ČEZ, a. s.

FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS OF DECEMBER 31, 2016

ČEZ, a. s.
BALANCE SHEET
AS OF DECEMBER 31, 2016

in CZK Millions

	Note	2016	2015
Assets			
Property, plant and equipment:			
Plant in service		394,262	346,203
Less accumulated depreciation and impairment		(218,114)	(204,187)
Net plant in service	3	176,148	142,016
Nuclear fuel, at amortized cost	2.8, 3	14,745	12,832
Construction work in progress, net	3	50,337	85,909
Total property, plant and equipment		241,230	240,757
Other non-current assets:			
Restricted financial assets	4	13,290	12,662
Investments and other financial assets, net	5	183,885	178,692
Intangible assets, net	6	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	7	454	2,964
Receivables, net	8	44,413	41,538
Income tax receivable		571	-
Materials and supplies, net		5,291	5,134
Fossil fuel stocks		407	564
Emission rights	9	2,013	1,874
Other financial assets, net	10	43,013	32,489
Other current assets	11	1,050	1,146
Assets classified as held for sale		736	-
Total current assets		97,948	85,709
Total assets		536,934	518,380

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

ČEZ, a. s.
BALANCE SHEET
AS OF DECEMBER 31, 2016

continued

	Note	2016	2015
Equity and liabilities			
Equity:			
Stated capital		53,799	53,799
Treasury shares		(4,246)	(4,246)
Retained earnings and other reserves		151,145	171,016
Total equity	12	200,698	220,569
Non-current liabilities:			
Long-term debt, net of current portion	13	131,960	124,922
Provisions	16	55,006	49,716
Deferred tax liability	28	9,003	11,143
Other long-term liabilities	17	7,019	3,886
Total non-current liabilities		202,988	189,667
Current liabilities:			
Short-term loans	18	7,874	10
Current portion of long-term debt	13	3,484	10,628
Trade and other payables	19	110,410	87,114
Income tax payable		1	165
Provisions	16	3,904	4,195
Accrued liabilities	20	7,575	6,032
Total current liabilities		133,248	108,144
Total equity and liabilities		536,934	518,380

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

ČEZ, a. s.
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016

in CZK Millions

	Note	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
Total revenues and other operating income	21	81,793	83,320
Gains and losses from commodity derivative trading, net	22	(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	3, 6	(15,253)	(14,708)
Impairment of property, plant and equipment and intangible assets		(104)	(788)
Salaries and wages	23	(5,603)	(5,191)
Materials and supplies		(1,419)	(1,354)
Emission rights, net	9	(837)	(964)
Other operating expenses	24	(6,881)	(7,054)
Income before other income (expenses) and income taxes		1,455	8,411
Interest on debt, net of capitalized interest	2.6	(2,530)	(2,857)
Interest on provisions	16	(1,274)	(1,452)
Interest income	25	917	1,086
Foreign exchange rate gains (losses), net		(443)	(474)
Gain on sale of subsidiaries, associates and joint-ventures		428	-
Other financial expenses	26	(14,723)	(5,438)
Other financial income	27	24,632	29,908
Total other income (expenses)		7,007	20,773
Income before income taxes		8,462	29,184
Income taxes	28	372	(1,069)
Net income		8,834	28,115
Net income per share (CZK per share)	31		
Basic		16.5	52.6
Diluted		16.5	52.6

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

ČEZ, a. s.
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016

in CZK Millions

	Note	2016	2015
Net income		8,834	28,115
Other comprehensive income – items that may be reclassified subsequently to statement of income or to assets:			
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	28	1,738	(1,769)
Other comprehensive income, net of tax		(7,408)	7,540
Total comprehensive income		1,426	35,655

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

ČEZ, a. s.
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

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

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

In CZK Millions

	2016	2015
Operating activities:		
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
Investing activities:		
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)

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

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

continued

	2016	2015
Financing activities:		
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)
Net decrease in cash and cash equivalents	(2,510)	(6,547)
Cash and cash equivalents at beginning of period	2,964	9,511
Cash and cash equivalents at end of period	454	2,964

Supplementary cash flow information

Total cash paid for interest	5,554	6,791

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

ČEZ, a. s.
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2016

CONTENT:

1. Description of the Company

ČEZ, a. s. (ČEZ or the Company), business registration number 45274649, is a joint-stock company incorporated on May 6, 1992 under the laws of the Czech Republic in the Commercial Register maintained by the Municipal Court in Prague (Section B, Insert 1581). The Company's registered office is located at Duhová 2/1444, Prague 4, Czech Republic.

The Company is involved primarily in the production, trading and sale of electricity and the related support services and in the production, distribution and sale of heat and sale of gas.

The average number of employees was 4,963 and 5,156 in 2016 and 2015, respectively.

The Czech Republic represented by the Ministry of Finance is a majority shareholder holding 69.8% of the Company's share capital at December 31, 2016. The majority shareholder's share of the voting rights represented 70.3% at the same date.

2. Summary of Significant Accounting Policies

2.1. Financial Statements

These separate financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU.

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

Based on the economic substance of the underlying events and circumstances relevant to the Company, the functional and presentation currency has been determined to be Czech crowns (CZK).

The Company also compiled consolidated IFRS financial statements of the CEZ Group for the same period.

2.2. Changes in Accounting Policies

2.2.1. Adoption of New IFRS Standards in 2016

The accounting policies adopted are consistent with those of the previous financial year, except for as follows. The Company has adopted the following new or amended and endorsed by EU IFRS and IFRIC interpretations as of January 1, 2016:

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception
The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint-venture to its interests in subsidiaries. These amendments did not have impact to the Company's financial statements.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in joint operation
The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. These amendments did not have significant impact to the Company's financial statements.

Amendments to IAS 1 Disclosure Initiative
The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements.

The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statement(s) of profit or loss and OCI and the balance sheet may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- that the share of OCI of associates and joint-ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

These amendments did not have a significant impact to the Company, but assist in applying judgment when meeting the presentation and disclosure requirements.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization
The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. These amendments did not have any impact to the Company given that has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41: Bearer Plants
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants are no longer within the scope of IAS 41. Instead, IAS 16 applies. After initial recognition, bearer plants are measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants remains in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance applies. These amendments did not have any impact to the Company as it does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements
The amendments allow entities to use the equity method to account for investments in subsidiaries, joint-ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they are required to apply this method from the date of transition to IFRS. These amendments did not have any impact on the Company's financial statements.

Annual Improvements to IFRSs 2010 - 2012
In December 2013 the IASB issued a collection of amendments to IAS and IFRS in which they focused on areas of inconsistency in IFRSs and IASs or where the clarification of wording was required. The following standards were amended:

IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 8	Operating Segments
IFRS 13	Fair Value Measurement
IAS 16	Property, Plant and Equipment
IAS 24	Related Party Disclosures
IAS 38	Intangible Assets

Annual Improvements to IFRSs 2012 - 2014
In September 2014 the IASB issued a collection of amendments to IAS and IFRS in which they focused on areas of inconsistency in IFRSs and IASs or where the clarification of wording was required. The following standards were amended:

IFRS 5	Non-Current Assets Held for Sale and Discontinued Operations
IFRS 7	Financial Instruments: Disclosures
IAS 19	Employee Benefits
IAS 34	Interim Financial Reporting

These changes did not have significant impact on the Company's financial statements.

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

The Company 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, 2017 or later. Standards and interpretations most relevant to the Company's activities are detailed below:

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 currently existing in IAS 39: available-for-sale and held-to-maturity. According to IFRS 9 all financial assets and liabilities are initially recognized at fair value plus transaction costs.

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
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.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets and liabilities.

IFRS 14 Regulatory Deferral Accounts
IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the balance sheet and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after January 1, 2016 but was not endorsed by EU yet. This new standard will not have significant impact on the Company's financial statements.

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 16 Leases
The IASB issued in January 2016 new standard, IFRS 16 Leases, which replaces existing IFRS leases requirements and requires lessees to recognize most leases on their balance sheets while

lessor accounting is substantially unchanged. The Company is currently assessing the impact of this new standard on its financial statements.

The new standard will be effective for annual periods beginning on or after 1 January 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 has not yet been endorsed by EU. The Company is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

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 are not expected to have significant impact to the Company's financial statements.

IAS 7 Disclosure Initiative – Amendments to IAS 7
The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after January 1, 2017, with early application permitted. The standard has not yet been endorsed by EU. Application of amendments will result in additional disclosure provided by the Company.

IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to IAS 12
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are effective for annual periods beginning on or after January 1, 2017 with early application permitted. The standard has not yet been endorsed by EU. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have material impact on the Company's financial statements.

IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2
The IASB issued amendments to IFRS 2 Share-based Payment that address 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 amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted. The standard has not yet been endorsed by EU. The Company is assessing the potential effect of the amendments on its financial statements.

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

2.3. 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 Company while determining recoverable amounts for property, plant and equipment and financial assets (see Notes 3 and 5), accounting for the nuclear provisions (see Notes 2.21 and 16.1), provisions for waste storage reclamation (see Note 16.2), fair value of commodity contracts (see Notes 2.18 and 14) and financial derivatives (see Notes 2.17 and 14).

2.4. Revenues and Other Income

The Company recognizes revenue from supplies of electricity and related services based on contract terms. Differences between contracted amounts and actual supplies are settled through the market operator.

Revenues are recognized when it is probable that the economic benefits associated with the transaction will flow to the entity and the revenue can be reliably measured. Sales are recognized net of value added tax and discounts, if any.

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

Revenue from services provided is recognized when the services are rendered.

Dividends earned on investments are recognized when the right of payment has been established.

2.5. Fuel Costs

Fuel costs are expensed as fuel is consumed. Fuel expense includes the amortization of the cost of nuclear fuel (see Note 2.8).

2.6. Interest

The Company 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. Capitalized interest costs amounted to CZK 2,955 million and CZK 3,573 million and the interest capitalization rate was 4.1% and 4.3% in 2016 and 2015, respectively.

2.7. 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 and related accumulated depreciation 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 Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company 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.

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 Company 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.

The Company 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 – 25
Vehicles	8 – 25
Furniture and fixtures	4 – 15

Average depreciable lives based on the functional use of property, plant and equipment are as follows:

	Average life (years)
Hydro plants	
Buildings and structures	45
Machinery and equipment	12
Fossil fuel plants	
Buildings and structures	39
Machinery and equipment	12
Nuclear power plant	
Buildings and structures	38
Machinery and equipment	13

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

Depreciation of plant in service was CZK 15,006 million and CZK 14,453 million for the years ended December 31, 2016 and 2015, which was equivalent to a composite depreciation rate of 4.1% and 4.2%, respectively.

