thead>
<tr>
<th>Carrying amount</th>
<th>Contractual cash flow</th>
<th>Within 6 months</th>
<th>6–12 months</th>
<th>1–2 years</th>
<th>2–5 years</th>
<th>More than 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unsecured bond issues</td>
<td>10,000</td>
<td>11,272</td>
<td>–</td>
<td>424</td>
<td>424</td>
<td>10,424</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>2,573,986</td>
<td>2,592,211</td>
<td>2,408,459</td>
<td>–</td>
<td>2,048</td>
<td>6,143</td>
</tr>
<tr>
<td>Total</td>
<td>2,583,986</td>
<td>2,593,483</td>
<td>2,408,459</td>
<td>424</td>
<td>2,472</td>
<td>16,567</td>
</tr>
</tbody>
</table>

Currency risk
To hedge purchases and sales of electricity in EUR and PLN, forward contracts were concluded with the parent company Dalkia International SA for the purchase and sale of EUR and PLN (see note 5).

Interest rate risk
As at the reporting date, the Group has the following interest-bearing financial instruments:

(i) Fixed-rate financial instruments

<table>
<thead>
<tr>
<th>Balance at December 31</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial liabilities</td>
<td>(10,000)</td>
<td>(10,000)</td>
</tr>
</tbody>
</table>

(ii) Variable-rate financial instruments

<table>
<thead>
<tr>
<th>Balance at December 31</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial liabilities</td>
<td>(21,482)</td>
<td>(23,401)</td>
</tr>
</tbody>
</table>

Sensitivity analysis of fixed-rate financial instruments
The Group does not state fixed-rate financial instruments at fair value through profit or loss. The Group has not entered into interest-rate swaps as hedging instruments.

Sensitivity analysis of variable-rate financial instruments
The Group does not and did not have any significant variable-rate financial instruments as at December 31, 2013 and December 31, 2012.

Effective interest rate and re-measurement analysis
The table below shows the effective interest rates of interest-bearing financial assets and liabilities at the date of the statement of financial position and the periods in which they are re-measured.

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Average interest rate in 2013 (%)</th>
<th>Liability at December 31, 2013</th>
<th>Next re-pricing date</th>
<th>Due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>4.240</td>
<td>10,000</td>
<td>Fixed rate</td>
<td>11/2015</td>
</tr>
<tr>
<td>Total</td>
<td>10,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Average interest rate in 2012 (%)</th>
<th>Liability at December 31, 2012</th>
<th>Next re-pricing date</th>
<th>Due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>4.240</td>
<td>10,000</td>
<td>Fixed rate</td>
<td>11/2015</td>
</tr>
<tr>
<td>Total</td>
<td>10,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Fair values

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Note</th>
<th>Carrying amount</th>
<th>Fair value</th>
<th>Carrying amount</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade and other receivables</td>
<td>18</td>
<td>1,970,229</td>
<td>1,970,229</td>
<td>1,863,700</td>
<td>1,863,700</td>
</tr>
<tr>
<td>Tax assets</td>
<td>17</td>
<td>74,828</td>
<td>74,828</td>
<td>62,117</td>
<td>62,117</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>19</td>
<td>182,020</td>
<td>182,020</td>
<td>330,733</td>
<td>330,733</td>
</tr>
<tr>
<td>Bonds</td>
<td>21</td>
<td>(10,000)</td>
<td>(10,000)</td>
<td>(10,000)</td>
<td>(10,000)</td>
</tr>
<tr>
<td>Interest payable on the loan from Dalkia International SA</td>
<td>21</td>
<td>(2,085)</td>
<td>(2,085)</td>
<td>(4,549)</td>
<td>(4,549)</td>
</tr>
<tr>
<td>Cash pooling with Dalkia International SA</td>
<td>21</td>
<td>(1,073,952)</td>
<td>(1,073,952)</td>
<td>(1,018,602)</td>
<td>(1,018,602)</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>21</td>
<td>(19,397)</td>
<td>(19,397)</td>
<td>(19,826)</td>
<td>(19,826)</td>
</tr>
<tr>
<td>Trade, tax and other payables</td>
<td>24.11</td>
<td>(2,821,155)</td>
<td>(2,821,155)</td>
<td>(2,584,118)</td>
<td>(2,584,118)</td>
</tr>
<tr>
<td>Total</td>
<td>(1,699,512)</td>
<td>(1,699,512)</td>
<td>(1,380,545)</td>
<td>(1,380,545)</td>
<td></td>
</tr>
</tbody>
</table>

Note: The above figures do not include derivatives.

