

# **CEZ GROUP**

CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS  
AS OF DECEMBER 31, 2017

**CEZ GROUP**  
**CONSOLIDATED BALANCE SHEET**  
**AS OF DECEMBER 31, 2017**

in CZK Millions

	Note	2017	2016
<b>ASSETS:</b>			
Plant in service		833,359	775,181
Less accumulated depreciation and impairment		(437,210)	(418,981)
<b>Net plant in service</b>		<b>396,149</b>	<b>356,200</b>
Nuclear fuel, at amortized cost		15,218	14,892
Construction work in progress, net		16,652	55,803
<b>Total property, plant and equipment</b>	3	<b>428,019</b>	<b>426,895</b>
Investments in associates and joint-ventures	9	3,520	5,309
Restricted financial assets	4	18,468	19,011
Investments and other financial assets, net	5	9,845	14,460
Intangible assets, net	6	26,804	21,983
Deferred tax assets	33	1,297	1,596
<b>Total other non-current assets</b>		<b>59,934</b>	<b>62,359</b>
<b>Total non-current assets</b>		<b>487,953</b>	<b>489,254</b>
Cash and cash equivalents	10	12,623	11,226
Receivables, net	11	57,766	56,331
Income tax receivable		1,171	1,181
Materials and supplies, net	12	9,537	7,520
Fossil fuel stocks		1,021	996
Emission rights	13	9,370	3,958
Other financial assets, net	14	43,052	56,501
Other current assets	15	3,684	3,227
Assets classified as held for sale	16	30	647
<b>Total current assets</b>		<b>138,254</b>	<b>141,587</b>
<b>Total assets</b>		<b>626,207</b>	<b>630,841</b>

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

**CEZ GROUP**  
**CONSOLIDATED BALANCE SHEET**  
**AS OF DECEMBER 31, 2017**

continued

	Note	2017	2016
<b>EQUITY AND LIABILITIES:</b>			
Stated capital		53,799	53,799
Treasury shares		(4,077)	(4,246)
Retained earnings and other reserves		200,296	207,259
<b>Total equity attributable to equity holders of the parent</b>	17	250,018	256,812
Non-controlling interests	9	4,304	4,548
<b>Total equity</b>		254,322	261,360
Long-term debt, net of current portion	18	132,475	142,265
Provisions	21	73,291	66,360
Deferred tax liability	33	19,993	20,213
Other long-term liabilities	22	15,844	11,203
<b>Total non-current liabilities</b>		241,603	240,041
Short-term loans	23	11,072	8,343
Current portion of long-term debt	18	8,622	17,208
Trade and other payables	24	87,236	80,516
Income tax payable		176	392
Provisions	21	9,226	8,160
Accrued liabilities	25	13,950	14,251
Liabilities associated with assets classified as held for sale	16	-	570
<b>Total current liabilities</b>		130,282	129,440
<b>Total equity and liabilities</b>		626,207	630,841

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

# CEZ GROUP

## CONSOLIDATED STATEMENT OF INCOME

### FOR THE YEAR ENDED DECEMBER 31, 2017

in CZK Millions

	Note	2017	2016
Sales of electricity and related services		167,758	174,944
Sales of gas, coal, heat and other revenues		30,757	27,065
Other operating income		3,391	1,735
<b>Total revenues and other operating income</b>	26	201,906	203,744
Gains and losses from commodity derivative trading, net	27	920	(368)
Fuel		(12,703)	(13,150)
Purchased power and related services		(86,872)	(88,294)
Repairs and maintenance		(4,714)	(4,563)
Depreciation and amortization	3, 6	(29,305)	(28,978)
Impairment of property, plant and equipment and intangible assets including goodwill	7	(230)	(3,114)
Salaries and wages	28	(22,086)	(19,158)
Materials and supplies		(5,922)	(4,362)
Emission rights, net	13	(1,620)	(520)
Other operating expenses	29	(13,754)	(15,123)
<b>Income before other income (expenses) and income taxes</b>		25,620	26,114
Interest on debt, net of capitalized interest		(3,761)	(2,762)
Interest on provisions		(1,618)	(1,494)
Interest income	30	235	303
Foreign exchange rate gains (losses), net		959	(339)
Gain (loss) on sale of subsidiaries, associates and joint-ventures	8	(14)	161
Other financial expenses	31	(1,964)	(1,264)
Other financial income	32	5,683	1,342
Share of profit (loss) from associates and joint-ventures	9	(2,387)	(2,733)
<b>Total other income (expenses)</b>		(2,867)	(6,786)
<b>Income before income taxes</b>		22,753	19,328
Income taxes	33	(3,794)	(4,753)
<b>Net income</b>		18,959	14,575
Net income attributable to:			
Equity holders of the parent		18,765	14,281
Non-controlling interests		194	294
Net income per share attributable to equity holders of the parent (CZK per share):			
Basic	36	35.1	26.7
Diluted		35.1	26.7

