

CEZ GROUP

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS OF MARCH 31, 2017

CEZ GROUP
CONSOLIDATED BALANCE SHEET
AS OF MARCH 31, 2017

in CZK Millions

	Note	March 31, 2017	December 31, 2016
Assets			
Property, plant and equipment:			
Plant in service		776,322	775,181
Less accumulated depreciation and impairment		(425,969)	(418,981)
Net plant in service		350,353	356,200
Nuclear fuel, at amortized cost		14,032	14,892
Construction work in progress		58,906	55,803
Total property, plant and equipment		423,291	426,895
Other non-current assets:			
Investment in joint-ventures		3,677	5,309
Restricted financial assets		18,779	19,011
Investments and other financial assets, net		14,883	14,460
Intangible assets, net		22,088	21,983
Deferred tax assets		1,317	1,596
Total other non-current assets		60,744	62,359
Total non-current assets		484,035	489,254
Current assets:			
Cash and cash equivalents		18,366	11,226
Receivables, net		57,080	56,331
Income tax receivable		2,269	1,181
Materials and supplies, net		7,629	7,520
Fossil fuel stocks		595	996
Emission rights		4,555	3,958
Other financial assets, net		38,463	56,501
Other current assets		3,623	3,227
Assets classified as held for sale		32	647
Total current assets		132,612	141,587
Total assets		616,647	630,841

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

CEZ GROUP
CONSOLIDATED BALANCE SHEET
AS OF MARCH 31, 2017

continued

	Note	March 31, 2017	December 31, 2016
Equity and liabilities			
Equity:			
Equity attributable to equity holders of the parent:			
Stated capital		53,799	53,799
Treasury shares		(4,246)	(4,246)
Retained earnings and other reserves		217,009	207,259
Total equity attributable to equity holders of the parent		266,562	256,812
Non-controlling interests		4,654	4,548
Total equity		271,216	261,360
Long-term liabilities:			
Long-term debt, net of current portion	4	136,580	142,265
Provisions		66,548	66,360
Deferred tax liabilities		22,233	20,213
Other long-term liabilities		9,060	11,203
Total long-term liabilities		234,421	240,041
Current liabilities:			
Short-term loans	5	8,377	8,343
Current portion of long-term debt	4	22,478	17,208
Trade and other payables		59,792	80,516
Income tax payable		71	392
Provisions		8,140	8,160
Accrued liabilities		12,152	14,251
Liabilities associated with assets classified as held for sale		-	570
Total current liabilities		111,010	129,440
Total equity and liabilities		616,647	630,841

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CEZ GROUP
CONSOLIDATED STATEMENT OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2017

in CZK Millions

	Note	1-3/2017	1-3/2016
Sales of electricity and related services		43,862	42,992
Sales of gas, coal, heat and other revenues		8,508	8,395
Other operating income		452	496
Total revenues and other operating income		52,822	51,883
Gains and losses from commodity derivative trading, net		1,533	1,477
Fuel		(3,633)	(3,555)
Purchased power and related services		(23,500)	(21,436)
Repairs and maintenance		(586)	(605)
Depreciation and amortization		(7,497)	(7,069)
Impairment of property, plant and equipment and intangible assets including goodwill		(1)	(2)
Salaries and wages		(4,645)	(4,358)
Materials and supplies		(1,070)	(960)
Emission rights, net		173	187
Other operating expenses		(1,941)	(2,595)
Income before other income (expenses) and income taxes		11,655	12,967
Interest on debt, net of capitalized interest		(931)	(557)
Interest on provisions		(407)	(373)
Interest income		67	76
Foreign exchange rate gains (losses), net		(100)	48
Other financial expenses		(29)	(391)
Other financial income		799	89
Share of profit (loss) from joint-ventures		(393)	332
Total other income (expenses)		(994)	(776)
Income before income taxes		10,661	12,191
Income taxes		(1,987)	(2,235)
Net income		8,674	9,956
Net income attributable to:			
Equity holders of the parent		8,569	9,876
Non-controlling interests		105	80
Net income per share attributable to equity holders of the parent (CZK per share)			
Basic		16.0	18.5
Diluted		16.0	18.5

