



Annual Report

# 2012

Severočeské doly Group



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Stability in dynamism:  
Severočeské doly Group  
once again achieves  
excellent results.

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Severočeské doly's  
focus on detail is evident  
not only in its modern  
technical equipment,  
but also in its overall  
approach to all aspects  
of the business.

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Severočeské doly Group  
has a dedicated team  
of specialists and  
professionals who are  
at the top of their  
respective fields.

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At the end of 2012, the District Mining Office in Most issued an important document: the Mining Activity Permit for Nástup Tušimice Mines for 2014–2029.

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Severočeské doly's support for cities and towns affected by immediately-adjointing mining operations rests on two pillars: help for communities and protection of nature.

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Severočeské doly is substantially reducing air pollution caused by mining and processing operations at its work sites, and endeavoring to eliminate pollution to the maximum extent possible.

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A project entitled Efficient and Safe Extraction of Brown Coal is helping to ensure a successful future for the Group.

**A modern  
company  
ready for  
tomorrow**

**We live in a time of dynamic change. Trends are changing, and the power sector is no exception. Severočeské doly Group is preparing itself constructively for the changed conditions and for the future. In order to fulfill all our plans for adapting to the changing trends, we are preparing and implementing measures designed to ensure that our mining operations are efficient and safe. We are implementing a new strategy for selling sorted coal. Beside upgrading our equipment, our absolute priorities are to maximize sales revenues and minimize purchasing expenses. Both in accordance with reclamation renewal of landscape structures to ensure that life “tomorrow” is worth living.**

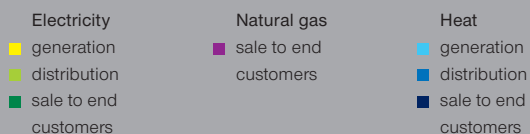
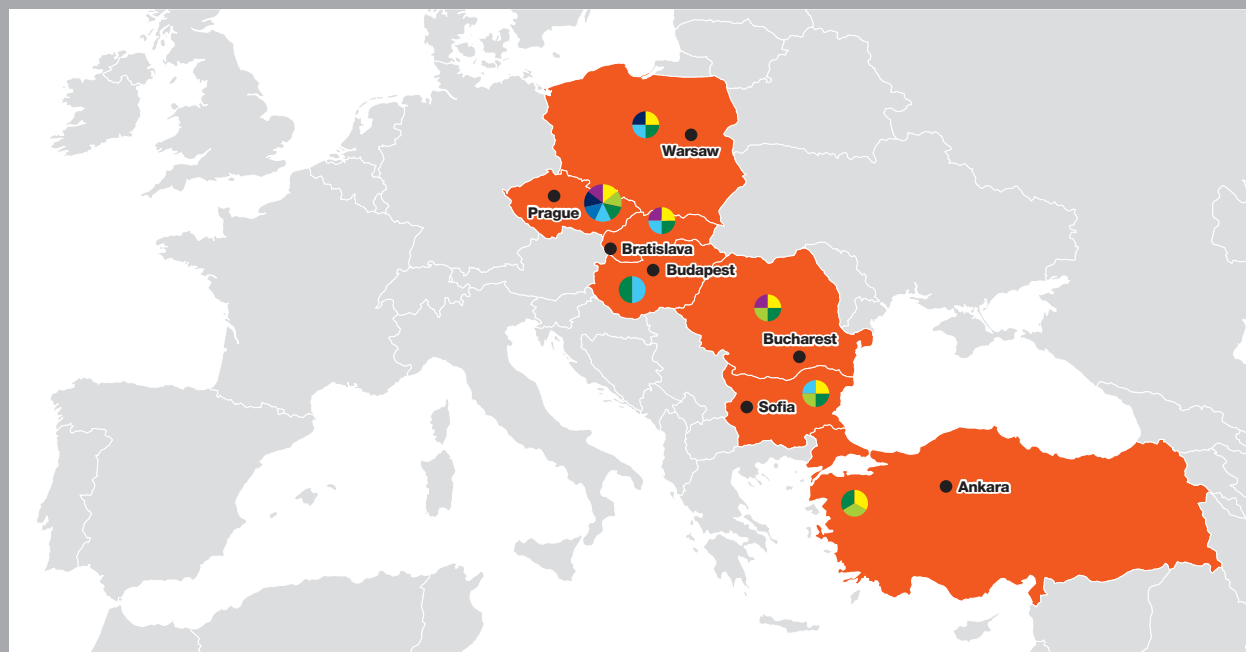
# CEZ Group: An Introduction

CEZ Group is an established, integrated electricity conglomerate with operations in a number of countries in Central and Southeastern Europe and Turkey, headquartered in the Czech Republic. Its principal businesses encompass generation, distribution, and trading of power and heat, trading and sales of natural gas, and coal mining. CEZ Group has 27,000 employees. The largest shareholder of the parent company, ČEZ, a. s., is the Czech Republic (at December 31, 2012 its share of the Company's stated capital was nearly 70%). The shares of ČEZ, a. s. are traded on the Prague and Warsaw Stock Exchanges, where they form part of the PX and WIG-CEE stock exchange indexes.

A crucial part of CEZ Group's mission is to maximize the return on investments in the Group, and ensure long-term growth in shareholder value. As part of its business activities, CEZ Group upholds principles of sustainable development, supports energy efficiency, rolls out new technologies, and operates its power plants and other equipment in accordance with safety standards. Although the corporate culture is focused on performance and continual improvement of internal efficiency, at the same time CEZ Group's business activities are governed by strict ethical standards – this includes acting responsibly toward local communities, society, and the environment.

In the Czech Republic, CEZ Group companies generate and distribute electricity and heat, trade in electricity and other commodities, sell electricity, heat, and natural gas to end customers, and mine coal. The generation portfolio consists of nuclear, coal, gas, hydro, and renewable power sources. To ensure continued success in the Czech Republic market, which is crucial to CEZ Group in terms of its business interests, the generation portfolio and distribution grids are undergoing an extensive renewal, upgrade, and development program, including in particular preparations for building a new nuclear power source at Temelin.

**CEZ Group Energy Operations, by Country**



At the international level, CEZ Group focuses in particular on markets in Central and Southeastern Europe, where it operates primarily in the areas of distribution, sale, and generation of electricity from coal-fired and renewable power sources, as well as trading in electricity and other commodities. Members of the CEZ Group in the Netherlands and Ireland act as holding companies and provide certain financing functions.

CEZ Group holds generation and distribution assets in Poland, Romania, Bulgaria, Hungary, Slovakia, and Turkey. In Poland, two black coal-fired power plants near the country's border with the Czech Republic are part of CEZ Group, as is a development company that is preparing to build wind power plants. In Romania, CEZ Group is involved in the generation of electricity from renewable sources of energy – wind in particular – in addition to electricity distribution and sales operations. In Bulgaria, it distributes and sells electricity in the western part of the country, generates power in a coal-fired power plant, and is developing renewable sources. In Turkey, CEZ Group, together with a local partner, operates a distribution company, generates electricity in gas, hydro, and wind power plants, and is preparing to build additional power sources.

CEZ Group conducts wholesale trading operations in electricity and other commodities in a number of European countries. In addition to the Czech Republic, CEZ Group sells electricity and natural gas to customers in places such as Romania, Bulgaria, Turkey, Hungary, Poland, and Slovakia.

CEZ Group continues to implement technologies of the future. As it continually expands its network of charging stations for electric vehicles, the Group commissioned its first ultrafast charging station and is preparing to build more in cooperation with its partners. In Northwestern Bohemia, it is rolling out a smart distribution grid over a selected area.

# Severočeské doly Group: An Introduction

The mission of Severočeské doly is to mine, process, and sell brown coal. The Severočeské doly Group operates in the Ústí Region and consists of the corporate parent Severočeské doly a.s. and six subsidiaries.

The Severočeské doly Group includes the subsidiaries SD - 1.strojírenská, a.s., SD - Autodoprava, a.s., SD - Rekultivace, a.s., SD - Kolejová doprava, a.s., and PRODECO, a.s. Another Group member is SD - KOMES, a.s. The Group also has an associate, Výzkumný ústav pro hnědé uhlí a.s. The subsidiaries assist the parent company as it realizes its vision of maintaining, for the long term, its position as a national leader in the mining and processing of brown coal.

The goal of the Group's communication strategy is for people in the immediate vicinity of the surface mines and in farther-away locations alike to be accepting of coal mining. The highest priority is positive, open, bidirectional communications with neighboring communities, to which the Group dedicates most of its attention. We actively cooperate with elected officials of the Ústí Region and the Regional Authority, as well as engaging with a wide palette of regional associations.

Long-term growth in the company's value and maintenance of financial stability are the Severočeské doly Group's principal goals vis-à-vis its shareholders. In internal communications, the top-priority strategic objectives are to maintain labor peace and continually improve work and social conditions for employees. Severočeské doly's successful efforts to improve the environment regularly gain international recognition. Our land clean-up and reclamation operation is considered one of the best in the world. Severočeské doly a.s. is an active member of many international and national organizations such as EURACOAL (the European Association for Coal and Lignite), the Czech Environmental Association, IOC WMC (International Organizing Committee of the World Mining Congress), and the Czech Managers Association. Severočeské doly is also actively engaged in projects of the UNECE (United Nations Economic Commission for Europe) in Geneva.

The Group's corporate culture is based upon a centuries-old tradition of mining that, while fully utilizing all the latest scientific knowledge and technical advances, has always respected the forces of nature and physical, chemical, and biological laws. Since their everyday work is dangerous, miners must always rely on their know-how, courage, responsibility, and the help of their colleagues. In recent years, environmental protection and renewal and corporate social responsibility have been rising strongly to the forefront of the Group's priorities and values. Socially, miners are close-knit group with strong interpersonal relations and feelings of solidarity, both in small teams and within the larger community of miners. This is evident in the towns where miners live, as well.

The culture of Severočeské doly may be briefly characterized by the words:

**Reliability and Trustworthiness,**  
**Stability in Dynamism,**  
**Attention to Detail.**

The cultures of brown coal mining and power generation, which in our country is very firmly linked to mining, are very close. Most of the players are located in the same area of northwestern Bohemia and the operations of each have always had a strong impact on the others as well. Long-term, strong, and positive personal bonds exist between employees and managers. As in previous years, in 2012 the corporate culture of Severočeské doly Group continued to be enriched by elements from the ČEZ corporate culture. In particular, these elements include drive, open communication, a growth-oriented strategy, a strong focus on growing the company's value for its owner, and a broad understanding of public responsibility. For Severočeské doly and our employees, membership of CEZ Group is an opportunity and a challenge to make a place for ourselves within a larger structure that is a major player in the pan-European power industry.

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# Statutory Declaration by Persons Responsible for the Severočeské doly Group Annual Report

The financial statements as of December 31, 2012 and 2011 and the Annual Report were audited by the audit company:

Ernst & Young Audit, s.r.o.  
License No. 401  
Karlovo náměstí 10, Prague 2, 120 00

Josef Pivoňka  
Auditor  
License No. 1963

## Statutory Declaration

I hereby declare that the information presented in the Annual Report is factual and that no material circumstances have been omitted that could have an impact on an accurate, correct evaluation of the company.

I further declare that the financial statements for the past three accounting periods have been audited and that the auditor's opinion presented in the Annual Report is genuine.



Ivan Lapin  
Chairman of the Board of Directors  
and General Manager



Jiří Postolka  
Vice Chairman of the Board of Directors  
and Finance Director

## Independent Auditor's Report

### To the Shareholder of Severočeské doly a.s.:

- I. We have audited the consolidated financial statements of Severočeské doly a.s. ("the Company") as at 31 December 2012 presented in the annual report of the Company on pages 112–140 on which we have issued an auditor's report dated 5 April 2013, presented in the annual report of the Company on page 111. We have also audited the separate financial statements of the Company as at 31 December 2012 presented in the annual report of the Company on pages 142–159 on which we have issued an auditor's report dated 22 February 2013, presented in the annual report of the Company on page 141 (both referred further as "financial statements").
- II. We have also audited the consistency of the annual report with the financial statements described above. The management of Severočeské doly a.s. is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report on pages 112–159 is consistent with that contained in the audited financial statements as at 31 December 2012. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements described above.

- III. In addition, we have reviewed the accuracy of the information contained in the report on related parties of Severočeské doly a.s. for the year ended 31 December 2012 presented in the annual report of the Company on pages 104–109. The management of Severočeské doly a.s. is responsible for the preparation and accuracy of the report on related parties. Our responsibility is to issue a report based on our review.

We conducted our review in accordance with the applicable International Standard on Review Engagements and the related Czech standard No. 56 issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the report on related parties is free from material misstatement. The review is limited primarily to enquiries of company personnel, to analytical procedures applied to financial data and to examining, on a test basis, the accuracy of information, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the report on related parties of Severočeské doly a.s. for the year ended 31 December 2012 is materially misstated.



Ernst & Young Audit, s.r.o.  
License No. 401  
Represented by partner



Josef Pivoňka  
Auditor, License No. 1963

10 May 2013  
Prague, Czech Republic



010



**Ivan Lapin**

Chairman of the Board of Directors  
and General Manager

# Introduction by the Chairman of the Board of Directors

Dear shareholder, employees, citizens living in the vicinity of our mines, and everyone who is interested in Severočeské doly,

2012 is behind us. This year, Severočeské doly posted operating income of CZK 2,229 million. Brown coal revenues reached CZK 10,105 million. Net income grew CZK 75 million compared to the previous year, to a final figure of CZK 2,584 million. Sales volume totaled 22.8 million tons of brown coal. The company delivered over 10 million tons of coal from Bílina Mines and 12.8 million tons of coal from Nástup Tušimice Mines.

Factors contributing to the 2.4 million-ton decline in extraction volume included, primarily, the slowing economy and associated lower coal deliveries to coal-fired power plants, whose gross output in the Czech Republic as a whole fell 5.4% in 2012, compared to 2011. Coal supplies for the heat industry were affected by weather conditions that were unfavorable for Severočeské doly. The average temperature during the 2011/2012 winter was +2.4 °C, which is 2.2 degrees above the long-term average. As a result, this winter was one of the 30 warmest winters in the past 200 years of weather monitoring. Temperatures were moderately above average in the beginning of the 2012/2013 winter in 2012 as well.

Sales to customers outside of CEZ Group brought in CZK 4,687 million of revenue in 2012, up slightly under 1% year-on-year. The company achieved excellent results in sales of high-quality Bílina low-sulfur sorted coal, 2.2 million tons of which were sold. Severočeské doly has 3,454 employees. Another more than 1,700 people work for the subsidiaries of Severočeské doly Group. The 100% owner of Severočeské doly is ČEZ, a. s.

## Those are facts. But what was 2012 really like at Severočeské doly?

Despite the flat domestic economy and the ongoing economic crisis in most European Union Member States, the consequences of which are of course being felt in the power industry, among others, we managed to defend our position as the biggest Czech brown coal mining company. Our coal sales volume for the year, 22.8 million tons of coal, gives us a 52% share in the Czech Republic's brown coal production. Our membership of CEZ Group, which has a clear vision and with the members of which we have long-term contracts on supplies of power generation coal, is an undeniable advantage for us. Since our integration into CEZ Group will continue in the future, this advantage will grow further.

In 2012, we focused on improving our efficiency. Already, the results are demonstrating that this course of action was right and that it showed up positively in our financial performance results. Extensive CAPEX projects continued under the Design-to-Cost methodology where, right from the earliest stages of a project, we use tried and tested methods to achieve optimum levels of capital expenditure while maximizing the target effects over the entire project lifespan.

We commenced the Efficient and Safe Extraction project, for which it will be important to have the support of middle management and key operating professions. Within the project, a process of streamlining and optimization is already underway with the objectives of reducing expenses, improving revenues, and ensuring a successful future for Severočeské doly even in general business conditions that are not favorable for conventional, fossil fuels-based energy.

In 2012 we took major steps toward assuring the long-term stability of our mining operations. At the end of 2012, the District Mining Office in Most issued an important document: the Mining Activity Permit for Nástup Tušimice Mines for 2014–2029 according to the Opening, Preparation, and Extraction Plan. In June 2012, after it had been approved by municipal assemblies, an important contract was signed with the mayors of Most, Bílina, Braňany, and Mariánské Radčice by which the municipalities granted their consent for the Bílina Mines extraction operation to continue up until its planned termination around 2050. In practice, this document constitutes the municipalities' consent for the final correction of the Bílina mine's extraction limits, extending the mine's lifetime by an additional period of over 20 years beyond the current mining activity permit, which is valid until 2030. The long-term future of both our mining sites is now clear, and that gives us the security we need to make further strategic decisions.

#### What do we expect from 2013?

We will systematically continue in a number of major development projects now just internally within our extraction areas, but also externally, within the framework of our corporate social responsibility policies, toward our neighbors, where we are endeavoring to improve the living environment for people living in the immediate vicinity.

Land reclamation is an integral part of our mining operations, and this is newly underlined by the fact that the reclamation preparation and execution functions now report directly to the Production Director. We will continue carrying out land reclamation using modern techniques to ensure that the reclaimed areas are organically integrated into the surrounding landscape. Not only residents of our region, but also visitors are surprised at the natural beauty they see here, even in the immediate vicinity of the mines, and recognize that we truly are a "Region with a better outlook".

In sales, we will implement a new strategy for selling sorted coal and endeavor to more evenly distribute sales of this key product of ours. The registered trademark "Bílinské nízkosírnaté uhlí" (Bílina Low-Sulfur Coal) will help the market distinguish our high-quality coal from other products of lesser quality and, in particular, from the low-quality brands, many of which are imported substitutes whose combustion places a burden on communities in areas where smoke dispersion conditions are less than ideal.

An extraordinarily important priority in 2013 is to improve occupational safety indicators. We will focus first on preventing work-related injuries and systematically raising awareness, but we will also work to increase occupational safety engagement at the executive level. I am confident that, together, we will succeed in establishing a positive trend in safety, because safe behavior of our employees at mining work sites is an integral part of our Efficient and Safe Extraction strategy.

### What is our long-term vision?

In 2012, the Government of the Czech Republic prepared two important medium-term documents: a draft National Raw Materials Policy and an updated National Energy Master Plan. Both documents count on brown coal as a strategic raw material for ensuring the Czech Republic's energy security and self-sufficiency. Significantly, the possibility of a final correction of the Bílina mine extraction limit is included in the draft National Raw Materials Policy. The document states what is a well-known fact in our region: this correction is politically, socially, and environmentally uncontroversial and should be implemented to ensure sufficient fuel for the heat industry, which both documents stress is an area of priority. This, together with the agreement signed in 2012 with the elected representatives of communities whose Cadastres will be affected by the Bílina mine's future extraction operations and addressing all social, environmental, and cultural concerns, gives us certainty that our strategy for the Bílina surface mine up until 2050 is the right one. Our vision for the Tušimice mine is fully within the approved environmental extraction limits and no correction of the extraction limits is planned in the case of this mine. We are working on developing techniques that will enable us to make the most efficient use of the Tušimice site's mineral wealth during the period until 2040, in line with the successful retrofits of the Tušimice and Pruněřov Power Stations.

And, as the Czech miners say: "Zdař bůh!"



Ivan Lapin  
Chairman of the Board of Directors  
and General Manager

## Key Figures of Severočeské doly Group

	Units	2008	2009	2010	2011	2012
Market share	%	46.87	48.61	49.42	53.73	52.55
Coal extraction volume, gross	kilotons	22,453	22,364	21,629	25,211	23,173
Coal sales volume	kilotons	22,272	22,029	21,757	25,144	22,789
of which: Coal sold to ČEZ, a. s.	kilotons	16,660	16,471	15,598	18,072	15,935
Environmental expenditure	CZK millions	308.56	178.37	359.37	546.12	545.86
Work force head count at December 31	number	4,965	5,037	4,999	5,064	5,198
Sales revenues	CZK millions	10,702	11,130	11,353	11,231	11,361
EBITDA	CZK millions	5,143	5,628	4,660	5,293	4,957
EBIT	CZK millions	3,741	4,013	2,827	3,229	2,608
Net income	CZK millions	3,164	5,771	2,574	311	2,137
Return on invested capital (ROIC)	%	21.03	19.68	12.31	12.64	8.94
Total assets	CZK millions	33,737	33,925	33,477	31,979	33,069
Equity	CZK millions	19,286	20,681	21,263	20,680	21,127
Financial debt	CZK millions	5,723	3,802	2,113	757	1,771
Financial debt / equity	%	29.67	18.38	9.94	3.66	8.38
Capital expenditure	CZK millions	3,386	3,203	4,229	4,526	3,913
Operating cash flow	CZK millions	4,420	4,134	4,317	6,018	4,515

# Shares

Originally, the company issued 7,597,061 shares booked to owner, each with a face value of CZK 1,000, and 1,483,570 registered shares with the same face value. On November 27, 2007, the sole shareholder approved a revision of the Severočeské doly Articles of Association, under which all the shares were converted into registered shares and the form of the shares was changed from booked to documentary, with the option of issuing multiple-share certificates. Subsequently, as of January 31, 2008 both issues of securities registered at the Securities Center were cancelled and, as of February 1, 2008 a registered multiple-share certificate was issued, replacing the individual share certificates numbered from 1 to 9,080,631, each of which has a face value of CZK 1,000.

# Selected Events of 2012 and 2013 Up to Annual Report Closing Date

## Selected Events of 2012

### January

- Decision of the Sole Shareholder (DSS) of January 23, 2012 – amendment of the Articles of Association (changes to Article 23 – Meetings of the Board of Directors and Article 25 – Position and Powers of the Supervisory Board)
- Yearly Plan for 2012 approved
- Ivan Lapin becomes General Manager of Severočeské doly.

### February

- reorganization – Procurement Section created
- DSS (February 20, 2012) – decision to enroll company in so-called “real bilateral cash pooling” program, in EUR, including signing of relevant documents
- DSS (February 27, 2012) – election of members of the Board of Directors (Vladimír Budinský, Jan Kalina effective from March 1, 2012 in place of Josef Molek and Pavel Vaňas)
- Daniel Beneš resigns as Chairman of the Supervisory Board and Tomáš Indra is elected in his place; Daniel Beneš and Jan Demjanovič elected Vice Chairmen.

### March

- DSS (March 19, 2012) – determines salary and related consideration to be paid to company executives who are also members of the Board of Directors
- reorganization – Administration section created.

### April

- reorganization – Sales and Procurement sections merged
- reorganization – Strategy and Communication section created
- construction project “Expansion of Emerán Minewater Treatment Facility” begins.

### June

- DSS (June 11, 2012) – approves the consolidated financial statements for 2011 according to International Financial Reporting Standards (IFRS) and Czech Accounting Standards (CAS) and proposed distribution of income, approves the 2011 Annual Report and Related Parties Report
- process of selling equity stake – specifically, the 50% stake in JTSD - Braunkohlebergbau GmbH (MIBRAG) – completed.

### July

- DSS (July 12, 2012) – approves board membership contracts of all members of the Supervisory Board and Board of Directors.

### August

- tenders commence to select contractors for projects related to CAPEX project “Shifting of retail sale of pulverized and sorted coal at the Ledvice Coal Processing Plant”
- decision to sell Severočeské doly’s Nástup Hotel to subsidiary PRODECO, a.s.
- decision to execute a squeeze-out (in which the principal shareholder acquires all remaining shares outstanding) in SD - KOMES, a.s.

### September

- DSS (September 11, 2012) – amends the Articles of Association (new consolidated version of the Articles of Association).

**November**

- exploratory mining works completed at Nástup Tušimice Mines – boring of an experimental “corridor tunnel” using underground mining techniques
- serious operational accident occurs during replacement of wire ropes and checking of lifting drive mechanism on SchRs 1550 – K 109 large-scale mining machine on the first overburden cut at Nástup Tušimice Mines.

**December**

- new Collective Agreement 2013–2014 signed
- “Decision by public decree on mining activity permit for the Nástup Tušimice Mines pit, organization Severočeské doly a.s. pursuant to the Opening, Preparation, and Extraction Plan for the Nástup Tušimice Mines pit of Severočeské doly a.s.” issued
- coal dust buffer dump at the Ledvice Coal Processing Facility – Bílina Mines – shut down
- coal extraction operations terminated at “phased-out mining front (PMF)” at Nástup Tušimice Mines.

**Selected Events Up to Annual Report Closing Date in 2013****January**

- reorganization – company's organizational structure is changed with the objective of eliminating key duplications and filling in gaps in the competencies of individual members of the company's senior management
- Yearly Plan for 2013 approved
- DSS (January 10, 2013) – amends Articles of Association (revision of Article 5 – Principal Businesses of the Company)
- second overburden cut opened at Bílina Mines.

**February**

- DSS (February 18, 2013) – amends Articles of Association (revisions to Article 5 – Principal Businesses of the Company and Article 25 – Position and Powers of the Supervisory Board).

**March**

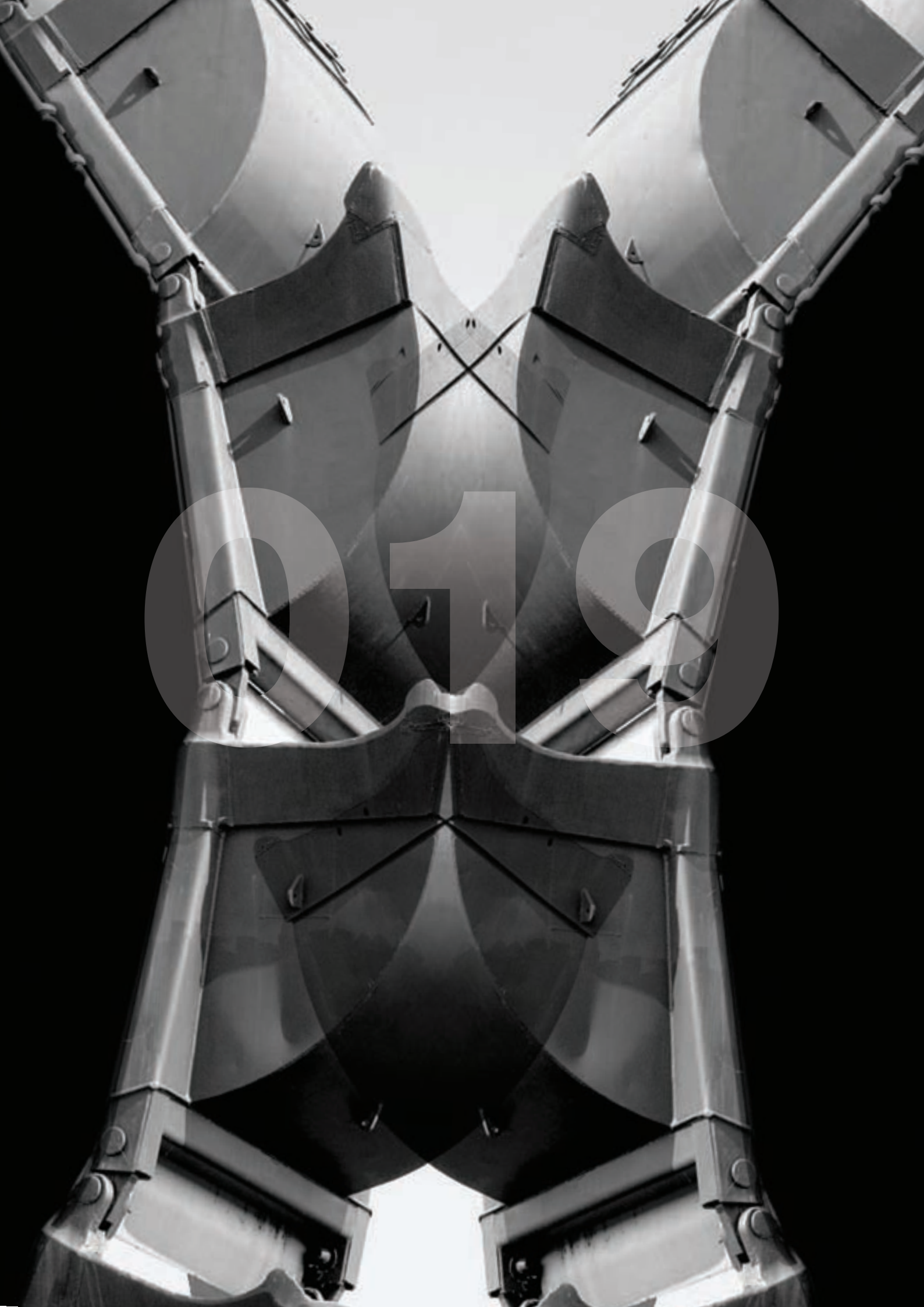
- At request of principal shareholder, Severočeské doly a.s., an extraordinary General Meeting of subsidiary SD - KOMES, a.s. held on March 19, 2013 decided that all other equity securities of SD - KOMES, a.s. would pass to the principal shareholder. In accordance with applicable provisions of the Commercial Code, the amount of counter-performance was determined by the principal shareholder at CZK 520 per CZK 500 par value share.
- DSS (March 29, 2013) – evaluation of performance indicators of selected company employees for the year 2012
- DSS (March 29, 2013) – stipulation of performance indicators of selected company employees for the year 2013.

# 018

## A STABLE, DYNAMIC COMPANY

Severočeské doly posted operating profit of CZK 2,229 million in 2012. A total of 22.8 million tons of brown coal was sold, bringing in sales revenues of CZK 10,105 million. After-tax income rose CZK 75 million compared to 2011, to a final amount of CZK 2,584 million.

Consumers can look forward to receiving 10 million tons of coal from Bílina Mines and 12.8 million tons of coal from Nástup Tušimice Mines.



# Directors and Officers of Severočeské doly a.s.

## General Meeting in 2012

Severočeské doly a.s. has only one shareholder: ČEZ, a. s. For this reason, no General Meetings are held and the powers of the General Meeting are wielded by said shareholder through "Decisions of the Sole Shareholder Acting With the Powers of the General Meeting" (DSS).

### Decisions of the Sole Shareholder in 2012

- DSS (January 23, 2012) – amendment of the Articles of Association (changes to Article 23 – Meetings of the Board of Directors and Article 25 – Position and Powers of the Supervisory Board)
- DSS (February 20, 2012) – decision to enroll company in "real bilateral cash pooling" program, in EUR, including signing of relevant documents
- DSS (February 20, 2012) – determines salary of company's Finance Director, including related benefits
- DSS (February 21, 2012) – amends the Articles of Association (expanding the powers of the General Meeting to include decisions on remuneration for executives who are also members of the Board of Directors)
- DSS (February 27, 2012) – election of members of the Board of Directors (Vladimír Budinský, Jan Kalina effective from March 1, 2012 in place of Josef Molek and Pavel Vaňas)

- DSS (April 2, 2012) – evaluation of 2011 Key Performance Indicators (KPI) and stipulation of 2012 KPI for company executives who are also members of the Board of Directors
- DSS (June 11, 2012) – approves the consolidated financial statements for 2011 according to International Financial Reporting Standards (IFRS) and Czech Accounting Standards (CAS) and proposed distribution of income, approves the 2011 Annual Report and Related Parties Report
- DSS (July 12, 2012) – approves board membership contracts of all members of the Supervisory Board and Board of Directors
- DSS (September 11, 2012) – amends the Articles of Association (new consolidated version of the Articles of Association).

### Decisions of the Sole Shareholder in 2013, Up to Annual Report Closing Date

- DSS (January 10, 2013) – amends Articles of Association (revision of Article 5 – Principal Businesses of the Company)
- DSS (February 18, 2013) – amends Articles of Association (revisions to Article 5 – Principal Businesses of the Company and Article 25 – Position and Powers of the Supervisory Board)
- DSS (March 29, 2013) – evaluation of performance indicators of selected company employees for the year 2012
- DSS (March 29, 2013) – stipulation of performance indicators of selected company employees for the year 2013.

## Supervisory Board

The Supervisory Board of Severočeské doly a.s. consists of twelve members. It supervises the exercise of powers by the Board of Directors and the manner in which the company conducts its business. It reports to the General Meeting (i.e. the sole shareholder) on the results of its supervisory activities. Its composition, powers and authority are defined by the Commercial Code and the Articles of Association. The Supervisory Board elects a Chairman and two Vice Chairmen from among its members. All members of the Board possess the personal qualities, qualifications, professional experience, and expertise necessary to discharge the duties of their office. They are also obligated to exercise their powers with due care and to refrain from disclosing confidential information. Their confidentiality obligations continue even after their Supervisory Board membership ceases. The Supervisory Board meets once every two months, as a rule.

### Members of the Supervisory Board

#### Tomáš Indra (\* 1966)

**Chairman of the Supervisory Board since February 14, 2012**  
A graduate of the Charles University, First Faculty of General Medicine, and the Prague International Business School. He has been a member of the Supervisory Board of Severočeské doly a.s. since January 1, 2012. Other engagements: Partner and Managing Director of Maison de Santé s.r.o. since May 4, 2010; Partner and Managing Director of VEMA Pharm s.r.o. since May 20, 2011; member (since June 2, 2011) and chairman (since October 25, 2011) of the Board of Directors of Severočeská vodárenská společnost a.s. Since July 2009 he has been an outside expert for project assessment in the NUTS II Northwest Regional Operational Program, and currently he is a member of the Board of Trustees of the J. E. Purkyně University (UJEP) in Ústí nad Labem, the Science Council of the UJEP's Institute of Health Studies, the Czech Association for Surgical Treatment of Accidental Injuries, the Association of Hospitals of the Czech Republic, and the Economic Chamber's Health Section in Ústí nad Labem. He has 12 years' experience in various executive positions.

#### Daniel Beneš (\* 1970)

#### Vice Chairman of the Supervisory Board since February 14, 2012

A graduate of the Technical University of Ostrava, Faculty of Mechanical Engineering, and the Brno International Business School Nottingham Trent University (MBA). He is Chairman of the Board of Directors and Chief Executive Officer of ČEZ, a. s. (as of September 15, 2011), and he was Vice Chairman and Chief Operating Officer of ČEZ, a. s. until September 15, 2011. From June 25, 2004 to February 21, 2006 he was a member of the Board of Directors of Severočeské doly a.s., from February 21 to March 14, 2006 he was a member of the company's Supervisory Board, and from March 14, 2006 to February 14, 2012 he was Chairman of the company's Supervisory Board. Other engagements: member (since March 26, 2007) and Chairman (since May 31, 2007) of the Board of Trustees of the Nadace CEZ foundation; member (since January 13, 2009), Chairman (from February 10, 2009 to August 31, 2009), and Vice Chairman (since September 1, 2009) of the Supervisory Board of ČEZ Obnovitelné zdroje, s.r.o.; member (since September 7, 2011) and Chairman (since September 19, 2011) of the Supervisory Board of ČEZ OZ uzavřený investiční fond a.s.; member (since March 19, 2010) and Chairman (from April 29, 2010 to January 10, 2013) of the Supervisory Board of ČEZ Bohunice a.s.; member and Vice Chairman of the Supervisory Board of Jadrová energetická společnost Slovenska, a. s. since December 31, 2009; member of the Board of Trustees of the Technical University of Ostrava since August 14, 2009; member of the Board of Trustees of the University of South Bohemia in České Budějovice since April 20, 2011; member of the Supervisory Board (from April 11, 2006 to December 18, 2009) and Chairman (since April 26, 2006) of Coal Energy, a.s. in liquidation; Chairman (from July 12, 2005 to February 5, 2008) and member (until December 18, 2008) of the Supervisory Board of ŠKODA PRAHA Invest s.r.o.; member of the Supervisory Board of ŠKODA PRAHA a.s. from December 3, 2004 to June 22, 2005, re-elected December 14, 2005 and Vice Chairman of the same body from January 17, 2006 to December 18, 2007. From March 30, 2006 to November 7, 2008 he was Chairman of the Supervisory Board of PRODECO, a.s. From September 13, 2004 to June 15, 2006 he was Chairman of the Supervisory Board of ČEZ Logistika, s.r.o., and from July 1, 2005 to March 3, 2006 he was Vice Chairman of the Supervisory Board of ČEZ Správa majetku, s.r.o. (now ČEZ Korporátní služby, s.r.o.). He has 20 years' experience in various technical and executive positions.

**Jan Demjanovič (\* 1953)**

**Vice Chairman of the Supervisory Board since February 14, 2012**

A graduate of the Liberec Institute of Mechanical and Textile Engineering, Faculty of Mechanical Engineering. From June 30, 2006 to November 28, 2011 Mr. Demjanovič was Chairman of the Board of Directors and General Manager of Severočeské doly a.s., from November 29, 2011 to December 31, 2011 he was General Manager, and since January 1, 2012 he has been a member of the Supervisory Board of Severočeské doly a.s. From February 24, 2003 to November 22, 2010 he was a member of the Supervisory Board of ČEZ, a. s.; from December 7, 2005 to December 18, 2009 he was Vice Chairman of the Board of Directors of Coal Energy, a.s. in liquidation; and from November 25, 2002 to July 20, 2006 he was Vice Chairman of the Supervisory Board of SD - Kolejová doprava, a.s. He has 34 years' mining industry experience.

**Pavel Cyrani (\* 1976)**

**Member of the Supervisory Board since October 1, 2011**

A graduate of the University of Economics, Prague, major in International Trade, and the Kellogg School of Management. He is currently Chief Strategy Officer and, since October 20, 2011, a member of the Board of Directors of ČEZ, a. s. Other engagements: member of the Supervisory Board of ČEZ Distribuce, a. s. since October 1, 2011; member of the Board of Directors of CM European Power International B.V. since November 19, 2011; Vice Chairman of the Board of Directors of Loyalty Management CZ, a.s. from November 5, 2003 to May 13, 2010; Managing Director and Owner (from October 15, 2003 to December 6, 2012) and Statutory Representative (from September 9, 2003 to November 30, 2012) of Loyalty Consulting s.r.o.; member of the Supervisory Board of Dalkia Česká republika, a.s. from May 7, 2010 to February 17, 2012; member of the Supervisory Board of ČEZ OZ uzavřený investiční fond a.s. from September 7, 2011 to November 15, 2011; member of the Supervisory Board of ČEZ Teplárenská, a.s. from July 1, 2010 to September 30, 2011; and member of the Supervisory Board of Energotrans, a.s. from June 29, 2012 to September 30, 2012. He has eight years' experience in various executive positions.

**Václav Fišer (\* 1951)**

**Member of the Supervisory Board since June 10, 2010**

A graduate of the Secondary Vocational School of the SHD Concern (the former Brown Coal Mines of North Bohemia). He is a member of the Supervisory Board elected by the employees and Chairman of the Bílina Mines Organization of Labor Unions. He has 42 years' mining industry experience.

**Zdeněk Hübner (\* 1947)**

**Member of the Supervisory Board since October 1, 2011**

A graduate of the Charles University, Prague, Faculty of Law. From 1977 to 1990 he was Head Attorney in the Legal Department of České energetické závody, Prague; from 1990 to 1993 he was a public relations specialist in the Civil Law Department of the Office of the President of the Czech and Slovak Federative Republic; from 1993 to 2004 he worked at Komerční banka, a.s. in the internal audit and controlling division; and from 2005 to 2010 he worked at the Office of the Government of the Czech Republic in the Government Legislation Department. He has 41 years' experience in the field of law.

**Luboš Jankůj (\* 1953)**

**Member of the Supervisory Board since October 11, 2011**

A graduate of the Chomutov Secondary Industrial School of Electrical Engineering, Mr. Jankůj is a member of the Supervisory Board elected by the company's employees. He is also Chairman of the Executive Committee of the Severočeské doly a.s. – Nástup Tušimice Mines Labor Organization, and since 2011 he has been a committee member of the ČEZ, a. s. European Works Council. He has 34 years' mining industry experience.

**Tomáš Julínek (\* 1956)**

**Member of the Supervisory Board since January 1, 2011**

A graduate of the Masaryk University, Brno, Faculty of General Medicine, and B.I.B.S., a.s. (Brno International Business School), Dr. Julínek has been a member of the Supervisory Board of Všeobecná zdravotní pojišťovna České republiky (General Health Insurance of the Czech Republic) since February 2009. He is also a member of the boards of trustees of the Jan Šebek Foundation and the Good Choice Foundation. He was Minister of Health from September 2006 to January 2009, and in 2008–2010 he was a Senator. From February 18, 2009 to December 21, 2009 he was a member of the Supervisory Board of ČEPS a.s. He has 30 years' experience in various executive positions.

**Viktor Liška (\* 1967)**

**Member of the Supervisory Board since February 22, 2010**  
A graduate of the University of Economics, Prague, Faculty of Finance and Accounting (major in Finance). He joined ČEZ, a. s. as COO Support Expert on January 1, 2010; from October 1, 2011 to September 30, 2012 he was a CEO Support Expert; and since October 1, 2010 he has been a Procurement Expert for subsidiaries. He was a member and, subsequently, Vice Chairman of the Supervisory Board of ŠKODA a.s. from December 20, 1999 to July 11, 2001. From March 13, 2000 to March 20, 2003 he was a member of the Supervisory Board of ŠKODA HOLDING a.s. In 2008–2009 he was an adviser to the Deputy Minister of Justice. He has 22 years' experience in consulting and executive positions.

**Zdeňka Montagová (\* 1954)**

**Member of the Supervisory Board since August 10, 2007**  
A graduate of the University of Economics, Prague, Faculty of Commerce, Ms. Montagová is a member of the Supervisory Board elected by the employees, and Head of the Financing Department of Severočeské doly a.s. In 2000–2003 she was a member of the Supervisory Board of SHD - SOFT (ware), a.s. and in 2002–2004 she was a member of the Supervisory Board of Teplárna Ústí nad Labem, a.s. She has 34 years' mining industry experience.

**Petr Polák (\* 1973)**

**Member of the Supervisory Board since October 1, 2011**  
A graduate of B.I.B.S., a.s. (Brno International Business School). Since 2002 he has been ICT Director at EKO-KOM, a.s., and since 1996 he has also worked as an information systems and technologies consultant. In 2002–2006 he was an adviser to the Minister of Education, Youth, and Sports. In 2006–2010 he was a member of the Supervisory Board of Česká pošta, s.p. He has 18 years' experience in information systems and technologies, and 10 years' experience in corporate governance positions.

**Šimon Vohar (\* 1954)**

**Member of the Supervisory Board since July 25, 2003**  
A graduate of the Secondary Industrial School of Electrical Engineering in Duchcov, Mr. Vohar is a member of the Supervisory Board elected by the company's employees. He is Chairman of the Union of Labor Organizations at Severočeské doly a.s. and subsidiary organizations. He has been Chairman of the Federation of Mining Industry Labor Organizations since January 1, 2010. He has 40 years' mining industry experience.

**Personnel Committee of the Supervisory Board**

The Personnel Committee has three members who are elected and removed by the General Meeting from among the members of the Supervisory Board. The Personnel Committee elects one of its members to be committee chairman. The Personnel Committee is charged with giving opinions to the Board of Directors concerning fundamental company personnel and compensation policy issues, proposed stipulation of tasks and targets for purposes of determining the annual bonuses of company employees whose activities fall under commercial management and who are at the same time members of the Board of Directors, including the evaluation thereof, and entering into contracts (and amendments thereto) with employees whose activities fall under commercial management and who are at the same time members of the Board of Directors.

**Members of the Personnel Committee**

**Daniel Beneš – Chairman**

**Pavel Cyrani**

**Jan Demjanovič (since January 1, 2012)**

**Board of Directors**

The Board of Directors is the statutory body that directs the company's activities, acts in its name, and binds the company in the manner set forth in the Articles of Association. The Board of Directors is in charge of managing the company's business and has the power to make decisions in all matters that are not reserved for the General Meeting or the Supervisory Board by applicable law and/or the Articles of Association. Members of the Board of Directors are elected by the General Meeting for four-year terms, and re-election is possible. The Board of Directors elects a Chairman and a Vice Chairman from among its members. All members of the Board of Directors possess the requisite personal qualities, education, professional experience, and expertise for discharging the duties of their office, and are also obligated to exercise their powers with due care and to refrain from disclosing confidential information. The Board of Directors meets as needed, once every two weeks as a rule. As of December 7, 2011 the Board of Directors has seven members.

**Members of the Board of Directors**



**Ivan Lapin**  
Chairman of the Board of Directors  
and General Manager

**Jiří Postolka**

Vice Chairman of the Board of Directors  
and Finance Director



**Miroslav Eis**

Member of the Board of Directors  
and Technical Director

**Jiří Neruda**

Member of the Board of Directors  
and Production Director



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**Vladimír Budinský**

Member of the Board of Directors  
and Director of Strategy and  
Communications

**Jan Kalina**

Member of the Board of Directors  
and Sales Director



**Jiří Zahradník**

Member of the Board of Directors  
and Director, Administration Section

**Ivan Lapin (\* 1965)**

**Chairman of the Board of Directors since December 7, 2011**  
A graduate of the Technical University of Ostrava, Faculty of Mining and Geology. As of January 1, 2012 Mr. Lapin is also the General Manager of Severočeské doly a.s. Other engagements: Chairman of the Supervisory Board of ČEZ Energetické služby, s.r.o. since July 1, 2007; member (since September 20, 2011) and Chairman (since October 20, 2011) of the Supervisory Board of Elektrociepłownia Chorzów ELCHO Sp. z o.o.; Vice Chairman of the Supervisory Board of ČEZ Korporátní služby, s.r.o. since April 1, 2010; Chairman of the Supervisory Board of SD - Kolejová doprava, a.s. since May 15, 2012; member (since May 1, 2012) and Chairman (since June 1, 2012) of the Supervisory Board of SD - Rekultivace, a.s.; and member (since January 31, 2012) and Vice Chairman (since June 6, 2012) of the Board of Directors of the Association of Mine and Oil Industry Employers. On January 1, 2008 he became a member of the Supervisory Board of ČEZ ICT Services, a.s. (formerly ČEZnet, a.s.), and he was Vice Chairman of that body from February 12, 2008 to April 30, 2012. From October 23, 2009 to December 6, 2011 he was a member of the Supervisory Board of Severočeské doly a.s. He has 26 years' experience in various technical and executive positions.

**Jiří Postolka (\* 1970)**

**Vice Chairman of the Board of Directors since April 1, 2012**  
A graduate of the University of Economics, Prague, Faculty of Business Administration, major in industrial economics. Since December 7, 2011 he has been a member of the Board of Directors of Severočeské doly a.s., and since March 1, 2012 he has been the company's Finance Director as well. Other engagements: member of the Supervisory Boards of SD - Autodoprava, a.s. and SD - Kolejová doprava, a.s. since May 1, 2012; Director of the Planning & Controlling Section of ČEZ, a. s. from March 1, 2010 to February 29, 2012; Finance Director and member of the Board of Directors of CEZ Bulgaria EAD from March 28, 2008 to August 31, 2010; Vice Chairman of the Board of Directors of CEZ Razpredelenie Bulgaria AD from July 31, 2008 to August 31, 2010; and Managing Director of CEZ Finance B.V. from February 15, 2010 to October 17, 2012. Since February 15, 2010 he has been Managing Director of CEZ MH B.V. He has 17 years' experience in various financial and executive positions.

**Vladimír Budinský (\* 1959)**

**Member of the Board of Directors since March 1, 2012**  
A graduate of the Czech Technical University, Prague, Faculty of Civil Engineering, and the Czech Technical University's Masaryk Institute – Sheffield Hallam University. Since 2006 he has been Director of Strategy and Communications at Severočeské doly a.s. Since November 5, 2005 he has been a member of the Supervisory Board of Česká pošta, s.p., and since May 27, 2011 he has been Vice Chairman of the Supervisory Board of Výzkumný ústav pro hnědé uhlí a.s. He is the representative of Severočeské doly a.s. and the Association of Mine and Oil Industry Employers in the international organizations IOC WMC (International Organizing Committee of the World Mining Congress), EURACOAL (European Association for Coal and Lignite), and Vice President of the Ad Hoc Group of Experts on Cleaner Electricity Production from Coal and Other Fossil Fuels at UNECE (United National Economic Commission for Europe) in Geneva. He has 29 years' experience in various technical and executive positions.

**Miroslav Eis (\* 1957)**

**Member of the Board of Directors since February 21, 2006**  
A graduate of the Technical University of Ostrava, Faculty of Mining and Geology. Since January 1, 2003, he has been Technical Director of Severočeské doly a.s. He has been Vice Chairman of the Supervisory Board of SD - Rekultivace, a.s. since June 1, 2012. Other engagements: Vice Chairman of the District Economic Chamber in Chomutov; Vice Chairman of the Chomutov Area Economic and Social Council; a member of the Science Council of the Faculty of Mining and Geology, Technical University of Ostrava; and a member of the Science Council of the Institute of Clean Technologies for Extraction and Utilization of Energy Resources at the Technical University of Ostrava. Until October 15, 2007 he was Chairman of the Supervisory Board of SD - Kolejová doprava, a.s.; until February 10, 2010 he was Chairman of the Supervisory Board of Skládky Tušimice a.s.; and until May 31, 2012 he was Chairman of the Supervisory Board of SD - Rekultivace, a.s. He has 30 years' mining industry experience.

