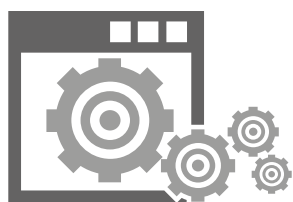


# ANNUAL REPORT 2016

**Factoring KB, a.s.**



NA PARTNERSTVÍ ZÁLEŽÍ



**KB**  
**Factoring**

Factoring KB, a.s. provides a range of factoring services comprising purchase, administration, collection and financing of accounts receivable, including to assume risk related to the insolvency or recalcitrance of domestic or foreign debtors.

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#### **Selected economic indicators**

- Company turnover reached CZK 37,762 million in 2016, which represents a 6% gain year on year.
- Profit after tax was CZK 78.1 million in 2016.
- The company's market share expanded to 28.7% in 2016.

#### **Contacts**

##### **Factoring KB, a.s.**

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155 00 Prague 5  
Phone: +420 955 526 904  
Fax: +420 224 814 628  
E-mail: [info@factoringkb.cz](mailto:info@factoringkb.cz)  
Internet: [www.factoringkb.cz](http://www.factoringkb.cz)

##### **Komerční banka, a.s.**

Na Příkopě 33  
114 07 Prague 1  
Phone: +420 955 559 550  
Fax: +420 224 243 020  
E-mail: [mojebanka@kb.cz](mailto:mojebanka@kb.cz)  
Internet: [www.kb.cz](http://www.kb.cz)

# Contents

## Turnover of domestic factoring (CZK mil.)

2012	14,418
2013	17,234
2014	22,563
2015	24,916
2016	25,796

## Turnover of international factoring (CZK mil.)

2012	5,113
2013	9,306
2014	11,551
2015	10,565
2016	11,966

	Unit	2016	2015	2014	2013	2012
Total assets	CZK million	13,976.7	12,027.9	12,214.3	9,456.3	7,747.7
Registered capital	CZK million	1,184.0	1,184.0	1,184.0	1,184.0	1,184.0
Equity	CZK million	1,609.7	1,626.2	1,598.3	1,628.8	1,590.4
Profit/loss before taxes	CZK million	91.3	86.5	31.2	73.7	29.7
Profit after tax	CZK million	78.1	76.2	26.6	63.1	16.7
Market share	%	28.7	25.9	20.8	18.3	15.0
Total turnover	CZK million	37,761.7	35,480.5	34,113.9	26,540.2	19,531.1
Turnover of domestic factoring	CZK million	25,795.7	24,915.7	22,562.6	17,234.1	14,417.8
Turnover of international factoring	CZK million	11,966.0	10,564.7	11,551.2	9,306.1	5,113.3
Level of provisions	CZK million	252.6	217.0	206.4	165.5	182.4
Total revenues*	CZK million	287.8	547.5	341.8	430.1	280.6
Total costs**	CZK million	196.5	461.0	310.6	356.4	250.9
Average number of employees	number	45	44	42	42	40

\* The amount does not include revenues associated with the sale of re-assignment of account receivables.

\*\* The amount does not include costs associated with the sale of re-assignment of account receivables.

## INTRODUCTION

2 Company Profile

## REPORT OF THE BOARD OF DIRECTORS

4 Most Significant Events of 2016  
4 Strategic Targets for 2017  
4 Commentary on the Company's Financial Position and Performance

## ADDITIONAL INFORMATION

5 Corporate Governance  
6 Organizational Chart as at 31 December 2016  
7 Ownership Structure  
7 Sworn Declaration  
8 2016 Supervisory Board's Report

## FINANCIAL SECTION

10 Independent Auditor's Report  
to the Shareholders of Factoring KB, a.s.  
12 Balance Sheet as of 31 December 2016  
14 Profit and Loss Account as of 31 December 2016  
15 Cash Flow Statement as of 31 December 2016  
15 Statement of Changes in Equity as of 31 December 2016  
16 Financial Statements for the Year Ended 31 December 2016  
27 Report on Relations Among Related Entities for the Year Ended 31 December 2016

# Company Profile

## Business name

Factoring KB, a.s.

## Legal form

Joint-stock company

## Business Registration No. (IČ)

25148290

## Registered office

náměstí Junkových 2772/1,  
155 00 Praha 5

## Date of incorporation

4 August 1997

## Registered capital

CZK 1,184,000,000

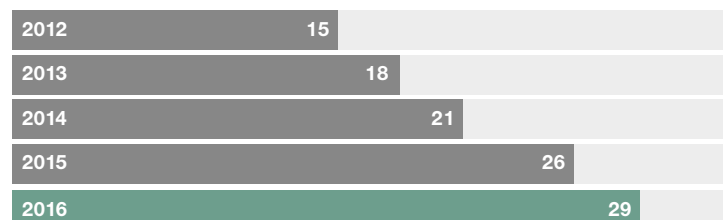
Factoring KB, a.s. was established with the aim to provide a range of factoring services comprising purchase, administration, collection and financing of accounts receivable, including to assume risk related to the insolvency or recalcitrance of domestic or foreign debtors. The Company offers its services predominantly to Czech businesses, and, through its membership in Factors Chain International (the largest network of factoring organisations in the world), it also provides selected services to other members of this international coalition.

Factoring KB, a.s., was founded as a fully owned subsidiary of Komerční banka, a.s. It has been a member of the Komerční banka Financial Group since its foundation and an active member of the Société Générale Banque financial group (hereinafter "Société Générale") since 2002. Membership in both financial groups has significantly influenced the Company's overall development and has brought new impetus for developing cooperation with other members of the group at home and abroad.

## Membership of associations

- Factors Chain International (hereinafter "FCI") since 30 June 2000
- Asociace faktoringových společností ČR (hereinafter "AFS") since November 2000
- Česká leasingová a finanční asociace (hereinafter "ČLFA") since June 2005

## Share in turnover of Factoring KB, a.s. on the Czech factoring market (%)



# Report of the Board of Directors

The Czech economy's 2.3% year-on-year growth rate in 2016 was half the exceptional result achieved in 2015. Household consumption was the most important driver of the Czech economy last year, and it was influenced especially by the improving labour market. Growth was also substantially supported by foreign demand, which was reflected in a record foreign trade surplus of CZK 183.9 billion, improving year on year by CZK 52.9 billion. The European Union remains the most important export destination, with an 84.0% share and with 65.5% of all exports last year directed to the euro area.

Net exports' contribution to GDP helped make up for last year's substantial decline in investments occurring due to the high statistical base of 2015, which had been the last chance to draw EU funds for the 2007–2013 programme period. The low level of preparedness of projects funded from public sources and the slow start to financing from the new 2014–2020 programme period considerably impacted last year's decline in civil engineering (-16.0%). Construction in general declined by 7.6% in real terms during 2016. Weaker investment and construction activity had a negative impact on last year's industrial production. Its volume increased by just 2.9% in real terms, primarily driven by the successful automotive industry. Motor vehicle production rose by a full 11%. The mining industry, on the other hand, finished in the red (-9.0%) due to low commodity prices, and production of the chemical industry (-7.0%) was impacted by accidents at the Kralupy and Litvínov refineries.

The Czech economy did not suffer in 2016 from any crucial macroeconomic imbalances. In the last months of the year, the inflation rate began to turn back towards the Czech National Bank's inflation target. The economy's external balance reached historically record-breaking surpluses in foreign trade as well as on the current account of the payments balance. Despite a solid macroeconomic environment, the central bank continued its extremely relaxed monetary policy and thus interest rates remained very low.

The Czech Association of Factoring Companies reported a total turnover in assigned accounts receivable of CZK 131.4 billion in 2016. Despite the continuing, albeit decelerated, growth in the Czech economy, not all factoring companies on the market

managed to achieve turnover growth and the market declined by 4.2% year on year. This decrease, however, was recorded only in domestic accounts receivable, where the volume of receivables purchased by factoring companies diminished by 10% year on year. The volume of foreign accounts receivable rose 7% year on year and the share of international factoring reached a record level of 37%, tracking the positive development in foreign trade. As opposed to the decline in 2015, when the market was decreasing year on year in each quarter (resulting in a 16.5% decline for the year as a whole), the trend visibly changed in the second half of 2016 and turnovers of assigned accounts receivable started to grow in the third and fourth quarters by 5% and 11% year on year, respectively.

Factoring KB also was commercially successful in 2016, thereby extending its interval of sustained turnover growth since 2011. In 2016, the Company achieved a turnover of CZK 37.8 billion and, at 6%, the highest year-on-year growth on the market. Factoring KB thus became the leading factoring company on the Czech market with a market share of 28.7%.

Support from the Komerční banka distribution network remains crucial for our commercial success. Factoring KB complements KB's offer with a full range of factoring products, and Factoring KB's is building its success with a team of experienced professionals who are able to ensure a high level of services.

In 2016, Factoring KB continued its co-operation with commercial insurance companies and partner factoring companies within the Factors Chain International (FCI) Network, of which the Company has been a member since 2000. This co-operation has made it possible to offer non-recourse products, in which Factoring KB takes over the customers' insolvency risk, and to provide further support for exporters and importers in co-operation with their foreign partners.

As in previous years, Komerční banka remains a key partner. In addition to distributing factoring products, it also provides Factoring KB with support and expertise in many other areas, such as credit and operational risk management, compliance, human resources, and IT.

## Most Significant Events of 2016

In 2016, Société Générale Group initiated its international network of factoring companies, of which Factoring KB is a key member. The Company has thus acquired access to shared knowledge, innovations, and international factoring services markets.

On the Czech market, Factoring KB focused on intensifying its co-operation with the parent company Komerční banka in presenting its services to clients from the Top Corporations Segment. The Company was thus able to strengthen substantially its position in this segment and further boost efficiency and automation in processing large-volume client transactions.

In general, during such period of lower demand from enterprises for standard operational financing we were able to generate added value by offering factoring products tailored to the clients' needs in assuming risks and dealing with the balance-sheet impacts of purchasing accounts receivable.

Thanks to the very successful business operations conducted by our strong and experienced team of transaction managers with active support from the Risk Management and Client Service departments, Factoring KB became the leader on the Czech factoring market in 2016.

## Strategic Targets for 2017

The main objective for Factoring KB in 2017 is to continue in supporting its business relationships with current and new clients from all business segments, and particularly in co-operation with Komerční banka. The Medium Enterprises Segment remains the main part of our portfolio, but we will also continue our intensive co-operation with the Top Corporations Segment and seek ways to tailor our products and processes to smaller entrepreneurs. Through the quality of our services, we hope to maintain our leading position on the factoring market attained in 2016.

In addition to our continuing intensive commercial activity, we will also invest further into improving internal processes with the objective of enhancing the efficiency and speed of our activities and thereby bringing further added value to our clients, business partners, and shareholders. Another important development will be further improving processes for identifying and preventing fraudulent transactions, for example in connection with the amendment of the Money Laundering Protection Act. Last but not least, we will also need to implement accounting modifications in accordance with IFRS 9 for consolidation purposes and other regulatory requirements.

## Commentary on the Company's Financial Position and Performance

In 2016, the Company's net profit grew by 2.5%, reaching CZK 78.1 million. This gain was, however, substantially influenced by increased return from the Company's re-invested capital into Protos, uzavřený investiční fond, a.s. After adjusting for this impact, the Company's net profit actually decreased despite managing to maintain the growth rate for the volume of purchased invoices. Despite the environment of low interest rates and continuing pressure on the prices of financial services, a rise in net interest revenues of 9% year on year to CZK 69.6 million positively contributed to the Company's financial result. Due to the larger volume of factoring transactions, on the other hand, commissions revenues continued to decline year on year. The Company also devoted great attention to managing operational costs, and only wage expenses and amortisation of intangible assets grew significantly. The increased creation of allowances was influenced by two business cases wherein an inability to pay occurred due to application of the reverse charge mechanism.