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CEZ GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2017

in CZK Millions

	Note	1-3/2017	1-3/2016
Net income		8,674	9,956
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		1,787	1,636
Cash flow hedges reclassified to statement of income		722	595
Change in fair value of available-for-sale financial assets recognized in equity		(1,097)	1,691
Available-for-sale financial assets reclassified from equity		(36)	(1)
Translation differences - subsidiaries		239	132
Translation differences - joint-ventures		(113)	(53)
Translation differences reclassified from equity		-	(67)
Share on other equity movements of joint-ventures		26	20
Deferred tax related to other comprehensive income	6	(352)	(441)
Net other comprehensive income that may be reclassified to statement of income or to assets in subsequent periods		1,176	3,512
Total comprehensive income, net of tax		<u>9,850</u>	<u>13,468</u>
Total comprehensive income attributable to:			
Equity holders of the parent		9,744	13,386
Non-controlling interests		106	82

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CEZ GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2017

in CZK Millions

	Note	Attributable to equity holders of the parent						Non-controlling interests	Total equity
		Stated capital	Treasury shares	Translation difference	Cash flow hedge reserve	Available-for-sale and other reserves	Retained earnings	Total	
December 31, 2015		53,799	(4,246)	(9,500)	(86)	3,242	224,684	267,893	272,155
Net income		-	-	-	-	-	9,876	9,876	9,956
Other comprehensive income		-	-	10	1,807	1,673	20	3,510	3,512
Total comprehensive income		-	-	10	1,807	1,673	9,896	13,386	13,468
Share options		-	-	-	-	6	-	6	6
Transfer of forfeited share options within equity		-	-	-	-	(6)	6	-	-
Acquisition of subsidiaries		-	-	-	-	-	-	9	9
March 31, 2016		<u>53,799</u>	<u>(4,246)</u>	<u>(9,490)</u>	<u>1,721</u>	<u>4,915</u>	<u>234,586</u>	<u>281,285</u>	<u>285,638</u>
December 31, 2016		53,799	(4,246)	(10,779)	(7,499)	7,839	217,698	256,812	261,360
Net income		-	-	-	-	-	8,569	8,569	8,674
Other comprehensive income		-	-	124	2,032	(1,017)	36	1,175	1,176
Total comprehensive income		-	-	124	2,032	(1,017)	8,605	9,744	9,850
Share options		-	-	-	-	6	-	6	6
Transfer of forfeited share options within equity		-	-	-	-	(1)	1	-	-
March 31, 2017		<u>53,799</u>	<u>(4,246)</u>	<u>(10,655)</u>	<u>(5,467)</u>	<u>6,827</u>	<u>226,304</u>	<u>266,562</u>	<u>271,216</u>

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

CEZ GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2017

in CZK Millions

	Note	1-3/2017	1-3/2016
Operating activities:			
Income before income taxes		10,661	12,191
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization		7,497	7,069
Amortization of nuclear fuel		923	955
Gain on non-current asset retirements, net		(153)	(37)
Foreign exchange rate losses (gains), net		100	(48)
Interest expense, interest income and dividend income, net		863	481
Provisions		85	(1,278)
Impairment of property, plant and equipment and intangible assets including goodwill		1	2
Valuation allowances and other adjustments		(362)	(223)
Share of (profit) loss from joint-ventures		393	(332)
Changes in assets and liabilities:			
Receivables		(245)	2,946
Materials, supplies and fossil fuel stocks		316	1,165
Receivables and payables from derivatives		(3,104)	(293)
Other current assets		(783)	1,971
Trade and other payables		1,453	(6,071)
Accrued liabilities		(3,114)	(1,162)
Cash generated from operations		14,531	17,336
Income taxes paid		(1,504)	(2,044)
Interest paid, net of capitalized interest		(424)	(214)
Interest received		76	85
Net cash provided by operating activities		12,679	15,163
Investing activities:			
Acquisition of subsidiaries and joint-ventures, net of cash acquired		-	(37)
Disposal of subsidiaries and joint-ventures, net of cash disposed of		1,048	-
Additions to non-current assets, including capitalized interest		(6,247)	(5,790)
Proceeds from sale of non-current assets		108	104
Loans made		(5)	-
Repayment of loans		353	41
Change in restricted financial assets		(390)	(38)
Total cash used in investing activities		(5,133)	(5,720)