2.8. Nuclear Fuel

Nuclear fuel is stated at original cost, net of accumulated amortization and presented as part of property plant and equipment. Amortization of fuel in the reactor is based on the amount of power generated. Amortization of nuclear fuel charged to fuel expense was CZK 3,120 million and CZK 3,392 million for the years ended December 31, 2016 and 2015, respectively. The amortization of nuclear fuel includes charges in respect of additions to the accumulated provision for interim storage of spent nuclear fuel in the amount of CZK 219 million and CZK 328 million in 2016 and 2015, respectively. The balance of nuclear fuel includes the capitalized portion of the provision for interim storage of nuclear fuel.

2.9. 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 16 years. The intangible assets' residual values, useful lives and methods of amortization are reviewed, and adjusted if appropriate, at each financial year end. Improvements are capitalized.

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 277 million in 2016 and CZK 228 million in 2015.

Intangible assets are tested for impairment 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.

At each reporting date an assessment is made 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 Company 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.

2.10. 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 the Company have been granted emission rights. The Company is 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, the Company is required to remit a number of allowances representing the number of tones of CO_2 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). The Company recognizes a provision to cover emissions made which is measured firstly at the cost of emission rights resulting from hedging strategy, and purchased emission rights and credits up to the level of granted and purchased emission rights and credits held and then at the market price ruling at the balance sheet date.

The Company also holds emission rights for trading purposes. The portfolio of emission rights 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.

At each reporting date, the Company assesses whether there is any indication that emission rights may be impaired. Where an indicator of impairment exists, the Company 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 Emission rights, net.

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

2.11. Investments

Investments are classified into the following categories: held-to-maturity, loans and receivables, held for trading and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity other than loans and receivables originated by the Company are classified as held-to-maturity investments. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held for trading. All other investments, other than loans and receivables originated by the Company, are classified as available-for-sale.

Held-to-maturity investments and loans and receivables are included in non-current assets unless they mature within 12 months of the balance sheet date. Investments held for trading are included in current assets. Available-for-sale investments are classified as current assets if the Company intends to realize them within 12 months of the balance sheet date or if there is no reasonable certainty that the Company will hold the available-for-sale investments for more than 12 months of the balance sheet date.

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

When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

Gains or losses on remeasurement to fair value of available-for-sale investments are recognized directly in other comprehensive income, until the investment is sold or otherwise disposed of, or until it is determined to be impaired. Equity securities classified as available-for-sale investments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost.

The carrying amounts of available-for-sale investments are reviewed at each balance sheet date whether there is objective evidence for impairment. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement – is removed from other comprehensive income and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognized directly in other comprehensive income. In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

Changes in the fair values of trading investments are included in Other financial expenses or Other financial income.

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

Investments in subsidiaries, associates and joint-ventures are carried at cost. Impaired investments are provided for or written off.

Mergers with entities under common control are recorded using a method similar to pooling of interests. Assets and liabilities of the merged entities are included in separate financial statements of the Company at their book values. The difference between the cost of investment in subsidiaries and net assets merged from entities under common control is recorded directly in equity.

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.

2.12. 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. Foreign currency deposits are translated using the exchange rates published as at the balance sheet date.

2.13. Financial Assets Restricted in Use

Restricted balances of cash and other financial assets, which are shown as restricted funds (see Note 4), relate to deposits for funding of nuclear decommissioning liabilities under a Nuclear act, waste storage reclamation under a Waste act 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 Company.

2.14. Receivables, Payables and Accruals

Receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An impairment analysis of receivables is performed by the Company 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 calculation is based on actual incurred historical data of these groups.

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

2.15. 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. At December 31, 2016 and 2015 the provision for obsolescence amounted to CZK 12 million and CZK 28 million, respectively.

2.16. Fossil Fuel Stocks

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

2.17. Derivative Financial Instruments

The Company 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 Investments and other financial assets, net, Other financial assets, net, Other long-term liabilities and Trade and other payables.

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 Company 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 Company 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.

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.

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 equity is immediately transferred to the income statement.

Other derivatives:

Certain derivative instruments do not qualify 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.

2.18. Commodity Contracts

According to IAS 39, 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 Company 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 IAS 39.

Forward purchases and sales for physical delivery of energy are considered to fall outside the scope of application of IAS 39, when the contract concerned is considered to have been entered into as part of the 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 Company's operating requirements;
- the contract cannot be considered as a written option as defined by the standard IAS 39. 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 Company 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 IAS 39.

Commodity contracts which fall under the scope of IAS 39 are carried at fair value with changes in the fair value recognized in the income statement. The Company presents revenues and expenses related to commodity trading net in the line Gains and losses from commodity derivative trading, net.

2.19. Income Taxes

The provision for corporate tax is calculated in accordance with the Czech tax regulations and is based on the income or loss reported under the Czech accounting regulations, increased or decreased by the appropriate permanent and temporary differences (e.g. differences between book and tax depreciation). Income tax due is provided at a rate of 19% for the years ended December 31, 2016 and 2015, 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 2017 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 revers. Deferred tax assets and liabilities are not discounted. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. A deferred tax liability is recognized for all taxable temporary differences

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

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.

2.20. 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.

2.21. Nuclear Provisions

The Company 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 nuclear fuel and irradiated parts of reactors (see Note 16.1).

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, 2016 and 2015 using a long-term real rate of interest of 1.5% per annum, to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the 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 recognized as a component of interest expense. At December 31, 2016 and 2015 the estimate for the effect of inflation is 1%.

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 will become available in 2065 and the process of final disposal of the spent nuclear fuel will then continue until approximately 2084. While the Company 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 interim and permanent fuel storage activities, the ultimate provision requirements could vary significantly from the Company's current estimates.

Changes in a decommissioning liability and in liability for permanent 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.

2.22. 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.

2.23. 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. In case of options which vest immediately, the expense is recognized directly in profit or loss with a corresponding increase in equity. In all other cases 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. In 2016 and 2015 the expense recognized in respect of the share option plan amounted to CZK 22 million and CZK 31 million, respectively.

2.24. Foreign Currency Transactions

Assets and liabilities whose acquisition or production costs were denominated in foreign currencies are translated into Czech crowns using the exchange rate prevailing at the date of the transaction, as published by the Czech National Bank. In the accompanying financial statements, monetary assets and liabilities are translated at the rate of exchange ruling at December 31. 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 available-for-sale equity securities are included in equity.

Exchange rates used as at December 31, 2016 and 2015 for the translation of assets and liabilities denominated in foreign currencies were as follows:

	2016	2015
CZK per 1 EUR	27.020	27.025
CZK per 1 USD	25.639	24.824
CZK per 1 PLN	6.126	6.340
CZK per 1 BGN	13.815	13.819
CZK per 1 RON	5.953	5.976
CZK per 100 JPY	21.907	20.619
CZK per 1 TRY	7.286	8.509

2.25. 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

Net plant in service at December 31, 2016 and 2015 was as follows (in CZK millions):

	Buildings	Plant and Equipment	Land and Other	Total
Cost at January 1, 2015	89,496	253,251	1,499	344,246
Additions	2,167	4,869	26	7,062
Disposals	(78)	(360)	(4)	(442)
Change in capitalized part of the provision	40	2,808	-	2,848
Non-monetary contribution	(1,866)	(5,545)	(95)	(7,506)
Reclassification and other	(28)	23	-	(5)
Cost at December 31, 2015	89,731	255,046	1,426	346,203
Additions	9,742	34,185	32	43,959
Disposals	(58)	(424)	(18)	(500)
Change in capitalized part of the provision	(117)	5,611	-	5,494
Non-monetary contribution	(108)	(522)	(264)	(894)
Reclassification and other	(2)	2	-	-
Cost at December 31, 2016	99,188	293,898	1,176	394,262
Accumulated depreciation and impairment at January 1, 2015	(42,844)	(153,489)	-	(196,333)
Depreciation	(2,360)	(12,093)	-	(14,453)
Net book value of assets disposed	(19)	(42)	-	(61)
Disposals	78	360	-	438
Non-monetary contribution	1,347	5,058	-	6,405
Reclassification and other	(18)	21	-	3
Impairment losses recognized	(130)	(65)	(3)	(198)
Impairment losses reversed	12	-	-	12
Accumulated depreciation and impairment at December 31, 2015	(43,934)	(160,250)	(3)	(204,187)
Depreciation	(2,438)	(12,568)	-	(15,006)
Net book value of assets disposed	(6)	-	-	(6)
Disposals	58	424	3	485
Non-monetary contribution	79	522	-	601
Reclassification and other	10	(10)	-	-
Impairment losses recognized	(1)	-	-	(1)
Accumulated depreciation and impairment at December 31, 2016	(46,232)	(171,882)	-	(218,114)
Net plant in service at December 31, 2015	45,797	94,796	1,423	142,016
Net plant in service at December 31, 2016	52,956	122,016	1,176	176,148

At December 31, 2016 construction work in progress contains mainly refurbishments performed on Ledvice, Prunéřov, Temelín and Dukovany power plants. In 2016 the Company recognized impairment of construction work in progress in the amount of CZK 102 million. At December 31, 2016 the impairment of construction work in progress amounted to CZK 856 million.

Company’s production 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 production assets is characterized by portfolio management in the deployment and maintenance of various production resources 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 electricity 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 electricity prices in Germany (as German electricity prices have a major impact on the development of wholesale electricity 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 impact of EE price changes on the results of the ČEZ Value test is further influenced by a number of external factors, including, in particular, changes in the structure and availability of production resources 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, including the future Market design and fundamental impact of nuclear sources attenuation in 2020–2021, the impact of the EU approved 2030 climate and energy targets and the impact of the Czech Republic State Energy Concept. The model was constructed for a period adequate to the useful life of the production resources, i.e. for a period that significantly exceeds the period for which commodities, including wholesale electricity price contracts, are traded on public liquid markets. In addition, the electricity market is subject to structural changes and major industry regulation; consequently, complete abandonment of market-based pricing mechanisms and implementation of alternative, centrally regulated payments for the availability and supply of production resources within the period of useful life of the production resources 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 electricity prices, such as varying deployment of the production portfolio depending on the development of electricity market prices, emission allowances and variable production costs and, in a longer perspective, also the development of fixed costs reflecting the development of the production resources 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 production portfolio as at December 31, 2016. The borderline values of the interval of all three main tested factors represent test results arising from the use of two price scenarios.