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

**CEZ GROUP**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

in CZK Millions

	Note	2017	2016
<b>Net income</b>		18,959	14,575
Change in fair value of cash flow hedges recognized in equity		(3,950)	(7,438)
Cash flow hedges reclassified to statement of income		4,026	(1,629)
Cash flow hedges reclassified to assets		(394)	(85)
Change in fair value of available-for-sale financial assets recognized in equity		(1,283)	4,620
Available-for-sale financial assets reclassified from equity	32	(5,542)	(10)
Translation differences - subsidiaries		(3,412)	(536)
Translation differences - associates and joint-ventures		1,340	(617)
Translation differences reclassified from equity		751	(127)
Share on other equity movements of associates and joint-ventures		54	26
Deferred tax related to other comprehensive income	33	300	1,731
<b>Net other comprehensive income that may be reclassified to statement of income or to assets in subsequent periods</b>		(8,110)	(4,065)
Re-measurement gains (losses) on defined benefit plans		(5)	10
Deferred tax related to other comprehensive income	33	1	1
<b>Net other comprehensive income not to be reclassified from equity in subsequent periods</b>		(4)	11
<b>Total other comprehensive income, net of tax</b>		(8,114)	(4,054)
<b>Total comprehensive income, net of tax</b>		10,845	10,521
Total comprehensive income attributable to:			
Equity holders of the parent		10,848	10,228
Non-controlling interests		(3)	293

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

**CEZ GROUP**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 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		
<b>December 31, 2015</b>		53,799	(4,246)	(9,500)	(86)	3,242	224,684	267,893	4,262	272,155
Net income		-	-	-	-	-	14,281	14,281	294	14,575
Other comprehensive income		-	-	(1,279)	(7,413)	4,603	36	(4,053)	(1)	(4,054)
<b>Total comprehensive income</b>		-	-	(1,279)	(7,413)	4,603	14,317	10,228	293	10,521
Dividends		-	-	-	-	-	(21,320)	(21,320)	(8)	(21,328)
Share options	28	-	-	-	-	22	-	22	-	22
Transfer of forfeited share options within equity		-	-	-	-	(28)	28	-	-	-
Acquisition of subsidiaries	8	-	-	-	-	-	-	-	17	17
Acquisition of non-controlling interests	8	-	-	-	-	-	(10)	(10)	(17)	(27)
Put options held by non-controlling interest		-	-	-	-	-	(1)	(1)	1	-
<b>December 31, 2016</b>		<u>53,799</u>	<u>(4,246)</u>	<u>(10,779)</u>	<u>(7,499)</u>	<u>7,839</u>	<u>217,698</u>	<u>256,812</u>	<u>4,548</u>	<u>261,360</u>

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

**CEZ GROUP**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

continued

	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		
<b>December 31, 2016</b>		53,799	(4,246)	(10,779)	(7,499)	7,839	217,698	256,812	4,548	261,360
Net income		-	-	-	-	-	18,765	18,765	194	18,959
Other comprehensive income		-	-	(1,124)	(258)	(6,585)	50	(7,917)	(197)	(8,114)
<b>Total comprehensive income</b>		-	-	(1,124)	(258)	(6,585)	18,815	10,848	(3)	10,845
Dividends		-	-	-	-	-	(17,586)	(17,586)	(241)	(17,827)
Sale of treasury shares		-	169	-	-	-	(101)	68	-	68
Share options	28	-	-	-	-	28	-	28	-	28
Transfer of exercised and forfeited share options within equity		-	-	-	-	(34)	34	-	-	-
Acquisition of subsidiaries	8	-	-	-	-	-	-	-	255	255
Acquisition of non-controlling interests	8	-	-	-	-	-	(7)	(7)	(10)	(17)
Put options held by non-controlling interest		-	-	(3)	-	-	(142)	(145)	(245)	(390)
<b>December 31, 2017</b>		<u>53,799</u>	<u>(4,077)</u>	<u>(11,906)</u>	<u>(7,757)</u>	<u>1,248</u>	<u>218,711</u>	<u>250,018</u>	<u>4,304</u>	<u>254,322</u>

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

# CEZ GROUP

## CONSOLIDATED STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED DECEMBER 31, 2017

in CZK Millions

	Note	2017	2016
<b>OPERATING ACTIVITIES:</b>			
<b>Income before income taxes</b>		22,753	19,328
<b>Adjustments to reconcile income before income taxes to net cash provided by operating activities:</b>			
Depreciation and amortization	3, 6	29,305	28,978
Amortization of nuclear fuel	3	3,725	3,158
Gain on non-current asset retirements, net		(5,792)	(350)
Foreign exchange rate losses (gains), net		(959)	339
Interest expense, interest income and dividend income, net		3,263	1,827
Provisions		1,081	(163)
Impairment of property, plant and equipment and intangible assets including goodwill	7	230	3,114
Valuation allowances and other adjustments		2,355	(364)
Share of (profit) loss from associates and joint-ventures	9	2,387	2,733
<b>Changes in assets and liabilities:</b>			
Receivables		(1,951)	(10,168)
Materials, supplies and fossil fuel stocks		(798)	451
Receivables and payables from derivatives		(1,269)	3,244
Other current assets		(4,610)	4,630
Trade and other payables		3,687	8
Accrued liabilities		(583)	414
<b>Cash generated from operations</b>		52,824	57,179
Income taxes paid		(4,207)	(6,689)
Interest paid, net of capitalized interest		(3,511)	(2,481)
Interest received		225	298
Dividends received		481	646
<b>Net cash provided by operating activities</b>		45,812	48,953
<b>INVESTING ACTIVITIES:</b>			
Acquisition of subsidiaries, associates and joint-ventures, net of cash acquired	8	(5,070)	(368)
Disposal of subsidiaries and joint-ventures, net of cash disposed of	8	2,037	900
Additions to non-current assets, including capitalized interest		(30,688)	(35,553)
Proceeds from sale of non-current assets	14	13,913	1,078
Loans made		(21)	(5)
Repayment of loans		371	228
Change in restricted financial assets		(754)	(851)
<b>Total cash used in investing activities</b>		(20,212)	(34,571)

