

Activity Report **2016**



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Foreword by the Chairman of the Board of Directors and General Director

Dear shareholders and business partners,

ŠKODA JS a.s. is successfully concluding a year in which we commemorated the 60th anniversary of our activities in the nuclear power industry and in which the Company made a significant profit. According to the International Accounting Standards, our consolidated revenue reached CZK 4.4 billion, which represents an increase of more than 25% compared to 2015. The Company's exports to a total of 16 countries constituted over 56% of the revenue. We continued to see a growing trend in newly acquired contracts in the value of over CZK 4.2 billion. The Company's earnings before taxes have gone up to CZK 178 million.

The key aspect of 2016 was an increase in the Company's performance. The net profit ratio rose from 2% in 2015 to 3% in 2016. Despite ever more difficult tasks, we managed to increase revenue and keep costs under control. Also for this purpose, organizational changes were made in the Company whose further aim is mainly to increase effective support for the Company's sales activities.

We stabilized and ensured the prospects of all of the Company's divisions. The largest share of revenue, 57%, was generated by the Engineering division. We defended our position in the construction of two units at the Mochovce NPP and reached significant milestones in the schedule of task completion and preparations for their commissioning. The Paks NPP modernization project is successfully continuing; we have acquired new minor engineering contracts. By approving long-term prospects and ensuring production contracts, we managed to stabilize the Production division. The work on the Company's own models of

casks for the Temelín and Dukovany NPPs is interesting both in terms of their volume for a number of years to come and because they are proof of our creative capabilities. The production of instrumentation and control elements for VVER-type reactors continued. Our Services division continued to perform maintenance at the Dukovany and Temelín NPPs. A significant milestone was the conclusion of the framework agreement between ČEZ, a. s. and ŠKODA JS a.s. for the maintenance of the Primary Circuit Logical Units of all six Czech nuclear units.

We continued with our development and design efforts, the result of which are, for example, the aforementioned casks of our own design and the realization of a number of atypical contracts. For our equipment for the removal, transport and disposal of neutron flux sensors and thermocouples from VVER 440-type reactors, we received an award for innovation in the international "Quality Innovation Award" competition. We continued with the renewal of the Company's equipment and instrumentation. In 2016, the Company spent in excess of CZK 137 million on the procurement and repairs of fixed assets.

The past anniversary year has been a successful one and we can say that we have prepared a good starting position for 2017. I would like to thank the representatives of our shareholder, OMZ B.V., for their effective support. I appreciate the accommodating approach of the banking institutions that provided important financial services in connection with the development of our sales activities, and I also want to thank all our business partners and subcontractors.

My thanks also go out to all our employees for their exemplary cooperation, creative approach, responsibility and efforts in completing their work tasks.



A handwritten signature in blue ink, reading 'Josef Perlík'.

Josef Perlík
Chairman of the Board of Directors and General Director

Year 2016 in numbers

We celebrated
the 60th
anniversary
of the establishment
of our Company

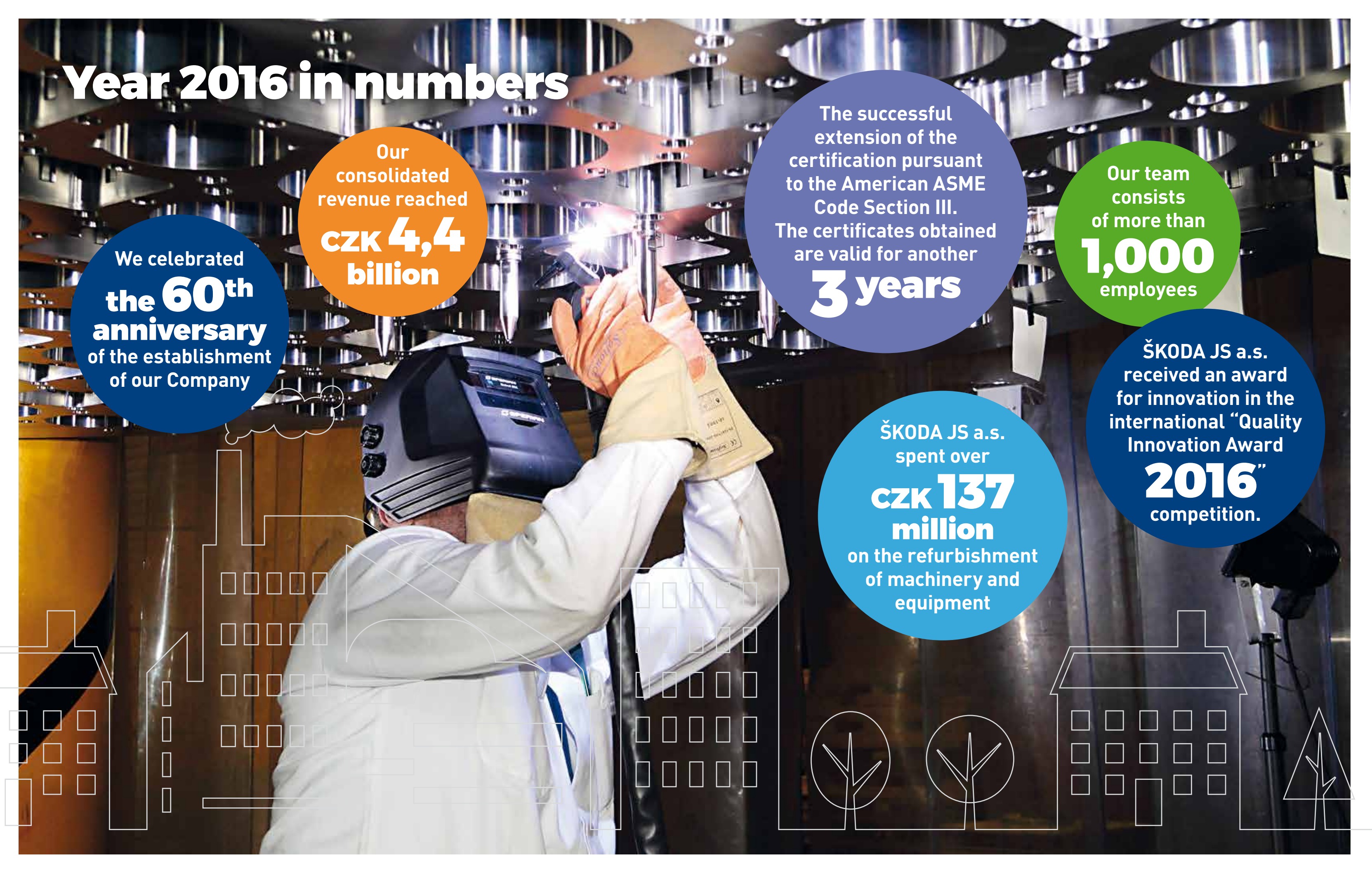
Our
consolidated
revenue reached
czk 4,4
billion

The successful
extension of the
certification pursuant
to the American ASME
Code Section III.
The certificates obtained
are valid for another
3 years

Our team
consists
of more than
1,000
employees

ŠKODA JS a.s.
spent over
czk 137
million
on the refurbishment
of machinery and
equipment

ŠKODA JS a.s.
received an award
for innovation in the
international "Quality
Innovation Award
2016"
competition.



Company Introduction

ŠKODA JS a.s. (hereinafter referred to as “ŠKODA JS” or “the company”), a member of the Russian OMZ Group, develops three strategic business lines focused on the development of technologies and supplies for the nuclear power industry.

STRATEGIC FIELDS OF ACTIVITY



ENGINEERING

- > Construction of VVER nuclear units
- > Supply and modernization of nuclear unit I&C systems
- > EPC projects
- > Computational analyses for nuclear power plants
- > Design activities
- > Piping systems in power industry
- > Owner’s Engineer activities
- > Spent fuel interim storage facilities
- > Construction of research and training reactors



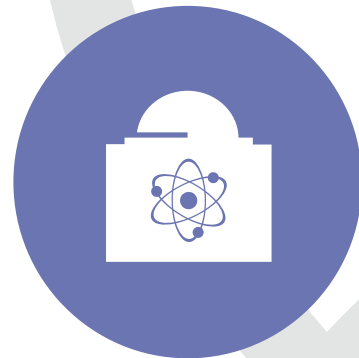
PRODUCTION

- > Equipment for VVER and RBMK nuclear power plants
- > Equipment for PWR and BWR nuclear power plants
- > Equipment for research reactors
- > Equipment for spent nuclear fuel storage



SERVICE

- > Reactor building equipment outage management
- > Reactor building equipment maintenance and repairs
- > Reactor building equipment modernization
- > Reactor building equipment lifetime management/extension
- > Reactor building key equipment in-service inspections
- > Designer’s supervision during reactor inspections and repairs
- > Testing of VVER and RBMK control rod drive mechanisms
- > Spare parts and consumables



ENGINEERING



PRODUCTION



SERVICE



Key Financial and Operating Results

Consolidated Group (ŠKODA JS a.s. + ŠKODA SLOVAKIA, a.s.) – Key Financial and Operating Indicators (according to IFRS)

(in CZK thousands)

	2013	2014	2015	2016
Assets=Liabilities (net)	2 834 158	3 035 975	3 382 769	3 430 139
Fixed assets (gross)	890 436	753 702	661 527	624 863
Current assets (gross)	1 943 722	2 282 273	2 721 242	2 805 276
Inventory (gross)	233 371	122 930	172 737	136 304
Receivables (gross)	935 834	1 685 177	1 685 364	1 645 854
Financial assets (gross)	459 609	447 968	823 707	713 245
Other assets (gross)	314 908	26 198	39 434	309 873
Shareholder´s equity	1 665 311	1 694 501	1 712 417	1 779 203
Liabilities	1 168 847	1 341 474	1 670 352	1 650 936
Reserves	77 098	78 945	177 306	261 346
Payables	524 598	413 640	524 630	601 217
Credits	46 384	27 725	0	0
Other liabilities	520 767	821 164	968 416	788 373
Revenue from sale of goods, own products and services	3 393 695	2 953 136	3 509 061	4 402 312
Exports	1 787 702	1 457 909	2 044 245	2 485 388
Added value	780 022	743 571	799 616	821 879
Operating profit/loss	182 137	99 646	108 105	177 553
Profit/loss for the accounting period	137 597	61 383	69 401	130 624
Pre-tax profit/loss	172 928	86 062	107 878	178 014
Average number of employees*	1 199	1 137	1 098	1 131
Value added labour productivity = EBIT+personnel expenses/average number of employees (CZK per employee)	802 468	741 616	826 704	883 671

*average adjusted number

The selected indicators above are based on the company's consolidated financial statements, which have been properly published in the Commercial Register.
The full fi nancial statements, including the Notes, are available for inspection at the company's headquarters.

