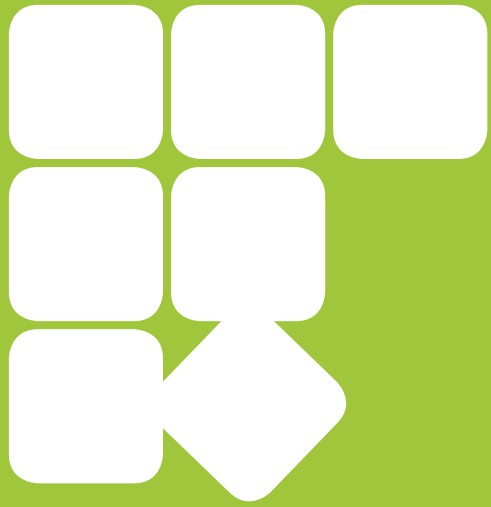


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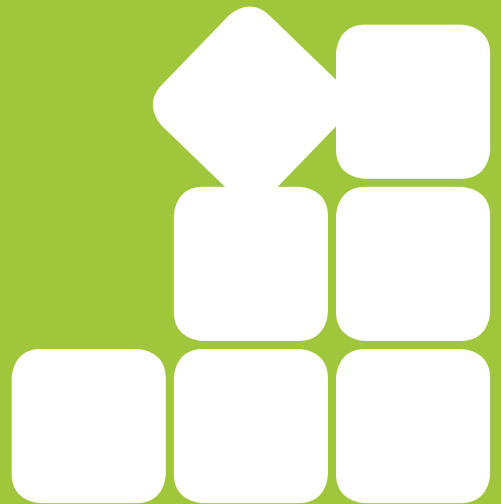


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Introduction of
Severní Energetická Group

Introduction of Severní Energetická Group

At present the mining company Severní Energetická a.s. comprises of Chvaletice coal-fired power station (Sev.en EC, a.s.), company Důl Kohinoor a.s. and company Sev.en WT, a.s.

The Severní Energetická Group combines extraction of coal as an energy source with electricity and heat generation and also with sales of these commodities. The Group operates the biggest brown coal deposit in the Czech Republic – the ČSA mine. Sev.en EC, a.s. also operates one of the newest brown-coal-fired plants with installed power of 4x 205 MW and achievable power supply exceeding 4 TWh per year. From the viewpoint of efficiency such kind of vertical integration provides the best model. With this model in practice, the energy contained in the fuel is exploited to its maximum. The group's strategy is to provide safe and reliable supply of coal, electricity and heat to its customer while minimizing the social and environmental production impact of these commodities. Severní Energetická group is one of the mainstays of the Czech energy system and a major provider of ancillary services.





Information on Persons Responsible for Annual Report

Information on Persons Responsible for Annual Report

Responsibility for Annual Report

Declaration:

We hereby declare that the information presented in the 2016 annual report of Sev.en EC, a.s. is true to the facts and that no relevant information has been omitted that could influence an accurate and precise assessment of the Company.

In Chvaletice 28 March 2017



Jan Dienstl
Chairman of the Board



Luboš Pavlas
Member of the Board



Jan Pozler
Member of the Board



Introduction
by the Member of the Board

Introduction by the Member of the Board

Dear friends,

In 2016 the company mainly focused on the repairs of the two blocks of the power station. The third block was shut down for repairs in March and a shutdown of the fourth block followed in May. For the rest of the year only the production blocks marked as B1 and B2 were in operation. In 2015 a public tender „Obnova dvou bloků Elektrárny Chvaletice“ (Revitalisation of two power station blocks) was opened and resulted in signing a contract with the winning company KRÁLOVOPOLSKÁ RIA, a.s. in July. The total price of repairs and greening of the two blocks as well as common and supporting facilities which we prepared and managed as the independent projects amounts to CZK 2.7 billion.

In terms of completed repairs I cannot, unfortunately, consider the past year as successful. The crucial part of the contract was originally to be completed by the end of 2016. However, the general contractor has failed to comply with this deadline and the handover of reconstructed facilities will thus be delayed by several months. The good news is that the delay will have no effect on price as the contract price is fixed.

The company's financial result in 2016 did not reach the expected level either. A key influence on this had a particularly low selling price of electricity in the first half of the year. It was a continuation of development in recent years when thanks to the massive support and subsidies for renewable energy sources outside of market environment, there is a significant reduction in the prices of power electricity.

The operation of the power plant and its results was also negatively affected by the August fire of outer coaling bridge and tower which had the remaining blocks B1 and B2 shut down. The fire was attended by 13 firefighting brigades. Fortunately, no injuries occurred during the firefighting. We managed to resume production in 50 days, in which the after-fire debris was cleared, the damaged vent and compressor station were repaired and a makeshift coaling cable way was opened. Heat for the municipalities in the surrounding of the power plant was provided by a standby boiler room running on heavy fuel oil. At the time of making the annual report, the investigation of causes of the fire was ongoing.



Among the incomprehensible events of the past year there were the activities of the Greenpeace movement aimed against greening of Chvaletice power plant. After unsuccessful demonstrations in Pardubice, the Greenpeace movement launched another protest, this time an illegal one. In early October, 11 activists who had overcome security systems broke into the guarded area of the power plant and against the law occupied one of the cooling towers. During the three-day stay the activists put up two giant banners on the cooling tower using anchors, thereby disrupting the cloak as they drilled more than 100 holes into it. The damage of this act came to more than CZK 600 thousand. A dangerous and senseless act of activists came ironically at a time when the power plant was investing more than CZK 2.7 billion into greening and environmental improvements. I consider this as a historically first protest of the activists against intentions that are to reduce the impact of plant operations on the environment.

Finally, despite all the problems and difficulties that I have mentioned, allow me to appreciate the efforts of all people who contributed to overcoming all difficult situations we faced last year. On behalf of the Board and on my own behalf I would like to thank you and wish you enough enthusiasm and energy in 2017.

Luboš Pavlas

Member of the Board and the Managing Director





Company Profile

Company Profile

The core business of the Sev.en EC, a.s. company is the production of electricity and heat, electricity trading and heat distribution.

The Sev.en EC, a.s. company operates a brown-coal fired power station in the East Bohemian Region which burns brown coal from the North Bohemia. Electricity production in four power station blocks of the power 205 MW makes it possible to offer a combination of standard products covering the base load (24 hours) and peak load (12 hours), featuring a dynamic output from 100 to 820 MW. The Sev.en EC, a.s. company establishes itself on the electricity market as a respected partner. The company offers both long-term and spot market contracts including trading on intraday markets.

Besides electricity production, the power station also ensures heat supplies. The company also produces and offers fully-certified after burning by-products for sale.

Throughout 2016, a revitalisation of two power station blocks marked as B3 and B4 took place. A major supplier of revitalisation works is the company KRÁLOVOPOLSKÁ RIA, a.s. The aim of the reconstruction is to decrease emissions of pollutants and dust, thus meeting the strictest legal requirements for long-term ecological operation. Owing to an investment of CZK 2.7 billion the power station will emit significantly less pollutants.

Sev.en EC, a.s. is certified by EMS and is also a holder of Safe Enterprise certificate, which the company successfully defended in 2016. The company wants to be an attractive employer and a good neighbour, and therefore it supports the East Bohemian region through sponsorship in many areas. In the last year, the company contributed to various sponsorship projects by the amount exceeding CZK 2.5 million. The perspective of the company brings perspective to the region where it operates.

Company Profile

Mission of Sev.en EC, a.s.

To ensure safe and reliable supplies of electricity and heat to business partners while minimising social and environmental production impacts of these commodities.

Basic Information about the Company

Name:	Sev.en EC, a.s.
Registered office:	K Elektrárně 227, Chvaletice, postal code 533 12
Legal form:	Joint Stock Company
Registered number:	28786009
Dully registered at:	Regional Court in Hradec Kralove, section B, 2905
Bank:	Československá obchodní banka, a.s. Praha, / CSOB, OJSC, Prague
Bank account number:	117517863/0300 (CZK) 12484280/0300 (EUR)
Internet:	www.sev-en.cz, www.7EC.cz
Email:	mail@sev-en.cz
Phone:	462 101 111

Scope of Business

The main scope of business of Sev.en EC, a.s. is:

- Electricity production
- Electricity trading
- Thermal energy production
- Thermal energy distribution
- Production, trade and services not specified in Annexes 1 to 3 of the Trade Act
- Plumbing and heating
- Accounting, Bookkeeping, tax accounting
- Rental of property, apartments and commercial space
- Installation, repair, inspection and testing of electrical equipment





Statutory Bodies
and Company Management

Statutory Bodies and Company Management

Board of Directors

The board of directors is the statutory body that manages the Company and acts on its behalf. The term of office of individual members of the board shall be five years. The boards' competences are specified in detail in the Articles of Association approved by the general meeting.

Members of the Board of Directors as at 31 December 2016

Chairman	Jan Dienstl	since 2 September 2013
Member	Luboš Pavlas	since 2 September 2013
Member	Jan Pozler	since 2 September 2015

Supervisory Board

The supervisory board is the supervisory body of the Company, it monitors and oversees the board of directors as well as the Company's business and proposes necessary measures to the board. The members of the supervisory board are entitled to inspect all documents and records relating to activities of the Company, control proper keeping of accounting records and check that business activities of the Company are carried out in accordance with valid legislation, articles of association and the instructions of general meeting.

Members of the Supervisory Board as at 31 December 2016

Chairman	David Knop-Kostka	since 2 January 2016
Member	Jan Dvořáček	since 2 January 2016
Member	Petr Karas	since 2 September 2013

Shares and Shareholders

The nominal equity of Sev.en EC, a.s. company as of December 31, 2016 amounted to CZK 4,406 million and was divided into 4,406 (four thousand four hundred and six) pieces of ordinary registered shares with a nominal value of CZK 1 million (one million) each. The sole shareholder of Sev.en EC, a.s. is the company Severní energetická a.s., identification number 28677986, with registered headquarters at Václava Řezáče 315, 434 01 Most, registered in the Commercial Register of the Regional Court in Ústí nad Labem, Section B, File 1986.



Basic Organisation Chart of the Company as of
December 31, 2016

Basic Organisation Chart of the Company as of December 31, 2016





Main Events of the Year 2016
and 2017 at the Date
of Issuing the Annual Report

Main Events of the Year 2016 and 2017 at the Date of Issuing the Annual Report

2016	
January	The Code of Ethics, Business Conduct and the Rules of ethical behaviour issued. January 2, 2016 David Knop-Kostka became a new chairperson of the Supervisory Board.
March	Shutdown of the block marked as B3 for repairs. Successful passing of the control by Regional Hygiene Office within a process of recertification in the programme „Safe Enterprise“.
April	Successful passing of the control by Fire Rescue Service of Pardubice Region within a process of recertification in the programme „Safe Enterprise“.
May	Shutdown of the block marked as B4 for repairs.
June	Successful passing of the overall control by Regional Labour Inspectorate of Hradec Králove and Pardubice regions within a process of recertification in the programme „Safe Enterprise“. The process of recertification was completed successfully again. The BUREAU VERITAS CZECH REPUBLIC, s.r.o. successfully completed the second surveillance audit in accordance with ČSN EN ISO 14001: 2005 standard; the certification is valid till May 2017.
August	ČIŽP (Czech Environmental Inspection) of Hradec Králove in compliance with the Act no. 73/2012 Coll., on substances that deplete the ozone layer and fluorinated greenhouse gasses, and with compliance with the Act no. 76/2002 Coll., on integrated pollution prevention and control, carried out an inspection of meeting the requirements and duties required by an integrated permit, meeting of the reporting duty in an integrated pollution register as well as meeting obligations under regulations of Component Acts on Environmental Protection (among others of Act no. 185/2001 Coll. on waste, Act no. 254/2001 Coll. the Water Act, and Act no.201/2012 on air protection) The inspection found no breach of integrated permit regulations. Fire of the coaling bridge, shutdown of the whole power plant.
October	Operation of the power plant after fire was resumed. One of the cooling towers occupied by Greenpeace activists. Awarding of the Safe Enterprise award. Certificate is valid until 2019.
November	Reconstruction of the internal coaling way completed. Establishment of Coaling Department (38 working positions) – according to an earlier decision of the Board of taking over coaling activity.
2017	
February	Auditing company BUREAU VERITAS CZECH REPUBLIC, spol. s.r.o. verified and confirmed CO ₂ emissions from fossil fuels released in 2016 in the amount of 2,285,694 tons of CO ₂ .



Project of Greening and Repairs Sev.en EC, a.s.

Project of Greening and Repairs Sev.en EC, a.s.

After nearly two years of preparation, the company Sev.en EC, a.s. started modernization of power plant operation in Chvaletice. The project includes greening of two production blocks. Block B3 was shut down for repairs in early March, a shutdown of block B4 followed in May. Repair works will be delayed from the original schedule and should be completed in spring 2017. The general contractor is the company KRÁLOVOPOLSKÁ RIA, a.s. which won a public tender competition in 2015 with an offer of repair costs amounting to CZK 2.5 billion.

The repair works include the boiler room, engine room, management and control systems, high-current facilities and electrostatic ash precipitator. The project has also optimized operation of the absorber no. 2. At the same time, internal coaling paths were modified, which resulted in minimizing dust. The total cost is over CZK 2.7 billion. It is thus one of the largest investment projects in Pardubice region, while no subsidies have been used in it.

Modernization of power plant Chvaletice operation does not change the scope of operations, the performance of existing boilers or the boiler fuel base. Its essential part comprises only of the repair and replacement of equipment in individual blocks.

The aim of the project is to reduce emissions of NO_x and solid particulate pollutants, by means of which the company fulfils the strictest legal requirements for long-term ecological operation. Reduction of dust during coal handling and noise reduction in the output transformers are among other benefits of the project. Modernization of operation represents the first step to long-term process of emission reduction. While before repairs a single block produced flue gas in the amount of about 350 mg / Nm³ of nitrogen oxides, due to the greening this number will fall below 200 mg / Nm³. On the technical side, the project particularly aims to result in an increase of operational reliability of technology, increase in operational efficiency and optimization of operation with regard to efficient use of brown coal.



Risk Management System

Risk Management System

The Sev.en EC, a.s. company has taken a decision to actively approach its risks. During the year 2016 the project of integrated risk management system 7EC began, hereinafter 7ECrisk. The purpose and goal of this project is a proper and complete management and standardization of companywide integrated risk management as one of the key management lines of company management. Integrated risk management is a complex (systemic) risk management that has

- the full functionality in the entire cycle of continuous detection, evaluation, assurance, monitoring and reporting of significant risks;
- its own organisational structure;
- effective information support;

and at the same time it fulfils the function of early warning so as to cover all risk areas of company business.

Integrated risk management is designed as an early warning system and it is able to give an early signal about an impending unreasonable risk, thus initiating coordinated action to mitigate its impact, doing so at all levels of corporate management. It also provides an effective tool for consolidation (aggregation) of risks across all areas of risk occurrence in the enterprise.

Within 7ECrisk programme there were 34 individual risks identified, 17 most significant of which were identified as key risks and the company has decided to manage them actively. The Risk Management Committee was appointed as another advisory body to the CEO. In November 2016, the first trial operation of risk management took place and demonstrated the functionality of the 7ECrisk project.





Information on Sustainable Development

Information on Sustainable Development

Regional Dialogue and Cooperation

Sev.en EC, a.s. supports the region in which it operates and where the majority of its employees reside. The support is focused mainly on municipalities neighbouring the power plant. The company provides support in a form of donations and sponsorship projects focusing mainly on education, culture, charity, sports and free time activities for children and the youth.

