



Prospectus

Fixed Rate Bonds up to CZK 5,400,000,000 due 2022

This document constitutes the prospectus (the **Prospectus**) in respect of the bonds up to the aggregate principal amount of CZK 5,400,000,000 (in words: five billion four hundred million Czech crowns) (the **Bonds** or the **Issue**) issued by **Severomoravské vodovody a kanalizace Ostrava a.s.**, a joint-stock company incorporated under the laws of the Czech Republic, with its registered office at Ostrava, 28. října 1235/169, Mariánské Hory, Postal Code: 709 00, Identification No. 451 93 665, registered with the Commercial Register kept by the Regional Court in Ostrava, Section B, Insert No. 347 (the **Issuer** or **SmVaK** or the **Company**). The Bonds will bear fixed rate interest payable annually on 17 July. The Issue Date of the Bonds is 17 July 2015. The Bonds will mature on 17 July 2022. The ISIN of the Bonds assigned by the Central Depository (In Czech: *Centrální depozitář cenných papírů, a.s.*) is CZ0003512824.

If needed, the Issuer will update this Prospectus in the form of supplements. Each such supplement will be approved by the Czech National Bank (the **CNB**) and published in a way that the Issue, the listing of which on the regulated market is applied for, is listed on the regulated market on the basis of an up-to-date security prospectus. For the purpose of listing the Bonds on the regulated market, this Prospectus will be valid for 12 (twelve) months from the date of its approval by the CNB. The Issuer does not intend to make any public offering of the Bonds under the applicable legislation, nor does it intend to entrust any third person with public offering of the Bonds.

The Bonds are expected to be assigned a "BBB-" rating by Fitch. Fitch Ratings Limited (**Fitch**) is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website (<http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

An application has been made for the Bonds to be admitted to listing on the regulated market (in Czech: *Regulovaný trh*) of Burza cenných papírů Praha, a.s. (the **Prague Stock Exchange** or the **PSE**). The Bonds are expected to be admitted to trading on the PSE on or around the Issue Date.

The Prospectus, which includes the wording of the Terms and Conditions (as defined in the Prospectus), has been approved by the CNB's decision on 14 July 2015, ref. no. 2015/078294/CNB/570, file no. S-Sp-2015/00021/CNB/572, which became final and effective on 15 July 2015. The date of this Prospectus is 13 July 2015.

This Prospectus does not constitute any public or any other offer to purchase any Bonds. The persons interested in the purchase of any Bonds should make their investment decision on the basis of information provided not only in this Prospectus, but also in its supplements (if any).

The distribution of this Prospectus, as well as any offer, sale or purchase of the Bonds, are restricted by law in some jurisdictions. The Bonds will not be registered, permitted or approved by any administrative or other authority in any jurisdiction with the exception of the CNB and, accordingly, no placement may be possible outside of the Czech Republic except in accordance with certain exemptions (see also Important Notice).

Joint Coordinators

ING

Komerční banka, a.s.

Joint Lead Managers

ING

Komerční banka, a.s.

SMBC Nikko

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IMPORTANT NOTICE

*This Prospectus represents a prospectus of the Bonds within the meaning of Article 5 of Directive 2003/71/EC of the European Parliament and of the Council, as amended (the **Prospectus Directive**) and Section 36 of Act No. 256/2004 Coll., the Capital Market Act, as amended (the **CMA**).*

The distribution of this Prospectus, as well as any offers, sale or purchase of the Bonds, are restricted by law in some jurisdictions. Neither the Bonds nor the Prospectus related thereto will be at the instance of the Issuer listed, registered, permitted, recognised or approved by any administrative or other authority in any jurisdiction with the exception of the CNB. All persons in possession of this Prospectus will be responsible for observing any restrictions relating to any offer, purchase or sale of the Bonds and the possession and distribution of any documents relating to the Bonds in all relevant jurisdictions.

*The Issuer would like to draw the attention of potential investors to the fact that the Bonds have not been and will not be registered under the U.S. 1933 Securities Act, as amended (the **U.S. Securities Act**) or by any securities commission or any other authority of any State of the United States and therefore will not be offered, sold or transferred within the United States or to U.S. residents (as defined in Regulation S implementing the U.S. Securities Act) except pursuant to an exemption from the registration duty under the U.S. Securities Act or in transactions not subject to registration under the U.S. Securities Act.*

*In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each a **Relevant Member State**), each Joint Lead Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Bonds which are the subject of the offering contemplated by this Prospectus to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Bonds to the public in that Relevant Member State:*

- (a) following the date of publication of a prospectus in relation to such Bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus and the Issuer has consented in writing to its use for the purpose of that offer;*
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;*
- (c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the Joint Lead Managers; or*
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,*

provided that no such offer of Bonds referred to in (b) to (d) above shall require the Issuer or any Joint Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

*For the purposes of this provision, the expression an offer of Bonds to the public in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression **Prospectus Directive** means*

Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

*The Issuer further wishes to point out that the Bonds will not be offered or sold in the United Kingdom of Great Britain and Northern Ireland (the **United Kingdom**) by way of distributing any documents or notices except for offers to persons authorised to trade with securities on their own or on someone else's account in the United Kingdom or under such circumstances that do not constitute a public offer of securities under the 1985 Companies Act, as amended. All legal acts pertaining to the Bonds made in the United Kingdom, from the United Kingdom or otherwise associated with the United Kingdom in any manner whatsoever will also be performed in compliance with the 2000 (FSMA 2000) legislation governing financial services, including the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the **Order**), and with the Prospectus Regulations 2005, as amended. In particular, this Prospectus may only be distributed to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Order or (b) high net worth entities falling within article 49(1) of the Order (all such persons together being referred to as relevant persons). Any person who is not a relevant person should not act or rely on this document or any of its contents.*

The persons interested in the purchase of any Bonds should make their investment decision on the basis of information provided in this Prospectus, including its supplements, and in conjunction with all documents which are deemed to be incorporated herein by reference (see the "Information Incorporated by Reference"). This Prospectus should be read and construed on the basis that such documents are incorporated and form part of the Prospectus. In case of any discrepancy between the information provided in this Prospectus and its supplements, the last-published information will be valid.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Joint Lead Managers to subscribe for or purchase, any Bonds.

No person has been authorised in connection with the offering of the Bonds to give any information or make any representation regarding the Issuer, the Joint Lead Managers or the Bonds other than as contained in this Prospectus. Any such representation or information must not be relied upon as having been authorised by the Issuer or the Joint Lead Managers. The delivery of this Prospectus at any time does not imply that there has been no change in the Issuer's affairs or that the information contained in it is correct as at any time subsequent to its date.

None of the Issuer or the Joint Lead Managers or any of their respective representatives is making any representation to any offeree or purchaser of the Bonds regarding the legality of any investment by such offeree or purchaser under appropriate legal investment or similar laws. Each investor should consult with his own advisors as to the legal, tax, business, financial and related aspects of a purchase of the Bonds. None of the Joint Lead Managers have independently verified the information contained in this Prospectus. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Managers as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer in connection with the offering of the Bonds. No Joint Lead Manager accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer in connection with the offering of the Bonds or their distribution. The Joint Lead Managers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Bonds or to advise any investor in the Bonds of any information coming to their attention.

The issuer, having taken all reasonable care to ensure that such is the case, accepts the responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. Unless stated otherwise, all information provided in this Prospectus is valid as of the date of this Prospectus. The delivery of this Prospectus at any time after its drafting should not mean

that the information contained therein is correct at any time after the publication of the Prospectus. Moreover, the information included in this Prospectus may be further modified or supplemented by supplements to the Prospectus.

The information included in chapters "Taxation and Foreign Exchange Regulation in the Czech Republic" and "Enforcement of Civil Liabilities against the Issuer" is provided as general information only (is not intended to be comprehensive) that is based on the state as of the date of this Prospectus, and that was obtained from public sources, which have not been processed or independently verified by the Issuer. Moreover, the information contained in these chapters cannot be considered an indicator of future trends due to the significant political, economic and other structural changes in the Czech Republic in the recent years. All potential purchasers of any Bonds should rely exclusively on their own analyses of the factors stated in those chapters and upon the opinion of their own legal, tax and other professional advisors.

Any assumptions and projections concerning the future development of the Issuer, the Issuer's financial or market positions and the scope of the Issuer's business, should not be deemed as representations or binding promises of the Issuer regarding any future events or outcomes, because such future events and outcomes are subject, entirely or in part, to circumstances and events beyond the Issuer's control. Potential investors should make their own analyses of any development trends or projections contained in this Prospectus, and if relevant, conduct further independent investigations, and base their investment decisions on the results of such investigations and analyses.

The Issuer will publish its economic and financial reports within the scope and in accordance with the generally binding legislation and regulations governing the individual official securities markets on which the Bonds are to be listed and will observe its reporting duties.

The Prospectus, all annual reports of the Issuer, copies of any audit reports concerning the Issuer, as well as any documents incorporated in this Prospectus by reference, will be available for inspection, free of charge, to all interested persons on business days during regular office hours from 9 a.m. to 4 p.m. at the Issuer's registered office and at the Specified Office of the Fiscal and Paying Agent. Documents regarding the Issuer will be also available in electronic form on the Issuer's website: www.smvak.cz, by selecting the web-link "Bonds".

Certain numbers contained in this Prospectus have been rounded. Accordingly, there may be slight differences between certain numbers relating to a single information item appearing in several tables of this Prospectus and certain numbers presented as sums in some tables may not be the arithmetic sum of the counted numbers.

The Issuer and the Joint Lead Managers do not intend to make any public offering of the Bonds in the Czech Republic or abroad. The Issuer and the Joint Lead Managers or their authorised persons will offer the Bonds for subscription and purchase exclusively on the basis of one or more exceptions stated in Section 35(2) of the CMA. The nominal value of a Bond exceeds an equivalent of EUR 100,000. The Issuer has not authorised and does not intend to authorise any of the Joint Lead Managers or other persons to conduct a public offering of the Bonds and requests all investors in possession of the Bonds not to make any public offering of the Bonds within the meaning of applicable laws and to observe all statutory restrictions concerning the Bonds offer in the Czech Republic and abroad. This Prospectus does not include a prospectus summary within the meaning of the Prospectus Directive in accordance with Section 36(2) of the CMA.

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RISK FACTORS

Potential investors in the Bonds should familiarise themselves with this Prospectus as whole. The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bonds. All of these factors are contingencies which may or may not occur, but the Issuer is not in a position to express a view on the likelihood of their occurrence.

The factors which are material for the purpose of assessing the market risks associated with the Bonds are also described below. The Issuer believes that the factors described below represent the principal risks inherent in investing in the Bonds, but its inability to pay interest, principal or other amounts on or in connection with the Bonds may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding the Bonds are exhaustive. In particular, additional risks and uncertainties not currently known to the Issuer or currently believed to be immaterial could have a material impact on its business operations. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and in the terms of the Bonds offer and reach their own conclusions prior to making any investment decision.

The order in which the following risk factors are presented is not an indication of the likelihood of their occurrence.

1. Risk factors related to the Issuer

1.1 Regulation-related Risk Factors

General risks related to future regulation

Since the Issuer's core business activities consist of the production and supply of drinking water and the drainage and treatment of wastewater, it is subject to, among others, water pipe and sewage regulations as well as other regulations regarding health, the environment, safety and hygiene. Future regulations and changes in regulations and other legal requirements by the Czech Government or the European Union may require significant changes in the Issuer's business or otherwise affect it in ways that the Issuer cannot predict. Any new regulations that cause the Issuer to restructure or otherwise change its business may have a material adverse effect on its business prospects, operating results and financial standing.

Risks related to required permits and authorizations

The Issuer is subject to various environmental, health and safety laws and regulations governing, among others, (i) drinking water quality; (ii) waste production and storage, waste treatment and use, waste liquidation and transport; (iii) the emission and discharge of hazardous materials into the ground, air or water; and (iv) the decommissioning and decontamination of its facilities and the health and safety of the public and its employees. The Issuer is required to obtain environmental and safety permits and authorizations from various governmental authorities for its operations. Since certain permits require periodic renewal or the review of their conditions, the Issuer cannot predict whether it will be able to renew such permits or whether material changes in permit conditions will be imposed. Therefore, the Issuer may not have been or may not at all times in the future be in complete compliance with such laws, regulations and permits. Violations of these laws, regulations or permits could result in plant shutdowns, fines and/or the commencement of litigation against the Issuer or other sanctions. Other liabilities under environmental laws could be costly to discharge. Environmental liabilities or the failure to comply with environmental laws could also lead to negative publicity and significant damage to the Issuer's reputation.

The procedures for obtaining or renewing these permits and authorizations can be time consuming and complex and may require continual fulfilment of a number of requirements. Accordingly, the Issuer may be required to pay significant amounts to comply with the requirements associated with obtaining or renewing these authorizations. The termination, revocation, suspension or modification of, or a failure, for any reason, to renew, these permits and authorizations in a timely manner could have a material adverse effect on the Issuer's business, operations, financial condition or results as the Issuer will not be able to carry on its current activities in their present form.

Environmental, health and safety laws are complex, change frequently and tend to become more stringent over time. Although the Issuer has budgeted for future capital and operating expenditures to comply with current environmental and health and safety laws, it is possible that any of these laws will change or become more stringent in the future. Therefore, the Issuer's costs of complying with current and future environmental and health and safety laws, and its past or future liabilities, could adversely affect its business or its operating or financial performance.

Furthermore, regulatory bodies have the power to launch proceedings which could lead to the suspension or cancellation of permits or authorizations held by the Issuer or injunctions to suspend or cease certain activities. These measures may be accompanied by fines and civil or criminal sanctions which could have a significant negative impact on the Issuer's reputation, activities, financial position, results or outlook. If the Issuer is unable to recover this expenditure through higher prices, it could adversely affect its operations and profitability.

Risks related to fees paid by the Issuer

Under the applicable legislation, the Issuer is obliged to pay various fees connected to, among others, the offtake of underground water, waste liquidation and air pollution. However, the relevant fees and costs may increase in the future and could adversely affect the Issuer's financial standing and operating results.

Risks related to unexpected tax sanctions or fines

Changes in the interpretation of tax regulations by the tax authorities, the harmonisation of Czech and EU tax law and regulation, extensive time periods related to overdue liabilities and the possible imposition of penalties and other sanctions due to unpaid tax liabilities may result in additional amounts being payable by the Issuer. The payment of such amounts may adversely affect its financial standing and operating results.

Risks related to change of regulation of price determination

The manner of determination of price of drinking water supply and wastewater drainage by the Issuer is in detail regulated by the Czech Government, including the amount of profit which can be generated by the Issuer based on provision of these services. Future changes in these regulations may result in significant changes in the Issuer's availability to reach a certain amount of profit and therefore affect the Issuer and its business in ways that the Issuer cannot predict.

Risks related to the eligibility of financial costs as an Economically Justified Cost in the context of making pricing determinations under Act No. 526/1990 Coll., on Prices, as amended

Drinking water supply and wastewater drainage are among the business areas strictly regulated by the Czech state authorities. In the process of determining the price for the supply of drinking water and wastewater drainage, the Issuer has to adhere to the principles determined by the Ordinance on the Implementation of the Water Pipelines and Sewerage Act, as well as the Price Bulletin regularly issued by the Ministry of Finance of the Czech Republic pursuant to Act No. 526/1990 Coll., on Prices, as amended. The economic regulation

of pricing in the area of water management is based on the principle of the application of economically justifiable costs, proportionate profit and tax. It also depends on the volume of expected water consumption. Only economically justifiable costs, such as appropriate acquisition costs of material directly associated with drinking water supply and wastewater drainage, personnel costs and other direct costs related to the technology used can be taken into consideration in the process of price determination (the **Economically Justified Costs**).

The price per unit of water is calculated on the basis of the following (simplified) formula:

$$\text{Tariff} = \frac{\text{Economically Justified Costs} + \text{Regulated Profit}}{\text{Projected Volumes of Water Supply}}$$

The formula of the abovementioned pricing is determined by the Ministry of Finance of the Czech Republic.

Under the outstanding 5% fixed rate bonds due 2015, ISIN CZ0003501462, issued by the Issuer in the aggregate nominal amount of CZK 2,000,000,000 (in words: two billion Czech crowns), the interest paid by the Issuer is considered to be Economically Justified Costs for the purposes of price determination. However, there can be no assurance that the interest amounts under the Bonds will be considered totally or partially as part of the Issuer's Economically Justified Costs for the purpose of the above formula (as determined by the Ministry of Finance of the Czech Republic) and if they would not be considered as such, it could have a material adverse effect on the Issuer's business.

1.2 Commercial and Business Risk Factors

Risks related to prices of energy and commodities

The Issuer's energy expenses and the prices of other commodities (such as raw water and electrical energy), which are indispensable for its operations and essential business activities, can be subject to significant fluctuations and represent major operating expenses. The expenditures for purchases of raw water account for 14.6% of the Issuer's total annual expenses, whereas the expenditures for purchases of electricity account for 4.1% of the Issuer's total annual expenses. If the Issuer is unable to increase its prices sufficiently to cover such additional costs, a sustained increase in supply costs and/or related taxes could undermine its operations.

Risks related to dependence on the Issuer's suppliers

Because of the specific nature of the Issuer's business, the Issuer only makes use of a limited number of suppliers, especially with respect to the supply of water, waste, electricity, and equipment, and it may therefore be extremely challenging or even unfeasible to substitute these suppliers. Any interruption or limitation of supply or late deliveries of key primary material, technology, or technological support from external suppliers may have an adverse impact on the Issuer's financial performance.

Credit and counterparty risk

Credit risk is the risk of an entity's inability to comply with its financial commitments (debt repayment, breach of guarantees, etc.). Counterparty risk is the risk that an entity will have financial problems due to the inability of its counterparties to duly fulfil their contractual obligations.

The Issuer's activities are exposed to the risks of the failure of its counterparties (customers, suppliers, partners, etc.). These counterparties may default on their obligations and financial commitments to the Issuer (for example, debt repayment, breach of guarantees, etc.) due to bankruptcy, lack of liquidity, operational

failure or other reasons. Such situations might have a negative impact on the Issuer's financial standing and performance. As of 31 December 2014, receivables past maturity accounted for 20.4% compared to the balance of trade accounts payable and other receivables.

Risks related to contemplated expansion

The Issuer's development strategy involves the expansion of its business activities on the national level (i.e., in the Czech Republic) and potentially also on the international level (in Poland and the Slovak Republic). Although the expansion should be conservative and involve smaller acquisitions, given the competitive context, the Issuer may encounter difficulties or be unable to successfully complete the contemplated expansion and this might have a negative impact on its activities and financial standing.

1.3 Market Risk Factors

Risks related to the development of economic conditions in the Czech Republic and decreased demand for the Issuer's services

The Issuer's revenues are connected to the performance of the Czech economy. Its assets and operations are located in the Czech Republic and the Issuer derives its revenues from domestic sales. Changes in economic, regulatory, administrative or other policies of the Czech Government, as well as political or economic developments in the Czech Republic, over which the Issuer has no control, can have material adverse effects. The Issuer can give no assurance that the present or future governments will continue the energy, economic, fiscal, and regulatory policies of former governments. Nor can there be any assurance that changes in such policies will not have a material adverse effect on the Issuer's business, prospects, financial standing or operating results.

In practice, the consumption of drinking water and demand for wastewater drainage per capita in the Czech Republic has been on a continuously downward trend each year. The main reasons for such trend mostly relate to the use of more efficient appliances by end users, as well as efforts to protect the environment and save water.

Furthermore, any adverse demographic developments or behavioural developments of the Issuer's end customers (such as the rationalisation of water consumption and water saving measures by households and industries) in the relevant region can lead to a decrease of demand for the Issuer's products and services and, thus, can negatively affect its profitability.

1.4 Operational and Other Risk Factors

Risks related to investments in facilities and equipment

Although the Issuer regularly invests in the renewal and modernization of its facilities and technical equipment, there is a risk that unexpected but necessary investments may arise. Such need might be caused by the future technical condition of the Issuer's water distribution and sewage systems, which can be affected by operations and natural processes (such as erosion and corrosion). Also, amendments to environmental laws and regulations could result in significant compliance expenditures or investment, which it is not always possible to foresee, despite the implementation of watch systems.

Risks related to unplanned outages

Given the nature of the Issuer's business activities and the complexity of its operations, it is not possible to completely eliminate the risk of unplanned outages, and since the Issuer cannot predict the timing or impact

of these outages with certainty, they may have an adverse effect on its business operations and financial standing.

Third-party health and environmental liability risks

The increasingly broad laws and regulations under which the Issuer operates expose it to greater risks of liability, particularly concerning environmental matters. It may also be required to pay fines, repair damage or undertake improvement work, even when it has conducted its activities with care and in full compliance with operating permits and authorizations.

Some of the Issuer's activities could cause personal injuries, business interruptions or damage to the environment, movable property or real estate. It is the Issuer's general policy to implement the necessary prevention and protection measures and to take out insurance policies that cover its main accident and operational risks. However, these precautions may prove to be insufficient, which could generate significant costs for the Issuer.

Weather-related risks

The Issuer's income can be affected by significant weather changes. For instance, exceptional rainfall may cause a reduction in water consumption and increased costs related to rainwater drainage and therefore have a negative impact on its activities and earnings; hot weather can generate greater water consumption; and cold weather can have negative impact on the network operated by the Issuer and may cause, among others, extra costs for its maintenance.

Risks related to information technologies and information system security

Information systems are indispensable tools for carrying out operational activities and managing the functional departments of the Issuer. The unavailability of the information systems due to accidents or malicious acts could have negative consequences on the quality and even continuity of services delivered internally and the availability, integrity and confidential nature of the Issuer's data and, thus, it could have an impact on its counterparties, including its customers. Such situation might adversely affect the Issuer's profitability.

Risks related to need for qualified personnel

The inability to attract, train or retain qualified personnel could have a material adverse impact on the Issuer's business, operations, financial condition, results and prospects. The Issuer's ability to implement its long-term strategy is supported by the capabilities and performance of its personnel. Loss of key personnel or an inability to attract, train or retain highly-qualified staff required to support its obligations, implement its investment program and develop new business fields, could temporarily affect the Issuer's ability to implement its long-term strategy and could have a material adverse impact on the Issuer's expertise, business, knowhow, operations financial condition, prospects and on the ability to maintain or operate the network or complete infrastructure projects on time or meet strategic objectives.