Revenues from sale of goods, own products and services according to IFRS (in CZK thousands)

2013	3 393 695
2014	2 953 136
2015	3 509 061
2016	4 402 312

Profit before tax according to IFRS (in CZK thousands)

2013	172 928
2014	86 062
2015	107 878
2016	178 014

Export according to IFRS (in CZK thousands)

2013	1 787 702
2014	1 457 909
2015	2 044 245
2016	2 485 388

ŠKODA JS a.s. – Key Financial and Operating Indicators (according to CAS)

(in CZK thousands)

	2013	2014	2015	2016
Assets=Liabilities (net)	3 076 702	3 233 162	3 827 437	3 864 451
Fixed assets (gross)	2 064 001	2 022 072	2 025 403	2 078 635
Current assets (gross)	2 515 726	2 738 030	3 309 908	3 319 412
Inventory (gross)	1 431 644	1 269 880	1 710 329	1 392 481
Receivables (gross)	659 845	1 064 021	799 213	1 225 154
Financial assets (gross)	424 237	404 129	800 365	701 777
Other assets (gross)	45 070	24 734	22 570	24 705
Shareholder´s equity	1 444 107	1 456 522	1 472 577	1 571 129
Liabilities	1 608 230	1 709 887	2 185 216	1 867 691
Reserves	205 457	287 525	275 208	436 672
Payables	1 356 389	1 422 362	1 910 008	1 431 018
Credits	46 384	0	0	0
Other liabilities	24 365	66 753	169 644	425 632
Revenue from sale of goods, own products and services	3 078 278	2 935 290	2 762 756	4 446 717
Exports	1 685 695	1 677 409	1 346 419	2 608 167
Added value	935 979	915 319	866 244	
Operating profit/loss	87 255	103 992	124 859	257 244
Profit/loss for the accounting period	47 875	36 339	67 965	164 338
Pre-tax profit/loss	59 073	56 442	96 157	226 242
Average number of employees*	1 081	1 018	971	1 003

*average adjusted number

The selected indicators above are based on the company's non-consolidated financial statements, which have been properly published in the Commercial Register.
The full fi nancial statements, including the Notes, are available for inspection at the company's headquarters.

Revenue per employee according to IFRS (in CZK thousands)

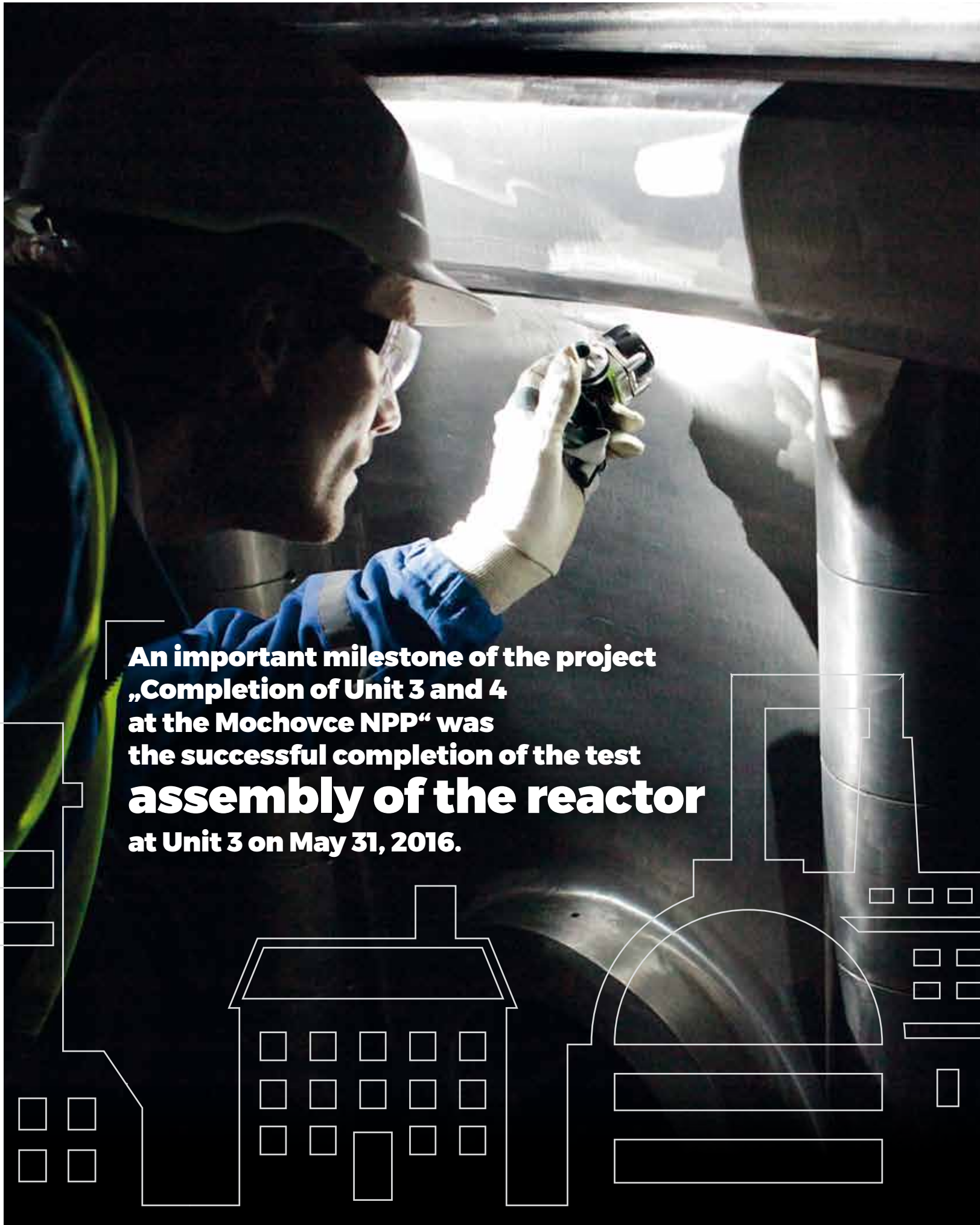
2013	2 830
2014	2 597
2015	3 196
2016	3 892

Value added labour productivity according to IFRS (in CZK per employee)

2013	802 468
2014	741 616
2015	826 704
2016	883 671

Return on revenue (ROR) After-tax profit/ Revenues from sale according to IFRS (in %)

2013	4
2014	2
2015	2
2016	3



An important milestone of the project „Completion of Unit 3 and 4 at the Mochovce NPP“ was the successful completion of the test assembly of the reactor at Unit 3 on May 31, 2016.

Report on Company's Activities and Assets



ENGINEERING

Refurbishment of the Instrumentation and Control System at the Dukovany NPP

The most important business case of Division NPP I&C is the project "Refurbishment of the Instrumentation and Control System at the Dukovany NPP". This is a unique long-term project aimed at extending the service life of the power plant and meeting the ever increasing requirements for operational safety and reliability. Individual stages of refurbishment have been delivered successfully with ŠKODA JS a.s. as the general supplier in collaboration with the head subcontractors, ZAT a.s. and I&C Energo a.s. The project has so far delivered the replacement of the control systems of the primary circuit, turbine and the secondary circuit. DIAG, the unit's superset diagnostic and information system, has been newly supplied as well; it is aimed at collecting and processing operational and diagnostic data.

In conformance to the Project specification, activities are being conducted in individual Units that have been planned for scheduled maintenance and refueling outages. This installation method places great demands on the coordination of a large number of activities during the preparation as well as the execution stages. The installation method, the strategy for testing and commissioning of the new I&C systems without interfering with everyday operation of the power plant are unique. A similar method of replacing such an important and large section of the tech-

nology has never been applied at a nuclear power plant anywhere in the world.

During 2016, work was finished at nuclear Units 1 and 4. A major part of activities at Unit 2 was completed; completion of the unit is expected in 2017.

The whole refurbishment project was completed on budget and on time. None of the implementation activities caused any interference with operation of the Dukovany NPP.

ŠKODA JS a.s. also continued in the realization of the project "Introducing Important Measurements into the Post-accident Monitoring System", a part of the project for safety improvement at the Dukovany NPP. Important technology signals are gradually being implemented in the post-accident monitoring system in all four units of the nuclear power plant, including radiation monitoring as well as monitoring of the spent fuel pool. ŠKODA JS a.s., in collaboration with VF Černá Hora a.s., I&C Energo a.s., AREVA and ZAT a.s., successfully completed most of the required operations in all units of the nuclear power plant.

Refurbishment of the Instrumentation and Control System at the Paks NPP

Since 2015, ŠKODA JS a.s. has been realizing the modernization project "Refurbishment of the Instrumentation and Control System at the Paks NPP" in Hungary; this entails replacement of the analog system from the original Russian supplier with modern, digital equipment. The equipment includes reactor control systems (RCS),

reactor rod control systems (RRCS), and reactor trip breaker (RTB) systems. The project at the Paks NPP, similar to the "Refurbishment of the Instrumentation and Control System at the Dukovany NPP", is in the form of an EPC contract (i.e., "turnkey" delivery).

The first stage of installation of the new systems was completed on December 31, 2016, by running nuclear Unit 2 with the new systems at full capacity. The completion of the entire project is scheduled in 2020. ŠKODA JS a.s. is acting as the general supplier and cooperates in the project with ZAT a.s. (Czech Republic) and MVM OVIT Zrt, Konkoly es Kis and MTA EK (Hungary).

Replacement of Emergency Control Rod Cabling at the Bohunice NPP

2016 also saw the successful completion of the project "Replacement of Emergency Control Rod Cabling" at the Bohunice NPP. The subcontractors were PPA Energo s.r.o., ENERGOVÝSKUM SLOVAKIA, a.s. and Kabex a.s.

Refurbishment of the Instrumentation and Control System in Ukraine

In 2016, ŠKODA JS a.s. signed a contract for refurbishment of a part of the I&C systems (a unified technology set) for the Zaporozhye NPP. The project is financed from EBRD funds reserved for the improvement of nuclear power plants safety in Ukraine.

**CMIS.CE System
- Configuration and Preparation
of “Smart Data”**

The requirement for processing “smart data” as well as the introduction of information systems for configuration management is currently being implemented into legislation for the construction of new projects as well as into the operation of existing nuclear power plants; it is also a component of the specification for the realization of new delivery contracts.

That is why in 2015 and 2016, ŠKODA JS a.s. developed CMIS.CE, a configuration management system based on the state-of-the-art technology from Intergraph SmartPlant Enterprise.

The tool offers the arrangement and utility of data used specially in the construction and operation of nuclear power plants to be considerably improved. ŠKODA JS a.s. will be using it for the management of EPC projects that are currently under development, as well as for the benefit of operators of power systems for the generation of “smart data”, i.e., information that is structured, interconnected and verified.

The system saw its first deployment and operational use in the project “Refurbishment of the Instrumentation and Control System at the Paks NPP” in Hungary. Pursuant to the agreement with the customer, Slovenské elektrárne, a.s., another practical deployment of the system commenced at the end of 2016 as part of the CMIS.CE pilot project during the Completion of Units 3 and 4 at the Mochovce power plant.

CMIS.CE is yet another example of how ŠKODA JS a.s. is pursuing its strategy in the

development of modern trends in project management in the nuclear power industry.

**Completion of Units 3
and 4 at the Mochovce NPP**

In 2016, ŠKODA JS a.s. continued in the execution of currently the most significant investment project in Slovakia – “Completion of Units 3 and 4 at the Mochovce Nuclear Power Plant”. The Company acts as the supplier of essential operating systems of the power plant – the primary circuit, fuel handling part, connecting pipes, intermediate cooling circuits, part of the I&C system and maintenance workshops.

