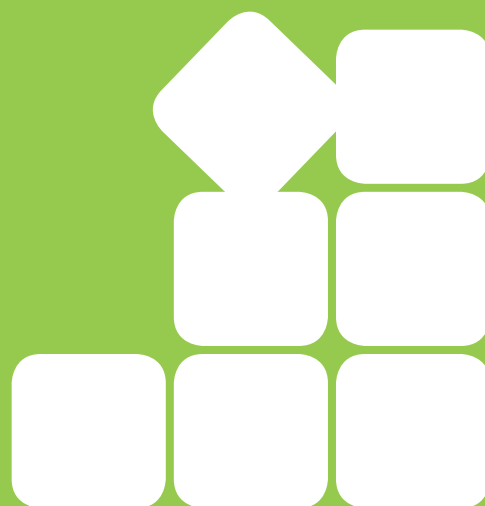


Elektrárna  
**Chvaletice**

member of Sev.en group



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Introduction of  
Severní energetická Group

## Introduction of Severní energetická Group

The Severní energetická Group (further referred to as „Sev.en“) is controlled by Czech shareholders. It was established by a demerger of what then was Litvínovská uhelná, Ltd from the Czech Coal Group and by acquisition of Elektrárna Chvaletice power plant from the ČEZ Group. At present the mining company Severní energetická, OJSC comprises the Chvaletice coal-fired power station, Důl Kohinoor, OJSC in liquidation, the unique recreational and horse-racing area Hipodrom Most and since 2014 it also includes Humeco, OJSC.

The Group combines the extraction of coal as an energy source with electricity and heat generation and sales. From the efficiency viewpoint, such a vertical integration is the best model, which enables fuel-contained energy to be used in the best way. The vision of the group is to ensure a sufficient amount of energy for the central supply of cities, municipalities and energy industries, as well as to ensure the sustainable and reliable production and distribution of electricity, even in time periods without sunshine or wind.

The brown-coal energy industry is able to meet the continuously growing demand for energy products in the best, cheapest and most reliable way, thus being irreplaceable within the framework of the European energy industry. Severní energetická Group is one of the mainstays of the Czech energy system and a major provider of ancillary services.

The Sev.en Group's key commodities are brown coal and electricity. Electricity generation in four 205MW bloc units makes it possible to offer combinations of standard products covering the base load (24 hours) and peak loads (12 hours), featuring a dynamic output from 100 to 820 MW. The Group offers both long-term and spot market contracts. The business strategy in electricity selling was revised and a decision was made towards the gradual termination of business activities in supplies of electricity and related services to end consumers by the end of 2014, to assure the fulfilment of all previously contracted liabilities.



Information on persons responsible for annual report

## Information on persons responsible for annual report

### Responsibility for annual report

**Declaration:**

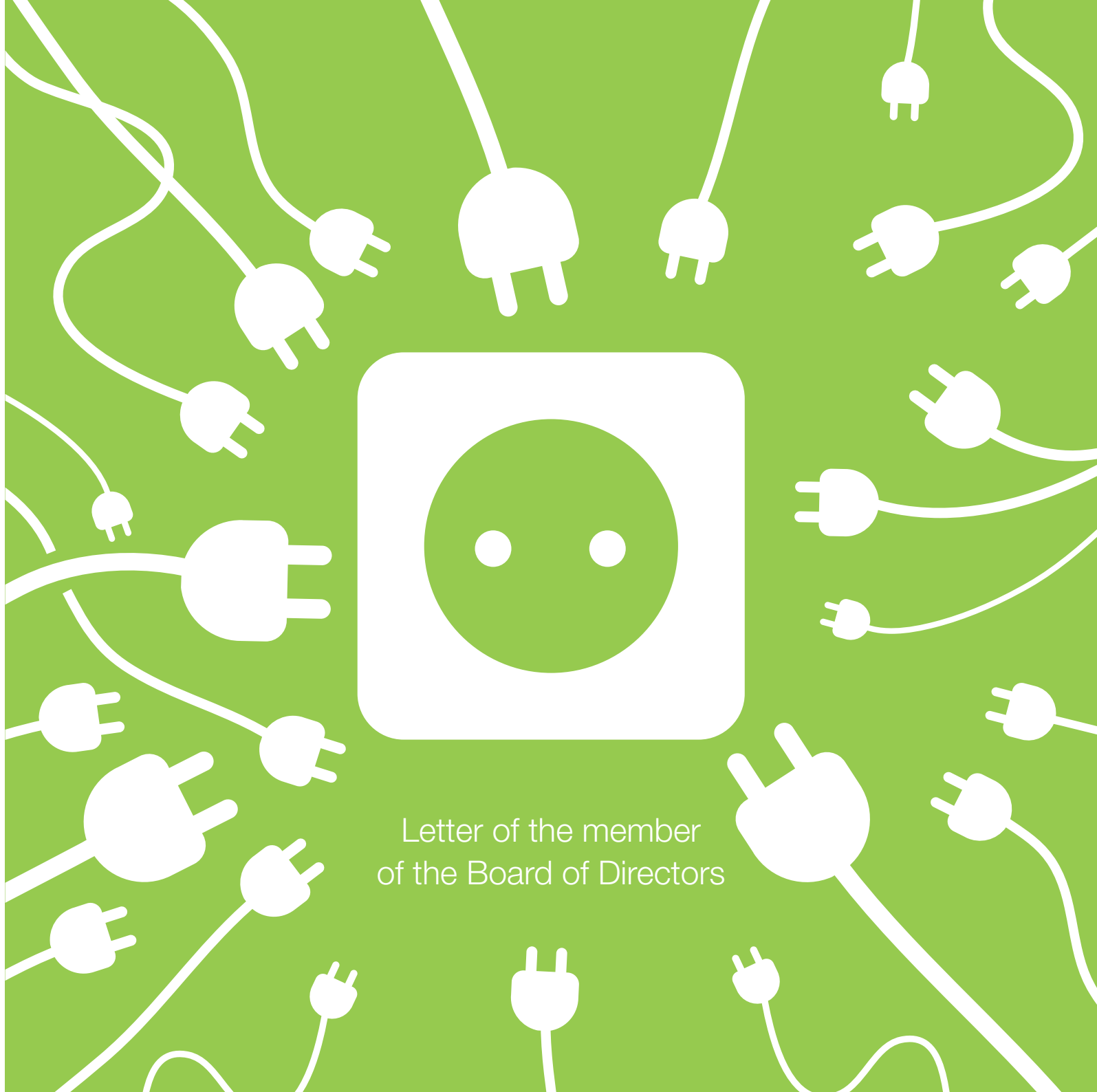
We hereby declare that the information presented in the 2014 annual report of Elektrárna Chvaletice, OJSC is true to the facts and that no relevant information that could influence the accurate and precise assessment of the Company has been omitted.

In Chvaletice, 5 June 2015

**Jan Dienstl**  
Chairman of the board

**Luboš Pavlas**  
Member of the board

**Jan Pozler**  
Member of the board



Letter of the member  
of the Board of Directors

## Letter of the member of the Board of Directors

Dear friends,

Firstly, let me begin by expressing my thanks to all employees of Elektrárna Chvaletice, OJSC, for managing all tasks in 2014 successfully. 2014 was the first complete year in which Elektrárna Chvaletice, OJSC operated as a member of the Severní Energetická Group.

After leaving the ČEZ Group in 2013, Elektrárna Chvaletice, OJSC, had to gradually expand its knowledgebase and skill capacity in different areas. During 2014 Elektrárna Chvaletice employed 20 employees to work in the electricity selling business and to carry out administrative activities such as accounting, human resources or invoicing for electricity and heat. A brand new division was established to ensure the purchase of material, services and sub-supplies. A new SAP information system was implemented in a very short time. Finally a new project team called Obnova was appointed to prepare public procurement in the second half of the year aimed at the reconstruction of the third and fourth power station units. The aim of the reconstruction is to decrease emissions, decrease own consumption, increase the scope of regulation and unit efficiency and above all, to prolong the service lifetime of the two units to 2030. The entire power plant will be modernised. In 2014 the decision was made as to what extent two units (B3 and B4) will be reconstructed in 2016. There are several more decisions to be taken in the future, such as to what extent the units 1 and 2 will be reconstructed, how to modernise non-production devices from coaling as well as the disposal of products after incineration. This is a significant moment in the history of Elektrárna Chvaletice, as the prolongation of the power plant's service lifetime will have a positive effect not only on the company itself, but also on its employees, suppliers and the whole region.

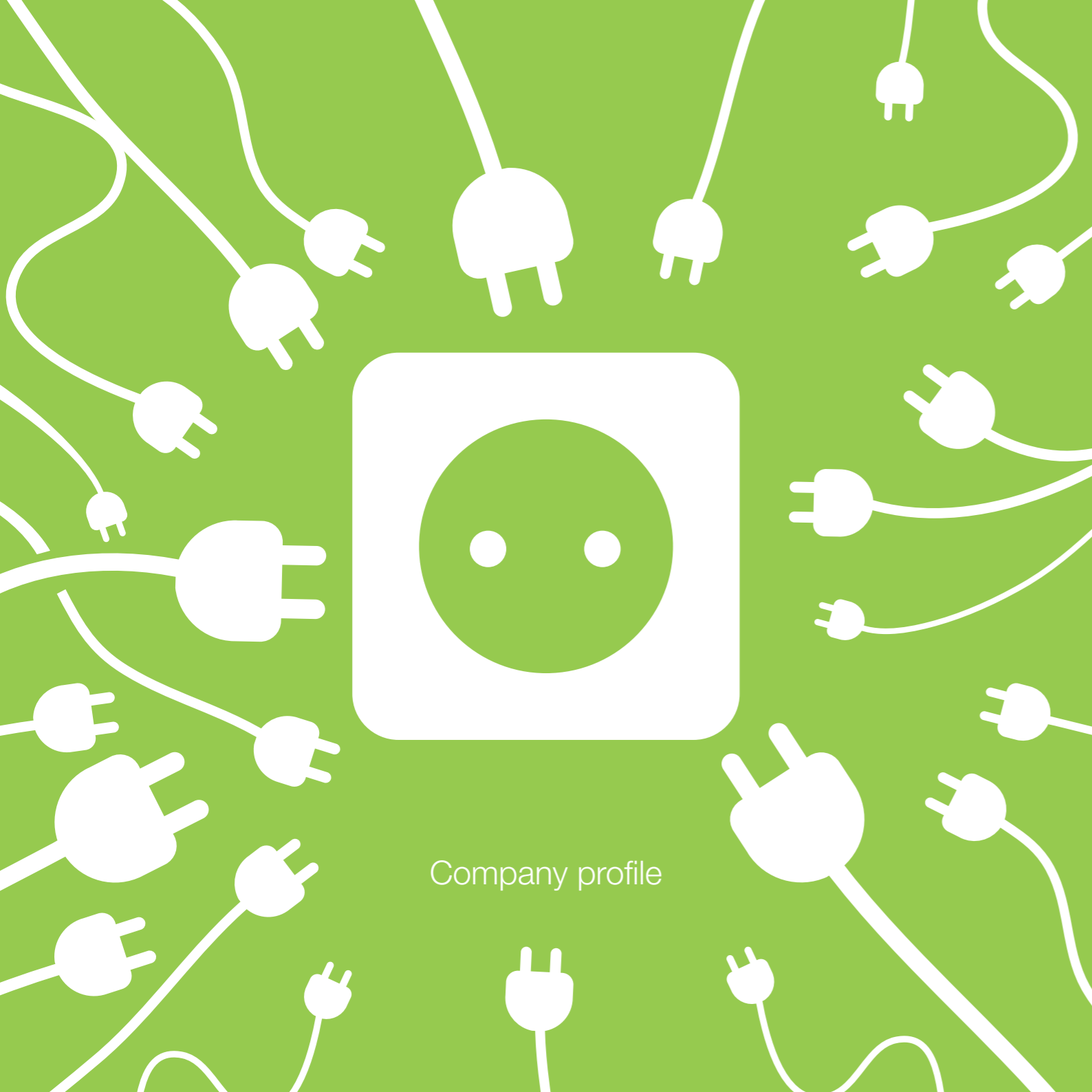
We learned to trade in electricity on long-term and short-term positions and decided to change our business strategy, which meant the gradual termination of the selling of electricity to end-consumers by the end of 2014. Since the beginning of July, the MND Company, OJSC gradually acquired the strong and stable portfolio of our clients. Owing to that we can fully focus on electricity production and the handling of the wholesale markets not only in the Czech Republic.

Elektrárna Chvaletice, OJSC is aware of the fact that it is one of the leading companies in the Pardubice region and it wishes to continue its cooperation with the surrounding municipalities as well as with other institutions, by means of which it aims to promote and support education, charity projects, sports and leisure activities primarily of children and youth. We place emphasis on communication with the mayors of surrounding municipalities who regularly inform about our current activities, reconstruction processes and the future plans of the company.

Elektrárna Chvaletice, OJSC is actively engaged in many important associations such as the Association for District Heating of the Czech Republic, the Czech Association of Energy Sector Employers, Chamber of Commerce and the Association of Energy Managers. Representatives of Elektrárna Chvaletice have actively worked in the bodies of most of these institutions. 2014 is the first year managed solely by us and I regard it as a successful year which met our expectations, although the results could have been even better. On behalf of the board of directors and myself I would hereby like to thank everyone who helped us achieve these positive results. I wish everyone a lot of energy and success in our common work in the upcoming period.

Luboš Pavlas

Member of the board and the managing director



## Company profile

## Company profile

Elektrárna Chvaletice, a joint stock company, was established in 2010 by demerger from ČEZ, OJSC, and became a part of the ČEZ Consolidated Group. On 2nd September 2013 Severní Energetická, OJSC took control of all shares of Elektrárna Chvaletice, OJSC from the ČEZ Group, thus becoming the 100% owner of Elektrárna Chvaletice, OJSC.

The principal business of Elektrárna Chvaletice, OJSC is the production of electricity and thermal energy, electricity trade and the distribution of thermal energy. The Chvaletice power plant produces and offers for sale fully-certified energy combustion by-products, which are slag, ash, and FGD gypsum.

