

CEZ GROUP

CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS OF DECEMBER 31, 2018

CEZ GROUP

CONSOLIDATED BALANCE SHEET

AS OF DECEMBER 31, 2018

in CZK Millions

	Note	2018	2017 *	Jan 1, 2017 *
ASSETS:				
Plant in service		830,955	833,359	775,181
Less accumulated depreciation and impairment		(445,926)	(437,210)	(418,981)
Net plant in service		385,029	396,149	356,200
Nuclear fuel, at amortized cost		14,427	15,218	14,892
Construction work in progress, net		16,452	16,652	55,803
Total property, plant and equipment	3	415,908	428,019	426,895
Investments in associates and joint-ventures	9	3,361	3,520	5,309
Restricted financial assets, net	4	18,834	18,468	19,011
Other non-current financial assets, net	5	9,948	9,845	14,460
Intangible assets, net	6	31,127	26,804	21,983
Deferred tax assets	35	1,269	1,297	1,596
Total other non-current assets		64,539	59,934	62,359
Total non-current assets		480,447	487,953	489,254
Cash and cash equivalents, net	10	7,278	12,623	11,226
Trade receivables, net	11	72,234	50,559	47,407
Income tax receivable		352	1,171	1,181
Materials and supplies, net	12	8,737	8,325	7,520
Fossil fuel stocks		1,066	1,021	996
Emission rights	13	16,655	9,370	3,958
Other current financial assets, net	5	93,303	43,098	56,886
Other current assets, net	14	9,874	9,756	9,411
Assets classified as held for sale	15	17,497	30	647
Total current assets		226,996	135,953	139,232
Total assets		707,443	623,906	628,486

* The way of presentation was changed in 2018 (see Note 2.3.3). The prior year figures were changed accordingly to provide comparative information on the same basis.

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

CEZ GROUP
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2018

continued

	Note	2018	2017 *	Jan 1, 2017 *
EQUITY AND LIABILITIES:				
Stated capital		53,799	53,799	53,799
Treasury shares		(3,534)	(4,077)	(4,246)
Retained earnings and other reserves		184,456	200,296	207,259
Total equity attributable to equity holders of the parent	16	234,721	250,018	256,812
Non-controlling interests	9	4,560	4,304	4,548
Total equity		239,281	254,322	261,360
Long-term debt, net of current portion	17	142,440	132,475	142,265
Provisions	20	75,798	73,291	66,360
Other long-term financial liabilities	21	15,054	12,509	7,246
Deferred tax liability	35	16,699	19,993	20,213
Other long-term liabilities	22	31	3,335	3,957
Total non-current liabilities		250,022	241,603	240,041
Short-term loans	23	11,783	11,073	8,344
Current portion of long-term debt	17	6,743	10,759	19,393
Trade payables		63,093	48,087	46,264
Income tax payable		253	176	392
Provisions	20	12,323	9,226	8,160
Other short-term financial liabilities	21	110,287	42,864	38,816
Other short-term liabilities	24	7,461	5,796	5,146
Liabilities associated with assets classified as held for sale	15	6,197	-	570
Total current liabilities		218,140	127,981	127,085
Total equity and liabilities		707,443	623,906	628,486

* The way of presentation was changed in 2018 (see Note 2.3.3). The prior year figures were changed accordingly to provide comparative information on the same basis.

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

CEZ GROUP

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2018

in CZK Millions

	Note	2018	2017 *
Sales of electricity, heat, gas and coal		121,450	122,738
Sales of services and other revenues		59,868	76,262
Other operating income		3,168	6,092
Total revenues and other operating income **	25	184,486	205,092
Gains and losses from commodity derivative trading	26	575	1,213
Purchase of electricity, gas and other energies	27	(52,168)	(57,353)
Fuel and emission rights	28	(19,064)	(16,039)
Services	29	(26,092)	(47,812)
Salaries and wages	30	(25,620)	(22,086)
Material and supplies		(8,240)	(5,922)
Capitalization of expenses to the cost of assets and change in own inventories		3,446	2,751
Depreciation and amortization	3, 6	(28,139)	(29,305)
Impairment of property, plant and equipment and intangible assets	7	(1,766)	(230)
Impairment of trade and other receivables		(559)	830
Other operating expenses	31	(7,100)	(5,519)
Income before other income (expenses) and income taxes		19,759	25,620
Interest on debt		(5,177)	(3,761)
Interest on provisions		(1,800)	(1,618)
Interest income	32	315	235
Share of profit (loss) from associates and joint-ventures	9	(308)	(2,387)
Impairment of financial assets		(508)	(1)
Other financial expenses	33	(1,051)	(1,977)
Other financial income	34	2,287	6,642
Total other income (expenses)		(6,242)	(2,867)
Income before income taxes		13,517	22,753
Income taxes	35	(3,017)	(3,794)
Net income		10,500	18,959
Net income attributable to:			
Equity holders of the parent		10,327	18,765
Non-controlling interests		173	194
Net income per share attributable to equity holders of the parent (CZK per share):			
	38		
Basic		19.3	35.1
Diluted		19.3	35.1

* The way of presentation was changed in 2018 (see Note 2.3.3). The prior year figures were changed accordingly to provide comparative information on the same basis. However, year-on-year comparability is significantly affected by the adoption of IFRS 15 as at January 1, 2018 (see Note 2.3.1)

** Total revenues and other operating income for the year 2017 in accordance with IFRS 15 would have been in amount of CZK 173,731 million (see Note 2.3.1).

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

CEZ GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

in CZK Millions

	Note	2018	2017 *
Net income		10,500	18,959
Change in fair value of cash flow hedges		(16,016)	(3,950)
Cash flow hedges reclassified to statement of income		3,927	4,026
Cash flow hedges reclassified to assets		(972)	(394)
Change in fair value of debt instruments		(363)	(1,178)
Disposal of debt instruments		-	(52)
Change in fair value of equity instruments		-	(105)
Disposal of equity instruments	34	-	(5,490)
Translation differences – subsidiaries		107	(3,412)
Translation differences – associates and joint-ventures		115	1,340
Disposal of translation differences		1	751
Share on other equity movements of associates and joint-ventures		-	54
Deferred tax related to other comprehensive income	35	2,555	300
Net other comprehensive income that may be reclassified to statement of income or to assets in subsequent periods		(10,646)	(8,110)
Change in fair value of equity instruments		87	-
Re-measurement gains (losses) on defined benefit plans		(22)	(5)
Deferred tax related to other comprehensive income	35	(11)	1
Net other comprehensive income not to be reclassified from equity in subsequent periods		54	(4)
Total other comprehensive income, net of tax		(10,592)	(8,114)
Total comprehensive income, net of tax		(92)	10,845
Total comprehensive income attributable to:			
Equity holders of the parent		(291)	10,848
Non-controlling interests		199	(3)

* The way of presentation was changed in 2018 (see Note 2.3.3). The prior year figures were changed accordingly to provide comparative information on the same basis.

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

CEZ GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

in CZK Millions

	Note	Attributable to equity holders of the parent							Non-controlling interests	Total equity	
		Stated capital	Treasury shares	Translation difference	Cash flow hedge reserve	Debt instruments	Equity instruments and other reserves	Retained earnings			Total
January 1, 2017 *		53,799	(4,246)	(10,779)	(7,499)	1,666	6,173	217,698	256,812	4,548	261,360
Net income		-	-	-	-	-	-	18,765	18,765	194	18,959
Other comprehensive income		-	-	(1,124)	(258)	(988)	(5,597)	50	(7,917)	(197)	(8,114)
Total comprehensive income		-	-	(1,124)	(258)	(988)	(5,597)	18,815	10,848	(3)	10,845
Dividends		-	-	-	-	-	-	(17,586)	(17,586)	(241)	(17,827)
Sale of treasury shares		-	169	-	-	-	-	(101)	68	-	68
Share options	30	-	-	-	-	-	28	-	28	-	28
Transfer of exercised and forfeited share options within equity		-	-	-	-	-	(34)	34	-	-	-
Acquisition of subsidiaries	8	-	-	-	-	-	-	-	-	255	255
Acquisition of non-controlling interests	8	-	-	-	-	-	-	(7)	(7)	(10)	(17)
Put options held by non-controlling interest		-	-	(3)	-	-	-	(142)	(145)	(245)	(390)
December 31, 2017 *		<u>53,799</u>	<u>(4,077)</u>	<u>(11,906)</u>	<u>(7,757)</u>	<u>678</u>	<u>570</u>	<u>218,711</u>	<u>250,018</u>	<u>4,304</u>	<u>254,322</u>

* The way of presentation was changed in 2018 (see Note 2.3.3). The prior year figures were changed accordingly to provide comparative information on the same basis.

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

CEZ GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

continued

	Note	Attributable to equity holders of the parent								Non-controlling interests	Total equity
		Stated capital	Treasury shares	Translation difference	Cash flow hedge reserve	Debt instruments	Equity instruments and other reserves	Retained earnings	Total		
December 31, 2017		53,799	(4,077)	(11,906)	(7,757)	678	570	218,711	250,018	4,304	254,322
Adoption of IFRS 9 and IFRS 15	2.3.1	-	-	143	-	-	(493)	2,800	2,450	(26)	2,424
January 1, 2018 (restated)		53,799	(4,077)	(11,763)	(7,757)	678	77	221,511	252,468	4,278	256,746
Net income		-	-	-	-	-	-	10,327	10,327	173	10,500
Other comprehensive income		-	-	198	(10,580)	(290)	75	(21)	(10,618)	26	(10,592)
Total comprehensive income		-	-	198	(10,580)	(290)	75	10,306	(291)	199	(92)
Dividends		-	-	-	-	-	-	(17,604)	(17,604)	(17)	(17,621)
Sale of treasury shares		-	543	-	-	-	-	(333)	210	-	210
Share options	30	-	-	-	-	-	33	-	33	-	33
Transfer of exercised and forfeited share options within equity		-	-	-	-	-	(45)	45	-	-	-
Transfer of measurement of equity instruments		-	-	-	-	-	(27)	27	-	-	-
Acquisition of subsidiaries	8	-	-	-	-	-	-	-	-	756	756
Acquisition of non-controlling interests	8	-	-	-	-	-	-	(4)	(4)	(1)	(5)
Sale of non-controlling interests		-	-	-	-	-	-	1	1	4	5
Put options held by non-controlling interests		-	-	-	-	-	-	(92)	(92)	(659)	(751)
December 31, 2018		<u>53,799</u>	<u>(3,534)</u>	<u>(11,565)</u>	<u>(18,337)</u>	<u>388</u>	<u>113</u>	<u>213,857</u>	<u>234,721</u>	<u>4,560</u>	<u>239,281</u>

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

CEZ GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

in CZK Millions

	Note	2018	2017
OPERATING ACTIVITIES:			
Income before income taxes		13,517	22,753
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	3, 6	28,139	29,305
Amortization of nuclear fuel	3	4,027	3,725
(Gains) and losses on non-current asset retirements		(312)	(5,792)
Foreign exchange rate loss (gain)		776	(959)
Interest expense, interest income and dividend income		4,685	3,263
Provisions		2,780	1,081
Impairment of property, plant and equipment and intangible assets	7	1,766	230
Valuation allowances and other adjustments		(2,017)	2,355
Share of (profit) loss from associates and joint-ventures	9	308	2,387
Changes in assets and liabilities:			
Receivables and contract assets		(27,469)	(1,951)
Materials, supplies and fossil fuel stocks		905	(798)
Receivables and payables from derivatives		1,527	(1,269)
Other assets		(4,369)	(4,610)
Trade payables		17,429	3,687
Other liabilities		1,581	(583)
Cash generated from operations		43,273	52,824
Income taxes paid		(3,327)	(4,207)
Interest paid, net of capitalized interest		(5,091)	(3,511)
Interest received		314	225
Dividends received		182	481
Net cash provided by operating activities		35,351	45,812
INVESTING ACTIVITIES:			
Acquisition of subsidiaries, associates and joint-ventures, net of cash acquired	8	(2,214)	(5,070)
Disposal of subsidiaries and joint-ventures, net of cash disposed of	8	155	2,037
Additions to non-current assets, including capitalized interest		(26,018)	(30,688)
Proceeds from sale of non-current assets		3,118	13,913
Loans made		(227)	(21)
Repayment of loans		22	371
Change in restricted financial assets		(737)	(754)
Total cash used in investing activities		(25,901)	(20,212)

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

CEZ GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

continued

	Note	2018	2017
FINANCING ACTIVITIES:			
Proceeds from borrowings		125,213	150,032
Payments of borrowings		(119,978)	(156,182)
Proceeds from other long-term liabilities		51	70
Payments of other long-term liabilities		(583)	(76)
Dividends paid to Company's shareholders		(17,596)	(17,618)
Dividends paid to non-controlling interests		(17)	(241)
Sale of treasury shares		210	68
(Acquisition) sale of non-controlling interests, net	8	5	(160)
Total cash used in financing activities		<u>(12,695)</u>	<u>(24,107)</u>
Net effect of currency translation and allowances in cash		(133)	(200)
Net increase (decrease) in cash and cash equivalents		(3,378)	1,293
Cash and cash equivalents at beginning of period		<u>12,623</u>	<u>11,330</u>
Cash and cash equivalents at end of period	10	<u><u>9,245</u></u>	<u><u>12,623</u></u>
Supplementary cash flow information:			
Total cash paid for interest		5,344	5,090

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

CEZ GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2018

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CEZ GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2018

1. The Company

ČEZ, a. s. (ČEZ or the Company), business registration number 45274649, is a Czech Republic joint-stock company, owned 69.8% (70.2% of voting rights) at December 31, 2018 by the Czech Republic represented by the Ministry of Finance. The remaining shares of the Company are publicly held. The address of the Company's registered office is Duhová 2/1444, Praha 4, 140 53, Czech Republic.

The Company is a parent company of the CEZ Group (the Group, see Note 9). Main business of the Group is the production, distribution, trade and sale of electricity and heat, trade and sale of natural gas and coal mining. ČEZ is an electricity generation company, which in 2018 generated approximately 57% of the electricity in the Czech Republic. In the Czech Republic the Company operates twelve fossil fuel plants, sixteen hydroelectric plants, one combined cycle gas turbine plant and two nuclear plants. The Company also operates through its subsidiaries several power plants (fossil fuel, hydro, wind, solar, biogas, biomass) in the Czech Republic, eleven wind power plants in Germany, two fossil fuel plants and two hydroelectric plants in Poland, one solar plant in Bulgaria and a wind farm and a complex of hydroelectric plants in Romania. Further the Group also controls certain electricity distribution companies in the Czech Republic, Bulgaria and Romania. The average number of employees of the Company and its consolidated subsidiaries was 30,545 and 27,659 in 2018 and 2017, respectively.

Responsibility for public administration in the energy sector is exercised by the Ministry of Industry and Trade (the Ministry), the Energy Regulatory Office and the State Energy Inspection Board.

The Ministry, as the central public administration body for the energy sector, issues state approval to construct new energy facilities in accordance with specified conditions, develops the energy policy of the state and ensures fulfillment of obligations resulting from international treaties binding on the Czech Republic or obligations resulting from membership in international organizations.

The Energy Regulatory Office was established as the administrative office to exercise regulation in the energy sector of the Czech Republic, to support economic competition and to protect consumers' interests in sectors where competition is not possible. The Energy Regulatory Office decides on the granting of a license, imposition of the supply obligation beyond the scope of the license, imposition of the obligation to let another license holder use energy facilities in cases of emergency, to exercise the supply obligation beyond the scope of the license and price regulation based on special legal regulations. The State Energy Inspection Board is the inspection body supervising the activities in the energy sector. All customers can select their suppliers of electricity.

2. Summary of Significant Accounting Policies

2.1. Financial Statements

These consolidated financial statements of the Group were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).

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

2.2. Group Accounting

2.2.1. Group Structure

The financial statements of CEZ Group include the accounts of ČEZ, a. s., its subsidiaries, associates and joint-ventures, which are shown in the Note 9.

2.2.2. Subsidiaries

Subsidiaries are those entities which the Group controls. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

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

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

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

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

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability are recognized in accordance with IFRS 9 either in profit or loss or as a change to other comprehensive income. Changes in the fair value of contingent consideration classified as equity are not recognized.

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

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

Losses within a subsidiary incurred are attributed to the non-controlling interest even if that results in a deficit balance.

Put options held by non-controlling interests are recorded as a derecognition of non-controlling interest and recognition of a liability at the end of the reporting period. The liability is recognized at the present value of the amount payable on exercise, and any difference between the amount of non-controlling interest derecognized and this liability is accounted for within equity. Subsequent changes to the present value of the amount payable on exercise are recorded directly in equity.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless cost cannot be recovered. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

2.2.3. Associates

Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investments in associates are accounted for by the equity method of accounting. Under this method the Group's share of the post-acquisition profits or losses of associates is recognized in the income statement and its share of other post-acquisition movements in equity of associates is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the cost of the investment. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates includes goodwill (net of accumulated impairment losses) on acquisition.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses. In such a case, the Group recognizes its full share on net loss and its share on other comprehensive income only to the extent to recognize nil interest in an associate. This amount is included in the item Translation differences – associates and joint-ventures in the statement of comprehensive income. Then the Group discontinues of using equity method of accounting. However, additional losses are provided for, and a liability is recognized on the balance sheet in the item Other long-term liabilities, after the Group's interest is reduced to zero, only to the extent that the Group has incurred legal or constructive obligations (e.g. provided guarantees) or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

2.2.4. Joint-ventures

A joint-venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint-venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control are similar to those necessary considerations to determine control over subsidiaries. The Group recognizes its interest in the joint-venture using the equity method of accounting (see Note 2.2.3).

The financial statements of the joint-venture are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies into line with those of the Group. Adjustments are made in the Group's financial statements to eliminate the Group's share of unrealized gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets or an impairment loss.

2.2.5. Transactions Involving Entities under Common Control

Acquisitions of subsidiaries from entities under common control are recorded using a method similar to pooling of interests.

The assets and liabilities of the acquired subsidiaries are included in the consolidated financial statements at their book values. The difference between the cost of acquisition of subsidiaries from entities under common control and the share of net assets acquired in book values is recorded directly in equity.

2.3. Changes in Accounting Policies

2.3.1. Adoption of New IFRS Standards in 2018

The accounting policies adopted are consistent with those of the previous financial year, except for as follows. The Group has adopted the following new or amended and endorsed by EU IFRS and IFRIC interpretations as of January 1, 2018:

IFRS 9 Financial Instruments – Classification and Measurement

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

Financial assets

Debt instruments may, if the fair value option (FVO) is not applied, be subsequently measured at amortized cost if the following both conditions are met:

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

All other debt instruments, where the above mentioned conditions are not met, are subsequently measured at fair value.

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

Financial liabilities

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

Impairment

The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model. The ECL model applies to: debt instruments accounted for at amortized cost or at FVOCI; most loan commitments; financial guarantee contracts; contract assets under IFRS 15; and lease receivables under IAS 17 Leases.

Entities are generally required to recognize either 12-months or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition (or when the commitment or guarantee was entered into). For some trade receivables, the simplified approach may be applied whereby the lifetime expected credit losses are always recognized.

Hedge accounting

The Group decided not to use the option to delay the application of IFRS 9 to hedging accounting. The Group applies the IFRS 9 policy for all hedging designated relationships.

New chapter on hedge accounting has been added to IFRS 9. This represents a major overhaul of hedge accounting and puts in place a new model that introduces improvements principally by aligning the accounting more closely with risk management. There are also improvements to the disclosures about hedge accounting and risk management.

The Group has adopted IFRS 9 retrospectively, with the initial application date of January 1, 2018 and adjusting the presentation of the comparative information for the period beginning January 1, 2017. Under IFRS 9, the Group split category of Available-for-sale financial assets, presented in previous period, into new categories Debt instruments and Equity instruments. The impact of the change in the presentation affected the layout of the statement of changes in equity and the statement of comprehensive income for the actual and previous period.

Due to the application of IFRS 9, some assets were reclassified from category Available-for-sale to category Fair value through profit or loss and accumulated reserve from revaluation of Available-for-sale financial assets amounting to CZK 350 million was transferred to retained earnings. Impact of creation of new allowances on receivables and other assets is stated in the table below together with the impact of IFRS 15.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014. The standard outlines the principles an entity must apply to measure and recognize revenue. The core principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 will be applied using a five-step model:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

Clarification IFRS 15 Revenue from Contracts with Customers

The Clarifications apply for annual periods beginning on or after January 1, 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach.

The Group adopted IFRS 15 using the modified retrospective method of adoption. The effect as of the date of application, resulting from recognition of deferred connection fees received from customers prior 2009 in retained earnings, is disclosed in the table below.

The Group recognized as of the date of adoption of IFRS 9 and IFRS 15 the following impact affecting amount of equity (in CZK millions):

	IFRS 9	IFRS 15	Total
Trade receivables, net	(93)	-	(93)
Other assets, net	(3)	-	(3)
Total assets	(96)	-	(96)
Deferred tax liability	14	(579)	(565)
Other long-term liabilities	-	3,085	3,085
Total liabilities	14	2,506	2,520
Increase (decrease) in total equity	(82)	2,506	2,424
Impact on total equity attributable to:			
Equity holders of the parent	(73)	2,523	2,450
Non-controlling interests	(9)	(17)	(26)

In addition to above mentioned effect of IFRS 15 related to connection fees, the Group as a result of application of IFRS 15 changed from January 1, 2018 also the way of presentation revenue and costs in situation when the Group acts as energy provider without distributing it. In these circumstances the Group acts as an agent under IFRS 15 and no revenue and costs for distribution services is recognized, with no effect to net income. The table below presents amounts for selected items of statement of income for year 2017 comparing previously reported figures according to IAS 18, which was replaced from January 1, 2018 by IFRS 15, and adjustments which would be necessary for compliance with IFRS 15 (in CZK millions):

	2017 according to IAS 18	Effect of connection fees	Effect of agent vs. principal	2017 according to IFRS 15
Sales of electricity, heat, gas and coal	122,738	-	(6,419)	116,319
Sales of services and other revenues	76,262	(557)	(24,331)	51,374
Other operating income	6,092	-	(54)	6,038
Total revenues and other operating income	205,092	(557)	(30,804)	173,731
Purchase of electricity, gas and other energies	(57,353)	-	7,400	(49,953)
Services	(47,812)	-	23,350	(24,462)
Other operating expenses	(5,519)	-	54	(5,465)
Income before income taxes	22,753	(557)	-	22,196
Income taxes	(3,794)	98	-	(3,696)
Net income	18,959	(459)	-	18,500

IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendment to IFRS 2
The IASB issued amendment to IFRS 2 Share-based Payment that addresses three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendment is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The amendment did not have material impact on Group's financial statements.

Amendment IAS 40 Transfers to Investment Property

The Amendment is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. The Amendment clarifies when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendment states that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendment did not have impact on Group's financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation did not have material impact on Group's financial statements.

Annual Improvements to IFRSs 2014–2016

In December 2017 the IASB issued a collection of amendments to IAS and IFRS for annual periods beginning on or after January 1, 2018 in which they focused on areas of inconsistency in IFRSs and IASs or where the clarification of wording was required. These annual improvements have been endorsed by the EU on February 8, 2018. The following standards were amended:

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

This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

IAS 28 Investments in Associates and Joint-Ventures:

The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint-venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint-venture on an investment-by-investment basis, upon initial recognition.

These improvements did not have significant impact to the Group's financial statements.

2.3.2. New IFRS Standards and IFRIC Interpretations either not yet Effective or not yet Adopted by EU

The Group is currently assessing the potential impacts of the new and revised standards and interpretations that will be effective or adopted by the EU from January 1, 2019 or later. Standards and interpretations most relevant to the Group's activities are detailed below:

IFRS 16 Leases

The new standard is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied or is applied at the same date as IFRS 16. The standard deals with accounting, measurement and presentation of leases and disclosure requirements for the notes of the financial statements for both contract parties, i.e. for customer (lessee) and for supplier (lessor). Lessees will use single accounting model for all leases (with certain exceptions). Accounting by lessor is substantially unchanged. The Group will apply IFRS 16 from January 1, 2019.

The Group assessed the impact of the adoption of this standard and expects the impact on Net plant in service in the approximate amount of CZK 5,563 million and on long-term debts, which include lease liabilities (following the change in balance sheet structure in 2018), in the approximate amount of CZK 5,411 million. The Group assumes that lease liability will be paid as follows (in CZK million):

Due within 1 year	625
Between 1 and 5 years	2,531
Thereafter	2,255

The Group also expects an increase in assets and associated liabilities held for sale in the amount of CZK 186 million.

Amendment IAS 19 Plan Amendment, Curtailment or Settlement

The Amendment is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted. The amendment requires entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendment also clarifies how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. This Amendment has not yet been endorsed by the EU. This amendment is not expected to have significant impact to the Group's financial statements.

Amendment IFRS 9 Prepayment Features with Negative Compensation

The Amendment is effective for annual reporting periods beginning on or after January 1, 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. These Amendments have not yet been endorsed by the EU. These amendments are not expected to have significant impact to the Group's financial statements.