The method of calculation of fair values is described in note 4.
In accordance with the standard IFRS 7 financial instruments: disclosure, for the designation of fair value, the Company uses level 3 inputs which are not based on observable market data (objectively unobservable inputs).

**Interest rates used to calculate fair values**

The interest rates used to discount cash flows were, as far as possible, based on: the interest rate on treasury bonds as at the date of the statement of financial position in respect of derivatives, and the market interest rate in respect of bonds. The rates applied are as follows:

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivatives</td>
<td>0.50%</td>
<td>1.88%</td>
</tr>
<tr>
<td>Bonds</td>
<td>4.24%</td>
<td>4.24%</td>
</tr>
</tbody>
</table>

**27. Operating leases**

Major operating lease agreements include: an agreement with the municipality of Krnov until 2026, an agreement with the municipality of Mariánské Lázně until 2024, an agreement with the municipality of Olomouc until 2019, an agreement on the heat distribution system of the municipality of Nový Jičín until 2017, an agreement with Teplo byty Roudnice until 2021, an agreement with Sneo, a.s., Praha 6 until 2021, and an agreement with Fakultní nemocnice Ostrava for an indefinite period. The lease payments are due over the following periods:

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>Total</th>
<th>Within 1 year</th>
<th>1–5 years</th>
<th>More than 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease – Nový Jičín</td>
<td>74,410</td>
<td>18,603</td>
<td>55,807</td>
<td>–</td>
</tr>
<tr>
<td>Lease – Fakultní nemocnice Ostrava</td>
<td>22,398</td>
<td>4,480</td>
<td>17,918</td>
<td>–</td>
</tr>
<tr>
<td>Lease – Krnov</td>
<td>34,254</td>
<td>3,144</td>
<td>11,656</td>
<td>19,454</td>
</tr>
<tr>
<td>Lease – Hydroelectric power plant MVE Kolín s.r.o.</td>
<td>41,305</td>
<td>11,265</td>
<td>30,040</td>
<td>–</td>
</tr>
<tr>
<td>Sublease – Sneo, a.s. Praha 6</td>
<td>14,948</td>
<td>1,661</td>
<td>6,644</td>
<td>6,643</td>
</tr>
<tr>
<td>Sublease – Teplo-byty Roudnice</td>
<td>12,000</td>
<td>1,500</td>
<td>6,000</td>
<td>4,500</td>
</tr>
<tr>
<td>Lease – Olomouc</td>
<td>19,963</td>
<td>4,372</td>
<td>12,660</td>
<td>2,931</td>
</tr>
<tr>
<td>Lease – Mariánské Lázně - Bytov</td>
<td>13,200</td>
<td>1,200</td>
<td>4,800</td>
<td>7,200</td>
</tr>
<tr>
<td>Lease – Mariánské Lázně</td>
<td>15,972</td>
<td>1,452</td>
<td>5,808</td>
<td>8,712</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>248,450</td>
<td>47,677</td>
<td>151,333</td>
<td>49,440</td>
</tr>
</tbody>
</table>

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

**28. Related parties**

**Transactions with related parties**

The Group is controlled by the multinational company, Dalkia International SA, and its ultimate parent company, Veolia Environnement SA.

**Transactions with Group’s management personnel**

Neither the directors of the Group companies nor their immediate relatives own any voting shares in Group entities.

**Management personnel compensation**

In addition to their salaries, the Group also provides cars and mobile telephones for both business and private purposes to directors and executive officers.