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



**CEZ GROUP**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

continued

	Note	2017	2016
<b>FINANCING ACTIVITIES:</b>			
Proceeds from borrowings		150,032	97,022
Payments of borrowings		(156,182)	(91,542)
Proceeds from other long-term liabilities		70	58
Payments of other long-term liabilities		(76)	(713)
Dividends paid to Company's shareholders		(17,618)	(21,325)
Dividends paid to non-controlling interests		(241)	(8)
Sale of treasury shares		68	-
(Acquisition) sale of non-controlling interests, net	8	(160)	(32)
<b>Total cash used in financing activities</b>		<u>(24,107)</u>	<u>(16,540)</u>
Net effect of currency translation in cash		(200)	6
<b>Net increase (decrease) in cash and cash equivalents</b>		1,293	(2,152)
<b>Cash and cash equivalents at beginning of period</b>		<u>11,330</u>	<u>13,482</u>
<b>Cash and cash equivalents at end of period</b>	10	<u><u>12,623</u></u>	<u><u>11,330</u></u>
Supplementary cash flow information:			
Total cash paid for interest		5,090	5,568

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

# CEZ GROUP

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### AS OF DECEMBER 31, 2017

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# **CEZ GROUP**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **AS OF DECEMBER 31, 2017**

#### **1. The Company**

ČEZ, a. s. (ČEZ or the Company), business registration number 45274649, is a Czech Republic joint-stock company, owned 69.8% (70.3% of voting rights) at December 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, see Note 9). Main business of the Group is the production, distribution, trade and sale of electricity and heat, trade and sale of natural gas and coal mining. ČEZ is an electricity generation company, which in 2017 generated approximately 56% of the electricity in the Czech Republic. In the Czech Republic the Company operates twelve fossil fuel plants, sixteen hydroelectric plants, one solar plant, one combined cycle gas turbine plant and two nuclear plants. The Company also operates through its subsidiaries several power plants (fossil fuel, hydro, wind, solar, biogas, biomass) in the Czech Republic, eleven wind power plants in Germany, two fossil fuel plants and two hydroelectric plants in Poland, one solar plant in Bulgaria and a wind farm and a complex of hydroelectric plants in Romania. Further the Group also controls certain electricity distribution companies in the Czech Republic, Bulgaria and Romania. The average number of employees of the Company and its consolidated subsidiaries was 27,659 and 26,300 in 2017 and 2016, respectively.

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

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

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

#### **2. Summary of Significant Accounting Policies**

##### **2.1. Financial Statements**

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

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

## 2.2. Group Accounting

### a. Group Structure

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

### b. Subsidiaries

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

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

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

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

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

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

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

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

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability are recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Changes in the fair value of contingent consideration classified as equity are not recognized.

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

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

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

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

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

#### c. Associates

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

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

#### d. Joint-ventures

A joint-venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint-venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control are similar to those necessary considerations to determine control over subsidiaries. The Group recognizes its interest in the joint-venture using the equity method of accounting (see Note 2.2.c).

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

#### e. Transactions Involving Entities under Common Control

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

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

## 2.3. Changes in Accounting Policies

### a. Adoption of New IFRS Standards in 2017

The accounting policies adopted are consistent with those of the previous financial year, except for as follows. The Group has adopted the following new or amended and endorsed by EU IFRS and IFRIC interpretations as of January 1, 2017:

#### 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. Application of amendments resulted in additional disclosure provided by the Group. These amendments do not have material impact on the Group's financial statements.

#### 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 do not have material impact on the Group's financial statements.

#### Annual Improvement to IFRSs 2014 - 2016

IASB issued amendment 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 standard IFRS 12 Disclosure of Interests in Other Entities was amended. This change does not have significant impact on the Group's financial statements.

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

The Group is currently assessing the potential impacts of the new and revised standards and interpretations that will be effective or adopted by the EU from January 1, 2018 or later. Standards and interpretations most relevant to the Group'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 Group's financial assets and liabilities.

The Group assessed impact of the adoption of this standard and the impact to the Group's financial statements as of the date of application. The Group expects the following impacts (in CZK millions):

	Adjustment
Receivables, net	(62)
Other	(17)
	<hr/>
Total assets	(79)
Deferred tax receivable or liability, net	13
	<hr/>
Impact on equity	<u>(66)</u>

#### 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 Group assessed impact of the adoption of this standard and the impact to the Group's financial statements as of the date of application. The Group used modified retrospective application and the effects of the application are as follows:

- due to retrospective application of IFRS 15, the deferred connection fees received from customers prior 2009 will be recognized in retained earnings as of January 1, 2018. Impact of this transaction will increase the equity by CZK 3,304 million before tax,
- in certain areas where the Group acts as energy provider without distributing it, the analysis under IFRS 15 may lead to the recognition of only energy sales in revenue. This could lead to a limited decrease in revenue and expenses without any earnings effect.

#### Clarification IFRS 15 Revenue from Contracts with Customers

The Clarifications apply for annual periods beginning on or after January 1, 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. This Clarification is not expected to have significant impact to the Group's financial statements.