Amendment IAS 28 Long-term Interests in Associates and Joint-Ventures

The Amendment is effective for annual reporting periods beginning on or after January 1, 2019 with earlier application permitted. The Amendment relates to whether the measurement, in particular impairment requirements, of long-term interests in associates and joint-ventures that, in substance, form part of the 'net investment' in the associate or joint-venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendment clarifies that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. This Amendment has not yet been endorsed by the EU. This amendment is not expected to have significant impact to the Group's financial statements.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint-Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint-venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3 Business Combinations, between an investor and its associate or joint-venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint-venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments do not have material impact on Group's financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

The Interpretation is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. This Interpretation is not expected to have significant impact to the Group's financial statements.

IFRS 17 Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not been yet endorsed by the EU. This standard is not expected to have significant impact to the Group's financial statements.

Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. These amendments are not expected to have significant impact to the Group's financial statements.

Amendment IFRS 3 Business Combinations

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. This amendment is not expected to have significant impact to the Group's financial statements.

Amendments IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material'

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU. These amendments are not expected to have significant impact to the Group's financial statements.

The Group does not expect early adoption of any of the above mentioned standards, improvements or amendments.

Annual Improvements to IFRSs 2015–2017

In December 2017 the IASB issued a collection of amendments to IAS and IFRS for annual periods beginning on or after January 1, 2019 in which they focused on areas of inconsistency in IFRSs and IASs or where the clarification of wording was required. These annual improvements have not yet been endorsed by the EU. The following standards were amended:

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

IAS 12 Income Taxes:

The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

IAS 23 Borrowing Costs:

The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

These improvements are not expected to have significant impact to the Group's financial statements.

2.3.3. Changes in the Presentation of the Financial Statements

The way of presentation of items in balance sheet and in statement of income was changed in 2018. The main goal of the changes was to enhance relevancy of information contained on the face of the financial statements and reflect the developments in the best practice of financial reporting in the industry with regard to all IFRS requirements. As a result, reclassifications for the prior period have been made to provide fully comparative information on the same basis. The reclassifications have also been made to the balance sheet at the beginning of the earliest comparative period, i.e. at January 1, 2017.

One of the main changes in the balance sheet is the transfer of accrued interest to debt and borrowings that were reported on the lines of Other current assets and Accrued liabilities directly to the line where the debt or loan is reported. Other current assets and Other short-term liabilities (previously Accrued liabilities) include only receivables and payables of a non-financial nature such as accruals, prepayments or contractual assets and liabilities. Other long-term and short-term financial assets are newly reported only assets of a financial nature (for example: financial investments, debt securities and derivatives) that are not presented separately in the balance sheet. Similarly, other long-term and short-term financial liabilities are presented on the lines of financial liabilities (for example derivatives) that are not shown in a separate line in the balance sheet.

There were the following two primary objectives for the changes made to the statement of income: (a) consistently separate commodities and services in operating revenues and costs (sale and purchase of electricity was presented together with the related distribution, system and ancillary services) and (b) change the presentation of emission rights and green and similar certificates – the original line Emission rights, net was removed and its items were reclassified into the lines:

- Fuel and emission rights – cost of emission rights for generation
- Other operating income – income from granted green and similar certificates
- Other operating expenses – consumption of green and similar certificates
- Gains and losses from commodity derivative trading – commodity derivative trading with emission rights and emission rights and green and similar certificated for trading

The following tables summarize the effect of reclassifications on prior period presented (in CZK millions):

	Reclassifications 2017	Reclassifications Jan 1, 2017
ASSETS:		
Trade receivables, net	(7,207)	(8,924)
Materials and supplies, net	(1,212)	-
Other short-term financial assets, net	46	385
Other current assets, net	6,072	6,184
Total assets	(2,301)	(2,355)
EQUITY AND LIABILITIES:		
Other long-term financial liabilities	12,509	7,246
Other long-term liabilities	(12,509)	(7,246)
Total non-current liabilities	-	-
Short-term loans	1	1
Current portion of long-term debt	2,137	2,185
Trade payables	(39,149)	(34,252)
Other short-term financial liabilities	42,864	38,816
Other short-term liabilities	(8,154)	(9,105)
Total current liabilities	(2,301)	(2,355)
Total equity and liabilities	(2,301)	(2,355)
		Reclassifications 2017
CONSOLIDATED STATEMENT OF INCOME:		
Sales of electricity, heat, gas and coal		122,738
Sales of services and other revenues		76,262
Sales of electricity and related services *		(167,758)
Sales of gas, coal, heat and other revenues *		(30,757)
Other operating income		2,701
Total revenues and other operating income		3,186
Gains and losses from commodity derivative trading		293
Purchase of electricity, gas and other energies		(57,353)
Fuel and emission rights		(16,039)
Fuel *		12,703
Purchase power and related services *		86,872
Services		(47,812)
Repairs and maintenance *		4,714
Capitalization of expenses to the cost of assets and change in own inventories		2,751
Impairment of trade and other receivables		830
Emission rights, net *		1,620
Other operating expenses		8,235
Income before other income (expenses) and income taxes		-
Impairment of financial assets		(1)
Other financial expenses		(13)
Other financial income		959
Foreign exchange rate gains (losses), net *		(959)
Gain on sale of subsidiaries and joint-ventures *		14
Total other income (expenses)		-
Net income		-

* These items are not presented separately on the face of the financial statements.

2.4. Estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates. Explanation of key assumptions is included in relevant sections of notes where significant estimates are being described. Significant estimates are made by the Group while determining recoverable amounts for property, plant and equipment and intangible assets (see Note 7), accounting for the nuclear provisions (see Note 20.1), provisions for reclamation of mines, mining damages and waste storage reclamation (see Note 20.2), unbilled electricity and gas (see Note 2.6), fair value of commodity contracts (see Notes 2.16 and 18) and financial derivatives (see Notes 2.15 and 18).

2.5. Revenues

The Group recognizes revenue from supplies of electricity, heat, gas and coal based on contract terms. Differences between contracted amounts and actual supplies for electricity and gas are settled through the market operator.

Revenues are recognized, when the Group has satisfied a performance obligation and the amount of revenue can be reliably measured. The Group will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled (after reduction for expected discounts) in exchange for transferring goods or services to a customer.

Sales are recognized net of value added tax.

Revenue from sale of assets is recognized when they are delivered and related significant risks and rewards of ownership have passed to the buyer.

Contract revenue and contract costs associated with the construction contracts is recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity. The stage of completion is determined by reference to the share of incurred contract costs to total expected full contract costs. However, an expected loss on the construction contract is recognized as an expense immediately regardless the stage of completion of such a construction contract.

Connection fees received from customers are recognized in income in the period when this performance obligation is satisfied.

2.6. Unbilled Electricity and Gas

Electricity and gas supplied to customers, which is not yet billed, is recognized in revenues at estimated amounts. The estimate of monthly change in unbilled electricity and gas is derived from the measured quantity after deduction of invoiced amounts and estimated grid losses. The estimate of total unbilled balance is also supported by extrapolation of consumption in the last measured period for individual locations. The ending balance of contract assets and liabilities is disclosed net in the balance sheet after deduction of advances received from customers and is included in the line item of Other current assets, net or Other short-term liabilities, net.

2.7. Fuel Costs

Fuel costs are expensed as fuel is consumed. Fuel expense includes the amortization of the cost of nuclear fuel (see Note 2.10).

2.8. Interest

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

2.9. Property, Plant and Equipment

Property, plant and equipment are recorded at cost, net of accumulated depreciation and impairment in value. Cost of plant in service includes materials, labor, payroll-related costs and the cost of debt financing used during construction. The cost also includes the estimated cost of dismantling and removing the asset and restoring the site, to the extent that is recognized as a provision under IAS 37, Provisions, Contingent Liabilities and Contingent Assets. Government grants received for construction of certain items of property, plant and equipment decrease the acquisition cost of the respective items.

Internally developed property, plant and equipment are recorded at their accumulated cost. The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense when incurred. Renewals and improvements are capitalized. Upon sale, retirement or replacement of part of an item of property, plant and equipment, the cost, related accumulated depreciation and eventual impairment of the disposed item or its replaced part are derecognized from the balance sheet. Any resulting gains or losses are included in profit or loss.

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group reviews the recoverable amounts of its property, plant and equipment to determine whether such amounts continue to exceed the assets' carrying values. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. Identified impairment of property, plant and equipment is recognized directly in profit or loss in the line item Impairment of property, plant and equipment and intangible assets including goodwill.

At each reporting date, an assessment is made whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss in the line item Impairment of property, plant and equipment and intangible assets including goodwill.

The Group depreciates the original cost of property, plant and equipment less its residual value by using the straight-line method over the estimated economic lives. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The depreciable useful lives used for property, plant and equipment are as follows:

	Useful lives (years)
Buildings and structures	20–50
Machinery and equipment	4–35
Vehicles	8–25
Furniture and fixtures	4–15

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

2.10. Nuclear Fuel

The Group presents nuclear fuel as part of property, plant and equipment, because its useful life exceeds 1 year. Nuclear fuel is recorded at cost, net of accumulated amortization and possible impairment in value. Nuclear fuel includes the capitalized portion of the provision for interim storage of nuclear fuel. Amortization of fuel in the reactor is based on the amount of power generated and is recognized in the income statement in the line item Fuel and Emission rights. The amortization of nuclear fuel includes charges in respect of additions to the accumulated provision for interim storage of spent nuclear fuel.

2.11. Intangible Assets

Intangible assets are valued at their acquisition costs and related expenses. Intangible assets are amortized over their useful lives using the straight-line method. The estimated useful life of intangible assets ranges from 3 to 25 years. The assets' residual values, useful lives and amortization methods are reviewed, and adjusted if appropriate, at each financial year end. Improvements are capitalized.

Intangible assets are tested for impairment (for goodwill see Note 2.12) whenever facts or changes in circumstances indicate that the carrying amount could be impaired. The recoverable amount of an intangible asset not yet available for use is tested for impairment annually, irrespective of whether there is any indication that it may be impaired. Identified impairment of intangible assets is recognized directly in profit or loss in the line item Impairment of property, plant and equipment and intangible assets including goodwill.

For assets excluding goodwill an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss in the line item Impairment of property, plant and equipment and intangible assets including goodwill.

2.12. Goodwill

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed (see Note 2.2). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and joint-ventures is included in investments in associates and joint-ventures. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is lower than the carrying amount, an impairment loss is recognized. Impairment losses of goodwill cannot be reversed in subsequent periods. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.13. Emission Rights

Emission right represents the right of the operator of a facility, which in the course of its operation emits greenhouse gases, to emit during the calendar year equivalent of one ton of carbon dioxide. Based on the National Allocation Plans certain companies of the Group have been granted emission rights. These companies are responsible for determining and reporting the amount of greenhouse gases produced by its facilities in the calendar year and this amount has to be audited by an authorized person.

On April, 30 of the following year, at the latest, these companies are required to remit a number of allowances representing the number of tones of CO₂ actually emitted in previous year.

The emission rights which were granted free of charge are stated at their nominal value, i.e. at zero. Purchased emission rights are carried at cost (except for emission rights for trading). Emission rights acquired in a business combination are initially recognized at their fair value at the date of acquisition and subsequently treated similarly to purchased emission rights. The Group recognizes a provision to cover emissions made, which corresponds to the difference between emissions made and amount of the emission rights which were granted free. This provision is measured firstly with regard to the cost of emission rights and credits purchased with the intention of covering the greenhouse gases emissions of the reporting period. The provision for emissions made above the amount of these emissions rights and credits is measured at the market price ruling at the balance sheet date. The emission rights purchased for own use purpose in the next year are presented within current assets in the line Emission rights. The emission rights with an expected later use are presented as part of the intangible assets.

The Group also holds emission rights and credits for trading purposes. The portfolio of emission rights and credits held for trading is measured at fair value. The changes in fair value of the emission rights held for trading are recognized directly in profit or loss in the line Gains and losses from commodity derivative trading. The emission rights and credits for the trading purposes are presented within current assets in the line Emission rights.

At each reporting date, the Group assesses whether there is any indication that emission rights may be impaired. Where an indicator of impairment exists, the Group reviews the recoverable amounts of the cash-generating units, to which the emission rights were allocated, to determine whether such amounts continue to exceed the assets' carrying values. Any identified impairment of emission rights is recognized directly in profit or loss in the line item of Other operating expenses.

Sale and repurchase agreements with emission rights are accounted for as collateralized borrowing.

Green and similar certificates which were granted free are initially recognized at fair value and subsequently treated similarly to purchased emission rights.

2.14. Classification of Financial Instruments

A financial asset is mainly cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset.

A financial liability is mainly a contractual obligation to deliver cash or another financial asset.

Financial liabilities and assets are presented as current (short-term) or non-current (long-term). Financial assets are presented as current when the Group expects to realize them within 12 months of the balance sheet date or if there is no reasonable certainty that the Group will hold the financial assets for more than 12 months of the balance sheet date.

Financial liabilities are presented as current when they are due within 12 months of the balance sheet date. The financial assets and liabilities for trading are presented as current.

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

2.14.1. Financial Assets

Financial assets are classified into two main categories (a) at amortized cost and (b) at fair value depending on whether the financial assets is held for trading or is held within a business model whose objective is to hold assets to collect contractual cash flows.

The Group defines financial assets to the following categories:

- a) financial assets at amortized cost
This category includes the financial assets held with strategy to collect contractual cash flows, which consists of both principal and interest payments. Examples for such financial assets are loans, securities held to maturity, trade receivables.
Expected credit losses, foreign exchange rate differences and interest revenues are recognized in the income statement.
- b) financial assets at fair value through other comprehensive income
This category includes the financial assets held with strategy to collect contractual cash flows or to sell financial assets. This model distinguishes two types of accounting treatment:
 - no recycling to the income statement – used for equity financial assets
Expected credit loss is not calculated and recognized. Changes in the fair value are recognized in other comprehensive income. When the financial asset is derecognized no profit or loss is recognized in the income statement – it never affects profit or loss. In case that equity instrument was sold, an accumulated revaluation reserve is reclassified to retained earnings. Foreign exchange rate differences are recognized in other comprehensive income (part of revaluation reserve). Dividends from these financial assets are recognized in the income statement providing it does not result in an impairment loss of investment at the same time.
 - recycling to the income statement – used for debt financial assets
Expected credit loss is recognized in the income statement. Changes in the fair value are recognized in other comprehensive income. When the financial asset is derecognized, profit or loss is recognized in the income statement (profit or loss is reclassified from other comprehensive income to the income statement). Foreign exchange rate differences in relation to revaluation reserve are recognized in other comprehensive income. Foreign exchange rate differences in relation to impairment are recognized in the income statement. Interest revenues are recognized in the income statement.
- c) financial assets at fair value through profit or loss
This category includes the financial assets held with strategy of active trading with financial assets. Contractual cash flow collection is not the primary objective of business model.
Examples for such financial assets are securities for trading, derivatives not used for hedging.
Expected credit losses are not calculated and recognized. Changes in the fair value and foreign exchange rate differences are recognized in the income statement.
Changes in the fair values are included in lines Other financial expenses or Other financial income.

2.14.2. Financial Liabilities

Financial liabilities are classified into two main categories (a) at amortized cost and (b) at fair value through profit or loss. Classification into these categories is similar to the financial assets above. For “Fair Value Option” liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be recognized in other comprehensive income. The remainder of the change in fair value is recognized in profit or loss. However, when recognition of the fair value change in respect of the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss, all changes in fair value are then recognized in profit or loss.

2.14.3. Derivatives

Specific category of the financial assets and liabilities are derivatives. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The presentation of derivatives is described in the Note 2.15.

2.14.4. Impairment of Financial Assets

Impairment of financial assets by applying the IFRS 9 requirements is based on expected credit loss (ECL) model which applies to the following financial assets:

- a) debt assets at amortized cost (trade receivables, loans, debt securities),
- b) debt assets at fair value through other comprehensive income,
- c) lease receivables,
- d) contract assets and financial guarantee contracts,
- e) bank accounts and term deposits.

An impairment analysis of receivables is performed by the Group at each reporting date on an individual basis for significant specific receivables. In addition, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively where the individual approach is not applicable.

The Group recognizes either 12-months or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition (or when the commitment or guarantee was entered into). For some trade receivables, the simplified approach are applied whereby the lifetime expected credit losses are always recognized.

For the purposes of ECL model calculation, the portfolio of financial assets is split into 3 stages. At the date of the first recognition, the financial assets are included in stage 1, with the lowest allowance which is determined using percentage of unpaid receivables in the past. Subsequent reclassification to the stages 1 and 2 is carried out according to the definition of significant increase in credit risk of a debtor. The interest revenue from receivables in the stage 3 is based on the net carrying amount.

2.15. Derivative Financial Instruments

The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value. In the balance sheet such derivatives are presented as part of other current and non-current financial assets or as part of other long-term and short-term financial liabilities.

The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognized asset or liability; or cash flow hedges when they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

2.15.1. Fair Value Hedge

Gain or loss from re-measuring the hedging instrument at fair value is recognized immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognized in the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortized to profit or loss over the remaining term to maturity.

2.15.2. Cash Flow Hedge

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are initially recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized in the income statement in the line item Other financial expenses or Other financial income.

Amounts accumulated in equity are transferred to the income statement in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recorded to the income statement when the forecast transaction is ultimately recognized. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

2.15.3. Other Derivatives

Certain derivative instruments are not designated for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement.

2.16. Commodity Contracts

According to IFRS 9, certain commodity contracts are treated as financial instruments and fall into the scope of the standard. Most commodity purchase and sales contracts entered into by the Group provide for physical delivery of quantities intended to be consumed or sold as part of its ordinary business; such contracts are thus excluded from the scope of IFRS 9.

In particular, forward purchases and sales for physical delivery of energy are considered to fall outside the scope of application of IFRS 9, when the contract concerned is considered to have been entered into as part of the Group's normal business activity. This is demonstrated to be the case when all the following conditions are fulfilled:

- A physical delivery takes place under such contracts;
- The volumes purchased or sold under the contracts correspond to the Group's operating requirements;
- The contract cannot be considered as a written option as defined by the standard IFRS 9. In the specific case of electricity sales contracts, the contract is substantially equivalent to a firm forward sale or can be considered as a capacity sale.

The Group thus considers that transactions negotiated with a view to balancing the volumes between electricity purchases and sale commitments are part of its ordinary business as an integrated electric utility company and do not therefore come under the scope of IFRS 9.

Commodity contracts which fall under the scope of IFRS 9 are carried at fair value with changes in the fair value recognized in the income statement. The Group presents revenues and expenses related to commodity trading net in the line Gains and losses from commodity derivative trading.

2.17. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, current accounts with banks and short-term bank notes with a maturity of 6 months or less.

2.18. Financial Assets Restricted in Use

Restricted balances of cash and other financial assets, which are shown as restricted funds (see Note 4), relate to funding of nuclear decommissioning liabilities, mining reclamation and damages, deposits for waste storage reclamation and cash guarantees given to transaction partners. The non-current classification is based on the expected timing of the release of the funds to the Group.

2.19. Contract Assets and Liabilities

Contract asset is the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the Group's future performance).

Contract liability is the Group's obligation to transfer goods or provide services to a customer for which the Group has received consideration from the customer.

Contract assets where work is in progress (consisting of cost incurred plus recognized profits) are presented on the balance sheet net of received billings and advances as a net asset or a net liability.

Contract assets and liabilities are presented in the line Other current assets, net and Other short-term liabilities.

2.20. Materials and Supplies

Purchased inventories are valued at actual cost, using the weighted average method. Costs of purchased inventories comprise expenses which have been incurred in respect of the acquisition of materials and supplies including transportation costs. When consumed, inventories are charged to income or capitalized as part of property, plant and equipment. Work-in-progress is valued at actual cost. Costs of inventories produced internally include direct material and labor costs. Obsolete inventories are reduced to their realizable value by a provision charged to the income statement.

2.21. Fossil Fuel Stocks

Fossil fuel stocks are stated at actual cost using weighted average cost method.

2.22. Income Taxes

The provision for corporate tax is calculated in accordance with the tax regulations of the states of residence of the Group companies and is based on the income or loss reported under local accounting regulations, adjusted for appropriate permanent and temporary differences from taxable income. Income taxes are calculated on an individual company basis as the Czech tax laws do not permit consolidated tax returns. For companies located in the Czech Republic income taxes are provided at a rate of 19% for the years ended December 31, 2018 and 2017, respectively, from income before income taxes after adjustments for certain items which are not deductible, or taxable, for taxation purposes. The Czech corporate income tax rate enacted for 2019 and on is 19%.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets and liabilities are recognized regardless of when the temporary difference is likely to reverse. Deferred tax assets and liabilities are not discounted. A deferred tax liability is recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the reported net income nor taxable profit or loss
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint-ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

2.23. Long-term Debt

Borrowings are initially recognized at the amount of the proceeds received, net of transaction costs. They are subsequently carried at amortized cost using the effective interest rate method, the difference between net proceeds and redemption value is being recognized in the net income over the life of the borrowings as interest expense.

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges.

The carrying amount of long-term debt, which is hedged against the changes in its fair value, is adjusted by the changes in the fair value attributable to the hedged risk. The changes in the fair value of the hedged long-term debt are recognized in profit or loss and are included in the income statement line Other financial expenses or Other financial income. The adjustment to the carrying amount of the hedged long-term debt in a fair value hedge is subsequently amortized to profit or loss using the effective interest rate method.

2.24. Nuclear Provisions

The Group has recognized provisions for its obligations to decommission its nuclear power plants at the end of their operating lives, to store the related spent nuclear fuel and other radioactive waste initially on an interim basis and provision for its obligation to provide financing for subsequent permanent storage of spent fuel and irradiated parts of reactors (see Note 20.1).

The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels at the date of the estimate, are discounted at December 31, 2018 and 2017 using a long-term real rate of interest to take into account the timing of payments in amount of 1.25% per annum. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the period when the nuclear power plants generate electricity. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being presented in the income statement on the line Interest on provisions. At December 31, 2018 and 2017 the estimate for the effect of inflation is 1.25%.

The decommissioning process is expected to continue for approximately a fifty-year period subsequent to the final operation of the plants. It is currently anticipated that the permanent storage facility for spent nuclear fuel will become available in 2065 and the process of final disposal of the spent nuclear fuel will then continue until approximately 2090. While the Group has made its best estimate in establishing its nuclear provisions, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning and fuel storage activities, the ultimate provision requirements could vary significantly from the Group's current estimates.

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

2.25. Provisions for Decommissioning and Reclamation of Mines and Mining Damages

The Group has recognized provisions for obligations to decommission and reclaim mines at the end of their operating lives (see Note 20.2). The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels, are discounted at December 31, 2018 and 2017 using a long-term real rate of interest to take into account the timing of payments in amount of 1.25% per annum. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the mines. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being presented in the income statement on the line Interest on provisions. At December 31, 2018 and 2017 the estimate for the effect of inflation is 1.25%.

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

2.26. Exploration for and Evaluation of Mineral Resources

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

2.27. Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date or whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys the right to use the asset. A reassessment is made after inception of the lease only if one of the following conditions applies:

- There is a change in contractual terms, other than a renewal or extension of the arrangement;
- A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- There is a change in determination of whether fulfillment is dependent on a specified asset; or
- There is a substantial change to the asset.

Where reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the estimated useful life of the asset. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Future minimum rentals payable under non-cancellable operating leases as at December 31, 2018 amounted to CZK 2,347 million.

2.28. Treasury Shares

Treasury shares are presented in the balance sheet as a deduction from equity. The acquisition of treasury shares is presented in the statement of equity as a reduction in equity. No gain or loss is recognized in the income statement on the sale, issuance, or cancellation of treasury shares. Consideration received is presented in the financial statements as an addition to equity.

2.29. Share Options

Members of Board of Directors and selected managers have been granted options to purchase common shares of the Company. Expense related to the share option plan is measured on the date of the grant by reference to the fair value of the share options granted. The expense is accrued over the vesting period of the equity instruments granted. The expense recognized reflects the best estimate of the number of share options, which will ultimately vest.

2.30. Translation of Foreign Currencies

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity for qualifying cash flow hedges.

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary items such as equity instruments held for trading are reported as part of the fair value gain or loss. Translation differences on equity securities available-for-sale are included in equity.

The assets and liabilities of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The income statements items of foreign subsidiaries are translated at average exchange rates for the year. The exchange differences arising on the retranslation are taken directly to other comprehensive income. On disposal of a foreign entity, accumulated exchange differences are recognized in the income statement as a component of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign operation and are translated at the closing exchange rate.