Since 2014, the group's employees have had the opportunity to engage in regional cooperation through an internal grant „Seven for you.“ It is designed to support interests, cultural and sporting activities or clubs in which the group's employees are actively involved. In 2016, 10 projects of Sev.en EC, a.s. employees were supported.

In 2016, Sev.en EC, a.s. supported more than 40 projects with a total value exceeding CZK 2.5 million. Among the supported projects are e.g. a donation for tree planting in the National Stud Kladruby nad Labem, in Řečany nad Labem or in Jankovice, donations to primary and nursery schools in Semín, Hlavečnick, Přelouč or Řečany nad Labem, a donation for repair of pavements in the municipality Tetov or a traditional partnership at presentation of František Filipovský Awards for the best dubbing. The company is also a long-term partner of many sports clubs and cultural events in the region.

An important part of our cooperative activities is regular and transparent communication and cooperation with representatives of surrounding villages and municipalities. Several times a year the representatives of Sev.en EC, a.s. company management meet with representatives of the municipalities that are located around the Chvaletice power plant. Together, they discuss the needs of individual municipalities, as well as the current situation in Sev.en EC, a.s. company. Representatives of the municipalities located around the plant also have the possibility to contact the power plant's management directly at any time.

Information on Sustainable Development

In 2016, the project of Chvaletice power plant repair works was at the heart of discussions with representatives of the region. The project is an important contribution to reduce emissions and minimize the negative impacts of the power plant on Pardubice region. All key target groups are regularly updated and familiarized with the course of the repair works. The representatives of surrounding municipalities have evaluated this project very positively, especially in terms of its positive impact on employment in the region and on reduction of the negative impacts on the environment.

Sev.en EC, a.s. also cooperates with schools and offers them excursions to power plant's premises. In 2016, excursions were limited due to ongoing repair works of two power plant blocks. That is why only about two hundred visitors, mostly experts and representatives of the region, visited the power plant. The Sev.en EC, a.s. held an Open Day at the construction site for the public, within which stakeholders were informed on the course of repair works of blocks B3 and B4. The public showed great interest in the event which received positive acclaims – over 800 visitors visited the power plant.

Sev.en EC, a.s. is an active member of many major trade union associations e. g. the District Heating Association of the Czech Republic, Czech Union of Employers in the energy sector, the Confederation of Industry of the Czech Republic, the Association for the Use of Energy Products and the Economic Chamber of Pardubice region. Our employees actively cooperate with these associations in various specialized sections.

Equal Opportunities and Human Rights

The basic approach of the Sev.en EC, a.s. company is to strictly comply with existing legislation and to respect all legislation in the area of protecting human rights and preventing discrimination based on nationality, race, skin colour, sex, religion or social origin.

The company maintains the principle of equal opportunities. In the company, women and men have equivalent conditions in terms of remuneration. Filling of vacant positions and remuneration rate is strictly dependent on expertise, qualifications and achievements of the employees. Much of „gender imbalance“ is mainly due to the nature of electricity production, which is mostly chosen by men as their job specialization.

Information on Sustainable Development

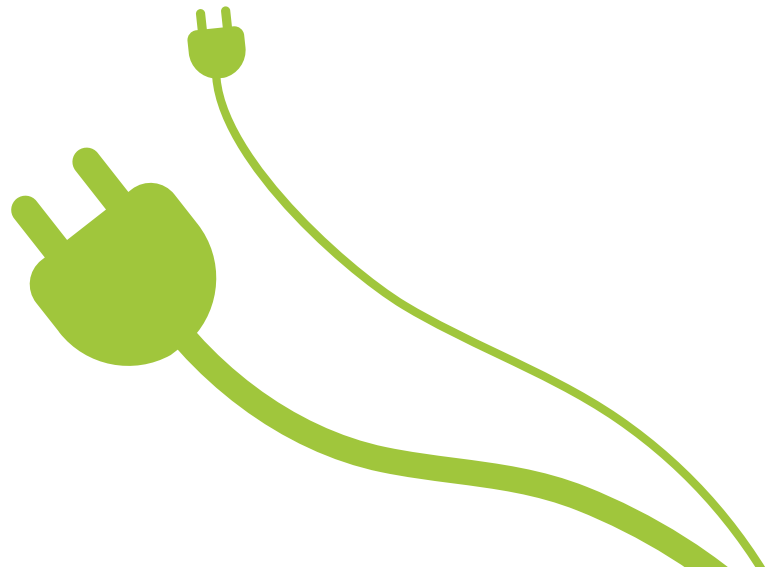
Ethics and Anti-corruption Conduct

Sev.en EC, a.s. is an important business entity of Pardubice Region and is fully aware of its importance and impact on the business, market, environmental and social environment in East Bohemia. As such, it is also the bearer of ethical values.

Since 2016, the group Sev.en has had an approved Code of Ethics and Business Conduct, including the rules of ethical conduct. This document comprehensively addresses the ethics compliance, as well as ways of submitting notices in case violation of the rules occurs.

Code of Ethics of the Sev.en group sets and publicly declares the basic ethical values of the group. The group keeps these values within its relations with all business partners, employees and other parties with whom the group meets in the course of its activities. The Sev.en group accepts responsibility for the promotion of these ethical values in the areas where it has a demonstrable mandate and the necessary rights and powers to do so. Group Sev.en's Code of Ethics is based on internationally recognized standards of ethical behaviour and it meets the requirements of the Code of Ethics of the Association of Industry and Transport. The Code of Ethics applies to the essential values of the group Sev.en, which are:

- Compliance with law
- Safety
- Environmental protection
- Respect and Reliability
- Loyalty
- Openness and mutual awareness
- Equality



Information on Sustainable Development

The Code of Ethics builds on the Code of Business Conduct as well as on rules of ethical conduct of the group. These determine in detail how the ethical values of the Sev.en Group apply to individual parties involved and will also contain rules for the prevention, elimination of corruption and protection of business competition. An important part of the rules of ethical conduct is grounding of the procedure for reporting complaints, suspicions and complaints of violations.

Occupational Safety and Emergency Preparedness

The company has in long-term endeavoured to minimize injury rate of employees and equipment failures, doing so namely by means of prevention, training, maintenance and quality management.

Safety regulations and emergency plans are constantly being updated and the company has deepened cooperation with specialized units such as the company's own Fire Brigade. The risk assessment has been carried out for all workplaces and for all activities and the assessment results are incorporated into Operational documentation. Ongoing inspections are also conducted by the state professional supervision institutions, which include checking safety and hygiene. The issue of OSH is also one of the themes being dealt with in close cooperation with trade unions.

In 2016 the accident and injury rate of employees equalled zero. Percentage of working incapacity was 0,047. Number of calendar days of sick leave for all employees totalled 53, which corresponds to 0.047% of the total workforce headcount.



Report of Board of Directors on Business Activities in 2016
and Assets as of December 31, 2016

Report of Board of Directors on Business Activities in 2016 and Assets as of December 31, 2016

Information provided in this section applies to individual financial statements unless otherwise stated. Individual financial statements have been prepared in accordance with accounting regulations of the Czech Republic. The Company does not have any branch abroad. After the balance sheet date closure no events occurred that could significantly affect the business plan for 2017, or that would misrepresent the data for the year 2016.

Overview of Chosen Technical and Economic Indicators

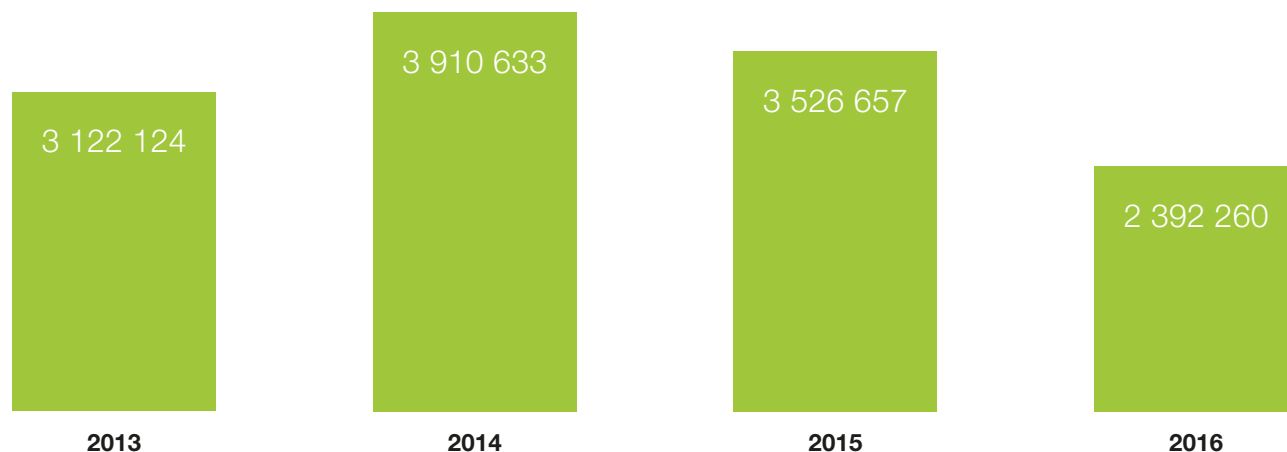
Technical Indicators		2013	2014	2015	2016
Installed power	MW	800	820	820	820
Electricity production	MWh	3 122 124	3 910 633	3 526 657	2 392 260
Heat supplies	GJ	143 841	130 657	128 667	121 556

Economic Indicators		2013	2014	2015	2016
Operating revenues	CZK mil.	4 844	11 052	23 579	10 226
out of which revenues for electricity sales	CZK mil.	4 685	9 019	21 129	9 341
Operating cost	CZK mil.	4 502	10 650	23 288	10 954
Operating economic outturn	CZK mil.	342	402	291	-728
Revenues after taxation	CZK mil.	263	408	358	-748
Total Assets (net)	CZK mil.	7 624	8 010	7 850	6 747
Tangible and intangible fixed assets	CZK mil.	2 539	2 396	3 127	4 091
Current assets	CZK mil.	5 083	5 546	4 709	2 632
Equity	CZK mil.	5 929	5 837	5 195	4 415
Nominal capital	CZK mil.	4 406	4 406	4 406	4 406
Bank loans and bailouts	CZK mil.	0	0	0	0
Workforce headcount as of December 31	number	261	285	301	346

Report of Board of Directors on Business Activities in 2016 and Assets as of December 31, 2016

Evaluation of trends in Technical and Operating Indicators

Sev.en EC, a.s. is one of the major producers of electricity and heat in the Czech Republic. Production of electricity and heat represents the core business areas of the company. In 2016, a total of 2,392,260 MWh of electricity was produced (year-on-year decrease by 1,134,397 MWh) and a total of 121,556 GJ of heat was produced.



Trends in electricity production in the period of 2013–2016 (MWh)

Report of Board of Directors on Business Activities in 2016 and Assets as of December 31, 2016

Electricity Sales

In 2016, the Sev.en EC, a.s. company continued to practise a successful business strategy in electricity trading on wholesale and auction markets of ancillary services of ČEPS, a.s. company. The amount of produced and traded electricity was influenced by two major factors: a planned shutdown of the two production power plant blocks B3 and B4 for repairs, and also by a 50-day shutdown of the whole power plant due to fire at the plant's premises. In spite of these adverse events, the Sev.en EC, a.s. company met all of its business obligations and belongs to respected business partners.

After a several years of downward trends in prices, electricity prices have grown steadily in the second half of the year, both on the long-term and spot market. Prices on the spot market have been greatly influenced by the availability of all production resources.

Sev.en EC, a.s. company has met requirements and regulations of European Union no. 1227/2011 of European Parliament on Wholesale Energy Market Integrity and Transparency.

Heat Energy Sales

In 2016, 121,556 GJ of heat was produced, i.e. a year-on-year decrease of 7,111 GJ. This was primarily influenced by climatic conditions. Sev.en EC, a.s. is the most significant supplier of heat in the local area. The total annual supply to the only heat distributor ČEZ Teplárenská, a.s. company in 2016 amounted to 43.2 TJ. The heat energy was also supplied to customers at power station's premises.

Sales of By-products

The company successfully continued in sales of by-products (fly ash, slag and FGD gypsum) as it managed to sell almost all of its production. The total of by-products sold amounts to 170,385 tons.

Report of Board of Directors on Business Activities in 2016 and Assets as of December 31, 2016

Economic Outturn after Tax

In 2016, the company reported a loss before tax of CZK -921.5 million. Although the realized trading margins remained positive, they were insufficient to cover operating and financial costs. Despite the negative financial result, the financial management of the company was stable and balanced throughout the whole year. Therefore in 2016 the company did not make use of any bank loans or bailouts in order to cover operation cost.

Structure of Assets and Capital

Tangible and intangible fixed assets increased year-on-year by CZK 964 million to the total value of CZK 4,091 million, while an essential part of the asset increase is represented by a provided investment deposit related to greening of production blocks B3 and B4 and to purchase of emission allowances. Current assets decreased year-on-year by the amount of CZK 2,077 million to the amount of CZK 2,632 million. This was particularly caused by decrease in trade receivables and obligations to the parent company.

Investments

In 2015, a contract was concluded for greening of two power plant blocks and the first investment deposit of the amount CZK 668.4 million was paid. During 2016 the first phase of the power plant repairs was carried out and the total price that was invested into the investments amounts to CZK 637.4 million.

As in previous years, investments were made in tangible assets. The aim of such investments primarily represented an effort to increase production efficiency and an effort to ensure conditions were met in order to prolong operation span of the power plant. The total amount of such investments made in 2016 reached CZK 103.2 million. Preparation and realization of investments were made in compliance with the business plan of the company. In the morning of August 30, 2016 there was a fire of coaling bridge G that was followed by its collapse. A common vent of blocks B1 and B2 and a compressor station were also damaged. The whole power plant was shut down since the fire (only a backup boiler room was in operation to provide heat). The operation of the power plant was resumed in October 19, 2016.

Report of Board of Directors on Business Activities in 2016 and Assets as of December 31, 2016

Future Prospects

The year 2017 will be a key year for further development of company technology. The repairs of production block B3 and B4 will be finished as well as related maintenance and investment activities. The total amount that will be paid in relation to the above mentioned activities totals CZK 2.7 billion.

There will still be a need to face negative external influences that will mainly be represented by decrease in power electricity prices, frequent and unsystematic legislative changes and the passed State Energy Policy. The mentioned facts force the company to constantly improve the planning process, to maximize efficiency of all activities and to put emphasis on utilising possible synergies.

The company processed and approved the budget for 2017 and secured its financing. Updating of mid-term and long-term plans is carried out on regular basis, thus proving the long-term sustainability of effective business.

Research and Development

In the current accounting period and the near future the company does not consider making any investments and activities in the field of research and development.

Report of Board of Directors on Business Activities in 2016 and Assets as of December 31, 2016

Human Resources

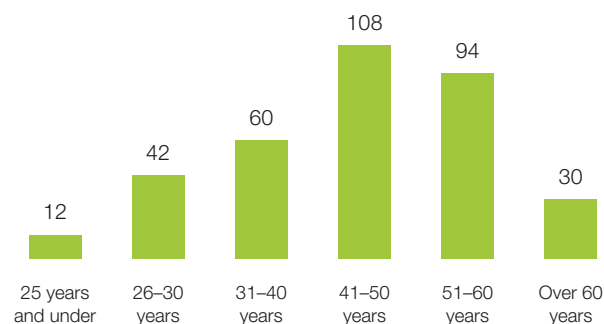
In 2016, the most significant change was represented by taking over of the coaling activities. This change resulted in the growth of employees by 38 persons.