The basic scenario considers long-term EE prices at the level used to prepare Company’s business plan for 2017–2021. The plan was prepared in the fourth quarter 2016 whereas the plan was based on the active market parameters observed in August and September (electricity 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 electricity contracts traded on EEX for the period covering the horizon of the business plan and with regard to links between German and Czech electricity 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. The second basic price scenario assumes EE prices lower by about 30% compared to the basic scenario and also contains decrease of relevant expenses.

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 3.1 – 4.0 billion on the ČEZ Value test results. Future cash flows of the model were discounted using a 3.9% rate. A change of 0.1 percentage point in the discount rate, with other parameters remaining unchanged, would change the ČEZ Value by CZK 3.4 – 4.5 billion. A change of 1% in the CZK/EUR exchange rate, with other parameters remaining unchanged, would result in a change of approximately CZK 3.1 – 4.2 billion in the ČEZ Value.

Movements in nuclear fuel in 2016 and 2015 were as follows (in CZK millions):

	2016	2015
Opening balance as of January 1	12,832	10,898
Additions	4,768	4,934
Amortization	(2,901)	(3,064)
Change in capitalized part of the provision	46	64
Closing balance as of December 31	14,745	12,832

4. Restricted Financial Assets

Restricted financial assets at December 31, 2016, and 2015 consist of the following (in CZK millions):

	2016	2015
Restricted debt securities available-for-sale	10,890	10,098
Restricted cash	2,400	2,564
Total restricted financial assets	13,290	12,662

At December 31, 2016 and 2015 the most important restricted financial assets are restricted funds related to accumulated provision for nuclear decommissioning totaled CZK 12,988 million and CZK 12,356 million, respectively, and restricted funds related to accumulated provision for waste storage and reclamation totaled CZK 243 million and CZK 247 million, respectively.

5. Investments and Other Financial Assets, Net

Investments and other financial assets, net at December 31, 2016 and 2015 consist of the following (in CZK millions):

	2016	2015
Equity securities and interests, net	166,744	160,371
Debt securities available-for-sale	4,151	675
Loans granted, net	7,767	9,402
Derivatives	4,154	7,006
Long-term receivable from settlement with Albania	557	1,111
Other long-term receivables	12	15
Term deposits	500	-
Financial assets in progress	-	112
Total investments and other financial assets	183,885	178,692

Movements in impairment provisions against equity securities and interest and provisions against loans (in CZK millions):

	2016		2015	
	Equity securities and interests	Loans	Equity securities and interests	Loans
Opening balance	25,238	433	23,681	150
Additions	5,635	-	1,642	283
Derecognition of impaired financial assets	(10)	-	(85)	-
Transfer to assets classified as held for sale	(559)	-	-	-
Reclassification	5,345	(433)	-	-
Closing balance	35,649	-	25,238	433

In 2016 the Company created an impairment provisions against the investments in CEZ Bulgarian Investments B.V. in the amount of CZK 384 million and Akcez Enerji A.S. in the amount of CZK 2,728 million in connection with reduction of recoverable amount. In addition the impairment provisions against the investment in CEZ Distributie S.A. was increased by CZK 469 million, CEZ Razpredelenie Bulgaria AD by CZK 169 million, ŠKODA PRAHA Invest s.r.o. by CZK 199 million, TEC Varna EAD by CZK 425 million and in the companies, that own the Romanian wind parks (Tomis Team S.A. and Ovidiu Development S.R.L.) by CZK 1,196 million due to the reduction of recoverable amount.

In 2016 the Company created an impairment provision against the investment in CEZ Finance Ireland Ltd. in connection with the payment of liquidation proceeds in the amount of CZK 10 million. In the same year the Company derecognized this impairment provision due to liquidation of company.

In connection with the sale of Elektrárna Tisová the impairment provision was increased by CZK 55 million and the financial asset was reclassified to asset held for sale.

In 2016 the Company reclassified the impairment provisions against the loans granted to Tomis Team, Ovidiu Development and M.W.Team Invest in the amount of CZK 5,345 million to impairment provisions against the investments due to the capitalization of loans into stated capital of Tomis Team and Ovidiu Development. The reclassified impairment provisions represent impairment provisions against short term loans (CZK 4,912 million, see Note 8) and impairment provisions against long term loans (CZK 433 millions).

In 2015 the Company created an impairment provisions against the investments in ŠKODA PRAHA Invest s.r.o. in the amount of CZK 532 million, Elektrárna Tisová, a.s. in the amount of CZK 504 million and Elektrárna Dětmarovice, a.s. in the amount of CZK 434 million in connection with reduction of recoverable amount. In addition the impairment provision against the investment in CEZ Razpredelenie Bulgaria AD was increased by CZK 172 million due to the reduction of recoverable amount.

In 2015 the Company derecognized impairment provision against the investment in CEZ Trade Albania Sh.P.K. in the amount of CZK 85 million due to liquidation of company.

In 2015 the Company also increased an impairment provision against the loans granted to M.W. Team Invest S.R.L. by CZK 283 million.

Loans granted and other long-term receivables, net at December 31, 2016, and 2015 are contracted to mature in the following periods after the balance sheet date (in CZK millions):

	2016		2015	
	Loans granted	Other long-term receivables	Loans granted	Other long-term receivables
Due in 1 – 2 years	1,364	565	1,148	566
Due in 2 – 3 years	1,090	1	1,179	557
Due in 3 – 4 years	1,337	2	1,123	2
Due in 4 – 5 years	1,075	1	1,726	1
Due in more than 5 years	2,901	-	4,226	-
Total	7,767	569	9,402	1,126

Loans granted and other long-term receivables, net at December 31, 2016 and 2015 have following effective interest rate structure (in CZK millions):

	2016		2015	
	Loans granted	Other long-term receivables	Loans granted	Other long-term receivables
Less than 2.00%	-	569	86	1,126
From 2.00% to 2.99%	4,379	-	6,128	-
From 3.00% to 3.99%	2,621	-	3,188	-
From 4.00% to 4.99%	223	-	-	-
Over 4.99%	544	-	-	-
Total	7,767	569	9,402	1,126

Loans granted and other long-term receivables, net at December 31, 2016 and 2015 according to currencies (in CZK millions):

	2016		2015	
	Loans granted	Other long-term receivables	Loans granted	Other long-term receivables
CZK	6,961	8	8,172	9
EUR	39	560	900	1,115
PLN	767	1	330	-
USD	-	-	-	2
Total	7,767	569	9,402	1,126

Changes of Equity Securities and Interests in 2016

The share capital of Energocentrum Vítkovice, a. s. was increased by non-monetary contribution of part of business.

Part of the assets of the company ČEZ Teplárenská, a.s. was spin off and transferred to successor companies ČEZ Energetické služby, s.r.o. and Elektrárna Tisová, a.s., which was reflected by reallocation of the cost of these investments.

The share capital of Ovidiu Development S.R.L. was increased by the capitalization of receivable. Due to the contribution to the share capital the share in the company increased to 99.98%.
The share capital of Tomis Team S.A. was increased by the capitalization of receivable and by cash contribution.

The share capital of ČEZ ESCO, a.s. was increased by the capitalization of receivable and non-monetary contribution of 100% share in Energocentrum Vítkovice, a. s.

The equities of CEZ Srbija d.o.o., ČEZ ESCO, a.s. and ŠKODA PRAHA Invest s.r.o. were increased by cash contribution outside the registered capital.

The share capital of Inven Capital, investiční fond, a.s. was increased by cash and non-monetary contribution.

The share capitals of Elektrárna Dukovany II, a. s. and Elektrárna Temelín II, a. s. were increased by cash contribution and non-monetary contribution of part of business.

As at November 30, 2016 the Company disposed of its interest in CM European Power Slovakia s.r.o.

CEZ Silesia B.V. was deleted from the Commercial Register due to the merger with CEZ Poland Distribution B.V.

The subsidiary CEZ Finance Ireland Ltd. was liquidated on December 30, 2016.

Changes of Equity Securities and Interests in 2015

Three subsidiaries Energocentrum Vítkovice, a. s. (100%), Elektrárna Dukovany II, a. s. (100%) and Elektrárna Temelín II, a. s. (100%) were established.

Part of the assets of the company ČEZ Obnovitelné zdroje, s.r.o. was spin off and transferred to successor companies ČEZ Korporátní služby, s.r.o. and ČEZ OZ uzavřený investiční fond a.s.

The share capital of ČEZ ESCO, a.s. was increased by cash and non-monetary contributions of 100% share in ČEZ Energetické služby, s.r.o. and non-controlling share in ČEZ Energo, s.r.o.

The equity of ČEZ Nová energetika, a.s. was increased by cash contribution. Due to the subsequent sale of 4 shares to ČEZ Teplárenská, a.s. the share in the company decreased to 93.65%.

The share capital of Elektrárna Tisová, a.s. was increased by non-monetary contribution of part of business.

The equity of ŠKODA PRAHA Invest s.r.o. was increased by cash contribution outside the registered capital.

The valuation of TEC Varna EAD was decreased due to the payment of share premium. The valuation of Veolia Energie ČR, a.s. was decreased due to purchase price reduction under the terms agreed in the contract.

Two subsidiaries CEZ Bosna i Hercegovina d.o.o. and CEZ Trade Albania Sh.P.K. were deleted from the Commercial Register.