# Corporate Governance as at 31 December 2016

## Board of Directors

**Adam Fiedler**

Chairman of the Board of Directors and CEO

**Eva Březinová**

Member of the Board of Directors

**Věra Jahnová**

Member of the Board of Directors

## Supervisory Board

**Jitka Haubová**

Chairwoman of the Supervisory Board

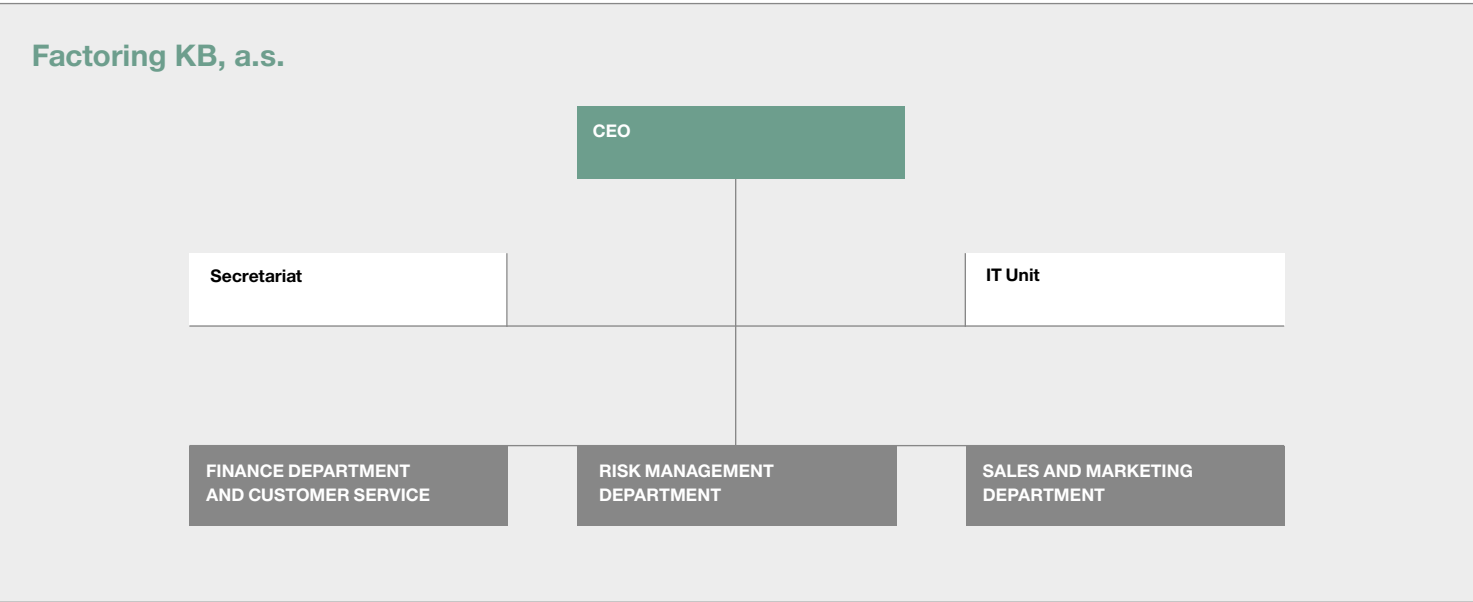
**Jiří Šperl**

Member of the Supervisory Board

**Milan Dobeš**

Member of the Supervisory Board

# Organizational Chart as at 31 December 2016





## Ownership Structure

The annual general meeting was held on 19 April 2016. The general meeting approved the Report of the Board of Directors on its Business Activities and the State of its Assets for 2015 as well as the financial statements for 2015. It also decided on distribution of the company's earnings from 2015, and the Report of the Supervisory Board and Report on Relations among Related Entities were taken into consideration. The company appointed Deloitte Audit s.r.o. as its external auditor for 2016.

### Shareholder

Komerční banka, a.s.  
100% ownership interest

## Sworn Declaration

Factoring KB, a.s. hereby confirms that all information and data included in this Annual Report is accurate and complete. The Company also confirms that the document comprises all events that might have a material impact on investors' decisions. Furthermore, Factoring KB, a.s. confirms that no subsequent events have occurred that might adversely affect the Company's financial position, or other changes that might influence a fair and accurate assessment of the financial position of Factoring KB, a.s.

Prague, 20 April 2017

Signed on behalf of the Board of Directors:



**ADAM FIEDLER**

Chairman of the Board of Directors  
and Chief Executive Officer



**EVA BŘEZINOVÁ**

Member of the Board of Directors



**VĚRA JAHNOVÁ**

Member of the Board of Directors

## 2016 Supervisory Board's Report

The Supervisory Board of Factoring KB, a.s. carried out on ongoing basis tasks assigned to it by the Business Corporations Act and the Company's Article of Association. The Supervisory Board performed regular supervision of the Company's activities, approved strategic plans of the Company and presented its proposals and suggestions to the Board of Directors in order to improve the Company's operations.

Having examined the Company's annual financial statements for the period from 1 January to 31 December 2016, considering the preliminary external auditor's opinion on the annual financial statements, the Supervisory Board states that the accounting records and evidence were maintained in a conclusive manner and in accordance with the generally applicable rules regulating accounting of non-financial institutions. The accounting records express truly in all material respects the Company's financial situation as at 31 December 2016.

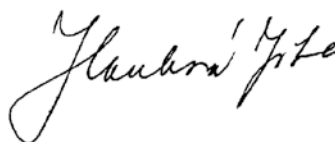
The Supervisory Board further reviewed the Report on Related Parties for the period from 1 January to 31 December 2016 prepared by the Company as the controlled entity under Section 83, Subsection 1 of the Business Corporations Act. The Supervisory Board states that on the basis of its review it has not found any materially incorrect information disclosed in that Report and that the Board of Directors of the Company has not identified, based on its evaluation of the relationships, any damages caused to the Company in its relations with controlling entity.

Having reviewed the proposal of the Board of Directors for the profit appropriations, the Supervisory Board recommends to the sole shareholder approving of the BoD proposal for the profit appropriations as follows:

After tax profit	78,136,577.47 CZK
Dividend payout	36,252,000.00 CZK

The Supervisory Board recommends to the General Meeting to approve the Company's annual financial statements for 2016.

Prague, 31 March 2017



**JITKA HAUBOVÁ**  
Chairman of the Supervisory Board

Contents

	<b>FINANCIAL SECTION</b>
10	Independent Auditor's Report to the Shareholders of Factoring KB, a.s.
12	Balance Sheet as of 31 December 2016
14	Profit and Loss Account as of 31 December 2016
15	Cash Flow Statement as of 31 December 2016
15	Statement of Changes in Equity as of 31 December 2016
16	Financial Statements for the Year Ended 31 December 2016
	<b>REPORT ON RELATIONS AMONG RELATED ENTITIES FOR THE YEAR ENDED 31 DECEMBER 2016</b>
27	Report on Relations Among Related Entities for the Year Ended 31 December 2016

# Independent Auditor's Report to the Shareholders of Factoring KB, a.s.



Deloitte Audit s.r.o.  
Nile House  
Karolínská 654/2  
186 00 Prague 8 - Karlín  
Czech Republic

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DeloitteCZ@deloitteCE.com  
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in Prague, Section C, File 24349  
ID. No.: 49620592  
Tax ID. No.: CZ49620592

## INDEPENDENT AUDITOR'S REPORT To the Shareholders of Factoring KB, a.s.

Having its registered office at: náměstí Junkových 2772/1, Stodůlky, 155 00 Praha 5

### Opinion

We have audited the accompanying financial statements of Factoring KB, a.s. (hereinafter also the "Company") prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the balance sheet as at 31 December 2016, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Factoring KB, a.s. as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

### Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application guidelines. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information in the Annual Report

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

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

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

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

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

### Responsibilities of the Company's Board of Directors and Supervisory Board for the Financial Statements

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

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

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

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

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

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

In Prague on 28 April 2017

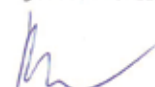
Audit firm:

Deloitte Audit s.r.o.  
registration no. 079



Statutory auditor:

David Batal  
registration no. 2147



## Balance Sheet as of 31 December 2016

(in CZK thousand)		31. 12. 2016			31. 12. 2015
		Gross	Adjustment	Net	Net
<b>TOTAL ASSETS</b>		<b>14,316,805</b>	<b>340,115</b>	<b>13,976,690</b>	<b>12,027,931</b>
<b>B.</b>	<b>Fixed assets</b>	<b>1,416,663</b>	<b>87,524</b>	<b>1,329,139</b>	<b>1,420,511</b>
B. I.	Intangible fixed assets	92,370	82,475	9,895	9,509
B. I. 2.	Valuable rights	92,370	82,475	9,895	9,509
B. I. 2.1.	Software	92,370	82,475	9,895	9,509
B. II.	Tangible fixed assets	6,404	5,048	1,356	1,216
B. II. 2.	Tangible movable assets and sets of tangible movable assets	5,692	5,048	644	504
B. II. 4.	Other tangible fixed assets	712	0	712	712
B. II. 4.3.	Other tangible fixed assets	712	0	712	712
B. III.	Non-current financial assets	1,317,889	0	1,317,889	1,409,786
B. III. 5.	Other non-current securities and investments	1,317,889	0	1,317,889	1,409,786
<b>C.</b>	<b>Current assets</b>	<b>12,896,320</b>	<b>252,591</b>	<b>12,643,729</b>	<b>10,606,431</b>
C. II.	Receivables	12,895,355	252,591	12,642,764	10,605,616
C. II. 1.	Long-term receivables	904,171	0	904,171	511,826
C. II. 1.1.	Trade receivables	878,518	0	878,518	490,441
C. II. 1.4.	Deferred tax asset	25,653	0	25,653	21,385
C. II. 2.	Short-term receivables	11,991,184	252,591	11,738,593	10,093,790
C. II. 2.1.	Trade receivables	7,664,749	148,057	7,516,692	6,268,716
C. II. 2.4.	Receivables – other	4,326,435	104,534	4,221,901	3,825,074
C. II. 2.4.4.	Short-term prepayments made	4,326,421	104,534	4,221,887	3,825,070
C. II. 2.4.6.	Sundry receivables	14	0	14	4
C. IV.	Cash	965	0	965	815
C. IV. 1.	Cash on hand	28	0	28	44
C. IV. 2.	Cash at bank	937	0	937	771
<b>D.</b>	<b>Other assets</b>	<b>3,822</b>	<b>0</b>	<b>3,822</b>	<b>989</b>
D. 1.	Deferred expenses	3,822	0	3,822	989

(in CZK thousand)			31. 12. 2016	31. 12. 2015
<b>TOTAL LIABILITIES &amp; EQUITY</b>			<b>13,976,690</b>	<b>12,027,931</b>
<b>A.</b>		<b>Equity</b>	<b>1,609,743</b>	<b>1,626,201</b>
A.	I.	Share capital	1,184,000	1,184,000
A.	I. 1.	Share capital	1,184,000	1,184,000
A.	II.	Share premium and capital funds	99,776	118,101
A.	II. 1.	Share premium	6,000	6,000
A.	II. 2.	Capital funds	93,776	112,101
A.	II. 2.2.	Gains or losses from the revaluation of assets and liabilities (+/-)	93,776	112,101
A.	III.	Funds from profit	16,362	16,417
A.	III.	Other reserve funds	15,791	15,791
A.	III.	Statutory and other funds	571	626
A.	IV.	Retained earnings (+/-)	231,468	231,468
A.	IV. 1.	Accumulated profits brought forward	231,468	231,468
A.	V.	Profit or loss for the current period (+/-)	78,137	76,215
<b>B.+C.</b>		<b>Liabilities</b>	<b>12,322,950</b>	<b>10,358,480</b>
<b>B.</b>		<b>Reserves</b>	<b>11,444</b>	<b>11,280</b>
B.	IV.	Other reserves	11,444	11,280
<b>C.</b>		<b>Payables</b>	<b>12,311,506</b>	<b>10,347,200</b>
C.	I.	Long-term payables	519,251	408,295
C.	I. 2.	Payables to credit institutions	490,276	367,871
C.	I. 4.	Trade payables	28,975	40,424
C.	II.	Short-term payables	11,792,256	9,938,905
C.	II. 2.	Payables to credit institutions	5,423,531	4,739,380
C.	II. 4.	Trade payables	6,336,340	5,172,230
C.	II. 8.	Other payables	32,384	27,295
C.	II. 8.3.	Payables to employees	1,796	1,885
C.	II. 8.4.	Social security and health insurance payables	857	845
C.	II. 8.5.	State – tax payables and subsidies	3,882	7,990
C.	II. 8.6.	Estimated payables	5,482	4,403
C.	II. 8.7.	Sundry payables	20,366	12,172
<b>D.</b>		<b>Other liabilities</b>	<b>43,997</b>	<b>43,250</b>
D.	1.	Accrued expenses	1,632	1,979
D.	2.	Deferred income	42,365	41,271

