PHOTON ENERGY

CANBERRA, AUSTRALIA
200 kWp

# Photon Energy N.V.

## ANNUAL REPORT 2016

PHOTON ENERGY

**Photon Energy NV**
**Annual Report 2016**

Published on 13 March 2017
Available online at www.photonenergy.com

For questions contact our Investor Relations Department at ir@photonenergy.com

# PHOTON ENERGY EXPERTS FOR THE SOLAR AGE.

Photon Energy offers worldwide solar power solutions and services for all who want to fully harvest free energy from the sun. Our solutions and services cover the entire lifecycle of photovoltaic power systems. We are active across the globe and have a proven track record of developing PV projects, building and commissioning solar power plants. Our O&M division provides operations and maintenance services to hundreds of MWp of solar power plants worldwide. Photon Energy also manages its own proprietary portfolio of 26 MWp of power plants in three countries across two continents.

**~50 MWp**
of PV plants installed

Own portfolio of
**26 MWp**

O&M services supplied for
**200+ MWp**

**26.1 GWh**
produced in 2016

Energy supplied for
**10,000+ households**

Active in
**10 countries**

# SELECTED FINANCIAL INFORMATION

| *in thousands* | EUR | | PLN | | CZK | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Revenues | 13,089 | 13,321 | 57,092 | 55,718 | 353,822 | 363,429 |
| Gross profit | 10,723 | 10,134 | 46,773 | 42,388 | 289,871 | 276,481 |
| EBITDA | 6,551 | 6,145 | 28,574 | 25,705 | 177,086 | 167,667 |
| EBIT | 1,286 | 1,113 | 5,610 | 4,654 | 34,770 | 30,356 |
| Profit / loss before taxation | -1,996 | -918 | -8,707 | -3,839 | -53,958 | -25,038 |
| Net profit | -2,660 | -1,720 | -11,605 | -7,195 | -71,920 | -46,930 |
| Other comprehensive income | 653 | 965 | 2,848 | 4,036 | 17,653 | 26,328 |
| **Total comprehensive income** | **-2,007** | **-755** | **-8,756** | **-3,159** | **-54,267** | **-20,602** |
| Fixed assets | 75,570 | 79,023 | 333,337 | 336,846 | 2,041,889 | 2,135,602 |
| Current assets | 11,556 | 10,930 | 50,973 | 46,591 | 312,239 | 295,385 |
| of which cash and cash equivalents | 5,420 | 5,297 | 23,906 | 22,581 | 146,437 | 143,162 |
| Total assets | 87,125 | 89,953 | 384,310 | 383,436 | 2,354,128 | 2,430,987 |
| **Total equity** | **24,180** | **28,541** | **106,657** | **121,658** | **653,339** | **771,312** |
| Short-term liabilities | 7,910 | 8,742 | 34,890 | 37,263 | 213,723 | 236,247 |
| Long-term liabilities | 55,035 | 52,671 | 242,761 | 224,517 | 1,487,056 | 1,423,439 |
| Operating cash flow | 2,848 | 3,621 | 12,421 | 15,146 | 76,977 | 98,792 |
| Investment cash flow | -463 | 2,141 | -2,020 | 8,956 | -12,516 | 58,419 |
| Financial cash flow | -1,286 | -5,094 | -5,608 | -21,309 | -34,757 | -138,992 |
| **Net change in cash** | **1,099** | **668** | **4,793** | **2,794** | **29,704** | **18,225** |
| EUR exchange rate – low | - | - | 4.234 | 3.968 | 27.020 | 27.020 |
| EUR exchange rate – average | - | - | 4.362 | 4.183 | 27.033 | 27.283 |
| EUR exchange rate – end of period | - | - | 4.411 | 4.263 | 27.020 | 27.025 |
| EUR exchange rate – high | - | - | 4.500 | 4.366 | 27.150 | 28.410 |

***Note:***

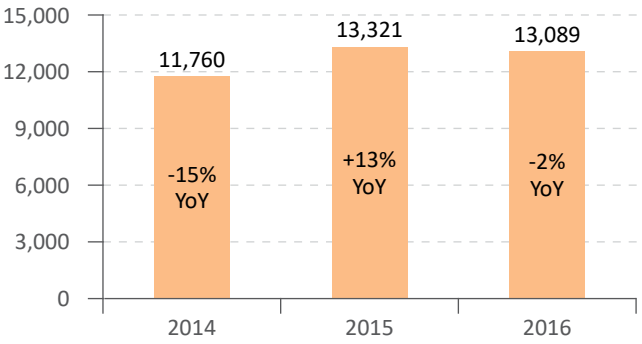
*All financial figures throughout this report are provided in Euro (EUR). Figures stated in other currency such as Polish Złoty (PLN) and Czech Koruna (CZK) are provided for information purpose only.*

*Figures provided in PLN and CZK were translated in accordance with IAS 21 as follows: Statement of Comprehensive Income – at the average exchange rate for given period; Statement of Financial Position – at the closing exchange rate for given period.*

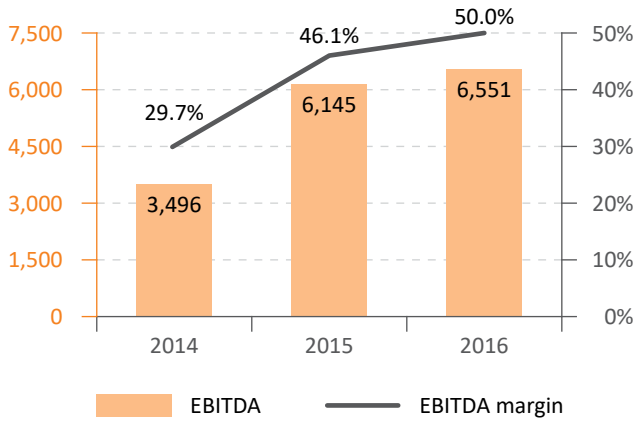
*For simplicity, throughout this report following separators were used: point "." for decimals, comma "," for thousand and million.*

# FACTS & FIGURES

## Development of Revenues *(in EUR thousands)*




## Growth in EBITDA *(in EUR thousands)*

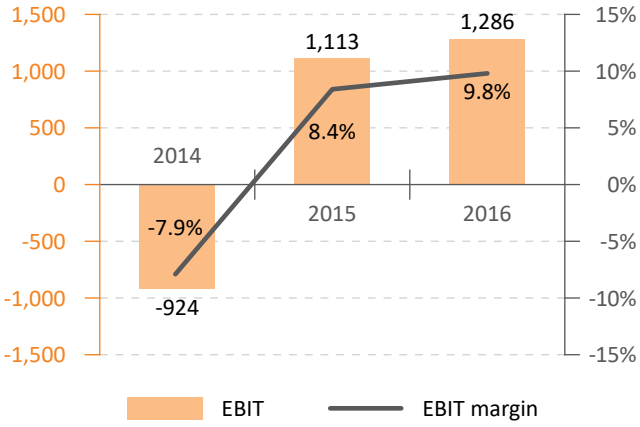



Despite stable revenues recorded in the last year, we lifted our operating margins marking a continuation of the positive trend that has been in place since 2013. Additional cost savings enabled substantial progress to be made. The sharp decline in bottom line results is mainly connected to a positive adjustment in the revaluation of derivatives in 2015, as well as to the release of a an allowance also recorded one year ago.

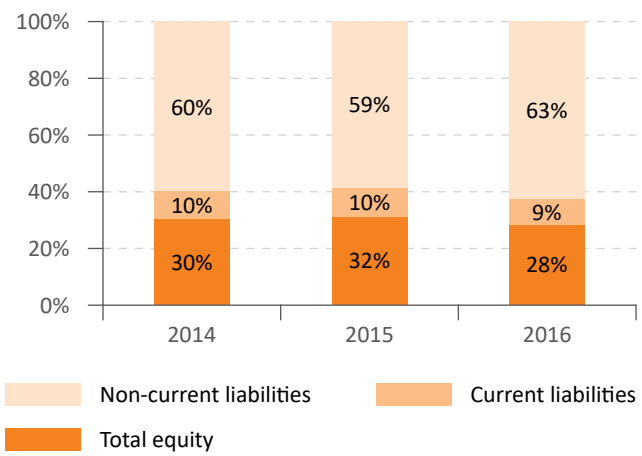
We expect our 2017 results to benefit from the hard work our teams put into signing Operations & Maintenance contracts and into securing the construction of new projects. 2017 will be another busy year for us, as we focus on profitability delivery based on the revenue mix from electricity production, recurring revenues from the operations and maintenance business, revenues from EPC business and trading activities.

We will definitely also pursue new growth opportunities as a result of our in-house expertise and process enhancements we have developed over the past several years.

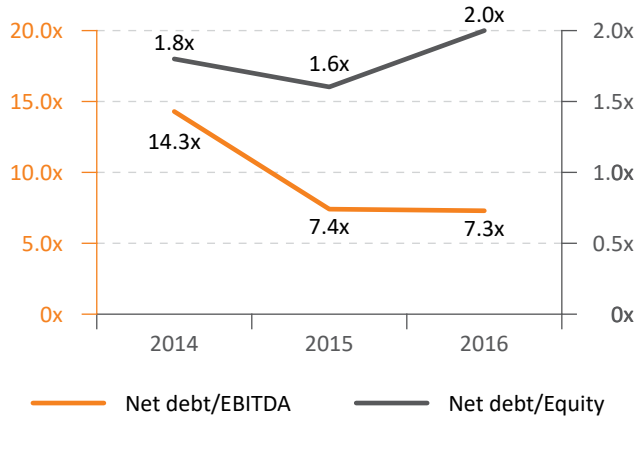
## Growth in EBIT *(in EUR thousands)*




## Capital structure




## Debt ratios



# CLEAN WATER
# THANKS TO CLEAN ENERGY

In 2016 Photon Energy constructed and commissioned a 99 kWp solar power plant to provide a large proportion of the power for a sewerage treatment plant in Leeton, Australia. The power plant utilises smart control and demand response technology to supply around 162 MWh of clean energy per year for sewerage treatment helping Leeton Shire Council reduce their carbon footprint and energy bills.

The power plant is equipped with **Photon Energy Command**, the company's proprietary monitoring and SCADA system to maximise energy usage from the solar power system during the day with the possibility of switching on additional loads and ensuring maximum energy usage on site.

The Leeton project is more proof that combined with smart technology solar power is in many cases the most viable energy source and an increasingly important part of the energy mix. Not only for households, but for larger commercial customers and the public sector.

# LETTER FROM THE MANAGEMENT

▲

**Co-founder and CEO Georg Hotar (C) with co-founder and MD for Australia Michael Gartner (L) and CFO Clemens Wohlmuth (R)**

Dear shareholders, dear bondholders, dear readers,

2016 was an eventful year, which saw our company build more power plants in Australia, close new O&M contracts, strengthen our portfolio in Slovakia, list our shares on the Prague Stock Exchange in a dual listing and issue a 6% corporate bond in the Czech Republic.

We started the year with the commissioning of two rooftop projects totalling 347 kWp as part of a general building reconstruction in Canberra. With these projects Photon Energy again demonstrated how integrating solar power into commercial space can transform buildings and make them ready for the future. Later in the year, our team installed a smaller rooftop power plant for Sydney's Macquarie University. Finally, a 99 kWp power plant in Leeton, New South Wales, commissioned at the end of the year provides a large proportion of the power for a sewerage treatment plant.

**In Australia four power plants were under construction or commissioned in 2016.**

In December, we also for the first time presented our long-term efforts of developing large-scale PV power plants in Australia. We announced two Australian PV projects under development with a planned combined installed capacity of 34 MWp, that are expected to be fully permitted and ready-to-build by mid-2017.

2016 was our best business year in terms of growing our customer base for operations and maintenance of solar power plants. In total the company added 45 MWp, including the largest single contract in Photon Energy's history for 28.5 MWp for one of the leading Czech independent power producers, Energy 21. In December 2016, new contracts pushed Photon Energy over the 100 MWp mark in the Czech Republic and in early 2017 the company surpassed 200 MWp worldwide.

**We signed our single biggest O&M contract by taking over 28.5 MWp in the Czech Republic.**

We also undertook important steps to strengthen our proprietary portfolio of PV power plants in 2016, by acquiring the outstanding equity interests from our JV partners in two power plants in Slovakia. In June, the remaining 40% equity interest in the PV power plant in Prša with an installed capacity of 999 KWp was acquired. In 2016 the power plant generated revenues of approximately EUR 453,000 and EBITDA of approximately EUR 416,000 for the full year. In September, the same steps were taken to acquire the remaining 30% in the PV power plant in Blatna, which has a capacity of 698 kWp and which generated revenues of EUR 307,000 and EBITDA of EUR 273,000 in 2016.

Photon Energy was also active on the capital markets in 2016. In October we completed a dual-listing of our shares on the Prague Stock Exchange, in addition to the Warsaw Stock Exchange. After the listing, the share price rose by a third both in Warsaw and Prague. Building on the momentum from the dual listing of our shares in Prague, we placed a 6% p.a. corporate bond in the Czech Republic in late November 2016. The 7-year bond is aimed at investors of all sizes and offers an attractive coupon as well as the additional advantages of monthly coupon payments and the possibility to sell and buy bonds on the Prague Stock Exchange. The nominal value of the bond is CZK 30,000, making it addressable for retail investors. The proceeds of the bond placement will primarily be used to finance our large-scale PV projects in Australia.

Our financial performance in 2016 hides the progress we have made across all areas of our business. We developed a more balanced and diversified business over the last years across geographies and channels. This balance and diversity are important factors that have made our performance more reliable this year, illustrated by both EBITDA and EBIT showing further progress YoY and setting the stage for material growth in 2017 and beyond.

The company's FY 2016 revenues of EUR 13.089 million remained stable compared to 2015 (EUR 13.321 million), and both EBITDA and EBIT show encouraging progress YoY, amounting respectively to EUR 6.551 million (+6.6% YoY) and to EUR 1.286 million (+15.6% YoY). Lower bottom line results in 2016 (total comprehensive loss of EUR 2.007 million compared to EUR 0.755 million in 2015) are attributable in part to a largely positive adjustment in the revaluation of derivatives last year, as well as to the release of an allowance also recorded in 2015Q2.

The business is in robust shape as we go into 2017, supported by our ability to develop multiple suitable models for on-grid and off-grid systems – which will not only include hybrid power plants, but solutions directly coupled with off-grid applications, such as on-site water filtration and remediation powered by solar energy – with sufficient flexibility to adapt to a wide range of situations. We also expect continued growth in our O&M business as we continuously expand our service range to include not only full O&M of power plants, but more highly specialised services, such as string inverter refurbishment, string monitoring for central inverters or specialised monitoring solutions.

We are looking forward to the opportunities that 2017 will bring and we would like to thank our employees, directors, shareholders and business partners for their contributions and continued support.

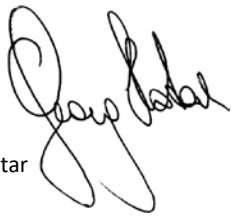
**In December 2016, new contracts pushed Photon Energy over the 100 MWp mark in the Czech Republic and in early 2017 the company surpassed 200 MWp worldwide.**

**In October we completed a dual-listing of our shares in Prague, in addition to Warsaw. Photon Energy also placed a 6% p.a. corporate bond in the Czech Republic.**

**We also undertook important steps to strengthen our portfolio of power plants in 2016, by acquiring the outstanding equity interests from our JV partners in two power plants in Slovakia.**

Amsterdam, 13 March 2017
Board of Directors

Michael Gartner
Director



Georg Hotar
Director

# CONTENTS

## 1. Company Introduction



## 2. Report of the Management



## 3. Financial Section

PHOTON ENERGY

SYDNEY, AUSTRALIA
99 kWp

# 1.

# Company Introduction

# COMPANY PROFILE

Photon Energy NV is a global solar power solutions and services company with a wide range of expertise covering the entire life-cycle of solar power systems. Our track record includes almost 50 MWp of solar power plants built and commissioned and more than 200 MWp in our operations & maintenance portfolio. Photon Energy also manages its own proprietary portfolio of 26 MWp of power plant in three countries across two continents.

Photon Energy's team has a proven track record and in-depth knowledge of project development, investment management, project finance, insurance, technology solutions, EPC and O&M. Photon Energy is headquartered in Amsterdam, Netherlands and has offices in Australia, the Czech Republic and Slovakia.

Photon Energy is an innovative company dedicated to providing best-in-class solar power solutions that are robust, reliable, cost effective and applicable anywhere there is sunshine. Our power solutions provide solar and solar-hybrid power for a wide range of customers and applications.

Our O&M division Photon Energy Operations provides a wide range of first-in-class services for owners of PV power plants.

Since 2014 we are also active in the area of investment protection for renewable energy investors.

## SOLAR PROJECTS

Photon Energy **develops solar energy solutions** from concept to completion, including financial models, permits and licensing issues.

## SOLAR SOLUTIONS

Photon Energy **designs, constructs and commissions** solar power plants, from small-scale solar storage projects to large-scale ground-mounted solar parks.

## SOLAR INVESTMENTS

Our **own portfolio of 26 MWp** of power plants in three countries across two continents guarantees plannable recurring revenue streams from the sale of clean energy.

## SOLAR TECHNOLOGY

Photon Energy helps investors choose **the right solar power components** and delivers the technology for many projects internationally.

## SOLAR O&M

Photon Energy provides crucial **monitoring, maintenance and service solutions** for power plants across the globe, helping investors achieve maximum yield.

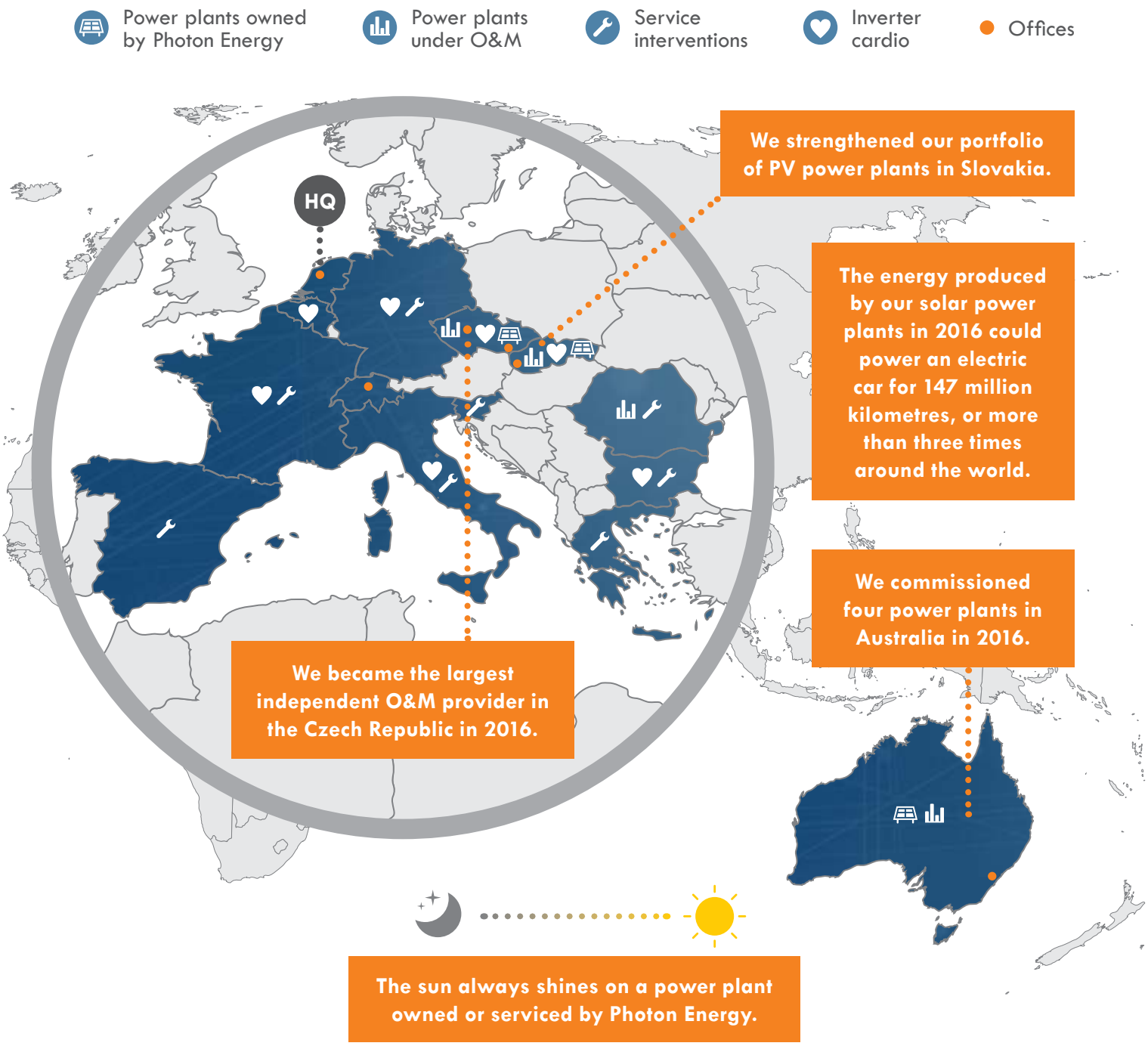
## INVESTMENT PROTECTION

Through our subsidiary **Global Investment Protection** we help investors protect their assets from reckless governments and retroactive measures.

# CONTACT DETAILS

| | | | |
|---|---|---|---|
| Name: | **Photon Energy N.V.** | Company No.: | 51447126 |
| Legal form: | Dutch public company with limited liability (Naamloze Vennootschap) | Tax No: | NL850020827B01 |
| Address: | Barbara Strozzilaan 201, 1083 HN, Amsterdam, the Netherlands | Web address: | www.photonenergy.com |
| Registration: | Dutch Chamber of Commerce (Kamer van Koophandel) | E-mail: | info@photonenergy.com |

# GLOBAL PRESENCE



# LEADERSHIP

## Georg Hotar — Chief Executive Officer and co-founder

Georg co-founded Photon Energy in 2008 and was the company's CFO until 2011. Since then he has spearheaded the group's expansion in Europe and overseas as CEO. Georg has extensive knowledge of the solar energy industry as well as in international finance. Before Photon Energy, Georg established a regional finance and strategy advisory boutique and also held various positions in financial services in London, Zurich and Prague.

## Michael Gartner — Managing Director of Photon Energy Australia and co-founder

Michael developed one of the first large PV installations in the Czech Republic before co-founding Photon Energy in 2008. Michael was CEO of Photon Energy until rolling out the company's business in Australia. Michael is instrumental in driving Photon Energy's off-grid and solar-hybrid power solutions. Before Photon Energy, Michael ran an investment boutique and was an analyst and head of fixed income sales at ING and Commerzbank Securities in Prague.

## Clemens Wohlmuth — Chief Financial Officer

Clemens joined Photon Energy in 2012 and is responsible for the group's financial activities and strategies. He contributes many years of experience in financial management, having run his own consulting practice focused on financial services and interim management. Prior to this, he was CFO and later CEO at Telekom Austria's subsidiary, Czech On Line. From 1994 to 2000 he was Senior Manager for Ernst & Young Consulting in Austria and worked on several reorganisation projects in Central Europe.

## Lukáš Kubásek — Regional Manager Photon Energy Operations Central Europe

Lukáš is responsible for growing Photon Energy's customer base for operations and maintenance in Europe. Previously he was responsible for managing our 26 MW portfolio of power plants from the technical, administrative and economic side, ensuring that production is always as high as possible. After joining Photon Energy in early 2010 he oversaw the financing and construction of some of the company's own power plants as project manager in the Czech Republic and Germany. Before Photon Energy, Lukáš worked as project and real estate manager in the retail sector.

## Miroslav Calda — Managing Director Photon Energy Solutions

Miroslav is spearheading our EPC activities in Europe. He and his team are designing solar power plants both for external customers and our own portfolio. Prior to that, he was responsible for growing Photon Energy's customer base for operations and maintenance in Europe. He is highly experienced in photovoltaics, engineering and managing construction projects. Before Photon Energy, Miroslav's responsibilities have included Director of the civil construction department at Termonta Praha and Senior Construction Manager for J&T, where he specialised in energy solutions which included several PV projects.

## Marek Farský — Managing Director Photon Energy Technology CEE

Marek joined Photon Energy in 2009 and has since then overseen the procurement and sale of PV technology worth several Hundred MWp. Marek has wide ranging contacts among PV manufacturers and substantial knowledge of solar technology. Before joining Photon Energy he worked for, among others, Ernst&Young and Deloitte.

# HISTORY

## 2008

Photon Energy a.s., the predecessor company was founded in the Czech Republic in January. In September, the company raised EUR 0.6m in a private placement (as the only external equity financing to date) and in October its shares were listed on the NewConnect segment of the Warsaw Stock Exchange.

## 2009

Photon Energy connected the first large scale PV plant of 911 KWp as an EPC in July. In total the company commissioned four plants with an installed capacity of 3.5 MWp, including the 795 KWp plant in Mostkovice, the first plant in its proprietary portfolio.

## 2010

Photon Energy built and connected 32.5 MWp of PV plants in the Czech Republic and Slovakia and expanded its proprietary portfolio to 20 MWp. In December Photon Energy N.V. was incorporated by two founding shareholders: Mr. Georg Hotar (48.33% of share capital) and Mr. Michael Gartner (51.67%) under the laws of the Netherlands, with its statutory seat in Amsterdam in the Netherlands.

## 2011

Photon Energy built an additional 8.8 MWp of PV plants in Slovakia and added 1.3 MWp in Germany and 0.3 MWp in Italy (first power plant). The Company also established its presence in Australia and started project development.

## 2012

The Group completed its corporate restructuring, implemented a structure based on legally separated business lines and transferred all activities and assets under its Dutch holding structure. Photon Energy connected a 1 MWp rooftop PV plant in Italy in June.

## 2013

Photon Energy placed a 5-year corporate bond with an 8% coupon, which trades in Frankfurt, Berlin, Hamburg, Hannover and Vienna. In June 2013 Photon Energy relisted on the NewConnect segment of the Warsaw Stock Exchange, followed by a capital increase by EUR 24 million. Subsequently, the Group announced its new global strategy and signed contracts for new PV projects in the ACT, Australia.

## 2014

Photon Energy commissioned one of Australia's largest rooftop power plants and installed a revolutionary solar-storage battery system that powers a large-scale radio antenna. Photon Energy's O&M division added five new countries to our map. In September 2014 Photon Energy partially repaid and successfully refinanced its short term loan facility in the amount of approximately EUR 6 million, significantly improving its liquidity position.


## 2015

Photon Energy further grew its O&M customer base by 35 MWp, expanding its activities to Romania. In the same year, we presented our String Monitoring Unit, a highly accurate and cost-effective string monitoring solution for PV power plants with central inverters. In 2015, we proactively managed our balance sheet to support our business operations. Photon Energy also hit the 1 MWp mark in Australia, by starting construction of two large-scale rooftop power plants totalling 384 kWp in the capital Canberra.

In 2015 we signed a financing facility amendment with Raiffeisen Leasing s.r.o., increasing the existing credit facility on nine Czech power plants. This refinancing on attractive terms illustrates the strong support the Group continues to receive from its partner banks, and reflects the Company's improving financial profile.

In 2015 Photon Energy decided to further implement its global strategy by improving its geographical focus. In May the Group sold its two Italian power plants to avoid further devastating retroactive measures by the Italian government. In the second half of 2015 Photon Energy also sold its remaining, small-scale rooftop power plants in Germany. As well as its shares in Photon Energy Operations DE GmbH to a German investor and closed its office in Berlin at the end of January 2016.

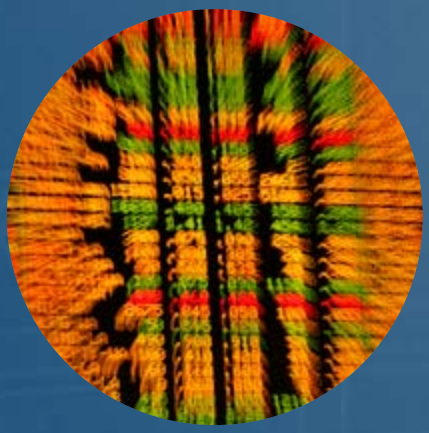
# MAJOR ACHIEVEMENTS IN 2016

## FOUR NEW POWER PLANTS COMMISSIONED IN AUSTRALIA

The beginning of the year saw the commissioning of two rooftop projects totalling 347 kW as part of a general building reconstruction in Canberra. With these projects Photon Energy again demonstrated how integrating solar power into commercial space can transform buildings and make them ready for the future. Later in the year, Photon Energy installed a smaller rooftop power plant for Sydney's Macquarie University. Finally, a 99 kWp power plant in Leeton, New South Wales, commissioned at the end of the year provides a large proportion of the power for a sewerage treatment plant. The local council ran a competitive bid in July 2016 which saw Photon Energy selected as the preferred bidder.

## PHOTON ENERGY SHARES LISTED ON PRAGUE STOCK EXCHANGE

In October Photon Energy's shares were listed on the Prague Stock Exchange (PSE) in a dual listing. Photon Energy is already listed on NewConnect in Warsaw and now also on the PSE Free Market. With this step Photon Energy wants to offer investors in the Czech Republic the possibility to profit from the global photovoltaic boom. After the listing, Photon Energy's share price rose by a third both in Warsaw and Prague.




## STRING MONITORING UNIT INSTALLED AT LARGEST CZECH PV POWER PLANT

The largest Czech PV power plant now runs on technology developed and produced by Photon Energy. In 2016 Photon Energy installed its **String Monitoring Unit** (SMU) at the 54 MWp power plant in Ralsko, operated by Central European energy giant ČEZ. The SMU was developed for power plants operating on central PV inverters to provide detailed production data and immediate downtime alarms for PV power plant owners and operators.

## 45 MWP OF O&M CONTRACTS ADDED IN 2016

In 2016 Photon Energy added a record 45 MWp of new contracts for operations and maintenance of PV power plants in Europe, including the single biggest O&M contract in our history. In July we took over of operations, maintenance and monitoring of 17 PV power plants in the Czech Republic with a total capacity of 28.5 MWp, owned by one of the leading Czech independent power producers Energy 21. The new contracts added in 2016 mean that Photon Energy crossed the 100 MWp threshold in the Czech Republic, making us currently the largest independent O&M provider in the still very heterogeneous Czech PV market.


## INTERNATIONAL AWARD FOR PHOTON ENERGY SOLAR STORAGE PROJECT

The international trade association for suppliers of broadcast and media technology IABM gave its International Award for Excellence in Sustainability to Broadcast Australia for installing a solar battery solution designed and delivered by Photon Energy. In 2014, Photon Energy commissioned a unique 39 kWp / 215 kWh solar storage system, which delivers clean energy to a radio antenna in Muswellbrook, Australia. The now award-winning pilot project has demonstrated the reliability of solar power in demanding conditions. The radio broadcast tower delivers broadcasting, radio, and critical emergency services for over 50,000 end users within a 500 km radius.

## GREATWALL CHOSES PHOTON ENERGY AS SERVICE AND DISTRIBUTION PARTNER

In 2016 Photon Energy NV and China Electronics GreatWall Energy Co., Ltd entered into a strategic cooperation in sale and service of PV inverters in Europe and Australia. Based on the agreement, Photon Energy has access to spare parts, software and technical upgrades such as the LVRT functionality for GreatWall and Satcon central inverters. As its service partner for Europe and Australia, GreatWall will provide Photon Energy's Inverter Cardio team, which specialises on central PV inverter services, with all necessary training required to provide qualified commissioning, maintenance and repair services to the entire range of PV inverters manufactured by GreatWall. Photon Energy already provides maintenance and repair services for more than 150 MW of Satcon inverters in Europe.

## PHOTON ENERGY STRENGTHENED ITS PORTFOLIO OF PV POWER PLANTS

Photon Energy undertook important steps to strengthen its proprietary portfolio of PV power plants in 2016, by acquiring the outstanding equity interests from its JV partners in two power plants in Slovakia. In June, the remaining 40% equity interest in the PV power plant in Prša with an installed capacity of 999 KWp was acquired. In 2016 the power plant generated revenues of approximately EUR 453,000 and EBITDA of approximately EUR 416,000 for the full year. In September, the same steps were taken to acquire the remaining 30% in the PV power plant in Blatná, which has a capacity of 700 kWp and which generated revenues of EUR 307,000 and EBITDA of EUR 273,000 in 2016.

## PHOTON ENERGY PLACES 6% BOND IN THE CZECH REPUBLIC

Building on momentum from the dual listing of its shares in Prague, Photon Energy placed a 6% p.a. corporate bond in the Czech Republic in late November 2016. The 7-year bond is aimed at investors of all sizes and offers an attractive coupon as well as the additional advantages of monthly coupon payments and the possibility to sell and buy bonds on the Prague Stock Exchange. The nominal value of the bond is 30.000 CZK. The proceeds of the bond placement will primarily be used to finance large-scale PV projects in Australia.

# ALWAYS THERE FOR THE MEDIA

We continued in our successful media relations strategy in 2016, which saw us become a regular port of call for journalists writing about solar energy and renewables in general. Our activities were reported in the European as well as the Australian media, from specialised solar energy news websites to popular daily newspapers.