Trend in Workforce Headcount

	As of Dec.31, 2013	As of Dec.31, 2014	As of Dec.31, 2015	As of Dec.31, 2016
Workforce headcount	261	285	301	346

Work force by age as of December 31, 2016

Age	Headcount	%
25 years and under	12	3,47
26–30 years	42	12,14
31–40 years	60	17,34
41–50 years	108	31,21
51–60 years	94	27,17
Over 60 years	30	8,67
Total	346	100,00



Report of Board of Directors on Business Activities in 2016 and Assets as of December 31, 2016

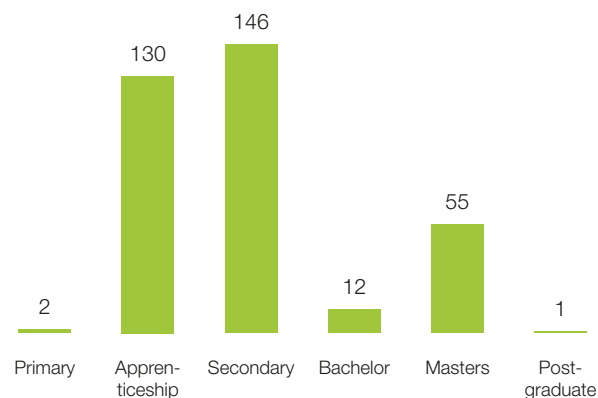
According to the corporate strategy the main objective of the HR department is to ensure realisation of the process of deepening and enhancing of skills, motivation and responsibility of employees, as well as to create and implement a programme to ensure quality personnel substitutions in relation to generational replacement of workers.

Specific activities of the company require high level of qualifications of employees. Particular qualification requirements were identified within the company's education system. These requirements are set for all professions in Sev.en EC, a.s., and include the time necessary for on-the-job training and parallel position working to ensure quality personnel replacements.

In 2016, the employees of Sev.en EC, a.s. participated not only in mandatory vocational trainings that were required to maintain or enhance qualifications of the staff in order to ensure activities related to the business of the company, but there was also a language training of selected staff. Sev.en EC, a.s. also enables its employees to enhance and deepen their qualifications in relation to their professional orientation and career growth (MBA courses, university education).

Education Structure of the Workforce at December 31, 2016

Level of education	Headcount	%
Primary	2	0,58
Apprenticeship	130	37,57
Secondary	146	42,20
Bachelor	12	3,47
Masters	55	15,89
Post-graduate	1	0,29
Total	346	100,00



Report of Board of Directors on Business Activities in 2016 and Assets as of December 31, 2016

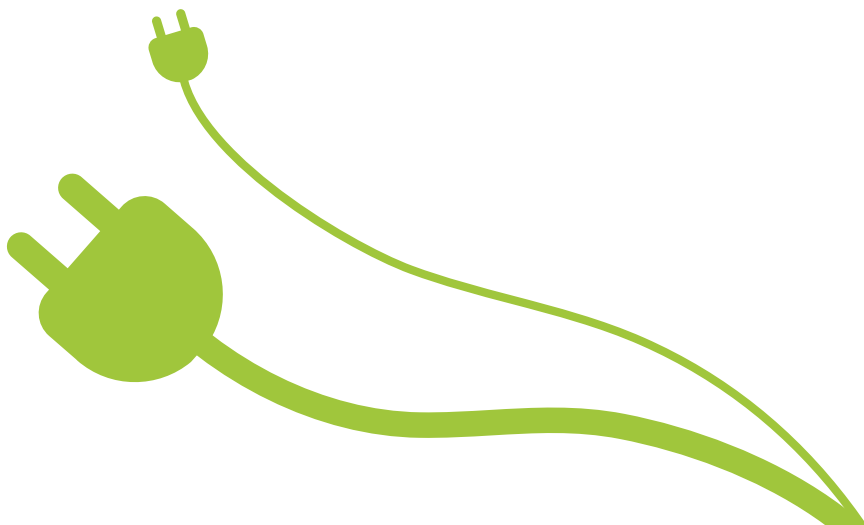
Social Politics

The basis of social policy of the company is formed by the Labour Code including related legislation and a Collective Agreement valid for the period of January 1, 2015 to December 31, 2017.

The most significant areas where the contributions were allocated are as follows:

- Food contributions
- Supplemental pension and life insurance contributions
- Contributions to personal accounts spent by the form of „cafeteria“ (contribution to education, culture, regeneration and health of the employees and their family members)

Other supplementary benefits are granted under the Collective Agreement, such as an additional week of holiday, contribution in the first three calendar days of sick leave, a reward on life jubilee, interest-free loans and other.



Report of Board of Directors on Business Activities in 2016 and Assets as of December 31, 2016

Health and Safety at Work and Environmental Protection Policy

Sev.en EC, a.s. is one of the leading production companies in Pardubice region and it operates on the basis of an integrated permit in compliance with Act no.76/2002 Coll., on integrated prevention; and on the basis of certified EMS system in accordance with the ČSN ENO ISO 14001: 2005¹. (EMS – Environmental Management System). In June 2016 the BUREAU VERITAS CZECH REPUBLIC, s.r.o. performed the 2nd surveillance audit in accordance with standard ČSN EN ISO 14001: 2005; and confirmed the validity of the certification till May 2017.

Sev.en EC, a.s. ensures safe production of electricity and heat in a manner as friendly to environment as possible.

Results of Continual Measurement of Emissions in 2016

Emissions in the period of January 1, 2016 to December 31, 2016 in tons:	
TZL	236
SO ₂	1 676
NO _x	2 359

Emission limits comply with the conditions of the integrated permit.

Air pollution monitoring station for measuring pollutants SO₂ and NO_x is located in the village of Hošťalovice in the Iron Mountains.

1) Environmental management system (hereinafter EMS) forms a part of the overall management system of Sev.en EC, a.s.. The system includes organizational chart, responsibility division and procedures and processes given by technology, all of which take consideration of the influence on environment. Sev.en EC, a.s. made the decision to implement EMS voluntarily and at its own cost. The implementation of this environmental management system is a matter of prestige to the top management of the company. The system is expected to lead towards ensuring permanent economic growth and prosperity. As a result of the system implementation, material and energy is saved, lower fees for environmental burden are charged, fines and sanctions are minimized and the production quality is enhanced. Therefore Sev.en EC, a.s. also has its own environmental protection policy. The implementation of EMS documents into plant operation is a task for the plant's managing staffs that are responsible for environmental impact of the company. Similar responsibility is also required from other employees.

Report of Board of Directors on Business Activities in 2016 and Assets as of December 31, 2016

CO₂ Allowances

Within the 3rd national allocation plan (2013 – 2020) each listed operator of the source is granted a certain amount of CO₂ allowances free of charge every year. Since 2013, the allowance amount has been newly divided into allocation allowances for electricity (against the amount of investments made into ecology) and allocation of allowances for heat (not conditioned by any investments). For 2016, in accordance with ES Commission Decision, the total of 845,217 pieces of CO₂ allowances for electricity and 7,296 pieces of emission allowances for heat were allocated to Sev.en EC, a.s. by the Ministry of Environment. The Allowances account of source operators is managed by the company OTE, a.s., and the amount of CO₂ emitted in given calendar year has to be verified and reported to the Ministry of Environment no later than by March 15 of the following year.

Production of CO₂ emissions from fossil fuels and material was verified by auditing company BUREAU VERITAS CZECH REPUBLIC, spol. s.r.o., in February 2017 by issuing a Statement on Greenhouse Gasses in 2016, confirming emission of 2,285,694 tons of CO₂.

Waste

The waste issue is dealt with in accordance with the valid law, the system of non-waste technology, the use of secondary raw materials and in accordance with the integrated permit. In 2016, the total cost of the disposal of hazardous and other waste (inclusive the cost of traffic and operation cost) amounted to CZK 652,275.



Report of Board of Directors on Business Activities in 2016 and Assets as of December 31, 2016

Secondary Energy Products

The most important approach to reducing waste production is waste prevention and the use of certified energy by-products. Currently, there are 7 certificates available for different types of slag, FGD gypsum, stabilizer and various types of fly ash that were produced in the amount of 495,648.67 tons in 2016. Certified products are used in the construction industry (cement, concrete), as sub base and backfilling in the construction of roads and railways, as well as for landscaping and terrain reconstruction purposes. Other products are processed within the programme „Land Reclamation of Chvaletice Region“ which, on the basis of building permit, includes shaping and reclamation of the landscape devastated by earlier activity of Manganese-pyrite plant Chvaletice. Reclamation in the area around Chvaletice municipality happens in compliance with the „Land Reclamation of Chvaletice Region“ programme, as well as with the urban municipality plan of Chvaletice and the „Pardubice Region and Environmental Protection“ strategy. The costs associated with this reclamation in 2016 amounted to approx. CZK 36,500,000 most of which represented stabiliser storing in constructions no. 5 and no. 6, relocation of the Chvaletice stream (Part II.) and then transfer and sorting of soil constructions no. 6, 7, 8 and 9.

Water Management

Wastewater treatment is carried out using the optimized technology, in order to minimize the discharge of treated wastewater. Concentration values are measured in accordance with the integrated permit and all thereof consequent requirements have been met (compliance with the emission limits for discharged water, regular water assessment and payment of the waste water fee).

Environmental Protection Control

In August 9, 2016, the Czech Environmental Inspectorate of Hradec Králove, in accordance with Act No.76/2002 Coll. on integrated prevention and with Act No. 73/2012 Coll. on substances that deplete the ozone layer and fluorinated greenhouse gases, performed an inspection on meeting the requirements and duties given by the integrated permit, meeting the duties of reporting into Integrated Pollution Register and of duties and obligations under regulations of Component Acts on Environmental Protection (among others of Act No. 185/2001 Coll. on waste, Act No. 254/2001 Coll. the Water Act, and Act No. 201/2012 Coll. on air protection) The inspection found no breach of regulations given by the integrated permit.

Report of Board of Directors on Business Activities in 2016 and Assets as of December 31, 2016

Safe Enterprise

Sev.en EC, a.s. strictly follows the requirements of the law and other regulations to ensure occupational health and safety in all its activities. As every year, health and safety at work was, in terms of priority, ranked to the highest level in 2016. This is how the Policy on Management System of BOZP (occupational health and safety) and EMS have been implemented. This Policy is one of the company's main objectives. The company also pursues the programme „Safe Enterprise“, the implementation of which is, in terms of safety, the highest priority. The greatest emphasis is placed on the area of prevention. All operations are controlled so as to ensure utmost safety of people and healthy working environment. All of the objectives are regularly monitored and evaluated as required under the „Safe Enterprise“ programme. Everything was verified during the annual inner audit of the Safe Enterprise programme. In 2016, the Regional Labour Inspectorate of Hradec Králové and Pardubice Region carried out a re-certification inspection within the Safe Enterprise programme. In order to obtain the recertification, the company needed to gain favourable opinion issued by the Regional Hygiene Station as well as by the Fire Brigade of Pardubice Region. For this purpose comprehensive inspections by representatives of these institutions were carried out. The inspection of the Fire Brigade was carried out in April 4 and 5, 2016. The inspection of the Regional Hygiene Station of Pardubice Region was carried out in March 23, 2016. The final thorough inspection by the Regional Labour Office Inspectorate was performed in June 29 and 30, 2016. In October 18, 2016 the Minister of Labour and Social Affairs Mgr. Michaela Marxová and the General Inspector of the State Labour Inspection Mgr. Ing. Rudolf Hahn awarded the Sev.en EC, a.s. company the Safe Enterprise award in Kaiserštejn Palace. As required by the Act no. 262/2006 Coll., The Labour Code, an inspection of occupational health and safety in all workplaces was carried out in the company. All identified deficiencies were eliminated and the whole process was supervised by members of Labour unions.

In 2016, no work injury of regular staff was recorded (resulting in a sick leave extending 3 days). There was no case of fatal accident at work recorded and there was no record of occupational disease either.

Report of Board of Directors on Business Activities in 2016 and Assets as of December 31, 2016

This year, the Sev.en EC, a.s. has set out health and safety of supplier companies within the process of repairs of blocks B3 and B4 as one of the biggest priorities. Checking the safety within construction works of such a great extent is not simple. It is a relentless everyday job that requires sophisticated coordination and the work itself is highly demanding. There have been many daily inspections, and everything was covered by weekly controls on control days of occupational health and safety coordinator on construction. These controls were regularly attended by OHS representatives of supplier companies. A pursued common goal – to minimize accidents during repair works – was fully met.

In 2016, no injury (resulting in a sick leave extending 3 days) related to repair works of blocks B3 and B4 was recorded. Sev.en EC, a.s. company is fully satisfied with the fact that the injury rate of supplier companies' employees for repair blocks B3 and B4 is zero.



Jan Dienstl
Chairman of the Board
Sev.en EC, a.s.





Report on Relations between Sev.en EC, a.s.
and Business Related Entities for the Period from
January 1, 2016 to December 31, 2016

Report on Relations between Sev.en EC, a.s. and Business Related Entities for the Period from January 1, 2016 to December 31, 2016

This report on business related parties (hereinafter also referred to as „the Report“) is issued in compliance with provisions of the Act no. 90/2012 Coll., §82, Business Corporations Act, as amended – further referred to as BCA.

The Board of Directors of Sev.en EC, a.s., ID: 287 86 009, with registered offices at K Elektrárně 227, 533 12 Chvaletice, registered in the Commercial Register of the Regional Court in Hradec Králové, section B entry 2905 (hereinafter the „Company“ or „Sev.en EC, a.s.“), prepared and approved the report on relations for the accounting period from January 1, 2016 to December 31, 2016 (hereinafter „the Reporting period“).

The Structure of Relationships between Entities and the Role of the Controlled Entity within them as of December 31, 2016

In the period from January 1, 2016 to December 31, 2016 the Sev.en EC, a.s. company was a controlled entity with a company Severní energetická a.s., registered offices at Václava Řezáče 315, 434 01 Most, registered in the commercial register of the Regional Court in Ústí nad Labem, file number B 1986, acting as its sole shareholder.

Of all the relationships that are known to the statutory body of the Company, the entities directly or indirectly controlled by the same entity as the Company in the period from January 1, 2016 to May 25, 2016 were these companies:

Company:	Důl Kohinoor a.s.
Registered Number:	254 11 616
Registered Offices:	Dolní Jiřetín 5, 435 43 Horní Jiřetín
Dully Registered in:	Commercial Register of Regional Court in Ústí nad Labem, Section B, Entry 1259
	In the period from January 1, 2016 to May 25, 2016 the company Důl Kohinoor, a.s. was an entity controlled by Severní energetická a.s. acting as a sole shareholder.

Report on Relations between Sev.en EC, a.s. and Business Related Entities for the Period from January 1, 2016 to December 31, 2016

Company:

HIPODROM MOST a.s.

Registered Number:

646 53 269

Registered Offices:

K Hipodromu 213, Velebudice, 434 01 Most

Dully Registered in:

Commercial Register of Regional Court in Ústí nad Labem, Section B, Entry 813

In the period from January 1, 2016 to May 25, 2016 the company HIPODROM MOST a.s. was by definition controlled by the company Severní energetická a.s., which owned shares of nominal value amounting to 57.54% of the share capital of the company HIPODROM MOST a.s.