**Jan Kalina (\* 1969)****Member of the Board of Directors since March 1, 2012**

A graduate of the University of West Bohemia, Pilsen, Faculty of Electrical Engineering. He was appointed Procurement Director of Severočeské doly a.s. on February 1, 2012 and he has been the company's Sales Director since April 1, 2012. Other engagements: member (since May 1, 2012) and Vice Chairman (since May 9, 2012) of the Supervisory Board of PRODECO, a.s.; and member (since July 1, 2012) and Vice Chairman (since July 3, 2012) of the Supervisory Board of SD - KOMES, a.s. From July 1, 2007 to January 31, 2012 he was General Manager and Statutory Representative of ČEZ Správa majetku, s.r.o. From July 1, 1992 to June 30, 2007 he worked in various executive positions at ČEZ, a. s. From March 1, 2005 to March 7, 2008 he was a member of the Board of Directors of Energetické opravy, a.s., and from July 1, 2005 to March 6, 2009 he was a member of the Board of Directors of I & C Ergo a.s. He has 21 years' energy industry experience.

**Jiří Neruda (\* 1957)****Member of the Board of Directors since January 1, 2008**

A graduate of the Technical University of Ostrava, Faculty of Mechanical and Electrical Engineering, Mr. Neruda has been Production Director of Severočeské doly a.s. since January 1, 2008. He became Vice Chairman of the Supervisory Board of SD - 1.strojírenská, a.s. on October 29, 2001 and he has been Chairman of the same body since February 19, 2008. Other engagements: Vice Chairman of the Supervisory Board of SD - Rekultivace, a.s. since March 31, 2008; member of the Supervisory Board of SD - Autodoprava, a.s. since May 1, 2012; and member of the Board of Trustees of Podkrušnohorské technické muzeum, o.p.s. since June 12, 2012. In 2006–2007 he was Director of Bílina Mines (2003–2006 Director of Nástup Tušimice Mines). He was Vice Chairman of the Supervisory Board of Skládky Tušimice a.s. from May 16, 2003 to February 10, 2003. He has 31 years' mining industry experience.

**Jiří Zahradník (\* 1956)****Member of the Board of Directors since April 3, 2007**

A graduate of the Institute of Mechanical and Power Engineering, Pilsen. At Severočeské doly a.s., he was Vice Chairman of the Board of Directors from May 28, 2007 to March 31, 2012, Finance Director from April 3, 2007 to February 29, 2012, and currently, as of March 1, 2012, he is Director, Administration Section. In 1997–2006 he was a member of the Board of Directors of SHD - KOMES, a.s. Subsequently, until 2008, he served as Vice Chairman of that company's Supervisory Board and since 2008 he has been Chairman of the Supervisory Board there. In 2002–2008 he was a member of the Supervisory Board of PRODECO, a.s. and has been Chairman of that body since 2008. Other engagements: member (since May 1, 2012) and Vice Chairman (since May 16, 2012) of the Supervisory Board of SD - Autodoprava, a.s.; member (since May 1, 2012) and Vice Chairman (since June 1, 2012) of the Supervisory Board of SD - 1.strojírenská, a.s.; member (since May 1, 2012) and Vice Chairman (since May 15, 2012) of the Supervisory Board of SD - Kolejová doprava, a.s.; and member of the Supervisory Board of SD - Rekultivace, a.s. since May 1, 2012. In 1994–2006 he was a member of the Supervisory Board of Severočeské doly a.s. elected by the employees (Vice Chairman in 2000–2006). In 1997–2001 he was a member of the Board of Directors and, subsequently, until 2009 Chairman of the Supervisory Board of SD - Vrtné a trhačí práce, a.s. He has 32 years' mining industry experience.

**List of members of the Board of Directors whose membership ceased in 2012****Josef Molek (\* 1956)**

Member of the Board of Directors from March 14, 2006 to February 29, 2012

**Pavel Vaňas (\* 1962)**

Member of the Board of Directors from June 30, 2006 to February 29, 2012

## Management

Ivan Lapin (\* 1965)

General Manager since January 1, 2012

Jiří Postolka (\* 1970)

Finance Director since March 1, 2012

Vladimír Budinský (\* 1959)

Director, Strategy and Communications Section since March 1, 2012

Miroslav Eis (\* 1957)

Technical Director since January 1, 2003

Jiří Neruda (\* 1957)

Production Director since January 1, 2008

Jan Kalina (\* 1969)

Sales Director since April 1, 2012

Jiří Zahradník (\* 1956)

Director, Administration Section since March 1, 2012

Josef Molek (\* 1956)

Human Resources Director since January 1, 2003

A graduate of the University of Economics, Prague, Faculty of Production Administration, Mr. Molek has been Human Resources Director of Severočeské doly a.s. since January 1, 2003. He is a member of the Board of Trustees of the J. E. Purkyně University of Ústí nad Labem. From March 14, 2006 to February 29, 2012 he was a member of the Board of Directors of Severočeské doly a.s., and from September 19, 2001 to April 30, 2012 he was Chairman of the Supervisory Board of SD - Autodoprava, a.s. He has 33 years' mining industry experience.

## Audit Committee

The Audit Committee has three members who are elected to and removed from office by the sole shareholder. At least one member of this committee must be independent of the company and must have at least three years' practical experience in accounting or mandatory audit. The Audit Committee is a company body that conducts, without prejudicing the responsibility of members of the Board of Directors or Supervisory Board, the following activities, *inter alia*:

- monitoring of the process of compiling the financial statements and consolidated financial statements
- evaluation of the effectiveness of the company's internal controls, internal audit, and risk management systems
- monitoring of the process of the mandatory audit of the financial statements and consolidated financial statements
- evaluation of the independence of the statutory auditor and audit firm and, in particular, provision of supplementary services to Severočeské doly
- recommendation of an auditor to audit the company's financial statements and consolidated financial statements.

## Members of the Audit Committee

Daniel Beneš (\* 1970)

Chairman

Zdeňka Montagová (\* 1954)

Vice Chairwoman

Petr Tichý (\* 1962)

Independent Member

A graduate of the University of Economics, Prague, Faculty of Economics & Public Affairs. Since 1994 he has been an employee of Komerční banka, a.s., where he currently holds the position of Group Branch Manager.

In 1985–1992 he served in various finance-related positions at Nástup Tušimice Mines. He has 27 years' experience in various financial and executive positions.

## Remuneration Principles – Members of the Board of Directors, Supervisory Board, and Audit Committee

Matters concerning the remuneration of members of the Board of Directors, Supervisory Board, and Audit Committee and rules governing the provision of other consideration to these members are decided by the sole shareholder acting with the powers of the General Meeting. The General Meeting also approves the membership contracts of members of the Board of Directors, Supervisory Board, and Audit Committee.

Members of the company's governing bodies receive the following remuneration and benefits:

- Fixed monthly remuneration (members of the Board of Directors, Supervisory Board, and Audit Committee). Entitlement to this remuneration arises on the day when the person in question is elected and ends on the day when his or her membership ceases. Should the person's term begin or end on a day other than the first or last day, respectively, of the calendar month, the member's remuneration for that month is calculated on a pro rata basis. This remuneration is paid regularly, after the end of each month, in line with the company's payroll schedule.
- Members of the Board of Directors and Supervisory Board may receive bonuses, if so decided by the sole shareholder acting with the powers of the General Meeting.
- The contracts of members of the Board of Directors and Supervisory Board allow for each member to request a life insurance policy under conditions set forth in the contract. The policy is paid for by the company; unless the parties agree otherwise, in the event of survival the policy is transferred to the member free-of-charge as of the contract expiration date or when membership ceases or the company withdraws from the contract. Insurance premiums paid by the company are classified as taxable income of the member, and subject to income tax, social security, and health insurance withholding.
- Each member of the Board of Directors and Supervisory Board is entitled to a company car for both business and personal use. The conditions for lending and use of such cars are set forth in separate agreements. 1% of the historical cost of the vehicle is included in the member's taxable income for every calendar month (or part thereof) the vehicle is lent, and social security and health insurance is withheld from this amount as well. Consumption of fuel for personal use is paid by the member. In the event a member uses his or her own automobile in the course of company business, the expenses related to such use are reimbursed by the company in accordance with the law.
- When members of the Board of Directors, Supervisory Board, and/or Audit Committee undertake business trips, they receive per diem and meal reimbursement in accordance with the law and relevant company internal directives.

## Material Reorganizations

- February 1, 2012 – establishment of a Procurement Section, reporting directly to the General Manager, with the objective of concentrating procurement activities throughout Severočeské doly Group into this section, thereby creating conditions for achieving further cost savings in the procurement area
- March 1, 2012 – establishment of an Administration Section, reporting directly to the General Manager, with the objective of unifying management of various ancillary functions and for the purpose of further increasing the internal efficiency of these functions activities throughout Severočeské doly Group
- April 1, 2012 – establishment of a Strategy and Communications Section, reporting directly to the General Manager, to reinforce his position in executing new tasks relating to the company's strategic plans.
- April 1, 2012 – merger of the existing Sales and Procurement sections to form a new Sales Section with the objective of further streamlining the sales and procurement functions
- January 1, 2013 – the company's organization structure is changed on the basis of the RACI Framework Operational Model and Matrix with the objective of eliminating duplication and filling in gaps in the competencies (authority) of individual senior executives.

## Fulfillment of Corporate Governance Codex

The company respects the recommendations of the Corporate Governance Codex based on principles laid down by the Organization for Economic Cooperation and Development (OECD), and complies with most of its provisions. The exceptions consist of provisions relating to General Meetings, since the company has only one shareholder who takes decisions with the power of the General Meeting.

- The shareholder receives regular and timely information on the company.
- The shareholder has the right to elect and remove members of the Board of Directors and Supervisory Board.
- The shareholder shares in the company's profits.
- The shareholder has the opportunity to express its opinion on the company's policy for providing remuneration to members of governance bodies and senior executives.
- Any claims to shares (i.e. stock option program) for members of governing bodies and executives must be shareholder-approved.
- Members of the Board of Directors may not take any steps, use tricks, or submit proposals that could reduce or hide profits.
- The company publishes information on any pyramid-shaped or cross-ownership structures.
- There is no insider trading.
- Affiliated parties do not utilize business with the company for their own enrichment.
- Member of the Board of Directors, Supervisory Board members, and executives have disclosed to the Board of Directors or Supervisory Board whether they have income or indirect interest, or interest for the benefit of third parties, in any business directly related to the company.
- The company's optimal capital structure is determined by the Board of Directors using shareholder-approved principles.
- Members of governance bodies may not take advantage of company opportunities for their own benefit, may not allow their own personal interest to conflict with the company's interest, and may not abuse company assets.
- Members of governance bodies and executives are required to notify the bodies of which they are members, should they have an interest in any contract or draft contract that the company enters into with any party.
- Members of governance bodies and executives do not vote on any such contracts.
- Performance-boosting mechanisms are facilitated with employee participation.
- Rights of "stakeholders" (e.g. employees, towns near the company's mining operations, creditors) that are protected by law or governed by contracts, are upheld.

- The company complies with rules of creditor protection (disclosure requirements and requirements to secure debts – e.g. when reducing the company's share capital, etc. – which are given by law in the Czech Republic).
- The company takes helpful steps toward stakeholders, even going beyond what it is obligated to do by law.
- The employees are represented on the company's Supervisory Board.
- In key negotiations, the company takes employees' opinions into account.
- The annual audit is conducted by an independent, competent auditor.
- The company publishes information on reasonably predictable risks.
- The company publishes a list of channels through which it is possible to obtain company information (e.g. website address, contact e-mail address).
- The company publishes information on itself in multiple languages.
- Members of the Board of Directors and Supervisory Board act with full access to information, in good faith, with due diligence, in the best interests of company and shareholder.
- The Board of Directors meets once every two weeks and the Supervisory Board once every two months, as a rule, and more often when needed.
- Members of the Board of Directors and Supervisory Board have access to accurate, material, and timely information.
- Accountability for company strategy and operation is in the hands of the Board of Directors and the management team, not the shareholder's.
- There is a Corporate Secretary, who is responsible for administering corporate governance processes, making preparations for meetings of governance bodies and committees formed by them, providing support and advice to the Chairmen and other members of these bodies, providing administrative services relating to meetings of governance bodies, coordinating their activities, and monitoring fulfillment of tasks assigned by them.
- The Corporate Secretary ensures that governance bodies carry out their duties and responsibilities in accordance with applicable laws, the Articles of Association, and the company's ethical principles. The Corporate Secretary attends meetings of the Board of Directors.
- No member of the Board of Directors or Supervisory Board, or any other senior executive, takes part in setting his or her own remuneration.
- The shareholder is called upon to approve the personal incentive schemes (including stock option schemes, if any) of members of the Board of Directors, Supervisory Board members, and other senior executives separately.

# 034

## BROWN COAL MINING WITH SMART LAND RECLAMATION

In 2012, Severočeské doly took major strides toward ensuring the long-term stability of its mining operations. June 2012 brought the signing of an important agreement with the mayors of Most, Bílina, Braňany, and Mariánské Radčice, by which these municipalities granted their consent for the Bílina Mines extraction operation to continue up until its planned termination around 2050. Right from the planning stages, the coal extraction process integrates smart/responsible decommissioning and reclamation, guaranteeing a new future landscape for the area.



0535

# Report on Operations

## Financial Performance of Severočeské doly Group

### Consolidated Group in 2012

At year end 2012, Severočeské doly Group (the consolidated group) consisted of the parent company, six subsidiaries, and one associate. The parent company is Severočeské doly a.s., which at year end held 100% stakes in the share capital of the companies SD - Rekultivace, a.s., SD - Autodoprava, a.s., SD - Kolejová doprava, a.s., SD - 1.strojírenská, a.s., and PRODECO, a.s. The stake in SD - KOMES, a.s. was 92.65%.

The subsidiary SD - Autodoprava, a.s. was formed in a restructuring of Severočeské doly that took place in 1997, when the Road Haulage unit of Bílina Mines was split off into a separate unit. In the second phase of restructuring, the parent company made a non-monetary investment in the company's share capital in the form of passenger and freight vehicles from Nástup Tušimice Mines, which had become part of the parent company, including transferred employees, as of 1 January 2002. The company's principal business is road motor transport and leasing of motor vehicles. The company operates most of the trucks and buses involved in the parent company's mining activities. In 2009, Severočeské doly decided to sell the shares of SD - Vrtné a trhačí práce, a.s. to the subsidiary SD - Autodoprava, a.s. and subsequently to merge these two companies. The merger took place during 2010 and its strike date was January 1, 2010. The year 2012 saw a year-on-year increase in transportation work volumes for the parent company, as well as for the subsidiary SD - Rekultivace, a.s. The company reported a CZK 14.9 million year-on-year rise in net income.

### Selected Indicators of SD - Autodoprava, a.s.

Indicator	Units	2011	2012	Index 2012/2011 (%)
Total revenue	CZK millions	634.1	639.4	100.84
Net income	CZK millions	26.7	41.6	155.81
Labor productivity from value added	CZK '000/employee/month	71.2	72.6	101.97

The subsidiary SD - 1.strojírenská, a.s. was established by a decision of the Severočeské doly Board of Directors on September 18, 2001. The company was formed by spinning off selected centers and activities from the Workshops unit of Bílina Mines and the Mining Technology unit of Nástup Tušimice Mines. The company's principal business is industrial manufacturing in general, and the maintenance of the parent company's mining equipment in particular. It is also a general contractor in capital projects at Bílina Mines and Nástup Tušimice Mines, manufacturing and repairing spare parts for mining machines. The company has been steadily growing service volume in the area of capital projects for its corporate parent as well as providing supplies and services to other Severočeské doly Group subsidiaries, especially PRODECO, a.s. Longstanding working relationships with selected engineering organizations led to a large contract to supply steel structures for long-haul belt conveyors, which are being manufactured in 2011–2012. The company also continued to grow its deliveries of industrial process equipment for the power sector – particularly for the ongoing rebuild of the coal loading operation at Tisová Power Station, which was completed in August 2012. Higher sales drove a CZK 21.8 million year-on-year rise in the net income.

**Selected Indicators of SD - 1.strojirenská, a.s.**

Indicator	Units	2011	2012	Index 2012/2011 (%)
Total revenue	CZK millions	1,038.2	1,469.1	141.50
Net income	CZK millions	37.5	59.3	158.13
Labor productivity from value added	CZK '000/employee/month	43.5	49.0	112.64

The subsidiary SD - Kolejová doprava, a.s. was established by Severočeské doly under a decision of its Board of Directors and incorporated in the Commercial Register in 2001. The principal business is rail freight under Act No. 266/1994 Sb., within the scope of issued licenses, and the operation of a railroad under the same Act, also within the scope of official permits. According to Commercial Register data, the principal businesses also include certain ancillary activities (metalworking, installation and repair of electrical equipment subject to special regulation, construction and demolition work, acting as a security and safety consultant for transportation of hazardous items and materials). SD - Kolejová doprava, a.s. handles and hauls coal over mine railways and the Severočeské doly a.s. rail spur, hauls coal over nationwide rail networks, and provides the front fuel cycle (i.e., coal loading, stacking, and rail haulage on in-house rail spurs) for the Tušimice, Ledvice, Pruněřov, Mělník, Počerady, and Tisová Power Stations. Income was down year-on-year, due in particular to lower coal hauling volume on the mine railway to Pruněřov Power Stations 1 and 2.

**Selected Indicators of SD - Kolejová doprava, a.s.**

Indicator	Units	2011	2012	Index 2012/2011 (%)
Materials hauled	millions of tons	19.37	17.63	91.02
Total revenue	CZK millions	744	899	120.83
Net income	CZK millions	252	215	85.32

The subsidiary SD - Rekultivace, a.s. was incorporated in the Commercial Register on July 23, 2007. Severočeské doly established this subsidiary to reclaim land affected by mining activity. This land is the site of all the company's reclamation-related work, such as securing land areas ahead of mine advance, stripping of topsoil, agriculture, forestry, construction of man-made lakes, and other reclamation techniques. Thanks to an increase in work for Severočeské doly and major cost savings on lower outsourcing of this work, the company's revenues rose CZK 373 million and net income was up CZK 92.5 million.

#### Selected Indicators of SD - Rekultivace, a.s.

Indicator	Units	2011	2012	Index 2012/2011 (%)
Sales of goods and services	CZK millions	1,279	1,652	129.16
Net income	CZK millions	67.5	160.0	237.04

The subsidiary PRODECO, a.s. is 100% owned by Severočeské doly. Its principal business is the implementation of large-scale refurbishment and upgrade contracts on mining machinery and equipment for mining companies. Since 1945, the company has designed, installed, and commissioned over 30 types of bucket-wheel excavators and stackers, totaling over 140 machines. At the present time, the company's largest customer is Severočeské doly a.s. In 2012, the company worked on two large contracts: Re-installation of the 1,200 mm and 1,600 mm-gauge long-haul belt conveyors – Phase Two (shifting) and Construction of a long-haul belt conveyor for the 2nd overburden cut at Bílina Mines. Since both contracts are planned for completion in 2013, the company's 2012 work volume declined. This had an impact on the company's profit, which fell CZK 1.7 million year-on-year.

#### Selected Indicators of PRODECO, a.s.

Indicator	Units	2011	2012	Index 2012/2011 (%)
Total revenue	CZK millions	2,099.3	866.4	41.27
Net income	CZK millions	10.5	8.8	83.81

The subsidiary SD - KOMES, a.s. was incorporated in the Commercial Register on July 1, 2008. It was formed in the break-up of SHD - KOMES a.s., on the basis of a demerger project and Section 69(4) of the Commercial Code, when that company was wound up without liquidation and its assets passed to the successor companies SD - KOMES, a.s. and HOTELY SRNÍ, a.s. This was decided on May 9, 2008 by an extraordinary General Meeting. Based on a Swap Agreement, 168,234 shares were transferred on September 9, 2008. SD - KOMES, a.s. is a key supplier of rubber belts and petroleum products to Severočeské doly a.s. It also provides spare parts warehousing services to its corporate parent. In 2012, the company posted earnings of just CZK 1.34 million, due to the creation of allowances on assets (to ensure a true and fair representation and properly reflect the assets' anticipated selling price in the accounts).

#### Selected Indicators of SD - KOMES, a.s.

Indicator	Units	2011	2012	Index 2012/2011 (%)
Revenues from the sales of goods	CZK millions	832.6	1,048.2	125.89
Total revenue	CZK millions	28.3	9.1	32.16
Net income	CZK millions	(84.1)	1.3	–

## Financial Performance of Severočeské doly Group

The results presented below are based on International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). Differing results between Czech Accounting Standards (CAS) and IAS/IFRS are due primarily to fundamental methodological differences in depreciation and amortization (component treatment) and different principles governing decommissioning and reclamation provisions.

### Assessment of the Group's Financial Position in 2012

Severočeské doly Group posted successful financial performance results in 2012 and continues to reinforce its strong and stable financial position. In order to further improve performance, the group continued to take measures designed to optimize operating expenses. The parent company is currently in a period of extensive capital expenditures, the aim of which is to renew and upgrade mining and processing facilities, including water-management and mining-related construction projects to support the mining operations' advance in a scope commensurate to the future lifespan of both mining sites. The entire Severočeské doly Group is involved in these activities.

The group strictly complies with all statutory obligations, the most significant of which is provisioning for decommissioning and reclamation and for mining-related damages. These statutory provisions are fully covered by a portfolio of government bonds and restricted cash deposited in special bank accounts. The portfolio of financial instruments encompassing the Group's non-current and current financial assets is managed in accordance with a conservative risk policy and generates revenues that contribute significantly to the bottom line.

### Income Analysis

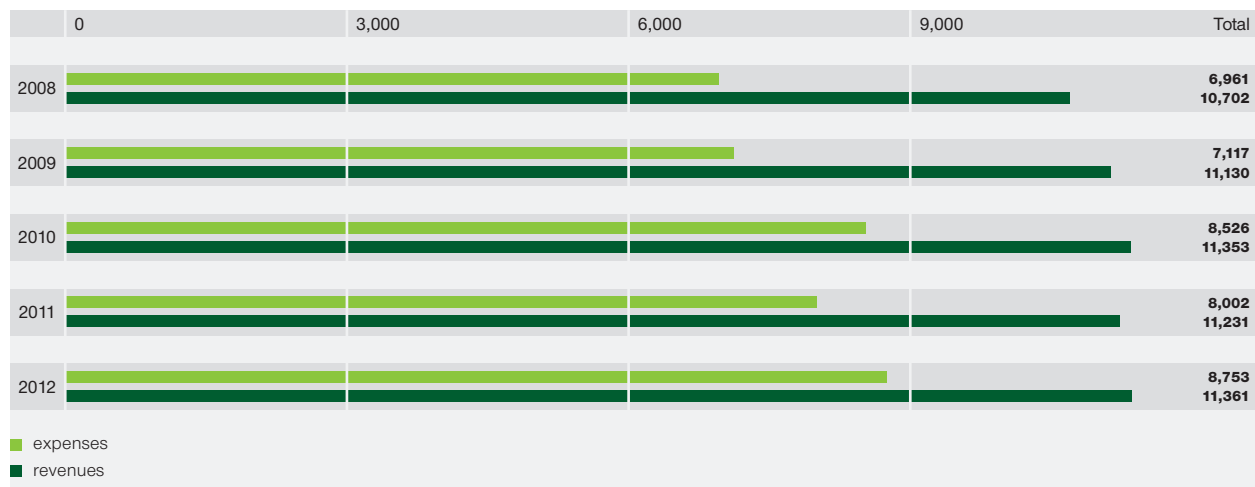
The group posted net income according to IAS/IFRS of CZK 2,137 million in 2012. Compared with 2011, this represents an increase of CZK 1,826 million, caused in particular by the sale of the stake in the associate JTSD - Braunkohlebergbau GmbH. Since the sale was approved in July 2011, the group took a CZK 2,652 million impairment charge in that year, which impacted the expenses figure reported for 2011. Final settlement of the sale took place in June 2012.

Overall, operating revenues were up CZK 130 million, to a total of CZK 11,361 million. Of this figure, coal sales revenues accounted for CZK 10,105 million. Due to lower orders of coal from Nástup Tušimice Mines to ČEZ power plants, coal sales volume fell 2,355,000 tons year-on-year. Other revenues, on the other hand, were up CZK 450 million year-on-year, to CZK 1,256 million. Other operating revenues consisted primarily of revenues from coal hauling, machinery production, land reclamation, and rail transport.

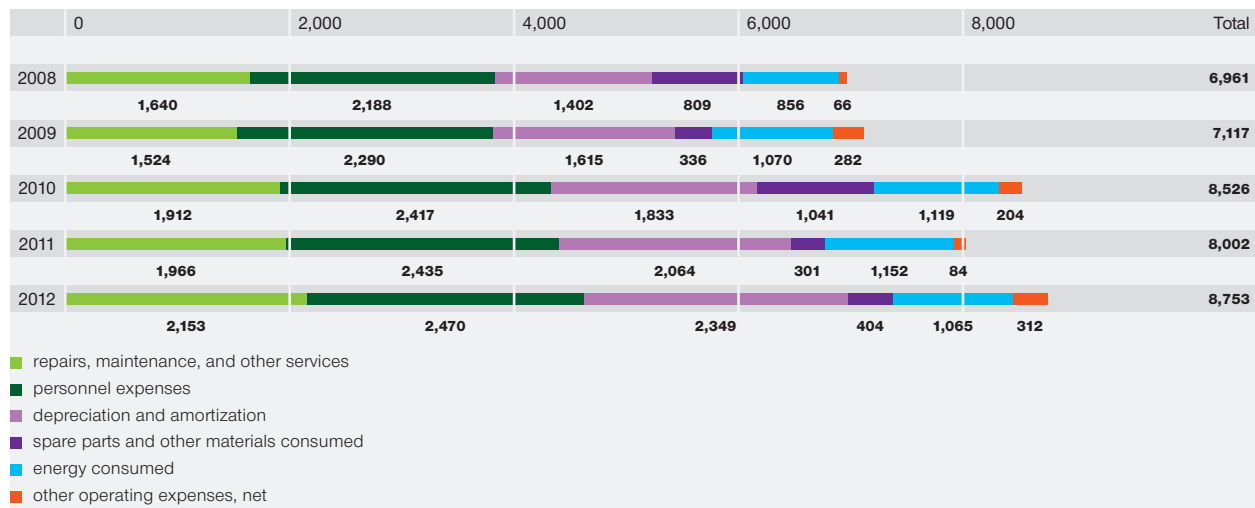
The group's operating expenses rose CZK 751 million year-on-year, primarily on a CZK 103 million increase in expenses for spare parts consumed, a CZK 187 million increase in repair expenses, and a CZK 228 million increase in operating expenses. In 2012, the group created a CZK 170 million allowance for repair of a faulty large-scale mining machine. The change in the allowance is included in the consolidated statement of income under Other operating expenses, net. Another factor was a CZK 285 million increase in depreciation and amortization, which expresses higher CAPEX for mining and processing equipment. The group's final total operating expenses figure was CZK 8,753 million.

EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) totaled CZK 4,957 million, which is CZK 336 million less than in the previous year. Operating profit declined CZK 621 million in 2012, to CZK 2,608 million.

**Operating Expenses and Revenues of Severočeské doly Group (CZK millions)**



**Operating Expenses of Severočeské doly Group (CZK millions)**



## Structure of Assets and Capital

### Structure of Assets

At year end 2012, Severočeské doly Group's total assets reached CZK 33,069 million. The main difference in assets according to IAS/IFRS as opposed to CAS was in property, plant and equipment, due to divergent approaches to valuation and depreciation of mining plant and equipment. The parent company applied the component treatment in calculating depreciation of property, plant and equipment and, at the same time, included significant overhauls and other repairs in the carrying amount of these assets if they influenced the asset's operational lifespan. Ongoing capital expenditures caused property, plant and equipment to rise by CZK 1,615 million.

Long-term financial assets, which consisted of debt securities and strategic equity stakes, declined by CZK 746 million on a reduction in financial assets held for sale. The parent company steadily sets aside provisions pursuant to the Mining Act, depositing the amounts in question in special restricted accounts with banks. Subsequently, these funds are invested in government bonds in accordance with a decision of the District Mining Office in Most. A portion of the restricted cash, CZK 3,795 million, designated for decommissioning and reclamation, is classified as "Financial assets restricted in use". Current assets were stable, ending the year at CZK 5,770 million. In 2012, the company sold its stake in the associate JTSD - Braunkohlebergbau GmbH.

### Severočeské doly Group Assets as at December 31, 2012 (CZK millions)

	0	10,000	20,000	30,000	Total
2008					33,737
	13,497	8,883	11,357		
2009					33,925
	15,007	10,520	8,398		
2010					33,477
	17,713	10,627	5,137		
2011					31,979
	19,973	6,093	5,913		
2012					33,069
	21,588	5,711	5,770		

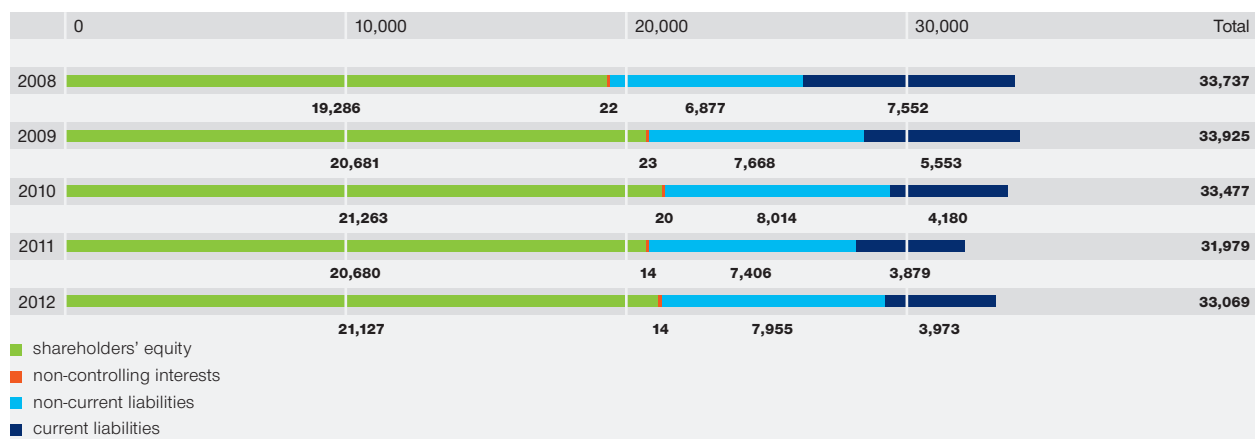
■ property, plant, and equipment  
■ other non-current assets  
■ current assets

### Sources of Financing

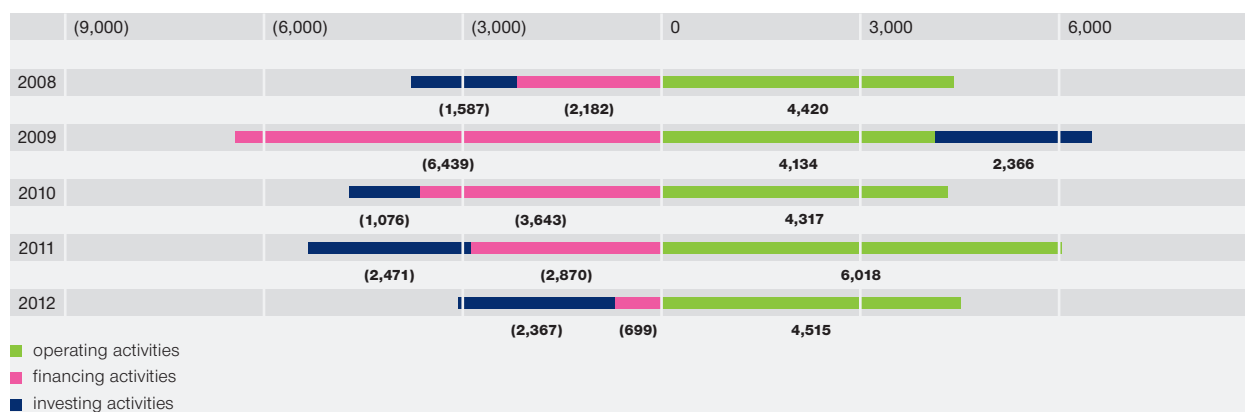
Severočeské doly Group saw its equity, including non-controlling interests, increase by CZK 447 million, to CZK 21,141 million. This was brought about by a CZK 430 million year-on-year rise in retained and current-year earnings. Net unrealized losses on remeasurement of financial assets, at CZK 650 million, remained at the previous year's level.

The Group's non-current liabilities were up CZK 549 million, to CZK 7,955 million. The increase was due to a CZK 106 million increase in deferred tax liability and a CZK 442 million rise in the provision for decommissioning, reclamation and mining damages. The provision was influenced by several factors. First, CZK 76 million was added to it, as part of the ongoing provisioning scheme. Second, CZK 250 million was drawn from the provision to finance ongoing land reclamation operations. The third and fourth factors, respectively, determining the provision's final balance of CZK 6,915 million were a CZK 336 million change in estimated future expenses and the addition of CZK 280 million in interest to the provision's present value. Other non-current liabilities were stable at CZK 38 million.

Current liabilities were up CZK 94 million year-on-year, to CZK 3,973 million, primarily on a CZK 1,014 million increase in short-term bank loans against repos, to CZK 1,771 million. On the other hand, there was a CZK 868 million decrease in current liabilities, to a final amount of CZK 1,985 million, predominantly on exchanges of promissory notes between the parent company and ČEZ, a. s.

**Severočeské doly Group Liabilities and Shareholders' Equity as at December 31, 2012 (CZK millions)**

**Cash Flows**

Net cash provided by operating activities (determined using the indirect method) were down CZK 1,503 million from 2011, to CZK 4,515 million. Significant factors included a CZK 1,497 million decrease in accounts payable, accrued and other liabilities and a CZK 2,910 million change in the balance of cash provided by sales of associates. The group's cash flows from investing activities were at 2011's level. Here, the influence of declining investments to secure ongoing advances of mining operations was felt, but this was offset by higher turnover from non-current financial assets. Cash flows from investing activities include income and expenditures from purchase and sale of property, plant and equipment and financial assets; interest income; and change in the balance of cash restricted in use (provisions) designated for decommissioning, reclamation and mining damages. Outgoing cash flows in this category include payments for decommissioning, reclamation and restoration of mining damages. Cash flows from financing activities grew CZK 2,171 million to CZK (699) million, particularly on a CZK 2,370 million reduction in proceeds from borrowings in 2012.

**Severočeské doly Group Cash Flows (CZK millions)**


### Key Financial Indicators

The 3.70% drop in the ROIC indicator to the final figure of 8.94% was due to the operating income result falling faster than average invested capital. The Return on Equity and Return on Assets indicators grew in 2012, due to the group's higher net income. The cause of the increase in financial debt-related indicators is the already mentioned higher level of short-term bank borrowings, compared to 2011, and the year-on-year decline in EBITDA. The current ratio was stable. The operating cash flow-to-liabilities ratio, which expresses the degree to which non-current liabilities are covered by operating cash flows, was down for the year, to 56.76%. The stability of the coverage of fixed assets indicator reflects the fact that the net value of non-current assets is stable when expressed as a percentage of fixed sources of financing. The extent of depreciation, which is determined by the company's depreciation and capital expenditure policies, declined slightly.

### Selected Financial Indicators of Severočeské doly Group

	Units	2008	2009	2010	2011	2012
Return on invested capital (ROIC)	%	21.0	19.7	12.3	12.6	8.9
Return on equity, net (ROE net)	%	17.04	28.87	12.27	1.48	10.22
Return on assets, net (ROA net)	%	9.59	17.06	7.64	0.95	6.57
EBIT margin	%	34.96	36.06	24.90	28.75	22.96
Financial debt / equity	%	29.67	18.38	9.94	3.66	8.38
Financial debt / EBITDA	%	111.28	67.56	45.34	14.30	35.73
Current ratio	%	150.38	151.23	122.89	152.44	145.23
Operating cash flow-to-liabilities ratio	%	64.27	53.91	53.87	81.26	56.76
Assets turnover	1	0.32	0.33	0.34	0.35	0.35
Coverage of fixed assets	%	117.00	111.15	103.38	107.80	106.58
Extent of depreciation	%	59.84	57.98	53.16	53.63	53.25

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### Individual Results of Fully Consolidated Companies

#### SD - 1.strojírenská, a.s.

	Units	2011	2012
Work force head count as at December 31	number	601	619
Operating revenue	CZK millions	1,013	1,386
EBITDA	CZK millions	61	90
EBIT	CZK millions	46	73
Net income	CZK millions	37	59
Return on invested capital (ROIC)	%	27.2	50.2
Total assets	CZK millions	621	644
Shareholder's equity	CZK millions	176	198
Financial debt	CZK millions	8	8
Financial debt / equity	%	5	4
Capital expenditure	CZK millions	25	26
Operating cash flow	CZK millions	60	140

**SD - Kolejová doprava, a.s.**

	Units	2011	2012
Work force head count as at December 31	number	413	539
Operating revenue	CZK millions	741	903
EBITDA	CZK millions	360	317
EBIT	CZK millions	311	263
Net income	CZK millions	252	215
Return on invested capital (ROIC)	%	65.5	44.3
Total assets	CZK millions	821	884
Shareholder's equity	CZK millions	635	701
Capital expenditure	CZK millions	44	178
Operating cash flow	CZK millions	319	270

**PRODECO, a.s.**

	Units	2011	2012
Work force head count as at December 31	number	69	96
Operating revenue	CZK millions	2,127	903
EBITDA	CZK millions	23	18
EBIT	CZK millions	14	10
Net income	CZK millions	11	9
Return on invested capital (ROIC)	%	5.7	0.6
Total assets	CZK millions	1,010	1,799
Shareholder's equity	CZK millions	159	156
Capital expenditure	CZK millions	7	45
Operating cash flow	CZK millions	(121)	1,000

**SD - Autodoprava, a.s.**

	Units	2011	2012
Work force head count as at December 31	number	434	443
Operating revenue	CZK millions	634	639
EBITDA	CZK millions	167	174
EBIT	CZK millions	33	51
Net income	CZK millions	27	42
Return on invested capital (ROIC)	%	5	7.3
Total assets	CZK millions	636	655
Shareholder's equity	CZK millions	546	561
Capital expenditure	CZK millions	147	148
Operating cash flow	CZK millions	187	191

**SD - Rekultivace, a.s.**

	Units	2011	2012
Work force head count as at December 31	number	59	58
Operating revenue	CZK millions	1,279	1,652
EBITDA	CZK millions	93	207
EBIT	CZK millions	82	197
Net income	CZK millions	67	160
Total assets	CZK millions	1,043	647
Shareholder's equity	CZK millions	151	244
Capital expenditure	CZK millions	6	63
Operating cash flow	CZK millions	131	119

**SD - KOMES, a.s.**

	Units	2011	2012
Work force head count as at December 31	number	25	15
Operating revenue	CZK millions	860	1,057
EBITDA	CZK millions	(96)	7
EBIT	CZK millions	(102)	5
Čistý zisk	CZK millions	(84)	1
Return on invested capital (ROIC)	%	(37.3)	4.4
Total assets	CZK millions	346	388
Shareholder's equity	CZK millions	194	195
Financial debt	CZK millions	1	0
Financial debt / equity	%	0.64	0.00
Capital expenditure	CZK millions	4	15
Operating cash flow	CZK millions	23	(14)

**Individual Results of Associates****Výzkumný ústav pro hnědé uhlí a.s.**

	Units	2011	2012
Work force head count as at December 31	number	75	69
Operating revenue	CZK millions	73	65
EBITDA	CZK millions	11	11
EBIT	CZK millions	4	4
Net income	CZK millions	4	4
Return on invested capital (ROIC)	%	2.9	2.9
Total assets	CZK millions	150	151
Shareholder's equity	CZK millions	132	136
Financial debt	CZK millions	18	15
Financial debt / equity	%	14	11
Capital expenditure	CZK millions	6	4
Operating cash flow	CZK millions	0.3	15.1

**Anticipated Commercial and Financial Situation in 2013**

Most forecasts of the Czech economy in 2013, including the CNB's outlook and the rationale attached to the State budget, are very cautious. Both GDP and exports are expected either to remain flat or grow only slightly; all this will depend on developments in the economy of our biggest trading partner – the Federal Republic of Germany. The pace of GDP growth is to reach a level between 0 and 1%. Inflation growth, on the other hand, is expected to accelerate. There is a danger that unemployment will continue to rise in structurally depressed areas. Export, on the other hand, is expected to maintain its dynamism. The basic macroeconomic outlook and experience from late 2012 give reason for caution in terms of demand for electricity, and therefore for brown coal as well, since it is still the dominant component in the power industry's energy mix.

**Expenses incurred by companies in the Severočeské doly consolidated group for external auditors**

The following fees were paid to auditors for the year 2012: parent company, CZK 3,100,000; subsidiaries, CZK 1,853,000; and associates, CZK 120,000.

# 046

## MODERN PLANT AND EQUIPMENT – THE RIGHT CHOICE

A strong mining company is a synonym for the most advanced extraction plant and equipment. As the center of technical advancement in the region, Severočeské doly exploits mineral wealth using efficient techniques while protecting the environment. Professional mining is harmoniously supported by a sensitive approach to the surrounding area and to its people, primarily through innovative decommissioning and land reclamation work processes, assisted among other things by the latest findings of the world's leading experts.



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# Financial Performance of Severočeské doly a.s.

## Discussion of the Company's Financial Performance

The company compiles its financial statements in accordance with both Czech Accounting Standards (CAS) and International Accounting Standards (IAS/IFRS). The divergent nature of the results reached using these two sets of standards is due mainly to fundamental methodological differences in depreciation and amortization (component treatment) and differing principles for decommissioning and reclamation provisions.

The figures presented in this discussion (non-consolidated figures) are based on International Financial Reporting Standards (IFRS), as adopted by the European Union.

### Key Figures of Severočeské doly a.s.

	Units	2008	2009	2010	2011	2012
Market share	%	46.87	48.61	49.42	53.73	52.55
Coal extraction volume, gross	millions of tons	22,453	22,364	21,629	25,211	23,173
Coal sales volume	millions of tons	22,272	22,029	21,757	25,144	22,789
of which: Coal sold to ČEZ, a. s.	millions of tons	16,660	16,471	15,598	18,072	15,935
Environmental expenditure	CZK millions	308.56	178.37	359.37	546.12	545.86
Work force head count as at December 31	number	3,517	3,485	3,464	3,467	3,432
Operating revenue	CZK millions	10,278	10,965	10,490	10,877	10,527
EBITDA	CZK millions	4,819	5,293	4,279	4,789	4,391
EBIT	CZK millions	3,593	3,877	2,640	2,896	2,229
Net income	CZK millions	3,146	3,184	2,369	2,510	2,584
Return on invested capital (ROIC)	%	14.60	16.20	11.38	11.87	8.50
Total assets	CZK millions	32,633	30,103	29,658	30,065	31,967
Shareholder's equity	CZK millions	18,569	17,374	17,994	18,988	20,259
Financial debt	CZK millions	5,690	3,802	2,113	757	1,771
Financial debt / shareholder's equity	%	30.64	21.88	11.74	3.98	8.74
Capital expenditure	CZK millions	3,208	3,653	4,084	4,253	3,829
Operating cash flow	CZK millions	4,913	5,380	4,956	4,885	4,904

### Assessment of the Company's Financial Position in 2012

Severočeské doly's successful financial performance results in 2012 reinforced its long-standing stable and strong financial position. In order to improve efficiency, the company continued to implement measures designed to optimize operating expenses. The company is currently in a period of extensive capital expenditures focused on renewing and upgrading extraction- and processing-related plant and equipment, including water management projects and mining-related construction projects made necessary by the mining operations' advance and in a scope commensurate with the remaining life of the mines. Severočeské doly strictly complies with all statutory obligations, the most significant of which is provisioning for decommissioning and reclamation and for mining-related damages. These statutory provisions are fully covered by a portfolio of government bonds and restricted cash deposited in special bank accounts. The portfolio of financial instruments encompassing the company's non-current and current financial assets is managed in accordance with a conservative risk policy and generates revenues that contribute significantly to the bottom line.

### Income Analysis

The company's 2012 net income after income tax according to IAS/IFRS was CZK 2,584 million. In year-on-year terms, this represents growth of CZK 74 million. A major contributing factor in the income result was the sale of the stake in JTSD - Braunkohlebergbau GmbH, with a realized gain of CZK 483 million. Dividends received from subsidiaries, at CZK 280 million, were another substantial factor. Operating income fell, on the other hand, to CZK 2,229 million, down CZK 667 million from the previous year. EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) was down CZK 398 million to CZK 4,391 million. Overall operating revenues declined CZK 350 million to CZK 10,527 million, with coal sales revenues accounting for CZK 10,105 million of the total. Coal sales volume fell 2,355,000 tons on lower orders for coal from Nástup Tušimice Mines to ČEZ, a. s. power plants.

Operating expenses grew CZK 317 million in 2012, to a final amount of CZK 8,298 million. The CAPEX program drove depreciation and amortization higher by CZK 268 million, and brought about a CZK 53 million increase in consumption of spare parts and other materials. The increases in these expense items were offset by a major reduction in other operating expenses: in particular, repairs and maintenance expenses were down CZK 147 million. Consumption of energy was down CZK 92 million, and a CZK 24 million savings in taxes and fees was attributable primarily to lower mineral extraction fees. The company's in-house financing activities contributed CZK 1,078 million to the income result, up CZK 617 million from the previous year. The year-on-year increase is attributable primarily to the sale of a 50% stake in JTSD - Braunkohlebergbau GmbH, which increased the financing result by CZK 483 million. Also up in 2012 were proceeds from sale of securities held-for-sale (by CZK 63 million) and dividends received from subsidiaries (by CZK 98 million).

One significant, special-purpose expense item is a CZK 280 million interest charge on the decommissioning and reclamation provision. This is an accounting mechanism, not an actual decrease in cash. Because the provision in question is carried at its present (discounted) value, the increase in the time value of the provision is regularly recorded in the form of the interest charge mentioned above, as required by IAS 37. As a result of this charge, the final financing result is lower.

## Structure of Assets and Capital

### Structure of Assets

At year end 2012, the company's total assets reached CZK 31,967 million. The main difference in assets according to IAS/IFRS as opposed to CAS was in property, plant and equipment, due to differing approaches to valuation and depreciation of mining plant and equipment. The company applied the component treatment in calculating depreciation of property, plant and equipment and, at the same time, included in the carrying cost of these assets significant overhauls and other repairs that affected operational lifetime. Ongoing capital expenditure activity caused property, plant and equipment to increase by CZK 1,774 million. Non-current financial assets consisted of debt securities and strategic equity stakes. The company steadily sets aside provisions pursuant to the Mining Act, depositing the amounts in question in special restricted accounts with banks. Subsequently, these funds are invested in government bonds in accordance with a decision of the District Mining Office in Most. A portion of the restricted cash, CZK 3,795 million, is designated for decommissioning and reclamation and is included in non-current assets. Non-current financial assets totaled CZK 5,621 million, which is down CZK 75 million year-on-year. The CZK 203 million drop in equity stakes was attributable to the sale of the stake in JTSD - Braunkohlebergbau GmbH.

The CZK 268 million upswing in current assets was driven primarily by a shift between non-current and current financial assets that takes place due to developments in the financial markets and in accordance with CEZ Group cash-pooling needs. Other factors affecting the final current assets figure were a CZK 99 million increase in receivables and a CZK 45 million contraction in inventories.

### Severočeské doly a.s. Assets Structure (CZK millions)

	December 31, 2011	December 31, 2012
Property, plant and equipment	20,505	22,279
Other non-current assets		
Financial assets	5,546	5,621
Investments in subsidiaries	684	684
Investments in associates	218	15
Deferred tax receivable	0	0
Non-current intangible assets	37	26
Current assets		
Cash and cash equivalents	184	1,261
Financial assets	1,071	416
Receivables	1,285	1,185
Inventory	476	430
Other current assets	59	49
Total assets	30,065	31,967

### Sources of Financing

The company saw its shareholders' equity grow CZK 1,271 million, to CZK 20,259 million. The growth was attributable primarily to a CZK 802 million increase in retained earnings. Another factor increasing shareholders' equity was a CZK 75 million rise in income. The legal reserve fund did not change in 2012 because it had already reached 20% of the share capital, in accordance with the Articles of Association and Section 217 of the Commercial Code.

Non-current liabilities reached CZK 7,985 million, which is up CZK 570 million year-on-year. In 2012, the company continued to provision for decommissioning and reclamation, setting aside CZK 76 million. At the same time, CZK 250 million was drawn from the provision to finance ongoing reclamation operations. Other factors in the final balance of the provision for decommissioning, reclamation and mining damages, CZK 6,915 million, were a CZK 336 million increase in estimated future expenses and the addition of CZK 280 million in interest to the provision's present value. The amount of the provision is determined as the present value of the estimated expenditures the company will incur in order to settle this liability.

Current liabilities were up CZK 60 million year-on-year, primarily on a CZK 1,014 million increase in current bank borrowings against repos, to a final balance of CZK 1,771 million at December 31, 2012. On the other hand, current liabilities contracted by CZK 935 million on lower promissory note trading volume between Severočeské doly a.s. and ČEZ, a. s.