Our CEO Georg Hotar gave several interviews regarding our strategy and plans for the future, while our expert staff commented on technical issues regarding a wide range of topics, from the price of solar modules to winter maintenance of PV power plants.

At the same time we work together closely with industry associations and NGOs to provide best practices and concrete information. Given the backlash that solar power has experienced in several EU countries after negative campaigns, we see it as our duty to help in the joint effort to restore the good reputation that renewable energy deserves.

For more articles about Photon Energy please visit the "Media Centre" on our website.


SOLAR DAILY
Photon Energy delivers solar power for water treatment plant
finanzen.net
PTA-News: Photon Energy N.V.: Photon Energy setzt im Q2 2016 den Aufwärtstrend fort
BOTYK
Photon Energy chce stavět 20MW solární park v Austrálii
PV Europe
Photon Energy reaches 105 MWp O&M in Czech Republic
PATRIA ONLINE
investing.com
BRIEF-Photon Energy Aug. performance of power plants exceed forecasts
PR Newswire
HDPV Alliance Expands With Six New Members To Focus On Lowering The Cost Of Solar Energy
HDPV ALLIANCE
Renewables Now
Photon Energy secures O&M deal for 28.5 MW of Czech PV
July 22 (SeeNews) - Dutch solar power firm Photon Energy NV said on Wednesday it is assuming responsibility for the operation, maintenance and monitoring of 17 photovoltaic (PV) power facilities in the Czech Republic totalling 28.5 MWp.
The services will be provided by its subsidiary Photon Energy Operations under a contract with Czech independent power producer Energy 21, which owns the plants.
"We now have almost 100 MWp under O&M in the Czech Republic and being an international company we are a reliable partner for international investors with portfolios in Central Europe, who do not have a permanent presence here," said chief executive officer Georg Hotar.
Following this latest deal, Photon Energy provides O&M and monitoring services for solar assets surpassing 180 MWp of combined capacity in nine countries, it said.
IRENA/ADFD to lend USD 44.5 for renewables in developing countries
UPDATE - Juhl Energy to focus on 5-MW wind/solar hybrid projects

# EMPLOYEES

As of 31. 12. 2016

| 65 | 35 | 29% | 19 |
|---|---|---|---|
| Employees | Average age | Female employees | Languages spoken |

## Vladimír Hochman — Technical Manager Photon Energy Operations

**1. When did you join Photon Energy?**

I started out at Photon Energy in 2010 as a project manager for the construction of PV power plants. Once they were finished, I moved on to servicing and maintaining them.

**2. Which challenges do you face in your job?**

Every day is a challenge. Operating power plants is not only about quality and speed, but also about providing effective service. Balancing all of these aspects or simultaneously pushing for all of them can be challenging.

**3. What aspects of your job do you enjoy the most?**

I enjoy that I constantly grow my skill set. Solar power is still a young industry and we find new methods and paths to optimising the service of power plants all the time. We still come upon faults that were unknown to us before and that nobody has faced. All of this gives me the opportunity to work with new high-tech equipment all the time. For example, we now deploy drones when carrying out thermovision controls of power plants from the air.

## Júlia Brecelyová — Key Account Manager Photon Energy Operations

**1. When did you join Photon Energy?**

I joined in September 2010, when Photon Energy was developing PV projects and constructing power plants in Slovakia.

**2. Which challenges do you face in your job?**

Among my biggest challenges at the moment is the legislative situation surrounding the so-called "G-component", a retroactively introduced measure against PV investors in Slovakia. Following a coordinated joint effort with the industry association and other PV investors we managed to get the G-component revoked in court.

**3. What aspects of your job do you enjoy the most?**

Right from the very beginning I liked the large spectrum of activities, which includes not only administrative tasks, but also aspects of legal frameworks as well as the Slovak and international energy market.

## Nationalities represented among our employees:

Australia, Austria, Canada, Czech Republic, France, Greece, Hungary, Iran, Netherlands, Romania, Slovakia, Sweden

## Group structure

The following table presents the Group's structure (subsidiaries and joint-ventures) and the holding company's stake in the entities comprising the Group as of 31 December 2016.

| | Name | % of share capital held by the holding company | % of votes held by the holding company | Country of registration | Consolid. method | Legal Owner |
|---|---|---|---|---|---|---|
| 1 | Photon Energy N.V. | Holding Company | | NL | Full Cons. | |
| 2 | Photon Directors B.V. | 100% | 100% | NL | Full Cons. | Photon Energy |
| 3 | Photon Energy Engineering B.V. | 100% | 100% | NL | Full Cons. | Photon Energy |
| 4 | Photon Energy Operations N.V. | 100% | 100% | NL | Full Cons. | Photon Energy |
| 5 | Photon Energy Australia Pty Ltd. | 100% | 100% | AUS | Full Cons. | Photon Energy |
| 6 | Photon Energy Generation Australia Pty. Ltd. | 100% | 100% | AUS | Full Cons. | Photon Energy |
| 7 | Photon Energy Operations Australia Pty.Ltd. | 100% | 100% | AUS | Full Cons. | Photon Energy Operations NV |
| 8 | Photon Energy Engineering Australia Pty Ltd | 100% | 100% | AUS | Full Cons. | Photon Energy Engineering BV |
| 9 | Photon Energy AUS SPV 1 Pty. Ltd. | 100% | 100% | AUS | Full Cons. | Photon Energy |
| 10 | Photon Energy AUS SPV 2 Pty. Ltd. | 100% | 100% | AUS | Full Cons. | Photon Energy |
| 11 | Photon Energy AUS SPV 3 Pty Ltd | 100% | 100% | AUS | Full Cons. | Photon Energy |
| 12 | Photon Energy AUS SPV 4 Pty Ltd | 100% | 100% | AUS | Full Cons. | Photon Energy |
| 13 | Global Investment Protection AG | 100% | 100% | CH | Full Cons. | Photon Energy |
| 14 | Photon Energy Corporate Services CZ s.r.o. | 100% | 100% | CZ | Full Cons. | Photon Energy |
| 15 | Photon SPV 1 s.r.o. | 100% | 100% | CZ | Full Cons. | Photon Energy |
| 16 | Photon Energy Operations CZ s.r.o. | 100% | 100% | CZ | Full Cons. | Photon Energy Operations NV |
| 17 | Photon Energy Control s.r.o. | 100% | 100% | CZ | Full Cons. | Photon Energy Operations CZ |
| 18 | Photon Energy Cardio s.r.o. | 100% | 100% | CZ | Full Cons. | Photon Energy Operations CZ |
| 19 | Photon Energy Technology CEE s.r.o. | 100% | 100% | CZ | Full Cons. | Photon Energy Engineering BV |
| 20 | Photon Water s.r.o. | 100% | 100% | CZ | Full Cons. | Photon Energy |
| 21 | Photon Water Technology s.r.o. | 100% | 100% | CZ | Full Cons. | Photon Energy |
| 22 | Photon Energy Solutions s.r.o | 100% | 100% | CZ | Full Cons. | Photon Energy |
| 23 | Photon Energy Projects s.r.o | 100% | 100% | CZ | Full Cons. | Photon Energy |
| 24 | The Special One s.r.o. | 100% | 100% | CZ | Full Cons. | Photon Energy |
| 25 | Charles Bridge Services s.r.o. | 100% | 100% | CZ | Full Cons. | Photon Energy |
| 26 | Photon Energy Finance Europe GmbH | 100% | 100% | DE | Full Cons. | Photon Energy |
| 27 | Photon Energy Corporate Services DE GmbH | 100% | 100% | DE | Full Cons. | Photon Energy |
| 28 | Photon Energy Engineering Europe GmbH | 100% | 100% | DE | Full Cons. | Photon Energy Engineering BV |
| 29 | EcoPlan 2 s.r.o. (Mokra Luka 1) | 100% | 100% | SK | Full Cons. | Photon Energy |
| 30 | EcoPlan 3 s.r.o. (Mokra Luka 2) | 100% | 100% | SK | Full Cons. | Photon Energy |
| 31 | Fotonika, s.r.o. (Prša I) | 100% | 100% | SK | Full Cons. | Photon Energy |
| 32 | Photon SK SPV 1 s.r.o. (Brestovec) | 50% | 50% | SK | Equity | Photon Energy |
| 33 | Photon SK SPV 2 s.r.o. (Jovice 1) | 100% | 100% | SK | Full Cons. | Photon Energy |
| 34 | Photon SK SPV 3 s.r.o. (Jovice 2) | 100% | 100% | SK | Full Cons. | Photon Energy |
| 35 | Solarpark Myjava s.r.o. | 50% | 50% | SK | Equity | Photon Energy |
| 36 | Solarpark Polianka s.r.o. | 50% | 50% | SK | Equity | Photon Energy |
| 37 | SUN4ENERGY ZVB, s.r.o. (Babiná II) | 100% | 100% | SK | Full Cons. | Photon Energy |
| 38 | SUN4ENERGY ZVC, s.r.o. (Babiná III) | 100% | 100% | SK | Full Cons. | Photon Energy |
| 39 | ATS Energy, s.r.o. (Blatna) | 100% | 100% | SK | Full Cons. | Photon Energy |
| 40 | Photon Energy Operations SK s.r.o. | 100% | 100% | SK | Full Cons. | Photon Energy Operations NV |
| 41 | Photon Energy HU SPV 1 Kft. b.a | 100% | 100% | HU | Full Cons. | Photon Energy Projects |

*Notes*:

***Country of registration***
***NL – the Netherlands***
***SK – Slovakia***
***CZ – the Czech Republic***
***DE – Germany***
***AUS – Australia***

***Consolidation method:***
***Full Cons. – Full Consolidation***
***Not Cons. – Not Consolidated***
***Equity – Equity Method***

On 29 September 2015, Photon Energy Operations CZ s.r.o. established a branch office in Romania: Photon Energy Operations CZ s.r.o. Praga sucursala Bucuresti.

In addition to the above subsidiaries, for the purposes of **IFRS reporting,** the Company consolidates the following entities:

| | Name | % of Consolidated share | % of Ownership share | Country of registration | Consolidation method | Legal Owner |
|---|---|---|---|---|---|---|
| 1 | Photon SPV 3 s.r.o. (Mostkovice SPV 3) | 100% | 0% | CZ | Full Cons. | RL |
| 2 | Photon SPV 8 s.r.o. (Zvíkov I) | 100% | 0% | CZ | Full Cons. | RL |
| 3 | Exit 90 SPV s.r.o. (Komorovice) | 100% | 0% | CZ | Full Cons. | RL |
| 4 | Photon SPV 4 s.r.o. (Svatoslav) | 100% | 0% | CZ | Full Cons. | RL |
| 5 | Photon SPV 6 s.r.o. (Slavkov) | 100% | 0% | CZ | Full Cons. | RL |
| 6 | Onyx Energy s.r.o. (Zdice I) | 100% | 0% | CZ | Full Cons. | RL |
| 7 | Onyx Energy projekt II s.r.o. (Zdice II) | 100% | 0% | CZ | Full Cons. | RL |
| 8 | Photon SPV 10 s.r.o. (Dolní Dvořiště) | 100% | 0% | CZ | Full Cons. | RL |
| 9 | Photon SPV 11 s.r.o. (Radvanice) | 100% | 0% | CZ | Full Cons. | RL |

*Notes*:
*RL – Raiffeisen - Leasing, s.r.o.*

## In the reporting period, there were the following changes to the Group structure:

### List of incorporated subsidiaries

- On 29 June 2016, Photon Energy Cardio s.r.o. was incorporated as a 100% subsidiary of Photon Energy Operations CZ s.r.o..
- On 16 August 2016, Photon Energy Projects s.r.o. was incorporated as a 100% subsidiary of Photon Energy N.V..
- On 16 August 2016, Photon Energy Solutions s.r.o., was incorporated as a 100% subsidiary of Photon Energy N.V..
- On 16 August 2016, The Special One s.r.o. was incorporated as a 100% subsidiary of Photon Energy N.V..
- On 16 August 2016, Charles Bridge Services s.r.o. was incorporated as a 100% subsidiary of Photon Energy N.V..
- On 14 October 2016, Photon Energy AUS SPV 3 Pty Ltd was incorporated as a 100% subsidiary of Photon Energy N.V.
- On 14 October 2016, Photon Energy AUS SPV 4 Pty Ltd was incorporated as a 100% subsidiary of Photon Energy N.V.
- On 15 December 2016, Photon Energy HU SPV 1 Kft. b.a. was incorporated as a 100% subsidiary of Photon Energy Projects s.r.o..

### Mergers

- None in 2016.

### List of liquidated subsidiaries

- On 31 July 2016, European Solar Holdings B.V. Photon Energy Investments CZ N.V. and Photon Energy Investments DE N.V. were liquidated.

### List of acquired subsidiaries

- On 29 January 2016, Photon Energy N.V. purchased 100% of the Czech company Photon Water s.r.o.
- On 12 October 2016, Photon Water Technology s.r.o. was acquired as a 100% subsidiary of Photon Energy N.V.

The Company also acquired 100% full share in the originally joint ventures entities:

- Since 1 April 2016, Fotonika s.r.o., which used to be consolidated under the equity method, has been fully consolidated.
- Since 1 September 2016, Fotonika s.r.o., already fully consolidated prior to the transaction.

### List of disposed subsidiaries

During 2016 the following subsidiaries were disposed out of the Group:

- On 1 February 2016, Photon Energy Operations N.V. sold 100% of the shares of Photon Energy Operations DE GmbH.

The total loss from the sale of the above mentioned subsidiary amounted to EUR 14 thousand based on a comparison of the net asset value of the disposed subsidiary and its sale price.

### Renaming

- None in 2016.

### After the reporting period the following events occurred from the beginning of the year 2017

- On 31 January 2017 Photon Energy N.V. sold 35% of its share in Photon Water Technology s.r.o. to its Managing Director Dr Petr Kvapil.
- On 28 February 2017, Photon Energy N.V. sold its 100% share in Photon Water s.r.o.

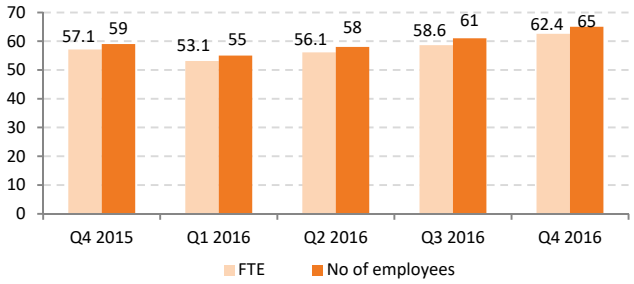
## Employees

As of 31 December 2016 the Photon Energy Group had 65 employees (compared to 59 employees as of 31 December 2015), which translates into 62.4 FTE[1] (compared to 57.1 FTE in 2015).

### Employee Share Purchase Programme

The management of the Company recognises the significant contribution of the team members to the future development of the Group. Therefore, it deploys an Employee Share Purchase Programme as a part of its motivation system. Under the terms of the programme, the Group periodically purchases shares for employees equal to 10% of their gross compensation. The disposition rights to these shares are limited and employees can dispose of these shares only under specific conditions.

### Total number of employees and full time equivalent employees per quarter




[1] **Full-time equivalent (FTE)** is a unit that indicates the workload of an person in a way that makes workloads comparable across various contexts. An FTE of 1.0 means that the person is equivalent to a full-time worker, while an FTE of 0.5 signals that the worker is only half-time.

## Statutory bodies

### Board of Directors as of 31 December 2016

The Board of Directors is responsible for the day-to-day operations of the Company. The Issuer's Board of Directors has the following members:

| Name | Position | Date of birth | Term of office expiry date |
|---|---|---|---|
| Georg Hotar | Director *(Bestuurder)* | 21. 04. 1975 | No term of expiry |
| Michael Gartner | Director *(Bestuurder)* | 29. 06. 1968 | No term of expiry |

### Supervisory board

Under Dutch law, a public company is required to establish a supervisory board if:

- The issued share capital of the company together with the reserves pursuant to the balance of sheet amounts to at least EUR 16 million,
- The company or a dependent company has established a work council pursuant to a statutory obligation and,
- The company together with its dependent companies employs at least one hundred employees in the Netherlands.

The company will only be under the obligation to establish a supervisory board if it meets such criteria on the balance sheet dates in three subsequent financial years. The Issuer does not meet the above described criteria and therefore is not required to create a supervisory board. No Supervisory Board was established, however, the Issuer has the intention to appoint an independent Supervisory Board in the future.

# Shares and shareholder structure

**Market:** NewConnect, Poland
**Ticker:** PEN
**Web address:** www.newconnect.pl

**Market:** Free Market, Czech Republic
**Ticker:** PEN
**Web address:** https://www.pse.cz/en/

## Share capital

The Company's share capital is EUR 600,000 divided into 60,000,000 shares with a nominal value of EUR 0.01 each. The share capital is fully paid-up. Each share has one vote at the General Meeting of Shareholders, with the exception of the treasury shares held by the Issuer.

## Share capital as of 31 December 2016

| Series/ issue | Type of shares | Type of preference | Limitation of right to shares | Number of shares | Nominal value of series/issue (EUR) | Capital covered with |
|---|---|---|---|---|---|---|
| A | bearer | - | - | 60,000,000 | 600,000 | cash |
| Total number of shares | | | | 60,000,000 | | |
| Total share capital | | | | | 600,000 | |
| **Nominal value per share = EUR 0.01** | | | | | | |

## Shareholder structure

The number of issued shares by the Company amounts to 60,000,000. As of 13 March 2017, to the knowledge of the Management, the shareholder structure was as follows:

The shareholder structure as of 31 December 2016 can be found in the Directors'report.

| Shareholdership as of 13.03.2017 | No. of shares | % of capital | No. of votes at the Shareholders Meeting | % of votes at the Shareholders Meeting |
|---|---|---|---|---|
| Solar Age Investments B.V. | 26,463,974 | 44.11% | 26,463,974 | 51.92% |
| Solar Future Cooperatief U.A. | 8,590,683 | 14.32% | 8,590,683 | 16.85% |
| Solar Power to the People Cooperatief U.A. | 8,051,919 | 13.42% | 8,051,919 | 15.80% |
| Photon Energy N.V. | 9,028,251 | 15.05% | 0 | 0.00% |
| Free float | 7,865,173 | 13.11% | 7,865,173 | 15.43% |
| **Total** | **60,000,000** | **100.00%** | **50,972,161** | **100.00%** |

*In 2015 and in 2016, shares were transferred from Photon Energy NV to the Employee share purchase programme. These shares were added to the free-float.*

- **Solar Age Investments B.V.** is a limited liability company established under the laws of the Netherlands, with its statutory seat in Amsterdam and its place of business at Barbara Strozzilaan 201, 1083 HN, Amsterdam, the Netherlands. The board of Directors has one member, Mr. Georg Hotar.
- **Solar Future Cooperatief U.A.** is a cooperative established under the laws of the Netherlands, with its statutory seat in Amsterdam and its place of business at Barbara Strozzilaan 201, 1083 HN, Amsterdam, the Netherlands. The Board of Directors has two members: Mr. Michael Gartner as Director A and Mrs. Magda Gartnerova as Director B.
- **Photon Energy N.V.** is a company established under the laws of the Netherlands, with its statutory seat in Amsterdam and its place of business at Barbara Strozzilaan 201, 1083 HN, Amsterdam, the Netherlands. The Board of Directors has two members: Mr. Georg Hotar and Mr. Michael Gartner.
- **Solar Power to the People Cooperatief U.A.** is a cooperative established under the laws of the Netherlands, with its statutory seat in Amsterdam and its place of business at Barbara Strozzilaan 201, 1083 HN, Amsterdam, the Netherlands. The Board of Directors has two members: Mr. Georg Hotar as Director A and Mr. Michael Gartner as Director B.

## Authorized Advisor

**Capital Solutions ProAlfa Sp. z o.o.**
**Legal form:** Polish Limited Liability Company
**Address:** ul. Nowy Świat 51/3, 00-042 Warsaw, Poland
**Email:** info@cs-proalfa.pl
**Internet:** www.cs-proalfa.pl
**Registration number:** 0000150260
**Until:** May 2016.

## Market Maker Details

**Dom Maklerski PKO Bank Polski**
**Address:** ul. Puławska 15, 02-515 Warszawa, Poland
**Internet:** www.dm.pkobp.pl

## Dialogue with investors

The Company attaches great importance to maintaining good relationships with all shareholders and ensures that shareholders and bondholders are kept informed of significant Company developments.

- The Company's website continues to be developed to ensure it remains a principal source of information on the Group and its activities. An **investor relations news service** allows investors to stay up-to-date on Company announcements, reports and other ad-hoc information.
- In 2016, the IR department organised **two online chats** – on 28 April and on 8 November – jointly with the Polish retail investors association SII. SII members as well as other investors were able to submit questions to Georg Hotar, the Company's CEO. The chats were webcast live in Polish and English at www.sii.org.pl and transcripts of the chats in Polish were published in the investor relations section of our website.
- The Company participated in the **Eigenkapitalforum** held from 21 to 23 November 2016 in Frankfurt. Georg Hotar, the Company's CEO gave a company presentation on 21 November. The conference is organized by Deutsche Börse AG.

## Dividend policy

The Company's strategy is to create value for its shareholders through strong expansion in the globalising PV industry. For as long as value-creating growth and investment opportunities exist, the Board of Directors does not intend to propose to distribute dividends to shareholders.

## Share performance in 2016

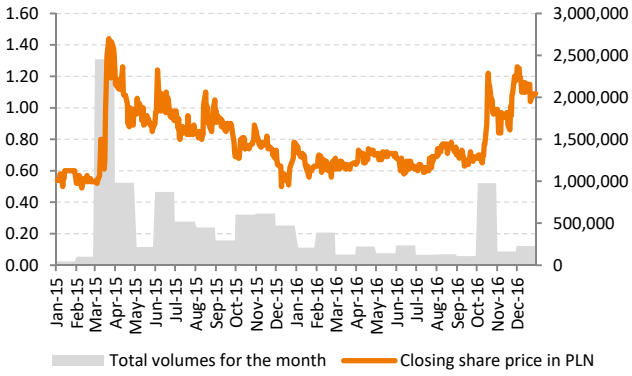
### NewConnect (Warsaw Stock Exchange)

| Selected share information | PLN |
|---|---|
| Opening price (04. 01. 2016) | 0.72 |
| 52-week max (02. 12. 2016 ) | 1.26 |
| 52-week min (24. 02. 2016) | 0.56 |
| **Closing price (30. 12. 2016)** | **1.09** |

*Source:* http://www.newconnect.pl/

The average trading volume in the year 2016 amounted to 12,222 shares per trading session compared to 30,430 shares in 2015 and 4,724 in 2014. The Company has been listed on NewConnect since 4 June 2013.

**Performance of Photon Energy shares in 2016**




### Free Market (Prague Stock Exchange)

Since 17 October 2016, in addition to the listing on the NewConnect segment of the Warsaw Stock Exchange, the Company's shares have now also been traded on the PSE Free Market. No additional shares have been issued, nor capital raised through this listing.

| Selected share information | CZK |
|---|---|
| Reference price (17.10.2016) | 4.90 |
| Opening price (17. 10. 2016) | 5.30 |
| 52-week max (18. 10. 2016 ) | 9.80 |
| 52-week min (07. 11. 2016) | 6.30 |
| **Closing price (30. 12. 2016)** | **7.00** |

*Source:* http://www.pse.cz

On 31 December 2016, the share price (ISIN NL0010391108) closed at a price of CZK 7.00 (+5% MoM, +43% vs CZK 4.90, the reference price on the first trading day on 17 October 2016), corresponding to a price to book ratio of 0.47x. The Company reports ayear-to-date trading volume of 623,307 shares (from 17 October 2016 until 31 December 2016).

## Bond performance in 2016

### EUR Bond in Frankfurt

In March 2013, the Company issued a 5-year corporate bond with an 8% annual coupon and quarterly payment. The corporate bond, with a denomination of **1,000 EUR** (ISIN DE000A1HELE2), is being traded in the Open Market of the Frankfurt Stock Exchange. The bond is also listed on the stock exchanges in Berlin, Hamburg, Hannover, Munich and Vienna. Since listing the bond has been trading between 93% and 102.49%.

| **Selected bond information** | **%** |
|---|---|
| Opening price (04. 01. 2016) | 98.95 |
| 52-week max (28. 09. 2016 ) | 102.49 |
| 52-week min (16. 02. 2016) | 93.00 |
| **Closing price (30. 12. 2016)** | **100.50** |

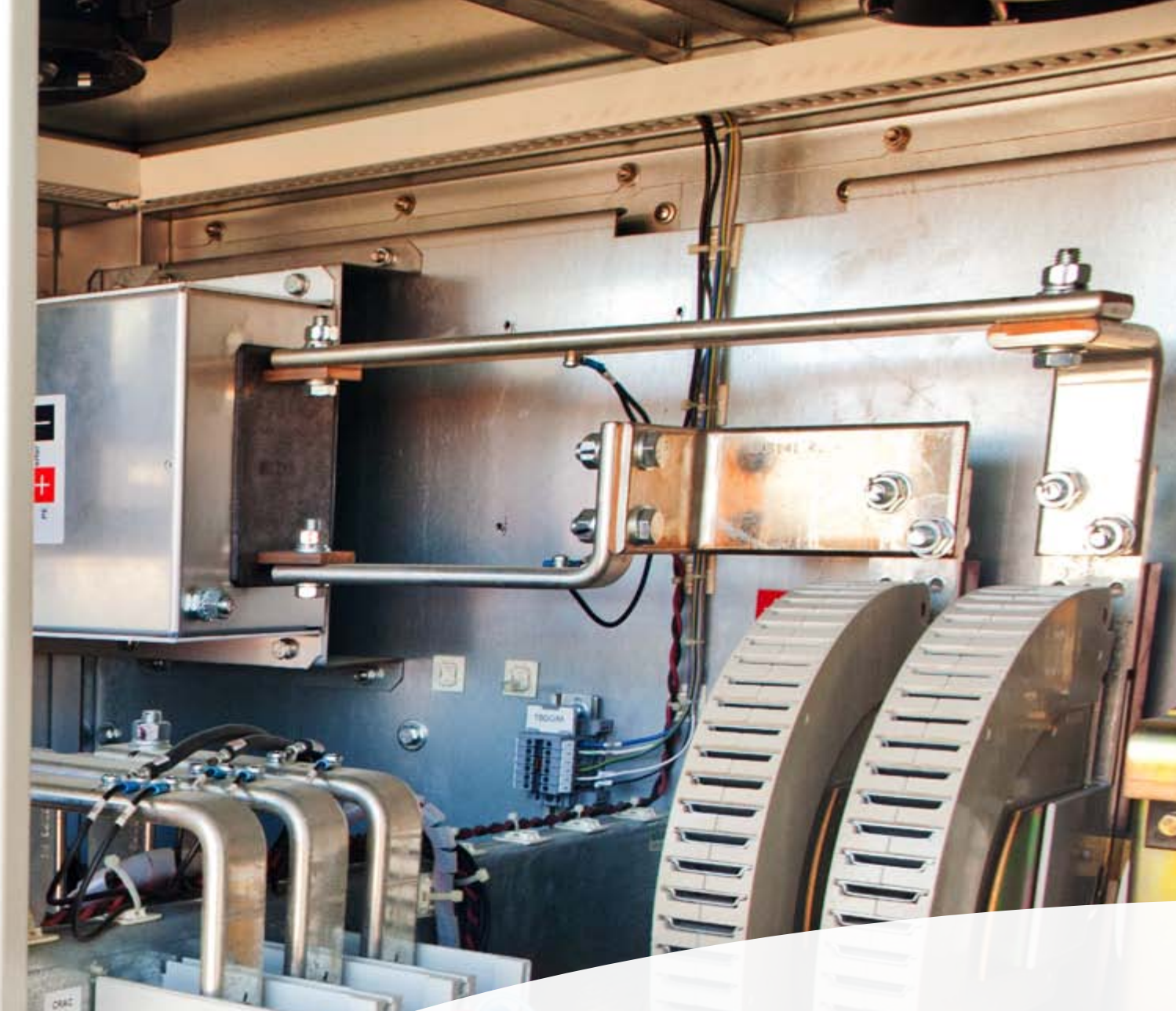
*Source:* http://www.en.boerse-frankfurt.de

### CZK Bond trading performance in Prague

In December 2016, the Company issued a 7-year corporate bond with a 6% annual coupon and monthly payment. The corporate bond, with a denomination of **30,000 CZK** (ISIN CZ0000000815), is been traded on the Free Market of the Prague Stock Exchange since December 12.

In the trading period from 12 December until 31 December 2016 the trading volume amounted to CZK 390,000 (nominal value) with a closing price of 100.00.

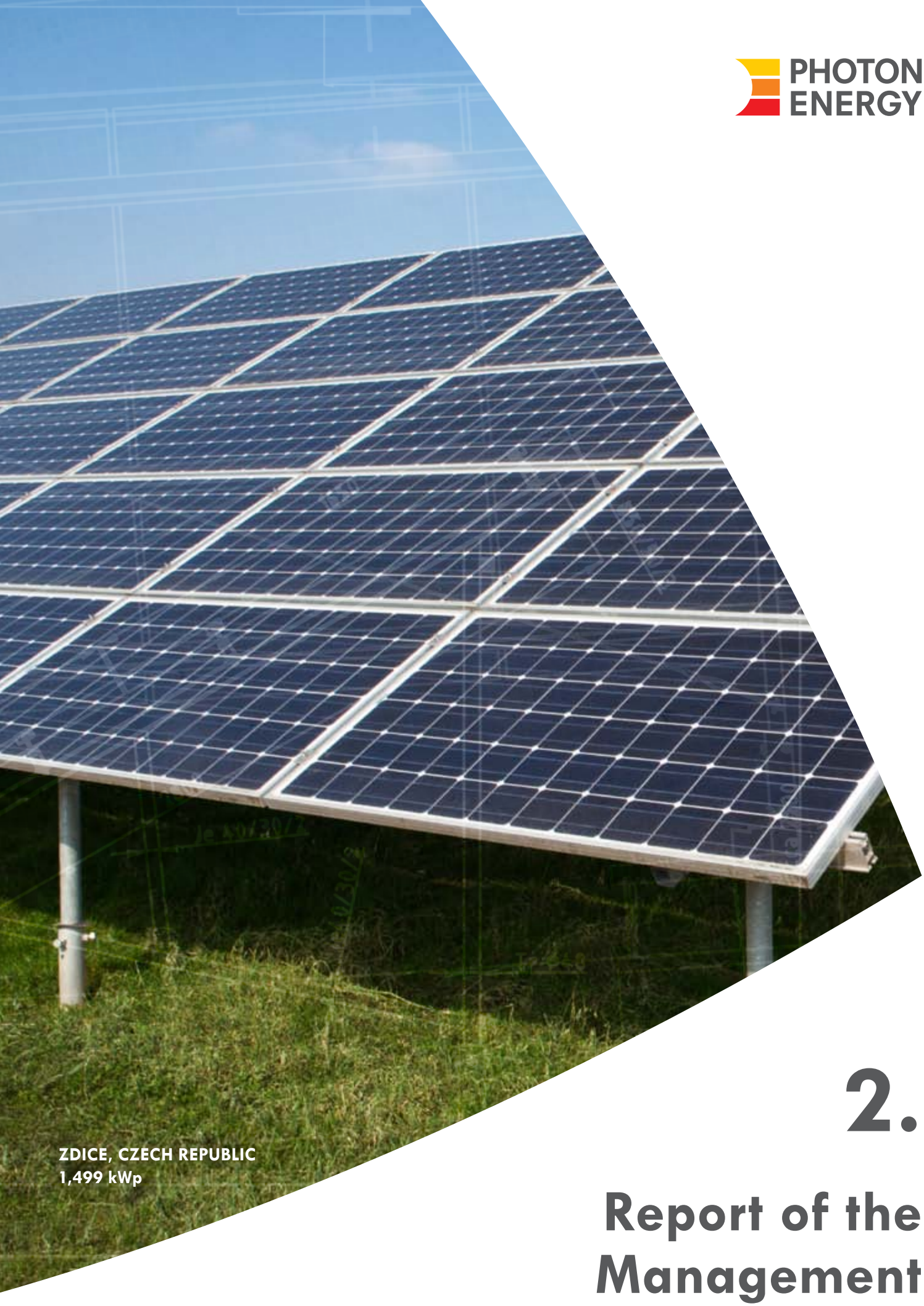

# A YEAR OF MILESTONES




In 2016 Photon Energy reached one milestone after another when it comes to Operations and Maintenance of PV power plants. Our subsidiary Photon Energy Operations signed new long-term contracts for a total of 45 MWp in Europe, making 2016 the most successful year so far.

We also signed the single biggest O&M contract in our history in 2016. In July we were thrilled to announce the take-over of operations, maintenance and monitoring of 17 PV power plants in the Czech Republic with a total capacity of 28.5 MWp. The power plants are owned by one of the leading Czech independent power producers Energy 21. One of Photon Energy's main advantages for Energy 21 was our expertise when dealing with central PV inverters, in this particular case Satcon® inverters.