Elektrárna Chvaletice, OJSC is a brown-coal fired power station located in East Bohemia which burns North Bohemian brown coal and has the total installed power capacity of 820 MW. Apart from ensuring electricity production, the power station also generates heat. Both commodities are produced within one common cycle (so called co-generation), which leads to the better usage of fuel, thus saving energy and having a positive influence on the environment. By 2020 the power station will have been modernised in a way that it will meet the strictest requirements for long-term ecological operation. In 2016 units 3 and 4 are going to be completely reconstructed. Elektrárna Chvaletice, OJSC is certified in the EMS system and has been awarded a Safe Enterprise certificate. The power plant wishes to be an attractive employer and a good neighbour. Therefore it supports the East Bohemian region in many areas by means of sponsorship. In the last year, Elektrárna Chvaletice, OJSC contributed CZK 782,000 to various sponsorship projects. A positive perspective of the company brings with it a positive perspective for the region, in which it operates.

Elektrárna Chvaletice, OSJC is a major employer of the East Bohemia region. It provides its employees with a great range of employee benefits, from food, electricity and pension plan contributions, personal accounts for recreation, to an extra week of vacation.

### Mission of Elektrárna Chvaletice, OJSC

The mission of Elektrárna Chvaletice is to ensure safe and reliable supplies of electricity and heat to customers while minimising social and environmental production impacts of these commodities.

## Company profile

### Basic information about the Company

<b>Name:</b>	Elektrárna Chvaletice, OJSC
<b>Registered office:</b>	K Elektrárně 227, postal code 533 12 Chvaletice
<b>Legal form:</b>	joint stock company
<b>Registration number:</b>	287 86 009
<b>Registered at:</b>	Regional Court in Hradec Kralove, section B, insert 2905
<b>Bank:</b>	Československá obchodní banka, a.s. Praha, / CSOB, OJSC, Prague
<b>Bank account number:</b>	117517863/0300 (CZK) 12484280/0300 (EUR)
<b>Internet:</b>	<a href="http://www.sev-en.cz">www.sev-en.cz</a> , <a href="http://www.echas.cz">www.echas.cz</a>
<b>Email:</b>	<a href="mailto:echas@echas.cz">echas@echas.cz</a>
<b>Phone:</b>	462 101 111

### Scope of Business

The main scope of business of Elektrárna Chvaletice, OJSC, 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 Licensing Act
- Plumbing and heating
- Accounting, Bookkeeping, tax accounting
- Rental of property, apartments and commercial space
- Installation, repair, inspection and testing of electrical equipment



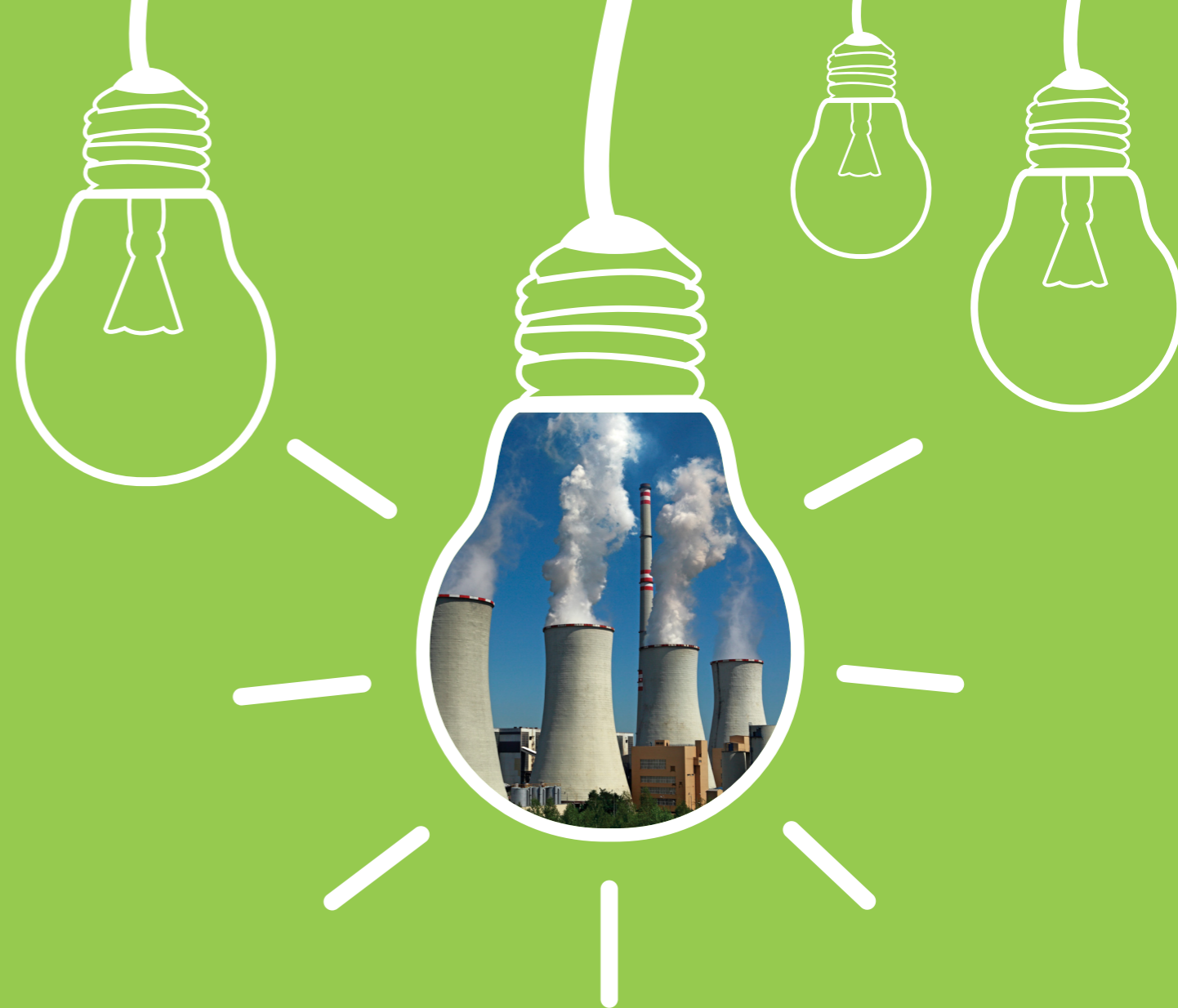
Main events of 2014

## Main events of 2014

2014	
<b>January</b>	Amendment No. 4 to the Collective Agreement signed for the period 2010 – 2014.
<b>February</b>	Change of Integrated Permit – sixth change by Decision of Regional Office of February 6, 2014.
<b>March</b>	RPHO inspection of working conditions in low and high risk workplaces, inspection of hazardous chemicals management, inspection of provision of medical services at workplace. Audit closure and release of Audit Report concerning the annual accounts of the company.
<b>April</b>	Survey of ESCHAS social climate – attitude of employees towards the company and its processes, opinions on variety of past or upcoming changes of the company and view of social climate in the company. Inspection of CEI RI Hradec Králové, Regional Office of Pardubice Region, fire-brigade of local office Pardubice of Pardubice Region, fire-brigade of local office Přelouč of Pardubice Region, RPHO of Pardubice Region, RLI of Pardubice and Hradec Králové Regions, in accordance with Act no.59/2006 Coll., on serious incidents prevention.
<b>May</b>	Commencement of collective negotiations on a new collective agreement due to expiry of Elektrárna Chvaletice Collective Agreement for period of 2010 – 2014. Recertification of EMC system in accordance with standard ČSN EN ISO 14 001. Change in board of directors – Milan Prokop recalled as member.
<b>June</b>	Introducing employees to results of ESCHAS social climate survey (meetings, releasing of internal report). Inspection of CEI – protection of air division. Open Doors Day ESCHAS. Amendment of ESCHAS Operations and Signing Regulations.
<b>July</b>	Increasing of maximum power of the units by 205 MW. MND, OJSC began to acquire portfolio of end-consumers. End of absorber 2 shutdown.
<b>September</b>	Certification an ancillary services under extended unit power by 205 MW at units B2, B3 and B4.
<b>October</b>	Appointment of Obnova project team. Change of Integrated Permit – seventh change by Decision of Regional Office of October 24, 2014.
<b>November</b>	Certification of ancillary services under extended unit power by 205 MW at B1 unit.
<b>December</b>	Cessation of sales department activities – on the basis of a decision by the board of directors on the termination of selling electricity to end-consumers.

### Other Information

- Elektrárna Chvaletice, OJSC has no branch abroad.
- Elektrárna Chvaletice, OJSC did not carry out research and development activities in 2014.
- No significant events that would have any material impact on the annual report occurred after the balance sheet date of 31 December 2014.



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 is 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 2014

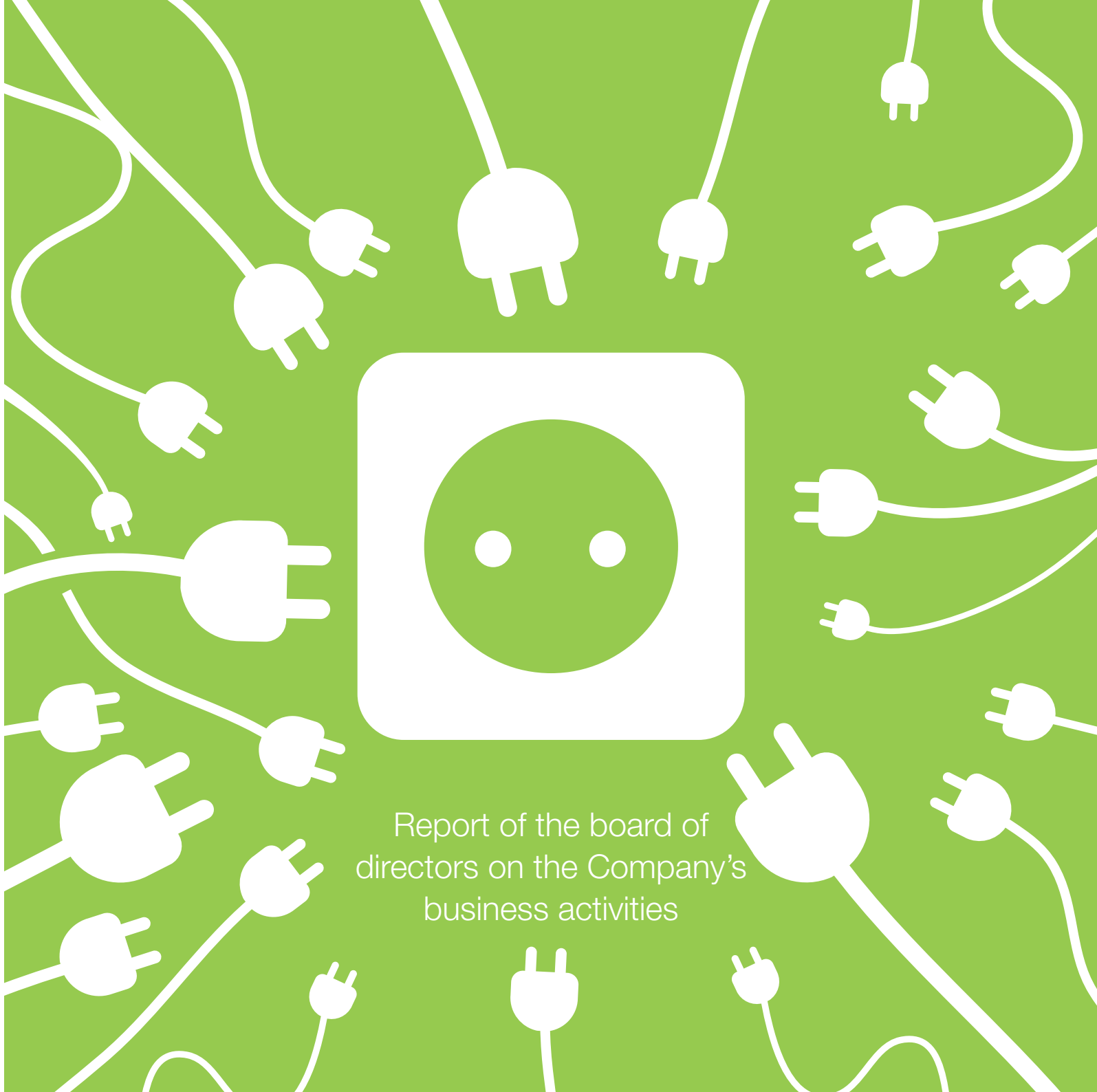
<b>Chairman</b>	Jan Dienstl	since 2 September 2013
<b>Member</b>	Luboš Pavlas	since 2 September 2013
<b>Member</b>	Jan Pozler	since 1 September 2010

### 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 the proper keeping of accounting records and check that the business activities of the Company are carried out in accordance with valid legislation, articles of association and the instructions of the general meeting.