Insurance risk

The Issuer believes that its insurance policies take into account the nature of the risks incurred by the Issuer and match the current offerings on the insurance market for entities of a similar size that are engaged in similar activities. However, it is still possible that, in certain cases, the Issuer may have to pay large indemnities that are not covered by the existing insurance policies or it may incur significant expenses that will not be fully or sufficiently reimbursed under the insurance policies.

Liquidity risk

A liquidity risk is the risk of a short-term lack of liquid funds for the repayment of the Issuer's due and payable debts, i.e., an imbalance in the structure of the Issuer's assets and liabilities due to different maturity dates of its debts and the portfolio of the Issuer's sources of financing. The Issuer's liquidity may be affected by financial conditions and operating results. As of 31 December 2014, the cash and cash equivalents of the Issuer amounted to CZK 236,550,000.

Litigation and court, administrative or other proceedings

As of the date of issue of this Prospectus, the Issuer is not a party to any judicial, arbitration or other proceedings of material relevance for its financial or operating standing. Nor are there any pending disputes that could jeopardise or have a material adverse effect on the results of the Issuer's operations. The Issuer is not aware of any unresolved disputes. However, the existence of such disputes in the future cannot be ruled out. Moreover, the Issuer may unknowingly be in breach of rights of third parties. An unfavourable outcome of potential litigation concerning potential compensation for damages may affect the Issuer's business activities and future prospects.

Risk of insolvency proceedings

The Issuer is subject to the quite strict insolvency regulations of the Czech Republic which are applicable in the place of its registered seat/centre of main interest.

Pursuant to Act No. 182/2006 Coll., on Insolvency and Insolvency Resolution Methods, as amended (the **Insolvency Act**), a debtor is deemed insolvent if it has multiple creditors and monetary debts more than 30 (thirty) days past due, and is unable to honour them, or if the debtor is over-indebted. An insolvency proceeding may only be initiated upon a petition filed by the debtor or the debtor's creditor. Where insolvency is imminent, only the debtor is authorised to file the insolvency petition.

Despite certain measures designed to protect unsubstantiated and unfounded petitions for the initiation of insolvency proceedings, these cannot be ruled out. An insolvency proceeding is initiated upon the publication of an insolvency petition, usually within 2 hours of its delivery to the insolvency court. From the moment of publication of the insolvency petition until the court decides on it (unless the court rules otherwise), the debtor is obliged to refrain from disposing of the assets of its estate and assets that might form part of the estate if such disposal involves material changes in their composition, utilization, designation or non-negligible diminishment. Pursuant to the Insolvency Act, the court shall decide on an insolvency petition filed by third parties without undue delay; the Insolvency Act does not provide a more precise term for court decision.

Although restrictions on the disposal of assets of the estate do not apply, amongst other things, to acts necessary for the operation of an enterprise in the ordinary course of business or to avert imminent damage, it cannot be ruled out that in the event of the filing of an unsubstantiated insolvency petition against the Issuer, the disposal of its assets may be restricted for an undetermined period of time, which might have an adverse impact on its financial standing and operating results, and by extension, on its ability to pay yields on the bonds, or to repay their nominal value.

The interests of the Issuer's shareholders may conflict with those of investors in the Bonds.

As at the date of this Prospectus, the Issuer is 98.68% owned by AQUALIA CZECH S.L. Situations may arise where the interests of AQUALIA CZECH S.L. may be different from the interests of investors in the Bonds and such differences could have a material adverse effect on the Issuer's business, financial condition

and results of operations, and prospects. The obligations of the Issuer under the Bonds do not benefit from any direct or indirect form of guarantees from its shareholders.

2. Risks concerning Bonds

General Risks related to investments in Bonds

The Bonds may not be a suitable investment for all investors.

Each potential investor in the Bonds must make its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment, on its own or with the help of a financial advisor. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- have access to and knowledge of appropriate analytical tools to evaluate, in the context of its particular financial situation and the investment(s) it is considering, an investment in the Bonds and the impact it will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds;
- thoroughly understand the Terms and Conditions of the Bonds and be familiar with the behaviour of financial markets and any financial variable which might have an impact on the return on the Bonds; and
- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rates and other factors that may affect its investment and its ability to bear the applicable risks.

The investor shall bear all potential risks of unsuitability of the investment in the Bonds.

The Issuer is not strictly limited in accepting additional debt financing

Apart from Article 4.2 "Restriction on Indebtedness" of the Terms and Conditions of the Bonds, there are no major legal restrictions with respect to the volume and conditions of any future unsubordinated debt financing of the Issuer. The acceptance of any additional debt financing could ultimately mean that in the event of an insolvency proceeding, the Bondholders' claims under the Bonds will be satisfied to a lesser extent than in the absence of any such debt financing. Any increase in debt financing of the Issuer also entails a risk that the Issuer may be in default in the performance of its obligations under the Bonds.

Risks related to credit rating of Bonds

As of the date of this Prospectus, the Bonds are expected to be rated "BBB-" by Fitch. The rating assigned by Fitch may not reflect the potential impact of all risks related to structure, market, business activities of the Issuer and other risks and factors that may affect the value of the Bonds. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. In general, European regulated investors are restricted under the Regulation (EC) No. 1060/2009 on Credit Rating Agencies (as amended) (the **CRA Regulation**) from using credit ratings for

regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to the transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended).

The list of registered and certified rating agencies published by the European Securities and Market Authority (ESMA) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated list issued by the European Securities and Market Authority (ESMA).

Risks relating to potential change of the Issuer's financial policy

The rating of the Bonds by Fitch will be granted on the basis of, amongst other things, the Issuer's financial policy of (i) making distributions to its shareholders only to the extent that these distributions do not have to be funded by further borrowings, and (ii) maintaining liquidity of approximately CZK 300,000,000 (whether pursuant to a revolving credit facility or some other funding arrangement) in the future. This financial policy is an internal policy of the Issuer as of the date of the Prospectus and may change in the future. Any such change, to the extent not acceptable to Fitch, might negatively impact the rating of the Bonds.

Interest Rate Risk

Investment in the Bonds which bear interest at a fixed rate involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds. For instance, in general, in case that the market interest rates rise, prices of fixed-rate bonds fall.

Liquidity Risk

It is impossible to estimate the nature and scope of any secondary bond market, and potential investors in the Bonds should consider the expected liquidity of the Bonds. Regardless of any listing of the Bonds, it cannot be guaranteed that the Bonds in fact will be actively traded on such regulated market, and there is no warranty that a sufficiently liquid secondary market with the Bonds will be formed, or if such market is formed, that such secondary market will last. The fact that the Bonds will be listed on a regulated market does not necessarily have to result in a higher level of their liquidity; whereas, in the case of unlisted bonds, it may be difficult to evaluate them, which may negatively affect their liquidity. Insufficient liquidity of the Bonds may prevent the Bondholders from selling them on the market at all, or for a price below their original investment.

The value of Bonds may be affected by legislative changes

The rights and obligations attached to Bonds are based on Czech law in force and effect on the Bonds' issue date. After the Issue of the Bonds, laws applicable to the rights and obligations attached to the Bonds may change. No representation or warranty can be given by the Issuer as to the impact of such possible changes to the value of the Bonds.

Legal investment considerations may pose restrictions for certain investors

The investment activities of certain investors are regulated by laws and orders and/or are subject to inspection or regulation by certain authorities. Potential investors in the Bonds (foreign investors, in particular) should consult their legal advisers to determine whether and to what extent the Bonds are legal investments for them. The Issuer shall not bear any responsibility for the legality of investment in the Bonds by potential investors, regardless of whether the law applicable in the state of incorporation, state of residence or state of performance of business activities of potential investors is Czech law or another law.

Return on investment in Bonds may be affected by various fees

The overall return on investments in the Bonds may be affected by the fees charged by the fiscal and paying agent of the Bond issue and/or an agent for the sale/purchase of the Bonds (such as any of the Joint Lead Managers) and/or charged by the relevant settlement system used by the investor. Any such person or institution may charge fees for the opening and keeping of an investment account, securities transfers, securities safekeeping services, etc. The Issuer recommends that potential investors in the Bonds familiarise themselves with the materials that will serve as the basis for charging fees related to the Bonds.

Return on investment in Bonds may be affected by tax burden

Potential investors in or sellers of the Bonds should realise that they may be subject to taxes or other claims or charges imposed by the laws and customs of the country in which the Bonds are being transferred, or in some other relevant country under the circumstances. In certain countries, it may happen that no official position of tax authorities or a court decision related to financial instruments such as bonds will be available. When acquiring, selling or redeeming the Bonds, the potential investors should not rely on the brief summary of the tax issues contained in this Prospectus; they should also consult a tax advisor. In view of the risks specified in this section, investment considerations should be made at least after reading the chapter "*Taxation and Foreign Exchange Regulation in the Czech Republic*" contained in this Prospectus.

Return on investment in Bonds may be affected by the inflation rate

Potential investors in or sellers of the Bonds should realise that if the Bonds lack a no-inflation clause, the fair value of the investment may diminish concurrently with inflation, reducing the currency value. Inflation also reduces the yields on the Bonds. If the inflation rate exceeds the nominal yield on the Bonds, the value of the yield on the Bonds will be negative.

Early Redemption Risk

In the event of an early redemption of the Bonds in accordance with the Terms and Conditions, the value of the yield on the Bonds could be lower than anticipated. Also, there can be no assurance that at the relevant time the Bondholders will be able to reinvest the redemption proceeds at an effective interest rate as high as the return that would have been received on such Bonds had they not been redeemed. Potential investors should consider such reinvestment risk in light of other investments available at that time.

Risk of Non-payment

Like any other monetary debt, Bonds are exposed to the risk of non-payment. Under certain circumstances, the Issuer may be unable to pay interest on the Bonds, and the value for the Bondholders upon redemption may be lower than their initial investment; under certain circumstances, the Bonds could even be worthless. The Issuer's ability to pay interest on the Bonds or repay their nominal value depends in particular on the performance and solvency of the entities with whom it does business. If the Issuer's debtors (current or

future) default on their debts, such fact might have a negative impact on its ability to meet its obligations under the Bonds in a due and timely manner.

Withholding under the EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income (the **Savings Directive**), Member States of the European Union (each, a **Member State** or collectively, the **Member States**) are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

For a transitional period, Austria is required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments. The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 24 March 2014, the Council of the European Union adopted a Council Directive (the **Amending Directive**) amending and broadening the scope of the requirements described above. The Amending Directive requires Member States to apply these new requirements from 1 January 2017 and if they were to take effect the changes would expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities. They would also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported or subject to withholding. This approach would apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

However, the European Commission has proposed the repeal of the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The proposal also provides that, if it proceeds, Member States will not be required to apply the new requirements of the Amending Directive.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive, neither the Issuer nor Fiscal and Paying Agent (as defined in the Terms and Conditions of the Bonds) nor any other person would be obliged to pay additional amounts with respect to any Bonds as a result of the imposition of such withholding tax pursuant to the Savings Directive. The Issuer is required to maintain a Fiscal and Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Savings Directive.

U.S. Foreign Account Tax Compliance Act Withholding

In all but the most remote circumstances, it is not expected that the new reporting regime and potential withholding tax imposed by Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) will affect the amount of any payment made in respect of the Bonds. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of

FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them.

RESPONSIBLE PERSONS

This Prospectus was prepared and drawn up by Severomoravské vodovody a kanalizace Ostrava a.s., which is responsible for the data stated herein. The person responsible for this Prospectus hereby declares that, with all reasonable care and to the best of its knowledge, the information provided herein is accurate and no facts have been omitted which could render the information inaccurate or misleading.

As of the date of the Prospectus, in Prague

For Severomoravské vodovody a kanalizace Ostrava a.s.



Name : prof. Dr. Ing. Miroslav Kyncl
Title : Vice-Chairman of the Board
of Directors



Name : Ing. Václav Holeček
Title : the member of the Board
Of Directors

INFORMATION INCORPORATED BY REFERENCE

The following information has been incorporated into this Prospectus by reference to the documents that are available on the Issuer's website www.smvak.cz by selecting the web-links set out in the table below. The names of the relevant documents and its page numbers are indicated in the table below.

Information	Document	Pages
Audited IFRS financial statements of the Issuer for the year ended 31 December 2014	http://www.smvak.cz/ZobrazDokument.aspx?typ=2&soubor=508.pdf	1 - 37
The auditor's opinion on financial statements of the Issuer for the year ended 31 December 2014	http://www.smvak.cz/ZobrazDokument.aspx?typ=2&soubor=510.pdf	1 - 2
Audited IFRS financial statements of the Issuer for the year ended 31 December 2013	http://www.smvak.cz/ZobrazDokument.aspx?typ=2&soubor=507.pdf	1 - 36
The auditor's opinion on financial statements of the Issuer for the year ended 31 December 2013	http://www.smvak.cz/ZobrazDokument.aspx?typ=2&soubor=509.pdf	1 - 2

FIGURES EXTRACTED FROM THE ISSUER'S FINANCIAL STATEMENTS

1. Financial Standing of the Issuer

Full versions of the audited financial statements of the Issuer for the accounting periods ending 31 December 2013 and 31 December 2014, which have been incorporated into this Prospectus by reference, are available on the website of the Issuer – www.smvak.cz. All financial statements of the Issuer are in compliance with International Financial Reporting Standards (IFRS).

The following figures (all in CZK thousand), which were extracted from the financial reports (balance sheets) for the periods ending 31 December 2013 and 31 December 2014, respectively, may serve to describe the Issuer's financial standing:

	31 Dec 2013	31 Dec 2014
Intangible Assets	28,735	26,683
Property, Plant and Equipment.....	7,097,173	7,158,281
Non-current Assets	7,125,908	7,184,964
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Inventory	12,142	11,563
Other Receivables.....	33,461	36,514
Income Tax Receivables.....	0	0
Unbilled Water and Sewerage Charges	210,832	216,709
Trade Receivables	131,345	99,049
Cash and Bank.....	120,452	236,550
Non-current Assets Held for Sale.....	0	0
Current Assets	508,232	600,385
<hr/>		
TOTAL ASSETS	7,634,140	7,785,349
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Share Capital	3,458,425	3,458,425
Reserve Funds	549,622	569,052
Retained Earnings.....	579,608	635,586
Equity	4,587,655	4,663,063
<hr/>		
Provisions	17,888	16,455
Trade and Other Payables.....	0	0
Finance Lease Liabilities	16,429	14,716
Bank Loans and Bonds Issued.....	1,994,750	0
Deferred Tax Liability	505,938	517,397
Non-current Liabilities	2,535,005	548,568
<hr/>		
Provisions	15,365	28,274
Trade and Other Payables.....	454,786	506,760
Finance Lease Liabilities	5,110	4,732
Bank Loans and Bonds Issued.....	12,778	2,010,332
Value-added Tax Liability.....	13,665	14,290
Income Tax Liability	9,776	9,330
Current Liabilities and Deferred Income	511,480	2,573,718
<hr/>		
TOTAL EQUITY AND LIABILITIES	7,634,140	7,785,349
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The following figures (all in CZK thousand), which were extracted from the profit and loss statements for the periods ending 31 December 2013 and 31 December 2014, respectively, may serve to describe the Issuer's financial standing:

	31 Dec 2013	31 Dec 2014
Sales from Water and Sewage Charges	2,158,025	2,217,096
Other Operating Income	55,346	45,156
Consumed Materials and Energy	-467,970	-455,885
Personnel Expenses	-405,004	-412,332
Depreciation and Amortization	-445,983	-459,563
Other Operating Expenses	-308,068	-317,041
Charge for Provisions and Allowances	4,056	-7,913
Income from Operating Activities	590,402	609,518
Interest and Other Finance Income	89	15
Interest and Other Finance Costs	-105,419	-105,658
Loss on Financial Transactions	-105,330	-105,643
Income before Income Tax	485,072	503,875
Income Tax	-96,470	-93,000
NET INCOME	388,602	410,875
Other Comprehensive Income	0	0
Comprehensive Income, Net of Tax	388,062	410,875
Basic Earnings per Share (CZK)	112,36	118,80
Diluted Earnings per Share (CZK)	112,36	118,80

The following figures (all in CZK thousand), which were extracted from the cash flow reporting for the periods ending 31 December 2013 and 31 December 2014, respectively, may serve to describe the Issuer's financial standing:

	31 Dec 2013	31 Dec 2014
Cash as at 1 January	48,028	120,452
Profit on Ordinary Activities before Taxation	485,072	503,875
Depreciation and Amortisation	445,983	459,563
Changes in Allowances and Provisions	-4,056	7,913
Profit/Loss on Disposal of Property, Plant and Equipment	-1,365	-1,086
Interest Expense and Interest Income	101,096	101,144
Non-cash Adjustment to Reconcile Profit before Tax to Net Cash Flow	541,658	567,534
Net Cash from Operating Activities before Changes in Working Capital	1,026,730	1,071,409
Change in Receivables and in Prepaid Expenses and Unbilled Revenue	17,162	23,538

Change in Payables and in Accruals and Deferred Income.....	33,042	47,641
Change in Inventory	-627	580
Change in Working Capital.....	49,577	71,759
Net Cash from Operating Activities before Tax.....	1,076,307	1,143,168
Interest Paid.....	-101,170	-101,148
Interest Received	73	4
Income Tax Paid on Ordinary Activities.....	-72,605	-81,987
Net Cash Flow from Operating Activities	902,605	960,037
Purchase of Property, Plant and Equipment	-538,005	-511,030
Proceeds from Sale of Property, Plant and Equipment	1,448	1,467
Net Cash Flow Used in Investment Activities	-536,557	-509,563
Change in Financial Leases	2,899	1,091
Dividends Paid	-296,523	-335,467
Effects of Changes in Equity	-296,523	-335,467
Net Cash Flow Used in Financing Activities	-293,624	-334,376
NET INCREASE/DECREASE IN CASH.....	72,424	116,098
Cash as at 31 December	120,452	236,550

2. Significant Change in the Issuer's Financial or Trading Position

There has been no significant change in the financial or trading position of the Issuer since the end of the last financial period for which the audited financial statements have been published.

TERMS AND CONDITIONS OF THE BONDS

The Bonds issued by **Severomoravské vodovody a kanalizace Ostrava a.s.**, a joint-stock company incorporated under the laws of the Czech Republic, with its registered office at Ostrava, 28. října 1235/169, Mariánské Hory, Postal Code: 709 00, Identification No. 451 93 665, registered with the Commercial Register kept by the Regional Court in Ostrava, Section B, Insert No. 347 (the **Issuer**), in the anticipated aggregate nominal value of up to CZK 5,400,000,000 (in words: five billion four hundred million Czech crowns), bearing fixed interest rate of 2.625% p.a., due in 2022 (the **Issue** and individual Bonds within the Issue, the **Bonds**), are governed by these Terms and Conditions of the Bonds (the **Terms and Conditions**) and by Act No. 190/2004 Coll., on Bonds, as amended (the **Bonds Act**).

The Issue was approved by a resolution of the Issuer's Board of Directors dated 21 April 2015.

The ISIN of the Bonds allocated by the Central Depository (as this term is defined in [Article 1.3](#) below) is CZ0003512824. The title of the Bonds is "Dluhopis SmVaK 2.625/2022".

Services of the fiscal and paying agent related to interest payments and Bonds redemption will be provided by Komerční banka, a.s., with its registered office at Prague 1, Na Příkopě 33 čp. 969, Postal Code: 114 07, the Czech Republic (the **Fiscal and Paying Agent**). The relationship between the Issuer and the Fiscal and Paying Agent in connection with the performance of payment services in favour of the Bondholders (as this term is defined below) and some other administrative acts related to the Issue is governed by an agreement between the Issuer and the Fiscal and Paying Agent (the **Fiscal and Paying Agency Agreement**). A counterpart of the Fiscal and Paying Agency Agreement is available for inspection to the Bondholders during regular business hours at the Specified Office of the Fiscal and Paying Agent set out in [Article 11.1\(a\)](#) of these Terms and Conditions.

Services of the listing agent related to the listing of the Bonds comprising the Issue on the regulated market of the Prague Stock Exchange will be provided by Komerční banka, a.s., with its registered office at Prague 1, Na Příkopě 33 čp. 969, Postal Code: 114 07, the Czech Republic.

The terms with capital letters, unless defined otherwise, have the meaning assigned to them in [Article 15](#) of these Terms and Conditions.

1. General Characteristics of the Bonds

1.1 Form, Nominal Value, Anticipated Volume of the Issue

The Bonds will be issued on the Issue Date (as defined in [Article 2.1](#) of these Terms and Conditions) as book-entered securities in bearer form. The nominal value of each Bond is CZK 3,000,000 (in words: three million Czech crowns). The anticipated aggregate nominal value of the Issue is up to CZK 5,400,000,000 (in words: five billion four hundred million Czech crowns). In accordance with the Bonds Act the Issuer is entitled to issue the Bonds in a lower aggregate nominal value than the anticipated aggregate nominal value. The Issuer is not entitled to issue the Bonds in a higher aggregate nominal value than CZK 5,400,000,000 (in words: five billion four hundred million Czech crowns).

1.2 Detachment of the Right to Interest; Pre-emptive and Exchange Rights

There will be no detachment of the right to receive interest payable on the Bonds. No pre-emptive or exchange rights are attached to the Bonds.

1.3 Bondholders

For the purpose of these Terms and Conditions, the **Bondholder** means a person on whose holder's account kept by the Central Depository or in follow-up records relating to the central registry for securities the Bond is recorded.

Unless the Issuer is informed in a credible manner about facts proving that the Bondholder is not the owner of the relevant book-entered securities, the Issuer and the Fiscal and Paying Agent will consider each Bondholder in all aspects as the owner thereof and will make payments to such Bondholder in accordance with these Terms and Conditions. Persons who are the Bondholders and who are not registered for any reason in the relevant records of holders of book-entered securities will be obliged to promptly notify the Issuer and the Fiscal and Paying Agent of such fact and of their acquisition title to the Bonds.

1.4 Transfer of the Bonds

The transfer of the Bonds will be effective upon the registration thereof in the holder's account maintained by the Central Depository in accordance with the rules and regulations of the Central Depository and under applicable laws. In case of the Bonds recorded in the clients' (nominee) account in the Central Depository, the transfer of the Bonds will be effective (i) upon the registration of such transfer in the clients' account in accordance with the rules and regulations of the Central Depository and under applicable laws, whereas the client account owner is obliged to promptly register such transfer in the holder's account as of the moment of registration thereof in the clients' account, or (ii) in case of any transfer between the Bondholders within one clients' account, upon the registration of such transfer in the holder's account in follow-up records relating to the central registry for securities.