Exchange rates used as at December 31, 2018 and 2017 for the translation of assets and liabilities denominated in foreign currencies were as follows:

	2018	2017
CZK per 1 EUR	25.725	25.540
CZK per 1 USD	22.466	21.291
CZK per 1 PLN	5.980	6.114
CZK per 1 BGN	13.153	13.058
CZK per 1 RON	5.516	5.482
CZK per 100 JPY	20.447	18.915
CZK per 1 TRY	4.247	5.617

2.31. Non-current Assets Held for Sale

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

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

3. Property, Plant and Equipment

Property, plant and equipment at December 31, 2018 is as follows (in CZK millions):

	Buildings	Plant and equipment	Land and other	Total plant in service	Nuclear fuel	Construction work in progress	Total
Cost at January 1, 2018	297,677	527,125	8,557	833,359	23,436	18,248	875,043
Additions	17	215	14	246	-	24,026	24,272
Disposals	(568)	(2,718)	(31)	(3,317)	(3,171)	(453)	(6,941)
Bring into use	8,768	10,805	68	19,641	2,856	(22,496)	1
Transfer to assets held for sale	(14,210)	(9,314)	(280)	(23,804)	-	(1,253)	(25,057)
Acquisition of subsidiaries	698	1,797	43	2,538	-	67	2,605
Change in capitalized part of provisions	(107)	2,184	240	2,317	-	-	2,317
Reclassification and other	58	(79)	-	(21)	-	(3)	(24)
Currency translation differences	(32)	30	(2)	(4)	-	(15)	(19)
Cost at December 31, 2018	292,301	530,045	8,609	830,955	23,121	18,121	872,197
Accumulated depreciation and impairment at January 1, 2018	(130,883)	(305,191)	(1,136)	(437,210)	(8,218)	(1,596)	(447,024)
Depreciation and amortization of nuclear fuel ¹⁾	(7,579)	(19,041)	(81)	(26,701)	(3,647)	-	(30,348)
Net book value of assets disposed	45	(96)	-	(51)	-	-	(51)
Disposals	568	2,718	-	3,286	3,171	-	6,457
Transfer to assets held for sale	8,570	6,504	153	15,227	-	6	15,233
Reclassification and other	(42)	52	-	10	-	-	10
Impairment losses recognized	(131)	(595)	(94)	(820)	-	(92)	(912)
Impairment losses reversed	247	62	1	310	-	4	314
Currency translation differences	25	(3)	1	23	-	9	32
Accumulated depreciation and impairment at December 31, 2018	(129,180)	(315,590)	(1,156)	(445,926)	(8,694)	(1,669)	(456,289)
Total property, plant and equipment at December 31, 2018	163,121	214,455	7,453	385,029	14,427	16,452	415,908

¹⁾ The amortization of nuclear fuel also includes charges in respect of additions to the accumulated provision for interim storage of spent nuclear fuel in the amount of CZK 380 million.

Property, plant and equipment at December 31, 2017 is as follows (in CZK millions):

	Buildings	Plant and equipment	Land and other	Total plant in service	Nuclear fuel	Construction work in progress	Total
Cost at January 1, 2017	284,812	482,200	8,169	775,181	22,286	56,894	854,361
Additions	13	1,833	13	1,859	1	27,457	29,317
Disposals	(998)	(2,250)	(47)	(3,295)	(2,676)	(17)	(5,988)
Bring into use	17,698	44,061	270	62,029	3,825	(65,854)	-
Acquisition of subsidiaries	8	125	16	149	-	7	156
Disposal of subsidiaries	(1,017)	(1,707)	(90)	(2,814)	-	(48)	(2,862)
Change in capitalized part of provisions	(61)	6,342	265	6,546	-	-	6,546
Reclassification and other	(192)	158	(3)	(37)	-	(80)	(117)
Currency translation differences	(2,586)	(3,637)	(36)	(6,259)	-	(111)	(6,370)
Cost at December 31, 2017	297,677	527,125	8,557	833,359	23,436	18,248	875,043
Accumulated depreciation and impairment at January 1, 2017	(126,318)	(291,544)	(1,119)	(418,981)	(7,394)	(1,091)	(427,466)
Depreciation and amortization of nuclear fuel ¹⁾	(7,506)	(20,301)	(66)	(27,873)	(3,499)	-	(31,372)
Net book value of assets disposed	(350)	(44)	-	(394)	-	-	(394)
Disposals	998	2,250	3	3,251	2,676	-	5,927
Disposal of subsidiaries	944	1,683	50	2,677	-	48	2,725
Reclassification and other	177	(176)	-	1	(1)	(5)	(5)
Impairment losses recognized	(789)	(518)	(17)	(1,324)	-	(557)	(1,881)
Impairment losses reversed	728	1,344	1	2,073	-	1	2,074
Currency translation differences	1,233	2,115	12	3,360	-	8	3,368
Accumulated depreciation and impairment at December 31, 2017	(130,883)	(305,191)	(1,136)	(437,210)	(8,218)	(1,596)	(447,024)
Total property, plant and equipment at December 31, 2017	166,794	221,934	7,421	396,149	15,218	16,652	428,019

¹⁾ The amortization of nuclear fuel also includes charges in respect of additions to the accumulated provision for interim storage of spent nuclear fuel in the amount of CZK 225 million.

As at December 31, 2018 and 2017 a composite depreciation rate of Plant in service was 3.2% and 3.5%, respectively.

As at December 31, 2018 and 2017 capitalized interest costs amounted to CZK 260 million and CZK 1,608 million, respectively, and the interest capitalization rate was 4.3% and 4.1% , respectively.

Group's plant in service pledged as security for liabilities at December 31, 2018 and 2017 is CZK 14,827 million and CZK 13,121 million, respectively.

The net book value of assets leased under finance leases included in property, plant and equipment at December 31, 2018 amounted to CZK 65 million. Financial lease contracts were acquired to the Group mainly through acquisitions of subsidiaries during 2018.

Construction work in progress contains mainly refurbishments performed on nuclear plants and the electricity distribution network of subsidiary ČEZ Distribuce, a. s. It also contains costs of CZK 2,577 million for the preparation of new nuclear power sources.

4. Restricted Financial Assets, Net

Restricted financial assets at December 31, 2018 and 2017 consist of the following (in CZK millions):

	<u>2018</u>	<u>2017</u>
Czech government bonds	15,205	13,971
Cash in banks, net	<u>3,629</u>	<u>4,497</u>
Total restricted financial assets, net	<u><u>18,834</u></u>	<u><u>18,468</u></u>

The Czech government bonds are measured at fair value through other comprehensive income. The restricted financial assets contain in particular restricted funds related to accumulated provision for nuclear decommissioning and related to accumulated provision for mine reclamation and mining damages and waste storage reclamation.

5. Other Financial Assets, Net

Other financial assets, net at December 31, 2018 and 2017 consist of the following (in CZK millions):

	2018			2017		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Term deposits	-	505	505	500	503	1,003
Other financial receivables	505	35	540	269	43	312
Investment in finance lease	302	51	353	-	-	-
Debt financial assets	10	-	10	10	-	10
Total financial assets at amortized cost	817	591	1,408	779	546	1,325
Fair value of cash flow hedge derivatives	2,185	126	2,311	1,581	2	1,583
Total hedge derivatives at fair value	2,185	126	2,311	1,581	2	1,583
Equity financial assets – investments in Inven Capital, SICAV, a.s.	2,139	-	2,139	-	-	-
Commodity and other derivatives	1,249	91,299	92,548	933	39,743	40,676
Total financial assets at fair value through profit or loss	3,388	91,299	94,687	933	39,743	40,676
Financial assets in progress	-	-	-	6	-	6
Debt financial assets	503	1,287	1,790	1,777	2,807	4,584
Investments in Inven Capital, SICAV, a.s.	-	-	-	1,658	-	1,658
Veolia Energie ČR, a.s.	2,790	-	2,790	-	-	-
Other financial assets	265	-	265	-	-	-
Equity financial assets total	3,055	-	3,055	1,658	-	1,658
Total financial assets at fair value through other comprehensive income	3,558	1,287	4,845	3,441	2,807	6,248
Veolia Energie ČR, a.s.	-	-	-	2,732	-	2,732
Other	-	-	-	379	-	379
Total equity financial assets at purchase price	-	-	-	3,111	-	3,111
Total	9,948	93,303	103,251	9,845	43,098	52,943

Investments owned by sub-fund ČEZ of the company Inven Capital, SICAV, a.s., were reclassified from category Available-for-sale to category Fair value through profit or loss as at January 1, 2018. Investment in Veolia Energie ČR, a.s. was reclassified to category Fair value through profit or loss as at January 1, 2018.

Derivatives balance comprises mainly the positive fair values of commodity trading contracts.

ČEZ, a. s. concluded two put option agreements with Vršanská uhelná a.s. in March 2013. Under these contracts the Company has the right to transfer 100% of the shares of its subsidiary Elektrárna Počerady, a.s. to Vršanská uhelná a.s. First option for the year 2016 was not exercised, second option can be exercised in 2024 for cash consideration of CZK 2 billion. The option agreement can be inactivated until December 31, 2019. The contracts represent derivatives that will be settled by the delivery of unquoted equity instrument. Elektrárna Počerady, a.s. is not quoted on any market. There is significant variability in the range of reasonable fair values for this equity instrument (there is no similar power plant in the Czech Republic for sale and also no similar transaction took place) and thus it is difficult to reasonably assess the probabilities of various estimates. As a result the fair value cannot be reliably measured. Consequently, the put option is measured at cost. There was no option premium paid on the options and therefore the cost of these instruments is zero.

Movements in impairment provisions of other financial assets (in CZK millions):

	2018	2017
Balance as at January 1	-	-
Creation	(196)	-
Balance as at December 31	(196)	-

Creation of the impairment provisions represent in particular the value of 100% impairment provision to the loan provided to the company Akcez Enerji A.S. The creation of this impairment provision is presented in the income statement in the line Impairment of financial assets.

Debt financial assets at December 31, 2018 are contracted to mature in the following periods after the balance sheet date (in CZK millions):

	Debt financial assets at fair value through other comprehensive income	Debt financial assets at amortized cost	Investment in finance lease	Other financial receivables
Current portion	1,287	-	51	35
Between 1 and 2 years	402	-	49	186
Between 2 and 3 years	101	-	46	61
Between 3 and 5 years	-	10	41	53
Thereafter	-	-	166	205
Total	1,790	10	353	540

Debt financial assets at December 31, 2017 are contracted to mature in the following periods after the balance sheet date (in CZK millions):

	Debt financial assets at fair value through other comprehensive income	Debt financial assets at amortized cost	Other financial receivables
Current portion	2,807	-	43
Between 1 and 2 years	1,277	-	70
Between 2 and 3 years	400	-	41
Between 3 and 5 years	100	-	52
Thereafter	-	10	106
Total	4,584	10	312

Debt financial assets at December 31, 2018 have following effective interest rate structure (in CZK millions):

	Debt financial assets at fair value through other comprehensive income	Debt financial assets at amortized cost	Investment in finance lease	Other financial receivables
Less than 2.00%	1,790	10	1	532
2.00% to 2.99% p. a.	-	-	3	-
3.00% to 3.99% p. a.	-	-	269	-
4.00% to 4.99% p. a.	-	-	8	8
5% p. a. and more	-	-	72	-
Total	1,790	10	353	540

Debt financial assets at December 31, 2017 have following effective interest rate structure (in CZK millions):

	Debt financial assets at fair value through other comprehensive income	Debt financial assets at amortized cost	Other financial receivables
Less than 2.00% p. a.	4,584	10	312
Total	4,584	10	312

The following table analyses the debt financial assets at December 31, 2018 by currency (in CZK millions):

	Debt financial assets at fair value through other comprehensive income	Debt financial assets at amortized cost	Investment in finance lease	Other financial receivables
CZK	503	10	84	398
EUR	1,287	-	269	104
Other	-	-	-	38
Total	<u>1,790</u>	<u>10</u>	<u>353</u>	<u>540</u>

The following table analyses the debt financial assets at December 31, 2017 by currency (in CZK millions):

	Debt financial assets at fair value through other comprehensive income	Debt financial assets at amortized cost	Other financial receivables
CZK	3,306	10	285
EUR	1,278	-	26
Other	-	-	1
Total	<u>4,584</u>	<u>10</u>	<u>312</u>

6. Intangible Assets, Net

Intangible assets, net at December 31, 2018 are as follows (in CZK millions):

	Software	Rights and other	Emission rights, green and similar certificates	Goodwill	Intangibles in progress	Total
Cost at January 1, 2018	13,943	13,039	3,517	12,940	662	44,101
Additions	31	10	2,759	-	1,483	4,283
Disposals	(342)	(43)	-	-	(181)	(566)
Bring to use	1,166	24	-	-	(1,190)	-
Acquisition of subsidiaries	-	222	-	1,598	-	1,820
Disposal of subsidiaries	-	(4)	-	(7)	-	(11)
Impairment of goodwill	-	-	-	(727)	-	(727)
Transfer to assets held for sale	(497)	(1,310)	-	-	(42)	(1,849)
Reclassification and other	7	3	866	-	(3)	873
Currency translation differences	11	(52)	22	11	4	(4)
Cost at December 31, 2018	14,319	11,889	7,164	13,815	733	47,920
Accumulated amortization and impairment at January 1, 2018	(11,748)	(5,530)	-	-	(19)	(17,297)
Amortization	(865)	(573)	-	-	-	(1,438)
Net book value of assets disposed	(1)	-	-	-	-	(1)
Disposals	342	43	-	-	-	385
Disposal of subsidiaries	-	4	-	-	-	4
Transfer to assets held for sale	444	857	-	-	19	1,320
Reclassification and other	(9)	-	-	-	-	(9)
Impairment losses recognized	(26)	(53)	-	-	-	(79)
Impairment losses reversed	-	291	-	-	-	291
Currency translation differences	-	31	-	-	-	31
Accumulated amortization and impairment at December 31, 2018	(11,863)	(4,930)	-	-	-	(16,793)
Net intangible assets at December 31, 2018	2,456	6,960	7,164	13,815	732	31,127

Intangible assets, net at December 31, 2017 are as follows (in CZK millions):

	Software	Rights and other	Emission rights, green and similar certificates	Goodwill	Intangibles in progress	Total
Cost at January 1, 2017	13,442	11,555	2,847	9,558	660	38,062
Additions	24	128	942	32	1,123	2,249
Disposals	(397)	(42)	-	(10)	(2)	(451)
Bring to use	933	78	-	-	(1,011)	-
Acquisition of subsidiaries	5	1,486	-	3,662	-	5,153
Disposal of subsidiaries	(1)	(31)	-	-	(14)	(46)
Reclassification and other	21	-	-	-	(86)	(65)
Currency translation differences	(84)	(135)	(272)	(302)	(8)	(801)
Cost at December 31, 2017	13,943	13,039	3,517	12,940	662	44,101
Accumulated amortization and impairment at January 1, 2017	(11,267)	(4,776)	-	-	(36)	(16,079)
Amortization	(941)	(491)	-	-	-	(1,432)
Net book value of assets disposed	-	(1)	-	-	-	(1)
Disposals	397	42	-	-	-	439
Disposal of subsidiaries	1	31	-	-	14	46
Reclassification and other	(4)	(1)	-	-	-	(5)
Impairment losses recognized	(1)	(422)	-	-	-	(423)
Currency translation differences	67	88	-	-	3	158
Accumulated amortization and impairment at December 31, 2017	(11,748)	(5,530)	-	-	(19)	(17,297)
Net intangible assets at December 31, 2017	2,195	7,509	3,517	12,940	643	26,804

Research and development costs, net of grants and subsidies received, that are not eligible for capitalization have been expensed in the period incurred and amounted to CZK 396 million in 2018 and CZK 413 million in 2017.

Group's intangible assets, net pledged as security for liabilities at December 31, 2018 and 2017 is CZK 199 million and CZK 200 million, respectively.

At December 31, 2018 and 2017 goodwill allocated to cash-generating units is as follows (in CZK millions):

	2018	2017
Elevion Group	3,535	3,385
Czech distribution	2,200	2,200
Polish power plants (Chorzów, Skawina)	1,173	1,199
Romanian distribution	1,824	1,813
Energotrans	1,675	1,675
Companies of ČEZ ESCO Group	1,040	427
Kofler Energies Group	621	-
Romanian sale	513	510
Severočeské doly	292	292
TMK Hydroenergy Power	270	268
Energetické centrum	261	261
Metrolog	118	-
ČEZ Teplárenská	-	727
Other	293	183
	<u>13,815</u>	<u>12,940</u>
Total	<u>13,815</u>	<u>12,940</u>

7. Impairment of Property, Plant and Equipment and Intangible Assets

The following table summarizes the impairments of property, plant and equipment and intangible assets by cash-generating units in 2018 (in CZK millions):

	Impairment losses				Impairment reversals				
	Goodwill	Intangible assets other than goodwill	Property, plant and equipment	Property, plant and equipment held for sale	Total	Intangible assets other than goodwill	Property, plant and equipment	Total	Total
ČEZ Teplárenská	(727)	(53)	(2)	-	(782)	-	-	-	(782)
Bulgarian distribution	-	-	-	(621)	(621)	-	-	-	(621)
Romanian wind power farms	-	(1)	(109)	-	(110)	291	219	510	400
Polish power plants (Chorzów, Skawina)	-	-	(279)	-	(279)	-	-	-	(279)
ČEZ OZ uzavřený investiční fond	-	-	(222)	-	(222)	-	30	30	(192)
ČEZ	-	-	(188)	-	(188)	-	-	-	(188)
Romanian distribution	-	-	(71)	-	(71)	-	23	23	(48)
Other	-	(26)	(52)	(22)	(100)	-	44	44	(56)
Total	(727)	(80)	(923)	(643)	(2,373)	291	316	607	(1,766)

The following table summarizes the impairments of property, plant and equipment and intangible assets by cash-generating units in 2017 (in CZK millions):

	Impairment losses			Impairment reversals	
	Intangible assets other than goodwill	Property, plant and equipment	Total	Property, plant and equipment	Total
CEZ – CCGT Počerady	-	-	-	1,588	1,588
CEZ – other	-	(199)	(199)	-	(199)
Bulgarian distribution	(26)	(956)	(982)	-	(982)
Polish wind projects	-	(372)	(372)	-	(372)
Romanian wind power farms	(397)	(166)	(563)	421	(142)
Other	-	(190)	(190)	67	(123)
Total	(423)	(1,883)	(2,306)	2,076	(230)

In 2018 and 2017 the Group performed impairment tests of goodwill and tests of other non-current assets where there was an indication that the carrying amounts could be impaired.

Recognized impairment of non-current assets of cash-generating unit ČEZ Teplárenská in 2018 was caused mainly due to increase of the rate used for discounting of cash flows from 3.2% in 2017 to 4.0% in 2018. The impairment loss of property, plant and equipment of cash-generating unit Bulgarian distribution in 2018 was recognized with regard to the fact that the assets are classified as held for sale (Note 15) and the contracted sale price is fixed and denominated in EUR (so-called “locked box”) and the carrying amount of assets as of the December 31, 2018 exceeded the contracted amount. The Group reversed impairment of the property, plant and equipment and intangible assets of the cash-generating unit Romanian wind power farms in 2018 mainly due to increase in market prices of electricity and due to positive effect of the development of RON/EUR exchange rate to the green certificates classified as intangible assets. Recognized impairment of property, plant and equipment of cash-generating unit Polish power plants in 2018 was caused mainly by decrease in planned profitability of CEZ Skawina S.A. and increased amount of capital expenditures for refurbishments. Recognized impairment of cash-generating unit ČEZ OZ uzavřený investiční fond in 2018 was caused mainly in relation to the expected decrease in future regulated revenues.

The Group reversed all remaining impairment losses for CCGT Počerady cash-generating unit in 2017 due to increase in its recoverable amount caused mainly by increase in market prices of electricity. Recognized impairment of property, plant and equipment of cash-generating unit Bulgarian distribution in 2017 was caused mainly by decrease in expected future cash flows due to current outlook of electricity distribution regulation in Bulgaria. Recognized impairment of property, plant and equipment of cash-generating unit Polish wind projects in 2017 was caused mainly by negative EIA assessments reports concluded after changes in relevant legislation in Poland from 2016. The Group recognized reversal of impairment of property, plant and equipment of cash-generating unit Romanian wind power farms in 2017 mainly due to increase in market prices of electricity while at the same time in 2017 the Group recognized impairment of green certificates classified as intangible assets mainly due to different timing of related cash flows.

Description of selected parameters related to testing and determination of recoverable amounts

The impairment test involves determining the recoverable amount of the cash-generating unit, which corresponds to the value in use except for Bulgarian distribution and Bulgarian sale as at December 31, 2018 when fair value less costs of disposal was used. Value in use is the present value of the future cash flows expected to be derived from a cash-generating unit and is assessed from a company internal perspective.

Values in use are determined based on a complex projection of cash flows or on the medium-term budget for a period of 5 years and on the anticipated development of the expected cash flows in the long-term, which is valid when the impairment test is performed. These budgets are based on the past experience, as well as on the anticipated future market trends and on the macroeconomic development of the respective region.

- a. The value in use based on complex projection of cash flows of respective companies for the period covering remaining useful life of tested assets was used for determination of the recoverable amounts of the following cash-generating units:

ČEZ, a. s. generation assets are tested for any possible impairment as a single cash-generating unit with the exception of specific assets, e.g. the gas fired power plant in Počerady. Company's cash-generating unit of generation assets is characterized by portfolio management in the deployment and maintenance of various power plants and the cash flows generated from these activities.

As part of testing the recoverable value of fixed assets of the cash generating unit of ČEZ, a. s. (hereinafter the ČEZ Value), we performed a sensitivity analysis of the test results to changes in certain key parameters of the used model – changes in wholesale power prices (hereinafter the EE Prices), changes in the discount rate used in the calculation of the present value of future cash flows and changes in CZK/EUR exchange rate.

The development of commodity prices and, in particular, the development of wholesale power prices in Germany (as German power prices have a major impact on the development of wholesale power prices in the Czech Republic) are the key assumptions used for the ČEZ Value model. The developments of wholesale prices are primarily determined by the EU political decisions, the development of global demand and supply of commodities and the technological progress.

The development of EE price is influenced by a number of external factors, including, in particular, changes in the structure and availability of generation capacity in the Czech Republic and neighboring countries, the macroeconomic development of the Central European region and the regulation of the energy sector in the EU and Germany (fundamental impacts of premature decommissioning of German nuclear power plants in 2020–2022 and impacts of the EU approved climate and energy targets for 2030) and also by development of the Czech Republic State Energy Concept. The model was constructed for a period adequate to the useful life of the power plants, i.e. for a period that significantly exceeds the period for which commodities, including wholesale power price contracts, are traded on public liquid markets. In addition, the power market is subject to structural changes (the Market Design) and major industry regulation; consequently, complete abandonment of market-based power pricing mechanisms and implementation of alternative, centrally regulated payments for the availability and supply of power plants within the period of useful life of the power plants is actually possible.

With respect to the fact that we are using a long-term model, there are certain internal factors and assumptions that affect the ČEZ Value sensitivity to the development of power prices, such as varying deployment of the generation portfolio depending on the development of power prices, emission allowances and variable generation costs and, in a longer perspective, also the development of fixed costs reflecting the development of the power plants gross margin.

The sensitivity test results reflect expert estimates of the status and development of the above factors in the period of the model and the status of commercial securing of the generation portfolio as at December 31, 2018.

The test considers long-term EE prices at the level used to prepare Company's business plan for 2019–2023. The plan was prepared in the fourth quarter 2018 whereas the plan was based on the active market parameters observed in August and September 2018 (power prices on EEX energy exchange in Germany, prices on PXE energy exchange in the Czech Republic, price of CO₂ emission rights, FX rate CZK/EUR, interest rates etc.). There is a liquidity for power contracts traded on EEX for the period covering the horizon of the business plan and with regard to links between German and Czech power transmission network, the EEX prices are basic market price indicator for EE prices in the Czech Republic. For the purposes of the sensitivity analysis, the input EE prices, emission rights prices and foreign exchange rates were applied to the relevant opened positions of the Company.

A change of the assumed EE prices as per the models by 1%, with other parameters remaining unchanged, would have an impact of approximately CZK 6.7 billion on the ČEZ Value test results. Future cash flows of the model were discounted using a 4.5% rate. A change of 0.1 percentage point in the discount rate, with other parameters remaining unchanged, would change the ČEZ Value by approximately CZK 4.6 billion. A change of 1% in the CZK/EUR exchange rate, with other parameters remaining unchanged, would result in a change of approximately CZK 5.8 billion in the ČEZ Value.

The cash flow projections of Romanian wind power farms are based on approved renewable energy support in the form of granted green certificates and a discount rate of 6.2%. The projection of the cash flows includes assumption of receiving one green certificate as approved by Romanian Energy Regulatory Authority ANRE. The recovery of deferred green certificates and other green certificates classified as intangible assets is expected till 2028. One of the main factors influencing the value of future cash flows is the price of green certificates. Current value of the green certificate in the model is EUR 29.4, which is the floor price set by regulation. Change of the discount rate by 1 percentage point, all other variables held constant, would result in change of value in use by approximately CZK 0.9 billion.

The generation sources in Poland (power plants Chorzów and Skawina) including wind farm projects classified as property, plant and equipment under construction also belong among tested non-current assets where cash flow projects covering remaining useful life were used. Future cash flows were discounted using rate of 5.2% for power plants Chorzów and Skawina and using rate 6.17% to 6.75% for wind farm projects in construction.

- b. The value in use derived from the projection of cash flows based on financial budget for a period of 5 years and on the expected future development of cash flows generated from the respective assets was applied when determining the recoverable amount of the following cash-generating units:

The discount rate of 3.5% was used for Czech distribution. Cash flows beyond the five-year period for Czech distribution were based on the terminal value of regulatory asset base.

The discount rate of 4.0% was used for Energotrans and ČEZ Teplárenská. No growth rate is considered for cash flows beyond five-year period for Energotrans and ČEZ Teplárenská.

