



# FINANCIAL STATEMENTS OF ČEZ, A. S. AS OF DECEMBER 31, 2016

Pursuant to Section 19a of the Accounting Act, the financial statements of ČEZ, a. s. as of December 31, 2016 were compiled in accordance with International Financial Reporting Standards. The balance sheet, statement of income, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the financial statements have all been drawn up.

In accordance with the respective provision of the Accounting Act, the financial statements were verified by an independent auditor. The audit was performed by Ernst & Young Audit, s.r.o.

According to the auditor's opinion as of March 20, 2017, the financial statements give a true and fair view of the financial position of ČEZ, a. s. as of December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Based on the auditor's opinion, it is proposed that the General Meeting approve the financial statements of ČEZ, a. s. for 2016.

The full version of the financial statements is part of the annual report, which is available at the General Meeting of shareholders and on the Company's website. Values from the financial statements, i.e. the balance sheet, statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows, are also included in this material.

# ČEZ, a. s.

## BALANCE SHEET

### AS OF DECEMBER 31, 2016

in CZK Millions

	2016	2015
<b>Assets</b>		
Property, plant and equipment:		
Plant in service	394,262	346,203
Less accumulated depreciation and impairment	(218,114)	(204,187)
Net plant in service	176,148	142,016
Nuclear fuel, at amortized cost	14,745	12,832
Construction work in progress, net	50,337	85,909
Total property, plant and equipment	241,230	240,757
Other non-current assets:		
Restricted financial assets	13,290	12,662
Investments and other financial assets, net	183,885	178,692
Intangible assets, net	581	560
Total other non-current assets	197,756	191,914
Total non-current assets	438,986	432,671
Current assets:		
Cash and cash equivalents	454	2,964
Receivables, net	44,413	41,538
Income tax receivable	571	-
Materials and supplies, net	5,291	5,134
Fossil fuel stocks	407	564
Emission rights	2,013	1,874
Other financial assets, net	43,013	32,489
Other current assets	1,050	1,146
Assets classified as held for sale	736	-
Total current assets	97,948	85,709
<b>Total assets</b>	<b>536,934</b>	<b>518,380</b>

# ČEZ, a. s.

## BALANCE SHEET

### AS OF DECEMBER 31, 2016

continued

	2016	2015
<b>Equity and liabilities</b>		
Equity:		
Stated capital	53,799	53,799
Treasury shares	(4,246)	(4,246)
Retained earnings and other reserves	151,145	171,016
Total equity	200,698	220,569
Non-current liabilities:		
Long-term debt, net of current portion	131,960	124,922
Provisions	55,006	49,716
Deferred tax liability	9,003	11,143
Other long-term liabilities	7,019	3,886
Total non-current liabilities	202,988	189,667
Current liabilities:		
Short-term loans	7,874	10
Current portion of long-term debt	3,484	10,628
Trade and other payables	110,410	87,114
Income tax payable	1	165
Provisions	3,904	4,195
Accrued liabilities	7,575	6,032
Total current liabilities	133,248	108,144
<b>Total equity and liabilities</b>	<b>536,934</b>	<b>518,380</b>

**ČEZ, a. s.**

# STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2016

in CZK Millions

	2016	2015
Sales of electricity	72,462	72,635
Sales of gas, heat and other revenues	8,126	9,088
Other operating income	1,205	1,597
<b>Total revenues and other operating income</b>	<b>81,793</b>	<b>83,320</b>
Gains and losses from commodity derivative trading, net	(238)	(504)
Fuel	(10,775)	(10,599)
Purchased power and related services	(36,248)	(31,314)
Repairs and maintenance	(2,980)	(2,433)
Depreciation and amortization	(15,253)	(14,708)
Impairment of property, plant and equipment and intangible assets	(104)	(788)
Salaries and wages	(5,603)	(5,191)
Materials and supplies	(1,419)	(1,354)
Emission rights, net	(837)	(964)
Other operating expenses	(6,881)	(7,054)
<b>Income before other income (expenses) and income taxes</b>	<b>1,455</b>	<b>8,411</b>
Interest on debt, net of capitalized interest	(2,530)	(2,857)
Interest on provisions	(1,274)	(1,452)
Interest income	917	1,086
Foreign exchange rate gains (losses), net	(443)	(474)
Gain on sale of subsidiaries, associates and joint-ventures	428	-
Other financial expenses	(14,723)	(5,438)
Other financial income	24,632	29,908
<b>Total other income (expenses)</b>	<b>7,007</b>	<b>20,773</b>
<b>Income before income taxes</b>	<b>8,462</b>	<b>29,184</b>
Income taxes	372	(1,069)
<b>Net income</b>	<b>8,834</b>	<b>28,115</b>
<b>Net income per share (CZK per share)</b>		
Basic	16.5	52.6
Diluted	16.5	52.6