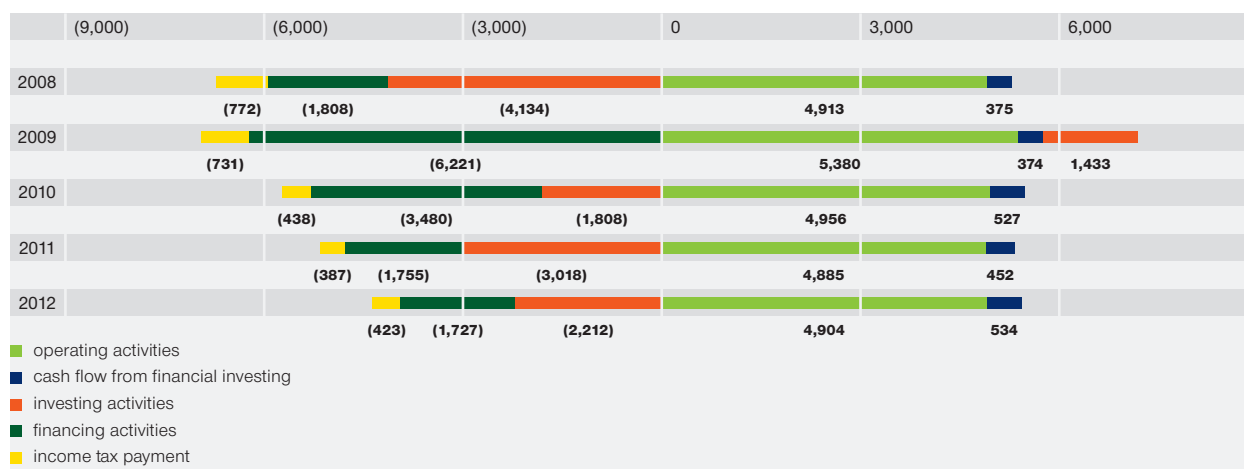
**Severočeské doly a.s. Sources of Financing (CZK millions)**

	December 31, 2011	December 31, 2012
Share capital	9,081	9,081
Unrealized gains on realized financial assets	247	641
Legal reserve fund	1,826	1,826
Retained earnings	5,325	6,127
Current period earnings	2,510	2,584
Non-current liabilities – provisions	7,414	7,985
Current liabilities	3,662	3,723
Shareholder's equity and liabilities, total	30,065	31,967

**Cash Flows**

Net cash provided by operating activities was up CZK 20 million year-on-year, to CZK 4,904 million, primarily on decreases in expenditures for inventory (down CZK 368 million), services (down CZK 405 million), and income from operating activities (down CZK 53 million). Revenues from sales of goods and services contracted by CZK 366 million.

Cash inflows in the form of financing revenues (interest) and expenses on interest-bearing financial instruments totaled CZK 534 million, for a year-on-year rise of CZK 82 million. The capital expenditure program brought a CZK 971 million year-on-year decrease in outlays for additions to property, plant and equipment and intangibles, to a total of CZK 4,063 million. Net cash flows relating to movements in current and non-current financial assets totaled CZK 1,093 million in 2012.

**Severočeské doly a.s. Cash Flows (CZK millions)**

### Key Financial Indicators

Our profitability indicators declined slightly in 2012, due to the year-on-year contraction in EBIT. The increase in financial debt-related indicators was caused by the already mentioned higher balance on short-term bank loans compared to 2011, and the year-on-year lower EBITDA. The drop in the operating cash flow-to-liabilities ratio was caused by growth in non-current liabilities – primarily provisioning for decommissioning and reclamation and for mining-related damages. The stability of the coverage of fixed assets indicator reflects the fact that both net non-current assets and overall long-term sources of financing remained at the same level. The extent of depreciation figure dipped slightly, in conjunction with the company's depreciation and capital expenditure policies.

### Selected Financial Indicators of Severočeské doly a.s.

	Units	2008	2009	2010	2011	2012
Return on invested capital (ROIC)	%	14.60	16.20	11.38	11.87	8.50
Return on equity, net (ROE net)	%	17.62	17.72	13.40	13.57	13.17
Return on assets, čistá (ROA net)	%	9.82	10.15	7.93	8.40	8.33
EBIT margin	%	34.96	35.36	25.17	26.62	21.17
Financial debt / equity	%	30.64	21.88	11.74	3.98	8.74
Financial / EBITDA	%	118.06	71.83	49.38	15.80	40.34
Current ratio	%	136.04	118.69	84.74	83.92	89.77
Operating cash flow-to-liabilities ratio	%	72.30	76.59	66.91	65.88	61.42
Assets turnover	1	0.32	0.35	0.35	0.36	0.34
Coverage of fixed assets	%	111.52	104.57	97.51	97.82	98.67
Extent of depreciation	%	57.40	54.64	51.53	50.37	50.18

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## Company Financing

### Bank Borrowings and Their Maturity

As at December 31, 2012, the company carried a total of CZK 2,021 million in short-term bank loans. Of this figure, short-term bank loans under repos accounted for CZK 1,771 million and current liabilities arising out of exchanges of promissory notes between Severočeské doly a.s. and ČEZ, a. s. accounted for CZK 250 million.

### Financial Strategy

Severočeské doly pursues a conservative policy in managing financial risks by diversifying financial activities among renowned financial institutions and various types of investment instruments from top-rated issuers. Treasury management, a key function for a company with large sums tied up in provisions for decommissioning and land reclamation, uses highly liquid, investment-grade financial instruments with adequate residual maturities. The aim of the company's investment strategy is to achieve optimum returns on investments while minimizing investment risk and, at the same time, taking account of liquidity needs and tax conditions and accepting a level of risk acceptable for the shareholder. The binding document governing this area is "Severočeské doly a.s. Principles for Realizing Financial Market Transactions", which has been approved by the company's Board of Directors on the basis of prior consent granted by the Supervisory Board, in accordance with the Articles of Association.

The area of investing provisioning funds in restricted accounts is governed internally by a document entitled "Principles for Investing Provisioning Funds for Decommissioning and Settling Mining Damages in the Company's Restricted Accounts". This document, which has been approved by the Board of Directors, defines conservative financial management procedures and instruments that, by their very nature, ensure compliance with the Czech Republic's laws and regulations, enable the company to respond to developments in the financial markets, ensure a stable return, and are in accordance with applicable Decisions of the District Mining Office in Most. They also stipulate procedures for ensuring sufficient accumulation of funds at the expected draw-down dates and the possibility of covering unforeseen financial demands to clean up and settle mining-related damages.

### **Financial Assets**

The company invested long-term surplus cash constituting its non-current financial assets in an actively managed portfolio of capital market instruments – government bonds in particular. The equity securities held by the company are stakes that arose when assets were spun off to subsidiaries and are classified as strategic investments.

The company's treasury management function utilized money market instruments classified in the balance sheet as short-term financial assets (current investments). It realized gains and revenues from bank deposits and certificates of deposit. The company participates in the CEZ Group's cash-pooling system.

### **Anticipated Commercial and Financial Situation in 2013**

In 2013, the company's financial performance will be impacted, in particular, by the stabilizing situation in vendor-customer relations between mining companies and electricity producers. We expect the situation to stabilize in the first half of 2013. The long-term future of both mining sites, Bílina Mines and Nástup Tušimice Mines, is clear thanks to their long-term mining activity permits. Demand for power-generation coal will be directly related to the domestic and larger Central European economies, and in view of macroeconomic forecasts for 2013 we anticipate that the situation there will be similar to 2012. Since last year's winter was unseasonably – and, we hope, unrepeatably – warm, in 2013 we expect to see a moderate upswing in coal demand, both in the district heat industry and in sorted coal for residential use.

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## HELP FOR THE FUTURE

The aptly-named project WE HELP includes sponsorship and donorship activities centered in the Ústí Region in particular. In the WE HELP CHILDREN subproject, activities are focused on preschool- and school-aged children, preparing for them various competitions, trips to the Podkrušnohorský Zoo, field trips for fun and learning, and the Old Bohemian Christmas event. Our WE PROTECT NATURE project highlights environmentally friendly mining processes and measures for mitigating the environmental impact of mining operations, as well as specific measures for protecting fauna and flora.



# Risk Management at Severočeské doly Group

## How Risk is Handled

### Market Risk

Market risk is the risk of loss due to changes in market conditions in general, and in particular to changes in market prices and demand for commodities, products, and services – as well as to the impact these changes may have on the value of Severočeské doly Group.

In its financial investment operations, Severočeské doly Group pursues a strictly conservative strategy that reflects a degree of financial risk commensurate to long-term, stable investment returns designated primarily for covering future obligations relating to decommissioning and reclamation. In making investment decisions, we continually assess all the risks inherent in individual transactions and systematically diversify that risk over multiple partners and issuers and over a larger number of instruments with varying residual maturities. Closely related to investment is the area of interest rate risk, where the company monitors fundamental indicators (e.g. Value at Risk, duration) allowing us to eliminate undesirable impacts of interest rate movements. Both interest rate and currency risks are managed using standard financial market instruments. Market liquidity risk is mitigated by choosing high-quality investment instruments.

### Credit Risk

Credit risk is the risk of negative financial impacts arising when a business, financial or other contractual partner defaults on its financial obligations, whether on purpose or due to insolvency.

In accordance with the investment strategy mentioned above, credit risk arising out of investments is addressed by choosing top-rated investment instruments. To eliminate possible negative consequences of trading relationships, the company relies on credit checks of potential partners. All of our trade receivables and payables are duly secured and we have procedures in place for dealing with and collecting on debts. To this end, we have put in place a unified system, based on our past experience, for managing deals and reducing receivables risk. All of the Group's financial receivables are duly secured and continually dealt with using all available means, including legal remedies, foreclosure, and bankruptcy proceedings. The success of our receivables management system is demonstrated, among other things, by the long-term low proportion of delinquent receivables.

### Operational Risk

Due to the character of our business, the companies of Severočeské doly Group are exposed to various types of operational risk. Operational risk is the risk of losses arising out of the Group's own operations, faulty internal process set-ups, organizational flaws, the human factor, purposeful unlawful behavior on the part of outside entities, etc. Operational risks can be mitigated in several ways. The most important tools used include transparent, targeted allocation of accountability for different types of operational risk, implementation of preventive measures, and drafting of crisis response plans. These tools are integrated into a system of internal guidelines and technical/organizational measures. The company uses a specially developed risk assessment method to assess the importance of and prioritize CAPEX projects. This method examines the likely impact of equipment faults and geotechnical factors on personal safety, the environment, buildings, production capacity, and coal supplies.

Another category of operational risk is liquidity risk, which is managed primarily by a high-quality liquidity management process and clear accountability for each component of the cash-flow plan. Other tools include centralized monitoring of liquidity and planning of transactions on all Group accounts. In the event of a short-term liquidity shortfall, the Group has an Agreement on Mutual Credit Lines with ČEZ, a. s., which is linked to the Cash Pooling Agreement. In order to manage risk associated with change inside the Group, emphasis is placed on the application of project management principles. Insurance (e.g., property and casualty) is an important tool for mitigating the potential impacts of operational risk.

### Business Risk

Business risk is the risk of loss due to the character of the Group's business, the region in which it operates, and internal company decisions. Business risk consists of strategic, political, regulatory, and reputation risk.

The principal tool for identifying strategic risks is the long-term strategic plan, which takes various potential scenarios into account. To manage regulatory risk, the company systematically monitors both valid and draft legislation. A related area is reputation risk, which the company controls by communicating openly with our surroundings, especially citizens and municipalities in the vicinity of our mines. The Group also works systematically with the media at the local and nationwide levels.

## Internal Control Mechanisms

### Principles of Internal Control

The system of internal controls consists of a number of rules and procedures put in place by company management to ensure proper caring for and protection of company assets, economical use of all company resources, safe and reliable operation of plant and equipment, correct and complete accounting, and compilation of reliable financial statements. The system of controls extends to all activities conducted by executives at all levels of management.

In addition to internal audit, controlling, and the system of functional controls, an important role in terms of organizing and conducting control activities is played by properly organized accounting departments, selection of accounting techniques, record-keeping policies, and inventory-takings of assets and liabilities.

Management continually strives to improve the company's system of internal controls in response to changes in internal and external business conditions.

### Internal Audit

The Internal Audit Department reports on the results of its audit activity to the Board of Directors and Audit Committee of Severočeské doly.

The internal audit activity plan is compiled on the basis of an assessment of the risk inherent in individual processes utilizing suggestions provided by Severočeské doly Group executives. In 2012, a total of seven audits were conducted, three of which were in subsidiaries, where auditing takes place under contract.

The conclusions of the audits are set forth in Final Reports, which detail all objective findings and present recommendations. The Final Reports and other audit results are discussed with the management of the entities audited. Reports are submitted to the Internal Audit section on a semiannual basis, enabling it to monitor the progress being made toward fulfillment of the recommendations and evaluate timeline compliance.

In certain cases, the Internal Audit section's yearly plan includes follow-up audits to verify the actual implementation of corrective measures and monitor their effectiveness.

### Functional Controls

Severočeské doly's control system includes a system of functional controls that are conducted at the company's various sections, departments, and work areas by the employees who work in the units in question.

It contains plans for the functional controls (including inquiries focusing on various topics and methodologies) which stipulate their focus, deadlines, and persons responsible at the level of the company's division heads. The focuses of these functional controls are determined, amongst other factors, in response to changes in internal and external conditions and management directives, as well as to risk assessments. Approximately 100 such controls were conducted in 2012, focusing on various aspects of occupational safety in mining operations (maintaining of mandatory documentation, adherence to equipment inspection rules, maintenance of equipment subject to special regulations, large-scale mining machines, and electrical equipment), environmental issues (waste management, operation of wastewater treatment plants, operation of laboratories), protection of property (issuance of diesel fuel and monitoring of its consumption, retiring of assets, compliance with rules governing the movement of items, persons, and vehicles through company gates), as well as on accounting, tax aspects, vetting of expenditures, payments, and receivables management. Findings were dealt with in the course of day-to-day operations; in exceptional cases, corrective measures were recommended and deadlines set for compliance.

# Safety and Quality Management at Severočeské doly Group

## Operational Safety Management System

No fundamental changes were made to the system for managing occupational safety and fire protection last year. At Bílina Mines, a comprehensive occupational health and safety and operational safety inspection took place, focusing on the areas of mining, mine surveying, mechanical and electrical equipment, and conveyance. This comprehensive inspection was conducted by the District Mining Office for the Ústí Region, based in Most. The inspection, which was extensive and detailed, found no serious shortcomings. At Nástup Tušimice Mines, 2012 saw a significant rise in the injury rate. The employees there will have to pay increased attention to this issue to ensure that the frequency of injuries returns to the levels that were standard in years past. Also, technical and organizational measures currently in preparation should contribute to a good result.

Occupational safety and health is a permanent high priority at Severočeské doly. In accordance with the Labor Code, employees are issued (free of charge) personal protective equipment and personal hygiene products. Employees also receive protective drinks. Each year, occupational safety and health protection audits are held at all work sites, with trade union representatives in attendance. The findings of these audits are given careful consideration, and are used, *inter alia*, to gradually improve the work environment (e.g. installation of air conditioning units at selected sites, dust mitigation, selection of personal protective equipment, etc.).

The company drafts and maintains its basic set of occupational safety and fire protection directives to always be in compliance with applicable legislation. It also issues operational guidelines for various industrial processes and organizes regular training and testing of the company's rank-and-file employees, as well as those of vendors. Information continued to be provided to employees through all possible avenues, such as digital safety information boards at building entrances. An injury bulletin is published, along with regular reports in Hornické listy magazine. Occupational safety is a regular agenda item at meetings between company management and employees. Special attention is paid to determining the causes of occupational injuries. The objective is to reduce their frequency and create conditions for maintaining a safe work environment. Close cooperation with the unions has also proven effective. Labor representatives take part in inquiries into the causes of occupational injuries, State Mining Administration inspections, etc. Operational safety is ensured in close cooperation with representatives of the State Mining Administration, under whose supervision Severočeské doly operates. This State supervision includes, *inter alia*, a number of inspections. The conclusions and recommendations arising from these inspections are implemented to the full extent, in the shortest possible time.

## Quality Management System

### Quality Management System at Nástup Tušimice Mines

The entire production process and final product quality are determined primarily by the wide degree of variation in monitored coal quality indicators in the coal seam. For this reason, quality management is crucial right from the moment excavators remove coal from the seam.

The system for managing and checking the type of coal produced for power generation (industrial mix 2) begins in the production preparation phase, when specifics are determined regarding the forward movement of mining machinery in each individual extraction block, with regard for necessary subsequent homogenization of the coal to ensure that it meets coal quality parameters. Other production steps include checks of coal quality between operations, and quality management during the course of the extraction and homogenization processes. These checks utilize on-line measuring equipment (ash meters, sulfur meters, and high-speed coal analyzers) located on the belt conveyors, as well as a system for taking process coal samples directly from the seam. All data from the on-line devices are gathered and evaluated by quality control software at the mine's Central Dispatch, where authorized employees respond to developments in the coal extraction and homogenization operations in the course of their daily shifts.

The final check consists of a comprehensive determination of quality parameters of coal destined for sale, from taking a sample using automated sampling lines and preparing it for analysis to analyzing it in Nástup Tušimice Mines' accredited solid fuels laboratory. For this purpose, the laboratory uses a Quality Guidebook and a set of Operational Regulations pursuant to the international ČSN EN ISO/IEC 17025:2005 standard, and the Czech Accreditation Institute has issued a solid fuels laboratory accreditation certificate to the laboratory. This certification is valid until 2014.

### Quality Management System at Bílina Mines

The system for managing and checking all types of coal produced begins, as it does at Nástup Tušimice Mines, with preparation for production and the geological model of the seam. The system evaluates not only the quality of final products, but also the quality of the coal seam itself, based on geological core samples, and of coal at different stages of its processing. Coal quality parameters are monitored in real time, using continuous and discontinuous ash and sulfur analysis equipment. The coal processing data so acquired are processed on-line by the KSSK Bil (Comprehensive Quality Monitoring System – Bílina) monitoring and control system, which is used by mine personnel in the process of deciding how to further process and homogenize the coal. Samples of the final product are taken at the Coal Processing Plant using automated sampling lines that are tested and certified to take representative samples of the final products "cube", "nut 1", "nut 2", "pulverized coal", and "industrial mixes 1 and 2". The final product samples, process samples, and geological survey seam samples are analyzed at Bílina Mines' accredited laboratory. In 2011, this laboratory defended its fitness for accreditation before the Czech Accreditation Institute, pursuant to the ČSN EN ISO/IEC 17025:2005 standard. It received a certificate of accreditation, valid for five years, for analysis of solid fuels, wastewater, and surface water, and for determining overall and respirable dust levels.

# Severočeské doly Group Capital Expenditure

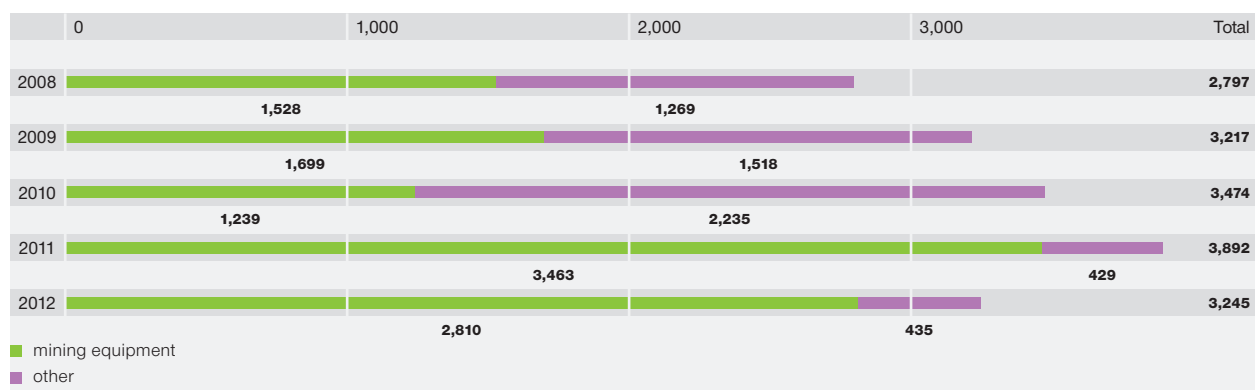
## Coal Mining Projects

In 2012, Severočeské doly incurred capital expenditure of CZK 3,828.8 million according to IFRS, and CZK 3,245.2 million according to CAS.

Some of the biggest projects involved plant and equipment on the 1st and 2nd overburden cuts and at the Bílina coal mine. The “Shifting of Jižní svahy overland belt conveyor” project, phases 1–3, continued and a substantial portion of the Bílina Mines pit project “Construction of the 2nd overburden cut – long-haul belt conveyors 921–926 including a dumping vehicle” was completed. Also completed was the Ledvice Power Infrastructure Corridor project. At the same time, excavators and long-haul belt conveyors were rebuilt and upgraded, drainage works continued, decommissioning and stabilization measures were taken on spoilbanks, and the “Expansion of Emerán Minewater Treatment Facility” project was further developed. Also, material financial outlays were incurred to purchase land to secure the further advance of mining operations.

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### Coal Mining Capital Expenditure (CZK millions according to CAS)



### Significant Projects at Bílina Mines

#### Completed:

- Shifting of Jižní svahy long-haul belt conveyor – phases 2 and 3
- Construction of second overburden cut – new long-haul belt conveyor lines 921–926, SV 1800 dumping vehicle
- Construction of first overburden cut – final positioning of long-haul belt conveyor in Severní svahy
- Ledvice Power Infrastructure Corridor
- Stability measures on the Braňany Spoilbank (measures in southern wing of quarry, rock ribbing)
- Stability measures on the Pokrok Spoilbank
- Upgrade and repair of 1,600 mm-gauge belt conveyors
- Shifting of retail sale – in-plant transport (Phase 1)
- Renewal of track drive on ZP 5500 stacker
- Overhaul of tensioners on overburden belt conveyors
- Overhaul of electrical systems on the SV 1800 dumping vehicle
- Overhaul of process bridges at the Coal Processing Plant

#### Ongoing:

- Expansion of Emerán Minewater Treatment Facility
- Completion of construction of the 2nd overburden cut – installation of a new 1,800 mm-gauge belt conveyor
- Drainage west of Ledvice
- Overhaul of bucket-wheel tips on the KU 800.18

#### Prepared to begin:

- Shifting of retail sales operations at the Ledvice Coal Processing Plant – pulverized coal and sorted coal

### Significant Projects at Nástup Tušimice Mines

#### Completed:

- Upgrade of SV 33 dumping vehicle
- Stationary fire extinguishing equipment for transport routes at Tušimice coal crushing plants ÚDUT I, ÚDUT II
- Libouš pit construction projects planned for 2012

#### Ongoing:

- 2nd and 3rd coal removal systems – upgrade of belt conveyors

#### Prepared to begin:

- Partial overhaul of SchRs 1550 excavator (following accident)

### Material Contractual Relations

The subsidiaries SD - 1.strojírenská, a.s., PRODECO, a.s., and SD - Rekultivace, a.s. play major roles in the capital expenditure projects, as do services from the subsidiary SD - Autodoprava, a.s.

Working in Consortia, the following companies worked together on the following significant contracts:

- PRODECO, a.s. + SD - Rekultivace, a.s. – Shifting of Jižní svahy long-haul belt conveyor, phases two and three
- PRODECO, a.s. + SD - Rekultivace, a.s. – Expansion of Emerán Minewater Treatment Facility
- PRODECO, a.s. + SD - 1.strojírenská, a.s. + SD - Rekultivace, a.s. – construction of 2nd overburden cut – new long-haul belt conveyor lines 921–926 + SV 1800.

PRODECO, a.s. mostly did studies for the project and production documentation in large-scale mining machine overhaul and upgrade projects at Bílina Mines and Nástup Tušimice Mines, as well as for process equipment at the Ledvice Coal Processing Plant. In 2012, SD - 1.strojírenská, a.s. completed partial overhauls of the KU 800/K 105 and K 2000/K 101 excavators and the USSK 4/S9 stacking machine at Bílina Mines, as well as overhauling drives, chutes, and tensioning lines on long-haul belt conveyors used for both overburden and coal. At the same time, it overhauled the A, U, and G process bridges at the Ledvice Coal Processing Plant. It also completed a major project entitled “Loading point for temporary in-plant conveyance of pulverized coal from the Ledvice Coal Processing Plant”. At Nástup Tušimice Mines, it renewed the instrumentation and control system of the 2nd overburden cut and commenced a program of long-haul belt conveyor upgrades on the 2nd and 3rd coal removal lines. SD - Rekultivace, a.s. did work for both Bílina Mines and Nástup Tušimice Mines, building operational mine works: ribbing blocks, drainage systems, and other water management projects. At Bílina Mines, major work continued on a group of projects called “stability measures” at the Braňany and Pokrok spoilbanks. 2012 saw the completion of an important project: Construction of the Ledvice Power Infrastructure Corridor. At Nástup Tušimice Mines, the company stabilized areas of Severní svahy that were sliding downwards and built ribbing and drain fields at the Libouš pit.

Other vendors provided certain specialized items (drives, gearboxes, motors, brakes, drums, cylinders, lubrication systems, etc.) to the subsidiaries on a subcontracting basis.

Electrical systems for excavators, long-haul belt conveyors, equipment at the crushing and processing plants, and medium-voltage substations, including overhead and underground power lines, were delivered primarily by the companies První Elektro, a.s., Elektroprim - Koutník, a.s., Bohemia Müller s.r.o., Siemens, s.r.o., and MARTIA a.s.

### Environmental Projects

Environmental protection is one of Severočeské doly Group’s fundamental priorities. The negative impact of extraction operations on the surrounding environment is dependent on weather conditions and mainly takes the form of increased noise and dust levels. The impacts of mining operations on the environment are regularly monitored, the results are assessed, and appropriate, economically acceptable technical and organizational measures are taken to minimize them. Monitoring is carried out not only for the company’s internal needs, but the results are also provided to State and local authorities and the general public. Environmental limits are set by legislation and compliance is monitored by various government agencies.

Environmental projects in 2012 involved Bílina Mines, dust mitigation, noise barriers, the expansion of the Emerán Minewater Treatment Facility, etc. and spending on them reached CZK 424.1 million.

### Information System CAPEX

2012 saw the completion of unification of active computer network elements, bringing about a greater degree of reliability, streamlined administration, and better compatibility. Furthermore, CAPEX went on expanding data storage capacity and improving the efficiency of the system of backups. The total amount invested in the information system, purchase of system software, renewal and acquisition of hardware reached CZK 9.1 million.

# Severočeské doly Group Strategic Objectives

## Strategic Initiative and Company Development Forecast

The long-term strategic objective of Severočeské doly is to bring about a conclusive correction of the extraction limit at Bílina Mines. Our approach has always been, and will always be, based on negotiation and consensus-building. We will likely reach a consensus on a conclusive correction with the municipalities in whose cadastres lies the affected area, which at just under four square kilometers is not large. The entire, comprehensive project including protective measures and the Ivan Dejmal Forest Park will be discussed with the Regional Authority with the aim of including it in an update of the Ústí Region's land development principles. As there is no human habitation in the area in question, nobody will have to move. In this case, Severočeské doly has no problem to resolve all conflicts of interest, because the company has already secured most of this land area contractually. The final correction would enable the extraction of 100 million tons of the highest-quality low-sulfur coal which is suitable for use in district heating operations. Within the current territorial limit, the Tušimice Mine will be able to continue operating until approximately 2035–2040, and Bílina Mine until roughly 2037. Should a conflict-free correction of the limit be approved, mining operations at the latter could continue until 2055.

To engage in mining, the company always works sufficiently in advance to obtain the necessary mining permits. In this respect, emphasis is placed on the Environmental Impact Assessment (EIA) of the mining activity. Based on the new approach approved by the Ministry of the Environment, there is a trend toward issuance of mining permits for longer terms, making it possible to better invest in equipment renewal, as well as to take environmental protection measures sufficiently far in advance.

In 2012, we made significant progress toward ensuring the long-term stability of our mining operations. Under Act No. 100/2001 Sb. on Environmental Impact Assessment, the Ministry of the Environment issued a consenting opinion on the plan to continue surface mining of the exclusive brown coal deposit Tušimice – Libouš and, late in the year, the District Mining Office in Most issued an important document: the Mining Activity Permit for Nástup Tušimice Mines for 2014–2029.

# 064

## TOGETHER WE'RE ONE TEAM

The strength of teamwork can be recognized in teams where the power of example is evident, and nothing is left to chance. To put out high-quality work with higher labor productivity, a team must be staffed with true experts in their fields – people of initiative who really love their work. People who are used to working hard – and thinking hard. People who are not afraid of responsibility, who know how to make decisions and, in particular, know how to communicate. Although the company is in good shape, the people at Severočeské doly constantly work to improve themselves, search for ways to cut costs, make improvements, and react flexibly to change. All of this helps to support good company strategy and reinforces the company's excellent reputation as an employer.



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## Products of Severočeské doly a.s.

As it was in the preceding years, the broad assortment of products was retained in 2012 as well.

### Sorted coal grades:

- cube ko2 (40–100 mm) – 1.83% of the mix
- nut o1 (20–40 mm) – 2.34% of the mix
- nut o2 (10–25 mm) – 5.63% of the mix

### Pulverized coal grades:

- rough 1, 2 (0–10 mm) – 4.67% of the mix
- within this category, 173,000 tons of rough pulverized coal with additives (hydrated lime for reduced SO<sub>2</sub> emissions) were sold in 2012
- industrial mixes 1, 2 (0–40 mm) – accounting for the largest share, 85.53% of the mix

Pulverized coal continued to dominate the product range at 90.2% of the mix.

### Severočeské doly a.s. Product Range in 2012



# Core Business

## Coal Mining

Coal mining and related operations form the core business of Severočeské doly. In 2012 we reaffirmed our position as the largest Czech brown coal company. Mining takes place at Nástup Tušimice Mines and Bílina Mines.

### Nástup Tušimice Mines

Nástup Tušimice Mines extracts brown coal in the westernmost portion of the Ústí Region, between the towns of Černovice, Spořice, Droužkovice, and Březno. Overburden and coal are extracted in the Tušimice mining area, which is defined in a decision of the District Mining Office in Most (ref. no. 2207/94 dated August 9, 1994).

Nástup Tušimice Mines' mining operations in the Tušimice mining area are permitted under the Opening, Preparation, and Extraction Plan (POPD) by a Decision of the District Mining Office in Most (ref. no. 7879/05/II) dated February 28, 2006. The validity of this decision will end when the boundaries of the overburden and coal extraction advances set forth in the POPD of November 2005 are reached (approximately 2014). For continuation of mining activity, a new decision was promulgated in late 2012, which as of the closing date of this Annual Report had not yet entered into force.

In 2012, Nástup Tušimice Mines extracted 13.0 million tons of coal. All of its production output went via the homogenization stacks to the local Tušimice and Prunéřov Power Stations, or by rail spur to the Chvaletice and Mělník 2 Power Stations, with some going to the Počerady Power Station as well. Coal for the Komořany power-heating plant (United Energy právní nástupce, a.s.) was also transported by truck.

Coal extraction operations necessitated the removal of 26.6 million m<sup>3</sup> of overburden.

At December 31, 2012, extractable coal reserves in the Tušimice mining area totaled approximately 229.9 million tons.

### Bílina Mines

Bílina Mines operates in the Teplice-Bílina area, where it mines coal with a high heating value and low hazardous substances content. The unit supplies power generation coal to the Ledvice and Mělník III Power Stations and other big power-heating plants. An important component in the production range is Bílina sorted coal, of which the company supplied 2.2 million tons to the market.

The mining activity permit for the Bílina Mine was issued under the Opening, Preparation and Extraction Plan for 2010–2030 by the District Mining Office in Most on November 8, 2010 and it entered into force on January 26, 2011.

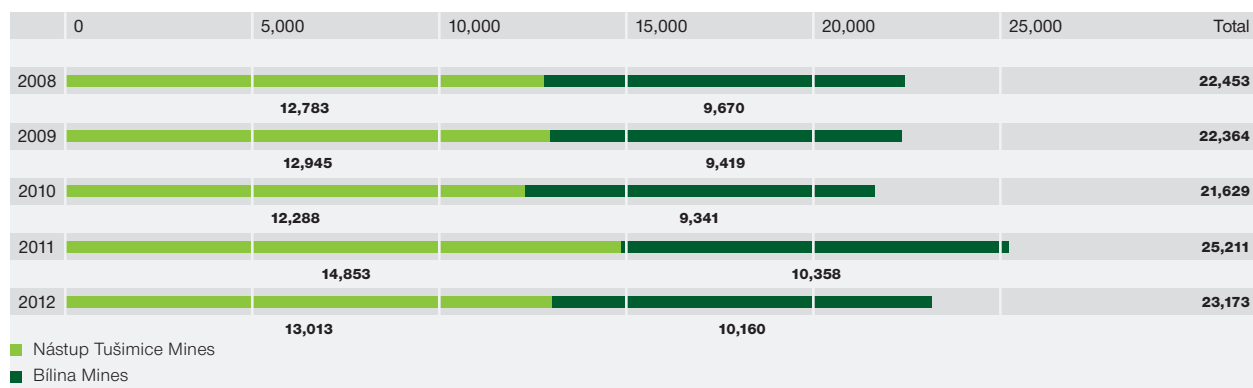
The Bílina pit is the deepest surface mine in the Czech Republic. In the northern and central portions of the mining front in particular, the thickness of the overburden layers is increasing.

As of December 31, 2012, Bílina Mines' extractable coal reserves were estimated at 155.2 million tons.

Extraction volume in 2012 totaled 10.2 million tons of coal. To achieve this, 52.7 million m<sup>3</sup> of overburden had to be removed.

To maintain the necessary rate of advance on the overburden cuts and increase extraction capacity in this portion of the front, a new K111 excavator of the TC2 performance line was deployed in August 2011. During 2012, we continued to build an entirely new extraction system and shift the long-haul belt conveyors used to remove coal from the mine.

### Coal Extraction (kilotons)



### Developments in 2012

#### Sales of Products

Severočeské doly sold a total of 22.8 million tons of brown coal in 2012. Although sales volume declined by 2.3 million tons (i.e. -9.36%), the company retains its status as the biggest of the Czech Republic's three brown coal producers and reached the highest market share: 52.55%.

The company sold sorted coal in the grades cube ko2 (40–100 mm), nut o1 (20–40 mm), and nut o2 (10–25 mm) to selected industrial customers and consumers in the so-called "tertiary sphere" (households, schools, government offices, hospitals). Pulverized coal (0–10 mm) and industrial mixes (0–40 mm) were supplied to producers of heat and electricity – mainly ČEZ power plants and big power-heating plants.

Bílina sorted coal is an important component in Severočeské doly's coal sales. 2.2 million tons of it was sold in 2012, down 0.1 million tons from the previous year. These fuel grades are useful primarily for small consumers.

The company sold a total of 1.1 million tons of pulverized coal in 2012, up 0.1 million tons (+9.04%) from the previous year. Deliveries of industrial mixes in 2012 totaled 19.5 million tons, a year-on-year decrease of 2.4 million tons, primarily on lower deliveries to CEZ Group power plants.

### Target Segments

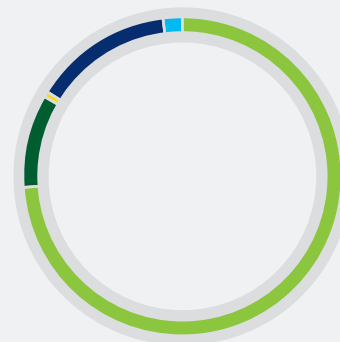
In 2012, Severočeské doly sold its products directly to several market segments. These are: the “big power plants” segment, in which the power company ČEZ, a. s. holds a privileged position, the large industrial and municipal power-heating plants segment, and the retail segment.

The various fuel grades are targeted at the following consumer markets:

- for small and mid-sized sources, the municipal segment, the “other commercial” segment, and residential customers, we supply sorted coal in the grades cube 2, nut o1, and nut o2. The parameters of fuel produced by Bílina Mines satisfy the requirements stipulated by Decree of the Ministry of the Environment No. 415/2012 Sb. on the quality of solid fuels supplied for combustion in energy sources
- rough pulverized coal is distributed primarily to medium and large industrial facilities
- fuel mixes – i.e. power generation coal – are delivered directly to big power plants.

### Severočeské doly a.s. Sales by Customer Segment, 2012

	kilotons	%
■ CEZ Group	16,850	73.94
■ installations over 50 MW	2,173	9.53
■ installations under 50 MW	41	0.18
■ fuel dealers	3,302	14.49
■ indirect export	424	1.86
<b>Total</b>	<b>22,789</b>	<b>100.00</b>



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### Commercial and Contractual Relationships

In 2012 Severočeské doly achieved, as it did in preceding years, the highest brown coal market share among producers in the brown coal industry.

Supplies to CEZ Group power plants and big power-heating plants play a substantial role, as does the stable good quality of the coal we produce.

Other major business partners in power generation coal are, e.g., Alpiq Generation (CZ) s.r.o., Kladno; Teplárna Trmice, a.s.; KA Contracting ČR s.r.o.; Energotrans, a.s.; Emeran 1860, s.r.o.; and KARBONIA, spol. s r.o., Ostrava.

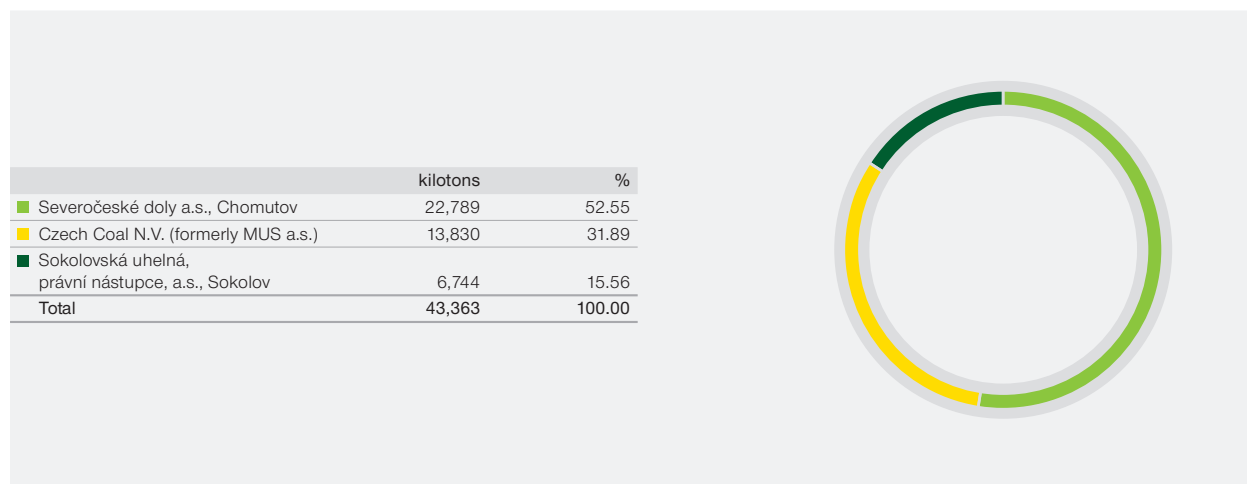
Through a network of so-called “big” and “medium” wholesale dealers, we supply approximately two million tons of sorted fuel coal. In this way, the company has secured 100% of its sales volume in advance.

### Brown Coal Market in the Czech Republic

In the Czech Republic, domestic coal is still the most-used energy resource, and it remains a guarantee of efficiency and independence in this area, contributing to the safe and reliable production of electricity and heat for district heating systems. Brown coal sales volume in 2012 reached approximately 43.4 million tons.

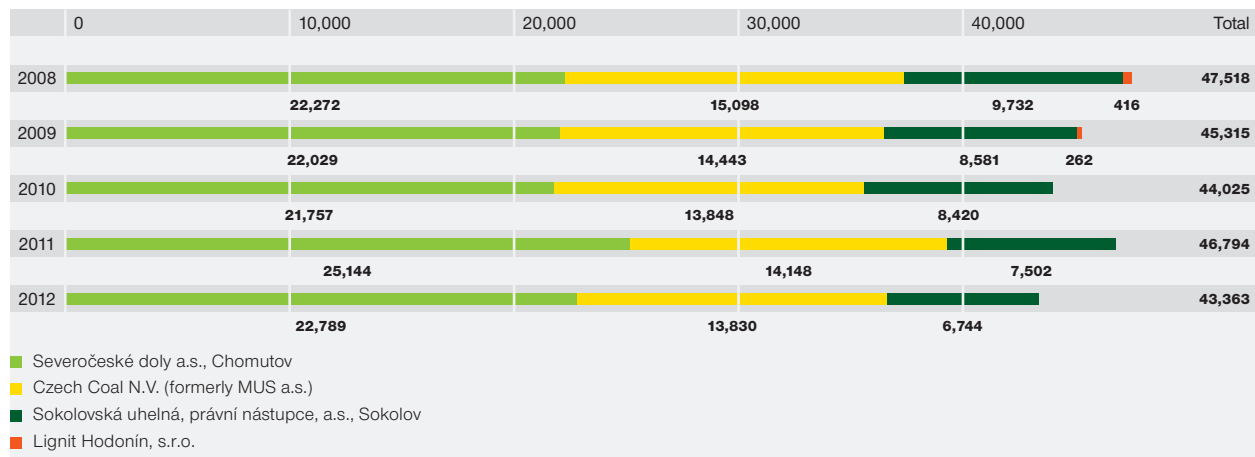
Among producers in the brown coal industry, Severočeské doly had the largest market share once again in 2012. The company has been the country's number-one seller and producer of brown coal since 1996.

### Position Relative to Other Brown Coal Companies in the Czech Republic in 2012



070

### Production Volumes of Czech Republic Coal Companies (kilotons)



### Generation of Electricity in the Czech Republic

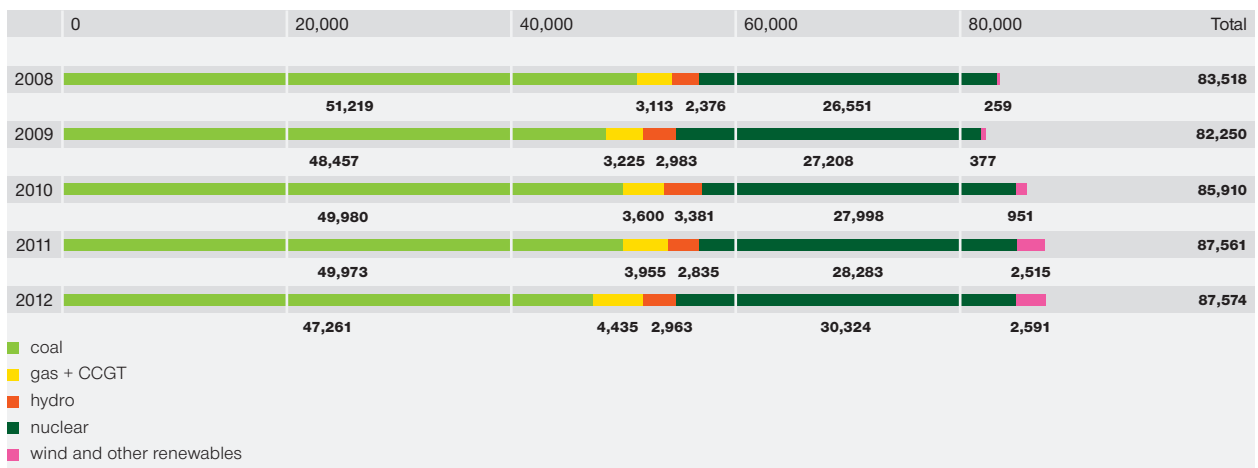
In 2012, generation of electricity rose 0.013 TWh, year-on-year, to reach 87.6 TWh. Generation in nuclear power plants rose 2.04 TWh, while generation in coal-fired power plants fell 2.71 TWh from 2012's level. Coal-fired power plants accounted for 53.97% of power generation in 2012, while 34.03% was attributable to nuclear power plants.

#### Generation of Electricity in the Czech Republic, 2012



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#### Generation of Electricity in the Czech Republic, 2008–2012 (GWh)



# Outlook for 2013

## Coal Mining

### Nástup Tušimice Mines

In 2013, overburden extraction volume is planned at 25.0 million m<sup>3</sup>, including removal of material from the coal cuts. For most of the year, the overburden cuts move forward on the fully developed new mining front entitled Libouš II – North. The entire new mining front is advancing in an easterly direction and all overburden is being stacked in-pit. Planned coal extraction volume in 2013 has been confirmed at 17.0 million tons. Coal will be extracted on only two mining fronts, including extraction of coal from the overburden cuts as necessary. Extraction of coal on the remaining front will end in December 2012. Development of the new mining front's coal cuts will be ongoing throughout 2013 and will continue into 2014 as well, when the final length of the coal cuts will be reached.

### Bílina Mines

In 2013, this unit plans to extract 9.8 million tons of coal and 53.5 million m<sup>3</sup> of overburden. Of the coal extraction volume, the plan calls for 2.2 million tons of sorted coal grades to be produced. The business plan calls for 9.6 million tons of products.

The mining operation's advance will once again be parallel, with the northern portion of the mining front turning westward in a fanning motion. The sixth TC2 large-scale mining machine is fully operational. Since the coal seam is getting deeper and in-pit stacking capacity is limited, it is necessary to lower work platforms while maintaining continual extraction operations across the entire front for a unified advance. To ensure greater stability, some of the overburden will be extracted from the pit's banks on the north side.

### Coal Sales

Coal sales are expected to be at the same level as in 2012. For 2013, Severočeské doly has prepared a new strategy for selling sorted coal, designed to make the sales operation more effective and increase overall profitability.

## Changes in Severočeské doly Group Ownership Interests

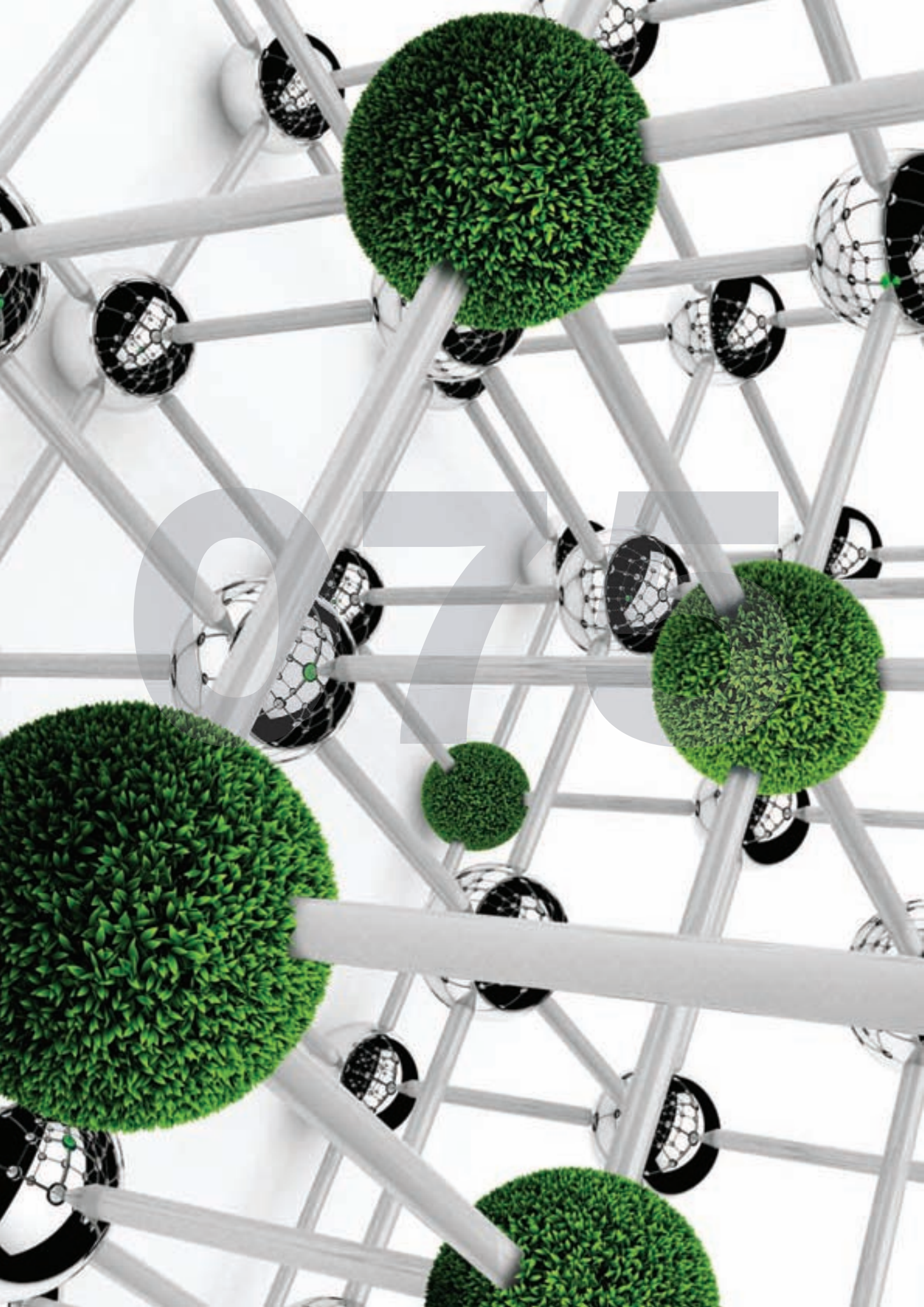
Through Severočeské doly, CEZ Group owned a 50% stake in JTSD - Braunkohlebergbau GmbH. That company was the sole owner of the mining company Mitteldeutsche Braunkohlengesellschaft mbH (MIBRAG). On June 29, 2012, Severočeské doly settled the transaction whereby it sold the 50% stake in JTSD - Braunkohlebergbau GmbH to EP ENERGY, a.s.