The discount rate of 4.0% was used for Energetické centrum. Cash flows beyond the five-year period are extrapolated using 2.0% growth rate.

The discount rate of 6.2% was used for Romanian distribution. Cash flows beyond the five-year period for Romanian distribution were based on the terminal value of regulatory asset base.

The discount rate of 6.8% was used for TMK Hydroenergy Power. There is no growth rate considered for cash flows beyond five-year period.

- c. The calculations of value in use for all cash-generating units are most sensitive to the following assumptions:

Gross margins – Gross margins are based on experience from historical trends in the preceding periods, current outlook of market and non-market parameters, eventually with regard to operational efficiency improvements. Gross margins are affected especially by wholesale electricity prices, prices of emission rights and prices of green and similar certificates.

Raw materials price inflation – Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is available, otherwise past actual raw material price movements have been used as an indicator of future price movements.

Discount rate – Discount rates reflect management's estimate of the risk specific to each unit. The basis used to determine the value assigned is weighted average cost of capital (WACC) of the related subsidiaries.

Estimated growth rate – The basis used to determine the value assigned to estimated growth rate is the anticipated future development of the market, gross domestic product, nominal wages and interest rates and the forecast of regulatory environment, where subsidiaries conduct the business.

8. Changes in the Group Structure

8.1. Changes in the Group Structure in 2018

Acquisitions of subsidiaries from third parties in 2018

On January 31, 2018 the Group acquired a 100% interest in the polish company Metrolog sp. z o.o. The company is an engineering firm that focuses on complex services related to heat management and decentralized heat and electricity generation.

On March 9, 2018 the Group acquired 100% share in Hungarian company ETS Engineering Kft., which operates in the field of technical equipment for buildings with a focus on heating, sanitary and cooling systems, compressed air systems, ventilation and industrial air-conditioning systems.

On May 14, 2018 the Group acquired 100% share (effective interest 95%) in the company Kirschbaum & Rohrlack GmbH, which deals with buildings automation systems.

On June 19 and June 28, 2018 the Group acquired 100% share (effective interest 95%) in the company TFS Hungary Kft., which deals with installation and servicing of electrical and mechanical equipment in buildings.

On July 1, 2018 the Group gained control over ČEZ Energo, s.r.o. The control of the Group resulted from a new amendment of the shareholders' agreement. In this regard, there was no change in the ownership interest or in the voting rights interest (these interests remain on 50.1% share) and the amendment was concluded without any transfer of consideration. The shareholder agreement includes put option held by non-controlling interest. ČEZ Energo, s.r.o. deals with the installation and subsequent operation of cogeneration units for the combined production of electricity and heat with installed power from hundreds of kW_e to units of MW_e.

On July 1, 2018 the Group acquired 100% share in the company AYIN, s.r.o., which deals with heat distribution for the city Nejdek.

On July 10, 2018 the Group acquired 100% share (effective interest 51%) in Slovak company ČEZ Distribučné sústavy a.s. which owns and operates electric and gas local distribution systems.

On July 31, 2018 the Group acquired 100% share in German companies Kofler Energies Ingenieurgesellschaft mbH, Kofler Energies Energieeffizienz GmbH, Kofler Energies Systems GmbH and Kofler Energies International GmbH (together as Kofler Energies). Kofler Energies deals with energy efficiency projects, designing decentralized devices and battery systems. In addition, Kofler Energies operates the energy devices. Kofler Energies customers are both German industry and public administration.

On October 23, 2018 the Group acquired 100% share (effective interest 95%) in the company Jäger & Co. GmbH. The company is engaged in the development and installation of technical systems for measurement, control and regulation in the field of building automation.

On November 26, 2018 the Group acquired 55% share in the Slovak company SPRAVBYTKOMFORT, a.s. Prešov. The company SPRAVBYTKOMFORT, a.s. Prešov owns and operates the municipal heating system in Prešov (further also HS Prešov) and provides related energy services.

On December 3, 2018 the Group acquired 100% share in the company Domat Holding s.r.o., which owns 100% interest in the company Domat Control System s.r.o. The company Domat Control System s.r.o. deals with the development, supply and operation of control systems for the buildings, industrial sites and energy sector.

On December 12, 2018 the Group acquired 100% share in the company TENAUR, s.r.o., which deals with the installation of heat pumps with autonomous remote access for monitoring.

On December 12, 2018 the Group acquired 100% share in the Romanian company High-Tech Clima S.A., which supplies air conditioning, ventilation and heating to factories, logistics parks, offices, shopping centers and residential buildings.

In the case of acquisition of Kofler Energies, the fair values of acquired identifiable assets and liabilities and the purchase consideration have been stated provisionally and could be adjusted in the subsequent period. The following table presents the current best estimate of fair values of acquired identifiable assets and liabilities as of the date of acquisitions (in CZK millions):

	Kofler Energies	ČEZ Energo	HS Prešov	Metrolog	Other	Total
Share of the Group being acquired	100%	-	55%	100%		
Property, plant and equipment	20	2,035	364	83	103	2,605
Intangible assets, net	131	1	1	51	38	222
Investment in financial lease, net of current portion	236	-	-	-	-	236
Deferred tax assets	44	-	2	3	2	51
Other non-current assets	8	3	-	-	11	22
Cash and cash equivalents	37	131	58	99	165	490
Receivables, net	140	31	27	44	215	457
Other financial assets, net	44	-	-	-	18	62
Other current assets	69	103	13	46	128	359
Long-term debt, net of current portion	(239)	(733)	(74)	-	(42)	(1,088)
Deferred tax liability	(62)	(135)	(1)	(13)	(15)	(226)
Other long-term liabilities	(2)	-	(1)	-	(11)	(14)
Trade payables	(130)	(49)	(17)	(45)	(135)	(376)
Other current liabilities	(151)	(83)	(123)	(20)	(194)	(571)
Total net assets	145	1,304	249	248	283	2,229
Share of net assets acquired	145	653	144	248	283	1,473
Goodwill	618	49	372	120	439	1,598
Negative goodwill	-	-	-	-	(1)	(1)
Total purchase consideration	763	702	516	368	721	3,070
Liabilities from acquisition of the subsidiary	-	-	-	(40)	(110)	(150)
Book value of previously held investment in joint-venture	-	(601)	-	-	-	(601)
Gain from remeasurement of previously held investment to fair value *	-	(101)	-	-	-	(101)
Cash outflow on acquisition of the subsidiary in 2018	763	-	516	328	611	2,218
Less: Cash and cash equivalents in the subsidiary acquired	(37)	(131)	(58)	(99)	(165)	(490)
Cash outflow on acquisition of the subsidiary in 2018, net	726	(131)	458	229	446	1,728

* Gain from remeasurement of previously held investment in ČEZ Energo, s.r.o. to fair value was included in statement of income in the line Share of profit (loss) from associates and joint-ventures.

If the combinations had taken place at the beginning of the year 2018, net income for CEZ Group as of December 31, 2018 would have been CZK 10,539 million and the revenues and other operating income from continuing operations would have been CZK 186,689 million. The amounts of goodwill recognized as a result of the business combinations comprise the value of expected synergies arising from the acquisitions.

From the acquisition date, the newly acquired subsidiaries have contributed the following balances to the Group's statement of income (in CZK millions):

	<u>Kofler Energies</u>	<u>ČEZ Energo</u>	<u>HS Prešov</u>	<u>Metrolog</u>	<u>Other</u>	<u>Total</u>
Revenues and other operating income	491	430	68	579	234	1,802
Income (loss) before other income (expense) and income taxes	36	10	8	39	36	129
Net income (loss)	29	(23)	(3)	32	31	66
Net income (loss) attributable:						
Equity holders of the parent	29	(12)	(2)	32	28	75
Non-controlling interests	-	(11)	(1)	-	3	(9)

New investments in associates and joint-ventures in 2018

On August 31, 2018 the Group acquired 50% share in Slovak company KLF-Distribúcia, s.r.o. The aim of KLF-Distribúcia, s.r.o. is to build and operate 110 kV substations for a local distribution system in the industrial area in Kysucké Nové Mesto.

On September 18, 2018 the Group acquired 49% share in Slovak company Bytkomfort, s.r.o., which owns and operates the municipal heating system in Nové Zámky and provides related energy services, including maintenance and operational activities.

On December 4, 2018 the Group acquired 50% share in the company GP JOULE PP X Verwaltungs GmbH. On December 6, 2018 the Group acquired 50% share in the company GP JOULE PP1 GmbH & Co. KG. The intention of the joint-venture is the development and construction of wind farm projects in Germany.

On December 19, 2018 the Group acquired 50% share in the company Green Wind Deutschland GmbH. On December 28, 2018 the Group acquired 50% share in the companies Windpark Moringen Nord GmbH & Co. KG and Windpark Prezelle GmbH & Co. KG. The intention of the joint-venture is the development and construction of wind farm projects in Germany.

Overview about these transactions provides the following table (in CZK millions):

	<u>Bytkomfort</u>	<u>Other</u>	<u>Total</u>
Share acquired in 2018	49%	50%	
Total net assets	208	91	299
Share of net assets acquired	102	45	147
Goodwill	136	179	315
Total purchase consideration	<u>238</u>	<u>224</u>	<u>462</u>
Related outstanding payables	<u>-</u>	<u>(8)</u>	<u>(8)</u>
Cash outflow on investment	<u>238</u>	<u>216</u>	<u>454</u>

The following table summarizes the cash flows related to acquisitions in 2018 (in CZK millions):

Cash outflow on acquisitions of the subsidiaries	2,218
Cash outflow on investments in joint-ventures	454
Advanced payments for investments in joint-ventures	14
Payments of payables from acquisitions in previous periods	18
Less: Cash and cash equivalents acquired	<u>(490)</u>
Total cash outflows on acquisitions	<u><u>2,214</u></u>

Acquisitions and sale of non-controlling interests in 2018

On January 2, 2018 the Group acquired remaining non-controlling 25% share in the company ENESA a.s.
On December 10, 2018 the Group acquired remaining non-controlling 49% share in the company ČEZ Bytové domy, s.r.o.

On January 2, 2018 the Group sold 0.04% share in the company ČEZ OZ uzavřený investiční fond a.s.

Loss of control in the company Eco-Wind Construction S.A.

On September 13, 2018 the bankruptcy of the company Eco-Wind Construction S.A. was announced. As a result of taking control over the company by a bankruptcy trustee appointed by the court, the Group lost control over the company. Due to the loss of control, the net assets were derecognized from the consolidated balance sheet and the related gain from the loss of control of CZK 157 million was recognized in the statement of income on the line Other financial income.

8.2. Changes in the Group Structure in 2017

Acquisitions of subsidiaries from third parties in 2017

The fair values of acquired identifiable assets and liabilities as of the date of acquisition were as follows (in CZK millions):

	Elevion Group	OEM Energy	Other	Total
Share of the Group being acquired	100%	51%		
Property, plant and equipment	99	1	56	156
Intangible assets	1,385	105	1	1,491
Other non-current assets	2	-	-	2
Materials and supplies, net	1,437	13	55	1,505
Receivables, net	877	33	80	990
Cash and cash equivalents	370	14	40	424
Other current assets	57	-	11	68
Non-current provisions	(51)	-	-	(51)
Deferred tax liability	(488)	(20)	(1)	(509)
Other long-term financial liabilities	-	-	(21)	(21)
Trade payables	(925)	(16)	(48)	(989)
Income tax payable	(68)	-	(3)	(71)
Current provisions	(375)	-	(1)	(376)
Other current liabilities	(754)	(2)	(54)	(810)
Total net assets	1,566	128	115	1,809
Share of net assets acquired	1,566	65	100	1,731
Goodwill	3,460	57	145	3,662
Total purchase consideration	5,026	122	245	5,393
Liabilities from acquisition of the subsidiary	-	(15)	(33)	(48)
Cash outflow on acquisition of the subsidiary in 2017	5,026	107	212	5,345
Less: Cash and cash equivalents in the subsidiary acquired	(370)	(14)	(40)	(424)
Cash outflow on acquisition of the subsidiary in 2017, net	4,656	93	172	4,921

If the combinations had taken place at the beginning of the year 2017, net income for CEZ Group as of December 31, 2017 would have been CZK 18,984 million and the revenues and other operating income from continuing operations would have been CZK 212,027 million. The amounts of goodwill recognized as a result of the business combinations comprise the value of expected synergies arising from the acquisitions.

From the acquisition date, the newly acquired subsidiaries have contributed the following balances to the Group's statement of income for 2017 (in CZK millions):

	Elevion Group	OEM Energy	Other	Total
Revenues and other operating income	3,314	43	119	3,476
Income (loss) before other income (expense) and income taxes	88	(1)	11	98
Net income (loss)	47	(1)	9	55
Net income (loss) attributable:				
Equity holders of the parent	45	(1)	8	52
Non-controlling interests	2	-	1	3

The following table summarizes the cash flows related to acquisitions in 2017 (in CZK millions):

Investment in subsidiaries	5,393
Cash contributions to joint-ventures	75
Change in payables from acquisitions	26
Less: Cash and cash equivalents acquired	(424)
Total cash outflows on acquisitions	<u>5,070</u>

Acquisitions of non-controlling interests from third parties in 2017

On December 20, 2017 the Group increased the ownership interest from 95% to 100% in company Areál Třeboradice, a.s.

The cash flows from acquisition and sale of non-controlling interests in 2017 were as follows (in CZK millions):

Outflow on acquisition of 25% interest in Eco-Wind Construction S.A.	259
Outflow on acquisition of 5% interest in Areál Třeboradice, a.s.	17
Outflow on acquisition of 25% interest in Elektro- Decker GmbH	18
Cash received from sale of 5% effective interest in CEZ ESCO I GmbH (Elevion's direct parent)	(134)
Total cash outflows, net	<u>160</u>

Sale of subsidiaries and disposal of investment in a joint-venture in 2017

The sale of 100% interest in Elektrárna Tisová, a.s. took place on January 2, 2017.

ČEZ concluded an agreement to sell its 100% interest in the subsidiary TEC Varna EAD (power plant in Bulgaria) with company SIGDA OOD on October 31, 2017. The transaction took place on December 20, 2017.

In December 2017, settlement of liquidation of joint-venture CM European Power International B.V. was completed.

As a result of the sales of subsidiaries, the Group recorded the following items (in CZK millions):

	Elektrárna Tisová	TEC Varna
Derecognized balance sheet items:		
Net plant in service	194	137
Restricted financial assets	13	-
Cash and cash equivalents	104	1
Receivables, net	99	1
Other current assets	205	13
Non-current provisions	(328)	(130)
Deferred tax liability	-	(2)
Current provisions	(129)	(18)
Trade payables	(61)	(6)
Other current liabilities	(52)	-
Net assets derecognized from balance sheet	45	(4)
Effect of intercompany balances:		
Receivables, net	(36)	-
Other current assets, net	(56)	-
Trade payables	381	-
Payables from group cash pooling and other financial liabilities	335	493
Accrued liabilities	67	-
Total	691	493
Translation differences reclassified from equity	-	757
Total cost of sale of the Group	736	1,246
Revenue on sale	736	1,232
Gain (loss) on sale	-	(14)

The following table summarizes the cash flows related to sale of subsidiaries in 2017 (in CZK millions):

Total receivable from the sale of the subsidiary	736	1,232
Unpaid receivable as of December 31, 2017	-	(20)
Loan received and payables from cash pooling set off	(335)	(493)
Current proceeds from the sale of the subsidiaries	401	719
Less: Cash and cash equivalents disposed on sale	(104)	(1)
Total proceeds from disposal of subsidiaries, net	297	718

The following table summarizes the cash flows related to sale of subsidiaries and disposal of joint-ventures in 2017 (in CZK millions):

Proceeds from disposal of subsidiaries	1,015
Proceeds from disposal (liquidation) of CM European Power International B.V.	948
Change in receivables from sale of subsidiaries	74
	<hr/>
Total cash flows disposal of subsidiaries and joint-ventures	<u>2,037</u>

9. Investments in Subsidiaries, Associates and Joint-ventures

The consolidated financial statements include the financial figures of ČEZ, a. s. and its subsidiaries, associates and joint-ventures listed in the following table:

Subsidiaries	Country	Operating segment	% equity interest *		% voting interest
			Change in 2018	2018	2018
New acquisitions in 2018					
AYIN, s.r.o.	CZ	GT	100.00	100.00	100.00
ČEZ Distribuční systavy a.s.	SK	GN	51.00	51.00	100.00
ČEZ Energo, s.r.o.	CZ	S	-	50.10	50.10
Domat Control System s.r.o.	CZ	S	100.00	100.00	100.00
Domat Holding s.r.o.	CZ	S	100.00	100.00	100.00
ETS Engineering Kft.	HU	S	95.00	95.00	100.00
High-Tech Clima d.o.o.	RS	S	100.00	100.00	100.00
High-Tech Clima S.A.	RO	S	100.00	100.00	100.00
Hybridkraftwerk Culemeyerstraße Projekt GmbH	DE	S	100.00	100.00	100.00
Jäger & Co. GmbH	DE	S	95.00	95.00	100.00
Kirschbaum & Rohrlack GmbH	DE	S	100.00	-	-
Kofler Energies Energieeffizienz GmbH	DE	S	100.00	100.00	100.00
Kofler Energies Ingenieurgesellschaft GmbH	DE	S	100.00	100.00	100.00
Kofler Energies International GmbH	DE	S	100.00	100.00	100.00
Kofler Energies Italia S.r.l.	IT	S	100.00	100.00	100.00
Kofler Energies Systems GmbH	DE	S	100.00	100.00	100.00
Metrolog sp. z o.o.	PL	S	100.00	100.00	100.00
NEK Facility Management GmbH	DE	S	100.00	100.00	100.00
SERVISKOMFORT s.r.o. ¹⁾	SK	S	100.00	100.00	100.00
SPRAVBYTKOMFORT, a.s. Prešov	SK	S	55.00	55.00	55.00
TENAUR, s.r.o.	CZ	S	100.00	100.00	100.00
TFS Hungary Kft.	HU	S	100.00	-	-
WPG Projekt GmbH	DE	S	100.00	100.00	100.00
Asset deals in 2018					
Ferme Eolienne d'Andelaroche SAS	FR	GN	100.00	100.00	100.00
Changes of non-controlling interests in 2018					
ČEZ Bytové domy, s.r.o.	CZ	S	49.00	100.00	100.00
ČEZ OZ uzavřený investiční fond a.s.	CZ	GN	(0.04)	99.96	99.96
ENESA a.s.	CZ	S	25.00	100.00	100.00
OEM Energy sp. z o.o.	PL	S	1.00	51.00	51.00

¹⁾ In 2019 the company name SERVISKOMFORT s.r.o. was changed to ČEZ SERVIS, s.r.o.

Subsidiaries	Country	Operating segment	Change in 2018	% equity interest *	% voting interest
Newly established subsidiaries in 2018					
CEZ Erneuerbare Energien Beteiligungs II GmbH	DE	GN	100.00	100.00	100.00
CEZ ESCO II GmbH	DE	S	100.00	100.00	100.00
CEZ ESCO Romania S.A.	RO	S	100.00	100.00	100.00
ČEZ Asset Holding, a. s.	CZ	O	100.00	100.00	100.00
ESCO City IV sp. z o.o.	PL	S	100.00	100.00	100.00
ESCO City V sp. z o.o.	PL	S	100.00	100.00	100.00
ESCO City VI sp. z o.o.	PL	S	100.00	100.00	100.00
REN Development s.r.o.	CZ	GN	100.00	100.00	100.00
Liquidations, mergers and loss of control					
ČEZ Distribuční služby, s.r.o.	CZ	D	(100.00)	-	-
ČEZ Inženýring, s.r.o.	CZ	O	(100.00)	-	-
CEZ International Finance B.V.	NL	O	(100.00)	-	-
Eco-Wind Construction S.A.	PL	GN	(100.00)	-	-
Kirschbaum & Rohrlack GmbH	DE	S	(100.00)	-	-
Shared Services Albania Sh.A.	AL	O	(100.00)	-	-
TFS Hungary Kft.	HU	S	(100.00)	-	-
Other – no change in 2018					
A.E. Wind S.A.	PL	GN	-	100.00	100.00
AirPlus, spol. s r.o.	CZ	S	-	100.00	100.00
Areál Třeboradice, a.s.	CZ	GT	-	100.00	100.00
AZ KLIMA a.s.	CZ	S	-	100.00	100.00
AZ KLIMA SK, s.r.o.	SK	S	-	100.00	100.00
Baltic Green Construction sp. z o.o.	PL	GN	-	100.00	100.00
Baltic Green I sp. z o.o.	PL	GN	-	100.00	100.00
Baltic Green II sp. z o.o.	PL	GN	-	100.00	100.00
Baltic Green III sp. z o.o.	PL	GN	-	100.00	100.00
Baltic Green IX sp. z o.o.	PL	GN	-	100.00	100.00
Baltic Green V sp. z o.o.	PL	GN	-	100.00	100.00
Baltic Green VI sp. z o.o.	PL	GN	-	100.00	100.00
Baltic Green VIII sp. z o.o.	PL	GN	-	100.00	100.00
BANDRA Mobilien-gesellschaft mbH & Co. KG	DE	GN	-	100.00	100.00
Bara Group EOOD	BG	GN	-	100.00	100.00
CASANO Mobilien-gesellschaft mbH & Co. KG	DE	GN	-	100.00	100.00
Centrum výzkumu Řež s.r.o.	CZ	O	-	52.46	100.00
CEZ Bulgaria EAD	BG	O	-	100.00	100.00
CEZ Bulgarian Investments B.V.	NL	O	-	100.00	100.00
CEZ Deutschland GmbH	DE	O	-	100.00	100.00
CEZ Elektro Bulgaria AD	BG	S	-	67.00	67.00
CEZ Erneuerbare Energien Beteiligungs GmbH	DE	GN	-	100.00	100.00
CEZ ESCO Bulgaria EOOD	BG	S	-	100.00	100.00
CEZ ESCO I GmbH	DE	S	-	95.00	92.00
CEZ ESCO Polska sp. z o.o.	PL	S	-	100.00	100.00
CEZ France SAS	FR	GN	-	100.00	100.00
CEZ Holdings B.V.	NL	O	-	100.00	100.00
CEZ Hungary Ltd.	HU	S	-	100.00	100.00
CEZ Chorzów II sp. z o.o.	PL	GN	-	100.00	100.00
CEZ Chorzów S.A.	PL	GT	-	100.00	100.00
CEZ ICT Bulgaria EAD	BG	O	-	67.00	100.00

Subsidiaries	Country	Operating segment	% equity interest *		% voting interest
			Change in 2018	2018	2018
CEZ MH B.V.	NL	O	-	100.00	100.00
CEZ New Energy Investments B.V.	NL	O	-	100.00	100.00
CEZ Polska sp. z o.o.	PL	O	-	100.00	100.00
CEZ Produkty Energetyczne Polska sp. z o.o.	PL	O	-	100.00	100.00
CEZ Razpredelenie Bulgaria AD	BG	D	-	67.00	67.00
CEZ Romania S.A.	RO	O	-	100.00	100.00
CEZ Skawina S.A.	PL	GT	-	100.00	100.00
CEZ Slovensko, s.r.o.	SK	S	-	100.00	100.00
CEZ Srbija d.o.o.	RS	GT	-	100.00	100.00
CEZ Towarowy Dom Maklerski sp. z o.o.	PL	GT	-	100.00	100.00
CEZ Trade Bulgaria EAD	BG	S	-	100.00	100.00
CEZ Trade Polska sp. z o.o.	PL	S	-	100.00	100.00
CEZ Trade Romania S.R.L.	RO	GT	-	100.00	100.00
CEZ Ukraine LLC	UA	O	-	100.00	100.00
CEZ Vanzare S.A.	RO	S	-	100.00	100.00
CEZ Windparks Lee GmbH	DE	GN	-	100.00	100.00
CEZ Windparks Luv GmbH	DE	GN	-	100.00	100.00
CEZ Windparks Nordwind GmbH	DE	GN	-	100.00	100.00
ČEZ Bohunice a.s.	CZ	O	-	100.00	100.00
ČEZ Distribuce, a. s.	CZ	D	-	100.00	100.00
ČEZ Energetické produkty, s.r.o.	CZ	O	-	100.00	100.00
ČEZ Energetické služby, s.r.o.	CZ	S	-	100.00	100.00
ČEZ ENERGOSEKVIS spol. s r.o.	CZ	O	-	100.00	100.00
ČEZ ESCO, a.s.	CZ	S	-	100.00	100.00
ČEZ ICT Services, a. s.	CZ	O	-	100.00	100.00
ČEZ Korporátní služby, s.r.o.	CZ	O	-	100.00	100.00
ČEZ LDS s.r.o.	CZ	S	-	51.00	51.00
ČEZ Obnovitelné zdroje, s.r.o.	CZ	GN	-	100.00	100.00
ČEZ Prodej, a.s.	CZ	S	-	100.00	100.00
ČEZ Recyklace, s.r.o.	CZ	GN	-	99.00	99.00
ČEZ Solární, s.r.o.	CZ	S	-	100.00	100.00
ČEZ Teplárenská, a.s.	CZ	GT	-	100.00	100.00
D-I-E ELEKTRO AG	DE	S	-	95.00	100.00
Distributie Energie Oltenia S.A.	RO	D	-	100.00	100.00
EAB Automation Solutions GmbH	DE	S	-	95.00	100.00
EAB Elektroanlagenbau GmbH Rhein/Main	DE	S	-	95.00	100.00
EASY POWER s.r.o.	CZ	S	-	51.00	100.00
EGP INVEST, spol. s r.o.	CZ	O	-	52.46	100.00
Elektrárna Dětmorovice, a.s.	CZ	GT	-	100.00	100.00
Elektrárna Dukovany II, a. s.	CZ	GT	-	100.00	100.00
Elektrárna Mělník III, a. s.	CZ	GT	-	100.00	100.00
Elektrárna Počerady, a.s.	CZ	GT	-	100.00	100.00
Elektrárna Temelín II, a. s.	CZ	GT	-	100.00	100.00
Elektro-Decker GmbH	DE	S	-	95.00	100.00
Elevion GmbH	DE	S	-	95.00	100.00
Energetické centrum s.r.o.	CZ	GT	-	100.00	100.00
Energocentrum Vítkovice, a. s.	CZ	GT	-	100.00	100.00
Energotrans, a.s.	CZ	GT	-	100.00	100.00
ESCO City I sp. z o.o.	PL	S	-	100.00	100.00
ESCO City II sp. z o.o.	PL	S	-	100.00	100.00
ESCO City III sp. z o.o.	PL	S	-	100.00	100.00
ETS Efficient Technical Solutions GmbH	DE	S	-	95.00	100.00
ETS Efficient Technical Solutions Shanghai Co. Ltd.	CN	S	-	95.00	100.00
EVČ s.r.o.	CZ	S	-	100.00	100.00