The following table summarizes investments in subsidiaries, associates and joint-ventures and other ownership interests:

As at December 31, 2016 Company	Country	Interest, net in CZK millions	% interest[5)]	Dividends in CZK millions
ČEZ Distribuce, a. s.	Czech Republic	31,415	100.00	4,629
Energotrans, a.s.	Czech Republic	17,986	100.00	1,054
Severočeské doly a.s.	Czech Republic	14,312	100.00	1,707
CEZ Distributie S.A.[1)]	Romania	13,020	100.00	120
ČEZ OZ uzavřený investiční fond a.s.	Czech Republic	12,878	99.60	1,199
CEZ Poland Distribution B.V. [2)]	Netherlands	9,255	100.00	-
Akenerji Elektrik Üretim A.S.	Turkey	9,043	37.36	-
Tomis Team S.A.	Romania	7,388	100.00	-
Ovidiu Development S.R.L.	Romania	7,298	99.98	-
CEZ Razpredelenie Bulgaria AD	Bulgaria	6,529	67.00	-
ČEZ Teplárenská, a.s.	Czech Republic	4,626	100.00	200
ČEZ ICT Services, a. s.	Czech Republic	4,236	100.00	300
ČEZ Bohunice a.s.	Czech Republic	3,592	100.00	-
ČEZ Korporátní služby, s.r.o.	Czech Republic	3,494	100.00	472
Veolia Energie ČR, a.s.	Czech Republic	2,732	15.00	198
ČEZ ESCO, a.s.	Czech Republic	2,246	100.00	-
Elektrárna Temelín II, a. s.	Czech Republic	2,042	100.00	-
Inven Capital, investiční fond, a.s. [3)]	Czech Republic	2,004	99.80	-
Elektrárna Dětmarovice, a.s.	Czech Republic	1,762	100.00	185
Elektrárna Počerady, a.s.	Czech Republic	1,280	100.00	-
ČEZ Distribuční služby, s.r.o.	Czech Republic	1,145	100.00	240
ČEZ Prodej, s.r.o.	Czech Republic	1,100	100.00	4,600
Elektrárna Dukovany II, a. s.	Czech Republic	1,048	100.00	-
ŠKODA PRAHA a.s.	Czech Republic	996	100.00	-
CM European Power International B.V.	Netherlands	948	50.00	-
CEZ Vanzare S.A.	Romania	817	100.00	-
CEZ Bulgarian Investments B.V.	Netherlands	589	100.00	-
CEZ Slovensko, s.r.o.	Slovakia	557	100.00	-
Energetické centrum s.r.o.	Czech Republic	515	100.00	-
TEC Varna EAD	Bulgaria	426	100.00	-
Akcez Enerji A.S.	Turkey	306	50.00	-
ÚJV Řež, a. s.	Czech Republic	185	52.46	-
LOMY MOŘINA spol. s r.o.	Czech Republic	169	51.05	14
CEZ Romania S.A.	Romania	92	100.00	-
ŠKODA PRAHA Invest s.r.o.	Czech Republic	81	100.00	-
ČEZ Inženýring, s.r.o.	Czech Republic	80	100.00	-
ČEZ Obnovitelné zdroje, s.r.o.	Czech Republic	73	100.00	-
CEZ Hungary Ltd.	Hungary	73	100.00	-
VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s.	Czech Republic	55	39.25	-
CEZ Polska sp. z o.o.	Poland	50	0.67	-
CEZ Trade Polska sp. z o.o.	Poland	45	100.00	-
CITELUM, a.s.	Czech Republic	43	48.00	-
CEZ Srbija d.o.o.	Serbia	36	100.00	-
Other		177		252
Total, net		166,744		15,170

As at December 31, 2015 Company	Country	Interest, net in CZK millions	% interest[5]	Dividends in CZK millions
ČEZ Distribuce, a. s.	Czech Republic	31,415	100.00	4,942
Energotrans, a.s.	Czech Republic	17,986	100.00	881
Severočeské doly a.s.	Czech Republic	14,312	100.00	1,707
CEZ Distributie S.A.[1]	Romania	13,489	100.00	3,714
ČEZ OZ uzavřený investiční fond a.s.	Czech Republic	12,878	99.60	1,587
Akenerji Elektrik Üretim A.S.	Turkey	9,043	37.36	-
CEZ Finance Ireland Ltd.	Ireland	9,025	100.00	-
CEZ Razpredelenie Bulgaria AD	Bulgaria	6,698	67.00	-
CEZ Poland Distribution B.V.[2]	Netherlands	4,887	100.00	-
ČEZ Teplárenská, a.s.	Czech Republic	4,678	100.00	240
CEZ Silesia B.V.[2]	Netherlands	4,368	100.00	4,621
ČEZ ICT Services, a. s.	Czech Republic	4,236	100.00	550
ČEZ Bohunice a.s.	Czech Republic	3,592	100.00	-
ČEZ Korporátní služby, s.r.o.	Czech Republic	3,494	100.00	369
Akcez Enerji A.S.	Turkey	3,034	50.00	-
Veolia Energie ČR, a.s.	Czech Republic	2,732	15.00	307
Elektrárna Dětmarovice, a.s.	Czech Republic	1,762	100.00	650
ČEZ ESCO, a.s.	Czech Republic	1,304	100.00	-
Elektrárna Počerady, a.s.	Czech Republic	1,280	100.00	-
ČEZ Distribuční služby, s.r.o.	Czech Republic	1,145	100.00	927
ČEZ Prodej, s.r.o.	Czech Republic	1,100	100.00	3,801
ŠKODA PRAHA a.s.	Czech Republic	996	100.00	-
CEZ Bulgarian Investments B.V.	Netherlands	973	100.00	-
CM European Power International B.V.	Netherlands	948	50.00	-
TEC Varna EAD	Bulgaria	851	100.00	-
CEZ Vanzare S.A.	Romania	817	100.00	468
Elektrárna Tisová, a.s.[4]	Czech Republic	740	100.00	-
CEZ Slovensko, s.r.o.	Slovakia	557	100.00	-
Energetické centrum s.r.o.	Czech Republic	515	100.00	-
CM European Power Slovakia s.r.o.	Slovakia	295	24.50	108
ÚJV Řež, a. s.	Czech Republic	185	52.46	-
LOMY MOŘINA spol. s r.o.	Czech Republic	169	51.05	20
CEZ Romania S.A.	Romania	92	100.00	-
ČEZ Inženýring, s.r.o.	Czech Republic	80	100.00	-
ČEZ Obnovitelné zdroje, s.r.o.	Czech Republic	73	100.00	-
CEZ Hungary Ltd.	Hungary	73	100.00	-
ČEZ Nová energetika, a.s.[3]	Czech Republic	59	93.65	-
VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s.	Czech Republic	55	39.25	-
Elektrárna Dukovany II, a. s.	Czech Republic	50	100.00	-
Elektrárna Temelín II, a. s.	Czech Republic	50	100.00	-
CEZ Polska sp. z o.o.	Poland	50	0.67	-
CEZ Trade Polska sp. z o.o.	Poland	45	100.00	-
CITELUM, a.s.	Czech Republic	43	48.00	-
Other		197		207
Total, net		160,371		25,099

1) The company name CEZ Distributie S.A. was changed to Distributie Energie Oltenia S.A. in January 2017.
2) In 2016 CEZ Silesia B.V. merged with the succession company CEZ Poland Distribution B.V. with the legal effective date of August 18, 2016.
3) In 2016 the company ČEZ Nová energetika, a.s. was renamed into Inven Capital, investiční fond, a.s.
4) The share in Elektrárna Tisová, a.s. was in 2016 reclassified to assets classified as held for sale. On January 2, 2017 the Company disposed of its 100% interest in company Elektrárna Tisová, a.s. (Note 33).
5) Equity interest is equal to voting rights.

6. Intangible Assets, Net

Intangible assets, net, at December 31, 2016 and 2015 were as follows (in CZK millions):

	Software	Rights and Other	Total 2016	Total 2015
Cost at January 1	1,715	1,240	2,955	2,759
Additions	78	12	90	254
Disposals	(6)	(9)	(15)	(56)
Non-monetary contribution	(14)	-	(14)	(7)
Reclassification and other	-	-	-	5
Cost at December 31	1,773	1,243	3,016	2,955
Accumulated amortization at January 1	(1,375)	(1,083)	(2,458)	(2,264)
Amortization	(200)	(46)	(246)	(255)
Disposals	6	9	15	56
Non-monetary contribution	14	-	14	7
Reclassification and other	-	-	-	(2)
Accumulated amortization at December 31	(1,555)	(1,120)	(2,675)	(2,458)
Net intangible assets at December 31	218	123	341	497

At December 31, 2016 and 2015, intangible assets presented in the balance sheet included intangible assets in progress of CZK 240 million and CZK 63 million, respectively.

7. Cash and Cash Equivalents

The composition of cash and cash equivalents at December 31, 2016 and 2015 is as follows (in CZK millions):

	2016	2015
Cash on hand and current accounts with banks	454	1,965
Short-term securities	-	999
Total	454	2,964

At December 31, 2016 and 2015, cash and cash equivalents included foreign currency deposits of CZK 334 million and CZK 79 million, respectively.

The weighted average interest rate on short-term securities at December 31, 2015 was 0.4%. For the years 2016 and 2015 the weighted average interest rate was 0.2% and 0.4%, respectively.

8. Receivables, Net

The composition of receivables, net, at December 31, 2016 and 2015 is as follows (in CZK millions):

	2016	2015
Trade receivables	35,597	31,112
Short-term loans granted	2,133	10,104
Taxes and fees excl. income tax	1,137	631
Other receivables	8,209	6,873
Allowance for doubtful receivables	(2,663)	(7,182)
Total	44,413	41,538

The information about receivables from related parties is included in Note 29.

At December 31, 2016 and 2015 the ageing analysis of receivables, net is as follows (in CZK millions):

	2016	2015
Not past due	44,281	41,443
Past due but not impaired [1)]:		
less than 3 months	121	92
3 – 6 months	1	2
6 – 12 months	10	1
Total	44,413	41,538

1) Past due, but not impaired receivables include net receivables, for which the Company recorded an impairment allowance based on the collective assessment of impairment of receivables that are not individually significant.

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

	2016	2015
Opening balance	7,182	4,361
Additions	401	2,875
Reversals	(8)	(52)
Non-monetary contribution	-	(1)
Reclassification	(4,912)	-
Currency translation difference	-	(1)
Closing balance	2,663	7,182

As of December 31, 2015 allowances include the allowance of CZK 4,912 million for loans granted to Tomis Team S.A., Ovidiu Development S.R.L. and M.W. Team Invest S.R.L. In 2016 the allowance for loans was reclassified to impairment provisions against equity securities (see Note 5).

9. 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 Company during 2016 and 2015 (in CZK millions):

	2016		2015	
	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	19,547	1,252	23,527	3,524
Emission rights granted	6,632	-	8,510	-
Non-monetary contribution to subsidiaries	(156)	-	(1,157)	-
Settlement of prior year actual emissions with register	(15,244)	(1,255)	(16,467)	(3,541)
Emission rights purchased	8,769	1,191	7,031	1,269
Emission rights sold	(2,935)	-	(1,936)	-
Emission credits purchased	30	-	39	-
Granted and purchased emission rights and credits at December 31	16,643	1,188	19,547	1,252
Emission rights and credits held for trading:				
Emission rights and credits held for trading at January 1	2,792	622	3,220	651
Emission rights purchased	22,555	3,371	14,354	3,058
Emission rights sold	(20,697)	(3,052)	(14,792)	(3,183)
Emission credits purchased	-	-	419	3
Emission credits sold	-	-	(409)	(3)
Fair value adjustment	-	(116)	-	96
Emission rights and credits held for trading at December 31	4,650	825	2,792	622

In 2016 and 2015, total emissions of greenhouse gases made by the Company amounted to an equivalent of 16,228 thousand tons and 15,244 thousand tons of CO_2, respectively. At December 31, 2016 and 2015 the Company recognized a provision for CO_2 emissions in total amount of CZK 1,117 million and CZK 1,252 million, respectively (see Notes 2.10 and 16).