The management of Severočeské doly decided on mergers of subsidiaries that will take place during 2013. One merger will involve PRODECO, a.s. as the surviving company and SD - 1.strojirenská, a.s. as the merged company. Another merger will involve SD - Autodoprava, a.s. as the surviving company and SD - Rekultivace, a.s. as the merged company. At the subsidiary SD - KOMES, a.s., 2013 will see a change in the company's shareholder structure, with the parent company, Severočeské doly a.s., achieving 100% ownership of the company via a squeeze-out of minority shareholders.

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## PUT A STOP TO DUST

A joint initiative of towns and cities under Bořeň Mountain and Severočeské doly a.s. – a project entitled “STOP” – is focused on continually improving air quality. Participants in the project include cities and town in the vicinity of the Bílina Mine, Severočeské doly a.s., and a team of air protection specialists. All the protective measures are discussed with the cities and towns affected, and are subject to their approval. Substantial attention is paid to air pollution originating from local heating installations. At primary schools, panel discussions are held with members of the Energy Research Center in Ostrava, on topics such as home heating, different energy sources, etc., and including practical demonstrations.

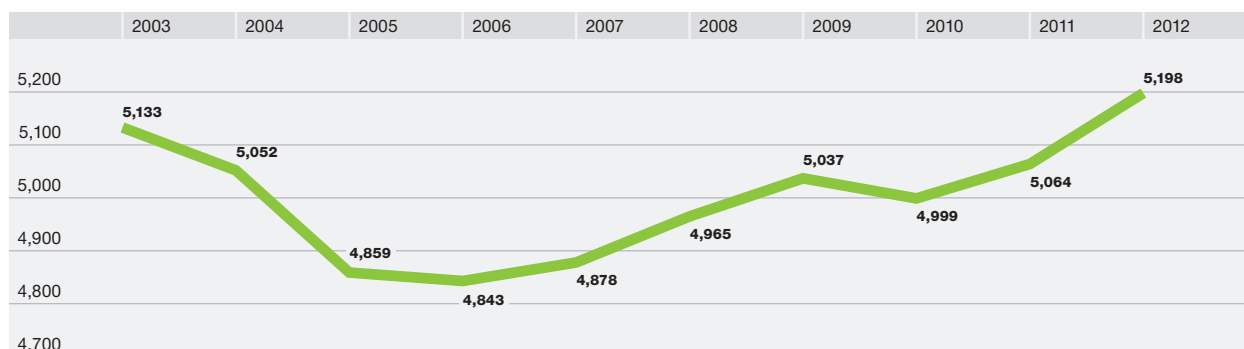


# Human Resources

## Number of Employees

At December 31, 2012 Severočeské doly Group had 5,198 employees on its payroll, i.e. 134 employees more than at the last day of the year before. Growth was seen primarily at SD - Kolejová doprava, a.s., in conjunction with an expansion of its operations. The parent company, Severočeské doly a.s., had the most employees (66%) in the Group. The average adjusted number of employees for the entire year 2012 was 5,144.

Severočeské doly Group Companies – Work Force Head Counts (as at December 31)



## Training Program

Developing employees and helping them to become more qualified is one of the key long-term objectives of the Group's human resources policy. To this end, 2012 saw the organization of a number of joint training programs by the parent company in cooperation with the subsidiaries. In particular, these included outsourced professional driver training, training for welders, and managerial training (e.g. for line managers), as well as language courses. Also, for several years now, in-house trainers have been providing training for employees in the subsidiaries, in areas such as handling pressure vessels and driving motorized carts. The objective is to continue to foster and reinforce this cooperation as we move steadily towards centralization of Severočeské doly Group training functions.

**Strategic Recruiting**

The employer is in compliance with its obligation under the collective agreement to pursue the Group's overall strategy with regard for planned head counts in the individual companies, and fills vacant positions primarily from within the company and from its subsidiaries.

To fill positions from external sources, the Group relies, in particular, on an Internet database of job candidates. Cooperation continues with education institutions to recruit employees for specialized blue-collar professions. This enables us to adapt the head count to the company's changing needs, as well as to the situation in the labor market.

**Social Policy**

The company's social policy is managed in accordance with the collective agreements in the individual companies. Employees receive one week of paid vacation per year in excess of the legal mandate, and have extended leave entitlements in cases when continuing to work would represent a hardship. Employees are entitled to Supplemental Pension Insurance and life insurance contributions, and substantial sums are expended for employee training and the employee meal program. Employees receive an annual bonus tied to the company's financial performance. Non-monetary vouchers, which employees can use to meet their cultural, healthcare, sport, recreational, and/or education needs, are the biggest item paid for out of the social fund in all Group companies.

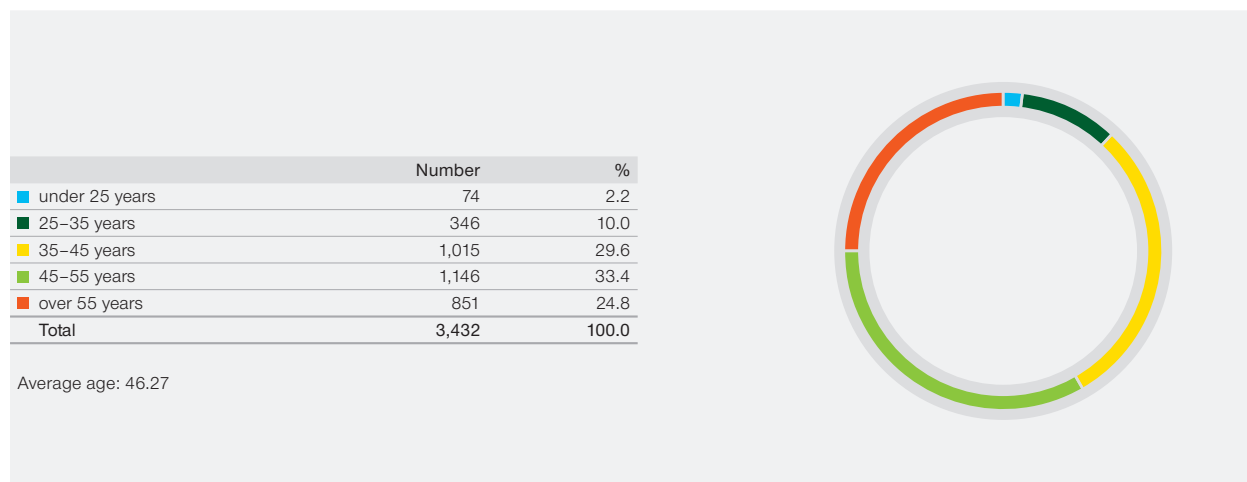
**Labor Relations**

There are 15 labor organizations active in Severočeské doly Group. Company management meets with labor representatives regularly and provides them with information in accordance with the collective agreement and applicable law. Fulfillment of the collective agreement is evaluated on a semi-annual basis in each company. In late 2012, collective bargaining took place in the individual Group companies, as a result of which the companies entered into new collective agreements valid for the years 2013–2014. It is in the interests of both sides to maintain labor peace and ensure commensurate work, wage, and social conditions for the employees.

**Parent Company****Number of Employees**

At December 31, 2012, Severočeské doly a.s. had 3,432 employees and the average adjusted number of employees was 3,454. The end-of-year head counts were impacted by the transfer of 26 employees to the subsidiary PRODECO, a.s. 133 persons joined the company. 169 employees terminated their employment and of those, 55, or 33%, due to retirement. 42 employees were terminated due to organizational changes; this number includes employees transferred to subsidiaries. Overall turnover was 4.89%, which is 0.94% less than in the previous year.

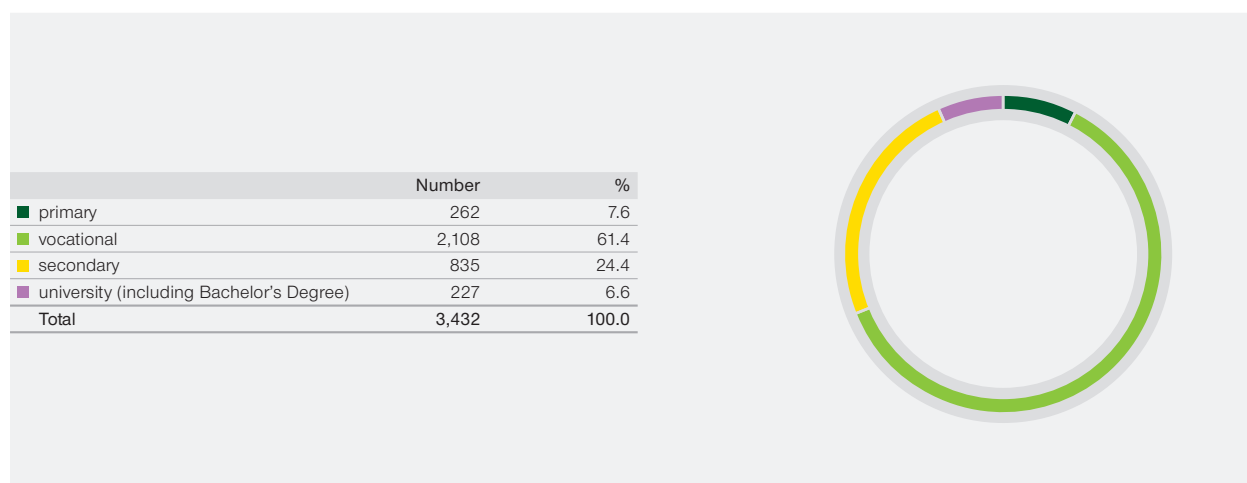
**Severočeské doly a.s. – Work Force Age Structure**



**Training Program**

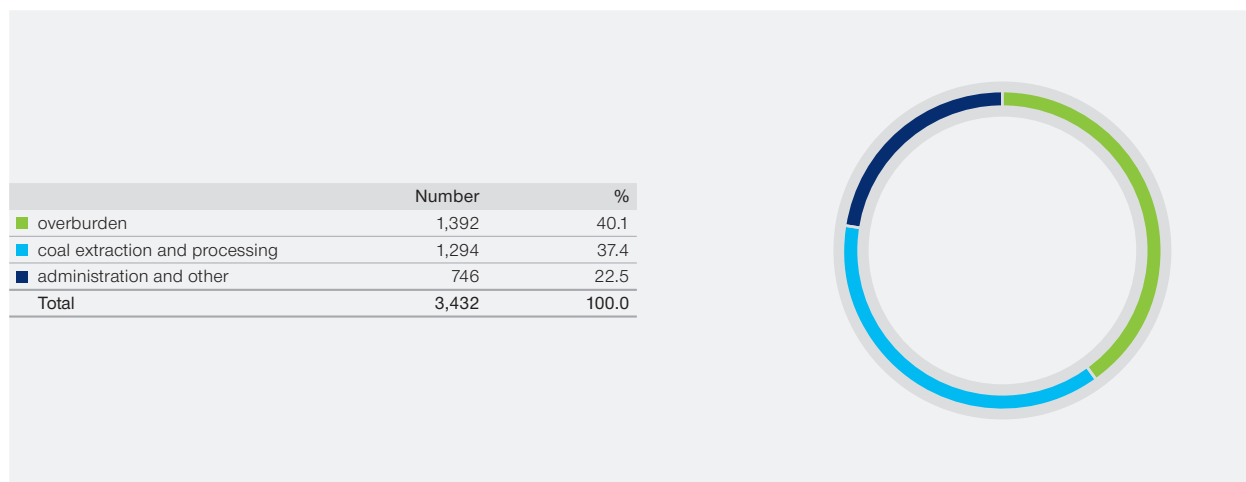
Maintaining a high degree of employee qualification is a company priority. Therefore, we emphasize maintaining and increasing employee qualifications. Employees have access to a wide range of courses: both mandatory courses, without which they could not carry on their profession, and elective courses that are intended for white-collar employees in particular. Also offered are personal growth courses designed to develop “soft skills” – in 2012, for example, these included courses in presentation skills and time management. In addition, the company is endeavoring to make these courses available to ever greater numbers of employees. The employer’s interest in its employees’ professional growth is demonstrated by the ever-increasing number of employees participating in work-study programs – at all levels of the education system.

**Severočeské doly a.s. – Work Force Education Structure**



**Strategic Recruiting**

In accordance with the collective agreement, vacant job positions are filled primarily from within the company and Group. In order to regulate hiring from outside, an Internet database of job applicants is utilized. Recruiting is then based on the planned job figures, taking into account – in particular – the needs of individual departments, retirements, and – last but not least – the company’s financial targets.

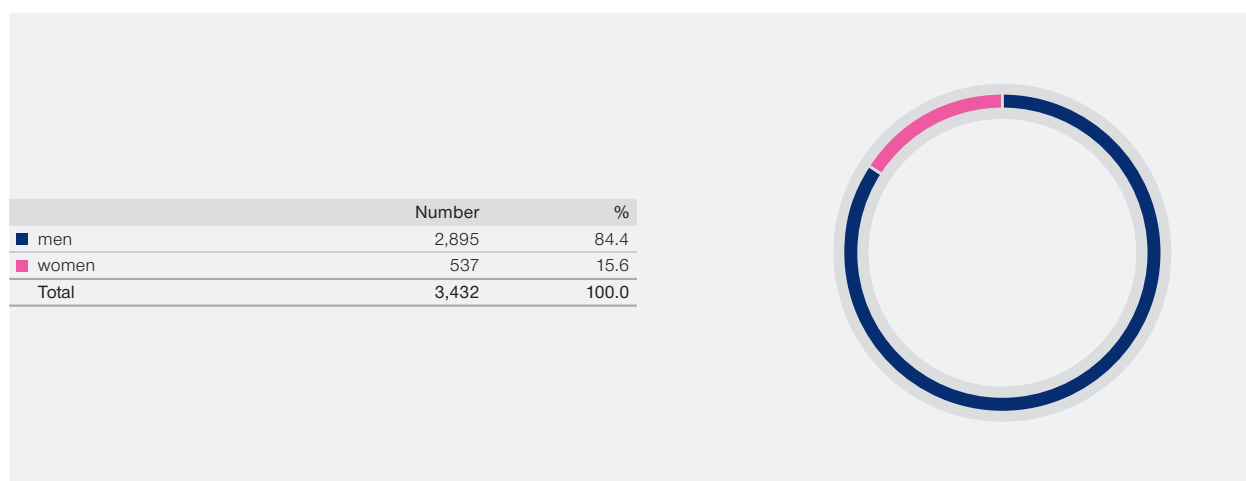
**Severočeské doly a.s. – Work Force Process Structure****Social Policy**

Wage and social policy is managed in accordance with the valid collective agreement. Material elements include a shortened, 36.6-hour work week and one extra week of paid vacation per year.

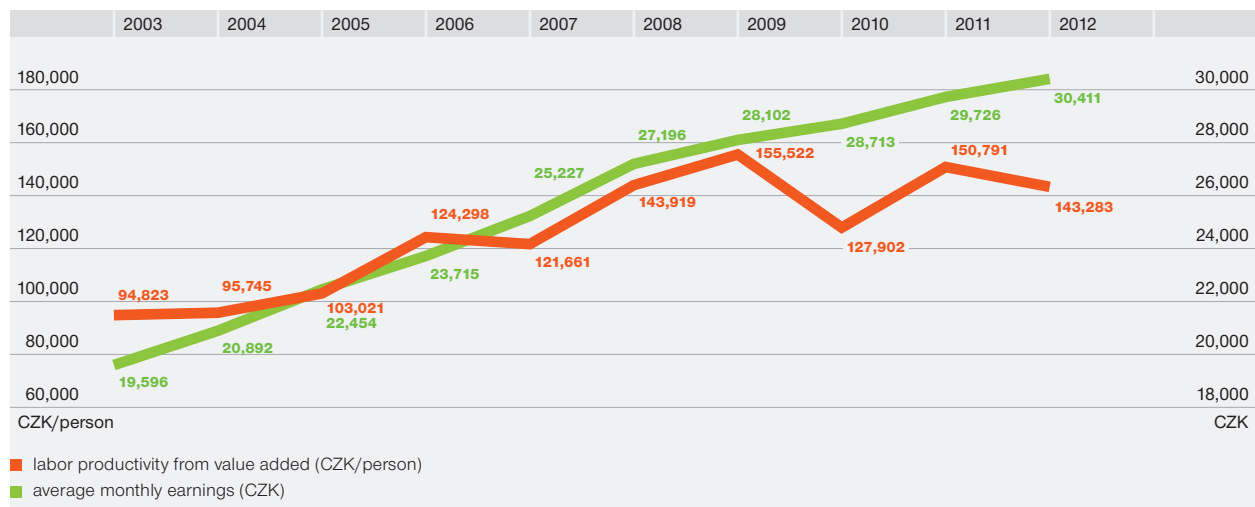
A total of CZK 28.8 million was drawn from the social fund in 2012. Non-monetary vouchers, which employees can use to meet their cultural, healthcare, sport, recreational, and/or education needs, became the biggest item paid for out of the social fund. Employee meal plan contributions were another significant expenditure. Out of the social fund, employees also received contributions for recreation, sports and cultural events, and summer camps for children.

Significant sums were expended on retired employees, who receive meal plan contributions and recreation contributions. The retirees' club also receives financial support.

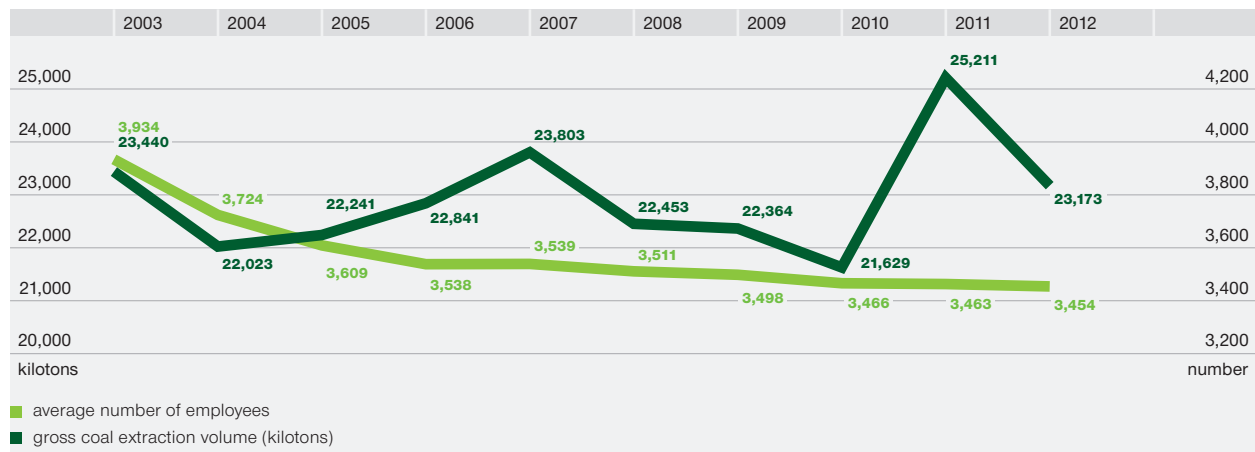
Beyond the social fund, the company's social expenditures included primarily Supplemental Pension Insurance and life insurance contributions, provision of personal protective equipment, and investments in employee training.

**Severočeské doly a.s. – Work Force Gender Structure**

**Severočeské doly a.s. – Employee Productivity and Earnings**



**Severočeské doly a.s. – Employment and Extraction Volumes**



**Labor Relations**

Seven labor organizations operate within the company. Since maintaining labor peace is the number-one goal of the company's social policy, considerable attention is paid to communicating with the labor unions. The company creates conditions for the labor unions to operate. An important element of cooperation with labor unions is regular meetings between labor representatives and company management: fulfillment of the collective agreement is evaluated on a semi-annual basis. A new collective agreement was signed, covering the years 2013–2014.

# Development of the Power Industry Legislative Framework in the Czech Republic

The basic law treating the company's status and the commercial and economic aspects of its business, with fundamental importance for the entire Severočeské doly Group as well, is Act No. 513/1991 Sb., the Commercial Code, as amended. During 2012 the Commercial Code was amended several times, but none of the amendments had any fundamental impact on how the company is run.

Another key activity of the company, as a sector contracting authority, is Act No. 137/2006 Sb. on Public Procurement, as amended. This act, too, was amended several times in 2012. The most significant amendment of the Public Procurement Act promulgated in 2012 is Act No. 55/2012 Sb. amending Act No. 137/2006 Sb. on Public Procurement, as amended. The primary purpose of this amendment is to change the treatment of public procurement so as to limit the risk of corruption in public tenders. The objective of this amendment was to help increase the transparency of the entire public procurement process. This amendment brings a number of changes in the language of the Public Procurement Act that affect the company as a sector contracting authority.

Also in 2012, the following implementing regulations were promulgated to the Public Procurement Act, affecting the company's operations:

- Decree of the Ministry of Local Development No. 133/2012 Sb. on publishing announcements for purposes of the Public Procurement Act and on required content of the contracting authority profile,
- Decree of the Ministry of Local Development No. 230/2012 Sb. stipulating details of how the subject matter of public tenders for construction work is defined and the extent of lists of construction work, deliveries, and services with listing of area measurements,
- Decree of the Ministry of Local Development No. 231/2012 Sb. stipulating commercial terms of public tenders for construction work.

Another important law for regulation of the company's operations is Act No. 201/2012 Sb. on Air Protection, which was adopted during the past year, and which newly deems surface mines for fuel, ore, and non-ore raw materials and processing thereof – principally extraction, drilling, blasting, excavating, sorting, crushing, and transport – with design capacities higher than 25 m<sup>3</sup>/day, to be stationary sources of pollution. In implementation of this act, the Ministry of the Environment promulgated its Decree No. 415/2012 Sb. on permissible levels of pollution and the determination thereof, and implementing certain other provisions of the Act on Air Protection.

The company's tax obligations were changed by an amendment of Act No. 235/2004 Sb. on Value Added Tax, as amended, by Act No. 5012/2012 Sb. This amendment introduces a new term, "unreliable payer", expands the guarantee of the recipient of consideration for unpaid tax and introduces a requirement that VAT payers disclose, at registration, account numbers for providers of payment services.

In addition to the general legislative framework outlined above, a key area for the entire Severočeské doly Group is legislation on mining and similar activities. The basic legislative framework for this area is comprised primarily of the following acts:

- Act No. 44/1988 Sb. on the protection and utilization of mineral wealth (the Mining Act), as amended, which in 2012 was amended by Act No. 85/2012 Sb. on the storage of carbon dioxide in natural rock formations and amending certain acts, as well as by Act No. 350/2012 Sb. amending Act No. 183/2006 Sb. on zoning and the Building Rules (the Building Act), as amended, and certain related acts, and by Act No. 498/2012 Sb. amending Act No. 44/1988 Sb. on the protection and utilization of mineral wealth (the Mining Act), as amended,
- Act No. 61/1988 Sb. on mining activity, explosives, and the State Mining Administration, as amended, which in 2012 was amended by Act No. 18/2012 Sb. amending certain acts in conjunction with the passage of the Act on the Customs Administration of the Czech Republic,
- Act No. 62/1988 Sb. on geological works and the Czech Geological Office, as amended, which in 2012 was amended by Act No. 85/2012 Sb. on the storage of carbon dioxide in natural rock formations and amending certain acts.

The most important implementing regulations in the area of mining and similar activities are:

- Decree of the Czech Mining Office (CMO) No. 104/1988 Sb. on the economical utilization of exclusive deposits, on permitting and disclosing mining activities, and on disclosing activities similar to mining, as amended,
- Decree of the CMO No. 26/1989 Sb. on occupational health and safety and operational safety in the course of mining and similar activities conducted on the surface, as amended,
- Decree of the CMO No. 51/1989 Sb. on occupational health and safety and operational safety in the processing and refinement of minerals, as amended,
- Decree of the CMO No. 15/1995 Sb. on authorizations to conduct mining and similar activity, as well as to design buildings and equipment for use in the course of such activities, as amended, which was amended by Decree of the CMO No. 380/2012 Sb. amending Decree No. 15/1995 Sb. on authorizations to conduct mining and similar activity, as well as to design buildings and equipment for use in the course of such activities, as amended by Decree No. 298/2005 Sb.
- Decree of the CMO No. 298/2005 Sb. on requirements for professional qualification and professional fitness to engage in mining and similar activities and amending certain regulations, as amended, which was amended by Decree of the CMO No. 378/2012 Sb. amending Decree of the CMO No. 298/2005 Sb. on requirements for professional qualification and professional fitness to engage in mining and similar activities and amending certain regulations, as amended by Decree No. 240/2006 Sb.
- Decree No. 394/2011 Sb. on the locations of the District Mining Offices.

During 2012, no fundamental changes in the legislative framework had any material impact on the business activities of Severočeské doly Group. Nevertheless, the year did see the adoption of Act No. 89/2012 Sb., the Civil Code, and Act No. 90/2012 Sb. on Business Companies and Cooperatives (the Corporations Act), both of which take effect from January 1, 2014, and are expected to have a material impact on the business activities of all members of Severočeské doly Group.

# Protection of the Environment

## Environmental Management System

Environmental protection is an integral part of the company's management. The objective is to eliminate and minimize the environmental impacts of mining activity. These impacts occur in the surrounding environment and their severity depends on weather conditions. They include increased noise and dust levels.

The impacts of pit operations on the environment are systematically monitored and assessed and, according to the findings appropriate, economically acceptable technical and organizational measures are taken. Our extensive network of monitoring stations is utilized not just for the company's needs, but also for informing State and local authorities and the general public. Environmental limits are set by legislation.

### Bílina Mines

Mining activity is permitted by decision of the District Mining Office (DMO) Most, ref. no. 3426/10/II of October 8, 2010. The decision entered into legal force in January 2011. This decision predetermines the development of Bílina Mines for the next 20 years and sets an exhaustive set of conditions for it. In the environmental area, increased emphasis is placed on monitoring of noise and dust, on mitigating dust and noise, and on reducing water pollution and air emissions.

In the dust mitigation area, the Bílina Mines Anti-Dust Project was formed, which is under public control. Its results will be presented annually to the Ústí nad Labem Regional Authority, and municipalities in the vicinity of Bílina Mines receive regular updates on them as well.

### Nástup Tušimice Mines

Mining activity is subject to the issued Decision of DMO Most constituting a Mining Activity Permit pursuant to the Opening, Preparation, and Extraction Plan (OPEP) for the Libouš II pit – north in the Tušimice mining area. The validity of this decision ends when the overburden stripping and coal extraction operations reach the boundaries set forth in the OPEP documentation (in approximately 2014). In late October 2011, the completed Planned Project Documentation was submitted to the Ministry of the Environment of the Czech Republic in the scope of Schedule No. 4 to Act No. 100/2001 Sb. (Environmental Impact Assessment) – Advance of Severočeské doly a.s. Nástup Tušimice Mines in the period 2014–2029. Subsequently, this documentation was distributed to all stakeholders to obtain their comments. In early January 2012 the Ministry of the Environment of the Czech Republic appointed an expert to draw up an opinion on the submitted documentation. The EIA (Environmental Impact Assessment) process culminated in the issuance of a consenting opinion by the Ministry of the Environment for continuation of mining activity in the Tušimice Mining Area pursuant to the POPD in the years 2014–2029. The Ministry of the Environment of the Czech Republic issued the consenting opinion on July 16, 2012.

The District Mining Office in Most permitted mining activity at the Nástup Tušimice Mines pit by its decision ref. no. SBS/37968/2012/OBÚ-04/5 dated December 27, 2012. As of the closing date of this Annual Report, the decision had not yet entered into force.

## Air Protection

Bílina Mines operates three registered sources of air pollution.

These are:

- a boiler facility that run on gaseous fuels at the “Jan” installation in Duchcov,
- the Ledvice Coal Processing Plant, which is subject to regulation measures (issued by the Ústí Regional Authority). The operation of the Ledvice Coal Processing Plant is governed by the approved Regulation Rules,
- the Bílina gas station, which dispenses gasoline and diesel fuel.

A boiler facility at the former corporate headquarters in Bílina was retired in late January 2012 due to the building being connected to a central source of steam heat from ČEZ, a. s., Ledvice Power Station.

Nástup Tušimice Mines operates one registered stationary combustion source of air pollution: the Libouš gas-fired boiler in Březno u Chomutova. This boiler facility runs on liquid gas fuel (propane). Both the facility's air emissions and the negative impacts of its operation on the surrounding area are minimal. The emissions are verified by authorized one-off measurements at regular intervals. The facility meets the strictest requirements stipulated for sources of air pollution by Act No. 201/2012 Sb. and the implementing regulations thereto.

The operations at both pits cause air pollution primarily in the form of airborne dust. Measurement stations are located in the towns affected by Severočeské doly operations, providing continuous measurements of ground-level concentrations of dust, and in particular of PM10 fraction suspended particles. The stations are operated by an independent, accredited laboratory and the data they generate is gathered via computer network. The results of the measurements are provided to the affected towns in the form of data reports sent at regular monthly intervals. During the heating season, air quality is also affected by local heating installations in the towns. Close attention is paid on an ongoing basis at both mines to prevent spontaneous fires in the coal seams and to extinguish them when they do occur.

A new Act No. 201/2012 Sb. on Air Protection took effect on September 1, 2012. In accordance with Section 41(6) of said Act, within one year of the effective date the company must apply, on behalf of both Bílina Mines and Nástup Tušimice Mines, to the Ústí Regional Authority for a permit to operate sources of air pollution. In conjunction with its application for this permit, the company will submit newly reworked operating rules for both mines to the Ústí Regional Authority for approval.

## Waste Management

Nástup Tušimice Mines generated a total of 2,272 tons of waste in 2012. A total of 3,565 tons of other waste was delivered to the Tušimice Mining Area for utilization in landscape formation. Compared with 2011, the waste generation figure was down 508 tons. The recyclable component of hazardous waste consisted mainly of used motor, transmission, hydraulic, and lubricating oils, as well as lead and nickel-cadmium batteries.

The recyclable portion of other waste consisted primarily of scrap metal and separated paper and plastics.

The Tušimice Mining Area, in which the Nástup Tušimice Mines conducts its mining operations, is also operated as a surface waste utilization facility. The Ústí Regional Authority issued a consent for operation of a surface waste utilization facility (under the amended Decree of the Ministry of the Environment No. 294/2005 Sb.) including approval of the updated rules of operation. The rules deal in particular with specific conditions for utilization of minewater purification sludges in the course of landscaping operations. The entire sludge utilization process is monitored on an ongoing basis. Each time waste is delivered to the facility, a sample is taken and analyses conducted to determine its content of metals subject to regulation, and the eco-toxicity of the waste is monitored as well.

Bílina Mines produced a total of 3,804 tons of waste in 2011: 471 tons of which was classified as hazardous waste and the remaining 3,333 tons as other waste. The volume of hazardous waste fell 44 tons (8.5%) compared to 2011. In other waste (iron and steel), the volume generated rose 350 tons (11.7%) year-on-year. The reduction in hazardous waste is a positive development. The objectives of waste management are to limit the production of waste; to sort, further utilize, and recycle waste materials; and to incinerate or landfill waste that can no longer be utilized.

## Noise

Long-haul belt conveyors and excavators are the principal sources of noise in surface mining operations. The company conducts regular, monthly monitoring in all affected towns in the vicinity of both mines and submits the monitoring results to municipal and State government authorities in the form of data reports.

The measurements are taken by an independent, accredited laboratory and the results are presented to the affected municipalities at monthly intervals. Since noise levels in the towns are also influenced by the operation of cars, trucks, and trains, noise measurements are taken in the evening hours.

In accordance with the fulfillment of the strict terms of the new consenting opinion in the EIA (Environmental Impact Assessment) for operation of the Nástup Tušimice Mines pit in 2014–2029, which the District Mining Office in Most also took into its decision, Severočeské doly will continue to expend substantial sums to reinforce protective measures, particularly in relation to the negative impacts, in the vicinity of the pit, of noise and dust emissions from mining activity.

## Water Protection and Management

In 2012, Bílina Mines discharged a total of 6,889,000 m<sup>3</sup> of minewater. Of this amount, 3,026,000 m<sup>3</sup> went through the Emerán Minewater Treatment Plant. Also, 259,000 m<sup>3</sup> of wastewater was produced – 150,000 m<sup>3</sup> of which was treated by the ČEZ, a. s., Ledvice Power Station wastewater treatment plant (under contract) and 109,000 m<sup>3</sup> was treated by the Bílina Wastewater Treatment Plant of Severočeské vodovody a kanalizace, a.s. (also under contract).

2012 saw commencement of the “Expansion of the Emerán Minewater Treatment Plant” project, with drainage work getting underway in the northeastern portion of the pit near the City of Ledvice. The project is slated for completion in 2013.

At Nástup Tušimice Mines, regular maintenance of wastewater treatment plant and water management equipment took place.

The Březno Minewater Treatment Plant treated 1,507,000 m<sup>3</sup>. Sewage treatment plants and industrial wastewater treatment plants produced 119,000 m<sup>3</sup> and 83,000 m<sup>3</sup> of water, respectively.

Quality of minewater discharged at both mining sites complied with the conditions of the Clean Water Act (254/2001 Sb.) and Government Regulation No. 61/2003 Sb.

## Use of Surface and Underground Water

At Bílina Mines, groundwater is pumped from drainage wellbores in the area ahead of the mining operation’s advance, in order to lower the water table in the area of the sumps. In 2012, 361,000 m<sup>3</sup> of groundwater was pumped to the surface. This water is released into surface water flows without further utilization.

Surface and underground water in the “Teplice Spoilbank” area ahead of the mining operation’s advance will be drained in 2013.

Surface water from the Elbe River, obtained via the ČEZ, a. s. Ledvice Power Station, is utilized and recorded.

Nástup Tušimice Mines does not pump any groundwater. Neither Nástup Tušimice Mines nor Bílina Mines takes any surface water directly from streams or other surface water flows.

## Environmental Management System

The Environmental Management System encompasses:

- compliance with requirements of applicable legislation;
- compliance with decisions issued by State government agencies;
- implementation of requirements of applicable legislation in company internal directives;
- a system of internal controls.

Waste management, water management, air protection, and integrated pollution register records and reports are compiled electronically. Some of them are also submitted electronically, directly to the nationwide databank of the Integrated Disclosure Compliance System.

In addition to generally binding environmental regulations, the management system and internal controls at the mining operations are subject to specialized mining regulations. Inspections are carried out by State mining administration authorities.

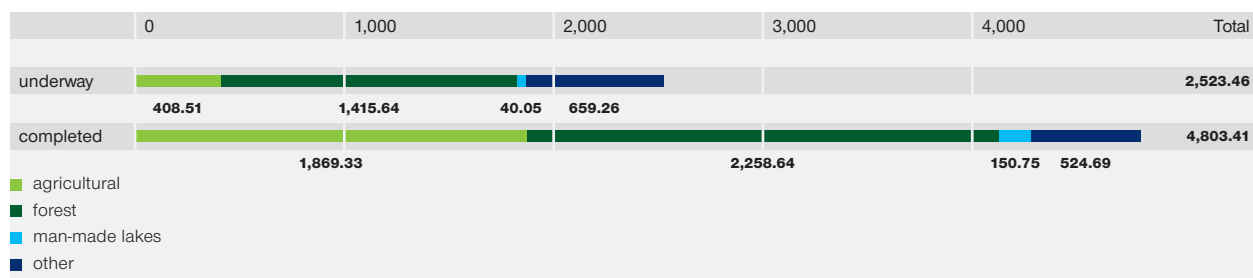
## Decommissioning, Reclamation, and Restoration of Mining Damage

### Decommissioning and Reclamation Provision

Severočeské doly Group spends considerable sums to minimize and eliminate the environmental impacts of mining activity – on reclaiming affected land and environmental CAPEX in particular. Each year, it also adds to a provision it has set up for mitigating the impacts of mining activity both during mining operations and after the mines are decommissioned. From a long-term perspective, we are creating not just the conceptual and technical, but also financial conditions necessary so that, once coal reserves have been exhausted in a given location, a new landscape can be formed and the entire area affected by mining can be returned in a condition that is in line with principles of sustainable development and the needs of the region, suitable for both commercial and cultural utilization.

Project documentation is prepared in accordance with the Summary Decommissioning and Reclamation Plan approved by the Opening, Preparation, and Extraction Plan. The reclamation planning strategy is based on the objective of shielding towns and cities from active coal mining and overburden dumping areas by taking protective measures and building noise-barrier embankments, walls, and forest strips that mitigate negative phenomena that accompany mining activity.

#### Status of Reclamation Projects at Year End 2012 (hectares)



In 2012, reclamation works began on 158.9 hectares and were completed on another 230.7 hectares.

#### How Reclamation Projects Are Implemented

Reclamation projects are outsourced to the specialized subsidiary SD - Rekultivace, a.s., which handles all reclamation work for Severočeské doly Group.

Significant projects in 2012 included the Pokrok XI reclamation at Bílina Mines and the Březno XVII reclamation at Nástup Tušimice Mines. Also, protection measures (forest strips, windbreaks, and embankments) were implemented for the towns of Mariánské Radčice, Lom u Mostu, Braňany, and Ledvice.

Work is regularly checked by the reclamation department and, on inspection days, by representatives of State government agencies as well as the cities and towns in whose cadastre the reclamation work is being done. Hand-over procedures for completed projects are governed by methodological instructions promulgated by the Ministry of the Environment.

#### Balance of Decommissioning and Reclamation Provision (CZK '000)

Balance at January 1, 2012	6,469,898
Change of estimate, 2012	336,154
Added to provision in 2012	355,013
Used in 2012	249,580
Balance at December 12, 2012	6,911,485

In addition to reclamation projects financed by the company, the Ministry of Finance of the Czech Republic financed reclamation and rehabilitation work through the project "Remediation of environmental damage in the Ústí and Karlovy Vary Regions originating in conjunction with mining operations of State-owned brown coal mining companies in the period prior to their privatization."

#### Remediation of Environmental Damage

##### Project commenced in 2012:

Stabilization and reclamation of a slope located in a high-risk area above old mining works at the northern boundary of the Tušimice Mining Area; budgeted cost of the project is CZK 23,872,000.

##### Projects whose design documentation was prepared in 2012 for a tender held by the Ministry of Finance of the Czech Republic:

- Bílina – Kostomlaty road, budgeted cost CZK 161,179,000
- Štěpánov – Kostomlaty road, budgeted cost CZK 73,634,000
- Razice – Kostomlaty road, budgeted cost CZK 77,926,000

The tender was canceled and will be repeated, for these projects, in 2013.

#### Land Clearance

At the Bílina Mine, land clearance to enable advance of the mining operation included demolition of buildings, roads, and infrastructure. At Nástup Tušimice Mines, land was cleared to enable the advance of the Libouš II – North pit operation by removing abandoned roads and infrastructure near the town of Březno u Chomutova.

At both pits, deforestation and removal of wood matter was completed sufficiently in advance, before the growing season. Topsoil was stripped and either set aside for later use or transported directly to reclamation sites.

Biological studies and archeological preservation surveys were performed at both mines during the land clearance process.

#### Provision for Mining Damage

Under the Mining Act, the Group is required to remediate mining-related damage. In 2012, the provision for mining damage was not used, either at Bílina Mines or at Nástup Tušimice Mines.

#### Addition to and Use of the Provision for Mining Damage (CZK '000)

Balance at January 1, 2012	3,100
Added to provision in 2012	0
Used in 2012	0
Balance at December 12, 2012	3,100

# Research and Development

## R&D Activities

Research and development at Severočeské doly takes the form of technical development task assignments, both tangible and intangible in character, relating to technical innovations of mining, transportation, and processing equipment, as well as research toward mitigating environmental burdens. The results in this area serve to improve operating reliability in the production process and reduce the negative impacts of pit operations – noise and dust in particular – on work and municipal environments. In the third quarter of 2012, work commenced in the project “Increasing the lifetime of conveyor belts subject to impact wear”. The project will be implemented in 2012–2014 as part of the “TIP” grant program run by the Ministry of Industry and Trade of the Czech Republic, in cooperation with the project leader – IDIADA CZ a.s. – and with the Technical University of Košice, where laboratory stress tests will be conducted on conveyor belt samples.

PRODECO, a.s. is a vendor of GABAR, a fixed aerosol fire suppression system consisting of GABAR aerosol generators imported from the Russian Federation and an electronic digital control system manufactured by Schrack Seconet. The system is certified. In 2012, the company financed the development of its own aerosol fire suppressant that will be produced in the Czech Republic, as a replacement for the imported suppressant. The first phase of development was successfully completed with semi-operational production of a “nil series”. In 2013, necessary testing will take place, leading to certification. The Schrack Seconet control system will be preserved, with some changes. The new system will be sold under the registered trademark AFIREX. Research and development outlays totaled CZK 175,000 in 2012 and were charged to the income statement.

For a considerable portion of its R&D needs, Severočeské doly makes use of its associate, Výzkumný ústav pro hnědé uhlí a.s. (Brown Coal Research Institute, joint-stock company), which provides design and engineering services as well as specialized technical know-how, particularly in the field of brown coal mining. Application of R&D results in surface mining operations has a positive impact through more efficient extraction techniques, better occupational safety and health conditions, improved environmental protection, and lower costs.

Principal activities include:

- new directions in technology for utilizing coal deposits and coal processing;
- operational verificatory combustion tests of new types of coal and non-coal products, including emission measurements;
- carrying out material strength and stability calculations concerning surface mining process equipment.

# Litigation

Severočeské doly is engaged in routine litigation ensuing from the character and substance of the company's business.

1. Labor claims – mostly claims seeking indemnification for work-related injuries and health problems, disputes concerning fulfillment of obligations under work-study agreements, and disputes concerning compensation of damage caused to the company by employees.
2. Disputes arising out of criminal activity – primarily seeking compensation of damages caused by criminal acts against the company such as thefts of non-ferrous metals (cables) and metal components from mining-related machinery and equipment.
3. Business-law disputes, mostly seeking payment of debts arising out of breach of obligations under signed contracts.
4. Another group of disputes relate to the use of apartments – debts arising out of default on obligations under purchase agreements concerning apartments that used to be owned by the company and disputes seeking back rent on said apartments.

Furthermore, the company is a party to suits relating to the purchase of equity securities from minority shareholders (the so-called "squeeze-out"). Certain minority shareholders sued Severočeské doly and its corporate parent, ČEZ, a. s., seeking review of the amount of counter-consideration and granting of right to a different amount of counter-consideration in the squeeze-out. The outcome of these proceedings is impossible to predict.

The other members of Severočeské doly Group are also involved in routine litigation relating to the character of their business. In particular, the disputes relate to labor- and business-law relations, and none of them should have any significant impact on the financial position of the Group members in question.

# Severočeské doly Group Donorship and Advertising Partnerships

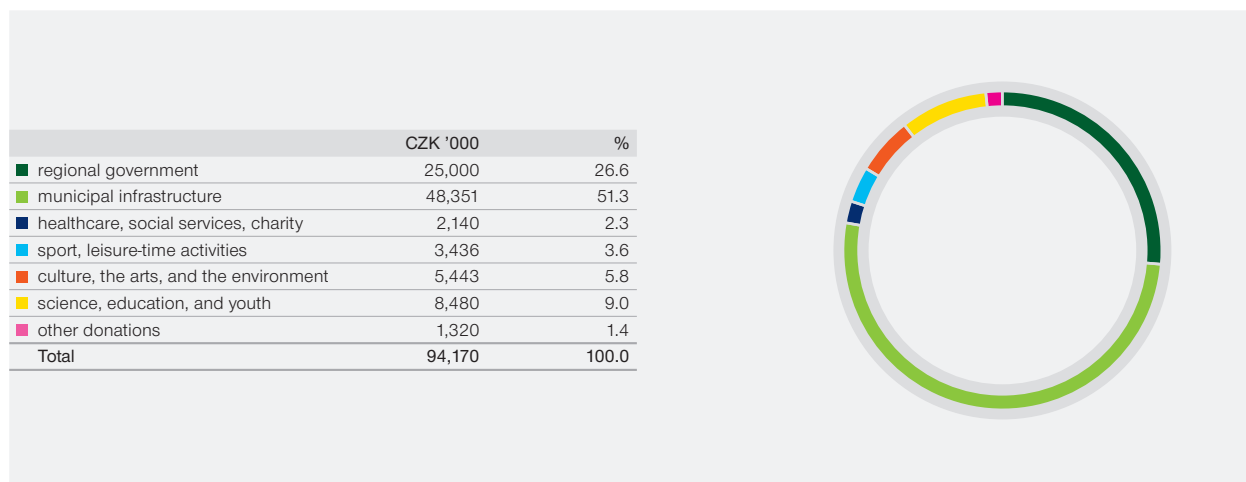
The company has a precisely defined CSR (Corporate Social Responsibility) strategy that has won the European Corporate Responsibility Award. Communications with our surrounding area and positive feedback are necessary preconditions for obtaining a mining activity permit. For Severočeské doly, the CSR strategy consists primarily of communicating with communities and the public in the vicinity of the mines, building a positive corporate image, and securing a long-term, sustainable position as an entity whose operations do have a partially negative impact on life in their vicinity, but – overall – the positive effects outweigh the negatives.

Severočeské doly's active communications and engagement are primarily realized through representatives of the municipalities that lie close to the mines. The company endeavors to make its communications quick, direct, and personal, and to focus them especially on the youngest generation. For it is the children who will fully witness the results of our reclamation efforts, and these are the most attractive area of Severočeské doly's operations in terms of CSR. Employees and their proposals from the areas where they live and work are an important input to the Severočeské doly strategy. The innovative nature of the company's approach lies in the fact that CSR activities are a direct part of the everyday work of the company's top management.

## Donorship

Severočeské doly believes that close cooperation and communication among all players influencing what goes on in the region can lead to a long-term improvement in the quality of life of people in local communities and benefit all stakeholders. The basic condition for regional development is a favorable business climate, both in the larger region and in the town cadasters, for entities that do business there. Other conditions for successful development are economic stability of the region, labor peace, and other aspects that improve the environment for residents.

The parent company endeavors to be perceived by the towns as a player whose activities have a significant and positive effect on the life of town residents and their surroundings, in the areas of zoning, employment, the environment, and tax revenue. In accordance with these rules, the company is endeavoring to "Help" the region and to paint a realistic picture of a "Region with a better outlook" for future generations of Ústí Region residents.

**Structure of Donations in 2012 (CZK '000)****Principal Advertising Projects of 2012**

We Help – a project popularizing our donorship and sponsorship activities, the objective of which is to convince the public that our priority is the Ústí Region and communities in the immediate vicinity of the mines. This includes a subproject entitled We Help Children, including a number of events focused on preschool children (finger-painting, field trips) and school children (nature field trips, trips to the Podkrušnohorský Zoo, Old Bohemian Christmas).

Region With a Better Outlook – a program targeted, in particular, at residents of the areas surrounding the mines, highlighting for them the quality of land reclamation works and care for the environment. This project includes cooperation in preparation of the Mariánské Radčice Fair, the Braňany Village Fair, support for improving the environment in Ledvice (building of a Central Heating Source), improvements to municipal infrastructure in Březno u Chomutova, etc. The project also includes a sub-project entitled “STOP DUST” – a joint initiative of cities and towns under Bořeň Mountain and Severočeské doly. Participants in the subproject, which focuses on continually improving air quality (including seeking and submitting solution proposals), are cities and towns in the vicinity of the Bílina mine, Severočeské doly, and a team of air protection specialists.

Stability in Dynamism – a publication on the culture and vision of Severočeské doly, emphasizing the key role played by coal in the history, development, and future of the Ústí Region.

Project name	Project components
“Region With a Better Outlook”	Pesvice Aviation club – aerial photography, sight-seeing and observation flights “Region With a Better Outlook” documentary Presentation materials as part of the “Region With a Better Outlook” project Support for advertising initiatives in Braňany, Mariánské Radčice, Osek, Březno, Duchcov
“Stability in Dynamism”	Company presentation materials as part of the project Support for the EKOFILM 2012 film festival
“We Help”	Cultural programs for children under the patronage of Severočeské doly Tours and field trips for children
“Mining Traditions”	Mining towns meeting in Chomutov Mining museums and mining clubs – support for various activities Advertising in mining trade journals and magazines, publications, etc.