#### Members of the supervisory board as at 31 December 2014

<b>Chairman</b>	Tomáš Fohler	since 2 September 2013
<b>Member</b>	Jan Dvořáček	since 1 January 2011
<b>Member</b>	Petr Karas	since 2 September 2013



Report of the board of directors on the Company's business activities

## Report of the board of directors on the Company's business activities

### Overview of selected technical and economic indicators

Technical indicators		2011	2012	2013	2014
Installed power	MW	800	800	800	820
Electrical energy production	MWh	2 903 059	3 424 826	3 122 124	3 910 633
Heat supplies	GJ	175 231	162 515	143 841	130 657

Economic indicators		2013	2014
Revenues of heat sales	(mil. CZK)	9	7
Revenues of electricity sales	(mil. CZK)	4 685	9 019
Ancillary services revenues	(mil. CZK)	73	250
Stated capital	(mil. CZK)	4 406	4 406
Net Assets	(mil. CZK)	7 624	8 010
Total expenditures	(mil. CZK)	4 636	10 683
Net profit	(mil. CZK)	263	408
EBITDA	(mil. CZK)	846	676
Workforce headcount at 31 December 2014	(number)	261	285

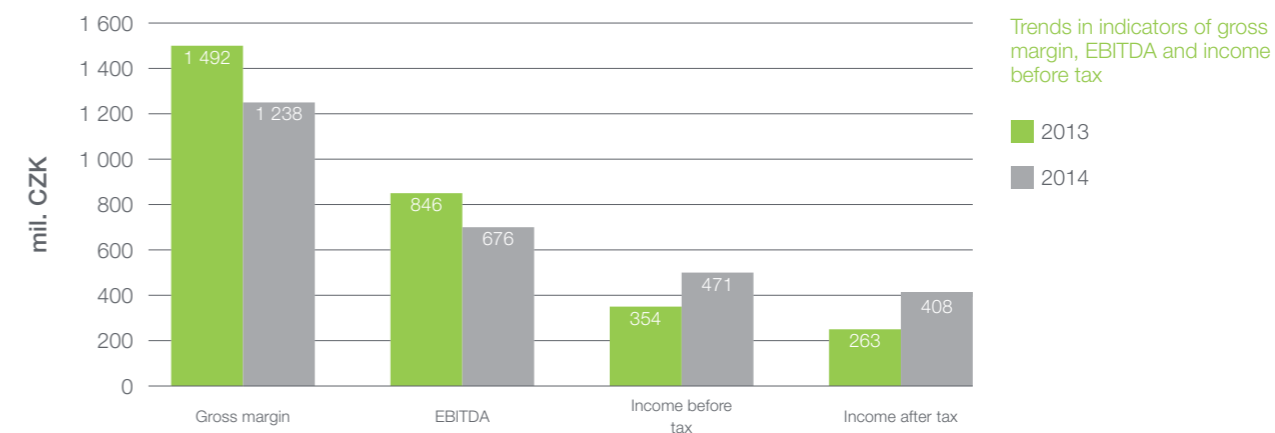


## Report of the board of directors on the Company's business activities

### Results of economic activity

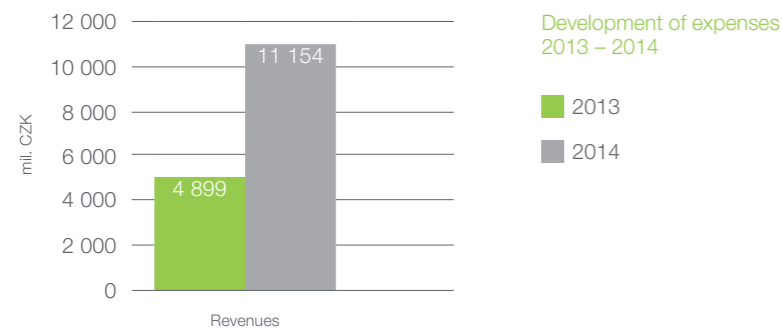
Elektrárna Chvaletice, OJSC reached a total of CZK 408 million net profits in 2014, with total revenues of CZK 11 154 million and total expenses of CZK 10 683. Of the total revenues, the revenues of electricity sales including ancillary services amounted to CZK 9 269 million; revenues of heat sales amounted to CZK 7 million and revenues of secondary products amounted to CZK 5 million.

Operating income before depreciation and amortization (EBITDA) was CZK 676 million. Profit before tax amounted to CZK 471 million.



## Report of the board of directors on the Company's business activities

Value of assets (net) compared to last year increased by CZK 386 million to CZK 8 010 million. In 2014, mainly revenues in the area of trading in electricity increased, as electricity was sold on the market and, contrary to previous years, not only to one exclusive customer ČEZ, OJSC.

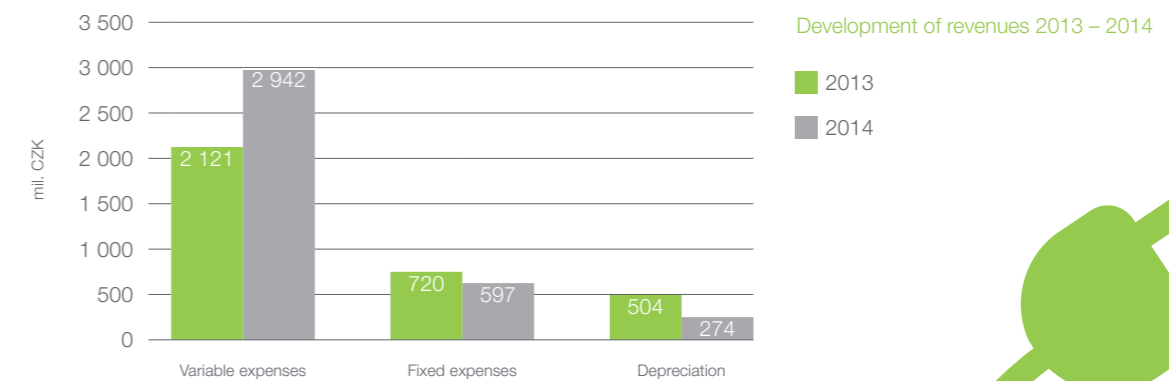


The increase in revenues was further supported by the receipt of emission allowances allocated for 2013 and 2014 and their subsequent sales.

## Report of the board of directors on the Company's business activities

Variable expenses exclude emission allowance expenses.

The year on year increase of variable costs was mainly caused by increased electricity generation. The significant decrease in the amounts of depreciation and amortization was caused by the end of the depreciation of some of the technological units and especially by a change in depreciation policy (prolongation of the power station's service lifetime up to 2030).



## Report of the board of directors on the Company's business activities

### Investment

Within the investment framework, property was acquired for the purpose of renewal, reconstruction and modernization of production technology. In 2014 CZK 96 million was allocated into various investment projects, of which CZK 19 million was invested into dump reclamation, CZK 14 million was invested into the first phase of the upgrade of the operating system of the third power station unit, CZK 9 million was invested into IT and licensing and CZK 8 million was invested into reconstruction of 6kV substation.

### Property Treatment

Repairs and maintenance incurred CZK 260 million, of which 60% was allocated for general maintenance projects and the rest was allocated for specific maintenance projects. Among major specific maintenance projects belongs a repair of cooling tower (CZK 13,5 million), a repair of heat exchanger of boiler K3 (CZK 13,2 million) and repair of electrostatic precipitator (CZK 11,5 million).

### Evaluation of trends in technical and operating indicators

Elektrárna Chvaletice, OJSC is one of the largest providers of a combined production of electricity and heat in the Czech Republic. Both products at the same time represent the principal business of the company. In 2014 it produced a total of 3,911 GWh of electricity and 130,657 GJ of heat. The coal used in the electricity and heat production process was purchased from Severní Energetická, OJSC. For the purpose of production unit start-ups as well as boiler start-ups, liquid fuel (TTO and ELTO) was purchased. The production of electric energy and heat is associated with the purchase of lime and limestone from the quarry of KOTOUČ ŠTRAMBERK, Ltd. For the purpose of electricity and heat production and the cooling of surfaces water was purchased from Povodi Labe, s.p.

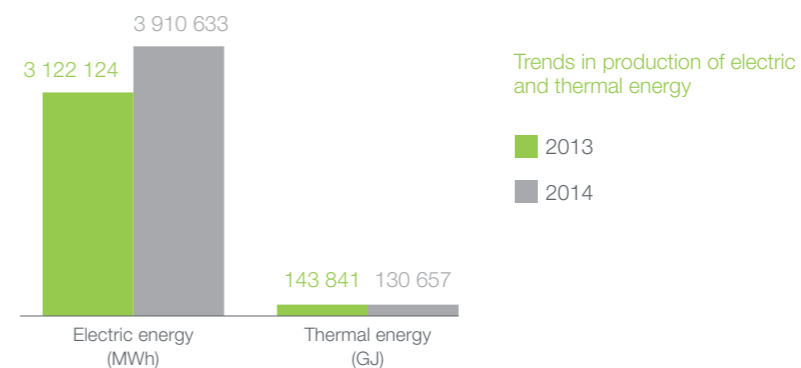
## Report of the board of directors on the Company's business activities

### Electric energy

Elektrárna Chvaletice, OJSC traded electricity on the market throughout 2014. Among its major partners in the area of electric power belong ALPIQ ENERGY SE, ČEZ, OJSC, OTE, OJSC., Slovenské elektrárne, OJSC and Vattenfall Energy Trading. At the same time electricity was sold to minor customers at the premises of the power station. An ancillary service business was concluded with ČEPS, OJSC.

### Thermal energy

Elektrárna Chvaletice, OJSC is the leading supplier of heat into the ČEZ Teplárenská, OJSC system in the local region. Furthermore, thermal energy is being sold to retail customers at the power plant site.



## Report of the board of directors on the Company's business activities

### Shares and Shareholders

As at 31 December 2014 the registered capital of Elektrárna Chvaletice, OJSC totalled CZK 4,406 million. The statement of shareholders of 31 December 2014 mentions no other shareholders but Severní Energetická, OJSC which is thus the sole owner of Elektrárna Chvaletice, OJSC shares. As at 31 December 2014, the Company's registered capital consisted of 4,406 registered shares, each with a nominal value of CZK 1,000,000. The transfer of Elektrárna Chvaletice, OJSC shares is subject to the approval of the board of directors, upon receiving the standpoint of the supervisory board.

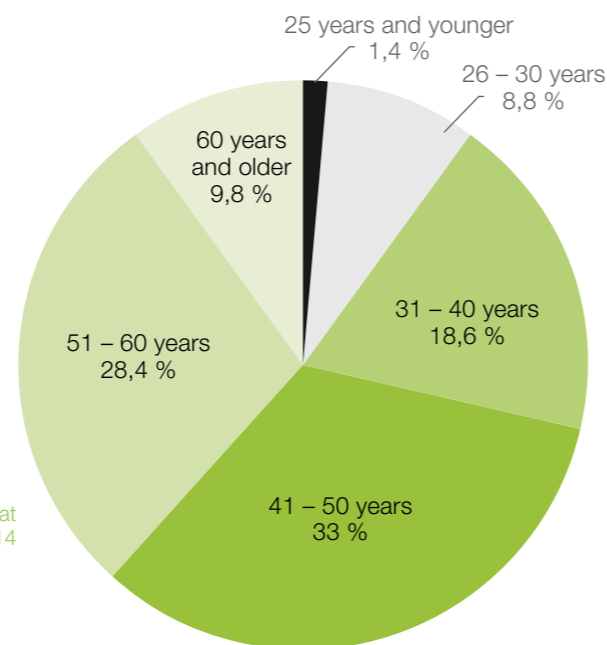
### Human resources

In the course of 2014 Elektrárna Chvaletice employed over twenty new employees who take care of the electricity selling business and carry out administrative activities in the area of accounting, operations, facility maintenance, human resources, invoicing for electricity and heat, as well as ensure the purchase of material, services and sub-supplies. Other new employees became part of a team to prepare and carry out the power station's reconstruction.

#### Number of employees

31 December 2013	
Work force headcount	261
Converted workforce headcount	240
31 December 2014	
Work force headcount	285
Converted workforce headcount	277,4

Work force by age as at 31 December 2014



## Report of the board of directors on the Company's business activities

### Social policy

The basis of the social policy of the Company is formed by a Collective Agreement valid for the period of September 1, 2010 – December 31, 2014 and the Labour Code including related legislation.

The most significant areas of employee care are:

- food contributions,
- supplemental pension and life insurance contributions,
- vacation contributions for employees and their family members in form of personal accounts.

Other supplementary benefits are granted under the Collective Agreement, such as an additional week of holidays, a shortened 37,5-hour working week etc. On 8 January 2014, Amendment No. 4 to the Collective Agreement of Elektrárna Chvaletice, OJSC was signed for the period of 2010 – 2014. In May 2014, collective negotiations commenced in full on a new collective agreement due to expiry of the Elektrárna Chvaletice Collective Agreement for period of 2010 – 2014. The intention of the employer is to unify basic elements of working conditions of employees in the Sev.en group while providing a guarantee that costs allocated for human resource will not be decreased.

### Education

The company pays great attention to the development of its employees. It is common for Elektrárna Chvaletice, OSJC to organise mandatory and non-mandatory trainings to maintain or deepen the qualifications of its staff and that are necessary to ensure carrying out of activities related to the principal business of the company. Elektrárna Chvaletice, OJSC also enables its employees to increase and deepen their qualifications in relation to their professional specialisation and career development (MBA study programmes, university education). In 2014, the number of training lessons per one employee was 16 hours.

Education structure of the workforce at 31 December 2014

Level of education	Workforce headcount	Share in %
Primary	1	0,4
Apprenticeship	89	31,2
Secondary	138	48,4
Bachelor	4	1,4
University	53	18,6
<b>Total</b>	<b>285</b>	<b>100</b>

## Report of the board of directors on the Company's business activities

### BOZP and Environmental Protection Policy

Elektrárna Chvaletice, OJSC operates on the basis of an integrated permit (hereinafter the „Decision“) in compliance with Act No. 76/2202 Coll, on integrated prevention; and on the basis of certified EMS system in accordance with ČSN ENO ISO 14001: 2005<sup>1</sup> (EMS – Environmental management system). In May 2014 the BUREAU VERITAS CZECH REPUBLIC, Ltd. performed a second surveillance audit in accordance with standard ČSN EN ISO 14001: 2005; the certification is valid until May 2017. The Elektrárna Chvaletice plant ensures the safe production of electricity as a significant component in the power system, with electricity and heat produced in an environmentally friendly manner. In 2014 the power station produced a total of 3,911 GWh of electricity at coal consumption of 2,862 thousand tons of brown coal (the average calorific value of 15,3 GJ / kg ) and 2,3 thousand tons of liquid fuel.

### Results of continual measurement of emissions in 2014

Emission limit maximum were met under Integrated Permit conditions.

An air pollution monitoring station for measuring pollutants SO<sub>2</sub> and NO<sub>x</sub> is located in the village Hošťalovice in the Ore Mountains and SO<sub>2</sub> air pollution measurements are carried out in Chvaletice.

Emissions in the period of 1 January 2014 to 31 December 2014 in tons:	
TZL	399
SO <sub>2</sub>	2 420
NO <sub>x</sub>	4 576

1) The Environmental management system (hereinafter „EMS“) forms a part of the overall management system of the Elektrárna Chvaletice power plant. The system includes an organizational chart, responsibility division and procedures and processes given by technology, all of which takes consideration of the influence on the environment. Elektrárna Chvaletice, OJSC made the decision to implement EMS voluntarily and at its own cost. The implementation of this environmental management system is considered a matter of prestige by the top management of the Company. The system is expected to lead to the assurance of 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 Elektrárna Chvaletice, OJSC also has its own environmental protection policy. The implementation of EMS documents into plant operation is a task for the plant's managing staff who is responsible for the environmental impact of the Company. A similar responsibility is also required from all other employees.