Subsidiaries	Country	Operating segment	% equity interest *		% voting interest
			Change in 2018	2018	2018
Ferme Eolienne de la Piballe SAS	FR	GN	-	100.00	100.00
Ferme Eolienne de Neuville-aux-Bois SAS	FR	GN	-	100.00	100.00
Ferme Eolienne de Saint-Aulaye SAS	FR	GN	-	100.00	100.00
Ferme Eolienne de Saint-Laurent-de-Ceris SAS	FR	GN	-	100.00	100.00
Ferme Eolienne de Seigny SAS	FR	GN	-	100.00	100.00
Ferme Eolienne de Thorigny SAS	FR	GN	-	100.00	100.00
Ferme Eolienne des Breuils SAS	FR	GN	-	100.00	100.00
Ferme Eolienne des Grands Clos SAS	FR	GN	-	100.00	100.00
Ferme Eolienne du Germancé SAS	FR	GN	-	100.00	100.00
Free Energy Project Oreshets EAD	BG	GN	-	100.00	100.00
HAU.S GmbH	DE	S	-	95.00	100.00
HORMEN CE a.s.	CZ	S	-	51.00	51.00
Inven Capital, SICAV, a.s.	CZ	O	-	100.00	100.00
KART, spol. s r.o.	CZ	S	-	100.00	100.00
M.W. Team Invest S.R.L.	RO	GN	-	100.00	100.00
MARTIA a.s.	CZ	O	-	100.00	100.00
OSC, a.s.	CZ	GT	-	66.67	66.67
Ovidiu Development S.R.L.	RO	GN	-	100.00	100.00
PRODECO, a.s.	CZ	O	-	100.00	100.00
Revitrans, a.s.	CZ	O	-	100.00	100.00
Rudolf Fritz GmbH	DE	S	-	95.00	100.00
SD – Kolejová doprava, a.s.	CZ	O	-	100.00	100.00
Severočeské doly a.s.	CZ	M	-	100.00	100.00
ŠKODA PRAHA a.s.	CZ	O	-	100.00	100.00
ŠKODA PRAHA Invest s.r.o.	CZ	O	-	100.00	100.00
Telco Pro Services, a. s.	CZ	O	-	100.00	100.00
Tepelné hospodářství města Ústí nad Labem s.r.o.	CZ	GT	-	55.83	55.83
TMK Hydroenergy Power S.R.L.	RO	GN	-	100.00	100.00
Tomis Team S.A.	RO	GN	-	100.00	100.00
ÚJV Řež, a. s.	CZ	O	-	52.46	52.46
Windpark Baben Erweiterung GmbH & Co. KG	DE	GN	-	100.00	100.00
Windpark Badow GmbH & Co. KG	DE	GN	-	100.00	100.00
Windpark Fohren-Linden GmbH & Co. KG	DE	GN	-	100.00	100.00
Windpark Frauenmark III GmbH & Co. KG	DE	GN	-	100.00	100.00
Windpark Gremersdorf GmbH & Co. KG	DE	GN	-	100.00	100.00
Windpark Cheinitz-Zethlingen GmbH & Co. KG	DE	GN	-	100.00	100.00
Windpark Mengeringhausen GmbH & Co. KG	DE	GN	-	100.00	100.00
Windpark Naundorf GmbH & Co. KG	DE	GN	-	100.00	100.00
Windpark Zagelsdorf GmbH & Co. KG	DE	GN	-	100.00	100.00

Associates and Joint-ventures	Country	Operating segment	Change in 2018	% equity interest *	% voting interest
				2018	2018
New investments in 2018					
Bytkomfort, s.r.o.	SK	S	49.00	49.00	49.00
GP JOULE PP X Verwaltungs GmbH	DE	GN	50.00	50.00	50.00
GP JOULE PP1 GmbH & Co. KG	DE	GN	50.00	50.00	50.00
Green Wind Deutschland GmbH	DE	GN	50.00	50.00	50.00
KLF-Distribúcia, s.r.o.	SK	S	50.00	50.00	50.00
Windpark Moringen Nord GmbH & Co. KG	DE	GN	50.00	50.00	50.00
Windpark Prezelle GmbH & Co. KG	DE	GN	50.00	50.00	50.00
Mergers in 2018					
Egemer Elektrik Üretim A.S.	TR	GT	(37.36)	-	-
Other – no change in 2018					
Akcez Enerji A.S.	TR	O	-	50.00	50.00
AK-EL Kemah Elektrik Üretim ve Ticaret A.S.	TR	GT	-	37.36	50.00
AK-EL Yalova Elektrik Üretim A.S.	TR	GT	-	37.36	50.00
Akenerji Dogal Gaz Ithalat Ihracat ve Toptan Ticaret A.S.	TR	GT	-	37.36	50.00
Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan Ticaret A.S.	TR	GT	-	37.36	50.00
Akenerji Elektrik Üretim A.S.	TR	GT	-	37.36	37.36
Elevion Co-Investment GmbH & Co. KG	DE	S	-	37.50	37.50
Jadrová energetická spoločnosť Slovenska, a. s.	SK	O	-	49.00	50.00
juwi Wind Germany 100 GmbH & Co. KG	DE	GN	-	51.00	51.00
LOMY MOŘINA spol. s r.o.	CZ	M	-	51.05	51.05
Sakarya Elektrik Dagitim A.S.	TR	D	-	50.00	50.00
Sakarya Elektrik Perakende Satis A.S.	TR	S	-	50.00	50.00

* The equity interest represents effective ownership interest of the Group.

Used shortcuts:

Country ISO code	Country	Segment	Operating segment
AL	Albania	GT	Generation – Traditional Energy
BG	Bulgaria	GN	Generation – New Energy
CZ	Czech Republic	D	Distribution
CN	China	S	Sales
FR	France	M	Mining
IT	Italy	O	Other
HU	Hungary		
DE	Germany		
NL	Netherlands		
PL	Poland		
RO	Romania		
SK	Slovakia		
RS	Serbia		
TR	Turkey		
UA	Ukraine		

Subsidiaries with non-controlling interests

The following table shows the composition of Group's non-controlling interests and dividends paid to non-controlling interests by respective subsidiaries (in CZK millions):

	2018		2017	
	Non-controlling interests	Dividends paid	Non-controlling interests	Dividends paid
CEZ Razpredelenie Bulgaria AD	2,818	-	2,742	217
ÚJV Řež, a. s.	859	-	831	-
CEZ Elektro Bulgaria AD	578	-	541	-
Other	305	17	190	24
Total	4,560	17	4,304	241

Assets and liabilities of both Bulgarian companies are classified as held for sale since February 22, 2018.

The following table shows summarized financial information of subsidiaries that have material non-controlling interests for the year ended December 31, 2018 (in CZK millions):

	CEZ Razpredelenie Bulgaria AD	ÚJV Řež, a. s.	CEZ Elektro Bulgaria AD
Ownership share of non-controlling interests	33.00%	47.54%	33.00%
Current assets	1,609	1,143	4,176
Non-current assets	10,534	1,734	52
Current liabilities	(2,173)	(628)	(2,359)
Non-current liabilities	(1,785)	(430)	(113)
Equity	8,185	1,819	1,756
Attributable to:			
Equity holders of the parent	5,367	960	1,178
Non-controlling interests	2,818	859	578
Revenues and other operating income	4,606	1,632	6,829
Income before other income (expenses) and income taxes	291	112	149
Income before income taxes	256	85	146
Income taxes	(37)	(22)	(16)
Net income	219	63	130
Attributable to:			
Equity holders of the parent	146	33	87
Non-controlling interests	73	30	43
Total comprehensive income	257	59	143
Attributable to:			
Equity holders of the parent	164	31	96
Non-controlling interests	93	28	47
Operating cash flow	952	148	69
Investing cash flow	(943)	(144)	(1)
Financing cash flow	(178)	(79)	(27)
Net effect of currency translation in cash	2	(3)	12
Net increase (decrease) in cash and cash equivalents	(167)	(78)	53

The following table shows summarized financial information of subsidiaries that have material non-controlling interests for the year ended December 31, 2017 (in CZK millions):

	CEZ Razpredelenie Bulgaria AD	ÚJV Řež, a. s.	CEZ Elektro Bulgaria AD
Ownership share of non-controlling interests	33.00%	47.54%	33.00%
Current assets	1,646	1,192	4,237
Non-current assets	10,220	1,835	33
Current liabilities	(2,057)	(580)	(2,382)
Non-current liabilities	(1,828)	(688)	(246)
Equity	7,981	1,759	1,642
Attributable to:			
Equity holders of the parent	5,239	928	1,101
Non-controlling interests	2,742	831	541
Revenues and other operating income	5,832	1,695	16,672
Income (loss) before other income (expenses) and income taxes	(224)	138	547
Income (loss) before income taxes	(237)	100	546
Income taxes	24	(16)	(57)
Net income (loss)	(213)	84	489
Attributable to:			
Equity holders of the parent	(143)	44	328
Non-controlling interests	(70)	40	161
Total comprehensive income (loss)	(698)	84	410
Attributable to:			
Equity holders of the parent	(464)	44	276
Non-controlling interests	(234)	40	134
Operating cash flow	1,196	357	269
Investing cash flow	(1,954)	(89)	-
Financing cash flow	585	(4)	28
Net effect of currency translation in cash	(30)	(19)	(74)
Net increase (decrease) in cash and cash equivalents	(203)	245	223

Interests in associates and joint-ventures

The following table shows the composition of Group's investment in associates and joint-ventures and share of main financial results from associates and joint-ventures for the year ended December 31, 2018 (in CZK millions):

	Carrying amount of investment	Dividends received	Group's share of associate's and joint-venture's:		
			Net income (loss)	Other comprehensive income	Total comprehensive income
Akcez Group	-	-	(425)	96	(329)
Akenerji Group	-	-	-	-	-
Jadrová energetická spoločnosť Slovenska, a. s.	2,645	-	(26)	19	(7)
ČEZ Energo, s.r.o. *	-	-	31	-	31
Bytkomfort, s.r.o.	242	-	3	-	3
LOMY MOŘINA spol. s r.o.	176	5	6	-	6
Other	298	-	2	-	2
Total	3,361	5	(409)	115	(294)

* The group gained control in the company ČEZ Energo, s.r.o. in 2018 (Note 8). Gain from remeasurement of previously held investment in ČEZ Energo, s.r.o. to fair value in the amount of CZK 101 million was included in statement of income in the line Share of profit (loss) from associates and joint-ventures.

The Group is a guarantor for the liabilities of companies within the joint-venture with Akcez Enerji A.S. in the amount of USD 112.7 million and TRY 75.6 million as of December 31, 2018 (see Note 19.2). Due to the development of Turkey's macroeconomic and political situation leading to a further weakening of the Turkish currency (TRY) the risk of potential obligation in case of claim from guarantees provided by the Group increased in connection with increased probability of lack of future cash flows to settle all liabilities of Akcez group. Based on calculation of recoverable amount from future cash flows a provision in the amount of CZK 908 million was recognized as of December 31, 2018. Because the Group's total cumulative share on losses of Akcez group did not exceeded the amount of the guarantee provided as at December 31, 2018, the Group recognized its share on losses of Akcez group in full (in the statement of income included in the line Share of profit (loss) from associates and joint-ventures). As of December 31, 2018, the liability in the amount of CZK 589 million was recorded on the balance sheet and the Group recognized additional provision in the amount of CZK 319 million (in the statement of income on the line Impairment of financial assets). The liability recorded from share on losses of Akcez group was reclassified on the balance sheet from the line Other long-term financial liabilities to the line Provisions within the current liabilities.

In 2017 the share on losses of joint-venture Akenerji Elektrik Üretim A.S. exceeded the carrying amount of Group's investment in this joint-venture. The Group has made no obligations on behalf of Akenerji Elektrik Üretim A.S., so therefore the Group discontinued of using equity method of accounting as of December 31, 2017 (Note 2.2.3). The amount of unrecognized share of the Group on losses of Akenerji Group amounted to CZK 3,666 million as of December 31, 2018.

The joint-ventures Akcez Enerji A.S. and Akenerji Elektrik Üretim A.S. are formed by partnership of CEZ Group and Akkök Group in Turkey to invest mainly into power generation and electricity distribution projects. The joint-venture Jadrová energetická spoločnosť Slovenska, a. s. is a joint-venture formed by CEZ Group and the Slovak Government to prepare the project of building a new nuclear power source in Slovakia.

The following table shows the composition of Group's investment in joint-ventures and share of main financial results from joint-ventures for the year ended December 31, 2017 (in CZK millions):

	Carrying amount of investment	Dividends received	Group's share of associate's and joint-venture's:		
			Net income (loss)	Other comprehensive income	Total comprehensive income
Akcez Group	-	-	(566)	2	(564)
Akenerji Group *	-	-	(1,110)	1,577	467
CM European Power International B.V.**	-	208	(1)	(30)	(31)
Jadrová energetická spoločnosť Slovenska, a. s.	2,652	-	(35)	(155)	(190)
ČEZ Energo, s.r.o.	646	-	27	-	27
LOMY MOŘINA spol. s r.o.	175	11	5	-	5
Other	47	-	-	-	-
Total	3,520	219	(1,680)	1,394	(286)

* In 2017 the Group impaired goodwill allocated to Akenerji Group in total amount of CZK 707 million. This impairment loss was recognized in the statement of income in the line Share of profit (loss) from joint-ventures.

** CM European Power International B.V. was liquidated as of December 31, 2017.

As of December 31, 2017 the share on losses of joint-ventures Akcez Enerji A.S. and Akenerji Elektrik Üretim A.S. exceeded the carrying amounts of Group's investments in these joint-ventures. The Group is a guarantor for the liabilities of Akcez Enerji A.S. (see Note 19.2), therefore the Group recognized its share on losses in full and recognized a liability in the amount of CZK 259 million as of December 31, 2017. The Group has made no obligations on behalf of Akenerji Elektrik Üretim A.S. and consequently recognized its full share on net loss and its share on other comprehensive income to the extent not to recognize liability as of December 31, 2017. The amount of unrecognized share of the Group on losses of Akenerji Group amounted to CZK 1,353 million as of December 31, 2017.

The following tables present summarized financial information of material associates and joint-ventures for the year ended December 31, 2018 (in CZK millions):

	Current assets	Out of which: Cash and cash equivalents	Non-current assets	Current liabilities	Non-current liabilities	Equity	Share of the Group	Recognized liability / Unrecognized share on loss	Goodwill	Total carrying amount of the investment
Akcez Enerji A.S.	91	15	4,095	975	3,625	(414)				
Sakarya Elektrik Dagitim A.S.	1,522	13	3,277	1,955	1,937	907				
Sakarya Elektrik Perakende Satis A.S.	5,170	415	662	4,815	142	875				
Akcez Group						(1,178)	(589)	589	-	-
Akenerji Elektrik Üretim A.S.	1,314	21	12,348	6,205	15,555	(8,098)				
Egemer Elektrik Üretim A.S. *	-	-	-	-	-	-				
Akenerji Group						(9,813)	(3,666)	3,666	-	-
Jadrová energetická spoločnosť Slovenska, a. s.	1,574	1,566	3,836	11	-	5,399	5,399	-	-	2,645
Bytkomfort, s.r.o.	53	30	218	33	24	214	214	-	137	242
LOMY MOŘINA spol. s r.o.	152	114	235	26	16	345	176	-	-	176

	Revenues and other operating income	Derpreciation and amortization	Interest income	Interest expense	Income taxes	Net income (loss)	Other comprehensive income	Total comprehensive income
Akcez Enerji A.S.	-	-	174	(316)	8	(1,374)	(152)	(1,526)
Sakarya Elektrik Dagitim A.S.	4,254	(6)	97	(308)	(98)	600	(336)	264
Sakarya Elektrik Perakende Satis A.S.	21,988	(53)	111	(126)	(18)	50	(252)	(202)
Akenerji Elektrik Üretim A.S.	1,700	(272)	151	(842)	(88)	(814)	(1,211)	(2,025)
Egemer Elektrik Üretim A.S. *	6,194	(272)	8	(1,244)	4	(5,569)	1,565	(4,004)
Jadrová energetická spoločnosť Slovenska, a. s.	16	(15)	5	-	(2)	(53)	39	(14)
Bytkomfort, s.r.o.	243	(22)	-	(1)	(5)	18	-	18
LOMY MOŘINA spol. s r.o.	224	(23)	-	-	(4)	12	-	12

* The company Egemer Elektrik Üretim A.S. merged into the company Akenerji Elektrik Üretim A.S. as of December 31, 2018.

The following tables present summarized financial information of material joint-ventures for the year ended December 31, 2017 (in CZK millions):

	Current assets	Out of which: Cash and cash equivalents	Non-current assets	Current liabilities	Non-current liabilities	Equity	Share of the Group	Recognized liability / Unrecognized share on loss	Goodwill	Total carrying amount of the investment
Akcez Enerji A.S.	30	3	5,416	698	3,636	1,112				
Sakarya Elektrik Dagitim A.S.	2,161	11	2,682	2,576	1,608	659				
Sakarya Elektrik Perakende Satis A.S.	3,593	171	279	3,054	193	625				
Akcez Group						(518)	(259)	259	-	-
Akenerji Elektrik Üretim A.S.	782	29	12,585	1,480	6,765	5,123				
Egemer Elektrik Üretim A.S.	815	62	9,095	2,638	12,447	(5,175)				
Akenerji Group						(3,622)	(1,353)	1,353	-	-
Jadrová energetická spoločnosť Slovenska, a. s.	1,625	1,615	3,800	12	-	5,413	2,652	-	-	2,652
ČEZ Energo, s.r.o.	400	79	1,719	205	817	1,097	550	-	96	646
LOMY MOŘINA spol. s r.o.	153	115	236	30	16	343	175	-	-	175
	Revenues and other operating income	Depreciation and amortization	Interest income	Interest expense	Income taxes	Net income (loss)	Other comprehensive income	Total comprehensive income		
Akcez Enerji A.S.	-	-	-	(208)	-	133	(312)	(179)		
Sakarya Elektrik Dagitim A.S.	4,167	-	13	(181)	(139)	519	(189)	330		
Sakarya Elektrik Perakende Satis A.S.	17,991	(110)	91	(12)	154	(990)	(477)	(1,467)		
Akenerji Elektrik Üretim A.S.	1,240	(370)	114	(863)	18	(601)	(1,633)	(2,234)		
Egemer Elektrik Üretim A.S.	8,127	(366)	17	(1,048)	28	(2,287)	1,347	(940)		
Jadrová energetická spoločnosť Slovenska, a. s.	18	(16)	7	-	(1)	(72)	(315)	(387)		
ČEZ Energo, s.r.o.	938	(173)	-	(22)	(6)	53	-	53		
LOMY MOŘINA spol. s r.o.	217	(25)	-	-	(3)	10	-	10		

10. Cash and Cash Equivalents, Net

The composition of cash and cash equivalents, net at December 31, 2018 and 2017 is as follows (in CZK millions):

	<u>2018</u>	<u>2017</u>
Cash on hand and current accounts with banks	4,272	8,293
Short-term securities	401	901
Term deposits	2,607	3,429
Allowance to cash and cash equivalents	<u>(2)</u>	<u>-</u>
Total	<u><u>7,278</u></u>	<u><u>12,623</u></u>

At December 31, 2018 and 2017, cash and cash equivalents included foreign currency deposits of CZK 1,726 million and CZK 4,409 million, respectively.

The weighted average interest rate on short-term securities and term deposits at December 31, 2018 and 2017 was 0.5% and 0.2%, respectively. For the years 2018 and 2017 the weighted average interest rate was 1% and 0.2%, respectively.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at December 31, 2018 and 2017 (in CZK millions):

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents as a separate line in the balance sheet	7,278	12,623
Cash and cash equivalents attributable to assets classified as held for sale (Note 15)	<u>1,967</u>	<u>-</u>
Total	<u><u>9,245</u></u>	<u><u>12,623</u></u>

11. Trade Receivables, Net

The composition of trade receivables, net at December 31, 2018 and 2017 is as follows (in CZK millions):

	<u>2018</u>	<u>2017</u>
Trade receivables	76,210	55,182
Allowances	<u>(3,976)</u>	<u>(4,623)</u>
Total	<u><u>72,234</u></u>	<u><u>50,559</u></u>

The information about receivables from related parties is included in Note 36.

Group's receivables pledged as security for liabilities at December 31, 2018 and 2017 are CZK 25 million and CZK 63 million, respectively.

At December 31, 2018 and 2017, the ageing analysis of receivables, net is as follows (in CZK millions):

	2018	2017
Not past due	69,131	47,892
Past due:		
Less than 3 months	1,284	1,364
3–6 months	360	387
6–12 months	445	344
more than 12 months	1,014	572
Total	<u>72,234</u>	<u>50,559</u>

Receivables include impairment allowance based on the collective assessment of impairment of receivables that are not individually significant.

The most significant item of receivables overdue for more than 12 months is related to receivables of the company ČEZ Distribuce, a. s. The company undertakes several litigations concerning the collection of the price component related to the costs of support for the generation of electricity from renewable energy sources and combined generation of electricity and heat in 2013. The company's management is convinced that in the event of a negative judgment against ČEZ Distribuce in these and similar litigations, the Company will be able to demand the reimbursement of fees and accessories from company OTE, a.s. and in this regard the management is committed to make all necessary actions to ensure that eventual loss in such disputes will have no negative impact on the company.

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

	2018	2017
Opening balance	(4,623)	(7,605)
Adoption of IFRS 9	(93)	-
Additions	(1,810)	(2,025)
Reversals	1,356	2,634
Derecognition of impaired assets	141	2,236
Transfer to assets held for sale	1,063	-
Disposal of subsidiaries	-	8
Currency translation differences	(10)	129
Closing balance	<u>(3,976)</u>	<u>(4,623)</u>

12. Materials and Supplies, Net

The composition of materials and supplies, net at December 31, 2018 and 2017 is as follows (in CZK millions):

	2018	2017
Gross costs incurred on wind projects in Poland in development	309	960
Allowance to wind projects in Poland	(299)	(955)
Wind projects in Poland in development, net	10	5
Materials	8,468	7,805
Other work in progress	355	728
Other supplies	196	126
Allowance for obsolescence	(292)	(339)
Total	<u>8,737</u>	<u>8,325</u>

13. Emission Rights

The following table summarizes the movements in the quantity (in thousand tons) and book value of emission rights and credits held by the Group during 2018 and 2017 (in CZK millions):

	2018		2017	
	in thousands tons	in millions CZK	in thousands tons	in millions CZK
Emission rights and credits granted and purchased for own use:				
Granted and purchased emission rights and credits at January 1	29,676	3,255	27,409	2,229
Emission rights acquired in business combinations	9	2	-	-
Emission rights granted	5,599	-	8,078	-
Settlement of prior year actual emissions with register	(26,733)	(3,197)	(28,974)	(2,452)
Emission rights purchased	31,933	8,990	23,021	3,478
Emission rights sold	(10)	-	-	-
Emission credits purchased	123	1	150	1
Disposal of subsidiary	-	-	(8)	(1)
Currency translation differences	-	(11)	-	-
Granted and purchased emission rights and credits at December 31	<u>40,597</u>	<u>9,040</u>	<u>29,676</u>	<u>3,255</u>
Emission rights and credits held for trading:				
Emission rights and credits held for trading at January 1	21,824	4,542	4,660	827
Settlement of prior year actual emissions with register	(1,134)	(382)	-	-
Emission rights purchased	114,047	42,684	124,803	18,798
Emission rights sold	(119,923)	(44,841)	(107,639)	(17,461)
Fair value adjustment	-	7,398	-	2,378
Emission rights and credits held for trading at December 31	<u>14,814</u>	<u>9,401</u>	<u>21,824</u>	<u>4,542</u>

The composition of emission rights and green and similar certificates at December 31, 2018 and 2017 (in CZK millions):

	2018			2017		
	Non-current	Current	Total	Non-current	Current	Total
Emission rights	3,625	14,816	18,441	-	7,797	7,797
Green and similar certificates	3,539	1,839	5,378	3,517	1,573	5,090
Total	<u>7,164</u>	<u>16,655</u>	<u>23,819</u>	<u>3,517</u>	<u>9,370</u>	<u>12,887</u>

During 2018 and 2017 total emissions of greenhouse gases made by the Group companies amounted to an equivalent of 26,787 thousand tons and 27,867 thousand tons of CO₂, respectively. At December 31, 2018 and 2017 the Group recognized a provision for CO₂ emissions in total amount of CZK 5,588 million and CZK 3,664 million, respectively (see Notes 2.13 and 20).