The project implementation team gradually expanded in the first half of 2016. At the same time, intensive work was under way on completing the test assembly of the reactor at Unit 3, which was successfully completed on May 31, 2016. Follow-up activities continued regarding the transition from the technology equipment’s assembly stage to its commissioning. At the end of the year, ŠKODA JS a.s. declared the equipment of Unit 3 ready for testing the primary circuit detachable parts. Works on the assembly of the primary circuit were also commenced at Unit 4.

Based on a contract for consultancy and support, ŠKODA JS provided the investor (Slovenské elektrárne, a.s.) with experts in several key areas, such as engineering, planning, licensing support, construction and assembly works, and commissioning.

On December 31, 2016, the project at Unit 3 was 94.3% finished, while the status at Unit 4 was 81.3% complete. The expected handover date was newly set for August 2018 for Unit 3 and August 2019 for Unit 4.

**NPP Engineering
- Mechanical Design Praha**

In 2016, the “Piping Systems Engineering” department was incorporated into the “Nuclear Power Plant Engineering” division under the new name “Mechanical Design Praha”. At the end of the year, its official seat was relocated to the representative premises of the BB Center at Michelská 58. The department has maintained its primary focus of designing and conducting strength calculations of piping systems.

The activities of the design office in 2016 were related primarily to the project “Completion of Units 3 and 4 at the Mochovce NPP”, especially to supporting the realization of the project and to preparation of as-built drawings of Unit 3, including use of the 3D laser scanning method. Installation works are in progress at Unit 4, with broad application of the 3D coordination model, which is updated using 3D scanning taken on a regular basis.

The team of designers has also worked on other projects for ČEZ, a. s., aimed at the continuous improvement of safety and reliability of nuclear power plants. At Dukovany NPP, the projects “Emergency Feedwater System Pipelines Calculation” were completed. Temelín NPP saw the continuation of the projects “Supporting Documentation Calculation of the Essential Service Water Reconstruction” and “Reconstruction of the Main Pipelines and Safety Valves of the Pressurizer System”. Although the latter of the two projects commenced in 2015, the customer considerably expanded the scope of the contract, meaning that activities in the project will continue into 2017.



PRODUCTION

**Production of Equipment
for Spent Nuclear Fuel Storage**

In 2016, ŠKODA JS a.s. won the tender for the supply of casks of own design for the Dukovany nuclear power plant. The first deliveries of ŠKODA 440/84 casks will be made in 2021. The design of the ŠKODA 440/84 cask is based on the ŠKODA VPVR cask for the transport of spent nuclear fuel from research reactors, and also on the ŠKODA 1000/19 cask, intended for the interim spent fuel storage facility of the Temelín nuclear power plant.

ŠKODA JS a.s. continues to successfully cooperate with the GNS mbH Company

in modifying the CONSTOR® RBMK1500/M2 cask head rings for the Ignalina NPP in Lithuania. Following the successful qualification of the process of machining and testing, ŠKODA JS a.s. acquired a contract for the modification of the first 16 of a total number of 137 casks. Based on the license from the GNS Company, CASTOR® 440/84M casks were also produced for the Dukovany NPP.

In 2016, the assembly of a cask wagon was completed at the Chernobyl nuclear power plant for the transport of RBMK-type fuel from the nuclear power plant to an interim spent fuel storage facility located 30 kilometers away.

The development and the process of licensing a basket for spent nuclear fuel from the MNSR-type research reactor was

successfully completed. Two of these special baskets were produced and delivered for the transport of spent nuclear fuel in the ŠKODA VPVR cask from a research reactor in Ghana.

**Production of Equipment
for VVER-type Nuclear
Power Plants**

In 2016, the Company delivered a set of linear stepping drives (LKP) for the last unrefurbished Unit 2 at the Zaporozhye NPP in Ukraine. At this time, all Ukrainian nuclear units use drives manufactured at ŠKODA JS a.s. Last year, the Company also delivered equipment for the modernization of the main flange of the main circulation pump and equipment for the capping of channels of ionization chambers for the Zaporozhye NPP as well as a set of intermediate rods for the Rovno NPP.

Delivered to the Dukovany NPP were 46 pcs of refurbished PRO control rod drives that were originally delivered to the VVER-440 type Nord NPP in Germany, which was never commissioned. This delivery constituted partial performance of a contract concluded in 2014.

ŠKODA JS a.s. continued to supply spare parts for the VVER-440 control rod drive mechanisms for the Loviisa NPP in Finland and its operator, the Fortum Power and Heat Oy Company.





Research and Development

Research and development (R&D) is a key part of the company structure of ŠKODA JS a.s. The Company's own innovation potential represents a competitive advantage over purely manufacturing companies, and the development of new products and improving existing products helps the Company enter new markets.

The key areas of research and development are:

- > **nuclear power plant services,**
- > **development of calculation methods and software** for the nuclear power industry,
- > **storage and transport** of spent nuclear fuel,
- > **verification of prototype equipment key components,**
- > **research into materials of nuclear power plant components** or the Company's own products,
- > **production** of nuclear power plant equipment,
- > **implementation and verification** of new technologies in production,
- > **the CANUT project** (Center for Advanced Nuclear Technologies).

In the field of nuclear power plant services, the significant project "Development of New Technology for Repair Welding of VVER1000 Reactor Pressure Vessels" was completed. The newly developed technology allows welding of the pressure vessel base material without preheating and post-repair heat treatment. The project was partly subsidized by the Ministry of Industry and Trade and the final assessment by representatives of the Ministry was very positive both in terms of the extent as well as the quality of the work done.

In the area of the development of calculation methods for the nuclear power industry, the Company continued in the project focused on the assessment of low-cycle fatigue combined with multi-axis stress as part of the ALFA 4 subsidy program, plus a new project was launched focusing on assessing the behavior of the material used in casks for spent nuclear fuel. In the field of the development of software for the nuclear power industry, the Company engaged in the project "Configuration of CMIS.CE - Configuration and Project Management Information System."

In the area of spent nuclear fuel storage and transport, work continued on the development of the Company's own type of cask for modern VVER 440 and 1000 fuel. R&D focused mainly on verification of the production and function of certain components, machining technology and surface treatment of cask components.

In the area of verification of prototype equipment key components, the project focusing on verifying the special retractable mechanism for handling irradiated samples for the 300TERA cask was completed. In 2016, the development of linear stepper drives of the fourth generation (LKP-M/4), intended for modern units with VVER-type reactors, commenced.

In the area of material research, the project "Technology for the Production of Corrosion-Resistant Steel for Nuclear Power Plants" was conducted as part of the Epsilon subsidy program, as well as a project aimed at verifying the production and properties of the JUR spring wire. Within CANUT, supported by the Technology Agency of the Czech Republic, ŠKODA JS a.s. is in charge of two "work packages":

- > **Storage and Transport** of Radioactive Waste, especially Spent Nuclear Fuel;
- > **Device for Inspecting Primary Circuit Components** of Pressurized Water Reactors.

Within the second CANUT project, the Manipulator for Inspecting Reactor Head Nozzles was developed.

Investments

In 2016, ŠKODA JS a.s. spent over CZK 137 million on acquisitions and repairs of capital assets, of which more than CZK 61 million was spent on the refurbishment of machinery, equipment and buildings, and almost CZK 76 million on the modernization and procurement of new technology, including IT projects worth CZK 16 million.



The most important investment projects completed in 2016 include the reconstruction of a 22kV high voltage substation at the Bolevec site. The purpose of the investment was to ensure a safe supply of electricity both for production and the Company's headquarters.

With the aim of ensuring problem-free heating of the Bolevec plant by using two independent gas boilers, a new gas boiler was purchased and installed in 2016.

A new software tool was purchased for the IT/IS division to ensure flexible management of all of the Company's IT devices in a unified, centralized, mass and remote fashion.

To ensure a more efficient way of measuring the actual state of technology installed

as part of the final supply by ŠKODA JS a.s. within the "Completion of Units 3 and 4 at the Mochovce NPP" project and subsequently to be utilized in handing over the documentation on the actual state to the customer, the Laser Scan software was purchased, which will allow data and photographic material to be imported into a 3D model and the Detail Design state to be modified according to the actual state. With the 3D model complete, documentation reflecting the actual state will be generated and handed over to the customer.





SERVICE

Maintenance of Reactor Building Logical Units at Czech Nuclear Power Plants

In 2016, for the ninth consecutive year, ŠKODA JS a.s. continued to provide maintenance services at the Dukovany and Temelín NPPs, based on the general contract concluded in 2008. This significant long-term contract for the provision of maintenance services expired in 2016.

At the same time, ČEZ a. s., operator of nuclear power plants in the Czech Repub-

lic, organized a new tender for the provision of maintenance in the primary circuits of all units of Czech NPPs until 2021. ŠKODA JS a.s. won the tender; activities under that contract have been delivered since the beginning of 2017.

Similar to previous years, the quality of the personnel as well as the readiness of the group of subcontractors has been put to the test in scheduled as well as unscheduled repairs during the overhaul of the units and during their operation.

Besides the standard scope of work, the following operations were realized at the Temelín NPP during two scheduled outages:

- > **Refurbishment of de-aeration piping** and tightness test in flange connections in the lids of primary collectors in steam generators;
- > **Repair of indications in the body** of removable components of main circulation pumps;
- > **Repair of the rotor at the main circulation pump** with thermal spraying;
- > **Repairs of heterogeneous weld joints at steam generators;**
- > **Replacement of piping** of non-essential service water;
- > **Replacement of pneumatic distributors** for high-speed valves.

At Dukovany NPP, maintenance works were carried out during the four planned

refueling outages; a number of service tasks were completed while the units were in operation. The following activities were performed beyond the standard scope:

- > **Repair of defects in the guide wheel** and pressure lid of the main circulation pumps;
- > **Repair of threaded pole mount run-outs** on the primary collectors of steam generators;
- > **Assembly of a secondary thermal barrier** on the main circulation pumps;
- > **Replacement of the silicone bellows** on the main closure fittings;
- > **Replacement of the piping section of hermetic penetrations** for essential service water;
- > **Repairs of heterogeneous weld joints at steam generator DN 1100;**
- > **Cleaning (calibration) of reactor core bottom diaphragms;**
- > **Cleaning of the bottom of the reactor pressure vessel;**
- > **Disposal of intermediate rods;**
- > **Cleaning of reactor core bottom drop shock absorbers** using a single-purpose device developed by ŠKODA JS a.s.;
- > **Modification of sealing faces** in the heat exchangers of the emergency cooling system.

ŠKODA JS a.s. is a reliable partner for power plant operators for unit outages, during the preparation and execution of maintenance as well as for preventive and corrective maintenance. The Company takes advantage not only of its service departments' experience, but, as an original equipment manufacturer of nuclear systems with many years of extensive experience, also of the support from specialized departments and the background of the mother company in Pilsen. Owing to its responsible approach to the execution



of maintenance tasks and its expertise, ŠKODA JS a.s. is an integral component of the outage team at Temelín and Dukovany NPPs.