**ČEZ, a. s.**

# STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2016

in CZK Millions

	2016	2015
<b>Net income</b>	8,834	28,115
<b>Other comprehensive income – items that may be reclassified subsequently to statement of income or to assets:</b>		
Change in fair value of cash flow hedges recognized in equity	(7,438)	11,922
Cash flow hedges reclassified to income statement	(1,632)	(1,954)
Cash flow hedges reclassified to assets	(85)	(230)
Change in fair value of available-for-sale financial assets recognized in equity	9	(429)
Deferred tax related to other comprehensive income	1,738	(1,769)
<b>Other comprehensive income, net of tax</b>	(7,408)	7,540
<b>Total comprehensive income</b>	1,426	35,655

# STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2016

In CZK Millions

	Stated capital	Treasury shares	Cash flow hedge reserve	Available-for-sale and other reserves	Retained earnings	Total equity
December 31, 2014	53,799	(4,382)	(8,008)	1,304	163,419	206,132
Net income	-	-	-	-	28,115	28,115
Other comprehensive income	-	-	7,887	(347)	-	7,540
Total comprehensive income	-	-	7,887	(347)	28,115	35,655
Dividends	-	-	-	-	(21,317)	(21,317)
Sale of treasury shares	-	136	-	-	(68)	68
Share options	-	-	-	31	-	31
Transfer of exercised and forfeited share options within equity	-	-	-	(63)	63	-
December 31, 2015	53,799	(4,246)	(121)	925	170,212	220,569
Net income	-	-	-	-	8,834	8,834
Other comprehensive income	-	-	(7,415)	7	-	(7,408)
Total comprehensive income	-	-	(7,415)	7	8,834	1,426
Dividends	-	-	-	-	(21,319)	(21,319)
Share options	-	-	-	22	-	22
Transfer of forfeited share options within equity	-	-	-	(28)	28	-
December 31, 2016	53,799	(4,246)	(7,536)	926	157,755	200,698

# ČEZ, a. s.

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016

In CZK Millions

	2016	2015
<b>Operating activities:</b>		
Income before income taxes	8,462	29,184
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation and amortization	15,253	14,708
Amortization of nuclear fuel	3,120	3,392
Gain on non-current asset retirements, net	(518)	(298)
Foreign exchange rate losses (gains), net	443	474
Interest expense, interest income and dividend income, net	(13,557)	(23,328)
Provisions	(736)	(2,711)
Impairment of property, plant and equipment and intangible assets	104	788
Other impairment and other adjustments	4,813	5,097
Changes in assets and liabilities:		
Receivables	(9,364)	5,168
Materials, supplies and fossil fuel stocks	(64)	364
Receivables and payables from derivatives	2,275	5,675
Other current assets	6,108	5,863
Trade and other payables	2,766	(1,867)
Accrued liabilities	1,742	(3,104)
Cash generated from operations	20,847	39,405
Income taxes received (paid)	(764)	251
Interest paid, net of capitalized interest	(2,501)	(2,888)
Interest received	914	1,068
Dividends received	18,624	21,600
Net cash provided by operating activities	37,120	59,436
<b>Investing activities:</b>		
Acquisition of subsidiaries, associates and joint-ventures and refunds	(2,628)	49
Proceeds from disposal of subsidiaries, associates and joint-ventures including liquidation distribution received	9,934	318
Additions to non-current assets, including capitalized interest	(20,121)	(17,287)
Proceeds from sale of non-current assets	741	70
Loans made	(9,645)	(8,123)
Repayment of loans	1,487	6,838
Change in restricted financial assets	(570)	(583)
Total cash used in investing activities	(20,802)	(18,718)

**ČEZ, a. s.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR**  
**ENDED DECEMBER 31, 2016**

continued

	2016	2015
<b>Financing activities:</b>		
Proceeds from borrowings	92,113	60,734
Payments of borrowings	(89,851)	(90,833)
Proceeds from other long-term liabilities	-	179
Decreases of other long-term liabilities	(679)	-
Change in payables/receivables from group cashpooling	877	4,091
Dividends paid	(21,325)	(21,309)
Sale of treasury shares	-	68
Net cash used in financing activities	(18,865)	(47,070)
Net effect of currency translation in cash	37	(195)
<b>Net decrease in cash and cash equivalents</b>	(2,510)	(6,547)
<b>Cash and cash equivalents at beginning of period</b>	2,964	9,511
<b>Cash and cash equivalents at end of period</b>	454	2,964
<b>Supplementary cash flow information</b>		
Total cash paid for interest	5,554	6,791