1.5 Rating

The Bonds are expected to be rated "BBB-" by Fitch on the Issue Date.

2. Issue Date, Issue Price, Subscription Period, Method of Bond Issue

2.1 Issue Date, Subscription Period

The issue date of the Bonds is scheduled on 17 July 2015 (the **Issue Date**). The Bonds may be issued (i) in a single series on the Issue Date, or (ii) in tranches at any time on or after the Issue Date during the subscription period ending on the Record Date for Nominal Value Repayment (as defined below) (the **Issue Period**).

Without undue delay after the expiry of the Issue Period, the Issuer will notify the Bondholders, in the same manner as used for publication of these Terms and Conditions, of the aggregate nominal value of all issued Bonds comprising the relevant Issue but only in case that the aggregate nominal value of all Bonds issued within the relevant Issue is lower than the anticipated aggregate nominal value of the Issue.

2.2 Issue Price

The issue price of any Bonds issued on the Issue Date is equal to 99.710% of nominal value. The issue price of any Bonds issued after the Issue Date will be determined by the Issuer taking into account the current market conditions. Where relevant, a corresponding accrued interest amount will be added to the amount of the issue price for any Bonds issued after the Issue Date.

2.3 Method and Place of Bond Subscription

The Bonds will be offered for purchase by the lead managers of the Issue, ING Bank N.V., London Branch, Komerční banka, a.s. and SMBC Nikko Capital Markets Limited (the **Joint Lead Managers**), to Czech or foreign qualified investors (under Act No. 256/2004 Coll., the Capital Market Act, as amended) and selected individuals, in accordance with applicable laws.

On a relevant settlement date agreed to in the subscription agreement to purchase the Bonds (the **Subscription Agreement**), the Bonds will be allocated to the Joint Lead Managers against payment of the issue price (or the issue price reflecting the corresponding accrued interest yield, if any) by crediting them into a respective account notified by the Issuer to the Joint Lead Managers for this purpose. The Bonds will be resold on the same day by the Joint Lead Managers to the investors.

3. Status of the Bonds

The Bonds (and all payment obligations of the Issuer vis-à-vis the Bondholders under the Bonds) constitute direct, unconditional, unsecured and unsubordinated liabilities of the Issuer, which are and will rank *pari passu* among themselves and at least *pari passu* with any present and future direct, unconditional, unsecured and unsubordinated liabilities of the Issuer with the exception of liabilities treated preferentially under applicable mandatory laws.

4. General and Financial Covenants

4.1 Negative Pledge

So long as any payment obligations from the Bonds remain outstanding, the Issuer will not and, provided that at any such time the Issuer has any Subsidiaries, the Issuer will not cause or permit any of its Subsidiaries to create or permit to subsist any Security Interest (as defined in Article 15 of these Terms and Conditions) over any of its assets to secure indebtedness arising out of (i) any loan (including the principal amount and interest thereon), (ii) bonds, notes and any other debt securities (including the nominal value and interest thereon), or (iii) any guarantee or indemnity assumed or granted by the Issuer in respect of any indebtedness referred to in paragraphs (i) to (ii) above (other than any given in respect of trade credit arising in the ordinary course of business) unless, at the same time or prior thereto, the Issuer's obligations under the Bonds are (i) equally and rateably secured therewith, or (ii) such Security Interests are approved by the meeting of the Bondholders in accordance with Article 12 of these Terms and Conditions except for the Security Interests:

- (a) that are attached to the Issuer's assets as at the Issue Date or at the time of their acquisition by the Issuer or granted for the securing of the Issuer's obligations solely in connection with the acquisition of such assets of the Issuer or their part by the Issuer;
- (b) that are attached to the Issuer's assets by operation of law, based on a court or administrative decision, or in connection with the Issuer's ordinary course of business;
- (c) that are attached to the Issuer's assets whose total accounting value, after deduction of the total accounting value of the assets listed in paragraphs (a) and (b) above, does not exceed 5% of the value of the Tangible Fixed Assets; or
- (d) over any of its assets to secure indebtedness arising out of Project Financing.

4.2 Restriction on Indebtedness

The Issuer will not and, provided that at any such time the Issuer has any Subsidiaries, the Issuer will not cause or permit any of its Subsidiaries to, whether directly or indirectly, incur, cause, assume, accede to, guarantee, or otherwise become liable for (together incur) any Indebtedness, unless (i) the ratio of the Consolidated Net Leverage Ratio for the Issuer's most recently ended two semi-annual periods for which the financial statements are available and that immediately precede the date as at which it intends to incur new Indebtedness, taking into consideration on a pro forma basis (i) any such new Indebtedness and (ii) any acquisitions and certain other factors as described in the definition of the Consolidated Net Leverage Ratio in Article 15 of these Terms and Conditions, does not exceed 5.0 to 1.0, and (ii) as a result of the incurring of such new Indebtedness, no Event of Default occurs, is imminent or continuing.

This Article 4.2 of these Terms and Conditions shall not prejudice nor impose any restrictions on the Issuer and, provided that at any such time the Issuer has any Subsidiaries, any of its Subsidiaries to incur the Excluded Debts.

4.3 Limitation on Distribution Payments

The Issuer may not propose to declare, make or pay any dividend, charge, fee or other distribution (other than any charge, fee or other distribution paid by the Issuer as a consideration for services that are considered Eligible Costs or costs and investments related to the activity of the Issuer on an arms' length basis including in particular those amounts paid by the Issuer to Affiliates), including reduction of its share capital (or interest on any unpaid dividend, charge, fee or other distribution), whether in cash or in kind, in respect of its share capital (the **Distribution**) unless there is no Event of Default and no Event of Default may occur as a result of such Distribution and the Distribution does not exceed 100% of the Issuer's annual Consolidated Net Income on a cumulative basis.

Notwithstanding the above the Issuer may, to the extent no Event of Default or potential Event of Default shall have occurred and be continuing as a result of such action, declare and pay Distribution to its shareholders (including AQUALIA CZECH S.L. as its Parent Entity), through a dividend (including reserve fund dissolution and distribution as an advanced payment for a dividend) in the amount of up to CZK 1,150,000,000 (in words: one billion one hundred fifty million Czech crowns) and a capital reduction in the amount of up to CZK 2,200,000,000 (in words: two billion two hundred million Czech crowns) in order for AQUALIA CZECH S.L. to repay its existing indebtedness (including to partially prepay outstanding amounts under the Credit Facility Agreement and to repay the Extended Credit Facility).

4.4 Financial Reporting

So long as any Bonds are outstanding, the Issuer will furnish to the Fiscal and Paying Agent who will promptly upon their written request, furnish to any Bondholder:

- (a) as soon as they are available, but in any event within 150 (one hundred fifty) calendar days after the end of each fiscal year of the Issuer, copies of its consolidated audited financial statements in respect of such year (including statement of comprehensive income, balance sheet and cash flow statement and complete footnotes to such financial statements in the English language) prepared and presented in accordance with IFRS and audited by a member firm of an internationally recognised firm of independent accountants and including the audit report prepared by such firm in relation to such audited financial statements; and
- (b) as soon as they are available, but in any event within 75 (seventy-five) calendar days after the end of the second fiscal quarter of the Issuer, copies of its consolidated reviewed financial statements in

respect of such semi-annual period (including statement of comprehensive income, balance sheet and cash flow statement in the English language) prepared and presented in accordance with IFRS.

5. Interest

5.1 Method of Interest Calculation, Interest Period

The Bonds will bear a fixed interest rate of 2.625% (the **Interest Rate**). The interest will be paid annually in arrears, on 17 July of each year (each the **Interest Payment Date**) in accordance with these Terms and Conditions. The first Interest Payment Date will be 17 July 2016.

For the purposes of these Terms and Conditions, **Interest Period** means the period from (and including) the Issue Date to (but excluding) the first Interest Payment Date, and each immediately following period from (and including) the Interest Payment Date to (but excluding) the next Interest Payment Date until the maturity date of the Bonds (as specified in Article 6.1 below). For the purposes of the running of any Interest Period, the Interest Payment Date will not be adjusted according to the Business Day Convention (see Article 7.3 of these Terms and Conditions).

The interest will accrue evenly from the first day of each Interest Period to the last day included in such Interest Period at the Interest Rate.

5.2 End of Interest Accrual

The Bonds will cease to bear interest on the Final Redemption Date (as this term is defined in Article 6.1 of these Terms and Conditions) or on the Early Redemption Date (as this term is defined in Articles 9.2, 12.4(a) and 12.4(b) of these Terms and Conditions), unless the payment of any amount due is unlawfully retained or refused by the Issuer although all relevant conditions and requirements have been complied with. In such event, interest will continue to accrue at the Interest Rate until the earlier of (i) the date on which all amounts due and payable as of that date in accordance with these Terms and Conditions are paid to the Bondholders or (ii) the date on which the Fiscal and Paying Agent notifies the Bondholders that it has received all amounts payable in connection with the Bonds, unless any additional unlawful retention or refusal of payments occurs after such notice.

5.3 Day Count Convention for Interest Calculation

The interest payable on the Bonds for a period of less than 1 (one) year will be calculated on the basis of an BCK Standard 30E/360 day count fraction (the **Day Count Fraction**), i.e., a year shall be deemed to consist of 360 (three hundred sixty) days divided into 12 (twelve) months whereas in the event of an incomplete month, the number of days actually expired will apply.

5.4 Calculation of Amount of Interest

The amount of interest payable in respect of the Bond shall be calculated per nominal value of the Bond. The amount of interest per nominal value of the Bond for any Interest Period shall be calculated by the Fiscal and Paying Agent by (a) applying the Interest Rate to the nominal value of the Bond, (b) multiplying such sum by the Day Count Fraction and (c) rounding the resultant figure to the nearest cent (half a cent being rounded upwards or otherwise in accordance with applicable market convention).

6. Redemption and Purchase of the Bonds

6.1 Final Redemption

Unless previously redeemed or purchased by the Issuer and cancelled as specified below, the nominal value of the Bonds will be redeemed in a single payment on 17 July 2022 (the **Final Redemption Date**).

6.2 Early redemption at the option of the Bondholders

The Bondholders are not entitled to require early redemption of the Bonds before the Final Redemption Date, except for early redemption pursuant to Articles 6.3, 9.1, 12.4(a) and 12.4(b) of these Terms and Conditions. In such events, the Issuer will repay the nominal values of the relevant Bonds together with accrued and outstanding interest in accordance with these Terms and Conditions.

6.3 Early redemption at the option of the Bondholders upon a Change of Control

For the purposes of this Article 6.3:

a **Change of Control** will occur if at any time:

- (a) the Controlling Shareholders cease to hold, directly or indirectly, jointly or individually, more than 50% of the ordinary shares of the Issuer, or more than 50% of voting rights in the Issuer or lose the right to appoint more than half of the directors of the Issuer; or
- (b) any single person or persons (other than the Controlling Shareholders, jointly or individually) acting in concert or any person or persons acting on their behalf, directly or indirectly, jointly or individually, acquires control through share-ownership, acquisition of more than 50% of voting rights in the Issuer or the right to appoint more than half of the directors of the Issuer.

a **Change of Control Put Event** will be deemed to occur if:

- (a) before the Change of Control, the Issue's rating was on an investment grade (rating of at least Baa3 by Moody's Investors Service Ltd or BBB- by Standard & Poor's Credit Market Services Europe Limited or Fitch Ratings Limited or any of their successors) and in the Change of Control Period the Issue's rating was downgraded to a speculative grade (by any of the rating agencies if more than one rating is in place, at best rating Ba1 by Moody's Investors Service Ltd or BB+ by Standard & Poor's Credit Market Services Europe Limited or Fitch Ratings Limited or any of their respective successors or replacements) or was cancelled; or
- (b) before the Change of Control, the Issue's rating was on a speculative grade and in the Change of Control Period the Issue's rating was downgraded by at least one grade.

Controlling Shareholders means FCC Aqualia or MIT Infrastructure Europe or any of their Affiliates.

FCC Aqualia means FCC Aqualia S.A., a company incorporated under the laws of Spain, with its registered seat at Federico Salmón 13, Madrid, Spain.

MIT Infrastructure Europe means MIT Infrastructure Europe Limited, a company incorporated under the laws of England and Wales, with its registered seat at 8th Floor, 1 St. Martin's Le Grand, EC14 4AS London, United Kingdom of Great Britain and Northern Ireland, registered under number 8504074.

If a Change of Control Put Event occurs, the Issuer will, upon any Bondholder giving to the Issuer through the Fiscal and Paying Agent notice within the Change of Control Put Period (unless prior to the giving of such notice the Issuer has given notice of redemption under Article 6.4 of the Terms and Conditions) redeem in whole (but not in part) the Bonds subject to the notice on the Change of Control Redemption Date at 100% of their principal amount (the **Change of Control Redemption Amount**) together with interest accrued until the Change of Control Redemption Date.

Within 14 (fourteen) calendar days of the Issuer becoming aware that a Change of Control Put Event has occurred, the Issuer shall give notice to the Bondholders in accordance with Article 13 (a **Change of Control Notice**) specifying the nature of the relevant Change of Control Put Event, the circumstances giving rise to it and the procedure for Bondholders to exercise their rights to require redemption of any Bonds pursuant to this Article 6.3.

To exercise such right, any holder of the Bonds must deliver at the Specified Office of the Fiscal and Paying Agent on any Business Day falling within the Change of Control Put Period, a duly signed and completed notice of exercise in the form obtainable from the Specified Office of the Fiscal and Paying Agent (a **Change of Control Put Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made by the Issuer under this paragraph on or before the Change of Control Redemption Date. Any holder of the Bonds, at its option, may elect by notice to the Issuer to withdraw a Change of Control Put Notice.

6.4 Early redemption at the option of the Issuer

The Issuer may, by giving:

- (a) not less than 30 nor more than 60 (sixty) calendar days' notice to the Bondholders in accordance with these Terms and Conditions; and
- (b) notice to the Fiscal and Paying Agent not less than 30 (thirty) calendar days before the giving of the notice referred to in (a);

(which notices shall be irrevocable and shall specify the date fixed for such redemption), redeem all (but not some only) of the Bonds prior to the Final Redemption Date at their principal amount together with interest accrued to the date of redemption. The early redemption at the option of the Issuer may not occur any earlier than 3 months prior to the Final Redemption Date.

6.5 Purchase of the Bonds

The Issuer is entitled to purchase the Bonds at any time on the market or otherwise at any price.

6.6 Cancellation of the Bonds

The Bonds purchased by the Issuer will not be cancelled, unless decided otherwise by the Issuer. If the Issuer does not decide on the cancellation of the Bonds purchased by it, it will be entitled to dispose of such Bonds at its sole discretion.

6.7 Deemed Payment

For the purpose of these Terms and Conditions, all liabilities of the Issuer under the Bonds will be deemed fully discharged as of the date on which the Issuer pays to the Fiscal and Paying Agent the full amount of the nominal value (principal) of the Bonds together with all interest amounts thereon (including all amounts of

accrued and future interest payments) payable in accordance with Articles 5, 6, 9, 12.4(a) and 12.4(b) of these Terms and Conditions.

7. Payment Terms

7.1 Currency of Payments

The Issuer undertakes to pay interest on and repay the nominal value of the Bonds solely in Czech crowns, or in any other lawful currency of the Czech Republic that might replace the Czech crown. The interest will be paid to the Bondholders and the nominal value of the Bonds will be repaid subject to and in accordance with these Terms and Conditions, and the tax, foreign exchange and other applicable laws of the Czech Republic in effect at the time of the relevant payment.

In the event that the Czech crown in which the Bonds are denominated and in which the payments relating to the Bonds should be made in compliance with these Terms and Conditions ceases to exist and is replaced by the Euro currency, (i) the denomination of such Bonds will be changed to Euro in conformity with the applicable laws, and (ii) all monetary liabilities arising from such Bonds will automatically and without any further notice to the Bondholders be payable in Euro, with the official rate (i.e. the fixed conversion ratio) in accordance with the applicable law being used as the exchange rate between Czech crown (CZK) and euro (EUR). Such replacement of the Czech crown (i) will not, in any respect, affect the existence or enforceability of the Issuer's liabilities under the Bonds, and (ii) for the avoidance of doubt, will not be deemed to constitute any change to these Terms and Conditions or an Event of Default under these Terms and Conditions.

7.2 Payment Date

The payment of interest on and the repayment of the nominal value of the Bonds will be made by the Issuer through the Fiscal and Paying Agent on the dates specified in these Terms and Conditions (each such date further referred to, according to its meaning, as the **Interest Payment Date** or the **Final Redemption Date** or the **Early Redemption Date** or also as the **Payment Date**).

7.3 Business Day Convention

If any Payment Date falls on a day that is not a Business Day, such Payment Date will instead fall on the next following Business Day, and the Issuer will not be obliged to pay any interest or any other additional charges by reason of such delay in payment resulting from the application of any Business Day convention (the **Business Day Convention**).

For the purposes of these Terms and Conditions, **Business Day** means any day (other than a Saturday, Sunday or a public holiday) on which banks in the Czech Republic are open for business, and on which foreign exchange transactions and interbank payments in Czech crowns, or in any other lawful currency of the Czech Republic that might replace the Czech crown, are settled.

7.4 Determination of the Right to Receive Payments Related to the Bonds

The authorised persons to whom the Issuer will pay interest or other yield on the Bonds will be persons on whose holder's account kept by the Central Depository, or in the register maintained by a person keeping follow-up records relating to the central registry for securities, the Bonds are recorded at the close of the relevant Record Date for Interest Payment (the **Authorised Persons**).

Record Date for Interest Payment is a day falling 30 (thirty) calendar days prior to the relevant Interest Payment Date; however, for the purposes of determining the Record Date for Interest Payment, the Interest Payment Date will not be adjusted according to the Business Day Convention.

The **Ex-Coupon Date** will be the date immediately following the Record Date for Interest Payment. For the purposes of determining the recipient of interest, neither the Issuer nor the Fiscal and Paying Agent will take account of the transfer of any Bonds made on or after the calendar day on which the Ex-Coupon Date in respect of such payment falls.

The Authorised Persons to whom the Issuer will repay the nominal value of the Bonds will be persons on whose holder's account kept by the Central Depository, or in the register maintained by a person keeping follow-up records relating to the central registry for securities, the Bonds are recorded at the close of the relevant Record Date for Nominal Value Repayment (the **Authorised Persons**).

Record Date for Nominal Value Repayment is a day falling 30 (thirty) calendar days prior to the relevant Final Redemption Date or the Early Redemption Date; however, for the purposes of determining the Record Date for Nominal Value Repayment, such Payment Date will not be adjusted according to the Business Day Convention.

The **Ex-Principal Date** shall be the date immediately following the Record Date for Nominal Value Repayment. For the purposes of determining the recipient of the nominal value of the Bonds, neither the Issuer nor the Fiscal and Paying Agent will take account of the transfer of any Bonds made on or after the calendar day on which the Ex-Principal Date falls.

7.5 Payments

The Fiscal and Paying Agent will make payments to the Authorised Persons by means of wire transfer to their accounts kept with a bank in the Czech Republic according to the instruction that the respective Authorised Person delivers to the Fiscal and Paying Agent in a credible manner at the address of the Fiscal and Paying Agent's Specified Office. The instruction will be in the form of a signed written statement with an officially legalised (notarised) signature or signatures containing sufficient details of such account to allow the Fiscal and Paying Agent to make the payment and will be accompanied by an original or officially certified copy of a certificate of tax domicile of the recipient of the relevant payment (payee) for the relevant tax period and, in the event that the payee is a legal entity, also by an original or officially certified copy of a valid excerpt from the Commercial Register in respect of the payee not older than 3 (three) months (such instruction together with the excerpt from the Commercial Register (if applicable) and the certificate of tax domicile and any other relevant appendices, is hereinafter referred to as the **Instruction**). Any originals of foreign official instruments or any deeds notarised abroad must be super-authenticated or certificated by the Hague Convention Apostille (whichever is relevant). The Instruction must be in a form and content reasonably acceptable to the Fiscal and Paying Agent and the Fiscal and Paying Agent may require satisfactory evidence that the person who has signed the Instruction is authorised to sign such Instruction on behalf of the Authorised Person. Such evidence must be delivered to the Fiscal and Paying Agent together with the Instruction. In this respect, the Fiscal and Paying Agent may require, without limitation, (i) the presentation of a power of attorney if the Authorised Person is represented by an agent (if necessary with an official Czech translation) and (ii) an additional confirmation of the Instruction by the Authorised Person. Notwithstanding the foregoing, neither the Fiscal and Paying Agent nor the Issuer will be obliged to examine the correctness, completeness or authenticity of any such Instruction in any manner whatsoever and neither of them will be liable for any damage incurred in connection with any delay in the delivery of such Instruction by the Authorised Person or with the delivery of an incorrect or otherwise defective Instruction. The Instruction will be deemed properly made if it contains all the items required by this Article, is delivered

to the Fiscal and Paying Agent in accordance with this Article and complies with the requirements of this Article in all other respects.

The Instruction will be deemed filed in a timely manner if it is delivered to the Fiscal and Paying Agent not later than 15 (fifteen) Business Days before the relevant Payment Date.

The Issuer's liability to pay any amount due in connection with the Bonds will be deemed discharged in a due and timely manner, if the relevant amount has been remitted to the Authorised Person in compliance with a proper Instruction pursuant to this [Article 7.5](#) and if such amount is credited to the account of the Authorised Person's bank with the clearing centre of the Czech National Bank not later than on the relevant due date of such amount.

Neither the Issuer nor the Fiscal and Paying Agent will be liable for any delay in the payment of any amount due caused by the Authorised Person, for example, by its failure to deliver a proper Instruction in a timely manner. If any Authorised Person fails to deliver to the Fiscal and Paying Agent in time a proper Instruction under this [Article 7.5](#) of these Terms and Conditions, the Issuer's liability to pay any amount due will be deemed discharged in a due and timely manner *vis-à-vis* such Authorised Person if the relevant amount has been remitted to the Authorised Person in accordance with a proper Instruction pursuant to this [Article 7.5](#) of these Terms and Conditions and if such amount has been debited from the Fiscal and Paying Agent's account not later than 15 (fifteen) Business Days following the day on which the Fiscal and Paying Agent received the proper Instruction, in which case such Authorised Person will have no right to receive any interest or any other yield or additional payment on account of the delay.