14. Other Current Assets, Net

The composition of other current assets, net at December 31, 2018 and 2017 is as follows (in CZK millions):

	2018	2017
Unbilled electricity and gas supplied to the retail customers	964	2,596
Received advances from retail customers	(935)	(1,111)
Unbilled supplies to retail customers, net	29	1,485
Gross contract assets based on percentage of completion, net	8,184	6,171
Received billings and advances	(5,814)	(4,958)
Net contract assets	2,370	1,213
Advances paid, net	2,523	2,371
Prepayments	1,408	1,265
Accruals	1,910	1,881
Taxes and fees, excluding income tax	1,634	1,541
Total	<u>9,874</u>	<u>9,756</u>

15. Assets and Associated Liabilities Classified as Held for Sale

On February 23, 2018, a sales contract for the sale of interests in Bulgarian companies CEZ Razpredelenie Bulgaria AD (including its interest in CEZ ICT Bulgaria EAD), CEZ Trade Bulgaria EAD, CEZ Bulgaria EAD, CEZ Elektro Bulgaria AD, Free Energy Project Oreshets EAD and Bara Group EOOD was signed. The requirements of standard IFRS 5 to classify the assets as held for sale were met by granting prior consent to the transaction by the supervisory board of ČEZ, a. s. which took place on February 22, 2018. The transaction is a subject to approval by the Bulgarian anti-trust authority, the proceedings are now suspended. While the sales contract remains in force, there are ongoing parallel negotiations with other parties interested in these Bulgarian assets.

As of December 31, 2018 the Group performed an impairment test for any potential impairment loss related to assets held for sale. As a result of the test performed, there was an impairment loss in the amount of CZK 621 million, which was presented in the statement of income on the line Impairment of property, plant and equipment and intangible assets (Note 7).

The assets classified as held for sale and associated liabilities at December 31, 2018 and 2017 are as follows (in CZK millions):

	<u>2018</u>	<u>2017</u>
	Bulgarian companies	Other
Property, plant and equipment, net	10,411	30
Intangible assets, net	446	-
Other non-current assets	128	
Cash and cash equivalents	1,967	-
Trade receivables, net	4,092	-
Other current assets	453	-
	<hr/>	<hr/>
Assets classified as held for sale	17,497	30
Long-term debt, net of current portion	1,313	
Non-current provisions	144	-
Other long-term financial liabilities	218	
Deferred tax liability	291	
Short-term loans	309	
Current portion of long-term debt	224	
Trade payables	2,999	-
Current provisions	479	-
Other current liabilities	220	-
	<hr/>	<hr/>
Liabilities associated with assets classified as held for sale	6,197	-

The assets and results associated with the assets classified as held for sale are reported in the operating segments Generation – New Energy, Distribution, Sale and Other.

16. Equity

As at December 31, 2018 and 2017, the share capital of the Company registered in the Commercial Register totaled CZK 53,798,975,900 and consisted of 537,989,759 shares with a nominal value of CZK 100 per share. All shares are bearer common shares that are fully paid and listed and do not convey any special rights.

Movements of treasury shares in 2018 and 2017 (in pieces):

	<u>2018</u>	<u>2017</u>
Number of treasury shares at beginning of period	3,605,021	3,755,021
Sales of treasury shares	(480,000)	(150,000)
	<hr/>	<hr/>
Number of treasury shares at end of period	<u>3,125,021</u>	<u>3,605,021</u>

Treasury shares remaining at end of period are presented at cost as a deduction from equity.

Declared dividends per share before tax were CZK 33 in 2018 and 2017. Dividends for the year 2018 will be declared at the general meeting, which will be held in the first half of 2019.

Capital management

The primary objective of the Group's capital management is to keep its credit rating on the investment grade and on the level that is common in the industry and to maintain healthy capital ratios in order to support its business and maximize value for shareholders. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Group primarily monitors capital using the ratio of net debt to EBITDA. Considering the current structure and stability of cash flow and the development strategy, the goal of the Group is the level of this ratio in range 2.5 to 3.0. In addition, the Group also monitors capital using a total debt to total capital ratio. The Group's policy is to keep the total debt to total capital ratio below 50% in the long term.

EBITDA consists of income before income taxes and other income (expenses) plus depreciation and amortization, plus impairment of property, plant and equipment and intangible assets and less gain (or loss) on sale of property, plant and equipment. The Group includes within total debt the long-term and short-term interest bearing loans and borrowings. Net debt is defined as total debt less cash and cash equivalents and highly liquid financial assets. Highly liquid financial assets consist for capital management purposes of short-term and long-term debt financial assets and short-term and long-term bank deposits. Total capital is total equity attributable to equity holders of the parent plus total debt. The items related to assets classified as held for sale, which are presented separately on the balance sheet, are always included in these calculations.

The calculation and evaluation of the ratios is done using consolidated figures (in CZK millions):

	2018	2017 *
Total long-term debt	149,183	143,234
Total short-term loans	11,783	11,073
Long-term debt associated with assets classified as held for sale (Note 15)	1,537	-
Short-term loans associated with assets classified as held for sale (Note 15)	309	-
Total debt	162,812	154,307
Less:		
Cash and cash equivalents	(7,278)	(12,623)
Cash and cash equivalents classified as held for sale (Note 15)	(1,967)	-
Highly liquid financial assets:		
Current debt financial assets (Note 5)	(1,287)	(2,807)
Non-current debt financial assets (Note 5)	(513)	(1,787)
Current term deposits (Note 5)	(505)	(503)
Non-current term deposits (Note 5)	-	(500)
Total net debt	151,262	136,087
Income before income taxes and other income (expenses)	19,759	25,620
Depreciation and amortization	28,139	29,305
Impairment of property, plant and equipment and intangible assets	1,766	230
Gains and losses on sale of property, plant and equipment (Note 25 and 31)	(129)	(1,234)
EBITDA	49,535	53,921
Total equity attributable to equity holders of the parent	234,721	250,018
Total debt	162,812	154,307
Total capital	397,533	404,325
Net debt to EBITDA ratio	3.05	2.52
Total debt to total capital ratio	41.0%	38.2%

* The way of presentation of the balance sheet was changed in 2018 (Note 2.3.3). Part of total debt are newly accrued interest expenses, which amounted to CZK 2,200 million and CZK 2,135 million as of December 31, 2018 and 2017, respectively, and also lease liabilities, which amounted to CZK 245 million and CZK 3 million as of December 31, 2018 and 2017, respectively. The prior year figures were changed accordingly to provide comparative information on the same basis.

17. Long-term Debt

Long-term debt at December 31, 2018 and 2017 is as follows (in CZK millions):

	2018	2017
3.005% Eurobonds, due 2038 (JPY 12,000 million)	2,468	2,283
2.845% Eurobonds, due 2039 (JPY 8,000 million)	1,647	1,523
5.000% Eurobonds, due 2021 (EUR 750 million)	19,457	19,306
6M Euribor + 1.25% Eurobonds, due 2019 (EUR 50 million)	1,287	1,277
4.875% Eurobonds, due 2025 (EUR 750 million)	19,909	19,757
4.500% Eurobonds, due 2020 (EUR 750 million)	19,693	19,524
2.160% Eurobonds, due in 2023 (JPY 11,500 million)	2,370	2,193
4.600% Eurobonds, due in 2023 (CZK 1,250 million)	1,287	1,287
2.150%*IR CPI Eurobonds, due 2021 (EUR 100 million) ¹⁾	2,634	2,615
4.102% Eurobonds, due 2021 (EUR 50 million)	1,288	1,278
4.375% Eurobonds, due 2042 (EUR 50 million)	1,286	1,276
4.500% Eurobonds, due 2047 (EUR 50 million)	1,284	1,274
4.383% Eurobonds, due 2047 (EUR 80 million)	2,087	2,072
3.000% Eurobonds, due 2028 (EUR 725 million)	19,419	19,327
3M Euribor + 0.55% Eurobonds, due 2018 (EUR 200 million)	-	5,108
0.875% Eurobonds, due 2022 (EUR 500 million)	12,824	-
4.250% U.S. bonds, due 2022 (USD 289 million)	6,525	6,177
5.625% U.S. bonds, due 2042 (USD 300 million)	6,768	6,411
4.500% Registered bonds, due 2030 (EUR 40 million)	1,017	1,008
4.750% Registered bonds, due 2023 (EUR 40 million)	1,068	1,059
4.700% Registered bonds, due 2032 (EUR 40 million)	1,060	1,052
4.270% Registered bonds, due 2047 (EUR 61 million)	1,549	1,538
3.550% Registered bonds, due 2038 (EUR 30 million)	790	784
Total bonds and debentures	127,717	118,129
Less: Current portion	(3,419)	(7,203)
Bonds and debentures, net of current portion	124,298	110,926
Long-term bank loans and lease payables:		
Less than 2.00% p. a.	13,726	16,947
2.00% to 2.99% p. a.	4,041	7,361
3.00% to 3.99% p. a.	919	783
4.00% p. a. and more	2,780	14
Total long-term bank loans and lease payables	21,466	25,105
Less: Current portion	(3,324)	(3,556)
Long-term bank loans and lease payables, net of current portion	18,142	21,549
Total long-term debt	149,183	143,234
Less: Current portion	(6,743)	(10,759)
Total long-term debt, net of current portion	142,440	132,475

¹⁾ The interest rate is based on inflation realized in Eurozone Countries (Harmonized Index of Consumer Prices – HICP) and is fixed through the closed swap to the rate 4.553% p. a.

The interest rates indicated above are historical rates for fixed rate debt and current market rates for floating rate debt. The actual interest payments are affected by interest rate risk hedging carried out by the Group.

All long-term debt is recognized in original currencies while the related hedging derivatives are recognized using the method described in Note 2.15.

The future maturities of long-term debt are as follows (in CZK millions):

	<u>2018</u>	<u>2017</u>
Current portion	6,743	10,759
Between 1 and 2 years	22,675	4,783
Between 2 and 3 years	26,058	22,582
Between 3 and 4 years	24,286	26,098
Between 4 and 5 years	5,910	11,328
Thereafter	<u>63,511</u>	<u>67,684</u>
Total long-term debt	<u><u>149,183</u></u>	<u><u>143,234</u></u>

The following table analyses the long-term debt by currency (in millions):

	<u>2018</u>		<u>2017</u>	
	Foreign currency	CZK	Foreign currency	CZK
EUR	4,767	121,914	4,522	115,483
USD	592	13,293	591	12,587
JPY	31,714	6,485	31,711	5,999
BGN	-	-	133	1,741
PLN	440	2,634	514	3,141
RON	492	2,716	527	2,888
CZK	-	<u>2,141</u>	-	<u>1,395</u>
Total long-term debt		<u><u>149,183</u></u>		<u><u>143,234</u></u>

Long-term debt with floating interest rates exposes the Group to interest rate risk. The following table summarizes long-term debt with floating rates of interest by contractual reprising dates at December 31, 2018 and 2017 without considering interest rate hedging (in CZK millions):

	<u>2018</u>	<u>2017</u>
Floating rate long-term debt		
with interest rate fixed to 1 month	19	-
with interest rate fixed from 1 to 3 months	6,317	11,218
with interest rate fixed from 3 months to 1 year	12,186	14,256
with interest rate fixed more than 1 year	<u>-</u>	<u>1,738</u>
Total floating rate long-term debt	<u>18,522</u>	<u>27,212</u>
Fixed rate long-term debt	<u>130,661</u>	<u>116,022</u>
Total long-term debt	<u><u>149,183</u></u>	<u><u>143,234</u></u>

Fixed rate long-term debt exposes the Group to the risk of changes in fair values of these financial instruments. For related fair value information and risk management policies of all financial instruments see Note 18 and Note 19.

The following table analyses the changes in liabilities and receivables arising from financing activities in 2018 and 2017 (in CZK millions):

	Debt	Other financial liabilities	Other long-term liabilities	Other current financial assets, net	Total liabilities / assets from financing activities
Amount presented on balance sheet at January 1, 2017	170,002	46,062	3,957	(56,886)	
Less: Liabilities / assets from other than financing activities	-	(44,231)	(3,924)	56,861	
Liabilities / assets arising from financing activities at January 1, 2017	170,002	1,831	33	(25)	171,841
Cash flows	(6,150)	(17,855)	-	(10)	(24,015)
Foreign exchange movement	(4,970)	(11)	(2)	-	(4,983)
Changes in fair values	(6,076)	-	-	-	(6,076)
Acquisition of subsidiaries	882	-	-	-	882
Declared dividends	-	17,827	-	-	17,827
Other *	619	262	-	-	881
Liabilities / assets arising from financing activities at December 31, 2017	154,307	2,054	31	(35)	156,357
Liabilities / assets arising from other than financing activities	-	53,319	3,304	(43,063)	
Total amount on balance sheet at December 31, 2017	154,307	55,373	3,335	(43,098)	
Less: Liabilities / assets from other than financing activities	-	(53,319)	(3,304)	43,063	
Liabilities / assets arising from financing activities at January 1, 2018	154,307	2,054	31	(35)	156,357
Cash flows	5,235	(18,151)	-	6	(12,910)
Foreign exchange movement	1,698	1	-	-	1,699
Changes in fair values	255	-	-	-	255
Acquisition of subsidiaries	1,209	18	-	-	1,227
Liabilities associated to assets classified as held for sale	(1,846)	(104)	-	-	(1,950)
Declared dividends	-	17,621	-	-	17,621
Other **	108	(273)	-	-	(165)
Liabilities / assets arising from financing activities at December 31, 2018	160,966	1,166	31	(29)	162,134
Liabilities / assets arising from other than financing activities	-	124,175	-	(93,274)	
Total amount on balance sheet at December 31, 2018	160,966	125,341	31	(93,303)	

* This includes reclassification of short-term option derivative liability related to conversion option embedded in exchangeable bond, which ceased to exist on bond redemption, in the amount of CZK 686 million.

** This includes reclassification of liability recorded from share on losses of Akcez group from line Other long-term financial liabilities to line Provisions within current liabilities in the amount of CZK 259 million.

The column Debt consists of balance sheet items Long-term debt, net of current portion, Current portion of long-term debt and Short-term loans. In terms of financing activities, item Other long-term liabilities consists especially of long-term deposits and received advanced payments, item Other financial liabilities consists of dividend payable and other financial liabilities (short-term and long-term including short-term portion), item Other current financial assets, net consists of advanced payments to dividend administrator.

18. Fair Value of Financial Instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, current investments

The carrying amount of cash and other current financial assets approximates fair value due to the relatively short-term maturity of these financial instruments.

Securities held for trading

The fair values of equity and debt securities that are held for trading are estimated based on quoted market prices.

Investments

The fair values of instruments, which are publicly traded on active markets, are determined based on quoted market prices. For unquoted equity instruments the Group considered the use of valuation models and concluded that the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore unquoted equity instruments are carried at cost and the fair value information is not disclosed.

Short-term receivables and payables

The carrying amount of receivables and payables approximates fair value due to the short-term maturity of these financial instruments.

Short-term loans

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

Long-term debt

The fair value of long-term debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The carrying amount of long-term debt and other payables with variable interest rates approximates their fair values.

Derivatives

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

Carrying amounts and the estimated fair values of financial assets (except for derivatives) at December 31, 2018 and 2017 are as follows (in CZK millions):

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-current assets at amortized cost</u>				
Term deposits	-	-	500	500
Other financial receivables	505	505	269	269
Debt financial assets	10	10	10	10
<u>Non-current assets at fair value through other comprehensive income</u>				
Restricted debt securities	15,205	15,205	13,971	13,971
Debt financial assets	503	503	1,777	1,777
Equity financial assets	3,055	3,055	1,658	1,658
Financial assets in progress	-	-	6	6
<u>Non-current assets at fair value through profit or loss</u>				
Equity financial assets	2,139	2,139	-	-
<u>Non-current assets at cost *</u>				
Equity financial assets	-	-	3,111	-
<u>Current assets at amortized cost</u>				
Term deposits	505	505	503	503
Other financial receivables	35	35	43	43
<u>Current assets at fair value through other comprehensive income</u>				
Debt financial assets	1,287	1,287	2,807	2,807

* Equity financial assets that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost.

Carrying amounts and the estimated fair values of financial liabilities (except for derivatives) at December 31, 2018 and 2017 are as follows (in CZK millions):

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt	(149,183)	(158,115)	(143,234)	(157,181)
Other long-term financial liabilities	(1,435)	(1,435)	(2,185)	(2,185)
Short-term loans	(11,783)	(11,783)	(11,073)	(11,073)
Other short-term financial liabilities	(1,229)	(1,229)	(511)	(511)

Carrying amounts and the estimated fair values of derivatives at December 31, 2018 and 2017 are as follows (in CZK millions):

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Cash flow hedges</u>				
Short-term receivables	126	126	2	2
Long-term receivables	2,185	2,185	1,581	1,581
Short-term liabilities	(9,637)	(9,637)	-	-
Long-term liabilities	(12,732)	(12,732)	(9,131)	(9,131)
<u>Commodity derivatives</u>				
Short-term receivables	91,025	91,025	39,539	39,539
Long-term receivables	100	100	97	97
Short-term liabilities	(99,217)	(99,217)	(42,214)	(42,214)
<u>Other derivatives</u>				
Short-term receivables	274	274	204	204
Long-term receivables	1,149	1,149	836	836
Short-term liabilities	(204)	(204)	(139)	(139)
Long-term liabilities	(887)	(887)	(1,193)	(1,193)

18.1. Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There were no transfers between the levels in 2018 and 2017.

As at December 31, 2018, the fair value hierarchy was the following (in CZK millions):

Assets measured at fair value

	Total	Level 1	Level 2	Level 3
Commodity derivatives	91,125	6,292	84,833	-
Cash flow hedges	2,311	25	2,286	-
Other derivatives	1,423	3	1,420	-
Restricted debt securities	15,205	15,205	-	-
Debt financial assets at fair value through other comprehensive income	1,790	1,790	-	-
Equity financial assets at fair value through profit or loss	2,139	-	-	2,139
Equity financial assets at fair value through other comprehensive income	3,055	-	-	3,055

Liabilities measured at fair value

	Total	Level 1	Level 2	Level 3
Commodity derivatives	(99,217)	(11,562)	(87,655)	-
Cash flow hedges	(22,369)	(4,593)	(17,776)	-
Other derivatives	(1,091)	(32)	(1,059)	-

Assets and liabilities for which fair values are disclosed

	Total	Level 1	Level 2	Level 3
Term deposits	505	-	505	-
Other financial receivables	540	-	540	-
Debt financial assets	10	-	10	-
Long-term debt	(158,115)	(112,369)	(45,746)	-
Short-term loans	(11,783)	-	(11,783)	-
Other financial liabilities	(2,664)	-	(2,664)	-

As at December 31, 2017, the fair value hierarchy was the following (in CZK millions):

Assets measured at fair value

	Total	Level 1	Level 2	Level 3
Commodity derivatives	39,636	1,777	37,859	-
Cash flow hedges	1,583	3	1,580	-
Other derivatives	1,040	358	682	-
Restricted debt securities	13,971	13,971	-	-
Debt financial assets at fair value through other comprehensive income	4,584	4,584	-	-
Equity financial assets at fair value through other comprehensive income	1,658	-	-	1,658

Liabilities measured at fair value

	Total	Level 1	Level 2	Level 3
Commodity derivatives	(42,214)	(1,615)	(40,599)	-
Cash flow hedges	(9,131)	(2,353)	(6,778)	-
Other derivatives	(1,332)	(860)	(472)	-

Assets and liabilities for which fair values are disclosed

	Total	Level 1	Level 2	Level 3
Term deposits	1,003	-	1,003	-
Other financial receivables	312	-	312	-
Debt financial assets	10	-	10	-
Long-term debt	(157,181)	(102,208)	(54,973)	-
Short-term loans	(11,073)	-	(11,073)	-
Other financial liabilities	(2,696)	-	(2,696)	-

The Group enters into derivative financial instruments with various counterparties, principally large power and utility groups and financial institutions with high credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly commodity forward and futures contracts, foreign exchange forward contracts, interest rate swaps and options. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations and option pricing models (e.g. Black-Scholes). The models incorporate various inputs including the forward rate curves of the underlying commodity, foreign exchange spot and forward rates and interest rate curves.

The following table shows roll forward of the financial assets measured at fair value – Level 3, for the years ended December 31, 2018 and 2017 (in CZK millions):

	Equity financial assets at fair value through profit or loss	Equity financial assets at fair value through other comprehensive income
Balance at January 1, 2017	-	-
Additions	-	1,463
Revaluation	-	195
Balance at December 31, 2017	-	1,658
Adoption of IFRS 9		
Transfer from category measured at cost	-	3,111
Transfer between categories at fair value	1,658	(1,658)
Additions	389	-
Disposals	(26)	(143)
Revaluation	118	87
Balance at December 31, 2018	2,139	3,055

The main investment in the portfolio Equity financial assets at fair value through other comprehensive income is 15% interest in the company Veolia Energie ČR, a.s. (Note 5). Equity instruments of the company are not quoted on any market. Fair value at December 31, 2018 was determined using available public EBITDA data and the usual range of 8 to 10 EBITDA multiples which corresponds to the transactions observed on the market for acquisition of the 100% interest before the adjustment for outstanding debt. The fair value at December 31, 2018 was determined using 9 EBITDA multiple as the best estimate of the fair value.

Equity financial assets at fair value through profit or loss include investments of the CEZ Group's investment fund in the company Inven Capital, SICAV, a.s. (Note 5). The fair value of the investments included in this portfolio was determined at 31 December 2018 and 2017 by valuator's appraisal. The fair value is stated especially with regard to capital contributions and to other forms of financing made by the co-investors recently. In addition, the valuation takes into account further developments and eventual subsequent significant events, such as received bids for redemption.

18.2. Offsetting of Financial Instruments

The following table shows the recognized financial instruments that are offset, or subject to enforceable master netting agreement or other similar agreements but not offset, as of December 31, 2018 and 2017 (in CZK millions):

	2018		2017	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Derivatives	94,859	(122,677)	42,259	(52,677)
Other financial instruments *	44,492	(41,372)	27,565	(25,540)
Collaterals paid (received) **	2,878	(1,611)	482	(2,290)
Gross financial assets / liabilities	142,229	(165,660)	70,306	(80,507)
Assets / liabilities set off under IAS 32	-	-	-	-
Amounts presented in the balance sheet	142,229	(165,660)	70,306	(80,507)
Effect of master netting agreements	(128,574)	128,574	(62,970)	62,970
Net amount after master netting agreements	13,655	(37,086)	7,336	(17,537)

* Other financial instruments consist of invoices due from derivative trading and are included in Trade receivables, net or Trade payables.

** Collaterals paid are included in Trade receivables, net and collaterals received are included in Trade payables.

When trading with derivative instruments, ČEZ enters into the EFET and ISDA framework contracts. These contracts generally allow mutual offset of receivables and payables upon the premature termination of agreement. The reason for premature termination is insolvency or non-fulfillment of agreed terms by the counterparty. The right to mutual offset is either embedded in the framework contract or results from the security provided. There is CSA (Credit Support Annex) concluded with some counterparties defining the permitted limit of exposure. When the limit is exceeded, there is a transfer of cash reducing exposure below an agreed level. Cash security (collateral) is also included in the final offset.

The information about offset of unbilled electricity supplied to retail customers with advances received is included in Note 14 and 24. The information about offset of construction contracts and related billings and advances received is included in Note 14.

Short-term derivative assets are included in the balance sheet in Other financial assets, net, long-term derivative assets in Other non-current financial assets, net, long-term derivative liabilities in Other long-term financial liabilities and short-term derivative liabilities in Other short-term financial liabilities.

19. Financial Risk Management

Risk management approach

A risk management system is being successfully developed in order to protect the Group's value while taking the level of risk acceptable for the shareholders. In the Group, the risk is defined as a potential difference between the actual and the expected (planned) developments and is measured by means of the extent of such difference in CZK and the likelihood with which such a difference may occur.

A risk capital concept is applied within the Group. The concept allows the setting of basic cap for partial risk limits and, in particular, the unified quantification of all kinds of risks. The value of aggregate annual risk limit (Profit@Risk) is approved by the Board of Directors based on the Risk Management Committee proposal for every financial year. The proposed limit value is derived from historical volatility of profit, revenues and costs of the Group (the top-down method). The approved value in CZK is set on the basis of a 95% confidence level and expresses a maximum profit decrease, which is the Group willing to take in order to reach the planned annual profit.