The following table shows the impact of transactions with emission rights and credits on income for the year ended December 31, 2016 and 2015 (in CZK millions):

	2016	2015
Gain on sales of granted emission rights	394	384
Net gain (loss) from trading with emission rights and credits	150	(192)
Net gain (loss) from derivatives	(145)	17
Remitted emission rights and credits	(1,255)	(3,541)
Fair value adjustment	(116)	96
Creation of provision for CO_2 emissions	(1,117)	(1,252)
Settlement of provision for CO_2 emissions	1,252	3,524
Net loss from emission rights and credits	(837)	(964)

10. Other Financial Assets, Net

Other financial assets, net, at December 31, 2016 and 2015 were as follows (in CZK millions):

	2016	2015
Derivatives	38,022	20,907
Equity securities available-for-sale	-	946
Debt securities available-for-sale	6	-
Term deposits	2,040	6,783
Debt securities held-to-maturity	2,945	3,853
Total	43,013	32,489

Derivatives balance comprises mainly positive fair value of commodity trading contracts.

Equity securities available-for-sale balance includes investments in money market fund.

Debt securities held-to-maturity are denominated in CZK and at December 31, 2016 and 2015 bear an interest of 0.4% and 0.3%, respectively.

The Company 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 untill 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.

11. Other Current Assets

Other current assets at December 31, 2016 and 2015 were as follows (in CZK millions):

	2016	2015
Prepayments	574	653
Advances granted	476	493
Total	1,050	1,146

12. Equity

As at December 31, 2016 and 2015, 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 2016 and 2015 (in pieces):

	2016	2015
Number of treasury shares at beginning of period	3,755,021	3,875,021
Sales of treasury shares	-	(120,000)
Number of treasury shares at end of period	3,755,021	3,755,021

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

Declared dividends per share before tax were CZK 40 in 2016 and 2015. Dividends from 2016 profit will be declared at the general meeting which will be held in the first half of 2017.

Capital management

The primary objective of the Company'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 Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Company 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 Company also monitors capital using a total debt to total capital ratio. The Company'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 including goodwill and less gain (or loss) on sale of property, plant and equipment. The Company 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 equity and debt securities available-for-sale, short-term debt securities held-to-maturity, long-term debt securities available-for-sale and both short-term and long-term deposits. Total capital is total equity attributable to equity holders of the parent plus total debt.

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

	2016	2015
Total long-term debt	159,473	157,271
Total short-term loans	8,343	223
Total debt	167,816	157,494
Less:		
Cash and cash equivalents	(11,226)	(13,482)
Highly liquid financial assets:		
Short-term equity securities available-for-sale	-	(946)
Short-term debt securities available-for-sale	(7)	-
Short-term debt securities held-to-maturity	(2,945)	(3,852)
Short-term deposits	(2,040)	(7,315)
Long-term deposits	(500)	-
Long-term debt securities available-for-sale	(4,646)	(676)
Total net debt	146,452	131,223
Income before income taxes and other income (expenses)	26,114	28,961
Depreciation and amortization	28,978	28,619
Impairment of property, plant and equipment and intangible assets including goodwill	3,114	7,685
Gains and losses on sale of property, plant and equipment	(124)	(161)
EBITDA	58,082	65,104
Total equity attributable to equity holders of the parent	256,812	267,893
Total debt	167,816	157,494
Total capital	424,628	425,387
Net debt to EBITDA ratio	2.52	2.02
Total debt to total capital ratio	39.5%	37.0%

13. Long-term Debt

Long-term debt at December 31, 2016 and 2015 was as follows (in CZK millions):

	2016	2015
3.005% Eurobonds, due 2038 (JPY 12,000 million)	2,621	2,466
2.845% Eurobonds, due 2039 (JPY 8,000 million)	1,748	1,645
5.000% Eurobonds, due 2021 (EUR 750 million)	20,211	20,203
6M Euribor + 1.25% Eurobonds, due 2019 (EUR 50 million)	1,348	1,347
4.875% Eurobonds, due 2025 (EUR 750 million)	20,193	20,188
4.500% Eurobonds, due 2020 (EUR 750 million)	20,165	20,140
2.160% Eurobonds, due in 2023 (JPY 11,500 million)	2,519	2,372
4.600% Eurobonds, due in 2023 (CZK 1,250 million)	1,248	1,248
3.625% Eurobonds, due 2016 (EUR 340 million)	-	9,176
2.150%*IR CPI Eurobonds, due 2021 (EUR 100 million) [1)]	2,702	2,702
4.102% Eurobonds, due 2021 (EUR 50 million)	1,348	1,347
4.375% Eurobonds, due 2042 (EUR 50 million)	1,326	1,325
4.500% Eurobonds, due 2047 (EUR 50 million)	1,325	1,325
4.383% Eurobonds, due 2047 (EUR 80 million)	2,162	2,162
3.000% Eurobonds, due 2028 (EUR 500 million)	13,337	13,325
3M Euribor + 0.35% Eurobonds, due 2017 (EUR 45 million)	1,207	1,198
3M Euribor + 0.55% Eurobonds, due 2018 (EUR 200 million)	5,383	-
4.250% U.S. bonds, due 2022 (USD 289 million)	7,353	7,111
5.625% U.S. bonds, due 2042 (USD 300 million)	7,613	7,368
4.500% Registered bonds, due 2030 (EUR 40 million)	1,061	1,060
4.750% Registered bonds, due 2023 (EUR 40 million)	1,072	1,070
4.700% Registered bonds, due 2032 (EUR 40 million)	1,075	1,075
4.270% Registered bonds, due 2047 (EUR 61 million)	1,622	1,621
3.550% Registered bonds, due 2038 (EUR 30 million)	807	807
Total bonds and debentures	119,446	122,281
Less: Current portion	(1,207)	(9,176)
Bonds and debentures, net of current portion	118,239	113,105
Bank loans (less than 2% p.a.)	15,998	13,269
Less: Current portion	(2,277)	(1,452)
Bank loans, net of current portion	13,721	11,817
Total long-term debt	135,444	135,550
Less: Current portion	(3,484)	(10,628)
Total long-term debt, net of current portion	131,960	124,922

[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 Company.

All long-term debt is recognized in original currencies while the related hedging derivatives are recognized using the method described in Note 2.17.

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

	2016	2015
Current portion	3,484	10,628
Between 1 and 2 years	7,660	3,127
Between 2 and 3 years	3,625	1,929
Between 3 and 4 years	22,442	3,275
Between 4 and 5 years	26,284	22,069
Thereafter	71,949	94,522
Total long-term debt	135,444	135,550

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

	2016		2015	
	Foreign currency	CZK	Foreign currency	CZK
EUR	4,158	112,342	4,194	113,340
USD	584	14,966	583	14,479
JPY	31,443	6,888	31,440	6,483
CZK	-	1,248	-	1,248
Total long-term debt		135,444		135,550

Long-term debt with floating interest rates exposes the Company to interest rate risk. The following table summarizes long-term debt with floating rates of interest by contractual repricing dates at December 31, 2016 and 2015 without considering interest rate hedging (in CZK millions):

	2016	2015
Floating rate long-term debt		
with interest rate fixed from 1 to 3 months	6,590	1,198
with interest rate fixed from 3 months to 1 year	17,346	14,615
Total floating rate long-term debt	23,936	15,813
Fixed rate long-term debt	111,508	119,737
Total long-term debt	135,444	135,550

Fixed rate long-term debt exposes the Company 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 Notes 14 and 15.

14. 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 Company 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 instruments at December 31, 2016 and 2015 are as follows (in CZK millions):

	Category	2016 Carrying amount	2016 Fair value	2015 Carrying amount	2015 Fair value
Assets:					
Investments:					
Restricted debt securities available-for-sale	AFS	10,890	10,890	10,098	10,098
Restricted cash	LaR	2,400	2,400	2,564	2,564
Term deposits	LaR	500	500	-	-
Equity securities available-for-sale	AFS	2,732	2,732	2,732	2,732
Debt securities available-for-sale	AFS	4,151	4,151	675	675
Other long-term financial assets, net	LaR	8,336	8,336	10,640	10,640
Current assets:					
Receivables	LaR	43,276	43,276	40,907	40,907
Cash and cash equivalents	LaR	454	454	2,964	2,964
Debt securities held-to-maturity	HTM	2,945	2,945	3,853	3,853
Term deposits	LaR	2,040	2,040	6,783	6,783
Equity securities available-for-sale	AFS	-	-	946	946
Debt securities available-for-sale	AFS	6	6	-	-
Other current assets	LaR	476	476	493	493
Liabilities:					
Long-term debt including the current portion	AC	(135,444)	(156,096)	(135,550)	(153,841)
Short-term loans	AC	(7,874)	(7,874)	(10)	(10)
Current liabilities	AC	(72,918)	(72,918)	(70,401)	(70,401)
Derivatives:					
Cash flow hedges:					
Short-term receivables	HFT	-	-	548	548
Long-term receivables	HFT	2,684	2,684	6,242	6,242
Short-term liabilities	HFT	-	-	(111)	(111)
Long-term liabilities	HFT	(4,740)	(4,740)	(626)	(626)
Total cash flow hedges		(2,056)	(2,056)	6,053	6,053
Commodity derivatives:					
Short-term receivables	HFT	37,622	37,622	19,504	19,504
Long-term receivables	HFT	530	530	-	-
Short-term liabilities	HFT	(37,246)	(37,246)	(16,056)	(16,056)
Total commodity derivatives		906	906	3,448	3,448
Other derivatives:					
Short-term receivables	HFT	400	400	855	855
Long-term receivables	HFT	940	940	764	764
Short-term liabilities	HFT	(246)	(246)	(741)	(741)
Long-term liabilities	HFT	(1,029)	(1,029)	(1,331)	(1,331)
Total other derivatives		65	65	(453)	(453)

LaR Loans and receivables
AFS Available-for-sale investments
HTM Held-to-maturity instruments
HFT Held for trading or hedging instruments
AC Financial liabilities at amortized cost

14.1. Fair Value Hierarchy

The Company 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 Company 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 2016 and 2015.