# CONSOLIDATED FINANCIAL STATEMENTS OF CEZ GROUP AS OF DECEMBER 31, 2016

Pursuant to Section 23a of the Accounting Act, the consolidated financial statements of CEZ Group as of December 31, 2016 were compiled in accordance with International Financial Reporting Standards. The compiled consolidated financial statements comprise the balance sheet, statement of income, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the consolidated financial statements.

In accordance with the respective provision of the Accounting Act, the consolidated financial statements were verified by an independent auditor. The audit was performed by Ernst & Young Audit, s.r.o.

According to the auditor's opinion as of March 20, 2017, the consolidated financial statements give a true and fair view of the consolidated financial position of CEZ Group as of December 31, 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Based on the auditor's opinion, it is proposed that the General Meeting approve the consolidated financial statements of CEZ Group for 2016.

The full version of the consolidated financial statements is part of the annual report, which is available at the General Meeting of shareholders and on the Company's website. Values from the consolidated financial statements, i.e. the balance sheet, statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows, are also included in this material.

# CEZ GROUP

## CONSOLIDATED BALANCE SHEET

### AS OF DECEMBER 31, 2016

in CZK Millions

	2016	2015
<b>Assets</b>		
Property, plant and equipment:		
Plant in service	775,181	719,633
Less accumulated depreciation and impairment	(418,981)	(399,608)
Net plant in service	356,200	320,025
Nuclear fuel, at amortized cost	14,892	12,997
Construction work in progress, net	55,803	88,342
Total property, plant and equipment	426,895	421,364
Other non-current assets:		
Investment in joint-ventures	5,309	9,239
Restricted financial assets	19,011	18,059
Investments and other financial assets, net	14,460	22,598
Intangible assets, net	21,983	20,164
Deferred tax assets	1,596	1,631
Total other non-current assets	62,359	71,691
Total non-current assets	489,254	493,055
Current assets:		
Cash and cash equivalents	11,226	13,482
Receivables, net	56,331	46,003
Income tax receivable	1,181	436
Materials and supplies, net	7,520	8,577
Fossil fuel stocks	996	1,554
Emission rights	3,958	3,456
Other financial assets, net	56,501	32,728
Other current assets	3,227	3,395
Assets classified as held for sale	647	-
Total current assets	141,587	109,631
<b>Total assets</b>	<b>630,841</b>	<b>602,686</b>

# CEZ GROUP

## CONSOLIDATED BALANCE SHEET

### AS OF DECEMBER 31, 2016

continued

	2016	2015
<b>Equity and liabilities</b>		
Equity:		
Equity attributable to equity holders of the parent:		
Stated capital	53,799	53,799
Treasury shares	(4,246)	(4,246)
Retained earnings and other reserves	207,259	218,340
Total equity attributable to equity holders of the parent	256,812	267,893
Non-controlling interests	4,548	4,262
Total equity	261,360	272,155
Non-current liabilities:		
Long-term debt, net of current portion	142,265	145,575
Provisions	66,360	60,525
Deferred tax liability	20,213	22,053
Other long-term liabilities	11,203	8,679
Total non-current liabilities	240,041	236,832
Current liabilities:		
Short-term loans	8,343	223
Current portion of long-term debt	17,208	11,696
Trade and other payables	80,516	58,010
Income tax payable	392	1,606
Provisions	8,160	8,219
Accrued liabilities	14,251	13,945
Liabilities associated with assets classified as held for sale	570	-
Total current liabilities	129,440	93,699
<b>Total equity and liabilities</b>	<b>630,841</b>	<b>602,686</b>