The bottom-up method is used for setting and updating the Risk frames. The Risk frames include the definition of risk and departments/units of the Group for which the frame is obligatory; definition of rules and responsibilities for risk management; permitted instruments and methods of risk management and actual risk limits, including a limit which expresses the share in the annual Profit@Risk limit.

The main Business Plan market risks are quantified in the Group (EBITDA@Risk based on MonteCarlo simulation in Y+1 to Y+5 horizon). The market risks are actively managed through gradual electricity sales and emission allowances' purchases in the following 6-year horizon, closed long-term contracts for electricity sale and emission allowances purchase and the FX and IR risk hedging in medium-term horizon. In Business Plan horizon, the risk management is also based on Debt Capacity concept which enables to assess the impact of main Investment and other Activities (incl. the risk characteristics), on expected cash flow and total debt in order to maintain corporate rating.

Risk management organization

The supreme authority responsible for risk management in ČEZ, a. s. is the CFO, except for approval of the aggregate annual budget risk limit (Profit@Risk) within the competence of the ČEZ, a. s. Board of Directors. CFO decides, based on the recommendation of the Risk Management Committee, on the development of a system of risk management, on an overall allocation of risk capital to the individual risks and organizational units, he approves obligatory rules, responsibilities and limit structure for the management of partial risks.

The Risk Management Committee (advisory committee of CFO) continuously monitors an overall risk impact on the Group, including Group risk limits utilization, status of risks linked to Business Plan horizon, hedging strategies status, assessment of impact of Investment and other Activities on potential Group debt capacity and cash flow in order to maintain corporate rating.

Overview and methods of risk management

The Group applies a unified categorization of the Group's risks which reflects the specifics of a corporate, i.e. non-banking company, and focuses on primary causes of unexpected development. The risks are divided into four basic categories listed below.

1. Market risks	2. Credit risks	3. Operation risks	4. Business risks
1.1 Financial (FX, IR)	2.1 Counterparty default	3.1 Operating	4.1 Strategic
1.2 Commodity	2.2 Supplier default	3.2 Internal change	4.2 Political
1.3 Volumetric	2.3 Settlement	3.3 Liquidity management	4.3 Regulatory
1.4 Market liquidity		3.4 Security	4.4 Reputation

From the view of risk management, the Group activities can be divided into two basic groups:

- Activities with the unified quantification of the share of respective activity in the aggregate risk limit of the Group (i.e. using specific likelihood, it is possible to objectively determine what risk is associated with an activity/planned profit). These risks are managed by the rules and limits set by the CFO of ČEZ, a. s. based on the recommendation of the Risk Management Committee and, concurrently, in accordance with governing documents of the respective units/processes of the Group.
- Activities whose share in the aggregate risk limit of the Group has not been quantified so far or for objective reasons. These risks are managed by the responsible owners of the relevant processes in accordance with internal governing documents of the respective units/processes of the Group.

For all risks quantified on a unified basis, a partial risk limit is set whose continuous utilization is evaluated on a monthly basis and is usually defined as a sum of the actually expected deviation of expected annual profit from the plan and the potential risk of loss on a 95% confidence. The Group's methodologies and data provide for a unified quantification of the following risks:

- Market risks: financial (currency, interest and stock price) risks, commodity prices (electricity, emission allowances, coal, gas, crude oil), volume (volume of electricity produced by wind power plants)
- Credit risks: financial and business counterparty risk and electricity, gas and heat end customer risk
- Operational risks: risks of nuclear and fossil power plants operation in the Czech Republic, investment risks.

The development of the Group's quantified risks is reported to the Risk Management Committee every month through 3 regular reports:

- Annual budget risks (annual Profit@Risk limit utilization)
- Business plan risks (EBITDA@Risk based on MonteCarlo simulation)
- Debt capacity (actual deviation from the optimal debt within Y+5 horizon, derived from rating agency requirements on debt indicators in order to preserve the ČEZ rating).

19.1. Qualitative Description of Risks Associated with Financial Instruments

Commodity risks

The development of electricity, emission allowances, coal and gas prices is a key risk factor of the Group's value. The current system of commodity risk management is focused on (i) the margin from the own electricity production sales, i.e. from trades resulting in optimizing the sales of the Group's production and in optimizing the emission allowances position for production (the potential risk is managed on the EaR, VaR and the EBITDA@Risk bases), and (ii) the margin from the proprietary trading of commodities within the whole Group (the potential risk is managed on the VaR basis).

Market financial risks (currency, interest and stock price risks)

The development of foreign exchange rates, interest rates and stock prices is a significant risk factor of the Group's value. The current system of financial risk management is focused mainly on (i) the future cash flows and (ii) financial trades which are realized for the purposes of an overall risk position management in accordance with the risk limits (the potential risk is managed on the basis of VaR, EBITDA@Risk and complementary position limits). Own financial instruments (i.e. active and passive financial trades and derivative trades) are realized entirely in the context of an overall expected cash flows of the Group (including operational and investment foreign currency flows).

Credit risks

With respect to the Group's activities managed on a centralized level, credit exposures of individual financial partners and wholesale partners are managed in accordance with individual credit limits. The individual limits are set and continuously updated according to the counterparty's credibility (in accordance with international rating and internal financial evaluation of counterparties with no international rating).

With respect to the electricity sales to end customers in the Czech Republic, the actual credibility is monitored for each business partner based on payment history (in addition, the financial standing is

considered for selected partners). This credibility determines the payment conditions of partners (i.e. it indirectly determines an amount of an approved credit exposure) and also serves to quantify both the expected and the potential losses.

The Group's maximum exposure to credit risk to receivables and other financial instruments as at December 31, 2018 and 2017 is the carrying value of each class of financial assets except for financial guarantees. Credit risk from balances with banks and financial institutions is managed by the Group's risk management department in cooperation with Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty.

In accordance with the credit risk methodology applied to the banking sector per Basel II, every month the expected and potential losses are quantified on a 95% confidence level. It means that the share of all credit risks mentioned above in the aggregate annual Profit@Risk limit is quantified and evaluated.

Liquidity risks

The Group's liquidity risk is primarily perceived as an operational risk (risk of liquidity management) and a risk factor is the internal ability to effectively manage the future cash flows planning process in the Group and to secure the adequate liquidity and effective short-term financing (the risk is managed on a qualitative basis). The fundamental liquidity risk management (i.e. liquidity risk within the meaning for banking purposes) is covered by the risk management system as a whole. In any given period, the future deviations of the Group's expected cash flows are managed in accordance with the aggregate risk limit and in the context of the actual and the targeted debt/equity ratio of the Group.

19.2. Quantitative Description of Risks Associated with Financial Instruments

Commodity risks

The required quantitative information on risks (i.e. a potential change of market value resulting from the effects of risk factors as at December 31) was prepared based on the assumptions given below:

- the indicator of risk associated with financial instruments is defined as the monthly parametric VaR (95% confidence) which expresses a maximum potential decrease in fair value of contracts classified as derivatives under IFRS 9 (the underlying commodities in the Group's derivative transactions are: electricity, EUA and CER/ERU emission allowances, gas, coal ARA, Richards Bay, Newcastle and crude oil and crude oil products) on the given confidence level
- highly probable forecasted future electricity generation sales with the delivery in the CZ power grid are included in the VAR calculation to reflect the hedging character of significant portion of the existing derivative sales of electricity with delivery in Germany
- for the calculation of volatility and correlations (between commodity prices), the SMA (Simple Moving Average) method is applied to 60 daily time series
- the source of market data is mainly EEX, PXE and ICE
- the indicator VaR illustrates mainly the impact of revaluation of above mentioned financial instruments to statement of income.

Potential impact of the above risk factors as at December 31 (in CZK millions):

	2018	2017
Monthly VaR (95%) – impact of changes in commodity prices	1,974	902

Currency risks

The required quantitative information on risks (i.e. a potential change of market value resulting from the effects of currency risk as at December 31) was prepared based on the assumptions given below:

- the indicator of currency risk is defined as the monthly VaR (95% confidence)
- for the calculation of VaR, based on volatility and internal correlations of each considered currency, the method of historical simulation VaR is applied to 90 daily historical time series
- the relevant currency position is defined mainly as a discounted value of foreign currency cash flows from all contracted financial instruments, from expected foreign currency operational revenues and costs in 2017 and from highly probable forecasted foreign currency revenues, costs or capital expenditures that are being hedged by financial instruments etc.
- the relevant currency positions reflect all significant foreign-currency flows of the Group companies in the monitored basket of foreign currencies
- the source of market FX and interest rate data is mainly IS Reuters and IS Bloomberg
- the indicator VaR illustrates mainly the impact of revaluation of above mentioned currency position to statement of income.

Potential impact of the currency risk as at December 31 (in CZK millions):

	2018	2017
Monthly currency VaR (95% confidence)	254	184

Interest risks

For the quantification of the potential impact of the interest risk was chosen the sensitivity of the interest revenue and cost to the parallel shift of yield curves. The approximate quantification (as at December 31) was based on the following assumptions:

- parallel shift of the yield curves (+10bp) was selected as the indicator of interest risk
- the statement of income sensitivity is measured as an annual change of the interest revenue and cost resulting from the interest-sensitive positions as at December 31
- the considered interest positions reflect all significant interest-sensitive positions of the Group companies
- the source of market interest rates is mainly IS Reuters and IS Bloomberg.

Potential impact of the interest risk as at December 31 (in CZK millions):

	2018	2017
IR sensitivity* to parallel yield curve shift (+10bp)	(6)	(12)

* Negative result denotes higher increase in interest costs than in interest revenues

Credit exposure

The Group is exposed to credit risk arising on all financial assets presented on the balance sheet and from provided guarantees. Credit exposure from provided guarantees not recorded on balance sheet at December 31 (in CZK millions):

	2018	2017
Guarantees off balance sheet provided to joint-ventures *	1,945	2,584

* Some of the guarantees could be called until August 2021 at the latest.

The guarantees provided relate to bank loans. The beneficiary may claim the guarantee only upon failure to comply with certain conditions of loans. The companies whose liabilities are the subject to the guarantees currently comply with their obligations.

Liquidity risk

Maturity profile of financial liabilities based on contractual undiscounted payments at December 31, 2018 (in CZK millions):

	Loans	Bonds and debentures	Trade payables and other financial liabilities	Derivatives *	Guarantees issued **
Up to 1 year	15,276	6,240	63,885	444,227	1,945
Between 1 and 2 years	3,631	24,194	62	104,613	-
Between 2 and 3 years	3,113	27,193	-	34,950	-
Between 3 and 4 years	5,131	22,071	-	16,952	-
Between 4 and 5 years	1,318	7,148	7	4,714	-
Thereafter	5,627	78,976	-	29,525	-
Total	<u>34,096</u>	<u>165,822</u>	<u>63,954</u>	<u>634,981</u>	<u>1,945</u>

Contractual maturity of undiscounted cash-flow of financial liabilities at December 31, 2017 (in CZK millions):

	Loans	Bonds and debentures	Trade payables and other financial liabilities	Derivatives *	Guarantees issued **
Up to 1 year	14,790	9,875	48,146	302,134	2,584
Between 1 and 2 years	3,792	6,042	1,410	75,564	-
Between 2 and 3 years	3,649	23,840	-	25,581	-
Between 3 and 4 years	3,283	26,834	-	11,906	-
Between 4 and 5 years	5,904	8,748	-	13,414	-
Thereafter	6,212	84,339	15	32,771	-
Total	<u>37,630</u>	<u>159,678</u>	<u>49,571</u>	<u>461,370</u>	<u>2,584</u>

* Contractual maturities for derivatives represent contractual cash out-flows of these instruments, but at the same time the Group will receive corresponding consideration. For fair values of derivatives see Note 18.

** Maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

The committed credit facilities available to the Group as at December 31, 2018 and 2017 amounted to CZK 15.8 billion and CZK 18.7 billion, respectively.

19.3. Hedge Accounting

The Group enters into cash flow hedges of future highly probable cash inflows from the sales denominated in EUR against the currency risk. The hedged cash flows are expected to occur in the period from 2019 to 2024. The hedging instruments as at December 31, 2018 and 2017 are the EUR denominated liabilities from the issued Eurobonds and bank loans in the total amount of EUR 4.0 billion and EUR 4.1 billion, respectively, and currency forward contracts and swaps. The fair value of these derivative hedging instruments (currency forward contracts and swaps) amounted to CZK 178 million and CZK (16) million at December 31, 2018 and 2017, respectively.

The Group also enters into cash flow hedges of highly probable future sales of electricity in the Czech Republic from 2019 to 2024. The hedging instruments are the futures and forward contracts electricity sales in Germany. The fair value of these derivative hedging instruments amounted to CZK (20,236) million and CZK (7,532) million at December 31, 2018 and 2017, respectively.

The Group applied cash flow hedges of future highly probable purchases of emission allowances which had been expected to occur in 2018 and 2017. The hedging instruments were the futures contracts for the purchase of allowances equivalent to 6.0 million and 7.0 million tons of CO₂ emissions, respectively. The final settlement of the purchase of these hedged emission allowances was in December 2018 and 2017.

In 2018 and 2017 the amounts removed from equity in respect of cash flow hedges were recognized in profit or loss and included in the lines Sales of electricity, heat, gas and coal, Gains and losses from commodity derivative trading, Other financial expenses and Other financial income and on the balance sheet in the lines Intangible assets, net and Emission rights. In 2018 and 2017 the Group recognized in profit or loss the ineffectiveness that arises from cash flow hedges in the amount of CZK (29) million and CZK (3) million, respectively. The ineffectiveness in 2018 and 2017 was mainly caused by the fact that the hedged cash flows are no more highly probable to occur.

20. Provisions

Provisions at December 31, 2018 and 2017 are as follows (in CZK millions):

	2018			2017		
	Non-current	Current	Total	Non-current	Current	Total
Nuclear provisions	61,363	2,282	63,646	59,419	2,197	61,616
Provision for reclamation of mines and mining damages	8,285	317	8,602	7,702	220	7,922
Provision for waste storage reclamation	649	57	705	949	53	1,002
Provision for CO ₂ emissions	-	5,588	5,588	-	3,664	3,664
Provision for obligation in case of claim from guarantee for Akcez group loans	-	908	908	-	-	-
Other provisions	5,501	3,171	8,672	5,221	3,092	8,313
Total	75,798	12,323	88,121	73,291	9,226	82,517

20.1. Nuclear Provisions

The Company operates two nuclear power plants. Nuclear power plant Dukovany consists of four units which were put into service from 1985 to 1987. Nuclear power plant Temelín has two units which have started commercial operation in 2002 and 2003. A Nuclear Act (Act) which defines obligations for the decommissioning of nuclear facilities, the disposal of radioactive waste and spent fuel (disposal). The Act requires that all nuclear parts of plant and equipment be decommissioned following the end of the plant's operating life. For the purpose of accounting for the nuclear provisions, it is assumed that the end of the plant's operating life will be 2037 for Dukovany and 2052 for Temelín. A 2018 Dukovany and a 2014 Temelín decommissioning cost study estimate that nuclear decommissioning will cost CZK 28.6 billion and CZK 18.4 billion, respectively. The Company makes contributions to a restricted bank accounts in the amount of the nuclear provisions recorded under the Act. These restricted funds can be invested in government bonds and term deposits in accordance with the Act and are shown in the balance sheet as part of Restricted financial assets, net (see Note 4).

Pursuant to the Act, the Ministry of Industry and Trade established the Radioactive Waste Repository Authority (RAWRA) as the central organizer and operator of facilities for the final disposal of radioactive waste and spent fuel. The RAWRA operates, supervises and is responsible for disposal facilities and for disposal of radioactive waste and spent fuel therein. The activities of the RAWRA are financed through a nuclear account funded by the originators of radioactive waste. Contribution to the nuclear account is stated by Act at 55 CZK per MWh produced at nuclear power plants. In 2018 and 2017 the payments to the nuclear account amounted to CZK 1,646 million and CZK 1,559 million, respectively. The originator of radioactive waste and spent fuel directly covers all costs associated with interim storage of radioactive waste and spent fuel.

The Group has established provisions as described in Note 2.24, to recognize its estimated liabilities for decommissioning and spent fuel storage. The following is a summary of the provisions for the years ended December 31, 2018 and 2017 (in CZK millions):

	Accumulated provisions			Total
	Nuclear Decommissioning	Spent fuel storage		
		Interim	Long-term	
Balance at January 1, 2017	18,892	7,367	29,244	55,503
Movements during 2017:				
Discount accretion and effect of inflation	472	184	731	1,387
Provision charged to income statement	-	380	-	380
Effect of change in estimate credited to income statement	-	275	-	275
Effect of change in estimate added to fixed assets (Note 2.24)	1,449	-	4,740	6,189
Current cash expenditures	-	(559)	(1,559)	(2,118)
Balance at December 31, 2017	<u>20,813</u>	<u>7,647</u>	<u>33,156</u>	<u>61,616</u>
Movements during 2018:				
Discount accretion and effect of inflation	537	191	829	1,557
Provision charged to income statement	-	527	-	527
Effect of change in estimate charged to income statement	-	(43)	-	(43)
Effect of change in estimate added to (deducted from) fixed assets (Note 2.24)	2,429	-	(110)	2,319
Current cash expenditures	-	(684)	(1,646)	(2,330)
Balance at December 31, 2018	<u>23,779</u>	<u>7,638</u>	<u>32,229</u>	<u>63,646</u>

The current cash expenditures for the long-term storage of spent nuclear fuel represent payments to the state controlled nuclear account and the expenditures for interim storage represent mainly the purchase of interim fuel storage containers and other related equipment.

In 2018 the Group recorded the change in estimate for interim storage of spent nuclear fuel in connection with the change in expectations of future storage costs, the change in estimate in provision for nuclear decommissioning due to the update of the expert decommissioning study for nuclear power plant in Dukovany and the change in long-term spent fuel storage in connection with the modification of the expected output of the nuclear power plants.

In 2017, the Group recorded a change in estimate for interim storage of spent nuclear fuel in connection with the change in expectations of future storage costs and change in discount rate, the change in estimate in provision for nuclear decommissioning in connection with the change of timing of the costs for decommissioning expenditure in Temelín Nuclear Power Plant and change in discount rate and the change in long-term spent fuel storage in connection with the modification of the expected output of the nuclear power plants.

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

20.2. Provision for Mine Reclamation and Mining Damages and Waste Storage Reclamation

The following table shows the movements of provisions for the years ended December 31, 2018 and 2017 (in CZK millions):

	Mine reclamation and damages	Waste storage
Balance at January 1, 2017	7,633	1,072
Movements during 2017:		
Discount accretion and effect of inflation	185	26
Provision charged to income statement	85	-
Effect of change in estimate added to (deducted from) fixed assets (Note 2.25)	265	-
Current cash expenditures	(246)	(75)
Reversal of provision	-	(21)
Balance at December 31, 2017	<u>7,922</u>	<u>1,002</u>
Movements during 2018:		
Discount accretion and effect of inflation	193	25
Provision charged to income statement	251	-
Effect of change in estimate added to fixed assets (Note 2.25)	239	(71)
Current cash expenditures	(216)	(33)
Reversal of provision	-	(5)
Reclassification	213	(213)
Balance at December 31, 2018	<u>8,602</u>	<u>705</u>

The provision for decommissioning and reclamation of mines and mining damages was recorded by Severočeské doly a.s., a mining subsidiary of ČEZ. Severočeské doly a.s. operates open pit coal mines and is responsible for decommissioning and reclamation of the mines as well as for damages caused by the operations of the mines. These provisions have been calculated using the best estimates of the expenditures required to settle the present obligation at the balance sheet date. Current cash expenditures represent cash payments for current reclamation of mining area and settlement of mining damages. Change in estimate represents change in provision as result of updated cost estimates in the current period, mainly due to changes in expected prices of reclamation activities.

21. Other Financial Liabilities

Other financial liabilities at December 31, 2018 and 2017 are as follows (in CZK millions):

	2018		
	Long-term liabilities	Short-term liabilities	Total
Payables from non-current assets purchase	1,366	-	1,366
Deposits and other	69	1,229	1,298
Financial liabilities at amortized cost	1,435	1,229	2,664
Cash flow hedge derivatives	12,732	9,637	22,369
Commodity and other derivatives	887	99,421	100,308
Financial liabilities at fair value	13,619	109,058	122,677
Total	15,054	110,287	125,341

	2017		
	Long-term liabilities	Short-term liabilities	Total
Payables from non-current assets purchase	500	-	500
Deposits and other	1,685	511	2,196
Financial liabilities at amortized cost	2,185	511	2,696
Cash flow hedge derivatives	9,131	-	9,131
Commodity and other derivatives	1,193	42,353	43,546
Financial liabilities at fair value	10,324	42,353	52,677
Total	12,509	42,864	55,373

22. Other Long-term Liabilities

Other long-term liabilities at December 31, 2018 and 2017 are as follows (in CZK millions)

	2018	2017
Deferred connection fees	-	3,304
Advances received	31	31
Total	31	3,335

In the adoption of IFRS 15, a significant portion of connection fees in amount of CZK 3,085 million was transferred to the retained earnings (Note 2.3.1). The remaining value of these contributions fees is reported as of December 31, 2018 in the line Liabilities associated with assets classified as held for sale.

23. Short-term Loans

Short-term loans at December 31, 2018 and 2017 are as follows (in CZK millions):

	<u>2018</u>	<u>2017</u>
Short-term bank loans	11,516	10,977
Bank overdrafts	<u>267</u>	<u>96</u>
Total	<u><u>11,783</u></u>	<u><u>11,073</u></u>

Interest on short-term loans is variable. The weighted average interest rate was 0.4% and 0.1% at December 31, 2018 and 2017, respectively. For the years 2018 and 2017 the weighted average interest rate was 0.7% and 0.3%, respectively.

24. Other Short-term Liabilities

Other short-term liabilities at December 31, 2018 and 2017 are as follows (in CZK millions)

	<u>2018</u>	<u>2017</u>
Advances received from retail customers	20,125	19,235
Unbilled electricity and gas supplied to retail customers	<u>(16,621)</u>	<u>(16,963)</u>
Received advances from retail customers, net	<u>3,504</u>	<u>2,272</u>
Taxes and fees, except income tax	2,684	2,248
Other advances received	926	1,034
Deferred income	<u>347</u>	<u>242</u>
Total	<u><u>7,461</u></u>	<u><u>5,796</u></u>

25. Revenues and Other Operating Income

The composition of revenues and other operating income for the years ended December 31, 2018 and 2017 is as follows (in CZK millions):

	2018	2017
Sales of electricity:		
Sales of electricity to end customers	45,941	48,504
Sales of electricity through energy exchange	4,134	3,669
Sales of electricity to traders	36,830	35,524
Sales to distribution and transmission companies	177	239
Other sales of electricity	20,733	17,208
Effect of hedging – presales of electricity (Note 19.3)	(5,596)	326
Effect of hedging – currency risk hedging (Note 19.3)	878	(1,397)
Total sales of electricity	103,097	104,073
Sales of gas, coal and heat:		
Sales of gas	7,072	7,345
Sales of coal	4,489	4,593
Sales of heat	6,792	6,727
Total sales of gas, coal and heat	18,353	18,665
Total sales of electricity, heat, gas and coal *	121,450	122,738
Sales of services and other revenues:		
Distribution services	39,356	62,243
Other services	18,220	13,072
Revenues from goods sold	1,132	178
Other revenues	1,160	769
Total sales of services and other revenues *	59,868	76,262
Other operating income:		
Granted green and similar certificates	995	2,701
Contractual fines and interest fees for delays	334	210
Gain on sale of property, plant and equipment	137	1,243
Gain on sale of material	169	107
Other	1,533	1,831
Total other operating income	3,168	6,092
Total revenues and other operating income *	184,486	205,092

* Year-on-year comparability is significantly affected by the adoption of IFRS 15 as at January 1, 2018 (see Note 2.3.1). Total revenues and other operating income for the year 2017 in accordance with IFRS 15 would have been in amount of CZK 173,731 million. Total sales of electricity, heat, gas and coal in accordance with IFRS 15 would have been in amount of CZK 116,319 million. Total sales of services and other revenues in accordance with IFRS 15 would have been in amount of CZK 51,374 million.