Neither the Issuer nor the Fiscal and Paying Agent will be liable for any damage incurred by (i) the failure to deliver in time the proper Instruction or any other documents or information required to be delivered under this [Article 7.5](#), or (ii) such Instruction and/or related document or information being incorrect, incomplete or untrue, or (iii) circumstances beyond the control of the Issuer or the Fiscal and Paying Agent. No Authorised Person will be entitled in any such event to receive any additional payment, other compensation or interest for any such delay in the relevant payment.

7.6 Change in the Payment Method

The Issuer and the Fiscal and Paying Agent are jointly entitled to elect to change the payment procedure. However, such change may not cause any detriment to the Bondholders. The Bondholders will be notified of such change in the same manner as set out in [Article 13](#) of these Terms and Conditions.

8. Taxation

The repayment of the nominal value of, and payment of interest on, the Bonds will be made without deduction of any taxes or charges of any nature whatsoever, unless such deduction is required by applicable laws in effect on the date of the relevant payment. The repayment of the interest and the nominal value of the Bonds may be subject to withholding of tax (Czech Act No. 586/1992 Coll., on Income Taxes, as amended (the **ITA**), Section 36(1)(b)(1) and 36(2)(a)) or to withholding of tax securing (ITA, Section 38e(1) and 38e(2)). If such deduction or withholding is required by the ITA or any other applicable regulation at the time of such payment, the Issuer shall not be obligated to pay to the Bondholders any additional amounts as compensation for such deductions or withholdings.

9. Early Redemption of the Bonds upon the Occurrence of Events of Default

9.1 Events of Default

If any of the following events occurs and is continuing (each an **Event of Default**):

(a) *Payment default*

any part of the nominal value of the Bonds or any part of the interest on the Bonds will not be made in accordance with these Terms and Conditions and such default is not remedied for more than 7 (seven) Business Days following the due date; or

(b) *Breach of other obligations*

the Issuer fails to discharge or breaches any of its other obligations in connection with the Bonds under these Terms and Conditions including a failure to make or consummate an early redemption of the Bonds at the option of the Bondholders upon a Change of Control. However, it will not constitute a failure by the Issuer to discharge its obligations under this paragraph (b) if such breach is capable of remedy and is remedied within 45 (forty-five) calendar days after the date of such breach; or

(c) *Cross-default*

(i) any other financial liabilities of the Issuer exceeding in aggregate CZK 200,000,000 (in words: two hundred million Czech crowns) (or its equivalent in any other currency or currencies) will not be duly paid on its due date and remain unpaid after expiration of any applicable grace period or (ii) any such liability is declared due before its original due date otherwise than by the Issuer; or

(d) *Court judgments and other decision*

the Issuer fails to comply with any of its payment obligations determined by a final and binding decision of a competent court, arbitration body or administrative authority for a period longer than 15 (fifteen) Business Days unless the aggregate amount of such payment obligations is lower than CZK 200,000,000 (or its equivalent in other currency or currencies); or

(e) *Insolvency and insolvency proceedings*

(i) the Issuer is insolvent, (ii) the Issuer suspends making payments on any of its debts or announces an intention to do so, or admits its inability to pay its debts as they fall due, (iii) a decision on insolvency of the Issuer is made, (iv) the Issuer files an insolvency petition, applies for a moratorium or for another way of solving its insolvency (v) a creditor of the Issuer files an insolvency petition

and, within 30 (thirty) calendar days of the filing, the creditor does not withdraw the petition and the insolvency court does not reject or dismiss the petition, or (vi) any fact substantially similar to those set out in items (i) - (v) above occurs regarding the Issuer; or

(f) *Liquidation*

a legally effective and non-appealable order is issued by the relevant Czech court or a legally effective and non-appealable resolution is passed for the winding up, liquidation or dissolution of the Issuer; or

(g) *Termination of business activities*

the Issuer discontinues its core business activities or loses the license to carry on its core business activities; or

(h) *Delisting of the Bonds from the regulated market*

the Bonds cease to be admitted to trading on the regulated market of the Prague Stock Exchange (in Czech: *Burza cenných papírů Praha, a.s.*) or any European regulated market that would supersede the regulated market of the Prague Stock Exchange; or

(i) *Illegality*

the Issuer's obligations under the Bonds or its performance by the Issuer cease to be partially or fully legally enforceable or become in breach of applicable laws,

then any Bondholder, at its discretion, by a written notice addressed to the Issuer and delivered to the Fiscal and Paying Agent at the address of the Specified Office (the **Early Redemption Notice**), may request early redemption of the Bonds held by such Bondholder which the Bondholder undertakes not to dispose of since that moment, plus any accrued and unpaid interest thereon pursuant to Article 5.1 of these Terms and Conditions, as at the Early Redemption Date (as this term is defined below), and the Issuer is obliged to redeem such Bonds (together with accrued and undistributed interest thereon) in accordance with Article 9.2 of these Terms and Conditions.

9.2 Maturity of the Accelerated Bonds

Any and all amounts payable by the Issuer to any Bondholder according to foregoing Article 9.1 of these Terms and Conditions will become due and payable as of the last Business Day of the month following the month in which the Bondholder delivered the relevant Early Redemption Notice for the Issuer to the Specified Office of the Fiscal and Paying Agent (the **Early Redemption Date**).

9.3 Withdrawal of Early Redemption Notice

A Bondholder may withdraw, in writing, the Early Redemption Notice but only with respect to the Bonds held by such Bondholder and only if such withdrawal is addressed to the Issuer and delivered to the Fiscal and Paying Agent at the address of the Specified Office before the relevant amounts become due and payable according to preceding Article 9.2 of these Terms and Conditions. However, any such withdrawal of the Early Redemption Notice will not affect any Early Redemption Notices given by the other Bondholders.

9.4 Other Conditions for Early Redemption of the Bonds

The provisions of Article 7 of these Terms and Conditions will apply *mutatis mutandis* to the early redemption of the Bonds pursuant to this Article 9.

10. Statute of Limitations

All rights connected with the Bonds will become statute-barred upon the expiration of 10 (ten) years since the day when such rights could be exercised for the first time.

11. Fiscal and Paying Agent and Listing Agent

11.1 Fiscal and Paying Agent

(a) Fiscal and Paying Agent and Specified Office

Komerční banka, a.s., will act as the Fiscal and Paying Agent. The Fiscal and Paying Agent's specified office and place of payment (the **Specified Office**) will be at the following address: Prague 1, Na Příkopě 33 čp. 969, Postal Code: 114 07, the Czech Republic.

(b) Additional and Other Fiscal and Paying Agent and Specified Office

The Issuer reserves the right to appoint, at any time, an additional or other Fiscal and Paying Agent and to designate an additional or other Specified Office, or to appoint additional payment providers.

The Issuer will give notice of such change in the Fiscal and Paying Agent or Specified Office and/or of the appointment of additional payment providers to the Bondholders in the manner set out in Article 13 of these Terms and Conditions and any such change will become effective upon the expiration of 15 (fifteen) calendar days following the date of such notice unless a later effective date is specified in the notice. In any event, any such change that would otherwise become effective less than 30 (thirty) calendar days before or after the Payment Date for any amount payable under the Bonds will become effective on the 30th (thirtieth) day following such Payment Date.

(c) Relationship between the Fiscal and Paying Agent and the Bondholders

Unless provided otherwise by law or by the Fiscal and Paying Agency Agreement, the Fiscal and Paying Agent will act as an agent of the Issuer when performing its duties under the Fiscal and Paying Agency Agreement, providing no guarantee or security for the Issuer's liabilities under the Bonds, and will be in no legal relationship with the Bondholders.

11.2 Listing Agent

(a) Listing Agent

Komerční banka, a.s., with its registered office at Prague 1, Na Příkopě 33 čp. 969, Postal Code: 114 07, the Czech Republic, will be the Listing Agent.

(b) Additional and other Listing Agent

The Issuer reserves the right to appoint another or additional Listing Agent. If a change of the Listing Agent occurs, the Issuer will notify the Bondholders of such change in the manner set out in Article 13 of these

Terms and Conditions and any such change will become effective upon the expiration of 15 (fifteen) calendar days following the day of such notice unless a later effective date is set out in such notice.

(c) **Relationship between the Listing Agent and the Bondholders**

The Listing Agent acts as the Issuer's agent and has no legal relationship with the Bondholders.

12. Bondholders' Meeting

12.1 Authority and Convocation of the Meeting

(a) **Right to Convene the Bondholders' Meeting**

The Issuer or any Bondholder(s) may convene a meeting of the Bondholders (the **Meeting**) in accordance with these Terms and Conditions and applicable laws if so required to decide on common interests of the Bondholders. The costs of organising and convening the Meeting will be borne by the person who convened the Meeting, unless set out otherwise by law. The costs related to the attendance at the Meeting will be borne by each participant itself. If the convening person is one or more Bondholders, such person will be required, not later than on the date on which a notice of the Meeting is published (see Article 12.1(c) of these Terms and Conditions): (i) to deliver to the Fiscal and Paying Agent a request for procuring evidence of the number of all the Bonds in the relevant Issue entitling the holder(s) to attend the Meeting convened by a Bondholder or the Bondholders, i.e. an extract from the relevant register of the Issue, and (ii) where relevant, to pay to the Fiscal and Paying Agent an advance to cover the costs associated with its services in relation to the Meeting. The due and timely delivery of the request under item (i) above and the payment of the advance for the costs referred to in item (ii) above are conditions to the valid convocation of the Meeting.

(b) **Meeting Convened by the Issuer**

The Issuer is obliged to promptly convene the Meeting and request the Bondholders to take a stand on the following issues (each of them the **Material Change**):

- (i) the Issuer's proposal for any amendment to these Terms and Conditions that requires the Bondholders' consent under applicable laws;
- (ii) the Issuer's proposal for its transformation;
- (iii) the Issuer's proposal for entering into an agreement on the sale of a business enterprise or any part thereof or the lease of a business enterprise or any part thereof, irrespective of which party the Issuer is, if the due and timely redemption of the Bonds or the distribution of interest thereon may be jeopardised;
- (iv) the Issuer's default in the satisfaction of any rights attached to the Bonds which continues for more than 7 (seven) calendar days following the day on which the relevant right could be exercised;
- (v) the Issuer's proposal for filing an application to withdraw the Bonds from trading on the Prague Stock Exchange or other European regulated market; and
- (vi) any other changes that might significantly impair the Issuer's ability to discharge its payment liabilities under the Bonds.

The Issuer may convene the Meeting to propose a collective action if it has knowledge that any Event of Default has occurred or may occur.

(c) **Notice of the Meeting**

The Issuer is obliged to give notice of the Meeting in a manner set out in Article 13 of these Terms and Conditions not later than 15 (fifteen) calendar days prior to the date of the Meeting. If the Meeting is convened by any Bondholder (or the Bondholders), such convening person(s) will deliver a notice of the Meeting (containing all statutory elements) sufficiently in advance (at least 20 (twenty) calendar days prior to the proposed date of the Meeting) to the Issuer at the address of the Specified Office. The Issuer will promptly ensure that such notice of the Meeting is published in the manner and within the time limit specified in the first sentence of this Article 12.1(c) (however, the Issuer is responsible neither for the content of such notice nor for any delay or default in complying with any statutory time limits by a Bondholder who convened the Meeting). The notice of the Meeting must contain at least (i) the business name, identification number and registered office of the Issuer, (ii) the identification of the Bonds, to the minimum extent the Bond title, the Issue Date and the ISIN (or other Bond identifiers if no ISIN is available), (iii) the venue, date and time of the Meeting, provided that the date of the Meeting must fall on a date which is a Business, (iv) the agenda of the Meeting and, in the case of any proposed amendment(s) referred to in Article 12.1(b)(i) above, the specification of the proposed amendment(s) and justification thereof, and (v) the day that is the record (conclusive) date for the attendance at the Meeting. The Meeting will only be authorised to adopt draft resolutions contained in the notice of the Meeting; any other draft resolutions and matters that were not included on the proposed agenda of the Meeting may be decided only in the presence and with the approval of all Bondholders entitled to vote at such Meeting. If there is no more reason to convene the Meeting, the convening person will call off the Meeting in the same manner as convened.

12.2 Persons Authorised to Attend and Vote at the Meeting

(a) **Persons Authorised to Attend the Meeting**

To be entitled to attend and vote at the Meeting, a person will be a Bondholder (the **Person Authorised to Attend the Meeting**) recorded as a Bondholder in the register kept by the Central Depository and in an extract from the Bonds register provided by the Central Depository at the close of a calendar day that is 7 (seven) days prior to the date of the relevant Meeting (the **Meeting Attendance Record Date**) or a person who produces a certificate of the custodian in whose client's account with the Central Depository the relevant number of the Bonds was recorded as of the Meeting Attendance Record Date certifying that such person is a Bondholder and that the Bonds held by such person are registered in the account of the custodian by reason of their custodianship. The certificate according to the preceding sentence must be satisfactory in form and substance to the Fiscal and Paying Agent. No transfers of the Bonds made after the Meeting Attendance Record Date will be taken into account.

(b) **Voting Rights**

Each Person Authorised to Attend the Meeting will have such number of votes out of the total number of votes that corresponds to the ratio between the nominal value of the Bonds held by such person as of the Meeting Attendance Record Date to the aggregate outstanding nominal value of the Issue as of the Meeting Attendance Record Date. No voting right will be attached to any Bonds held by the Issuer as of the Meeting Attendance Record Date that have not been early redeemed by the Issuer within the meaning of Article 6.6 of these Terms and Conditions, and no such Bonds will be taken into account in determining the presence of a quorum at the Meeting. If the Meeting decides on recalling a common proxy, the common proxy (if he/she is a Person Authorised to Attend the Meeting) may not exercise his/her voting right.

(c) **Attendance of the Meeting by Other Persons**

The Issuer is obliged to attend the Meeting, either in person or by proxy. Other persons entitled to attend the Meeting are proxies of the Fiscal and Paying Agent, the common proxy of the Bondholders under Article 12.3(c) of these Terms and Conditions (unless he is a Person Authorised to Attend the Meeting) and any guests invited by the Issuer and/or the Fiscal and Paying Agent.

12.3 Course of the Meeting; Decision-Making

(a) **Quorum**

The Meeting will constitute a quorum if attended by the Persons Authorised to Attend the Meeting, who were, as of the Meeting Attendance Record Date, holders of the Bonds the nominal value of which represents more than 30% of the aggregate nominal value of the issued and outstanding Bonds. If the Meeting decides on recalling a common proxy, any votes belonging to the common proxy (if he is a Person Authorised to Attend the Meeting) will not be included in the total number of votes. Before opening the Meeting the Issuer will inform, either alone or through the Fiscal and Paying Agent, about the number of all the Bonds in respect of which the Persons Authorised to Attend the Meeting are entitled to attend and vote at the Meeting in accordance with these Terms and Conditions.

(b) **Chairman of the Meeting**

The Meeting convened by the Issuer will be presided over by a chairman appointed by the Issuer. The Meeting convened by a Bondholder or the Bondholders will be presided over by a chairman elected by a simple majority of votes of the attending Persons Authorised to Attend the Meeting. Until the chairman is elected, the Meeting will be presided over by a person appointed by the Bondholder(s) who convened the Meeting, and the election of the chairman must be the first item on the agenda of any Meeting not convened by the Issuer.

(c) **Common Proxy**

The Meeting may elect, by resolution, an individual or a legal entity to act as a common proxy. The common proxy is authorised under the law (i) to enforce, on behalf of all of the Bondholders, any rights associated with the Bonds to the extent specified in a resolution adopted by the Meeting, (ii) to supervise the compliance with these Terms and Conditions by the Issuer, and (iii) to execute, on behalf of all of the Bondholders, any other acts or protect the Bondholders' interests in the manner and to the extent specified in a resolution adopted by the Meeting. The Meeting may recall the common proxy in the same way in which the common proxy was elected or replace him with a new common proxy.

(d) **Decision-Making at the Meeting**

The Meeting will decide on any issues on its agenda in the form of resolutions. Any resolution that (i) approves a proposal pursuant to Article 12.1(b)(i) of these Terms and Conditions, or (ii) appoints or recalls a common proxy, will require the affirmative vote of at least 3/4 (three-quarters) of the attending Persons Authorised to Attend the Meeting. Unless provided otherwise by law, any other resolutions will require a simple majority of votes of the attending Persons Authorised to Attend the Meeting in order to pass.

(e) **Adjourned Meeting**

If within 1 (one) hour after the scheduled opening of the Meeting a quorum is not present, then such Meeting will be automatically adjourned without further notice.

If the Meeting which is to decide on amendments to the Terms and Conditions pursuant to Article 12.1(b)(i) of these Terms and Conditions does not have a quorum within 1 (one) hour after the scheduled opening of the Meeting, the Issuer will convene, if necessary, a substitute Meeting to be held not later than 6 (six) weeks after the scheduled date of the original Meeting. The holding of a substitute Meeting with the unchanged agenda will be notified to the Bondholders not later than 15 (fifteen) calendar days after the scheduled date of the original Meeting. The substitute Meeting deciding on amendments to the Terms and Conditions according to Article 12.1(b)(i) of these Terms and Conditions will have a quorum irrespective of the conditions for quorum set out in Article 12.3(a) above.

12.4 Certain Additional Rights of the Bondholders

(a) Consequence of Voting against Certain Resolutions of the Meeting

If the Meeting approved a Material Change in accordance with Article 12.1(b)(i) through (vi) of these Terms and Conditions, the Person Authorised to Attend the Meeting who, according to the minutes of such Meeting, voted against a resolution adopted by the Meeting or failed to attend the Meeting (the **Applicant**) may request the repayment of the nominal value of the Bonds, which such Bondholder owned as of the Meeting Attendance Record Date and which will not be disposed of since such time, together with the pro-rata interest accrued on such Bonds in compliance with these Terms and Conditions (if relevant). This right must be exercised by the Applicant within 30 (thirty) calendar days of the publication date of such Meeting resolution according to Article 12.5 of these Terms and Conditions by a written notice (the **Application**) addressed to the Issuer and delivered to the Specified Office of the Fiscal and Paying Agent, failing which the right will terminate. The amounts referred to above will become due and payable within 30 (thirty) calendar days from the date the Application was delivered to the Fiscal and Paying Agent (the **Early Redemption Date**).

(b) Resolution on Early Redemption of the Bonds upon Bondholders' Request

If the Meeting agenda includes a Material Change under Article 12.1(b)(ii) through (vi) of these Terms and Conditions and the Meeting does not consent to such a Material Change, the Meeting may, even beyond the scope of the agenda, decide that if the Issuer proceeds in conflict with the resolution of the Meeting that disagreed with such a Material Change under Article 12.1(b)(ii) through (vi) of these Terms and Conditions, the Issuer will be obliged to repay the nominal value of the Bonds and any pro-rata interest accrued thereon (if relevant) to any Bondholder who requests such early repayment (the **Applicant**). This right must be exercised by the Applicant by a written notice (the **Application**) addressed to the Issuer and delivered to the Specified Office of the Fiscal and Paying Agent. The amounts referred to above will become due and payable within 30 (thirty) calendar days from the date the Application was delivered to the Fiscal and Paying Agent (the **Early Redemption Date**).

(c) Requirements of the Application

The Application will specify the number of Bonds the redemption of which is claimed in compliance with this Article. The Application must be in writing and signed by persons authorised to act on behalf of the Applicant and the authenticity of such signatures must be officially verified. Within the same time limit, the Applicant is obliged to deliver to the Specified Office of the Fiscal and Paying Agent all the documents required for making the payment under Article 7 of these Terms and Conditions.

12.5 Minutes of the Meeting

Minutes of the business discussed and resolved at the Meeting will be taken by the person who convened the Meeting or by a person authorised by such person and will be distributed within 30 (thirty) calendar days

after the date of the Meeting. The minutes will contain the conclusions of the Meeting, including, without limitation, any resolutions adopted by such Meeting. If the Meeting is convened by a Bondholder or the Bondholders, the minutes of such Meeting must also be delivered to the Issuer at the Specified Office address not later than 30 (thirty) calendar days after the date of the Meeting. The Issuer is obliged to keep the minutes of the Meeting until the rights under the Bonds expire under the statute of limitations. The minutes of the Meeting will be available for inspection by the Bondholders at the Specified Office during regular office hours. The Issuer is obliged, in person or through its authorised person (especially the Fiscal and Paying Agent), to publish all resolutions of the Meeting in the manner set out in Article 13 of these Terms and Conditions not later than 30 (thirty) calendar days after the date of the Meeting. If the Meeting has discussed a resolution on any of the Material Changes referred to in Article 12.1(b)(i) through (vi) of these Terms and Conditions, a notarial record must be made of the attendance at the Meeting and the resolutions adopted by the Meeting. If the Meeting adopts any such resolution, the notarial record will also contain the names of the Persons Authorised to Attend the Meeting who validly voted for the adoption of such resolution and the number of Bonds held by such persons as of the Meeting Attendance Record Date.

13. Notices

Any notice to the Bondholders will be valid and effective if published in the English language on the Issuer's website: www.smvak.cz. If mandatory provisions of applicable laws or these Terms and Conditions determine any other method for publishing any of the notices given hereunder, such notice will be deemed to be validly published upon its publication in the manner prescribed by the relevant legislation. In case of any notice published in several manners, the publication date of such notice will be deemed to be the date of its first publication.

14. Governing Law, Language and Dispute Resolution

Any rights and obligations under the Bonds will be governed by, and interpreted and construed in accordance with, the laws of the Czech Republic. These Terms and Conditions may be translated into other languages. In the event of any inconsistencies between the various language versions, the English language version shall prevail. Any dispute between the Issuer and the Bondholders arising out of or in connection with the Bonds or these Terms and Conditions shall be finally resolved by the Regional Court in Ostrava.

15. Definitions

In these Terms and Conditions:

Affiliates means any other Persons, directly or indirectly, controlling or controlled by or under direct or indirect common control with the Issuer. For the purposes of this definition, **control** when used with respect to any Person means the power to direct or cause the direction of the management or policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms **controlling**, **controlled** or **under common control** have meanings correlative to the foregoing.

Capital Stock means:

- (a) in the case of a corporation, corporate stock;
- (b) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;
- (c) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or, membership interests; and

- (d) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person, but excluding from all of the foregoing any debt securities convertible into Capital Stock, whether or not such debt securities include any right of participation with Capital Stock.

Central Depository means Centrální depozitář cenných papírů, a.s., a company with its registered office in Prague 1, Rybná 14, Postal Code: 110 05, Identification No. 250 81 489, registered with the Commercial Register maintained by the Municipal Court in Prague, Section B, Insert No. 4308.