#### 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 new standard will be effective for annual periods beginning on or after January 1, 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied or is applied at the same date as IFRS 16. The Group is currently assessing the impact of IFRS 16. The main impact is expected in items of Net plant in service and Other long-term liabilities. Both items will be increased due to recognizing subjects of the lease (buildings, cars and other) on consolidated balance sheet. The Group will adopt IFRS 16 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 Group'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 Group is assessing the potential effect of the amendments on Group's financial statements.

#### IAS 19 Plan Amendment, Curtailment or Settlement

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

#### Amendment IAS 40 Transfers to Investment Property

The Amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU. These amendments are not expected to have significant impact to the Group's financial statements.

#### Amendment IFRS 9 Prepayment Features with Negative Compensation

The Amendment is effective for annual reporting periods beginning on or after January 1, 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income.

These Amendments have not yet been endorsed by the EU. These amendments are not expected to have significant impact to the Group's financial statements.

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

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

#### IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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

#### IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

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

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

#### Annual Improvements to IFRSs 2014 – 2016

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

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

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

##### IAS 28 Investments in Associates and Joint-Ventures:

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

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

## Annual Improvements to IFRSs 2015 – 2017

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

### IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:

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

### IAS 12 Income Taxes:

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

### IAS 23 Borrowing Costs:

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

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

## 2.4. Estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates. Explanation of key assumptions is included in relevant sections of notes where significant estimates are being described. Significant estimates are made by the Group while determining recoverable amounts for property, plant and equipment and intangible assets (see Note 7), accounting for the nuclear provisions (see Note 21.1), provisions for reclamation of mines, mining damages and waste storage reclamation (see Note 21.2), unbilled electricity (see Note 2.6), fair value of commodity contracts (see Notes 2.21 and 19) and financial derivatives (see Notes 2.20 and 19).

## 2.5. Revenues

The Group 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.

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

Connection fees received from customers are recognized in income in the period when the fees are received. Connection fees received from customers prior 2009 are presented as deferred revenues in the line Other long-term liabilities.

## 2.6. Unbilled Electricity

Electricity supplied to customers, which is not yet billed, is recognized in revenues at estimated amounts. The estimate of monthly change in unbilled electricity is derived from the measured delivery of electricity after deduction of invoiced consumption and estimated grid losses. The estimate of total unbilled electricity balance is also supported by extrapolation of consumption in the last measured period for individual locations. The ending balance of unbilled electricity is disclosed net in the balance sheet after deduction of advances received from customers and is included in the line item of Receivables, net or Trade and other payables.

## 2.7. Fuel Costs

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

## 2.8. Interest

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

## 2.9. Property, Plant and Equipment

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

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

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

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

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

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

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

#### 2.10. Nuclear Fuel

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

#### 2.11. Intangible Assets

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

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

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

## 2.12. Goodwill

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

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

## 2.13. Emission Rights

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

On April, 30 of the following year, at the latest, these companies are required to remit a number of allowances representing the number of tones of CO<sub>2</sub> actually emitted in previous year.

The emission rights which were granted free of charge are stated at their nominal value, i.e. at zero. Purchased emission rights are carried at cost (except for emission rights for trading). Emission rights acquired in a business combination are initially recognized at their fair value at the date of acquisition and subsequently treated similarly to purchased emission rights. The Group recognizes a provision to cover emissions made. This provision is measured firstly with regard to the cost of emission rights resulting from hedging strategy, and then considering granted 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 Group 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 Group assesses whether there is any indication that emission rights may be impaired. Where an indicator of impairment exists, the Group reviews the recoverable amounts of the cash-generating units, to which the emission rights were allocated, to determine whether such amounts continue to exceed the assets' carrying values. Any identified impairment of emission rights is recognized directly in profit or loss in the line item of Emission rights, net.

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

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

## 2.14. 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 Group has the positive intent and ability to hold to maturity other than loans and receivables originated by the Group 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 Group, are classified as available-for-sale.

Held-to-maturity investments, 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 Group intends to realize them within 12 months of the balance sheet date or if there is no reasonable certainty that the Group 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.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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.

#### 2.15. Cash and Cash Equivalents

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

#### 2.16. Financial Assets Restricted in Use

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

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

#### 2.18. 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.

For construction contracts in progress, cost incurred plus recognized profits are presented on the balance sheet net of received billings and advances as a net asset or a net liability.

#### 2.19. Fossil Fuel Stocks

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



## 2.20. Derivative Financial Instruments

The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value. In the balance sheet such derivatives are presented as part of 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 Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

### a. 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.

### b. Cash flow hedge

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

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

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

### c. Other derivatives

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

## 2.21. 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 Group provide for physical delivery of quantities intended to be consumed or sold as part of its ordinary business; such contracts are thus excluded from the scope of IAS 39.

In particular, 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 Group's normal business activity. This is demonstrated to be the case when all the following conditions are fulfilled:

- A physical delivery takes place under such contracts;
- The volumes purchased or sold under the contracts correspond to the Group's operating requirements;
- The contract cannot be considered as a written option as defined by the standard 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 Group thus considers that transactions negotiated with a view to balancing the volumes between electricity purchases and sale commitments are part of its ordinary business as an integrated electric utility company and do not therefore come under the scope of 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 Group presents revenues and expenses related to commodity trading net in the line Gains and losses from commodity derivative trading, net.