Finally, new contracts added in December 2016 meant that Photon Energy crossed the 100 MWp threshold in the Czech Republic, making us currently the largest independent O&M provider in the still very heterogeneous Czech PV market. But we did not stop reaching new milestones with the end of 2016. Just after the new year 2017 we added yet more O&M contracts, bringing our total portfolio of serviced power plants worldwide to over 200 MWp.



ZDICE, CZECH REPUBLIC
1,499 kWp

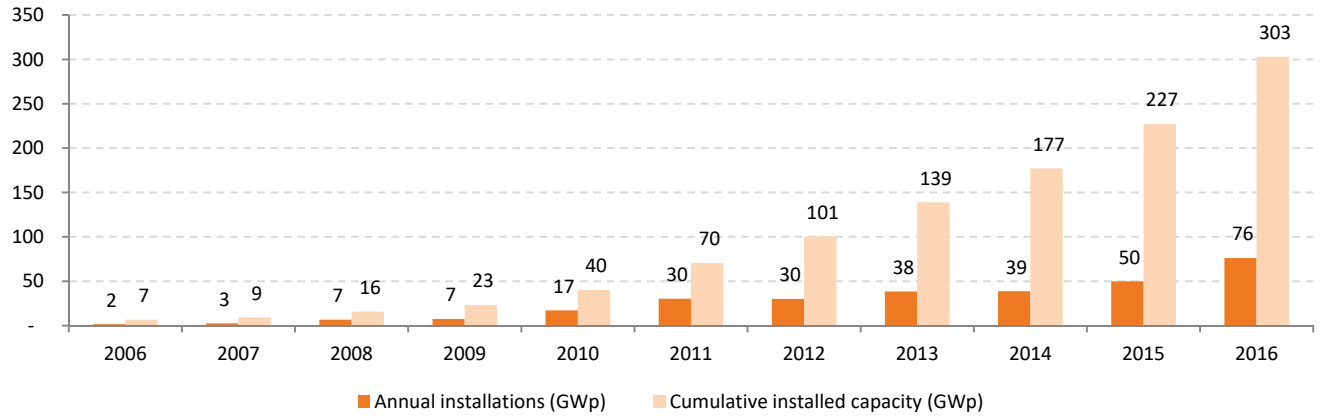
# 2.

# Report of the Management

# Market description and positioning

## Global market and regional trends in 2016[1]

### Evolution of global annual and cumulative installed capacity 2006-2016 (GWp)




**2016** marked a decade of continuous global demand growth for the solar industry. According to preliminary results published by Mercom Capital Group in November 2016, **76 GWp of PV systems would have been installed globally** (compared to, 50 GWp in 2014, 40 GWp in 2014, 38 GWp in 2013 and 30 GWp in 2012 according to the EPIA). The global PV cumulative installed capacity would then cross the **300 GWp** mark at the end of the year, which represents a 33% increase compared to the year 2015.

The PV Market Alliance's (PVMA) estimates in January 2017 confirm these preliminary numbers, putting the global solar installations in 2016 at 50% growth during the year to 75 GWp.

**In 2017**, PVMA expects the installations to slow to **65 GWp** in a pessimistic scenario, representing a market drop of 13%.

### Top 3 global countries in 2016

- **China,** leading the PV market since 2013, installed in 2016 an absolute world record of 34 GWp, representing an increase of 126% YoY and 45% of total global deployment. Given China's total installed capacity of 77GWp, PVMA estimates that China will have exceeded the 100 GWp mark by the end of 2017.
- **The USA** was the second largest global market with around 13 GWp, compared to 7.3 GWp in 2015.
- **Japan** ranked the number three with around 8.6 GWp, down 10.8 GWp in 2015.

### Evolution of European markets in 2016

European markets continued to decline, with only the U.K., Germany and France expected to have installed more than 1 GW in 2016. In 2017, France and Germany are the only European markets forecast to install more than 1 GWp.

### Evolution of US market in 2016

The US installed 13 GWp of solar PV in 2015, compared to 7 GWp in 2015

Overall, the U.S. market is projected to grow about 78% YOY in 2016. The Mercom report says utility-scale solar projects continue to drive the U.S. solar market, with an estimated pipeline of more than 30 GW. Power purchase agreements are being signed at ever-lower prices, and rapid module price declines due to the oversupply situation in China are expected to stimulate activity in the U.S. even more as project internal rates of return improve. The report says all of this could lead to a strong 2017 for the U.S.

### Evolution of Asian market in 2016

China's installed PV capacity more than doubled last year, turning the country into the world's biggest producer of solar energy by capacity. According to the Mercom report, installed PV capacity rose to 77 GW at the end of 2016, with the addition of 34 GWp over the course of the year. China targets to add more than 110 GW of capacity in the 2016 to 2020 period. Solar plants generated 66.2 billion kWh last year, accounting for one percent of China's total power generation.

Japan has installed about 8.6 GW of PV in 2016 compared to 10.8 GW in 2015. The Japanese PV market has peaked and demand is beginning to decline YoY. FIT will go through the annual revision in April 2017 and is expected to decline.

India installed experienced significant growth with 4 GW installed in 2016, up from 2 GW in 2015 and is expected to add up to 8 to 9 GW in 2017. India could become the third largest market in 2017 considering its current project pipeline.

[1] After International Energy Agency "2015 Snapshot of Global PV markets" April 2016 and Mercom Capital Group report November 2016.

### Evolution of Emerging markets in 2016

Several emerging markets on all continents started to contribute significantly to the global growth with at least 7 GWp installed. Other American and Asian countries contributed significantly while the Middle-East and Africa start to deliver.

### Evolution of Australian market in 2016

- Based upon SunWiz's analysis of Clean Energy Regulator data held in the REC Registry, Australia now hosts 1.5 million solar power systems. That's equivalent to 18% of Australian households owning a PV system.
- Australia is one of the sunniest continents in the world. The majority of photovoltaic power plants are connected to the electricity network. However, there are numerous "off-grid" solar power plants, meaning that they are independent from the electricity network – particularly in remote Australian villages. It is estimated that the solar irradiation in Australia is approximately 10,000 times higher than the annual energy consumption. Solar irradiation is especially high in Central/North-Western Australia. However, these regions are not connected to the national electricity network.
- PV contributes over 2.5% of Australia's electricity needs.
- The Australian market is unique in the world being predominantly a residential small-scale market as a result of Government policy support that has favoured such systems. One in seven Australian households benefit from solar energy.
- The country has some of the highest penetration rates of residential solar.

## Photon Energy's geographical presence

All in all, the Group commissioned nearly **50 MWp** of PV power plants across 5 countries and more than **200 MWp** of PV power plants under O&M management across two continents.

The Company's proprietary portfolio of power plants owned directly or indirectly by Photon Energy N.V. at the end of the reporting period i.e. as of 31 December 2016, consisted of 23 power plants, in the Czech Republic (15.0 MWp), Slovakia (10.4 MWp) and Australia (0.1 MWp) with a total installed capacity of 25.6 MWp.

Moreover, at the end of December 2016 the total O&M portfolio could be broken down geographically into 116 MWp operated in the Czech Republic, 21 MWp in Slovakia, 21 MWp in France, 15 MWp in Italy, 11 MWp in Romania, 2 MWp in Germany, 9 MWp in Belgium, 1.0 MWp in Bulgaria and 1 MWp in Australia with a total capacity of 197 MWp (+25% compared to one year ago). In January 2017, Photon Energy signed new contracts worth 3 MWp in the Czech Republic and now offers more than 200 MWp O&M services across Europe and Australia.

## Overview of Photon energy's markets at the end of 2016

| *in MWp* | | Proprietary portfolio | O&M Services |
|---|---|---|---|
| Czech Republic | | 15.0 | 115.8 |
| Slovakia | | 10.4 | 21.4 |
| France | | | 21.3 |
| Italy | | | 15.0 |
| Romania | | | 11.0 |
| Belgium | | | 9.2 |
| Germany | | | 1.8 |
| Australia | | 0.1 | 1.1 |
| Bulgaria | | | 1.0 |
| **Total** | | **25.6** | **197.5** |

### Czech Republic

The Czech Republic had a cumulative installed PV capacity of **2,080 MWp** at the end of December 2015 according to the IEA PVPS report published in April 2016 and should remain stable at the end of 2016.

The proprietary portfolio of Photon Energy in the Czech Republic comprises 12 photovoltaic power plants. The portfolio mainly includes green-field installations, with a total installed output of approximately **15.0 MWp**. All projects (with one exception) were connected to the network/grid in November/December 2010. Photon Energy did not commission new capacities in 2016.

The ongoing consolidation of the Czech and Slovak PV markets means that the ownership of PV power plants will be less fragmented, enhancing the conditions for a renowned O&M provider such as our subsidiary Photon Energy Operations. When current O&M clients acquire new PV plants the chances are high that – based on their good experience with Photon Energy – they will entrust the Group with the operations and maintenance of new PV power plants.

The total **O&M portfolio** operated in the Czech Republic included **115.8 MWp** (vs 68.6 MWp in December 2015) of PV capacities managed for the proprietary portfolio and external clients (118.8 MWp as of the date of this report). `

### Slovakia

The same as in 2015, Slovakia's additional capacity was inexistent in 2016, implying an unchanged cumulative capacity of around **533 MWp** at the end of December 2016. The non-transparent FiT calculations and adjustments for three years have created a largely unattractive environment for PV investors in Slovakia.

Photon Energy Group currently owns shares in 11 SPVs in Slovakia with a total installed output of approximately **10.4 MWp**. Each SPV operates one photovoltaic power plant. Photon Energy did not commission new PV capacities in 2016.

The total **O&M portfolio** operated in Slovakia includes **21.4 MWp** (unchanged compared to December 2015) of PV capacities managed for the proprietary portfolio and external clients.

### Italy

The total O&M portfolio operated in Italy comprises **15.0 MWp** (unchanged compared to December 2015) of serviced capacity.

### Germany

Formerly the top global market, the nation experienced another PV market decrease in 2016 originating from a series of cuts and changes to the nation's FIT under two successive coalition governments since 2013. Around 1 GWp were connected in Germanyin 2016 (down from 1.5 GWp in 2015), which resulted in a cumulative installed PV capacity of around 39 GWp.

In the wake of PV service providers going insolvent there is a large addressable market of PV power plants that need O&M services.

### Australia

According to the Mercom report, Australia could have installed approximately 1 GWp in 2016, implying a cumulative installed PV capacity of **6 GWp** at the end of December 2016 (vs 5 GWp in 2015)

The Company's proprietary portfolio comprised one rooftop photovoltaic power plant in Symonston with a total capacity of **144 kWp** acquired in April 2013.

In 2016, the Australian market remained our focus for the expansion of PV generation capacity.

The total O&M portfolio operated in Australia comprised **1.1 MWp** of PV plants managed for the proprietary portfolio and external client.

### Belgium

The total O&M portfolio operated in Belgium comprised **9.2 MWp** of PV plants managed for the third party. The Company is developing its O&M activity on the Belgian market as the country is currently one of largest European PV markets in terms of installed PV capacity. The team provides preventive maintenance services, called "Inverter Cardio". The name is based on the idea that a central inverter is the heart of a PV power plant and should be treated as carefully as a human heart. After the now bankrupt manufacturer Satcon (estimated capacity of 350 MWp of inverters installed across Europe), closed its operations, Photon Energy Operations secured both key personnel and access to spare parts. The Group is well positioned to offer cost-effective remote and on-site support, repair of faulty components and quick, diversified access to spare parts at competitive prices. In some countries like France or Germany the Group is holding a leading market position while in Belgium in particular, the Group is servicing all of the Satcon inverters ever installed (9.2 MWp).

### France

In 2016 Photon Energy Operations provided preventive maintenance in France on the base of contracts for Satcon central inverters at power plants worth **3 MWp**.

### Romania

In 2015 our subsidiary Photon Energy Operations full monitoring, operations and maintenance for three power plants in the North-West of the country. The power plants have a total installed capacity of 11 MWp.

## Competition

The market for PV downstream services solutions continues to become more competitive. Photon Energy's competitive landscape is comprised of internal PV departments of large utilities companies, as well as independent competitors or new entrants that may compete broadly with us or in limited segments of our market.

With the end or the reduction of incentives in some big markets, one of the main drivers for creating value in the PV sector is the improvement of operating efficiency in existing plants through operations and maintenance, an increasingly central activity for many operators in different markets.

A report from GTM Research and SoliChamba Consulting released in November 2015 states that the global market for utility-scale PV operations and maintenance (O&M) will grow to 390GW by 2020 — almost triple the estimated 133 GW at the end of 2015.

The competitive landscape of the PV O&M market is country specific, with different firms leading in each of the top solar markets.

The companies that offer O&M services are mostly: EPCs, Developers, electrical/inverter firms, vertically integrated solar firms, IPPs/utility companies and independent O&M providers.

The typical clients are solar system owners, ranging from private investors to large banks.

We believe that we are able to differentiate ourselves from these competitors by, among other things:

- Applying our more than 8 year experience to the development and delivery of products and professional services that enable our customers to overcome their challenges and achieve service differentiation by providing a personalized and intelligent customer experience, simplifying the complexity of the operating environment,
- Continuing to design and develop solution targeted specifically to the PV industry,
- Innovating and enabling our customers to adopt new business models that will improve their ability to drive new revenues, and compete and win in a changing market,
- Providing high-quality, scalable, reliable, integrated, yet modular services.

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# Basic exposures and risks

## Operating & financial risks

**Legislative, regulatory and market risks:** The economic viability of energy production using PV installations (unless when selling directly to the consumer) depends on the incentive schemes introduced which include: Feed-in-Tariff (FiT) or green certificates, an obligation to purchase the total amount of energy originated from renewable sources, preferential loans, tax holidays or even non-repayable grants. However as those measures serve the purpose of meeting the goals set by politicians in terms of national targets of energy generation mix, as such they are subject to changes resulting from shifts in political interests.

The Company experienced the introduction of such an adverse law in the Czech Republic, where the Group still holds the majority of its operations. In 2010 and 2013, the government imposed a levy on PV plants' revenues for PV plants connected in 2009 and 2010, which significantly impacted the profitability of the business. This was also the case in Italy, where cuts to the feed-in-tariff and other retroactive measures have effectively killed the Italian PV market in 2014 and led the Group to sell its two Italian plants in Q2 2015.
On the investment side the Company faces uncertainty in relation to the approval process for the construction of PV installations, grid connection and necessary permits. In particular, the Company must secure various licenses and permits to operate PV plants.

**Risks related to the Group's structure:** Because the Company conducts its business through its subsidiaries, its ability to pay dividends to shareholders depends on the earnings and cash flow of its subsidiaries and their ability to pay the Company dividends and to advance funds to it. Other contractual and legal restrictions applicable to the Company's subsidiaries could also limit its ability to obtain cash from them. The Company's right to participate in any distribution of its subsidiaries' assets upon their liquidation, reorganisation or insolvency would generally be subject to prior claims of the subsidiaries' creditors, including lenders and trade creditors.

**Risk related to personnel and property:** There will always be risks involved in the operation and installation of PV plants and the installation of PV systems for third parties. The build-up of these business areas is occurring simultaneously, thus posing high demands on management resources.

The operating risks relating to the development of PV projects and the installation and operation of PV systems include among others unexpected failure or damage to the PV panels and other technical equipment, theft or sabotage, or adverse weather conditions causing production interruptions and damage. The installation of PV systems on roofs involves specific risks such as damage to the roofs and higher wind-related stress.

**Risks related to key personnel:** The successful realisation of the business strategy and the Group's goals is significantly dependent on the knowledge, experience and contacts of the current management, especially that of the shareholders and members of the Board of Directors, Georg Hotar and Michael Gartner, who are responsible for the successful development of the Group on the basis of their knowledge of the industry and their expertise, as well as their customer contacts and strategic abilities. There is a risk that the dynamism of the commercial development will fall and/or that important know-how will be lost in the case of the resignation of either of the members of the Board of Directors. The loss of one or more managers could have a significantly adverse effect on the commercial activities and also on the asset value, financial standing and earning position of the Group.

**Environmental risk**: The business activity of the Group, particularly in the area of photovoltaic power plant construction, must comply with laws, regulations and directives valid in the location of the installation. These laws regulate e.g. emissions in the air, sewages, protection of soil and groundwater as well as health and security of people. Transgressions against these environmental provisions can be pursued according to civil, criminal and public law. Especially temporary provisions could encourage a third party to open a process or – given the circumstances – to demand costly measures to control and remove environmental pollution or to upgrade technical facilities. The properties necessary for photovoltaic power plants are partially owned by the respective SPV. It cannot be ruled out that these are contaminated sites. For removing these, the respective SPV may be responsible, regardless of the cause. This could result in liability risks and material costs in the context of administrative orders or requirements.

All the mentioned circumstances can have a negative impact on the financial situation, status and results of the individual SPVs and the Group.

**Risks related to simultaneous application of Dutch and Polish law:** Two legal systems – Dutch and Polish – may, from time to time, apply to the various legal processes related to the activities of the Company and/or to its Shares. Additional legal and/or operational risks may be connected to this situation. Because of the legal complexity and uncertainty involved, the Company's management may be currently unaware of certain legal and/or operational risks.

**Construction and performance risk:** A PV installation is based on several technical components, namely the solar panels converting sunlight into electricity, cabling, converters converting DC into AC, transformers and grid connection devices. There is always risk associated with the construction and installation of PV installations. Despite efforts made to reduce such risks, there can be no assurances that delays and cost overruns will not occur. Furthermore, the Company is partly dependent upon the ability of sub-contractors to install PV systems that meet specifications, performance parameters, quality standards and delivery schedules of the Company.

**Risk related to the technology:** The technology involved in the production of electricity using PV is characterized by rapid fundamental developments. Currently the Company does not own any patents for the technology used in relation to PV technologies. However, the development of new technology may fundamentally change the economics of electricity production plants using PV technology. For various reasons the Company may not gain access to this new technology, which may put it at a significant disadvantage to its competitors.

**Contractual risks:** The Company's business depends on contracts with multiple parties including, but not limited to, land owners, banks, investors, suppliers, contractors, energy utilities and electricity customers. Each contract normally involves a substantial value or consideration to the Company. Furthermore, some of the contracts are governed by foreign law, which may create both legal and practical difficulties in case of a dispute or conflict.

**Risk related to the expansion:** The Group focuses currently on the market in Australia. However, there is a risk that the market entry in new countries will fail or that it will not happen in the intended time period or not in the intended intensity. It is also not ensured, whether in each case new markets will be open to the building of photovoltaic power plants as assumed in the strategy as the development of the photovoltaic business can be influenced unfavourably by plenty of factors, for example by general political, economic, infrastructural, legal and fiscal framework conditions, by unexpected changes of political and regulatory conditions and tariffs, recession, limited protection of intellectual property, problems with staffing and managing of positions in foreign affiliated companies or state subsidies to rival companies. Start-up losses can also be one of the results of entering a new market. All of the aforementioned factors could have a negative impact on the development of the business activity and also on the asset value, financial standing and earnings position of the Group.

**Uninsured losses:** The development and the operation of PV installations are subject to a number of risks and hazards, including adverse environmental conditions, theft, technical failure, changes in the regulatory environment and natural phenomena such as inclement weather conditions. Although Photon Energy maintains some insurance to protect against certain of these risks, the Company's insurance will not cover all the potential risks associated with the development and operation of PV installations.

**Liquidity risks:** The Company is dependent upon having access to short- and long term funding mainly in the form of project financing. There is a risk that the Group will not be able to arrange such project financing and/or that the credit market tightens or completely dries out for the PV industry, which would have an adverse effect on the liquidity of the Group and costs of debt financing in the short term as well as growth prospects in the long term. There can be no assurance that the Group may not experience net cash flow shortfalls exceeding the Group's available funding sources. Furthermore, there can be no assurance that the Company or its subsidiaries will be able

to raise new equity, or arrange new borrowing facilities, on favourable terms and in amounts necessary to conduct its ongoing and future operations, should this be required. During the year 2014, the group managed to renegotiate the financing of its Czech & Slovak portfolios, and has therefore limited its exposure to liquidity risk.

**Credit risk:** Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, including the electricity distributors.

**Currency risk:** The Group is exposed to a currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The transactions of the Group entities are denominated in CZK, EUR and AUD. Although mainly the CZK/EUR exchange rate experienced wide fluctuations in 2013, the Group is, typically, able to collect prepayments from its customers at the time of committing itself to purchases from third parties and thus to a large extent to mitigate currency risk. There is no financial hedging used by the company against the currency risk. Company's management does not formally monitor the FX positions.

**Interest rate risks:** The Company's results are highly dependent on interest rates as a high proportion of project capital expenditure is debt financed. A substantial increase in interest rates may have a material negative impact on the project equity returns and thus profitability of the Company and returns to shareholders.

**Indebtness risk:** The Group is burdened by high level of leverage as the business model assumes financing of individual projects in the model of 80/20 debt-to-equity ratio. A significant amount of debt outstanding, results in growing financial costs which expose the Group to a risk of insufficient cash flow to service the debt payments and hence the liquidity risk. Thanks to the restructuring of its debt in the year 2014, the company has significantly improved its leverage ratios and limited its exposure to risk.

## Political, economic and other uncertainties

Changes in the regulatory, legislative and fiscal framework (including tax rules) governing the production of energy using PV installations could have a material impact on the Group's operations.

The largest uncertainty factor in the photovoltaic industry is still the regulatory framework, especially in the Eurozone states, where a large number of photovoltaic power plants have so far been built on the basis of state managed support systems (feed-in-tariffs or green certificates). The rapid growth in those markets in recent years has been largely based on regulatory framework conditions and subsidies. Without state managed subsidy programmes photovoltaic would not yet be competitive, especially in comparison with the use of conventional energy sources. Therefore, the commercial operations of the Group are influenced by the continuation of the state managed subsidy programmes for photovoltaics.

Risks especially arise from new legal regulations, which can exercise a significant influence on the demand for electricity generated from photovoltaics in the individual countries. For example, the state managed subsidy programme concerning the buyback price (feed-in-tariff) is guaranteed for a fixed period in the countries which follow this concept. The rate of remuneration depends on the country or on the valid buyback price as of the moment of the grid connection or according to the permit. The starting dates for the application of any new legal regulations are therefore of special significance. If new projects are subject to extraordinary delays, which make the grid connection possible only after such a starting date, whereby the facility's profitability was originally calculated on the basis of the previously valid buyback price, this can adversely affect the profitability of the facility in question and could result in the revenues being lower than planned or even non-existent. Moreover, it cannot be ruled out that the low income from electricity production will no longer suffice to cover the ongoing costs, in particular the financing costs, so that the Group could be forced to cover the resulting difference or to sell off the photovoltaic facility at a price below the acquisition price.

The buyback price and the subsidies for facilities which are already connected to the grid are fundamentally unaffected by new regulations. However, changes can come into effect at very short notice without any ongoing protection for investments which have already been made. It is possible that the state managed subsidies for renewable energy in general or for photovoltaics specifically in all markets will be reviewed in the courts and as such will be regarded as being against the law or reduced or abolished for some other reason. Issued consent could be revoked or the realisation of planned legislation aimed at supporting photovoltaic power may not be implemented. In addition, the introduction of changes to the state managed subsidy programmes with retroactive effect cannot be fully ruled out.

Therefore, the given regulatory framework cannot be taken for granted and temporary adjustments in the incentives schemes and national targets can be introduced ad-hoc, reflecting short-term fiscal needs of changes in the economic situation of the country. Such changes in the regulatory framework may have a material, adverse effect on the profitability of existing projects and future growth opportunities hence should be taken into consideration while assessing the risk of PV business.

Moreover, companies operating internationally are also subject to various risks including risks of war, terrorist activities, political, civil or labour disturbances and embargoes. The Company currently operates in several European Union member countries including: Czech Republic, Slovakia, Germany and Italy as well as one non-EU country – Australia. Among those we can distinguish between developed economies such as Germany and Australia with relatively stable political systems economic policies. However, most of the Group's operations are still held in Central and Eastern European countries which are still

perceived as emerging economies and hence may represent risks that are not encountered in countries with well-established economic and political systems. In addition, the legal and regulatory systems of the emerging European markets identified above may be less developed and less well enforced than in more developed countries. The Company's ability to protect contractual and other legal rights in those regions may thus be limited compared to regions with more well established markets.

## Risk policy

Minimising risks is one of the key elements of our strategy. Given our impressive track record in the PV industry we have identified some key risks and are taking appropriate measures to avoid them wherever we can.

Following retroactive measures introduced in several European countries against PV investors, Photon Energy NV took several steps to fight the risk of **legislative and regulatory risks**. Firstly, Photon Energy, together with local and international PV industry associations, is lobbying for a stable legislative framework for solar PV in Europe. Photon Energy is serving as a Best Practise Case for the media in countries, where retroactive measures have been introduced, such as the Czech Republic. At the same time Photon Energy is active in lobbying for a stable business environment at a European level. In late 2015, for example, Photon Energy was part of two delegations to the European Commission in Brussels, together with the EU-wide industry association Solar Power Europe.

Secondly, Photon Energy NV is very clear in its current strategy that for the future it will avoid government-controlled feed-in-tariff schemes where possible and aim to concentrate on providing solar power solutions for other businesses or end users. At the same time we are focussing our solar solutions business activities (building new power plants) in countries and regions where solar power is compatible with energy from the grid.

In addition to this Photon Energy has set up Global Investment Protection to safeguard existing PV installations against further retroactive measures.

In terms of **risks relating to property and technology**, we are glad to say that Photon Energy's power plants are serviced and maintained by our subsidiary Photon Energy Operations NV, which applies rigorous standards in terms of preventive maintenance and security protocol. We apply the same standards to our own power plants as we do for external customers. Thanks to our extremely high standards our power plants run at an extremely high uptime percentage and we are able to minimise revenue loss thanks to data analysis from our production monitoring, as well as regular and thorough technical check-ups of our power plants. Given our long track record of installing and operating PV installations our key technical personnel have wide ranging experiences when dealing with construction and performance risks.

Through our subsidiary Photon Energy Technology CEE s.r.o, which deals in trading of PV technology, we are always up-to-speed with developments in the solar PV industry and we are continuously communicating with leading PV technology manufacturers.

Part of our strategy is also **minimising geographical** risk. We take extreme care when evaluating new potential PV markets. In the past, we have been witnesses to rapid growth in solar PV markets (Romania, Ukraine), where Photon Energy saw too high a risk and was proven right. Photon Energy has always been cautious in our approach and in adhering to our strategy we aim to be active in markets where solar PV has already achieved grid-parity.

## Subsequent events in 2016, which had material impact on the Group's business

None.

## Future plans

We intend to grow our business in Australia and our O&M services in Europe in 2017, followed by a selective and targeted expansion into other markets with some of our business lines such as PV monitoring, inverter cardio and off-grid energy solutions. Our outlook is global and we intend to grow with the solar energy and energy management industries. See presentation of the detailed strategy in the Directors' report.

# PHOTON ENERGY BOND

**Photon Energy is offering investors in the Czech Republic the chance to profit from the global solar power boom by subscribing to our corporate bond.**

**6% annual coupon**

**Monthly payment**

**Daily liquidity***

* Bonds traded on the Prague Stock Exchange and the RM system

## TERMS AND CONDITIONS

| | |
|---|---|
| **Issuer:** | **Photon Energy N.V.** |
| Planned issue volume: | 1.050 Mio. CZK |
| Coupon / payment period: | 6% p.a. / monthly payment |
| Subscription period / initial offering: | Subscription period: 24. 11. 2016 – 11. 12. 2016 / initial offering: 12. 12. 2016 |
| Placement / segment: | Public Placement in the Czech Republic / Secondary market: Multilateral trading facility of the Prague Stock Exchange, RM System |
| Covenants: | ▪ Pari passu – Equal seniority of existing and future unsecured claims<br>▪ Cross default<br>▪ Negative pledge<br>▪ Change-of-Control clause |
| Denomination: | 30,000 CZK / 100% |
| Term / Redemption: | Seven years / 12. 12. 2023 at par |
| WKN / ISIN: | CZ0000000815 |
| Use of proceeds: | Proceeds of the issue will be invested with focus on Australia. Remaining proceeds may be used for repayment of outstanding bond (ISIN DE000A1HELE2). |

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## Financial ratios

Selected financial ratios for consolidated performance are presented below.

| Financial Ratios – Consolidated | 2014 | 2015 | 2016 |
|---|---|---|---|
| **Profitability** | | | |
| Net Profit / Revenues | -43% | -13% | -20% |
| Return on Equity (Net profit / Total equity) | -18% | -6% | -11% |
| **Return on Assets (Net profit / Total assets)** | **-5%** | **-2%** | **-3%** |
| **Liquidity** | | | |
| Quick ratio ((Cash + Account receivables)/ Current liabilities) | 0.88 | 1.06 | 1.10 |
| **Current ratio (Current Assets / Current liabilities)** | **1.07** | **1.25** | **1.46** |
| **Working Capital** | | | |
| Net Working Capital (Current assets - Current liabilities) | 646 | 2,188 | 3,646 |
| **Net Working Capital / Total Assets** | **0.01** | **0.02** | **0.04** |
| **Indebtness** | | | |
| Debt ratio (Total Debt / Total Assets) | 0.70 | 0.68 | 0.72 |
| **Debt / Equity Ratio (Total liabilities / Stockholders' Equity)** | **2.32** | **2.16** | **2.60** |

## Authorised Advisors remuneration

It was agreed with the Authorised Advisor not to disclose the amount of remuneration.

## Statutory Auditor remuneration

Total remuneration of the Company's auditor Grant Thornton Accountants en Adviseurs B.V. in the year 2016 amounted to EUR 99,000 thousand and included fees for a full-year review of 2016 financial statements.

## Total Board of Directors remuneration

The remuneration of the Board of Directors is subject to confidentiality.

## NewConnect's Best Practices applied and not applied in 2016

The Company's goal is to follow fully the corporate governance rules as formatted in the Best Practises of NewConnect Listed Companies. The Code of Best Practises accommodates opinions of market participants as well as European trends and highest communication standards applicable to companies listed in alternative trading systems in Europe.