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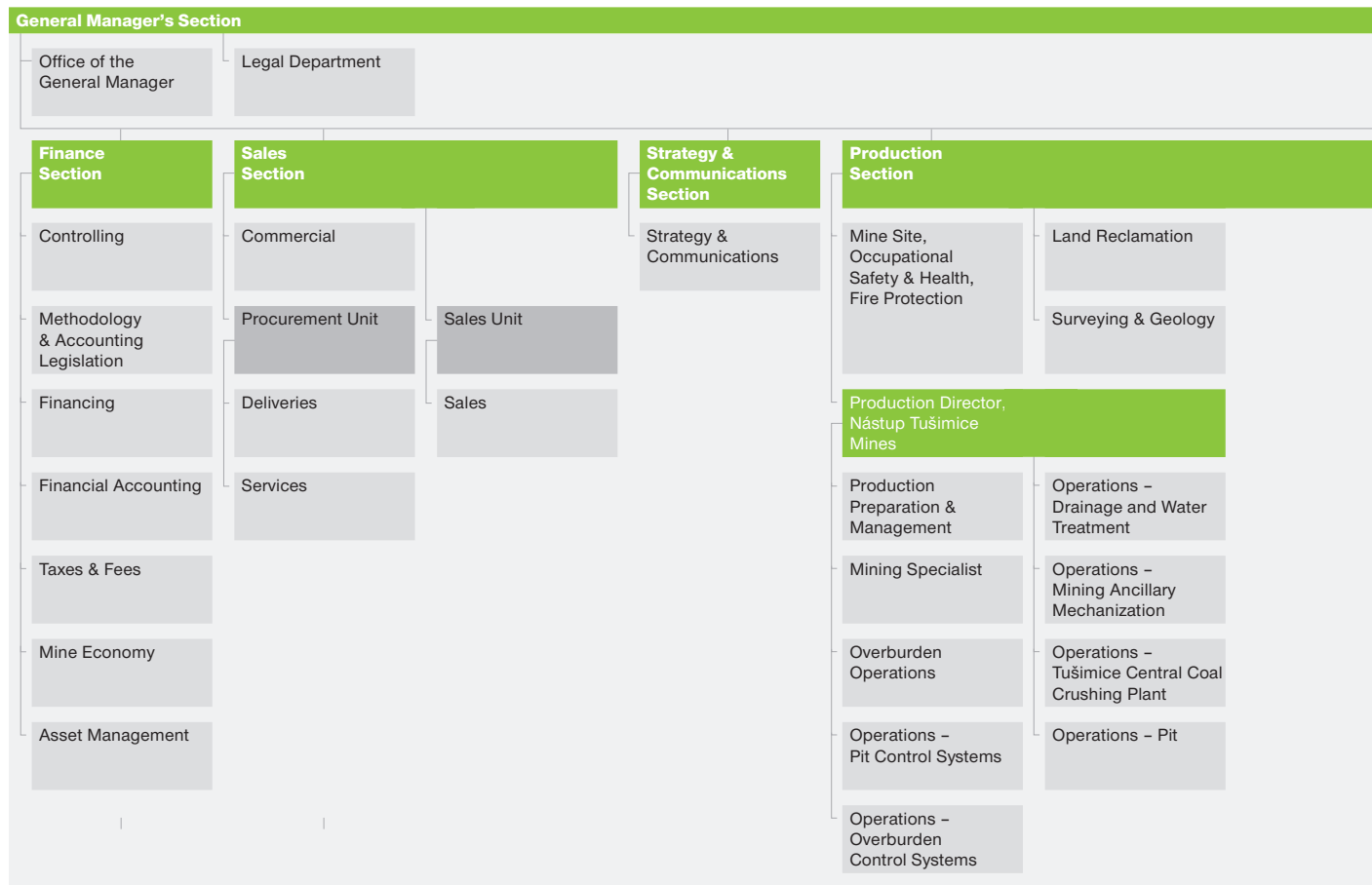
## INTEGRATION WITH LOGIC AND EFFECT

For Severočeské doly, the advantage of being part of the large and financially strong CEZ Group lies in the possibility, and the necessity, of achieving a greater and more pronounced degree of integration wherever it makes sense and brings positive results for the principal business. Severočeské doly places great emphasis on the support and active participation of both middle management and key blue-collar professions as the project moves forward with a targeted process of streamlining and optimizing measures aimed at reducing costs, improving returns, and ensuring a successful future – even in relatively poor business conditions.

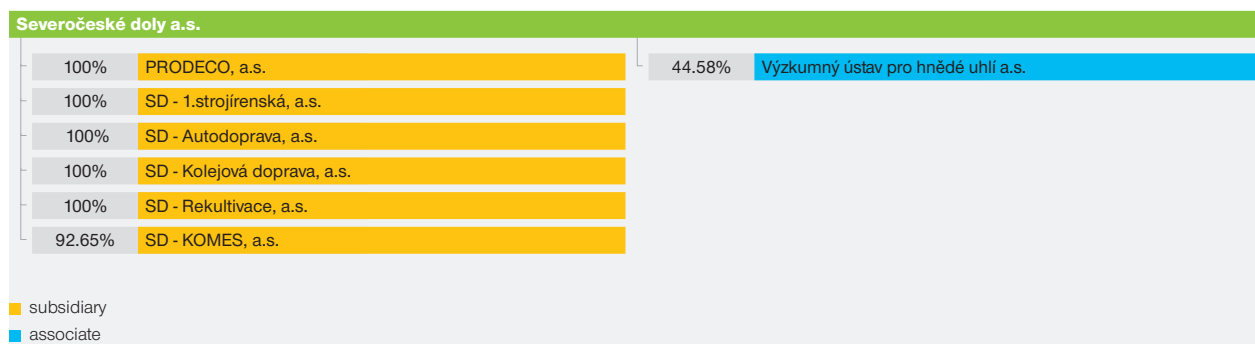


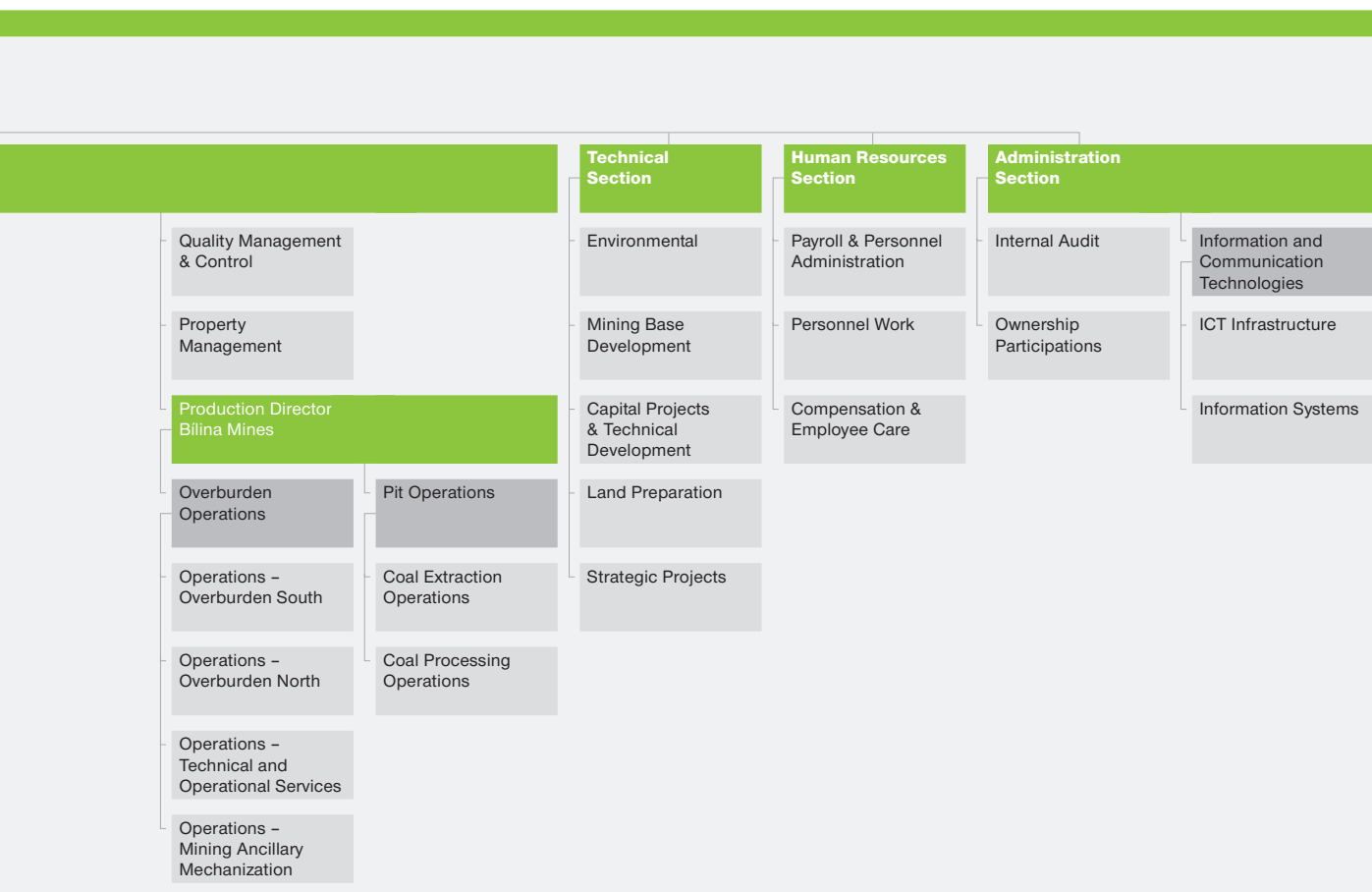
# Basic Organization Chart as at March 1, 2013

## Severočeské doly a.s.



## Severočeské doly Consolidated Group





# Directory of Group Companies

## Subsidiaries

### SD - 1.strojirenská, a.s.

Josef Zetek  
Chairman of the Board of Directors  
and Company Director  
Důlní 437  
418 01 Bílina  
tel.: +420 417 804 911  
fax: +420 417 804 912  
www.prvnistrojirenska.cz

### PRODECO, a.s.

Petr Vorlíček  
Chairman of the Board of Directors  
and Executive Director  
Masarykova 51  
416 78 Teplice  
tel.: +420 417 633 777  
fax: +420 417 538 472  
www.prodeco.cz

### SD - Autodoprava, a.s.

Petr Hokr  
Chairman of the Board of Directors  
and Company Director  
Důlní 429  
418 01 Bílina  
tel.: +420 417 805 801  
fax: +420 417 805 870  
www.sdaudoprava.cz

### SD - Rekultivace, a.s.

Josef Hejsek  
Chairman of the Board of Directors  
and Company Director  
Tušimice 7  
432 01 Kadaň  
tel.: +420 474 604 001  
www.sd-rekultivace.cz

### SD - KOMES, a.s.

Martin Fefrčík  
Chairman of the Board of Directors  
and Company Director  
Moskevská 14/1  
434 01 Most  
tel.: +420 476 146 001  
fax: +420 476 146 055  
www.komes.cz

### SD - Kolejová doprava, a.s.

František Maroušek  
Chairman of the Board of Directors  
and Company Director  
Tušimice 7  
432 01 Kadaň  
tel.: +420 474 602 161  
fax: +420 474 602 916  
www.sd-kd.cz

## Associate

### Výzkumný ústav pro hnědé uhlí a.s.

Marcela Šafářová  
Company Director  
Budovatelů 2830/3  
434 37 Most  
tel.: +420 476 208 610  
fax: +420 476 706 948  
www.vuhu.jednicky.cz

# Information Center

As of the spring of 2011, Severočeské doly has an Information Center. Members of the public can find it in the company's office building in Chomutov. It was established for the purpose of dispensing information, primarily on modern brown coal mining techniques. At the Center, interested parties will also learn about environmental protection and post-mining land renewal. Among the most frequent visitors are children and students, but teachers as well as the professional and lay public will also find valuable information here. 2,000 children visited the Information Center during 2012.

Character of exhibit	brown coal surface mines
Address	Chomutov, Boženy Němcové 5359
Telephone number	+420 474 604 636
Website	<a href="http://www.infocentrumsdas.cz">www.infocentrumsdas.cz</a> 
Entrance fee	free
Advance reservation	advance reservation not necessary for individuals, but is required for large groups
Opening hours	Mon–Fri: 8:00 a.m.–4:00 p.m.

## Březno Dragon

The Březno Dragon – a KU800 excavator – is becoming one of the Chomutov area's premier attractions. The machine, which was in operation at Nástup Tušimice Mines for over 30 years, currently serves as an industrial landmark that brings tourists to the town of Březno. Nowhere else in the Czech Republic is it possible to see a retired mining machine from up close. The KU800 is the principal attraction of the outdoor exhibit. With a height of 52 meters, the mining giant is comparable to the Chomutov City Tower and the Petřín Lookout Tower in Prague. The Březno Dragon has become an attraction not just for mining buffs, but primarily for families with children. For children, there is a fairy tale story about the a dragon, Severus, and a knight that saved the town of Březno. Fairy tale backdrops are available where visitors can have their picture taken as they become, for just a moment, a medieval knight or driver of the excavator. All little visitors receive a wooden sword as a gift. On their way to the excavator, visitors are accompanied by a guide from Severočeské doly, who is prepared to answer their questions. 8,500 people visited the Březno Dragon in 2012.

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www

### Ledvice Power Station Information Center

Cooperation continues with the ČEZ Information Center in Ledvice, which was a logical step following the integration of Severočeské doly into the CEZ Group organization. The Ledvice information center is focused on a modern coal-fired power plant with supercritical parameters – the first of its kind in the Czech Republic.

### Tours

Severočeské doly enables the public to visit its mining operations and reclaimed land areas. Tours of the various mining operations are popular mainly with elementary and secondary school students and their teachers, particularly from the Ústí Region, which is the company's priority. The schools that are interested in the tours are those whose curriculum is focused on development, exploratory learning, and environmental education – i.e. on practical applications of theoretical education in geography, nature science, chemistry, geology, and petrography. The tours give visitors an overall view of one important activity in the region: mining of coal for subsequent use in generation of heat and electricity. This is direct, effective communication with the public. Also positive is the interest expressed by instructors and students from the Charles University in Prague, the Technical University of Ostrava, and the Jan Evangelista Purkyně University in Ústí nad Labem. In 2012, the Bílina Mine hosted a total of 77 tours, representing 1,646 visitors. Severočeské doly employees acquainted them with the pit area, the mining operation's future advance, the deployment of a new excavator unit, and shifting of the existing long-haul belt conveyors. Tušimice Mine was visited by 22 tours with over 900 participants. Visitors to Nástup Tušimice Mines also included representatives of universities, secondary schools, and primary schools, as well as representatives of CEZ Group, Czech Television, filmmakers, and even a group of Members of the Chamber of Deputies of the Parliament of the Czech Republic. In response to popular demand, in October the company organized trips to the mine on a special fairy-tale mine train, as part of the "Putting the Březno Dragon to Sleep" event.

# Contacts

## Corporate Headquarters

Severočeské doly a.s.  
Boženy Němcové 5359  
430 01 Chomutov  
tel.: +420 474 602 111  
fax: +420 474 652 264  
ID for data messages: 58gchbx  
[www.sdas.cz](http://www.sdas.cz) 

## Mines

Severočeské doly a.s.  
Bílina Mines  
Důlní 375/89  
418 29 Bílina  
tel.: +420 417 804 111  
fax: +420 417 829 080

Severočeské doly a.s.  
Nástup Tušimice Mines  
Tušimice 7  
432 01 Kadaň  
tel.: +420 474 602 111, +420 474 602 906  
fax: +420 474 333 187

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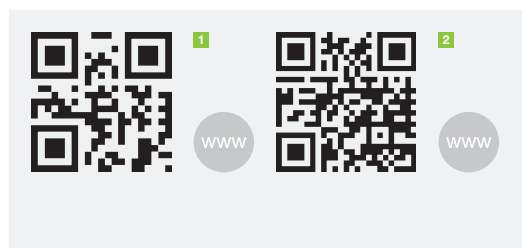
www

## Severočeské doly Group Electronic Presentations

Severočeské doly operates its own website, [www.sdas.cz](http://www.sdas.cz) <sup>1</sup>, on the Internet. There, it presents Severočeské doly's principal business, coal mining and reclamation, as well as other public relations activities. The site also carries information on the company's core product – brown coal – and links to the websites of the subsidiaries.

The Information Center has its own website: [www.infocentrumsdas.cz](http://www.infocentrumsdas.cz) <sup>2</sup>. It was launched during the Information Center's grand opening on April 22, 2011. Every day, the website has nearly 100 visitors. The numbers always grow immediately before and after events are held at the Information Center. They also grow after events in which Severočeské doly participates. Internet users are most interested in events related to the so-called DRAGON SEVERUS. Most visitors to the Information Center's website are from the Czech Republic, but connections were recorded from the USA, Germany, and Slovakia, as well.

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# Information for Shareholders and Investors

## Method Used to Calculate Key Indicators According to IFRS

Indicator	Units	Calculation
Assets turnover	number	Total operating revenues / Average assets
Capital expenditure (CAPEX)	CZK millions	Additions to property, plant and equipment and intangibles + change in balance of advance payments for same
Coverage of fixed assets	%	(Shareholders' equity + non-current liabilities including provisions and non-current bank borrowings + deferred tax liability) / fixed assets
Current ratio	%	Current assets / Current liabilities
EBIT	CZK millions	Operating income before taxes (Operating result)
EBIT margin	%	EBIT / Total operating revenues (Total sales revenues)
EBITDA	CZK millions	Operating income before taxes, depreciation, and amortization
Extent of depreciation	%	Accumulated depreciation and impairment of property, plant and equipment / property, plant and equipment in use, gross
Financial debt (total debt)	CZK millions	Non-current liabilities including bonds outstanding and current portion + current borrowings
Financial debt / EBITDA	%	(Non-current liabilities including bonds outstanding and current portion + current borrowings) / EBITDA
Financial debt / equity	%	(Non-current liabilities including bonds outstanding and current portion + current borrowings) / average shareholders' equity
Net income	CZK millions	Income after income tax (current period earnings)
Net income per share	CZK	Income after income tax / Average number of shares outstanding
Operating cash flow	CZK millions	Net cash provided by operating activities
Operating cash flow-to-liabilities ratio	%	Net cash provided by operating activities / (non-current liabilities including provisions and non-current bank borrowings)
Return on Assets, net (ROA net)	%	Income after income tax / average total assets
Return on Equity, net (ROE net)	%	Income after income tax / average equity
Return on Invested Capital (ROIC)	%	(EBIT + creation/release of other provisions) x (1 - corporate income tax rate) / average invested capital
Sales revenues	CZK millions	Total operating revenues

Remark: Average value = (Value at end of previous year + Value at end of current year) / 2.

# List of Tables and Graphs in the Annual Report

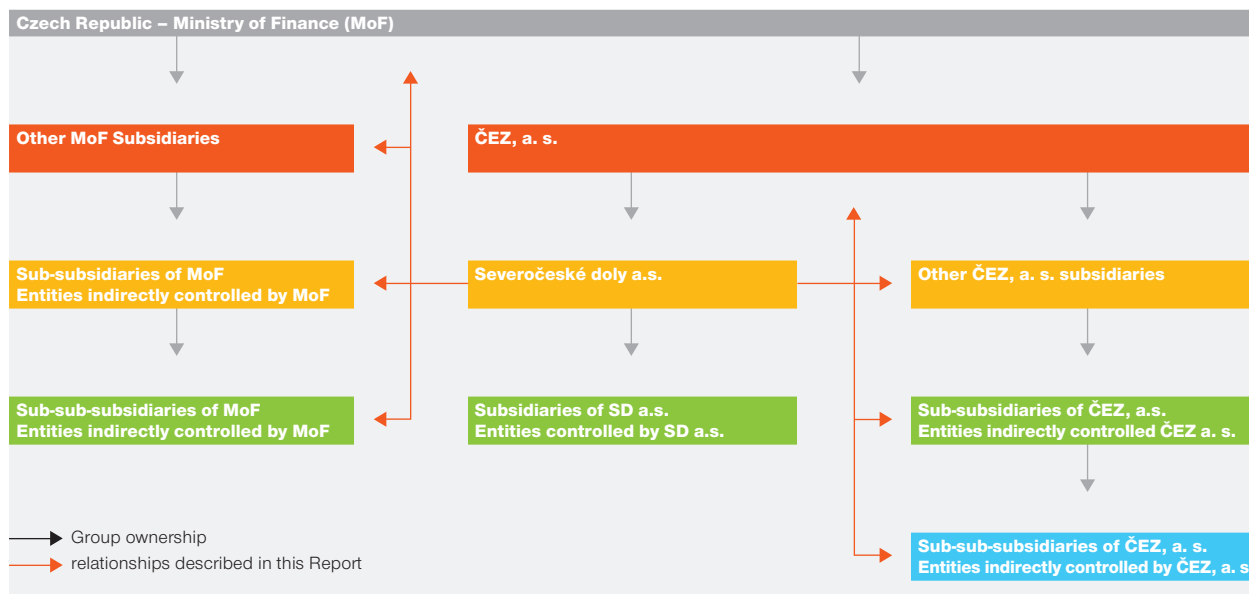
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# Related Parties Report for the Year 2012

This report is the Report on Relations Among the Controlling Entity and a Controlled Entity and Among Parties Controlled by the Same Controlling Entity ("Related Parties") for the accounting period from January 1, 2012 to December 31, 2012, pursuant to Section 66a(9) of the Commercial Code, as amended.

## 1. Chart Showing Relationships within the Group



## 2. Group Structure Chart

See insert under back cover flap.

### 3. Controlling Entity and Subject of Related Parties Report

#### ČEZ, a. s. – Controlling Entity

Company	ČEZ, a. s.
With its seat at	Duhová 2/1444, 140 53 Prague 4
ID number	452 74 649
Incorporated in the Commercial Register maintained by	Municipal Court in Prague, part B, insert 1581

#### Severočeské doly a.s. – Controlled Entity – compiler of the Report

Company	Severočeské doly a.s.
With its seat at	Boženy Němcové 5359, 430 01 Chomutov
ID number	49901982
Incorporated in the Commercial Register maintained by	Regional Court in Ústí nad Labem, part B, insert 495
Manner of control	The Controlling Entity, ČEZ, a. s., is the sole shareholder of Severočeské doly a.s.

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### 4. Alphabetical List of Companies – Group Members

See insert under back cover flap.

## 5. Contractual Relations

### 1. ČEZ, a. s.

Severočeské doly a.s. provides ČEZ, a. s. with power generation coal from both mining sites in the course of day-to-day business relations. Deliveries are made under 11 signed contracts. In addition to payments for these coal deliveries, Severočeské doly a.s. also accepted payments under 33 signed contracts and confirmed purchase orders for lease of land and buildings, fire brigade services, supplies of water, heat, and electricity, surveying, accommodation in a hotel operated by the company, disposal of soil, training, electronic chip cards, creation of a lien, treasury management services, and other services. The total amount of supplies to ČEZ, a. s. (payments received by Severočeské doly a.s.) relating to 2012 was CZK 6,322,748 thousand. Under 7 signed contracts, Severočeské doly a.s. purchased in 2012 goods and services from ČEZ, a. s. in the form of supplies of heat, surface and process water, wastewater treatment, consulting, internal audit services, co-financing and cooperation in reclaiming leased land parcels, and creation of a lien. Furthermore, three re-invoicings for consulting services, travel insurance, and liability insurance were received from ČEZ, a. s. The total amount of supplies from ČEZ, a. s. (payments made by Severočeské doly a.s.) relating to 2012 was CZK 62,841 thousand. During 2012, Severočeské doly a.s. paid a total of CZK 1,707,159 thousand in dividends for the benefit of ČEZ, a. s. Severočeské doly a.s. accepted short-term loans from ČEZ, a. s., at standard market terms, under which it incurred CZK 9,377 thousand in interest expenses.

### 2. ČEZ Distribuce, a. s.

Under one signed contract, Severočeské doly a.s. secured lease of a transformer station room for this company. The total amount of payments received by Severočeské doly a.s. in relation to 2012 was CZK 18 thousand. Under two signed contracts, ČEZ Distribuce, a. s. provided Severočeské doly a.s. with electricity distribution. Payments made by Severočeské doly a.s. in relation to 2012 totaled CZK 399,666 thousand.

### 3. ČEZ Energetické produkty, s.r.o.

Under a confirmed purchase order, Severočeské doly a.s. supplied ČEZ Energetické produkty, s.r.o. with electronic chip cards, and in return received a payment of CZK 2 thousand from said company in 2012.

### 4. ČEZ ICT Services, a. s.

Under one signed contract, in 2012 Severočeské doly a.s. purchased data services consisting of Internet connection. Furthermore, under thirty confirmed purchase orders Severočeské doly a.s. purchased from said company supplies of hardware (desktop computers, monitors, laptops, servers, and a mobile telephone). The total volume of payments issued by Severočeské doly a.s. in relation to 2012 was CZK 6,481 thousand.

### 5. ČEZ Logistika, s.r.o.

Under 50 confirmed purchase orders, ČEZ Logistika, s.r.o. supplied Severočeské doly a.s. with drums, wires, cables, warning balls, circuit breakers, and other similar materials, including returnable containers. The total volume of payments issued by Severočeské doly a.s. in relation to 2012 was CZK 2,341 thousand.

### 6. ČEZ Prodej, s.r.o.

Under seven signed contracts and one confirmed purchase order, Severočeské doly a.s. purchased electricity and gas from this company. Payments made by Severočeské doly a.s. for 2012 totaled CZK 8,187 thousand.

**7. ČEZ Správa majetku, s.r.o.**

Under a confirmed purchase order, Severočeské doly a.s. provided ČEZ Správa majetku, s.r.o. with accommodations in the Nástup Hotel and, under an agreement of January 26, 2012, wage compensation was paid. In return for this consideration, Severočeské doly a.s. received a payment of CZK 103 thousand from said company in 2012.

Under four signed contracts, ČEZ Správa majetku, s.r.o. provided Severočeské doly a.s. the following: lease of vehicles, use of CCS, UTA, and ČEPRO cards, lease of an office, and printing and reprographic services. Furthermore, under five purchase orders, ČEZ Správa majetku, s.r.o. provided Severočeské doly a.s. with the following: printers, transport of a vehicle, vehicle technical inspection, and refreshments. The total volume of payments issued to said company by Severočeské doly a.s. in relation to 2012 was CZK 10,613 thousand.

**8. ČEZ Teplárenská, a.s.**

Under five signed contracts, Severočeské doly a.s. provided ČEZ Teplárenská, a.s. with the following: creation of liens, exchanger stations, supplies of water, wastewater disposal, and supplies of electricity. The total volume of payments received by Severočeské doly a.s. in relation to 2012 was CZK 975 thousand.

Under two signed contracts, ČEZ Teplárenská, a.s. provided Severočeské doly a.s. with supplies of heat. The total volume of payments issued by Severočeské doly a.s. in relation to 2012 was CZK 23,542 thousand.

**9. Elektrárna Počeradý, a.s.**

Under a signed contract, Severočeské doly a.s. provided said company with services consisting of management of assets on accounts restricted in use. The total volume of payments received by Severočeské doly a.s. in relation to 2012 was CZK 6 thousand.

**10. Energotrans, a.s.**

Under a signed contract, Severočeské doly a.s. provided Energotrans, a.s. with coal in a total amount of CZK 684,499 thousand.

**11. in PROJECT LOUNY ENGINEERING s.r.o.**

Under two confirmed purchase orders, during the year the company in PROJECT LOUNY ENGINEERING s.r.o. provided Severočeské doly a.s. the following: re-build of a gas boiler installation into garages, and hydrogeological wellbores. The total volume of payments issued by Severočeské doly a.s. in relation to 2012 was CZK 132 thousand.

**12. JTSD - Braunkohlebergbau GmbH**

Under a signed contract between Severočeské doly a.s. and JTSD - Braunkohlebergbau GmbH, Severočeské doly a.s. provided services relating to the administration of Severočeské doly's stake in JTSD - Braunkohlebergbau GmbH in a total value of CZK 4,262 thousand.

### 13. MARTIA a.s.

Under a signed contract, Severočeské doly a.s. supplied MARTIA a.s. with coal in a total amount of CZK 9,773 thousand. Furthermore, under four confirmed purchase orders, Severočeské doly a.s. provided mine surveyor services, security training, and electronic cards. Payments received by Severočeské doly a.s. for 2012 totaled CZK 9,813 thousand.

Under a signed contract, MARTIA a.s. build a feeder line for Severočeské doly a.s. in a total amount of TCZK 2,090 thousand. Furthermore, under seven confirmed purchase orders, MARTIA a.s. provided Severočeské doly a.s. the following services: an audit, an estimate of heat losses, project documentation, repair of heating equipment, repair and tuning of manostats, and a temporary re-routing of free lines. Payments made by Severočeské doly a.s. for 2012 totaled CZK 2,927 thousand.

### 14. ŠKODA PRAHA Invest s.r.o.

Under a confirmed purchase order, ŠKODA PRAHA Invest s.r.o. received consideration for provision of a lien. The total volume of payments issued by Severočeské doly a.s. for 2012 was CZK 91 thousand.

### 15. Teplárna Trmice, a.s.

Under a signed contract, Severočeské doly a.s. provided this company with coal supplies in 2012. The total volume of payments received by Severočeské doly a.s. in relation to 2012 was CZK 333,160 thousand.

### 16. ULITEP, spol. s r.o.

Under two confirmed purchase orders, ULITEP, spol. s r.o. provided Severočeské doly a.s. with services consisting of verifying the functionality of water and heat meters. Payments made by Severočeské doly a.s. for 2012 totaled CZK 26 thousand.

### 17. Výzkumný ústav pro hnědé uhlí a.s.

Under a signed agreement and a confirmed purchase order, during the year Severočeské doly a.s. provided this company with supplies of electricity, electronic cards, and vehicle washing services. The total volume of payments received by Severočeské doly a.s. in relation to 2012 was CZK 75 thousand. In 2012, Severočeské doly a.s. received from Výzkumný ústav pro hnědé uhlí a.s. under 12 signed contracts and 38 confirmed purchase orders services in the form of monitoring, specialized metering and analyses, inspections, seminars, translations, and other similar services. The total volume of payments issued by Severočeské doly a.s. in relation to 2012 was CZK 28,757 thousand.

## 6. Other Relations

In the period in question, Severočeské doly a.s. did not take any actions or measures in the interests or at the behest of related parties other than under business contracts, nor did it provide any consideration for which it did not receive adequate performance in return.

## 7. Other Information

### 7.1. Confidentiality

The compiler of this Report considers information on prices and amounts to be business secrets and therefore this information is not disclosed in detail above.

### 7.2. Auditor's opinion on the Related Parties Report for the Year 2012

Name of audit firm	Ernst & Young Audit, s.r.o.
License number of audit firm	401
Name and surname of auditor	Josef Pivoňka
License number of auditor	1963

This Related Parties Report will be reviewed by the auditor. The auditor's opinion is given in the 2012 Annual Report of Severočeské doly Group.

## 8. Conclusion

The compilation of this Report as of December 31, 2012 was secured by the statutory body of Severočeské doly a.s.

The Report was compiled according to the best knowledge and awareness of the compiler and best efforts were used to obtain the documentation from which the information was drawn.

Since the relations among related parties were conducted at arm's length, Severočeské doly a.s. did not suffer any property loss under contracts entered into with related parties.

The Report will be submitted to the Supervisory Board for review. The Supervisory Board will present its opinion to the sole shareholder when it makes its decision with the powers of the General Meeting.

Chomutov, April 5, 2013



Ivan Lapin  
Chairman of the Board of Directors



Jan Kalina  
Member of the Board of Directors

## Awards Received in 2012 and 2013 Up to Annual Report Closing Date

Severočeské doly received a major award – the Golden Permon – in 2012. This is a safety-in-mining award. The Golden Permon is granted to entities subject to supervision by the Czech Republic's State mining administration in recognition of excellence in occupational safety.

Each year, Severočeské doly is among the top-ranking companies in the CZECH TOP 100 survey. In 2012, it was ranked as one of the ten best Czech corporations. The CZECH TOP 100 association publishes rankings in various categories, one of which being the Best Annual Reports, in which Severočeské doly placed 5th.

The highest sector award, the Jiří Agricola medal granted by the Czech Mining Office was presented in late 2012 to Jiří Neruda, Severočeské doly's Production Director, in recognition of his role and work in developing the mining industry.

# Independent Auditor's Report

## To the Shareholder of Severočeské doly a.s.:

We have audited the accompanying consolidated financial statements of Severočeské doly Group which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of Severočeské doly Group see Note 1 to the financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

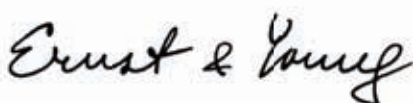
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing as amended by implementation guidance of the Chamber of Auditors of the Czech Republic. Those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

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

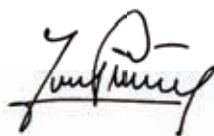
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Severočeské doly Group as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.



Ernst & Young Audit, s.r.o.  
License No. 401  
Represented by partner



Josef Pivoňka  
Auditor, License No. 1963

# Severočeské doly Group Consolidated Balance Sheet in Accordance with IFRS for the Year Ended 31 December 2012

(in CZK millions)

ASSETS	Note	2012	2011
<b>Property, plant and equipment</b>			
Plant in service		45,375	42,133
Less accumulated provision for depreciation and impairment loss		(24,163)	(22,598)
Net plant in service		21,212	19,535
Construction work in progress		376	438
<b>Total property, plant and equipment</b>	<b>4</b>	<b>21,588</b>	<b>19,973</b>
<b>Other non-current assets</b>			
Investments	5	1,826	2,572
Investments in associates	7	61	59
Financial assets restricted in use	9	3,795	2,974
Non-current receivables, net	11	-	447
Intangible assets, net	10	29	41
<b>Total other non-current assets</b>		<b>5,711</b>	<b>6,093</b>
<b>Current assets</b>			
Cash and cash equivalents	13	2,516	1,067
Investments	5	416	1,021
Accounts receivable, net	11	2,131	1,935
Materials and supplies, net	12	652	737
Other current assets		53	66
Financial assets restricted in use	9	2	50
Assets classified as held for sale	8	-	1,037
<b>Total current assets</b>		<b>5,770</b>	<b>5,913</b>
<b>TOTAL ASSETS</b>		<b>33,069</b>	<b>31,979</b>

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	2012	2011
<b>Shareholders' equity</b>			
Share capital	16	9,081	9,081
Revaluation reserve		9	9
Net unrealized gains on revaluation of financial instruments		641	624
Retained earnings	16	11,396	10,966
Total shareholders' equity attributable to equity holders of the parent		21,127	20,680
Non-controlling interest		14	14
<b>Total shareholders' equity</b>		<b>21,141</b>	<b>20,694</b>
<b>Non-current liabilities</b>			
Provision for decommissioning, reclamation and mining damages	3	6,915	6,473
Deferred tax liability	18	1,002	896
Other non-current liabilities		38	37
<b>Total non-current liabilities</b>		<b>7,955</b>	<b>7,406</b>
<b>Current liabilities</b>			
Short-term debt and current portion of long-term debt	14	1,771	757
Accounts payable	15	1,985	2,853
Income tax payable		87	93
Accrued and other liabilities	15	130	176
<b>Total current liabilities</b>		<b>3,973</b>	<b>3,879</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>33,069</b>	<b>31,979</b>

The accompanying notes are an integral part of these consolidated financial statements.

# Severočeské doly Group

## Consolidated Statement of Income

### in Accordance with IFRS for the Year Ended

## 31 December 2012

(in CZK millions)

	Note	2012	2011
<b>Revenues</b>			
Sales of coal		10,105	10,425
Other sales		1,256	806
<b>Total revenues</b>	<b>17</b>	<b>11,361</b>	<b>11,231</b>
<b>Expenses</b>			
Repairs, maintenance and other services		(2,153)	(1,966)
Personnel	19	(2,470)	(2,435)
Depreciation and amortization		(2,349)	(2,064)
Spare parts and other materials		(404)	(301)
Energy		(1,065)	(1,152)
Other operating expenses, net		(312)	(84)
<b>Total expenses</b>		<b>(8,753)</b>	<b>(8,002)</b>
<b>Other income/(expenses)</b>			
Gain/(loss) from associates		2	(2,881)
Gain on disposal of associates		27	-
Interest income	20	246	275
Interest on provisions for reclamation and decommissioning	3	(280)	(284)
Other financial income, net	21	72	7
<b>Total other income, net</b>		<b>67</b>	<b>(2,883)</b>
<b>Profit before income taxes</b>		<b>2,675</b>	<b>346</b>
<b>Income taxes</b>	<b>18</b>	<b>(538)</b>	<b>(35)</b>
<b>Profit after income taxes</b>		<b>2,137</b>	<b>311</b>
Attributable to			
Equity holders of the parent		2,137	317
Non-controlling interest		-	(6)
Profit after income taxes per share (CZK per share)			
Basic	16	235	34
Diluted	16	235	34
Average number of shares outstanding (shares)			
Basic	16	9,080,631	9,080,631
Diluted	16	9,080,631	9,080,631

The accompanying notes are an integral part of these consolidated financial statements.

# Severočeské doly Group

## Consolidated Statement of Comprehensive Income

### in Accordance with IFRS for the Year Ended 31 December 2012

(in CZK millions)

	2012	2011
Profit after income taxes	2,137	311
Comprehensive income		
Change in fair value of available-for-sale financial assets recognized in equity	(77)	(34)
Revaluation of available-for-sale financial assets reclassified to profit or loss	561	27
Deferred tax relating to other comprehensive income	(90)	(2)
Foreign exchange rate gains/(losses), net	(377)	616
Other comprehensive income, net of tax	17	607
Total comprehensive income, net of tax	2,154	918
Total comprehensive income attributable to		
Equity holders of the parent	2,154	924
Non-controlling interest	-	(6)

# Severočeské doly Group

## Consolidated Statement of Changes in Equity

### in Accordance with IFRS for the Year Ended 31 December 2012

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(in CZK millions)

	Note	Number of shares	Share capital	Revaluation reserve	Net unrealized gains/(losses)	Translation differences	Retained earnings	Total shareholders' equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Balance as at 31 December 2010		9,080,631	9,081	9	256	(239)	12,156	21,263	20	21,283
Total comprehensive income		-	-	-	(9)	616	317	924	(6)	918
Equity dividends paid	16	-	-	-	-	-	(1,507)	(1,507)	-	(1,507)
Balance as at 31 December 2011		9,080,631	9,081	9	247	377	10,966	20,680	14	20,694

(in CZK millions)

	Note	Number of shares	Share capital	Revaluation reserve	Net unrealized gains/(losses)	Translation differences	Retained earnings	Total shareholders' equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Balance as at 31 December 2011		9,080,631	9,081	9	247	377	10,966	20,680	14	20,694
Total comprehensive income		-	-	-	394	(377)	2,137	2,154	-	2,154
Equity dividends paid	16	-	-	-	-	-	(1,707)	(1,707)	-	(1,707)
Balance as at 31 December 2012		9,080,631	9,081	9	641	-	11,396	21,127	14	21,141

The accompanying notes are an integral part of these consolidated financial statements.

# Severočeské doly Group

## Consolidated Statement of Cash Flows

### in Accordance with IFRS for the Year Ended

## 31 December 2012

(in CZK millions)

	2012	2011
<b>OPERATING ACTIVITIES</b>		
Profit before income taxes	2,675	346
Adjustments to reconcile profit before income taxes to net cash provided by operating activities		
Depreciation and amortization	2,349	2,064
Interest income, net	(240)	(266)
Increase in provisions	356	353
Reversal of allowances	53	77
(Gain)/Loss on disposal of property, plant and equipment	121	(20)
(Gain)/Loss from associates	(2)	2,881
Gain on disposal of subsidiaries, associates and share exchanges	(27)	-
<b>Changes in current assets and liabilities</b>		
Receivables and other current assets	251	(83)
Spare parts and other materials	63	177
Accounts payable, accrued and other liabilities	(556)	941
<b>Cash generated from operations</b>	<b>5,043</b>	<b>6,470</b>
Income taxes paid	(528)	(452)
<b>Net cash provided by operating activities</b>	<b>4,515</b>	<b>6,018</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from disposal of subsidiaries and associates net of cash disposed of	686	-
Purchase of property, plant and equipment and intangible assets	(3,913)	(4,526)
Payments for financial investments	(674)	(441)
Proceeds from sale of property, plant and equipment	179	26
Proceeds from sale of financial investments	2,155	2,795
Change in financial assets restricted in use	(821)	(286)
Interest received	271	297
Payments for decommissioning, reclamation and restoration of mining damages	(250)	(336)
<b>Total cash used in investing activities</b>	<b>(2,367)</b>	<b>(2,471)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from borrowings	30,002	30,302
Payments of borrowings	(28,988)	(31,658)
Interest paid	(6)	(7)
Dividends paid	(1,707)	(1,507)
<b>Total cash used in financing activities</b>	<b>(699)</b>	<b>(2,870)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,449</b>	<b>677</b>
Cash and cash equivalents at beginning of year	1,067	390
Cash and cash equivalents at end of year	2,516	1,067

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The accompanying notes are an integral part of these consolidated financial statements.

# Severočeské doly Group

## Notes to the Consolidated Financial Statements for the Year Ended 31 December 2012

### 1. General

Severočeské doly a.s. ("Severočeské doly" or "the Company") is a Czech Republic joint-stock company which was established on 1 January 1994. Its registered office is at B. Němcové 5359, 430 01 Chomutov, Czech Republic. The Company was established by merging two state-owned enterprises, Doly Nástup Tušimice and Doly Bílina. As at 31 December 2012, the sole shareholder of the Company was ČEZ, a. s.; the Czech Republic represented by the Ministry of Finance held 69.8% of ČEZ's shares (70.3% of voting rights) as at 31 December 2012. The remaining shares of ČEZ, a. s., are publicly held. The Company is included in the ČEZ group.

Severočeské doly is a mining company which has a 52.55% share of the lignite market in the Czech Republic. The Company has an agreement with ČEZ, a. s., the dominant electricity producer in the Czech Republic and the holder of 100% of the Company's outstanding shares, to supply lignite to ČEZ's four fossil-fuel power plants in the North Bohemia region and certain large fossil-fuel power plants and heating plants elsewhere in the Czech Republic. As a result, 73.99% of the lignite production was supplied to ČEZ, a. s., which represented 57.79% of ČEZ's lignite consumption. The Company operates two separate mines: the Nástup Tušimice ("DNT") mine and the Bílina ("DB") mine. As at 31 December 2012, the geological reserves in the restricted mining areas amounted to 1,097 million tons of lignite, of which 385 million tons can still be mined. The annual production of the mines is 23.2 million tons of lignite, with an overburden roof of 79.38 million cubic meters of earth.

#### Members of the statutory bodies as at 31 December 2012 were as follows

Board of Directors		Supervisory Board	
Chairman	Ivan Lapin	Chairman	Tomáš Indra
Vice Chairman	Jiří Postolka	Vice Chairman	Daniel Beneš
Member	Vladimír Budinský	Vice Chairman	Jan Demjanovič
Member	Miroslav Eis	Member	Pavel Cyrani
Member	Jan Kalina	Member	Václav Fišer
Member	Jiří Neruda	Member	Zdeněk Hübner
Member	Jiří Zahradník	Member	Luboš Jankůj
		Member	Tomáš Julínek
		Member	Viktor Liška
		Member	Zdeňka Montagová
		Member	Petr Polák
		Member	Šimon Vohar

As at 29 February 2012, Pavel Vaňas and Josef Molek were removed from their position of the Board of Directors members. Jan Kalina and Vladimír Budinský were appointed new members of the Board of Directors as at 1 March 2012. As at 31 March 2012, Jiří Zahradník resigned from the position of the Board of Directors Vice Chairman; however, he remained a regular member of the Board of Directors. Jiří Postolka was appointed a Vice Chairman of the Company as at 1 April 2012.

Jan Demjanovič and Tomáš Indra were appointed new Supervisory Board members as at 1 January 2012. As at 14 December 2012, Daniel Beneš resigned from the position of the Supervisory Board Chairman. Tomáš Indra was appointed the new Chairman of the Supervisory Board as at 14 February 2012. As at 14 February 2012, Daniel Beneš and Jan Demjanovič were appointed new Supervisory Board Vice Chairmen.

## 2. Summary of Significant Accounting Policies

### Statement of Compliance

These consolidated financial statements of the Severočeské doly group have been prepared in accordance with the International Financial Reporting Standards ("IFRS") adopted by the EU. The IFRS adopted by the EU which are applied by the Group do not currently differ from the IFRS as issued by the International Accounting Standards Board (IASB).

### Basis of Preparation

The consolidated financial statements are prepared under the historical cost convention, except when IFRS requires other measurement basis as disclosed in the accounting policies below.

### Principles of Consolidation

The consolidated financial statements of the Severočeské doly group ("the Group") include Severočeské doly a.s. and its subsidiaries (see Note 26). The subsidiaries are companies which the Group controls, i.e. in which the Group owns more than 50% of the voting rights or otherwise is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

### Business combinations after 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are recognized in profit or loss as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, are recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Changes in the fair value of contingent consideration classified as equity are not recognized.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired ("negative goodwill"), then the Group first reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination. Any excess remaining after the reassessment is recognized immediately in profit or loss.

A change in the ownership interest of a subsidiary, without loss of control, is accounted as an equity transaction.

Losses within a subsidiary, reported after 1 January 2010, are attributed to the non-controlling interest even if that results in a deficit balance.

### Business combinations prior to 1 January 2010

The purchase method of accounting is used to account for the acquisition of subsidiaries from unrelated parties. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the Group's interest in the fair value of the net assets of the subsidiary acquired is recorded as goodwill. If the Group's interest in the fair value of acquiree's net assets exceeds the cost of business combination ("negative goodwill"), then the Group first reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination. Any excess remaining after the reassessment is recognized immediately in profit or loss.

In case of subsequent acquisition of a non-controlling interest in a subsidiary, which has been already controlled by the Group, the goodwill is measured as the difference between the cost of the additionally acquired shares and the book value of the non-controlling interest acquired.

Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated. Unrealized losses are eliminated only to the extent that there is no evidence of impairment of the asset transferred.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The Group's investments in its associate and joint-ventures are accounted for under the equity method of accounting. Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. Negative goodwill arising on acquisition of associates is recognized into profit or loss.

After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associate. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

### **Functional and Presentation Currency**

The consolidated financial statements are presented in Czech crowns (CZK), which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

### **Estimates**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from those estimates. Explanation of key assumptions is included in relevant sections of notes where significant estimates are being described.

### **Revenue Recognition**

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognized net of sales taxes and discounts.

Revenue from sales of assets are recognized when delivery has taken place and transfer of risks and rewards has been completed.

Revenues from sales of services are recognized on providing services to third parties.

Revenue from sales of goods are recognized when delivery has taken place and transfer of risks and rewards has been completed. Revenues from sales of services are recognized on providing services to third parties.

Interest is recognized as interest accrues using the effective interest method.

Dividends are recognized when the shareholder's right to receive payment is established.

### **Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. The original cost also includes the estimated cost of dismantling and removing the asset and restoring the site to the extent that it is recognized as a provision under IAS 37, Provisions, Contingent Liabilities and Contingent Assets.

The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense when incurred. Renewals and improvements are capitalized. Upon sale, retirement or replacement of part of an item of property, plant and equipment, the cost and related accumulated depreciation of the disposed item or its replaced part are eliminated from the accounts. Any resulting gains or losses are included in profit or loss.

When each major overhaul or inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

Depreciation is computed on a straight-line basis over the following estimated useful lives:

	Years
Buildings and structures	10.0–60.0
Machinery and equipment	3.0–20.0
Furniture and fixtures	3.0–12.5
Motor vehicles	3.5–16.7

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

Construction-work-in-progress represents plant and properties under construction and is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Construction-work-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group reviews the recoverable amounts of its property, plant and equipment to determine whether such amounts continue to exceed the assets' carrying values. Identified impairment of property, plant and equipment is recognized directly in profit or loss in the line item of Other operating expenses.

### Intangible Assets

Intangible assets consist mainly of software and are valued at their acquisition cost and related expenses.

Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives of 3.5 years. The amortization period and the amortization method are reviewed annually at each financial year-end.

### Goodwill

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and joint-ventures is included in investments in associates and joint-ventures. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is lower than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### Investments

The Group applies IAS 39, Financial Instruments: Recognition and Measurement. Recognition and Measurement. As a result, financial investments are classified into the following categories: held-to-maturity, loans and receivables and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity other than loans and receivables originated by the Group are classified as held-to-maturity investments. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. All other investments, other than loans and receivables originated by the Group, are classified as available-for-sale.

Held-to-maturity investments are included in non-current assets unless they mature within 12 months of the balance sheet date. Available-for-sale investments are classified as current assets if management intends to realize them within 12 months of the balance sheet date.

All purchases and sales of investments are recognized on the settlement date.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.

Available-for-sale investments are subsequently carried at fair value, without any deduction for transaction costs, by reference to their quoted market price at the balance sheet date.

Gains or losses on measurement to fair value of available-for-sale investments are recognized as a separate component of shareholders' equity, until the investment is sold or otherwise disposed of, or until it is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in net profit or loss for the period.

Held-to-maturity investments are carried at amortized cost using the effective interest rate method.

### Repurchase Agreements

Securities sold under repurchase agreements (repos) are presented as a financial liability secured by the pledge of the securities. The liability is carried at amortized cost using the effective interest rate method.

### Interest

The Group capitalizes all interest incurred in connection with its construction program that theoretically could have been avoided if expenditures for the qualifying assets had not been made. The qualifying assets include assets, for which the construction represents a substantial period of time.