## Profit and Loss Account as of 31 December 2016

(in CZK thousand)		31. 12. 2016	31. 12. 2015
I.	Sales of products and services	111,140	117,587
A.	Purchased consumables and services	33,744	32,501
A. 2.	Consumed material and energy	2,342	2,740
A. 3.	Services	31,402	29,761
D.	Staff costs	44,245	41,994
D. 1.	Payroll costs	31,069	29,487
D. 2.	Social security and health insurance costs and other charges	13,177	12,507
D. 2.1.	Social security and health insurance costs	11,412	10,787
D. 2.2.	Other charges	1,765	1,720
E.	Adjustments to values in operating activities	40,924	14,084
E. 1.	Adjustments to values of intangible and tangible fixed assets	5,381	3,421
E. 1.1.	Adjustments to values of intangible and tangible fixed assets - permanent	5,381	3,421
E. 3.	Adjustments to values of receivables	35,543	10,663
III.	Other operating income	123,282	298,942
III. 3.	Sundry operating income	123,282	298,942
F.	Other operating expenses	124,888	323,956
F. 3.	Taxes and charges	56	52
F. 4.	Reserves relating to operating activities and complex deferred expenses	164	1,178
F. 5.	Sundry operating expenses	124,669	322,726
*	<b>Operating profit or loss (+/-)</b>	<b>(9,379)</b>	<b>3,994</b>
IV.	Income from non-current financial assets - equity investments	36,252	23,646
IV. 2.	Other income from equity investments	36,252	23,646
VI.	Interest income and similar income	88,760	82,224
VI. 2.	Other interest income and similar income	88,760	82,224
J.	Interest expenses and similar expenses	19,151	18,365
J. 1.	Interest expenses and similar expenses - controlled or controlling entity	19,151	18,365
VII.	Other financial income	34,541	115,823
K.	Other financial expenses	39,726	120,773
*	<b>Financial profit or loss (+/-)</b>	<b>100,676</b>	<b>82,555</b>
**	<b>Profit or loss before tax (+/-)</b>	<b>91,297</b>	<b>86,549</b>
L.	Income tax	13,160	10,334
L. 1.	Due income tax	17,429	17,893
L. 2.	Deferred income tax (+/-)	(4,268)	(7,559)
**	<b>Profit or loss net of tax (+/-)</b>	<b>78,137</b>	<b>76,215</b>
***	<b>Profit or loss for the current period (+/-)</b>	<b>78,137</b>	<b>76,215</b>
*	Net turnover for the current period	393,975	638,222



## Cash Flow Statement as of 31 December 2016

(in CZK thousand)			31. 12. 2016	31. 12. 2015
<b>P.</b>		<b>Opening balance of cash and cash equivalents</b>	<b>815</b>	<b>526</b>
		<b>Cash flows from ordinary activities (operating activities)</b>		
Z.		Profit or loss before tax	91,297	86,549
A.	1.	Adjustments for non-cash transactions	(138,398)	(53,487)
A.	1.1.	Depreciation of fixed assets	6,112	27,309
A.	1.2.	Change in provisions and reserves	(35,379)	(9,485)
A.	1.4.	Revenues from profit shares	(36,252)	(23,646)
A.	1.5.	Interest expense and interest income	(69,609)	(63,859)
A.	1.6.	Adjustments for other non-cash transactions	(3,270)	16,194
<b>A. *</b>		<b>Net operating cash flow before changes in working capital</b>	<b>(47,101)</b>	<b>33,062</b>
A.	2.	Change in working capital	(835,844)	227,602
A.	2.1.	Change in operating receivables and other assets	(1,988,855)	144,456
A.	2.2.	Change in operating payables and other liabilities	1,163,011	83,146
<b>A. **</b>		<b>Net cash flow from operations before tax</b>	<b>(882,945)</b>	<b>260,664</b>
A.	3.	Interest paid	(19,312)	(18,741)
A.	4.	Interest received	89,984	82,944
A.	5.	Income tax paid from ordinary operations	(21,782)	(21,384)
A.	6.	Received profit shares	0	1
<b>A. ***</b>		<b>Net operating cash flows</b>	<b>(834,055)</b>	<b>303,484</b>
		<b>Cash flows from investing activities</b>		
B.	1.	Fixed assets expenditures	(5,905)	(5,969)
B.	3.	Loans and borrowings to related parties	36,252	23,646
<b>B. ***</b>		<b>Net investment cash flows</b>	<b>30,347</b>	<b>17,677</b>
		<b>Cash flow from financial activities</b>		
C.	1.	Change in payables from financing	806,556	(294,694)
C.	2.	Impact of changes in equity	(2,698)	(26,178)
C.	2.1.	Cash increase in share capital	73,517	(330)
C.	2.6.	Profit shares paid	(76,215)	(25,848)
<b>C. ***</b>		<b>Net financial cash flows</b>	<b>803,858</b>	<b>(320,872)</b>
<b>F.</b>		<b>Net increase or decrease in cash and cash equivalents</b>	<b>150</b>	<b>289</b>
<b>R.</b>		<b>Closing balance of cash and cash equivalents</b>	<b>965</b>	<b>815</b>

## Statement of Changes in Equity as of 31 December 2016

(in CZK thousand)	Share capital	Capital funds	Funds from profit, reserve fund	Accumulated profits brought forward	Profit or loss for the current period	TOTAL EQUITY
<b>Balance at 31 December 2014</b>	<b>1,184,000</b>	<b>139,845</b>	<b>16,369</b>	<b>231,468</b>	<b>26,648</b>	<b>1,598,331</b>
Profit shares paid					(25,848)	(25,848)
Payments from capital funds			47		(800)	(753)
		(21,744)				(21,744)
Profit or loss for the current period					76,215	76,215
<b>Balance at 31 December 2015</b>	<b>1,184,000</b>	<b>118,101</b>	<b>16,417</b>	<b>231,468</b>	<b>76,215</b>	<b>1,626,201</b>
Distribution of profit or loss					(76,215)	(76,215)
Payments from capital funds			(54)			(54)
		(18,325)				(18,325)
Profit or loss for the current period					78,137	78,137
<b>Balance at 31 December 2016</b>	<b>1,184,000</b>	<b>99,776</b>	<b>16,362</b>	<b>231,468</b>	<b>78,137</b>	<b>1,609,743</b>

## Financial Statements for the Year ended 31 December 2016

### 1. Corporate information

Factoring KB, a.s. (hereinafter the "Company") is a joint stock company incorporated on 4 August 1997; its registered office is in Prague 5, náměstí Junkových 2772/1, Czech Republic, Business registration number (IČ) is 25148290. The Company's core business comprises the provision of factoring and forfaiting services.

Entities holding share capital:

Komerční banka, a.s. 100%.

Factoring KB, a.s. is a member of the financial group of Komerční banka, a.s. and the international financial group of Société Générale. Société Générale S. A. is the ultimate parent company of the Company.

Members of statutory bodies as at 31 December 2016:

#### Board of Directors

Chairman:	Adam Fiedler
Member:	Eva Březinová
Member:	Věra Jahnová

#### Supervisory Board

Chairwoman:	Jitka Haubová
Member:	Jiří Šperl
Member:	Milan Dobeš

During the reporting period there were changes in the composition of the Supervisory Board. Jitka Haubová became a member of the Supervisory Board effective from 1 October 2016 and replaced Ivetta Ocásková. Jitka Haubová holds the position of chairwoman of the Supervisory Board with effect from 6 December 2016.

The Company has no foreign affiliate.

### 2. Basis of preparation of the financial statements

The Company's accounting books and records have been maintained and the attached financial statements have been prepared pursuant to Act No. 563/1991 Coll., on Accounting, in wording valid for 2016 and 2015; Decree No. 500/2002 Coll., implementing some provisions of Act No. 563/1991 Coll., on Accounting, for reporting entities that are businesses maintaining double-entry accounting records, in wording valid for 2016 and 2015; and Czech Accounting Standards for Businesses, in wording valid for 2016 and 2015.

#### Explanation added for Translation into English

These financial statements are presented on the basis of accounting principles and standards generally accepted in the Czech Republic. Certain accounting practices applied by the Company that conform with generally accepted accounting principles and standards in the Czech Republic may not conform with generally accepted accounting principles in other countries.

### 3. Summary of significant accounting policies

The accounting books and records have been maintained in accordance with general accounting principles, in particular the historical cost valuation convention, the accruals principle, the prudence concept, and the going concern assumption.

In preparing the financial statements for 2016 and 2015, the Company used the following valuation methods:

a) Intangible fixed assets

Intangible fixed assets are recorded at cost, comprising acquisition cost and acquisition-related costs.

Intangible fixed assets with an acquisition cost of more than CZK 60 thousand are amortised on a straight-line basis over their estimated useful life.

Amortisation

Amortisation is calculated on the basis of the acquisition cost and estimated useful life. The estimated useful life is determined as follows:

	Years
Software	3

b) Tangible fixed assets

Tangible fixed assets are recorded at cost, comprising acquisition cost, transport, customs and other acquisition-related costs.

Tangible fixed assets with an acquisition cost of more than CZK 40 thousand are depreciated for the period of their useful lives.

The cost of technical improvements of tangible fixed assets increases the initial acquisition cost. Repairs and maintenance are expenses as incurred.

Depreciation

Depreciation of tangible fixed assets is calculated on the basis of the acquisition cost and estimated useful life. The estimated useful life is determined as follows:

	Years
Machinery and equipment	3–10
Fixtures and fittings	5

c) Financial assets

Current financial assets comprise stamps and vouchers, cash on hand and cash in bank.

Non-current financial assets comprise available-for-sale securities and equity investments.

Upon acquisition, securities and equity investments are valued at acquisition cost. The acquisition cost of securities and equity investments comprises the purchase price and direct acquisition-related costs, such as fees and commissions paid to brokers, advisors and stock exchanges.

Available-for-sale securities and equity investments are carried at fair value at the balance sheet date. Any change in the fair value of available-for-sale securities and equity investments is recognised as gains or losses on revaluation of assets and liabilities within equity.

The Company applies the market value of the securities as at the balance sheet date as fair value.

d) Receivables

Upon origination, receivables are carried at their nominal value. Receivables are reported at carrying amounts less respective allowances for doubtful and uncollectable amounts.

Factoring involves purchasing receivables at their nominal values before their due dates, arising from the supply of goods or services to several regular customers. The factor pays the supplier an advance – pre-financing, which represents a partial payment for the assignment of the receivable and may account for up to 100 percent of the nominal value of the receivable. Amounts due from the purchased receivables are recognised as trade receivables in the Company's balance sheet, and advances paid are recognised as short-term prepayments made. Amounts payable arising from the purchased receivables are recognised as trade payables in the balance sheet. Following payment by the customer, the remaining balance of the receivable is paid to the supplier.