According to the NewConnect requirements we provide the list of Best Practises applied and not applied in 2016 by our Company:

| No. | Rule | Comments |
|---|---|---|
| 1 | A company should pursue a transparent and effective information policy using both traditional methods and modern technologies and state-of the-art communication tools ensuring fast, secure, broad and interactive access to information. | Applied |
| | Using such methods to the broadest extent possible, a company should ensure adequate communication with investors and analysts using for this purpose also modern methods of Internet communication, enable on-line broadcasts of General Meetings over the Internet, record General Meetings, and publish the recordings on the company website. | Not applied due to high costs – the Company provides investors with appropriate access to information on the organisation and conduct of the General Meeting by publishing relevant EBI and ESPI reports and information on its website. |
| 2 | A company should ensure effective access to information necessary to assess the company's situation and outlook as well as its operations. | Applied |
| 3 | A company should maintain a corporate website and publish: | Applied |
| 3.1. | Basic information about the company and its business (home page); | Applied |
| 3.2. | Description of the issuer's business including indication of the issuer's business segment generating the highest revenue; | Applied |
| 3.3 | Description of the issuer's market including indication of the issuer's market position; | Applied |
| 3.4. | Professional CVs of the members of the company's governing bodies; | Applied |
| 3.5. | Information known to the Management Board based on a statement by a member of the Supervisory Board on any relationship of a member of the Supervisory Board with a shareholder who holds shares representing not less than 5% of all votes at the company's General Meeting; | Not applied – there is no Supervisory Board. |
| 3.6. | Corporate documents of the company: Statute, excerpt from the registry; | Applied |
| 3.7. | Outline of the company's strategic plans; | Applied |
| 3.8. | Published financial targets for the current financial year including their assumptions and adjustments of such targets (if targets are published by the issuer); | Not applied – the Company does not intend to publish financial forecasts due to the dynamic phase of development of the market in which the Company operates and in view of the fact that the Company is currently building up its position in this market. For this reason, the publication of any financial forecast is subject to very high level of uncertainty. |
| 3.9. | Shareholder structure, with indication of the main shareholders and the free float shares; | Applied |
| 3.10. | Contact details to the person responsible for investor relations and contacts with media; | Applied |
| 3.11. | Published current and periodic reports; | Applied |
| 3.12. | Dates of planned publication of periodic financial reports, GA, meetings with investors and analysts and press conferences; | Applied |
| 3.13. | Information on corporate events such as payment of the dividend, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles of such operations. Such information should be published within a timeframe enabling investors to make investment decisions; | Applied |
| 3.14. | Shareholders' questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions; | Applied |

| No. | Rule | Comments |
|---|---|---|
| 3.15. | Information on the reasons for cancellation of the General Meeting, changes to the date or agenda, together with the reasons; | Applied |
| 3.16. | Information about the break in the proceedings of the General Meeting together with the reasons; | Applied |
| 3.17. | Information about the entity which signed an Authorised Adviser Service Agreement with the company, including the name, the website address, telephone numbers and e-mail addresses of the Adviser; | Applied |
| 3.18. | Information about the entity acting as animator of the issuer's shares; | Applied |
| 3.19. | Information document (issue prospectus) of the company published within the last 12 months; | Applied |
| 4 | A company should publish its corporate website in Polish or in English, at the issuer's discretion. Current and periodic reports should be published on the website in the same language in which they are published according to regulations applicable to the issuer. | Applied |
| 5 | A company should pursue an information policy with a particular emphasis on the needs of individual investors. For this purpose, in addition to its corporate website, the company should use its individual investor relations section on the website www.gpwinfostrefa.pl. | Not applied – on its website the Company provides a separate investor relations section that provides individual investors with access to sufficient information about the Company. |
| 6 | An issuer should maintain on-going contacts with representatives of the Authorised Adviser in order to enable it to properly perform its obligations towards the issuer. The company should appoint a person responsible for contacts with the Authorised Adviser. | Applied |
| 7 | If an event occurs in the company, which, in the opinion of the issuer, has material significance to the performance of obligations by the Authorised Adviser, the issuer should immediately inform the Authorised Adviser thereof. | Applied |
| 8 | An issuer should give the Authorised Adviser access to all documents and information necessary to perform the obligations of an Authorised Adviser. | Applied |
| 9 | In the annual report the issuer should publish: | |
| 9.1 | Information about the total amount of remuneration of all members of the Management Board and the Supervisory Board; | Applied (not applied since 2014 after the publication of EBI report 11/2014) |
| | | There is no Supervisory Board |
| 9.2 | Information about the fee paid by the issuer to the Authorised Advisor in respect of all services provided to the issuer; | Not applied – The remuneration of the Authorised Adviser is subject to confidentiality and cannot be disclosed without the consent of both parties. The Parties have chosen not to disclose this information in order to protect their own interests. |
| 10 | Members of the Management Board and the Supervisory Board who can answer questions asked at the General Meeting should attend a General Meeting. | Applied |
| | | There is no Supervisory Board. |
| 11 | An issuer in co-operation with the Authorised Adviser should organize meetings with investors, analysts and the media open to the public at least 2 times per year. | Applied. The Company has ruled out the organisation of two online chats with investors during the year – a first one was organised in April 2016, and a second one in Nov 2016 – these meetings are open to the public. |
| 12 | A resolution of the General Meeting concerning an issue of shares with subscription rights should specify the issue price or the mechanism of setting it or obligate the competent body to set it before the date of subscription rights within a timeframe enabling an investment decision. | Applied |
| 13 | Resolutions of the General Meeting should allow for a sufficient period of time between decisions causing specific corporate events and the date of setting the rights of shareholders pursuant to such events. | Applied |
| 13a. | If the Management Board of an issuer is notified by a shareholder who holds at least a half of the share capital or at least a half of all votes in the | Applied |

| No. | Rule | Comments |
|---|---|---|
| | company that the issuer has summoned an extraordinary General Meeting pursuant to Article 399 § 3 of the Code of Commercial Partnerships and Companies, the Management Board of the issuer shall immediately perform actions it is obliged to take in organising and conducting a General Meeting. This principle shall also apply where the registration court authorises shareholders to summon an extraordinary General Meeting pursuant to Article 400 § 3 of the Code of Commercial Partnerships and Companies." | |
| 14 | The date of setting the right to dividend and the date of dividend payment should be set so to ensure the shortest possible period between them, in each case not longer than 15 business days. A longer period between these dates requires detailed grounds. | Applied |
| 15 | A resolution of the General Meeting concerning a conditional dividend payment may only contain such conditions whose potential fulfilment must take place before the date of setting the right to dividend. | Applied |
| 16 | An issuer should publish monthly reports within 14 days after the end of each month. Monthly reports should include at least the following: | Applied |
| | - information on trends and events occurring in the issuer's market environment which, in the opinion of the issuer, could in future have significant effects to the financial standing and the financial results of the issuer; | |
| | - list of all information published by the issuer in the form of current reports in the reporting period; | |
| | - information about achievement of the goals of an issue if they were achieved at least partly in the reporting period; | |
| | - dates important to investors including events planned in the coming month concerning the issuer and important from the perspective of investor rights, including in particular dates of publication of periodic reports, planned General Meetings, opening of subscriptions, meetings with investors or analysts and expected dates of publication of analytical reports. | |
| 16a. | If an issuer is in breach of the reporting obligation set out in Exhibit 3 to the Alternative Trading System Rules ("Current and Periodical Information in the Alternative Trading System on the NewConnect Market"), the issuer shall immediately publish information explaining the situation pursuant to the procedure applicable to providing current reports on the NewConnect market." | Applied |

**Announced in the Statement of the Management Board of Photon Energy N.V. on the use of the Company's corporate governance rules set by the "Good Practices of Companies Listed on NewConnect"*

## Summary of information disseminated

**Below is a summary of the key events which were important for the Issuer's business from 1 January until 31 December 2016 and which were reported in the EBI system:**

- **EBI 01/2016** published on 7 January 2016: Photon Energy sells its shares in Photon Energy Operations DE Gmbh.
- **EBI 02/2016** published on 13 January 2016: Monthly report for December 2015.
- **EBI 03/2016** published on 12 February 2016: Quarterly report for 2015 Q4.
- **EBI 04/2016** published on 15 February 2016: Monthly report for January 2016.
- **EBI 05/2016** published on 25 February 2016: Photon Energy signs O&M contract for 3.9 MWp in the Czech Republic.
- **EBI 06/2016** published on 10 March 2016: Monthly report for February 2016.
- **EBI 07/2016** published on 12 April 2016: Monthly report for March 2016.
- **EBI 08/2016** published on 13 April 2016: Change in publication dates of periodic reports in 2016.

- **EBI 09/2016** published on 13 April 2016: Q & A Chat to be held in collaboration with Polish retail investors association SII on Thursday, the 28th of April 2016 at 11:00am.
- **EBI 10/2016** published on 26 April 2016: Annual report for the year 2015.
- **EBI 11/2016** published on 26 April 2016: Convocation of the Annual General Meeting of Shareholders on 9 June 2016.
- **EBI 12/2016** published on 26 April 2016: The draft of resolutions of AGM on 9 June 2016.
- **EBI 13/2016** published on 9 May 2016: Quarterly report for 2016 Q1.
- **EBI 14/2016** published on 11 May 2016: Monthly report for April 2016.
- **EBI 15/2016** published on 9 June 2016: The Minutes of the AGM of shareholders held on 9 June 2016.
- **EBI 16/2016** published on 10 June 2016: Monthly report for May 2016.
- **EBI 17/2016** published on 14 June 2016: Photon Energy completes acquisition of remaining 40% equity interest in Fotonika s.r.o.
- **EBI 18/2016** published on 12 April 2016: Monthly report for June 2016.
- **EBI 19/2016** published on 22 July 2016: Photon Energy adds further 28.5 MWp to O&M portfolio.
- **EBI 20/2016** published on 12 April 2016: Quarterly report for 2016Q2.
- **EBI 21/2016** published on 10 August 2016: Monthly report for July 2016.
- **EBI 22/2016** published on 12 September 2016: Monthly report for August 2016.
- **EBI 23/2016** published on 19 September 2016: Photon Energy further strengthens its portfolio through the acquisition of the remaining 30% equity interest in Slovak power plant ATS Energy s.r.o.
- **EBI 24/2016** published on 21 September 2016: Photon Energy files listing application for the Free Market segment of the Prague Stock Exchange.
- **EBI 25/2016** published on 12 October 2016: Monthly report for September 2016.
- **EBI 26/2016** published on 13 October 2016: Photon Energy successfully admitted to the Free Market segment of the Prague Stock Exchange.
- **EBI 27/2016** published on 2 November 2016: Construction of a 99kWp solar power plant for a sewage treatment plant in Australia.
- **EBI 28/2016** published on 4 November 2016: Q & A Chat to be held in collaboration with the Polish retail investors association SII on Tuesday, 8 November 2016 at 11:00am.
- **EBI 29/2016:** published on 7 November 2016: Quarterly report for 2016Q3.
- **EBI 30/2016:** published on 10 November 2016: Monthly report for October 2016.
- **EBI 31/2016:** published on 23 November 2016: Approved bond prospectus.
- **EBI 32/2016:** published on 1 December 2016: Photon Energy announces 34 MWp Australian projects ready-to-build by mid-2017.
- **EBI 33/2016:** published on 8 December 2016: Photon Energy exceeds 100 MWp in the Czech Republic by adding further 8.3 MWp to its O&M portfolio.
- **EBI 34/2016:** published on 12 December 2016: Monthly report for November 2016.

**Below is a summary of the key events which were important for the Issuer's business after 31 December 2016 until the date of this report:**

- **EBI 1/2017** published on 6 January 2017: Publication dates of periodic reports in 2017.
- **EBI 2/2017** published on 11 January 2017: Monthly report for December 2016.
- **EBI 3/2017** published on 6 February 2017: Quarterly report for 2016 Q4.
- **EBI 4/2017** published on 10 February 2017: Monthly report for January 2017.
- **EBI 5/2017** published on 6 March 2017: Publication date of the annual report.
- **EBI 6/2017** published on 9 March 2017: Monthly report for February 2017.

## Statement of relations

**Statement on relations between the Issuer, its managing and supervising persons and its shareholders owning more than 5% of the Company's shares**

No Supervisory Board was established.

According to the knowledge of the Board of Directors following relations existed between the Issuer, its managing and supervising persons and its shareholders owning more than 5% of the Company's shares:

| Shareholdership as of 31.12.2016 | No. of shares | % of capital | No. of votes at the Shareholders Meeting | % of votes at the Shareholders Meeting |
|---|---|---|---|---|
| Solar Age Investments B.V. | 26,463,974 | 44.11% | 26,463,974 | 51.92% |
| Solar Future Cooperatief U.A. | 8,590,683 | 14.32% | 8,590,683 | 16.85% |
| Solar Power to the People Cooperatief U.A. | 8,051,919 | 13.42% | 8,051,919 | 15.80% |
| Photon Energy N.V. | 9,028,251 | 15.05% | 0 | 0.00% |
| Free float | 7,865,173 | 13.11% | 7,865,173 | 15.43% |
| **Total** | **60,000,000** | **100.00%** | **50,972,161** | **100.00%** |

- Mr. Michael Gartner and Mr. Georg Hotar are the only members of the Company's Board of Directors.
- Mr. Michael Gartner indirectly owns 39.3% of votes at the Shareholders Meeting, via co-operative Solar Future Coöperatief U.A., Mr. Georg Hotar indirectly owns 36.8% of votes at the Shareholders Meeting, via co-operative Solar Power to the People Coöperatief U.A and Mr. Ctibor Plachy indirectly owns 8.5% of votes at the Shareholders Meeting via both co-operatives.
- Solar Age Investments B.V., which owns 26,463,974 shares representing 51.9% of votes at the Shareholders Meeting and 44.1% of the Company's share capital, is 100% owned by Solar Future Coöperatief U.A. and Solar Power to the People Coöperatief U.A., controlled by Mr. Michael Gartner and Mr. Georg Hotar respectively. Mr. Georg Hotar is the only Director of Solar Age Investments B.V.

## Implementation of innovative activities in the Company in 2016

None in 2016.

## Material off-balance sheet items

The Group did not have any material off-balance sheet items in the year 2016.

## Further information

For more information about:

a) characteristics of the structure of assets and liabilities of the consolidated balance sheet, also from perspective of the liquidity of the Issuer's group and

b) description of the structure of main equity deposits or main capital investments made within the Issuer's group during the financial year,

Please refer to Chapter 3 – Financial section and the Company's audit.

# Board of Directors' statements

**Board of Directors' statement concerning reliability of prepared financial statement for the year 2016 and report on the Company's activity**

The Board of Directors declares that according to their best knowledge the audited consolidated IFRS financial statements, which were derived from local financial statements, were prepared in accordance with International Financial and Reporting Standards and further declares that they present a true and fair view of the Company's property and financial situation and its financial result as of the date of the publication of this report and that the report on the Report of the Management presents a fair view of the Issuer's situation, including a description of basic exposures and risks.

Michael Gartner
Director

Georg Hotar
Director

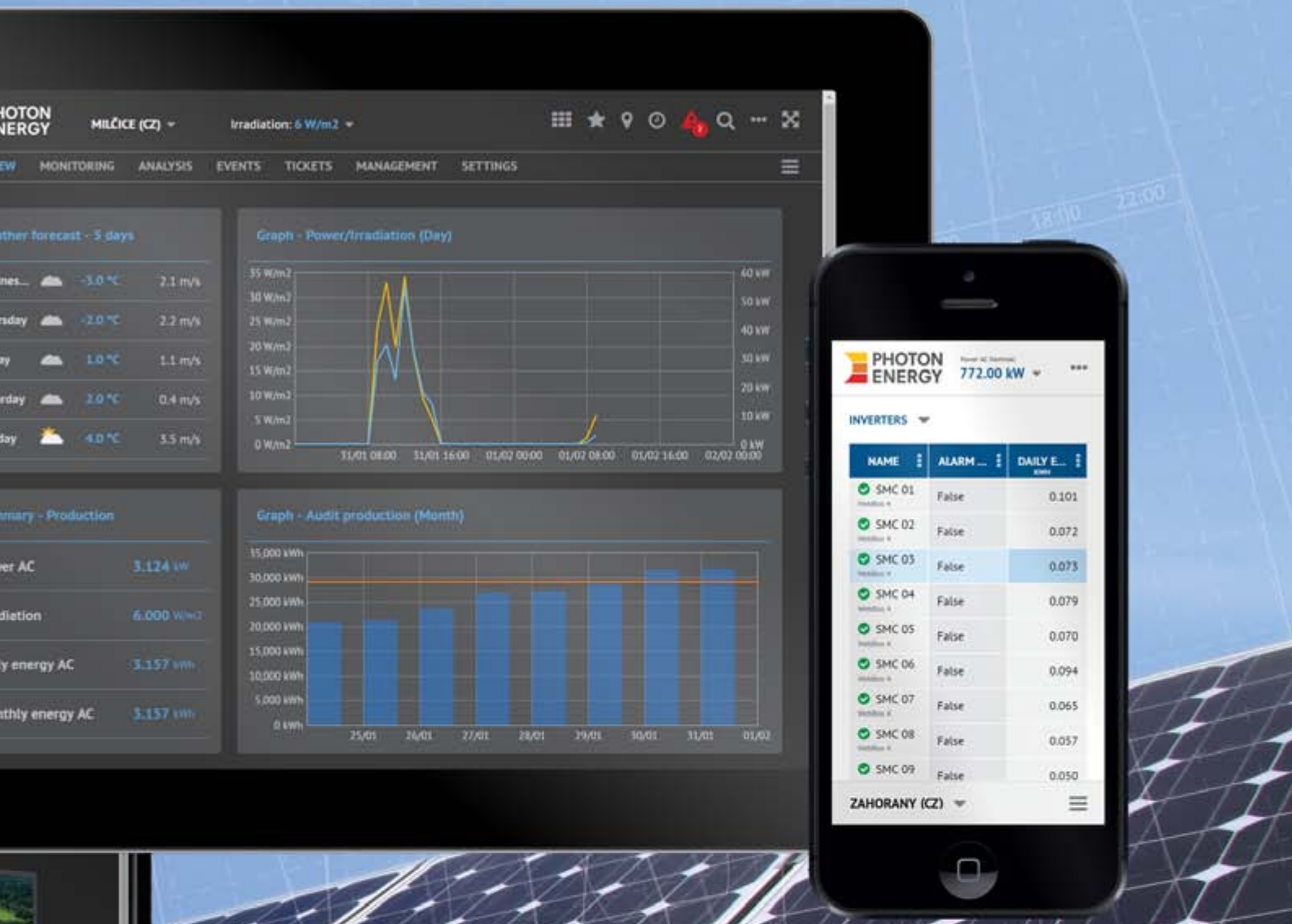
**Board of Directors' statement concerning the entity entitled to audit the annual financial statement for the year 2016**

The Board of Directors' declares that the entity authorised to audit financial statements which audited annual consolidated financial statements was selected in accordance with legal regulations and that such entity and certified auditors who audited these statements met conditions to express their impartial and independent opinion on the audit, in accordance with relevant regulations of local law.

Michael Gartner
Director

Georg Hotar
Director

# MONITORING.
# CONTROL.
# SUPERVISION.




When owning and operating PV power plants, the main currency is information. To make sure your power plants operate as they should and generate the revenue you expect, you need to be in control of their production.

In 2016 Photon Energy started the roll-out of our new control and monitoring software platform **Photon Energy Command**, or PECOM, an ideal monitoring, planning and supervision software platform for managing portfolios of PV power plants.

PECOM is designed and developed for operations, control room and dispatch centres for PV, storage and hybrid power plants. It is an easy-to-use, intuitive and highly customisable software platform with a wide range of tools, such as production analysis, ticketing systems or managing spare parts.

PECOM is the ideal tool for investors as well as operators, service technicians, team manager, but also for banks and insurance companies. For more information, head to www.photonenergy.com.

PHOTON ENERGY


FYSHWICK, AUSTRALIA
140 kWp

# 3.

# Financial Section

PHOTON ENERGY

# Financial Statements

## for the year ended 31 December 2016

# Contents

# Directors' report

# Directors' report

The directors present their report together with the annual financial statements of Photon Energy N.V. (the "Company") for the year ended 31 December 2016.

Photon Energy N.V. (the "Company") is a joint-stock company incorporated under the laws of the Netherlands on 9 December 2010. The statutory seat of the Company is Barbara Strozzilaan 201, 1083HN Amsterdam. The consolidated financial statements of the Company as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities.

The company is controlled by the following shareholders:

| *In shares* | **No. of shares** | **% of capital** |
|---|---|---|
| Solar Age Investments B. V. | 26,463,974 | 44.11% |
| Solar Future Cooperatief U.A. | 8,590,683 | 14.32% |
| Solar Power to the People Cooperatief U.A. | 8,051,919 | 13.42% |
| Photon Energy N.V. | 9,028,251 | 15.05% |
| Free float | 7,865,173 | 13.11% |
| **Total** | **60,000,000** | **100.0%** |

The Board of Directors consists of the Directors Mr. Georg Hotar and Mr. Michael Gartner.

# Developments in 2016

## Result

The total equity attributable to the owners of the Company as at 31 December 2016 amounts to EUR 24,180 thousand (2015: EUR 28,389 thousand). The total result for the year 2016 amounts to a loss of EUR 2,660 thousand (2015: loss EUR 1,720 thousand).

## Revenues and cost of sales

Revenues in 2016 decreased slightly to EUR 13,089 thousand compared to 2015, when the revenues amounted to EUR 13,321 thousand. In 2016, cost of sales decreased to 1,589 thousand from EUR 2,444 thousand in the financial year 2015.

The decrease in revenues is a result of lower revenues in the segment of energy solutions compared to the prior year, compensated by higher revenues in the segment of production of electricity and operations & maintenance.

The gross profit margin equalled to 82% in 2016 compared to 76% in 2015. The higher margin in 2016 is a consequence of lower cost of sales compared to the prior year.

## Financial income and expenses

Financial income and expenses consist mainly of interest expense. The other part of financial income and expenses represents the result from revaluation of swaps, interest income, and bank fees.

## Other comprehensive income

Other comprehensive income includes mainly change in revaluation reserve (positive effect of EUR 602 thousand coming from the acquisition of Fotonika s.r.o.), change in currency reserve (negative impact of EUR 164 thousand and change in the derivatives reserve (positive impact of EUR 205 thousand).

## Non-current assets

The decrease in fixed assets compared to 2015, is mainly influenced by the annual depreciation compensated by acquisition of 100% share in Fotonika s.r.o.

## Current assets

Current assets increased in 2016 compared to 2015, from EUR 10,930 thousand to EUR 11,556 thousand. This increase was influenced mainly by the higher inventories, higher trade receivables and higher cash.

### Total liabilities

The total liabilities include primarily:

1) Loans and borrowings
2) Trade payables
3) Bond related liability

Long-term liabilities increased by EUR 2,364 thousand. The main driver of this increase was an increase in the proceeds from bond by EUR 2,872 thousand and an increase in deferred tax liability by EUR 325 thousand. This increase was compensated by a decrease coming from the repayments of bank loans. The Group managed to decrease its current payables mainly due to decrease in trade and other payables, as well as the liability from income tax.

## Financial instruments and risk management

In 2016, financial instruments were only used to mitigate risks and were not used for trading purposes. We refer to the notes in the financial statements for more details about the company's financial instruments.

### Principle risks

The Group has exposure to the following risks:

- Credit risk,
- Sovereign
- Liquidity risk,
- Operational risk,
- Currency risk,
- Interest risk,
- Market risk.

In the notes to the consolidated financial statements, information is included about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

### Sovereign Risk

The Company's results can be adversely affected by political or regulatory developments negatively impacting on the income streams of projects in the portfolio. A number of countries have already succumbed to retroactive measures reneging on existing agreements, guarantees and legislation by imposing levies, cancelling contracts or renegotiating terms unilaterally or by other measures reducing or in the worst case cancelling Feed in Tariffs for renewable energy investments. Legal remedies available to compensate investors for expropriation or other takings may be inadequate. Lack of legal certainty exposes projects in the portfolio to increased risk of adverse or unpredictable actions by government officials, and also makes it more difficult for us to enforce existing contracts. In some cases these risks can be partially offset by agreements to arbitrate disputes in an international forum, but the adequacy of this remedy may still depend on the local legal system to enforce the award.

### Operational risk

The economic viability of energy production using photovoltaic power plants installations depends on Feed-in-Tariff (FiT) systems. The FiT system can be negatively affected by a number of factors including, but not limited to, a reduction or elimination in the FiT or green bonus per KWh produced, an elimination or reduction of the indexation of the FiT and a shortening of the period for which the FiT applies to photovoltaic installations. On the investment side the Company faces uncertainty in relation to the approval process for the construction of photovoltaic installations, grid connection and the investment cost per KWp of installed capacity. The operating and financial results of the Company can be seriously affected by a sudden or significant change in the regulatory environment in each of the countries where the Company or its subsidiaries conduct business.

During the fourth quarter of 2010, the Czech parliament and the Czech government approved several changes in the legal framework governing certain aspects of the photovoltaic and other industries. Those changes included mainly: (i) a 3 years tax levy, newly introduced into the Czech tax system, of 26% on the revenues of photovoltaic power plants above 30kW of installed capacity, completed in the years 2009 and 2010, (ii) the abolishment of a six-year corporate income tax exemption for photovoltaic power plants, and (iii) a tenfold increase of the contractual fees previously agreed between the photovoltaic power plant operators and the state Land Fund for the extraction of certain classes of land from the state fund.

In September 2013, additional prolongation of the tax levy was approved. The percentage was decreased to 10% and applicability of this tax prolonged till end of the useful economic life of the power plants. The Company reflected this change in the DCF models for Czech SPVs already as of 30 September 2013. The fair value decrease was reflected in the value of assets, related deferred tax and other comprehensive income in 2013 financial statements.

For the years 2016 and 2017 the Group opted for its Czech power plants for the currently economically more beneficial green bonus scheme instead of the feed-in-tariff.

## Currency risk

The Group is exposed to a currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities.

The transactions of the Group entities are denominated in CZK, CHF, EUR and AUD. There is no financial hedging used by the company against the currency risk. Company's management does not formally monitor the FX positions.

## Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, including the electricity distributors.

### Trade and other receivables

The Group's exposure to credit risk is influenced mainly by individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. In most cases, the Company requires advance payments (partial or 100%) for the delivery of electricity in order to minimise the credit risk. Additionally, in case of new customers, the company looks for market references of the potential customers that are available in public resources. The collections are regularly monitored by the responsible employees and any significant overdue receivables are discussed with the management of the company. Management of the company is responsible for the decision whether allowance is to be created or any other steps need to be performed.

### Cash and cash equivalents

The Group held cash and cash equivalents of EUR 5,420 thousand at 31 December 2016 (2015: EUR 5,297 thousand), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with banks and financial institution counterparties. Only those banks and financial institutions, which were approved by the members of the board of directors, can be used by the company.

Cash held by the SPVs under legal ownership of RL is restricted only for certain transactions, e.g. loan and related interest provided to those SPV's by Photon Energy N.V. is subordinated to the loan from RL and will be paid only after the repayment of the RL loan. Total amount of the cash owned by these SPVs is EUR 2,991 thousand as at 31 December 2016 (2015: EUR 4,103 thousand).

## Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

## Interest risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. It is measured by the extent to which changes in market interest rates impact on net interest expense. The Company uses interest rate derivatives for managing the interest rate risk.

Slovak SPVs, consolidated in full or by using the equity method by the Group, own interest rate derivatives used for hedging. The purpose of the derivatives is to hedge against movement of interest rates. Concluding the derivative contract was one of conditions required by financing bank as defined in the Loan contract.

The change in fair value of these derivatives is recognized via equity of the Company and the result is shown in Derivatives reserve of the Company's equity since 1 January 2012. Until then, the change in fair value of the derivatives was recorded to profit and loss.

The Czech SPVs own interest rate derivatives. Concluding the derivative contract was one of conditions required by the financing bank as defined in the Loan contract. The change in value of these derivatives is recognized via Profit and loss as they do not meet criteria for the hedging derivatives.

### Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy will unwind accordingly to the further negotiations with the Group's creditors.

The Group's net debt to adjusted equity ratio at the reporting date was as follows:

| *In thousand of EUR* | **2016** | **2015** |
|---|---|---|
| Total liabilities | 62,945 | 61,413 |
| Less: cash and cash equivalents | 5,420 | 5,297 |
| Net debt | 57,525 | 56,116 |
| Total equity | 24,180 | 28,541 |
| **Net debt to adjusted equity ratio at 31 December** | **2.38** | **1.97** |

There were no changes in the Group's approach to capital management during the year. A net debt to adjusted equity ratio shows higher indebtness of the Group.

### Selected indicators

**Debt to assets ratio (total liabilities/total assets)**

- 2016: 0.72
- 2015: 0.68

**Debt to equity ratio (total liabilities/shareholders'equity)**

- 2016: 2.60
- 2015: 2.16

**Current ratio (current assets/current liabilities)**

- 2016: 1.46
- 2015: 1.25

Debt to equity slightly worsened in 2016 compared to 2015 due to lower equity. The current ratio has improved due to lower current liabilities.

## Research and development

The Company does not perform any material research and development activities.

## Personnel

During the year, the number of staff employed by the Group was 62 (2015: 59). Management expects that the number of employees in 2016 will be similar to the previous year.

On 1 January 2014, The Management and Supervision Act came into force requiring that at least 30% of the directors is female and at least 30% is male. At this moment the company does not comply with this Act and management does not believe nominations for (re-) appointments will change this in the near future.

## Strategy for 2017 and beyond

We are pleased that in 2016 we managed to further streamline our operations by trimming our cost base and adding some 40 MWp to our Operations & Maintenance business, which took us to the market leading position in our core market in the Czech Republic. Our O&M spin-offs Photon Energy Cardio and Photon Energy Control have hit the ground running with Cardio continuously expanding its customer base across Europe and developing a state-of-the-art wireless string monitoring system while Control completed the development of its cutting edge plant monitoring and control system. In 2016 we also consolidated our portfolio by taking full ownership of the Prša (Fotonika s.r.o.) and Blatna (ATS Energy s.r.o.) plants in Slovakia and progressed materially in our project development effort in Australia, getting our projects in Leeton and Environa with a combined installed capacity of 34 MWp on track to be ready-to-build in mid-2017. While our consolidated revenues declined by 1.7% to EUR 13,089 thousand, revenue quality improved as evidenced by a 6.3% increase in EBITDA to EUR 6,532 thousand and a 13.9% improvement in EBIT to EUR 1,268 thousand. Our objective of achieving a positive bottom line remains our core challenge in 2017.

As solar energy generation is reaching cost levels competitive with black energy and energy generated from other renewable sources it is also increasingly becoming a commodity, with the know-how relating to the construction of photovoltaic plants proliferating. With our experience and know-how in operations & maintenance and specialized services we believe Photon Energy to have a competitive edge in the life cycle management of photovoltaic plants. The new frontier, however, is in the integration of energy storage systems with solar energy and other energy sources in order to reduce the intermittency of supply into the grid or to direct energy users both on and off the grid. Our award-winning off-grid installation for BAI in Muswellbrook, Australia is a valuable reference which we intend to leverage to new customers and markets, which we expect to provide significant growth potential in coming years.

Despite the global rollout of solar energy and the boost better and cheaper energy storage technologies will provide, making energy production cleaner and bringing electricity for the first time to many people all over the world, we spent countless hours looking at developing our company's mission along a grand new vision which will tackle the world's most pressing problems while providing Photon Energy with a blue ocean of opportunities. Here it is:

**Energy and Water must be Clean, Safe, Accessible and Affordable for Everyone.**

Access to sufficient supplies of drinking and for other purposes usable water is quickly developing into the world's most pressing challenge. Changing weather patterns, pollution and the

irresponsible use of ground water affect not only developing countries but increasingly threaten the largest and most developed economies. Devastating droughts in the US and the catastrophic water pollution in China are among the most visible examples, imperiling the livelihoods of tens of millions in the world's two largest economies. Across Africa, Latin America, India and many other Asian nations well over a billion people do not have access to clean and safe drinking water, resulting in millions of deaths from disease every year. Tackling this challenge to humanity alongside meeting the need for ever more energy without destroying the planet we all share is the stated mission of Photon Energy from now on.

Following our vision, in January 2017 we launched our new subsidiary Photon Water Technology as the competence centre for technologies for water purification, soil remediation and waste water treatment. While we intend to provide state-of-the-art technical solutions in all these areas on a stand-alone basis, we will strongly focus on solutions combining these with the benefits of distributed energy generation from solar and other renewable energy sources. Following our established business model we intend to cover the entire life-cycle of water technologies from project development to the engineering & construction as well as the operation & maintenance of our solutions. Whenever suitable we intend to be the owner-operators of these plants, very much as we are today with our proprietary portfolio of power plants. In other words, our business model will remain largely unchanged as we add the most important commodity to our offering, which is clean, safe, accessible and affordable water to the benefit of the communities we will serve.

Building and expanding on our experience, know-how and technical capabilities we are embarking on an exciting new path, which will take us into many new markets around the world. We will combine solar energy, energy storage and water technologies to meet the growing needs of billions of potential customers from the poorest to the richest countries in the world.

### Going concern

### Management statement

In preparing these accounts on a going concern basis, management used its best estimates to forecast cash movements over the next 12 months from the date of these accounts. As per today, management believes the Company will be able to repay its liabilities and ensure the further development of the Group.

## Subsequent events

**Sale of 35% share in Photon Water Technology s.r.o.**

31st January 2017, Photon Energy N.V. sold 35% share in the company Photon Water Technology s.r.o. for the sales price of EUR 2.5 thousands, while maintaining the control over the entity.

**Sale of 100% share in Photon Water s.r.o.**

28th February 2017, Photon Energy N.V. sold 100% share in the company Photon Water s.r.o. for the sales price limitly close to zero EUR.