In-service Inspections

During the assessment period, ŠKODA JS a.s. performed the following inspections and measurements at Czech nuclear power plants:

- > **Inspection of the reactor pressure vessel material** from the inner surface using the MKS manipulator at Unit 2 of the Temelín NPP;
- > **Inspection of reactor internals**, M170x6 threaded holes, circumferential welds of one main coolant piping loop, and manual inspections of reactor pressure vessel components and the primary circuit of Units 1 and 2 at the Temelín NPP;
- > **Inspection of the reactor head circumferential weld**, M140x6 threaded pole mounts, M140x6 nuts and bolts, circumferential welds of the main coolant piping loops, and manual inspections of primary circuit austenitic welds at the Dukovany NPP;
- > **Eddy current inspection of stainless steel housings of emergency control rod nozzles** in all four units of the Dukovany NPP;
- > **Eddy current inspection of heat exchanging tubes of steam generators** in all units of Dukovany and Temelín NPPs;
- > **Inspection of heat transfer pipes in the exchangers and coolers** for the logical unit of the primary circuit in all units of Dukovany and Temelín NPPs;
- > **Inspection of heat transfer pipes in the exchangers and coolers** for the logical unit of the secondary circuit in Unit 1 at the Temelín NPP;

- > **Capping damaged heat exchanging tubes of steam generators** at the Dukovany NPP;
- > **Measurement of efficiency of aerosol and iodine air-conditioning filters** in both units and in the auxiliary service building at the Temelín NPP.

As a novelty, eddy current inspection of heat transfer tubes in heat exchangers and coolers in all units of Dukovany and Temelín NPPs commenced in 2016. This is a major expansion of the services offered by the In-service Inspections and Tests department. The year 2016 saw a total of 40,000 heat transfer tubes of various lengths and diameters tested. This number corresponds to approximately 150 kilometers of piping tested. The largest inspected exchangers were three service water heaters for the town of Týn nad Vltavou at the Temelín NPP.

A total of 47 LPG tanks were tested using the acoustic emission method in the Czech Republic.

Component Diagnostics and Lifetime

During the course of 2016, the staff of the Component Diagnostics and Lifetime department finalized a 4-year technical development project entitled "Development of New Technology for Repair Welding of Operating VVER 1000 Reactor Pressure Vessels". At the end of 2016, the project was successfully defended in the review procedure at the Ministry of Industry and Trade. The new technology of repair welding was verified by the project; it also certified Inconel 52, a new filler material for repairs of the inner side of the reactor pressure vessel.

Material Laboratories

Material Laboratories are engaged in production and material testing mainly for the internal needs of ŠKODA JS a.s. as part of production, maintenance and development contracts. They are an accredited testing laboratory pursuant to ČSN EN ISO/IEC 17025.

Apart from standard and special material testing, in 2016 they also continued to produce connectors and glass-sealed cable penetrations for PRO-M and LKP control rod drives. Material Laboratories also performed assessments of inspected welding joints for NPPs.

Testing Shops

The Testing Shops department conducted the full range of hand-over tests of the last set of LKP-M/2 linear stepper drives with UP-2 position indicators for the Zaporozhye NPP. All refurbished PRO-M control rod drives from the delivery for the Dukovany NPP were tested in the large water loop at the end of the year. At the same time, hand-over tests of newly manufactured PRO-M drives, also for the Dukovany NPP, were conducted.

In 2016, approximately 6,000 units of various types of graphite gaskets were produced for the upper block flange joint of VVER reactors throughout Europe as well as for supplies and tests of PRO-M and LKP drives. Another phase of lifetime tests was conducted for the new type of bearings that are part of PRO-M control rod drives. The new bearings were installed in the test drive unit; the tests included imitation of conditions in emergency states of the reactor.



Integrated Management System (IMS) and Contract Quality Assurance

Through its policies, ŠKODA JS a.s. expresses its attitude to its employees, customers, suppliers and other stakeholders in the areas of quality management, occupational health and safety and environmental protection. The Company continually develops the Integrated Management System (IMS) in compliance with the requirements of standards ISO 9001, ISO 14001, OHSAS 18001 and CEFRI. In 2016, successful recertification of the IMS took place according to the requirements of the new standards. The audit was performed by the certification authority DNV-GL. Compliance with the quality requirements is also verified on an annual basis by customer audits and supplier audits.

Extension of ASME Code Certification

The successful extension of the certification pursuant to the American ASME Code Section III to include piping systems took place in the spring of last year. ŠKODA JS a.s. has long maintained the ability to design and produce nuclear equipment in compliance with the requirements of the ASME Code as well as meeting the requirements of the ASTM standards.

IMS Audits and Customer Audits

The correct functionality of the integrated system is regularly checked by audits carried out by the supervisory organization DNV-GL as well as by internal and mainly customer audits. In 2016, the IMS was also audited by the certification body TÜV SÜD Czech from the point of view of compliance with welding procedure requirements set out in ISO 3834-2 and 1090-1, 2.

A number of customer audits were conducted last year, based on which the qualification of ŠKODA JS a.s. for the realization of nuclear contracts was extended by another term. The most significant customer audits included those by the companies GNS Gesellschaft für Nuklear-Service mbH, MVM Paks Atomerőmű Zrt., and EdF.

Development of Safety Culture and 5S Principles

The Company strives to continually develop the Safety Culture principles and apply the requirements of international standards (GS-R-3) in the existing IMS. Part of the process of continual improvement of the IMS is the gradual electronization of selected company processes aimed at significantly increasing their efficiency.

Company management also strives to implement certain lean production principles. In 2016, the Bolevec production facility managed to initiate the principle of the 5S basic rules for the implementation of lean, well-organized and clean production.

Supplier Quality Management and Contract Quality Assurance

In the area of supplier quality management for the Reactor Building Logical Units at the Dukovany and Temelín nuclear power plants, we fully applied the integrated methodology of the assessment and qualification of suppliers with that of ČEZ, a. s., which allows mutual recognition of supplier qualifications. Twenty-six companies were audited using this system of verification and qualification, with the direct participation of auditors from ŠKODA JS a.s.

Another group of suppliers significant in terms of supplies of materials, parts and services for the manufacturing of nuclear equipment was subjected to auditing and qualification by our own teams of auditors and other specialists in specific processes. There were 25 such qualification audits carried out last year, mainly at suppliers from the Czech Republic and Slovakia, but also from Germany, France, Italy, Russia, South Korea and Austria.

Close attention was also paid to ensuring the quality of production contracts, from preparing documentation required for the commencement of production, its approval by customers and supervisory institutions, to the actual contract execution and the final handover of equipment and appropriate documentation to customers.

Increasing Qualifications

The qualification of Technical Inspection personnel is ensured by the regular training of staff and presents a condition for the qualified performance of activities associated with quality assurance and control in executed contracts. A lot of attention is, over the long term, devoted to this matter. Maintaining the required qualification of Technical Inspection personnel is in line with the requirements of legislation applicable to non-destructive testing, ČSN EN ISO 9712, Czech legislation (Decree of the State Office for Nuclear Safety No. 309/2005 Coll.), the ASME Code and the Company's internal IMS documentation.

In 2016, Technical Inspection personnel qualifications were further increased in the area of visual inspections pursuant to the requirements of the standard ČSN EN ISO 9712.

Non-destructive testing is an integral part of the production process; it is one of the fundamental conditions for compliance with the strict criteria for product quality control in the nuclear power industry, where emphasis is placed on nuclear safety.

The required quality level cannot be achieved without highly qualified personnel, which is why also in 2016 the Non-destructive Testing Laboratory specialists' qualifications were further increased and re-certification of personnel after five (ten) years was also carried out in compliance with the requirements of ČSN EN ISO 9712. In the Non-destructive Testing Laboratory, personnel are qualified pursuant to SNT-TC-1A as required by the ASME Code. Under both systems, the personnel are qualified at Levels II and III for the RT, UT, PT and MT methods.

In 2016, the Non-destructive Testing Laboratory underwent a regular supervisory audit by the Czech Accreditation Institute pursuant to ČSN EN ISO/IEC 17025. Part of the supervisory audit was the extension of the laboratory's accreditation in the RT method by the technique of digital radiography. This technique increased the sensitivity of RT testing and further allowed for better documentation of these tests.

The Non-destructive Testing Laboratory of ŠKODA JS a.s. was the first facility in the Czech Republic to receive accreditation for the technique of digital radiography. At the end of 2016, an investment was made in the purchase of an ultrasound device to allow testing by advanced UT TOFD and Phased Array techniques. The accreditation of these techniques is expected in 2017.



Environmental Protection

ŠKODA JS a.s. fully observes all applicable environmental protection principles. Environmental safety and protection form an integral part of the Company's management system and the way of thinking, behavior and work habits of all its employees as well as suppliers.

The Company's environmental behavior is the subject of interest of legislation as well as a number of stakeholders, and it can significantly influence business prosperity. The approach to the environment plays an important role in the selection of business partners not only in foreign tenders, but also with larger domestic companies. Environmental aspects form a part of the business strategy and the everyday management of optional tools recommended

by international organizations and the policies of the European Union and individual member states.

ICT Development

In 2016, a significant investment was made – the purchase of the Landesk software, which allows for the flexible control of all IT devices in a unified, centralized, mass and remote fashion. Landesk makes it possible to simultaneously distribute software to multiple users with a minimal impact on the network load. Further, it provides clear monitoring of SW licenses for various product categories or individual products, and last but not least, it also allows for effective, centralized administration of all devices from one place.

People at ŠKODA JS a.s.

At the end of 2016, 1,004 employees worked at the Company, of which 702 were white-collar workers in technical and economic professions and 302 were blue-collar workers. The average adjusted number of employees in 2016 was 1,003, i.e., 32 average adjusted employees more than in 2015.

The average adjusted number of employees in the consolidated entity (ŠKODA JS a.s. and ŠKODA SLOVAKIA, a.s.) in 2016 was 1,131, i.e., 33 average adjusted employees more than in 2015.

Age and Educational Structure of Employees

One-third of the staff of ŠKODA JS a.s. is made up of university educated employees and one-quarter of the Company's staff are graduates of technical vocational schools. The remaining employees have

completed secondary education with the Maturita (school-leaving) exam. This educational structure fully reflects the nature of the Company's activities.

The average age of employees at ŠKODA JS is 45.47 years, which corresponds with the educational structure and the gradual putting back of retirement age.

Staff Training

The training and development of employees at the ŠKODA JS a.s. Company is determined in the long-term by the specific need for the realization of individual projects and contracts, particularly in the field of the nuclear power industry.

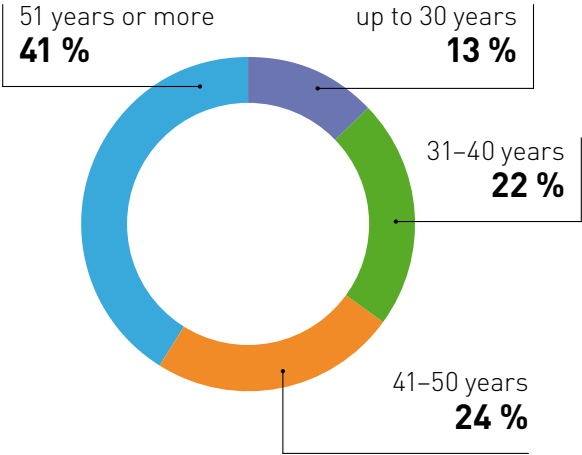
In 2016, the Company invested CZK 5.6 million in this area, i.e., an average of CZK 5,579 per employee.