## 2.22. Income Taxes

The provision for corporate tax is calculated in accordance with the tax regulations of the states of residence of the Group companies and is based on the income or loss reported under local accounting regulations, adjusted for appropriate permanent and temporary differences from taxable income. Income taxes are calculated on an individual company basis as the Czech tax laws do not permit consolidated tax returns. For companies located in the Czech Republic income taxes are provided at a rate of 19% for the years ended December 31, 2017 and 2016, 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 2018 and on is 19%.

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

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

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

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

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

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

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

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

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

### 2.23. Long-term Debt

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

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

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

### 2.24. Nuclear Provisions

The Group has recognized provisions for its obligations to decommission its nuclear power plants at the end of their operating lives, to store the related spent nuclear fuel and other radioactive waste initially on an interim basis and provision for its obligation to provide financing for subsequent permanent storage of spent fuel and irradiated parts of reactors (see Note 21.1).

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, 2017 and 2016 using a long-term real rate of interest to take into account the timing of payments in amount of 1.25% and 1.5% per annum, respectively. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the period when the nuclear power plants generate electricity. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being presented in the income statement on the line Interest on provisions. At December 31, 2017 and 2016 the estimate for the effect of inflation is 1.25% and 1%, respectively.

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 Group has made its best estimate in establishing its nuclear provisions, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning and fuel storage activities, the ultimate provision requirements could vary significantly from the Group's current estimates.

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

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

The Group has recognized provisions for obligations to decommission and reclaim mines at the end of their operating lives (see Note 21.2). The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels, are discounted at December 31, 2017 and 2016 using a long-term real rate of interest to take into account the timing of payments in amount of 1.25% and 1.5% per annum, respectively. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the mines. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being presented in the income statement on the line Interest on provisions. At December 31, 2017 and 2016 the estimate for the effect of inflation is 1.25% and 1%, respectively.

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

## 2.26. Exploration for and Evaluation of Mineral Resources

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

## 2.27. Leases

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

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

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

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

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

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

## 2.28. Treasury Shares

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

## 2.29. Share Options

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

## 2.30. Translation of Foreign Currencies

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

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

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

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

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

Exchange rates used as at December 31, 2017 and 2016 for the translation of assets and liabilities denominated in foreign currencies were as follows:

	<u>2017</u>	<u>2016</u>
CZK per 1 EUR	25.540	27.020
CZK per 1 USD	21.291	25.639
CZK per 1 PLN	6.114	6.126
CZK per 1 BGN	13.058	13.815
CZK per 1 RON	5.482	5.953
CZK per 100 JPY	18.915	21.907
CZK per 1 TRY	5.617	7.286

### 2.31. Non-current Assets Held for Sale

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

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

### 3. Property, Plant and Equipment

Property, plant and equipment at December 31, 2017 and 2016 is as follows (in CZK millions):

	Buildings	Plant and equipment	Land and other	Total plant in service	Nuclear fuel	Construction work in progress	Total
Cost at January 1, 2017	284,812	482,200	8,169	775,181	22,286	56,894	854,361
Additions	13	1,833	13	1,859	1	27,458	29,317
Disposals	(998)	(2,250)	(47)	(3,295)	(2,676)	(17)	(5,988)
Bring into use	17,698	44,061	270	62,029	3,825	(65,854)	-
Acquisition of subsidiaries	8	125	16	149	-	7	156
Disposal of subsidiaries	(1,017)	(1,707)	(90)	(2,814)	-	(48)	(2,862)
Change in capitalized part of provisions	(61)	6,342	265	6,546	-	-	6,546
Reclassification and other	(192)	158	(3)	(37)	-	(80)	(117)
Currency translation differences	(2,586)	(3,637)	(36)	(6,259)	-	(111)	(6,370)
Cost at December 31, 2017	297,677	527,125	8,557	833,359	23,436	18,249	875,043
Accumulated depreciation and impairment at January 1, 2017	(126,318)	(291,544)	(1,119)	(418,981)	(7,394)	(1,091)	(427,466)
Depreciation and amortization of nuclear fuel <sup>1)</sup>	(7,506)	(20,301)	(66)	(27,873)	(3,500)	-	(31,372)
Net book value of assets disposed	(350)	(44)	-	(394)	-	-	(394)
Disposals	998	2,250	3	3,251	2,676	-	5,927
Disposal of subsidiaries	944	1,683	50	2,677	-	48	2,725
Reclassification and other	177	(176)	-	1	-	(6)	(5)
Impairment losses recognized	(789)	(518)	(17)	(1,324)	-	(557)	(1,881)
Impairment losses reversed	728	1,344	1	2,073	-	1	2,074
Currency translation differences	1,233	2,115	12	3,360	-	8	3,368
Accumulated depreciation and impairment at December 31, 2017	(130,883)	(305,191)	(1,136)	(437,210)	(8,218)	(1,597)	(447,024)
Total property, plant and equipment at December 31, 2017	166,794	221,934	7,421	396,149	15,218	16,652	428,019