Amsterdam, 13 March 2017

The Board of Directors:

Michael Gartner, Director

Georg Hotar, Director

PHOTON ENERGY

# Consolidated Financial Statements

## for the year ended 31 December 2016

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

| *In thousand of EUR* | Note | 2016 | 2015 |
|---|---|---|---|
| Revenue | 10 | 13,089 | 13,321 |
| Cost of sales | 11 | -1,5897 | -2,444 |
| Energy tax | 11 | -777 | -743 |
| **Gross profit** | | **10,723** | **10,134** |
| | | | |
| Other income | 12 | 374 | 0 |
| Administrative expenses | 14 | -1,690 | -1,639 |
| Personnel expenses | 14 | -2,241 | -2,112 |
| Other expenses | 13 | -616 | -237 |
| Depreciation | | -5,265 | -5,033 |
| **Results from operating activities** | | **1,286** | **1,113** |
| | | | |
| Finance income | 15 | 125 | 903 |
| Interest income | 15 | 42 | 72 |
| Finance costs | 15 | -55 | -132 |
| Revaluation of derivatives | 15 | -345 | 240 |
| Interest costs | 15 | -3,109 | -3,204 |
| **Net finance expenses** | | **-3,342** | **-2,121** |
| Share of profit equity-accounted investments (net of tax) | 24 | 59 | 91 |
| | | | |
| **Profit/loss before taxation** | | **-1,996** | **-918** |
| Income tax due/deferred | 16 | -653 | -589 |
| **Profit/loss for the year from continuing operations** | | **-2,649** | **-1,507** |
| Profit for the year from discontinued operations | 9 | -11 | -213 |
| **Profit/loss for the year** | | **-2,660** | **-1,720** |
| | | | |
| **Other comprehensive income (loss)** | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | | |
| Revaluation of property, plant and equipment | 23 | 602 | 0 |
| Share of revaluation of property, plant and equipment of associates/joint ventures | 23 | 0 | 0 |
| | | | |
| **Items that will be reclassified subsequently to profit or loss** | | | |
| Foreign currency translation difference - foreign operations | 23 | -164 | 803 |
| Derivatives (hedging) | 28 | 215 | 162 |
| Share of currency translation diff. Of associates / JV | 23 | 0 | 0 |
| **Other comprehensive income for the year, net of tax** | | **653** | **965** |
| | | | |
| **Total comprehensive income for the year** | | **-2,007** | **-755** |
| **Profit attributable to:** | | | |
| Attributable to the owners of the company | | -2,660 | -1,725 |
| Attributable to non controlling interest | | 0 | 5 |
| **Profit for the year** | | **-2,660** | **-1,720** |
| **Total comprehensive income attributable to:** | | | |
| Attributable to the owners of the company | | -2,007 | -760 |
| Attributable to non controlling interest | | 0 | 5 |
| **Total comprehensive income for the year** | | **-2,007** | **-755** |
| | | | |
| **Earnings per share** | | | |
| Earnings per share (basic) (in EUR) | 24 | -0.052 | -0.034 |
| Earnings per share (diluted) (in EUR) | 24 | -0.044 | -0.029 |
| Total comprehensive income per share (in EUR) | 24 | -0.034 | -0.015 |

*The notes on pages 69 to 115 are an integral part of these financial statements.*

## Consolidated statement of financial position as at 31 December

| *In thousand of EUR* | Note | 31 December 2016 | 31 December 2015 |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 17 | 73,977 | 76,827 |
| Investments in equity-accounted investees | 9.3 | 1,585 | 2,195 |
| Other investments | 18 | 8 | 1 |
| Long-term receivables | 21 | 0 | 0 |
| Deferred tax assets | | 0 | 0 |
| **Non-current assets** | | **75,570** | **79,023** |
| Inventories | 20 | 1,122 | 924 |
| Trade receivables | 21 | 1,123 | 917 |
| Other receivables | 21 | 2,150 | 3,042 |
| Gross amount due from customers for contract work | 20 | 0 | 0 |
| Current tax receivable | 21 | 0 | 0 |
| Shareholders' loans | 21 | 812 | 0 |
| Prepaid expenses | 21 | 389 | 688 |
| Cash and cash equivalents | 22 | 5,420 | 5,297 |
| Other S-T financial asset | 22 | 541 | 0 |
| Assets classified as held for sale | 8 | 0 | 61 |
| **Current assets** | | **11,556** | **10,930** |
| **Total assets** | | **87,125** | **89,953** |
| **Equity & Liabilities** | | | |
| **Equity** | | | |
| Share capital | 23 | 600 | 600 |
| Share premium | 23 | 23,760 | 23,760 |
| Revaluation reserve | 23 | 24,410 | 25,415 |
| Legal reserve fund | 23 | 13 | 10 |
| Hedging reserve | 23 | -205 | -420 |
| Translation reserve | 23 | -1,139 | -975 |
| Retained earnings | 23 | -23,260 | -20,001 |
| **Equity attributable to owners of the Company** | | **24,180** | **28,389** |
| Non-controlling interests | 23 | 0 | 151 |
| **Total equity** | | **24,180** | **28,541** |
| **Liabilities** | | | |
| Loans and borrowings | 25 | 37,551 | 38,499 |
| Other long-term liabilities | 28 | 11,410 | 8,154 |
| Other loans | 25 | 269 | 538 |
| Deferred tax liabilities | 19 | 5,806 | 5,481 |
| Long-term liability from income tax | 27 | 0 | 0 |
| **Non-current liabilities** | | **55,035** | **52,671** |
| Loans and borrowings | 25 | 3,597 | 3,569 |
| Trade payables | 26 | 619 | 1,061 |
| Other payables | 26 | 2,894 | 3,047 |
| Other Loans | 25 | 269 | 269 |
| Other short-term liabilities | 27 | 0 | 0 |
| Current tax liabilities | 27 | 305 | 747 |
| Provisions | 27 | 225 | 0 |
| Liabilities classified as held for sale | 8 | 0 | 49 |
| **Current liabilities** | | **7,910** | **8,742** |
| **Total liabilities** | | **62,945** | **61,413** |
| **Total equity and liabilities** | | **87,125** | **89,953** |

*The notes on pages 69 to 115 are an integral part of these financial statements.*

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

| *in thousand EUR* | Share capital | Share premium | Legal reserve fund | Revaluation reserve | Currency translation reserve | Hedging reserve | Retained earnings | TOTAL | Non-controlling interests | TOTAL EQUITY |
|---|---|---|---|---|---|---|---|---|---|---|
| **BALANCE at 1.1.2015** | **600** | **23,760** | **10** | **27,704** | **-1,778** | **-582** | **-21,675** | **28,038** | **147** | **28,185** |
| **Profit for the year** | **-** | **-** | **-** | **-** | **-** | **-** | **-1,725** | **-1,725** | **5** | **-1,720** |
| Revaluation of PPE | - | - | - | - | - | - | - | - | - | - |
| Share on revaluation of PPE of associates, JV | - | - | - | - | - | - | - | - | - | - |
| Foreign currency translation differences | - | - | - | - | 803 | - | - | **803** | - | **803** |
| Derivatives | - | - | - | - | - | 162 | - | **162** | - | **162** |
| Share on derivatives JV | | - | - | - | - | - | - | - | - | - |
| Move from revaluation reserve to retained earnings | - | - | - | -2,289 | - | - | 2,289 | **2,289** | - | **2,289** |
| Move to RE on entity disposal | - | - | - | - | - | - | 1,110 | **1,110** | - | **1,110** |
| **Other comprehensive income for the year** | **0** | **0** | **0** | **-2,289** | **803** | **162** | **1,674** | **350** | **5** | **355** |
| new shares | - | - | - | - | - | - | - | **0** | - | **0** |
| Transactions with owners | - | - | - | - | - | - | - | **0** | - | **0** |
| **BALANCE at 31.12.2015** | **600** | **23,760** | **10** | **25,415** | **-975** | **-420** | **-20,001** | **28,389** | **151** | **28,540** |
| **BALANCE at 1.1.2016** | **600** | **23,760** | **10** | **25,415** | **-975** | **-420** | **-20,001** | **28,389** | **151** | **28,540** |
| **Profit for the year** | **-** | **-** | **-** | **-** | **-** | **-** | **-2,660** | **-2,660** | **-** | **-2,660** |
| Revaluation of PPE | - | - | - | - | - | - | - | - | - | - |
| Share on revaluation of PPE of associates, JV | - | - | - | - | - | - | - | - | - | - |
| Foreign currency translation differences | - | - | - | - | -164 | - | - | **-164** | - | **-164** |
| Derivatives | - | - | - | - | - | 215 | - | **215** | - | **215** |
| Acquisition on JV | | - | - | 602 | - | - | - | **602** | - | **602** |
| **Other comprehensive income** | **0** | **0** | **-** | **602** | **-164** | **215** | **-2,660** | **-2,007** | **-** | **-2,007** |
| Move from revaluation reserve to retained earnings | - | - | - | -1,607 | - | - | 1,607 | **-1,607** | - | **-1,607** |
| Legal reserve fund | - | - | 3 | - | - | - | -3 | **0** | - | **0** |
| New shares | - | - | - | - | - | - | - | - | - | - |
| Move of RE due to entity disposal/change of cons. method | - | - | - | - | - | - | **-2,202** | **-2,202** | **-151** | **-2,353** |
| **BALANCE at 31.12.2016** | **600** | **23,760** | **13** | **24,410** | **-1,139** | **-205** | **-23,260** | **24,180** | **-** | **24,180** |

*The notes on pages 69 to 115 are an integral part of these financial statements.*

## Consolidated statement of cash flows for the year ended 31 December

| *In thousand of EUR* | Note | 2016 | 2015 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Profit for the year before tax** | | **-1,996** | **-918** |
| **Adjustments for:** | | | |
| Depreciation | 17 | 5,265 | 5,036 |
| Other changes in fixed assets | 17 | 0 | 0 |
| Share of profit of equity-accounted investments | 24 | -59 | -91 |
| Profit/loss on sale of property, plant and equipment | 17 | 0 | 0 |
| Other non-cash items | 24 | -412 | 589 |
| **Changes in:** | | | |
| Trade and other receivables | 21 | -104 | -457 |
| Gross amount due from customers for contract work | | 0 | 262 |
| Prepaid expenses | 21 | 299 | 130 |
| Inventories | 20 | -198 | -241 |
| Trade and other payables | 26 | -642 | -362 |
| Other liabilities | 27 | -117 | -1,091 |
| **Net cash from operating activities** | | **2,035** | **2,857** |
| | | | |
| **Cash flows from investing activities** | | | |
| Acquisition of property, plant and equipment | 9 | 0 | 0 |
| Acquisition of subsidiaries, associates, JV | 9 | -438 | 0 |
| Acquisition of other investments | 9 | 0 | 0 |
| Proceeds from sale of investments | 9 | 25 | 2,141 |
| Sale of investments- cash sold | 9 | 0 | 0 |
| Interest received | 15 | 0 | 0 |
| **Net cash used in investing activities** | | **-463** | **2,141** |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issuance of ordinary shares | | 0 | 0 |
| Proceeds from borrowings | 25 | 1,479 | 0 |
| Change in consolidation method | 25 | 1,809 | 0 |
| Repayment of borrowings | 25 | -4,337 | -4,996 |
| Proceeds from issuing bonds | 25 | 2,872 | 535 |
| Interest expenses | 25 | -3,109 | 130 |
| **Net cash from (used in) financing activities** | | **-1,286** | **-4,331** |
| | | | |
| **Net increase/decrease in cash and cash equivalents** | | **287** | **668** |
| | | | |
| **Cash and cash equivalents at 1 January** | | **5,297** | **4,631** |
| Effect of exchange rate fluctuations on cash held | | -164 | 0 |
| **Cash and cash equivalents at 31 December** | | **5,420** | **5,297** |

*The notes on pages 69 to 115 are an integral part of these consolidated financial statements.*

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2016

# 1. Reporting entity

Photon Energy N.V. ("Photon Energy" or the "Company") is a joint-stock company incorporated under the laws of Netherlands on 9 December 2010. The statutory seat of the Company is Barbara Strozzilaan 201, 1083HN Amsterdam. The consolidated financial statements of the Company as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities.

The Group is engaged in the development of photovoltaic power plants. This activity involves securing suitable sites by purchase or long-term lease, obtaining all licenses and permits, the design, installation of photovoltaic equipment, financing, operations and maintenance. Photon Energy pursues a comprehensive strategy of focusing both on green-field and rooftop installations while trying to cover the largest possible part of the value chain and lifecycle of the power plant.

# 2. Basis of preparation

## 2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union ("EU IFRSs") and title 9 Book 2 of the Netherlands Civil code. It represents the international accounting standards adopted in the form of European Commission Regulations in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council.

The consolidated financial statements were authorised for issue by the Board of Directors on 13 March 2017.

### Going concern

### Management statement

In preparing these accounts on a going concern basis, management used its best estimates to forecast cash movements over the next 12 months from the date of these accounts. As per today, management believes the Company will be able to repay its liabilities and ensure the further development of the Group.

## 2.2 Basis of measurement

The consolidated financial statements have been prepared on historical cost basis except for the following material items in the statement of financial position:

- Property, plant and equipment – photovoltaic power plants are measured at revalued amounts (for revaluation details refer to the note 23)
- Investments in equity instruments accounted for using the equity method

## 2.3 Functional currency

These financial statements are presented in EUR.

The functional currencies used in the Group are CZK for Czech subsidiaries, EUR for Dutch, German and Slovak companies, CHF for Swiss subsidiary and AUD for Australian subsidiaries. All financial information presented in EUR has been rounded to the nearest thousand.

## 2.4 Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with EU IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Significant management judgement is used in key assumptions applied discounted cash flow projections related to the valuation of the photovoltaic power plants (refer to Note 5.1) and in case of professional judgment and internal knowledge of the customer related to the creation of the allowance for bad and doubtful debts (refer to Note 28.2).

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 5.1 – key assumptions used in discounted cash flow projections related to the valuation of the photovoltaic power plants
- Note 28.2 – professional judgment and internal knowledge of the customer related to the creation of the allowance for bad and doubtful debts

# 3. Application of new and revised EU IFRSs

## 3.1 New and revised EU IFRSs affecting amounts reported in the current year (and/or prior years)

The following new and revised EU IFRSs have been applied in the current period and have affected the amounts reported in the financial statements.

**IFRS 15 Revenue**

Effective from annual periods beginning on or after 1 January 2018 the core principle of IFRS 15 is that an entity will recognize revenue to reflect the transfer of goods or services, measured as the amount to which the entity expects to be entitled in exchange for those goods or services. In particular, the new standard requires distinct goods or services to be accounted for separately, which may have a significant impact on the timing of revenue and profit recognition. While the overall principles will sound familiar, IFRS 15 includes a significant amount of guidance on many issues that arise in determining the appropriate timing and measurement of revenue. Finally, the new standard also requires significant disclosures relating to the reporting of revenue, and entities will need to ensure that they can gather the appropriate information in a timely manner.

**IFRS 16 Leases**

Effective from annual periods beginning on or after 1 January 2019 lessees are required to account for all leases on their balance sheets, including those which had previously been treated as operating leases and accounted for in the P&L account as an "in-year" expense. This will include leases of retail and commercial property, equipment and vehicles.

**IFRS 9 Financial instruments**

On 24 July 2014, IASB issued IFRS 9 Financial instruments. This is the final version of the Standard and supersedes all previous versions. The standard has a mandatory effective date for annual periods beginning on or after 1 January 2018, with earlier application permitted.

## 3.2 New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised EU IFRSs that have been issued but are not yet effective (dates in brackets shows effective date):

- IAS 19 Employee Benefits (January 2016)
- Amendments to IFRS 7 Financial Instruments: Disclosures (January 2018)
- IFRS 15 Revenue (January 2017)
- IFRS 16 Leases (January 2019)

The Group does not plan to adopt these standards early and the extent of the impact has not been determined as management believes is will not have a significant impact.

# 4. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

## 4.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

### 4.1.1 Business combinations

Acquisition of businesses is accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognized in profit or loss as incurred.

### 4.1.2 Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Income and expenses and other comprehensive income of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with Group accounting policies.

### 4.1.3 Special purpose entities

The Group includes special purpose entities (SPEs). The Group does not have any direct or indirect shareholdings in these entities. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. SPEs controlled by the Group were established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in the Group receiving the majority of the benefits related to the SPEs' operations and net assets, being exposed to the majority of risks incident to the SPEs' activities, and retaining the majority of the residual or ownership risks related to the SPEs or their assets.

SPEs currently include entities owned by Raiffeisen – Leasing s.r.o. ("RL"). All these SPEs are financed by RL.

Based on new contractual agreements, the Company has the right to apply a call option for purchase of a 100% share in the RL SPVs in case of full repayment of external loans, security loans, and all the other financial liabilities of PENV towards RL and the Financing bank, plus payment of the future purchase price for the transfer of share in the SPEs.

See the list of SPEs in note 30.

### 4.1.4 Loss of control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising from the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

### 4.1.5 Investments in associates and jointly controlled entities (equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds 20 percent or more of the voting power of another entity. Joint ventures are arrangements that the Company controls jointly with one or more other investors, and over which the Company has rights to a share of the arrangements net assets rather than direct rights to underlying assets and obligations for underlying liabilities.

Investments in associates and jointly controlled entities are accounted for using the equity method (equity-accounted investees) and are recognized initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

### 4.1.6 Transactions eliminated on consolidation

Regarding subsidiaries all intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Regarding equity-accounted investees (see note 4.1.5) part of a margin on sales to these entities is eliminated. This part is calculated as a percentage of margins equal to the percentage of the entity's shares owned by the Group.

## 4.2 Foreign currency

### 4.2.1 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity investments.

### 4.2.2 Foreign operations

The assets and liabilities of foreign operations (those in the Czech Republic, Switzerland and Australia as of 31 December 2016) are translated into Euro at exchange rates at the reporting date. The income and expenses of foreign operations are translated into Euro at exchange rates at the dates of the transactions.

### 4.2.3 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

## 4.3 Financial instruments

Financial instruments are only used to mitigate risks and are not used for trading purposes.

### 4.3.1 Non-derivative financial assets

The Group initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

#### Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash balances on bank accounts and cash on hand and call deposits with original maturities of three months or less.

#### Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

Available-for-sale financial assets comprise other shares, where the Group holds less than 20% of the voting power and the Group has no control, joint control or significant influence over the investee.

### 4.3.2 Non-derivative financial liabilities

The Group initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

### 4.3.3 Share capital

#### Ordinary shares

Ordinary shares are classified as equity. Consideration received above the nominal value of the ordinary shares is classified in equity as Share premium. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

### 4.3.4. Derivative financial instruments

The Slovak SPVs own interest rate derivatives used for hedging. The purpose of the derivatives is to hedge against movement of interest rates. Concluding the derivative contract was one of the conditions required by the financing bank as defined in the loan contract. The change in value of these derivatives is recognized via the equity of the Company and the result is shown in the derivatives reserve of the Company's equity since 1 January 2012. Until then, they were recognized via profit and loss.

The required documentation has been prepared and derivatives were successfully tested for effectiveness.

The Czech SPVs own interest rate derivatives. Concluding the derivative contract was one of the conditions required by the financing bank as defined in the loan contract with the fixed interest rate of 5.19%. The change in value of these derivatives is recognized via the profit and loss as they do not meet criteria for hedging derivatives.

## 4.4 Property, plant and equipment

### 4.4.1 Recognition and measurement

Photovoltaic power plants are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed at sufficient regularity so that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period. The need for revaluations is assessed every quarter.

For fair value determination see note 5.1.

Any revaluation surplus arising on the revaluation of such photovoltaic power plant is recognized in other comprehensive income and accumulated in equity, except to the extent that the surplus reverses a revaluation deficit on the same asset previously recognized in profit or loss. Any deficit on the revaluation of such photovoltaic power plants is recognized in profit or loss except to the extent that it reserves a previous revaluation surplus on the same asset, in which case the debit to that extent is recognized in other comprehensive income.

Photovoltaic power plants, which the Company consolidates, in the course of construction are carried at cost, less any recognized impairment loss. The cost of self-constructed assets includes the cost of materials and direct labor plus any other costs directly attributable to bringing the assets to a working condition for their intended use and capitalized borrowing costs. Such properties are reported as Property, plant, equipment - Assets in progress and are classified to Property, plant and equipment - Photovoltaic power plants when completed and ready for use. These assets are completed and ready for use when the power plant is connected to the electricity network and all technical parameters necessary for electricity production are completed. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Additional costs capitalized in the value of the asset are included in the regular review of power plants value as done on quarterly basis.

The costs of maintenance, repairs, renewals or replacements which do not extend productive life are charged to operations as incurred. The costs of replacements and improvements which extend productive life are capitalized. The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably.

Included in the property plant and equipment are non separable intangible assets mainly relating to the rights to build and operate photovoltaic power plants in a specific country. Because the items are non separable, the rights are included in property, plant and equipment.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The gain or loss on disposal of an item of fixtures and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognized net within other income/other expenses in profit or loss.

### 4.4.2 Depreciation

Depreciation is recognized so as to write off the costs or revalued amount of property, plant and equipment (other than land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Depreciation of revalued photovoltaic power plants is recognized in profit or loss. Every quarter the amount equal to the difference between depreciation based on the revalued carrying amount of photovoltaic power plants and depreciation based on asset's original cost is transferred directly to retained earnings. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Land is not depreciated.

The estimated useful lives for the current and comparative years are as follows (based on the professional judgement combining the Feed in Tariff period and useful estimated live of the components and technology used in the power plants):

- Photovoltaic power plants 20 years
- Fixtures and equipments 3–10 years

## 4.5 Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

## 4.6 Impairment

### 4.6.1 Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

**Loans and receivables**

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognized. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

**Available-for-sale financial assets**

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognized previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

### 4.6.2 Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

A CGU corresponds to the individual power plant operated by the legal entity. In 2016, the legal entity owns always only one power plant.

The recoverable amount of an asset or CGU is the greater of its value in use and its selling price less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount

does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

## 4.7 Non-current assets held for sale or distribution

Non-current assets held for sale or distribution comprises assets and liabilities, which are expected to be recovered primarily through sale or distribution rather than through continuing use. Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are re-measured in accordance with the Group's accounting policies. Thereafter, generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, which continue to be measured in accordance with the Group's accounting policies.

Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on re-measurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Once classified as held for sale or distribution, intangible assets and property, plant and equipment are no longer amortised or depreciated.

## 4.8 Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

### 4.8.1 Warranties

A provision for warranties is recognized when the underlying services are sold, i.e. when the construction contracts are finished. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

## 4.9 Revenue

### 4.9.1 Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement (e.g. Incoterms conditions).

### 4.9.2 Services

Revenue from services (e.g. maintenance, technical-administrative; installation) rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

### 4.9.3 Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognized as incurred unless they create an asset related to future contract activity.

The stage of completion is measured by reference to the contract costs incurred up to the reporting date as a percentage of total estimated costs for each contract. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in profit or loss.

### 4.9.4 Sale of electricity

Revenues from sale of electricity are coming from the sale of electricity produced and sold to the local electricity distributor. After the end of each month, the production reports are downloaded from the monitoring system and based on the data from the report, the invoices are issued. The revenues are recognized in accordance with the delivered electricity.

## 4.10 Finance income and finance costs

Finance income comprises interest income on loans and net foreign currency gains. Interest income is recognized in profit or loss using the effective interest rate method.

Finance costs comprise interest expense on borrowings, bank account fees and net foreign currency losses. Interest expense is recognized using the effective interest rate method.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss. Borrowing costs incurred by the Group directly attributable to the construction of power plants is capitalized in the cost of the related asset until the date of its completion.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

## 4.11 Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax liability is recognized for assets revaluation reported in other comprehensive income and other temporary differences. Assets revaluation represents the revaluation of photovoltaic power plants described in note 4.4.1.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## 4.12 Earnings per share

The Group uses ordinary shares only. The Group presents basic earnings per share and total comprehensive income per share data.

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

Total comprehensive income per share is calculated by dividing the total comprehensive income attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

## 4.13 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's management and directors to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's office premises), head office expenses, and other minor expenses non-allocable to the any of the segments.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

# 5. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

## 5.1 Property, plant and equipment

The fair value of items of plant, equipment, fixtures and fittings is based on the market approach, using quoted market prices for similar items when available, or the income approach (an internally generated discounted cash-flow model) if there is no market based evidence of the fair value. Otherwise, the depreciated replacement cost approach will be used, when appropriate. The depreciated replacement cost estimates reflect adjustments for physical deterioration as well as functional and economic obsolescence.

For photovoltaic power plants market prices are not available. Therefore, the income approach is used. Under this approach the fair value of photovoltaic power plants was in previous years based on an internally generated discounted cash flow model, discounted at weighted average cost of capital. Cash flows were calculated for the period equal to the duration of the Feed-in-Tariff (period with guaranteed sales prices) in a given country and based on the expected after tax cost of debt and expected cost of equity. On a quarterly basis, management reviewed the expected debt costs of individual projects vis-a-vis actual interest cost, financial market conditions, and interest rate for a 15-year state bond. On a quarterly basis, management also reviewed expected cost of equity for the period of the cash flow model. The initial valuations were done as of the date of put in use of an individual power plant, and each model is periodically reviewed and any potential change in inputs is considered. The cash flow projections were prepared for 20 years in Czech Republic and 15 years in Slovak Republic, equal to the duration of the projects. Main inputs used in the models are the following: overall project budget, taxes, interest rates, reserve funds, feed in tariff, OPEX.

- The valuation for Czech SPVs (represented by option rights) was approximated by the current Project Value. Moreover the valuation was based on Unlevered Free Cash Flow to Firm (FCFF) basis of the SPVs. The FCFF calculation used in the valuation was consistent with the overall known definition and approaches.
- The valuation of the Slovak SPVs was based on the Unlevered Free Cash Flow to Firm (FCFF) basis of the SPVs. The discount rate was based on the Capital Asset Pricing Model ("CAPM"). The CAPM is used to determine the appropriate required rate of return of an asset, if that asset is to be added to an already well-diversified portfolio, given that asset's non-diversifiable risk.

The revaluation reserve created, based on the DCF models, was annually released to the retained earnings in the amount equal to the depreciation calculated from the amount of revaluation.

### Changes in valuation methodology in 2014

During summer 2014 the Group managed to change various conditions of senior bank financing at the project level. These changes consisted mainly of debt increase, changes in interest rates, changes in reserve accounts and in some cases extension of loan tenor (i.e. changes in debt repayment schedule). In addition to changes in project finance there were major changes in inputs for SK Portfolio and IT Portfolio that were not reflected in the old valuation models. These changes were imposing a new grid connection fee for Slovak projects and change in Feed in tariff mechanism for Italian projects.

Moreover the old methodology based on DCF Entity with not adjusting discount rates due to capital structure change tended to provide less accurate results on the value by DCF. Therefore the DCF Equity method with clear cash streams available to shareholders was chosen to provide significantly more accurate results, because all the changes in financing structure and related interest/principal payments are reflected undistorted.

### Changes in the valuation methodology

The DCF Equity valuation method is based on a Discounted Cash Flow method. This method includes the future cash flows available to the shareholders/providers of equity of photovoltaic projects (i.e. after all debt repayments and interests) that are later discounted by respective discount rates. On the contrary the old model was based on DCF Entity and included future cash flows available to the company.

The new valuation of the project keeps in mind the risk profile of future cash flows and the way the project is financed. The risk profile is represented by a discount rate (cost of equity levered). Due to existence of senior project finance the cost of equity calculated by CAPM formula is adjusted by Miller-Modigliani formula to achieve the most precise cost of equity levered for each project respecting it unique capital structure. On the contrary the old model used unchanging WACC as the cost of capital.

Another change of the valuation model is the change in discounting frequency. In the new valuation model, a quarterly discount is applied. This is based on the fact that debt repayments are happening on quarterly basis. This is effecting the overall change in financing structure and indirectly effecting cost of equity levered. On the contrary the old model discounted a yearly cash flow (mid-year convention).

Result of the revaluation based on the above described change amounted to EUR 6,581 thousand in 2014.

This methodology and input parameters have not been changed in 2016.

### 5.2 Inventories

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

### 5.3 Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, but including service concession receivables, is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

### 5.4 Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value (estimated at the present value of the future cash outflows discounted by effective interest rate) plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. For finance leases the market rate of interest is determined by reference to similar lease agreements.

## 6. Financial risk management

### 6.1 Risk management framework

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

### 6.2 Sovereign Risk

The Company's results can be adversely affected by political or regulatory developments negatively impacting on the income streams of projects in the portfolio. A number of countries have already succumbed to retroactive measures reneging on existing agreements, guarantees and legislation by imposing levies, cancelling contracts or renegotiating terms unilaterally or by other measures reducing or in the worst case cancelling Feed in Tariffs for renewable energy investments. Legal remedies available to compensate investors for expropriation or other takings may be inadequate. Lack of legal certainty exposes projects in the portfolio to increased risk of adverse or unpredictable actions by government officials, and also makes it more difficult for us to enforce existing contracts. In some cases these risks can be partially offset by agreements to arbitrate disputes in an international forum, but the adequacy of this remedy may still depend on the local legal system to enforce the award.

### 6.3 Operational risk

The economic viability of energy production using photovoltaic power plants installations depends on Feed-in-Tariff (FiT) systems. The FiT system can be negatively affected by a number of factors including, but not limited to, a reduction or elimination in the FiT or green bonus per KWh produced, an elimination or reduction of the indexation of the FiT and a shortening of the period for which the FiT applies to photovoltaic installations. On the investment side the Company faces uncertainty in relation to the approval process for the construction of photovoltaic installations, grid connection and the investment cost per KWp of installed capacity. The operating and financial results of the Company can be seriously affected by a sudden or significant change in the regulatory environment in each of the countries where the Company or its subsidiaries conduct business.

During the fourth quarter of 2010, the Czech parliament and the Czech government approved several changes in the legal framework governing certain aspects of the photovoltaic and other industries. Those changes included mainly: (i) a 3 years tax levy, newly introduced into the Czech tax system, of 26% on the revenues of photovoltaic power plants above 30kW of installed capacity, completed in the years 2009 and 2010, (ii) the abolishment of a six-year corporate income tax exemption for photovoltaic power plants, and (iii) a tenfold increase of the contractual fees previously agreed between the photovoltaic power plant operators and the state Land Fund for the extraction of certain classes of land from the state fund.

In September 2013, additional prolongation of the tax levy was approved. The percentage was decreased to 10% and applicability of this tax prolonged till end of the useful economic life of the power plants. The Company reflected this change in the DCF models for Czech SPVs already as of 30 September 2013. The fair value decrease was reflected in the value of assets, related deferred tax and other comprehensive income in 2013 financial statements.

For the years 2016 and 2017 the Group opted for its Czech power plants for the currently economically more beneficial green bonus scheme instead of the feed-in-tariff.

### 6.4 Currency risk

The Group is exposed to a currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities.

The transactions of the Group entities are denominated in CZK, CHF, EUR and AUD. There is no financial hedging used by the company against the currency risk. Company's management does not formally monitor the FX positions.

## 6.5 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, including the electricity distributors.

### Trade and other receivables

The Group's exposure to credit risk is influenced mainly by individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. In most cases, the Company requires advance payments (partial or 100%) for the delivery of electricity in order to minimise the credit risk. Additionally, in case of new customers, the company looks for market references of the potential customers that are available in public resources. The collections are regularly monitored by the responsible employees and any significant overdue receivables are discussed with the management of the company. Management of the company is responsible for the decision whether allowance is to be created or any other steps need to be performed.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

### Cash and cash equivalents

The Group held cash and cash equivalents of EUR 5,420 thousand at 31 December 2016 (2015: EUR 5,297 thousand), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with banks and financial institution counterparties. Only those banks and financial institutions, which were approved by the members of the board of directors, can be used by the company.

Cash held by the SPVs under legal ownership of RL is restricted only for certain transactions, e.g. loan and related interest provided to those SPV's by Photon Energy N.V. (originally by Phoenix Energy a.s.) is subordinated to the loan from RL and will be paid only after the repayment of the RL loan. Total amount of the cash owned by these SPVs is EUR 2,991 thousand as at 31 December 2016 (2015: EUR 4,103 thousand).

## 6.6 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

## 6.7 Interest risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. It is measured by the extent to which changes in market interest rates impact on net interest expense. The Company uses interest rate derivatives for managing the interest rate risk.

Slovak SPVs, consolidated in full or by using the equity method by the Group, own interest rate derivatives used for hedging. The purpose of the derivatives is to hedge against movement of interest rates. Concluding the derivative contract was one of conditions required by financing bank as defined in the Loan contract.

The change in fair value of these derivatives is recognized via equity of the Company and the result is shown in Derivatives reserve of the Company's equity since 1 January 2012. Until then, the change in fair value of the derivatives was recorded to profit and loss.

The Czech SPVs own interest rate derivatives. Concluding the derivative contract was one of conditions required by the financing bank as defined in the Loan contract. The change in value of these derivatives is recognized via Profit and loss as they do not meet criteria for the hedging derivatives.

### Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy will unwind accordingly to the further negotiations with the Group's creditors.

The Group's net debt to adjusted equity ratio at the reporting date was as follows:

| *In thousand of EUR* | **2016** | **2015** |
|---|---|---|
| Total liabilities | 62,945 | 61,413 |
| Less: cash and cash equivalents | 5,420 | 5,297 |
| Net debt | 57,525 | 56,116 |
| Total equity | 24,180 | 28,541 |
| **Net debt to adjusted equity ratio at 31 December** | **2.38** | **1.97** |

There were no changes in the Group's approach to capital management during the year. A net debt to adjusted equity ratio shows higher indebtness of the Group.

# 7. Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's management and directors to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

The Company´s Management has assessed the Group´s business from the segment reporting perspective and decided that the financial results of Photon Energy Group to be reported per segments from 1 January 2010.

As of 31 December 2013, Management Board has decided to decrease the number of segments reported:

The Management identified the following segments:

- Energy Solutions (wholesale and import of FVE components, engineering and construction services -turn-key photovoltaic systems' installations for external clients and Photon Energy),
- Production of electricity (includes SPE that finished building of photovoltaic power plants and those are connected to the distribution network and produce the electricity)
- FVE Investment – This segment represents OCI of the Group flowing from the revaluation of the FVE producing the electricity and it is related to project companies that generate the revenues as shown in segment Production of electricity.
- Operations, maintenance and PVPP supervision
- Other, not related to any of the above mentioned segments.