26. Gains and Losses from Commodity Derivative Trading

The composition of gains and losses from commodity derivative trading for the years ended December 31, 2018 and 2017 is as follows (in CZK millions):

	<u>2018</u>	<u>2017</u>
Electricity derivative trading:		
Sales – domestic	13,537	6,825
Sales – foreign	259,360	183,258
Purchases – domestic	(13,311)	(6,640)
Purchases – foreign	(264,806)	(181,666)
Changes in fair value of derivatives	5,601	(721)
Total gains from electricity derivative trading	<u>381</u>	<u>1,056</u>
Other commodity derivative trading:		
Loss from gas derivative trading	(409)	(190)
Gain (loss) from oil derivative trading	(22)	43
Gain (loss) from coal derivative trading	(84)	11
Gain from emission rights derivative trading	709	293
Total gains and losses from commodity derivative trading	<u><u>575</u></u>	<u><u>1,213</u></u>

27. Purchase of Electricity, Gas and Other Energies

The composition of purchase of electricity, gas and other energies for the years ended December 31, 2018 and 2017 is as follows (in CZK millions):

	<u>2018</u>	<u>2017</u>
Purchase of electricity for resale	(44,611)	(48,128)
Purchase of gas for resale	(5,211)	(5,409)
Purchase of other energies	(2,346)	(3,816)
Total purchase of electricity, gas and other energies	<u><u>(52,168)</u></u>	<u><u>(57,353)</u></u>

28. Fuel and Emission Rights

The composition of fuel and emission rights for the years ended December 31, 2018 and 2017 is as follows (in CZK millions):

	<u>2018</u>	<u>2017</u>
Fossil energy fuel and biomass	(7,236)	(7,178)
Amortization of nuclear fuel	(4,027)	(3,725)
Gas	(2,712)	(1,799)
Emission rights for generation	(5,089)	(3,337)
Total fuel and emission rights	<u><u>(19,064)</u></u>	<u><u>(16,039)</u></u>

29. Services

The composition of services for the years ended December 31, 2018 and 2017 is as follows (in CZK millions):

	<u>2018</u>	<u>2017</u>
Purchase of transmission grid services for distribution of electricity	(4,701)	(4,221)
Purchase of other distribution services	(518)	(25,296)
Repairs and maintenance	(4,584)	(4,714)
Purchase of other services	<u>(16,289)</u>	<u>(13,581)</u>
Total purchase of services *	<u>(26,092)</u>	<u>(47,812)</u>

* Year-on-year comparability is significantly affected by the adoption of IFRS 15 as at January 1, 2018 (see Note 2.3.1). Total purchase of services for the year 2017 in accordance with IFRS 15 would have been in amount of CZK 24,462 million.

Information about fees charged by independent auditors is provided in the annual report of CEZ Group.

30. Salaries and Wages

Salaries and wages for the years ended December 31, 2018 and 2017 were as follows (in CZK millions):

	<u>2018</u>		<u>2017</u>	
	<u>Total</u>	<u>Key management personnel ¹⁾</u>	<u>Total</u>	<u>Key management personnel ¹⁾</u>
Salaries and wages including remuneration of the board members	(18,386)	(247)	(15,294)	(229)
Share options	(33)	(33)	(28)	(28)
Social and health security	(5,427)	(46)	(4,788)	(38)
Other personal expenses	<u>(1,774)</u>	<u>(23)</u>	<u>(1,976)</u>	<u>(23)</u>
Total	<u>(25,620)</u>	<u>(349)</u>	<u>(22,086)</u>	<u>(318)</u>

¹⁾ Key management personnel represent members of Supervisory Board, Audit Committee and Board of Directors of the parent company and selected managers of departments with group field of activity. The remuneration of former members of company bodies is also included in personal expenses.

At December 31, 2018 and 2017, the aggregate number of share options granted to members of Board of Directors and selected managers was 1,904 thousand and 2,326 thousand, respectively.

Members of the Board of Directors and selected managers are entitled to receive share options based on the conditions stipulated in the share option agreement. Members of the Board of Directors and selected managers are granted certain quantity of share options each year of their tenure according to rules of the share option plan. The exercise price for the granted options is based on the average quoted market price of the shares on the regulated exchange in the Czech Republic during one-month period preceding the grant date each year. Options granted could be exercised at the earliest 2 years and latest 3.5 years after each grant date. Option right is limited so that the profit per share option will not exceed 100% of exercise price and the beneficent has to hold at his account such number of shares exercised through options granted which is equivalent to 20% of profit made on exercise date until the end of share option plan.

The following table shows changes during 2018 and 2017 in the number of granted share options and the weighted average exercise price of these options:

	Number of share options			Weighted average exercise price (CZK per share)
	Board of Directors '000s	Selected managers '000s	Total '000s	
Share options at January 1, 2017	1,980	532	2,512	519.16
Options granted	574	185	759	447.74
Movements	20	(20)	-	523.50
Options exercised ¹⁾	(150)	-	(150)	458.71
Options forfeited	(610)	(185)	(795)	527.57
Share options at December 31, 2017 ²⁾	<u>1,814</u>	<u>512</u>	<u>2,326</u>	<u>496.89</u>
Options granted	590	185	775	542.63
Options exercised ¹⁾	(350)	(130)	(480)	438.03
Options forfeited	(560)	(157)	(717)	615.88
Share options at December 31, 2018 ²⁾	<u>1,494</u>	<u>410</u>	<u>1,904</u>	<u>485.52</u>

¹⁾ In 2018 and 2017 the weighted average market share price at the date of the exercise for the options exercised was CZK 539.42 and CZK 499.70, respectively.

²⁾ At December 31, 2018 and 2017 the number of exercisable options was 390 thousand and 932 thousand, respectively. The weighted average exercise price of the exercisable options was CZK 443.84 per share and CZK 586.22 per share at December 31, 2018 and 2017, respectively.

The fair value of the options is estimated on the date of grant using the binomial option-pricing model. Because these stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of stock options.

At the grant dates, the underlying assumptions and the resulting fair values per option were as follows:

	2018	2017
Weighted average assumptions:		
Dividend yield	2.7%	3.7%
Expected volatility	18.1%	23.0%
Mid-term risk-free interest rate	0.9%	0.4%
Expected life (years)	1.4	1.4
Grant-date share price (CZK per share)	543.4	451.2
Weighted average grant-date fair value of options (CZK per 1 option)	41.4	42.0

The expected life of the options is based on historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

As at December 31, 2018 and 2017 the exercise prices of outstanding options were in the following ranges (in thousand pieces):

	<u>2018</u>	<u>2017</u>
CZK 350–550 per share	1,544	1,594
CZK 550–650 per share	<u>360</u>	<u>732</u>
Total	<u><u>1,904</u></u>	<u><u>2,326</u></u>

The options granted which were outstanding as at December 31, 2018 and 2017 had an average remaining contractual life of 2.3 years and 1.9 years, respectively.

31. Other Operating Expenses

Other operating expenses for the years ended December 31, 2018 and 2017 consist of the following (in CZK millions):

	<u>2018</u>	<u>2017</u>
Change in provisions	541	1,262
Taxes and fees	(3,330)	(3,245)
Cost of goods sold	(778)	(89)
Consumption of guarantees of origin and green and similar certificates	(938)	(825)
Insurance	(696)	(671)
Costs related to trading of commodities	(356)	(259)
Gifts	(336)	(323)
Bad debt expense	(205)	(211)
Loss on sale of property, plant and equipment	(10)	(9)
Other	<u>(992)</u>	<u>(1,149)</u>
Total	<u><u>(7,100)</u></u>	<u><u>(5,519)</u></u>

Taxes and fees include the contributions to the nuclear account (see Note 20.1). The settlement of the provision for long-term spent fuel storage is accounted for at the amount of contributions to nuclear account. Settlement of provision for long-term spent fuel storage is included in Change in provisions.

32. Interest Income

Interest income for each category of financial assets for the years ended December 31, 2018 and 2017 is as follows (in CZK millions):

	<u>2018</u>	<u>2017</u>
Debt financial assets designated at fair value through other comprehensive income	197	173
Bank accounts	84	25
Loans and receivables	13	23
Debt financial assets at amortized cost	8	14
Financial assets and liabilities at fair value through profit or loss	<u>13</u>	<u>-</u>
Total	<u><u>315</u></u>	<u><u>235</u></u>

33. Other Financial Expenses

Other financial expenses for the years ended December 31, 2018 and 2017 consist of the following (in CZK millions):

	<u>2018</u>	<u>2017</u>
Derivative losses	(47)	(927)
Foreign exchange rate loss	(776)	-
Loss on sales of debt financial assets	(11)	(147)
Creation and settlement of provision	(17)	(157)
Cost of buy back of bonds	-	(490)
Loss on disposal of subsidiaries, associates and joint-ventures (see Note 8)	-	(14)
Other	(200)	(242)
Total	<u>(1,051)</u>	<u>(1,977)</u>

34. Other Financial Income

Other financial income for the years ended December 31, 2018 and 2017 consist of the following (in CZK millions):

	<u>2018</u>	<u>2017</u>
Derivative gains	933	504
Gain from sale of MOL shares	-	4,560
Gain from sale of other available-for-sale financial assets	-	89
Gain from revaluation of financial assets	128	-
Dividend income	177	262
Gain on disposal of subsidiaries, associates and joint-ventures (see Note 8)	159	-
Foreign exchange rate gain	-	959
Other	890	268
Total	<u>2,287</u>	<u>6,642</u>

35. Income Taxes

Companies resident in the Czech Republic calculated corporate income tax in accordance with the Czech tax regulations at the rate of 19% in 2018 and 2017. The Czech corporate income tax rate enacted for 2019 and on is 19%. Management believes that it has adequately provided for tax liabilities in the accompanying financial statements. However, the risk remains that the relevant financial authorities could take differing positions with regard to interpretive issues, which could have a potential effect on reported income.

The components of the income tax provision are as follows (in CZK millions):

	<u>2018</u>	<u>2017</u>
Current income tax charge	(4,191)	(3,937)
Adjustments in respect of current income tax of previous periods	(57)	20
Deferred income taxes	1,231	123
Total	<u>(3,017)</u>	<u>(3,794)</u>

The differences between income tax expense computed at the statutory rate and income tax expense provided on earnings are as follows (in CZK millions):

	<u>2018</u>	<u>2017</u>
Income before income taxes	13,517	22,753
Statutory income tax rate in Czech Republic	<u>19%</u>	<u>19%</u>
“Expected” income tax expense	(2,568)	(4,323)
Tax effect of:		
Non-deductible expenses related to shareholdings	(26)	(22)
Goodwill and other non-current assets impairment	(174)	-
Share of profit (loss) from associates and joint-ventures	(72)	(478)
Tax exempt gain from sale of MOL shares	-	866
Adjustments in respect of current income tax of previous periods	(57)	19
Effect of different tax rate in other countries	(80)	(110)
Change in unrecorded deferred tax asset	236	(58)
Other already taxed, tax exempt or non-deductible items, net	<u>(276)</u>	<u>312</u>
Income taxes	<u>(3,017)</u>	<u>(3,794)</u>
Effective tax rate	22%	17%

Deferred income taxes, net, at December 31, 2018 and 2017 consist of the following (in CZK millions):

	<u>2018</u>	<u>2017</u>
Nuclear provisions	10,217	9,924
Financial statement depreciation in excess of tax depreciation	2,141	2,126
Revaluation of financial instruments	4,451	1,843
Allowances	1,088	1,126
Other provisions	2,771	2,537
Tax loss carry forwards	1,492	1,408
Other temporary differences	477	486
Unrecorded deferred tax asset	<u>(829)</u>	<u>(1,184)</u>
Total deferred tax assets	<u>21,808</u>	<u>18,266</u>
Tax depreciation in excess of financial statement depreciation	(32,393)	(34,625)
Revaluation of financial instruments	(184)	(179)
Other provisions	(441)	(485)
Other temporary differences	<u>(4,220)</u>	<u>(1,673)</u>
Total deferred tax liability	<u>(37,238)</u>	<u>(36,962)</u>
Total deferred tax liability, net	<u>(15,430)</u>	<u>(18,696)</u>
Reflected in the balance sheet as follows:		
Deferred tax assets	1,269	1,297
Deferred tax liability	<u>(16,699)</u>	<u>(19,993)</u>
Total deferred tax liability, net	<u>(15,430)</u>	<u>(18,696)</u>

Movements in net deferred tax liability, net in 2018 and 2017 were as follows (in CZK millions):

	<u>2018</u>	<u>2017</u>
Opening balance at January 1	18,696	18,617
Adoption of IFRS 9 and IFRS 15	565	-
Deferred tax recognized in profit or loss	(1,231)	(123)
Deferred tax recognized in other comprehensive income	(2,544)	(301)
Acquisition of subsidiaries	175	509
Disposal of subsidiaries	(47)	(2)
Currency translation differences	(20)	(4)
Deferred tax classified as held for sale	(164)	-
Closing balance at December 31	<u>15,430</u>	<u>18,696</u>

At December 31, 2018 and 2017 the aggregate amount of temporary differences associated with investments in subsidiaries, for which no deferred tax liability was recognized, amounted to CZK 25,889 million and CZK 39,778 million, respectively.

Tax effects relating to each component of other comprehensive income (in CZK millions):

	<u>2018</u>			<u>2017</u>		
	Before tax amount	Tax effect	Net of tax amount	Before tax amount	Tax effect	Net of tax amount
Change in fair value of cash flow hedges	(16,016)	3,043	(12,973)	(3,950)	750	(3,200)
Cash flow hedges reclassified to statement of income	3,927	(746)	3,181	4,026	(764)	3,262
Cash flow hedges reclassified to assets	(972)	185	(787)	(394)	75	(319)
Change in fair value of debt instruments	(363)	73	(290)	(1,178)	226	(952)
Disposal of debt instruments	-	-	-	(52)	13	(39)
Change in fair value of equity instruments	87	(11)	76	(105)	-	(105)
Disposal of equity instruments	-	-	-	(5,490)	-	(5,490)
Translation differences – subsidiaries	107	-	107	(3,412)	-	(3,412)
Translation differences – associates and joint-ventures	115	-	115	1,340	-	1,340
Disposal of translation differences	1	-	1	751	-	751
Share on other equity movements of associates and joint-ventures	-	-	-	54	-	54
Re-measurement gains (losses) on defined benefit plans	(22)	-	(22)	(5)	1	(4)
Total	<u>(13,136)</u>	<u>2,544</u>	<u>(10,592)</u>	<u>(8,415)</u>	<u>301</u>	<u>(8,114)</u>

36. Related Parties

The Group purchases from and sells to related parties products, goods and services in the ordinary course of business.

At December 31, 2018 and 2017, the receivables from related parties and payables to related parties are as follows (in CZK millions):

	Receivables		Payables	
	2018	2017	2018	2017
Akenerji Elektrik Üretim A.S.	18	5	-	-
ČEZ Energo, s.r.o. ¹⁾	-	83	-	23
Elevion Co-Investment GmbH & Co. KG in PROJEKT LOUNY ENGINEERING s.r.o.	-	-	123	124
LOMY MOŘINA spol. s r.o.	5	12	5	8
Ústav aplikované mechaniky Brno, s.r.o.	2	2	20	12
Ústav aplikované mechaniky Brno, s.r.o.	3	7	67	44
Výzkumný a zkušební ústav Plzeň s.r.o.	74	49	2	2
Other	16	10	11	8
Total	118	168	228	221

¹⁾ Company was related party till June 30, 2018.

The following table provides the total amount of transactions, which have been entered into with related parties for 2018 and 2017 (in CZK millions):

	Sales to related parties		Purchases from related parties	
	2018	2017	2018	2017
Akcez Enerji A.S.	21	29	-	-
Akenerji Elektrik Üretim A.S.	30	33	-	-
ČEZ Energo, s.r.o. ¹⁾	132	274	56	273
in PROJEKT LOUNY ENGINEERING s.r.o.	32	21	26	15
LOMY MOŘINA spol. s r.o.	13	10	176	172
Teplo Klášterec s.r.o.	57	56	-	1
Ústav aplikované mechaniky Brno, s.r.o.	4	10	136	73
VLTA VOTÝNSKÁ TEPLÁRENSKÁ a.s.	27	28	2	2
Other	17	24	49	35
Total	333	485	445	571

¹⁾ Company was related party till June 30, 2018.

Dividend income, interest and other financial income from related parties for the relevant financial year (in CZK millions):

	Interest and other financial income		Dividend income	
	2018	2017	2018	2017
Akcez Enerji A.S.	16	17	-	-
CM European Power International B.V. ²⁾	-	-	-	208
LOMY MOŘINA spol. s r.o.	-	-	5	11
Osvětlení a energetické systémy a.s. ³⁾	-	-	-	28
Other	6	2	3	15
Total	22	19	8	262

²⁾ Company was related party till December 31, 2017.

³⁾ Company was related party till January 10, 2018.

Information about compensation of key management personnel is included in Note 30. Information about guarantees provided to joint-ventures is included in Note 19.2.

37. Segment Information

The Group reports its result using six reportable operating segments:

- Generation – Traditional Energy
- Generation – New Energy
- Distribution
- Sales
- Mining
- Other

The segments are defined across the countries that CEZ Group operates. Segment is a functionally autonomous part of CEZ Group that serves a single part of the value chain in the energy sector and is within the purview of individual members of the ČEZ, a. s. Board of Directors.

The Group accounts for intersegment revenues and transfers as if the revenues or transfers were to third parties, that is, at current market prices or where the regulation applies at regulated prices.

The Group evaluates the performance of its segments based on EBITDA (see Note 16).

The following tables summarize segment information by operating segments for the years ended December 31, 2018 and 2017 (in CZK millions):

Year 2018:	Gene- ration – Traditional Energy	Gene- ration – New Energy	Distribu- tion	Sales	Mining	Other	Combined	Elimina- tion	Consoli- dated
Revenues and other operating income – other than intersegment	52,613	5,612	40,599	78,430	4,713	2,519	184,486	-	184,486
Revenues and other operating income – intersegment	34,775	487	345	7,263	4,819	13,999	61,688	(61,688)	-
Total revenues and other operating income	87,388	6,099	40,944	85,693	9,532	16,518	246,174	(61,688)	184,486
EBITDA	16,600	3,247	19,747	4,317	3,751	1,877	49,539	(4)	49,535
Depreciation and amortization	(15,941)	(1,788)	(6,124)	(471)	(2,351)	(1,464)	(28,139)	-	(28,139)
Impairment of property, plant and equipment and intangible assets	(1,249)	191	(671)	1	21	(59)	(1,766)	-	(1,766)
EBIT	(531)	1,650	12,976	3,847	1,424	397	19,763	(4)	19,759
Interest on debt and provisions	(6,544)	(301)	(377)	(170)	(196)	(220)	(7,808)	831	(6,977)
Interest income	496	17	120	61	41	411	1,146	(831)	315
Share of profit (loss) from associates and joint-ventures	-	-	300	169	6	(783)	(308)	-	(308)
Income taxes	947	(241)	(2,372)	(803)	(257)	(291)	(3,017)	-	(3,017)
Net income	25,945	1,276	10,619	3,062	1,632	(105)	42,429	(31,929)	10,500
Identifiable assets	246,206	27,392	109,741	3,838	20,062	9,286	416,525	(617)	415,908
Investment in associates and joint- ventures	-	235	-	305	176	2,645	3,361	-	3,361
Unallocated assets									288,174
Total assets									707,443
Capital expenditure	8,041	439	12,892	673	1,628	5,333	29,006	(2,620)	26,386
Average number of employees	6,870	137	8,357	5,450	2,665	7,066	30,545	-	30,545

Year 2017:	Gene- ration – Traditional Energy	Gene- ration – New Energy	Distribu- tion	Sales	Mining	Other	Combined	Elimina- tion	Consoli- dated
Revenues and other operating income – other than intersegment	54,459	6,828	29,849	106,623	4,823	2,510	205,092	-	205,092
Revenues and other operating income – intersegment	29,959	752	28,336	4,856	4,725	15,428	84,056	(84,056)	-
Total revenues and other operating income *	84,418	7,580	58,185	111,479	9,548	17,938	289,148	(84,056)	205,092
EBITDA	19,062	4,988	19,038	4,611	4,056	2,169	53,924	(3)	53,921
Depreciation and amortization	(17,301)	(1,736)	(6,262)	(155)	(2,337)	(1,514)	(29,305)	-	(29,305)
Impairment of property, plant and equipment and intangible assets	1,389	(551)	(987)	1	(82)	-	(230)	-	(230)
EBIT	4,308	2,701	11,818	4,459	1,637	700	25,623	(3)	25,620
Interest on debt and provisions	(4,993)	(280)	(319)	(51)	(186)	(226)	(6,055)	676	(5,379)
Interest income	636	1	31	2	3	238	911	(676)	235
Share of profit (loss) from associates and joint-ventures **	(1,818)	-	265	(468)	5	(371)	(2,387)	-	(2,387)
Income taxes	317	(561)	(2,188)	(792)	(310)	(260)	(3,794)	-	(3,794)
Net income	11,362	1,854	9,604	3,060	1,892	5,120	32,892	(13,933)	18,959
Identifiable assets	255,773	28,845	113,805	1,110	20,517	9,050	429,100	(1,081)	428,019
Investment in associates and joint- ventures **	-	-	-	693	175	2,652	3,520	-	3,520
Unallocated assets									192,367
Total assets									623,906
Capital expenditure	11,872	749	12,905	330	1,569	5,985	33,410	(4,275)	29,135
Average number of employees	6,622	63	8,206	3,027	2,691	7,050	27,659	-	27,659

* Revenues and other operating income for the year 2017 in accordance with IFRS 15 would have been in amount of CZK 173,731 million (Note 2.3.1).

** Joint-venture ČEZ Energo and associated company Elevion Co-Investment are included in the operating segment Sales in order to provide comparative information with 2018 on the same basis. In the consolidated financial statements as of December 31, 2017 these investments were presented in the operating segments Generation – Traditional Energy and Other, respectively.

Prices in certain intersegment transactions are regulated by the Energy Regulatory Office (see Note 1).

The following table shows the split of revenues and other operating income according to the location of the entity where the revenues are originated (in CZK million):

	<u>2018</u>	<u>2017</u>
Czech Republic	128,526	144,615
Bulgaria	16,546	24,145
Romania	13,653	15,027
Poland	10,930	8,734
Germany	9,170	3,885
Other	<u>5,661</u>	<u>8,686</u>
Total revenues and other operating income *	<u><u>184,486</u></u>	<u><u>205,092</u></u>

* Total revenues and other operating income for the year 2017 in accordance with IFRS 15 would have been in amount of CZK 173,731 million (Note 2.3.1).

The following table shows the split of property, plant and equipment according to the location of entity which they belong to at December 31, 2018 and 2017 (in CZK million):

	<u>2018</u>	<u>2017</u>
Czech Republic	378,663	380,530
Bulgaria	-	10,072
Romania	23,734	23,855
Poland	6,182	6,610
Germany	6,458	6,644
Other	<u>871</u>	<u>308</u>
Total property, plant and equipment	<u><u>415,908</u></u>	<u><u>428,019</u></u>

38. Net Income per Share

	<u>2018</u>	<u>2017</u>
Numerator (CZK millions)		
Basic and diluted:		
Net income attributable to equity holders of the parent	<u>10,327</u>	<u>18,765</u>
Denominator (thousands shares)		
Basic:		
Weighted average shares outstanding	534,733	534,247
Dilutive effect of share options	<u>246</u>	<u>149</u>
Diluted:		
Adjusted weighted average shares	<u><u>534,979</u></u>	<u><u>534,396</u></u>
Net income per share (CZK per share)		
Basic	19.3	35.1
Diluted	19.3	35.1

39. Commitment and Contingencies

Investment Program

The Group is engaged in a continuous construction program, currently estimated as of December 31, 2018 over the next five years as follows (in CZK billion):

2019	35.5
2020	34.4
2021	35.2
2022	28.8
2023	30.4
	<hr/>
Total	164.3
	<hr/> <hr/>

These figures do not include the expected acquisitions of subsidiaries, associates and joint-ventures, which will depend on the number of future investment opportunities, for which the Group will be a successful bidder and also considering the recoverability of these investments.

The construction programs are subject to periodic reviews and actual construction may vary from the above estimates. At December 31, 2018 significant purchase commitments were outstanding in connection with the construction program.

Insurance Matters

The Nuclear Act sets limits for liabilities for nuclear damages so that the operator of nuclear installations for energy generation purposes is liable for up to CZK 8 billion per incident. The Nuclear Act limits the liability for damage caused by other nuclear installations and activities (such as transportation) to CZK 2 billion. The Nuclear Act also requires an operator to insure its liability connected with the operation of a nuclear power plant up to a minimum of CZK 2 billion and up to a minimum of CZK 300 million for other activities (such as transportation). The Company concluded the above mentioned insurance policies with Česká pojišťovna a.s. (representing Czech Nuclear Insurance Pool) and European Liability Insurance for the Nuclear Industry. The Company has obtained all insurance policies with minimal limits as required by the law.

The Group also maintains the insurance policies covering the assets of its coal-fired, hydroelectric, CCGT and nuclear power plants and general third party liability insurance in connection with main operations of the Group.

40. Events after the Balance Sheet Date

In January 2019 the Group acquired 100% share in the German company En.plus GmbH, which is engaged in the design and installation of air conditioning and cooling equipment. Provisional book values of acquired identifiable assets and liabilities as of the date of acquisition were as follows (in CZK millions):

	<u>En.plus</u>
Share of the Group being acquired in 2019	100%
Non-current assets	30
Trade receivables	234
Other current assets	161
Debt	(102)
Trade payables	(66)
Other liabilities	<u>(165)</u>
Total net assets	92
Share of net assets acquired	92
Goodwill	<u>265</u>
Total purchase consideration	<u><u>357</u></u>

In February 2019 the sales contract to sale the whole investment in the company Sonnen Holding GmbH from the CEZ Group investment fund managed by Inven Capital, SICAV, a.s. was signed.

These consolidated financial statements have been authorized for issue on March 18, 2019.

Daniel Beneš
Chairman of Board of Directors

Martin Novák
Vice-chairman of Board of Directors