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CEZ GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2017

continued

	Note	1-3/2017	1-3/2016
Financing activities:			
Proceeds from borrowings		37,323	18,663
Payments of borrowings		(37,830)	(9,133)
Proceeds from other long-term liabilities		10	18
Payments of other long-term liabilities		(17)	(524)
Dividends paid to Company's shareholders		(39)	(35)
Total cash provided by (used in) financing activities		(553)	8,989
Net effect of currency translation in cash		43	16
Net increase in cash and cash equivalents		7,036	18,448
Cash and cash equivalents at beginning of period		11,330	13,482
Cash and cash equivalents at end of period		18,366	31,930
Supplementary cash flow information			
Total cash paid for interest		645	596

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

CEZ GROUP
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2017

1. The Company

ČEZ, a. s. ("ČEZ" or "the Company") is a Czech joint-stock company, owned 69.8% (70.3% of voting rights) at March 31, 2017 by the Czech Republic represented by the Ministry of Finance. The remaining shares of the Company are publicly held. The address of the Company's registered office is Duhová 2/1444, Praha 4, 140 53, Czech Republic.

The Company is a parent company of the CEZ Group ("the Group"). Main business of the Group is the production, distribution, trade and sale of electricity and heat, trade and sale of natural gas and coal mining.

2. Summary of Significant Accounting Policies

2.1. Financial Statements

The interim consolidated financial statements for the three months ended March 31, 2017 have been prepared in accordance with IAS 34 and have not been audited by an independent auditor. The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with [the Group's annual financial statements as of December 31, 2016](#). The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of [the Group's annual financial statements for the year ended December 31, 2016](#).

3. Seasonality of Operations

The seasonality within the segments Generation - Traditional Energy, Generation - New Energy, Distribution and Sales usually takes effect in such a way that the revenues and operating profits of these segments for the 1st and 4th quarters of a calendar year are slightly higher than the revenues and operating profits achieved in the remaining period.

4. Long-term Debt

Long-term debt at March 31, 2017 and December 31, 2016 is as follows (in CZK millions):

	March 31, 2017	December 31, 2016
3.005% Eurobonds, due 2038 (JPY 12,000 million)	2,705	2,621
2.845% Eurobonds, due 2039 (JPY 8,000 million)	1,804	1,748
5.000% Eurobonds, due 2021 (EUR 750 million)	20,221	20,211
6M Euribor + 1.25% Eurobonds, due 2019 (EUR 50 million)	1,348	1,348
3M Euribor + 0.35% Eurobonds, due 2017 (EUR 45 million)	1,210	1,207
3M Euribor + 0.55% Eurobonds, due 2018 (EUR 200 million)	5,390	5,383
4.875% Eurobonds, due 2025 (EUR 750 million)	20,202	20,193
4.500% Eurobonds, due 2020 (EUR 750 million)	20,180	20,165
2.160% Eurobonds, due 2023 (JPY 11,500 million)	2,600	2,519
4.600% Eurobonds, due 2023 (CZK 1,250 million)	1,249	1,248
2.150%*IR CPI Eurobonds, due 2021 (EUR 100 million) ¹⁾	2,703	2,702
4.102% Eurobonds, due 2021 (EUR 50 million)	1,348	1,348
4.250% U.S. bonds, due 2022 (USD 289 million)	7,253	7,353
5.625% U.S. bonds, due 2042 (USD 300 million)	7,508	7,613
4.375% Eurobonds, due 2042 (EUR 50 million)	1,326	1,326
4.500% Eurobonds, due 2047 (EUR 50 million)	1,326	1,325
4.383% Eurobonds, due 2047 (EUR 80 million)	2,162	2,162
3.000% Eurobonds, due 2028 (EUR 500 million)	13,346	13,337
4.500% registered bonds, due 2030 (EUR 40 million)	1,062	1,061
4.750% registered bonds, due 2023 (EUR 40 million)	1,072	1,072
4.700% registered bonds, due 2032 (EUR 40 million)	1,076	1,075
4.270% registered bonds, due 2047 (EUR 61 million)	1,623	1,622
3.550% registered bonds, due 2038 (EUR 30 million)	808	807
Exchangeable bonds, due 2017 (EUR 468.6 million) ²⁾	12,604	12,598
Total bonds and debentures	132,126	132,044
Less: Current portion	(19,204)	(13,805)
Bonds and debentures, net of current portion	112,922	118,239
Long-term bank and other loans:		
Total long-term bank and other loans	26,932	27,429
Less: Current portion	(3,274)	(3,403)
Long-term bank and other loans, net of current portion	23,658	24,026
Total long-term debt	159,058	159,473
Less: Current portion	(22,478)	(17,208)
Total long-term debt, net of current portion	136,580	142,265