Other operations include the financing and insurance solutions for PV investors, intermediating investments in rooftop photovoltaic projects and other less significant activities. None of these operations meets any of the quantitative thresholds for determining reportable segments in 2016 or 2015.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit after income tax, as included in the internal management reports that are reviewed by the Group's chief operating decision maker. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

# 7. Operating segments (continued)

## Information about reportable segments

### Operating segments for the period from 1 January 2016 to 31 December 2016

| *in Thousand EUR* | Energy Solutions | Production of electricity | Operations, maintenance and PVPP supervision | FVE Investments | Other | Total for segments | Elimination | Consolidated financial information |
|---|---|---|---|---|---|---|---|---|
| External revenues from the sale of products, goods and services | 774 | 10,869 | 1,445 | 0 | 0 | 13,089 | 0 | 13,089 |
| Revenues within segments from the sale of products, goods and services | 388 | 0 | 1,286 | 0 | 3,227 | 4,901 | -4,901 | 0 |
| Cost of sale | -656 | -928 | -885 | 0 | -11 | -2,480 | 891 | -1,589 |
| Energy tax | 0 | -777 | 0 | 0 | 0 | -777 | 0 | -777 |
| **Gross profit** | **506** | **9,164** | **1,847** | **0** | **3,216** | **14,733** | **-4,010** | **10,723** |
| Other external income | 68 | 162 | 49 | 0 | 96 | 374 | 0 | 374 |
| Administrative and other expenses | -1,215 | -399 | -2,241 | 0 | -4,700 | -8,556 | 4,010 | -4,546 |
| Depreciation | 0 | -5,205 | -26 | 0 | -33 | -5,265 | 0 | -5,265 |
| **Operating income** | **-642** | **3,722** | **-372** | **0** | **-1,421** | **1,286** | **0** | **1,286** |
| Interest income | 31 | 215 | 23 | 0 | 3,091 | 3,359 | -3,317 | 42 |
| Interest expenses | -51 | -4,887 | -88 | 0 | -1,400 | -6,426 | 3,317 | -3,109 |
| Other financial revenues | 19 | 1 | 25 | 0 | 79 | 125 | 0 | 125 |
| Other financial expenses | -13 | -14 | -11 | 0 | -18 | -55 | 0 | -55 |
| Revaluation of derivatives | 0 | -345 | 0 | 0 | 0 | -345 | 0 | -345 |
| Profit/loss share in entities in equivalency | 0 | 0 | 0 | 59 | 0 | 59 | 0 | 59 |
| Income tax | 0 | -383 | 0 | 0 | -149 | -532 | 0 | -532 |
| **Profit/loss after taxation from continuing operations** | 0 | -121 | 0 | 0 | 0 | -121 | 0 | -121 |
| Profit/loss from discontinued operations | 0 | 0 | -11 | 0 | 0 | -11 | 0 | -11 |
| **Profit/loss for the year** | **-656** | **-1,812** | **-434** | **59** | **182** | **-2,660** | **0** | **-2,660** |
| Revaluation of property, plant and equipment | 0 | 0 | 0 | 602 | 0 | 602 | 0 | 602 |
| Foreign currency translation diff. - foreign operations | 0 | 0 | 0 | -164 | 0 | -164 | 0 | -164 |
| Share of revaluation of PPE of associates /joint venture | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Share of currency translation diff. Of associates / JV | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Derivatives (hedging) | 0 | 0 | 0 | 215 | 0 | 215 | 0 | 215 |
| **Total comprehensive income** | **-656** | **-1,812** | **-434** | **712** | **182** | **-2,007** | **0** | **-2,007** |

| *in Thousand EUR* | Energy Solutions | Production of electricity | Operations, maintenance and PVPP supervision | FVE Investments | Other | Total for segments | Elimination | Consolidated financial information |
|---|---|---|---|---|---|---|---|---|
| **Assets, of which** | **2,603** | **85,637** | **3,536** | **1,593** | **15,284** | **108,645** | **-21,520** | **87,125** |
| PPE – Lands | 0 | 2,860 | 0 | 0 | 0 | 2,860 | 0 | 2,860 |
| PPE – Photovoltaic power plants | 0 | 70,741 | 0 | 0 | 0 | 70,741 | 0 | 70,741 |
| PPE - Equipment | 96 | 0 | 219 | 0 | 60 | 376 | 0 | 376 |
| PPE – Assets in progress | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Intangibles | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Trade and other receivables | 2,225 | 6,892 | 2,969 | 0 | 13,520 | 25,605 | -21,520 | 4,085 |
| Loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross amount due from customers for contract work | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Inventories – Goods | 274 | 531 | 317 | 0 | 0 | 1,122 | 0 | 1,122 |
| Investments in associates, JV, other | 0 | 0 | 0 | 1,593 | 8 | 1,593 | 0 | 1,593 |
| Deferred tax receivables | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Long term receivables | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Prepaid expenses | 8 | 28 | 31 | 0 | 322 | 389 | 0 | 389 |
| Assets held for sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash and cash equivalents | 0 | 4,586 | 0 | 0 | 833 | 5,420 | 0 | 5,420 |
| Other S-T financial assets | 0 | 0 | 0 | 0 | 541 | 541 | 0 | 541 |
| | | | | | | | | |
| **Liabilities, of which** | **-4,475** | **-53,041** | **-6,992** | **0** | **-19,948** | **-84,457** | **21,513** | **-62,945** |
| Trade and other payables | -4,475 | -5,480 | -6,845 | 0 | -8,225 | -25,025 | 21,513 | -3,513 |
| Bank Loans and other loans | 0 | -41,147 | 0 | 0 | -538 | -41,685 | 0 | -41,685 |
| Other long term liabilities | 0 | -302 | -148 | 0 | -10,960 | -11,410 | 0 | -11,410 |
| Other short term liabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Current tax liabilities (income tax) | 0 | -305 | 0 | 0 | 0 | -305 | 0 | -305 |
| Provisions | 0 | 0 | 0 | 0 | -225 | -225 | 0 | -225 |
| Deferred tax liabilities | 0 | -5,806 | 0 | 0 | 0 | -5,806 | 0 | -5,806 |

## Operating segments for the period from 1 January 2015 to 31 December 2015

| *in Thousand EUR* | Energy Solutions | Production of electricity | Operations, maintenance and PVPP supervision | FVE Investments | Other | Total for segments | Elimination | Consolidated financial information |
|---|---|---|---|---|---|---|---|---|
| External revenues from the sale of products, goods and services | 1,793 | 10,600 | 782 | 0 | 147 | 13,321 | 0 | 13,321 |
| Revenues within segments from the sale of products, goods and services | 481 | 48 | 1,167 | 0 | 3,357 | 5,052 | -5,052 | 0 |
| Cost of sale | -1,507 | -578 | -790 | 0 | -274 | -3,150 | 705 | -2,444 |
| Energy tax | 0 | -743 | 0 | 0 | 0 | -743 | 0 | -743 |
| **Gross profit** | **767** | **9,326** | **1,159** | **0** | **3,229** | **14,481** | **-4,347** | **10,134** |
| Other external income | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Administrative and other expenses | -1,296 | -500 | -2,319 | 0 | -4,218 | -8,334 | 4,325 | -4,009 |
| Depreciation | 0 | -4,980 | -19 | 0 | -35 | -5,033 | 0 | -5,033 |
| **Operating income** | **-530** | **3,847** | **-1,180** | **0** | **-1,024** | **1,113** | **0** | **1,113** |
| Interest income | 19 | 134 | 36 | 0 | 280 | 470 | -397 | 72 |
| Interest expenses | -31 | -2,388 | -56 | 0 | -1,126 | -3,602 | 397 | -3,204 |
| Other financial revenues | 0 | 0 | 0 | 0 | 903 | 903 | 0 | 903 |
| Other financial expenses | -16 | -13 | -12 | 0 | -91 | -132 | 0 | -132 |
| Revaluation of derivatives | 0 | 220 | 0 | 0 | 0 | 220 | 20 | 240 |
| Profit/loss share in entities in equivalency | 0 | 0 | 0 | 91 | 0 | 91 | 0 | 91 |
| Income tax | 0 | -589 | 0 | 0 | 0 | -589 | 0 | -589 |
| **Profit/loss after taxation from continuing operations** | **-559** | **1,210** | **-1,212** | **91** | **-1,057** | **-1,526** | **20** | **-1,507** |
| Profit/loss from discontinued operations | 0 | 181 | -394 | 0 | 0 | -213 | 0 | -213 |
| **Profit/loss for the year** | **-559** | **1,391** | **-1,606** | **91** | **-1,057** | **-1,739** | **20** | **-1,720** |
| Revaluation of property, plant and equipment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Foreign currency translation diff. - foreign operations | 0 | 0 | 0 | 0 | 803 | 803 | 0 | 803 |
| Share of revaluation of PPE associates /joint venture | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Share of currency translation diff. Of associates / JV | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Derivatives (hedging) | 0 | 162 | 0 | 0 | 0 | 162 | 0 | 162 |
| **Total comprehensive income** | **-559** | **1,552** | **-561** | **91** | **-1,279** | **-775** | **20** | **-755** |

| *in Thousand EUR* | Energy Solutions | Production of electricity | Operations, maintenance and PVPP supervision | FVE Investments | Other | Total for segments | Elimination | Consolidated financial information |
|---|---|---|---|---|---|---|---|---|
| **Assets, of which** | **1,524** | **87,740** | **1,860** | **2,195** | **11,027** | **104,346** | **-14,394** | **89,953** |
| PPE – Lands | 0 | 2,859 | 0 | 0 | 0 | 2,859 | 0 | 2,859 |
| PPE – Photovoltaic power plants | 0 | 73,818 | 0 | 0 | 0 | 73,818 | 0 | 73,818 |
| PPE - Equipment | 1 | 0 | 51 | 0 | 88 | 140 | 0 | 140 |
| PPE – Assets in progress | 0 | 7 | 3 | 0 | 0 | 9 | 0 | 9 |
| Intangibles | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Trade and other receivables | 1,328 | 5,165 | 1,527 | 0 | 10,341 | 18,362 | 14,381 | 3,981 |
| Loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross amount due from customers for contract work | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Inventories – Goods | 172 | 532 | 189 | 0 | 31 | 924 | 0 | 924 |
| Investments in associates, JV, other | 0 | 0 | 1 | 2,195 | 0 | 2,196 | 0 | 2,196 |
| Deferred tax receivables | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Long term receivables | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Prepaid expenses | 8 | 160 | 29 | 0 | 504 | 701 | 13 | 688 |
| Assets held for sale | 0 | 0 | 39 | 0 | 0 | 39 | 0 | 39 |
| Cash and cash equivalents | 15 | 5,199 | 21 | 0 | 63 | 5,297 | 0 | 5,297 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Liabilities, of which** | **-2,827** | **-51,556** | **-4,737** | **0** | **-16,685** | **-75,805** | **14,392** | **-61,413** |
| Trade and other payables | -2,815 | -3,424 | -4,565 | 0 | -7,744 | -18,549 | 14,392 | -4,157 |
| Bank Loans and other loans | 0 | -42,068 | 0 | 0 | -808 | -42,875 | 0 | -42,875 |
| Other long term liabilities | 0 | 0 | -94 | 0 | -8,060 | -8,154 | 0 | -8,154 |
| Other short term liabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Current tax liabilities (income tax) | -13 | -583 | -78 | 0 | -73 | -747 | 0 | -747 |
| Provisions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Deferred tax liabilities | 0 | -5,481 | 0 | 0 | 0 | -5,481 | 0 | -5,481 |

# 7. Operating segments (continued)

All the operational segments are managed on an international basis (not on a country level). In 2016 the Group operated in the Czech Republic, Slovak Republic, Germany, Australia, Switzerland and the Netherlands with headquarters in the Netherlands.

In 2016, revenues were generated in all above mentioned markets, except of the Netherlands and Germany. Non-current assets (power plants) are located in the Czech Republic, Slovak Republic and Australia.

For the booking of transactions between the segments, the same rules for the recognition are applied as for the third parties.

In 2016, revenues increased mainly in Electricity production and Operations & maintenance segments. The increase in electricity production has been caused mainly by the acquisition of the full share in Fotonika s.r.o. and in the Operations & maintenance segment by acquisition of new clients in the amount of approx. 40 MWp.

When presenting geographical information below, segment revenue is based on the geographical location of entities generating the revenues. Segment assets are based on the geographical location of the assets.

### Revenue

| *In thousand of EUR* | **2016** | **2015** |
|---|---|---|
| The Czech Republic | 9,548 | 9,352 |
| The Slovak Republic | 3,120 | 2,799 |
| Australia | 419 | 862 |
| Germany | 0 | 239 |
| Italy | 0 | 59 |
| Switzerland | 2 | 10 |
| **Consolidated revenues** | **13,089** | **13,321** |

### Non-current assets [(i)]

| *In thousand of EUR* | **2016** | **2015** |
|---|---|---|
| The Czech Republic | 55,102 | 59,201 |
| The Slovak Republic | 18,863 | 17,604 |
| Australia | 12 | 22 |
| **Total** | **73,977** | **76,827** |

***Note:*** *(i) Non-current assets presented consist mainly of property, plant and equipment (lands, photovoltaic power plants, other equipment, and assets under construction), investments in equity-accounted investees and other investments.*

### Major customer

The Group has many customers. For the companies selling electricity, there is usually only one distribution company, which buys produced electricity. These local electricity distributors further deliver and resell electricity to final customers. Distributors are obliged to purchase all of the electricity production for the price based on Feed in Tariff prices and can be also exchanged for different distributor operating on the market. The Group as such is not dependent on any individual customer.

# 8. Current assets held for sale

### Assets classified as held for sale

As of 31 December 2016, Company does not classify any assets as held for sale.

As of 31 December 2015, Photon Energy Operations GmbH was classified as held for sale. The carrying amounts of assets, liabilities and profit & loss are summarized below:

| *In thousand of EUR* | **2015** |
|---|---|
| Assets | 61 |
| Liabilities | -49 |
| **Total** | **12** |

| *In thousand of EUR* | **2015** |
|---|---|
| Revenues | 131 |
| Administrative expenses | -134 |
| Personnel expenses | -389 |
| Depreciation | -3 |
| **Total** | **-395** |

# 9. Acquisitions of subsidiary and non-controlling interests; financial information for the joint ventures and associates

## 9.1 Establishment of new subsidiaries

During 2016, Photon Energy N.V. (directly or via its subsidiaries) incorporated the following subsidiaries:

- Photon Energy Projects s.r.o.
- Photon Energy Solutions s.r.o.
- Photon Energy Cardio s.r.o.
- The Special One s.r.o.
- Charles Bridge Services s.r.o
- Photon Energy AUS SPV 4 Pty. Ltd.
- Photon Energy AUS SPV 3 Pty. Ltd.
- Photon Energy HU SPV 1 Kft. b.a.

During 2015, Photon Energy N.V. (directly or via its subsidiaries) did not incorporate any new subsidiary.

## 9.2 Acquisitions of subsidiaries

During 2016, Photon Energy N.V. (directly or via its subsidiaries) acquired the following entities:

- Photon Water Technology s.r.o.
- Photon Water s.r.o

The Company also acquired 100% full share in the originally joint ventures entities:

- ATS Energy s.r.o.
- Fotonika s.r.o.

The total consideration paid for the acquiring of the remaining 30% share in ATS Energy s.r.o. (September 2016) and 40% share in Fotonika s.r.o. (June 2016) equaled to EUR 438 thousand. While ATS Energy s.r.o. was already consolidated by full method, Fotonika s.r.o. was originally consolidated by equity method that has been changed for full method since the acquisition.

During 2015, Photon Energy N.V. (directly or via its subsidiaries) did not acquire any new subsidiary.

### Other developments in 2016

During 2016, Photon Energy N.V. liquidated Photon Energy Investments CZ N.V., Photon Energy Investments DE N.V. and European Solar Holdings. Photon Energy Operations DE GmbH was sold in January 2016.

### Other developments in 2015

During 2015, Photon Energy N.V. did not merge any of its subsidiaries. Photon Energy Technology B.V. was liquidated as of 1 December 2015.

## 9.3 Financial information for the joint ventures and associates

### Joint ventures and associates

Investments in equity-accounted investees amounting to EUR 2,160 thousand (2015: EUR 2,195 thousand) represent the nominal share in the joint ventures and associates owned by the Group.

**2016:**

| *In thousand of EUR* | Photon SK SPV 1 | Solarpark Myjava | Solarpark Polianka | Total |
|---|---|---|---|---|
| Definition | joint venture | joint venture | joint venture | |
| Share | 50% | 50% | 50% | |
| Share on equity | -572 | -367 | -646 | -1,585 |
| Share of profit | 20 | 28 | 11 | 59 |
| Other comprehensive income | -54 | -52 | -58 | -164 |
| Total comprehensive income | -34 | -23 | -47 | -104 |
| Cash and cash equivalents | 206 | 237 | 210 | 653 |
| Current assets | 228 | 263 | 242 | 733 |
| Long-term assets | 2,741 | 2,323 | 2,991 | 8,055 |
| Current liabilities | -430 | -316 | -411 | -1,157 |
| Long-term liabilities | -1,414 | -1,541 | -1,547 | -4,501 |
| Expenses | 332 | 358 | 343 | 1,032 |
| Revenues | -372 | -414 | -365 | -1,151 |

**2015:**

| *In thousand of EUR* | Photon SK SPV 1 | Solarpark Myjava | Solarpark Polianka | Fotonika | Total |
|---|---|---|---|---|---|
| Definition | joint venture | joint venture | joint venture | joint venture | |
| Share | 50% | 50% | 50% | 60% | |
| Share on equity | -586 | -366 | -669 | -575 | -2,195 |
| Share of profit | 23 | 13 | -1 | 35 | 70 |
| Other comprehensive income | -211 | -12 | 26 | -286 | -483 |
| Total comprehensive income | -188 | 0 | 25 | -251 | -413 |
| Cash and cash equivalents | 243 | 256 | 243 | 338 | 1,081 |
| Current assets | 268 | 283 | 270 | 347 | 1,168 |
| Long-term assets | 2,904 | 2,489 | 3,161 | 2,944 | 11,498 |
| Current liabilities | -449 | -318 | -395 | -441 | -1,603 |
| Long-term liabilities | -1,571 | -1,730 | -1,719 | -1,916 | -6,936 |
| Expenses | 346 | 380 | 352 | 397 | 1,475 |
| Revenues | -387 | -427 | -376 | -455 | -1,646 |

All of the entities included in the above table are accounted for using the equity method of consolidation as at 31. December 2016 and have been accounted using the equity method also in the financial year 2015.

The joint ventures can distribute profit only after agreement of the financing bank and the approval of the co-owner of the entity (via the general meeting).

**Disposals in 2016**

1) Photon Energy Operations DE GmbH

| *In thousand of EUR* | **Photon Energy Operations DE GmbH** | **Total** |
|---|---|---|
| Cash&cash held | 41 | 41 |
| Net assets | 14 | 14 |
| Local cost of FI | 14 | 14 |
| Sales price | 25 | 25 |
| Loss/profit from the sale | -14 | -14 |
| Total consideration received in cash | 25 | 25 |

**Disposals in 2015**

1) Photon Energy Polska Sp z.o.o.
2) Photon DE SPV 3 GmbH
3) Photon IT SPV1 s.r.l.
4) Photon IT SPV2 s.r.l.

| *In thousand of EUR* | **Photon IT SPV1 s.r.l.** | **Photon IT SPV2 s.r.l.** | **Photon DE SPV 3 GmbH** | **Photon Energy Polska Sp z.o.o.** | **Total** |
|---|---|---|---|---|---|
| Cash&cash held | 4 | 2 | 10 | 0 | 16 |
| Net assets | -8 | -32 | 6 | -12 | -46 |
| Local cost of FI | 114 | -124 | 72 | 1 | 63 |
| Sales price | 42 | 66 | 55 | 1 | 164 |
| Loss/profit from the sale | 148 | -90 | 133 | -10 | 181 |
| Total consideration received in cash | 312 | 1772 | 56 | 1 | 2,141 |

## 10. Revenue

| *In thousand of EUR* | **2016** | **2015** |
|---|---|---|
| Sales of goods | 559 | 880 |
| Rendering of services | 1,661 | 1,841 |
| Sale of electricity | 10,869 | 10,600 |
| | **13,089** | **13,321** |

The decrease in revenues is a result of lower revenues in the segment of energy solutions comparing to the prior year, compensated by higher revenues in the segment of production of electricity and operations & maintenance.

# 11. Cost of sales

Main expenses' classes represent material consumed, cost of goods sold, 3rd party services received, depreciation and other expenses, such as travelling or representation costs.

| *In thousand of EUR* | **2016** | **2015** |
|---|---|---|
| Material consumed | -30 | -87 |
| Goods (invertors, etc) | -809 | -1,507 |
| Services (3rd party services received) | -510 | -486 |
| Other (representation, travelling, NBV of assets sold, etc) | -240 | -224 |
| Change of allowances for receivables/reserves | 0 | -140 |
| | **-1,589** | **-2,444** |

Cost of sales consists mainly of material and goods necessary for construction of photovoltaic power plants and related services. Its increase is caused mainly by higher consumption of material, goods and subcontracted services for the project realized during 2016.

## 11.1 Tax levy

| *In thousand of EUR* | **2016** | **2015** |
|---|---|---|
| 10%/26% tax levy | -777 | -743 |
| | **-777** | **-743** |

For detailed information about the tax levy refer to Note 6.2.

# 12. Other income

| *In thousand of EUR* | **2016** | **2015** |
|---|---|---|
| Other income | 374 | 0 |
| | **374** | **0** |

Other income included revenues from write-off of payables (EUR 176 thousands), recovery from insurance companies (EUR 56 thousands) and income from providing of recycling spot by SPVs.

# 13. Other expenses

Other expenses comprise of other taxes, penalties and other minor expenses.

| *In thousand of EUR* | **2016** | **2015** |
|---|---|---|
| Other taxes and fees | -7 | -1 |
| Penalties and fines | -225 | - |
| Receivables write-off | -121 | -194 |
| Other expenses | -263 | -42 |
| | **-616** | **-237** |

Other expense includes mainly insurance and costs related to maintenance of the recycling spots.

# 14. Administrative and personnel expenses

| *In thousand of EUR* | **2016** | **2015** |
|---|---|---|
| Wages and salaries | -2,020 | -1,921 |
| Social and health insurance * | -221 | -191 |
| Fuel consumption | - | - |
| Consulting, legal and other administrative services | -1,690 | -1,639 |
| | **-3,931** | **-3,751** |

*Pension costs are integral part of social security expenses

As of 31 December 2016 the Group employs 62 employees. 4 are employed in Slovakia by Slovak entities; 6 in Australia;2 in Romania and 2 in the Netherlands. The remaining employees are employed in the Czech Republic.

As of 31 December 2015 the Group employs 59 employees. 4 are employed in Slovakia by Slovak entities; 3 in Germany, 5 in Australia and 2 in the Netherlands. The remaining employees are employed in the Czech Republic.

Rental expenses of the Group amount to EUR 72 thousand annually. The Company is not involved in long-term rental lease contracts.

# 15. Finance income and finance costs

| *In thousand of EUR* | **2016** | **2015** |
|---|---|---|
| Interest income on loans and receivables | 42 | 72 |
| Finance income | 125 | - |
| Release of allowances | - | 903 |
| Profit from revaluation of derivatives | - | 240 |
| **Finance income** | **167** | **1,215** |
| Interest expense on loans and receivables | -3,109 | -3,204 |
| Net bank account fees | -55 | -76 |
| Fx Losses | - | -56 |
| Loss from revaluation of derivatives | -345 | - |
| VAT related interest costs | - | - |
| **Finance costs** | **-3,509** | **-3,336** |
| **Net finance income / costs** | **-3,342** | **-2,121** |

# 16. Income tax expense

## 16.1 Income tax recognized in profit or loss

| *In thousand of EUR* | **2016** | **2015** |
|---|---|---|
| **Current tax expense** | | |
| Current year | -532 | -542 |
| | **-532** | **-542** |
| **Deferred tax expense** | | |
| Temporary differences (margin on PPV) | -121 | -47 |
| **Total tax expense** | **-121** | **-47** |

## 16.2 Income tax recognized in other comprehensive income

| *In thousand of EUR* | For the year ended 31 December 2016 | | | For the year ended 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | Before tax | Tax expense | Net of tax | Before tax | Tax expense | Net of tax |
| Revaluation of property, plant and equipment | - | - | - | - | - | - |
| **Total deferred tax for the revaluation** | | **-** | | | **-** | |

Deferred tax related to the release of revaluation of EUR 384 thousand is recorded in Profit and Loss.

## 16.3 Reconciliation of effective tax rate

| *In thousand of EUR* | % | 2016 |
|---|---|---|
| **Loss before income tax** | | **-2,014** |
| Tax using the Company's domestic tax rate | 25% | -504 |
| Effect of tax rates difference in foreign jurisdictions | -6% | 121 |
| **Non-deductible expenses** | | |
| Interest expenses | 0% | 0 |
| other | 5% | -109 |
| Recognition of tax effect previously unrecognized tax losses | 11% | -222 |
| Current year losses for which no deferred tax asset was recognized | -3% | 61 |
| **Total tax expenses** | | **-653** |

| *In thousand of EUR* | % | 2015 |
|---|---|---|
| **Loss before income tax** | | **-1,131** |
| Tax using the Company's domestic tax rate | 25% | -283 |
| Effect of tax rates difference in foreign jurisdictions | -6% | 68 |
| **Non-deductible expenses** | | |
| Interest expenses | 0% | 0 |
| other | 25% | -280 |
| Recognition of tax effect previously unrecognized tax losses | 11% | -130 |
| Current year losses for which no deferred tax asset was recognized | -3% | 35 |
| **Total tax expenses** | | **-589** |

# 17. Property, plant and equipment

| *In thousand of EUR* | Land | Photovoltaic power plant | Other equipment | In progress | Total |
|---|---|---|---|---|---|
| **Carrying amounts** | | | | | |
| At 31 December 2015 | 2,859 | 73,749 | 209 | 9 | 76,827 |
| At 31 December 2016 | 2,860 | 70,741 | 376 | 0 | 73,977 |
| **Gross revalued amount** | | | | | |
| Balance at 1 January 2015 | **2,853** | **96,327** | **576** | **5** | **99,762** |
| Other Additions | 0 | 0 | 50 | 4 | 54 |
| Transfer from assets in progress | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | -1,800 | 0 | 0 | -1,800 |
| Revaluation increase | 0 | 0 | 0 | 0 | 0 |
| Effect of movements in exchange rates | 6 | 2,053 | 0 | 0 | 2,059 |
| **Balance at 31 December 2015** | **2,859** | **96,580** | **626** | **9** | **100,075** |
| Balance at 1 January 2016 | **2,859** | **96,580** | **626** | **9** | **100,075** |
| Other Additions | 0 | 2,467 | 214 | 0 | 2,681 |
| Transfer from assets in progress | 0 | 0 | 9 | -9 | 0 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| Revaluation increase | 0 | 0 | 0 | 0 | 0 |
| Effect of movements in exchange rates | 1 | -269 | 0 | 0 | -269 |
| **Balance at 31 December 2016** | **2,860** | **98,778** | **849** | **0** | **102,487** |
| **Depreciation and impairment losses** | | | | | |
| Balance at 1 January 2015 | 0 | 17,848 | 364 | 0 | 18,212 |
| Depreciation for the year | 0 | 4,983 | 50 | 0 | 5,033 |
| Impairment loss | 0 | 0 | 0 | 0 | 0 |
| Effect of movements in exchange rates | 0 | 0 | 0 | 0 | 0 |
| **Balance at 31 December 2015** | **0** | **22,831** | **414** | **0** | **23,245** |
| Balance at 1 January 2016 | 0 | 22,831 | 414 | 0 | 23,245 |
| Depreciation for the year | 0 | 5,206 | 59 | 0 | 5,265 |
| Impairment loss | 0 | 0 | 0 | 0 | 0 |
| Effect of movements in exchange rates | 0 | 0 | 0 | 0 | 0 |
| **Balance at 31 December 2016** | **0** | **28,037** | **473** | **0** | **28,510** |
| **Carrying amounts** | | | | | |
| At 31 December 2015 | 2,859 | 73,749 | 209 | 9 | 76,827 |
| At 31 December 2016 | 2,860 | 70,741 | 376 | 0 | 73,977 |

# 17. Property, plant and equipment (continued)

### Revaluation details by power plants

| *In thousand of EUR*<br>**Photovoltaic power plants** | **kWp** | **Net book value at costs as at 31 December 2016** | **Net book value at FV as at 31 December 2016** | **Net book value at costs as at 31 December 2015** | **Net book value at FV as at 31 December 2015** |
|---|---|---|---|---|---|
| Breclav - ZS | 137 | 577 | 957 | 627 | 1,048 |
| Cukrovar Slavkov | 1,159 | 1,342 | 4,291 | 1,473 | 4,693 |
| Dolni Dvoriste | 1,64 | 1,375 | 6,079 | 1,522 | 6,549 |
| Komorovice | 2,354 | 1,442 | 8,296 | 1,606 | 8,901 |
| Mostkovice Mostkovice plocha | 1,135 | 3,000 | 3,677 | 3,251 | 4,052 |
| Prerov Radvanice | 2,305 | 2,093 | 8,417 | 2,309 | 9,206 |
| Svatoslav pozemek | 1,231 | 3,747 | 4,506 | 4,063 | 4,931 |
| Zdice I | 1,498 | 3,454 | 5,443 | 3,750 | 5,807 |
| Zdice II | 1,498 | 2,048 | 5,483 | 2,240 | 5,990 |
| Zvikov | 2,031 | 1,961 | 7,590 | 2,158 | 8,162 |
| Mokrá Lúka II | 990 | 1,349 | 2,455 | 1,452 | 2,629 |
| Mokrá Lúka III | 990 | 1,656 | 2,449 | 1,780 | 2,623 |
| Jovice V | 990 | 1,677 | 2,377 | 1,801 | 2,404 |
| Jovice VI | 990 | 1,514 | 2,367 | 1,628 | 2,393 |
| Babina II | 999 | 1,363 | 2,512 | 1,471 | 2,690 |
| Babina III | 999 | 2,238 | 2,505 | 2,397 | 2,683 |
| Blatná | 700 | 2,295 | 1,731 | 2,452 | 1,848 |
| Prsa I | 999 | 1,992 | 2,467 | - | - |
| | | **35,123** | **73,602** | **35,980** | **76,608** |

In 2016, in the Consolidated statement of comprehensive income the revaluation of property plant and equipment of EUR 602 thousand coming from the acquisition of the full share in the Fotonika s.r.o. that was originally accounted and presented by equity method, not full consolidation method.

In 2016 the Group did not capitalize into assets any borrowing costs (2015: EUR 0 thousand).

The Group has purchased several intangible assets, however these cannot be classified as intangibles. These assets that include mainly rights to build the power plant, or rights to use land for power plant building are classified as property plant and equipment. They are represented as an inseparable part of photovoltaic power plants. The total amount of these rights amounted to EUR 1,375 (2015: EUR 1,375).

### Security

At 31 December 2016 properties with a carrying amount of EUR 73,602 thousand (2015: EUR 76,608 thousand) are subject to a registered debenture to secure bank loans (see note 25); including as at 31 December 2016:

- Property, plant and equipment – Lands in an amount of EUR 2,291 thousand pledged to RL and EUR 569 thousand pledged to UniCredit Bank Czech Republic and Slovakia a.s.
- Property, plant and equipment – Photovoltaic power plants in an amount of EUR 52,449 thousand pledged to RL
- Property, plant and equipment – Photovoltaic power plants in an amount of EUR 18,294 thousand pledged to UniCredit Bank Czech Republic and Slovakia a.s.

### Property, plant and equipment under construction

Property, plant and equipment equaled to the amount of EUR 0 thousand (2015: EUR 9 thousand).

### Sale of property, plant and equipment

In 2016, proceeds from sales of property, plant and equipment amounted to EUR 0 thousand (2015: EUR 0 thousand).

# 18. Other investments

| *In thousand of EUR* | 2016 | 2015 |
|---|---|---|
| **Non-current investments** | | |
| Other investments measured at cost[(1)] | 8 | 1 |
| | **8** | **1** |

***Notes:*** *(1) The equity investments represent shares in IPVIC GBR.*

# 19. Deferred tax assets and liabilities

### Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

**2016:**

| *In thousand of EUR* | Assets | | | Liabilities | | | Net | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2016 | y-y change | 2015 | 2016 | y-y change | 2015 | 2016 | y-y change | 2015 |
| Property, plant and equipment | 1,933 | 0 | 4,457 | -7,739 | 2,672 | -10,411 | -6,279 | -325 | -5,954 |
| Inventories (allowance) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Construction contracts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Receivables (allowances) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Employee benefits | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Tax loss carry-forwards | 473 | 0 | 473 | 0 | 0 | 0 | 473 | 0 | 473 |
| **Tax assets (liabilities)** | 2,406 | 0 | 4,930 | -7,739 | 2,672 | -10,411 | -5,806 | -325 | -5,481 |
| **Net tax assets (liabilities)** | 2,406 | 0 | 4,930 | -7,739 | 2,672 | -10,411 | -5,806 | -325 | -5,481 |

**2015:**

| *In thousand of EUR* | Assets | | | Liabilities | | | Net | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2015 | y-y change | 2014 | 2015 | y-y change | 2014 | 2015 | y-y change | 2014 |
| Property, plant and equipment | 4,457 | 0 | 4,457 | -10,411 | -420 | -9,991 | -5,954 | -1,694 | -5,534 |
| Inventories (allowance) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Construction contracts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Receivables (allowances) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Employee benefits | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Tax loss carry-forwards | 473 | 0 | 473 | 0 | 0 | 0 | 473 | 0 | 473 |
| **Tax assets (liabilities)** | **4,930** | **0** | **4,930** | **-10,411** | **-420** | **-9,991** | **-5,481** | **-1,694** | **-5,061** |
| **Net tax assets (liabilities)** | **4,930** | **0** | **4,930** | **-10,411** | **-420** | **-9,991** | **-5,481** | **-1,694** | **-5,061** |

# 19. Deferred tax assets and liabilities (continued)

**Movement in temporary differences during the year**

| *In thousand of EUR* | Balance as at 31 December 2014 | Recognized in profit or loss | Recognized in OCI of which Fx translation | Recognized in OCI of which DT from revaluation | Balance as at 31 December 2015 | Recognized in profit or loss | Recognized in OCI of which Fx translation | Recognized in OCI of which DT from revaluation | Balance as at 31 December 2016 |
|---|---|---|---|---|---|---|---|---|---|
| Property plant and equipment | -5,534 | 12 | -432 | 0 | -5,954 | -121 | -204 | 0 | -6,279 |
| Inventories | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Construction contracts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Receivables | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Employee benefits | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Tax loss carry-forwards | 473 | 0 | 0 | 0 | 473 | 0 | 0 | 0 | 473 |
| **Total** | **-5,061** | **12** | **-432** | **0** | **-5,481** | **-121** | **-204** | **0** | **-5,806** |

# 20. Inventories

| *In thousand of EUR* | **2016** | **2015** |
|---|---|---|
| Goods | 1,122 | 924 |
| Gross amount due from customers | - | - |
| | **1,122** | **924** |

Goods consist mainly of photovoltaic panels, invertors and other system components.