## Report of the board of directors on the Company's business activities

### CO<sub>2</sub> Emission allowances

Within the third national allocation plan (from 2013 to 2020), each listed operator of the source is granted a certain amount of CO<sub>2</sub> allowances free of charge every year. The allowance amount was newly divided into allocation allowances for electricity (against the amount of investments made into ecology) and allocation allowances for heat. For 2014, in accordance with the EU Commission Decision, a total of 1,268 thousand pieces of CO<sub>2</sub> allowances for electricity and 9,7 thousand pieces of CO<sub>2</sub> emission allowances for heat were allocated to Elektrárna Chvaletice, OJSC. The allowances account of source operators is managed by OTE and the amount of CO<sub>2</sub> emitted in given calendar year has to be verified and reported to the Ministry of the Environment no later than by 15 March of the following year. The CO<sub>2</sub> emission from fossil fuels and material was verified by the auditing company BUREAU VERITAS CZECH REPUBLIC, Ltd. in February 2015 by issuing a statement on greenhouse gasses in 2014, confirming the consumption of 3,763 thousand pieces of CO<sub>2</sub> allowances. Emission allowances are accounted for as long-term intangible, non-depreciable asset that are to be assessed by their purchase price or possibly by their replacement cost if were they acquired free of charge.

Emission allowances consumption is accounted at the latest at the date of closure of the final accounting statement further depending on the emissions of the given accounting unit in a calendar year. Acquiring of allowances free of charge is accounted for as funding without decreasing the financial assessment of long-term assets. Such funding is amortized to income at the same time and in the same amount as allowances are consumed and accounted for as expensed.

### Waste

Waste is dealt with in accordance with the law, the system of non-waste technology, the use of secondary raw materials and in accordance with the Decision. In 2014, the total cost of the disposal of hazardous and other waste was CZK 4,254 thousands.



## Report of the board of directors on the Company's business activities

### 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 seven certificates for different types of fly ash, slag, FGD gypsum and stabilizer that were produced in the amount of 804 thousand tons in 2014. Certified products are used in the construction industry (cement, concrete), as sub and backfilling in the construction of roads and railways, as well as for landscaping and terrain reconstruction purposes. Other products are processed in the Land Reclamation of the Chvaletice Region programme where, on the basis of a building permit, shaping and reclamation of the landscape devastated by earlier activity of manganese-sulphide plant takes place. Reclamation in the area around the Chvaletice municipality is in compliance with the „Land Reclamation of the Chvaletice Region“ programme, as well as with the urban municipality plan of Chvaletice and the „Pardubice Region and Environmental Protection“ strategy. In 2014, 626 thousand tons of stabilizers were placed into the waste disposal site and CZK 19 million was allocated for reclamation.

### Water management

Wastewater treatment is carried out using the latest technology, and to minimize the discharge of treated wastewater. Concentration values are measured in accordance with the Decision and all of its requirements have been met (compliance with the emission limits for discharged water, regular water assessment and payment of the waste water fee). Fees for discharge of wastewater into surface waters are CZK 382 thousand, charges for the consumption of surface water of the river Elbe are CZK 48,592 thousand.

### Inspection of compliance with environmental protection requirements

On 20 March 2014, the Czech Environmental Inspectorate Hradec Králove performed an inspection in accordance with Act No. 59/2006 Coll., on the prevention of major incidents caused by selected dangerous chemicals or chemical products. The final report was released on 17 April 2014, after a final investigation. The inspection included all buildings and facilities where any handling of heavy fuel oil (mazut), extra light fuel oil, diesel and technical gases takes place. The inspection found no errors. On 3 June 2014, the Czech Environmental Inspectorate Hradec Králove performed an inspection on meeting the requirements and duties related to air protection, (compliance with the emission limits for air emissions, emission

## Report of the board of directors on the Company's business activities

limits maximum, yield of continuous emission measurement and payment of fees for air pollution) in accordance with Act No. 201/2012 Coll., on air protection. The inspection also concentrated on the trading with CO<sub>2</sub> emissions.

### Safe Enterprise

The Elektrárna Chvaletice plant strictly follows the requirements of the law and other regulations to ensure the safety and health at work in all its activities. As every year, health and safety at work was also in 2014, in terms of priority, ranked at the highest level. This is why the Safe Enterprise program has been implemented, which the company's management has set as one of its main objectives. The greatest emphasis is placed on prevention. All operations are monitored so as to ensure the utmost safety of people and a healthy working environment. Target completion, as required by the Safe Enterprise programme, is regularly monitored and evaluated. BOZP objectives were met in 2014. The whole outcome was verified during the annual internal audit of the Safe Enterprise programme.

The Company carried out a review of safety and health at work in all workplaces, doing so in compliance with the provision of Act No. 262/2006 Coll., the Labour Code. All detected shortcomings were removed and everything was carried out under the supervision of trade representatives.

In 2014, four incidents resulting in work injuries of regular staff were recorded (with a sick leave longer than three working days), resulting in sick leaves of the total of 232 days. In all four cases injuries were of a less serious nature, such as sprains, slipping or stumbling. There were no cases of fatal injuries or occupational diseases in 2014.



## Report of the board of directors on the Company's business activities

### Support of the region

Elektrárna Chvaletice, OJSC supports the region in which it operates and where the majority of its employees lives. The support focuses on municipalities adjacent to the power station's premises. By means of donations and sponsorship the power station supports regional projects aimed predominantly at education, culture, sport and leisure activities of children and youth, as well charity projects. The Power station places emphasis on regular communication with mayors and representatives of surrounding municipalities.

### Sponsorship

In 2014, Elektrárna Chvaletice, OJSC supported a total of 23 projects with a total value of CZK 782 thousand, of which three were supported on the basis of donation agreements and 20 on the basis of sponsorship agreements. The most significant donations were contributions of interactive classroom equipment for the Masarykovo náměstí primary school Masarykovo náměstí in Přebouč and a primary school in Řečany nad Labem. Elektrárna Chvaletice, OJSC has been a traditional partner of the František Filipovský Award ceremony for the best dubbing which was held in Přebouč, it also contributed to the Saying Goodbye to Summer event in Chvaletice and supported a national football tournament for juniors in Přebouč. Elektrárna is also a long-term partner of the sports club in the surroundings of the power station.



Project of Elektrárna Chvaletice, OJSC Modernisation



## Project of Elektrárna Chvaletice, OJSC Modernisation

In 2014, Elektrárna Chvaletice commenced an extensive modernisation project. The project represents one of the major investments in the region and that is why the management of the company places emphasis on the transparency of procurements and tenders, as well as on providing municipality councillors and citizens with information service. Employees and municipality councillors are regularly informed about important measures through meetings, internal newspapers or press releases. The modernisation will include a boiler room, an engine room, electrostatic precipitators, a management control system and other related electrical, measurement and regulations parts. As part of the reconstruction, the operation of absorber no. 2 will be optimized with respect to the current fuel which is less sulphuric than at times under the previous owner of the power station.

The aim is to increase the control range and the efficiency of units, quality improvement, efficiency, reliability and safety, reduction of emissions and own consumption, and mainly the prolongation of service lifetime of the power station by 2030, together with employment sustainability within the region. The most important part of the project is to reduce emissions and extend the life of the blocks B3 and B4 up to 2030 including reduced ecologic limits for nitrogen oxides and solid pollutants laid down by legislation.

In 2016, the power station is to carry out the complete reconstruction of two power station units with the installed power capacity of 2x205 MW, thus meeting the strictest requirements for long-term ecological operation. In September a public procurement tender was put out for „Obnova dvou bloků v Elektrárně Chvaletice“ (reconstruction of two power station units of Elektrárna Chvaletice). Announcement of the negotiated procedure with publication of the procurement was sent to be published in Journal of Public Procurement in compliance with regulation Section 146, Article 1, Act Nr. 137/2006 Coll., on Public Procurement on September 19, 2014, and it was published on September 24, 2014 under registration number VZ 497816.

## Project of Elektrárna Chvaletice, OJSC Modernisation

A project team for the ECHAS modernisation was appointed as the most important means of reconstruction of the power station facilities. The Obnova project team (PTO) manages the project of the project in all phases, from preparation of necessary documentation, to procurements, tenders, contract signing, implementation of the project itself, handover and work acceptance, to inclusion of reconstructed parts into company assets and final project evaluation. Since October 2014 the PTO has been operating as an independent organisational unit within the MD division.

### Planned Progress of Modernisation Process

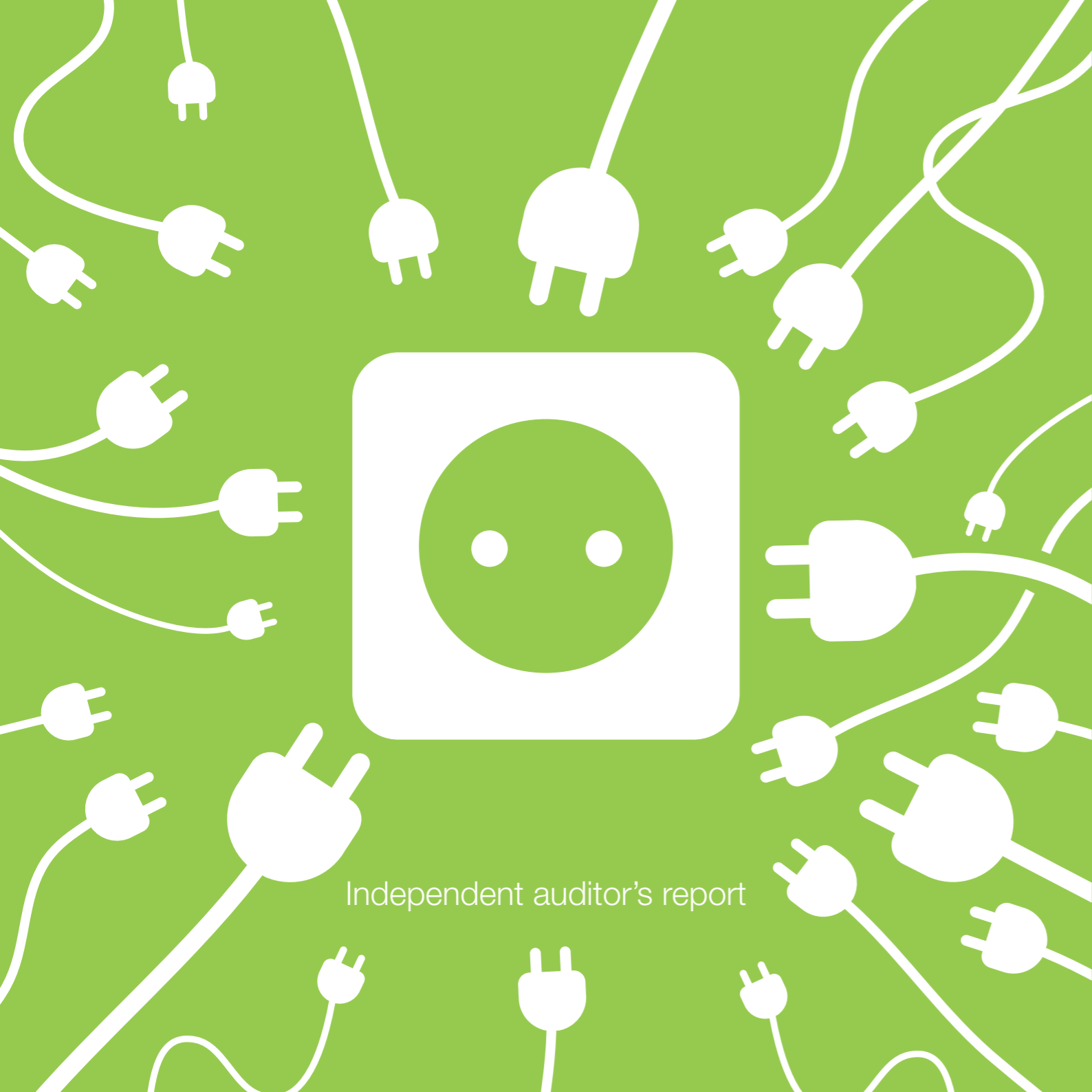
2014	August	Appointment of the Obnova project team.
	September	Negotiated procedure with publication – OBNOVA DVOU BLOKŮ V ELEKTRÁRNĚ CHVALETICE (reconstruction of two power station units of Elektrárna Chvaletice).
		Completion of qualification documentation for unit reconstruction in ECHAS.
	October	Appointing of Obnova project team.
November	Completion of tender documentation for reconstruction of two power station units in ECHAS.	
	Evaluation of qualification and call for tenders to chosen candidates for two ECHAS power station units reconstruction.	
2015	March	Deadline for tenders for two power station units reconstruction.
	June	Scheduled evaluation of tenders and selection of the best candidate for reconstruction of two power station units at ECHAS, contract signature.
	August	Scheduled commencement of reconstruction phase – common reagents repository for secondary denitrification of the units.
	November	Scheduled completion of reconstruction phase – common reagents repository for secondary denitrification of the units.



Basic organisational chart of the Company

## Basic organisational chart of the Company





## Independent auditor's report



KPMG Česká republika Audit, s.r.o.  
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186 00 Praha 8  
Česká republika

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This document is an 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 Elektrárna Chvaletice a.s.

#### Financial Statements

On the basis of our audit, on 2 April 2015 we issued an auditor's report on the Company's statutory financial statements, which are included in this annual report, and our report was as follows:

"We have audited the accompanying financial statements of Elektrárna Chvaletice a.s., which comprise the balance sheet as of 31 December 2014, and the income statement for the year then ended, and the notes to these financial statements including a summary of significant accounting policies and other explanatory notes. Information about Elektrárna Chvaletice a.s.] is set out in Note 1 to these financial statements.