Company:

Sev.en WT, a.s.

Registered Number:

148 64 657

Registered Offices:

Václava Řezáče 315, 434 01 Most

Dully Registered in:

Commercial Register of Regional Court in Ústí nad Labem, Section B, Entry 79

In the period from January 1, 2016 to May 25, 2016 the company Sev.en WT, a.s. was an entity controlled by Severní energetická a.s. acting as a sole shareholder.

Of all the relationships that are known to the statutory body of the Company, the entities indirectly controlled by the same entity as the Company in the period from May 25, 2016 to December 31, 2016 were these companies:

Company:

Severní energetická a.s.

Registered Number:

286 77 986

Registered Offices:

Václava Řezáče 315, 434 01 Most

Dully Registered in:

Commercial Register of Regional Court in Ústí nad Labem, Section B, Entry 1986

In the period from May 25, 2016 to December 31, 2016, the company Severní energetická a.s. was an entity controlled by HALTIXAR LTD acting as a sole shareholder.

Report on Relations between Sev.en EC, a.s. and Business Related Entities for the Period from January 1, 2016 to December 31, 2016

Company:

Důl Kohinoor a.s.

Registered Number:

254 11 616

Registered Offices:

Dolní Jiřetín 5, 435 43 Horní Jiřetín

Dully Registered in:

Commercial Register of Regional Court in Ústí nad Labem, Section B, Entry 1259

In the period from May 25, 2016 to December 31, 2016 the company Důl Kohinoor, a.s. was an entity controlled by Severní energetická a.s. acting as a sole shareholder.

Company:

HIPODROM MOST a.s.

Registered Number:

646 53 269

Registered Offices:

K Hipodromu 213, Velebudice, 434 01 Most

Dully Registered in:

Commercial Register of Regional Court in Ústí nad Labem, Section B, Entry 813

In the period from May 25, 2016 to May 27, 2016 the company HIPODROM MOST a.s. was by definition controlled by the company Severní energetická a.s., which owned shares of nominal value amounting to 57.54% of the share capital of the company HIPODROM MOST a.s. In May 27, 2016 the share of Severní energetická a.s. was sold at a voluntary auction of securities.

Company:

Sev.en WT, a.s.

Registered Number:

148 64 657

Registered Offices:

Václava Řezáče 315, 434 01 Most

Dully Registered in:

Commercial Register of Regional Court in Ústí nad Labem, Section B, Entry 79

In the period from May 25, 2016 to December 31, 2016 the company Sev.en WT, a.s. was an entity controlled by Severní energetická a.s. acting as a sole shareholder.

Report on Relations between Sev.en EC, a.s. and Business Related Entities for the Period from January 1, 2016 to December 31, 2016

Company:

Registered Number:

Registered Offices:

Dully Registered in:

Czech Coal a.s.

257 64 284

V. Řezáče 315, 434 67 Most

Commercial Register of Regional Court in Ústí nad Labem, Section B, Entry 2099

In the period from May 25, 2016 to July 20, 2016, the company Czech Coal a.s. was a controlled entity with INDOVERSE (CZECH) COAL INVESTMENTS LIMITED acting as its sole shareholder. In the period from July 20, 2016 the company Czech Coal a.s. was a controlled entity with HALTIXAR LTD acting as its sole shareholder. HALTIXAR LTD is at the same time the controlling entity of Severní energetická a.s. The company Czech Coal a.s. ceased to exist in November 1, 2016 due to the merger with company Severní energetická a.s. The decisive day of the merger was set at January 1, 2016.

Company:

Registered Number:

Registered Office:

Dully Registered in:

HG Správa a.s.

254 24 734

V. Řezáče 315, 434 67 Most

Commercial Register of Regional Court in Ústí nad Labem, Section B, Entry 1341

In the period from May 25, 2016 to October 31, 2016 the company HG Správa a.s. was an entity controlled by Czech Coal a.s. acting as its sole shareholder. In the period from November 1, 2016 to December 31, 2016 the company HG Správa a.s. was an entity controlled by Severní energetická a.s. acting as its sole shareholder.



Report on Relations between Sev.en EC, a.s. and Business Related Entities for the Period from January 1, 2016 to December 31, 2016

Company:

PREHNISTEN s.r.o.

Registered Number:

284 52 691

Registered Office:

Václava Řezáče 315, 434 01 Most

Dully Registered in:

Commercial Register of Regional Court in Ústí nad Labem, Section C, Entry C 26890

In the period from May 25, 2016 to October 31, 2016 the company PREHNISTEN s.r.o was an entity controlled by Czech Coal a.s. acting as its sole shareholder. In the period from November 1, 2016 to December 31, 2016 the company PREHNISTEN s.r.o was an entity controlled by Severní energetická a.s. acting as its sole shareholder.

Company:

Příbramská teplárenská a.s. (in bankruptcy)

Registered Number:

463 56 550

Registered Offices:

Obecnická 269, Příbram VI-Březové Hory, 261 01 Příbram

Dully Registered in:

Commercial Register of Municipal Court in Prague, Section B, Entry 2120

In the period from May 25, 2016 to October 31, 2016 the company Příbramská teplárenská a.s. (in bankruptcy) was an entity controlled by Czech Coal a.s. which owned shares of nominal value amounting to 94.95% of its share capital. In the period from November 1, 2016 to December 31, 2016 the company Příbramská teplárenská a.s. (in bankruptcy) was an entity controlled by Severní energetická a.s., which owned shares of nominal value amounting to 94.95% of the Příbramská teplárenská a.s. (in bankruptcy) share capital.

Report on Relations between Sev.en EC, a.s. and Business Related Entities for the Period from January 1, 2016 to December 31, 2016

Company:

THERMO Příbram a.s.

Registered Number:

257 95 104

Registered Offices:

Tyršova 108, 261 19 Příbram I

Dully Registered in:

Commercial Register of Municipal Court in Prague, Section B, Entry 6101

In the period from May 25, 2016 to October 31, 2016 the company THERMO Příbram a.s. was an entity controlled by Czech Coal a.s. which owned shares of nominal value amounting to 80% of its share capital. In the period from November 1, 2016 to December 31, 2016 the company THERMO Příbram a.s. was an entity controlled by Severní energetická a.s., which owned shares of nominal value amounting to 80% of the THERMO Příbram a.s. share capital.

Company:

Coal Services a.s.

Registered Number:

287 27 932

Registered Offices:

V. Řezáče 315, 434 67 Most

Dully Registered in:

Commercial Register of Regional Court in Ústí nad Labem, Section B Entry 2136

In the period from May 25, 2016 to December 31, 2016 the company Coal Services a.s. was an entity controlled INDOVERSE (CZECH) COAL INVESTMENTS LIMITED acting as its sole shareholder.

Company:

Czech Coal POWER s.r.o.

Registered Number:

276 57 001

Registered Offices:

Václava Řezáče 315, 434 01 Most

Dully Registered in:

Commercial Register of Regional Court in Ústí nad Labem, Section C Entry 26830

In the period from May 25, 2016 to December 31, 2016 the company Czech Coal POWER s.r.o. was an entity controlled by INDOVERSE (CZECH) COAL INVESTMENTS LIMITED acting as its sole shareholder.

Report on Relations between Sev.en EC, a.s. and Business Related Entities for the Period from January 1, 2016 to December 31, 2016

Company:

Infotea s.r.o.

Registered Number:

264 21 348

Registered Offices:

Václava Řezáče 315, 434 01 Most

Dully Registered in:

Commercial Register of Regional Court in Ústí nad Labem, Section C Entry 20548

In the period from May 25, 2016 to December 31, 2016 the company Infotea s.r.o. was an entity controlled by INDOVERSE (CZECH) COAL INVESTMENTS LIMITED acting as its sole shareholder.

Company:

REKULTIVACE a.s.

Registered Number:

254 16 456

Registered Offices:

V. Řezáče 315, 434 67 Most

Dully Registered in:

Commercial Register of Regional Court in Ústí nad Labem, Section B Entry 1280

In the period from May 25, 2016 to December 31, 2016 the company REKULTIVACE a.s. was an entity controlled by INDOVERSE (CZECH) COAL INVESTMENTS LIMITED acting as its sole shareholder.

Company:

RENOGUM a.s.

Registered Number:

631 44 417

Registered Offices:

Václava Řezáče 315, 434 01 Most

Dully Registered in:

Commercial Register of Regional Court in Ústí nad Labem, Section B Entry 712

In the period from May 25, 2016 to December 31, 2016 the company RENOGUM a.s. was an entity controlled by INDOVERSE (CZECH) COAL INVESTMENTS LIMITED acting as its sole shareholder.

Report on Relations between Sev.en EC, a.s. and Business Related Entities for the Period from January 1, 2016 to December 31, 2016

Company:

Registered Number:

Registered Offices:

Dully Registered in:

Servis Leasing a.s.

601 96 971

Václava Řezáče 315, 434 01 Most

Commercial Register of Regional Court in Ústí nad Labem, Section B Entry 2246

In the period from May 25, 2016 to December 31, 2016 the company Servis Leasing a.s. was an entity controlled by INDOVERSE (CZECH) COAL INVESTMENTS LIMITED acting as its sole shareholder.

Company:

Registered Number:

Registered Offices:

Dully Registered in:

Rental Servis a.s.

274 21 686

Václava Řezáče 315, 434 01 Most

Commercial Register of Regional Court in Ústí nad Labem, Section B Entry 2247

In the period from May 25, 2016 to December 31, 2016 the company Rental Servis a.s. was an entity controlled by Servis Leasing a.s. acting as its sole shareholder.

Company:

Registered Number:

Registered Offices:

Dully Registered in:

Vršanská uhelná a.s.

286 78 010

V. Řezáče 315, 434 67 Most

Commercial Register of Regional Court in Ústí nad Labem, Section B Entry 1987

In the period from May 25, 2016 to December 31, 2016 the Vršanská uhelná a.s. was an entity controlled by INDOVERSE (CZECH) COAL INVESTMENTS LIMITED acting as its sole shareholder.

Report on Relations between Sev.en EC, a.s. and Business Related Entities for the Period from January 1, 2016 to December 31, 2016

Role of Controlled Entity in the Business Group

Sev.en EC, a.s. company was a subsidiary of Severní energetická a.s. company throughout the whole accounting period of the year 2016. Severní energetická a.s. is a 100% shareholder of Sev.en EC, a.s. company. Sev.en EC, a.s. company specialises in electricity and heat production, selling of these commodities on the domestic market and selling electricity on foreign markets. Sev.en EC, a.s. company has no stake in controlled entities belonging to the same business group or in other companies.

Due to the transfer of 100% shares of the company Severní energetická a.s. to the company HALTIXAR LTD, the Sev.en EC, a.s. together with other companies controlled by Severní energetická a.s. were incorporated into a group controlled by INDOVERSE (CZECH) COAL INVESTMENTS LIMITED in the period from May 25, 2016 onwards. Within the group, the company Sev.en EC, a.s. continues to develop the above mentioned activities while using the services of other companies forming the same group. These services are provided within the specialization of these companies.

Ways and Means of Control

Severní energetická a.s. company, acting as the sole shareholder, is the controlling entity of Sev.en EC, a.s. company within the meaning of § 74 of Act No. 90/2012 Coll., Business Corporations Act, as amended. There was no Control Agreement concluded. The way of control within the meaning of § 81 paragraph 1, Act No. 90/2012 Coll., Business Corporations Act, as amended, was not used by the controlling entity during the accounting period.

Report on Relations between Sev.en EC, a.s. and Business Related Entities for the Period from January 1, 2016 to December 31, 2016

In the period from January 1, 2016 to May 25, 2016 the company Sev.en EC, a.s. was basically by definition a controlled entity through a decision of the General Meeting. In the period from May 25, 2016 onwards, the Sev.en EC, a.s. has been, as a part of the given group, controlled in coordination with controlling of other companies that constitute the business group in question that are all indirectly controlled by the same controlling entity.

Overview of Deals Made in the Reporting Period, which Were Made at the Instigation or in the Interest of the Controlling Entity or by Entities Controlled by this Entity, in Case these Deals Related to Assets Exceeding 10% of the Company's Equity Identified at the Date of Last Financial Statement

In the period from January 1, 2016 to December 31, 2016 the following deals exceeding 10% of controlled entity's equity identified according to its last financial statement were made at the instigation or in the interest of the same controlling entity:

Purchase Contract no. 7EC-2016-450014839 concluded on December 30, 2016 between the Company as the purchaser and the company Severní energetická a.s. as the seller, under which the company Severní energetická a.s. will deliver brown coal in 2017 to the Company for the purpose of electricity and heat production.



Report on Relations between Sev.en EC, a.s. and Business Related Entities for the Period from January 1, 2016 to December 31, 2016

Overview of Contracts Concluded between the Company and the Controlling Entity/ Entities or between Controlled Entities

Listed below are the contracts that the company Sev.en EC, a.s. concluded with controlling entity or entities controlled by the same controlling entity in the period from January 1, 2016 to December 31, 2016.

Financial remunerations of the company Sev.en EC, a.s. from the bellow listed contractual relationships equalled arm's length prices and conditions common on the market.

Name: **Purchase Agreement**

Number: 7EC-2016-450014839

Date of Conclusion: December 30, 2016

Contracting Party: Severní energetická a.s.

Object: Sales of brown coal to Sev.en EC, a.s. company

Name: **Amendment no. 1 Service Agreement – Financial Services**

Number: ECHAS-2015-600006708 D1

Date of Conclusion: October 1, 2016

Contracting Party: Coal Services a.s.