As at December 31, 2016, the fair value hierarchy was the following (in CZK millions):

Assets measured at fair value

	Total	Level 1	Level 2	Level 3
Commodity derivatives	38,152	567	37,585	-
Cash flow hedges	2,684	442	2,242	-
Other derivatives	1,340	122	1,218	-
Restricted debt securities available-for-sale	10,890	10,890	-	-
Debt securities available-for-sale	4,157	4,157	-	-

Liabilities measured at fair value

	Total	Level 1	Level 2	Level 3
Commodity derivatives	(37,246)	(2,127)	(35,119)	-
Cash flow hedges	(4,740)	(983)	(3,757)	-
Other derivatives	(1,275)	-	(1,275)	-

Assets and liabilities for which fair value is disclosed

	Total	Level 1	Level 2	Level 3
Debt securities held-to-maturity	2,945	-	2,945	-
Term deposits	2,540	-	2,540	-
Long-term debt including the current portion	(156,096)	(105,963)	(50,133)	-

As at December 31, 2015, the fair value hierarchy was the following (in CZK millions):

Assets measured at fair value

	Total	Level 1	Level 2	Level 3
Commodity derivatives	19,504	672	18,832	-
Cash flow hedges	6,790	2,259	4,531	-
Other derivatives	1,619	13	1,606	-
Restricted debt securities available-for-sale	10,098	10,098	-	-
Debt securities available-for-sale	675	675	-	-
Equity securities available-for-sale	946	946	-	-

Liabilities measured at fair value

	Total	Level 1	Level 2	Level 3
Commodity derivatives	(16,056)	(1,808)	(14,248)	-
Cash flow hedges	(737)	(2)	(735)	-
Other derivatives	(2,072)	(488)	(1,584)	-

Assets and liabilities for which fair value is disclosed

	Total	Level 1	Level 2	Level 3
Short-term debt securities held-to-maturity	3,853	-	3,853	-
Term deposits	6,783	-	6,783	-
Long-term debt including the current portion	(153,841)	(113,530)	(40,311)	-

The Company enters into derivative financial instruments with various counterparties, principally large power and utility group 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.

14.2. 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, 2016 and 2015 (in CZK millions):

	2016		2015	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Derivatives	42,175	(43,260)	27,913	(18,864)
Other financial instruments *	29,591	(25,909)	25,051	(26,682)
Collaterals paid (received) **	1,341	(1,222)	1,309	(536)
Gross financial assets / liabilities	73,107	(70,391)	54,273	(46,082)
Assets / liabilities set off under IAS 32	-	-	-	-
Amounts presented in the balance sheet	73,107	(70,391)	54,273	(46,082)
Effect of master netting agreements	(59,466)	59,466	(34,355)	34,355
Net amount after master netting agreements	13,641	(10,925)	19,918	(11,727)

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

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

When trading with derivative instruments, the Company 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.

Short-term derivative assets are included in the balance sheet in Other financial assets, net, long-term derivative assets in Investments and other financial assets, net, long-term derivative liabilities in Other long-term liabilities and short-term derivative liabilities in Trade and other payables.

15. 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, closing 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. Risks of Investment Projects are also managed and monitored based on unified quantification of all kinds of risk according to Group methodology.

<u>Risk management organization</u>

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.

<u>Overview and methods of risk management</u>

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 at least once a month 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, investment risks.

The development of 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).

15.1. Qualitative description of ČEZ, a. s. risks associated with financial instruments

Commodity risks

The development of electricity, emission allowances, coal and gas prices is a key risk factor of the ČEZ 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 ČEZ'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 (the potential risk is managed on the VaR basis).

Market financial risks (currency and interest risks)

The development of foreign exchange rates and interest rates is a significant risk factor of the ČEZ 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 (including operational and investment foreign currency flows).

Credit risks

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).

Credit risk from balances with banks and financial institutions is managed by the 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.

Company's maximum exposure to credit risk to receivables and other financial instruments as at 31 December 2016 and 2015 is the carrying value of each class of financial assets except for financial guarantees.

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 credit risks in the aggregate annual Profit@Risk limit is quantified and evaluated.

Liquidity risks

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 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 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 ČEZ.

15.2. Quantitative description of ČEZ, a. s. 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 IAS 39 (the underlying commodities in the Company‘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 Income Statement.

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

	2016	2015
Monthly VaR (95%) – impact of changes in commodity prices	887	555

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;
- the relevant currency positions reflect all significant foreign-currency flows 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 Income Statement.

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

	2016	2015
Monthly currency VaR (95% confidence)	28	93

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 these assumptions:

- parallel shift of the yield curves (+10bp) was selected as the indicator of interest risk;
- the Income Statement 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;
- the source of market interest rates is mainly IS Reuters and IS Bloomberg.

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

	2016	2015
IR sensitivity* to parallel yield curve shift (+10bp)	(11)	-

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

Credit exposure

Credit exposure from provided guarantees at December 31 (in CZK millions):

	2016	2015
Guarantees provided to subsidiaries and joint-ventures	17,239	21,502

At December 31, 2016 and 2015, the guarantees provided to subsidiaries amounted to CZK 14,027 million and CZK 18,504 million, respectively and guarantees provided to joint-ventures amounted to CZK 3,212 million and CZK 2,998 million, respectively. The guarantees provided represent mainly guarantees issued in connection with concluded contracts, bank loans and other obligations of the respective companies. The beneficiary may claim the guarantee only under the conditions of the letter of guarantee, usually in relation to non-payment of amounts arising out of the contract or failure to fulfil the obligations arising out of the contract. The companies whose liabilities are subject to the guarantees currently comply with their obligations. The guarantees have various maturities. As of December 31, 2016 and 2015, some of the guarantees could be called until March 2027 and July 2028 at the latest, respectively.

Liquidity risk

Contractual maturity profile of financial liabilities at December 31, 2016 (in CZK millions):

	Bonds and debentures	Loans	Derivatives *	Trade and other payables	Guarantees issued **
Less than 1 year	6,190	2,302	242,596	72,918	17,239
Between 1 and 2 years	10,352	2,299	32,844	-	-
Between 2 and 3 years	6,314	2,295	12,371	-	-
Between 3 and 4 years	25,115	2,291	6,298	-	-
Between 4 and 5 years	28,298	2,034	9,880	-	-
Thereafter	94,038	4,895	45,963	-	-
Total	170,307	16,116	349,952	72,918	17,239

Contractual maturity profile of financial liabilities at December 31, 2015 (in CZK millions):

	Bonds and debentures	Loans	Derivatives *	Trade and other payables	Guarantees issued **
Less than 1 year	14,445	1,495	260,895	70,401	21,502
Between 1 and 2 years	6,130	1,966	27,968	-	-
Between 2 and 3 years	4,934	1,959	8,457	-	-
Between 3 and 4 years	6,284	1,952	3,679	-	-
Between 4 and 5 years	25,056	1,945	5,998	-	-
Thereafter	120,959	4,116	55,754	-	-
Total	177,808	13,433	362,751	70,401	21,502

* Contractual maturities for derivatives represent contractual cash out-flows of these instruments, but at the same time the Company will receive corresponding consideration. For fair values of derivatives see Note 14.

** 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 Company as at December 31, 2016 and 2015 amounted to CZK 21.7 billion and CZK 30.5 billion, respectively.

15.3. Hedge accounting

The Company 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 2017 to 2021. The hedging instruments as at December 31, 2016 and 2015 are the EUR denominated liabilities from the issued Eurobonds and bank loans in the total amount of EUR 3.9 billion and EUR 2.9 billion, respectively, and currency forward contracts and swaps. The fair value of these derivative hedging instruments (currency forward contracts and swaps) amounted to CZK 1,531 million and CZK 1,244 million at December 31, 2016 and 2015, respectively.

The Company also enters into cash flow hedges of highly probable future sales of electricity in the Czech Republic from 2018 to 2022. The hedging instruments are the futures and forward contracts electricity sales in Germany. The fair value of these derivative hedging instruments amounted to CZK (3,588) million and CZK 4,263 million at December 31, 2016 and 2015, respectively.

The Company applied cash flow hedges of future highly probable purchases of emission allowances which had been expected to occur in 2016. The hedging instruments as at December 31, 2015 were the futures contracts for the purchase of allowances equivalent to 7.3 million tons of CO_2 emissions. The fair value of these derivative hedging instruments amounted to CZK 546 million at December 31, 2015. The final settlement of the purchase of these hedged emission allowances was in 2016.

In 2016 and 2015 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, Gains and losses from commodity derivative trading, net, Emission rights, net, Other financial expenses and Other financial income.
In 2016 and 2015 the Company recognized in profit or loss the ineffectiveness that arises from cash flow hedges in the amount of CZK (29) million and CZK (791) million, respectively. The ineffectiveness in 2016 and 2015 was mainly caused by the fact that the hedged cash flows are no more highly probable to occur.

16. Provisions

The following is a summary of the provisions at December 31, 2016 and 2015 (in CZK millions):

	2016			2015		
	Long-term	Short-term	Total	Long-term	Short-term	Total
Nuclear provisions	53,296	1,917	55,213	47,848	2,033	49,881
Provision for waste storage reclamation	827	88	915	986	86	1,072
Provision for CO_2 emissions (see Note 9)	-	1,117	1,117	-	1,252	1,252
Provision for employee benefits	883	117	1,000	882	97	979
Provision for environmental claims	-	387	387	-	446	446
Provision for legal and commercial disputes	-	273	273	-	273	273
Other provisions	-	5	5	-	8	8
Total	55,006	3,904	58,910	49,716	4,195	53,911

16.1. 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. The Czech parliament has enacted a Nuclear Act (“Act”) which defines certain obligations for the decontamination and dismantling (“decommissioning”) of nuclear facilities and 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 2035 for Dukovany and 2042 for Temelín. A 2013 Dukovany and a 2014 Temelín decommissioning cost study estimate that nuclear decommissioning will cost CZK 22.4 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 legislation 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 legislation at 50 CZK per MWh produced at nuclear power plants till 2016 and at 55 CZK per MWh produced at nuclear power plants since 2017. In 2016 and 2015, respectively, the payments to the nuclear account amounted to CZK 1,205 million and CZK 1,342 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 Company has established provisions as described in Note 2.21, to recognize its estimated liabilities for decommissioning and spent fuel storage.