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

	Buildings	Plant and equipment	Land and other	Total plant in service	Nuclear fuel	Construction work in progress	Total
Cost at January 1, 2016	271,629	439,818	8,186	719,633	20,535	89,300	829,468
Additions	-	5,566	1	5,567	20	28,863	34,454
Disposals	(862)	(2,431)	(119)	(3,412)	(3,083)	(65)	(6,564)
Bring into use	16,465	39,597	127	56,189	4,768	(60,957)	-
Reclassification to assets classified as held for sale	(2,140)	(5,627)	(103)	(7,870)	-	(10)	(7,880)
Acquisition of subsidiaries	44	25	4	73	-	2	75
Change in capitalized part of provisions	(119)	5,687	77	5,645	46	-	5,691
Reclassification and other	34	(18)	-	16	-	(229)	(213)
Currency translation differences	(239)	(417)	(4)	(660)	-	(10)	(670)
Cost at December 31, 2016	284,812	482,200	8,169	775,181	22,286	56,894	854,361
Accumulated depreciation and impairment at January 1, 2016	(121,098)	(277,432)	(1,078)	(399,608)	(7,538)	(958)	(408,104)
Depreciation and amortization of nuclear fuel <sup>1)</sup>	(7,348)	(20,153)	(68)	(27,569)	(2,939)	-	(30,512)
Net book value of assets disposed	(117)	(34)	(14)	(165)	-	-	(165)
Disposals	862	2,431	40	3,333	3,083	-	6,420
Reclassification to assets classified as held for sale	2,076	5,578	-	7,654	-	-	7,654
Reclassification and other	(18)	(4)	-	(22)	-	(19)	(41)
Impairment losses recognized	(822)	(2,229)	(2)	(3,053)	-	(114)	(3,167)
Impairment losses reversed	47	60	2	109	-	-	109
Currency translation differences	100	239	1	340	-	-	340
Accumulated depreciation and impairment at December 31, 2016	(126,318)	(291,544)	(1,119)	(418,981)	(7,394)	(1,091)	(427,466)
Total property, plant and equipment at December 31, 2016	158,494	190,656	7,050	356,200	14,892	55,803	426,895

<sup>1)</sup> The amortization of nuclear fuel also includes charges in respect of additions to the accumulated provision for interim storage of spent nuclear fuel in the amount of CZK 219 million.



As at December 31, 2017 and 2016 a composite depreciation rate of Plant in service was 3.5% and 3.7%, respectively.

As at December 31, 2017 and 2016 capitalized interest costs amounted to CZK 1,608 million and CZK 2,989 million, respectively, and the interest capitalization rate was 4.1% in the both periods.

Group's plant in service pledged as security for liabilities at December 31, 2017 and 2016 is CZK 13,121 million and CZK 5,636 million, respectively.

Construction work in progress contains mainly refurbishments performed on nuclear plants and the electricity distribution network of subsidiaries ČEZ Distribuce, a. s. and CEZ Razpredelenie Bulgaria AD. It also contains costs of CZK 2,517 million for the preparation of new nuclear power sources.

#### 4. Restricted Financial Assets

Restricted financial assets at December 31, 2017 and 2016 consist of the following (in CZK millions):

	2017	2016
Czech government bonds and treasury bills	13,971	15,920
Cash in banks	4,497	3,091
Total restricted financial assets	<u>18,468</u>	<u>19,011</u>

The restricted financial assets contain in particular restricted funds related to accumulated provision for nuclear decommissioning and related to accumulated provision for mine reclamation and mining damages and waste storage reclamation.

#### 5. Investments and Other Financial Assets, Net

Investments and other financial assets, net at December 31, 2017 and 2016 consist of the following (in CZK millions):

	2017	2016
Financial assets in progress, net	6	6
Term deposits	500	500
Debt securities available-for-sale	1,777	4,646
Debt securities held-to-maturity	10	-
Investment in Veolia Energie ČR	2,732	2,732
Other equity securities available-for-sale	2,037	1,619
Derivatives	2,514	4,163
Long-term receivable from settlement with Albania	-	557
Other long-term receivables, net	269	237
Total	<u>9,845</u>	<u>14,460</u>

Movements in impairment provisions (in CZK millions):

	<u>2017</u>	<u>2016</u>
	Available-for-sale financial assets	Available-for-sale financial assets
Opening balance	(1)	(44)
Derecognition of impaired financial assets	-	43
Closing balance	<u>(1)</u>	<u>(1)</u>

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

	<u>Long-term receivables</u>	<u>Debt securities available-for-sale</u>
Due in 2019	70	1,277
Due in 2020	41	400
Due in 2021	23	100
Due in 2022	29	-
Thereafter	106	-
Total	<u>269</u>	<u>1,777</u>

Debt instruments at December 31, 2016 are contracted to mature in the following periods after the balance sheet date (in CZK millions):

	<u>Long-term receivables</u>	<u>Debt securities available-for-sale</u>
Due in 2018	634	2,800
Due in 2019	36	1,351
Due in 2020	34	396
Due in 2021	13	99
Thereafter	77	-
Total	<u>794</u>	<u>4,646</u>

Debt instruments at December 31, 2017 and 2016 have following effective interest rate structure (in CZK millions):

	<u>2017</u>		<u>2016</u>	
	Long-term receivables	Debt securities available-for-sale	Long-term receivables	Debt securities available-for-sale
Less than 2.00%	269	1,777	794	4,646
Total	<u>269</u>	<u>1,777</u>	<u>794</u>	<u>4,646</u>

The following table analyses the debt instruments at December 31, 2017 and 2016 by currency (in CZK millions):

	2017		2016	
	Long-term receivables	Debt securities available-for-sale	Long-term receivables	Debt securities available-for-sale
CZK	242	500	220	3,295
EUR	26	1,277	573	1,351
Other	1	-	1	-
Total	269	1,777	794	4,646

## 6. Intangible Assets, Net

Intangible assets, net, at December 31, 2017 and 2016 are as follows (in CZK millions):