Occupational Health and Safety

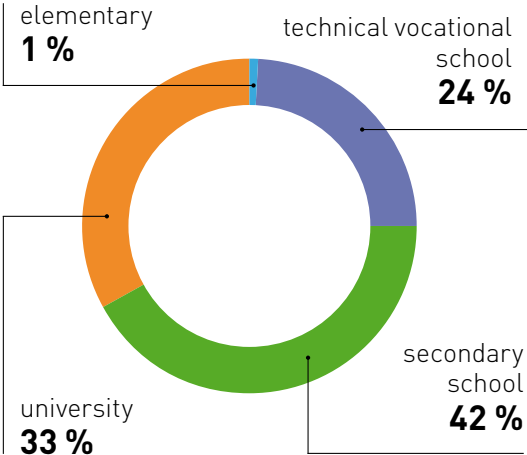
The Company's OHS management system is certified under OHSAS 18001:2007.

In 2016, ŠKODA JS a.s. engaged in continually raising its employees' awareness of occupational health and safety. Thanks to the preventive healthcare program, the employee sickness rate dropped to 2.46% compared to 3.09% the year before.

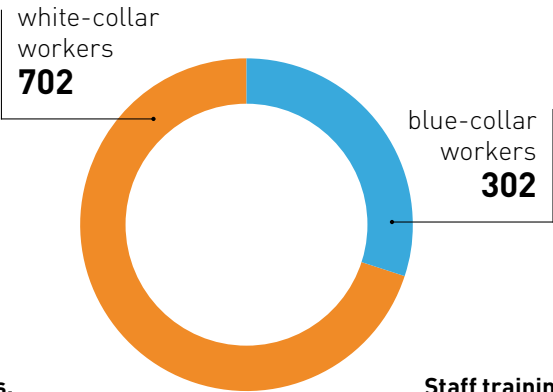
Age structure of employees of ŠKODA JS a.s. as of December 31, 2016



Educational structure of employees of ŠKODA JS a.s. as of December 31, 2016



Number of white-collar and blue-collar workers in ŠKODA JS a.s. as of December 31, 2016



Number of employees in ŠKODA JS a.s. in 2012-2016



Staff training costs in 2012-2016 (costs CZK / employee)



SOCIAL PROGRAM

- In the Company, working hours of 37.5 hours per week have been set.
- The employer contributes CZK 900 a month to employees' supplementary pension insurance.
- Reconditioning rehabilitation care and leave are provided to employees working in challenging work environments.
- The employer has set up a special fund to assist employees in meeting their social needs.
- The Company further provides for its employees:
 - an extra week of annual leave beyond the framework of statutory leave pursuant to the Labor Code,
 - supplementary pay for work beyond the legislative framework,
 - time off with wage compensation beyond the legislative framework,
 - anniversary rewards,
 - sickness benefits for the first three days of sick leave.

Social fund utilization in 2016 (CZK thousands)

Catering contribution	303
Recreation for children and families	193
Contribution towards preventive healthcare programs	1 184
Sports, cultural and other activities	324
Used in total	2 004

Corporate Social Responsibility

Socially responsible behavior is part of the corporate philosophy of ŠKODA JS a.s. The company is aware of the obligations arising from its position as one of the most important companies in the Pilsen Region. Every year, it supports a number of cultural, educational, sporting and charitable projects.

The company has provided long-term support for technical education. ŠKODA JS a.s. supports, both financially as well as by its experts' teaching activities, the University of West Bohemia in Pilsen and the Czech Technical University in Prague. Students at the technical faculties of these universities also have the opportunity to write their bachelor's and master's theses according to the instructions and under the expert supervision of the company's employees.

ŠKODA JS a.s. has traditionally developed the most extensive cooperation in the area of education in the Pilsen Region. The company's experts are involved in teaching students majoring in the "Design of Nuclear Power Systems" in the Department of Power System Engineering at the Faculty of Mechanical Engineering. Cooperation also continues in working with engineering apprentices, particularly in the area of practical teaching, which takes place in the production facilities of ŠKODA JS a.s.

ŠKODA JS a.s. is the main organizer of the annually held "Nuclear Days" event, which is an exhibition complemented with lectures that aims to present the area of nuclear power and its use mainly to students at secondary schools and universities and increase their interest

in science and technology. ŠKODA JS a.s. organizes this exhibition in cooperation with the organization CENEN (Czech Nuclear Education Network) and the University of West Bohemia in Pilsen.

ŠKODA JS a.s. also took third place in the 3rd year of the Pilsen Region Governor's Award for Corporate Social Responsibility for the year 2015 in the Business Sector category, thus continuing in its past successes in this competition.

Over the long term, ŠKODA JS a.s. helps those in need, in particular through social welfare homes, children's homes and charities operating in the Pilsen Region.

ŠKODA JS A.S. IS A MEMBER OF THE FOLLOWING ORGANIZATIONS

The Czech Power Industry Alliance is an association of companies whose purpose is to increase its members' chances of winning foreign tenders, particularly in the nuclear power industry. The initiative emerged from the National Action Plan for the Development of the Nuclear Energy Sector.

The Czech Nuclear Society is an organization comprised of individuals interested in the nuclear power industry as well as organizations, schools, research institutes, production companies as collective members in the form of membership of legal entities or their organizational units.

The Czech Nuclear Education Network is a voluntary academic association of educational institutions engaged in education in the area of nuclear engineering and production companies

striving to develop and maintain the quality of Czech nuclear education and its position within the European context.

The Technology Platform "Sustainable Energy for the Czech Republic" is an institutional tool for the support of activities in connection with research, development and implementation of technologies usable for the sustainable expansion of generation, transmission and consumption of modern forms of energy in the Czech Republic.

The Regional Chamber of Commerce of the Pilsen Region

The Chamber for Commercial Relations with the Confederation of Independent States



ŠKODA JS a.s. is the main organizer of the annually held “Nuclear Days” event.



ŠKODA JS a.s. and the Consolidated Group

Parent company

Parent company	ŠKODA JS a.s.
Registered office	Orlík 266/15, Bolevec, 316 00 Plzeň, Czech Republic
Date of establishment	5 March 1993
Founder	ŠKODA a.s.
Shareholder	OMZ B.V.
Contribution	100%
Company reg. No.:	25235753

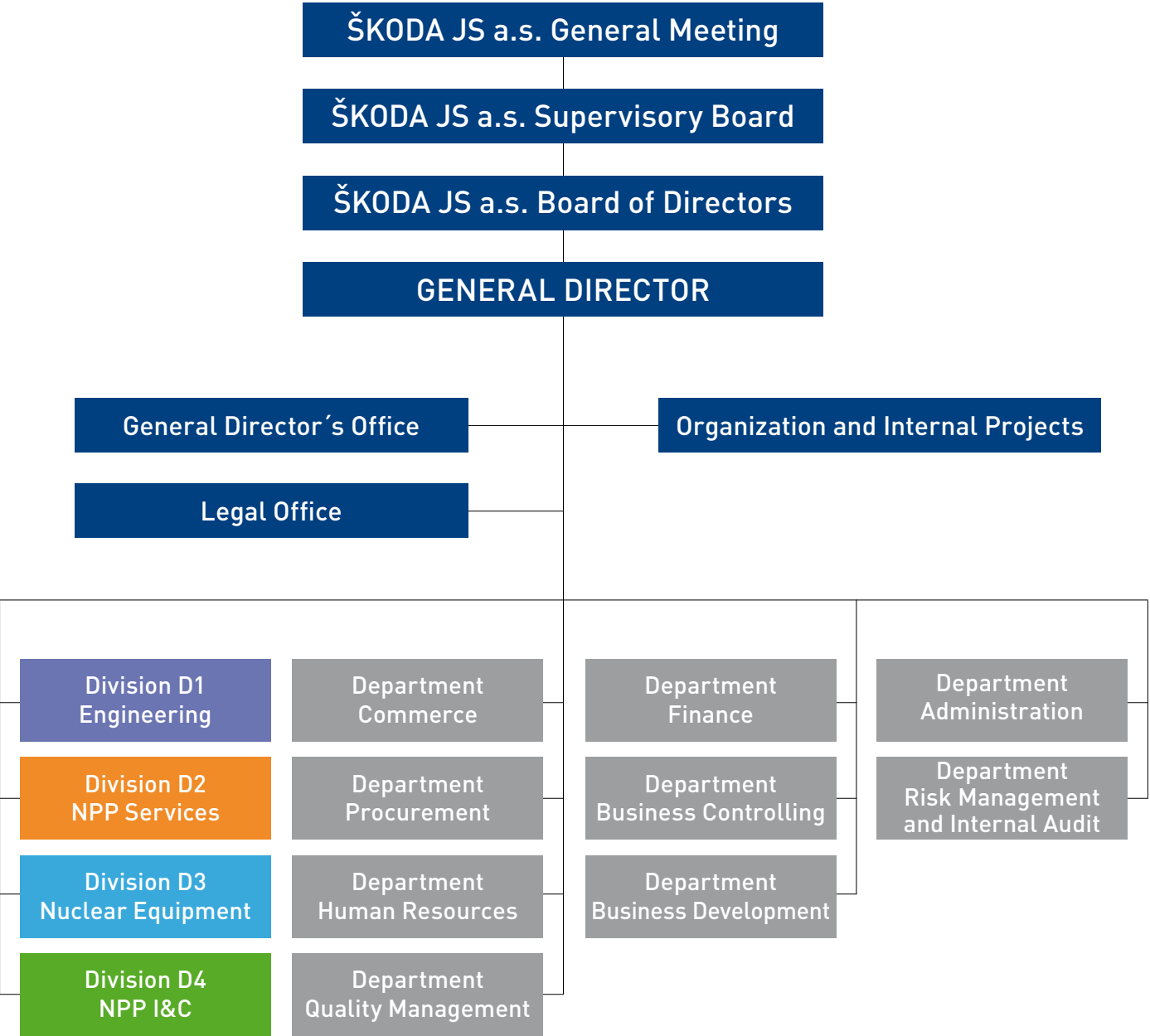
Subsidiaries Included in the Consolidated Group

Subsidiary	ŠKODA SLOVAKIA, a.s.
Registered office	Hornopotočná 4, 917 01 Trnava, Slovak Republic
Date of establishment:	25 April 1995 (incorporated in the Commercial Register maintained by the Registration Court in Bratislava, Part "s.r.o.", Insert 3544/K)
Founder	ŠKODA JS a.s. (at the time of founding ŠKODA JADERNÉ STROJÍRENSTVÍ, Plzeň, s.r.o.)
Shareholder	ŠKODA JS a.s.
Contribution	100%
Company reg. No.	34120220