Object: Provision of services to Sev.en EC, a.s. company – financial services

Report on Relations between Sev.en EC, a.s. and Business Related Entities for the Period from January 1, 2016 to December 31, 2016

Name: **Amendment no. 2 Service Agreement – Financial Services**
Number: ECHAS-2015-600006708 D2
Date of Conclusion: December 30, 2016
Contracting Party: Coal Services a.s.
Object: Provision of services to Sev.en EC, a.s. company – financial services

Name: **Amendment no. 1 Service Agreement – Tax Operating Activities and Tax Optimization**
Number: ECHAS-2015-600006711 D1
Date of Conclusion: October 1, 2016
Contracting Party: Coal Services a.s.
Object: Provision of services to Sev.en EC, a.s. company – tax operating activities and tax optimization

Name: **Amendment no. 2 Service Agreement – Tax Operating Activities and Tax Optimization**
Number: ECHAS-2015-600006711 D2
Date of Conclusion: December 30, 2016
Contracting Party: Coal Services a.s.
Object: Provision of services to Sev.en EC, a.s. company – tax operating activities and tax optimization

Name: **Amendment no. 1 Service Agreement – Environmental Issues**
Number: ECHAS-2015-600006713 D1
Date of Conclusion: December 30, 2016
Contracting Party: Severní energetická a.s.
Object: Provision of services to Sev.en EC, a.s. company – environmental issues

Report on Relations between Sev.en EC, a.s. and Business Related Entities for the Period from January 1, 2016 to December 31, 2016

Name: **Amendment no. 1 Service Agreement – Human Resources Services**

Number: ECHAS-2015-600006714 D1
Date of Conclusion: October 1, 2016
Contracting Party: Coal Services a.s.
Object: Provision of services to Sev.en EC, a.s. company – HR Services

Name: **Amendment no. 2, Service Agreement – Human Resources Services**

Number: ECHAS-2015-600006714 D2
Date of Conclusion: January 12, 2017
Contracting Party: Coal Services a.s.
Object: Provision of services to Sev.en EC, a.s. company – HR Services

Name: **Amendment no. 4 to the Agreement on the Settlement of Mutual Obligations in Relation to the Provision of System Integration**

Number: 84_2013CH Amend. 4
Date of Conclusion: December 7, 2016
Contracting Party: Severní energetická a.s.
Object: Settlement of mutual obligations in relation to the provision of system integration

Name: **Service Agreement – Support of IT Systems**

Number: 7EC-2016-600009171
Date of Conclusion: December 27, 2016
Contracting Party: Infotea s.r.o.
Object: Provision of services to Sev.en EC, a. s. company – support of IT systems

Report on Relations between Sev.en EC, a.s. and Business Related Entities for the Period from January 1, 2016 to December 31, 2016

Name: **Loan Agreement**
Number: ECHAS-2016-3
Date of Conclusion: February 24, 2016
Contracting Party: Severní energetická a.s.
Object: Provision of services to Sev.en EC, a. s. company – financial services

In the period from January 1, 2016 to December 31, 2016 the following agreements between Sev.en EC, a.s. and controlling entity or entities controlled by the same controlling entity remained in effect:

Name: **Purchase Agreement**
Number: ECHAS-2015-45009798
Date of Conclusion: December 18, 2015
Contracting Party: Severní energetická a.s.
Object: Sales of brown coal to Sev.en EC, a.s. company

Name: **Service Agreement – Tax Operating Activities and Tax Optimization**
Number: ECHAS-2015-600006711
Date of Conclusion: December 30, 2015
Contracting Party: Severní energetická a.s.
Object: Provision of services to Sev.en EC, a.s. company – tax operating activities and tax optimization



Report on Relations between Sev.en EC, a.s. and Business Related Entities for the Period from January 1, 2016 to December 31, 2016

Name: **Service Agreement – Environmental Issues**
Number: ECHAS-2015-600006713
Date of Conclusion: December 30, 2015
Contracting Party: Severní energetická a.s.
Object: Provision of services to Sev.en EC, a.s. company – environmental issues

Name: **Service Agreement – Surveying**
Number: ECHAS-2015-600006710
Date of Conclusion: December 30, 2015
Expired: September 30, 2016
Contracting Party: Severní energetická a.s.
Object: Provision of services to Sev.en EC, a.s. company – surveying

Name: **Service Agreement – Human Resources Services**
Number: ECHAS-2015-600006714
Date of Conclusion: December 30, 2015
Contracting Party: Severní energetická a.s.
Object: Provision of services to Sev.en EC, a.s. company – HR Services

Name: **Service Agreement – Physical Protection and Security**
Number: ECHAS-2015-600006712
Date of Conclusion: December 30, 2015
Expired: September 30, 2016
Contracting Party: Severní energetická a.s.
Object: Provision of services to Sev.en EC, a.s. company – physical protection and security

Report on Relations between Sev.en EC, a.s. and Business Related Entities for the Period from January 1, 2016 to December 31, 2016

Name: **Service Agreement – Communication Activities**

Number: ECHAS-2015-600006715
Date of Conclusion: December 30, 2015
Contracting Party: Severní energetická a.s.
Object: Provision of services to Sev.en EC, a.s. company – communication activities

Name: **Service Agreement – Financial Services**

Number: ECHAS-2015-600006708
Date of Conclusion: December 30, 2015
Contracting Party: Severní energetická a.s.
Object: Provision of services to Sev.en EC, a.s. – financial services

Name: **Sublease Agreement of Space Used for Business and Parking as Amended by Amendment no.1 and Amendment no. 2**

Number: ECHAS-2015-600003369
Date of Conclusion: April 1, 2015
Contracting Party: Severní energetická a.s.
Object: Sublease of space used for business in favour of Sev.en EC, a.s. company

Name: **Agreement on the Settlement of Mutual Obligations in Relation to the Provision of System Integration as Amended by Amendments no. 1, no. 2 and no. 3**

Number: 84_2013CH
Date of Conclusion: November 20, 2013
Contracting Party: Severní energetická a.s.
Object: Settlement of mutual obligations in relation to the provision of integrated services

Report on Relations between Sev.en EC, a.s. and Business Related Entities for the Period from January 1, 2016 to December 31, 2016

Name: **Agreement on Debt Settlement as Amended by Amendments no. 1 and no. 2**

Date of Conclusion: December 23, 2013
Contracting Party: Severní energetická a.s.
Object: Negotiation of terms for repayment of loan provided to Sev.en EC, a.s. company

Name: **General Agreement on Handing Over and Takeover of Electricity**

Number: ECHAS-UO-2014-47
Date of Conclusion: November 20, 2013
Contracting Party: Vršanská uhelná, a.s.
Object: General agreement on handing over and takeover of electricity

Name: **Agreement on Accepting Liability for Deviations**

Number: ECHAS-UO-2014-57
Date of Conclusion: November 20, 2013
Contracting Party: Vršanská uhelná, a.s.
Object: Agreement on accepting liability for deviations



Report on Relations between Sev.en EC, a.s. and Business Related Entities for the Period from January 1, 2016 to December 31, 2016

Other Relations

Sev.en EC, a.s. has not taken any other legal actions in favour of its controlling entity or entities controlled by the same controlling entity, nor has it accepted or taken any measures in favour of or in the instigation of these entities.

Evaluation

All relations of Sev.en EC, a.s. with the controlling entity or with entities controlled by the same controlling entity are kept on basis of equal access and under standard market conditions. There has been no damage or risk to the company Sev.en EC, a.s. resulting from the contractual relations mentioned in this Report.

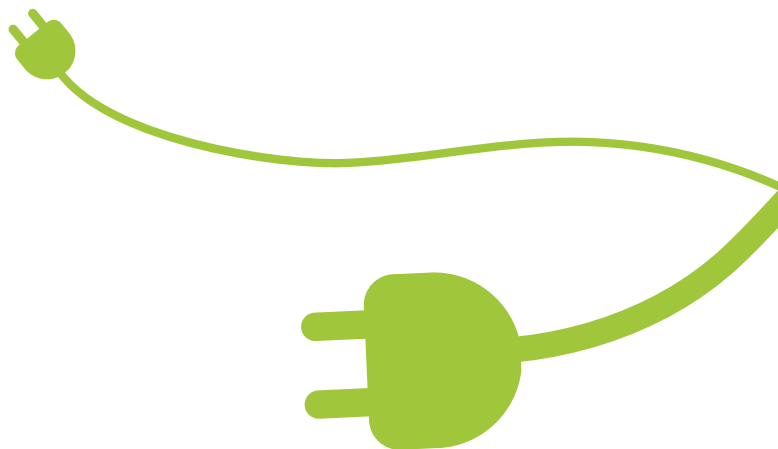
The Sev.en EC, a.s. company benefits from the relations with the controlling entity or entities controlled by the same controlling entity, as supplies of some of the services needed for execution of the Company's activities are provided with entities that form a business group described in this Report and there is thus no need for the Company to contract third parties in order to receive these services. The benefits stem mainly from the economic, HR and material background of the group.

Beyond this, however, there are no other significant or otherwise dominant advantages, disadvantages or risks resulting from the relationship between the Company and the controlling entity or entities controlled by the same controlling entity, as mutual provisions of goods or services are carried out under common market conditions.

Conclusion

The Report was issued by December 31, 2016 by the statutory body of Sev.en EC, a.s. company. The Report was issued to the best of the author's knowledge and belief, with a maximum effort made, the data having been collected from all available documents and sources.

Report on Relations between Sev.en EC, a.s. and Business Related Entities for the Period from January 1, 2016 to December 31, 2016



In Chvaletice, 28 March 2017

Jan Dienstl

Chairman of the Board
Sev.en EC, a.s.

Luboš Pavlas

Member of the Board
Sev.en EC, a.s.



Financial Statements

Financial Statements

Balance sheet

Balance sheet as at 31 December 2016

Income statement

Income statement for the year ended 31 December 2016

Notes to the financial statements as at 31 December 2016



Financial Statements

Balance sheet as at 31 December 2016

(in thousands of Czech crowns „TCZK“)

Ident.	ASSETS	line	Current period			Prior period
			Gross	Adjust.	Net	Net
a	b	c	1	2	3	4
	TOTAL ASSETS	001	18 069 606	-11 322 499	6 747 107	7 850 493
A.	Receivables for subscribed registered capital	002	0	0	0	0
B.	Fixed assets	003	15 399 890	-11 308 779	4 091 111	3 126 720
B.I.	Intangible fixed assets	004	830 235	-21 120	809 115	231 955
B.I.1.	Research and development	005	0	0	0	0
B.I.2.	Intellectual property rights	006	26 321	-21 120	5 201	9 337
B.I.2.1.	Software	007	26 062	-20 992	5 070	9 241
B.I.2.2.	Other intellectual property rights	008	259	- 128	131	96
B.I.3.	Goodwill	009	0	0	0	0
B.I.4.	Other intangible fixed assets	010	803 475	0	803 475	222 223
B.I.5.	Advance payments for intangible fixed assets and intangible fixed assets under construction	011	439	0	439	395
B.I.5.1.	Advance payments for intangible fixed assets	012	0	0	0	0
B.I.5.2.	Intangible fixed assets under construction	013	439	0	439	395
B.II.	Tangible fixed assets	014	14 569 655	-11 287 659	3 281 996	2 894 765
B.II.1.	Land and buildings	015	4 254 554	-3 411 037	843 517	903 316
B.II.1.1.	Land	016	38 277	0	38 277	39 235
B.II.1.2.	Buildings	017	4 216 277	-3 411 037	805 240	864 081
B.II.2.	Plant and equipment	018	7 419 418	-7 113 209	306 209	230 909
B.II.3.	Adjustments to acquired fixed assets	019	1 620 790	- 763 413	857 377	954 438
B.II.4.	Other tangible fixed assets	020	415	0	415	415
B.II.4.1.	Cultivated areas	021	0	0	0	0
B.II.4.2.	Adult livestock	022	0	0	0	0
B.II.4.3.	Other tangible fixed assets	023	415	0	415	415
B.II.5.	Advance payments for tangible fixed assets and tangible fixed assets under construction	024	1 274 478	0	1 274 478	805 687
B.II.5.1.	Advance payments for tangible fixed assets	025	923 531	0	923 531	729 986
B.II.5.2.	Tangible fixed assets under construction	026	350 947	0	350 947	75 701
B.III.	Long-term investments	027	0	0	0	0
B.III.1.	Equity investments - group undertakings	028	0	0	0	0
B.III.2.	Loans - group undertakings	029	0	0	0	0
B.III.3.	Equity investments - associated companies	030	0	0	0	0
B.III.4.	Loans - associated companies	031	0	0	0	0
B.III.5.	Other long-term securities and equity investments	032	0	0	0	0
B.III.6.	Loans - other	033	0	0	0	0
B.III.7.	Other long-term investments	034	0	0	0	0
B.III.7.1.	Other long-term investments	035	0	0	0	0
B.III.7.2.	Advance payments for long-term investments	036	0	0	0	0

Financial Statements

Balance sheet as at 31 December 2016

(in thousands of Czech crowns „TCZK“)

Ident.	ASSETS	line	Current period			Prior period
			Gross 1	Adjust. 2	Net 3	Net 4
a	b	c				
C.	Current assets	037	2 645 745	-13 720	2 632 025	4 708 533
C.I.	Inventories	038	837 570	-12 154	825 416	632 518
C.I.1.	Raw materials	039	835 274	-12 154	823 120	632 483
C.I.2.	Work-in-progress and semi-finished products	040	0	0	0	0
C.I.3.	Finished goods and goods for resale	041	0	0	0	0
C.I.3.1.	Finished goods	042	0	0	0	0
C.I.3.2.	Goods for resale	043	0	0	0	0
C.I.4.	Young and other livestock	044	0	0	0	0
C.I.5.	Advance payments for inventories	045	2 296	0	2 296	35
C.II.	Receivables	046	1 302 588	-1 566	1 301 022	3 108 883
C.II.1.	Long-term receivables	047	36 480	0	36 480	651 888
C.II.1.1.	Trade receivables	048	0	0	0	0
C.II.1.2.	Receivables - group undertakings	049	0	0	0	500 000
C.II.1.3.	Receivables - associated companies	050	0	0	0	0
C.II.1.4.	Deferred tax asset	051	0	0	0	0
C.II.1.5.	Receivables - other	052	36 480	0	36 480	151 888
C.II.1.5.1.	Receivables from shareholders/members	053	0	0	0	0
C.II.1.5.2.	Long-term advances paid	054	0	0	0	0
C.II.1.5.3.	Estimated receivables	055	0	0	0	0
C.II.1.5.4.	Other receivables	056	36 480	0	36 480	151 888
C.II.2.	Short-term receivables	057	1 266 108	-1 566	1 264 542	2 456 995
C.II.2.1.	Trade receivables	058	694 314	-1 566	692 748	1 790 782
C.II.2.2.	Receivables - group undertakings	059	0	0	0	0
C.II.2.3.	Receivables - associated companies	060	0	0	0	0
C.II.2.4.	Receivables - other	061	571 794	0	571 794	666 213
C.II.2.4.1.	Receivables from shareholders/members	062	0	0	0	0
C.II.2.4.2.	Social security and health insurance	063	0	0	0	0
C.II.2.4.3.	Tax receivables	064	0	0	0	0
C.II.2.4.4.	Short-term advances paid	065	301 735	0	301 735	187 119
C.II.2.4.5.	Estimated receivables	066	203 433	0	203 433	27
C.II.2.4.6.	Other receivables	067	66 626	0	66 626	479 067
C.III.	Short-term financial assets	068	0	0	0	0
C.III.1.	Equity investments - group undertakings	069	0	0	0	0
C.III.2.	Other short-term financial assets	070	0	0	0	0
C.IV.	Cash	071	505 587	0	505 587	967 132
C.IV.1.	Cash in hand	072	0	0	0	0
C.IV.2.	Bank accounts	073	505 587	0	505 587	967 132
D.	Deferrals	074	23 971	0	23 971	15 240
D.1.	Prepaid expenses	075	4 385	0	4 385	707
D.2.	Complex prepaid expenses	076	0	0	0	0
D.3.	Accrued revenues	077	19 586	0	19 586	14 533

Financial Statements

Balance sheet as at 31 December 2016

(in thousands of Czech crowns „TCZK“)