The Company has offered a discounted purchase of short and long-term receivables since 2013, which is recognised in the balance sheet on a net basis – only a nominal amount of the unsettled receivable that was purchased is recognised in the balance sheet.

Reassignment of receivables is recognised in the Income statement.

**e) Method of determining allowances and provisions**

Additions to allowances are charged based on inventory taking to the extent that the valuation of assets does not correspond with the actual balance. Allowances to receivables are created on the basis of an assessment of the risk level of the respective receivable.

**f) Equity**

The Company's share capital is stated in the amount recorded in the Commercial Register maintained by the Municipal Court. Any increase or decrease in the share capital based on the decision of the General Meeting that has not been recorded as at the reporting date is recognised as changes in equity. Deposits exceeding share capital are recognised as share premium.

The Company can create financial funds. The Board of Directors decides on the establishment of these funds and also defines rules for their creation and drawing. If these funds are created or supplemented from profit, the allocation to these funds is approved by the General Meeting.

**g) Provisions and liabilities**

The Company creates legal provisions pursuant to the Act on Provisions, and provisions for losses and risks if the related purpose, amount and timing can be reliably estimated and the accrual and matching principles are observed.

Long-term and current liabilities are recognised at nominal values.

Long-term and short-term loans are recognised at nominal values. Any portion of long-term loans due within one year from the balance sheet date is deemed a short-term loan.

**h) Foreign currency translation**

Assets and liabilities denominated in foreign currencies are valued in the Czech crowns by the exchange rate valid at the date of their origination and at the balance sheet date, cash items were translated by the exchange rate published by ČNB as at 31 December.

Realised and unrealised foreign exchange gains and losses are accounted to financial revenues or financial expenses for the current year.

**i) Revenue and expense recognition**

Revenues and expenses are recognised on an accrual basis, i.e. in the periods in which the actual flow of the related goods or services occurs, regardless of when the related monetary flow arises.

The Company realises its revenues primarily from remuneration (commissions) for each purchased receivable, and from interest on advances granted for payment of the purchase price. Other revenues comprise charges for changes in contractual terms and conditions, applications for factoring services, and other fees.

The Company reports factoring commissions in revenues from the sale of goods and services; interest received from provided financing is recognised in interest income. Price for the discounted purchase is recognised in revenues from the sale of goods and services and is accrued through deferred income.

**j) Income taxes**

The corporate income tax expense is calculated based on the statutory tax rate from the book value of profit less or plus permanently or temporarily tax non-deductible expenses and non-taxable revenues (e.g. creation and recognition of other provisions and allowances, entertainment expenses, difference between write-offs for accounting and tax purposes, etc.). Furthermore, tax deductible items (gifts), deductions and income tax credits are taken into the account.

Deferred income tax reflects the tax impact of temporary differences between carrying amounts of assets and liabilities in the balance sheet and determining the income tax base with regard to the period of realisation.

### k) Use of estimates

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management believes that the estimates and assumptions employed will not differ significantly from the actual results achieved in future periods.

### l) Subsequent events

The impact of events that occurred between the balance sheet date and the date of the financial statements preparation is recognised in the financial statements provided these events provide additional evidence about conditions that existed at the date of the balance sheet.

If material events reflecting the facts occurring after the balance sheet date occurred between the balance sheet date and the date of the financial statements preparation the consequences of these events are disclosed in the notes to the financial statements but not recognised in the financial statements.

### m) Cash Flows Statement

Cash Flows Statement was prepared by indirect method. Cash equivalents represent short-term liquid assets, which can be easily and promptly convert to a known amount of cash.

Cash and cash equivalents can be analysed as follows:

(in CZK thousand)	As at 31 December 2016	As at 31 December 2015
Cash and cash in transit	28	44
Accounts in banks	937	771
Debit balance of current account included in short-term bank loans		
<b>Cash and cash equivalents total</b>	<b>965</b>	<b>815</b>

Cash flows from operating, investment and financial activities presented in the cash flow statement are not offset.

### n) Changes in the classification and identification of balance sheet and profit and loss account and their content definition compared to the previous accounting period.

These financial statements were prepared in accordance with the Czech accounting standard No. 024 – the comparable period for the financial period that begun in the year 2016.

## 4. Fixed assets

### a) Intangible fixed assets (in CZK thousand)

#### COST

	Opening balance	Additions	Disposals	Transfers	Closing balance
Software	86,849	0	0	5,521	92,370
Intangible fixed assets under construction	0	5,521	0	(5,521)	0
<b>Total in 2016</b>	<b>86,849</b>	<b>5,521</b>	<b>0</b>	<b>0</b>	<b>92,370</b>
Total in 2015	80,994	5,866	(11)	0	86,849

#### ACCUMULATED AMORTISATION

	Opening balance	Amortisation charge	Disposals	Closing balance	Net book value
Software	(77,340)	(5,135)	0	(82,475)	9,895
Intangible fixed assets under construction	0	0	0	0	0
<b>Total in 2016</b>	<b>(77,340)</b>	<b>(5,135)</b>	<b>0</b>	<b>(82,475)</b>	<b>9,895</b>
Total in 2015	(74,155)	(3,196)	11	(77,340)	9,509

Total low-value intangible assets not included in the balance sheet amounted to CZK 1 thousand as at 31 December 2016 and CZK 177 thousand as at 31 December 2015 at cost.

## b) Tangible fixed assets (in CZK thousand)

### COST

	Opening balance	Additions	Disposals	Transfers	Closing balance
Machinery and equipment	5,562	0	(302)	385	5,645
Fixtures and fittings	30	0	0	0	30
Low-value tangible assets	20	0	(3)	0	17
Works of art	712	0	0	0	712
Tangible fixed assets under construction	0	385	0	(385)	0
<b>Total in 2016</b>	<b>6,324</b>	<b>385</b>	<b>(305)</b>	<b>0</b>	<b>6,404</b>
Total in 2015	6,221	104	0	0	6,324

### ACCUMULATED DEPRECIATION

	Opening balance	Depreciation charge	Disposals	Closing balance	Net book value
Machinery and equipment	(5,058)	(245)	302	(5,001)	644
Fixtures and fittings	(30)	0	0	(30)	0
Low-value tangible assets	(20)	0	3	(17)	0
Works of art	0	0	0	0	712
Tangible fixed assets under construction	0	0	0	0	0
<b>Total in 2016</b>	<b>(5,108)</b>	<b>(245)</b>	<b>305</b>	<b>(5,048)</b>	<b>1,356</b>
Total in 2015	(4,883)	(225)	0	(5,108)	1,216

Total low-value tangible assets not included in the balance sheet amounted to CZK 485 thousand as at 31 December 2016 and CZK 679 thousand as at 31 December 2015 at cost.

## c) Financial investments (in CZK thousand)

On the basis of a Contract for the Transfer of Securities for Consideration concluded between Factoring KB, a.s. and Komerční banka, a.s., in 2007, Factoring KB, a.s. purchased non-current financial assets in the amount of CZK 1,298,106 thousand. The non-current financial asset in this case is a 10% share in a closed unit-linked fund, Protos, uzavřený investiční fond, a.s. (hereinafter "Protos"), with its registered office in Prague, Dlouhá 34. Protos is a subsidiary of Komerční banka, a.s. In 2015 the share of Factoring KB, a.s. in Protos increased to 16% to the extent that newly issued shares of Protos were subscribed by the Company and paid by the premium on Protos shares already owned by the Company before the shares issuance. The difference between the share premium paid and the cost of newly subscribed Protos shares issued amounted to CZK 421 thousand.

On the basis of the decision of the General Meeting of shareholders of Protos, uzavřený investiční fond, a.s. held on 6 December 2016 was approved the reduction of the reserve fund of the company. The amount was divided among the shareholders in proportion to their participation in the basic capital of the company. This decision had the effect of reducing the purchase prices of the financial assets by the amount of CZK 73,572 thousand.

Movement of non-current financial assets:

	Balance as at 31 December 2014	Revaluation	Balance as at 31 December 2015	Revaluation	Balance as at 31 December 2016
Other non-current securities and investments	1,431,951	(22,165)	1,409,786	(91,897)	1,317,889
<b>Total</b>	<b>1,431,951</b>	<b>(22,165)</b>	<b>1,409,786</b>	<b>(91,897)</b>	<b>1,317,889</b>

## 5. Receivables

### Long-term receivables

As at 31 December 2016, the Company had long-term receivables amounting to CZK 904,171 thousand (2015: CZK 511,826 thousand), comprising trade receivables in the amount of CZK 878,518 thousand (2015: CZK 490,441 thousand) and a deferred tax asset of CZK 25,653 thousand (2015: CZK 21,385 thousand). The Company had receivables with maturity longer than 5 years in the amount CZK 338,818 thousand (2015: CZK 82,628 thousand). Long-term trade receivables included receivables acquired through discounted purchase. No long-term receivables are overdue.

### Short-term receivables (in CZK thousand)

	As at 31 December 2016	Out of which overdue*)	As at 31 December 2015	Out of which overdue*)
<b>Trade receivables (gross)</b>	<b>7,664,749</b>		<b>6,378,730</b>	
out of which:				
– purchased receivables	7,515,124	242,391	6,252,559	120,896
– commissions from purchased receivables	10,422	1,676	5,710	1,311
– interest on pre-financing	13,575	3,673	12,351	3,470
– reassignments	118,154	108,856	100,621	84,933
– receivables from accession to debts	6,146	6,146	6,146	6,146
– other receivables	1,328		1,346	
Allowances for trade receivables	(148,057)		(110,014)	
<b>Trade receivables (net)</b>	<b>7,516,692</b>		<b>6,268,716</b>	
Receivables from pre-financing	4,325,965		3,931,648	
Operating advances	456		456	
Allowances for advances granted	(104,534)		(107,034)	
<b>Total advances granted net</b>	<b>4,221,887</b>		<b>3,825,070</b>	
Other short-term receivables	14		4	
<b>Total short-term receivables</b>	<b>11,738,593</b>		<b>10,093,790</b>	

\*) A purchased receivable is overdue if it is after its contractual maturity for at least 90 days.

Amounts due arising from purchased receivables, for which the Company also records a liability to the supplier, represent nominal values of receivables purchased within the scope of factoring services provided.

Maturity of receivables from pre-financing is determined on the basis of specific factoring agreements with respective clients. The standard maturity period is 90 days.

The standard due date for commission invoices, interest invoices, and reassignments is 14 days.

The Company records no receivables from related parties.

Due to uncollectability, rejection of bankruptcy proceedings, and settlement or non-settlement of receivables in bankruptcy proceedings, etc., the Company charged to expenses CZK 2,079 thousand in 2016 (2015: CZK 23,095 thousand).

## 6. Allowances

Allowances reflect temporary impairment of assets (listed in Note 5).

Changes in allowances (in CZK thousand):

Allowances for:	Balance as at 31 Dec 2014	Creation of allowances	Recognition of allowances	Balance as at 31 Dec 2015	Creation of allowances	Recognition of allowances	Balance as at 31 Dec 2016
receivables – statutory	51,211	5,280	11,874	44,617	5,174	678	49,113
receivables – other	155,174	53,764	36,507	172,431	74,936	43,889	203,478

Statutory allowances are created pursuant to the Act on Reserves.

## 7. Other assets

Deferred expenses in the amount of CZK 3,822 thousand (2015: CZK 989 thousand) represent primarily items related to operational services. Accrued income were not accounted for in the 2016 and 2015 reporting periods.

## 8. Equity

The Company's share capital consists of 400 shares with a nominal value of CZK 100,000 per share, 4,400 ordinary shares with a nominal value of CZK 10,000, and 1,100 ordinary shares with a nominal value of CZK 1,000,000. There was no change in the amount of the Company's share capital in 2016.

The shares of Factoring KB, a.s. are not publicly tradeable; they are fully transferable bearer shares and carry voting rights.