Change of Control Period means the period commencing on the Relevant Announcement Date and ending 60 (sixty) calendar days after the Change of Control (or such longer period for which the Bonds are under consideration (such consideration having been announced publicly within the period ending 60 (sixty) calendar days after the Change of Control) for rating review or, as the case may be, rating by a Rating Agency, such period not to exceed 60 (sixty) calendar days after the public announcement of such consideration).

Change of Control Put Period means the period of 30 (thirty) calendar days following the date on which a Change of Control Notice is given.

Change of Control Redemption Date means the last Business Day of the month following the month in which the Change of Control Put Period expired.

Consolidated Net Income as such term is defined under IFRS.

Consolidated Net Leverage means as of any date of determination, the sum of the outstanding amount of Indebtedness of the Issuer or, if at any such time the Issuer has any Consolidated Subsidiaries, the sum of the outstanding amount of Indebtedness of the Issuer and its Consolidated Subsidiaries on a consolidated basis, in each case as of such date of determination less any Eligible Cash (except for Eligible Cash which are the proceeds of Indebtedness with respect to which the calculation of the Consolidated Net Leverage Ratio is being made) as of such date.

Consolidated Net Leverage Ratio means as of any date of determination, the ratio of (a) the Consolidated Net Leverage of the Issuer on such date and (b) the EBITDA of the Issuer for the most recently ended two semi-annual fiscal periods for which internal financial statements are available preceding the date on which proposed additional Indebtedness is incurred or proposed preferred stock is issued, as the case may be. In the event that the Issuer or any of its Subsidiaries, if at any such time the Issuer has any Subsidiaries, incurs, assumes, guarantees, repays, repurchases, redeems, defeases or otherwise discharges any Indebtedness (other than ordinary course working capital borrowings) or issues, repurchases or redeems preferred stock subsequent to the commencement of the period for which the Consolidated Net Leverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Consolidated Net Leverage Ratio is made (the **Calculation Date**), then the Consolidated Net Leverage Ratio will be calculated giving pro forma effect (as determined in good faith by a responsible accounting or financial officer of the Issuer) to such incurrence, assumption, guarantee, repayment, repurchase, redemption of preferred stock, and the use of the proceeds therefrom, as if the same had occurred at the beginning of the applicable two semi-annual reference period; provided, however, that the pro forma calculation of the Consolidated Net Leverage Ratio shall not give effect to any Excluded Debts.

In addition, for purposes of calculation the Consolidated Net Leverage Ratio:

- (a) acquisitions that have been made by the Issuer or, if at any such time the Issuer has any Subsidiaries, any of its Subsidiaries, including through mergers, consolidations or otherwise, or any Person or any

of its Subsidiaries acquired by the Issuer or, if at any such time the Issuer has any Subsidiaries, any of its Subsidiaries, and including any related financing transactions and including increases in ownership of Subsidiaries, during the two semi-annual reference period or subsequent to such reference period and on or prior to the Calculation Date or that are to be made on the Calculation Date, will be given pro forma effect as if they had occurred on the first day of the two semi-annual reference period;

- (b) the EBITDA attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded;
- (c) any Person that is a Subsidiary on the Calculation Date will be deemed to have been a Subsidiary at all times during such two semi-annual period; and
- (d) any Person that is not a Subsidiary on the Calculation Date will be deemed not to have been a Subsidiary at any time during such two semi-annual period.

Consolidated Subsidiary at any time shall mean a Subsidiary of the Issuer the accounts of which the Issuer is obliged to consolidate under IFRS.

Credit Facility Agreement means CZK 3,300,000,000 credit facility agreement dated 21 March 2013 between, amongst others, AQUALIA CZECH S.L. as the debtor, Aqualia Gestión Integral del Aqua, S.A. as the guarantor, ING Bank N.V., organizační složka, Komerční banka a.s., Sberbank CZ, a.s. and Sberbank Slovensko, a.s. as arrangers, the Facility Agent and Komerční banka a.s. as bank account security agent.

EBITDA means with respect to the Issuer for any period:

- (a) the income (loss) from operating activities of the Issuer and its Subsidiaries for such period as stated in the statement of comprehensive income included in the consolidated financial statements of the Issuer delivered in accordance with Article 4.4 for such period and without any reduction in respect of preferred stock dividends; plus
- (b) depreciation and amortization of the Issuer and its Subsidiaries for such period as stated in statement of comprehensive income included in the consolidated financial statements of the Issuer delivered in accordance with Article 4.4 for such period;

In each case, on a consolidated basis and determined in accordance with IFRS; provided that, for purposes of the definition of EBITDA:

- (a) the net income (loss) of any Person that is not a Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or similar distributions paid in cash to the Issuer or a Subsidiary of the Issuer which is a Subsidiary of the Person; and
- (b) the impact of any capitalised interest (including accreting or pay-in-kind interest) on any Subordinated Shareholder Debt will be excluded; and
- (c) any extraordinary, exceptional or nonrecurring gains or losses or any charges of the Issuer and its Subsidiaries (in each case as determined in good faith by the Issuer) for such period will be excluded; and
- (d) the cumulative effect of a change in the accounting principles will be excluded.

Eligible Cash means, in respect of the Issuer, cash in hand or on deposit with a bank and in each case, to which the Issuer is beneficially entitled at that time and which is capable of being applied against the Indebtedness.

Eligible Costs means the costs of acquisition of an appropriate amount of direct materials, salaries and other personal costs, other technologically necessary direct and indirect costs, and costs of circulation that are linked to the regulated activity of grid operation, water supply and waste water and are used as a basis of calculation for the water tariffs.

Excluded Debts means any Indebtedness (i) the purpose of which is to refinance and repay the Bonds, including the transaction costs thereof, (ii) arising out of derivative transactions concluded by the Issuer exclusively in order to secure itself against the exchange price and/or interest rate risks, (iii) arising out of the Project Financing, (iv) arising out of financial guarantees of up to CZK 200,000,000, and/or (v) any other Indebtedness not exceeding in an aggregate amount of CZK 300,000,000 or its equivalent in other currencies.

Extended Credit Facility means the amended and extended Credit Facility Agreement in the amount of up to CZK 1,800,000,000 to be dated on or around 15 July 2015 between, but in any event prior to 15 September 2015, amongst others, AQUALIA CZECH, S.L., ING Bank N.V., organizační složka, Komerční banka a.s., Sberbank CZ, a.s. and Sberbank Slovensko, a.s. as arrangers

Group means the Issuer and any of its Subsidiaries (if any).

IFRS means the International Financial Reporting Standards as adopted by the EU.

Indebtedness means any indebtedness, in each case without double counting, which would, except for any indebtedness referred to in paragraphs (h) and (i) below, be in accordance with IFRS treated as debt recognised on the balance sheet of the relevant person for or in respect of:

- (a) moneys borrowed;
- (b) any note purchase facility or the issue of bonds (including the Bonds), debentures, loan stock or any similar instrument;
- (c) any redeemable preference share;
- (d) any lease, hire purchase contract or other agreement which would, in accordance with IFRS, be treated as a finance or capital lease or similar form of debt;
- (e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (f) any indebtedness arising from any deferred payment agreements arranged primarily as a method of raising finance or financing the acquisition of an asset to the extent it is recorded on the balance sheet of the relevant person according to IFRS;
- (g) any derivative transaction entered into in connection with protection against fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value will be taken into account) which would, in accordance with IFRS, be treated on the balance sheet of the relevant person;

- (h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond standby or documentary letter of credit or any other instrument issued by a bank or financial institution other than any given in respect of trade credit arising in the ordinary course of business;
- (i) any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing, to the extent it is recorded on the balance sheet of the relevant person according to IFRS; or

any guarantee, indemnity or similar assurance against financial loss of any person issued by the relevant person in respect of any item referred to in paragraphs (a) to (i) above (other than any given in respect of trade credit arising in the ordinary course of business).

Parent Entity means any direct or indirect parent company or entity of the Issuer.

Person means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality.

Project Financing means an arrangement for the provision of funds that are to be mainly and predominantly used for the purposes of financing the purchase, building, extension or use of any property by any Subsidiary of the Issuer established solely for such purpose and the Persons providing such funds agree that such funds would be repaid by the debtor from the income from the use, operation, compensation for destruction or damage to the financed property, with no recourse against the Issuer, and as of the date of the provision of such financing, the providers of such funds could reasonably assume that the principal and interest from the funds provided will be repaid by such income.

Rating Agency means Moody's Investors Service Ltd, Standard & Poor's Credit Market Services Europe Limited or Fitch Ratings Limited (or any of their successors).

Relevant Announcement Date means the date that is the earlier of (i) the date of the first public announcement of the relevant Change of Control and (ii) the date of the earliest Relevant Potential Change of Control Announcement (if any).

Relevant Potential Change of Control Announcement means any public announcement or statement by the Issuer, any actual or potential bidder or any adviser acting on behalf of any actual or potential bidder relating to any potential Change of Control where within 180 (one hundred eighty) calendar days following the date of such announcement or statement, a Change of Control occurs.

Security Interest means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

Subordinated Shareholder Debt means, collectively, any funds provided to the Issuer by any Parent Entity, any Affiliates of any Parent Entity, in exchange for or pursuant to any security, instrument or agreement other than Capital Stock, in each case issued to and held by any of the foregoing Persons, together with any such security, instrument or agreement and any other security or instrument other than Capital Stock issued in payment of any obligation under any Subordinated Shareholder Debt; provided, however, that such Subordinated Shareholder Debt:

- (a) does not mature or require any amortisation, redemption or other repayment of principal or any sinking fund payment prior to the date that is three months following the Stated Maturity of the Bonds (other than through conversion or exchange of such funding into Capital Stock of the Issuer or any funding meeting the requirements of this definition);

- (b) does not require, prior to the date that is three months following the Stated Maturity of the Bonds, payment of cash interest, cash withholding amounts or other cash gross-ups, or any similar cash amounts;
- (c) contains no change of control or similar provisions and does not accelerate and has no right to declare a default or event of default or take any enforcement action or otherwise require any cash payment, in each case, prior to the date that is three months following the Stated Maturity of the Bonds;
- (d) does not provide for or require any security interest or encumbrance over any asset of the Issuer or any of its Subsidiaries; and
- (e) pursuant to its terms, is subordinated in right of payment to the prior payment in full of the Bonds.

Stated Maturity means, with respect to any instalment of interest or principal on any Indebtedness, the date on which the payment of interest or principal was scheduled to be paid (whether or not the borrower has a right to defer payment) in the documentation governing such Indebtedness as of the date of original incurrence of the relevant Indebtedness, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

Subsidiary means, in relation to any Person (the **first Person**) at any particular time, any other Person (the **second Person**):

- (a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or
- (b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated using the acquisition accounting method with those of the first Person.

Tangible Fixed Assets means, for the purposes of these Terms and Conditions, the line "*Buildings, land, equipment*" of the Issuer's latest audited unconsolidated or consolidated (as appropriate) financial statement as at 31 December prepared under the IFRS (as it is defined above), unless otherwise set out in these Terms and Conditions.

To the extent these Terms and Conditions refer to Consolidated Net Income, Consolidated Net Leverage, Consolidated Net Leverage Ratio, consolidated financial statements, EBITDA on a consolidated basis and Tangible Fixed Assets on a consolidated basis, these references should be interpreted as references to the standalone accounts of the Issuer as long as the Issuer does not have any Subsidiaries and does not consolidate. As long as the Issuer does not have any Subsidiaries the accounts in respect of which it is obliged to consolidate under IFRS, the term "*Consolidated Subsidiary*" or "*Consolidated Subsidiaries*" shall not apply.

INTEREST OF PERSONS INVOLVED IN ISSUANCE AND OFFERING OF BONDS

The Issuer is not aware of any interest of persons involved in issuance and offering of the Bonds which would be material for the Issue of the Bonds, other than for any fees payable to ING Bank N.V., London Branch, acting as the Joint Coordinator and the Joint Lead Manager, Komerční banka, a.s., acting as the Joint Coordinator, the Joint Lead Manager, the Fiscal and Paying Agent and the Listing Agent and SMBC Nikko Capital Markets Limited acting as the Joint Lead Manager in the offering and subscription and sale of the Bonds and that certain of the Joint Lead Managers have participations in the facilities that are expected to be repaid at AQUALIA CZECH S.L. level out of the proceeds of the Bonds.

USE OF PROCEEDS

The net proceeds from the Issue of the Bonds will be applied by the Issuer (i) to repay the existing debts of the Issuer, including full repayment of its outstanding 5% fixed rate bonds due 2015, ISIN CZ0003501462, issued in the aggregate nominal amount of CZK 2,000,000,000 (in words: two billion Czech crowns) and (following the existing bond prepayment) (ii) to make distributions to, amongst others, its parent entity (AQUALIA CZECH S.L.), through a dividend (including reserve fund dissolution and distribution as an advanced payment for dividend) in the amount of up to CZK 1,150,000,000 (in words: one billion one hundred fifty million Czech crowns) and a capital reduction in the amount of up to CZK 2,200,000,000 (in words: two billion two hundred million Czech crowns) in order for AQUALIA CZECH S.L. to repay its existing indebtedness (including to prepay part of outstanding amounts under the Credit Facility Agreement and to repay the Extended Credit Facility); (iii) to pay the transaction costs; and (iv) to finance general corporate purposes of the Issuer.

Certain of the Joint Lead Managers have participations in the facilities that are expected to be repaid at AQUALIA CZECH S.L. level.

INFORMATION ABOUT THE ISSUER

1. General Information about Issuer

<i>Business Name:</i>	Severomoravské vodovody a kanalizace Ostrava a.s.
<i>Place of Registration:</i>	the Czech Republic, Commercial Register maintained by the Ostrava Regional Court, Section B, Insert No. 347
<i>ID Number:</i>	451 93 665
<i>VAT Number:</i>	CZ45193665
<i>Day of Incorporation:</i>	The Issuer was registered in the Commercial Register on 30 April 1992
<i>Legal Form:</i>	Joint-stock company (in Czech: <i>akciová společnost</i>)
<i>Governing Law:</i>	The laws of the Czech Republic; activities of the Issuer are governed, in particular, by Act No. 90/2012 Coll., the Corporations Act, as amended (the Corporations Act), by Act No. 274/2001 Coll., on Water Pipelines and Sewerage, as amended (the Water Pipelines and Sewerage Act), and by Ordinance No. 428/2001 Coll., on the implementation of the Water Pipelines and Sewerage Act, as amended (the Ordinance on the Implementation of the Water Pipelines and Sewerage Act)
<i>Registered Seat:</i>	28. října 1235/169, Mariánské Hory, Postal Code: 709 00, Ostrava, the Czech Republic
<i>Phone Number:</i>	(+420) 596 697 111
<i>Fax Number:</i>	(+420) 596 624 205
<i>E-mail:</i>	smvak@smvak.cz
<i>Website:</i>	www.smvak.cz ; www.smvak.eu

2. Incorporation and History of Issuer

2.1 Foundation and Incorporation of Issuer

The Issuer was founded on 25 April 1992 based on notarial deed NZ 135/1992 N 133/1992 as a joint-stock company pursuant to Section 172 of Act No. 513/1991 Coll., the Commercial Code, as amended (effective until 31 December 2013), i.e. without a public offer of its shares. The sole founder of the Issuer was the National Property Fund of the Czech Republic (in Czech: *Fond národního majetku České republiky*), an organization established by Act No. 171/1991 Coll., on the Competence of Authorities of the Czech Republic in Relation to the Transfer of Assets to Other Persons and on the National Property Fund, as amended (effective until 31 December 2005), for the purpose of the technical realization of the privatization of assets owned by the Czech Republic.

The Issuer was registered in the Commercial Register maintained by the Ostrava Regional Court and was thus incorporated on 30 April 1992.

2.2 Registered Capital of Issuer and Shares

At the moment of incorporation of the Issuer, its registered capital amounted to CZK 3,534,057,000 and was divided into 3,534,057 book-entered bearer shares, each with a nominal value of CZK 1,000.

The registered capital of the Issuer was decreased with effect from 14 March 1994 to the amount of CZK 3,132,518,000, which was divided into (i) 2,711,133 book-entered name-registered shares, each with a nominal value of CZK 1,000, and (ii) 421,385 book-entered bearer shares, each with a nominal value of CZK 1,000.

With effect from 28 March 1996, the registered capital of the Issuer was increased to the amount of CZK 3,232,031,000, which was divided into (i) 2,810,646 book-entered name-registered shares, each with a nominal value of CZK 1,000, and (ii) 421,385 book-entered bearer shares, each with a nominal value of CZK 1,000.

With effect from October 9, 1998, the registered capital of the Issuer was increased to the amount of CZK 3,335,738,000, which was divided into (i) 2,914,353 common book-entered name-registered shares, each with a nominal value of CZK 1,000, and (ii) 421,385 common book-entered bearer shares, each with a nominal value of CZK 1,000. The registered capital was increased solely by in-kind contributions represented by infrastructural assets pursuant to Article 38 (10) of the Issuer's Articles of Association (i.e. facilities and structures relating to water management). The newly issued shares were subscribed by determined municipalities.

With effect from 24 June 1999, the registered capital of the Issuer was increased to the amount of CZK 3,414,877,000 and was divided into (i) 2,993,492 common book-entered name-registered shares, each with a nominal value of CZK 1,000, and (ii) 421,385 common book-entered bearer shares, each with a nominal value of CZK 1,000. The registered capital was increased solely by in-kind contributions represented by infrastructural assets determined by Article 38 (10) of the Issuer's Articles of Association (i.e. facilities and structures relating to water management). The newly issued shares were subscribed by determined municipalities.

Finally, with effect from 23 September 1999, the Issuer's registered capital was increased to the amount of CZK 3,458,425,000. The registered capital was increased solely by in-kind contributions represented by infrastructural assets determined by Article 38 (10) of the Issuer's Articles of Association, i.e. by a part of the "Slezská Harta" hydraulic structure relating to water management based on a resolution of the Ministry of Finance of the Czech Republic on the privatization of state assets, Ref. No. 41/81090/97, dated 9 December 1997. The registered capital was divided into (i) 3,037,040 common book-entered name-registered shares, each with a nominal value of CZK 1,000 (the **Name-registered Shares**), and (ii) 421,385 common book-entered bearer shares, each with a nominal value of CZK 1,000 (the **Bearer Shares**, and together with the Name-registered Shares, the **Shares**). ISIN CS0009031166 was assigned to the Name-registered Shares, whereas ISIN CS0008435251 was assigned to the Bearer Shares.

The Shares have been fully paid-up and are registered with the Central Securities Depository (in Czech: *Centrální depozitář cenných papírů, a.s.*). The Bearer Shares are publically traded on the RM-SYSTEM Czech Stock Exchange (in Czech: *RM-SYSTÉM, česká burza cenných papírů a.s.*).

The transferability of the Shares is not limited by the Articles of Association of the Company. All of the Shares assign the same rights to shareholders; each Share entitles a shareholder to one vote at the Issuer's General Meeting.

2.3 Major Shareholders of Issuer, FCC Group

Immediately after the incorporation of the Issuer, the National Property Fund, the founder of the Issuer, transferred most of its shares in the Issuer to securities accounts of individual municipalities, which, at the time of the development of the respective privatization project, agreed to become shareholders of the Issuer. Therefore, the assets required for water management that, pursuant to applicable legal regulation, should have been granted to these municipalities free of charge by the state were contributed directly into the registered capital of the Issuer, while the municipalities became the Issuer's shareholders to control these assets. As a result, 185 municipalities became the Issuer's shareholders, while 52.2% of the shares were owned by 7 major municipalities (Havířov, Frýdek-Místek, Ostrava, Karviná, Orlová, Opava, Nový Jičín). Further, 12.8% of the Issuer's shares were owned by natural persons as a result of the so-called "coupon privatization".

In April 1999, ANGLIAN WATER OVERSEAS HOLDINGS LIMITED, a company incorporated under the laws of England and Wales, purchased the Issuer's shares from the respective municipalities and natural persons corresponding to the amount of 54.3% of the Issuer's registered capital, as well as the shareholders' voting rights. SUEZ ENVIRONMENT, a company incorporated under the laws of France, purchased 44.07% of the Issuer's shares from the respective municipalities. The remaining 1.63% of the Issuer's shares were owned by other legal and natural persons.

On 26 February 2004, the shares of ANGLIAN WATER OVERSEAS HOLDINGS LIMITED were acquired by WATERFALL HOLDING B.V., a company incorporated under the laws of the Netherlands and belonging to the PENTA Group. On 30 April 2004, WATERFALL HOLDING B.V. also acquired the shares owned by SUEZ ENVIRONMENT and by certain legal and natural persons, and as a result, it became the Issuer's majority shareholder, owning 98.45% of the Issuer's shares. The remaining 1.55% of the Issuer's shares were owned by 1,720 other legal and natural persons.

On 1 July 2006, AQUALIA GESTIÓN DEL AGUA, S.A., a company incorporated under the laws of Spain, acquired the Issuer's shares from WATERFALL HOLDING B.V. and from certain legal and natural persons, and as a result, it became the Issuer's majority shareholder, owning 98.68% of the shares. The remaining 1.32% of the Issuer's shares were owned by 1,577 other legal and natural persons.

In 2009, AQUALIA CZECH S.L., a company incorporated under the laws of Spain, with its registered seat at Calle de Ulises 18, 28043 Madrid, Kingdom of Spain (**AQUALIA CZECH**), purchased the shares from AQUALIA GESTIÓN DEL AGUA, S.A., and as a result, as of 2 December 2009, it became the majority shareholder of the Issuer, owning shares corresponding to 98.68% of the Issuer's registered capital, as well as the shareholders' voting rights.

Thus, AQUALIA CZECH is the current controlling shareholder of the Issuer within the meaning of Section 74 (3) of the Corporations Act. The remaining 1.32% of the shares issued by the Issuer are owned by 1,577 other legal and natural persons.