#### Statutory Body's Responsibility for the Financial Statements

The statutory body of Elektrárna Chvaletice a.s. is responsible for the preparation of financial statements that give a true and fair view in accordance with Czech accounting legislation and for such internal controls as the statutory body determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

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

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

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

#### Opinion

KPMG Česká republika Audit, s.r.o., a Czech limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Obchodní rejstřík vedený  
Městským soudem v Praze  
oddíl C, vložka 24185.

IČ 49619187  
DIČ CZ695001996

In our opinion, the financial statements give a true and fair view of the financial position of Elektrárna Chvaletice a.s. as of 31 December 2014, and of its financial performance for the year then ended in accordance with Czech accounting legislation.”

#### Report on Relations

We have reviewed the factual accuracy of the information disclosed in the report on relations between the controlling entity and the controlled entity and between the controlled entity and entities controlled by the same controlling entity of Elektrárna Chvaletice a.s. for the year ended 31 December 2014 prepared in accordance with the applicable provisions of Act No. 90/2012 Coll., on Companies and Cooperatives. The responsibility for the preparation and factual accuracy of this report rests with the Company’s statutory body. Our responsibility is to express our view on the report on relations based on our review.

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

Based on our review, nothing has come to our attention that would lead us to believe that the report on relations between the controlling entity and the controlled entity and between the controlled entity and entities controlled by the same controlling entity of Elektrárna Chvaletice a.s. for the year ended 31 December 2014 contains material factual misstatements.

#### Annual Report

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

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

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

Prague  
5 June 2015

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

Otakar Hora  
Partner  
Registration number 1197





Financial statements

## Financial statements

Balance sheet in full format as at 31 December 2014

Income statement

Notes to the financial statements as at 31 December 2014



## Financial statements

Balance sheet in full format as at 31 December 2014

(in thousands of Czech crowns „TCZK“)

Ident. a	b	Line c	Current period			Prior period Net 4
			Gross 1	Adjust. 2	Net 3	
	<b>TOTAL ASSETS (L. 02+03+31+63)</b>	01	<b>18 903 135</b>	<b>-10 893 565</b>	<b>8 009 570</b>	<b>7 624 272</b>
<b>A.</b>	<b>Receivables for subscribed registered capital</b>	<b>02</b>				
<b>B.</b>	<b>Fixed assets (L. 04+13+23)</b>	<b>03</b>	<b>13 207 410</b>	<b>-10 810 974</b>	<b>2 396 436</b>	<b>2 539 158</b>
B.I.	Intangible fixed assets (L. 05 to 12)	04	56 555	- 14 050	42 505	4 984
B.I.1.	Incorporation expenses	05	65	- 63	2	15
2.	Research and development	06				
3.	Software	07	19 707	- 13 892	5 815	4 172
4.	Intellectual property rights	08	95	- 95		
5.	Goodwill	09				
6.	Other intangible fixed assets	10	34 639		34 639	797
7.	Intangible fixed assets under construction	11	2 049		2 049	
8.	Advance payments for intangible fixed assets	12				
B.II.	Tangible fixed assets (L.14 to 22)	13	13 150 855	-10 796 924	2 353 931	2 534 174
B.II.1.	Land	14	37 163		37 163	37 119
2.	Buildings	15	4 153 920	-3 182 888	971 032	945 786
3.	Plant and equipment	16	7 278 129	-7 044 745	233 384	258 053
4.	Cultivated areas	17				
5.	Adult livestock	18				
6.	Other tangible fixed assets	19	415		415	415
7.	Tangible fixed assets under construction	20	60 438		60 438	144 241
8.	Advance payments for tangible fixed assets	21				
9.	Adjustments to acquired fixed assets	22	1 620 790	- 569 291	1 051 499	1 148 560

## Financial statements

Balance sheet in full format as at 31 December 2014

(in thousands of Czech crowns „TCZK“)

Ident. a	b	Line c	Current period			Prior period Net 4
			Gross 1	Adjust. 2	Net 3	
B.III.	Long-term investments (L. 24 to 30)	23				
B.III.1.	Equity investments – subsidiaries	24				
2.	Equity investments – associated companies	25				
3.	Other long-term securities and ownership interests	26				
4.	<b>Loans – group undertakings, associated companies</b>	27				
5.	Other long-term investments	28				
6.	Long-term investments (provisional value)	29				
7.	Advance payments for long-term investments	30				
<b>C.</b>	<b>Current assets (L. 32+39+48+58)</b>	<b>31</b>	<b>5 628 302</b>	<b>- 82 591</b>	<b>5 545 711</b>	<b>5 082 764</b>
C.I.	Inventories (L. 33 to 38)	32	809 858	- 80 144	729 714	453 250
C.I.1.	Raw materials	33	809 854	- 80 144	729 710	453 250
2.	Work-in-progress and semi-finished products	34				
3.	Finished goods	35				
4.	Young and other livestock	36				
5.	Goods for resale	37				
6.	Advance payments for inventories	38	4		4	
C.II.	Long-term receivables (L. 40 to 47)	39	2 096 303		2 096 303	2 884 863
C.II.1.	Trade receivables	40				
2.	Receivables – group undertakings	41	1 982 995		1 982 995	2 782 995
3.	Receivables – associated companies	42				
4.	<b>Receivables from shareholder/members</b>	43				

## Financial statements

Balance sheet in full format as at 31 December 2014

(in thousands of Czech crowns „TCZK“)

Ident. a	b	Line c	Current period			Prior period Net 4
			Gross 1	Adjust. 2	Net 3	
C.II.5.	Long-term advances paid	44	1 386		1 386	1 404
6.	Estimated receivables	45				
7.	Other receivables	46	111 922		111 922	100 464
8.	Deferred tax asset	47				
C.III.	Short-term receivables (L. 49 to 57)	48	1 653 793	- 2 447	1 651 346	767 163
C.III.1.	Trade receivables	49	1 494 925	- 2 447	1 492 478	499 170
2.	Receivables-group undertakings	50				
3.	Receivables – associated companies	51				
4.	<b>Receivables from shareholder/members</b>	52				
5.	Social security and health insurance	53				
6.	Tax receivables	54	14 758		14 758	266 910
7.	Short-term advances paid	55	22 991		22 991	
8.	Estimated receivables	56	65		65	1 073
9.	Other receivables	57	121 054		121 054	10
C.IV.	Short-term financial assets (L. 59 to 62)	58	1 068 348		1 068 348	977 488
C.IV.1.	Cash	59				
2.	Bank accounts	60	1 068 348		1 068 348	977 488
3.	Short-term securities and ownership interests	61				
4.	Short-term investments /provisional value)	62				
<b>D.I.</b>	<b>Deferrals (L. 64+65+66)</b>	<b>63</b>	<b>67 423</b>		<b>67 423</b>	<b>2 350</b>
D.I.1.	Prepaid expenses	64	1 349		1 349	2 176
2.	Complex prepaid expenses	65				
3.	Accrued revenues	66	66 074		66 074	174

## Financial statements

Balance sheet in full format as at 31 December 2014

(in thousands of Czech crowns „TCZK“)

Ident. a	b	Line c	Current period	Prior period
			5	6
	<b>TOTAL LIABILITIES AND EQUITY (L. 68+89+122)</b>	<b>67</b>	<b>8 009 570</b>	<b>7 624 272</b>
<b>A.</b>	<b>Equity (L. 69+73+80+83+87+88)</b>	<b>68</b>	<b>5 836 931</b>	<b>5 928 640</b>
A.I.	Registered capital (L. 70+71+72)	69	4 406 000	4 406 000
A.I.1.	Registered capital	70	4 406 000	4 406 000
2.	Own shares and ownership interests (-)	71		
3.	Changes in registered capital	72		
A.II.	Capital contributions (L. 74 to 79)	73	157	157
A.II.1.	Premium	74	157	157
2.	Other capital contributions	75		
3.	Revaluation of assets and liabilities	76		
4.	Revaluation reserve on transformation	77		
5.	Differences resulting from transformations	78		
6.	Change in revaluation reserve on transformations	79		
A.III.	Funds from profit (L. 81+82)	80		206 940
A.III.1.	Reserve fund	81		206 940
2.	Statutory and other funds	82		
A.IV.	Retained earnings (L. 84+85+86)	83	1 022 483	1 052 164
A.IV.1.	Retained profits	84	1 022 483	1 052 164
2.	Accumulated losses	85		
3.	Other retained earnings	86		
A.V. 1	Profit (loss) for the current period (+/-)	87	408 291	263 379
A.V. 2	Approved advance profit distribution (-)	88		

## Financial statements

Balance sheet in full format as at 31 December 2014

(in thousands of Czech crowns „TCZK“)

Ident. a	b	Line c	Current period 5	Prior period 6
<b>B.</b>	<b>Liabilities (L. 90+95+106+118)</b>	<b>89</b>	<b>2 172 194</b>	<b>1 695 632</b>
B.I.	Provisions (L. 91 to 94)	90	50 074	103 770
B.I.1.	Tax-deductible provisions	91	20 743	20 743
2.	Provision for pensions and other similar payables	92		
3.	Income tax provision	93		
4.	Other provisions	94	29 331	83 027
B.II.	Long-term liabilities (L. 96 to 105)	95	424 869	353 365
B.II.1.	Trade payables	96		
2.	Liabilities – group undertakings	97		
3.	Liabilities – associated companies	98		
4.	Liabilities to shareholders/members	99		
5.	Long-term advances received	100	52 235	
6.	Debentures and bonds issued	101		
7.	Long-term bills of Exchange payable	102		
8.	Estimated payables	103		
9.	Other payables	104	78 290	
10.	Deferred tax liability	105	294 344	353 365
B.III.	Short-term liabilities (L. 107 to 117)	106	1 697 251	1 238 497
B.III.1.	Trade payables	107	1 541 839	1 201 432
2.	Liabilities – group undertakings	108		
3.	Liabilities – associated companies	109		
4.	Liabilities to shareholders/members	110		

## Financial statements

Balance sheet in full format as at 31 December 2014

(in thousands of Czech crowns „TCZK“)

Ident. a	b	Line c	Current period 5	Prior period 6
B.III. 5.	Payables to employees	111	11 356	13 076
6.	Payables to social security and health insurance	112	6 923	7 782
7.	Tax liabilities and subsidies	113	4 012	3 472
8.	Short-term advances received	114		
9.	Debentures and bonds issued	115		
10.	Estimated payables	116	16 809	11 100
11.	Other payables	117	116 312	1 635
B.IV.	Bank loans and overdrafts (L. 119 to 121)	118		
B.IV.1.	Long-term bank loans	119		
2.	Short-term bank loans	120		
3.	Short-term financial liabilities	121		
<b>C.I.</b>	<b>Accruals (L. 123+124)</b>	<b>122</b>	<b>445</b>	
C.I.1.	Accrued expenses	123	445	
2.	Deferred revenues	124		





## Financial statements

### Income statement

Classification by nature for the year ended 31 December 2014 (in thousand of Czech crowns „TCZK“)

Ident. a	b	Line c		
			Current period 1	Prior period 2
I.	Revenue from goods	1	5 272 848	308 666
<b>A.</b>	<b>Cost of goods sold</b>	<b>2</b>	<b>5 008 342</b>	<b>217 906</b>
<b>+</b>	<b>Gross profit (L. 01–02)</b>	<b>3</b>	<b>264 506</b>	<b>90 760</b>
II.	Revenue from production (L. 05+06+07)	4	4 024 486	4 472 777
II.1.	Revenue from own products and services	5	4 024 151	4 472 777
II.2.	Change in inventory of own production	6		
II.3.	Own work capitalised	7	335	
<b>B.</b>	<b>Cost of sales (L. 09+10)</b>	<b>8</b>	<b>3 307 746</b>	<b>3 273 738</b>
B.1.	Materials and consumables	9	2 993 548	2 958 523
B.2.	Services	10	314 198	315 215
<b>+</b>	<b>Added value (L. 03+04–08)</b>	<b>11</b>	<b>981 246</b>	<b>1 289 799</b>
<b>C.</b>	<b>Personnel expenses (L. 13 to 16)</b>	<b>12</b>	<b>204 372</b>	<b>186 844</b>
C.1.	Wages and salaries	13	135 361	125 587
C.2.	Remuneration of board members	14	4 434	1 760
C.3.	Social security and health insurance expenses	15	50 188	44 670
C.4.	Social expenses	16	14 389	14 827
<b>D.</b>	<b>Taxes and charges</b>	<b>17</b>	<b>24 658</b>	<b>20 512</b>
<b>E.</b>	<b>Depreciation of intangible and tangible fixed assets</b>	<b>18</b>	<b>274 032</b>	<b>503 962</b>
III.	Proceeds from disposals of fixed assets and raw material (L. 20+21)	19	1 258 767	62 282
III.1	Proceeds from disposals of fixed assets	20	1 256 718	
III.2	Proceeds from disposals of raw material	21	2 049	62 282

## Financial statements

### Income statement

Classification by nature for the year ended 31 December 2014 (in thousand of Czech crowns „TCZK“)

Ident. a	b	Line c		
			Current period 1	Prior period 2
<b>F.</b>	<b>Net book value of fixed assets and raw material sold (L. 23+24)</b>	<b>22</b>	<b>1 270 248</b>	<b>61 630</b>
F.1.	Net book value of fixed assets sold	23	1 269 070	
F.2.	Raw materials sold	24	1 178	61 630
<b>G.</b>	<b>Change in provisions and adjustment relating to operation activity and change in complex prepaid expenses</b>	<b>25</b>	<b>- 17 862</b>	<b>- 131 171</b>
IV.	Other operating revenues	26	495 780	224
<b>H.</b>	<b>Other operating expenses</b>	<b>27</b>	<b>578 102</b>	<b>368 533</b>
V.	Transfer of operating revenues	28		
<b>I.</b>	<b>Transfer of operating expenses</b>	<b>29</b>		
<b>■</b>	<b>Operating profit (loss) (L. 11–12–17–18+19–22–25+26–27+28–29)</b>	<b>30</b>	<b>402 243</b>	<b>341 995</b>
VI.	Proceeds from sale of securities and ownership interests	31		
<b>J.</b>	<b>Securities and ownership interests sold</b>	<b>32</b>		
VII.	Revenue from long-term investments (L. 34+35+36)	33		
VII.1.	Revenue from investments in group undertakings and associated companies	34		
VII.2.	Revenue from other long-term securities and ownership interests	35		
VII.3.	Revenue from other long-term investments	36		
VIII.	Revenue from short-term financial investments	37		
<b>K.</b>	<b>Financial assets expenses</b>	<b>38</b>		
IX.	Revenue from revaluation of securities and derivatives	39	998	
<b>L.</b>	<b>Expenses for revaluation of securities and derivatives</b>	<b>40</b>	<b>3 786</b>	