Ident.	LIABILITIES	line	Current period	Prior period
a	b	c	5	6
	TOTAL LIABILITIES AND EQUITY	078	6 747 107	7 850 493
A.	Equity	079	4 414 757	5 195 143
A.I.	Registered capital	080	4 406 000	4 406 000
A.I.1.	Registered capital	081	4 406 000	4 406 000
A.I.2.	Own shares/ownership interests (-)	082	0	0
A.I.3.	Changes in registered capital	083	0	0
A.II.	Premium and capital contributions	084	-32 684	157
A.II.1.	Premium	085	157	157
A.II.2.	Capital contributions	086	-32 841	0
A.II.2.1.	Other capital contributions	087	0	0
A.II.2.2.	Revaluation of assets and liabilities (+/-)	088	-32 841	0
A.II.2.3.	Revaluation reserve on transformations (+/-)	089	0	0
A.II.2.4.	Differences resulting from transformations (+/-)	090	0	0
A.II.2.5.	Change in revaluation reserve on transformations (+/-)	091	0	0
A.III.	Funds from profit	092	0	0
A.III.1.	Other reserve funds	093	0	0
A.III.2.	Statutory and other funds	094	0	0
A.IV.	Retained earnings (+/-)	095	788 986	430 775
A.IV.1.	Retained profits	096	788 986	430 775
A.IV.2.	Accumulated losses (-)	097	0	0
A.IV.3.	Other retained earnings (+/-)	098	0	0
A.V.	Profit (loss) for the current period (+/-)	099	- 747 545	358 211
A.VI.	Approved advance profit distribution (-)	100	0	0
B. + C.	Liabilities	101	2 331 889	2 600 713
B.	Provisions	102	73 288	56 400
B.1.	Provision for pensions and other similar payables	103	0	0
B.2.	Income tax provision	104	0	6 552
B.3.	Tax-deductible provisions	105	20 761	20 750
B.4.	Other provisions	106	52 527	29 098
C.	Liabilities	107	2 258 601	2 544 313
C.I.	Long-term liabilities	108	100 886	299 613
C.I.1.	Debentures and bonds issued	109	0	0
C.I.1.1.	Convertible debentures and bonds	110	0	0
C.I.1.2.	Other debentures and bonds	111	0	0
C.I.2.	Liabilities to credit institutions	112	0	0
C.I.3.	Long-term advances received	113	0	0
C.I.4.	Trade payables	114	0	0
C.I.5.	Long-term bills of exchange payable	115	0	0
C.I.6.	Liabilities - group undertakings	116	0	0
C.I.7.	Liabilities - associated companies	117	0	0
C.I.8.	Deferred tax liability	118	88 386	261 351
C.I.9.	Liabilities - other	119	12 500	38 262
C.I.9.1.	Liabilities to shareholders/members	120	0	0
C.I.9.2.	Estimated payables	121	0	0
C.I.9.3.	Other payables	122	12 500	38 262

Financial Statements

Balance sheet as at 31 December 2016

(in thousands of Czech crowns „TCZK“)

Ident.	LIABILITIES	line	Current period	Prior period
a	b	c	5	6
C.II.	Short-term liabilities	123	2 157 715	2 244 700
C.II.1.	Debentures and bonds issued	124	0	0
C.II.1.1.	Convertible debentures and bonds	125	0	0
C.II.1.2.	Other debentures and bonds	126	0	0
C.II.2.	Liabilities to credit institutions	127	0	0
C.II.3.	Short-term advances received	128	30 000	0
C.II.4.	Trade payables	129	1 395 333	1 857 694
C.II.5.	Short-term bills of exchange payable	130	0	0
C.II.6.	Liabilities - group undertakings	131	0	0
C.II.7.	Liabilities - associated companies	132	0	0
C.II.8.	Liabilities - other	133	732 382	387 006
C.II.8.1.	Liabilities to shareholders/members	134	0	0
C.II.8.2.	Short-term financial liabilities	135	0	0
C.II.8.3.	Payables to employees	136	12 000	10 726
C.II.8.4.	Social security and health insurance liabilities	137	7 142	6 426
C.II.8.5.	Tax liabilities and subsidies	138	3 032	2 319
C.II.8.6.	Estimated payables	139	506 954	97 986
C.II.8.7.	Other payables	140	203 254	269 549
D.	Accruals	141	461	54 637
D.1.	Accrued expenses	142	25	587
D.2.	Deferred revenues	143	436	54 050

Financial Statements

Income statement for the year ended 31 December 2016

classification by nature (in thousands of Czech crowns „TCZK“)

Označ.	TEXT	číslo řádku v Euroce c	Skutečnost v účet. obd.	
			běžném 1	minulém 2
a	b			
I.	Revenue from products and services	01	2 153 429	3 492 478
II.	Revenue from goods	02	7 187 382	17 660 413
A.	Cost of sales	03	9 433 343	20 282 768
A.1.	Cost of goods sold	04	7 054 318	17 344 082
A.2.	Materials and consumables	05	1 467 261	2 496 024
A.3.	Services	06	911 764	442 662
B.	Change in inventory of own production (+/-)	07	0	0
C.	Own work capitalised (-)	08	-6 805	-3 143
D.	Personnel expenses	09	253 181	234 084
D.1.	Wages and salaries	10	181 052	168 033
D.2.	Social security, health insurance and other expenses	11	72 129	66 051
D.2.1.	Social security and health insurance expenses	12	60 084	56 207
D.2.2.	Other expenses	13	12 045	9 844
E.	Adjustments relating to operating activities	14	195 435	260 363
E.1.	Adjustments to intangible and tangible fixed assets	15	267 170	257 500
E.1.1.	Depreciation and amortization of intangible and tangible fixed assets	16	266 773	268 220
E.1.2.	Impairment of intangible and tangible fixed assets	17	397	-10 720
E.2.	Adjustments to inventories	18	-70 337	2 346
E.3.	Adjustments to receivables	19	-1 398	517
III.	Other operating revenues	20	885 428	2 423 475
III.1.	Proceeds from disposals of fixed assets	21	565 359	1 804 252
III.2.	Proceeds from disposals of raw materials	22	11 619	19 623
III.3.	Other operating revenues	23	308 450	599 600
F.	Other operating expenses	24	1 079 018	2 510 952
F.1.	Net book value of fixed assets sold	25	557 196	1 818 737
F.2.	Net book value of raw materials sold	26	237	5 776
F.3.	Taxes and charges	27	14 329	21 166
F.4.	Provisions relating to operating activity and complex prepaid expenses	28	23 440	- 226
F.5.	Other operating expenses	29	483 816	665 499
*	Operating profit (loss) (+/-)	30	- 727 933	291 342

Financial Statements

Income statement for the year ended 31 December 2016

classification by nature (in thousands of Czech crowns „TCZK“)

Označ.	TEXT	číslo řádku v Eurece	Skutečnost v účet. obd.	
			běžném	minulém
a	b	c	1	2
IV.	Revenue from long-term investments - equity investments	31	0	0
IV.1.	Revenue from equity investments - group undertakings	32	0	0
IV.2.	Other revenue from equity investments	33	0	0
G.	Cost of equity investments sold	34	0	0
V.	Revenue from other long-term investments	35	0	0
V.1.	Revenue from other long-term investments - group undertakings	36	0	0
V.2.	Other revenue from other long-term investments	37	0	0
H.	Expenses related to other long-term investments	38	0	0
VI.	Interest revenue and similar revenue	39	10 760	36 742
VI.1.	Interest revenue and similar revenue - group undertakings	40	10 439	35 922
VI.2.	Other interest revenue and similar revenue	41	321	820
I.	Adjustments and provisions relating to financial activity	42	0	0
J.	Interest expense and similar expense	43	0	0
J.1.	Interest expense and similar expense - group undertakings	44	0	0
J.2.	Other interest expense and similar expense	45	0	0
VII.	Other financial revenues	46	170 498	312 896
K.	Other financial expenses	47	374 817	278 173
*	Profit (loss) from financial operations	48	- 193 559	71 465
**	Profit (loss) before tax (+/-)	49	- 921 492	362 807
L.	Income tax	50	- 173 947	4 596
L.1.	Current tax	51	- 982	37 589
L.2.	Deferred tax (+/-)	52	- 172 965	-32 993
**	Profit (loss) after tax (+/-)	53	- 747 545	358 211
M.	Transfer of profit or loss to shareholders/members (+/-)	54	0	0
***	Profit (loss) for the accounting period (+/-)	55	- 747 545	358 211
*	Net turnover for the accounting period = I. + II. + III. + IV. + V. + VI. + VII.	56	10 407 497	23 926 004



Financial Statements

Notes to the financial statements as at 31 December 2016
(in thousands of Czech crowns, „TCZK“) – non-consolidated

Translated from the czech original

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1. Description and principal activities

1.1. Establishment and description of the Company

Sev.en EC, a.s. (previously doing business under the name Elektrárna Chvaletice a.s.) recorded in Section B, Insert 2905 of the Commercial Register kept by the Regional Court in Hradec Králové („the Company“) is a Czech legal entity. The Company was recorded in the Commercial Register on 1 February 2010.

On 24 June 2015 when exercising the powers of the general meeting, the sole shareholder decided to change the Company's by-laws, effective from 1 August 2015, by which the Company's name changed to Sev.en EC, a.s. The change was recorded in the Commercial Register on 1 August 2015.

The principal activities of the Company are the production, purchase and sale of electricity.

The shareholder of the Company as at 31 December 2016

Severní energetická a.s. 100%

Registered office	Identification number
K Elektrárně 227 533 12 Chvaletice Czech Republic	287 86 009

The consolidated financial statements of the narrowest group of entities to which the Company as a consolidated entity belongs are prepared by Severní energetická a.s., with its registered office at Václava Řezáče 315, 434 01 Most. The consolidated financial statements are available at the consolidating entity's registered office.

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1.2. Company bodies

The Company is represented by the board of directors in respect of all matters. At least two members of the board of directors act jointly on behalf of the Company.

Members of the board of directors and the supervisory board as at 31 December 2016	
Members of the board of directors	Jan Dienstl, chairman of the board of directors
	Luboš Pavlas, member of the board of directors
	Jan Pozler, member of the board of directors
Members of the supervisory board	David Knop-Kostka, chairman of the supervisory board
	Jan Dvořáček, member of the supervisory board
	Petr Karas, member of the supervisory board

Changes in the Commercial Register

On 16 December 2015 when exercising the powers of the general meeting, the sole shareholder decided to:

- recall Tomáš Fohler as a member of the supervisory board, effective from 2 January 2016;
- appoint David Knop-Kostka a member of the supervisory board, effective from 2 January 2016;
- appoint Jan Dvořáček a member of the supervisory board, effective from 2 January 2016.

On 14 January 2016, David Knop-Kostka was appointed the chairman of the supervisory board.

All the above facts were recorded in the Commercial Register on 28 January 2016.

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1.3. Organisational structure

The Company is organised into the following sections:

- Chief executive officer
- Sales director
- Technical director
- Financial director

2. Significant accounting policies applied by the company

The financial statements have been prepared based on the accounting records kept in compliance with the Act on Accounting and relevant regulations and decrees effective in the Czech Republic. These financial statements have been prepared in compliance with Decree of the Czech Ministry of Finance No. 500/2002 Coll., implementing certain provisions of Act No. 563/1991 Coll., on Accounting, as amended, for business entities using double-entry bookkeeping. Comparative information for 2015 is provided in accordance with the structure and designation of balance sheet and income statement items specified by the Decree as amended for 2016.

2.1. Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated at acquisition cost. Tangible fixed assets costing up to TCZK 40 and intangible fixed assets costing up to TCZK 60 are not recognised in the balance sheet and are expensed in the year that they are acquired. Depreciation/amortisation is calculated based on the acquisition cost and the estimated useful lives of the relevant assets.

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Assets are depreciated/amortised using the following methods over the following periods:

Assets	Method	Period
Incorporation expenses	Straight-line	5 years
Software	Straight-line	3–4 years
Intellectual property rights	Straight-line	3–4 years
Buildings	Straight-line	30–50 years
Machinery and equipment	Straight-line	3–15 years
Office equipment	Straight-line	3–15 years
Adjustments to acquired fixed assets	Straight-line	15 years

In the income statement, depreciation is presented in „Depreciation and amortisation of intangible and tangible fixed assets“. The cost of improvement to tangible fixed assets increases their acquisition cost. Adjustments to acquired fixed assets represent a difference between the value of a company (or a part thereof) acquired upon contribution and the total value of individual asset components in the accounting records of the contributing company reduced by the liabilities assumed.

Adjustments to acquired fixed assets comprises a positive difference between the value of assets and liabilities upon the Company's conversion in 2010 and the total value of individual asset components in the accounting records of the accounting entity determined by an appraisal company ZNALEX, s.r.o. for the purposes of conversion as at 1 September 2010. The adjustments were calculated in such an amount that after a deferred tax liability to the adjustments is recorded, the resulting equity would correspond to the amount determined by the appraisal company.

In 2014 the Company adjusted the useful lives of the technological assets and the adjustments so that they were both in line with the new Company's business model in connection with a change of the Company's owner in 2013 and the expected operation of the power plant, i.e. until 2030. The period for depreciating adjustments to acquired fixed assets was extended from 10 years to 15 years (as per statutory requirements).

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Notes to the financial statements as at 31 December 2016
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2.2. Emission rights

Emission rights are recorded as intangible fixed assets that are recognised at cost but are not amortised, or replacement cost if acquired free of charge. Free-of-charge acquisition of emission rights by the first holder is recognised as a provided subsidy. The usage of emission rights is charged to other operating expenses in relation to the estimated volume of emissions produced by the Company in the current accounting period. The subsidy received is released in other operating revenues in the same period in which the emission rights are utilised. The sale of emission rights is recognised in the income statement as „Proceeds from disposals of fixed assets“ and „Net book value of fixed assets sold“.

2.3. Short-term investments

Short-term investments comprise cash in bank accounts.

2.4. Inventories

Raw materials inventory is stated at cost, which includes the purchase price of the inventory and related customs duties and freight costs incurred in delivering the inventory to the manufacturing facility. Cost is determined using the weighted average method. Certain types of raw materials are directly charged to expenses at cost. Based on a stock-take, as at the balance sheet date the ascertained balance is recorded in the account of raw materials. In the first month of the subsequent accounting period, the balance of inventories recorded as at the balance sheet date of the previous accounting period is charged to expenses.

2.5. Establishment of adjustments and provisions

Tangible fixed assets

The Company establishes adjustments to tangible fixed assets where the net book value is temporarily higher than the present value in use. In the income statement, the establishment and release of adjustments is presented in „Impairment of intangible and tangible fixed assets“.

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Notes to the financial statements as at 31 December 2016 (in thousands of Czech crowns, „TCZK“) – non-consolidated

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Receivables

Adjustments or write-offs are established for receivables and express the level of risk of non-collectability of receivables. The Company establishes adjustments for doubtful receivables based on an analysis of the credit status of customers and the ageing structure of receivables. In the income statement, the establishment and release of adjustments is presented in „Adjustments to receivables“.

Type of receivable	Adjustment or write off amount
Subject to bankruptcy proceedings or court case	100 %
More than 1 year overdue	100 %
6 to 12 months overdue	50 %
3 to 6 months overdue	20 %

Inventories

Adjustments are established to reduce the cost of inventory to net realisable value. The cost of redundant, obsolete and slow-moving inventories is reduced to the selling price using adjustments. In the income statement, the establishment and release of adjustments is presented in „Adjustments to inventories“.

Provisions

Statutory provision for reclamation and restoration

Statutory provisions for reclamation and restoration were established pursuant to Act No. 185/2001 Coll., on Waste, as amended, and implementing Regulation of the Ministry of Environment No. 383/2001 Coll., setting out the amount of the provision for reclamation and restoration, maintenance of waste dumps and renewal after their use, and the details of establishing and using this provision.

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Provision for untaken holidays

A provision for untaken holidays is established as at the balance sheet date, based on an analysis of untaken holidays in the accounting period and average payroll expenses, including social security and health insurance expenses per employee.