### Receivables, Payables and Accruals

Receivables are stated at the fair value of the consideration given and are carried at amortized cost, after allowance for any uncollectible amounts. As at 31 December 2012 and 2011, the allowance for uncollectible receivables amounted to CZK 53 million and CZK 53 million, respectively.

Payables are recorded at invoiced values and accruals are reported at expected settlement values.

### Cash and Cash Equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

### Financial Assets Restricted in Use

Restricted balances of cash and other financial assets, which are shown under non-current financial assets as restricted funds (see Note 9), relate to decommissioning and reclamation of land affected by mining and compensation of mining damages. The non-current classification is based on the expected timing of the release of the funds to the Group.

### Materials and Supplies

Materials and supplies are principally composed of plant maintenance materials and spare parts. These items are valued at cost after allowance for obsolete items. These materials are recorded in inventory when purchased and then expensed or capitalized to plant, as appropriate, when used. Accumulated allowance for obsolete items of CZK 113 million and CZK 91 million were created against materials, supplies and goods as at 31 December 2012 and 2011, respectively.

### Income Taxes

The provision for corporate tax is calculated in accordance with Czech tax regulations and is based on the income or loss reported under Czech accounting regulations, adjusted for appropriate permanent and temporary differences from Czech taxable income. In the Czech Republic, income taxes are calculated on an individual company basis as the tax laws do not permit consolidated tax returns. Current income taxes are provided at a rate of 19% and 19% for the years ended 31 December 2012 and 2011, respectively, after adjustments for certain items which are not deductible for taxation purposes. The Czech corporate income tax rate for 2013 and the subsequent years will be 19%.

Certain items of income and expense are recognized in different periods for tax and financial accounting purposes. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes are provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets and liabilities are recognized regardless of when the timing difference is likely to reverse. Deferred tax assets and liabilities are not discounted. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. A deferred tax liability is recognized for all taxable temporary differences.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred tax assets and liabilities of Group companies are not offset in the balance sheet.

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

Change in the carrying amount of deferred tax assets and liabilities due to change in tax rate is recognized in the income statement, except to the extent that it relates to items previously charged or credited to equity.

### Provisions

A provision is recognized when, and only when, the company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

The Company has recognized provisions for its obligations to decommission and reclaim its mines at the end of their operating lives. The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. As at 31 December 2012 and 2011, such cost estimates, expressed at current price levels, are discounted using a long-term real rate of interest of 2.0% and 2.5%, respectively per annum to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the mines. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of estimated long-term inflation rate, with the charges being recognized as a component of interest expense. As at 31 December 2012 and 2011, the effect of inflation is estimated at approximately 1.5% and 2.0%, respectively.

Changes in a decommissioning liability that result from a change in the current best estimate of cash flows required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognized as the related asset. However, to the extent that such a treatment would result in a negative asset, the effect of the change should be recognized in the income for the current period.

The decommissioning and reclamation process is expected to continue for approximately fifteen years after the end of operation of the mines, which is currently estimated to be 2035. While the Company has made its best estimate in establishing its provisions, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning and reclamation activities, the ultimate provision requirements could either increase or decrease significantly from the Company's current estimates.

### Exploration for and Evaluation of Mineral Resources

Expenditures on exploration for and evaluation of mineral resources are charged to expense when incurred.

### Foreign Currency Transactions

Asset acquisitions which were denominated in foreign currencies were translated to the Czech crowns at the exchange rates prevailing at the date of each acquisition or at the date on which the related items were included in assets.

Foreign currency on hand, bank accounts, receivables, payables and other monetary assets and liabilities denominated in foreign currencies are translated to Czech crowns at the exchange rates existing at the transaction date and are adjusted at year-end to the exchange rates at that date as published by the Czech National Bank.

Exchange rate differences arising on settlement of transactions or on reporting foreign currency transactions at rates different from those at which they were originally recorded are included in the Consolidated Statement of Income as they occur.

As at 31 December 2012 and 2011, the Group used the following exchange rates to translate assets and liabilities denominated in foreign currencies into Czech crowns:

	2012	2011
CZK per 1 EUR	25.140	25.800

### Impairment of Assets

#### Financial instruments

Financial instruments are reviewed for impairment at each balance sheet date. For financial assets carried at amortized cost, whenever there is objective evidence that the company will not collect all amounts due according to the contractual terms of receivables or held-to-maturity investments, an impairment or bad debt loss is recognized in the Consolidated Statement of Income. Reversal of impairment losses previously recognized is recorded when the decrease in impairment loss can be objectively related to an event occurring after the write-down. Such reversal is recorded in income. However, the increased carrying amount is only recognized to the extent it does not exceed what amortized cost would have been had the impairment not been recognized.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available for sale are not recognized in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the income statement.

### Other assets

IAS 36, Impairment of assets, applies to all assets other than inventories, deferred tax assets and financial instruments. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in income. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if this is not possible, for the cash-generating unit to which the asset belongs. Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased.

The reversal is recorded in income. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for that asset in prior years.

### Contingencies

Contingent assets and liabilities are not recognized in the financial statements. Contingent liabilities are disclosed unless the possibility of an outflow of economic resources is remote. Contingent assets are disclosed when an inflow of economic benefits is probable.

### Non-current Assets Held for Sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

### Subsequent Events

Post-year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

### IFRS Standards and IFRIC Interpretations adopted in 2012

The accounting policies adopted are consistent with those of the previous financial year except as follows. The Group has adopted the following new or amended and endorsed by the EU IFRSs and IFRIC interpretations as at 1 January 2012:

- IAS 12 Income Taxes – Deferred Taxes (Amendment) effective 1 January 2012;
- IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment) effective 1 July 2011;
- IFRS 7 Financial Instruments: Disclosures (Amendment) effective 1 July 2011.

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

#### IAS 12 Income Taxes – Deferred Taxes: Recovery of Underlying Assets (Amendment)

The amendment becomes effective for annual periods beginning on or after 1 January 2012. It clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The Group does not currently have any investment property as well as is not using revaluation model therefore this did not affect its financial position or performance.

**IFRS 1 First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment)**

The amendment is effective for annual periods beginning on or after 1 July 2011 with early adoption permitted. When an entity's date of transition to IFRS is on or after the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date, at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation. The amendment did not have an impact on the Group's financial position, performance or its disclosures.

**IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements (Amendment)**

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment does not currently have an impact on the Group's financial position, performance or its disclosures.

All other standards and interpretations whose application was mandatory for the period beginning on or after 1 January 2012 have no material impact on the Group's consolidated financial statements.

**New IFRS standards and interpretations either not yet effective or not yet adopted by the EU**

The Group is currently assessing the potential impacts of the new and revised standards and interpretations that will be effective or adopted by the EU from 1 January 2013 or later. Standards and interpretations most relevant to the Group's activities are detailed below:

**IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (OCI)**

The amendment becomes effective for annual periods beginning on or after 1 July 2012. The amendment to IAS 1 changes the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment does not change the nature of the items that are currently recognised in OCI, nor do they impact the determination of whether items in OCI are reclassified through profit and loss in future periods. The amendment affects presentation only and there is no impact on the Group's financial position or performance.

**IAS 19 Employee benefits (revised)**

The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The more significant changes include the following: for defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed; there are new or revised disclosure requirements which include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption; termination benefits will be recognised at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognised under IAS 37; the distinction between short-term and other long-term employee benefits will be based on expected timing of settlement rather than the employee's entitlement to the benefits. This standard becomes effective for annual periods beginning on or after 1 January 2013. The revised standard has no impact on the Group.

**IAS 28 Investments in Associate and Joint Ventures (revised)**

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Group does not expect that the amendment will have a significant impact on its financial position or performance since the Group had applied the equity method to investments in joint ventures before the revised standard was issued.

**IAS 32 Financial Instruments: Presentation (Offsetting Financial Assets and Financial Liabilities)**

In December 2011, IASB issued an amendment to IAS 32, which is intended to clarify existing application issues relating to the offsetting rules and reduce level of diversity in current practice. The amendment is effective for financial statements beginning on or after 1 January 2014. The amendments clarify that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The IAS 32 offsetting criteria require the reporting entity to intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The amendment clarifies that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion. The Group does not expect the amendment will have an impact on the Group's financial statements.

**IFRS 1 First-time Adoption of International Financial Reporting Standards – Government Loans (Amendment)**

These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods beginning on or after 1 January 2013 and will not have an impact on the Group.

**IFRS 7 Financial Instruments: Disclosures (Offsetting Financial Assets and Financial Liabilities)**

The amendment is effective for annual periods beginning on or after 1 January 2013. This amendment requires an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The Group is currently assessing the impact of this amended IFRS, but does not expect significant impact on its financial statements and disclosures.

**IFRS 9 Financial Instruments – Classification and measurement**

The IFRS 9 was issued in November 2009 and is intended to replace IAS 39 Financial Instruments: Recognition and measurement. The standard introduces new requirements for classifying and measuring financial assets and liabilities. In October 2010 the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities and derecognition of financial assets and liabilities. Most of the requirements in IAS 39 for classification and measurement of financial liabilities and derecognition of financial assets and liabilities were carried forward unchanged to IFRS 9. The standard eliminates categories of financial instruments currently existing in IAS 39: available-for-sale and held-to-maturity. According to IFRS 9 all financial assets and liabilities are initially recognized at fair value plus transaction costs.

**a) Financial assets**

Debt instruments may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost using the effective interest rate method if:

- The asset is held within a business model that has the objective to hold the assets to collect the contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

All other debt instruments are subsequently measured at fair value.

All equity investment financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity instruments held for trading must be measured at fair value through profit or loss. Entities have an irrevocable choice of recognising changes in fair value either in OCI or profit or loss by instrument for all other equity investment financial assets.

**b) Financial liabilities**

For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. The standard has not yet been endorsed by EU.

In subsequent phases of IFRS 9, the IASB will address hedge accounting and the impairment of financial assets.

The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets and liabilities. However, the Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

**IFRS 10 Consolidated Financial Statements**

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation - Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Control exists when an investor has:

- Power over the investee (defined in IFRS 10 as when the investor has existing rights that give it the current ability to direct the relevant activities);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect the amount of the investor's returns.

This standard becomes effective for annual periods beginning on or after 1 January 2013. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after 1 January 2014. The Group does not expect the standard will have a significant impact on current Group's interests in other entities, but may affect the treatment of future acquisitions.

**IFRS 11 Joint Arrangements**

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers.

Joint control under IFRS 11 is defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. "Control" in "joint control" refers to the definition of "control" in IFRS 10. IFRS 11 also changes the accounting for joint arrangements by moving from three categories under IAS 31 to the following two categories:

- Joint operation – An arrangement in which the parties with joint control have rights to the assets and obligations for the liabilities relating to that arrangement. In respect of its interest in a joint operation, a joint operator must recognise all of its assets, liabilities, revenues and expenses, including its relative share of jointly controlled assets, liabilities, revenue and expenses.
- Joint venture – An arrangement in which the parties with joint control have rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method. The option in IAS 31 to account for joint ventures (as defined in IFRS 11) using proportionate consolidation has been removed.

Under these new categories, the structure of the joint arrangement is not the only factor considered when classifying the joint arrangement as either a joint operation or a joint venture, which is a change from IAS 31. Under IFRS 11, parties are required to consider whether a separate vehicle exists and, if so, the legal form of the separate vehicle, the contractual terms and conditions, and other facts and circumstances.

This standard becomes effective for annual periods beginning on or after 1 January 2013. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after 1 January 2014. The Group does not expect the standard will have a significant impact on current Group's interests in other entities, but may affect the treatment of future acquisitions.

**IFRS 12 Disclosure of Involvement with Other Entities**

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 28 and IAS 31. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Some of the more extensive qualitative and quantitative disclosures of IFRS 12 include: provision of summarised financial information for each subsidiary with a material non-controlling interest; description of significant judgements used by management in determining control, joint control and significant influence, and the type of joint arrangement (i.e., joint operation or joint venture); provision of summarised financial information for each individually material joint venture and associate; and description of the nature of the risks associated with an entity's interests in unconsolidated structured entities. This standard becomes effective for annual periods beginning on or after 1 January 2013 and may affect the disclosures in the notes to financial statements. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after 1 January 2014.

**Investment Entities (Amendments to IFRS 10, IFRS 12, IAS 27 and IAS 28)**

In October 2012, IASB issued the amendments that are effective for annual periods beginning on or after 1 January 2014. These amendments will apply to investments in subsidiaries, joint ventures and associates held by a reporting entity that meets the definition of an investment entity. An investment entity will account for its investments in subsidiaries, associates and joint ventures at fair value through profit or loss in accordance with IFRS 9 (or IAS 39, as appropriate), except for investments in subsidiaries, associates and joint ventures that provide services that relate only to the investment entity, which would be accounted for using the equity method. An investment entity will measure its investment in another controlled investment entity at fair value. Non-investment entity parents of investment entities will not be permitted to retain the fair value accounting that the investment entity subsidiary applies to its controlled investees. For non-investment entities, the existing option in IAS 28, to measure investments in associates and joint ventures at fair value through profit or loss, will be retained. The Group is currently assessing the impact that this standard could have on the financial position and performance.

**IFRS 13 Fair Value Measurement**

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted.

Fair value under IFRS 13 is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (i.e., an "exit price"). "Fair value" as used in IFRS 2 Share-based Payments and IAS 17 Leases is excluded from the scope of IFRS 13.

The standard provides clarification on a number of areas, including the following:

- Concepts of "highest and best use" and "valuation premise" are relevant only for non-financial assets;
- Adjustments for blockage factors (block discounts) are prohibited in all fair value measurements;
- A description of how to measure fair value when a market becomes less active.

New disclosures related to fair value measurements are also required to help users understand the valuation techniques and inputs used to develop fair value measurements and the effect of fair value measurements on profit or loss.

The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

**IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine**

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. If the benefit from the stripping activity will be realised in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity recognises these costs as a non-current asset, only if certain criteria are met. This is referred to as the "stripping activity asset". The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortisation and less impairment losses, in the same way as the existing asset of which it is a part. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Group.

**Improvements to IFRSs**

In May 2012, the IASB issued amendments to the following standards, primarily with a view to removing inconsistencies and clarifying wording. The amendments become effective for annual periods on or after 1 January 2013 and will have no impact on the financial position or performance of the Group.

**IFRS 1 First-time Adoption of International Financial Reporting Standards**

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

**IAS 1 Presentation of Financial Statements**

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

**IAS 16 Property Plant and Equipment**

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

**IAS 32 Financial Instruments, Presentation**

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

**IAS 34 Interim Financial Reporting**

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

**3. Provisions for Decommissioning, Reclamation and Mining Damages**

The breakdown of provisions for decommissioning, reclamation and mining damages is as follows (in CZK millions)

	2012	2011
Decommissioning and reclamation	6,912	6,470
Mining damages	3	3
<b>Total provisions</b>	<b>6,915</b>	<b>6,473</b>

**Decommissioning and Reclamation**

The Czech Republic has adopted a series of environmental acts and laws and regulations ("the Acts") concerning the reclamation of damaged land and can impose fines and penalties for not meeting the requirements of the Acts.

The Company is liable under the Acts for continuing restoration of land damaged by its mining activities. The Company and its predecessors have been restoring areas damaged by mining since 1950. As at the end of 2012, approximately 48 square kilometers had been fully restored and an additional 25 square kilometers are under restoration. Additional restoration of land damaged as at 31 December 2012 of approximately 58 square kilometers will be carried out in the future. The Company has established provisions, as described in Note 2, to recognize its estimated liabilities for the decommissioning and reclamation of the areas damaged by mining.

The following is a summary of the provisions as at 31 December 2012 and 2011 (in CZK millions):

	Decommissioning and reclamation	Mining damages	Total
<b>Balance as at 31 December 2010</b>	<b>6,645</b>	<b>3</b>	<b>6,648</b>
Movements during 2011			
Effect of inflation and discount accretion	284	-	284
Use	(336)	(1)	(337)
Additions	69	1	70
Change in estimates	(192)	-	(192)
<b>Balance as at 31 December 2011</b>	<b>6,470</b>	<b>3</b>	<b>6,473</b>
Movements during 2012			
Effect of inflation and discount accretion	280	-	280
Use	(250)	-	(250)
Additions	76	-	76
Change in estimates	336	-	336
<b>Balance as at 31 December 2012</b>	<b>6,912</b>	<b>3</b>	<b>6,915</b>

The provision relates to the extension of the mining area in the respective years. The current cash expenditures reflect the payments for decommissioning and reclamation works carried out in the year.

In 2012, the Company reassessed the estimated decommissioning and reclamation costs at the Bílina and Nástup Mines. The present value of best estimate of the expenditures required to settle the present obligation was increased by CZK 336 million. The estimated decommissioning and reclamation costs at the Bílina and Nástup Mines were reassessed also in 2011, resulting in a decrease of CZK 192 million in the present value of the best estimate of expenditures required to settle the present obligation. This amount was reflected in the net book value of property, plant and equipment recognized in previous periods.

The actual decommissioning and reclamation costs could vary substantially from the above estimates because of new regulatory requirements, changes in technology, increased costs of labor, materials, and equipment and/or the actual time required to complete all decommissioning and reclamation activities.

## 4. Property, Plant and Equipment, Net

Property, plant and equipment as at 31 December 2012 and 2011 is as follows (in CZK millions)

	Buildings and constructions	Plant and equipment	Land and other tangibles	Accumulated depreciation and accumulated impairment loss	Construction work in progress	Total
31 December 2010	7,925	26,808	2,998	(21,059)	1,041	17,713
Additions	-	-	-	-	4,590	4,590
Retirements	(146)	(451)	(2)	587	-	(12)
Transfers	1,176	3,870	147	-	(5,193)	-
Change in IAS 37 estimate	-	-	(192)	-	-	(192)
Reversal of allowances	-	-	-	(79)	-	(79)
Depreciation	-	-	-	(2,047)	-	(2,047)
31 December 2011	8,955	30,227	2,951	(22,598)	438	19,973
Additions	-	-	-	-	3,918	3,918
Retirements	(568)	(484)	(22)	795	-	(279)
Transfers	1,634	2,122	224	-	(3,980)	-
Change in IAS 37 estimate	-	-	336	-	-	336
Additions to allowances	-	-	-	(32)	-	(32)
Depreciation	-	-	-	(2,328)	-	(2,328)
31 December 2012	10,021	31,865	3,489	(24,163)	376	21,588

Land and other tangibles include capitalized costs of provisions (see Note 2). The net book value of capitalized costs of provisions amounted to CZK 510 million and CZK 197 million as at 31 December 2012 and 2011, respectively.

As at 31 December 2012 and 2011, fully depreciated tangible assets still in active use amounted to CZK 5,124 million and CZK 4,864 million, respectively (at acquisition cost).

As at 31 December 2012 and 2011, the Group recorded impairment loss allowances of CZK 219 million and CZK 187 million, respectively, established against assets that are not in use, namely assets pertaining to an ash manipulation facility, mining area edge, hygienic zone and the Radovesice stockpile, and against a breakdown large-scale excavator. The change in impairment loss in the period is reflected in the consolidated statement of income in Other operating expenses, net.

## 5. Investments

Investments as at 31 December 2012 and 2011 are as follows (in CZK millions)

	2012	2011
<b>Investments – non-current</b>		
Debt securities held to maturity	107	107
Debt securities available for sale	1,719	2,465
Total non-current investments	1,826	2,572
<b>Investments – current</b>		
Debt securities held to maturity	251	-
Debt securities available for sale	165	1,021
Total current investments	416	1,021

Non-current held-to-maturity investments comprise mortgage certificates due in 2017, which the Group intends and is able to hold to maturity.

Non-current available-for-sale investments consist primarily of government bonds, commercial debentures and Eurobonds. The fair value of available-for-sale investments was assessed by reference to the quoted price on the relevant Stock Exchange.

Current held-to-maturity investments comprise state treasury bills, bank promissory notes, commercial debentures and certificates of deposits which the Group holds to maturity. This item also includes securities originally classified as non-current held-to-maturity investments, if due within 12 months from the end of the current period.

Current debt securities available for sale consist of government bonds, Eurobonds and mortgage certificates.

As at 31 December 2012 and 2011, part of non-current investments amounting to CZK 1,670 million and CZK 307 million, respectively and current investments amounting to CZK 104 million and CZK 451 million, respectively were pledged to secure repo transactions (see Note 14).

All investments are denominated in CZK.

In 2012 and 2011, a (loss)/gain on revaluation of available-for-sale financial assets of CZK 39 million and CZK (12) million, respectively, was recognized directly in equity. The Group did not create any allowances for investments as at 31 December 2012 or 2011.

**Non-current investments as at 31 December 2012 were contracted to mature in the following periods after the balance sheet date (in CZK millions)**

Maturity	Held-to-maturity	Available-for-sale	Total
Due in less than 1 year	-	-	-
Due in 1-2 years	-	49	49
Due in 2-3 years	-	496	496
Due in 3-4 years	-	368	368
Due in 4-5 years	107	806	913
Due in more than 5 years	-	-	-
<b>Total</b>	<b>107</b>	<b>1,719</b>	<b>1,826</b>

**Non-current investments as at 31 December 2011 were contracted to mature in the following periods after the balance sheet date (in CZK millions)**

Maturity	Held-to-maturity	Available-for-sale	Total
Due in less than 1 year	-	-	-
Due in 1-2 years	-	375	375
Due in 2-3 years	-	49	49
Due in 3-4 years	-	428	428
Due in 4-5 years	-	385	385
Due in more than 5 years	107	1,228	1,335
<b>Total</b>	<b>107</b>	<b>2,465</b>	<b>2,572</b>

**Non-current investments as at 31 December 2012 had the following effective interest rate structure (in CZK millions)**

Maturity	Held-to-maturity	Available-for-sale	Total
Less than 2.0%	-	417	417
From 2.0% to 3.0%	-	215	215
From 3.0% to 4.0%	-	-	-
From 4.0% to 5.0%	107	1,087	1,194
More than 5.0%	-	-	-
<b>Total</b>	<b>107</b>	<b>1,719</b>	<b>1,826</b>

**Non-current investments as at 31 December 2011 had the following effective interest rate structure (in CZK millions)**

Maturity	Held-to-maturity	Available-for-sale	Total
Less than 2.0%	-	49	49
From 2.0% to 3.0%	-	447	447
From 3.0% to 4.0%	-	52	52
From 4.0% to 5.0%	107	1,917	2,024
More than 5.0%	-	-	-
<b>Total</b>	<b>107</b>	<b>2,465</b>	<b>2,572</b>

**Current debt investments as at 31 December 2012 had the following effective interest rate structure (in CZK millions)**

	Held-to-maturity	Receivables from promissory notes	Available-for-sale	Total
Less than 2.0%	-	251	-	251
From 2.0% to 3.0%	-	-	62	62
From 3.0% to 4.0%	-	-	-	-
From 4.0% to 5.0%	-	-	103	103
More than 5.0%	-	-	-	-
<b>Total</b>	<b>-</b>	<b>251</b>	<b>165</b>	<b>416</b>

**Current debt investments as at 31 December 2011 had the following effective interest rate structure (in CZK millions)**

	Held-to-maturity	Receivables from promissory notes	Available-for-sale	Total
Less than 2.0%	-	-	149	149
From 2.0% to 3.0%	-	-	-	-
From 3.0% to 4.0%	-	-	174	174
From 4.0% to 5.0%	-	-	698	698
More than 5.0%	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>1,021</b>	<b>1,021</b>

**6. Group Structure Change**

In 2012, the Company sold a stake in the associate, JTSD - Braunkohlebergbau GmbH. The investment in associate JTSD - Braunkohlebergbau GmbH was reclassified as held for sale in 2011 (see Note 8).

**7. Investments in Associates****The following is a list of the principal investments in associates as at 31 December 2012**

Entity	Registered office	Principal activity	Ownership interest
Výzkumný ústav pro hnědé uhlí a.s.	Most	Research and development and expert opinions	44.58%

**Group's share in summarized financial statement information of associates as at 31 December 2012 (in CZK millions)**

Entity	Assets	Accounts payable	Revenues	Income
Výzkumný ústav pro hnědé uhlí a.s.	67	7	29	2
<b>Total</b>	<b>67</b>	<b>7</b>	<b>29</b>	<b>2</b>

**The following is a list of the principal investments in associates as at 31 December 2011**

Entity	Registered office	Principal activity	Ownership interest
JTSD - Braunkohlebergbau GmbH *	Zeitz	Mining and treatment of minerals, and electricity generation	50.00%
Výzkumný ústav pro hnědé uhlí a.s.	Most	Research and development and expert opinions	44.58%

\* The investment in mining company JTSD - Braunkohlebergbau GmbH was reclassified as held for sale.

**Group's share in summarized financial statement information of associates as at 31 December 2011 (in CZK millions)**

Entity	Assets	Accounts payable	Revenues	Income
Výzkumný ústav pro hnědé uhlí a.s.	67	8	27	2
<b>Total</b>	<b>67</b>	<b>8</b>	<b>27</b>	<b>2</b>

## 8. Assets Classified as Held for Sale

In July 2011, all bodies of the parent company ČEZ, a. s., approved a transaction in which ČEZ Group plans to sell its 50% stake in the German mining company JTSD - Braunkohlebergbau GmbH to Energetický a průmyslový holding, a.s.; the ČEZ Group holds the stake through the Company. After approval by relevant competition authorities, the transaction was completed in June 2012.

The Group reclassified the investment in JTSD - Braunkohlebergbau GmbH to assets held for sale and recognized an impairment of CZK 2,652 million as at 31 December 2011. The impairment represented the excess of the original carrying amount over the sale price and was presented in the statement of income in the line Share of profit (loss) from associates and joint-ventures.

## 9. Financial Assets Restricted in Use

As at 31 December 2012, the Group recorded financial assets of CZK 3,797 million that were restricted in use to cover future reclamation costs; the assets consisted of bank deposits and available-for-sale securities of CZK 30 million and CZK 3,767 million, respectively.

As at 31 December 2011, the Group recorded financial assets of CZK 3,024 million that were restricted in use to cover future reclamation costs; the assets consisted of bank deposits and available-for-sale securities of CZK 164 million and CZK 2,860 million, respectively.

## 10. Intangible Assets, Net

Intangible assets as at 31 December 2012 and 2011 are as follows (in CZK millions)

	Software	Accumulated amortization	Total
31 December 2010	380	(354)	26
Additions	96	-	96
Disposals	(87)	23	(64)
Amortization	-	(17)	(17)
31 December 2011	389	(348)	41
Additions	79	-	79
Disposals	(72)	2	(70)
Amortization	-	(21)	(21)
31 December 2012	396	(367)	29

## 11. Accounts Receivable, Net

Accounts receivable as at 31 December 2012 and 2011 are as follows (in CZK millions)

	2012	2011
Trade receivables	2,124	1,924
Other receivables	60	64
Less: allowance for doubtful accounts	(53)	(53)
Total	2,131	1,935

As at 31 December 2011, the Group recognized long-term advances of CZK 447 million. The advances were granted by subsidiary PRODECO, a.s., to its suppliers and were presented within Non-current receivables, net.

**As at 31 December 2012 and 2011, the ageing analysis of receivables, gross, is as follows (in CZK millions)**

	Not yet due not impaired	Overdue, not impaired					Total
		30 days or less	31-90 days	91-180 days	181-365 days	Over 365 days	
31 December 2011	1,931	4	-	-	-	-	1,935
31 December 2012	2,128	1	1	-	1	-	2,131

	Not yet due, impaired	Overdue, impaired					Total
		30 days or less	31-90 days	91-180 days	181-365 days	Over 365 days	
31 December 2011	-	-	-	-	-	53	53
31 December 2012	-	-	-	-	-	53	53

	Total not yet due	Total overdue					Total
		30 days or less	31-90 days	91-180 days	181-365 days	Over 365 days	
31 December 2011	1,931	4	-	-	-	53	1,988
31 December 2012	2,128	1	1	-	1	53	2,184

**Movements in allowance for doubtful receivables (in CZK millions)**

	2012	2011
Opening balance as at 1 January	53	63
Additions	8	7
Use of allowances against written-off receivables	(4)	(7)
Reversals	(4)	(10)
Closing balance as at 31 December	53	53

**12. Inventories, Net****Inventories as at 31 December 2012 and 2011 are as follows (in CZK millions)**

	2012	2011
Material and spare parts	492	620
Work-in-progress	241	163
Finished products and goods	32	45
Less: allowance for inventory items	(113)	(91)
Total	652	737

**13. Cash and Cash equivalents****Cash and cash equivalents as at 31 December 2012 and 2011 are as follows (in CZK millions)**

	2012	2011
Cash in hand	1	2
Bank accounts	2,515	1,065
Total	2,516	1,067

**14. Short-term Bank Loans**

As at 31 December 2012 and 2011, the Group reported short-term bank loans as follows (in CZK millions):

Bank	2012	2011
Interest rate: 0.00%–1.00%		
ČSOB, a.s.	920	-
Česká spořitelna, a.s.	851	757
Total	1,771	757

Short-term bank loans of CZK 1,771 million and CZK 757 million reported as at 31 December 2012 and 2011, respectively, were used to finance the financial transactions of the Group and were secured by the pledge of securities held by the Group (repo transactions).

## 15. Accounts Payable

Accounts payable as at 31 December 2012 and 2011 are as follows (in CZK millions)

	2012	2011
Trade payables	1,669	2,555
Wages, social and health insurance payable	207	173
Other tax liabilities	83	98
Other	26	27
<b>Total</b>	<b>1,985</b>	<b>2,853</b>

As at 31 December 2012 and 2011, accrued and other liabilities include in particular unbilled deliveries and other accruals of CZK 130 million and CZK 176 million, respectively.

Trade payables as at 31 December 2012 and 2011 include Severočeské doly's promissory note of CZK 250 million and CZK 1,300 million, respectively acquired by ČEZ, a. s.

## 16. Shareholders' Equity

As at 31 December 2012, the share capital of Severočeské doly consisted of 9,080,631 registered shares with a nominal value of CZK 1,000 each.

The Company paid dividends of CZK 1,707 million (CZK 188.00 per share) and CZK 1,507 million (CZK 166.00 per share) in 2012 and 2011, respectively.

### Reserve Fund

In accordance with Czech regulations, joint-stock companies are required to establish a non-distributable reserve fund for contingencies against possible future losses and other events. Contributions must be a minimum of 20% of after-tax profit in the first year in which profits are made and 5% of profit each year thereafter, until the fund reaches at least 20% of share capital. As at 31 December 2012 and 2011, the balance was CZK 2,019 million and CZK 1,998 million, respectively, and is reflected as a component of retained earnings.

### Profit after Income Taxes per Share

	2012	2011
Numerator – basic and diluted (in CZK millions)		
Profit after income taxes	2,137	311
Denominator (shares)		
Basic		
Weighted average shares outstanding	9,080,631	9,080,631
Diluted		
Adjusted weighted average shares	9,080,631	9,080,631

### Equity and debt management

The Group follows a conservative strategy in equity and debt management and mainly uses equity to finance its activities. However, as at 31 December 2012 and 2011, the Group reported bank loans of CZK 1,771 million and CZK 757 million secured by a pledge of securities held by the Group. The loans were used to finance short-term financial transactions.

The Group monitors its capital adequacy and indebtedness on the basis of a debt-to-equity ratio, which was 0.08 and 0.04 as at 31 December 2012 and 2011, respectively.

## 17. Operating Revenues

Operating revenues as at 31 December 2012 and 2011 are as follows (in CZK millions)

	2012		2011	
	Domestic	Foreign	Domestic	Foreign
Sales of coal	10,105	–	10,425	–
Other	1,254	2	801	5
<b>Total</b>	<b>11,359</b>	<b>2</b>	<b>11,226</b>	<b>5</b>

Revenues are concentrated with one principal customer, ČEZ, a. s., in the power generation and transmission industry.

Other operating revenues were generated mainly in coal transportation, machinery production, reclamation and rail transportation.

## 18. Income Taxes

### Income Tax Legislation

In 2012 and 2011, corporate income tax is calculated in accordance with Czech tax regulations at a rate of 19% and 19%, respectively. The Czech corporate income tax rates for 2013 and 2014 will be 19% and 19%, respectively.

Management believes that it has adequately provided for tax liabilities in the accompanying financial statements. However, the risk remains that the relevant financial authorities could take differing positions with regard to interpretive issues, which could have a potential effect on reported income.

### Income Tax Provision

The breakdown of income tax provisions for the years ended 31 December 2012 and 2011 is as follows (in CZK millions)

	2012	2011
Current tax		
– related to current period	487	477
– related to previous periods	35	(5)
Deferred tax	16	(437)
<b>Total</b>	<b>538</b>	<b>35</b>

Reconciliation of expected income tax expense to the actual tax expense is as follows (in CZK millions)

	2012	2011
Profit before income taxes	2,675	346
Statutory income tax rate	19%	19%
"Expected" income tax expense	508	66
Add/(deduct) the effect of:		
– Czech/IFRS accounting differences	13	7
– Tax exempt income	(1)	(36)
– Tax relief	(1)	(1)
– Adjustments related to previous periods	35	(5)
– Impairment of assets classified as held for sale	–	(548)
– Derecognition of deferred tax on investments in associates	–	597
– Other non-taxable/deductible items, net	(16)	(45)
<b>Income taxes</b>	<b>538</b>	<b>35</b>
<b>Effective tax rate</b>	<b>20%</b>	<b>10%</b>

## Deferred Taxes, Net

Deferred tax assets (liabilities) are as follows as at 31 December 2012 and 2011 (in CZK millions)

	2012	2011
Deferred tax assets:		
Accumulated provision for decommissioning, reclamation and mining damages	563	511
Allowance for obsolete inventory	21	17
Allowance for impairment of non-current assets	42	15
Other items	13	11
<b>Total deferred tax assets</b>	<b>639</b>	<b>554</b>
Deferred tax liabilities		
Differences between the net book value of fixed assets for accounting and tax purposes	(1,479)	(1,378)
Revaluation of available-for-sale securities	(162)	(72)
<b>Total deferred tax liabilities</b>	<b>(1,641)</b>	<b>(1,450)</b>
<b>Total deferred tax liabilities, net</b>	<b>(1,002)</b>	<b>(896)</b>

Deferred tax assets are recorded at an amount which management believes will ultimately be realized. The realization of deferred tax assets is dependent upon sufficient future taxable income during the periods when temporary differences are expected to be available to reduce taxable income.

Movements in net deferred tax as at 31 December 2012 and 2011 were as follows (in CZK millions)

	2012	2011
Opening balance as at 1 January	(896)	(1,331)
Deferred tax recognized in profit or loss	(16)	437
Deferred tax recognized directly in equity	(90)	(2)
Closing balance as at 31 December	(1,002)	(896)

## 19. Personnel Expenses and Average Number of Employees

Average number of employees and the breakdown of personnel expenses (in CZK millions)

	2012		2011	
	Total	Management	Total	Management
Wages and salaries	1,727	111	1,720	102
Social and other personnel expenses	743	25	715	25
<b>Total personnel expenses</b>	<b>2,470</b>	<b>136</b>	<b>2,435</b>	<b>127</b>
Number of employees	5,144	72	5,054	69

## 20. Interest Income

Interest income for each category of financial instruments for the year ended 31 December 2012 and 2011 is as follows (in CZK millions)

	2012	2011
Loans and receivables	-	1
Investments held-to-maturity	5	6
Available-for-sale investments	95	156
Cash and cash equivalents	21	2
Financial assets restricted in use	125	110
<b>Total</b>	<b>246</b>	<b>275</b>

## 21. Other Financial Expenses and Income, Net

Other financial expenses and income, net, for the year ended 31 December 2012 and 2011 consist of the following (in CZK millions)

	2012	2011
Loan interest expenses	(6)	(9)
Gains from available-for-sale financial assets	88	15
Gains on financial assets restricted in use	-	3
Exchange rate gains and losses, net	1	1
Other, net	(11)	(3)
<b>Total</b>	<b>72</b>	<b>7</b>

## 22. Fair Value of Financial Instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

### Cash and cash equivalents

The carrying amount of cash and cash equivalents approximates fair value due to the relatively short-term maturity of this financial instrument.

### Investments

The fair values of instruments, which are publicly traded on active markets, are estimated based on quoted market prices.

### Accounts receivable, other current assets, accounts payable and accrued and other liabilities

The carrying amount of receivables and payables, other current assets, and accrued and other liabilities approximates fair value due to the short-term maturity of these financial instruments.

### Short-term loans

The carrying amount approximates fair value because of the short period to maturity of these instruments.

### Derivatives

The fair value of derivatives is based upon mark to market valuations.

The carrying amounts and the estimated fair values of financial instruments as at 31 December 2012 and 2011 are as follows (in CZK millions)

	Fair valuation hierarchy	Category	2012		2011	
			Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>						
<b>Investments – non-current</b>						
Debt securities held to maturity		HTM	107	123	107	123
Debt securities available for sale	L1	AFS	1,719	1,719	2,465	2,465
Financial investments restricted in use	L1	AFS	3,767	3,767	2,810	2,810
<b>Investments – current</b>						
Debt securities held to maturity		HTM	251	251	–	–
Debt securities available for sale	L1	AFS	165	165	1,021	1,021
Financial assets restricted in use	L2	AFS	–	–	50	50
Restricted cash		LaR	30	30	164	164
Cash and cash equivalents		LaR	2,516	2,516	1,067	1,067
Accounts receivable, net		LaR	2,131	2,131	2,382	2,382
Other current assets		LaR	53	53	66	66
<b>Liabilities</b>						
Long-term debt		AC	(38)	(38)	(37)	(37)
Short-term bank loans		AC	(1,771)	(1,771)	(757)	(757)
Accounts payable		AC	(1,985)	(1,985)	(2,853)	(2,853)
Other current liabilities		AC	(130)	(130)	(176)	(176)

AC	Financial liabilities at amortized cost
AFS	Available-for-sale investments
HFT	Held for trading
HTM	Held to maturity
LaR	Loans and receivables
L1	Listed price on active market
L2	Valuation by standard calculation (amortization)

## 23. Financial Instruments

The Group, in the normal course of business, uses various types of financial instruments, including items such as cash, cash equivalents, securities and trade receivables, which expose the Group to credit, liquidity and market risks.

The Group pursues a conservative risk management and investment policy, which entails diversifying financial instruments with reputable financial institutions. There is a written internal policy "Investment strategy and financial assets management" that governs the allowed types of financial instruments and the rules of risk management (credit risk, interest rate risk, foreign exchange risk, liquidity risk).

**Credit risk**

The credit risk of the Group relates to potential reduction of the value of the Group's receivables due to debtors insolvency or unwillingness to repay their liabilities to the Group. The Group manages credit risk by credibility analysis and monitoring of payment history for already arisen receivables. The Group's approved internal rules for evaluation of counterparties' creditworthiness with usage of public information, bank references and information from commercial databases. In case of uncertain creditworthiness the Group uses the possibilities to secure the receivables (e.g. pledges, bills, guarantees from third parties).

Subsequently, the Group decides on creation of allowances to bad and doubtful debts based on analysis of overdue receivables. The structure of receivables provided in 2012 and 2011 is disclosed in Note 11.

The carrying amount of financial assets represents the Group's maximum credit risk exposure as at 31 December 2012 and 2011 (see Note 22).

**Liquidity risk**

The Group's liquidity risk is primarily perceived as an operational risk (risk of liquidity management) and a risk factor is the internal ability to effectively manage the future cash flows planning process in the Group and to secure the adequate liquidity and effective short-term financing (the risk is managed on a qualitative basis). The fundamental liquidity risk is covered by central monitoring and planning of all cash transactions. In the case of short-term low liquidity of the Group, the Company has concluded an Agreement on providing mutual loans with ČEZ, a. s. which relates to agreement on Group cash pooling.

**Contractual maturity profile of financial liabilities as at 31 December 2012 (in CZK millions)**

	< 1 year	1–5 years	> 5 years	Total
Other long-term liabilities	–	–	38	38
Short-term bank loans	1,771	–	–	1,771
Accounts payable	1,985	–	–	1,985
Other current payables	130	–	–	130
<b>Total</b>	<b>3,886</b>	<b>–</b>	<b>38</b>	<b>3,924</b>

**Contractual maturity profile of financial liabilities as at 31 December 2011 (in CZK millions)**

	< 1 year	1–5 years	> 5 years	Total
Other long-term liabilities	–	–	37	37
Short-term bank loans	757	–	–	757
Accounts payable	2,853	–	–	2,853
Other current payables	176	–	–	176
<b>Total</b>	<b>3,786</b>	<b>–</b>	<b>37</b>	<b>3,823</b>

**Market risks****Foreign exchange risk**

The development of foreign exchange rates is a significant risk factor of the Group's value as the Group concludes contracts in foreign currency in the ordinary course of business. The current system of financial risk management is focused on (i) reducing contracts in foreign currency, (ii) transfer of the risks to Group's suppliers, (iii) planning of future cash flows and (iv) usage of financial derivatives which are concluded as open forward positions against partner banks.

The potential risk is managed on the basis of Value at Risk indicator which quantifies maximum one-day expected change in fair value of net foreign exchange position for individual currency with a 95% confidence. Foreign exchange position is specified as a residuum of short-term financial assets and liabilities denominated in foreign currency.

The net position of financial assets and liabilities denominated in Euro and resulting potential impact of the currency risk as at 31 December 2012 and 2011 (in CZK millions):

	2012	2011
Short-term receivables	4	0.3
Cash and cash equivalents	40	21.7
Short-term liabilities	(107)	(43.9)
Net position	(63)	(21.9)
<b>VaR</b>	<b>0.2</b>	<b>0.2</b>

**Market risk relating to financial investments**

Financial investments are exposed to market risk relating to change of fair value in time depending on creditworthiness of issuers and development of interest rates. The Group systematically monitors and manages the risks of potential losses resulting from the market risk. The Group applies conservative investment strategy in compliance with a written internal policy "Guides for realization of operations on financial markets" approved by Board of Directors and Supervisory Board. The investment strategy is based on a systematic diversification of risks by splitting financial investments between several counterparties, issuers and types of instruments with different maturity.

The main risks monitored by the Group in relation to financial investments are credit risk and interest rate risk. The credit risk (risk of insolvency) is managed by selection of partners, assessment of their financial situation, assessment of their ownership structure and by selection of appropriate financial instruments. The Group concludes the deals on capital and money market only with limited approved counterparties. The concentration of credit risk is managed via stated limits for share of one issuer in portfolio, share of identified market segments in portfolio and share of individual issues in the portfolio. The important indicator used by the Group is the rating of the counterparties. The Group monitors and assesses regularly the average rating of all investments in the portfolio. As at 31 December 2012 and 2011, the average rating of the financial investment portfolio (excluding investments in subsidiaries and associates and restricted cash) was AA- and AA, respectively, according to Standard and Poors methodology.

Interest rate risk is managed in compliance with the risk policy of the ČEZ Group and with respect to the maturity of the investment portfolio. The Group monitors technical and fundamental factors and actual information provided by Reuters, Bloomberg and CNB. Total exposure to interest rate risk is measured by Value at Risk indicator calculated for one day and one month with a 95% of confidence which indicates a potential one-day or one-month change of market price of financial instruments (excluding shares in subsidiaries and associates) on the defined confidence. As at 31 December 2012 and 2011, the Value at Risk of financial investments portfolio amounted to CZK 24 million and CZK 33 million, respectively, for a one-day horizon with 95% confidence.

**24. Related Party Transactions**

The balance sheet includes the following amounts resulting from transactions with related parties (in CZK millions):

	2012	2011
<b>Trade receivables</b>		
ČEZ, a. s.	455	547
Energotrans, a.s.	72	-
Teplárna Trmice, a.s.	18	31
Elektrárna Počeradý, a.s.	2	-
ČEZ Energetické produkty, s.r.o.	1	-
MARTIA a.s.	-	11
<b>Total trade receivables</b>	<b>548</b>	<b>589</b>

As at 31 December 2012 and 2011, the Group had a receivable of CZK 37 million and CZK 53 million, respectively, from the parent company ČEZ, a. s., representing a cash balance in the ČEZ Group cash-pooling system. The receivable is reported within Other receivables (see Note 11).

As at 31 December 2012 and 2011, the Group recognized operational advances of CZK 4 million and CZK 3 million, respectively, granted to related parties. The advances are presented within Trade receivables (see Note 11).

	2012	2011
<b>Trade payables</b>		
ČEZ Energetické produkty, s.r.o.	25	-
ČEZ Distribuce, a. s.	23	24
ČEZ, a. s.	18	58
Výzkumný ústav pro hnědé uhlí a.s.	8	8
ČEZ Teplárenská, a.s.	3	-
ČEZ ICT Services, a. s.	3	-
ČEZ Správa majetku, s.r.o.	2	-
ČEZ Prodej, s.r.o.	2	4
MARTIA a.s.	2	-
ČEZ Logistika, s.r.o.	-	6
Other	1	1
<b>Total trade payables</b>	<b>87</b>	<b>101</b>

As at 31 December 2012 and 2011, the Group recognized a promissory note of CZK 250 million and CZK 1,300 million, respectively, of Severočeské doly a.s., which was acquired by ČEZ, a. s. The promissory note is presented within Trade payables (see Note 15).

As at 31 December 2011, the Group recognized operational advances of CZK 85 million received from related parties. The advances are presented within Trade payables (see Note 15).

**Sales to, and purchases from, related parties were as follows (in CZK millions)**

	2012	2011
<b>Sales</b>		
ČEZ, a. s.	6,071	6,244
Teplárna Trmice, a.s.	278	329
Energotrans, a.s.	236	-
MARTIA a.s.	7	8
Elektrárna Počeradý, a.s.	5	-
ČEZ Energetické produkty, s.r.o.	1	3
ČEZ Teplárenská, a.s.	1	6
<b>Total sales</b>	<b>6,599</b>	<b>6,590</b>

	2012	2011
<b>Purchases</b>		
ČEZ Distribuce, a. s.	333	330
ČEZ, a. s.	63	72
ČEZ Energetické produkty, s.r.o.	25	-
Výzkumný ústav pro hnědé uhlí a.s.	24	19
ČEZ Teplárenská, a.s.	21	-
ČEZ Prodej, s.r.o.	10	14
ČEZ Správa majetku, s.r.o.	8	2
ČEZ ICT Services, a. s.	6	3
MARTIA a.s.	3	-
ČEZ Logistika, s.r.o.	2	21
Other	1	-
<b>Total purchases</b>	<b>496</b>	<b>461</b>

The Group mostly sells lignite and provides services to related parties. Purchases from related parties comprise machinery, materials, power and services.

## 25. Subsequent Events

The sole shareholder, Severočeské doly a.s., executing the competence of the general meeting decided on the merger of SD - 1.strojírenská, a.s., as a dissolving company, and PRODECO, a.s., as a successor company. The effective date of the merger is 1 January 2013.

The sole shareholder, Severočeské doly a.s., executing the competence of the general meeting decided on the merger of SD - Rekultivace, a.s., as a dissolving company, and SD - Autodoprava, a.s., as a successor company. The effective date of the merger is 1 January 2013.

## 26. List of Subsidiaries

Entity	Place of incorporation	Principal activity	Ownership interest
PRODECO, a.s	Czech Republic	Technical, design and engineering services in investment construction	100.00%
SD - KOMES, a.s.	Czech Republic	Purchase of goods for resale	92.65%
SD - Autodoprava, a.s.	Czech Republic	Forwarding, lease and repairs of motor vehicles	100.00%
SD - 1.strojírenská, a.s.	Czech Republic	Production, assembly and repairs of machinery and equipment	100.00%
SD - Kolejová doprava, a.s.	Czech Republic	Rail operation and transportation	100.00%
SD - Rekultivace, a.s	Czech Republic	Environmental reclamation	100.00%


5 April 2013

Authorized for issue by:

Person responsible for accounting:



Ivan Lapin  
Chairman of the Board of Directors



Jiří Postolka  
Vice Chairman of the Board of Directors



Naděžda Kuklíková

# Independent Auditor's Report

## To the Shareholder of Severočeské doly a.s.:

We have audited the accompanying financial statements of Severočeské doly a.s. which comprise the balance sheet as at 31 December 2012, and the income statement, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of Severočeské doly a.s. see Note 1 to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Czech Republic, and for such internal control as management determines is 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 as amended by implementation guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including an 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 control 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

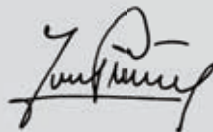
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Severočeské doly a.s. as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.