	Software	Rights and other	Goodwill	Intangibles in progress	Total
Cost at January 1, 2017	13,442	14,402	9,558	660	38,062
Additions	24	1,070	32	1,123	2,249
Disposals	(397)	(42)	(10)	(2)	(451)
Bring to use	933	78	-	(1,011)	-
Acquisition of subsidiaries	5	1,486	3,662	-	5,153
Disposal of subsidiaries	(1)	(31)	-	(14)	(46)
Reclassification and other	21	-	-	(86)	(65)
Currency translation differences	(84)	(407)	(302)	(8)	(801)
Cost at December 31, 2017	13,943	16,556	12,940	662	44,101
Accumulated amortization and impairment at January 1, 2017	(11,267)	(4,776)	-	(36)	(16,079)
Amortization	(941)	(491)	-	-	(1,432)
Net book value of assets disposed	-	(1)	-	-	(1)
Disposals	397	42	-	-	439
Disposal of subsidiaries	1	31	-	14	46
Reclassification and other	(4)	(1)	-	-	(5)
Impairment losses recognized	(1)	(422)	-	-	(423)
Currency translation differences	67	88	-	3	158
Accumulated amortization and impairment at December 31, 2017	(11,748)	(5,530)	-	(19)	(17,297)
Net intangible assets at December 31, 2017	2,195	11,026	12,940	643	26,804

	Software	Rights and other	Goodwill	Intangibles in progress	Total
Cost at January 1, 2016	12,781	12,525	9,275	587	35,168
Additions	-	1,929	-	1,148	3,077
Disposals	(327)	(14)	-	(11)	(352)
Bring to use	1,008	77	-	(1,085)	-
Reclassification to assets classified as held for sale	(7)	-	-	-	(7)
Acquisition of subsidiaries	1	-	336	9	346
Reclassification and other	(11)	-	-	11	-
Currency translation differences	(3)	(115)	(53)	1	(170)
Cost at December 31, 2016	13,442	14,402	9,558	660	38,062
Accumulated amortization and impairment at January 1, 2016	(10,592)	(4,379)	-	(33)	(15,004)
Amortization	(985)	(424)	-	-	(1,409)
Net book value of assets disposed	(5)	-	-	-	(5)
Disposals	327	14	-	-	341
Reclassification to assets classified as held for sale	7	-	-	-	7
Reclassification and other	(12)	-	-	-	(12)
Impairment losses recognized	(9)	(34)	-	(3)	(46)
Currency translation differences	2	47	-	-	49
Accumulated amortization and impairment at December 31, 2016	(11,267)	(4,776)	-	(36)	(16,079)
Net intangible assets at December 31, 2016	2,175	9,626	9,558	624	21,983

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 413 million in 2017 and CZK 369 million in 2016.

At December 31, 2017 and 2016 goodwill allocated to cash-generating units is as follows (in CZK millions):

	2017	2016
Elevion Group	3,385	-
Romanian distribution	1,814	1,969
Romanian sale	510	554
Czech distribution	2,200	2,210
Energotrans	1,675	1,675
Polish power plants (Chorzów, Skawina)	1,199	1,202
ČEZ Teplárenská	727	727
Energetické centrum	261	261
TMK Hydroenergy Power	268	291
AZ KLIMA	245	245
Other	656	424
Total	12,940	9,558

## 7. Impairment of Property, Plant and Equipment and Intangible Assets including Goodwill

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

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

The following table summarizes the impairments of property, plant and equipment and intangible assets by cash-generating units in 2016 (in CZK millions):

	Impairment losses			Impairment	Total impairment, net
	Intangible assets other than goodwill	Property, plant and equipment	Total	Property, plant and equipment	
Romanian wind power farms	(44)	(2,422)	(2,466)	-	(2,466)
Tisová power plant (Note 16)	-	(299)	(299)	-	(299)
ČEZ OZ uzavřený investiční fond	-	(151)	(151)	28	(123)
Bara Group	-	(114)	(114)	-	(114)
Other	(3)	(190)	(193)	81	(112)
<b>Total</b>	<b>(47)</b>	<b>(3,176)</b>	<b>(3,223)</b>	<b>109</b>	<b>(3,114)</b>

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

Recognized impairment of property, plant and equipment of cash-generating unit Romanian wind power farms in 2016 was caused mainly by the drop in market prices of electricity. Recognized impairment of cash-generating unit Tisová power plant in 2016 resulted from classification of the net assets as held for sale with regard to expected selling price (Note 16). Recognized impairment of cash-generating unit ČEZ OZ uzavřený investiční fond in 2016 was caused mainly in relation to the decrease in regulated revenues.

Recognized impairment of cash-generating unit Bara Group in 2016 was caused mainly by updated terms of regulation and resulting decrease in expected revenues.

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

The impairment test involves determining the recoverable amount of the cash-generating unit, which corresponds to the value in use except for Tisová power plant as at December 31, 2016 when fair value less costs of disposal was used. Value in use is the present value of the future cash flows expected to be derived from a cash-generating unit. Value in use is determined on the basis of an enterprise valuation model and is assessed from a company internal perspective.

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

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

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

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

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

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

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

The sensitivity test results reflect expert estimates of the status and development of the above factors in the period of the model and the status of commercial securing of the generation portfolio as at December 31, 2017.