The share premium in the amount of CZK 6,000 thousand represents the difference between the issue and nominal values of the shares.

Changes in equity in 2016 and 2015 (in CZK thousand):

	Balance as at 31 December 2014	Increase	Decrease	Balance as at 31 December 2015	Increase	Decrease	Balance as at 31 December 2016
Number of shares	5,900	0	0	5,900	0	0	5,900
Share capital	1,184,000	0	0	1,184,000	0	0	1,184,000
Share premium (agio)	6,000	0	0	6,000	0	0	6,000
Gains or losses from the revaluation of assets and liabilities	133,845	0	21,744	112,101	0	18,325	93,776
Reserve fund	15,791	0	0	15,791	0	0	15,791
Other funds	578	800	752	626	0	54	571
Retained earnings	231,468	0	0	231,468	0	0	231,468
Profit (loss) for the current period (+/-)	26,647	76,215	26,647	76,215	78,137	76,215	78,137

Based on the decisions of the General Meetings held on 19 April 2016 and 16 April 2015, the following distribution of profits for 2015 and 2014 was approved (in CZK thousand):

<b>2014 profit</b>	<b>26,647</b>
Allocation to –	
reserve fund	0
other funds	800
Dividend payments and profit shares	25,848
Transfer of retained earnings	0
<b>Retained earnings as at 31 December 2015</b>	<b>231,468</b>

<b>2015 profit</b>	<b>76,215</b>
Allocation to –	
reserve fund	0
other funds	0
Dividend payments and profit shares	76,215
Transfer of retained earnings	0
<b>Retained earnings as at 31 December 2016</b>	<b>231,468</b>

## 9. Reserves

Movements in reserves (in CZK thousand):

Reserves	Balance as at 31 December 2014	Creation of reserves	Recognition of reserves	Balance as at 31 December 2015	Creation of reserves	Recognition of reserves	Balance as at 31 December 2016
Other	10,102	13,195	12,017	11,280	12,936	12,772	11,444

The Company creates reserves for unutilised vacation, reserve for bonuses and related social and health insurance and reserve to cover future losses related to the bank risks.



## 10. Payables

### Long-term payables

As at 31 December 2016, the Company had long-term payables amounting to CZK 519,251 thousand (2015: CZK 408,295 thousand). This item comprise mainly trade payables related to the purchased long-term receivables and payables to credit institutions. No long-term payables are overdue.

As of 31 December 2016 the Company had the following long-term payables (in CZK thousand):

	As at 31 December 2016	As at 31 December 2015
Payables to credit institutions	490,276	367,871
Trade payables	28,975	40,424
<b>Total</b>	<b>519,251</b>	<b>408,295</b>

The interest expenses related to long-term payables to credit institutions in 2016 amounted to CZK 4,305 thousand (2015: CZK 4,734 thousand). Long-term payables to credit institutions were remunerated at a fixed rate.

### Short-term payables

As at 31 December 2016, the Company had Short-term payables in the amount of CZK 11,792,256 thousand (2015: CZK 9,938,905 thousand). Short-term payables mostly arise from receivables purchased by the Company within the scope of factoring services provided and payables to financial institutions. No short-term payables are overdue.

As of 31 December 2016 the Company had the following short-term payables (in CZK thousand):

	As at 31 December 2016	As at 31 December 2015
Payables to credit institutions	5,423,531	4,739,380
<b>Trade payables</b>		
– suppliers	1,442	1,118
– purchased receivables	6,334,898	5,171,112
<b>Other payables</b>		
– payables to employees	1,796	1,885
– social security and health insurance payables	857	845
– State – tax payables and subsidies	3,882	7,990
– estimated payables	5,482	4,403
– sundry payables	20,366	12,172
<b>Total</b>	<b>11,792,254</b>	<b>9,938,905</b>

As of 31 December 2016 the Company had the following short-term payables to credit institutions (in CZK thousand):

Bank	Interest rate	2016		2015	
		Amount in a foreign currency	Amount in CZK thousand	Amount in a foreign currency	Amount in CZK thousand
KB (CZK)	PRIBOR ON ACTUAL + f.v.	3,212,225	3,212,225	2,631,124	2,631,124
KB (USD)	ON LIBOR USD ACTUAL + f.v.	2,073	53,150	4,045	100,420
KB (EUR)	ON LIBOR EUR ACTUAL + f.v.	72,486	1,958,582	69,629	1,881,730
KB (GBP)	ON LIBOR GBP ACTUAL + f.v.	47	1,490	21	756
KB (PLN)	ON WIBOR PLN ACTUAL + f.v.	596	3,653	2,096	13,290
KB (CZK)	Fixed interest rate	194,431	194,431	112,061	112,060
<b>Total</b>			<b>5,423,531</b>		<b>4,739,380</b>

Note: f.v. – fixed variance

Interest expenses related to payables to financial institutions amounted to CZK 14,846 thousand in 2016 (2015: CZK 13,631 thousand).

## 11. Other liabilities

Other liabilities comprise accrued expenses in the amount of CZK 1,632 thousand (2015: CZK 1,979 thousand) and deferred income in the amount of CZK 42,365 thousand (2015: CZK 41,271 thousand). Deferred income represents in particular accrued price for the discount purchase of receivables.

## 12. Income taxes

	2016	2015
	in CZK thousand	in CZK thousand
Profit before taxes	91,297	86,549
Non-taxable revenue	(36,687)	(23,879)
Difference between accounting and tax depreciation	(386)	(3,642)
Non-deductible costs	37,771	33,061
– net creation of allowances	31,047	17,257
– reserves	598	1,410
– written off receivables	1,405	11,424
– other (e.g. entertainment expenses, deficits and damage)	4,721	2,970
Taxable income	91,995	92,089
Income tax rate	19%	19%
Tax	17,479	17,497
Adjustment in respect of income tax of previous years	(50)	396
Tax relief	0	0
Tax due	17,429	17,893

The Company has calculated deferred tax as follows (in CZK thousand):

	2016		2015	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
<b>Deferred tax items</b>				
Difference between net book value of fixed assets for accounting and tax purposes		1,159		1,086
Other temporary differences:				
Allowances for receivables	24,638		20,328	
Reserves	2,174		2,143	
<b>Total</b>	<b>26,812</b>	<b>1,159</b>	<b>22,471</b>	<b>1,086</b>
Net	25,653		21,385	

## 13. Leases

Assets in the form of operating leases as at 31 December 2016 and 31 December 2015 (in CZK thousand):

Description	Lease period in months	Lease amount in 2016	Lease amount in 2015	Owner's acquisition cost
12 passenger cars	48	1,600	1,860	6,455

## 14. Commitments and contingencies

The Company recorded commitments from import factoring in the amount of CZK 6,011 thousand (2015: CZK 14,458 thousand).

## 15. Fee of the statutory auditor

Fees paid to the Company's statutory auditor for annual audit of financial statements and other assurance services amounted to CZK 676 thousand as of 31 December 2016 (2015: CZK 673 thousand).

## 16. Other operating expenses and income

Other operating expenses totalled CZK 124,669 thousand as at 31 December 2016 (2015: CZK 322,726 thousand). The most significant items of Other operating expenses consist of expenses from the sale of receivables in total amount of CZK 6,567 thousand (2015: CZK 199,827 thousand), expenses related to receivables reassignments in the total amount of CZK 106,199 thousand (2015: CZK 90,716 thousand) and the receivables write-offs in total amount of CZK 2,079 thousand (2015: CZK 23,095 thousand).

Other operating income totalled CZK 123,282 thousand as at 31 December 2016 (2015: CZK 298,942 thousand). The most significant items of Other operating income consist of revenues from the sale of receivables in the total amount of CZK 7,915 thousand (2015: CZK 198,965), revenues related to receivables reassignments in the total amount of CZK 106,199 thousand (2015: CZK 90,716 thousand), income from contractual penalties in the total amount of CZK 112 thousand (2015: CZK 57 thousand), charges related to changes in contractual terms, applications for the provision of factoring services, entry and monitoring fees and other income amounting to CZK 9,056 thousand (2015: CZK 9,131 thousand).

## 17. Financial expenses and income

Financial expenses primarily comprise the following items (in CZK thousand):

	As at 31 December 2016	As at 31 December 2015
Interest expense from loan facilities	19,151	18,365
Other financial expenses	39,726	120,773
– Exchange rate losses	34,893	116,053
– Operating insurance	355	1,035
– Banking expenses	3,310	3,420
– Other charges	1,168	265
<b>Total financial expenses</b>	<b>58,877</b>	<b>139,138</b>

Financial income primarily comprises the following items (in CZK thousand):

	As at 31 December 2016	As at 31 December 2015
Interest on pre-financed purchased receivables	88,760	82,224
Exchange rate gains	34,541	115,823
Income from non-current financial assets (Protos – dividend)	36,252	23,646
<b>Total financial income</b>	<b>159,553</b>	<b>221,693</b>

## 18. Staff costs

The average headcount, management members and staff costs for 2016 and 2015 are as follows:

Overview of staff costs (in CZK thousand):

	2016		2015	
	Total headcount	Management	Total headcount	Management
Average headcount	42	3	41	3
Wages and salaries	31,069	6,542	29,487	5,858
Social security and health insurance	11,412	2,088	10,787	1,584
Other social costs	1,765	204	1,720	1,272
<b>Total staff costs</b>	<b>44,245</b>	<b>8,834</b>	<b>41,994</b>	<b>8,714</b>

The headcount is based on the average adjusted number of employees.

Based on an agreement with the Company, the Board of Directors members use company cars.

## 19. Transactions with related parties

The Company reported revenue in the form of dividends paid by Protos totalling CZK 36,252 thousand in 2016 (2015: CZK 23,646 thousand).

The services rendered by Komerční banka, a.s. to the Company in 2016 primarily comprised (in CZK thousand):

	As at 31 December 2016	As at 31 December 2015
Financial expenses	23,006	21,833
Fee for using KB's distribution network	6,824	6,300
Trademark use	1,500	1,500
<b>Other services provided by Komerční banka, a.s.</b>	<b>8,055</b>	<b>8,527</b>

Financial expenses comprise primarily the interest on loans provided in the amount of CZK 19,151 thousand (2015: CZK 18,365 thousand), banking fees in the amount of CZK 3,310 thousand (2015: CZK 3,420 thousand), and other services provided by Komerční banka, a.s. in the amount of CZK 545 thousand (2015: CZK 49 thousand).

Other Komerční banka services comprise mainly expenses related to leases of premises for regional offices, such as energy, water supply, heating, telephone charges and lease payments, and expenses related to advisory and consulting services, training and IT services.

The Company realised no fixed asset purchase from or a sale to Komerční banka, a.s. in 2016 and 2015.

## 20. Subsequent events

No significant events that would have a material impact on the financial statements occurred subsequent to the balance sheet date.

## 21. Cash flow statement

The cash flow statement was prepared by indirect method.