Ernst & Young Audit, s.r.o.  
License No. 401  
Represented by partner



Josef Pivoňka  
Auditor, License No. 1963

22 February 2013  
Prague, Czech Republic

# Severočeské doly a.s.

## Balance Sheet – Long Form

### for the Year Ended 31 December 2012

(in CZK thousands)

	2012			2011
	Gross	Allowances	Net	Net
<b>TOTAL ASSETS</b>	<b>50,579,858</b>	<b>(19,852,812)</b>	<b>30,727,046</b>	<b>29,220,814</b>
A. Stock subscription receivable				
B. Fixed assets	47,084,492	(19,728,026)	27,356,466	25,984,063
B. I. Intangible assets	843,927	(729,532)	114,395	117,306
B. I. 1 Foundation and organization expenses				
2 Research and development				
3 Software	420,659	(396,745)	23,914	25,968
4 Patents, royalties and similar rights	421,118	(332,787)	88,331	80,110
5 Goodwill				
6 Other intangible assets				
7 Intangible assets in progress	2,150		2,150	10,863
8 Advances granted for intangible assets				365
B. II. Tangible assets	39,948,782	(18,998,494)	20,950,288	19,580,136
B. II. 1 Land	2,192,646	(6,099)	2,186,547	1,967,099
2 Constructions	9,629,325	(3,462,707)	6,166,618	5,183,781
3 Separate movable items and groups of movable items	26,199,136	(15,529,142)	10,669,994	10,591,741
4 Perennial crops				
5 Livestock				
6 Other tangible assets	2,168	(473)	1,695	2,450
7 Tangible assets in progress	456,160		456,160	405,863
8 Advances granted for tangible assets	1,469,347	(73)	1,469,274	1,429,202
9 Gain or loss on revaluation of acquired property				
B. III. Financial investments	6,291,783	0	6,291,783	6,286,621
B. III. 1 Subsidiaries	684,457		684,457	684,457
2 Associates	15,333		15,333	218,834
3 Other long-term securities and interests	106,257		106,257	107,491
4 Loans to subsidiaries and associates				
5 Other long-term investments	5,485,736		5,485,736	5,275,839
6 Long-term investments in progress				
7 Advances granted for long-term investments				
C. CURRENT ASSETS	3,446,144	(124,786)	3,321,358	3,177,885
C. I. Inventory	526,044	(95,637)	430,407	475,856
C. I. 1 Materials	473,940	(95,637)	378,303	444,867
2 Work in progress and semi-finished production	50,702		50,702	15,104
3 Finished products	1,402		1,402	9,209
4 Livestock				
5 Goods				491
6 Advances granted for inventory				6,185
C. II. Long-term receivables	1	0	1	1
C. II. 1 Trade receivables				
2 Receivables from group companies with majority control				
3 Receivables from group companies with control of 20%–50%				
4 Receivables from partners, co-operative members and participants in association				
5 Long-term advances granted	1		1	1
6 Unbilled revenue				
7 Other receivables				
8 Deferred tax asset				
C. III. Short-term receivables	1,214,604	(29,149)	1,185,455	1,284,722
C. III. 1 Trade receivables	990,520	(25,399)	965,121	996,149
2 Receivables from group companies with majority control	37,161		37,161	52,639
3 Receivables from group companies with control of 20%–50%				
4 Receivables from partners, co-operative members and participants in association				
5 Social security and health insurance				
6 Due from government - tax receivables	120,703		120,703	156,291
7 Short-term advances granted	45,681		45,681	70,761
8 Unbilled revenue	1,969		1,969	1,742
9 Other receivables	18,570	(3,750)	14,820	7,140
C. IV. Short-term financial assets	1,705,495	0	1,705,495	1,417,306
C. IV. 1 Cash	623		623	842
2 Bank accounts	1,288,677		1,288,677	345,940
3 Short-term securities and interests	416,195		416,195	1,070,524
4 Short-term financial assets in progress				
D. OTHER ASSETS - TEMPORARY ACCOUNTS OF ASSETS	49,222	0	49,222	58,866
D. I. Accrued assets and deferred liabilities	49,222	0	49,222	58,866
D. I. 1 Prepaid expenses	49,168		49,168	58,698
2 Prepaid expenses (specific-purpose expenses)				
3 Unbilled revenue	54		54	168

(in CZK thousands)

	2012	2011
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>30,727,046</b>	<b>29,220,814</b>
<b>A. Equity</b>	<b>21,735,336</b>	<b>20,562,678</b>
<b>A. I. Basic capital</b>	<b>9,080,631</b>	<b>9,080,631</b>
A. I. 1 Registered capital	9,080,631	9,080,631
2 Own shares and own ownership interests (-)		
3 Changes in basic capital		
<b>A. II. Capital funds</b>	<b>693,484</b>	<b>310,047</b>
A. II. 1 Share premium (agio)		
2 Other capital funds	2,525	2,525
3 Gain or loss on revaluation of assets and liabilities	690,959	307,522
4 Gain or loss on revaluation of company transformations		
5 Gain or loss on company transformations		
6 Gain or loss on revaluation upon company transformations		
<b>A. III. Reserve funds and other funds created from profit</b>	<b>5,288,371</b>	<b>5,285,999</b>
A. III. 1 Legal reserve fund	1,825,798	1,825,798
2 Statutory and other funds	3,462,573	3,460,201
<b>A. IV. Profit (loss) for the previous years</b>	<b>4,125,492</b>	<b>3,266,516</b>
IV. 1 Retained earnings for the previous years	4,125,492	3,266,516
2 Accumulated loss of previous years		
<b>A. V. Profit (loss) for the year (+/-)</b>	<b>2,547,358</b>	<b>2,619,485</b>
<b>B. Liabilities</b>	<b>8,990,186</b>	<b>8,657,140</b>
<b>B. I. Provisions</b>	<b>3,989,946</b>	<b>3,816,897</b>
B. I. 1 Provisions created under special legislation	3,952,224	3,781,278
2 Provision for pensions and similar obligations	37,722	35,619
3 Provision for corporate income tax		
4 Other provisions		
<b>B. II. Long-term liabilities</b>	<b>1,359,627</b>	<b>1,256,836</b>
B. II. 1 Trade payables		
2 Liabilities to group companies with majority control		
3 Liabilities to group companies with control of 20% 50%		
4 Liabilities to partners, co-operative members and participants in association		
5 Long-term advances received		
6 Bonds payable		
7 Long-term notes payable		
8 Unbilled deliveries		
9 Other liabilities		
10 Deferred tax liability	1,359,627	1,256,836
<b>B. III. Current liabilities</b>	<b>1,869,596</b>	<b>2,826,840</b>
B. III. 1 Trade payables	1,254,605	1,090,000
2 Liabilities to group companies with majority control	250,000	1,300,000
3 Liabilities to group companies with control of 20% 50%		
4 Liabilities to partners, co-operative members and participants in association		
5 Liabilities to employees	85,856	72,647
6 Liabilities arising from social security and health insurance	56,220	47,765
7 Due to government – taxes and subsidies	57,999	101,774
8 Short-term advances received	46,063	46,950
9 Bonds payable		
10 Unbilled deliveries	101,655	151,575
11 Other liabilities	17,198	16,129
<b>B. IV. Bank loans and borrowings</b>	<b>1,771,017</b>	<b>756,567</b>
B. IV. 1 Long-term bank loans		
2 Short-term bank loans	1,771,017	756,567
3 Borrowings		
<b>C. Other liabilities – temporary accounts of liabilities</b>	<b>1,524</b>	<b>996</b>
<b>C. I. Accrued liabilities and deferred assets</b>	<b>1,524</b>	<b>996</b>
C. I. 1 Accruals	1,114	346
2 Deferred income	410	650

The income statement and losses are an integral part of the financial statements.

# Severočeské doly a.s.

## Income Statement – Long Form for the Year Ended 31 December 2012

(in CZK thousands)

	2012	2011
I. 1 Revenue from sale of goods	28,093	30,435
A. 2 Cost of goods sold	25,775	27,606
+ Gross margin	2,318	2,829
II. Production	10,554,290	10,843,170
II. 1 Revenue from sale of finished products and services	10,499,111	10,846,488
2 Change in inventory produced internally	27,791	(17,597)
3 Own work capitalized	27,388	14,279
B. Production related consumption	4,617,657	4,580,170
B. 1 Consumption of material and energy	2,253,214	2,151,253
B. 2 Services	2,364,443	2,428,917
+ Value added	5,938,951	6,265,829
C. Personnel expenses	1,758,753	1,730,780
C. 1 Wages and salaries	1,256,971	1,239,177
C. 2 Bonuses to members of company or cooperation bodies	10,279	9,492
C. 3 Social security and health insurance	450,167	442,406
C. 4 Other social costs	41,336	39,705
D. 1 Taxes and charges	202,441	227,031
E. 1 Amortization and depreciation of intangible and tangible fixed assets	1,530,632	1,347,864
III. Revenue from sale of intangible and tangible fixed assets and materials	454,986	436,320
III. 1 Revenues from sale of intangible and tangible fixed assets	80,767	21,133
2 Revenue from sale of materials	374,219	415,187
F. Net book value of intangible and tangible fixed assets and materials sold	443,208	394,572
F. 1 Net book value of intangible and tangible fixed assets sold	102,969	4,357
F. 2 Materials sold	340,239	390,215
G. 1 Change in provisions and allowances relating to operations and in prepaid expenses (specific-purpose expenses)	425,833	78,589
IV. 1 Other operating revenues	11,987	12,544
H. 2 Other operating expenses	167,465	180,874
V. 1 Transfer of operating revenues		
I. 2 Transfer of operating expenses		
* Profit or loss on operating activities	1,877,592	2,754,983
VI. 1 Revenue from sale of securities and interests	1,800,802	887,536
J. 2 Securities and interests sold	1,230,466	869,521
VII. Income from financial investments	515,994	437,066
VII. 1 Income from subsidiaries and associates	279,900	182,140
2 Income from other long-term securities and interests		
3 Income from other financial investments	236,094	254,926
VIII. 1 Income from short-term financial assets	306	5,793
K. 2 Expenses related to financial assets	1,449	6,881
IX. 1 Gain on revaluation of securities and derivatives	3,343	
L. 2 Loss on revaluation of securities and derivatives	143	
M. 1 Change in provisions and allowances relating to financial activities		
X. 1 Interest income	15,596	3,892
N. 2 Interest expense	15,669	11,971
XI. 1 Other finance income	1,796	4,281
O. 2 Other finance cost	1,318	4,758
XII. 1 Transfer of finance income		
P. 2 Transfer of finance cost		
* Profit or loss on financial activities	1,088,792	445,437
Q. Tax on profit or loss on ordinary activities	419,026	580,935
Q. 1 – due	406,177	384,269
Q. 2 – deferred	12,849	196,666
** Profit or loss on ordinary activities after taxation	2,547,358	2,619,485
XIII. 1 Extraordinary gains		
R. 2 Extraordinary losses		
S. 1 Tax on extraordinary profit or loss	0	0
S. 1 – due		
S. 2 – deferred		
* Extraordinary profit or loss	0	0
1 Transfer of share of profit or loss to partners (+/-)		
*** Profit or loss for the year (+/-)	2,547,358	2,619,485
**** Profit or loss before taxation	2,966,384	3,200,420

The balance sheet and notes are an integral part of the financial statements.

# Severočeské doly a.s.

## Cash Flow Statement Prepared Under the Direct Method for the Year Ended 31 December 2012

(in CZK thousands)

	2012	2011
<b>P.</b> Cash and cash equivalents at 1 January	1,417,306	1,997,101
P.1. Cash	346,782	247,949
P.2. Cash equivalents	1,070,524	1,749,152
<b>A.</b> Cash flows from operating activities		
<b>A.1.</b> Purchase and sale of goods	825	3,062
A.1.1. + Revenue from sale of goods	25,507	30,227
A.1.2. - Purchase of goods	(24,682)	(27,165)
<b>A.2.</b> Revenue and expenses relating to operating activities	4,349,633	4,549,011
A.2.1. + Revenue from sale of finished products and services	12,812,796	13,178,586
A.2.2. + Other revenue from operating activities	444,467	497,260
A.2.3. - Purchase of inventory	(1,568,782)	(1,796,635)
A.2.4. - Utilities	(1,337,555)	(1,426,577)
A.2.5. - Repairs	(921,217)	(816,398)
A.2.6. - Purchase of services	(1,942,646)	(2,361,277)
A.2.7. - Personnel expenses	(1,776,844)	(1,760,276)
A.2.8. - Taxes and fees paid other than income tax	(1,202,342)	(785,110)
A.2.9. - Other operating expenses	(158,244)	(180,562)
<b>A.3.</b> Finance inflows and outflows	534,117	452,250
A.3.1. + Proceeds from sale of short-term securities (other than cash equivalents)		
A.3.2. + Interest received	14,765	4,238
A.3.3. + Other finance revenue	258,527	286,114
A.3.4. + Dividends and profit sharing received	279,900	182,140
A.3.5. - Interest paid, except for capitalized interest	(14,927)	(12,308)
A.3.6. - Other finance costs	(4,148)	(7,934)
A.4. -/+ Income tax paid on operating activities	(423,400)	(387,354)
<b>A.*</b> Net cash flows provided by operating activities	4,461,175	4,616,969
<b>A.6.</b> Extraordinary items		
A.6.1. + Gains on extraordinary items		
A.6.2. - Losses on extraordinary items		
A.6.3. - Income tax paid on extraordinary items		
<b>A.**</b> Net cash flows from extraordinary items		
<b>A.***</b> Net cash flows provided by operating activities and extraordinary items	4,461,175	4,616,969
<b>B.</b> Cash flows from investing activities		
<b>B.1.</b> - Purchase of non-current assets	(4,159,971)	(4,308,746)
B.1.1. - Purchase of intangible assets and of property, plant and equipment	(3,479,285)	(4,672,652)
B.1.2. - Purchase of long-term financial assets	(680,686)	363,906
B.1.3. - Complex lease depreciation paid		
<b>B.2.</b> + Proceeds from sale of non-current assets	1,742,157	893,008
B.2.1. + Proceeds from sale of intangible assets and of property, plant and equipment	41,031	85,308
B.2.2. + Proceeds from sale of long-term financial assets	1,701,126	807,700
B.2.3. + Complex lease depreciation received		
<b>B.3.</b> - Loans and borrowings granted		
<b>B.***</b> Net cash flows used in (provided by) investing activities	(2,417,814)	(3,415,738)
<b>C.</b> Cash flows from financing activities		
<b>C.1.</b> +/- Increase/decrease in current and non-current liabilities	(20,073)	(247,158)
C.1.1. Received long-term borrowings and redemption thereof		
C.1.2. Received long-term loans and redemption thereof		
C.1.3. Received intercompany borrowings and redemption thereof	(1,034,523)	1,109,087
C.1.4. Received short-term borrowings and redemption thereof		
C.1.5. Other (e.g. issued bonds)		
C.1.6. Received short-term bank loans	1,014,450	(1,356,245)
<b>C.2.</b> Effect of other changes in share capital on cash	(1,735,929)	(1,533,111)
C.2.1. + Increase in cash and cash equivalents due to share capital increase		
C.2.2. - Profit sharing paid		
C.2.3. + Cash donations and subsidies contributed to equity		
C.2.4. + Loss compensation by partners (cash)		
C.2.5. - Direct payments debited to reserve funds	(28,770)	(25,726)
C.2.6. - Dividends or profit sharing paid	(1,707,159)	(1,507,385)
<b>C.***</b> Net cash flows used in financing activities	(1,756,002)	(1,780,269)
<b>D.</b> Non-cash adjustments of financial assets		
D.1. Remeasurement of short-term financial assets - balance sheet		1,050
D.2. Remeasurement of short-term financial assets - profit and loss	829	(1,807)
D.3. Allocation of interest income - short-term financial assets of previous years		
<b>D.***</b> Non-cash adjustments of short-term financial assets	829	(757)
<b>F.</b> Net increase/decrease in cash and cash equivalents	288,188	(579,795)
<b>R.</b> Cash and cash equivalents at 31 December	1,705,495	1,417,306
R.1. Cash	1,289,300	346,782
R.2. Cash equivalents	416,195	1,070,524

The accompanying notes are an integral part of these financial statements.

# Severočeské doly a.s.

## Notes to the Financial Statements

### for the Year Ended 31 December 2012

#### 1. Description of the Company

Severočeské doly a.s. ("the Company") is a joint stock company incorporated on 1 January 1994 in the Czech Republic. The Company's registered office is located at Chomutov, Czech Republic and the business registration number (IČ) is 4990 1982. The Company is involved in mining and mining-related operations. Information about the Company is registered in the Commercial Register maintained in the Regional Court in Ústí nad Labem, Section B, Insert 495. Changes were made to the Commercial Register entry in 2012 concerning the Supervisory Board and Board of Directors members.

The sole shareholder of the Company is ČEZ, a. s. The Company is included in the ČEZ consolidated group.

The Company is the parent company of the Severočeské doly Group and the accompanying financial statements have been prepared as separate financial statements.

#### Members of the statutory bodies as at 31 December 2012 were as follows

Board of Directors		Supervisory Board	
Chairman	Ivan Lapin	Chairman	Tomáš Indra
Vice Chairman	Jiří Postolka	Vice Chairman	Daniel Beneš
Member	Vladimír Budinský	Vice Chairman	Jan Demjanovič
Member	Miroslav Eis	Member	Pavel Cyrani
Member	Jan Kalina	Member	Václav Fišer
Member	Jiří Neruda	Member	Zdeněk Hübner
Member	Jiří Zahradník	Member	Luboš Jankůj
		Member	Tomáš Julínek
		Member	Viktor Liška
		Member	Zdeňka Montagová
		Member	Petr Polák
		Member	Šimon Vohar

As at 29 February 2012, Pavel Vaňas and Josef Molek were removed from the position of the Board of Directors members. As at 1 March 2012, Jan Kalina and Vladimír Budinský were appointed new members of the Board of Directors. As at 31 March 2012, Jiří Zahradník resigned from the position of the Board of Directors Vice Chairman and remained the Board's regular member. As at 1 April 2012, Jiří Postolka was appointed a new Vice Chairman of the Board of Directors.

As at 1 January 2012, Jan Demjanovič and Tomáš Indra were appointed new members of the Supervisory Board. As at 14 February 2012, Daniel Beneš resigned from the position of the Supervisory Board Chairman. As at 14 February 2012, Tomáš Indra was appointed a new Chairman of the Supervisory Board. As at 14 February 2012, two new Vice Chairmen of the Supervisory Board were appointed: Daniel Beneš and Jan Demjanovič.

The supreme organization units of the Headquarters include management sections headed by senior managers (CEO, Strategy and Communications, CFO, Sales, Facilities, HR, Technical and Production sections). The individual management sections consist of function units, divisions and departments. A process production management system being in place in the Production section comprises two mines: Doly Bílina and Doly Nástup Tušimice. The two mines are headed by production managers. The organizational structure of Doly Bílina is comprised of operations and operating sections; the organizational structure of Doly Nástup Tušimice includes operating sections. Both the mines represent Company's organizational units and are not legal entities.

#### 2. Basis of Presentation of the Financial Statements

The accompanying separate financial statements were prepared in accordance with the Czech Act on Accounting and the related guidelines as applicable for 2012 and 2011.

#### Explanation Added for Translation into English

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

### 3. Summary of Significant Accounting Policies

The accounting policies applied by the Company in preparing the 2012 and 2011 financial statements are as follows:

#### a) Intangible Fixed Assets

Intangible fixed assets are recorded at their acquisition cost and related expenses.

Intangible fixed assets with a cost exceeding CZK 60 thousand in 2012 and 2011 are amortized on a straight-line basis over three and a half years.

#### b) Tangible Fixed Assets

Tangible fixed assets are recorded at their acquisition cost, which consists of purchase price, freight, customs duties and other related costs.

Internally-developed tangible fixed assets are recorded at their accumulated cost, which consist of direct material, labor costs and production overheads. Interest and other financial expenses incurred in the construction of tangible fixed assets are also capitalized.

Purchased tangible fixed assets with a cost exceeding CZK 40 thousand in 2012 and 2011 are depreciated over their useful economic lives.

Tangible fixed assets acquired free of charge are valued at their replacement cost and are recorded with a corresponding credit to the "Other capital funds account" on the date of acquisition. The replacement cost of these assets is based on expert valuation.

The costs of technical improvements are capitalized. Repairs and maintenance expenses are expensed as incurred.

#### Depreciation

Depreciation is calculated based on the acquisition cost and the estimated useful life of the related asset. The useful economic lives are as follows:

	Years
Constructions	20–45
Machinery and equipment	3.5–28
Vehicles	3.5–28
Furniture and fixtures	3.5–7.5
Other tangible fixed assets	7.5

#### c) Financial Assets

Short-term financial assets consist of liquid valuables, cash in hand and at bank, including restricted cash, held-for-trading securities, held-to-maturity debt securities falling due within one year, and other available-for-sale securities.

Within the ČEZ Group, a system for utilization of idle money of individual group companies, i.e. cash pool, has been introduced. Cash deposited in or used from this system as at the date of the financial statements is reported in "Short-term receivables from group companies with majority control" or "Current liabilities to companies with majority control", as appropriate, in the accompanying balance sheet and the change in the deposited cash is reported in "Loans and borrowings" in the accompanying cash flow statement.

Long-term financial assets consist of ownership interests, available-for-sale securities and interests, and held-to-maturity debt securities.

Held-for-trading securities are securities that are held for the purpose of effecting transactions in the market in order to generate profit from price variances in the short-run which, however, will not exceed one year.

Held-to-maturity securities are securities with a defined maturity that the Company intends and is able to hold to maturity.

Available-for-sale securities and interests are securities and interests that are not a held-for-trading security or a held-to-maturity security or ownership interest.

Interests and securities are valued at their acquisition cost, which includes the purchase price and direct costs related to the acquisition, e.g. fees and commissions paid to agents and stock exchanges. In respect of debt securities, interest income is recorded observing the matching and accrual principles. Accrued interest income is included in the relevant securities account.

As at 31 December, the individual components of financial assets are revalued using the following method:

- Held-for-trading securities are revalued to fair value; the change in the fair value is charged or recognized to income, as appropriate.
- Available-for-sale securities and interests are revalued to fair value; the change in the fair value is recorded in equity through "the revaluation of assets and liabilities" caption.
- Ownership interests constituting dominant or significant influence are valued at acquisition cost.
- Held-to-maturity securities and interests are adjusted for the difference between the acquisition cost without coupon and the nominal value; the difference is recognized as income or as an expense under accrual accounting.

The fair value is the market value that is published by the relevant domestic or foreign stock exchange; or, if the market value is not available from a public market, is a valuation amount given in a qualified estimate or in a certified expert's opinion.

Valuation under the equity method is the acquisition cost of an ownership interest that is adjusted to the net asset value of the underlying company.

If there is a decrease in the carrying value of long-term financial assets that are not revalued at the balance sheet date, the difference is considered a temporary diminution in value and is recorded as an allowance.

#### d) Inventory

Purchased inventory is stated at actual cost being determined using the weighted average method. Costs of purchased inventory include acquisition-related costs (freight, customs, commission, etc.).

Finished goods and work-in-progress are recorded at actual cost. The cost of inventory produced internally includes direct material and labor costs and production overhead costs. Production overhead costs include other primary and secondary costs with the exception of administrative overheads and are allocated on the basis of scheduled production capacity.

#### e) Receivables

Both long- and short-term receivables are carried at their realizable value after allowance for doubtful accounts. Additions to the allowance account are charged to income.

#### f) Equity

The basic capital of the Company is stated at the amount recorded in the Commercial Register maintained in the Regional Court. Any increase or decrease in the basic capital made pursuant to the decision of the General Meeting which was not entered in the Commercial Register as at the financial statements date is recorded through changes in basic capital.

In accordance with the Commercial Code, the Company creates a legal reserve fund from profit or from amounts contributed by partners above their contributions.

In the first year in which profit is generated, a joint-stock company should allocate 20% of profit after tax (however, not more than 10% of basic capital) to the legal reserve fund. In subsequent years, the legal reserve fund is allocated 5% of profit after tax until the fund reaches 20% of basic capital. These funds can only be used to offset losses.

#### g) Provisions and Liabilities

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

Long-term liabilities and current liabilities are carried at their nominal values.

Short-term and long-term loans are recorded at their nominal values. Any portion of long-term debt which is due within one year of the balance sheet date is regarded as short-term debt.

Contingent liabilities that are not recorded in the balance sheet because significant uncertainties exist with respect to the amount, title or timing of the expected outflow of benefits are described in Note 15.

#### h) Leases

The Company records leased assets by expensing the lease payments and, for finance leases, capitalizing the residual value of the leased assets when the lease contract expires and the purchase option is exercised. Lease payments paid in advance are recorded as prepaid expenses and amortized over the lease term.

#### i) Foreign Currency Transactions

Assets and liabilities whose acquisition or production costs were denominated in foreign currencies are translated into Czech crowns at the exchange rate prevailing as at the transaction date. On the balance sheet date monetary items are adjusted to the exchange rates as published by the Czech National Bank as at 31 December.

Realized and unrealized exchange rate gains and losses were charged or credited, as appropriate, to income for the year.

#### j) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company management prepared these estimates and predictions based on all available relevant information. These estimates and assumptions are based on information available as at the date of the financial statements and may differ from actual results.

#### k) Recognition of Revenues and Expenses

Revenues and expenses are recognized on an accrual basis, that is, they are recognized in the periods in which the actual flow of the related goods or services occurs, regardless of when the related monetary flow arises.

The Company recognizes as an expense any additions to provisions or allowances against risks, losses or physical damage that are known as at the financial statements' date.

**l) Income Tax**

The corporate income tax expense is calculated based on the statutory tax rate and book income before taxes, increased or decreased by the appropriate permanent and temporary differences (e.g. non-deductible provisions and allowances, entertainment expenses, differences between book and tax depreciation, etc.).

The deferred tax position reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for corporate income tax purposes, taking into consideration the period of realization.

**m) Subsidies**

The Company received a subsidy from the state budget to pay out obligatory social and health care allowances to miners.

**n) Subsequent Events**

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

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

**4. Fixed Assets****a) Intangible Fixed Assets (in CZK thousands)****Cost**

	At beginning of year	Additions	Disposals	Transfers	At end of year
Software	405,791	–	(1,312)	16,180	420,659
Patents, royalties and similar rights	421,281	–	(53,466)	53,303	421,118
Intangibles in progress	10,863	60,770	–	(69,483)	2,150
Advances for intangibles	365	3,259	(3,624)	–	–
<b>2012 Total</b>	<b>838,300</b>	<b>64,029</b>	<b>(58,402)</b>	<b>–</b>	<b>843,927</b>
<b>2011 Total</b>	<b>798,487</b>	<b>78,625</b>	<b>(38,812)</b>	<b>–</b>	<b>838,300</b>

**Accumulated Amortization**

	At beginning of year	Amortization during year	Cost of sales or liquidation	Disposals	At end of year	Net book value
Software	(379,823)	(18,234)	–	1,312	(396,745)	23,914
Patents, royalties and similar rights	(341,171)	(45,013)	(69)	53,466	(332,787)	88,331
Intangibles in progress	–	–	–	–	–	2,150
<b>2012 Total</b>	<b>(720,994)</b>	<b>(63,247)</b>	<b>(69)</b>	<b>54,778</b>	<b>(729,532)</b>	<b>114,395</b>
<b>2011 Total</b>	<b>(687,196)</b>	<b>(64,904)</b>	<b>–</b>	<b>31,106</b>	<b>(720,994)</b>	<b>117,306</b>

As at 31 December 2012 and 2011, the total value of small intangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 33,272 thousand and CZK 32,915 thousand at acquisition cost, respectively.

**b) Tangible Fixed Assets (in CZK thousands)****Cost**

	At beginning of year	Additions	Disposals	Transfers	At end of year
Land	1,973,286	–	(621)	219,981	2,192,646
Constructions	8,466,859	–	(395,557)	1,558,023	9,629,325
Machinery and equipment	15,467,391	–	(246,848)	555,352	15,775,895
Vehicles	9,559,576	–	(70,849)	754,940	10,243,667
Furniture and fixtures	191,027	–	(18,925)	7,472	179,574
Other tangibles	421	52	–	–	473
Art works and collections	2,450	–	(846)	91	1,695
Tangibles in progress	405,863	3,146,156	–	(3,095,859)	456,160
Advances for tangibles	1,429,352	2,138,439	(2,098,444)	–	1,469,347
<b>2012 Total</b>	<b>37,496,225</b>	<b>5,284,647</b>	<b>(2,832,090)</b>	<b>–</b>	<b>39,948,782</b>
<b>2011 Total</b>	<b>34,078,153</b>	<b>7,581,013</b>	<b>(4,162,941)</b>	<b>–</b>	<b>37,496,225</b>

**Accumulated Depreciation**

	At beginning of year	Depreciation during year	Cost of sales or liquidation	Disposals	At end of year	Allowances	Net book value
Land	-	-	-	-	-	(6,099)	2,186,547
Constructions	(3,210,311)	(511,619)	(96,811)	395,557	(3,423,184)	(39,523)	6,166,618
Machinery and equipment	(8,219,012)	(732,067)	(4,658)	246,848	(8,708,889)	(278,655)	6,788,351
Vehicles	(6,243,277)	(215,040)	(374)	70,849	(6,387,842)	-	3,855,825
Furniture and fixtures	(163,017)	(8,607)	(1,057)	18,925	(153,756)	-	25,818
Other tangibles	(421)	(52)	-	-	(473)	-	-
Art works and collections	-	-	-	-	-	-	1,695
Tangibles in progress	-	-	-	-	-	-	456,160
Advances for tangibles	-	-	-	-	-	(73)	1,469,274
<b>2012 Total</b>	<b>(17,836,038)</b>	<b>(1,467,385)</b>	<b>(102,900)</b>	<b>732,179</b>	<b>(18,674,144)</b>	<b>(324,350)</b>	<b>20,950,288</b>
<b>2011 Total</b>	<b>(16,950,996)</b>	<b>(1,282,960)</b>	<b>(4,357)</b>	<b>402,275</b>	<b>(17,836,038)</b>	<b>(80,051)</b>	<b>19,580,136</b>

As at 31 December 2012 and 2011, the total value of small tangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 160,675 thousand and CZK 181,949 thousand at acquisition cost, respectively.

The Company has adjusted the carrying value of certain tangible assets for a diminution in value through an allowance charged against income (see Note 7).

The Company established an allowance against a damaged giant machine in an amount of CZK 278,655 thousand, based on an adjusted amortized replacement cost of the giant machine and a qualified estimate of cost of the repair (see Note 7).

Certain tangible fixed assets were no longer in service and were being held for liquidation or alternative use. These had a cost of CZK 68,678 thousand and a net book value of CZK 39,493 thousand as at 31 December 2012. A 100% allowance was created against these assets.

The Company created an allowance against the assets which it uses but plans to sell. These assets have a cost of CZK 11,548 thousand and a net book value of CZK 11,548 thousand, respectively as at 31 December 2012 and the related allowance totaled CZK 6,129 thousand, i.e. the difference between the carrying value and estimated selling price (see Note 7).

As at 31 December 2012, the Company owns forest land covering a total area of 9,906,081 sq. meters. The forest land was valued at a total amount of CZK 564,647 thousand.

**c) Long-Term Financial Investments (in CZK thousands)****Summary of changes in long-term financial investments**

	Balance as at 31. 12. 2010	Additions	Disposals	Revaluation	Balance as at 31. 12. 2011	Additions	Disposals	Revaluation	Balance as at 31. 12. 2012
Subsidiaries	684,457	-	-	-	684,457	-	-	-	684,457
Associates	218,834	-	-	-	218,834	-	(203,501)	-	15,333
Other long-term securities and interests	108,739	4,602	(5,850)	-	107,491	4,616	(5,850)	-	106,257
Other long-term investments	6,441,343	887,647	(2,061,014)	7,863	5,275,839	951,668	(1,243,936)	502,165	5,485,736
<b>Total</b>	<b>7,453,373</b>	<b>892,249</b>	<b>(2,066,864)</b>	<b>7,863</b>	<b>6,286,621</b>	<b>956,284</b>	<b>(1,453,287)</b>	<b>502,165</b>	<b>6,291,783</b>

In 2012 the Company sold its significant ownership interest in the associate JTSD - Braunkohlebergbau GmbH.

The information on JTSD - Braunkohlebergbau GmbH is consolidated information taken from the audited consolidated financial statements of the JTSD - Braunkohlebergbau GmbH, which includes Mitteldeutsche Braunkohlengesellschaft mbH, its subsidiaries MBEG Montan Bildungs- und Entwicklungsgesellschaft mbH, GALA-MIBRAG - Service GmbH, MIBRAG Neue Energie GmbH and Gröbener Logistik GmbH (2010), and its associates MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH, Ingenieurbüro für Grundwasser GmbH and Fernwärme GmbH Hohenmölsen-Webau.

**Subsidiaries and associates as at 31 December 2012 were as follows (in CZK thousands)**

Name	SD - Autodoprava, a.s.	SD - 1.strojírenská, a.s.	SD - Kolejová doprava, a.s.	PRODECO, a.s.
Registered office	Bílina	Bílina	Tušimice	Teplíce
Percentage of ownership	100%	100%	100%	100%
Total assets	654,864	643,853	883,587	1,798,844
Equity	561,402	197,593	700,997	156,298
Basic capital and capital funds	334,983	67,000	355,000	109,730
Funds created from profit	73,070	18,322	73,526	22,774
Retained earnings	111,750	52,923	57,943	15,024
Profit for the current year	41,599	59,348	214,528	8,770
Acquisition cost of share	271,908	25,640	128,944	56,606
Nominal value of share	330,785	67,000	355,000	109,730
Intrinsic value of share	561,402	197,593	700,997	156,298
Dividends received during the year	23,221	32,842	145,808	10,973

Name	SD - Rekultivace, a.s.	SD - KOMES, a.s.	Výzkumný ústav pro hnědé uhlí a.s.
Registered office	Tušimice	Most	Most
Percentage of ownership	100%	92.65%	44.58%
Total assets	647,348	387,629	151,237
Equity	243,952	194,910	135,956
Basic capital and capital funds	48,000	181,573	71,522
Funds created from profit	10,287	11,994	13,811
Retained earnings	25,665	-	46,244
Profit for the current year	160,000	1,343	4,379
Acquisition cost of share	48,000	153,359	15,333
Nominal value of share	48,000	168,227	31,343
Intrinsic value of share	243,952	180,584	60,609
Dividends received during the year	67,056	-	-

Financial information about these companies as at 31 December 2012 was obtained from the companies' standalone audited financial statements.

**Subsidiaries and associates as at 31 December 2011 were as follows (in CZK thousands)**

Name	SD - Autodoprava, a.s.	SD - 1.strojírenská, a.s.	SD - Kolejová doprava, a.s.	PRODECO, a.s.
Registered office	Bílina	Bílina	Tušimice	Teplíce
Percentage of ownership	100%	100%	100%	100%
Total assets	636,430	620,622	820,657	1,010,266
Equity	546,386	175,862	635,180	159,408
Basic capital and capital funds	334,983	67,000	355,000	109,730
Funds created from profit	72,996	18,464	27,964	22,798
Retained earnings	111,727	52,923	-	16,339
Profit for the current year	26,680	37,475	252,216	10,541
Acquisition cost of share	271,908	25,640	128,944	56,606
Nominal value of share	334,983	67,000	355,000	109,730
Intrinsic value of share	546,386	175,862	635,180	159,408
Dividends received during the year	-	36,716	26,528	-

Name	SD - Rekultivace, a.s.	SD - KOMES, a.s.	Výzkumný ústav pro hnědé uhlí a.s.	JTSD - Braunkohlebergbau GmbH
Registered office	Tušimice	Most	Most	Zeitz
Percentage of ownership	100%	92.65%	44.58%	50%
Total assets	1,043,426	346,085	149,555	22,085,239
Equity	151,402	193,771	131,738	6,656,820
Basic capital and capital funds	48,000	181,573	71,516	6,114,967
Funds created from profit	10,244	36,612	13,545	-
Retained earnings	25,665	59,667	42,299	615,596
Profit/(loss) for the current year	67,493	(84,081)	4,377	(73,743)
Acquisition cost of share	48,000	153,359	15,333	203,500
Nominal value of share	48,000	168,227	31,882	3,057,484
Intrinsic value of share	151,402	179,529	58,729	1,036,520
Dividends received during the year	118,896	-	-	-

Financial information about these companies as at 31 December 2011 was obtained from the companies' standalone audited financial statements.

As at 31 December 2012 and 2011, other long-term securities and interests represent domestic bonds held to maturity in the amount of CZK 106,257 thousand and CZK 107,491 thousand, respectively.

With respect to the maturity structure of held-to-maturity long-term debt securities, no such securities were reclassified into short-term financial assets as at 31 December 2012 and 2011.

**Other long-term financial investments as at 31 December were as follows (in CZK thousands)**

	2012	2011
Domestic bonds – available-for-sale	5,485,736	5,067,512
Foreign bonds – available-for-sale	–	208,327
<b>Total</b>	<b>5,485,736</b>	<b>5,275,839</b>

As at 31 December 2012 and 2011, the Company reclassified held-for-sale debt securities totaling CZK 165,234 thousand and CZK 1,020,785 thousand, respectively, into short-term financial assets. These are debt securities held by the Company over 1 year and falling due within 12 months from the financial statements date.

As at 31 December 2012, other long-term financial investments included government debt securities purchased using the restricted cash deposited to cover decommissioning and reclamation of areas affected by mining and mining damages pursuant to the Act on Mining. These government debt securities totaled CZK 3,766,366 thousand and CZK 2,811,040 thousand, respectively as at 31 December 2012 and 2011.

Of the total volume of bonds reported in other long-term securities and other long-term financial investments, an amount of CZK 1,669,964 thousand and CZK 306,863 thousand, respectively, relates to bonds used as a surety for repo transactions as at 31 December 2012 and 2011 (see Note 13).

## 5. Inventory

Inventory is principally composed of materials, which include mainly spare parts.

Excess, obsolete and slow-moving inventory has been written down to its estimated net realizable value by an allowance account. The allowance is determined by management based on stock turnover analysis (see Note 7).

## 6. Receivables

In 2012 and 2011, allowances against outstanding receivables that are considered doubtful were charged to income based on the collateral used and based on the creditworthiness of customers, taking into account the aging of receivables (see Note 7).

As at 31 December 2012 and 2011, overdue receivables totaled CZK 26,554 thousand and CZK 27,346 thousand, respectively.

The Company wrote off irrecoverable receivables of CZK 47 thousand and CZK 9,980 thousand in 2012 and 2011, respectively due to cancellation of bankruptcy proceedings, unsatisfying the claims in bankruptcy proceedings, etc.

Receivables from related parties (see Note 18).

## 7. Allowances

Allowances reflect a temporary diminution in the value of assets (see Notes 4, 5 and 6).

### Changes in the allowance accounts (in CZK thousands)

Allowances against:	Balance as at 31. 12. 2010	Additions	Deductions	Balance as at 31. 12. 2011	Additions	Deductions	Balance as at 31. 12. 2012
Tangible fixed assets	108,487	79,901	(108,337)	80,051	324,277	(79,978)	324,350
Inventory	80,568	87,253	(80,568)	87,253	95,637	(87,253)	95,637
Receivables	39,311	6,369	(16,632)	29,048	4,041	(3,940)	29,149
– of which:							
Legal	32,023	2,774	(11,759)	23,038	111	(62)	23,087
Other	7,288	3,595	(4,873)	6,010	3,930	(3,878)	6,062

Legal allowances are created in compliance with the Act on Provisions and are tax deductible.

## 8. Short-term Financial Assets

As at 31 December 2012 and 2011, the Company had the restricted cash balances of CZK 30,316 thousand and CZK 164,289 thousand, respectively. The Company deposits these resources in accordance with Section 10a) of the Act on Provisions in a special escrow account pursuant to the Act on Mining to cover purpose-specific expense of mining damages, decommissioning and reclamation in future periods with the approval of district mining authority (Obvodní báňský úřad).

The Company is involved in a cash-pooling of the ČEZ group administered by Komerční banka, a.s. In this context, the Company made a Contract for reciprocal credit lines with ČEZ a. s., based on which the Company can repeatedly obtain credit up to CZK 50 million. The outstanding balance of cash-pooling transferred to the parent company ČEZ, a. s., bears an interest rate of PRIBID-0.21% (however, no less than 0.05%). As at 31 December 2012 and 2011, the outstanding balance was CZK 37,161 thousand and CZK 52,639 thousand, respectively and is recorded in the balance sheet in short-term receivables in Receivables from group companies with majority control.

In addition, the Company has an overdraft facility of EUR 15 thousand with ČSOB, a.s., to a current account. As at 31 December 2012 and 2011, the overdraft was not used.

### Short-term securities and interests as at 31 December were as follows (in CZK thousands)

	Balance as at 31. 12. 2012	Balance as at 31. 12. 2011
Government debt securities	165,234	1,020,785
Treasury bonds	–	49,739
Depository bills	250,961	–
<b>Total</b>	<b>416,195</b>	<b>1,070,524</b>

As at 31 December 2011, the caption “Short-term securities and interests” included treasury bonds purchased using the restricted cash deposited to cover decommissioning and reclamation of areas affected by mining and mining damages pursuant to the Act on Mining. These treasury bonds totaled CZK 49,739 thousand as at 31 December 2011.

Of the total volume of held bonds reported within short-term securities and interests, an amount of CZK 103,614 thousand and CZK 450,677 thousand, respectively, relates to bonds and treasury bonds used as a surety for repo transactions as at 31 December 2012 and 2011 (see Note 13).

As at 31 December 2012, the caption “Depository bills” includes a depository note of Komerční banka, a.s.

## 9. Other Assets

Prepaid expenses include in particular contractual property insurance, geological works, advertising costs, leases, licenses, tuition fees and subscription, which are charged to income for the year in which they were incurred.

## 10. Equity

The basic capital of the Company consists of 9,080,631 registered shares in a certificated form, fully subscribed and paid, with a nominal value of CZK 1 thousand.

The movements in the capital accounts during 2012 and 2011 were as follows (in CZK thousands):

	Balance as at 31. 12. 2010	Increase	Decrease	Balance as at 31. 12. 2011	Increase	Decrease	Balance as at 31. 12. 2012
Number of shares	9,080,631	-	-	9,080,631	-	-	9,080,631
Basic capital	9,080,631	-	-	9,080,631	-	-	9,080,631
Other capital funds	2,525	-	-	2,525	-	-	2,525
Differences arising from revaluation of assets and liabilities	300,365	7,157	-	307,522	383,437	-	690,959
Legal reserve fund	1,825,798	-	-	1,825,798	-	-	1,825,798
Other funds	3,455,864	30,123	(25,786)	3,460,201	31,163	(28,791)	3,462,573

Other funds include a social fund, investment fund, fund for donations to cities and municipalities for environmental, social and health care purposes and for education, culture and sport, and a fund for reducing local unemployment. The social fund is used for social requirements and needs of employees of the Company covered by the collective bargaining agreement. The investment fund is used to finance future investment needs of the Company.

Based on the decision of the sole shareholder executing the powers of the General Meeting dated 11 June 2012 and 23 May 2011, the following profit distribution for 2011 and 2010 was approved (in CZK thousands):

	2011	2010
Profit for 2011	2,619,485	2,260,595
Allocation to social fund	(31,163)	(30,123)
Payment of dividends	(1,707,159)	(1,507,385)
Bonuses to management and board members	(22,187)	(19,590)
Undistributed profits added to retained earnings	858,976	703,497

The movements in retained earnings during 2012 and 2011 were as follows (in CZK thousands):

Retained earnings as at 31. 12. 2010	2,563,019
Undistributed profits added to retained earnings	703,497
Retained earnings as at 31. 12. 2011	3,266,516
Undistributed profits added to retained earnings	858,976
Retained earnings as at 31. 12. 2012	4,125,492

From the date of the General Meeting to the end of the year, the Company paid dividends as follows:

	2012	2011
Dividend per share in CZK	188,00	166,00
Total dividends in CZK thousands	1,707,159	1,507,385

## 11. Provisions

The movements in the provision accounts were as follows (in CZK thousands)

Provisions	Balance as at 31. 12. 2010	Additions	Deductions	Balance as at 31. 12. 2011	Additions	Deductions	Balance as at 31. 12. 2012
Legal	3,672,832	444,949	(336,503)	3,781,278	420,526	(249,580)	3,952,224
- of which:							
For decommissioning and reclamation	3,669,732	444,688	(336,242)	3,778,178	420,526	(249,580)	3,949,124
For mining damages	3,100	261	(261)	3,100	-	-	3,100
Provision for pensions and similar liabilities	33,462	2,157	-	35,619	2,103	-	37,722

Legal provision was created for the purpose and at an amount in accordance with the Act on Provisions.

Legal provisions for decommissioning and environmental reclamation and for mining damages were created in order to remove, in accordance with the Act on Mining, the effects of mining activity and the related damages. The related assessments are periodically revised in coordination with the district mining authority (Obvodní báňský úřad) in the city Most every year.

Since its incorporation date, the Company has been responsible for the costs of closing and environmental reclamation of mining areas that were in use as open pit mines from the 1950's. The provision for costs related to decommissioning and environmental reclamation was CZK 878,081 thousand as at 1 January 1994. If the Company's legal predecessor (Severočeské hnědohorné doly, s.p.) had observed today's applicable accounting procedures, this provision would have amounted to CZK 5,978,800 thousand as at 1 January 1994. Over the remaining useful life of mines foreseen till 2035, the resources are gradually created within this provision in order to cover the above difference.

The provision for the costs mentioned above is calculated with the use of the most recent technical evaluation of processes and methods that will be most likely applied to future environmental reclamation of mining areas after closing of the mine, and it represents an estimate established according to the existing technical knowledge and legislation.

The estimates are revised every year and the changes, if any, in the provision creation are reflected in the amounts added to this provision in the current as well as in the future periods.

## 12. Current Liabilities

Unbilled deliveries represent, in particular, fee for mined minerals, unbilled supplies of services, unpaid liabilities related to accrued vacation and unpaid bonuses and remuneration including insurance, which are charged to income for the year in which they were incurred.

As at 31 December 2012, the Company had liabilities of CZK 56,220 thousand owing to social security and health insurance premiums.

Payables to related parties (see Note 18).

## 13. Bank Loans and Borrowings

As at 31 December 2012 and 2011, the Company recorded short-term bank loans in the following structure:

Bank	2012		2011	
	Interest rate	Amount in CZK thousand	Interest rate	Amount in CZK thousand
Československá obchodní banka, a.s.	0.14%	919,930	–	–
Česká spořitelna, a.s.	0.14%	851,087	0.76%	756,567
Total		1,771,017		756,567
Less current portion		1,771,017		756,567

As at 31 December 2012 and 2011, the Company recorded total short-term bank loans in the amount of CZK 1,771,017 thousand and CZK 756,567 thousand, respectively. These loans related to the Company's financial transactions and were secured by the transfer of title to the Company's held-for-trading securities (repo transactions).

Interest expense relating to the bank loans secured by the transfer of title (the so-called repo transactions) amounted to CZK 6,292 thousand and CZK 9,231 thousand in 2012 and 2011, respectively.

## 14. Income Taxes

in CZK thousands	2012	2011
Profit before taxes	2,966,384	3,200,420
Non-taxable revenues	(286,391)	(188,703)
Gain from sale of ownership interests	(482,738)	–
Difference between book and tax depreciation	(590,538)	(995,615)
Creation/reversal of allowances, net	252,735	(23,029)
Creation/reversal of non deductible provisions, net	2,103	2,157
Net book value of disposed assets for accounting and tax purposes	74,093	42,180
Other (e.g. gifts, severance payment, shortages and losses)	29,725	18,012
Taxable income	1,965,373	2,055,422
Current income tax rate	19%	19%
Tax due before relief	373,421	390,530
Tax relief	(904)	(790)
Adjustment of the tax paid in previous years	33,660	(5,471)
Current tax expense	406,177	384,269

The Company quantified deferred taxes as follows (in CZK thousands):

Deferred tax items	2012		2011	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Difference between net book value of fixed assets for accounting and tax purposes	–	(1,288,071)	–	(1,227,719)
Other temporary differences:				
Revaluation of available-for-sale securities	–	(162,077)	–	(72,135)
Allowance against receivables	1,152	–	1,142	–
Allowance against inventory	18,171	–	16,578	–
Allowance against fixed assets	61,627	–	15,210	–
Provisions	7,167	–	6,767	–
Other	2,404	–	3,321	–
<b>Total</b>	<b>90,521</b>	<b>(1,450,148)</b>	<b>43,018</b>	<b>(1,299,854)</b>
<b>Net</b>		<b>(1,359,627)</b>		<b>(1,256,836)</b>

As at 31 December 2012, the Company recorded a deferred tax change of CZK 12,849 thousand in the income statement. A deferred tax change of CZK 89,942 thousand was recorded in equity through the “revaluation of assets and liabilities” caption.

## 15. Commitments and Contingencies

The Company is responsible for reclamation and decommissioning of mining areas. The Company has been establishing a provision for reclamation and decommissioning to cover the costs incurred as a result of this liability (see Note 11).

The Company has concluded contracts for the following supplies:

Doly Bílina (the Bílina quarry)

- A contract for the supply of a complete conveyor system of the TC2 technological entity for the KK 1300 excavator totaling CZK 1,656,390 thousand, to be completed in June 2013.
- A contract for reassembly works in the Jižní svahy area totaling CZK 466,024 thousand, to be completed in June 2013.
- A contract for increasing capacity of mine water treatment plant called Emerán at Doly Bílina totaling CZK 375,000 thousand, to be completed in June 2013.

Doly Nástup Tušimice (the Nástup Tušimice quarry)

- A contract for modernization of the second and the third coal exhaust (belt conveyors) totaling CZK 127,700 thousand, to be completed in June 2013.