Other Securities and Holdings

Company	ÚJV Řež, a. s.
Registered office	Husinec – Řež, Hlavní 130, post code 250 68, Czech Republic
Date of establishment	31 December 1992 (incorporated in the Commercial Register maintained by the Municipal Court in Prague, Part B, Insert 1833)
Founder	The company was founded by a sole founder – the Federal national Property Fund
ŠKODA JS a.s. share in the registered capital:	17,40%
Company reg. No.:	46356088
Company	Interatomenergo M.CH.O.
Registered office	Kitaygorodskiy proyezd, d. 7, 109074, Moscow, Russian
Date of establishment	13 December 1973
Founder	The association was founded on the basis of a decision by the governments of former CMEA countries
ŠKODA JS a.s. share in the registered capital	12,78 %
Legal form	International economic association

Organization Chart of ŠKODA JS a.s. at 1 April 2017



Statutory Bodies and Top Management at 1 April 2017

Supervisory Board

Boris Tikhonenko
Chairman

Vladimir Dyukov
Vice Chairman

Mikhail Ispolov
Member

Pavel Balatiev
Member

Board of Directors

Josef Perlík
Chairman of the Board of Directors

Stanislav Patrikeev
Vice Chairman of the Board of Directors

Sergey Khoshenko
Vice Chairman of the Board of Directors

Jan Kleisner
Member of the Board of Directors

Vladimír Poklop
Member of the Board of Directors

Peter Luptáček
Member of the Board of Directors

Top Management

Josef Perlík
General Director

Jan Kleisner
Finance Director

Stanislav Patrikeev
Risk Management and Internal Audit Director

Sergey Khoshenko
Administration Director

Vladimír Poklop
Engineering Division Director



Josef Perlík



Vladimír Poklop



Stanislav Patrikeev



Petr Kryl



Sergey Khoshenko



Jan Kleisner



Peter Luptáček



Kateřina Říhová



Jiří Kaiser



František Krčák



Lukáš Řežáb



Karel Hegner



Petr Altschul

František Krčák
NPP Services Division Director

Karel Hegner
Nuclear Equipment Division Director

Petr Kryl
NPP I&C Division Director

Kateřina Říhová
Human Resources Director

Libor Holík
Business Controlling Director

Roman Zdebor
Director, New Nuclear Power Resources

Petr Altschul
Director of Procurement Department

Peter Luptáček
Commercial Director

Jiří Kaiser
Entrusted with Management
of Department Business Development

Lukáš Řežáb
Entrusted with Management
of Department Quality Management



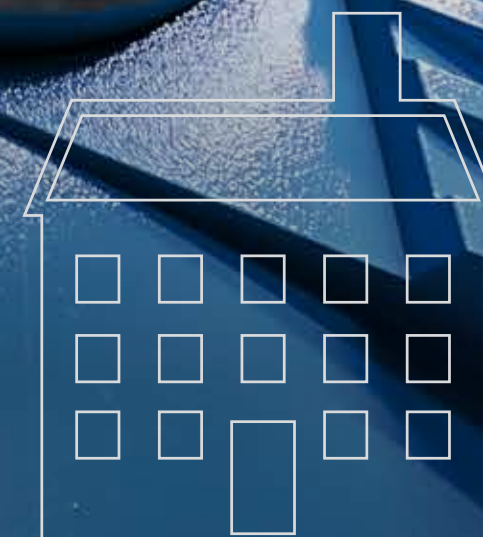
Libor Holík



Roman Zdebor



**ŠKODA JS a.s. has over
20 years of experience**
in the design, manufacture and installation
of equipment for the storage of spent
nuclear fuel.



Comments on Financial Results

Profit and Loss Statement

According to the International Accounting Standards (IFRS), ŠKODA JS a.s. posted a consolidated revenue of CZK 4.402 billion, which constitutes an increase of CZK 893 million compared to the year before. This also corresponds to an increase in pretax profit for the given period of CZK 70.1 million to CZK 178 million. This year-on-year growth was achieved thanks to the successful realization of contracts connected with the completion of the Mochovce Nuclear Power Plant. Contracts with NAEK Energoatom, MVM Paks and ČEZ, a. s. also significantly contributed to this

result. A total of CZK 2.485 billion in revenues posted according to the International Accounting Standards was realized in exports. In terms of individual segments, 57% of the revenue came from investment engineering, 18% from services, and 25% from the production of equipment for nuclear power plants.

The Company's Financial Situation, Project Funding and Insurance

In 2016, ŠKODA JS a.s. maintained a steady liquidity position and all liabilities

were settled by their due dates. Most of the cash flow occurred in the Company's operating activities and was mostly affected by the realization of the aforementioned long-term projects.

The Company managed to successfully fund the delivery of modernized LKP-M drives for the Ukrainian company NAEK Energoatom in the value of CZK 345 million using a confirmed documentary letter of credit with Československá obchodní banka, a.s. (ČSOB).

The Company's long-term approach to maximizing the amount of advance

payments collected under the payment terms of contracts realized contributes to the positive development of the Company's cash flow. The average monthly balance of advance payments (i.e., the difference between the amount of advance payments collected and provided) amounted to CZK 550 million in 2016. ŠKODA JS a.s. did not utilize external financing through credit lines arranged with the financing banks, Komerční banka, a.s., and Československá obchodní banka, a.s. During the year, the subsidiary ŠKODA SLOVAKIA, a.s., drew on a revolving credit, which peaked in November 2016 at EUR 1.4 million. By the end of 2016, the credit had been paid off.

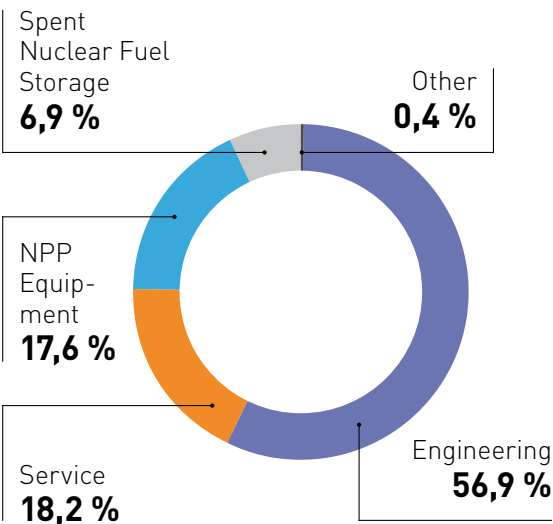
The amount of the Company's blocked resources averaged out at CZK 180 million, though at the end of the year this amount was reduced to CZK 161 million. In the course of the year, the average balance of financial resources in the Company's bank accounts was CZK 700 million, and at the end of the year the balance was CZK 713 million.

In the Company's investment activity, the cash flow consisted only of expenses, namely in the manufacturing base and IT projects in the total value of CZK 86 million.

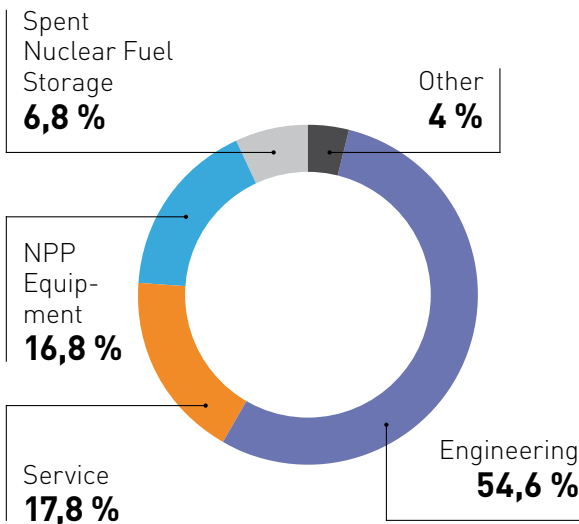
Due to the sufficient volume of financial resources in its accounts, ŠKODA JS a.s. settled all its liabilities by their due dates. The average volume of the Company's liabilities from business relations was CZK 320 million, the largest of which were towards I&C Energo a.s., ZAT a.s., MVM Ovit, ÚJV Řež, a.s., and ČEZ Energoservis spol. s r.o.

The average sum of receivables in 2016 was CZK 630 million. Given the project nature of the Company, the amount of receivables from business relations varies greatly throughout the year. A substantial portion of the receivables is connected

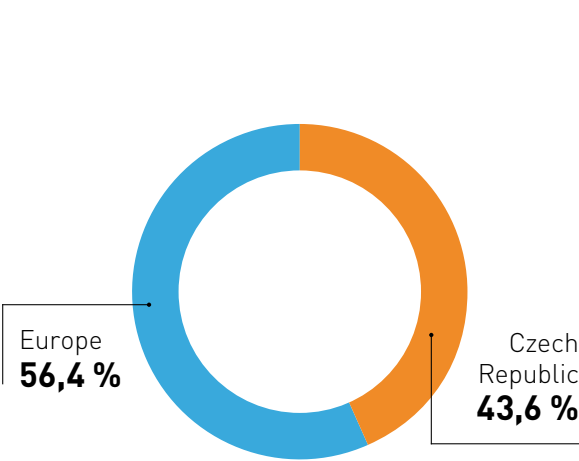
Structure of the consolidated group's revenues by segment in 2016 (IFRS)



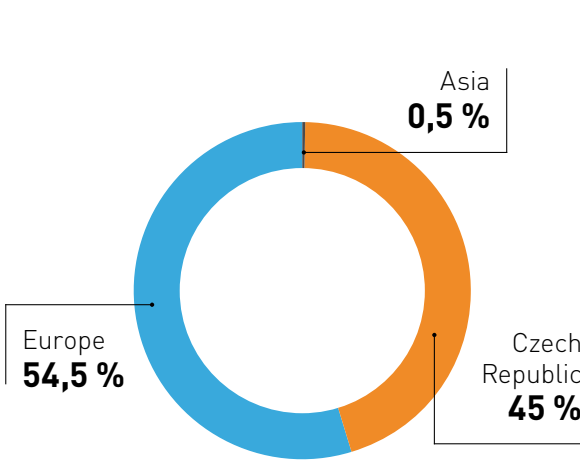
Structure of the consolidated group's revenues by segment in 2012–2016 (IFRS)



Structure of the consolidated group's revenues by destination in 2016 (IFRS)



Structure of the consolidated group's revenues by destination in 2012–2016 (IFRS)



with the relatively limited number of specialized customers that in terms of their geographical location are scattered over several countries. Their share over time varies depending on the structure and state of individual contracts. The largest receivables of ŠKODA JS a.s. were those of ČEZ, a. s., Slovenské elektrárne, a.s., and MVM Paks.

The average amount of receivables past due in 2016 was CZK 53 million. However, these are not uncollectible receivables; it only means that some of the payments were delayed by a matter of days or weeks at the most. This is clearly seen in the values as of December 31, 2016, at which date the total amount of receivables from business relations was CZK 1.151 billion, of which receivables past due were CZK 129 million. Of this amount, receivables up to 60 days past due amounted to CZK 128 million, CZK 127 million of which was paid in January 2017.

To issue a large number of bank guarantees in 2016, ŠKODA JS a.s. used lines of collateral established with Komerční banka, a.s., and ČSOB, a.s. Within the Completion of Units 3 and 4 at the Mochovce NPP project, in November 2016, ŠKODA JS a.s. terminated its cooperation with HSBC Bank plc – Prague Branch. The complete contract documentation was successfully transferred to ČSOB, a.s., which took over the funding of the entire project and issued new surety bonds.