AQUALIA CZECH is owned by the following two shareholders:

- (i) FCC Aqualia S.A. (previously named AQUALIA GESTION INTEGRAL DEL AGUA, S.A.), a leading private water management company in Spain and the third leading company in this area in Europe, which is a company incorporated under the laws of Spain, with its registered seat at Federico Salmón 13, Madrid, Spain (**FCC Aqualia**), owning a share in AQUALIA CZECH corresponding to 51% of its registered capital and voting rights therein; FCC Aqualia is a 100% subsidiary of FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S. A., a company

incorporated under the laws of Spain, with its registered seat at Balmes 36, Barcelona, Spain, which is the ultimate global parent company of the FCC Group; and

- (ii) MIT INFRASTRUCTURE EUROPE LIMITED, a company incorporated under the laws of England and Wales, with its registered seat at 8th Floor, 1 St. Martin's Le Grand, EC14 4AS London, United Kingdom of Great Britain and Northern Ireland, registered under number 8504074 (MIE), owning, as of 1 July 2013, a share in AQUALIA CZECH corresponding to 49% of its registered capital and voting rights therein; MIE is a 100% subsidiary of Mitsui & Co., Ltd., a company incorporated under the laws of Japan, with its registered seat at 1-3, Marunouchi 1-Chome, Chiyoda-ku, 100-8631 Tokyo, Japan, registered under number 008767, which is the second largest general trading company in Japan listed in Tokyo.

The FCC Group, to which the Issuer has belonged since 1 July 2006 operates in various areas of business activity, including, in particular, environmental services, waste management, street cleaning and maintenance of green areas, water management, infrastructure construction works and development of renewable energies.

The Issuer's business activities are completely independent of the business activities of other FCC Group companies. The following companies from FCC Group are regular business partners of the Issuer for the purposes of the mutual provision of products and services based on agreements concluded within the ordinary scope of business:

- Ovod, spol. s r.o.
- Aqualia infraestructuras inženýring, s.r.o.
- .A.S.A., spol. s r.o.
- tratamiento industrial de aguas, S.A.
- OBSED a.s.
- FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S. A.
- AQUALIA GESTION INTEGRAL DEL AGUA, S.A., organizační složka v České republice (branch in the Czech Republic)

The details of agreements concluded between the Issuer and companies from FCC Group are summarised in the Issuer's Annual Report, which is published every year pursuant to the Corporations Act. The Annual Reports are publicly available on the Issuer's website, and are also filed with the Collection of Deeds of the Commercial Register maintained by the Ostrava Regional Court (which is available online).

The Issuer does not hold any shares or ownership interests in any of the FCC Group companies or any other company or legal entity.

Control over the Issuer by its controlling entity, AQUALIA CZECH, is performed directly by voting at the Issuer's General Meeting and indirectly through the Issuer's Board of Directors, whose members are elected by the General Meeting. Control over the Issuer through the Issuer's Board of Directors includes the monthly review of the economic results of the Issuer and the determination of tasks and goals in the area of the Issuer's business activities, which are evaluated on a continuous basis. The Issuer has issued internal regulations that determine methodical instructions relating to the Issuer's business activities, compliance with which is overseen by the Issuer's internal audit department. These internal regulations are not interfered with by AQUALIA CZECH as the Issuer's controlling entity. The Issuer has also voluntarily undertaken to respect and apply the OECD Principles of Corporate Governance, as well as ethical principles of the FCC Group.

2.4 Change in Control of Issuer

The Issuer is not aware of any arrangements, the operation of which could result in a change in control of the Issuer. The Issuer's shares owned by AQUALIA CZECH are pledged in favour of banks that provide financing under existing credit facilities to AQUALIA CZECH.

3. Related Party Transactions

Related party transactions were conducted at arm's length prices charged at the location of the supply's provision and for commercial transactions.

All related parties transactions are validated by an independent consultant, based on benchmarking of the different industries to prove that the transfer prices which have been agreed by the parties are on arms-length principles and are in line with Section 23(7) of Act No. 586/1992 Coll., on Income Tax, as amended, instructions issued by the Ministry of Finances under ref. No. D-332, D-334, D-300 a D-10 and in line with the OECD Guideline on Transfer Prices for International Corporations and Tax Administration published in the Financial Bulletin.

In 2014, Aqualia infraestructuras inženýring, s.r.o. provided the Issuer with services related to (i) the performance of construction and engineering activities based on a framework agreement on the comprehensive implementation of capital construction projects dated 24 October 2007, as amended (the scope of these services included, in particular, the drafting of project documents, construction works, repairs of the Issuer's infrastructure assets, and engineering), and (ii) the collection and analyses of potable water samples in the Issuer's water supply network, as well as wastewater and sludge samples, based on various contracts for work.

The contract price is set for each separate project pursuant to applicable legislation and documentation on transfer prices applied in transactions between related parties. The payment terms are specified in accordance with the terms of relevant framework agreement.

The following tables summarize the transactions between the Issuer and its related parties in the respective periods.

Revenues of Issuer from Transactions with Related Parties (in CZK) in the period from 1 January 2014 to 31 December 2014

Related Party	Services	Other Revenues	Total
Ovod, spol. s r.o.	472,000	0	472,000
Aqualia infraestructuras inženýring, s.r.o.	2,308,000	0	2,308,000
tratamiento industrial de aguas, S.A.	165,000	0	165,000
FCC Aqualia, S.A.	122,000	0	122,000
.A.S.A., spol. s r.o.	521,000	0	521,000
TOTAL	3,588,000	0	3,588,000

Purchases of Issuer from Related Parties (in CZK) in the period from 1 January 2014 to 31 December 2014

Related Party	Services	Other Expenses	Total
Ovod, spol. s r.o.	23,797,000	0	23,797,000
Aqualia infraestructuras inženýring, s.r.o.	53,970,000	0	53,970,000
tratamiento industrial de aguas, S.A.	2,858,000	0	2,858,000

FCC Aqualia, S.A.	1,111,000	0	1,111,000
FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S. A.	2,709,000	0	2,709,000
.A.S.A., spol. s r.o.	2,916,000	0	2,916,000
OBSSED a.s.	20,311,000	0	20,311,000
TOTAL	107,672,000	0	107,672,000

CAPEX Projects Realised by Issuer with Related Parties (in CZK)

Related Party	1 January 2014 to 31 December 2014	1 January 2013 to 31 December 2013
Ovod, spol. s r.o.	630,000	0
Aqualia infraestructuras inženýring, s.r.o.	470,245,000	454,845,000
FCC Aqualia, S.A.	0	2,595,000
AQUALIA GESTION INTEGRAL DEL AGUA, S.A., organizační složka v České republice	9,971,000	9,951,000
TOTAL	480,846,000	467,391,000

Trade Receivables of Issuer from Related Parties (in CZK)

Related Party	Balance as at 31 December 2014	Balance as at 31 December 2013
Ovod, spol. s r.o.	0	15,000
Aqualia infraestructuras inženýring, s.r.o.	24,000	10,000
FCC Aqualia, S.A.	0	303,000
.A.S.A., spol. s r.o.	82,000	11,000
TOTAL	106,000	339,000

Trade Payables of Issuer to Related Parties (in CZK)

Related Party	Balance as at 31 December 2014	Balance as at 31 December 2013
Ovod, spol. s r.o.	2,394,000	2,080,000
tratamiento industrial de aguas, S.A.	282,000	278,000
Aqualia infraestructuras inženýring, s.r.o.	215,641,000	200,772,000
FCC Aqualia, S.A.	0	1,335,000
FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S. A.	2,709,000	0
.A.S.A., spol. s r.o.	418,000	229,000
OBSSED a.s.	0	1,981,000
TOTAL	221,444,000	206,675,000

Outstanding amounts have not been collateralised and will be settled via bank transfer. No guarantees were provided or received. No allowance was made for receivables from related parties.

4. Main Business Activities of Issuer

4.1 Areas of Business Activities of Issuer

The Issuer's core business activities are the production and supply of drinking water and the drainage and treatment of wastewater. Pursuant to Article 3 of its Articles of Association, the Issuer's business activities are the following:

- Disposal of hazardous waste;
- Accounting consulting, bookkeeping, tax accounting;
- Water plumbing;
- Installation, repair, inspection and testing of electrical equipment;
- Manufacture, installation, and repair of electrical machinery and appliances, electronic and telecommunications equipment;
- Machining;
- Production of electricity;
- Construction design;
- Construction of structures, changes thereto, and demolition thereof;
- Road motor transport;
- Technical and organizational activities in the area of fire protection;
- Provision of services in the area of health and safety at work; and
- Manufacture, trade and services not specified in Annexes 1 to 3 to Act No. 455/1991 Coll., the Trade Licensing Act, as amended, including:
 - Operation of water supply and wastewater services for public requirement;
 - Waste management (excluding hazardous waste);
 - Testing, measurement, analysis and inspections;
 - Guidance and consulting activities, production of expert studies and opinions;
 - Wholesale and retail trade;
 - Intermediation in trade and services;
 - Lease of other machines and devices;
 - Automated data processing;
 - Real estate services, facility management and maintenance;
 - Administrative services and services of an organizational and economic nature;
 - Research and development in the area of natural and technical sciences or social sciences;
 - Storage; and
 - Manufacture, repair and installation of measuring instruments.

4.2 Key Products and Services Provided by Issuer

In the Moravian-Silesian region, the Issuer has a natural monopoly in the area of water management, while it provides drinking water to over 1,100,000 inhabitants in this region and sewerage to almost 530,000 inhabitants, connecting 87.5% of the population in the region to the drinking water supply system, whereas the infrastructure for which is owned directly by the Issuer.

(a) **Drinking Water Supply**

The supply of drinking water represented 50% of the Issuer's revenues in the 2014 accounting period. Over 94% of produced drinking water is distributed through one of the largest water distribution systems in the Czech Republic – the Ostrava regional water pipeline (in Czech: *Ostravský oblastní vodovod*).

Water Resources

The Kružberk valley water reservoir in the Jeseníky Mountains and the Šance and Morávka reservoirs in the Beskydy Mountains serve as the main water resources. Around 4.5% of the Issuer's drinking water production comes from underground resources; the Issuer is obliged to pay fees for this water pursuant to Act No. 254/2001 Coll., the Water Act, as amended, to a local tax authority.

A certain volume of the water is also supplied by the Issuer from surface water resources, such as rivers, and the Issuer pays fees for the actual volume of supplied water to state companies Povodí Odry, státní podnik, and Lesy České republiky, s.p. based on the following agreements on water supply:

(i) Agreement on Surface Water Supply concluded with Povodí Odry

The agreement on surface water supply is concluded with Povodí Odry, státní podnik every year for a definite period of one year; the currently effective agreement for the period from 1 January 2015 to 31 December 2015 was concluded on 27 November 2014. Based on this agreement, Povodí Odry, státní podnik shall supply 63,634,000 m³ of surface water for CZK 4.21 (excluding VAT) per 1 m³. The Issuer is obliged to pay to Povodí Odry, státní podnik as of the 15th day of each month an advance payment of CZK 3,800,000, which is accounted for based on the actual volume of supplied water.

(ii) Agreement on Surface Water Supply concluded with Lesy České republiky

The agreement on surface water supply with Lesy České republiky, s.p. was concluded on 22 January 2003 for an indefinite period with effect from 1 January 2003. Every year, the contractual parties conclude an amendment to this agreement relating to the volume of supplied water and price thereof. The amendment relating to the period from 1 January 2015 to 31 December 2015 was concluded on 17 December 2014. Based on this amendment, Lesy České republiky, s.p. shall supply 7,200,000 m³ of surface water for CZK 2.06 (excluding VAT) per 1 m³.

Water Treatment

The water supplied from the abovementioned water resources is further processed by the Issuer into drinking water in water treatment plants. The largest water treatment plants are Podhradí (maximum capacity of 2,200 l/s), Nová Ves by Frýdlant nad Ostravicí (maximum capacity of 2,200 l/s) and Vyšní Lhoty (maximum capacity of 450 l/s). In the standard water treatment process, the Issuer mainly uses coagulation filtration technology, while aluminium sulphate is used as a coagulant, further filtration of the water takes place using sand filters, and it is then disinfected using chlorine and chlorine dioxide. Other technologies are used as well, depending on the source of the water, such as aeration of the water or simple water filtration or disinfection.

The quality of drinking water produced by the Issuer is very good and constantly meets all requirements set by Act No. 258/2000 Coll., on Public Health Protection, as amended, as well as by Ordinance No. 252/2004 Coll., on the Determination of Hygienic Requirements for drinking and hot water and the frequency and scope of drinking water inspection, as amended. Every week, the Issuer performs analysis of the quality of

the drinking water produced in the Podhradí, Nová Ves by Frýdlant nad Ostravicí and Vyšní Lhoty water treatment plants and publishes the results thereof on its website.

Overview of Drinking Water Production and Supply of Issuer

Indicator	2012	2013	2014
Water produced in Issuer's facilities	67,365,000 m ³	64,856,000 m ³	64,533,000 m ³
Water from third-party water-service organizations	138,000 m ³	124,000 m ³	106,000 m ³
Water supplied to third-party water-service organizations	22,251,000 m ³	21,528,000 m ³	22,338,000 m ³
Water produced for use by end consumers	45,252,000 m ³	43,452,000 m ³	42,301,000 m ³
Billed water	35,894,000 m ³	34,751,000 m ³	34,070,000 m ³
of which: Households	23,993,000 m ³	23,576,000 m ³	23,266,000 m ³
Other	11,901,000 m ³	11,175,000 m ³	10,804,000 m ³

As of 31 December 2014, the Issuer operated 5,053 km of the water supply network, including 129,039 water service connections, 381 water reservoirs and 213 pumping stations.

Overview of Water Supply System Operated by Issuer

Indicator	2012	2013	2014
Number of households connected to Issuer's water system	731,541	730,753	730,510
Number of water supply networks for public consumption	128	129	128
Of which: Group pipelines	55	55	55
Length of water supply network	4,986 km	5,029 km	5,053 km
Number of water service connections	126,459	127,916	129,039
Length of water service connections	771 km	771 km	771 km
Number of installed water meters	128,173	129,635	130,795
Number of replaced water meters per year	22,467	17,259	16,424
Number of fixed-tariff water off-takes	1,965	1,903	1,881
Number of pumping and re-pumping stations	206	211	213
Number of water treatment plants	41	41	39
Number of water reservoirs	379	382	381
Volume of water reservoirs	391,050 m ³	391,105 m ³	390,493 m ³

(b) Wastewater Drainage

Wastewater drainage represented 37% of the Issuer's revenues in the accounting period for the year 2014.

The Issuer operates sewerage systems in 81 municipalities in the Moravian-Silesian region consisting of a total of 1,740 km of sewerage pipes, including 111 sewerage pumping stations transporting wastewater from low areas to gravitation sewerage pipelines fitted with wastewater treatment plants at the end of each pipe. The Issuer treats the wastewater in 65 wastewater treatment plants in total, of which 59 are mechanical/biological and 6 mechanical. All the mechanical/biological wastewater treatment plants meet the requirements determined by Regulation No. 61/2003 Coll., on indicators and figures of permissible contamination of surface and underground water resources, requirements for permission of wastewater

drainage into surface and underground water resources and sewerage systems and on sensitive areas, as amended, which implements the requirements of applicable EU legal regulation.

The overall capacity of wastewater treatment plants operated by the Issuer corresponds to 279,682 m³ per day and 973,210 equivalent inhabitants of the region.

Overview of Sewerage System and Wastewater Treatment Plants Operated by Issuer

Indicator	2012	2013	2014
Households connected to public sewerage system	533,661	525,133	524,952
Municipalities with public sewerage systems	78	80	81
Wastewater treatment plants	67	65	65
Capacity of wastewater treatment plants	279,771 m ³ /day	279,510 m ³ /day	279,682 m ³ /day
Length of sewerage systems	1,680 km	1,707 km	1,740 km
Sewerage service connections	37,428	47,862	49,999
Wastewater discharged into public sewerage systems (excl. billed rainwater drainage)	24,605,000 m ³	24,143,000 m ³	23,971,000 m ³
of which treated	24,236,000 m ³	24,059,000 m ³	23,881,000 m ³
Treated wastewater (incl. rainwater)	51,642,000 m ³	55,968,000 m ³	49,641,000 m ³
Sludge produced in wastewater treatment plants (in 100% dry mass)	9,208 t/year	9,536 t/year	10,224 t/year

4.3 Key Customers of the Issuer

The Issuer provides 90% of its services directly to end users (56% of the Issuer's revenues for the accounting period for the year ended 31 December 2014 was achieved by the provision of its services to households) and 10% to wholesalers of bulk water.

The largest client of the Issuer is Ostravské vodárny a kanalizace a.s., a provider of drinking water and drainage of wastewater in the city of Ostrava, representing 5% of the Issuer's total revenues for the accounting period for the year ended 31 December 2014.

The Issuer's top 10 clients by annual revenue (who represented approximately 25% of total revenues of the Issuer for the accounting period for the year ended 31 December 2014) are the following:

- Ostravské vodárny a kanalizace a.s.
- RPG Byty, s.r.o.
- Veolia Energie ČR, a.s.
- DISTEP a.s.
- Jastrzebski Zaklad Wodociagow i Kanalizacji S.A. (Poland)
- ENERGETIKA TŘINEC, a.s.
- Stavební bytové družstvo Havířov
- Vodovody a kanalizace Přerov, a.s.
- Plzeňský Prazdroj, a.s.
- Hyundai Motor Manufacturing Czech s.r.o.

The Issuer operates customer centres in Ostrava, Frýdek-Místek, Karviná, Nový Jičín, Opava and Jasenná (for Sdružení obcí Syrákov) to provide any required support to its customers.

Overview of Customers and Concluded Contracts of Issuer (as of December 31, 2014)

	Number of customers	Number of Concluded Contracts	Ratio of Concluded Contracts/Total Number of Customers
Households	112,310	111,456	99.24%
Corporate Customers	11,438	11,189	97.82%
Total	123,748	122,645	99.11%

4.4 Key Suppliers of the Issuer

Apart from Povodí Odry, státní podnik (whose supplies represented approximately 14.6% of total costs of the Issuer for the accounting period for the year ended 31 December 2014) and Lesy České republiky, s.p.(whose supplies represented approximately 0.1% of total costs of the Issuer for the accounting period for the year ended 31 December 2014), which supply surface water to the Issuer as described above in Section 4.2(a), the following companies represent the top 10 suppliers of the Issuer:

- **Aqualia infraestructuras inženýring, s.r.o.** (member of FCC Group and a 49% subsidiary of MIE), supplier of construction works and provider of reparations and laboratory works. The works supplied by Aqualia infraestructuras inženýring, s.r.o. represented investments in the Issuer's infrastructure corresponding to 91.96% of total Issuer's investments expenditure in the accounting period for the year ended 31 December 2014;
- **Amper Market, a.s.**, supplier of electric power since 2015 (replacing ČEZ Prodej, s.r.o., the previous supplier of electric power, whose supplies represented 4.1% of total costs of the Issuer for the accounting period for the year ended 31 December 2014);
- **Ovod, spol. s r.o.** (member of FCC Group), provider of reading, certification and reparations of water meters, whose supplies represented 1.7% of total costs of the Issuer for the accounting period for the year ended 31 December 2014;
- **OBSED, a.s.** (member of FCC Group), provider of liquidation of sludge and waste, whose supplies represented 1.5% of total costs of the Issuer for the accounting period for the year ended 31 December 2014;
- **OMV Česká republika, s.r.o.**, supplier of fuel, whose supplies represented 1.4% of total costs of the Issuer for the accounting period for the year ended 31 December 2014;
- **NS REALITY a.s.**, lessor of real estate (main office area), whose supplies represented 1.2% of total costs of the Issuer for the accounting period for the year ended 31 December 2014;
- **Sodexo Pass Česká republika a.s.**, supplier of meal vouchers (provided to the Issuer's employees), whose supplies represented 0.9% of total costs of the Issuer for the accounting period for the year ended 31 December 2014;
- **HAWLE ARMATURY, spol. s r.o.**, supplier of material required for connection to the water supply system, whose supplies represented 0.9% of total costs of the Issuer for the accounting period for the year ended 31 December 2014;
- **AQUALIA GESTION INTEGRAL DEL AGUA, S.A., organizační složka v České republice** (member of the FCC Group); provider of consulting services in the area of investments and concessions, whose supplies represented 0.7% of total costs of the Issuer for the accounting period for the year ended 31 December 2014; and
- **Arte spol. s r.o.**, supplier of sewerage vehicle and camera system for the monitoring of sewerage systems, whose supplies represented 0.6% of total costs of the Issuer for the accounting period for the year ended 31 December 2014.

4.5 Price of Drinking Water Supply and Wastewater Drainage

Drinking water supply and wastewater drainage belong among the business areas strictly regulated by the state authorities. In the process of determining the price for the supply of drinking water and wastewater drainage, the Issuer has to adhere to the principles determined by the Ordinance on the Implementation of the Water Pipelines and Sewerage Act, as well as the Price Bulletin regularly issued by the Ministry of Finance of the Czech Republic pursuant to Act No. 526/1990 Coll., on Prices, as amended. The economic regulation of pricing in the area of water management is based on the principle of the application of economically justifiable costs, proportionate profit and tax. It also depends on the volume of expected water consumption. Only economically justifiable costs, such as appropriate acquisition costs of material directly associated with drinking water supply and wastewater drainage, personnel costs and other direct costs related to the technology used can be taken into consideration in the process of price determination.

The price per unit of water is calculated on the basis of the following (simplified) formula:

$$\text{Tariff} = \frac{\text{Economically Justified Costs} + \text{Regulated Profit}}{\text{Projected Volumes of Water Supply}}$$

VAT pursuant to applicable legal regulation is added to the determined tariff.

The manner of the abovementioned pricing is determined by the Ministry of Finance of the Czech Republic.

The prices are subject to inspections of specialised tax authority performed at the Issuer.

Overview of Prices

Price per 1m ³ (in CZK) excluding VAT of 15%	2014	2015
Drinking Water Supply	33.08	34.40
Wastewater Drainage	30.48	31.88
Total	63.56	66.28

4.6 Quality Management System

In 2006, the Issuer introduced an integrated management system pursuant to ISO norms and obtained the following certificates: (i) ČSN EN ISO 9001:2009 certificate for quality management, (ii) ČSN EN ISO 14001:2005 certificate for environmental management, and (iii) ČSN OHSAS 18001:2008 certificate for management of health and safety in the workplace. The Issuer is also governed by and applies the Integrated Management System Policy.

4.7 Business Strategy of Issuer

The Issuer's business strategy is to continue providing its services within the Moravian-Silesian region and to grow organically by expanding its currently provided services to other small municipalities in the region and potentially also to other regions in the Czech Republic.