# CEZ GROUP

## CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2016

in CZK Millions

	2016	2015
Sales of electricity and related services	174,944	182,105
Sales of gas, coal, heat and other revenues	27,065	24,569
Other operating income	1,735	3,493
<b>Total revenues and other operating income</b>	<b>203,744</b>	<b>210,167</b>
Gains and losses from commodity derivative trading, net	(368)	(540)
Fuel	(13,150)	(13,053)
Purchased power and related services	(88,294)	(90,905)
Repairs and maintenance	(4,563)	(4,619)
Depreciation and amortization	(28,978)	(28,619)
Impairment of property, plant and equipment and intangible assets including goodwill	(3,114)	(7,685)
Salaries and wages	(19,158)	(17,758)
Materials and supplies	(4,362)	(4,062)
Emission rights, net	(520)	(1,711)
Other operating expenses	(15,123)	(12,254)
<b>Income before other income (expenses) and income taxes</b>	<b>26,114</b>	<b>28,961</b>
Interest on debt, net of capitalized interest	(2,762)	(2,853)
Interest on provisions	(1,494)	(1,681)
Interest income	303	388
Foreign exchange rate gains (losses), net	(339)	(811)
Gain on sale of subsidiaries and joint-ventures	161	-
Other financial expenses	(1,264)	(1,110)
Other financial income	1,342	5,656
Share of profit (loss) from joint-ventures	(2,733)	(1,655)
<b>Total other income (expenses)</b>	<b>(6,786)</b>	<b>(2,066)</b>
<b>Income before income taxes</b>	<b>19,328</b>	<b>26,895</b>
Income taxes	(4,753)	(6,348)
<b>Net income</b>	<b>14,575</b>	<b>20,547</b>
<b>Net income attributable to:</b>		
Equity holders of the parent	14,281	20,739
Non-controlling interests	294	(192)
<b>Net income per share attributable to equity holders of the parent (CZK per share)</b>		
Basic	26.7	38.8
Diluted	26.7	38.8

# CEZ GROUP

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2016

in CZK Millions

	2016	2015
<b>Net income</b>	14,575	20,547
<b>Other comprehensive income – items that may be reclassified subsequently to statement of income or to assets:</b>		
Change in fair value of cash flow hedges recognized in equity	(7,438)	11,919
Cash flow hedges reclassified to statement of income	(1,629)	(1,954)
Cash flow hedges reclassified to assets	(85)	(230)
Change in fair value of available-for-sale financial assets recognized in equity	4,620	1,440
Available-for-sale financial assets reclassified from equity	(10)	(103)
Translation differences – subsidiaries	(536)	(1,046)
Translation differences – joint-ventures	(617)	(1,218)
Translation differences reclassified from equity	(127)	1
Share on other equity movements of joint-ventures	26	(38)
Deferred tax related to other comprehensive income	1,731	(1,761)
<b>Net other comprehensive income that may be reclassified to statement of income or to assets in subsequent periods</b>	(4,065)	7,010
<b>Other comprehensive income – items not to be reclassified subsequently from equity:</b>		
Re-measurement gains (losses) on defined benefit plans	10	(28)
Deferred tax related to other comprehensive income	1	(3)
<b>Net other comprehensive income not to be reclassified from equity in subsequent periods</b>	11	(31)
<b>Other comprehensive income, net of tax</b>	(4,054)	6,979
<b>Total comprehensive income, net of tax</b>	10,521	27,526
<b>Total comprehensive income attributable to:</b>		
Equity holders of the parent	10,228	27,811
Non-controlling interests	293	(285)

# CEZ GROUP

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2016

in CZK Millions

	Attributable to equity holders of the parent						Non-controlling interests	Total equity	
	Stated capital	Treasury shares	Translation difference	Cash flow hedge reserve	Available-for-sale and other reserves	Retained earnings			Total
December 31, 2014	53,799	(4,382)	(7,350)	(7,972)	1,849	225,364	261,308	4,543	265,851
Net income	-	-	-	-	-	20,739	20,739	(192)	20,547
Other comprehensive income	-	-	(2,169)	7,886	1,425	(70)	7,072	(93)	6,979
Total comprehensive income	-	-	(2,169)	7,886	1,425	20,669	27,811	(285)	27,526
Dividends	-	-	-	-	-	(21,317)	(21,317)	(4)	(21,321)
Sale of treasury shares	-	136	-	-	-	(68)	68	-	68
Share options	-	-	-	-	31	-	31	-	31
Transfer of exercised and forfeited share options within equity	-	-	-	-	(63)	63	-	-	-
Acquisition of non-controlling interests	-	-	19	-	-	(166)	(147)	(145)	(292)
Put options held by non-controlling interest	-	-	-	-	-	139	139	153	292
December 31, 2015	53,799	(4,246)	(9,500)	(86)	3,242	224,684	267,893	4,262	272,155