The cost of inventories recognized as an expense in cost of sales during the year in respect of continuing operations amounted to EUR 1,589 thousand (31 December 2015: EUR 1,507 thousand).

# 21. Trade and other receivables

### Trade receivables

| *in thousand of EUR* | **Note** | **2016** | **2015** |
|---|---|---|---|
| Trade receivables | 28.2 | 1,123 | 917 |
| Allowance for doubtful debts | 28.2 | 0 | 0 |
| | | **1,123** | **917** |

The average credit period on sales of goods and services is 31 days. No interest is charged. The Group recognizes an allowance for doubtful debts according to individual assessment. If the receivables are individually not significant the Company recognizes a potential allowance for doubtful debts based on the collective assessment. However Company usually does not create allowances as the receivables are usually overdue 1-2 months.

During 2016 receivables in the total amount of EUR 121 thousand were written-off (2015: EUR 194 thousand were written-off).

### Other receivables

| *in thousand of EUR* | **Note** | **2016** | **2015** |
|---|---|---|---|
| Paid advances | | 499 | 387 |
| Loans to directors | 29.1 | 163 | 103 |
| Loans to associates / joint ventures | 29.1 | 0 | 0 |
| Other receivables | | 1,488 | 2,552 |
| Shareholders' loans | | 812 | 0 |
| | | **2,962** | **3,042** |

Prepaid expenses amounted to EUR 388 thousand in 2016 (2015: EUR 688 thousand) and include mainly bond-related costs (EUR 211 thousand). Other receivables includes mainly a VAT receivable (EUR 78 thousand); advances paid (EUR 499 thousand); deferred revenue (EUR 270 thousand); loans provided to the shareholders (EUR 812 thousand).

Advances paid represent advances paid to suppliers mainly for services provided or technology delivered.

## 22. Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and at banks. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

| *In thousand of EUR* | **2016** | **2015** |
|---|---|---|
| Bank balances | 5,420 | 5,297 |
| Cash on hand | 0 | 0 |
| **Cash and cash equivalents** | **5,420** | **5,297** |

Cash held by the SPVs under legal ownership of the RL is restricted only for certain transactions e.g. loan and related interest provided to those SPV's by Photon Energy N.V. is subordinated to the loan from RL and will be paid only after the repayment of the RL loan. Total amount of the cash owned by these SPVs is EUR 2,991 thousand at 31 December 2016 (2015: EUR 4,103 thousand).

## 23. Capital and reserves

During 2016 and 2015, any specific transactions were performed within the capital structure of the Group.

### Share capital and share premium

#### Ordinary shares

| *In shares* | **2016** |
|---|---|
| **On issue at 1 January 2016** | **60,000,000** |
| **On issue at 31 December – fully paid** | **60,000,000** |

The Company's share capital is EUR 600,000 divided into 60,000,000 shares with a nominal value of EUR 0.01 each. The share capital is fully paid-up.

#### Ordinary shares

All shares rank equally with regard to the Company's residual assets.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the shareholders' meetings of the Company.

As of 31 December 2016 the shareholder structure was as follows.

| **Shareholder** | **No. of shares** | **% of capital** | **No. of votes at the Shareholders Meeting** | **% of votes at the Shareholders Meeting** |
|---|---|---|---|---|
| Solar Age Investments B.V. | 26,463,974 | 44.11% | 26,463,974 | 51.92% |
| Solar Future Cooperatief U.A. | 8,590,683 | 14.32% | 8,590,683 | 16.85% |
| Solar Power to the People Cooperatief U.A. | 8,051,919 | 13.42% | 8,051,919 | 15.80% |
| Photon Energy N.V. | 9,028,251 | 15.05% | 0 | 0.00% |
| Free float | 7,865,173 | 13.11% | 7,865,173 | 15.43% |
| **Total** | **60,000,000** | **100,00%** | **50,971,749** | **100,00%** |

As of 31 December 2015 the shareholder structure was as follows.

| Shareholder | No. of shares | % of capital | No. of votes at the Shareholders Meeting | % of votes at the Shareholders Meeting |
|---|---|---|---|---|
| Solar Age Investments B.V. | 28,263,974 | 47,11% | 28,263,974 | 55,69% |
| Solar Future Cooperatief U.A. | 8,590,683 | 14,32% | 8,590,683 | 16,93% |
| Solar Power to the People Cooperatief U.A. | 8,051,919 | 13,42% | 8,051,919 | 15,86% |
| Photon Energy N.V. | 9,244,794 | 15,41% | 0 | 0,00% |
| Free float | 5,848,630 | 9,75% | 5,848,630 | 11,52% |
| **Total** | **60,000,000** | **100,00%** | **50,755,206** | **100,00%** |

### Reserves

The reserves relate to the legal reserve; the revaluation of property, plant and equipment - photovoltaic power plants the hedging reserve and the currency translation reserve. Refer below.

| *In thousand of EUR* | 2016 | 2015 |
|---|---|---|
| Legal reserve | 13 | 10 |
| Revaluation reserve | 24,410 | 25,415 |
| Foreign currency translation reserve | -1,139 | -975 |
| Hedging derivatives | -205 | -420 |
| | **23,066** | **24,030** |

### Legal reserve

The legal reserve is a reserve required by the Czech commercial law and Slovak commercial law. It has been created from the prior years' profit of the Czech and Slovak entities based on the approval of the general meeting.

The legal reserve amounts to EUR 13 thousand at 31 December 2016 (2015: EUR 10 thousand).

### Revaluation reserve

| *In thousand of EUR* | 2016 | 2015 |
|---|---|---|
| Balance at beginning of year | 25,415 | 27,704 |
| Increase arising on revaluation of properties net of deferred tax | 0 | 0 |
| Share on revaluation of PPE of associates JV | 0 | 0 |
| Share of non-controlling interest | 0 | 0 |
| Increase arising on acquisition of properties-associates JV | 602 | 0 |
| Share on non-controlling interest | 0 | 0 |
| Impairment losses | 0 | 0 |
| Reversals of impairment losses | 0 | 0 |
| Move from revaluation reserve to retained earnings | -1,607 | -2,289 |
| NCI release | 0 | 0 |
| **Balance at end of year** | **24,410** | **25,415** |

The revaluation reserve arises on the revaluation of photovoltaic power plants. The revaluation reserve is being released to the retained earnings during the duration of Feed-in-Tariff-currently 20 years. The amount equal to the amount of depreciation coming from revaluation released in 2016 is equal to EUR 1,607 thousand (2015: EUR 2,289 thousand). There was no revaluation performed in 2016. The revaluation for the year 2014 amounts to EUR 6,013 thousand net of tax. See note 16 and 17.

For NCI release description, refer to statement of changes in equity.

The revaluation reserve as such cannot be distributed only the amounts released to retained earnings can be distributed to the shareholder.

### Foreign currency translation reserve

| *In thousand of EUR* | **2016** | **2015** |
|---|---|---|
| Balance at beginning of year | -975 | -1,778 |
| Foreign currency translation differences for foreign operations | -164 | 803 |
| **Balance at end of year** | **-1,139** | **-975** |

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of operations using different currency from Euro. It relates to Czech Republic, Switzerland and Australia.

### Derivatives hedging reserve

| *In thousand of EUR* | **2016** | **2015** |
|---|---|---|
| Balance at beginning of year | -420 | -582 |
| Derivatives | 215 | 162 |
| Share on non-controlling interest | 0 | 0 |
| Share on derivatives joint ventures | 0 | 0 |
| Share on non-controlling interest | 0 | 0 |
| Release of non-controlling interest | 0 | 0 |
| **Balance at end of year** | **-205** | **-420** |

### Dividends

There were no dividends declared and paid by the Company in 2016 and 2015.

# 24. Earnings per share

| *In EUR* | 2016 | 2015 |
|---|---|---|
| Basic earnings per share | -0.052 | -0.034 |
| Diluted earnings per share | -0.044 | -0.029 |
| Total comprehensive income per share | -0.034 | -0.015 |

### Basic earnings per share

The calculation of basic earnings per share at 31 December 2016 was based on the loss attributable to ordinary shareholders of loss EUR 2,660 thousand (2015: loss EUR 1,720 thousand) and a weighted average number of ordinary shares outstanding of 50,982 thousand (2015: 50,067 thousand). The calculation of diluted earnings per share as 31 December 2016 was based on on the loss attributable to ordinary shareholders of loss EUR 2,660 thousand (2015: loss EUR 1,720 thousand) and a weighted average number of total shares outstanding of 60,000 thousand.

### Profit (loss) attributable to ordinary shareholders

| *In thousand of EUR* | Profit (loss) attributable to ordinary shareholders | |
|---|---|---|
| | 2016 | 2015 |
| Profit (loss) for the year | -2,660 | -1,725 |
| Profit (loss) attributable to ordinary shareholders | -2,660 | -1,720 |

### Weighted average number of ordinary shares

There were any new shares issued in 2016. The number of shares at the year-end 2016, 2015 and 2014 was 60,000,000.

Share on profit of equity-accounted investees amounted to EUR 59 thousand (2015: EUR 5 thousand) because of acquisition of full share in ATS Energy s.r.o..

### Basic and diluted total comprehensive income per share

The calculation of total comprehensive earnings per share (the calculation is the same for the diluted EPS) at 31 December 2016 and 2015 was based on the total comprehensive income (loss) attributable to ordinary shareholders of EUR -2,007 thousand (2015: EUR -755 thousand) and a weighted average number of ordinary shares outstanding of 60,000 thousand (2015: 60,000 thousand).

# 25. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost.

| *In thousand of EUR* | 2016 | 2015 |
|---|---|---|
| **Non-current liabilities** | | |
| Long-term secured bank loans | 37,551 | 38,499 |
| Long-term portion of other loans | 269 | 538 |
| **Total** | **37,820** | **39,037** |
| **Current liabilities** | | |
| Current portion of long-term secured bank loans | 3,597 | 3,569 |
| Short-term secured bank loans | 0 | 0 |
| Current portion of other loans | 269 | 269 |
| **Total** | **3,866** | **3,838** |
| **Total loans & borrowings** | **41,686** | **42,876** |

### Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

| *In thousand of EUR* | Currency | Nominal interest rate | Year of maturity | 31.12.2016 | | 31.12.2015 | |
|---|---|---|---|---|---|---|---|
| | | | | Credit limit | Credit limit | Credit limit | Carrying amount |
| Secured bank loan* | CZK | 5.19% | 5.1.2021 | 27,497 | 27,497 | 30,060 | 30,060 |
| Secured bank loan | EUR | 3M EURIBOR+2.7% | 30.6.2024 | 6,202 | 6,202 | 4,971 | 4,971 |
| Secured bank loan | EUR | 3M EURIBOR+2.7% | 31.12.2024 | 6,310 | 6,310 | 7,038 | 7,038 |
| Other loan | EUR | 3% | 12.3.2018 | 568 | 568 | 808 | 808 |
| Other loan | EUR | 3% | 31.12.2017 | 0 | 0 | 0 | 0 |
| **Total interest bearing liabilities** | | | | **42,876** | **42,876** | **42,876** | **42,876** |

On 30 December 2015 a contract on refinancing of the Czech portfolio was concluded, the actual flow of money was performed in January 2016. The total amount of the increase in loan equaled to EUR 1,479 thousand.

All secured bank loans are secured by SPVs assets of power plants including real estate if any and technology receivables generated by power plants. In case of secured bank loans denominated in CZK nearly all power plants are cross-collateralized.

### Covenants

The project financing sets certain operational conditions to be met by each power plant with Debt Service Coverage Ratio (DSCR) typically above 1.20.

All power plants met the DSCR criteria as of 31 December 2016.

## 26. Trade and other payables

### Trade payables

| *In thousand of EUR* | 2016 | 2015 |
|---|---|---|
| Payables to suppliers | 619 | 1,061 |
| | **619** | **1,061** |

### Other payables

| *In thousand of EUR* | 2016 | 2015 |
|---|---|---|
| Advances received | 208 | 116 |
| Accrued expenses | 780 | 252 |
| Deferred revenues | 0 | 0 |
| Payables to employees | 100 | 474 |
| Payables to health and social authorities | 110 | 101 |
| Derivatives | 1,550 | 1,576 |
| Other payables-loans | 146 | 528 |
| Other | 0 | 0 |
| | **2,894** | **3,047** |

Accrued expenses include mainly not invoiced deliveries of goods (technology) and services provided. Other payables-loans represented loans provided by originally intercompany companies that were sold out of the group during 2012 and have been eliminated in the prior period. An interest charge of 3% was applied to the outstanding balances. These are not classified as loans and borrowing as they have not been provided by financial institution or bank but former subsidiaries. At 31 December 2016 retentions held by customers for contract work amounted to EUR 0 thousand (31 December 2015: EUR 5 thousand). Advances received from customers for contract work amounted to EUR 208 thousand (31 December 2015: EUR 116 thousand).

# 27. Other long-term and short-term liabilities

## 27.1 Other long term liabilities

| *In thousand of EUR* | 2016 | 2015 |
|---|---|---|
| VAT payables | 0 | 0 |
| Long term liability from income tax | 0 | 0 |
| Other long-term loans | 0 | 0 |
| Other long-term liabilities | 478 | 94 |
| Bond | 10,932 | 8,060 |
| | **11,410** | **8,154** |

In February and March 2013 PEINV placed an 8% corporate bond in Germany, Austria, the Czech Republic, Slovakia and Poland. The bond is listed on the stock exchanges in Frankfurt, Munich, Berlin, Hamburg, Hannover and Vienna.

The bond coupon is paid quarterly and the bond is due in 5 years from issuance. Bond related costs in the amount of approximately EUR 850 thousand have been accrued for a period of 5 years and are regularly released in the P&L. The outstanding balance as of 31 December 2016 in the amount of EUR 211 thousand is included in Prepaid expenses.

In December 2016 the Company placed a 6% CZK corporate bond in the Czech Republic. The bond is listed on the Prague Stock Exchange. The bond coupon is paid monthly and the bond is due in 7 years from issuance. Other long-term liabilities include leasing liabilities and provision for liquidation of panels in the future.

## 27.2 Other short term liabilities

| *In thousand of EUR* | 2016 | 2015 |
|---|---|---|
| VAT liability /provision | 225 | 0 |
| Other liabilities | 0 | 0 |
| | **225** | **0** |

VAT provision in the amount of EUR 225 thousand represents an amount pre-agreed with the Financial authority in the Netherlands from the input VAT registered by the Photon Energy N.V. and its Dutch subsidiaries within the years 2011 to 2016 and considered by the Authority as unjustified input VAT.

## 27.3 Current tax liability

Other liabilities in amount of EUR 305 thousand represent payable for other taxes. This liability relates mainly to the Czech SPVs and is result of their actual annual result.

# 28. Financial instruments

The major financial risks faced by the Company are those related to credit exposures, exchange change risk, interest rate risk and tax levy risk. These risks are managed in the following manner.

## 28.1 Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the contractual maturities of financial liabilities including estimated interest payments and excluding the impact of netting agreements:

**31 December 2016**

| *In thousand of EUR* | Carrying amount | Contractual cash flows | 1 – 12 months | 1 – 2 years | 2 – 5 years | More than 5 years |
|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | |
| Secured bank loans | 41,147 | 47,607 | 4,639 | 4,502 | 14,639 | 23,827 |
| Other loans | 569 | 564 | 286 | 277 | 0 | 0 |
| Trade payables | 619 | 619 | 619 | 0 | 0 | 0 |
| Bond | 10,932 | 12,169 | 858 | 10,304 | 146 | 861 |
| Other payables | 3,034 | 3,034 | 3,034 | 0 | 0 | 0 |
| Tax payables | 383 | 383 | 383 | 0 | 0 | 0 |
| | **56,684** | **63,566** | **19,265** | **4,828** | **14,785** | **24,688** |

**31 December 2015**

| *In thousand of EUR* | Carrying amount | Contractual cash flows | 1 – 12 months | 1 – 2 years | 2 – 5 years | More than 5 years |
|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | |
| Secured bank and other loans | 42,068 | 48,850 | 4,560 | 4,415 | 13,770 | 26,104 |
| Other loans | 808 | 848 | 293 | 285 | 269 | 0 |
| Trade payables | 1,061 | 1,061 | 1,061 | 0 | 0 | 0 |
| Bond | 8, 060 | 9,511 | 645 | 645 | 8,221 | 0 |
| Other payables | 2,728 | 2,728 | 2,728 | 0 | 0 | 0 |
| Tax payables | 747 | 747 | 747 | 0 | 0 | 0 |
| | **55,472** | **63,744** | **10,034** | **5,346** | **22,261** | **26,104** |

In 2016, other loans consisted of a loan provided by a non-bank financial institution therefore it is classified as other loan. The interest rate charged was 3%.

# 28. Financial instruments (continued)

## 28.1 Liquidity risk (continued)

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

### Effective interest rates and re-pricing analysis

In respect of interest-bearing financial liabilities, the following tables indicate their effective interest rates at the reporting date and the periods in which they re-price. The table includes only loans with variable interest rate and the balance is shown in a period within 6 months, as the interest rate is changed within this period.

For 2016, none of the bank loans have a variable interest rate (the Czech portfolio has a fixed interest rate and the Slovak portfolio interest rates are hedged), therefore the table below includes only those hedged (Slovak SPVs).

**2016:**

| *In thousand of EUR* | Effective interest rate | Total | 6 months or less | 6–12 months | 1–5 years | Fixed interest rate |
|---|---|---|---|---|---|---|
| Bank loans | 2.82% | -12,512 | -12,512 | 0 | 0 | 0 |
| **Total** | | **-12,512** | **-12,512** | **0** | **0** | **0** |

**2015:**

| *In thousand of EUR* | Effective interest rate | Total | 6 months or less | 6–12 months | 1–5 years | Fixed interest rate |
|---|---|---|---|---|---|---|
| Bank loans | 2.82% | -12,008 | -12,008 | 0 | 0 | 0 |
| **Total** | | **-12,008** | **-12,008** | **0** | **0** | **0** |

## 28.2 Credit risk

### Exposure to credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Company.

The Company's exposure to credit risk is disclosed in the tables below that show the analysis of credit quality of financial assets:

### Trade receivables

| *In thousand of EUR* | 2016 | 2015 |
|---|---|---|
| **Financial assets** | | |
| Not due yet | 362 | 524 |
| Overdue 180 days or less | 604 | 323 |
| Overdue over 180 days | 156 | 70 |
| **Total** | **1,122** | **917** |
| **Out of which** | | |
| Overdue 180 days or less | 0 | 0 |
| Overdue over 180 days | 0 | 0 |
| Impairment loss to trade receivables overdue 360 days | 0 | 0 |
| **Total overdue impaired** | **0** | **0** |
| **Total overdue not impaired** | **760** | **393** |
| **Total financial assets after impairment** | **1,111** | **917** |

| *In thousand of EUR* | **2016** |
|---|---|
| Allowance for receivables as at 31. 12. 2015 | 0 |
| Creation of allowance in 2015 | 0 |
| Allowance for receivables as at 31. 12. 2016 | 0 |

The Group believes that the other unimpaired amounts that are past due by more than 30 days are still collectible based on historic payment behavior; business relationships or management judgment.

Based on historic default rates, the Group believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 30 days.

## 28.3 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. It is measured by the extent to which changes in market interest rates impact on net interest expense.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

| *In thousand of EUR* | **Carrying amount** | |
|---|---|---|
| | **2016** | **2015** |
| **Interest rate instruments** | | |
| Financial assets | 0 | 0 |
| Financial liabilities | -41,686 | -42,876 |
| | **-41,686** | **-42,876** |

Financial liabilities comprise short-term and long-term bank loans (see note 25).

In respect of interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and also due date of loans based on the valid repayment schedules:

**Interest bearing financial liabilities**

**31 December 2016**

| *In thousand of EUR* | **Effective interest rate** | **Total** | **Less than 1 year** | **2–5 years** | **More than 5 years** |
|---|---|---|---|---|---|
| Bank loans | 4.53% | 41,686 | 4,910 | 19,384 | 23,827 |
| **Total** | | **41,686** | **4,910** | **19,384** | **23,827** |

**31 December 2015**

| *In thousand of EUR* | **Effective interest rate** | **Total** | **Less than 1 year** | **2–5 years** | **More than 5 years** |
|---|---|---|---|---|---|
| Bank loans | 4.57% | 42,068 | 2,762 | 13,202 | 26,104 |
| **Total** | | **42,068** | **2,762** | **13,202** | **26,104** |

### Loans and borrowings with variable rate

Below analysis includes only loans with a variable interest rate.

For 2016, any of the bank loans have a variable interest rate (the Czech portfolio has a fixed interest rate and the Slovak portfolio interest rates are hedged) therefore the table below includes only those hedged (Slovak SPVs).

**2016:**

| *In thousand of EUR* | Effective interest rate | Total | 6 months or less | 6–12 months | 1–5 years | Fixed interest rate |
|---|---|---|---|---|---|---|
| Bank loans | 2.82% | -12,512 | -12,512 | 0 | 0 | 0 |
| **Total** | | **-12,008** | **-12,008** | **0** | **0** | **0** |

**2015:**

| *In thousand of EUR* | Effective interest rate | Total | 6 months or less | 6–12 months | 1–5 years | Fixed interest rate |
|---|---|---|---|---|---|---|
| Bank loans | 2.82% | -12,008 | -12,008 | 0 | 0 | 0 |
| **Total** | | **-12,008** | **-12,008** | **0** | **0** | **0** |

### Loans and borrowings with variable rate – Slovak portfolio

Slovak loans interest rate is hedged by the interest derivatives.

Total amount of derivatives reserve amounted to EUR 205 thousand as of 31 December 2016 (2015: EUR 420 thousand).

### Loans and borrowings with variable rate

**2016:**

| *In EUR thousand* | Carrying amount | Contractual cash flow | | | | | |
|---|---|---|---|---|---|---|---|
| **Derivatives financial liabilities** | | **Total** | **1 year** | **2 years** | **3 year** | **4 years** | **5 years** |
| Interest rate swaps used for hedging | 499 | 620 | 176 | 151 | 127 | 96 | 70 |

**2015:**

| *In EUR thousand* | Carrying amount | Contractual cash flow | | | | | |
|---|---|---|---|---|---|---|---|
| **Derivatives financial liabilities** | | **Total** | **1 year** | **2 years** | **3 year** | **4 years** | **5 years** |
| Interest rate swaps used for hedging | 580 | 717 | 195 | 168 | 143 | 120 | 91 |

The effect on equity would be the same as the effect on profit or loss. In the calculation, the assumptions that current debt maturing in 2016 will be rolled over in that period.

Actual interest expenses related to bank loans and borrowings incurred by the Company in 2016 were EUR 3,109 thousand (2015: EUR 3,204 thousand) coming from the carrying value of loans drawn in the amount of EUR 41,686 thousand as at 31 December 2016 (2015: EUR 42,876 thousand).

An increase/decrease of interest rates by 1% at the reporting date would have decreased/increased the profit before tax by EUR 19 thousand as shown in the following table. This analysis assumes that all other variables remain constant.

| 31.12.2016 | Effective interest rate | Total | Interest (calculated) | Effective interest rate | Interest (calculated) | Additional PL effect | Effective interest rate | Interest (calculated) | Additional PL effect |
|---|---|---|---|---|---|---|---|---|---|
| Bank loans with variable rate | 4.62 | 41,686 | 1,926 | 4.67 | 1,945 | -19 | 4.57 | 1,907 | 19 |
| **Total** | | **41,686** | **1,926** | | | **-19** | | | **19** |

| 31.12.2015 | Effective interest rate | Total | Interest (calculated) | Effective interest rate | Interest (calculated) | Additional PL effect | Effective interest rate | Interest (calculated) | Additional PL effect |
|---|---|---|---|---|---|---|---|---|---|
| Bank loans with variable rate | 4.65 | 42,876 | 1,995 | 4.70 | 2,015 | -20 | 4.61 | 1,975 | 20 |
| **Total** | | **42,876** | **1,995** | | | **-20** | | | **20** |

## 28.4 Exchange rate risk

The Company's functional currency of its major subsidiaries is EUR and CZK. Foreign exchange risk is associated with sales and purchases of goods and services and loans received denominated in local currencies.

An increase/decrease of exchange rates by 10% at the reporting date would have decreased/increased the profit before tax by EUR 67 thousand (EUR 82 thousand respectively) as shown in the following table. This analysis assumes that all other variables remain constant.

**2016**

| | 31 December 2016 | + 10% | - 10% |
|---|---|---|---|
| **exchange rate CZK/EUR** | 27.021 | 29.7231 | 24.3189 |

| 31.12.2016 | Currency | in Currency | teur | Teur +10% | change | teur -10% | change |
|---|---|---|---|---|---|---|---|
| Trade receivables | tczk | 43,038 | 1,593 | 1,448 | -145 | 1,770 | 177 |
| **Total TCZK** | | | | | -145 | | 177 |

| 31.12.2016 | Currency | in Currency | teur | Teur +10% | change | teur -10% | change |
|---|---|---|---|---|---|---|---|
| Trade payables, loans | tczk | -62,897 | -2,328 | -2,116 | 212 | -2,586 | -259 |
| **Total TCZK** | | | | | **212** | | **-259** |

**2015**

| | 31 December 2015 | + 10% | - 10% |
|---|---|---|---|
| **exchange rate CZK/EUR** | 27.025 | 29.728 | 24.322 |

| 31.12.2015 | Currency | in Currency | teur | Teur +10% | change | teur -10% | change |
|---|---|---|---|---|---|---|---|
| Trade receivables | tczk | 36,438 | 1,348 | 1,226 | -123 | 1,498 | 150 |
| **Total TCZK** | | | | | -123 | | 150 |

| 31.12.2015 | Currency | in Currency | teur | Teur +10% | change | teur -10% | change |
|---|---|---|---|---|---|---|---|
| Trade payables, loans | tczk | -49,826 | -1,844 | -1,676 | 168 | -2,049 | -205 |
| **Total TCZK** | | | | | **168** | | **-205** |

## 28.5 Accounting classifications and fair values

### Fair values vs. carrying amounts

The fair values of financial assets and liabilities together with the carrying amounts shown in the statement of financial position are as follows. For the other financial assets/financial liabilities, the fair value approximates the carrying amount.

### 31 December 2016

| *In thousand of EUR* | Note | Fair value – hedging instruments | Loans and receivables | Other financial liabilities | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|
| Cash and Cash equivalents | 23 | 0 | 5,420 | 0 | 5,420 | 5,420 |
| Loans and receivables | 21 | 0 | 4,085 | 0 | 4,085 | 4,085 |
| Secured bank loans | 26 | 0 | 0 | 41,147 | 41,147 | 41,147 |
| Other loans | 26 | 0 | 0 | 538 | 538 | 538 |
| Trade payables | 27 | 0 | 0 | 619 | 619 | 619 |
| Bond | 27 | 0 | 10,932 | 0 | 10,932 | 10,932 |
| Other payables | 27 | 0 | 0 | 2,894 | 2,894 | 2,894 |
| Tax payables | 27 | 0 | 0 | 305 | 305 | 305 |
| Interest rate derivatives | 4.3.2 | 1,550 | 0 | 0 | 1,550 | 1,550 |

### 31 December 2015

| *In thousand of EUR* | Note | Fair value – hedging instruments | Loans and receivables | Other financial liabilities | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|
| Cash and Cash equivalents | 23 | 0 | 5,297 | 0 | 5,297 | 5,297 |
| Loans and receivables | 21 | 0 | 3,981 | 0 | 3,981 | 3,981 |
| Secured bank loans | 26 | 0 | 0 | 42,068 | 42,068 | 42,068 |
| Other loans | 26 | 0 | 0 | 808 | 808 | 808 |
| Trade payables | 27 | 0 | 0 | 1,061 | 1,061 | 1,061 |
| Bond | 27 | 0 | 8,060 | 0 | 8,060 | 8,060 |
| Other payables | 27 | 0 | 0 | 1,152 | 1,152 | 1,152 |
| Tax payables | 27 | 0 | 0 | 747 | 747 | 747 |
| Interest rate derivatives | 4.3.2 | 1,576 | 0 | 0 | 1,576 | 1,576 |

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the end of the reporting period plus an appropriate credit spread discount rate used equalled to 4.62% for 2016.

### Fair value hierarchy

The table above analyses financial instruments carried at fair value by the levels in the fair value hierarchy. The different levels have been defined as follows.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**31 December 2016**

| *In thousand of EUR* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash and Cash equivalents | 0 | 5,420 | 0 | **5,420** |
| Loans and receivables | 0 | 3,981 | 0 | **3,981** |
| Secured bank loans | 0 | 41,147 | 0 | **41,147** |
| Other loans | 0 | 538 | 0 | **538** |
| Trade payables | 0 | 619 | 0 | **619** |
| Bond | 0 | 10,932 | 0 | **10,932** |
| Other payables | 0 | 2,984 | 0 | **2,984** |
| Tax payables | 0 | 305 | 0 | **305** |
| Interest rate derivatives | 0 | 499 | 0 | **499** |

**31 December 2015**

| *In thousand of EUR* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash and Cash equivalents | 0 | 5,297 | 0 | **5,297** |
| Loans and receivables | 0 | 3,981 | 0 | **3,981** |
| Secured bank loans | 0 | 42,068 | 0 | **42,068** |
| Other loans | 0 | 808 | 0 | **808** |
| Trade payables | 0 | 1,061 | 0 | **1,061** |
| Bond | 0 | 8,060 | 0 | **8,060** |
| Other payables | 0 | 1,152 | 0 | **1,152** |
| Tax payables | 0 | 747 | 0 | **747** |
| Interest rate derivatives | 0 | 580 | 0 | **580** |

All financial assets and financial liabilities (refer to Note 4.3.4) have been defined to Level 2.

Assumptions used for calculating revalued amounts of PPE (level 3) are as follows:

The DCF Equity valuation method is based on a Discounted Cash Flow method. It includes the future cash flows available to the shareholders/providers of equity of photovoltaic projects (i.e. after all debt repayments and interests) that are later discounted by respective discount rates. The risk profile is represented by a discount rate (cost of equity levered). Due to existence of senior project finance the cost of equity calculated by CAPM formula is adjusted by Miller-Modigliani formula to achieve the most precise cost of equity levered for each project respecting it unique capital structure.

In the valuation model, a quarterly discount is applied. This is based on the fact that debt repayments are happening on quarterly basis. This is effecting the overall change in financing structure and indirectly effecting cost of equity levered.

# 29. Related parties

Balances and transactions between the Company and its subsidiaries which are related parties of the Company have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

## 29.1 Parent and ultimate controlling party

The Company is jointly controlled by Mr. Michael Gartner (via Solar Future Coöperatief U.A. and Solar Age Investments B.V.) and Mr. Georg Hotar (via Solar Power to the People Coöperatief U.A. and Solar Age Investments B.V.), who are the Company's directors.

The original lender (loans provided to the Directors) has been sold out of the Group in December 2012. However, the Group has provided the following loans to the above directors in compliance with the arm-length principle:

| *In thousand of EUR* | **2016** | **2015** |
|---|---|---|
| Balance at beginning of year | 103 | 81 |
| Transferred due to the sale | 0 | 0 |
| Loan provided to Mr. Hotar | 60 | 22 |
| Unpaid interests (Mr. Hotar) | 0 | 0 |
| Loan provided to Mr. Gartner | 0 | 0 |
| Unpaid interests (Mr. Gartner) | 0 | 0 |
| Effect of the movement of Fx rate | 0 | 0 |
| **Carrying amount at 31 December** | **163** | **103** |

Members of the board of directors did not receive for their board of directors related duties for the Group entities any compensation in 2016 and in 2015. There were no trade relations between the Group and members of the board of directors of the Company.