Prepared on:  
20 March 2017

Signature of the reporting entity's  
statutory body:



Adam Fiedler

Person responsible  
for bookkeeping (name, signature):



Ivana Náprstková

Person responsible for preparation  
of the financial statements (name, signature):



Ivana Náprstková



Eva Březinová

# Report on Relations Among Related Entities for the Year Ended 31 December 2016

(hereinafter the “**Report on Relations**”)

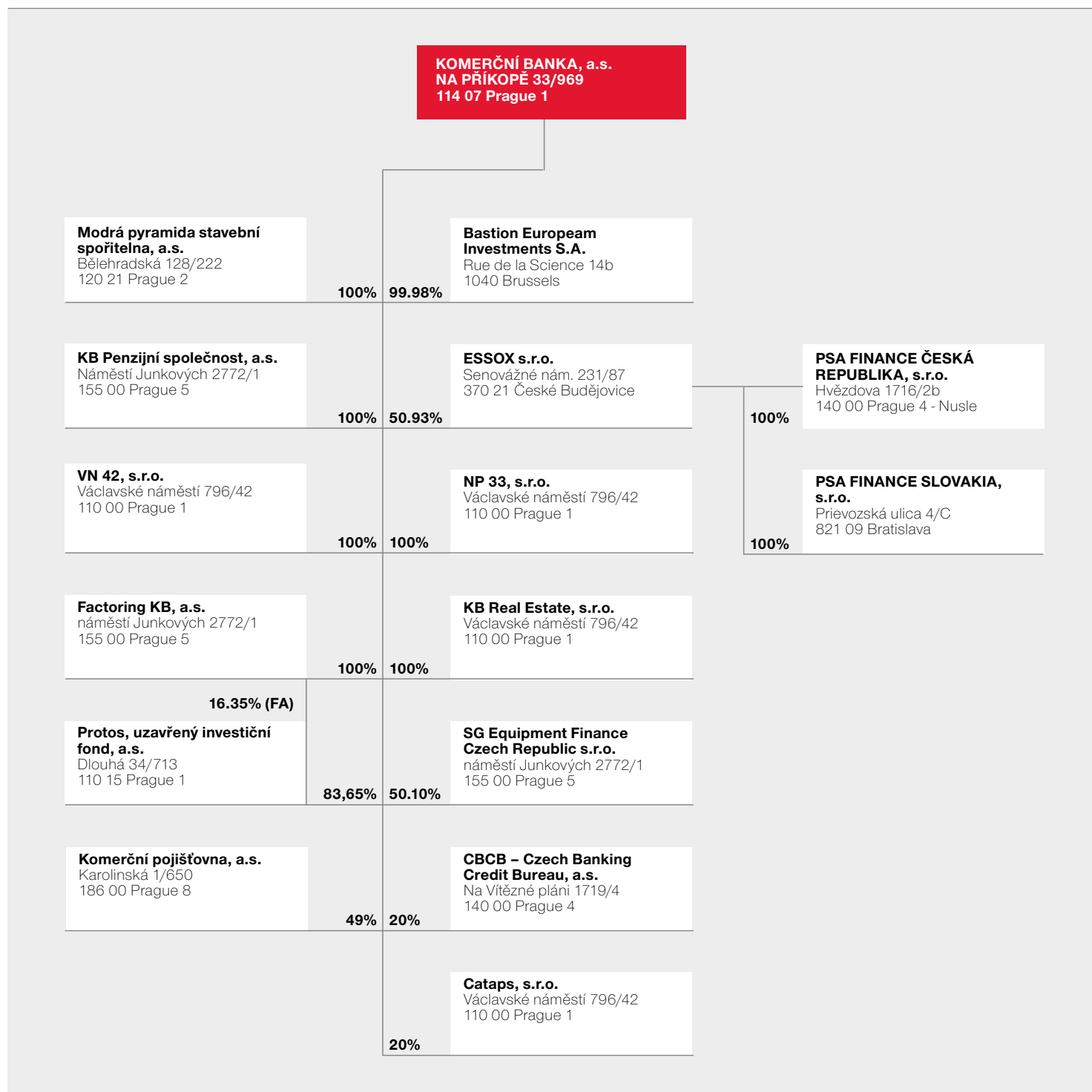
**Factoring KB, a.s.**, with its registered office in Prague 5, náměstí Junkových 2772/1,, 155 00, Corporate ID: 25148290, incorporated in the Register of Companies maintained by the Municipal Court in Prague, Section B, File 4861, (hereinafter “the Company” or “FKB”), is part of a business group (holding company) in which the following relations between FKB and its controlling entity and further between FKB and other entities controlled by the same controlling entity (hereinafter “related entities”) exist.

This report on relations was worked out in accordance with the provision of Section 82 et seq. of Act No. 90/2012 Coll., on Business Corporations and Cooperatives (the Business Corporations Act) for the year ended 31 December 2016, that is, from 1 January 2016 to 31 December 2016 (hereinafter the “reporting period”).

## I. Introduction

### The structure of the relations between the entities of the business group

In the period from 1 January 2016 to 31 December 2016, the Company was a member of the Société Générale S.A. Group, with its registered office at 29, BLD Haussmann, 75009 Paris, France, registration number in the French Register of Companies: R.C.S. Paris B552120222 (1955 B 12022) (hereinafter “SG” or “SG Paris”). The structure of the relations between the members of the SG Group is shown in the annex.



Note: The above are mentioned % of the equity, which can differ from the % of voting rights.

During the course of the 2016 reporting period, FKB entered into arrangements with the following related entities: <sup>1)</sup>

Company	Registered office	SG's share of voting power
Komerční banka, a.s.	Prague 1, Na Příkopě 33, 114 07, Czech Republic	60.735%
Modrá pyramida stavební spořitelna, a.s.	Prague 2, Bělehradská 128, No.p. 222, 120 21, Czech Republic	100%
ALD Automotive s.r.o.	Prague 10, U Stavoservisu 527/1, 100 40, Czech Republic	100%
Protos, uzavřený investiční fond, a.s.	Prague 1, Dlouhá 34, 110 15, Czech Republic	100%
Compagnie Générale d'Affacturage	Levallois-Perron Cedex, rue de Villiers 70, 92532, France	100%
SG FACTORING SPA	Milano, Via Trivulzio 7, 20146, Italy	100%
BRD – Groupe Société Générale	Bucuresti, Bd.Ion Michalache, nr 1-7, Turn BRD, 011171, Romania	60.17%

1) These are companies controlled by SG Paris, both in direct and indirect line within the meaning of Section 74 (1) of the Business Corporations Act.

## The role of the Company within the Group

Factoring KB, a.s. (hereinafter "the Company" or "FKB") is a fully owned subsidiary of Komerční banka, a.s. (hereinafter "KB"). KB is the parent company of the Komerční banka financial group (hereinafter also the "Group") and an active member of the Société Générale Banque financial group (hereinafter the "SG Group"). Within the Group, FKB provides a range of factoring services comprising purchase, administration, collection and financing of account receivables, including the takeover of risks related to the insolvency or protracted default of domestic or foreign debtors. The Company offers its services predominantly to Czech businesses and, through its membership in Factors Chain International (the largest network of factoring organizations in the world), it also provides selected services to other members of this international coalition.

As part of the Group, KB provides FKB trade mark licenses, which FKB uses for its business activities. KB also provides FKB with universal banking and financing services, IT services, data processing and consultancy in the area of human resources and risk management, including credit financial risks, rental and sub rental of buildings and parking places. FKB products are sold using KB's sales network. As part of its management and control system applied by the Group, FKB provides KB with data, which are used for preparation of consolidated financial statements, consolidated reporting to regulators or for publication, budgets, business plans, business continuity plan, and anti-money laundering measures.

Within the framework of the international association Factors Chain International (hereinafter also the "FCI"), the Company provides services to other companies - members of the Societe Generale Group including CGA – Compagnie Generale d'Affacturage based in France and BRD – Groupe Societe Generale with the seat in Romania, with whom the Company has signed a bilateral FCI Interfactor agreement. Under this agreement, the Company acts both in the role of the so-called Import factor, providing dunning and collection services and guarantees against insolvency or protracted default of domestic debtors (or debtors based in the Slovak Republic), and in the role of the so-called Export factor, when it uses the same services provided by Import factors in the countries of debtors, who cooperate with the Company's clients using FCI Export factoring.

## Method and Means of Control

Komerční banka, a.s., as the 100% shareholder, exerts its influence on the activity of FKB through the general meeting; KB had three representatives in the three-member Supervisory Board of FKB in 2016.

Within the meaning of Section 79 of the Business Corporations Act, KB is the controlling entity in respect of FKB. The control is formally exercised by the implementation of KB's methodologies, in particularly in the area of risk management and reporting. Controlling is also exercised on an informal level, in the form of consultancy on individual areas of the Company's activities.

## II. Arrangements within the Group

### A. Important Arrangements Made during the Reporting Period at the Initiative or in the Interest of the Controlling Entity or Entities Controlled by the Controlling Entity and Relating to Assets Exceeding 10% of Equity

The Annual General Meeting of Protos, closed-end investment fund, Inc. held on 6 December 2016, approved the reduction reserve fund by CZK 450,000,000. The amount of CZK 450,000,000 was distributed to shareholders in proportion to their participation in the share capital of the company. Factoring KB, Inc. due to a reduction reserve fund PROTOS has collected an amount of CZK 73,572,228.44.

### B. An Overview of Mutual Contracts Between the Controlled Entity and the Controlling Entity or Between Controlled Entities

Title of the contract (or subject matter of the contract – if not clear from the title)	Contracting Party	Date of contract conclusion
Framework Contract on the Providing of Financial Services Reg. No. 9900021839000, incl. its amendment (5)	Komerční banka, a.s.	31 March 2014
Change of interest rate on overdraft – Framework Contract on Rendering of Financial Services Reg. No. 9900021839000 (12)	Komerční banka, a.s.	22 January 2016, 22 February 2016, 31 March 2016, 22 April 2016, 30 May 2016, 30 June 2016, 25 July 2016, 30 August 2016, 29 September 2016, 25 October 2016, 25 November 2016, 27 December 2016
Contract on Opening and Maintaining of Current Accounts in CZK with Komerční banka, a.s., incl. amendments (6)	Komerční banka, a.s.	5 August 1997
Contract on Opening and Maintaining of Current Accounts in CZK with Komerční banka, a.s., incl. amendments (7)	Komerční banka, a.s.	28 August 1998
Contract on Opening and Maintaining of Current Accounts in USD with Komerční banka, a.s., incl. amendments (7)	Komerční banka, a.s.	24 September 1998
Contract on Opening and Maintaining of Current Accounts in EUR with Komerční banka, a.s., incl. amendments (8)	Komerční banka, a.s.	25 February 1999
Contract on Opening and Maintaining of Current Accounts in GBP with Komerční banka, a.s., incl. amendments (6)	Komerční banka, a.s.	4 June 2002
Contract on Opening and Maintaining of Current Accounts in PLN with Komerční banka, a.s., incl. amendments (5)	Komerční banka, a.s.	24 August 2005
Contract on Opening and Maintaining of Current Accounts in CHF with Komerční banka, a.s., incl. an amendment (1)	Komerční banka, a.s.	6 June 2013
Contract on Opening and Maintaining of Current Accounts in EUR with Komerční banka, a.s., incl. an amendment (1)	Komerční banka, a.s.	28 February 2012
Contract on Opening and Maintaining of Current Accounts in EUR with Komerční banka, a.s., incl. amendments (3)	Komerční banka, a.s.	7 June 2012
Framework Contract for Dealing on the Financial Market	Komerční banka, a.s.	22 December 2011
Contract on using the direct banking services, incl. amendments (1) <sup>2)</sup>	Komerční banka, a.s.	31 October 2002
Contract on Individual Pricing, incl. amendments (2)	Komerční banka, a.s.	31 July 2012
Framework Agreement on the Rental of Employee-driven Motor Vehicles	Komerční banka, a.s.	22 September 2014
Contract on Providing of Postal Services and the Disposal of Duplicate Documentation	Komerční banka, a.s.	31 October 2013
Contract on Providing of Services – BI	Komerční banka, a.s.	27 December 2012
Agreement – services: data transfer – current accounts	Komerční banka, a.s.	1 August 2013
Framework Service Agreement – IT Infrastructure	Komerční banka, a.s.	8 September 2010
License Agreement on Usage of Database	Komerční banka, a.s.	1 April 2011
Separate Agreement No. 1, Connectivity Services (IT Process Procedure)	Komerční banka, a.s.	1 December 2012
Partial Agreement No. 2, Physical Hosting of Equipment, (IT Process Procedure), incl. amendments (1)	Komerční banka, a.s.	1 December 2012
Partial Agreement No. 3, IT Infrastructure Hosting, (IT Process Procedure)	Komerční banka, a.s.	1 December 2012
Partial Agreement No. 4, VoIP, (IT Process Procedure)	Komerční banka, a.s.	31 December 2012