The following is a summary of the nuclear provisions for the years ended December 31, 2016 and 2015 (in CZK millions):

	Accumulated provisions			
	Nuclear Decommis-sioning	Spent fuel storage		
		Interim	Long-term	Total
Balance at December 31, 2014	16,593	7,365	23,129	47,087
Movements during 2015:				
Discount accretion and effect of inflation	498	221	694	1,413
Provision charged to income statement	-	544	-	544
Effect of change in estimate charged to income statement	-	22	-	22
Effect of change in estimate added to fixed assets (see Note 2.21)	2,167	64	642	2,873
Current cash expenditures	-	(716)	(1,342)	(2,058)
Balance at December 31, 2015	19,258	7,500	23,123	49,881
Movements during 2016:				
Discount accretion and effect of inflation	481	188	578	1,247
Provision charged to income statement	-	421	-	421
Effect of change in estimate credited to income statement	-	(72)	-	(72)
Effect of change in estimate added to (deducted from) fixed assets (see Note 2.21)	(1,137)	46	6,748	5,657
Current cash expenditures	-	(716)	(1,205)	(1,921)
Balance at December 31, 2016	18,602	7,367	29,244	55,213

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 2016, the Company recorded a change in estimate for interim storage of spent nuclear fuel in connection with the change of anticipated future storage costs, in estimate for the nuclear decommissioning in connection with the change of timing of the costs for decommissioning expenditure in Dukovany Nuclear Power Plant and in estimate for permanent storage of spent nuclear fuel because of the change in expected production in nuclear power plants and in the amount of the contribution paid to the state nuclear account from the year 2017 on.

In 2015 the Company recorded the 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 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 and change in discount rate.

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.

16.2. Provision for Waste Storage Reclamation

The following table shows the movements of the provision for waste storage reclamation for the years ended December 31, 2016 and 2015 (in CZK millions):

Balance at December 31, 2014	1,418
Movements during 2015:	
Discount accretion and effect of inflation	39
Effect of change in estimate added to tangible fixed assets	40
Current cash expenditures	(41)
Non-monetary contribution to Elektrárna Tisová, a.s.	(384)
Balance at December 31, 2015	1,072
Movements during 2016:	
Discount accretion and effect of inflation	27
Effect of change in estimate deducted from tangible fixed assets	(117)
Current cash expenditures	(67)
Balance at December 31, 2016	915

17. Other Long-term Liabilities

Other long-term liabilities at December 31, 2016 and 2015 are as follows (in CZK millions):

	2016	2015
Derivatives	5,769	1,957
Long-term deposit	1,250	1,929
Total	7,019	3,886

18. Short-term Loans

Short-term loans at December 31, 2016 and 2015 were as follows (in CZK millions):

	2016	2015
Short-term bank loans	7,744	-
Bank overdrafts	130	10
Total	7,874	10

Interest on short-term loans is variable. The weighted average interest rate was 0.12% and 0.02% at December 31, 2016 and 2015, respectively. For the years 2016 and 2015 the weighted average interest rate was 0.08%.

19. Trade and Other Payables

Trade and other payables at December 31, 2016 and 2015 were as follows (in CZK millions):

	2016	2015
Trade payables	27,126	24,565
Derivatives	37,492	16,908
Payables from Group cashpooling and similar intra-group loans	43,815	41,906
Other	1,977	3,735
Total	110,410	87,114

The information about payables to related parties is included in Note 29.

20. Accrued Liabilities

Accrued liabilities at December 31, 2016 and 2015 consist of the following (in CZK millions):

	2016	2015
Accrued interest	2,170	2,354
Unbilled goods and services	4,979	3,268
Taxes and fees, except income tax	373	319
Deferred income	53	91
Total	7,575	6,032

21. Revenues and Other Operating Income

Revenues and other operating income for the years ended December 31, 2016 and 2015 were as follows (in CZK millions):

	2016	2015
Sale of electricity:		
Electricity sales - domestic:		
ČEZ Prodej, s.r.o.	19,106	22,210
POWER EXCHANGE CENTRAL EUROPE, a.s.	4,766	4,920
Other revenues from domestic customers	23,309	26,122
Other	5,688	3,092
Total electricity sales - domestic	52,869	56,344
Electricity sales - foreign	15,025	11,566
Effect of hedging - presales of electricity (Note 15.3)	2,989	4,055
Effect of hedging - currency risk hedging (Note 15.3)	(1,957)	(3,297)
Sales of ancillary and other services	3,536	3,967
Total sales of electricity	72,462	72,635
Sales of gas, heat and other revenues:		
Sales of gas	4,549	5,190
Sales of heat	1,903	2,069
Other revenues	1,674	1,829
Total sales of gas, heat and other revenues	8,126	9,088
Other operating income:	1,205	1,597
Total revenues and other operating income	81,793	83,320

22. Gains and Losses from Commodity Derivative Trading, Net

Gains and losses from commodity derivative trading for the years ended December 31, 2016 and 2015 as follows (in CZK millions):

	2016	2015
Electricity derivative trading:		
Sales - domestic	3,986	5,278
Sales - foreign	136,126	165,038
Purchases - domestic	(3,392)	(4,768)
Purchases - foreign	(132,479)	(160,421)
Effect of hedging - currency risk hedging (Note 15.3)	(27)	(76)
Changes in fair value of derivatives	(4,127)	(4,611)
Total gains from electricity derivative trading, net	87	440
Other commodity derivative trading:		
Loss from gas derivative trading	(221)	(228)
Loss from oil derivative trading	(12)	(714)
Loss from coal derivative trading	(92)	(2)
Total gains and losses from derivative trading, net	(238)	(504)

23. Salaries and Wages

Salaries and wages for the years ended December 31, 2016 and 2015 were as follows (in CZK millions):

	2016		2015	
	Total	Key management personnel [1)]	Total	Key management personnel [1)]
Salaries and wages including remuneration of board members	(3,934)	(217)	(3,642)	(224)
Share options	(22)	(22)	(31)	(31)
Social and health security	(1,258)	(36)	(1,169)	(37)
Other personal expenses	(389)	(22)	(349)	(16)
Total	(5,603)	(297)	(5,191)	(308)

1) Members of Supervisory Board, Audit Committee and Board of Directors and selected managers of departments with group field of activity. The remuneration of former members of company bodies is included in personal expenses.

The members of Board of Directors and selected managers were entitled to use company cars for both business and private purposes in addition to the personal expenses.

If the Company terminates a contract with a member of Board of Directors before his/her four-year term of office expires (except for resignation), the Director is entitled to a severance pay. Method of determination of the amount of the severance payment and conditions are stipulated in the respective contract of the member of Board of Directors.

At December 31, 2016 and 2015, the aggregate number of share options granted to members of Board of Directors and selected managers was 2,512 thousand and 2,391 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.

In 2016 and 2015 the Company recognized a compensation expense of CZK 22 million and CZK 31 million, respectively, related to the granted options.

The following table shows changes during 2016 and 2015 in the number of granted share options and the weighted average exercise price of these options:

	Number of share options			
	Board of Directors 000s	Selected managers 000s	Total 000s	Weighted average exercise price (CZK per share)
Share options at December 31, 2014	1,827	748	2,575	643.14
Options granted	550	175	725	541.45
Options exercised [1)]	(100)	(20)	(120)	565.54
Options forfeited	(457)	(332)	(789)	749.16
Share options at December 31, 2015 [2)]	1,820	571	2,391	581.18
Options granted	550	185	735	423.59
Options forfeited	(390)	(224)	(614)	646.36
Share options at December 31, 2016 [2)]	1,980	532	2,512	519.16

1) In 2015 the weighted average share price at the date of the exercise for the options exercised was CZK 635.79.

2) At December 31, 2016 and 2015 the number of exercisable options was 1,107 thousand and 988 thousand, respectively. The weighted average exercise price of the exercisable options was CZK 566.62 per share and CZK 602.30 per share at December 31, 2016 and 2015, 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:

	2016	2015
Weighted average assumptions:		
Dividend yield	4.6%	4.2%
Expected volatility	24.1%	22.8%
Mid-term risk-free interest rate	0.3%	0.3%
Expected life (years)	1.4	1.4
Share price (CZK per share)	422.7	523.1
Weighted average grant-date fair value of options (CZK per 1 option)	36.3	36.7

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.

At December 31, 2016 and 2015 the exercise prices of outstanding options (in thousands pieces) were in the following ranges:

	2016	2015
CZK 350 – 550 per share	1,565	910
CZK 550 – 750 per share	947	1,481
Total	2,512	2,391

The options granted which were outstanding as at December 31, 2016 and 2015 had an average remaining contractual life of 1.8 years and 1.9 years, respectively.

24. Other Operating Expenses

Other operating expenses for the years ended December 31, 2016 and 2015 consist of the following (in CZK millions):

	2016	2015
Services	(5,704)	(5,407)
Change in provisions and valuation allowances	1,536	1,628
Taxes and fees	(1,531)	(1,677)
Write-off of bad debts	(2)	(28)
Travel expense	(70)	(61)
Gifts	(154)	(120)
Loss on sale of property, plant and equipment	-	(11)
Loss on sale of material	(59)	-
Fines and interest fees for delays	-	(323)
Other	(897)	(1,055)
Total	(6,881)	(7,054)

Taxes and fees include the contributions to the nuclear account (see Note 16). The settlement of the provision for long-term spent fuel storage is accounted for in the amount of contributions to nuclear account. Settlement of provision for long-term spent fuel storage is included in Change in provisions and valuation allowances.

25. Interest Income

Interest income for each category of financial instruments for the years ended December 31, 2016 and 2015 was as follows (in CZK millions):

	2016	2015
Loans and receivables	515	614
Held-to-maturity investments	38	26
Available-for-sale investments	179	214
Bank accounts	185	232
Total	917	1,086

26. Other Financial Expenses

Other financial expenses for the years ended December 31, 2016 and 2015 consist of the following (in CZK millions):

	2016	2015
Impairment of financial investments	(5,635)	(4,491)
Loss on sale of available-for-sale financial assets	(12)	-
Costs of buy back of bonds	-	(843)
Liquidation of CEZ Finance Ireland Ltd.	(9,016)	-
Other	(60)	(104)
Total	(14,723)	(5,438)

27. Other Financial Income

Other financial income for the years ended December 31, 2016 and 2015 consist of the following (in CZK millions):

	2016	2015
Dividends received	15,170	25,099
Derivative gains	306	419
Gains on sale of available-for-sale financial assets	67	422
Refunded gift tax on emission rights [1)]	-	3,807
Liquidation of CEZ Finance Ireland Ltd.	9,034	-
Other	55	161
Total	24,632	29,908

[1)] In November 2015 the Company was refunded part of the gift tax on emission allowances paid in 2011 and 2012 based on the decisions of Appellate Tax Directorate.

28. Income Taxes

The Company calculated corporate income tax in accordance with the Czech tax regulations at the rate of 19% in 2016 and 2015.