### Other related party transactions

| *In thousand of EUR* | **transaction value for the year-ended** | | **balance outstanding at the year-end** | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **Sale of goods and services** | | | | |
| Joint ventures – sale of services | 0 | 0 | 0 | 0 |
| Joint ventures – construction contracts revenues | 0 | 0 | 0 | 0 |
| (SK SPV1, Solarpark Myjava,Solarpark Polianka) | | | | |
| **Purchase of goods and services** | | | | |
| Joint ventures – purchase of services | 51 | 68 | 0 | 0 |
| **Current assets** | | | | |
| Loans | 0 | 0 | 0 | 0 |

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

# 30. Group entities

### Subsidiaries

The following subsidiaries are consolidated as at 31 December 2016.

| | Name | % of share capital held by the holding company | % of votes held by the holding company | Country of registration | Legal Owner |
|---|---|---|---|---|---|
| 1 | Photon Energy N.V. | Holding Company | | NL | |
| 2 | Photon Directors B.V. | 100% | 100% | NL | Photon Energy |
| 3 | Photon Energy Engineering B.V. | 100% | 100% | NL | Photon Energy |
| 4 | Photon Energy Operations N.V. | 100% | 100% | NL | Photon Energy |
| 5 | Photon Energy Australia Pty Ltd. | 100% | 100% | AUS | Photon Energy |
| 6 | Photon Energy Generation Australia Pty. Ltd. | 100% | 100% | AUS | Photon Energy |
| 7 | Photon Energy Operations Australia Pty.Ltd. | 100% | 100% | AUS | PEO NV |
| 8 | Photon Energy Engineering Australia Pty Ltd | 100% | 100% | AUS | PEE BV |
| 9 | Photon Energy AUS SPV 1 Pty. Ltd. | 100% | 100% | AUS | Photon Energy |
| 10 | Photon Energy AUS SPV 2 Pty. Ltd. | 100% | 100% | AUS | Photon Energy |
| 11 | Photon Energy AUS SPV 3 Pty. Ltd. | 100% | 100% | AUS | Photon Energy |
| 12 | Photon Energy AUS SPV 4 Pty. Ltd. | 100% | 100% | AUS | Photon Energy |
| 13 | Global Investment Protection AG | 100% | 100% | CH | Photon Energy |
| 14 | Photon Energy Corporate Services CZ s.r.o. | 100% | 100% | CZ | Photon Energy |
| 15 | Photon SPV 1 s.r.o. | 100% | 100% | CZ | Photon Energy |
| 16 | Photon Energy Operations CZ s.r.o. | 100% | 100% | CZ | PEO NV |
| 17 | Photon Energy Control s.r.o. | 100% | 100% | CZ | PEO CZ |
| 18 | Photon Energy Cardio s.r.o. | 100% | 100% | CZ | PEO CZ |
| 19 | Photon Energy Technology CEE s.r.o. | 100% | 100% | CZ | PEE BV |
| 20 | Photon Water s.r.o. | 100% | 100% | CZ | Photon Energy |
| 21 | Photon Water Technology s.r.o. | 100% | 100% | CZ | Photon Energy |
| 22 | Photon Energy Solutions s.r.o | 100% | 100% | CZ | Photon Energy |
| 23 | Photon Energy Projects s.r.o. | 100% | 100% | CZ | Photon Energy |
| 24 | The Special One s.r.o. | 100% | 100% | CZ | Photon Energy |
| 25 | Charles Bridge Services s.r.o. | 100% | 100% | CZ | Photon Energy |
| 26 | Photon Energy Finance Europe GmbH | 100% | 100% | DE | Photon Energy |
| 27 | Photon Energy Corporate Services DE GmbH | 100% | 100% | DE | Photon Energy |
| 28 | Photon Energy Engineering Europe GmbH | 100% | 100% | DE | PEE BV |
| 29 | EcoPlan 2 s.r.o. | 100% | 100% | SK | Photon Energy |
| 30 | EcoPlan 3 s.r.o. | 100% | 100% | SK | Photon Energy |
| 31 | Fotonika, s.r.o. | 100% | 100% | SK | Photon Energy |
| 32 | Photon SK SPV 1 s.r.o. | 50% | 50% | SK | Photon Energy |
| 33 | Photon SK SPV 2 s.r.o. | 100% | 100% | SK | Photon Energy |
| 34 | Photon SK SPV 3 s.r.o. | 100% | 100% | SK | Photon Energy |
| 35 | Solarpark Myjava s.r.o. | 50% | 50% | SK | Photon Energy |
| 36 | Solarpark Polianka s.r.o. | 50% | 50% | SK | Photon Energy |
| 37 | SUN4ENERGY ZVB, s.r.o. | 100% | 100% | SK | Photon Energy |
| 38 | SUN4ENERGY ZVC, s.r.o. | 100% | 100% | SK | Photon Energy |
| 39 | ATS Energy, s.r.o. | 100% | 100% | SK | Photon Energy |
| 40 | Photon Energy Operations SK s.r.o. | 100% | 100% | SK | PEO NV |

*CZ = Czech Republic, SK = Slovak Republic, NL = Netherlands, CH = Switzerland, AUS = Australia*

The following subsidiaries are consolidated as at 31 December 2015.

| | Name | % of share capital held by the holding company | % of votes held by the holding company | Country of registration | Legal Owner |
|---|---|---|---|---|---|
| 1 | Photon Energy N.V. | Holding Company | | NL | |
| 2 | Photon Directors B.V. | 100% | 100% | NL | Photon Energy |
| 3 | Photon Energy Operations N.V. | 100% | 100% | NL | Photon Energy |
| 4 | Photon Energy Engineering B.V. | 100% | 100% | NL | Photon Energy |
| 5 | Photon Energy Investments DE N.V. | 100% | 100% | NL | Photon Energy |
| 6 | Photon Energy Investments CZ N.V. | 100% | 100% | NL | Photon Energy |
| 7 | European Solar Holdings B.V. | 100% | 100% | NL | Photon Energy |
| 8 | Photon Energy Australia Pty Ltd. | 100% | 100% | AUS | Photon Energy |
| 9 | Photon Energy Operations Australia Pty.Ltd. | 100% | 100% | AUS | PEO NV |
| 10 | Photon Energy Engineering Australia Pty Ltd | 100% | 100% | AUS | PEE BV |
| 11 | Photon Energy AUS SPV 1 Pty. Ltd. | 100% | 100% | AUS | Photon Energy |
| 12 | Photon Energy AUS SPV 2 Pty. Ltd. | 100% | 100% | AUS | Photon Energy |
| 13 | Photon Energy Generation Australia Pty. Ltd. | 100% | 100% | AUS | Photon Energy |
| 14 | Global Investment Protection AG | 100% | 100% | CH | Photon Energy |
| 15 | Photon Energy Corporate Services CZ s.r.o. | 100% | 100% | CZ | Photon Energy |
| 16 | Photon Energy Operations CZ s.r.o. | 100% | 100% | CZ | PEO NV |
| 17 | Photon Energy Control s.r.o. | 100% | 100% | CZ | PEO CZ |
| 18 | Photon Energy Technology CEE s.r.o. | 100% | 100% | CZ | PEE BV |
| 19 | Photon SPV 1 s.r.o. | 100% | 100% | CZ | Photon Energy |
| 20 | Photon Energy Operations DE GmbH | 100% | 100% | DE | PEO NV |
| 21 | Photon Energy Engineering Europe GmbH | 100% | 100% | DE | PEE BV |
| 22 | Photon Energy Corporate Services DE GmbH | 100% | 100% | DE | Photon Energy |
| 23 | Photon Energy Finance Europe GmbH | 100% | 100% | DE | Photon Energy |
| 24 | Photon SK SPV 1 s.r.o. | 50% | 50% | SK | Photon Energy |
| 25 | Photon SK SPV 2 s.r.o. | 100% | 100% | SK | Photon Energy |
| 26 | Photon SK SPV 3 s.r.o. | 100% | 100% | SK | Photon Energy |
| 27 | EcoPlan 2 s.r.o. | 100% | 100% | SK | Photon Energy |
| 28 | EcoPlan 3 s.r.o. | 100% | 100% | SK | Photon Energy |
| 29 | SUN4ENERGY ZVB, s.r.o. | 100% | 100% | SK | Photon Energy |
| 30 | SUN4ENERGY ZVC, s.r.o. | 100% | 100% | SK | Photon Energy |
| 31 | Fotonika, s.r.o. | 60% | 50% | SK | Photon Energy |
| 32 | ATS Energy, s.r.o. | 70% | 70% | SK | Photon Energy |
| 33 | Solarpark Myjava s.r.o. | 50% | 50% | SK | Photon Energy |
| 34 | Solarpark Polianka s.r.o. | 50% | 50% | SK | Photon Energy |
| 35 | Photon Energy Operations SK s.r.o. | 100% | 100% | SK | PEO NV |
| 36 | IPVIC GbR | 18.5% | 18.5% | DE | Photon Energy |

*CZ = Czech Republic, SK = Slovak Republic, NL = Netherlands, CH = Switzerland, AUS = Australia*

Other consolidated subsidiaries (special purpose entities) exist as at 31 December 2016, where the holding company has control but does not have any ownership or direct voting rights. The following entities are included:

| Name | % of Consolidated share | % of Ownership share | Country of registration | Legal Owner |
|---|---|---|---|---|
| Photon SPV 3 s.r.o. | 100% | 0% | CZ | RL |
| Photon SPV 8 s.r.o. | 100% | 0% | CZ | RL |
| Exit 90 SPV s.r.o. | 100% | 0% | CZ | RL |
| Photon SPV 4 s.r.o. | 100% | 0% | CZ | RL |
| Photon SPV 6 s.r.o. | 100% | 0% | CZ | RL |
| Onyx Energy s.r.o. | 100% | 0% | CZ | RL |
| Onyx Energy projekt II s.r.o. | 100% | 0% | CZ | RL |
| Photon SPV 10 s.r.o. | 100% | 0% | CZ | RL |
| Photon SPV 11 s.r.o. | 100% | 0% | CZ | RL |

*CZ = Czech Republic*

100% share in the above entities is owned by Raiffeisen – Leasing s.r.o. ("RL"). Although those companies are legally owned by RL, the Group consolidates them under IFRS rules. Photon Energy N.V. is considered the beneficial owner as it is owner of economic benefits and is directly exposed to economic risks of those companies.

## 31. Subsequent events

**Sale of 35% share in Photon Water Technology s.r.o.**
31st January 2017, Photon Energy N.V. sold 35% share in the company Photon Water Technology s.r.o. for the sales price of EUR 2.5 thousands, while maintaining the control over the entity.

**Sale of 100% share in Photon Water s.r.o.**
28th February 2017, Photon Energy N.V. sold 100% share in the company Photon Water s.r.o. for the sales price limitly close to zero EUR.

## 32. Contingent assets and liabilities

There are no significant contingent assets or liabilities that need to be disclosed.

PHOTON ENERGY

# Standalone Financial Statements

## for the year ended 31 December 2016

## Company balance sheet as at 31 December 2016

*(before profit appropriation)*

| *In thousand of EUR* | Note | 31 December 2016 | 31 December 2015 |
|---|---|---|---|
| **Fixed assets** | | | |
| Financial fixed assets | 36 | 36,034 | 37,734 |
| Intangible assets | 36 | 12 | 22 |
| **Total fixed assets** | | **36,046** | **37,756** |
| **Current assets** | | | |
| Trade and other receivables | 38 | 4,048 | 2,297 |
| Loans | 37 | 8,720 | 6,709 |
| Cash and cash equivalents | 38 | 438 | 55 |
| **Total current assets** | | **13,206** | **9,061** |
| **Total assets** | | **49,252** | **46,817** |
| | | | |
| **Shareholders' equity** | **39** | | |
| Issued share capital | | 600 | 600 |
| Share premium | | 36,871 | 36,871 |
| Revaluation reserve | | 16,056 | 17,641 |
| Derivatives reserve | | -204 | -420 |
| Currency translation reserve | | -1,139 | -975 |
| Unappropriated result | | -2,660 | -1,088 |
| Retained Earnings | | -25,343 | -24,240 |
| **Total equity** | | **24,180** | **28,389** |
| **Non-current liabilities** | **40** | **13,045** | **8,598** |
| Other loans | | 2,113 | 538 |
| Other long-term liability | | 10,932 | 8,060 |
| **Current liabilities** | **41** | **12,028** | **9,831** |
| Trade and other liabilities | | 9,139 | 6,419 |
| Other loans | | 2,889 | 3,412 |
| **Total equity and liabilities** | | **49,252** | **46,817** |

*The notes on pages 121 to 128 are an integral part of these financial statements.*

## Company income statement for the financial year ended 31 December 2016

| *In thousand of EUR* | **1 January 2016 – 31 December 2016** | **1 January 2015 – 31 December 2015** |
|---|---|---|
| Share in results from participating interests, after taxation | -4,010 | -1,593 |
| Income from subsidiaries | 0 | 632 |
| Other result after taxation | 1,350 | -127 |
| **Net result** | **-2,660** | **-1,088** |

*The notes on pages 121 to 128 are an integral part of these financial statements.*

# Notes to the Company Financial Statements

## for the year ended 31 December 2016

## 34. General

The company financial statements are part of the 2016 financial statements of Photon Energy N.V. (the 'Company'). With reference to the income statement of the company, use has been made of the exemption pursuant to Section 402 of Book 2 of the Netherlands Civil Code.

## 35. Principles for the measurement of assets and liabilities and the determination of the result

For setting the principles for the recognition and measurement of assets and liabilities and determination of the result for its company financial statements, the Company makes use of the option provided in section 2:362 (8) of the Netherlands Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the company financial statements of the Company are the same as those applied for the consolidated EU-IFRS financial statements. Participating interests, over which significant influence is exercised, are stated on the basis of the equity method. These consolidated EU-IFRS financial statements are prepared according to the standards laid down by the International Accounting Standards Board and endorsed by the European Union (hereinafter referred to as EU-IFRS). Please see pages 23 to 37 for a description of these principles. The share in the result of participating interests consists of the share of the Company in the result of these participating interests. Results on transactions, where the transfer of assets and liabilities between the Company and its participating interests and mutually between participating interests themselves are not incorporated insofar as they can be deemed to be unrealised.

## 36. Financial fixed assets

| *In thousand of EUR* | **31 December 2016** | **31 December 2015** |
|---|---|---|
| Participating interests in group companies | 36,435 | 37,734 |
| | **36,435** | **37,734** |

**The movements of the financial fixed assets can be shown as follows:**

| *In thousand of EUR* | **Note** | **Participating interests in group companies** | **Total** |
|---|---|---|---|
| **Balance at 1 January 2016** | | **37,734** | **37,734** |
| Capital contribution existing subsidiaries | 36 | 236 | 236 |
| Revaluation reserve change | 36 | -1,585 | -1,165 |
| Share in result of participating interests | 43 | -3,284 | -3,303 |
| Set-up of new entities | 36 | 100 | 100 |
| Excess cash correction | 36 | 1,072 | 1,072 |
| Liquidation of subsidiaries | 36 | -227 | -227 |
| Share in foreign currency translation differences in participating interest | 36 | -170 | -170 |
| Dividend payment | 36 | -662 | -662 |
| Derivatives | 36 | 215 | 215 |
| Sale of subsidiaries | | 0 | 0 |
| **Balance at 31 December** | | **33,430** | **33,831** |
| Allowances | 36 | 2,604 | 2,604 |
| **Final balance at 31 December 2016** | | **36,034** | **36,435** |

**2016**

A participating legal Company is under Dutch law a participation which exercises significant influence over the operating and financial policies (hereinafter: participation), valued using the equity method. This method means that the carrying amount of the investment is increased or decreased by the share in the results and changes in equity of the associate, less the dividend from the participation. The carrying amount, the share in the

results and changes in equity are determined according to the principles of the holding.

Therefore the direct changes in equity in the participations of PE NV are included in the standalone financial statements of the Company.

The direct equity movements of the subsidiaries of PE NV consist of:

1) Revaluation of assets valued at fair value in the participations (decrease of value of assets)
2) Foreign currency translation differences in the participations
3) Effective portion of hedging derivatives in the participations

**The Company, with statutory seat in Amsterdam, is the holding company and has the following financial interests:**

| | Name | % of share capital held by the holding company | % of votes held by the holding company | Country of registration | Legal Owner |
|---|---|---|---|---|---|
| 1 | Photon Energy N.V. | Holding Company | | NL | |
| 2 | Photon Directors B.V. | 100% | 100% | NL | Photon Energy |
| 3 | Photon Energy Engineering B.V. | 100% | 100% | NL | Photon Energy |
| 4 | Photon Energy Operations N.V. | 100% | 100% | NL | Photon Energy |
| 5 | Photon Energy Australia Pty Ltd. | 100% | 100% | AUS | Photon Energy |
| 6 | Photon Energy Generation Australia Pty. Ltd. | 100% | 100% | AUS | Photon Energy |
| 7 | Photon Energy Operations Australia Pty.Ltd. | 100% | 100% | AUS | PEO NV |
| 8 | Photon Energy Engineering Australia Pty Ltd | 100% | 100% | AUS | PEE BV |
| 9 | Photon Energy AUS SPV 1 Pty. Ltd. | 100% | 100% | AUS | Photon Energy |
| 10 | Photon Energy AUS SPV 2 Pty. Ltd. | 100% | 100% | AUS | Photon Energy |
| 11 | Photon Energy AUS SPV 3 Pty. Ltd. | 100% | 100% | AUS | Photon Energy |
| 12 | Photon Energy AUS SPV 4 Pty. Ltd. | 100% | 100% | AUS | Photon Energy |
| 13 | Global Investment Protection AG | 100% | 100% | CH | Photon Energy |
| 14 | Photon Energy Corporate Services CZ s.r.o. | 100% | 100% | CZ | Photon Energy |
| 15 | Photon SPV 1 s.r.o. | 100% | 100% | CZ | Photon Energy |
| 16 | Photon Energy Operations CZ s.r.o. | 100% | 100% | CZ | PEO NV |
| 17 | Photon Energy Control s.r.o. | 100% | 100% | CZ | PEO CZ |
| 18 | Photon Energy Cardio s.r.o. | 100% | 100% | CZ | PEO CZ |
| 19 | Photon Energy Technology CEE s.r.o. | 100% | 100% | CZ | PEE BV |
| 20 | Photon Water s.r.o. | 100% | 100% | CZ | Photon Energy |
| 21 | Photon Water Technology s.r.o. | 100% | 100% | CZ | Photon Energy |
| 22 | Photon Energy Solutions s.r.o | 100% | 100% | CZ | Photon Energy |
| 23 | Photon Energy Projects s.r.o. | 100% | 100% | CZ | Photon Energy |
| 24 | The Special One s.r.o. | 100% | 100% | CZ | Photon Energy |
| 25 | Charles Bridge Services s.r.o. | 100% | 100% | CZ | Photon Energy |
| 26 | Photon Energy Finance Europe GmbH | 100% | 100% | DE | Photon Energy |
| 27 | Photon Energy Corporate Services DE GmbH | 100% | 100% | DE | Photon Energy |
| 28 | Photon Energy Engineering Europe GmbH | 100% | 100% | DE | PEE BV |
| 29 | EcoPlan 2 s.r.o. | 100% | 100% | SK | Photon Energy |
| 30 | EcoPlan 3 s.r.o. | 100% | 100% | SK | Photon Energy |
| 31 | Fotonika, s.r.o. | 100% | 100% | SK | Photon Energy |
| 32 | Photon SK SPV 1 s.r.o. | 50% | 50% | SK | Photon Energy |
| 33 | Photon SK SPV 2 s.r.o. | 100% | 100% | SK | Photon Energy |
| 34 | Photon SK SPV 3 s.r.o. | 100% | 100% | SK | Photon Energy |
| 35 | Solarpark Myjava s.r.o. | 50% | 50% | SK | Photon Energy |
| 36 | Solarpark Polianka s.r.o. | 50% | 50% | SK | Photon Energy |
| 37 | SUN4ENERGY ZVB, s.r.o. | 100% | 100% | SK | Photon Energy |
| 38 | SUN4ENERGY ZVC, s.r.o. | 100% | 100% | SK | Photon Energy |
| 39 | ATS Energy, s.r.o. | 100% | 100% | SK | Photon Energy |
| 40 | Photon Energy Operations SK s.r.o. | 100% | 100% | SK | PEO NV |

*CZ = Czech Republic, SK = Slovak Republic, NL = Netherlands, CH = Switzerland, AUS = Australia*

During 2016, impact of the change of the revaluation reserve amounted to EUR -1,585 thousand.

The Slovak SPVs use hedging derivatives for hedging of interest rates on received loans. Total impact into equity from their revaluation at the year-end amounted to EUR 215 thousand (2015: loss EUR 162 thousand).

The impact of foreign currency translation differences in participating interest resulted in a loss of EUR 1,139 thousand (2015: EUR 975 thousand).

The company booked a provision for negative equity in subsidiaries in the amount of EUR 7,994 thousand (outstanding balance 2015: EUR 5,536 thousand) as the Company's management has intention to maintain and support the related subsidiaries within the structure and support them by providing the required cash-flow and settle their liabilities. This allowance is presented in the current liabilities.

Intangible assets include the value of trademark in the amount of EUR 12 thousand.

The total amount invested into capital contributions (by capitalization of entity's receivables from subsidiaries) to subsidiaries in 2016 amounted to EUR 236 thousand (2015: EUR 598 thousand; refer to Movement schedule above).

Decrease of value resulting from the revaluation of subsidiaries amounted to EUR 1,585 thousand. Impact of derivatives revaluation equaled to EUR 215 thousand (positive); of dividend payment to EUR 662 thousand (negative); of currency retranslation to a loss of EUR 170 thousand. Total result from participations gained loss of EUR 3,284 thousand. Impact of liquidation of Photon Energy Investments CZ N.V. and Photon Energy Investments DE N.V. is EUR 227 thousand. The Company also set-up/purchased new entities in value of EUR 100 thousand. Correction of excess cash payment treatment resulted in positive effect of EUR 1,072 thousand.

### 2016 developments

Photon Energy Investments CZ N.V., European Solar Holdings and Photon Energy Investments DE N.V. were liquidated during 2016.

During 2016, Photon Energy N.V. (directly or via its subsidiaries) incorporated or acquired the following entities:

- The Special One s.r.o.
- Charles Bridge Services s.r.o
- Photon Energy Projects s.r.o.
- Photon Energy Solutions s.r.o.
- Photon Energy AUS SPV 4 Pty. Ltd.
- Photon Energy AUS SPV 3 Pty. Ltd.
- Photon Water Technology s.r.o.
- Photon Water s.r.o.

### Disposals in 2016

- Photon Energy Operations DE GmbH

### Acquisition of full share in 2016

- ATS Energy s.r.o.
- Fotonika s.r.o.

## 37. Loans

| *In thousand of EUR* | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Loans provided | 8,720 | 6,709 |
| | **8,720** | **6,709** |

The balance of loans provided consists of the loans provided primarily to the companies within the Group and its decrease is caused by capitalization of the several loan principals in the subsidiaries. N.V. Interest charge is 3% and the loans have a short-term character.

## 38. Current assets

| *In thousand of EUR* | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Trade and other receivables | 4,048 | 2,297 |
| Cash | 438 | 55 |
| | **4,486** | **2,352** |

# 39. Shareholders' equity

## 39.1 Reconciliation of movement in capital and reserves

| *In thousand of EUR* | Issued share capital | Share premium | Currency translation reserve | Derivatives | Revaluation reserve | Retained earnings | Unappropriated result | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2015** | **600** | **36,871** | **-1,778** | **-581** | **17,166** | **-19,198** | **-5,042** | **28,038** |
| Revaluation of assets in participating interest | - | - | - | - | 475 | - | - | 475 |
| Foreign currency translation differences in participating interest | - | - | 803 | - | - | - | - | 803 |
| Transfer to retained earnings | - | - | - | - | - | -5,042 | 5,042 | 0 |
| Derivatives | - | - | - | 162 | - | - | - | 162 |
| Actual result | - | - | - | - | - | - | -1,088 | -1,720 |
| **Balance at 31 December 2015** | **600** | **36,871** | **-975** | **-420** | **17,641** | **-24,420** | **-1,088** | **28,389** |
| **Balance at 1 January 2016** | **600** | **36,871** | **-975** | **-420** | **17,641** | **-24,420** | **-1,088** | **28,389** |
| Revaluation of assets in participating interest | - | - | - | - | -1,585 | - | - | -1,585 |
| Foreign currency translation differences in participating interest | - | - | -164 | - | - | - | - | -164 |
| Transfer to retained earnings | - | - | - | - | - | -1,088 | 1,088 | 0 |
| Correction of RE previous period | - | - | - | - | - | 165 | - | 165 |
| Derivatives | - | - | - | 215 | - | - | - | 215 |
| Actual result | - | - | - | - | - | - | -2,660 | -2,660 |
| **Balance at 31 December 2016** | **600** | **36,871** | **-1,139** | **-205** | **16,056** | **-25,343** | **-2,660** | **24,180** |

## 39.2 Share capital and share premium

### 39.2.1 Ordinary shares

The Company's share capital is EUR 600,000 divided into 60,000,000 shares with a nominal value of EUR 0.01 each. The share capital is fully paid-up. Each of the 60,000,000 shares represent one vote at the General Meeting of Shareholders.

The holders of ordinary shares (except of Treasury shares) are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings of the Company.

**Reserves**

Reserves of the Company consist of the revaluation reserve, the currency translation reserve and the derivatives reserve.

The revaluation reserve arises on the revaluation of photovoltaic power plant owned by the participation(s) and it amounted to EUR 16,056 thousand as of 31 December 2016 (31 December 2015: EUR 17,641 thousand).

Currency translation reserve includes all foreign translation exchange differences in the participations and amounted to a loss EUR 1,139 thousand as of 31 December 2016 (31 December 2015: EUR 975 thousand).

The derivatives reserve includes results from hedging derivatives in the participations and amounted to a loss of EUR 205 thousand in 2016 (2015: EUR 420 thousand).

### 39.2.2 Unappropriated result

To the General Meeting of Shareholders the following appropriation of the result 2016 will be proposed: the loss of EUR 2,660 thousand to be transferred and added to the retained earnings item in the shareholders' equity.

### 39.2.3 Reconciliation of consolidated group equity with company equity

| *In thousand of EUR* | 31 December 2016 | 31 December 2015 |
|---|---|---|
| **Group equity** | **24,180** | **28,540** |
| **Minority interest of third parties in subsidiary:** | | |
| Non-controlling interest | 0 | 151 |
| **Shareholders' equity (company)** | **24,180** | **28,389** |
| | | |
| **Group result** | **-2,660** | **-1,725** |
| Income from subsidiaries | 0 | 632 |
| **Minority interest of third parties in result:** | | |
| Non-controlling interest | 0 | 5 |
| **Net result (company)** | **-2,660** | **-1,088** |

# 40. Long-term liabilities

| *In thousand of EUR* | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Loans | 2,113 | 538 |
| Other long-term liabilities | 10,932 | 8,060 |
| | **13,045** | **8,598** |

Long-term loan represent long-term portion of loan provided by private financing company as described in chapter 41 (EUR 269 thousand) and loan provided by a group entity (EUR 1,844 thousand). Other long-term liabilities include a EUR bond issued in 2013 (EUR 10,120 thousand) and a CZK bond issued in December 2016 (EUR 812 thousand).

# 41. Current liabilities

| *In thousand of EUR* | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Loans | 2,889 | 3,412 |
| Trade payables | 186 | 331 |
| Accruals and deferred income | 80 | 80 |
| Other payables | 879 | 472 |
| Provision for 2016 negative equity subsidiaries | 7,994 | 5,536 |
| | **12,028** | **9,831** |

Loan provided by private financing company in the original amount of EUR 8,000 thousand was gradually repaid and re-structured, so its outstanding balance as of the year-end 2016 is EUR 568 thousand, out of which EUR 269 thousand is long-term based on the contractual conditions.

Other payables consisted of Company's liabilities from VAT, liabilities towards employees, or resulting from the cash transfers within the Group.

The company booked a provision for negative equity in subsidiaries in the amount of EUR 7,994 thousand (2015: EUR 5,536 thousand) as the Company's management has the intention to maintain and support the related subsidiaries within the structure and support them by providing the required cash-flow and settle their liabilities.

# 42. Financial instruments

## 42.1 General

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk.
- Liquidity risk.
- Market risk.

In the notes to the consolidated financial statements information is included about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

These risks, objectives, policies and processes for measuring and managing risk, and the management of capital apply also to the company financial statements of Photon Energy N.V.

No derivative financial instruments are being used at parent company level.

## 42.2 Fair value

The fair value of the financial instruments stated on the balance sheet, including cash at bank and in hand and current liabilities, is close to the carrying amount.

# 43. Share in results from participating interests

An amount of EUR 4,010 thousand (loss) of share in results from participating interests relates to group companies (2015: loss of EUR 1,593 thousand).

# 44. Fees of the auditor

With reference to Section 2:382a(1) and (2) of the Netherlands Civil Code, the following fees for the financial year have been charged by Grant Thornton Accountants en Adviseurs B.V. to the Company in 2016:

**2016:**

| *In thousand of EUR* | Grant Thornton Accountants en Adviseurs B.V. | Other Grant Thornton member firms and affiliates | Total |
|---|---|---|---|
| Statutory audit of annual accounts | 33 | - | 33 |
| | **33** | **-** | **33** |

With reference to Section 2:382a(1) and (2) of the Netherlands Civil Code, the following fees for the financial year 2015 have been charged by Grant Thornton Accountants en Adviseurs B.V. to the Company:

**2015:**

| *In thousand of EUR* | Grant Thornton Accountants en Adviseurs B.V. | Other Grant Thornton member firms and affiliates | Total |
|---|---|---|---|
| Statutory audit of annual accounts | 33 | - | 33 |
| | **33** | **-** | **33** |

# 45. Related parties

## 45.1 Transactions with key management personnel

### 45.1.1 Key management personnel compensation

Key management personnel did not obtain any compensation for their activity for PE NV in 2016.

### 45.1.2 Key management personnel and director

The directors of the Company control 84.95% of the voting shares of the Company. The Directors hold positions in other group entities that result in having control or significant influence over the financial or operating policies of these entities.

### 45.1.3 Emoluments of directors and supervisory directors

No emoluments, including pension obligations as intended in Section 2:383(1) of the Netherlands Civil Code were charged in the financial period to the Company.

Amsterdam, 13 March 2017

The Board of Directors:

Michael Gartner, Director

Georg Hotar, Director

# Other information

# Other information

## I. Emoluments of directors and supervisory directors

No emoluments, including pension obligations as intended in Section 2:383(1) of the Netherlands Civil Code were charged in the financial period to the Company.

## II. Provisions in the Articles of Association governing the appropriation of profit

According to article 20 of the company's Articles of Association, the profit is at the disposal of the General Meeting of Shareholders, which can allocate the profit wholly or partly to the general or specific reserve funds.

The Company can only make payments to the shareholders and other parties entitled to the distributable profit for the amount the shareholders' equity are greater than the paid-up and called-up part of the capital plus the legally required reserves.

## III. Proposal for profit appropriation

The General Meeting of Shareholders will be asked to approve the following appropriation of the 2016 loss: an amount of EUR 2,679 thousand to be added to the retained earnings.

## IV. Subsequent events

Please refer to note 31 of the consolidated financial statements.

For Photon Energy N.V. there were no other subsequent events affecting the situation at balance sheet date.

## V. Subsidiaries

The Company has subsidiaries in the Czech Republic, Slovak Republic, Germany, Switzerland, Netherlands and Australia. For the list of all subsidiaries refer to the Note 30 of the Consolidated financial statements.

## VI. Independent auditor's report

The independent auditor's report is set forth on the next pages.

To: the shareholders and board of directors of Photon Energy N.V.

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Accountants en Adviseurs B.V.
Laan der Continenten 160
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# INDEPENDENT AUDITOR'S REPORT

## A. Report on the Audit of the Financial Statements

### Opinion

We have audited the accompanying financial statements 2016 of Photon Energy N.V., based in Amsterdam, as set out on pages 1 to 76 The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of Photon Energy N.V. as at December 31, 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- the accompanying company financial statements give a true and fair view of the financial position of Photon Energy N.V. as at December 31, 2016, and of its result for 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1 the consolidated statement of financial position as at 31 December 2016;

2 the following statements for 2016:
the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows; and

3 the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1 the company balance sheet as at 31 December 2016;

2 the company profit and loss account for 2016; and

3 the notes comprising a summary of the accounting policies and other explanatory information.

**Basis for Our Opinion**
We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Photon Energy N.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

## B. Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information, that consists of:

- the management board's report;
- other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the management board's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

## C. Description of responsibilities regarding the financial statements

**Responsibilities of management for the financial statements**
Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

**Our Responsibilities for the audit of the financial statements**

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;

- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and

- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

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

Amsterdam, March 10, 2017

Grant Thornton Accountants en Adviseurs B.V.

M.J.J. Welsink
Registeraccountant

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