4.8 Intellectual Property of Issuer

The Issuer is the owner of the following 13 trademarks registered with the Czech Industrial Property Office:

- trademark registration number 95381 / 192185;
- trademark registration number 356148 / 270348;
- trademark registration number 356149 / 270349;

- trademark registration number 356138 / 271020;
- trademark registration number 356139 / 271021;
- trademark registration number 356140 / 271022;
- trademark registration number 356141 / 271023;
- trademark registration number 356142 / 271024;
- trademark registration number 356143 / 271025;
- trademark registration number 356144 / 271026;
- trademark registration number 356145 / 271027;
- trademark registration number 356146 / 271028; and
- trademark registration number 356147 / 271029.

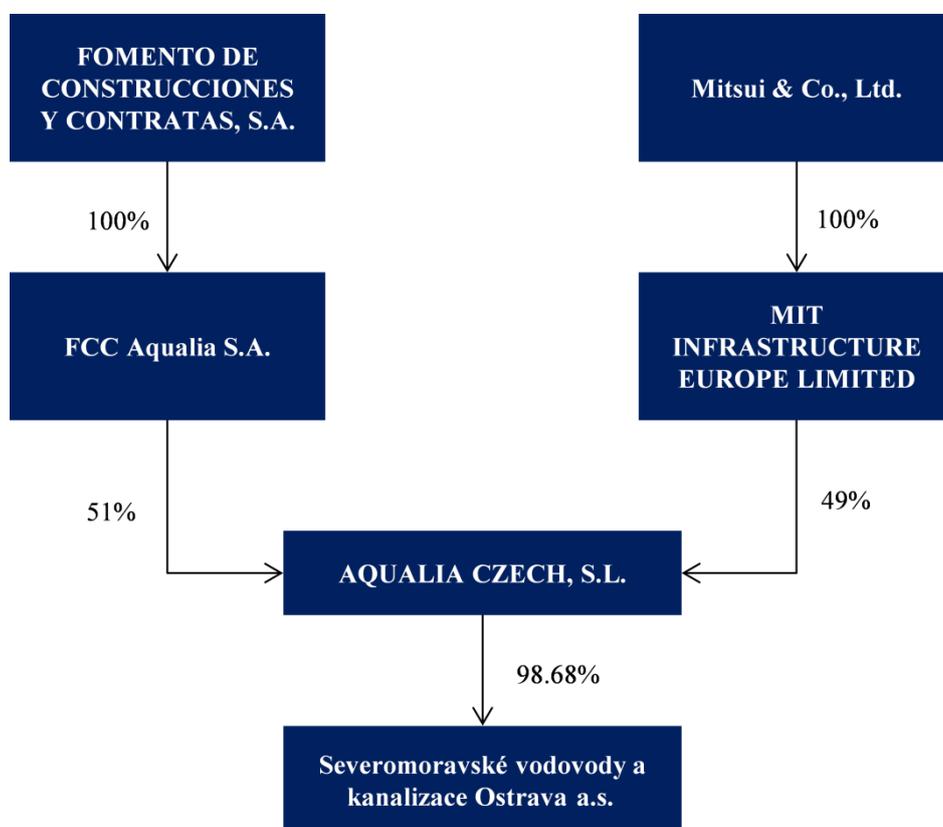
5. Organisational Structure of the Issuer

The Issuer is a member of the FCC Group. The Issuer's majority shareholder, AQUALIA CZECH, is owned by FCC Aqualia (which owns 51% of the Issuer's share capital), a 100% subsidiary of FOMENTO DE CONSTRUCCIONES Y CONTRATAS, S. A., the global ultimate parent company of the FCC Group, and by MIE (which owns 49% of the Issuer's share capital), a 100% subsidiary of Mitsui & Co., Ltd.

The Issuer is independent of other FCC Group companies or any other entities.

The Issuer does not hold any shares in any of the FCC Group companies or any other entities.

The Issuer's ownership structure is as follows:



6. Trend Information

Due to the character of the main business activities of the Issuer (i.e. drinking water supply and wastewater drainage), the Issuer is resilient to most economic fluctuations. Further, thanks to state regulation of the price for supplied drinking water and drained wastewater (as mentioned in Section 4.5 above), the price on the water management market is stable and therefore ensures rather predictable cash flow.

The consumption of drinking water (and related demand for wastewater drainage) per capita has been on a continuously downward trend each year. The main reasons for such trend mostly relate to the use of more efficient appliances by end users, as well as efforts to protect the environment and save water. Further, the water pipeline network has been modernised, which has resulted in significantly lower leakage of water.

The trend of a decrease in consumption has also affected the volume of drinking water supplied by the Issuer, as is clear, for example, from the "*Overview of Drinking Water Production and Supply of the Issuer*" provided in Section 4.2(a) above. The Issuer expects the decline in demand for drinking water supply and wastewater drainage to continue.

Except for the information mentioned above, the Issuer is not aware of any other trends, obligations or events that might have a significant impact on the prospects of the Issuer for the subsequent accounting period.

The Issuer declares that since the date of its last published audited financial statements as of 31 December 2014, there have been no material adverse changes in the Issuer's prospects of which the Issuer is aware and which could have any influence on the Issuer's financial situation.

7. Material Contracts

All material contracts concluded by the Issuer have been entered into in the ordinary course of business of the Issuer. The Issuer did not enter into any material contracts outside the ordinary course of business that could result in any FCC Group member being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations towards the Bondholders in connection with the Bonds.

8. Administrative, Management and Supervisory Bodies

The Issuer's management system is dualistic, it therefore has a Board of Directors (in Czech: *představenstvo*) and a Supervisory Board (in Czech: *dozorčí rada*).

8.1 Board of Directors of Issuer

The Board of Directors as a statutory body is responsible for the business management and representation of the Issuer. All competences that are not entrusted by the Corporations Act and/or the Issuer's Articles of Association to the Issuer's General Meeting or Supervisory Board shall be performed by the Board of Directors.

Two members of the Board of Directors are entitled to act (sign) on behalf of the Issuer, one of which must be the Chairman or the Vice Chairman of the Board of Directors.

The members of the Board of Directors are elected by the Issuer's General Meeting for a period of four years and can be re-elected. The General Meeting is entitled to remove at any time any member of the Board of Directors for any reason or without stating a reason. A member of the Board of Directors may also resign; however, pursuant to the Corporations Act, such resignation must not be performed at a time that is not suitable for the Issuer.

The members of the Board of Directors elect their Chairman and three Vice Chairmen.

The Board of Directors shall meet whenever it is necessary for the interests of the Issuer, however, at least once in three months. A quorum at the meeting is reached when more than half of the members of the Board of Directors are present; each member of the Board of Directors has one vote at the meeting. In case of a tie in voting, the vote of the Chairman of the Board of Directors shall be decisive.

As of the date of this Prospectus, the Issuer's Board of Directors has the following 15 members:

1. Mr Felix Parra Mediavilla

Position: Chairman of the Board of Directors

Elected as of: 28 May 2014

Date of birth: 21 September 1955

Residing at: Federico Salmón 13, Madrid, Kingdom of Spain

Principal activities performed outside of Issuer: Managing Director of FCC Aqualia, S.A.

2. Mr Luis Francisco De Lope Alonso

Position: First Vice Chairman of the Board of Directors

Elected as of: 17 September 2013

Re-elected as of: 28 May 2014

Date of birth: 10 July 1964

Residing at: Avenida Camino de Santiago 40, Madrid, Kingdom of Spain

Principal activities performed outside of Issuer: Director for International Affairs in FCC Aqualia, S.A., Chairman of the Supervisory Board of Ovod, spol. s r.o. (member of FCC Group)

3. Mr Rafael Pablo Pérez Feito

Position: Second Vice Chairman of the Board of Directors

Elected as of: 20 December 2006

Re-elected as of: 28 May 2014

Date of birth: 17 December 1974

Residing at: C/Ulises 18/6, Madrid, Kingdom of Spain

Principal activities performed outside of Issuer: Manager for the European region in FCC Aqualia, S.A., Vice Chairman of the Supervisory Board of Ovod, spol. s r.o. (member of FCC Group), Chairman of the Supervisory Board of Aqualia infraestructuras inženýring, s.r.o. (member of FCC Group)

4. Prof. Dr. Ing. Miroslav Kyncl

Position: Third Vice Chairman of the Board of Directors

Elected as of: 30 April 1992

Re-elected as of: 28 May 2014

Date of birth: 20 May 1943

Residing at: Anny Letenské 1293/29a, Polanka nad Odrou, 725 25 Ostrava, the Czech Republic

Principal activities performed outside of Issuer: Member of Scientific Board and professor of VŠB – Technical University of Ostrava

5. Mr Isidoro Antonio Marbán Fernández

Position: Member of the Board of Directors

Elected as of: 20 December 2006

Re-elected as of: 28 May 2014

Date of birth: 15 November 1962

Residing at: C/Ulises 6, Madrid, Kingdom of Spain

Principal activities performed outside of Issuer: Administration and Finance Manager in FCC Aqualia, S.A.

6. Mr Álvaro Pazos Guzman Rodríguez De Rivera

Position: Member of the Board of Directors

Elected as of: 21 October 2009

Re-elected as of: 28 May 2014

Date of birth: 17 March 1974

Residing at: C/Ulises, Madrid, Kingdom of Spain

Principal activities performed outside of Issuer: Manager for International Projects in FCC Aqualia, S.A., Branch Manager of AQUALIA GESTION INTEGRAL DEL AGUA, S.A., organizační složka v České republice (member of FCC Group)

7. Mr Jesús Roldán Ortega

Position: Member of the Board of Directors

Elected as of: 28 May 2014

Date of birth: 29 December 1974

Residing at: Madrid, Federico Salmón 13, Kingdom of Spain

Principal activities performed outside of Issuer: Legal Counsellor for Europe in FCC Aqualia, S.A.

8. Mr José María Álvarez Oblanca

Position: Member of the Board of Directors

Elected as of: 28 May 2014

Date of birth: 20 January 1965

Residing at: Federico Salmón 13, Madrid, Kingdom of Spain

Principal activities performed outside of Issuer: Director of administrative areas IV and V in FCC Aqualia, S.A.

9. Mr Mitsuru Yasuhara

Position: Member of the Board of Directors

Elected as of: 26 May 2015

Date of birth: 15 July 1969

Residing at: 1-3, Marunouchi 1-chome, Tokyo - Chiyoda-Ku, Japan

Principal activities performed outside of Issuer: General Manager of Water Projects Department – Renewable energy and Environmental Projects Division in Mitsui & Co., Ltd.

10. Mr Hideki Ando

Position: Member of the Board of Directors

Elected as of: 17 September 2013

Re-elected as of: 28 May 2014

Date of birth: 4 May 1974

Residing at: Plaza Manuel Gomez Moreno 2, P 10 B, Madrid, Kingdom of Spain

Principal activities performed outside of Issuer: Director of MIT INFRASTRUCTURE EUROPE LIMITED, GM of MIT INFRASTRUCTURE EUROPE LIMITED, Spain Branch, Vice Chairman of the Supervisory Board of Aqualia infraestructuras inženýring, s.r.o. (member of FCC Group)

11. Ing. Václav Holeček

Position: Member of the Board of Directors

Elected as of: 17 June 1999

Re-elected as of: 28 May 2014

Date of birth: 26 September 1951

Residing at: Do Kopce 1695, 735 41 Petřvald, the Czech Republic

Principal activities performed outside of Issuer: Member of the Municipal Council of Petřvald

12. Mgr. Věra Palková

Position: Member of the Board of Directors

Elected as of: 20 December 2006

Re-elected as of: 28 May 2014

Date of birth: 24 September 1949

Residing at: Mlýnská 1221, Šunychl, 735 81 Bohumín, the Czech Republic

Principal activities performed outside of Issuer: Deputy Regional Administration of the Moravian-Silesian region, Member of the Administrative Board of Nadační fond Veolia Energie Humain ČR (foundation fund), Chairman of the Supervisory Board of Bohumínská městská nemocnice, a.s.

13. Ing. Ladislav Šinčl

Position: Member of the Board of Directors

Elected as of: 17 June 1999

Re-elected as of: 28 May 2014

Date of birth: 20 September 1965

Residing at: U Vrtu 149/3, Mizerov, 733 01 Karviná, the Czech Republic

Principal activities performed outside of Issuer: Member of the Lower House of Parliament of the Czech Republic

14. Ing. Miroslav Šrámek

Position: Member of the Board of Directors

Elected as of: 14 March 1994

Re-elected as of: 28 May 2014

Date of birth: 25 May 1942

Residing at: Slovanská 1293/12, 741 01 Nový Jičín, the Czech Republic

Principal activities performed outside of Issuer: Member of the Municipal Council of Nový Jičín

15. Ing. Zdeněk Trejbal, Ph.D.

Position: Member of the Board of Directors

Elected as of: 20 December 2006

Re-elected as of: 28 May 2014

Date of birth: 25 September 1958

Residing at: Čkalovova 862/29, Poruba, 708 00 Ostrava, the Czech Republic

Principal activities performed outside of Issuer: None

8.2 Management of Issuer and Key Employees

Pursuant to Article 32 of the Issuer's Articles of Association, the Board of Directors elects and removes the CEO of the Issuer, who shall represent the Issuer in the scope specified by the Issuer's Board of Directors.

As of the date of this Prospectus, the Issuer's CEO is Ing. Anatol Pšenička, who was elected to this position in April 2015, replacing prof. Dr. Ing. Miroslav Kyncl, Third Vice Chairman of the Board of Directors (see above), who performed this position from June 1996.

The members of the Issuer's management and key employees as of the date of this Prospectus are the following:

1. **Ing. Anatol Pšenička**

Position: CEO

Business Address: Seat of the Issuer

Principal activities performed outside of Issuer: none

2. **Ing. Albín Dobeš, Ph.D.**

Position: CFO

Business Address: Seat of the Issuer

Principal activities performed outside of Issuer: Member of Scientific Board of HGF VŠB – Technical University of Ostrava; Member of Economic Committee of SOVAK (Water Pipelines and Sewerage Association, in Czech: *Sdružení oboru vodovodů a kanalizací ČR*)

3. **Ing. Radim Hlavatý, ACCA**

Position: Financial Controller

Business Address: Seat of the Issuer

Principal activities performed outside of Issuer: None

4. **Ing. Martin Veselý, MBA**

Position: Technical Director

Business Address: Seat of the Issuer

Principal activities performed outside of Issuer: None

5. **Ing. Milan Koníř**

Position: Director of Water Supply Networks

Business Address: Seat of the Issuer

Principal activities performed outside of Issuer: Member of Water Pipelines and Sewerage Development Committee of SOVAK (Water Pipelines and Sewerage Association, in Czech: *Sdružení oboru vodovodů a kanalizací ČR*)

6. **Ing. Jan Tlodka**

Position: Director of Sewerage Systems

Business Address: Seat of the Issuer

Principal activities performed outside of Issuer: None

7. **Ing. Jiří Komínek**

Position: Director of Ostrava regional water pipeline (in Czech: *Ostravský oblastní vodovod*).

Business Address: Seat of the Issuer

Principal activities performed outside of Issuer: None

8. **Ing. Petr Šváb, MSc.**

Position: Administrative Director

Business Address: Seat of the Issuer

Principal activities performed outside of Issuer: Member of Educational Committee and Editorial Board of SOVAK (Water Pipelines and Sewerage Association, in Czech: *Sdružení oboru vodovodů a kanalizací ČR*)

8.3 **Supervisory Board of Issuer**

The Supervisory Board supervises the activities of the Board of Directors and the Issuer itself. The Supervisory Board performs competences that are entrusted thereto by the Corporations Act and/or the Issuer's Articles of Association (for example, inspection of all documents and records relating to the Issuer's activities, review of the bookkeeping, review of the Issuer's activities with regard to compliance with the law and the Articles of Association, review of the Issuer's financial statements and proposal for distribution of profit, etc.).

The members of the Supervisory Board are elected by the Issuer's General Meeting (while four members are proposed by the Issuer's employees) for a period of four years and can be re-elected. The General Meeting is entitled to remove any member of the Supervisory Board at any time and for any reason or without stating a reason. A member of the Supervisory Board may also resign; however, pursuant to the Corporations Act, such resignation must not be performed at a time that is not suitable for the Issuer.

The members of the Supervisory Board elect the Chairman and Vice Chairman of the Supervisory Board.

The Supervisory Board shall meet whenever it is necessary for the interests of the Issuer, however, at least once a year. A quorum at the meeting is reached when more than half of the members of the Supervisory Board are present; each member of the Supervisory Board has one vote at the meeting. In case of a tie in voting, the vote of the Chairman of the Supervisory Board shall be decisive.

As of the date of this Prospectus, the Issuer's Supervisory Board has the following 12 members:

1. **RNDr. Lukáš Ženatý, Ph.D.**

Position: Chairman of the Supervisory Board

Elected as of: 19 June 1999

Re-elected as of: 28 May 2014

Date of birth: 17 July 1962

Business Address: Seat of the Issuer

Principal activities performed outside of Issuer: Vice President of Rotary Klub Ostrava, zapsaný spolek

2. **Ing. Eva Richtrová**

Position: Vice Chairman of the Supervisory Board

Elected as of: 19 June 1999

Re-elected as of: 28 May 2014

Date of birth: 11 June 1948

Business Address: Seat of the Issuer

Principal activities performed outside of Issuer: Member of the Municipal Council of Frýdek-Místek

3. Ing. Václav Klučka

Position: Member of the Supervisory Board

Elected as of: 17 May 2012

Date of birth: 20 July 1953

Business Address: Seat of the Issuer

Principal activities performed outside of Issuer: Member of the Lower House of Parliament of the Czech Republic

4. Bc. Daniel Pawlas

Position: Member of the Supervisory Board

Elected as of: 26 May 2015

Date of birth: 1 October 1975

Business Address: Seat of the Issuer

Principal activities performed outside of Issuer: Mayor of Havířov

5. Mr Petr Rys

Position: Member of the Supervisory Board

Elected as of: 9 May 2013

Date of birth: 2 July 1973

Business Address: Seat of the Issuer

Principal activities performed outside of Issuer: Mayor of the town of Bruntál

6. JUDr. Karel Svoboda

Position: Member of the Supervisory Board

Elected as of: 17 December 2008

Re-elected as of: 9 May 2013

Date of birth: 5 January 1946

Business Address: Seat of the Issuer

Principal activities performed outside of Issuer: Member of the Municipal Council of Bruntál

7. Mr Pedro Miñarro Perete

Position: Member of the Supervisory Board

Elected as of: 17 December 2008

Re-elected as of: 9 May 2013

Date of birth: 26 May 1977

Business Address: Seat of the Issuer

Principal activities performed outside of Issuer: Director of Ovod, spol. s r.o. (member of FCC Group), Branch Manager of TRATAMIENTO INDUSTRIAL DE AGUAS, S.A. organizační složka (member of FCC Group)

8. Ing. Bohuslav Majer

Position: Member of the Supervisory Board

Elected as of: 26 May 2015

Date of birth: 18 January 1955

Business Address: Seat of the Issuer

Principal activities performed outside of Issuer: Mayor of Příbor

9. Ms Danuše Harudová

Position: Member of the Supervisory Board

Elected as of: 28 May 2014

Date of birth: 8 March 1956

Business Address: Seat of the Issuer

Principal activities performed outside of Issuer: None

10. Mr Radim Výtisk

Position: Member of the Supervisory Board

Elected as of: 28 May 2014

Date of birth: 28 October 1971

Business Address: Seat of the Issuer

Principal activities performed outside of Issuer: None

11. Ing. Markéta Rosmarinová

Position: Member of the Supervisory Board

Elected as of: 7 February 2013

Re-elected as of: 28 May 2014

Date of birth: 12 May 1977

Business Address: Seat of the Issuer

Principal activities performed outside of Issuer: Member of the Supervisory Board of EXEKO CZ a.s.

12. Ing. Zbyněk Skyba

Position: Member of the Supervisory Board

Elected as of: 27 March 2002

Re-elected as of: 28 May 2014

Date of birth: 29 April 1957

Business Address: Seat of the Issuer

Principal activities performed outside of Issuer: None

8.4 Potential Conflict of Interest

The Issuer is not aware of any actual or potential conflict of interest between any duties of the abovementioned members of the Board of Directors, management and key employees and members of the Supervisory Board toward the Issuer and their private interests or their other duties. The Issuer complies with the OECD Principles of Corporate Governance, as well as ethical principles of the FCC Group.

9. Governmental Legal and Arbitration Proceedings

No governmental, legal or arbitration proceedings that may have had or have had a significant effect on the Issuer's financial position or profitability in the recent past have been held in the period of the last 12 months prior to the date of this Prospectus or are threatening to be initiated.

10. Documents on Display

During the period of validity of this Prospectus, the following documents mentioned below, as well as any other documents to which this Prospectus refers, will be available free of charge upon request for inspection during regular business hours from 9 a.m. to 3 p.m. at the Issuer's registered seat at 28. října 1235/169, Mariánské Hory, Postal Code: 709 00, Ostrava, the Czech Republic:

- Foundation Deed of the Issuer;
- Articles of Association of the Issuer;
- Annual Report of the Issuer for the year 2013, including the full version of the audited financial statements of the Issuer for the accounting period ending 31 December 2013; and
- Annual Report of the Issuer for the year 2014, including the full version of the audited financial statements of the Issuer for the accounting period ending 31 December 2014.

During the period of validity of this Prospectus, the abovementioned documents will also be available electronically on the Issuer's website at www.smyak.cz by selecting the web-link "*Bonds*".

TAXATION AND FOREIGN EXCHANGE REGULATION IN THE CZECH REPUBLIC

This chapter summarises certain tax aspects of Czech laws regarding the acquisition, ownership and handling of the Bonds and does not purport to be a comprehensive description of all tax-relevant aspects that may be of importance when deciding on investing in the Bonds. This summary does not describe any tax aspects resulting from the laws of any state other than the Czech Republic. This summary does not specifically comment on or take into account the impact of the U.S. Foreign Account Tax Compliance Act (FATCA) or any of its aspects. It is recommended that parties interested in acquiring the Bonds consult their legal and tax advisors with regard to the tax, foreign exchange and legal consequences of purchasing, selling or holding the Bonds and receiving payments under the tax and foreign exchange legislation in effect in the Czech Republic and the countries where such parties reside, as well as countries in which proceeds from holding or selling the Bonds could be taxed.

The Issuer is, under certain conditions, obliged to withhold and pay withholding tax on income from the Bonds.