<table>
<thead>
<tr>
<th>In thousands of CZK</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee compensation</td>
<td>82,928</td>
<td>87,664</td>
</tr>
<tr>
<td>Long-term benefits</td>
<td>7,695</td>
<td>7,474</td>
</tr>
<tr>
<td><strong>Total employee compensation</strong></td>
<td>90,623</td>
<td>95,138</td>
</tr>
</tbody>
</table>

**29. Companies in the group**

**Sales and purchases within the Group**

**Typical transactions between the Group and the parent company**

**Sale transactions:**

* Technical audits performed on behalf of Dalkia International
* Re-invoicing of expatriate employees’ living costs

**Purchase transactions:**

* Advisory services provided to the Group
* Invoicing of expatriate employees’ salary costs to the Group
* Transactions with emission allowances

All significant transactions with related parties were carried out under arm’s length conditions.
### 3. Financial Report

#### In thousands of CZK

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Purchase</td>
<td>Sale</td>
</tr>
<tr>
<td>Veetra</td>
<td>17,381</td>
<td>–</td>
</tr>
<tr>
<td>Dalkia International SA</td>
<td>203,845</td>
<td>27,343</td>
</tr>
<tr>
<td>Dalkia France</td>
<td>13</td>
<td>1,486</td>
</tr>
<tr>
<td>SPID2</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Dalkia Industry Žiar nad Hronom</td>
<td>–</td>
<td>559</td>
</tr>
<tr>
<td>Institut environmentálních služeb</td>
<td>10,700</td>
<td>–</td>
</tr>
<tr>
<td>Dalkia Romania</td>
<td>–</td>
<td>329</td>
</tr>
<tr>
<td>Dalkia Enerji Sanayi</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>695,495</strong></td>
<td><strong>29,717</strong></td>
</tr>
</tbody>
</table>

The Group is involved in a Veolia cash pool (see notes 19 and 21).

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Receivables</td>
<td>Payables</td>
</tr>
<tr>
<td>Veetra</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Dalkia International SA</td>
<td>3,448</td>
<td>12,490</td>
</tr>
<tr>
<td>Dalkia France</td>
<td>1,485</td>
<td>13</td>
</tr>
<tr>
<td>Dalkia Polska S.A.</td>
<td>–</td>
<td>40,715</td>
</tr>
<tr>
<td>SPID2</td>
<td>41</td>
<td>–</td>
</tr>
<tr>
<td>Dalkia Industry Žiar nad Hronom</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Institut environmentálních služeb</td>
<td>–</td>
<td>998</td>
</tr>
<tr>
<td>Dalkia Romania</td>
<td>329</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,303</strong></td>
<td><strong>54,216</strong></td>
</tr>
</tbody>
</table>

#### 30. Capital commitments

The Group concludes contracts for the lease and operation of heating systems for schools, hospitals, residential buildings, and municipal and industrial sites. In accordance with these lease agreements the Group is committed to provide financing for the modernisation of these leased assets.

#### 31. 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 December 31, 2013, or that should be disclosed in the financial statements.
4. Report on Related Parties

Report on relations between the controlling and controlled entity and on relations between the controlled entity and entities controlled by the same controlling entity (related parties)

prepared
pursuant to Section 66a(9) of Act No 513/1991, the Commercial Code, as amended,

by the Board of Directors of Dalkia Česká republika, a.s.,
having its registered office at 28. října 3337/7, Moravská Ostrava, 702 00 Ostrava Registration number: 451 93 410, the Company is incorporated by entry in the Companies Register kept by the Regional Court in Ostrava, under B 318.

Content:
1. Preamble.
3. Description of agreements executed and delivered, other legal acts and measures adopted or effected by the controlled entity on behalf of or at the instigation of related parties, overview of considerations and declaration of non-detriment.
4. Conclusion

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

The Report was approved by the Board of Directors on 4 March 2014.

The Report was submitted to the Supervisory Board for review in accordance with Section 66a(10) of the Commercial Code. The Supervisory Board’s position on the Report will be presented to the Company’s General Meeting due to resolve on the approval of the annual financial statements, the distribution of profit or payment of loss, and the determination of the management’s annual bonuses.

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

This Report has been prepared for the 2013 accounting period.
II. Specification and description of related parties
Diagram of controlling relations

Controlled company
Company name: Dalkia Česká republika, a.s.
Registered office: 28. října 3337/7, Moravská Ostrava, 702 00  Ostrava
Registered office: B 318, Companies Register maintained by the Regional Court in Ostrava
Registration number: 451 93 410
Legal form: Public limited company
Hereinafter referred to as “Dalkia Česká republika”, the “controlled company” or “DČR”.

Controlling companies and entities controlling the controlling companies
Company name: SOCIETE DE PARTICIPATIONS ET D’INVESTISSEMENTS DIVERSIFIES 2 (SPID 2)
Registered office: 33 PLACe RONDe 92800 PUTEAUX PARIS LA DEFENSe
Registration number: 399 345 206 R.C.S. NANTERe (1998 B 00471)
Legal form: PUBLIC LIMIteD COMPANY
Hereinafter referred to as SPID 2.