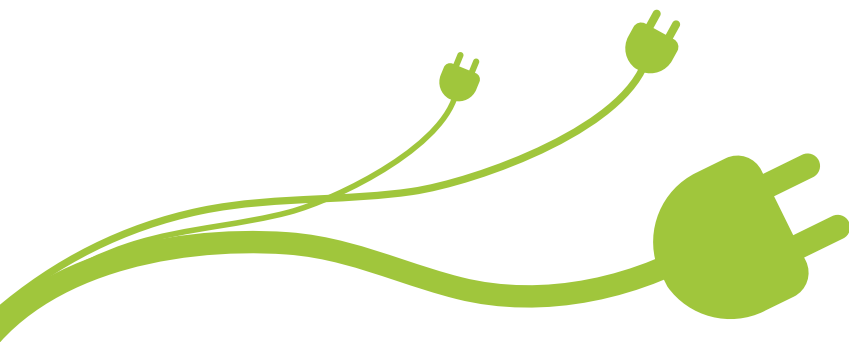
Other provisions

As at the balance sheet date, other provisions are established based on an analysis of the risks and losses, where the reason, amount and term of fulfilment can be determined with high probability, while complying with the accrual/matching principle.

Income tax provision

An income tax provision is established as the financial statements are prepared before the tax liability is determined. In the subsequent accounting period, the Company releases this provision and records the actual tax liability determined.

In the balance sheet, the income tax provision is reduced by income tax prepayments, and the net receivable (if any) is recorded in tax receivables.



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2.6. Foreign currency translation

At the beginning of each calendar month the Company sets a fixed exchange rate based on the Czech National Bank official rate for the last working day of the previous month, which is applied to transactions recorded during the month. During the year foreign exchange gains and losses are only recognised when realised at the time of settlement.

As at the balance sheet date, foreign currency monetary assets and liabilities are translated at the prevailing Czech National Bank official rates. Unrealised foreign exchange gains and losses are recognised in profit or loss.

2.7. Derivatives

A derivative is a financial instrument that meets all of the following conditions:

- its fair value changes in response to the change in a specified interest rate, price of a security, commodity price, foreign exchange rate, price index, credit rating or credit index, or other variable („the underlying asset“),
- It is settled at a future date, with the period from the trade date to the settlement date exceeding that of a spot transaction.

Derivatives are recognised in the balance sheet at fair value. Positive fair values of derivatives are recognised in assets under „Other receivables“. Negative fair values of derivatives are recognised in liabilities under „Other payables“. The fair value of financial derivatives is the present value of expected cash flows from these transactions.

Trading derivatives

Derivatives held for trading are recognised in the balance sheet at fair value. Gains/losses from changes in fair value are recorded in the income statement under „Revenue from revaluation of securities and derivatives“/„Expenses for revaluation of securities and derivatives“.

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Hedging derivatives

The Company applies hedge accounting if:

- the hedge is in line with the Company's risk management strategy,
- the hedge relationship is formally documented at the inception of the hedge,
- the hedge relationship is expected to be effective throughout its duration,
- the effectiveness of the hedge relationship can be objectively measured,
- the hedge relationship is effective throughout the accounting period.

2.8. Leased assets

Lease payments are expensed on a straight-line basis over the lease term. Where an asset is purchased at the end of the lease, it is recorded at its purchase price.

2.9. Income tax

Income tax for the period comprises current tax and the change in deferred tax. Current tax comprises an estimate of tax payable calculated based on the taxable income, using the tax rate valid as at the first day of the accounting period, and any adjustments to taxes payable for previous periods. Deferred tax is based on all temporary differences between the carrying and tax value of assets and liabilities, and other temporary differences (tax losses carried forward, if any), multiplied by the tax rate expected to be valid for the period in which the tax asset/liability will be utilised. A deferred tax asset is recognised only if it is probable that it will be utilised in future accounting periods.

2.10. Classification of liabilities

The Company classifies as short-term any part of long-term liabilities, bank loans and overdrafts that is due within one year of the balance sheet date.

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Notes to the financial statements as at 31 December 2016
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2.11. Recognition of revenues and expenses

Revenues and expenses are recorded accrued based on the accrual/matching principle. Revenues from the sale of electricity are recorded once it is delivered. Purchased and sold electricity is recorded in the financial statements as Revenue from own products and services. As part of its business activities the Company enters into standard contracts for the purchase and sale of electricity with other traders. The purchased and sold electricity is recognised in the financial statements in Revenue from goods and Cost of goods sold.

2.12. Significant estimates and assumptions in preparing the financial statements

In preparing the financial statements, the Company's management uses estimates and makes assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses recognised in the financial statements. These estimates and assumptions are based on past experience and various other factors deemed appropriate as at the date of preparation of the financial statements and are used where the carrying amounts of assets and liabilities are not readily available from other sources or where uncertainty exists in applying the individual accounting policies. Actual results may differ from the estimates.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised either in the period in which the estimate is revised, providing that the revision relates only to the current accounting period, or in the revision period and future periods, providing the revision affects both the current and future periods. Estimates and underlying assumptions used in the current period affected primarily the amount of the presented tangible and intangible fixed assets, investments, receivables and provisions.

Where significant events occurring between the balance sheet date and the date of preparation of the financial statements are indicative of conditions that arose after the balance sheet date, the effects of such events are disclosed in the notes but not recognised in the financial statements.

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2.13. Subsequent events

The effects of events that occur between the balance sheet date and the date of preparation of the financial statements are recognised in the financial statements where such events provide further evidence of conditions that existed at the balance sheet date.

Where significant events occurring between the balance sheet date and the date of preparation of the financial statements are indicative of conditions that arose after the balance sheet date, the effects of such events are disclosed in the notes but not recognised in the financial statements.

2.14. Change in accounting policies and procedures, comparability of information, correction of errors

The Company did not significantly change its accounting procedures and policies in the accounting period.



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3. Additional information on the balance sheet and the profit and loss account

3.1. Fixed assets

3.1.1. Intangible fixed assets

2016	Incorporation expenses	Software	Intellectual property rights	Other intangible assets including advances	Intangible fixed assets under construction	Total
Acquisition cost						
Balance at 1/1/2016	65	25 406	195	222 233	395	248 284
Additions	–	656	64	1 602 288	439	1 603 447
Disposals	-65	–	–	-1 021 431	–	-1 021 496
Transfers	–	–	–	395	-395	–
Balance at 31/12/2016	–	26 062	259	803 475	439	830 235
Accumulated depreciation						
Balance at 1/1/2016	65	16 165	99	–	–	16 329
Depreciation expense	–	4 827	29	–	–	4 856
Disposals	-65	–	–	–	–	-65
Transfers	–	–	–	–	–	–
Balance at 31/12/2016	–	20 992	128	–	–	21 120
Net book value 1/1/2016	–	9 241	96	222 223	395	231 955
Net book value 31/12/2016	–	5 070	131	803 475	439	809 115

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2015	Incorporation expenses	Software	Intellectual property rights	Other intangible assets including advances	Intangible fixed assets under construction	Total
Acquisition cost						
Balance at 1/1/2015	65	19 707	95	34 639	2 049	56 555
Additions	–	2 330	100	2 411 265	3 506	2 417 201
Disposals	–	-292	–	-2 223 681	-1 499	-2 225 472
Transfers	–	3 661	–	–	-3 661	–
Balance at 31/12/2015	65	25 406	195	222 223	395	248 284
Accumulated depreciation						
Balance at 1/1/2015	63	13 892	95	–	–	14 050
Depreciation expense	2	2 565	4	–	–	2 571
Disposals	–	-292	–	–	–	-292
Transfers	–	–	–	–	–	–
Balance at 31/12/2015	65	16 165	99	–	–	16 329
Net book value 1/1/2015	2	5 815	–	34 639	2 049	42 505
Net book value 31/12/2015	–	9 241	96	222 223	395	231 955

Financial Statements

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3.1.2. Tangible fixed assets

2016	Land	Buildings	Machinery and equipment	Works of art	Adjustments to acquired assets	Tangible assets under construction including advances	Total
Acquisition cost							
Balance at 1/1/2016	39 235	4 158 730	7 318 730	415	1 620 790	805 687	13 943 587
Additions	5	25 151	71 455	–	–	554 097	650 708
Disposals	-963	–	-23 677	–	–	–	-24 640
Transfers	–	32 396	52 910	–	–	-85 306	–
Balance at 31/12/2016	38 277	4 216 277	7 419 418	415	1 620 790	1 274 478	14 569 654
Accumulated depreciation							
Balance at 1/1/2016	–	3 284 531	7 087 821	–	666 352	–	11 038 704
Depreciation expense	–	115 991	48 865	–	97 061	–	261 917
Disposals	–	–	-23 477	–	–	–	-23 477
Transfers	–	–	–	–	–	–	–
Balance at 31/12/2016	–	3 400 522	7 113 209	–	763 413	–	11 277 144
Adjustments							
Balance at 1/1/2016	–	10 118	–	–	–	–	10 118
Change in adjustments	–	397	–	–	–	–	397
Balance at 31/12/2016	–	10 515	–	–	–	–	10 515
Balance at 1/1/2016	39 235	864 081	230 909	415	954 438	805 687	2 894 765
Balance at 31/12/2016	38 277	805 240	306 209	415	857 377	1 274 478	3 281 996

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2015	Land	Buildings	Machinery and equipment	Works of art	Adjustments to acquired assets	Tangible assets under construction including advances	Total
Acquisition cost							
Balance at 1/1/2015	37 163	4 153 920	7 278 129	415	1 620 790	60 438	13 150 855
Additions	2 072	4 810	43 433	–	–	749 790	800 105
Disposals	–	–	-3 030	–	–	-4 343	-7 373
Transfers	–	–	198	–	–	-198	–
Balance at 31/12/2015	39 235	4 158 730	7 318 730	415	1 620 790	805 687	13 943 587
Accumulated depreciation							
Balance at 1/1/2015	–	3 162 049	7 044 745	–	569 291	–	10 776 085
Depreciation expense	–	122 482	46 106	–	97 061	–	265 649
Disposals	–	–	-3 030	–	–	–	-3 030
Transfers	–	–	–	–	–	–	–
Balance at 31/12/2015	–	3 284 531	7 087 821	–	666 352	–	11 038 704
Adjustments							
Balance at 1/1/2015	–	20 839	–	–	–	–	20 839
Change in adjustments	–	-10 721	–	–	–	–	-10 721
Balance at 31/12/2015	–	10 118	–	–	–	–	10 118
Balance at 1/1/2015	37 163	971 032	233 384	415	1 051 499	60 438	2 353 931
Balance at 31/12/2015	39 235	864 081	230 909	415	954 438	805 687	2 894 765

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Adjustments to acquired assets of TCZK 1 620 790 arose as a result of a non-monetary contribution in the registered capital as at 1 September 2010. A write-off of adjustments of TCZK 97 061 was charged to expenses in 2016 (2015 – TCZK 97 061).

The major addition to fixed assets in 2016 is machinery and equipment of CZK 71 million. An advance for tangible assets under construction of TCZK 193 544 were provided for the renovation of blocks B3 and B4 (2015 – TCZK 729 986).

An adjustment for assets that the Company does not presently use and does not expect to use them in the subsequent period, amounts to TCZK 10 515 as at 31 December 2016 (2015 – TCZK 10 118).

In 2016 the following changes were made in the account of emission rights. In association with these changes, the Company recorded the following amounts in other operating revenues/expenses and revenues/expenses associated with the sale of fixed assets:

	Emission rights
Balance at 1/1/2016	222 223
Free of charge allocation of CO ₂ emission rights	108 132
Purchase of emission rights	1 494 156
Sale of emission rights	-556 233
Utilisation of emission rights	-465 198
Balance at 31/12/2016	803 080

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Notes to the financial statements as at 31 December 2016
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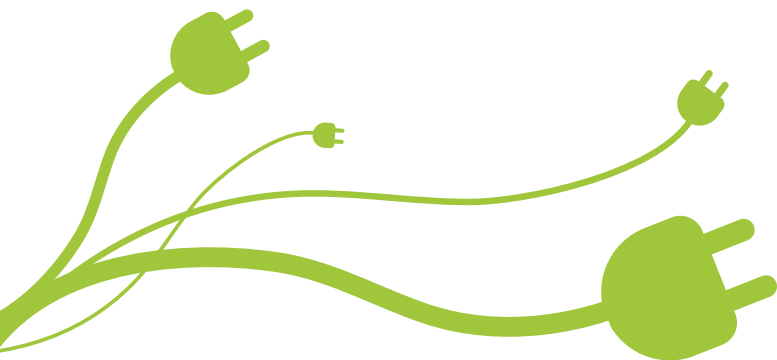
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3.1.3. Leased assets

Servis Leasing a.s. is a lessor of passenger and utility vehicles. The rent (operating and finance leases) amounted to TCZK 2 170 in 2016 (2015 – TCZK 2 538). As at 31 December 2016 the payable (future operating lease instalments) from valid lease agreements totals TCZK 4 812 (2015 – TCZK 6 982). The Company uses leased office premises in Prague 6; rent for 2016 totalled TCZK 4 421 (2015 – TCZK 4 240).

3.2. Inventories

Inventories mainly consist of spare parts and coal. As at 31 December 2016, spare parts total TCZK 184 732 (2015 – TCZK 152 168) and coal inventories total TCZK 622 205 (2015 – TCZK 548 389). To reduce the cost of raw materials to net realisable value, an adjustment of TCZK 12 154 (2015 – TCZK 82 491) was recorded as at 31 December 2016.



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3.3. Long-term receivables

3.3.1. Receivables – group undertakings

The long-term receivable from Severní energetická a.s. was paid in 2016 (2015 – TCZK 500 000) – see note 3.16. Related parties.

3.3.2. Other receivables

Other long-term receivables consist of long-term deposits totalling TCZK 36 480 (2015 – TCZK 151 888) provided in connection with trading in electricity and emission rights.

3.4. Short-term receivables

3.4.1. Short-term trade receivables

Short-term trade receivables total TCZK 694 314 (2015 – TCZK 1 793 746), of which TCZK 1 860 (2015 – TCZK 71 185) is overdue. Adjustments of TCZK 1 566 (2015 – TCZK 2 964) were set up at 31 December 2016 for doubtful receivables.

3.4.2. Short-term advances paid

Short-term advances paid totalled TCZK 301 735 (2015 – TCZK 187 119). The major items are advances for repairs of TCZK 301 726 (2015 – TCZK 185 625).

3.4.3. Other short-term receivables

Other short-term receivables of TCZK 66 626 (2015 – TCZK 479 067) primarily consist of a receivable related to the value added tax deduction totalling TCZK 26 651 (2015 – TCZK 109 704), a receivable relating to a purchased receivable of TCZK 25 275 (2015 – TCZK 345 385) and a short-term deposit totalling TCZK 12 159 (2015 – TCZK 22 703) provided in connection with the trading in electricity.

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3.5. Accrued revenues

Accrued revenues as at 31 December 2016 total TCZK 19 586 (2015 – TCZK 14 533) and comprise revenues from transactions carried out through OTE (electricity market operator) in December 2016 but paid only in January 2017.

3.6. Components of cash and cash equivalents

As at 31 December 2016, the Company had account balances with limited disposal of TCZK 22 679 (2015 – TCZK 22 668). These funds have been deposited in a special- purpose tied account and will be used to cover the relevant cost of reclamation in subsequent periods.