## Financial statements

### Income statement

Classification by nature for the year ended 31 December 2014 (in thousand of Czech crowns „TCZK“)

Ident. a	b	Line c		
			Current period 1	Prior period 2
<b>M.</b>	<b>Change in provisions and adjustments relating to financial activity</b>	<b>41</b>		
X.	Interest revenue	42	54 825	1 444
<b>N.</b>	<b>Interest expense</b>	<b>43</b>		
XI.	Other financial revenues	44	46 831	53 754
<b>O.</b>	<b>Other financial expenses</b>	<b>45</b>	<b>29 642</b>	<b>42 791</b>
XII.	Transfer of financial revenues	46		
<b>P.</b>	<b>Transfer of financial expenses</b>	<b>47</b>		
■	<b>Profit (loss) from financial operations (L. 31–32+33+37–38+39–40–41+42–43+44–45+46–47)</b>	<b>48</b>	<b>69 226</b>	<b>12 407</b>
Q.	Income tax on ordinary profit (loss) (L. 50+51)	49	63 178	91 023
Q.1.	– current	50	122 199	116 663
Q.2.	– deferred	51	- 59 021	- 25 640
■ ■	<b>Profit (loss) on ordinary activities after tax (L. 30+48–49)</b>	<b>52</b>	<b>408 291</b>	<b>263 379</b>
XIII.	Extraordinary revenues	53		
<b>R.</b>	<b>Extraordinary expenses</b>	<b>54</b>		
S.	Income tax on extraordinary profit (loss) (L. 56+57)	55		
S.1.	– current	56		
S.2.	– deferred	57		
■	<b>Extraordinary profit (loss) (L. 53–54–55)</b>	<b>58</b>		
<b>T.</b>	<b>Transfer of profit or loss to shareholders/members (+/-)</b>	<b>59</b>		
■ ■ ■	<b>Profit (loss) for the accounting period (+/-) (L. 52+58–59)</b>	<b>60</b>	<b>408 291</b>	<b>263 379</b>
■ ■ ■ ■	<b>Profit (loss) before tax (L. 30+48+53–54)</b>	<b>61</b>	<b>471 469</b>	<b>354 402</b>

## Financial statements

### Notes to the financial statements as at 31 December 2014

#### 1. Description and principal activities

- Establishment and description of the Company
- Company bodies
- Organisational structure

#### 2. Significant accounting policies applied by the company

- Tangible and intangible fixed assets
- Emission rights
- Short-term investments
- Inventories
- Establishment of adjustments and provisions
- Foreign currency translation
- Derivatives
- Leased assets
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- Change in accounting policies and procedures, comparability of information, correction of errors

## Financial statements

Notes to the financial statements as at 31 December 2014

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- Accrued revenues
- Components of cash and cash equivalents
- Adjustments
- Equity
- Provisions
- Long-term liabilities
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- Related parties
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### 4. Employees, executives, company management, board of directors and supervisory board

- Personnel expenses and number of employees

### 5. Additional facts and significant events since the balance sheet date

- Material subsequent events

## Financial statements

Notes to the financial statements as at 31 December 2014

### 1. Description and principal activities

#### Establishment and description of the Company

Elektrárna Chvaletice a.s. („the Company“), a joint stock company, was registered on 1 February 2010 upon its entry in the Commercial Register.

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

#### The shareholder of the Company as at 31 December 2014

Severní energetická a.s. 100%

Based on the contract to purchase 100% of the Company's shares entered into between ČEZ, a.s. and Severní energetická a.s. (formerly Litvínovská uhelná a.s.), in 2013 the sole shareholder changed from ČEZ, a.s. to Severní energetická a.s.

The decisive date set out in the contract is 31 August 2013.

The new shareholder assumed the shares on 2 September 2013.

#### Registered office

Elektrárna Chvaletice a.s.

K Elektrárně 227

533 12 Chvaletice

Czech Republic

#### Identification number

287 86 009



## Financial statements

Notes to the financial statements as at 31 December 2014

### Company bodies

Members of the board of directors and supervisory board as at 31 December 2014	
Members of the board of director	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	Tomáš Fohler, chairman of the supervisory board
	Jan Dvořáček, member of the supervisory board
	Petr Karas, member of the supervisory board

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.

### Changes in the commercial register

While exercising the powers of the general meeting on 28 May 2014, the sole shareholder decided to change the Company's by-laws. The corporation has thus conformed to Act No. 90/2012 Coll., on Corporations and Cooperatives, as a whole in accordance with Section 777 (5) of the Act. While exercising the powers of the general meeting on 28 May 2014, the sole shareholder decided to recall Milan Prokop as a member of the board of directors. In connection with a change of the Company's by-laws of 28 May 2014, the position of the vice-chairman of the board of directors was cancelled. Luboš Pavlas remained a member of the board of directors. All the above facts were recorded in the Commercial Register on 6 June 2014. As at 31 December 2013, Miloš Gruber and Zdeněk Fousek were recalled as members of the board of directors. These changes were recorded in the Commercial Register on 17 January 2014.

## Financial statements

Notes to the financial statements as at 31 December 2014

### Organisational structure

The Company is organised into the following sections:

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

### Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated at acquisition cost. Tangible fixed assets costing up to TCZK 40 (until 2013 costing TCZK 20) 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.

## Financial statements

### Notes to the financial statements as at 31 December 2014

Assets are depreciated 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

#### **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 the appraisal company ZNALEX, s.r.o. for the purposes of the 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 2012, the Company adjusted the useful lives of the technological assets and the adjustments so that they were both in line with the useful life for operating the power plant, i.e. at that time until 2020.

In 2014 the depreciation policy for certain assets changed (see Change in accounting policies and procedures, comparability of information, correction of errors). The Company records technical reclamation and restoration in tangible fixed assets which are depreciated over a period of 30 years.

## Financial statements

### Notes to the financial statements as at 31 December 2014

#### 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“.

#### Short-term investments

Short-term investments comprise cash in bank accounts.

#### 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.

#### Establishment of adjustments and provisions

##### Tangible fixed assets

Adjustments are established to reduce the cost of tangible fixed assets to net present value.

## Financial statements

### Notes to the financial statements as at 31 December 2014

#### Receivables

Adjustments or write-offs are established for receivables and express the level of risk of non-collectability of 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%

The Company establishes adjustments for doubtful receivables based on an analysis of the credit status of customers and the ageing structure of receivables.

#### 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.

#### 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.

## Financial statements

### Notes to the financial statements as at 31 December 2014

#### 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.

#### Provision for employee benefits

As at the balance sheet date, a provision for pensions and other employee benefits is established based on an analysis of the entitlement to pension and other benefits of individual employees, in accordance with the collective agreement (the Company's internal guideline, etc.), using actuarial methods and average wage costs, including social security and health insurance expenses (where these apply to the particular benefit), and is discounted to present value. In connection with a change of the collective agreement with effect from 1 January 2015, a provision for employee benefits was released as at 31 December 2014.

#### 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.



## Financial statements

### Notes to the financial statements as at 31 December 2014

#### 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.

#### 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“.

## Financial statements

### Notes to the financial statements as at 31 December 2014

#### 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.

#### 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.

#### 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.

#### 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.

## Financial statements

### Notes to the financial statements as at 31 December 2014

#### 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“.

#### 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.

#### 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.

## Financial statements

### Notes to the financial statements as at 31 December 2014

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.

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

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). The change of the accounting policy was reflected in depreciation for 2014. In 2014 the Company ascertained that the revenues and expenses for 2013 incorrectly reflect transactions with purchased electricity. Purchased electricity was reported in line „Materials and consumables“ and sold electricity in line „Revenue from own products and services“. The management classified incorrect reporting of electricity purchases and sales of purchased electricity as an error, i.e. a wrong recognition of the transaction in the financial statements of the accounting unit – in an incorrect line. Pursuant to Section 15a of Decree No. 500/2002 Coll. the error was corrected retrospectively. Accordingly, the financial statements were prepared for the period in which the error was corrected and are presented in a manner as if the error had never occurred.

As a result of the error correction in the financial statements, the amounts as at 31 December 2013 changed as follows:

- The amount in „Revenue from goods“ increased by TCZK 308 666 from the original TCZK 0;
- The amount in „Revenue from own products and services“ decreased by TCZK 308 666 from the original TCZK 4 781 443;
- The amount in „Cost of goods sold“ increased by TCZK 217 906 from the original TCZK 0;
- The amount in „Revenue from own products and services“ decreased by TCZK 217 906 from the original TCZK 3 176 429.

The notes related to significant items of financial statements, in both the current and comparable periods, were corrected in the financial statements.



## Financial statements

Notes to the financial statements as at 31 December 2014

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

#### Fixed assets – Intangible fixed assets

	Incorporation expenses	Software	Intellectual property rights	Other intangible assets including advances	Intangible fixed assets under construction	Total
<b>Acquisition cost</b>						
Balance at 1/1/2014	65	18 435	792	797	—	20 089
Additions	—	3 749	—	1 872 314	2 049	1 878 112
Disposals	—	-2 477	-697	-1 838 472	—	-1 841 646
Transfers	—	—	—	—	—	—
<b>Balance at 31/12/2014</b>	<b>65</b>	<b>19 707</b>	<b>95</b>	<b>34 639</b>	<b>2 049</b>	<b>56 555</b>
<b>Accumulated depreciation</b>						
Balance at 1/1/2014	50	14 263	792	—	—	15 105
Depreciation expense	13	2 106	—	—	—	2 119
Disposals	—	-2 477	-697	—	—	-3 174
Transfers	—	—	—	—	—	—
<b>Balance at 31/12/2014</b>	<b>63</b>	<b>13 892</b>	<b>95</b>	<b>—</b>	<b>—</b>	<b>14 050</b>
Net book value 1/1/2014	<b>15</b>	<b>4 172</b>	<b>—</b>	<b>797</b>	<b>—</b>	<b>4 984</b>
<b>Net book value 31/12/2014</b>	<b>2</b>	<b>5 815</b>	<b>—</b>	<b>34 639</b>	<b>2 049</b>	<b>42 505</b>

## Financial statements

Notes to the financial statements as at 31 December 2014

#### Fixed assets – Tangible fixed assets

	Land	Buildings	Machinery and equipment	Works of art	Adjustments to acquired assets	Tangible assets under construction including advances	Total
<b>Acquisition cost</b>							
Balance at 1/1/2014	37 119	4 034 645	7 226 518	415	1 620 790	144 241	13 063 728
Additions	44	10 461	53 946	—	—	25 868	90 319
Disposals	—	-857	-2 335	—	—	—	-3 192
Transfers	—	109 671	—	—	—	-109 671	—
<b>Balance at 31/12/2014</b>	<b>37 163</b>	<b>4 153 920</b>	<b>7 278 129</b>	<b>415</b>	<b>1 620 790</b>	<b>60 438</b>	<b>13 150 855</b>
<b>Accumulated depreciation</b>							
Balance at 1/1/2014	—	3 066 669	6 968 465	—	472 230	—	10 507 364
Depreciation expense	—	96 237	78 615	—	97 061	—	271 913
Disposals	—	-857	-2 335	—	—	—	-3 192
Transfers	—	—	—	—	—	—	—
Balance at 31/12/2014	—	3 162 049	7 044 745	—	569 291	—	10 776 085
<b>Adjustments</b>							
Balance at 1/1/2014	—	22 190	—	—	—	—	22 190
Change in adjustments	—	-1 351	—	—	—	—	-1 351
Balance at 31/12/2014	—	20 839	—	—	—	—	20 839
<b>Balance at 1/1/2014</b>	<b>37 119</b>	<b>945 786</b>	<b>258 053</b>	<b>415</b>	<b>1 148 560</b>	<b>144 241</b>	<b>2 534 174</b>
<b>Balance at 31/12/2014</b>	<b>37 163</b>	<b>971 032</b>	<b>233 384</b>	<b>415</b>	<b>1 051 499</b>	<b>60 438</b>	<b>2 353 931</b>

## Financial statements

### Notes to the financial statements as at 31 December 2014

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 2014 (2013 – TCZK 164 080). In 2014 the Company adjusted the useful lives of the technological assets and the adjustments so that they were both in line with the useful life for operating the power plant (see Change in accounting policies and procedures, comparability of information, correction of errors). The major addition is the technological reclamation of the Chvaletice area of TCZK 118 139 (2013 – TCZK 69 145).

An adjustment for assets that the Company does not presently use and does not expect to use in the subsequent period, amounts to TCZK 20 839 as at 31 December 2014 (2013 – TCZK 22 190). In 2014 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 1/1/2014	797
Free of charge allocation of CO <sub>2</sub> emission rights	490 607
Purchase of emission rights	1 381 707
Sale of emission rights	-1 269 070
Utilisation of emission rights	-569 402
<b>Balance at 31/12/2014</b>	<b>34 639</b>

As at 31 December 2013, no emission rights were granted to the Company. The process of approving the allocation was completed as at 28 January 2014. Accordingly, the Company accounted for the allocation of 1 490 149 pieces of emission rights in 2014. In 2013 the Company purchased and utilised emission rights totalling TCZK 358 372. The utilisation was reported in „Other operating expenses“.

## Financial statements

### Notes to the financial statements as at 31 December 2014

#### Leased assets

Servis Leasing a.s. is a lessor of passenger and utility vehicles. The rent (operating and finance leases) amounted to TCZK 2 739 in 2014 (2013 – TCZK 395). As at 31 December 2014 the payable (future operating lease instalments) from valid lease agreements amounted to TCZK 10 856 (2013 – TCZK 597). The Company uses leased office premises in Prague 6, rent for 2014 totalled TCZK 4 304 (2013 – TCZK 1 331).