Company name: DALKIA INTERNATIONAL
Registered office: 37 Avenue du Maréchal De Lattre De Tassigny
59350 SAINT ANDRE LEZ LILLE
Registration number: 433 539 566 RCS LILLE (2000B01375)
Legal form: Public limited company with a board of directors
Hereinafter referred to as “Dalkia International”.

Company name: DALKIA
Registered office: 37 Avenue du Maréchal De Lattre De Tassigny
59350 SAINT ANDRE LEZ LILLE
Registration number: 403 211 295 RCS. LILLE (1997B01362)
Legal form: Public limited company (“simplified” under French law)
Hereinafter referred to as “DALKIA”.

Company name: VEOLIA ENVIRONNEMENT-VE
Registered office: 36/38 AV KLEBER, 75016 PARIS
Registration number: 403 210 032 R.C.S. PARIS (1995 B 16223)
Legal form: PUBLIC LIMIteD COMPANY
Hereinafter referred to as “VEOLIA ENVIRONNEMENT”.

[Diagram of controlling relations]
Other entities controlled by the controlling company

Company name: Dalkia Projekt s.r.o.
Registered office: Praha 1, Národní třída 17
Registration number: 629 06 747
Register entry: C 34450, Companies Register maintained by the Municipal Court in Prague
Legal form: Limited liability company
Hereinafter referred to as “Dalkia Project”.

Company name: Dalkia s.r.o.
Registered office: Praha 2, Americká 415
Registration number: 257 06 969
Register entry: C 62955, Companies Register maintained by the Municipal Court in Prague
Legal form: Limited liability company
Hereinafter referred to as “Dalkia s.r.o.”.

Company name: JVCD, a.s.
Registered office: Praha 2, Americká 36/415, Post Code: 12000
Registration number: 601 93 204
Register entry: B 2321, Companies Register maintained by the Municipal Court in Prague
Legal form: Public limited company
Hereinafter referred to as “JVCD”.

III. Description of agreements executed and delivered, other legal acts and measures adopted or effected by the controlled entity on behalf of or at the instigation of related parties, overview of considerations and declaration of non-detriment.

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

A1. SPID 2
No contracts were concluded or performed, no legal acts were executed or measures taken in relation to this company, and there were no deliveries or considerations between the controlled and controlling companies. Facilitated services (Central Securities Depository costs) were re-invoiced according to actual expenditure facilitated.

DČR suffered no detriment or loss.

A2. Dalkia International

1. Contractual relations
A Service and Advisory Agreement and an Employee secondment Agreement were concluded between DČR and JVCD on an arm’s length basis; the agreement was not performed. The cost of foreign members of staff, facilitated services and employee insurance was re-invoiced.

A group cash pooling agreement has been concluded between Dalkia International and DČR on an arm’s length basis.

2. Other legal acts and measures
No other legal acts or measures were adopted or effected between Dalkia International and the controlled company.

3. Consideration and declaration of no detriment
Considerations were paid in amounts, on dates and in a manner corresponding to arm’s length relations; re-invoicing corresponded to the actual expenditure facilitated.

DČR suffered no detriment or loss in this relationship.

A3. DALKIA

1. Contractual relations
A Seminar Provision Agreement and a Licence Agreement for Information Technology Application and Support have been concluded between Dalkia and DČR on an arm’s length basis. The facilitated services were re-invoiced.
2. Other legal acts and measures
No other legal acts or measures were adopted or effected between Dalkia and the controlled company.

3. Consideration and declaration of no detriment
Considerations were paid in amounts, on dates and in a manner corresponding to arm’s length relations; re-invoicing corresponded to the actual expenditure facilitated.

DČR suffered no detriment or loss in this relationship.

A4. VEOLIA ENVIRONNEMENT
No contracts were concluded or performed, no legal acts were executed or measures taken in relation to DČR, and there were no deliveries or considerations.

DČR suffered no detriment or loss.

B. Relations with other entities controlled by the controlling company
B1. Dalkia s.r.o.
1. Contractual relations
A Service Agreement was concluded between Dalkia s.r.o. and DČR on an arm’s length basis; the agreement was not performed.