Title of the contract (or subject matter of the contract – if not clear from the title)	Contracting Party	Date of contract conclusion
Partial Agreement No. 5, Email, (IT Process Procedure)	Komerční banka, a.s.	25 May 2015
Partial Agreement No. 6, Fileshare, (IT Process Procedure)	Komerční banka, a.s.	29 February 2016
Partial Agreement No. 7, End User Workplace (EUV), (IT Process Procedure)	Komerční banka, a.s.	18 January 2016
Partial Agreement No. 8, Service Desk, (IT Process Procedure)	Komerční banka, a.s.	18 January 2016
Partial Agreement No. 9, Identity and Access, (IT Process Procedure)	Komerční banka, a.s.	18 January 2016
Partial Agreement No. 10, Platform hosting, (IT Process Procedure)	Komerční banka, a.s.	18 January 2016
Partial Agreement No. 11, Disaster Recovery, (IT Process Procedure)	Komerční banka, a.s.	18 January 2016
Contract on Provision of services – Information Security Services	Komerční banka, a.s.	27 October 2015
Cooperation Agreement No. 0000020447/0000 + amendment (1)	Komerční banka, a.s.	31 December 2012
Service Level Agreement – cooperation in the area of accounting and reporting	Komerční banka, a.s.	26 November 2014
Contract on Custody Services	Komerční banka, a.s.	29 August 2007
Contracts on Usage of KB Safe-deposit Box (8), terminated (5)	Komerční banka, a.s.	11 November 2003, 30 June 2004, 31 January 2006, 2 April 2008, 26 May 2009, 5 June 2009, 13 August 2009, 26 October 2016, 13 December 2016
Contracts on Issue and Usage of a Payment Cards (6), incl. amendments (5), terminated (1)	Komerční banka, a.s.	30 March 2011, 16 January 2012, 10 June 2013, 18 September 2014, 16 December 2014, 8 January 2016
Contract on Complementary Services – Profi Merlin (2), terminated (1)	Komerční banka, a.s.	16 July 2010, 8 January 2016
Contract on Rental of Non-residential Premises, Movables and Payment of Relating Services (3) + amendment (1)	Komerční banka, a.s.	8 June 2006, 18 June 2008, 19 December 2011, 30 September 2015
Contract on Rental of Non-residential Premises, Movables and Payment of Relating Services + amendment (1)	Komerční banka, a.s.	30 August 2012, 30 December 2014
Contract on Sublease of Parking Place (3)	Komerční banka, a.s.	28 August 2012, 1 January 2013, 23 March 2015
License Agreement – Logo + amendment (1)	Komerční banka, a.s.	20 December 2004, 29 January 2015
Contract for the payment of premiums and payment of compensation insurance broker	Komerční banka, a.s.	17 June 2016
Agreement on Cooperation in the Performance of Contract on Employees Group Risk Insurance No. 3280000000, in the wording of Amendment No. 1	Komerční banka, a.s.	24 August 2012
Agreement on Cooperation in the Implementation of Group Insurance Agreement of Work-related Accident and Occupational Disease Insurance for Members of Board of Directors and Administrators of the Financial Group of Komerční banka/Société Générale No. 334000000	Komerční banka, a.s.	26 September 2016
Mutual Cooperation Agreement + amendment (1) – providing banking services to employees	Komerční banka, a.s.	1 August 2007, 1 July 2010
Agreement – Outsourcing of HR Services (excluding Payroll) KB Agr. No. 20596/0000 + amendment (2)	Komerční banka, a.s.	1 January 2013, 1 October 2013, 31 March 2016
Service Contract – Outsourcing (HR services) + amendment (1)	Komerční banka, a.s.	4 January 2010, 1 April 2016
Cooperation Agreement – job vacancies (staffing)	Komerční banka, a.s.	28 April 2010
Distribution Agreement + amendment (1)	Komerční banka, a.s.	1 December 2008, 10 January 2013
Framework Agreement on Personal Data Processing	Komerční banka, a.s.	1 December 2008
Confidentiality Agreement	Komerční banka, a.s.	9 August 2010
Rules for cooperation between KB and members of the group in the field of sourcing and purchasing	Komerční banka, a.s.	4 October 2010
Agreement on the Organization of Periodic Control (internal audit services) + amendment (1)	Komerční banka, a.s.	5 May 2011
Contract on Providing of Services – Access to the C4M, incl. amendment (1)	Komerční banka, a.s.	24 May 2011, 29 May 2012
Contract on Providing of Services in the Area of Work Safety, Environmental Protection and Fire Protection	Komerční banka, a.s.	30 January 2015
Framework Contract – Rental of Movables (full service leasing)	ALD Automotive s.r.o.	21 April 2008
Contracts on Rental of Movable Property (full service leasing) (14), terminated (9)	ALD Automotive s.r.o.	18 July 2013, 8 January 2014, 10 April 2014, 14 May 2015, 10 December 2015, 18 December 2015, 20 April 2016

Title of the contract (or subject matter of the contract – if not clear from the title)	Contracting Party	Date of contract conclusion
Contract on Providing of Preferential Conditions for the Employees of Factoring KB, a.s. – Participants in the Housing Savings Scheme in MPSS	Modrá pyramida stavební spořitelna, a.s.	1 November 2013
FCI Interfactor Agreement	Compagnie Générale d'Affacturage	2 April 2003
FCI Interfactor Agreement	SG FACTORING SPA	22 May 2013
FCI Interfactor Agreement	BRD – Groupe Société Générale	21 April 2015

2) Not included technical amendments to increase the limit

### C. An Assessment of the Advantages and Disadvantages Arising from the Relations within the Group and an Assessment of Harm

#### The advantages and disadvantages arising from the relations within the business group

The whole Group takes advantage of mutual synergistic effects including product pooling, a strong brand and know-how. In the business area FKB benefits from its participation in KB's network, which is one of the distributors of FKB's products. In the area of financial, credit and operational risks management, the processes and tools developed within the Group represent advanced solutions that enable an efficient response to market changes. The advantages of the Company's integration in the business group contribute to the Company's positive financial results.

#### Harm assessment

The Company's Board of Directors has reviewed all arrangements put in place between the Company and the companies that were part of the Group during the 2016 reporting period and states that the Company incurred no harm as a result of any contracts, agreements or any other legal acts made or implemented by the Company or as a result of any other influence otherwise exerted by KB in the reporting period.