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 potential effect on reported income.

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

	2016	2015
Current income tax charge	(28)	(1,312)
Adjustments in respect of current income tax of previous periods	(2)	(6)
Deferred income taxes	402	249
Total	372	(1,069)

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

	2016	2015
Income before income taxes	8,462	29,184
Statutory income tax rate	19%	19%
"Expected" income tax expense	(1,608)	(5,545)
Tax effect of:		
Non-deductible provisions and allowances, net	(1,098)	(1,060)
Non-deductible expenses related to shareholdings	(18)	(16)
Non-taxable income from dividends	2,878	4,765
Non-deductible share based payment expense	(4)	(6)
Non-taxable gain (loss) on sale of subsidiary	63	(23)
Gift tax on emission allowances refund	-	723
Adjustments in respect of current income tax of previous periods	(2)	(6)
Other non-deductible items, net	161	99
Income tax	372	(1,069)
Effective tax rate	(4)%	4%

Deferred income tax liability, net, at December 31, 2016 and 2015 was calculated as follows (in CZK millions):

	2016	2015
Nuclear provisions	8,813	7,894
Other provisions	630	676
Allowances	781	667
Deferred tax recognized in equity	1,768	28
Other temporary differences	169	119
Total deferred tax assets	12,161	9,384
Tax depreciation in excess of financial statement depreciation	(20,332)	(19,707)
Deferred tax recognized in equity	(197)	(196)
Other temporary differences	(635)	(624)
Total deferred tax liability	(21,164)	(20,527)
Total deferred tax liability, net	(9,003)	(11,143)

Movements in net deferred tax liability, net, in 2016 and 2015 were as follows (in CZK millions):

	2016	2015
Opening balance	11,143	9,623
Deferred tax recognized in profit or loss	(343)	(227)
Deferred tax from non-monetary contribution to subsidiaries recognized in profit or loss	(59)	(22)
Deferred tax recognized in other comprehensive income	(1,738)	1,769
Closing balance	9,003	11,143

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

	2016			2015		
	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 recognized in equity	(7,438)	1,413	(6,025)	11,922	(2,265)	9,657
Cash flow hedges reclassified to income statement	(1,632)	310	(1,322)	(1,954)	371	(1,583)
Cash flow hedges reclassified to assets	(85)	16	(69)	(230)	43	(187)
Change in fair value of available-for-sale financial assets recognized in equity	9	(1)	8	(429)	82	(347)
Total	(9,146)	1,738	(7,408)	9,309	(1,769)	7,540

29. Related Parties

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

At December 31, 2016 and 2015, the receivables from related parties and payables to related parties were as follows (in CZK millions):

	Receivables		Payables	
	2016	2015	2016	2015
Baltic Green Construction sp. z o.o.	569	302	-	-
CEZ Bulgaria EAD	36	103	1	2
CEZ Bulgarian Investments B.V.	-	-	340	370
CEZ Distributie S.A.	36	3,524	-	-
CEZ Hungary Ltd.	191	312	23	49
CEZ Chorzów S.A.	279	168	-	1
CEZ International Finance B.V.	-	-	1,523	1,383
CEZ MH B.V.	-	-	2,890	2,511
CEZ Poland Distribution B.V. 1)	732	108	2	2,334
CEZ Polska sp. z o.o.	1	3	1,445	843
CEZ Romania S.A.	13	179	83	712
CEZ Skawina S.A.	240	228	90	101
CEZ Slovensko, s.r.o.	502	852	85	8
CEZ Trade Polska sp. z o.o.	190	129	8	6
CM European Power Slovakia s.r.o. 2)	-	494	-	-
ČEZ Bohunice a.s.	-	-	194	198
ČEZ Distribuce, a. s.	8,133	9,294	8,126	7,488
ČEZ Distribuční služby, s.r.o.	5	11	5,305	5,128
ČEZ Energetické produkty, s.r.o.	13	18	305	249
ČEZ ENERGOSERVIS spol. s r.o.	163	18	498	232
ČEZ ESCO, a.s.	2	-	178	339
ČEZ ICT Services, a. s.	62	89	959	634
ČEZ Inženýring, s.r.o.	1	1	140	125
ČEZ Korporátní služby, s.r.o.	15	12	713	753
ČEZ Obnovitelné zdroje, s.r.o.	8	12	241	149
ČEZ OZ uzavřený investiční fond a.s.	72	-	-	311
ČEZ Prodej, s.r.o.	3,729	4,140	9,726	12,003
ČEZ Teplárenská, a.s.	259	177	557	309
ČEZ Zákaznické služby, s.r.o.	1	2	129	83
Eco-Wind Construction S.A.	267	419	2	-
Elektrárna Dětmarovice, a.s.	334	349	1,776	1,398
Elektrárna Dukovany II, a. s.	15	-	302	-
Elektrárna Počerady, a.s.	717	302	7,124	6,167
Elektrárna Temelín II, a. s.	11	-	326	-
Elektrárna Tisová, a.s.	70	62	715	246
Energetické centrum, s.r.o.	80	104	25	17
Energocentrum Vítkovice, a. s.	88	-	94	8
Energotrans, a.s.	279	332	740	303
Inven Capital, investiční fond, a.s. 3)	1	336	912	24
M. W. Team Invest S.R.L.	-	877	-	-
Ovidiu Development S.R.L.	-	7,830	40	28
PRODECO, a.s.	-	-	457	72
Revitrans, a.s.	166	129	263	81
SD-Kolejová doprava, a.s.	1	1	275	216
Severočeské doly a.s.	14	212	720	643
ŠKODA PRAHA Invest s.r.o.	184	623	1,114	1,121
Telco Pro Services, a. s.	4	9	182	244
Tomis Team S.A.	-	237	59	48
ÚJV Řež, a. s.	2	1	413	185
Other	259	340	305	237
Total	17,744	32,339	49,405	47,359

The following table provides the total amount of transactions (sales and purchases), which were entered into with related parties in 2016 and 2015 (in CZK millions):

	Sales to related parties		Purchases from related parties	
	2016	2015	2016	2015
CEZ Bulgaria EAD	26	151	1	1
CEZ Distributie S.A.	303	304	-	-
CEZ Hungary Ltd.	1,156	1,672	11	7
CEZ Chorzów S.A.	277	195	-	6
CEZ Romania S.A.	73	122	-	-
CEZ Skawina S.A.	240	302	1,057	1,184
CEZ Slovensko, s.r.o.	2,759	3,206	47	26
CEZ Srbija d.o.o.	23	244	95	285
CEZ Trade Bulgaria EAD	40	123	161	205
CEZ Trade Polska sp. z o.o.	2,063	1,858	38	47
CEZ Vanzare S.A.	501	473	-	-
ČEZ Distribuce, a. s.	466	472	62	127
ČEZ Distribuční služby, s.r.o.	39	73	-	1
ČEZ Energetické produkty,s.r.o.	13	13	570	493
ČEZ Energetické služby, s.r.o.	15	15	15	89
ČEZ Energo, s.r.o.	-	17	-	251
ČEZ ENERGOSERVIS spol. s r.o.	32	35	1,145	963
ČEZ ICT Services, a. s.	53	62	1,113	1,303
ČEZ Inženýring, s.r.o.	11	12	142	161
ČEZ Korporátní služby, s.r.o.	63	78	512	512
ČEZ Obnovitelné zdroje, s.r.o.	2	3	235	267
ČEZ Prodej, s.r.o.	24,018	27,613	1,403	2,034
ČEZ Teplárenská, a.s.	1,649	1,829	206	183
Elektrárna Dětmarovice, a.s.	627	1,011	2,429	3,392
Elektrárna Počerady, a.s.	5,505	3,012	7,456	5,113
Elektrárna Tisová, a.s.	606	131	1,385	340
Energocentrum Vítkovice, a. s.	101	-	116	-
Energotrans, a.s.	1,000	1,255	1,218	1,223
LOMY MOŘINA spol. s r.o.	-	-	189	168
MARTIA a.s.	5	4	229	69
OSC, a.s.	-	-	119	129
Ovidiu Development S.R.L.	103	221	405	307
SD-Kolejová doprava, a.s.	7	16	849	885
Severočeské doly a.s.	65	82	3,971	4,393
ŠKODA PRAHA Invest s.r.o.	277	10	5,668	5,090
Tomis Team S.A.	77	89	484	604
ÚJV Řež, a. s.	3	3	757	389
Other	278	333	186	150
Total	42,476	45,039	32,274	30,397

[1] In 2016 CEZ Silesia B.V. merged with the succession company CEZ Poland Distribution B.V. with the legal effective date of August 18, 2016.
[2] The Company disposed of its interest in CM European Power Slovakia s.r.o. in 2016.
[3] In 2016 the company ČEZ Nová energetika, a. s. was renamed to Inven Capital, investiční fond, a.s.

The Company and some of its subsidiaries are included in the cash-pool system. Payables to subsidiaries related to cash-pooling and similar borrowings are included in Trade and other payables (see Note 19).

Information about compensation of key management personnel is included in Note 23.

30. Segment Information

The Company is involved in the generation and sale of electricity and trading in electricity which represents a single operating segment. The Company operates mainly in the European Union markets. The Company has not identified any other separate operating segments.

31. Earnings per Share

	2016	2015
Numerator – basic and diluted (CZK millions)		
Net income	8,834	28,115
Denominator (thousands shares)		
Basic:		
Weighted average shares outstanding	534,235	534,193
Dilutive effect of share options	7	84
Diluted:		
Adjusted weighted average shares	534,242	534,277
Net income per share (CZK per share)		
Basic	16.5	52.6
Diluted	16.5	52.6

32. Commitments and Contingencies

Investment Program

The Company is engaged in a continuous construction program, currently estimated as at December 31, 2016 over the next five years as follows (in CZK billion):

2017	10.6
2018	7.9
2019	9.5
2020	11.0
2021	12.0
Total	51.0

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 Company 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, 2016 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 is liable for up to CZK 8 billion per incident. The Nuclear Act limits the liability for damage caused by other 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 the 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 Company 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 Company.

33. Events after the Balance Sheet Date

On January 2, 2017 the Company transferred of its 100% interest in the company Elektrárna Tisová, a.s. to Sokolovská uhelná, právní nástupce, a.s.

In January 2017 the Company selected the winner of the tender for the sale of its housing assets in Prague-Písnice. The sale is expected to take place in the first half of 2017.

These financial statements have been authorized for issue on March 20, 2017.

Daniel Beneš Chairman of Board of Directors	Martin Novák Vice-chairman of Board of Directors