In the area of insurance, in 2016 ŠKODA JS a.s. continued to cooperate with the largest Czech insurance broking company, RENOMIA, a.s. In collaboration with this insurance company, the professional liability insurance coverage was specified, thus limiting any impacts of potential

risks resulting mainly from the Company's service contracts.

The Impact of Changes in the Value of Foreign Currencies on the Company's Financial Results and Hedging Exchange Rate Risks

ŠKODA JS a.s. exports a large part of its products and services abroad and the majority of income from these exports is collected in EUR. In the long term, income in EUR exceeds expenditures in this currency and that is why we have to sell part of the EUR income for CZK. The exchange rate differences resulting from the realization of financial transactions in foreign currencies influence the Company's financial results. This partly includes the sale of foreign currencies on the financial market, called FX transactions. Last year, the majority of these transactions were currency spots and swaps constituting the sale of EUR for CZK.

In 2016, the average EUR/CZK exchange rate (27.033) vs. 2015 (27.283) decreased by about 0.9%, i.e., the Czech crown gained in strength, which had a positive impact on the result of FX transactions settled in 2016.

All FX transactions executed in 2016 resulted in a profit of CZK 1.9 million, i.e., the best result in the past four years (in 2015 there was a loss of CZK -3.3 million). This profit was caused mainly by the settlement of hedging derivatives arranged in 2014. Applying the principles of hedge accounting resulted in increased revenues from specific contracts and improvement in the Company's operating profit.

The intervention regime of the Czech National Bank in 2016 significantly stabilized the EUR/CZK exchange rate; thus keeping the volatility of this currency pair exceptionally low. This regime also allowed the Company to sell EUR at much more favorable conditions than before commencement of the currency intervention in November 2013. In evaluating the effect of currency risks on the Company's financial results we cannot consider only the past year. In 2016, the balance between revenue and expenses in EUR was roughly EUR +26.9 million. The change in the value of EUR vs. CZK between 2013 and 2016 had a positive impact on the said balance. As the average EUR/CZK exchange rate in 2016 (27.033) was about CZK 1.06 higher compared to 2013 (25.974), the increased balance in EUR converted to CZK amounts to CZK +28.5 million. In 2016, this positive impact of the intervention regime by the Czech National Bank significantly exceeded the accounted profit from the settled FX transactions.

The balance between sales and purchases of foreign currencies in 2016 totaled CZK 496 million, with sales of foreign currencies significantly exceeding their purchases. The total nominal turnover of all FX transactions settled in 2016 (i.e., the sum of their absolute values) amounted to CZK 503 million. Thanks to the intervention regime by the Czech National Bank, foreign currencies were sold to a larger degree, compared to the previous years, at the prevailing market exchange rate. In total, these "spot" transactions represented the sale of EUR in the equivalent of CZK 297 million.

Unlike in previous years, at the end of 2016 the Company had no unsettled financial derivatives, as in the sale of EUR we could take advantage of the favorable exchange rate guaranteed by the intervention regime of the Czech National Bank.

Conclusion

In 2016, ŠKODA JS a.s. achieved significantly better financial results than what the shareholders had set for it as a target, and it can be said that it was the most successful fiscal year in the past five years. The Company managed to conclude a number of new as well as long-term contracts, and given the list of concluded contracts mainly for deliveries for the nuclear power industry, there is a real chance of maintaining good financial results in the years to come.


Jan Kleisner
Finance Director



A photograph of two male workers in a large industrial facility, likely a power plant. They are wearing bright yellow protective suits, yellow hard hats, and yellow gloves. They are leaning over a metal railing, working on a complex piece of industrial machinery with various pipes and components. The background shows more of the industrial structure, including ladders and pipes. The image has a white line-art graphic of a city skyline at the bottom, with a cloud above one of the buildings.

In 2016, ŠKODA JS a.s. became
the winner of the tender,
that was listed by ČEZ, a. s., for the provision
of maintenance in the primary circuits
of all units of Czech NPPs until 2021.

FINANCIAL STATEMENTS OF ŠKODA JS A.S.

(According to CAS)

Income statement for the year ended 31 December 2016

(in thousands of CZK)

Označ.		2016	2015
I.	Revenue from products and services	4 444 966	2 762 756
II.	Revenue from goods	1 751	
A.	Cost of sales	3 171 672	2 121 145
A.1.	Cost of goods sold	1 469	
A.2.	Materials and consumables	740 923	629 198
A.3.	Services	2 429 280	1 491 947
B.	Change in inventory of own production (+/-)	95 575	- 223 147
C.	Own work capitalised (-)	- 692	- 1 486
D.	Personnel expenses	718 783	699 886
D.1.	Wages and salaries	536 075	521 873
D.2.	Social security, health insurance and other expenses	182 708	178 013
D.2.1.	Social security and health insurance expenses	165 679	161 666
D.2.2.	Other expenses	17 029	16 347
E.	Adjustments relating to operating activities	59 441	24 788
E.1.	Adjustments to intangible and tangible fixed assets	62 034	56 003
E.1.1.	Depreciation and amortisation of intangible and tangible fixed assets	59 265	56 003
E.1.2.	Impairment of intangible and tangible fixed assets	2 769	
E.2.	Adjustments to inventories	- 16 265	- 34 220
E.3.	Adjustments to receivables	13 672	3 005
III.	Other operating revenues	21 055	15 647
III.1.	Proceeds from disposals of fixed assets	268	270
III.2.	Proceeds from disposals of raw materials	745	1 787
III.3.	Other operating revenues	20 042	13 590
F.	Other operating expenses	165 749	32 358
F.1.	Net book value of fixed assets sold	9	
F.2.	Net book value of raw materials sold	3 114	628
F.3.	Taxes and charges	1 124	801
F.4.	Provisions relating to operating activity and complex prepaid expenses	120 937	- 13 322
F.5.	Other operating expenses	40 565	44 251
*	Operating profit (loss) (+/-)	257 244	124 859
VI.	Interest revenue and similar revenue	770	117
VI.2.	Other interest revenue and similar revenue	770	117
I.	Adjustments and provisions relating to financial activity		- 21 548
J.	Interest expense and similar expense		4
J.2.	Other interest expense and similar expense		4
VII.	Other financial revenues	4 859	33 807
K.	Other financial expenses	36 631	84 170
*	Profit (loss) from financial operations	- 31 002	- 28 702
**	Profit (loss) before tax (+/-)	226 242	96 157
L.	Income tax	61 904	28 192
L.1.	Current tax	69 742	25 716
L.2.	Deferred tax (+/-)	- 7 838	2 476
**	Profit (loss) after tax (+/-)	164 338	67 965
***	Profit (loss) for the accounting period (+/-)	164 338	67 965
*	Net turnover for the accounting period = I. + II. + III. + IV. + V. + VI. + VII.	4 473 401	2 812 327

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Balance sheet as at 31 December 2016

(in thousands of CZK)

Ident.	ASSETS	2016			2015
		Gross	Adjust.	Net	Net
	TOTAL ASSETS	5 422 752	-1 558 301	3 864 451	3 827 437
B.	Fixed assets	2 078 635	-1 472 403	606 232	583 450
B.I.	Intangible fixed assets	131 691	- 104 548	27 143	22 054
B.I.2.	Intellectual property rights	129 366	- 104 548	24 818	22 007
B.I.2.1.	Software	107 810	- 84 022	23 788	20 605
B.I.2.2.	Other intellectual property rights	21 556	- 20 526	1 030	1 402
B.I.5.	Advance payments for intangible fixed assets and intangible fixed assets under construction	2 325		2 325	47
B.I.5.2.	Intangible fixed assets under construction	2 325		2 325	47
B.II.	Tangible fixed assets	1 892 195	-1 367 855	524 340	506 645
B.II.1.	Land and buildings	138 425	- 33 822	104 603	83 786
B.II.1.2.	Buildings	138 425	- 33 822	104 603	83 786
B.II.2.	Plant and equipment	1 708 918	-1 332 897	376 021	385 422
B.II.4.	Other tangible fixed assets	1 649	- 1 136	513	568
B.II.4.3.	Other tangible fixed assets	1 649	- 1 136	513	568
B.II.5.	Advance payments for tangible fixed assets and tangible fixed assets under construction	43 203		43 203	36 869
B.II.5.1.	Advance payments for tangible fixed assets	15 151		15 151	5 200
B.II.5.2.	Tangible fixed assets under construction	28 052		28 052	31 669
B.III.	Long-term investments	54 749		54 749	54 751
B.III.1.	Equity investments - group undertakings	8 970		8 970	8 972
B.III.5.	Other long-term securities and equity investments	45 779		45 779	45 779
C.	Current assets	3 319 412	- 85 898	3 233 514	3 221 417
C.I.	Inventories	1 392 481	- 68 429	1 324 052	1 625 636
C.I.1.	Raw materials	159 094	- 46 779	112 315	156 812
C.I.2.	Work-in-progress and semi-finished products	992 615	- 21 650	970 965	1 054 735
C.I.3.	Finished goods and goods for resale	1 158		1 158	
C.I.3.2.	Goods for resale	1 158		1 158	
C.I.5.	Advance payments for inventories	239 614		239 614	414 089
C.II.	Receivables	1 225 154	- 17 469	1 207 685	795 416
C.II.1.	Long-term receivables	38 656	- 1 105	37 551	76 733
C.II.1.1.	Trade receivables	1 230	- 1 105	125	47 539
C.II.1.4.	Deferred tax asset	37 426		37 426	29 194
C.II.2.	Short-term receivables	1 186 498	- 16 364	1 170 134	718 683
C.II.2.1.	Trade receivables	1 157 359	- 16 355	1 141 004	712 704
C.II.2.4.	Receivables - other	29 139	- 9	29 130	5 979
C.II.2.4.3.	Tax receivables	22 706		22 706	75
C.II.2.4.4.	Short-term advances paid	3 852		3 852	2 679
C.II.2.4.5.	Estimated receivables	987		987	958
C.II.2.4.6.	Other receivables	1 594	- 9	1 585	2 267
C.IV.	Cash	701 777		701 777	800 365
C.IV.1.	Cash in hand	991		991	593
C.IV.2.	Bank accounts	700 786		700 786	799 772
D.	Deferrals	24 705		24 705	22 570
D.1.	Prepaid expenses	24 705		24 705	22 570

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(in thousands of CZK)