#### Non-capitalised tangible and intangible fixed assets

In accordance with the accounting policy described in note Tangible and intangible fixed assets above, the Company charged low value tangible and intangible fixed assets to the income statement in the year that they were acquired. The cumulative acquisition cost of these tangible and intangible fixed assets that were still in use was as follows:

	at 31/12/2014	at 31/12/2013
Tangible fixed assets	7 952	6 396
Intangible fixed assets	23	37
<b>Total</b>	<b>7 975</b>	<b>6 433</b>



## Financial statements

### Notes to the financial statements as at 31 December 2014

#### Inventories

Inventories mainly consist of spare parts and coal. As at 31 December 2014, spare parts total TCZK 141 304 (2013 – TCZK 129 065) and coal inventories come to TCZK 640 987 (2013 – TCZK 339 748). Coal inventories were transferred to the ownership of the Company as at 30 June 2013, the date on which a contract on processing was terminated with ČEZ, a.s. To reduce the cost of raw materials to net realisable value, an adjustment of TCZK 80 144 (2013 – TCZK 42 880) was recorded as at 31 December 2014.

#### Long-term receivables

##### Receivables – group undertakings

Long-term receivables primarily consist of a receivable from Severní energetická a.s. of TCZK 1 982 995 (2013 – TCZK 2 782 995) – see note Related parties.

##### Other receivables

Other long-term receivables consist of long-term deposits totalling TCZK 111 922 (2013 – TCZK 100 464) provided in connection with trading in electricity and emission rights.

#### Short-term receivables

##### Short-term trade receivables

Short-term trade receivables total TCZK 1 494 925 (2013 – TCZK 501 692), of which TCZK 7 100 (2013 – TCZK 2 922) is overdue. Adjustments of TCZK 2 447 (2013 – TCZK 2 522) were set up at 31 December 2014 for doubtful receivables.

##### Short-term advances paid

Short-term advances paid totalled TCZK 22 991 (2013 – TCZK 0). The most significant items are advances related to trading in electricity totalling TCZK 19 341.

## Financial statements

### Notes to the financial statements as at 31 December 2014

#### Other short-term receivables

Other short-term receivables primarily consist of a short-term deposit totalling TCZK 20 000 (2013 – TCZK 0) provided in connection with the trading in electricity and a receivable related to the value added tax deduction for January 2015 totalling TCZK 99 606.

#### Tax receivables

As at 31 December 2014, tax receivables total TCZK 14 758 (2013 – TCZK 266 910) and represent corporate income tax (2013 – TCZK 88 982 relating to value added tax and TCZK 177 928 to corporate income tax). An income tax provision of TCZK 121 527 (2013 – TCZK 122 571) was reduced with income tax prepayments of TCZK 136 285 (2013 – TCZK 300 499) and the net receivable of TCZK 14 758 is reported in tax receivables (2013 – receivable of TCZK 177 928).

#### Accrued revenues

Accrued revenues as at 31 December 2014 total TCZK 66 074 (2013 – TCZK 174). Balance primarily consists of interest rate revenues related to a long-term receivable from Severní energetická a.s. of TCZK 47 823 (2013 – TCZK 174) – see Related parties. An other part belongs to income from transactions carried out through OTE (electricity market operator) in 2014, but paid only in January 2015 of TCZK 18 240 (2013 – TCZK 0).

#### Components of cash and cash equivalents

As at 31 December 2014, the Company had account balances with limited disposal of TCZK 22 660 (2013 – TCZK 22 660). 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.

## Financial statements

Notes to the financial statements as at 31 December 2014

### Adjustments

Adjustments	Fixed assets	Inventories	Receivables	Total
<b>Balance at 1/1/2014</b>	<b>22 190</b>	<b>42 880</b>	<b>2 526</b>	<b>67 596</b>
Additions	—	77 493	—	77 493
Release/utilisation	-1 351	-40 229	-79	-41 659
<b>Balance at 31/12/2014</b>	<b>20 839</b>	<b>80 144</b>	<b>2 447</b>	<b>103 430</b>

### 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.

	Registered capital	Share premium	Statutory reserve fund	Retained earnings	Profit (loss) for the current period	Total
Balance at 1/1/2014	4 406 000	157	206 940	1 052 164	263 379	5 928 640
Additions to funds/utilisation of funds	—	—	-206 940	206 940	—	—
Payment of profit share	—	—	—	-236 621	-263 379	-500 000
Profit at 31/12/2014	—	—	—	—	408 291	408 291
<b>Balance at 31/12/2014</b>	<b>4 406 000</b>	<b>157</b>	<b>—</b>	<b>1 022 483</b>	<b>408 291</b>	<b>5 836 931</b>

On 28 May 2014 when exercising the powers of the general meeting, the sole shareholder decided to change the Company's by-laws. Based on a decision of the sole shareholder exercising the powers of the Company's general meeting dated 12 June 2014, the statutory reserve fund was released and the funds were transferred to retained earnings.

## Financial statements

Notes to the financial statements as at 31 December 2014

### Provisions

	Provision for reclamation and restoration	Provision for employee benefits	Provision for compensation of damage resulting from emissions	Provision for greenhouse gas emissions	Other provisions	Total
Balance at 1/1/2014	20 743	49 553	10 894	5 903	16 677	103 770
Additions	—	—	—	—	20 885	20 885
Utilisation	—	-49 553	-2 448	-5 903	-16 677	-74 581
Balance at 31/12/2014	20 743	—	8 446	—	20 885	50 074

A statutory provision for reclamation and restoration was established in accordance with the Act on Reserves. A provision for employee benefits was released in connection with a change in the collective agreement with effect from 1 January 2015.

### Long-term liabilities

#### Long-term advances received

Long-term advances received as at 31 December 2014 relate to the trade in electricity and total TCZK 52 235 (2013 – TCZK 0).

#### Other payables

In 2014 the Company entered into contracts for the sale of options regarding the sale of electricity and purchase of emission rights in 2015 – 2017. Other payables of TCZK 78 290 (2013 – TCZK 0) consist of a long-term portion of option premiums related to sold purchase and sale options that will expire in 2016 – 2017. A short-term portion of TCZK 65 527 (2013 – TCZK 0) is reported in „Other short-term payables“.



## Financial statements

### Notes to the financial statements as at 31 December 2014

#### Short-term liabilities

##### Short-term trade payables

Short-term trade payables total TCZK 1 541 839 (2013 – TCZK 1 201 432), of which TCZK 14 (2013 – TCZK 19) is overdue.

##### Other short-term payables

Other short-term payables primarily represent due value added tax of TCZK 46 156. As of 1 January 2014 the Company has been a member of the group registered for value added tax. The Company has payables to Severní energetická a.s., which has been a member representing the group and declares and pays value added tax to the state. None of the payables are overdue. 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 Other payables.

#### Segment information

		Domestic sales	Export	Total
Sale of purchased energy	2014	2 142 556	3 130 292	5 272 848
	2013	293 647	15 019	308 666
Sale of generated energy	2014	4 003 563	–	4 003 563
	2013	2 762 273	–	2 762 273
Revenue generated based on the contract on processing*	2014	–	–	–
	2013	1 622 983	–	1 622 983
Other	2014	20 588	–	20 588
	2013	87 521	–	87 521
<b>Total</b>	<b>2014</b>	<b>6 166 707</b>	<b>3 130 292</b>	<b>9 296 999</b>
	<b>2013</b>	<b>4 766 424</b>	<b>15 019</b>	<b>4 781 443</b>

\*) The contract on processing was terminated as at 30 June 2013.

## Financial statements

### Notes to the financial statements as at 31 December 2014

#### Significant items of profit or loss

##### Other operating revenues

Other operating revenues primarily consist of subsidies for emission rights allocated free of charge of TCZK 490 607 (2013 – TCZK 0). In 2013 the Company was not allocated any emission rights. The approval process regarding the allocation of emission rights for 2013 was completed as at 28 January 2014.

##### Other operating expenses

Other operating expenses relate to the usage of purchased emission rights in 2014 totalling TCZK 569 402 (2013 – TCZK 358 372).

#### Related parties

Since its registration until 31 August 2013, the Company was part of a group of companies whose parent company was ČEZ, a.s. Effective from 1 September 2013, the Company is included in a group of companies with Severní energetická a.s. as a parent company.

#### Receivables and payables

The following related party balances are included in the trade receivables and payables described in notes Short-term receivables and Short-term liabilities above.

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

	Receivables		Payables	
	at 31/12/2014	at 31/12/2013	at 31/12/2014	at 31/12/2013
Severní energetická a.s.	1 241	174	256 794	957 564
<b>Total</b>	<b>1 241</b>	<b>174</b>	<b>256 794</b>	<b>957 564</b>

## Financial statements

### Notes to the financial statements as at 31 December 2014

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 Elektrárna Chvaletice a.s., Severní energetická a.s. assumed the monetary payable of ČEZ, a.s. to Elektrárna Chvaletice a.s. arising from the contract on cash pooling and the contract on mutual credit facilities of TCZK 2 972 995. The balance as at 31 December 2014 is TCZK 1 982 995 (2013 – TCZK 2 782 995). As at the balance sheet date, the receivable is reported in the balance sheet in „Long-term receivables – group undertakings“. The receivable bears an interest rate of 3M Pribor+2% p.a. (2013 – interest rate of 0.25% p.a.) and it is due by 31 December 2018 at the latest.

#### Transactions with related parties

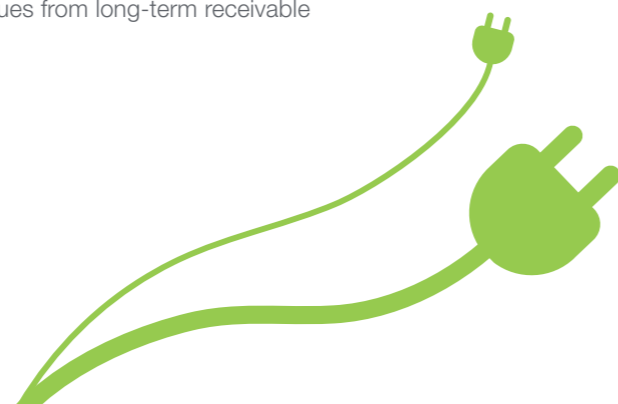
The Company purchases products and utilises services of related parties as part of its regular business activities.

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

	Revenues		Expenses	
	2014	2013*	2014	2013*
Severní energetická a.s.	53 506	174	3 579 735	1 229 839
<b>Total</b>	<b>53 506</b>	<b>174</b>	<b>3 579 735</b>	<b>1 229 839</b>

\*) revenues and expenses are reported for the period September – December 2013.

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 Receivables – group undertakings.



## Financial statements

### Notes to the financial statements as at 31 December 2014

#### Remuneration and loans provided to directors and supervisory board members

	Board of directors		Supervisory board	
	2014	2013	2014	2013
Number of members	3	4	3	3
Fees paid	3 894	1 292	540	468
Other	66	–	–	–

Members of the board of directors and management use the Company's vehicles for both business and private purposes.

#### 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., Elektrárna Chvaletice 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 the maximum possible price.

As at 31 December 2014, the Company has the following contingencies and commitments relating to the issued and accepted guarantees:

- On 24 October 2013 the Company entered into a contract for the provision of a guaranteed 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 Elektrárna Chvaletice 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 6 250 due until 2019.
- 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 Elektrárna Chvaletice a.s. on 6 March 2014.

## Financial statements

### Notes to the financial statements as at 31 December 2014

c) 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 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 Elektrárna Chvaletice a.s. on 13 December 2013.

#### Social security and health insurance liabilities

Social security and health insurance liabilities total TCZK 6 923 (2013 – TCZK 7 782), of which TCZK 4 770 (2013 – TCZK 5 240) relates to social security liabilities and TCZK 2 153 (2013 – TCZK 2 542) to health insurance liabilities. None of these liabilities are overdue.

#### Tax liabilities and subsidies

Tax liabilities amount to TCZK 4 012 (2013 – TCZK 3 472), of which TCZK 2 692 (2013 – TCZK 3 446) is employment tax and TCZK 1 176 (2013 – TCZK 26) is tax on electricity.

#### Income tax

##### Current tax

Current income tax comprises the tax estimate for 2014 of TCZK 121 527 (2013 – TCZK 122 571), an adjustment to the tax estimate for 2013 of TCZK 672 (2013 – adjustment to the tax estimate for 2012 of TCZK -5 908).



## Financial statements

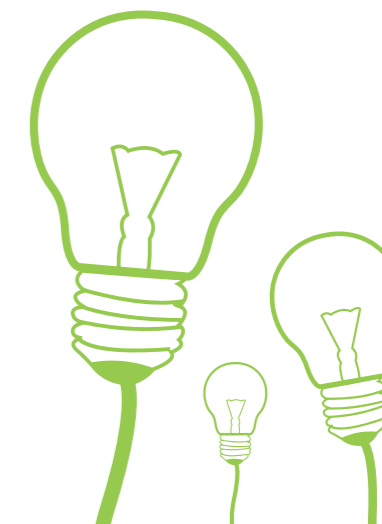
### Notes to the financial statements as at 31 December 2014

#### Deferred tax

##### Deferred tax assets and liabilities

	Assets		Liabilities		Net	
	at 31/12/2014	at 31/12/2013	at 31/12/2014	at 31/12/2013	at 31/12/2014	at 31/12/2013
Tangible and intangible fixed assets	3 959	–	-319 375	-377 560	-315 416	-377 560
Receivables	272	273	–	–	272	273
Inventories	15 227	8 147	–	–	15 227	8 147
Provisions	5 573	15 775	–	–	5 573	15 775
<b>Deferred tax asset/liability</b>	<b>25 031</b>	<b>24 195</b>	<b>-319 375</b>	<b>-377 560</b>	<b>-294 344</b>	<b>-353 365</b>

In accordance with the accounting policy described in Income tax., a tax rate of 19% was used to calculate tax (2013 – 19%).