In Prague on 20 March 2017

#### FACTORING KB, a.s.



**Adam Fiedler**  
Chairman of the Board



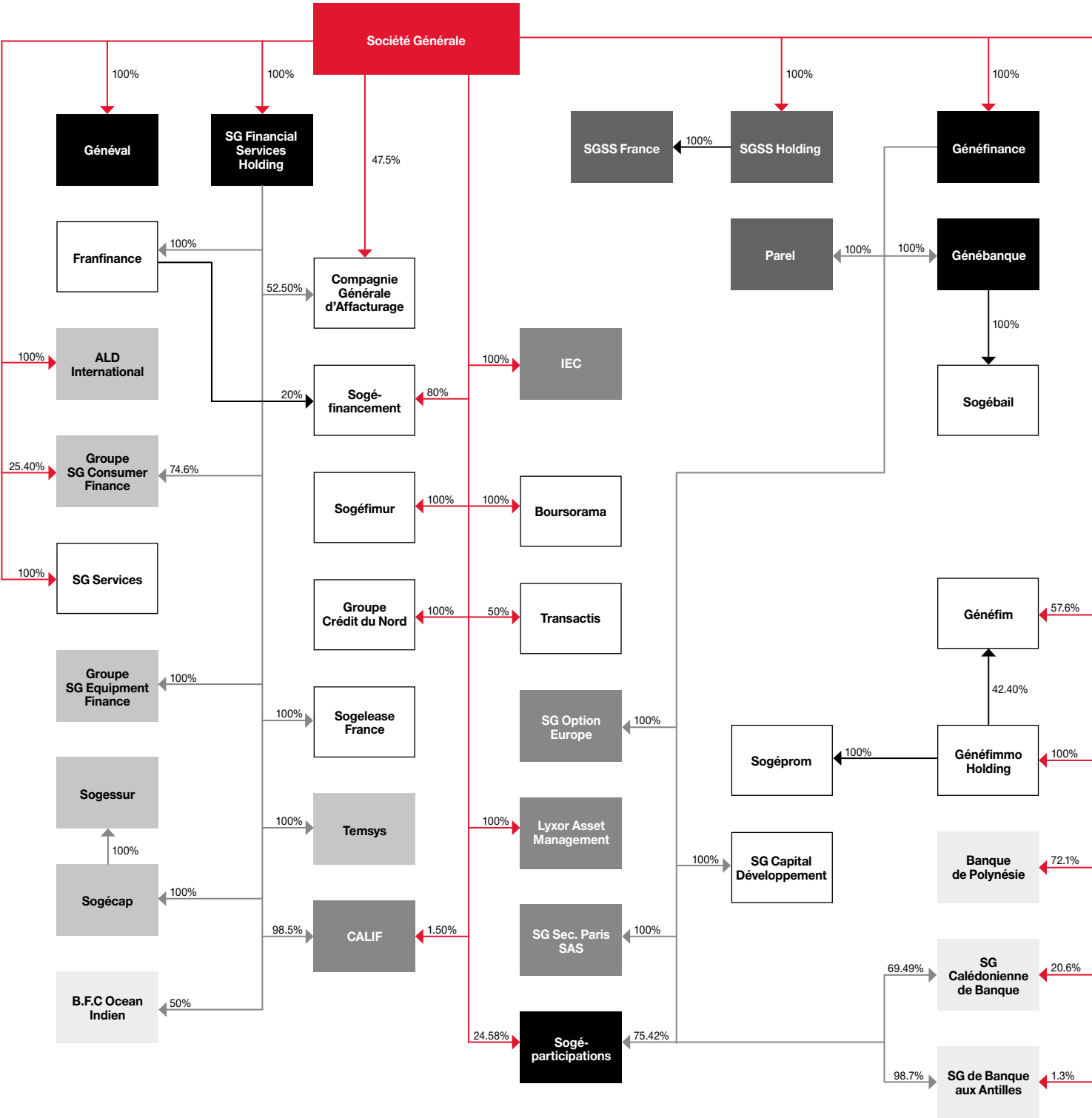
**Věra Jahnová**  
Member of the Board



**Eva Březinová**  
Member of the Board

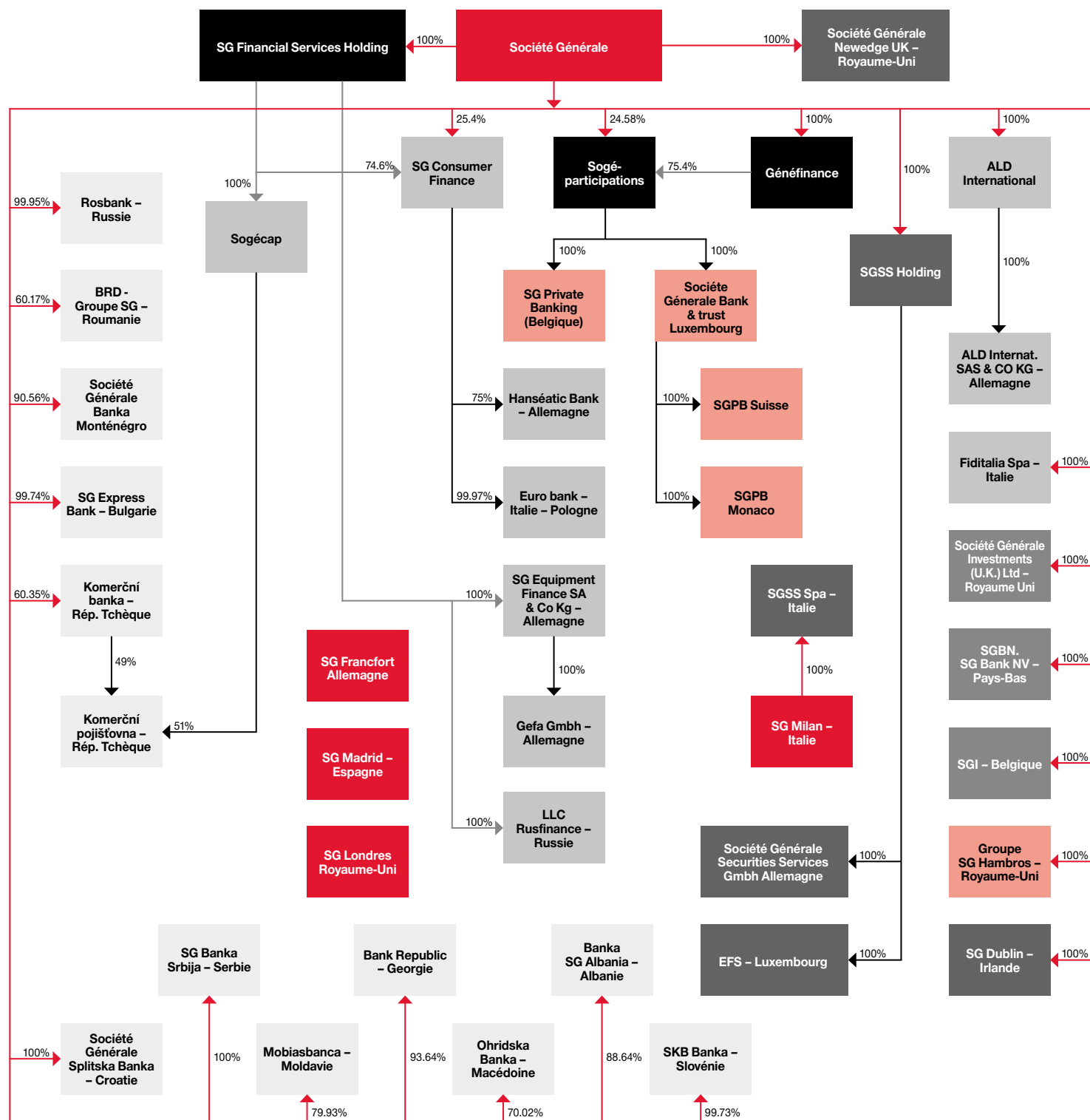
The structure of relationships SG Group – % of the share capital

FRANCE



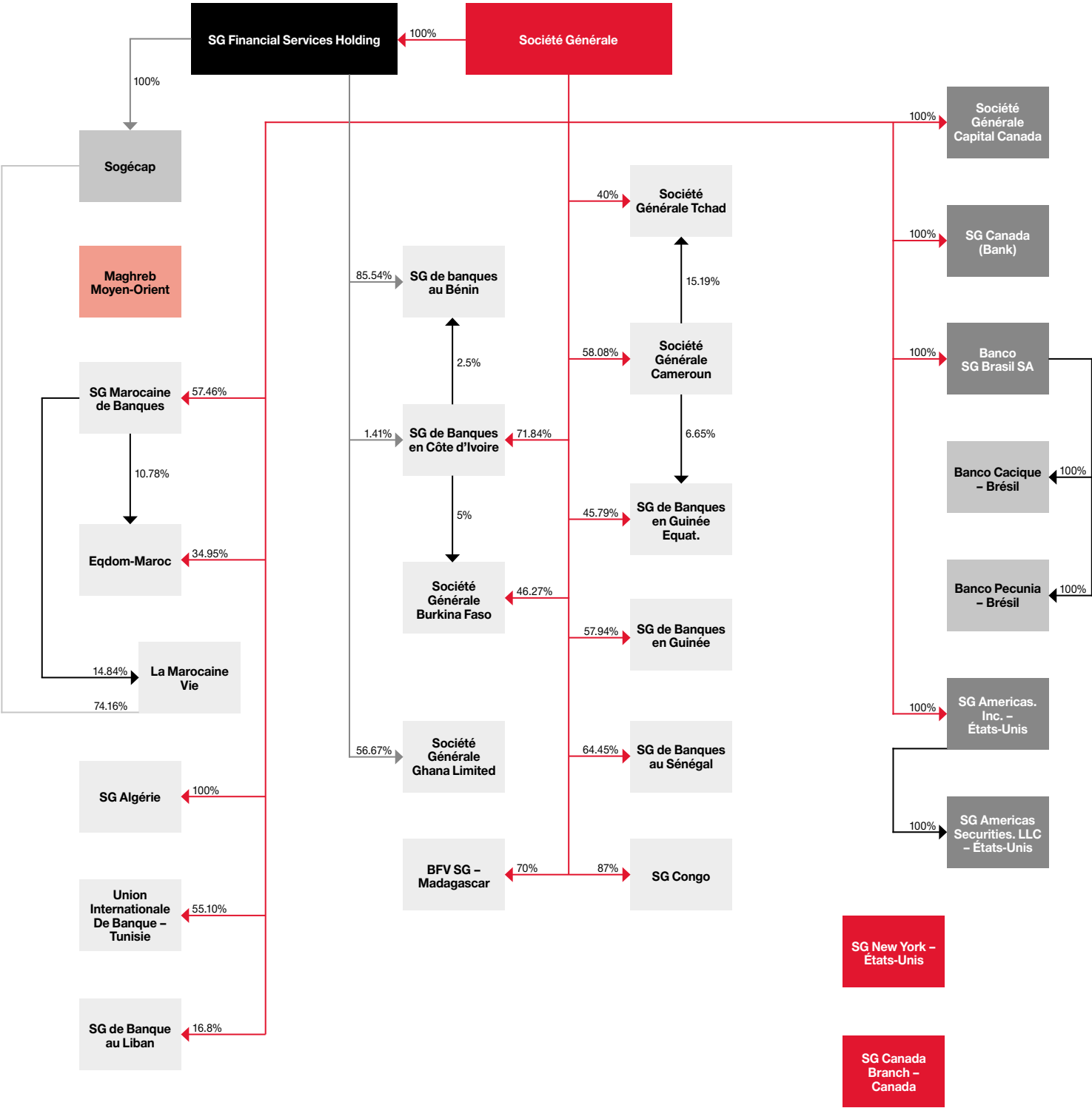
Note: Percentage of share capital and participation in voting rights may differ

## EUROPE



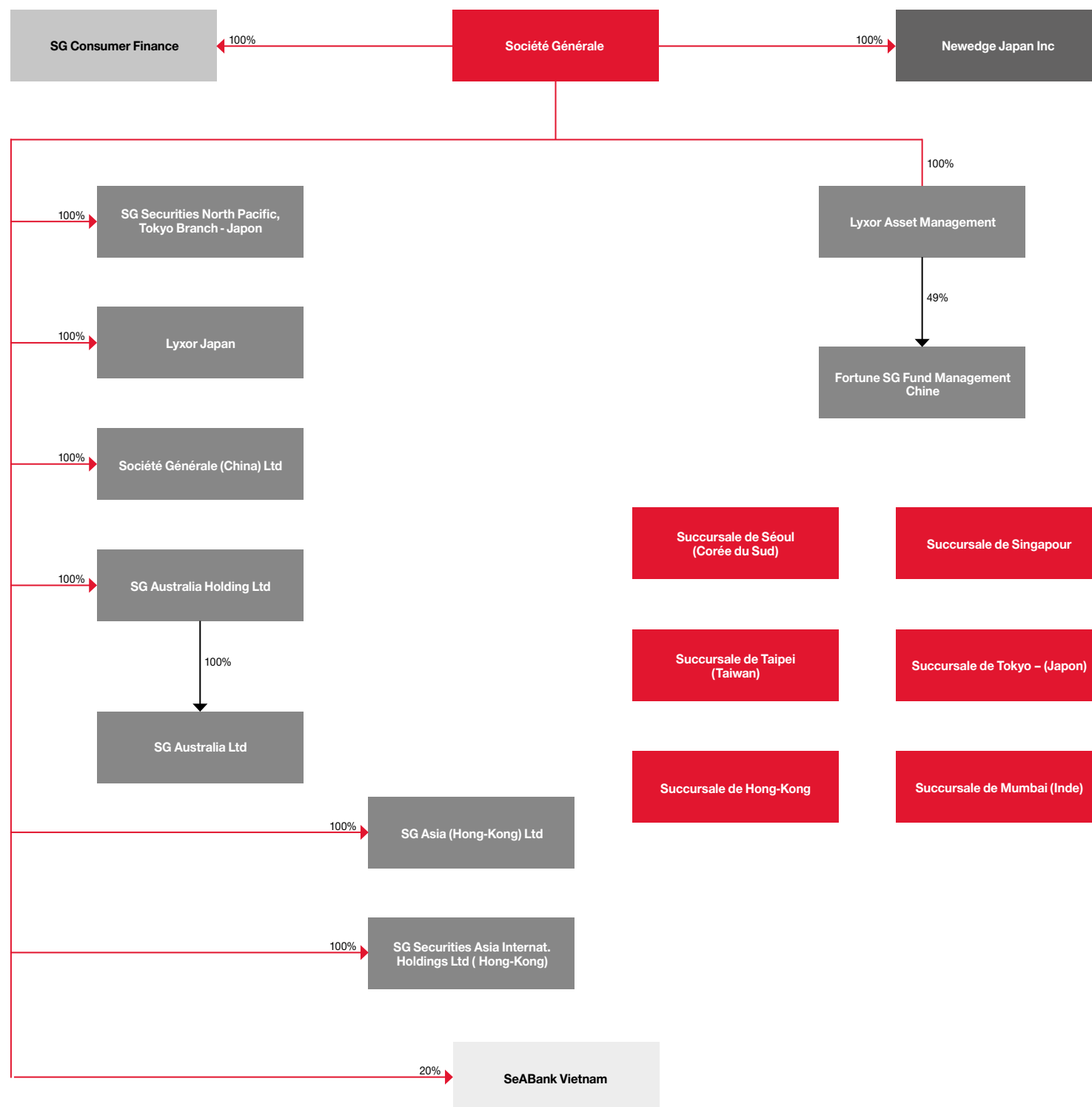
Note: Percentage of share capital and participation in voting rights may differ

AFRICA AND AMERICAS



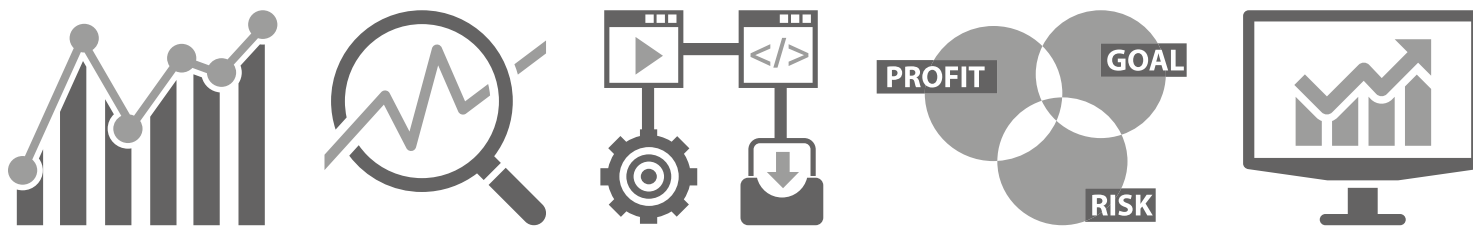
Note: Percentage of share capital and participation in voting rights may differ.

## ASIA AND AUSTRALIA



Note: Percentage of share capital and participation in voting rights may differ.





NA PARTNERSTVÍ ZÁLEŽÍ