No other contracts between Dalkia s.r.o. and DČR were concluded or performed.

2. Other legal acts and measures
No other legal acts or measures were adopted or effected between these companies.

3. Consideration and declaration of no detriment
DČR suffered no detriment or loss.

B2. Dalkia Projekt
No contracts were concluded or performed, no legal acts were executed or measures taken in relation to DČR, and there were no deliveries or considerations.

DČR suffered no detriment or loss.

B3. JVCD
1. Contractual relations
A Service Agreement was concluded between DČR and JVCD on an arm’s length basis; the agreement was not performed. No other contracts between DČR and JVCD were concluded or performed.

DČR has no recorded claims from previous years for facilitating the payment of Securities Centre services.

2. Other legal acts and measures
No other legal acts or measures were adopted or effected between these companies.

3. Consideration and declaration of no detriment
Dalkia Česká republika suffered no detriment or loss in this relationship.
IV. Conclusion

On the basis of the information available to the Board of Directors and its individual members, and in view of the information above, the Board of Directors states that in the period under review the controlled company suffered no detriment or loss in its relations with the controlling entity or in relations between Related Parties. Furthermore, the Board of Directors 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 17 of the Commercial Code and non-disclosure under Section 194 of the Commercial Code.

Ostrava, 4 March 2014

Zdeněk Duba
Chairman of the Board of Directors

Laurent Barrieux
Vice-Chairman of the Board of Directors
5. Auditor’s Report
Independent Auditor’s Report to the Shareholders of Dalkia Česká republika, a.s.

Non-consolidated Financial Statements

On the basis of our audit, on 9 April 2014 we issued an auditor’s report on the Company’s non-consolidated financial statements, which are included in this annual report, and our report was as follows:

“We have audited the accompanying financial statements of Dalkia Česká republika, a.s., which comprise the statement of financial position as of 31 December 2013, and the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and the notes to these financial statements including a summary of significant accounting policies and other explanatory notes. Information about the company is set out in Note 1 to these financial statements.

Statutory Body’s Responsibility for the Financial Statements

The statutory body of Dalkia Česká republika, a.s. is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal controls as the statutory body determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

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

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

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

In our opinion, the financial statements give a true and fair view of the financial position of Dalkia Česká republika, a.s. as of 31 December 2013, 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.

Consolidated Financial Statements

On the basis of our audit, on 9 April 2014 we issued an auditor’s report on the Company’s consolidated financial statements, which are included in this annual report, and our report was as follows:

“We have audited the accompanying consolidated financial statements of Dalkia Česká republika, a.s., which comprise the consolidated statement of financial position as of 31 December 2013, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and the notes to these consolidated financial statements including a summary of significant accounting policies and other explanatory notes. Information about the company is set out in Note 1 to these consolidated financial statements.

Statutory Body’s Responsibility for the Consolidated Financial Statements

The statutory body of Dalkia Česká republika, a.s. is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal controls as the statutory body determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

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

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

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

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Dalkia Česká republika, a.s. as of 31 December 2013, 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.

Report on Relations

We have reviewed the factual accuracy of the information disclosed in the report on relations between the controlling entity and the controlled entity and between the controlled entity and entities controlled by the same controlling entity of Dalkia Česká republika, a.s. for the year ended 31 December 2013 prepared in accordance with the applicable provisions of Act No. 513/1991 Coll., the Commercial Code. The responsibility for the preparation and factual accuracy of this report rests with the Company’s statutory body. Our responsibility is to express our view on the report on relations based on our review.

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

Based on our review, nothing has come to our attention that would lead us to believe that the report on relations between the controlling entity and the controlled entity and between the controlled entity and entities controlled by the same controlling entity of Dalkia Česká republika, a.s. for the year ended 31 December 2013 contains material factual misstatements.

Annual Report

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

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

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

Ostrava
25 April 2014

TRANSLATION

Petr Sikora
Partner
Licence number 2001

KPMG Česká republika Audit, s.r.o.
Licence number 71
This Annual Report was prepared by the Communication Department of Dalkia Česká republika.
Maquette: Dalkia, Veolia Environnement.
Photographs from the Czech Republic: Dalkia Group’s archive in the CR, Christophe Majani d’Inguimbert.
Annual Report concept and production: Communication Department of Dalkia Česká republika in cooperation with Agentura API.
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