The Company's planned major investments are as follows:

Doly Bílina (the Bílina quarry)

- Relocation of Ledvice coal preparation facility's point of small sales (coal dust): estimated capital expenditures of CZK 350,000 thousand (to be completed in February 2013 – June 2014).
- Relocation of Ledvice coal preparation facility's point of small sales (graded coal): estimated capital expenditures of CZK 350,000 thousand (to be completed in April 2013 – June 2015).
- Reconstruction of the radius of the bucket wheel of KU 800/K 98 excavator: capital expenditures of approximately CZK 76,000 thousand, operating expenses of approximately CZK 11,500 thousand (to be completed by October 2013).
- Reconstruction of the radius of the bucket wheel of K 2000 excavator: estimated capital expenditures of CZK 110,000 thousand, operating expenses of approximately CZK 35,000 thousand (to be completed in 2014).
- Reconstruction and repair of selected parts of KU 300/K 83 excavator: estimated capital expenditures of CZK 105,000 thousand, operating expenses of approximately CZK 15,000 thousand (to be completed in 2014).
- Delivery of mobile conveyor (PVZ): preparation of project documentation in 2013 (to be completed in 2014–2015).

Doly Nástup Tušimice (the Nástup Tušimice quarry)

- Modernization of electrical part of ZP 6800 overburden dumping machine: estimated capital expenditures of CZK 49,000 thousand, operating expenses of approximately CZK 8,000 thousand (to be completed in 2014).

## 16. Revenues

The breakdown of revenues on ordinary activities is as follows (in CZK thousands)

	2012		2011	
	Domestic	Foreign	Domestic	Foreign
Coal	10,104,734	-	10,424,834	-
Coal transportation	187,018	-	219,947	-
Other	235,452	-	232,049	93
<b>Total revenues</b>	<b>10,527,204</b>	<b>-</b>	<b>10,876,830</b>	<b>93</b>

The coal revenues of the Company were concentrated primarily with one main customer, i.e. ČEZ, a. s., in the industry of electricity generation and transmission.

Subsidies received from the state budget for operational purposes, mainly for allowances in kind and pensions paid to former employees of the Company, were CZK 1,800 thousand and CZK 1,965 thousand in 2012 and 2011, respectively.

## 17. Personnel and related expenses

The breakdown of personnel expenses is as follows (in CZK thousands)

	2012		2011	
	Total personnel	Members of managerial bodies	Total personnel	Members of managerial bodies
Average number of employees	3,454	39	3,463	37
Wages and salaries	1,256,971	78,373	1,239,177	70,144
Social security and health insurance	450,167	13,870	442,406	14,011
Social cost	41,336	1,200	39,705	855
<b>Total personnel expenses</b>	<b>1,748,474</b>	<b>93,443</b>	<b>1,721,288</b>	<b>85,010</b>

The members and former members of statutory and supervisory bodies received total bonuses and other remuneration of CZK 21,195 thousand and CZK 29,083 thousand in 2012 and 2011, respectively.

## 18. Related Party Information

No loans, guarantees or advances were granted to members of statutory bodies in 2012 and 2011.

Other benefits consist of the use of automobiles. Pursuant to Section 6, para. 6 of Act No. 586/1992 Coll., 56 employees of the Company use this benefit.

Advances granted to related parties were as follows (in CZK thousands)

Related party	Balance as at 31. 12. 2012	Balance as at 31. 12. 2011
PRODECO, a.s.	1,392,456	753,144
SD - 1.strojírenská, a.s.	70,544	177,378
SD - Rekultivace, a.s.	22,760	477,148
ČEZ Prodej, s.r.o.	1,554	2,412
ČEZ ICT Services, a. s.	1,583	-
<b>Total</b>	<b>1,488,897</b>	<b>1,410,082</b>

**Short-term receivables from related parties as at 31 December were as follows (in CZK thousands)**

Related party	Balance as at 31. 12. 2012	Balance as at 31. 12. 2011
ČEZ, a. s.	386,788	449,221
Energotrans, a.s.	72,437	-
PRODECO, a.s.	44,017	826
Teplárna Trmice, a.s.	18,383	31,545
SD - Autodoprava, a.s.	15,414	11,909
SD - 1.strojírenská, a.s.	13,848	12,002
SD - Kolejová doprava, a.s.	6,501	4,511
SD - Rekultivace, a.s.	3,161	1,356
SD - KOMES, a.s.	32	44
ČEZ Teplárenská, a.s.	6	-
Výzkumný ústav pro hnědé uhlí a.s.	6	6
Elektrárna Počeradý, a.s.	6	-
MARTIA a.s.	-	8,929
ČEZ Distribuce, a. s.	1	2
<b>Total</b>	<b>560,600</b>	<b>520,351</b>

As at 31 December 2012 and 2011, receivables from group companies with majority control in the amount of CZK 37,161 thousand and CZK 52,639 thousand, respectively represent the balance of cash in the "cash-pooling" system (see Note 8).

The Company sells coal and provides services to related parties in the ordinary course of business. Sales were as follows (in CZK thousands):

Related party	2012	2011
ČEZ, a. s.	5,269,347	5,623,104
Teplárna Trmice, a.s.	277,634	328,894
Energotrans, a.s.	236,333	-
SD - Autodoprava, a.s.	184,557	173,581
SD - 1.strojírenská, a.s.	155,451	213,081
SD - Kolejová doprava, a.s.	88,593	60,801
PRODECO, a.s.	46,373	9,993
SD - Rekultivace, a.s.	24,585	17,904
MARTIA a.s.	6,744	6,075
ČEZ Teplárenská, a.s.	812	5,645
SD - KOMES, a.s.	143	112
Výzkumný ústav pro hnědé uhlí a.s.	63	39
ČEZ Distribuce, a. s.	15	4
ČEZ Správa majetku, s.r.o.	5	-
ČEZ Energetické produkty, s.r.o.	1	1,976
Elektrárna Počeradý, a.s.	5	-
ŠKODA PRAHA Invest s.r.o.	-	4
<b>Total</b>	<b>6,290,661</b>	<b>6,441,213</b>

**Short-term liabilities to related parties as at 31 December were as follows (in CZK thousands)**

Related party	Balance as at 31. 12. 2012	Balance as at 31. 12. 2011
SD - Rekultivace, a.s.	230,226	240,792
SD - KOMES, a.s.	190,350	56,121
PRODECO, a.s.	122,117	31,048
SD - 1.strojírenská, a.s.	112,345	86,773
SD - Autodoprava, a.s.	39,960	48,603
ČEZ Distribuce, a. s.	22,656	23,642
ČEZ, a. s.	16,234	55,460
SD - Kolejová doprava, a.s.	11,745	8,064
Výzkumný ústav pro hnědé uhlí a.s.	8,071	8,585
ČEZ Teplárenská, a.s.	3,111	-
ČEZ ICT Services, a. s.	2,883	128
MARTIA a.s.	2,091	224
ČEZ Správa majetku, s.r.o.	1,909	20
ČEZ Prodej, s.r.o.	1,649	2,717
ČEZ Logistika, s.r.o.	726	347
<b>Total</b>	<b>766,073</b>	<b>562,524</b>

Liabilities to group companies with majority control in the amount of CZK 250,000 thousand and CZK 1,300,000 thousand, respectively as at 31 December 2012 and 2011 represent loans from the parent company ČEZ, a. s.

As at 31 December 2012 and 2011, interest expense on these loans totaled CZK 9,377 thousand and CZK 2,741 thousand, respectively.

The Company purchases products and receives services from related parties in the ordinary course of business. Purchases from related parties were as follows (in CZK thousands):

Related party	2012	2011
SD - Rekultivace, a.s.	1,331,764	685,405
SD - 1.strojírenská, a.s.	1,200,609	954,066
PRODECO, a.s.	886,490	3,066,209
SD - KOMES, a.s.	878,147	725,434
SD - Autodoprava, a.s.	480,780	496,862
ČEZ Distribuce, a. s.	333,055	329,565
SD - Kolejová doprava, a.s.	176,089	171,933
ČEZ, a. s.	47,978	62,930
Výzkumný ústav pro hnědé uhlí a.s.	23,978	19,185
ČEZ Teplárenská, a.s.	20,650	-
ČEZ Správa majetku, s.r.o.	6,518	152
ČEZ Prodej, s.r.o.	5,821	5,279
ČEZ ICT Services, a. s.	5,401	3,088
MARTIA a.s.	2,856	301
ČEZ Logistika, s.r.o.	1,901	15,497
ŠKODA PRAHA Invest s.r.o.	76	-
ČEZ Distribuční služby, s.r.o.	-	5
Total	5,402,113	6,535,911

## 19. Research and Development Costs

Research and development costs amounted to CZK 23,053 thousand and CZK 27,569 thousand in 2012 and 2011, respectively, and were expensed as incurred.

## 20. Statement of Cash Flows (See Page 145)


The cash flow statement was prepared under the direct method. Cash equivalents include cash in hand and at bank and short-term financial assets.

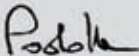
## 21. Statement of Changes in Equity (See Note 10)

Prepared on:  
22 February 2013

Signature of accounting unit's statutory body:

Person responsible for financial statements:

  
Ivan Lapin  
Chairman of the Board of Directors

  
Jiří Postolka  
Vice Chairman of the Board of Directors

  
Naděžda Kuklíková

# Identification of Severočeské doly a.s.

160

Severočeské doly a.s.  
Boženy Němcové 5359  
430 01 Chomutov  
Czech Republic  
ID Number: 49901982  
Tax ID Number: CZ49901982

Incorporated in the Commercial Register maintained by the  
Regional Court in Ústí nad Labem, part B, insert 495

Closing date of the 2012 Annual Report: April 5, 2013



**Group Structure Chart**  
**Alphabetical List of Companies – Group Members**







## 2. Group Structure Chart

Czech Republic – Ministry of Finance

69.37%	<b>ČEZ, a. s.</b>	51.72%	<b>ČMFL, a.s. in liquidation</b>
100%	Severočeské doly a.s.		stricken from Commercial Register on March 27, 2012
100%	PRODECO, a.s.	100%	ČEPRO, a.s.
100%	SD - 1.strojírenská, a.s.	100%	STROJÍRNÝ TATRA PRAHA,a.s.in liquidation
100%	SD - Autodoprava, a.s.	92.16%	Výzkumný a zkušební letecký ústav, a.s.
100%	SD - Kolejová doprava, a.s.	100%	VZLU TECHNOLOGIES, a.s.
100%	SD - Rekultivace, a.s.		formed on December 21, 2012
92.65%	SD - KOMES, a.s.	100%	Hotelinvest a.s.
0.00%	JTSD - Braunkohlebergbau GmbH	49.00%	Municipální finanční společnost a.s. abbreviated name MUFIS a.s.
	50% stake in company sold on June 29, 2012	100%	JUNIOR centrum, a.s. in liquidation
100%	Mitteideutsche Braunkohlengesellschaft mbH (MIBRAG mbH)	46.99%	Ormlík, a.s.in liquidation
	100% stake, loss of control due to sale of stake in company JTSD - Braunkohlebergbau GmbH on June 29, 2012	100%	MERO ČR, a.s.
100%	GALA-MIBRAG-Service GmbH	100%	MERO Germany AG
	loss of control due to sale of stake in company JTSD - Braunkohlebergbau GmbH on June 29, 2012	71.89%	BH CAPITAL, a.s. in liquidation
100%	Montan Bildungs- und Entwicklungsgesellschaft mbH		in liquidation since July 1, 2012
	loss of control due to sale of stake in company JTSD - Braunkohlebergbau GmbH on June 29, 2012	100%	PRISKO a.s.
50.00%	MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	96.50%	VIPAP VIDEM KRŠKO d.d.
	loss of control due to sale of stake in company JTSD - Braunkohlebergbau GmbH on June 29, 2012		headquartered in Slovenia
49.00%	Ferwärme GmbH Hohenmölsen - Webau	100%	THERMAL-F, a.s.
	loss of control due to sale of stake in company JTSD - Braunkohlebergbau GmbH on June 29, 2012		stated capital recorded in Commercial Register on May 23, 2012
25.00%	Ingenieurbüro für Grundwasser GmbH	100%	STAVOCENTRAL, a.s. "in liquidation"
	loss of control due to sale of stake in company JTSD - Braunkohlebergbau GmbH on June 29, 2012	100%	PPP Centrum a.s.
100%	MIBRAG Neue Energie GmbH	40.78%	Severočeské mlékárny, a.s. Teplice
	loss of control due to sale of stake in company JTSD - Braunkohlebergbau GmbH on June 29, 2012	50.00%	PORCELÁN HOLDING a.s. in liquidation
100%	Energetické centrum s.r.o.		shares acquired on November 23, 2012
100%	ČEZ Správa majetku, s.r.o.	100%	IMOB a.s.
100%	Elektrárna Chvaletice a.s.	96.85%	HOLDING Kladno a.s."in liquidation"
100%	ČEZ ENERGOSEVIS spol. s r.o.	100%	GALILEO REAL, k.s.
100%	ČEZ ICT Services, a. s.	100%	Explosia a.s.
100%	SINIT,a.s.	100%	FOSPOL a.s.
100%	ČEZ Logistika, s.r.o.	100%	Istrochem Explosives a. s.
100%	ČEZ Zákaznické služby, s.r.o.	100%	Explosia SK s. r. o.
100%	ČEZ Měření, s.r.o.	100%	FOSPOL SK, spol. s r.o.
100%	PPC Úžín, a.s.	40.00%	Exportní garanční a pojišťovací společnost,a.s.
100%	eEnergy Hodonín a.s.		34.00% KUPEG úvěrová pojišťovna, a.s.
	merged into ČEZ OZ uzavřený investiční fond a.s. on November 1, 2012	41.60%	Česká exportní banka, a.s.
100%	CEZTel, a.s.		State owned 80% of shares as of December 31, 2012
100%	eEnergy Ralsko - Kuřivody a.s.	100%	Letiště Praha, a. s.
	merged into ČEZ OZ uzavřený investiční fond a.s. on November 1, 2012		Czech Republic – Ministry of Finance's stake transferred to Český Aeroholding, a.s. on March 19, 2012
99.61%	AREA-GROUP CL a.s.	100%	Český Aeroholding, a.s.
	merged into ČEZ OZ uzavřený investiční fond a.s. on November 1, 2012		stated capital recorded in Commercial Register on September 12, 2012
100%	eEnergy Ralsko a.s.	100%	Letiště Praha, a. s.
	merged into ČEZ OZ uzavřený investiční fond a.s. on November 1, 2012		Český Aeroholding, a.s. owns 100% as of March 19, 2012
99.64%	3 L invest a.s.	95.69%	České aerolinie a.s.
	merged into ČEZ OZ uzavřený investiční fond a.s. on November 1, 2012		Český Aeroholding, a.s. owns 95.69% as of August 31, 2012
51.05%	LOMY MORINA spol. s r.o.	99.10%	B. aircraft, a.s.
100%	FVE Vranovská Ves a.s.		České aerolinie a.s. owned 100% until November 28, 2012; Český Aeroholding, a.s. owns 99.10% as of November 29, 2012
	merged into ČEZ OZ uzavřený investiční fond a.s. on November 1, 2012	100%	CSA Services, s.r.o.
99.92%	DOMICA FPI s.r.o.	100%	Czech Airlines Technics, a.s.
	merged into ČEZ OZ uzavřený investiční fond a.s. on November 1, 2012		České aerolinie a.s. owned 100% until April 12, 2012; Český Aeroholding, a.s. owns 100% as of April 13, 2012
100%	ČEZ Energetické služby, s.r.o.	100%	Realitní developerská, a.s.
100%	Teplárna Trmčice, a.s.		100% Sky Venture a.s.
65.00%	ULITEP, spol. s r.o.		Whitelines Industries a.s.
	sold on November 30, 2012	100%	Czech Airlines Handling, a.s.
100%	ČEZ Energetické produkty, s.r.o.	100%	HOLIDAYS Czech Airlines, a.s.
59.90%	in PROJEKT LOUNY ENGINEERING s.r.o.	95.69%	České aerolinie a.s.
	stake purchased on July 2, 2012		Czech Republic – Ministry of Finance's stake transferred to Český Aeroholding, a.s. on August 31, 2012
100%	ČEZ Teplárenská, a.s.	65.00%	Amadeus Czech republic and Slovakia, s.r.o.
	company headquarters address changed on January 18, 2012		České aerolinie a.s. owned 65% until June 28, 2012; name changed on December 18, 2012
100%	MARTIA a.s.	100%	Czech Airlines Training Centre, s.r.o.
50%	FM service s.r.o.		České aerolinie a.s. owned 100% until September 30, 2012; former name: Czech Airlines Landing Gears, s.r.o.
55.82%	Teplné hospodářství města Ústí nad Labem s.r.o.	97.19%	BOHEMIA CRYSTALEX TRADING a.s.
	October 1, 2012: split off and merged into ČEZ Teplárenská, a.s.		in bankruptcy since March 16, 2009; shares acquired on November 23, 2012
50.00%	ENERGIE KRUPKA, s.r.o.	76.31%	SKLARNY KAVALIER, a.s.
66.67%	OSC, a.s.		in bankruptcy since February 9, 2009
100%	STE - obchodní služby spol. s r.o. in liquidation	100%	Sklárny BOHEMIA a.s.
52.46%	UJV Řež, a. s.		in bankruptcy since December 3, 2008
100%	Centrum výzkumu Řež s.r.o.	75.33%	CRYSTALEX a.s.
100%	Výzkumný a zkušební ústav Plzeň s.r.o.		in bankruptcy since March 12, 2009
62.50%	LACOMED, spol. s r.o.	100%	BOHEMIA LUX
	sold on July 11, 2012		headquartered in Russia
40.00%	Nuclear Safety & Technology Centre s.r.o.		
100%	Ústav aplikované mechaniky Brno, s.r.o.		
100%	EGP INVEST, spol. s r.o.		
100%	ČEZ Bohumice a.s.		
49.00%	Jadrová energetická společnost Slovenska, a. s.		
100%	JESS Invest, s. r. o.		
12.00%	SKO-ENERGO, s.r.o.		
5.00%	SKO-ENERGO FIN, s.r.o.		
99.90%	ČEZ Obnovitelné zdroje, s.r.o.		
100%	FVE Buštěhrad a.s.		
	merged into ČEZ OZ uzavřený investiční fond a.s. on November 1, 2012		
100%	KEFARIUM,a.s.		
	merged into ČEZ OZ uzavřený investiční fond a.s. on November 1, 2012		
100%	Bioplyn technologie s.r.o.		
	merged into ČEZ OZ uzavřený investiční fond a.s. on November 1, 2012		
100%	ČEZ Distribuce, a. s.		
98.63%	ČEZ OZ uzavřený investiční fond a.s.		
	November 1, 2012: merger with companies involved in generation from renewable sources		
50.10%	ČEZ Energo, s.r.o.		
98.00%	TI Energo, s.r.o.		
	May 30, 2012: company name (TEPLO IVANČICE, s.r.o.) and headquarters address changed		
100%	Energotrans, a.s.		
	June 28, 2012: share purchase		
100%	ČEZ Distribuční služby, s.r.o.		
100%	ČEZ Prodej, s.r.o.		
100%	ŠKODA PRAHA a.s.		
100%	EGI, a.s. in liquidation		
100%	ŠKODA PRAHA Invest s.r.o.		
100%	GENTLEY a.s.		
	merged into ČEZ OZ uzavřený investiční fond a.s. on November 1, 2012		
100%	Bohemian Development, a.s.		
	merged into ČEZ OZ uzavřený investiční fond a.s. on November 1, 2012		
100%	ČEZ Bosna i Hercegovina d.o.o.		
100%	ČEZ Bulgaría EAD		
100%	ČEZ Trade Bulgaria EAD		
100%	ČEZ Laboratories Bulgaria EOOD in liquidation		
	dissolved November 6, 2012		
67.00%	ČEZ Elektro Bulgaria AD		
100%	TEC Varna EAD		
100%	ČEZ Silesia B.V.		
	headquarters address changed on February 1, 2012		
100%	ČEZ Chorzow B.V.		
	headquarters address changed on February 1, 2012		
100%	Elektrociepłownia Chorzów ELCHO sp. z o.o.		
100%	ČEZ Poland Distribution B.V.		
	headquarters address changed on February 1, 2012		
100%	Baltic Green I sp. z o.o.		
	formed November 23, 2012		
100%	Baltic Green II sp. z o.o.		
	formed November 22, 2012		
100%	Baltic Green III sp. z o.o.		
	formed November 21, 2012		
75.00%	Eco-Wind Construction S.A.		
	stake in stated capital increased to 69.03% on May 21, 2012 and subsequently to 75% on December 20, 2012		
100%	A.E. Wind sp. z o.o.		
100%	Elektrownie Wiatrowe Lubiechowo sp. z o.o.		
100%	Farma Wiatrowa Leśce sp. z o.o.		
100%	Farma Wiatrowa Wilkołaz-Bychawa sp. z o.o.		
100%	F.W. Tolkowiec sp. z o.o.		
100%	Mega Energy sp. z o.o.		
100%	Elektrownia Skawina S.A.		
100%	ČEZ Polska sp. z o.o.		
100%	ČEZ Produkty Energetyczne Polska sp. z o.o.		
100%	ČEZ Nowa Skawina S.A.		
100%	ČEZ Trade Polska sp. z o.o.		
100%	ČEZ Towarowy Dom Maklerski sp. z o.o.		
100%	ČEZ Albania Sh.A.		
100%	ČEZ Trade Albania Sh.P.K.		
100%	ČEZ Srbija d.o.o.		
100%	New Kosovo Energy L.L.C.		
	company dissolved on April 19, 2012		
99.99%	ČEZ Distributie S.A.		
99.99%	ČEZ Vanzare S.A.		
99.99%	ČEZ Romania S.A.		
100%	TMK Hydroenergy Power S.R.L.		
100%	ČEZ Bulgarian Investments B.V.		
	headquarters address changed on February 1, 2012		
100%	Free Energy Project Oreshets EAD		
99.99%	Eco Etropol AD		
	company formed on December 20, 2012		
99.99%	ČEZ Trade Romania S.R.L.		
100%	ČEZ Ukraine LLC		
51.00%	NERS d.o.o.		
100%	ČEZ Magyarország Kft. (CEZ Hungary Ltd.)		
	headquarters address changed on May 28, 2012		
100%	ČEZ MH B.V.		
	headquarters address changed on February 1, 2012		
100%	ČEZ Slovensko, s.r.o.		
76.00%	ČEZ Shpërndarje Sh.A.		
100%	ČEZ Deutschland GmbH		
100%	ČEZ Elektroprodukcija Bulgaria AD		
	merged into TEC Varna EAD on November 12, 2012		
67.00%	ČEZ Razpredelenie Bulgaria AD		
100%	ČEZ International Finance B.V.		
	headquarters address changed on February 1, 2012		
37.36%	Akenerji Elektrik Üretim A.Ş.		
100%	Aken B.V.		
99.28%	Mem Enerji Elektrik Üretim Sanayi ve Ticaret A.Ş.		
	shareholders' stakes changed on October 2, 2012		
99.43%	Akkur Enerji Üretim Ticaret ve Sanayi A.Ş.		
	shareholders' stakes changed on October 2, 2012		
90.00%	Akenerji Elektrik Enerjisi İthalat İhracat ve Toptan Ticaret A.Ş.		
99.99%	Egemen Elektrik Üretim A.Ş.		
100%	AK-EL Yalova Elektrik Üretim A.Ş.		
	shareholder structure changed on November 29, 2012		
90.00%	Akka Elektrik Üretim A.Ş.		
99.99%	AK-EL Kemah Elektrik Üretim ve Ticaret A.Ş.		
	stake in company increased on November 29, 2012		
99.99%	Akenerji Doğalgaz İthalat İhracat ve Toptan Ticaret A.Ş.		
100%	ČEZ Finance Ireland Ltd.		
100%	ČEZ International Finance Ireland Ltd.		
27.50%	Akcez Enerji A.Ş.		
100%	Sakarya Elektrik Dağıtım A.Ş.		
	shareholder structure changed on November 15, 2012		
100%	Sakarya Elektrik Perakende Satış A.Ş.		
	formed on November 12, 2012		
100%	ČEZ Finance B.V.		
	company dissolved on December 31, 2012		
50.00%	ČEZ RUS OOO		
100%	CM European Power International B.V.		
100%	CM European Power International s. r. o.		
100%	MOL - CEZ European Power Hungary Kft.		
51.00%	CM European Power Slovakia, s. r. o.		
	ČEZ, a. s. stake: 24.5%		
99.99%	Tomis Team S.R.L.		
100%	MW Team Invest S.R.L.		
100%	Taidana Limited		
95.00%	Ovidiu Development S.R.L.		
100%	Elektrárna Počerady, a.s.		
	formed on April 1, 2012; contribution of Počerady Power Station on December 6, 2012		
100%	Elektrárna Tisová, a.s.		
	formed on August 23, 2012		
100%	Elektrárna Mělník III, a. s.		
	formed on August 22, 2012		
100%	Elektrárna Dětmarovice, a.s.		
	formed on September 7, 2012; contribution of Dětmarovice Power Station on December 18, 2012		

#### 4. Alphabetical List of Companies – Group Members

No.	Company name	ID Number	Headquarters address
1	A.E. Wind sp. z o.o.	300814	Warsaw, ul. Marynarska 11, postcode 02-674, Republic of Poland
2	Akcež Enerji A.Ş.	683905	Istanbul, Miralay Şefik Bey Sokak No. 15, Room no: 3, Gümüşsuyu Beyoğlu, postcode 34437, Republic of Turkey
3	Aken B.V.	24356181	Rotterdam, Bergweg 133-A, postcode 3037 EE, Kingdom of the Netherlands
4	Akenerji Doğalgaz İthalat İhracat ve Toptan Ticaret A.Ş.	745367	Istanbul, Miralay Şefik Bey Sokak No. 15, Kat:3, Oda: 3, Gümüşsuyu Beyoğlu, postcode 34437, Republic of Turkey
5	Akenerji Elektrik Enerjisi İthalat İhracat ve Toptan Ticaret A.Ş.	512971	Istanbul, Miralay Şefik Bey Sokak No. 13, K:4, Oda No. 1, Gümüşsuyu Beyoğlu, postcode 34437, Republic of Turkey
6	Akenerji Elektrik Üretim A.Ş.	255005/202577	Istanbul, Miralay Şefik Bey Sokak No. 13, K:4, Oda No. 1, Gümüşsuyu Beyoğlu, postcode 34437, Republic of Turkey
7	Akka Elektrik Üretim A.Ş.	664669	Istanbul, Miralay Şefik Bey Sokak No. 13, K:4, Oda No. 1, Gümüşsuyu Beyoğlu, postcode 34437, Republic of Turkey
8	Akkur Enerji Üretim Ticaret ve Sanayi A.Ş.	607030	Istanbul, Miralay Şefik Bey Sokak, Ak Han No. 15-17, K:3-4, Oda No. 2, Gümüşsuyu Beyoğlu, postcode 34437, Republic of Turkey
9	AK-EL Kemah Elektrik Üretim ve Ticaret A.Ş.	736921	Istanbul, Miralay Şefik Bey Sokak No. 13, Kat:4, Oda: 1, Gümüşsuyu Beyoğlu, postcode 34437, Republic of Turkey
10	AK-EL Yalova Elektrik Üretim A.Ş.	417382	Istanbul, Miralay Şefik Bey Sokak No. 13, K:4, Oda No. 1, Gümüşsuyu Beyoğlu, postcode 34437, Republic of Turkey
11	Amadeus Czech Republic and Slovakia, s.r.o.	49680030	Prague 8, Sokolovská 100/94, postcode 186 00
12	AREA-GROUP CL a.s.	25431781	Prague 4, Michle, Duhová 1444/2, postcode 140 53
13	B. aircraft, a.s.	24253006	Prague 6 – Ruzyně, Jana Kašpara 1069/1, City of Prague District, postcode 161 00
14	Baltic Green I sp. z o.o.	441069	Warsaw, ul. Marynarska 11, postcode 02-674, Republic of Poland
15	Baltic Green II sp. z o.o.	441363	Warsaw, ul. Marynarska 11, postcode 02-674, Republic of Poland
16	Baltic Green III sp. z o.o.	440952	Warsaw, ul. Marynarska 11, postcode 02-674, Republic of Poland
17	BH CAPITAL, a.s. in liquidation	00546682	Brno, Příkop 834, postcode 602 00
18	Bioplyn technologie s.r.o.	26407086	Hradec Králové, Křížkova 788, postcode 500 03
19	BOHEMIA CRYSTALEX TRADING a.s.	25004085	Prague 2, Štěpánská 7, postcode 120 00
20	BOHEMIA LUX		headquartered in Russia
21	Bohemian Development, a.s.	28073142	Prague 4 – Michle, Duhová 1444/2, postcode 140 53
22	Centrum výzkumu Řež s.r.o.	26722445	Husinec-Řež č.p. 130, postcode 250 68
23	CEZ Albania Sh.A.	K91629005R	Tirana, Abdyl Frasheri Street, EGT Tower, P. 12/1, Republic of Albania
24	CEZ Bosna i Hercegovina d.o.o.	65-01-0142-08	Sarajevo, Fra Andela Zvizdovića br. 1, Bosnia and Herzegovina
25	CEZ Bulgaria EAD	BULSTAT No. 131434768	Sofia, Municipality of Sredets, 140 G.S. Rakovski Street, postcode 1000, Republic of Bulgaria
26	CEZ Bulgarian Investments B.V.	51661969	Amsterdam Zuidooost, Hogehilweg 5D, 1101 CA, Kingdom of the Netherlands
27	CEZ Deutschland GmbH	HRB 139537	Munich, Karl-Theodor Str. 69, postcode 80803, Federal Republic of Germany
28	CEZ Distribuție S.A.	14491102	Craiova, Dolj County, 2, Brestei St, postcode 200581, Romania
29	CEZ Elektro Bulgaria AD	BULSTAT No. 175133827	Sofia, Municipality of Sredets, 140 G.S. Rakovski Street, postcode 1000, Republic of Bulgaria
30	CEZ Elektroprodukcija Bulgaria AD	20051185	Varna, Village of Ezerovo, Varna District, postcode 9168, Republic of Bulgaria
31	CEZ Finance B.V.	33264065	Amsterdam Zuidooost, Hogehilweg 7H, 1101 CA, Kingdom of the Netherlands
32	CEZ Finance Ireland Ltd.	471391	Dublin 2, Arthur Cox Building, Earlstort Terrace, Ireland
33	CEZ Chorzów B.V.	24305703	Amsterdam Zuidooost, Hogehilweg 5D, 1101 CA, Kingdom of the Netherlands
34	CEZ International Finance B.V.	24461985	Amsterdam Zuidooost, Hogehilweg 5D, 1101 CA, Kingdom of the Netherlands
35	CEZ International Finance Ireland Ltd.	494547	Dublin 2, Arthur Cox Building, Earlstort Terrace, Ireland
36	CEZ Laboratories Bulgaria EOOD in liquidation	BULSTAT No. 175123128	Sofia, 14 Dobrovná Skala Str., Lyulin Municipality, Republic of Bulgaria
37	CEZ Magyarország Kft. (CEZ Hungary Ltd.)	13520670-4013-113-01	Budapest, Rétkőz u. 5, postcode 1118, Hungary
38	CEZ MH B.V.	24426342	Amsterdam Zuidooost, Hogehilweg 5D, 1101 CA, Kingdom of the Netherlands
39	CEZ Nowa Skawina S.A.	336846	Skawina, ul. Pilsudskiego 10, postcode 32-050, Republic of Poland
40	CEZ Poland Distribution B.V.	24301380	Amsterdam Zuidooost, Hogehilweg 5D, 1101 CA, Kingdom of the Netherlands
41	CEZ Polska sp. z o.o.	000286114	Warsaw, Ul. Emilii Plater 53, postcode 00-113, Republic of Poland
42	CEZ Produkty Energetyczne Polska sp. z o.o.	321795	Chorzów, ul. M. Skłodowskiej-Curie 30, postcode 41-503, Republic of Poland
43	CEZ Razpredelenie Bulgaria AD	BULSTAT No. 130277958	Sofia, 330 Tsar Simeon St., Ilinden region, postcode 1309, Republic of Bulgaria
44	CEZ Romania S.A.	18196091	Bucharest, Sector 1, Str. Ion Ionescu De La Brad, Nr. 2A, Romania
45	CEZ RUS OOO	1007746177628	Moscow, Presnensky val 19, postcode 123557, Russian Federation
46	CEZ Shpërndarje Sh.A.	K72410014H	Tirana, Abdyl Frasheri Street, EGT Tower, P. 12/1, Republic of Albania
47	CEZ Silesia B.V.	24305701	Amsterdam Zuidooost, Hogehilweg 5D, 1101 CA, Kingdom of the Netherlands
48	CEZ Slovensko, s.r.o.	36797332	Bratislava, Gorkého 3, postcode 811 01, Slovak Republic
49	CEZ Srbija d.o.o.	20180650	Belgrade, Bulevar Mihajla Pupina 6, Republic of Serbia
50	CEZ Towarowy Dom Maklerski sp. z o.o.	0000287855	Warsaw, Ul. Emilii Plater 53, postcode 00-113, Republic of Poland
51	CEZ Trade Albania Sh.P.K.	K92129026D	Tirana, Abdyl Frasheri Street, EGT Tower, P. 12/1, Republic of Albania
52	CEZ Trade Bulgaria EAD	BULSTAT No. 113570147	Sofia, Municipality of Sredets, 140 G.S. Rakovski Street, postcode 1000, Republic of Bulgaria
53	CEZ Trade Polska sp. z o.o.	0000281965	Warsaw, Ul. Emilii Plater 53, postcode 00-113, Republic of Poland
54	CEZ Trade Romania S.R.L.	21447690	Bucharest, Sector 1, Ion Ionescu de la Brad, Nr. 2B, Romania
55	CEZ Ukraine LLC	34728482	Kyiv, Velyka Vasylkivska 5, postcode 01004, Ukraine
56	CEZ Vanzare S.A.	21349608	Craiova, Dolj County, 2, Brestei St, postcode 200581, Romania
57	CEZTel, a.s.	25107950	Prague 4, Duhová 1531/3, postcode 140 53
58	CM European Power International B.V.	24439848	Rotterdam, Weena 327, 3013 AL, Kingdom of the Netherlands
59	CM European Power International s. r. o.	44525133	Bratislava, Lakeside Park, Tomášikova 64, postcode 831 04, Slovak Republic
60	CM European Power Slovakia, s. r. o.	44354258	Bratislava, Vičie hrdlo 1, postcode 824 12, Slovak Republic
61	CRYSTALEX a.s.	49903501	Nový Bor, ul. B. Egemannova 634, postcode 473 13
62	CSA Services, s.r.o.	25085531	Prague 6, Za Teplárnou 1111/3, postcode 160 08
63	Czech Airlines Handling, a.s.	24674285	Prague 6, Aviatická 1017/2, postcode 160 08
64	Czech Airlines Technics, a.s.	27145573	Prague 6, Jana Kašpara 1069/1, postcode 160 08
65	Czech Airlines Training Centre, s.r.o.	24843628	Prague 6 – Ruzyně, K letišti 934, postcode 161 00
66	ČEPRO, a.s.	60193531	Prague 7, Dělnická č.p. 213, č.or. 12, postcode 170 04
67	Česká exportní banka, a.s.	63078333	Prague 1, Vodčická 34, č.p. 701, postcode 111 21
68	České aerolinie a.s.	45795908	Prague 6, Jana Kašpara 1069/1, postcode 160 08
69	Český Aeroholding, a.s.	24821993	Prague 6, Jana Kašpara 1069/1, postcode 160 08
70	ČEZ, a. s.	45274649	Prague 4, Duhová 2/1444, postcode 140 53
71	ČEZ Bohunice a.s.	28861736	Prague 4, Duhová 2/1444, postcode 140 53
72	ČEZ Distribuce, a. s.	24729035	Děčín IV – Podmokly, Teplická 874/8, postcode 405 02
73	ČEZ Distribuční služby, s.r.o.	26871823	Ostrava, Moravská Ostrava, 28. října 3123/152, postcode 709 02
74	ČEZ Energetické služby, s.r.o.	24784071	Ostrava, Vitkovic, Vystavní 1144/103, postcode 706 02
75	ČEZ Energetické produkty, s.r.o.	28255933	Hostivice, Komenského 534, postcode 253 01
76	ČEZ Energo, s.r.o.	29600109	Prague 8, Karlín, Karolinská 661/4, postcode 186 00
77	ČEZ ENERGOSERVIS spol. s r.o.	60689101	Třebíč, Bráfova 16, postcode 674 01
78	ČEZ ICT Services, a. s.	26470411	Prague 4, Duhová 1531/3, postcode 140 53
79	ČEZ Logistika, s.r.o.	26840065	Ostrava, Moravská Ostrava, 28. října 3123/152, postcode 709 02
80	ČEZ Měření, s.r.o.	25938878	Hradec Králové, Riegrovo náměstí 1493, postcode 500 02
81	ČEZ Obnovitelné zdroje, s.r.o.	25938924	Hradec Králové, Křížkova 788, postcode 500 03
82	ČEZ OZ uzavřený investiční fond a.s.	24135780	Prague 4, Duhová 1444/2, postcode 140 53
83	ČEZ Prodej, s.r.o.	27232433	Prague 4, Duhová 1/425, postcode 140 53
84	ČEZ Správa majetku, s.r.o.	26206803	Děčín IV., Teplická 874/8, postcode 405 49
85	ČEZ Teplárenská, a.s.	27309941	Říčany, Bezručova 2212/30, postcode 251 01
86	ČEZ Zákaznické služby, s.r.o.	26376547	Pilsen, Guidenerova 2577/19, postcode 326 00
87	ČMF, a.s. in liquidation	25541889	Prague 7, Janovského 438/2, postcode 170 06
88	DOMICA FPI s.r.o.	28289650	Prague 4, Michle, Duhová 1444/2, postcode 140 53
89	Eco Etropol AD	201470369	Sofia, Municipality of Sredets, 140 G.S. Rakovski Street, postcode 1000, Republic of Bulgaria
90	Eco-Wind Construction S.A.	300426	Warsaw, ul. Marynarska 11, postcode 02-674, Republic of Poland
91	eEnergy Hodonin a.s.	28217853	Prague 4, Michle, Duhová 1444/2, postcode 140 53
92	eEnergy Ralsko a.s.	28217918	Prague 4, Michle, Duhová 1444/2, postcode 140 53
93	eEnergy Ralsko - Kuřivody a.s.	28208811	Prague 4, Michle, Duhová 1444/2, postcode 140 53
94	Egerner Elektrik Üretim A.Ş.	695245	Istanbul, Miralay Şefik Bey Sokak, Ak Han No. 15-17, K:3-4, Oda No. 1, Gümüşsuyu Beyoğlu, postcode 34437, Republic of Turkey
95	EGI, a.s. in liquidation	60721332	Prague 6, Milady Horákové 109, postcode 160 41
96	EQP INVEST, spol. s r.o.	16361679	Uherský Brod, Antonína Dvořáka 1707, postcode 688 01
97	Elektrárna Dětmorovice, a.s.	29452279	Dětmorovice 1202, postcode 735 71
98	Elektrárna Chvalčovice a.s.	28786009	Chvalčovice, K Elektrárně 227, postcode 533 12
99	Elektrárna Mělník III, a. s.	24263397	Prague 4, Duhová 1444/2, postcode 140 00
100	Elektrárna Počerady, a.s.	24288110	Prague 4, Duhová 1444/2, postcode 140 53
101	Elektrárna Tisová, a.s.	29160189	Březová – Tisová 2, postcode 356 01
102	Elektrociepownia Chorzów ELCHO sp. z o.o.	0000060086	Chorzów, ul. M. Skłodowskiej-Curie 30, postcode 41-503, Republic of Poland
103	Elektrownia Skawina S.A.	0000038504	Skawina, ul. Pilsudskiego 10, postcode 32-050, Republic of Poland
104	Elektrownie Wiatrowe Lubiechowo sp. z o.o.	291340	Szczecin, ul. Chobolańska 29/4, postcode 71-023, Republic of Poland
105	Energetické centrum s.r.o.	28051818	Jindřichův Hradec, Otín č.p.3, postcode 377 01
106	ENERGIE KRUPKA, s.r.o.	25410083	Krupka 1, Mariánské nám. 22, postcode 417 42
107	Energotrans, a.s.	47115726	Prague 7, Partyzánská 1/7, postcode 170 00
108	Exportní garanční a pojišťovací společnost,a.s.	45279314	Prague 1, Vodčická 34/701, postcode 111 21
109	Explosia a.s.	25291581	Pardubice, Semtín 107, postcode 530 50
110	Explosia SK s. r. o.	45909903	Bratislava, Dostojevského rad 5, postcode 811 09, Slovak Republic
111	F.W. Tolkowicz sp. z o.o.	374097	Warsaw, ul. Marynarska 11, postcode 02-674, Republic of Poland
112	Farma Wiatrowa Leśce sp. z o.o.	330281	Warsaw, ul. Marynarska 11, postcode 02-674, Republic of Poland
113	Farma Wiatrowa Wilkolaz-Bychawa sp. z o.o.	330670	Warsaw, ul. Marynarska 11, postcode 02-674, Republic of Poland
114	Fernwärme GmbH Hohenmölsen - Webau	HRB 204190	Hohenmölsen, Ernst-Thälmann-Str. 6, postcode 06679, Federal Republic of Germany
115	FM service s.r.o.	25445626	Ústí nad Labem, Mezní 2854/4, postcode 400 11
116	FOSPOL a.s.	15053628	Pardubice, Češkova 175B, postcode 530 02
117	FOSPOL SK, spol. s r.o.	44793502	Humenné, Brestovská 123, postcode 066 01, Slovak Republic
118	Free Energy Project Oreshets EAD	201260227	Sofia, Municipality of Sredets, 140 G.S. Rakovski Street, postcode 1000, Republic of Bulgaria
119	FVE Bustěhrad a.s.	27420493	Hradec Králové, Křížkova 788, postcode 500 03
120	FVE Vranovská Ves a.s.	28432495	Prague 4, Michle, Duhová 1444/2, postcode 140 53
121	GALA-MIBRAG-Service GmbH	HRB 210208	Elsterau OT Profen, Platz der Freiheit 4, postcode 06729, Federal Republic of Germany
122	GALILEO REAL, k.s.	26175291	Prague 7, Janovského 438/2, postcode 170 06
123	GENTLEY a.s.	28209117	Prague 4, Michle, Duhová 1444/2, postcode 140 53
124	HOLDING KLADNO a.s."in liquidation"	45144419	Kladno, Cyrila Boudy 1444, postcode 272 01
125	HOLIDAYS Czech Airlines, a.s.	61860336	Prague 6, Jana Kašpara 1069, postcode 160 08
126	Hotelinvest a.s.	00251976	Prague 1, Nekázanka 4, postcode 110 00
127	IMOB a.s.	60179001	Prague 8, Karlín, Thámová 181/20, postcode 186 00
128	in PROJEKT LOUNY ENGINEERING s.r.o.	44569688	Louny, Na valích 899, postcode 440 01
129	Ingenieurbüro für Grundwasser GmbH	HRB 2322	Leipzig, Nonnenstrasse 9, postcode 04229, Federal Republic of Germany
130	Istrochem Explosives a. s.	44254504	Bratislava, Nobelova 34, postcode 836 05, Slovak Republic
131	Jadrová energetická spoločnosť Slovenska, a. s.	45337241	Bratislava, Tomášikova 22, postcode 821 02, Slovak Republic
132	JESS invest, s. r. o.	45659044	Bratislava, Tomášikova 22, postcode 821 02, Slovak Republic
133	JTSD - Braunkohlebergbau GmbH	HRB 9374	Zeitz, Glück-Auf-Straße 1, postcode 06712, Federal Republic of Germany
134	JUNIOR centrum, a.s. in liquidation	48154946	Seč, ul. Čs. pionýrů 197, postcode 538 07
135	KEFARIUM,a.s.	27936392	Hradec Králové, Křížkova 788, postcode 500 03
136	KUPEG úvěrová pojišťovna, a.s.	27245322	Prague 4, Na Pankráči 1663/127, postcode 140 00
137	LACOMED, spol. s r.o.	46348875	Husinec-Řež č.p. 130, postcode 250 68
138	Letiště Praha, a. s.	28244532	Prague 6, K Letišti 6/1019, postcode 160 08
139	LOMY MORINA spol. s r.o.	61465569	Mofina, okres Beroun, postcode 267 17
140	MARTIA a.s.	25006754	Ústí nad Labem, Mezní 2854/4, postcode 400 11
141	Mega Energy sp. z o.o.	374306	Warsaw, ul. Marynarska 11, postcode 02-674, Republic of Poland
142	Mem Enerji Elektrik Üretim Sanayi ve Ticaret A.Ş.	625774	Istanbul, Miralay Şefik Bey Sokak No. 13, K: 4, Oda No. 1, Gümüşsuyu Beyoğlu, postcode 34437, Republic of Turkey
143	MERO CR, a.s.	60193468	Kralupy nad Vltavou, Veltruská 748, postcode 278 01
144	MERO Germany AG	HRB 5271	Vohburg an der Donau, MERO-Weg 1, postcode 850 88, Federal Republic of Germany
145	MIBRAG Neue Energie GmbH	HRB 25878	Grotzsch, Pödelwitz 100, postcode 04539, Federal Republic of Germany
146	Mitteldeutsche Braunkohlengesellschaft mbH (MIBRAG mbH)	HRB 207574	Zeitz, Glück-Auf-Straße 1, postcode 06712, Federal Republic of Germany
147	MOL - CEZ European Power Hungary Kft.	1309-115216	Százhalombatta, Olajmunkás út. 2, postcode 2440, Hungary
148	Montan Bildungs- und Entwicklungsgesellschaft mbH	HRB 212202	Theißen, Wiesenstrasse 20, postcode 06727, Federal Republic of Germany
149	MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	HRB 201620	Braunsbedra, Geiseltalstrasse 1, postcode 06242, Federal Republic of Germany
150	Municipální finanční společnost a.s. abbreviated name MUFIS a.s.	60196896	Prague 1, Jenůfalská 964/4, postcode 110 00
151	IMW Team Invest S.R.L.	18926986	Bucharest, 2B Ion Ionescu de la Brad Street, 2nd floor, room 3, Sector 1, postcode 013813, Romania
152	NERS d.o.o.	70-1-1864-00	Gacko, Industrijska zona bb, Bosnia and Herzegovina
153	New Kosovo Energy L.L.C.	RU371863	Prishtina, Andrej Gropa Nr. 30, postcode 10000, Republic of Kosovo
154	Nuclear Safety & Technology Centre s.r.o.	27091490	Husinec-Řež č.p. 130, postcode 250 68
155	OrmilK, a.s.in liquidation	60109092	Žamberk, postcode 564 01
156	OSC, a.s.	60714794	Brno, Staňkova 557/18a, postcode 612 00
157	Ovidiu Development S.R.L.	1874682	Bucharest, 2B Ion Ionescu de la Brad Street, 2nd floor, room 1, Sector 1, postcode 013813, Romania
158	PORCELÁN HOLDING a.s. in liquidation	25082442	Prague 2, Trojanova 1993/5, postcode 120 00
159	PPC Ůžin, a.s.	27198367	Prague 4, Duhová 1444/2, postcode 140 53
160	PPP Centrum a.s.	00013455	Prague 2, Rašínovo nábreží 42, postcode 128 00
161	PRISKO a.s.	46355901	Prague 7, Janovského 438/2, postcode 170 00
162	PRODECO, a.s.	25020790	Teplice, Masarykova 51, postcode 416 78
163	Realitní developerská, a.s.	27174166	Prague 6, Jana Kašpara 1069/1, postcode 161 00
164	Sakarya Elektrik Dağıtım A.Ş.	10941-18573	Istanbul, Miralay Şefik Bey Sokak No. 15, Gümüşsuyu Beyoğlu, postcode 34437, Republic of Turkey
165	Sakarya Elektrik Perakende Satış A.Ş.	23996	Adapazar, Maltepe Mahallesi, Orhangazi Caddesi Trafo Tesisleri No:72, Oda: 1, postcode 54100, Republic of Turkey
166	SD - 1.strojirenská, a.s.	25437127	Blilna, Důlní 437, postcode 418 01
167	SD - Autodoprava, a.s.	25028197	Blilna, Důlní 429, postcode 418 01
168	SD - Kolejová doprava, a.s.	25438107	Kadaň, Tušimice 7, postcode 432 01
169	SD - KOMES, a.s.	28666674	Most, Moskevská 14/1, postcode 434 01
170	SD - Rekultivace, a.s.	27329011	Kadaň, Tušimice 7, postcode 432 01
171	Severočeské doly a.s.	49901982	Chomutov, Boženy Němcové 5359, postcode 430 01
172	Severočeské mlékárny, a.s. Teplice	48291749	Teplice, Libušina 2154, postcode 415 03
173	SINIT,a.s.	25397401	Ostrava – Mariánské Hory, Emila Filly 296/13, postcode 709 00
174	Sklářny BOHEMIA a.s.	00012459	Poděbrady, nám. T. G. Masaryka 1130, postcode 290 34
175	SKLÁŘNY KAVALIER, a.s.	00012653	Sázava, Sklářská 359, okres Benešov, postcode 285 96
176	S		