3.7. Adjustments

Adjustments	Fixed assets	Inventories	Receivables	Total
Balance at 1/1/2016	10 118	82 491	2 964	95 573
Additions	10 515	12 154	–	22 669
Release/utilisation	-10 118	-82 491	-1 398	-94 007
Balance at 31/12/2016	10 515	12 154	1 566	24 235

3.8. Equity

The Company's registered capital consist of 4 406 certificated, registered ordinary shares, fully subscribed and paid up, with a nominal value of TCZK 1 000. The Company's shares have been pledged in favour of Československá obchodní banka, a.s. based on a contract for the pledge of shares entered into between Československá obchodní banka, a.s and Severní energetická a.s. on 9 December 2014. The planned distribution of the current year's loss. The Company plans to transfer the current year's loss to retained earnings. As of the date of these financial statements no decision has been made in respect of the loss distribution.

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3.9. Provisions

The statutory provision for reclamation and restoration was established in accordance with the Act on Reserves. The Company had no income tax liability in 2016. In 2015 an income tax provision of TCZK 37 363 was reduced with income tax prepayments of TCZK 30 811 (and the net liability of TCZK 6 552 was reported in Income tax provision).

	Provision for reclamation and restoration	Provision for compensation of damage resulting from emissions	Provision for bonuses	Other provisions	Total
Balance at 1/1/2016	20 750	8 159	17 770	3 169	49 848
Additions	11	443	34 638	9 422	44 513
Utilisation	–	-135	-17 770	-3 169	-21 074
Balance at 31/12/2016	20 761	8 467	34 638	9 422	73 288

3.10. Long-term liabilities

3.10.1. Other payables

Other long-term payables of TCZK 12 500 (2015 – TCZK 38 262) consist of amounts retained in respect of invoices for repairs to settle defects that emerged, were identified or reclaimed during the warranty period (2015 – TCZK 1 392).

In 2014 – 2016 the Company entered into contracts for the sale of options regarding the sale of electricity and purchase of emission rights in 2015 – 2017. In 2015 other payables consisted primarily of a long-term portion of option premiums of TCZK 36 871 related to sold call and put options that will expire in 2017. A short-term portion of TCZK 97 570 was reported in Other short-term payables.

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3.11. Short-term liabilities

3.11.1. Short-term trade payables

Short-term trade payables total TCZK 1 395 333 (2015 – TCZK 1 857 694), none of which are overdue (2015 – TCZK 0 is overdue).

3.11.2. Other short-term payables

Other short-term payables total TCZK 203 254 (2015 – TCZK 269 549), the major portion of which are payables relating to transactions effected on the exchange of TCZK 158 209 (2015 – TCZK 14 681) and the short-term portion of the option premium of TCZK 42 916 (2015 – TCZK 97 570). In 2015 the other short-term payables consisted primarily of a payable from CHARLINVEST LIMITED of TCZK 100 000 related to a ceded receivable, a deposit of TCZK 54 050 received in connection with electricity trading and due value added tax of TCZK 46 156. Another portion of other short-term payables represents a short-term portion of sold options for the sale of electricity and purchase of emission rights – see note 3.10.1. Other payables.

3.12. Estimated payables

Estimated payables of TCZK 506 954 (2015 – TCZK 97 986) consist primarily of uninvoiced repairs of TCZK 501 012 (2015 – TCZK 93 852).

3.13. Deferred revenues

In 2015 deferred revenues of TCZK 54 050 arose in connection with the sale of intangible assets (emission rights) contracted in 2015 but carried out in 2016.

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3.14. Segment information

		Domestic sales	Export sales	Total
Sale of purchased energy	2016	2 819 805	4 367 577	7 187 382
	2015	6 373 355	11 287 058	17 660 413
Sale of generated energy	2016	1 540 261	588 368	2 128 629
	2015	2 261 841	1 206 802	3 468 643
Other	2016	24 800	—	24 800
	2015	23 835	—	23 835
Total	2016	4 384 866	4 955 945	9 340 811
	2015	8 659 031	12 493 860	21 152 891

A year-on-year decrease in revenues from the sale of generated energy of TCZK 1 340 014 is mainly due to the planned outage of blocks Nos. 3 and 4 relating to restructuring and a fire occurred in the power plant in August 2016 (the outage lasted from 30 August to 19 October) and primarily due to a change of the Company's strategy, as result of which trading in purchased electricity decreased. A year-on-year decrease in revenues from the sale of purchased energy of TCZK 10 473 031 is attributable to a change of the Company's strategy, as result of trading in purchased electricity decreased.

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3.15. Significant items of profit or loss

3.15.1. Other operating revenues

Other operating revenues primarily consist of subsidies for emission rights allocated free of charge of TCZK 108 132 (2015 – TCZK 247 663), TCZK 564 427 (2015 – TCZK 1 804 251) and revenues from sold metal scrap of TCZK 10 554 (2015 – TCZK 631). These revenues from sale also include entitlement to the payment of the damage caused during the August fire of the coal handling, as calculated by the Company. The amount of the damage was calculated in accordance with the insurance contract in force, totalling TCZK 199 332. The calculation includes compensation for suspended operation, expenses incurred in relation to investments and repairs carried out in 2016 and expenses incurred in relation to repairs and investments to be carried out in 2017. In 2015, a significant portion of other operating revenues of TCZK 351 116 represented the refund of the gift tax paid on the emission rights allocated for 2011 and 2012.

3.15.2. Other operating expenses

Other operating expenses consists primarily of the usage of purchased emission rights in 2016 totalling TCZK 465 198 (2015 – TCZK 652 607) and expenses incurred in relation to sold emission rights of TCZK 556 223 (2015 – TCZK 1 818 737).

3.15.3. Other financial revenues

Other financial revenues of TCZK 170 498 (2015 – TCZK 312 896) primarily include revenues from revaluation of derivatives of TCZK 45 755 (2015 – TCZK 108 035), option premium income of TCZK 111 574 (2015 – TCZK 98 661) and foreign exchange gains of TCZK 8 601 (2015 – 82 985).

3.15.4. Other financial expenses

Other financial expenses of TCZK 374 817 (2015 – TCZK 278 173) primarily consists of expenses on revaluation of derivatives of TCZK 360 706 (2015 – TCZK 177 261) and foreign exchange losses of TCZK 10 395 (2015 – TCZK 96 859).

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3.16. Related parties

Since 1 September 2013, the Company has been a member of a group of companies with Severní energetická a.s. as a parent company.

3.16.1. Receivables and payables

The following related party balances are included in the trade receivables and payables described in notes 3.4. and 3.11. above:

Summary of receivables and payables with related parties of the Severní energetická and Czech Coal group:

	Receivables		Payables	
	at 31/12/2016	at 31/12/2015	at 31/12/2016	at 31/12/2015
Severní energetická a.s.	–	1 129	168 898	194 882
Coal Services a.s.	–	–	959	–
Servis Leasing.a.s.	–	–	93	–
Total	–	1 129	169 950	194 882

Based on the agreement to settle a payable signed in respect of adjusting the purchase price with working capital upon the purchase of shares of Sev.en EC, a.s., Severní energetická a.s. assumed the monetary payable of ČEZ, a.s. to Sev.en EC, a.s. arising from the contract on cash pooling and the contract on mutual credit facilities of TCZK 2 972 995.

This receivable was fully repaid in 2016 (2015 – TCZK 500 000). The receivable beared an interest rate of 3M Pribor+2% p.a. In 2016, the Company entered into a contract with its parent company Severní energetická a.s. based on which Severní energetická a.s. undertook to provide the Company with cash according to its needs and requirements until 15 December 2018. The maximum limit for drawing cash is MCZK 500.

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3.16.2. Transactions with related parties

The Company purchases products and utilises services of related parties as part of its regular business activities.

Summary of revenues and expenses with related parties within the Severní energetická and Czech Coal group:

	Revenues		Expenses	
	2016	2015	2016	2015
Severní energetická a.s.	10 439	35 882	1 409 393	3 161 332
Coal Services a.s. *)	–	–	1 052	–
Servis Leasing a.s. *)	–	–	1 809	–
Total	10 439	35 882	1 412 254	3 161 332

*) Revenues and expenses are for period June to December 2016.

Cost related to Severní energetická a.s. primarily comprises cost for the purchase of coal. Revenues related to Severní energetická a.s. primarily comprises interest rate revenues from long-term receivable – see note 3.16.1. Receivables and payables.

3.17. Contingencies and commitments

Based on the contract regarding the procedure on the sale of emission rights acquired free of charge signed in connection with the contract to purchase 100% of the Company's shares entered into between ČEZ, a.s. and Severní energetická a.s., Sev.en EC, a.s. is obliged, in accordance with instructions by ČEZ, a.s., to sell the emission rights and make every effort to sell them at maximum possible price.



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As at 31 December 2016, the Company has the following contingencies and commitments relating to the issued and accepted guarantees:

- a) On 24 October 2013 the Company entered into a contract for the provision of a guarantee revolving loan of TEUR 4 000 with BNP Paribas Fortis SA/NV to secure all existing and future monetary receivables in accordance with the EFET General Agreement and Election sheet entered into between the Company and BNP Paribas London Branch. Based on an amendment to the contract dated 12 August 2014, the credit line was increased to TEUR 6 250. In connection with the increase, BNP Paribas Fortis SA/ NV issued bank guarantees of TEUR 2 000.
- b) Potential receivables of BNP Paribas from Sev.en EC, a.s. and Severní energetická a.s. arising from energy-related or forex transactions are secured by a pledge of up to TEUR 15 000 in favour of BNP Paribas to the account held by Sev.en EC, a.s. The collateral amounted to TEUR 1 005 as at 31 December 2016.
- c) Based on an agreement on guarantees in favour of Československá obchodní banka, a.s., Severní energetická a.s. secures future debts up to TCZK 30 000 based on a framework contract entered into between Československá obchodní banka, a.s. and Sev.en EC, a.s. on 6 March 2014.
- d) Based on a letter of support issued by Severní energetická a.s. in favour of Československá obchodní banka a.s., Severní energetická a.s. guarantees an amount up to TCZK 200 000 in relation to the contract on the rules for providing bank guarantees and promises entered into between Československá obchodní banka, a.s. and Sev.en EC, a.s. on 13 December 2013.
- e) The Company provided a bank guarantee of TEUR 2 000 to EDF Trading Limited in connection with the electricity trading valid until 30 September 2017.

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- f) The Company provided a bank guarantee of TEUR 72 to APCS Power Clearing and Settlement in connection with the electricity trading valid until 13 October 2019.
- g) The Company provided a bank guarantee of TCZK 90 000 to OTE, a.s. in connection with the electricity trading valid until 30 June 2017.

3.18. Cash flow statement

For the purposes of the cash flow statement, cash and cash equivalents are defined to include cash in hand, cash in transit, cash at the bank and other financial assets whose valuation can be reliably determined and that can be readily converted to cash. Cash and cash equivalents as at the year-end are as follows:

	Balance at 31/12	
	2016	2015
Short-term financial assets	505 587	967 132
Marketable securities	–	–
Cash and cash equivalents	505 587	967 132

In the cash flow statement, cash flows from operating, investment or financial activities are reported on a gross basis.



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3.19. Income tax

3.19.1. Current tax

The Company had no current corporate income tax liability in 2016. Current income tax in the income statement of TCZK 982 comprises the tax estimate for the prior taxable period of 2015 and 2014. Current income tax for 2015 comprises the tax estimate of TCZK 37 363, and an adjustment to the tax estimate for 2014 of TCZK 226.

3.19.2. Deferred tax

Deferred tax assets and liabilities

In accordance with the accounting policy described in note 2.9., a tax rate of 19% was used to calculate tax (2015 – 19%).

	Assets		Liabilities		Net	
	at 31/12/2016	at 31/12/2015	at 31/12/2016	at 31/12/2015	at 31/12/2016	at 31/12/2015
Tangible and intangible fixed assets	1 998	1 922	-250 889	-284 746	-248 891	-282 824
Receivables	6	271	–	–	6	271
Inventories	2 309	15 673	–	–	2 309	15 673
Tax losses	148 210	–	–	–	148 210	–
Provisions	9 980	5 529	--	–	9 980	5 529
Deferred tax asset/liability	162 503	23 395	-250 889	-284 746	-88 386	-261 351

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3.20. Employees and members of management, supervisory and administrative bodies

	Average FTE number		Wages and salaries*	
	2016	2015	2016	2015
Employees	308	294	166 860	158 738
Members of management bodies	2	2	2 900	3 103
Members of supervisory bodies	3	3	540	540
Members of administrative bodies	3	3	10 752	5 652
Total	316	302	181 052	168 033

*) Wages and salaries of members of management, supervisory and administrative bodies represent the members' remuneration attributable to their function.

As at 31 December 2016 the Company had incurred no pension liabilities to former members of management, supervisory and administrative bodies. Members of the board of directors and management use the Company's vehicles for both business and private purposes.

4. Additional facts and significant events since the balance sheet date

4.1. Material subsequent events

On 7 March 2017 a loan agreement up to TEUR 223 826 and TCZK 409 200 for Severní energetická a.s., Vršanská uhelná a.s. a Sev.en. EC, a.s. was concluded.

The loan is provided in the form of term lines:

- Severní energetická – TL 1 – A tranche of TEUR 92 196 and TL 1 – B tranche of TCZK 409 200
- Vršanská uhelná – TL 2 of TEUR 29 630

and also in the form of a revolving line totalling TEUR 90 000 and an overdraft of TEUR 12 000 – common for all the three companies.

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All credit lines are due on 31 December 2020.

By drawing the term line 1 in respect of Severní energetická, the term lines drawn in relation to the loan agreement dated 9 December 2014 were repaid; the agreement was subsequently terminated on 9 March 2017.

By drawing the term line 2 in respect of Vršanská uhelná, the term line drawn in relation to the loan agreement dated 11 November 2015 was repaid; the agreement was subsequently terminated on 9 March 2017.

On 14 February 2017 the company was provided by long-term loan in amount of TCZK 100 000 by Severní energetická a.s.

The Company's management is not aware of any other events that have occurred since the balance sheet date that would have any material impact on the financial statements as at 31 December 2016.

Signature of the authorised representative:		
Prepared on: 28 March 2017		
	Jan Dienstl Chairman of the board of director	Luboš Pavlas Member of the board of directors



Independent Auditor's Report

KPMG Česká republika Audit, s.r.o.

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

Independent Auditor's Report to the Shareholder of Sev.en EC, a.s.

Opinion

We have audited the accompanying financial statements of Sev.en EC, a.s. ("the Company"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2016, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the financial statements.

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

Basis for Opinion

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

Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the annual report other than the financial statements and our auditor's report. The statutory body is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information

and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those requirements could influence judgments made on the basis of the other information.

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

- the other information describing matters that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- the other information has been prepared in accordance with applicable laws and regulations.

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

Responsibilities of the Statutory Body for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a

basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Statutory Auditor Responsible for the Engagement

Petr Sikora is the statutory auditor responsible for the audit of the financial statements of Sev.en EC, a.s. as at 31 December 2016, based on which this independent auditor's report has been prepared.

Prague
28 March 2017



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



Petr Sikora
Partner
Registration number 2001



List of abbreviations

List of abbreviations

BOZP

CO₂

ČIŽP OI

EMS

HR

HZSp

KŘ

NO_x

SO₂

TZL

ZOK

ŽP

7EC

7ECrisk

Health and Safety at Work

Carbon Dioxide

Czech Environmental Inspectorate

Environmental Management System

Human Resources

Fire and Rescue Service of the Company

Regional Directorate

Nitrogen Oxides

Sulfur Dioxide

Solid Polluters/Dust

Business Corporations Act

Environment

Sev.en EC, a.s.

The project of intergrated risk management system



Sev.en EC, a.s.

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