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.

²⁾ Bonds are exchangeable for ordinary shares of MOL Hungarian Oil and Gas PLC. The bonds carry no interest and the separation of embedded conversion option resulted in effective interest rate of 1.43% p. a. The original nominal value of the issue (EUR 470.2 million) was reduced as a result of exercised conversion options in a nominal value of EUR 1.6 million in the 1st quarter of 2017 (see Note 8).

5. Short-term Loans

Short-term loans at March 31, 2017 and December 31, 2016 are as follows (in CZK millions):

	March 31, 2017	December 31, 2016
Short-term bank loans	7,680	7,962
Bank overdrafts	697	381
Total	<u>8,377</u>	<u>8,343</u>

6. Income Taxes

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

	1-3/2017			1-3/2016		
	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	1,787	(340)	1,447	1,636	(311)	1,325
Cash flow hedges reclassified to statement of income	722	(137)	585	595	(113)	482
Change in fair value of available-for-sale financial assets recognized in equity	(1,097)	121	(976)	1,691	(17)	1,674
Available-for-sale financial assets reclassified from equity	(36)	4	(32)	(1)	-	(1)
Translation differences - subsidiaries	239	-	239	132	-	132
Translation differences - joint- ventures	(113)	-	(113)	(53)	-	(53)
Translation differences reclassified from equity	-	-	-	(67)	-	(67)
Share on other equity movements of joint-ventures	26	-	26	20	-	20
Total	<u>1,528</u>	<u>(352)</u>	<u>1,176</u>	<u>3,953</u>	<u>(441)</u>	<u>3,512</u>

7. Segment Information

The Group reports its result using six reportable operating segments:

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

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

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

The Group evaluates the performance of its segments based on earnings before interest, taxes, depreciation and amortization (EBITDA). The reconciliation of EBITDA to income before other income (expenses) and income taxes summarizes the following table (in CZK millions):

	1-3/2017	1-3/2016
Income before other income (expenses) and income taxes (EBIT)	11,655	12,967
Depreciation and amortization	7,497	7,069
Impairment of plant, property and equipment and intangible assets including goodwill	1	2
Gains and losses on sale of property, plant and equipment *	(124)	(27)
EBITDA	19,029	20,011

* Gains on sale of property, plant and equipment are presented in the statement of income as part of the line item Other operating income. Losses on sale of property, plant and equipment are presented in the statement of income as part of the line item Other operating expenses.