# CEZ GROUP

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2016

continued

	Attributable to equity holders of the parent						Non-controlling interests	Total equity	
	Stated capital	Treasury shares	Translation difference	Cash flow hedge reserve	Available-for-sale and other reserves	Retained earnings			Total
December 31, 2015	53,799	(4,246)	(9,500)	(86)	3,242	224,684	267,893	4,262	272,155
Net income	-	-	-	-	-	14,281	14,281	294	14,575
Other comprehensive income	-	-	(1,279)	(7,413)	4,603	36	(4,053)	(1)	(4,054)
Total comprehensive income	-	-	(1,279)	(7,413)	4,603	14,317	10,228	293	10,521
Dividends	-	-	-	-	-	(21,320)	(21,320)	(8)	(21,328)
Share options	-	-	-	-	22	-	22	-	22
Transfer of forfeited share options within equity	-	-	-	-	(28)	28	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	-	-	17	17
Acquisition of non-controlling interests	-	-	-	-	-	(10)	(10)	(17)	(27)
Put options held by non-controlling interest	-	-	-	-	-	(1)	(1)	1	-
December 31, 2016	53,799	(4,246)	(10,779)	(7,499)	7,839	217,698	256,812	4,548	261,360

# CEZ GROUP

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016

in CZK Millions

	2016	2015
<b>Operating activities:</b>		
Income before income taxes	19,328	26,895
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation and amortization	28,978	28,619
Amortization of nuclear fuel	3,158	3,416
Gain on non-current asset retirements, net	(350)	(562)
Foreign exchange rate losses (gains), net	339	811
Interest expense, interest income and dividend income, net	1,827	1,780
Provisions	(163)	(2,374)
Impairment of property, plant and equipment and intangible assets including goodwill	3,114	7,685
Valuation allowances and other adjustments	(364)	(1)
Share of (profit) loss from joint-ventures	2,733	1,655
Changes in assets and liabilities:		
Receivables	(10,168)	3,614
Materials, supplies and fossil fuel stocks	451	(169)
Receivables and payables from derivatives	3,244	5,833
Other current assets	4,630	5,469
Trade and other payables	8	(2,574)
Accrued liabilities	414	(1,450)
Cash generated from operations	57,179	78,647
Income taxes paid	(6,689)	(4,569)
Interest paid, net of capitalized interest	(2,481)	(2,728)
Interest received	298	416
Dividends received	646	813
Net cash provided by operating activities	48,953	72,579
<b>Investing activities:</b>		
Acquisition of subsidiaries and joint-ventures, net of cash acquired	(368)	-
Disposal of subsidiaries and joint-ventures, net of cash disposed of	900	310
Additions to non-current assets, including capitalized interest	(35,553)	(31,909)
Proceeds from sale of non-current assets	1,078	435
Loans made	(5)	(29)
Repayment of loans	228	123
Change in restricted financial assets	(851)	(500)
Total cash used in investing activities	(34,571)	(31,570)

# CEZ GROUP

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016

continued

	2016	2015
<b>Financing activities:</b>		
Proceeds from borrowings	97,022	88,301
Payments of borrowings	(91,542)	(114,363)
Proceeds from other long-term liabilities	58	63
Payments of other long-term liabilities	(713)	(130)
Dividends paid to Company's shareholders	(21,325)	(21,309)
Dividends paid to non-controlling interests	(8)	(4)
Sale of treasury shares	-	68
Acquisition of non-controlling interests	(32)	-
Total cash used in financing activities	(16,540)	(47,374)
Net effect of currency translation in cash	6	(248)
<b>Net decrease in cash and cash equivalents</b>	(2,152)	(6,613)
<b>Cash and cash equivalents at beginning of period</b>	13,482	20,095
<b>Cash and cash equivalents at end of period</b>	11,330	13,482
<b>Supplementary cash flow information</b>		
Total cash paid for interest	5,568	6,680

# DRAFT RESOLUTION

## **Draft Resolution (1):**

**The General Meeting of ČEZ, a. s.** hereby approves the financial statements of ČEZ, a. s. prepared as of December 31, 2016.

## **Draft Resolution (2):**

**The General Meeting of ČEZ, a. s.** hereby approves the consolidated financial statements of CEZ Group prepared as of December 31, 2016.

## **Rationale:**

Pursuant to the respective stipulations of the law and the Company's Articles of Association, the Board of Directors hereby presents both sets of financial statements to the General Meeting for approval. Pursuant to the requirements of the Accounting Act, the financial statements of ČEZ, a. s. and the consolidated financial statements of CEZ Group as of December 31, 2016 were prepared in accordance with International Financial Reporting Standards, discussed by the Board of Directors of ČEZ, a. s., audited by an independent auditor giving the opinions cited in this material, and reviewed by the Supervisory Board of the Company, which concluded that it recommends that the General Meeting approve them.