## Financial statements

Notes to the financial statements as at 31 December 2014

### Employees, executives, company management, board of directors and supervisory board

#### Personnel expenses and number of employees

Average number of employees and executives and related personnel expenses for 2014:

	Number	tion provided to directors and supervisory board members*)	Wages and salaries	Social security and health insurance expenses	Social expenses
Employees	275	—	131 835	48 261	14 296
Executives	2	4 434	3 526	1 927	93
<b>Total</b>	<b>277</b>	<b>4 434</b>	<b>135 361</b>	<b>50 188</b>	<b>14 389</b>

Average number of employees and executives and related personnel expenses for 2013:

	Number	tion provided to directors and supervisory board members*)	Wages and salaries	Social security and health insurance expenses	Social expenses
Employees	236	—	116 632	42 184	14 827
Executives	4	1 760	8 955	2 486	—
<b>Total</b>	<b>240</b>	<b>1 760</b>	<b>125 587</b>	<b>44 670</b>	<b>14 827</b>

\*) Remuneration is also paid to members of statutory bodies who are not employees.

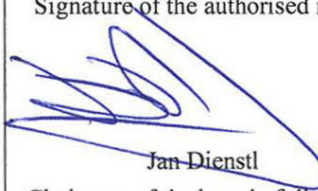

## Financial statements

Notes to the financial statements as at 31 December 2014

### Additional facts and significant events since the balance sheet date

#### Material subsequent events

The Company's management is not aware of any events that have occurred since the balance sheet date that would have any material impact on the financial statements as at 31 December 2014.

Prepared on:	Signature of the authorised representative:
2 April 2015	 Jan Dienstl Chairman of the board of directors
	 Luboš Pavlas Member of the board of directors





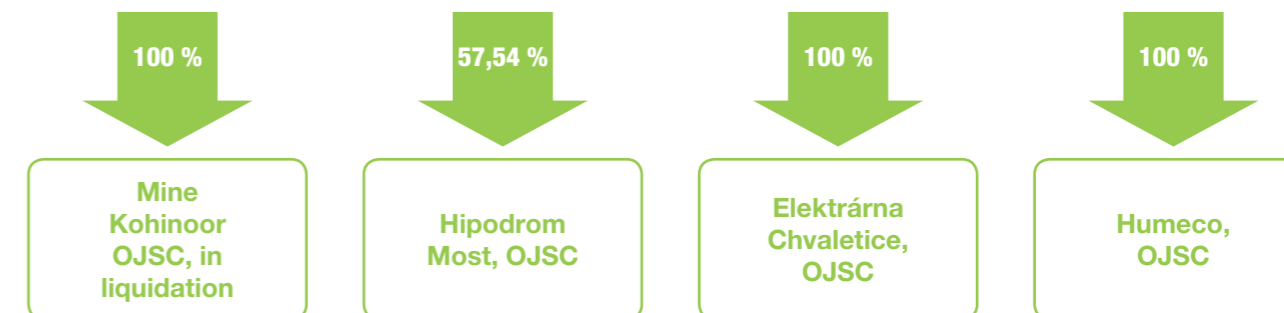
Report on relations between related parties  
as at 31 December 2014

## Report on relations between related parties as at 31 December 2014

This report on relations between related parties for the period of January 1, 2014 to December 31, 2014 represents a written report issued by a statutory body of the controlled entity. The report includes information on relations between the controlled entity, entities directly and indirectly involved in controlling, and other entities controlled by the same entity (hereinafter the „Report on Relations“) in the accounting period of 2014 in compliance with provisions of the Act 90/2012 Coll., Section 82, on Business Corporations as amended.

Relations structure between entities and controlled entity role

### Severní energetická, OJSC



## Report on relations between related parties as at 31 December 2014

### Controlled entity role

In the whole accounting period of 2014 Elektrárna Chvaletice, OJSC, was in the position of a subsidiary company 100% of its issued shares was owned by the Severní energetická, OJSC.

### Controlling entity and controlled entity

#### Controlling entity

**Company:** Severní energetická, OJSC  
Registered office: Václava Řezáče 315, Most, postal code 434 01  
Registered number: 286 77 986  
Registered in: in the Commercial Register kept by the Regional Court in Ústí nad Labem, section B, insert 1986

#### Controlled entity

**Company:** Elektrárna Chvaletice, OJSC  
Registered office: K Elektrárně 227, Chvaletice, postal code 533 12  
Registered number: 287 86 009  
Registered in: Commercial Register kept by the Regional Court in Hradec Králové, section B, insert 2905

#### Other entities controlled by the same entity

**Company:** Důl Kohinoor, OJSC, in liquidation  
Registered office: Dolní Jiřetín 5, Horní Jiřetín, postal code 435 43  
Registered number: 254 11 616  
Registered in: Commercial Register kept by the Regional Court in Ústí nad Labem, section B, insert 1259

## Report on relations between related parties as at 31 December 2014

**Company:** HIPODROM MOST, OJSC  
Registered office: Vebudice, K Hipodromu 213, Velebudice, Most, postal code 434 01  
Registered number: 646 53 269  
Registered in: Commercial Register kept by the Regional Court in Ústí nad Labem, section B, insert 813

**Company:** HUMEKO, OJSC  
Registered office: Václava Řezáče 315, Most, postal code 434 01  
Registered number: 148 64 657  
Registered in: Commercial Register of Regional Court in Usti nad Labem, Section B, Entry 79

#### Manner of control

As at December 31, 2014, the sole share owner of the shares of Elektrárna Chvaletice, OJSC is Severní Energetická, OJSC. From September 2, 2013, Severní energetická is controlling entity of Elektrárna Chvaletice, OJSC in compliance with Act No. 90/2012 Section 74, on Business Corporations as amended. No controlling agreement has been concluded.

#### Summary of measures taken in the 2014 accounting period

As at the release date of the last financial statement, in the 2014 accounting period Elektrárna Chvaletice OJSC did not take any legal actions or measures concerning property exceeding the value of 10% of its own equity in favour of or at the instigation of its controlling party.



## Report on relations between related parties as at 31 December 2014

### Contractual relations

The following contracts were concluded with related parties by Elektrárna Chvaletice, OJSC within the accounting period from January 1, 2014 to December 31, 2014. Financial remuneration of the Company resulting from contractual relations concluded with its related parties listed below was reflective of common market prices and conditions.

Name: Agreement on Settlement of Mutual Liabilities in Relation to Securing of System Integration – Amendment no. 1

Number: SE/2013/241/Amend. 1

Conclusion date: 2 January 2014

Party to the contract: Elektrárna Chvaletice, OJSC

Consideration: Settlement of mutual liabilities in relation to securing of system integration

Name: Purchase Agreement

Number: ECHAS-2014-218

Conclusion date: 4 June 2014

Party to the contract: Severní Energetická, OJSC

Consideration: Sale of brown coal

Name: Implementation Agreement Related to Sale and Purchase of Shares of Elektrárna Chvaletice, OJSC

Number: SE-2014-380

Conclusion date: 7 August 2014

Party to the contract: ČEZ, OJSC (seller), Famlen, Ltd., Remlan, Ltd. (guarantors), Severní energetická, OJSC (purchaser)

Consideration: Implementation Agreement Related to Sale and Purchase of Shares of Elektrárna Chvaletice, OJSC

## Report on relations between related parties as at 31 December 2014

Name: Agreement on Settlement of Mutual Liabilities in Relation to Securing of System Integration – Amendment no. 2

Number: SE/2013/241/Amend. 2

Conclusion date: 22 December 2014

Party to the contract: Severní energetická, OJSC

Consideration: Agreement of settlement of liabilities in relation to securing of system integration

Name: Purchase Agreement

Number: ECHAS-2015-1

Conclusion date: 23 December 2014

Party to the contract: Severní energetická, OJSC

Consideration: Sale of brown coal

Name: Agreement on Provision of Services – Operational Tax Activity and Tax Optimization

Number: 600003511 ECHAS

Conclusion date: 30 December 2014

Party to the contract: Severní energetická, OJSC

Consideration: Provision of services – operational tax activity and tax optimization

Name: Agreement on Provision of Services – Environmental Area

Number: 600003512 ECHAS

Conclusion date: 30 December 2014

Party to the contract: Severní energetická, OJSC

Consideration: Provision of services – environmental area



## Report on relations between related parties as at 31 December 2014

Name: Agreement on Provision of Services – Land Survey Activities  
Number: 600003513 ECHAS  
Conclusion date: 30 December 2014  
Party to the contract: Severní energetická, OJSC  
Consideration: Provision of services – land-surveying activities

Name: Agreement on Provision of Services – Human Resource Services  
Number: 600003514 ECHAS  
Conclusion date: 30 December 2014  
Party to the contract: Severní energetická, OJSC  
Consideration: Provision of services – human resources services

Name: Agreement on Provision of Services – Physical Protection and Security  
Number: 600003515 ECHAS  
Conclusion date: 30 December 2014  
Party to the contract: Severní energetická, OJSC  
Consideration: Provision of services – physical protection and security

Name: Agreement on Provision of Services – Communication activities  
Number: 600003516 ECHAS  
Conclusion date: 30 December 2014  
Party to the contract: Severní energetická, OJSC  
Consideration: Provision of services – communication activities

## Report on relations between related parties as at 31 December 2014

Name: Agreement on Provision of Services – Financial Services  
Number: 600003517 ECHAS  
Conclusion date: 30 December 2014  
Party to the contract: Severní energetická, OJSC  
Consideration: Provision of services – financial services

Name: Amendment No 1. to Financial Obligation Agreement  
Conclusion date: 26 March 2015  
Party to the contract: Severní energetická, OJSC  
Consideration: Loan

In the period from January 1, 2014 to December 31, 2014, the following contracts concluded between Elektrárna Chvalčovice, OJSC and its related parties were valid and effective:

Name: Agreement on Settlement of Liabilities in Relation to Ensuring System Integration  
Number: SE/2013/241  
Conclusion date: 2 January 2013  
Party to the contract: Severní energetická, OJSC  
Consideration: Agreement on Settlement of Liabilities in Relation to Ensuring System Integration

Name: Order  
Number: SE/2014/34  
Conclusion date: 4 December 2013  
Party to the contract: Severní energetická, OJSC  
Consideration: Order of brown coal deliveries for ECHAS including order confirmation PAS Sev.en

## Report on relations between related parties as at 31 December 2014

Name: Financial Liabilities Settlement Agreement

Conclusion date: 23 December 2013

Party to the contract: Severní energetická, OJSC

Consideration: Loan

Name: Agreement on Provision of Services – Environmental Area

Number: 600000690 ECHAS

Conclusion date: 27 December 2013

Party to the contract: Severní energetická, OJSC

Consideration: Provision of services – environmental area

Name: Agreement on Provision of Services – Land Survey Activities

Number: 600000687 ECHAS

Conclusion date: 27 December 2013

Party to the contract: Severní energetická, OJSC

Consideration: Provision of services – land-surveying activities

Name: Agreement on Provision of Services – Human Resource Services

Number: 600000685 ECHAS

Conclusion date: 27 December 2013

Party to the contract: Severní energetická, OJSC

Consideration: Provision of services – human resources services

## Report on relations between related parties as at 31 December 2014

Name: Agreement on Provision of Services – Physical Protection and Security

Number: 600000691 ECHAS

Conclusion date: 27 December 2013

Party to the contract: Severní energetická, OJSC

Consideration: Provision of services – physical protection and security

Name: Agreement on Provision of Services – Operational Tax Activity and Tax Optimization

Number: 600000684 ECHAS

Conclusion date: 27 December 2013

Party to the contract: Severní energetická, OJSC

Consideration: Provision of services – operational tax activity and tax optimization

Name: Agreement on Provision of Services – Financial Services

Number: 600000683 ECHAS

Conclusion date: 27 December 2013

Party to the contract: Severní energetická, OJSC

Consideration: Provision of services – financial services

## Report on relations between related parties as at 31 December 2014

### Other relations

Elektrárna Chvaletice OJSC has not taken any other legal actions in favour of its related parties, nor has it accepted or taken any measures in favour of or at the instigation of its related parties. All relations between related entities are formed and contracted on the basis of equal treatment of entities and under standard market conditions. There are no advantages or disadvantages that result from relations between related parties, nor are there any potential risks arising from these relations. The board of directors declares that no damage occurred to the Company resulting from the contractual relations mentioned in this Report.

### Conclusion

The Report on Related Parties was released as at December 31, 2014 by the statutory authority of Elektrárna Chvaletice, OJSC. The Report was issued to the best of the processors knowledge and belief, with maximum effort made, the data having been collected from all available documents and sources.

The Report will be submitted to the board of directors of Elektrárna Chvaletice to be discussed. The board of directors will present its opinion on the Report in the board of directors' Annual Activity Report presented at the annual general meeting of the Company.

26. March 2015 in Chvaletice



Jan Dienstl  
Chairman of the board of directors  
Elektrárna Chvaletice, OJSC



Luboš Pavlas  
Member of the board of directors  
Elektrárna Chvaletice, OJSC





## List of abbreviations

## List of abbreviations

<b>BOZP</b>	<b>Health and safety at work</b>
<b>CO</b>	<b>Carbon monoxide</b>
<b>CO<sub>2</sub></b>	<b>Carbon dioxide</b>
<b>ČEPS</b>	<b>Czech Transmission System</b>
<b>ČIŽP</b>	<b>Czech Environmental Inspectorate</b>
<b>ČNS EN ISO</b>	<b>Environmental management system</b>
<b>EEX</b>	<b>The European Energy Exchange</b>
<b>ECHAS</b>	<b>Elektrárna Chvaletice, OJSC</b>
<b>ELTO</b>	<b>Extra light fuel oil</b>
<b>EMS</b>	<b>Environmental Management System</b>
<b>ES</b>	<b>European Community</b>
<b>HP</b>	<b>Emergency plan</b>
<b>NO<sub>x</sub></b>	<b>Nitrogen oxides</b>
<b>OTE</b>	<b>Electricity Market Operator</b>
<b>PO</b>	<b>Fire protection</b>
<b>PXE</b>	<b>Power Exchange Central Europe</b>
<b>SO<sub>2</sub></b>	<b>Carbon dioxide</b>
<b>TTO</b>	<b>Heavy fuel oil</b>
<b>TZL</b>	<b>Solid pollutants/dust</b>
<b>ŽP</b>	<b>Environment</b>

**Elektrárna Chvaletice,  
OJSC**

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