Ident.	LIABILITIES	2016	2015
		3 864 451	3 827 437
	TOTAL LIABILITIES AND EQUITY		
A.	Equity	1 571 128	1 472 576
A.I.	Registered capital	550 000	550 000
A.I.1.	Registered capital	550 000	550 000
A.II.	Premium and capital contributions	110 576	112 258
A.II.1.	Premium	111 696	111 696
A.II.2.	Capital contributions	- 1 120	562
A.II.2.1.	Other capital contributions	50	50
A.II.2.2.	Revaluation of assets and liabilities (+/-)	- 1 170	512
A.III.	Funds from profit	114 343	114 347
A.III.1.	Other reserve funds	111 472	111 472
A.III.2.	Statutory and other funds	2 871	2 875
A.IV.	Retained earnings (+/-)	631 871	628 006
A.IV.1.	Retained profits	631 871	628 006
A.V.	Profit (loss) for the current period (+/-)	164 338	67 965
B. + C.	Liabilities	1 867 691	2 185 217
B.	Provisions	436 673	275 208
B.2.	Income tax provision	41 533	1 005
B.4.	Other provisions	395 140	274 203
C.	Liabilities	1 431 018	1 910 009
C.I.	Long-term liabilities	202 958	394 224
C.I.3.	Long-term advances received	202 739	389 632
C.I.4.	Trade payables	166	4 552
C.I.9.	Liabilities - other	53	40
C.I.9.3.	Other payables	53	40
C.II.	Short-term liabilities	1 228 060	1 515 785
C.II.3.	Short-term advances received	535 780	815 653
C.II.4.	Trade payables	517 933	380 597
C.II.8.	Liabilities - other	174 347	319 535
C.II.8.1.	Liabilities to shareholders/members		62 539
C.II.8.3.	Payables to employees	53 354	60 314
C.II.8.4.	Social security and health insurance liabilities	30 998	29 963
C.II.8.5.	Tax liabilities and subsidies	34 877	56 808
C.II.8.6.	Estimated payables	55 008	109 441
C.II.8.7.	Other payables	110	470
D.	Accruals	425 632	169 644
D.2.	Deferred revenues	425 632	169 644

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Cash flow statement for the year ended 31 December 2016

(in thousands of CZK)

	2016	2015
P. Cash and cash equivalents, beginning of period	800 365	404 129
Net operating cash flow		
Z: Accounting profit (loss) from ordinary activities	226 242	96 157
A.1. Non-cash transactions	182 658	20 650
A.1.1. Depreciation and amortisation of fixed assets	59 265	56 003
A.1.2. Change in:	121 113	- 66 085
A.1.2.2. provisions and other adjustments	121 113	- 66 085
A.1.3. Profit(-) Loss(+) on sale of fixed assets	- 259	- 270
A.1.6. Expense and revenue interests accounted for	- 770	- 113
A.1.7. Other non-cash transactions	3 309	31 115
A*. Net operating cash flow before taxation financial items, changes in working capital and extraordinary items	408 900	116 807
A.2. Changes in working capital	- 256 908	335 015
A.2.1. Change in receivables from operating activities, estimated receivables and deferrals	- 419 849	256 377
A.2.2. Change in short-term liabilities from operating activities, estimated payables and accruals	- 151 604	520 865
A.2.3. Change in inventories	314 545	- 442 227
A.** Net operating cash flow before taxation, financial balances, and extraordinary items	151 992	451 822
A.3. Interest paid excluding amounts capitalised		- 4
A.4. Interest received	770	117
A.5. Income tax paid on ordinary income and income tax relating to prior periods	- 29 214	- 19 196
A.*** Net operating cash flow	123 548	432 739
Investing activities		
B.1. Acquisition of fixed assets	- 95 761	- 48 791
B.1.1. Acquisition of tangible fixed assets	- 86 536	- 45 867
B.1.2. Acquisition of intangible fixed assets	- 9 225	- 2 924
B.2. Proceeds from sales of fixed assets	268	14 362
B.2.1. Proceeds from sales of tangible and intangible fixed assets	268	270
B.2.2. Proceeds from sale of financial investments		14 092
B.*** Net cash flow from investing activities	- 95 493	- 34 429
Financing activities		
C.2. Increase and decrease in equity from cash transactions	- 126 643	- 2 074
C.2.5. Payments from funds created from net profit	- 2 004	- 2 074
C.2.6. Dividends paid, including withholding tax paid and bonuses paid to board members	- 124 639	
C.*** Net cash flow from financing activities	- 126 643	- 2 074
F. Net increase or decrease in cash balance	- 98 588	396 236
R. Cash and cash equivalents, end of period	701 777	800 365

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CONSOLIDATED FINANCIAL STATEMENTS

(According to IFRS)

Consolidated statement of financial position as at 31 December 2016

(in thousands of CZK)

ASSETS	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	552 302	651 115
Cash and cash equivalents - restricted cash	160 943	172 592
Accounts receivable - financial	1 150 844	740 029
Receivables from long-term contracts	492 469	522 122
Inventories	136 304	172 737
Receivables from derivative operations	0	1 176
Other non-financial accounts receivable	284 774	422 037
Other current assets - financial	2 541	16 495
Other current assets - non-financial	25 099	22 939
Total current assets	2 805 276	2 721 242
NON-CURRENT ASSETS		
Intangible fixed assets	27 235	22 248
Property, plant and equipment	541 789	546 832
Available for sale financial assets	45 779	45 779
Other long-term receivables - financial	124	46 668
Other long-term receivables - non-financial	9 936	0
Total non-current assets	624 863	661 527
TOTAL ASSETS	3 430 139	3 382 769
EQUITY AND LIABILITIES		
CURRENT LIABILITIES		
Payables - financial	540 959	368 916
Payables from derivative operations	0	350
Tax liabilities - current income tax	42 975	2 763
Other payables - financial	16 184	126 259
Other payables - non-financial	788 373	970 215
Provisions	261 346	177 306
Total current liabilities	1 649 837	1 645 809
NON-CURRENT LIABILITIES		
Other non-current liabilities - financial	165	4 512
Other non-current liabilities - non-financial	934	921
Deferred tax liability	0	19 147
Total non-current liabilities	1 099	24 580
EQUITY		
Registered capital	550 000	550 000
Capital and other funds	226 752	228 453
Retained profits	1 002 451	933 927
Total equity	1 779 203	1 712 380
TOTAL EQUITY AND LIABILITIES	3 430 139	3 382 769

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Consolidated statement of comprehensive income for the year ended 31 December 2016

(in thousands of CZK)

	2016	2015
Sales of goods, products and services	4 402 312	3 509 061
Sales	4 402 312	3 509 061
Cost of material and services	-3 210 417	-2 412 248
Change in finished goods and work - in progress - inventories	5 703	7 307
Capitalisation of property, plant and equipment	692	1 486
Payroll expenses	-821 879	-799 616
Depreciation and amortization	-72 716	-69 540
Other operating income	25 830	29 460
Other operating expense	-151 972	-157 805
Operating profit	177 553	108 105
Financial income	891	227
Financial expense	-430	-394
Share of profit or loss of Associates	0	-60
Profit before tax	178 014	107 878
Corporate income tax	-47 390	-38 477
Profit after tax	130 624	69 401
Other comprehensive income:		
items which will be reclassified into profit or loss under certain conditions:		
Foreign exchange gains/(losses) from translation of foreign operations	-20	-1 917
Gains/(losses) from hedging of cash flows	-2 075	15 968
Corporate income tax relating to other comprehensive income items	394	-3 034
Other comprehensive income after tax	-1 701	11 017
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	128 923	80 418

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Consolidated statement of changes in equity
for the year ended 31 December 2016

(in thousands of CZK)

	Registered capital	Statutory reserve fund	Capital and other contributions	Cumulative FX translation differences	Cash Flow Hedges	Revaluation	Retained earnings	Total
Balance at 1 January 2015	550 000	115 456	109 201	5 403	-11 253	-1 371	927 065	1 694 501
Profit for 2015	-	-	-	-	-	-	69 401	69 401
Other comprehensive income								
Foreign exchange differences from recalculation	-	-	-	-1 917	-	-	-	-1 917
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	15 968	-	-	15 968
Net change in fair value of cash flow hedges reclassified to profit or loss	-	-	-	-	-	-	-	-
Income tax on changes in fair value of cash flow hedges	-	-	-	-	-3 034	-	-	-3 034
Total other comprehensive income	-	-	-	-1 917	12 934	-	-	11 017
Transactions with owners booked in equity								
Contribution from profit to reserve fund	-	-	-	-	-	-	-	-
Paid dividends	-	-	-	-	-	-	-62 539	-62 539
Total transactions with owners	-	-	-	-	-	-	-62 539	-62 539
Balance at 31 December 2015	550 000	115 456	109 201	3 486	1 681	-1 371	933 927	1 712 380

	Registered capital	Statutory reserve fund	Capital and other contributions	Cumulative FX translation differences	Cash Flow Hedges	Revaluation	Retained earnings	Total
Balance at 1 January 2016	550 000	115 456	109 201	3 486	1 681	-1 371	933 927	1 712 380
Profit for 2016	-	-	-	-	-	-	130 624	130 624
Other comprehensive income								
Foreign exchange differences from recalculation	-	-	-	-20	-	-	-	-20
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	-2 075	-	-	-2 075
Net change in fair value of cash flow hedges reclassified to profit or loss	-	-	-	-	-	-	-	-
Income tax on changes in fair value of cash flow hedges	-	-	-	-	394	-	-	394
Total other comprehensive income	-	-	-	-20	-1 681	-	-	-1 701
Transactions with owners booked in equity								
Contribution from profit to reserve fund	-	-	-	-	-	-	-	-
Paid dividends	-	-	-	-	-	-	-62 100	-62 100
Total transactions with owners	-	-	-	-	-	-	-62 100	-62 100
Balance at 31 December 2016	550 000	115 456	109 201	3 466	0	-1 371	1 002 451	1 779 203

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Consolidated cash flow statement for the year ended 31 December 2016

(in thousands of CZK)

	2016	2015
Profit before tax	178 014	107 878
Depreciation and amortisation	72 716	69 540
Profit from sale of fixed assets and financial investments	-310	-306
Interest paid / (interest received)	-461	167
Net change in provisions	84 040	98 361
Interest received	891	227
Interest paid	-430	-394
Share of profit / loss of associates	0	60
Other non-monetary transactions	1 033	-45 512
Income tax paid	-35 866	-23 927
Operating cash flow before working capital changes	299 627	206 094
Changes in working capital:		
Change in receivables	-196 180	61 818
Change in inventories	36 433	-49 807
Change in payables	182 627	42 230
Change in other current assets and liabilities	-217 583	215 879
Changes in restricted cash	11 649	99 527
Total cash flow from operations	116 573	575 741
Investing activities:		
Acquisition of fixed assets	-86,373	-45,452
Acquisition of investments in associates	0	14,152
Proceeds from sale of fixed assets	310	306
Total cash flow from investing activities	-86,063	-30,994
Financing activities:		
Net change in borrowings and long term liabilities	-4 684	-69 481
Payment of dividends	-124 639	0
Total cash flow from financing activities	-129 323	-69 481
Net change in cash and cash equivalents	-98 813	475 266
Cash and cash equivalents at the beginning of the year	651 115	175 849
Cash and cash equivalents at the end of the year	552 302	651 115

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Bank: Komerční banka a.s., pobočka Plzeň, Goethova 1, 309 95 Plzeň

Account No. (CZK): 74303311/0100
IBAN CZ12 0100 0000 0000 7430 3311

Account No. (USD): 4848440247/0100
IBAN CZ09 0100 0000 0048 4844 0247
Swift: KOMB CZ PP

Account No. (EUR): 4848610277/0100
IBAN CZ15 0100 0000 0048 4861 0277
Swift: KOMB CZ PP