Interest Income

Interest income on the Bonds (including also the difference between the nominal value of the Bond and the value at which it is issued, payable upon the Bond's maturity) paid to (i) an individual or (ii) a taxpayer other than an individual, who is not treated as a resident of the Czech Republic for tax purposes and does not hold the Bonds through a permanent establishment in the Czech Republic, is generally subject to a withholding tax to be withheld (and paid to the tax authorities) by the Issuer. The tax rate is 15% or 35%, unless decreased by an applicable double taxation treaty, if any (see below). The 15% is applicable with respect to recipients, who are tax residents in (i) an EU/EEA-member state or (ii) a country or jurisdiction with which the Czech Republic has the effective double tax treaty or the effective double (or multilateral) treaty on the exchange of information. The 35% is applicable with respect to other recipients. Save for certain exception in the case of an individual or a taxpayer other than an individual who is not treated as a resident of the Czech Republic for tax purposes (either of them the **Non-Czech Holder**), but who is a tax resident in an EU/EEA-member state, the withholding tax represents final Czech tax liability in respect of the interest income on the Bond.

Interest income on the Bonds paid to the Non-Czech Holder, who is not an individual and holds the Bonds through a permanent establishment in the Czech Republic, is generally subject to a securing tax to be withheld (and paid to the tax authorities) by the Issuer, unless the recipient of the interest is a tax resident in an EU/EEA-member state or unless the obligation to withhold is waived based on a tax authority decision. The rate of the securing tax is 10%. The recipient is, in this case, obliged to file a tax return and therein declare the interest income (and claim related expenses, if any). This means that the interest income would be taxed on a net basis (rather than on a gross basis) using standard corporate income tax rate of 19% (the 10% securing tax, if applicable, would be credited against the tax liability declared in a tax return with any overpayment being refunded subject to standard rules).

Interest income on the Bonds paid to a taxpayer other than an individual, who is treated as a resident of the Czech Republic for tax purposes, is not subject to withholding tax. Such holder of the Bonds would include the interest income (on an accrual basis) in its general tax base (subject to corporate income tax at a rate of 19%).

A double tax treaty between the Czech Republic and the country of which the recipient of interest income is resident for tax purposes may reduce or even eliminate the tax imposed on such income in the Czech Republic. The entitlement to such benefit under a double tax treaty may be conditional upon meeting conditions specified in the relevant double tax treaty, for example, evidence of the recipient's tax residence in

the other state or of beneficial ownership of the income by the recipient may have to be produced to the Issuer who bears a corresponding burden of proof with respect to the tax authorities. The interest paid to a related foreign legal entity may be, under certain conditions, fully exempt from the Czech corporate income tax (including any withholding tax) under the Council Directive 2003/49/EC of 3 June 2003, on a common system of taxation applicable to interest and royalty payments made between associated companies of different Member States (Interest and Royalties Directive), as implemented in the Czech tax law.

Selected categories of taxpayers (for example, foundations or the Guarantee Fund of securities traders) are exempt from tax on interest income, subject to certain conditions.

Capital gains/Losses

Non-Czech Holders

Income realised by a Non-Czech Holder not holding the Bonds through a permanent establishment in the Czech Republic, from the sale of the Bonds to another Non-Czech Holder, not purchasing the Bonds through a permanent establishment in the Czech Republic, will not be subject to taxation in the Czech Republic.

Income realised by a Non-Czech Holder, whether holding the Bonds through a permanent establishment in the Czech Republic or not, from the sale of the Bonds to an individual who is for tax purposes treated as a resident of the Czech Republic or to a taxpayer other than an individual who is for tax purposes treated as a resident of the Czech Republic (either of them further referred to as the **Czech Holder**) or to a Non-Czech Holder acquiring the Bonds through a permanent establishment in the Czech Republic, will be subject to taxation in the Czech Republic, unless:

- the selling Non-Czech Holder is resident for tax purposes in a country within the meaning of a double taxation treaty between that country and the Czech Republic, pursuant to the terms of which the right to tax that income is conferred exclusively to the former country and the Non-Czech Holder is entitled to enjoy the benefits of that double taxation treaty; or
- the selling Non-Czech Holder is an individual (i) who has held the Bonds for more than three years prior to their sale and the Bonds have not been held in connection with the business activities of the Non-Czech Holder or if so, (ii) the Bonds are sold after three years following the termination of such business activities at the earliest. Income of a Non-Czech Holder who is an individual from the sale of the Bonds will also be exempt from tax if his/her (gross) worldwide income from the sale of securities (including the Bonds) in a given calendar year does not exceed the amount of CZK 100,000.

Income realised by Non-Czech Holders holding the Bonds through a permanent establishment in the Czech Republic from the sale of the Bonds will be subject to taxation in the Czech Republic regardless of the status of the buyer.

If income realised by a Non-Czech Holder from the sale of the Bonds is subject to taxation in the Czech Republic (as discussed in the foregoing paragraphs), a Czech Holder or a permanent establishment in the Czech Republic of a Non-Czech Holder paying that income will be obliged to withhold an amount of 1% on a gross basis representing the securing tax, unless the Non-Czech Holder selling the Bonds is a tax resident in an EU/EEA-member state or unless the obligation to withhold is waived based on a tax authority decision. The tax security will be credited against the final tax liability of the Non-Czech Holder selling the Bonds with any overpayment being refunded subject to standard rules.

Taxable income realised by a Non-Czech Holder from the sale of the Bonds is generally subject to Czech corporate income tax of 19% or personal income tax of 15%. Non-Czech Holders are generally obliged to declare such income in their annual tax returns on a self-assessment basis.

Permanent establishments of Non-Czech Holders who are subject to Czech accounting standards for entrepreneurs or to Czech accounting standards for financial institutions may be required to reevaluate the Bonds to fair value for accounting purposes, whereby the unrealised gains and losses would be accounted for as revenue or expense, respectively. Such revenue is generally taxable and the corresponding expense is generally tax deductible for Czech tax purposes.

Furthermore, please note that the income realised by a Non-Czech Holder, who is an individual, might be subject to specific withholding tax regardless of the length of the holding period. For further details see "*Taxation – Acquisition of own Bonds*" below.

Czech Holders

Individuals or taxpayers other than individuals who are treated as residents of the Czech Republic for tax purposes (the **Czech Holders**) and who are subject to Czech accounting standards for entrepreneurs or to Czech accounting standards for financial institutions and hold the Bonds for the purposes of trading may be, under certain conditions, required to re-measure the Bonds to fair value for accounting purposes, whereby the unrealised gains or losses would be accounted for as revenues or expenses, respectively. Such revenues are generally taxable and the corresponding expenses are generally tax deductible for Czech tax purposes.

Any gains upon the sale of the Bonds will generally be taxable, unless exempt from tax, at the standard tax rates (as stated above) and in the case of Czech Holders who keep accounting books and hold the Bonds as part of their business property (in principle, all legal entities and certain individuals), any losses will generally be tax deductible. By contrast, a loss realised by a Czech Holder who is an individual other than that mentioned in the preceding sentence is generally non-deductible, except where such loss is compensated by taxable gains on sales of other securities realised in the same calendar year and the income from the sale of the Bonds is not exempt from tax.

In the case of Czech Holders who are individuals, any gain derived from the sale of the Bonds is exempt from Czech personal income tax if (i) the individual has held the Bonds for more than three years prior to their sale and the Bonds have not been held in connection with the business activities of the Czech Holder or if so, (ii) the Bonds are sold after three years following the termination of such business activities at the earliest. Income of a Czech Holder who is an individual from the sale of the Bonds will also be exempt from tax if his/her (gross) worldwide income from the sale of securities (including the Bonds) in a given calendar year does not exceed the amount of CZK 100,000.

Taxable income realised by a Czech Holder from the sale of the Bonds is generally subject to Czech corporate income tax of 19% or personal income tax of 15%. In the specific case of a Czech Individual Holder who holds the Bonds as part of their business property, income in excess of 48-times the average wage (CZK 1,277,328 for 2015) is additionally subject to a solidarity surcharge tax of 7% and also to other social security and health insurance levies. Czech Holders are generally obliged to declare such income in their annual tax returns on a self-assessment basis.

Furthermore, please note that the income realised by a Czech Holder, who is an individual, will be subject to specific withholding tax regardless of the length of the holding period. For further details see "*Taxation – Acquisition of own Bonds*" below.

Acquisition of own Bonds

Notwithstanding the above, the Czech tax law is not straightforward with respect to tax treatment in situations when the Bonds are bought back by the Issuer and the seller of the Bonds is a Non-Czech Holder who is an individual. While in the case of a Czech Holder who is an individual the law states that the

difference between the purchase price of the Bond and its issue price is subject to a withholding tax of 15%, in the case of a Non-Czech Holder it is not clear whether such income is subject to Czech taxation or not. Accordingly, there is a risk that the purchase price payable by the Issuer for the Bonds to the latter category of individuals could be subject to Czech withholding tax at the rate of 15% (though application of the 35% rate can neither be fully excluded).

Foreign exchange regulation

The Bonds do not constitute foreign securities within the meaning of Act No. 219/1995 Coll., the Foreign Exchange Act, as amended (the **Foreign Exchange Act**). Therefore, their issue and acquisition is not subject to foreign exchange regulation in the Czech Republic.

However, under the Foreign Exchange Act, the Czech Government may declare a foreign exchange emergency (in Czech: *nouzový stav v devizovém hospodářství*) in the case of adverse developments in the balance of payments which immediately and seriously endanger solvency *vis-à-vis* foreign countries or internal monetary balance of the Czech Republic. The declaration of the foreign exchange emergency takes effect as of the day on which it is announced by the Czech Government in the Czech mass media. If the foreign exchange emergency is declared by the Czech Government, payments in foreign currency or abroad generally, interbank transfers of monies from abroad to the Czech Republic and/or sale of securities (including the Bonds) abroad may be suspended for the duration of such emergency (not to exceed three months at any one time).

ENFORCEMENT OF CIVIL LAW LIABILITIES AGAINST THE ISSUER

The information included in this chapter is presented as general information for analysis of legal situation and was obtained from publicly available sources. The Issuer or its advisers make no representation as to the accuracy or completeness of the information included herein. Any prospective purchasers of the Bonds should therefore not rely upon the information included herein and are recommended to contact their legal advisers for consultation about the enforcement of claims in respect of the Issuer's private law liabilities within any relevant jurisdiction.

Regulation (EU) No 1215/2012 of 12 December 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters, is directly applicable in the Czech Republic. In terms of this regulation judgments in civil and commercial matters issued by judicial authorities in EU Member States are enforceable in the Czech Republic.

In respect of the non-EU countries, where the Czech Republic and the relevant state are parties to an international treaty on the recognition and execution of court judgments, the execution of court judgments given in any such state is provided in compliance with the provisions of that particular international treaty. In the absence of such treaty, judgments issued by foreign courts may be recognised and executed in the Czech Republic subject to the provisions of the Private International Law Act. Under Private International Law Act no rulings of any foreign courts in cases described in Section 1 of the Private International Law Act, conciliations before foreign courts, and foreign notary deeds (jointly the **Foreign Rulings**), may be recognised and enforced if:

- (a) the relevant case falls within the exclusive jurisdiction of Czech courts or the proceedings could not have been conducted before a foreign court if the provisions regarding the competence of Czech courts were applied when considering the competence of such foreign court, unless the relevant party to the proceedings in respect of which the foreign judgment is rendered submits voluntarily to the jurisdiction of that foreign court;
- (b) proceedings involving the same matter are brought in the Czech court and the commencement of such proceedings occurs prior to the commencement of proceedings held by the foreign court in which a judgement has been handed down the recognition of which is being applied for;
- (c) a final judgment has been rendered in the same matter by Czech court, or a final judgment of a foreign court has been recognised in the Czech Republic;
- (d) the party against whom the judgment was rendered was deprived of the right to take part in the proceedings by procedure of a foreign judicial body, especially if such person had not been duly served with the writ of summons or petition;
- (e) recognition of a foreign judgment would be contrary to public order in the Czech Republic; and
- (f) no reciprocity is guaranteed (reciprocity will not be required if the Foreign Ruling does not concern a Czech citizen or legal entity person). The Ministry of Justice of the Czech Republic may, upon consultation with the Ministry of Foreign Affairs of the Czech Republic or any other competent ministries of the Czech Republic, make a declaration of reciprocity in respect of a foreign country. Such reciprocity declaration will be binding on the courts and other government authorities in the Czech Republic. If no such reciprocity declaration has been issued with respect to any country, it does not necessarily mean that no reciprocity with respect to such country exists. Recognition of reciprocity in such cases will depend on the practice of recognition of Czech court judgments in such country.

However, Czech courts will hold no jurisdiction over disputes arising on the basis of a breach by the issuer of public law obligations provided for under statutes or rules of any jurisdiction other than the Czech Republic, including any actions for violation of any foreign securities legislation.

SUBSCRIPTION AND SALE

The Joint Lead Managers have agreed with the Issuer, pursuant to a Subscription Agreement and subject to the satisfaction of certain conditions, to subscribe for the Bonds at 99.710% of their principal amount less any applicable commissions and expenses as agreed between the Issuer and the Joint Lead Managers. The Issuer has also agreed, subject to certain limitations, to reimburse the Joint Lead Managers for their expenses in connection with the issue of the Bonds. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer. The Issuer has agreed in the Subscription Agreement to indemnify the Joint Lead Managers against certain liabilities incurred in connection with the issue of the Bonds.

Certain of the Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into positions in securities, including potentially the Bonds. Any such short positions could adversely affect future trading prices of the Bonds. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

General

The distribution of this Prospectus as well as any offer, sale or purchase of the Bonds is restricted by law in some jurisdictions. The Issuer will not ask for approval or recognition of this Prospectus (including its supplements, if any) in other jurisdiction, the Bonds will not be registered, permitted or approved by any administrative or other authority in any jurisdiction with the exception of the CNB and, accordingly, in the absence of applicable exemption(s), no offering of the Bonds will be possible outside of the Czech Republic. All persons in possession of this Prospectus will be responsible for observing any restrictions relating to the offer, purchase and sale of the Bonds and the possession and distribution of any documents relating to the Bonds in all relevant jurisdictions.

In addition to the above, the Issuer asks the subscribers of each Bond and the Bond acquirers to observe all relevant restrictions in each country (including the Czech Republic) where they would purchase, offer, sell or otherwise transfer the Bonds or where they would distribute, make accessible or otherwise circulate this Prospectus including its supplements, if any, or any other offering or promotional material or information in connection with the Bonds, in each case at their own expense and irrespective of whether this Prospectus or its supplements or any other offering or promotional material or information in connection with the Bonds is recorded in the printed form or in the electronic or any other intangible form.

Any offer of any Bonds made by the Issuer and the Joint Lead Managers (including the distribution of this Prospectus to selected investors on a confidential basis in the Czech Republic prior to the approval of this Prospectus by the CNB and prior to its publication) will be made pursuant to Section 35(2)(c) and (d) of the CMA. Such offer does not require prior publication of a prospectus of the offered security. Accordingly, the Issuer notifies all potential investors and other persons of the fact that any Bonds may only be acquired by investors for an aggregate issue price equal to or in excess of the equivalent of EUR 100,000 per one

investor. The Issuer will not be bound by any order of any potential investor for subscription or purchase of any Bonds if the aggregate issue price for the ordered Bonds is less than the equivalent of EUR 100,000.

Any person that acquires any Bonds will be deemed to have represented and agreed that (i) such person acknowledges all relevant restrictions on the offer, sale and purchase of the Bonds, in particular in the Czech Republic, relating to such person and the relevant method of offer, sale or purchase, (ii) such person will not further offer for sale or sell the Bonds without complying with all relevant restrictions applicable to such person and to the relevant method of offer and sale and (iii) before further offering for sale or further selling the Bonds, such person will inform the potential buyers that in certain jurisdictions, further offer or sale of the Bonds may be subject to legal restrictions, which must be observed.

United States

The Issuer would like to draw the attention of potential investors to the fact that the Bonds have not been and will not be registered under the U.S. 1933 Securities Act, as amended (the **U.S. Securities Act**) or by any securities commission or any other authority of any State of the United States and therefore will not be offered, sold or transferred within the United States or to U.S. residents (as defined in Regulation S implementing the U.S. Securities Act) except pursuant to an exemption from the registration duty under the U.S. Securities Act or in transactions not subject to registration under the U.S. Securities Act.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each a **Relevant Member State**), each Joint Lead Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Bonds which are the subject of the offering contemplated by this Prospectus to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Bonds to the public in that Relevant Member State:

- (a) following the date of publication of a prospectus in relation to such Bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus and the Issuer has consented in writing to its use for the purpose of that offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the Joint Lead Managers; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Bonds referred to in (b) to (d) above shall require the Issuer or any Joint Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of Bonds to the public in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to

purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression Prospectus Directive means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

The Issuer further wishes to point out that the Bonds will not be offered or sold in the United Kingdom of Great Britain and Northern Ireland (the **United Kingdom**) by way of distributing any documents or notices except for offers to persons authorised to trade with securities on their own or on someone else's account in the United Kingdom or under such circumstances that do not constitute a public offer of securities under the 1985 Companies Act, as amended. All legal acts pertaining to the Bonds made in the United Kingdom, from the United Kingdom or otherwise associated with the United Kingdom in any manner whatsoever will also be performed in compliance with the 2000 (FSMA 2000) legislation governing financial services, including the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the **Order**), and with the Prospectus Regulations 2005, as amended. In particular, this Prospectus may only be distributed to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Order or (b) high net worth entities falling within article 49(1) of the Order (all such persons together being referred to as **relevant persons**). Any person who is not a relevant person should not act or rely on this document or any of its contents.

CERTAIN DEFINITIONS

In this Prospectus:

Issuer or **SmVaK** or **Company** means **Severomoravské vodovody a kanalizace Ostrava a.s.**, a joint-stock company incorporated under the laws of the Czech Republic, with its registered office at Ostrava, 28. října 1235/169, Mariánské Hory, Postal Code: 709 00, Identification No. 451 93 665, registered with the Commercial Register kept by the Regional Court in Ostrava, Section B, Insert No. 347;

CMA means the Czech Act No. 256/2004 Coll., the Capital Market Act, as amended;

Bonds Act means the Czech Act no. 190/2004 Coll., on Bonds, as amended;

Prague Stock Exchange or **PSE** means Burza cenných papírů Praha, a.s.;

Private International Law Act means Act No. 91/2012 Coll., the Private International Law Act, as amended;

CNB means the Czech National Bank, which exercises supervision over the capital market in accordance with Act No. 15/1998 Coll. on Supervision in the Capital Market Area and on the Amendment to Other Laws;

CZK refers to the lawful currency of the Czech Republic;

EU refers to the European Union;

EEA refers to the European Economic Area;

euro or **EUR** refers to the single currency of the participating Member States in the Third Stage of European Economic and Monetary Union pursuant to the Treaty on Functioning of the European Union, as amended from time to time;

IFRS refers to International Financial Reporting Standards as adopted by the EU;

Terms and Conditions refers to the terms and conditions of the Bonds;

we, us, our and other similar terms refer to the Issuer, unless expressly stated otherwise or the context otherwise requires.

GENERAL INFORMATION

The Issue was approved by a resolution of the Issuer's Board of Directors dated 21 April 2015.

The Bonds will be governed by Czech law, specifically the Bonds Act, the CMA and by the respective relevant regulations of the relevant securities markets where the Bonds are to be listed.

This Prospectus was approved by the decision of the CNB on 14 July 2015, ref. no. 2015/078294/CNB/570, file no. S-Sp-2015/00021/CNB/572, which became final and effective on 15 July 2015.

An application has been made for the Bonds to be admitted to listing on the regulated market (in Czech: *Regulovaný trh*) of the PSE. The expenses related to the admission to trading of the Bonds on the regulated market of the PSE are expected to be CZK 50,000. The total costs related to the Issue, including the total costs related to the process of admission to trading of the Bonds on the regulated market of the PSE are expected to be approx. CZK 90,000,000.

No significant change in the financial or trading position or prospects of the Issuer occurred between 31 December 2014 and the date of this Prospectus.

This Prospectus was completed as of 13 July 2015.

The audited financial statements of the Issuer for the accounting period ending 31 December 2014 and 31 December 2013 were audited by Ernst & Young Audit, s.r.o., with its registered office at Na Florenci 2116/15, Nové Město, 110 00 Praha 1, Identification No. 267 04 153; namely by Josef Pivoňka, licence number 1963.

The Issuer declares that none of the auditor and its members, employees or agents has any material interest in the Issuer. The Issuer has asked the auditor for its consent and the financial information has been incorporated into this Prospectus with the auditor's consent.

As of the date of this Prospectus and in the period of previous 12 months, the Issuer has not been involved in any legal, administrative or arbitration proceedings in the Czech Republic or elsewhere, which could have negative impact on its financial situation.

The full versions of the Issuer's audited financial statements, including enclosures and auditor's reports are enclosed in this Prospectus by references and, together with all other documents referred to in this Prospectus, are available for inspection upon request at the Issuer's registered office during regular working hours and on the Issuer's web page www.smvak.cz by selecting the web-link "Bonds".

ADDRESSES

THE ISSUER

Severomoravské vodovody a kanalizace Ostrava a.s.
28. října 1235/169
Mariánské Hory, 709 00 Ostrava
Czech Republic

JOINT COORDINATORS

ING Bank N.V., London Branch
60 London Wall
London EC2M 5TQ
United Kingdom

Komerční banka, a.s.
Na Příkopě 33/969
114 07 Prague 1
Czech Republic

JOINT LEAD MANAGERS

ING Bank N.V., London Branch
60 London Wall
London EC2M 5TQ
United Kingdom

Komerční banka, a.s.
Na Příkopě 33/969
114 07 Prague 1
Czech Republic

SMBC Nikko Capital Markets Limited
One New Change
London EC4M 9AF
United Kingdom

LEGAL ADVISOR TO THE JOINT COORDINATORS AND THE JOINT LEAD MANAGERS

Allen & Overy (Czech Republic) LLP, organizační složka
V Celnici 1031/4
110 00 Prague 1
Czech Republic

LEGAL ADVISOR TO THE ISSUER

White&Case (Europe) LLP, organizační složka
Na Příkopě 14
110 00 Prague 1
Czech Republic

ISSUER'S AUDITOR

For the historical data related to the Issuer until the accounting period ending as of 31 December 2014:

Ernst & Young Audit, s.r.o.
Na Florenci 2116/15
110 00 Prague 1 - Nové Město
Czech Republic

As of the accounting period starting from 1 January 2015:

Deloitte Audit s.r.o.
Karolinská 654/2
186 00 Prague 8 – Karlín
Czech Republic