The following tables summarize segment information by operating segments for the three months ended March 31, 2017 and 2016 and at December 31, 2016 (in CZK millions):

March 31, 2017:

	Gene- ration - Traditional Energy	Gene- ration - New Energy	Distribu- tion	Sales	Mining	Other	Combined	Elimination	Consoli- dated
Revenues and other operating income - other than intersegment	14,552	1,014	7,399	28,265	1,159	433	52,822	-	52,822
Revenues and other operating income - intersegment	8,982	241	8,002	1,263	1,356	3,094	22,938	(22,938)	-
Total revenues and other operating income	23,534	1,255	15,401	29,528	2,515	3,527	75,760	(22,938)	52,822
EBITDA	9,536	1,148	5,133	1,239	1,339	632	19,027	2	19,029
Depreciation and amortization	(4,537)	(426)	(1,550)	(21)	(582)	(381)	(7,497)	-	(7,497)
Impairment of property, plant and equipment and intangible assets including goodwill	-	-	-	-	(1)	-	(1)	-	(1)
EBIT									
Interest on debt and provisions	(1,200)	(60)	(84)	(1)	(48)	(94)	(1,487)	149	(1,338)
Interest income	163	-	8	1	-	44	216	(149)	67
Share of profit (loss) from joint-ventures	(161)	(6)	(33)	(48)	4	(149)	(393)	-	(393)
Income taxes	(794)	(57)	(660)	(268)	(147)	(61)	(1,987)	-	(1,987)
Net income	3,224	597	2,825	896	610	522	8,674	-	8,674
Identifiable assets	254,420	29,675	109,959	890	20,612	8,686	424,242	(951)	423,291
Investment in joint-ventures	-	537	35	569	185	2,351	3,677	-	3,677
Unallocated assets									189,679
Total assets									616,647
Capital expenditure	2,086	41	1,726	12	89	1,025	4,979	(677)	4,302

March 31, 2016:									
	Gene- ration - Traditional Energy	Gene- ration - New Energy	Distribu- tion	Sales	Mining	Other	Combined	Elimination	Consoli- dated
Revenues and other operating income - other than intersegment	13,583	779	7,220	28,624	1,161	516	51,883	-	51,883
Revenues and other operating income - intersegment	9,070	218	8,223	1,421	1,332	3,397	23,661	(23,661)	-
Total revenues and other operating income	22,653	997	15,443	30,045	2,493	3,913	75,544	(23,661)	51,883
EBITDA	10,047	937	5,282	1,887	1,244	612	20,009	2	20,011
Depreciation and amortization	(4,150)	(373)	(1,477)	(10)	(610)	(449)	(7,069)	-	(7,069)
Impairment of property, plant and equipment and intangible assets including goodwill	2	-	(4)	-	-	-	(2)	-	(2)
EBIT	5,897	563	3,805	1,877	635	188	12,965	2	12,967
Interest on debt and provisions	(819)	(103)	(91)	(2)	(48)	(87)	(1,150)	220	(930)
Interest income	234	-	11	3	3	45	296	(220)	76
Share of profit (loss) from joint-ventures	237	22	34	32	1	6	332	-	332
Income taxes	(952)	(71)	(701)	(341)	(121)	(49)	(2,235)	-	(2,235)
Net income	4,263	656	3,051	1,567	499	(80)	9,956		9,956
Capital expenditure	2,501	(14)	1,548	3	101	1,380	5,519	(1,098)	4,421
December 31, 2016:									
	Gene- ration - Traditional Energy	Gene- ration - New Energy	Distribu- tion	Sales	Mining	Other	Combined	Elimination	Consoli- dated
Identifiable assets	257,357	30,075	109,807	899	21,100	8,610	427,846	(953)	426,895
Investment in joint-ventures	198	544	295	756	181	3,335	5,309	-	5,309
Unallocated assets									198,637
Total assets									630,841

8. Events after the Balance Sheet Date

On April 4, 2017 the settlement of equity placing of MOL Hungarian Oil and Gas PLC and buy back of exchangeable bonds took place. The exchangeable bonds of the principal amount of EUR 463.1 million were bought back and 7,561,372 shares of MOL Hungarian Oil and Gas PLC were sold in these transactions. The total effect of these transactions to net income is approximately CZK 4.0 billion. The amount of CZK 513 million is included in the statement of income for 1-3/2017 on the line Other financial income which represents gain from change of fair value of the conversion option related to exchangeable bonds.