The test considers long-term EE prices at the level used to prepare Company's business plan for 2018–2022. The plan was prepared in the fourth quarter 2017 whereas the plan was based on the active market parameters observed in August and September (power prices on EEX energy exchange in Germany, prices on PXE energy exchange in the Czech Republic, price of CO2 emission rights, FX rate CZK/EUR, interest rates etc.). There is a liquidity for power contracts traded on EEX for the period covering the horizon of the business plan and with regard to links between German and Czech power transmission network, the EEX prices are basic market price indicator for EE prices in the Czech Republic. For the purposes of the sensitivity analysis, the input EE prices, emission rights prices and foreign exchange rates were applied to the relevant opened positions of the Company.

A change of the assumed EE prices as per the models by 1%, with other parameters remaining unchanged, would have an impact of approximately CZK 4.3 billion on the ČEZ Value test results. Future cash flows of the model were discounted using a 3.7% rate. A change of 0.1 percentage point in the discount rate, with other parameters remaining unchanged, would change the ČEZ Value by approximately CZK 4.4 billion. A change of 1% in the CZK/EUR exchange rate, with other parameters remaining unchanged, would result in a change of approximately CZK 4.3 billion in the ČEZ Value.

The cash flow projections of Romanian wind power farms are based on approved renewable energy support in the form of granted green certificates and a discount rate of 6.2%. The projection of the cash flows includes assumption of receiving one green certificate as approved by Romanian Energy Regulatory Authority ANRE. The recovery of deferred green certificates and other green certificates classified as intangible assets is expected till 2028. One of the main factors influencing the value of future cash flows is the price of green certificates. Current value of the green certificate in the model is EUR 29.4, which is the floor price set by regulation. Change of the discount rate by 1 percentage point, all other variables held constant, would result in change of value in use by approximately CZK 1.0 billion.

The generation sources in Poland (power plants Chorzów and Skawina) including wind farm projects classified as property, plant and equipment under construction also belong among tested non-current assets where cash flow projects covering remaining useful life were used. Future cash flows were discounted using rate of 5.6% for power plants Chorzów and Skawina and using rate 6.2% for wind farm projects in construction.

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

The discount rate of 3.8% was used for Czech distribution. Cash flows beyond the five-year period for Czech distribution were based on the terminal value of regulatory asset base.

The discount rate of 3.2% was used for Energotrans and ČEZ Teplárenská. No growth rate is considered for cash flows beyond five-year period for Energotrans and ČEZ Teplárenská.

The discount rate of 3.2% was used for Energetické centrum. Cash flows beyond the five-year period are extrapolated using 2.0% growth rate.

The discount rate of 6.1% was used for Romanian distribution. Cash flows beyond the five-year period for Romanian distribution were based on the terminal value of regulatory asset base.

The discount rate of 5.9% was used for TMK Hydroenergy Power. There is no growth rate considered for cash flows beyond five-year period.

The discount rate of 5.1% was used for Bulgarian distribution. Cash flows beyond the five-year period do not consider any growth rate. Change of discount rate by 1 percentage point, all other variables held constant, would result in change of value in use by approximately CZK 0.2 billion.

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

Gross margins – Gross margins are based on experience from historical trends in the preceding periods, current outlook of market and non-market parameters, eventually with regard to operational efficiency

improvements. Gross margins are affected especially by wholesale electricity prices, prices of emission rights and prices of green and similar certificates.

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

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

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

## **8. Changes in the Group Structure**

### Acquisitions of subsidiaries from third parties in 2017

On August 24, 2017 the Group acquired a 100% interest in Elevion GmbH. Elevion specializes in both the installation of electrical and mechanical energy equipment in greenfield projects as well as in existing structures and also provides the complete technical management of buildings and overall improvement of energy consumption of customers facilities and processes. Part of the transaction is also an investment agreement to sell back of 8% on Elevion Group for proportionally equal share on the purchase price to an associated company Elevion Co-Investment GmbH & Co. KG, which is controlled by selected Elevion managers, and to establish 37.5% interest of the Group in this associated company, which at the end effectively represents 5% of non-controlling interest in the Elevion Group as at December 31, 2017. The Elevion managers were granted put options to sell their interest in the Elevion Co-Investment back to the Group which is treated as a put options held by non-controlling interests.

On September 4, 2017 the Group acquired a 100% interest in KART spol. s r. o., which provides building facility management services and servicing of technical equipment of buildings. It also supplies and installs air-conditioning, heating and cooling equipment, measurement and control systems or power distribution systems. It also performs designing and inspection of electrical equipment, pressure vessels and boiler rooms.

On October 25, 2017 the Group gained control over OEM Energy sp. z o.o. The subject of the transaction is to acquire a 51% interest in the company. The company offers modernization and installation of solar thermal and photovoltaic panels as well as boiler or heat pump installations. The majority of its customers are local governments and industry clients. The holders of non-controlling interest were granted a put option to sell their interest to the Group and the Group holds similar call option.

On November 1, 2017 the Group acquired a 100% interest in AirPlus, spol. s r.o. The company specializes in the supply, installation and servicing of air-conditioning units.

On December 1, 2017 the Group acquired a 100% interest in EASY POWER s.r.o. The company specializes in the operation of local distribution systems. These are industrial, administrative and residential distribution systems.

On December 4, 2017 the Group acquired a 51% interest in HORMEN CE a.s. The company deals with the design, realization and production of lighting and luminaires. It provides its services to offices, hotels, business premises, public buildings and industry. The holders of non-controlling interest were granted a put option to sell their interest to the Group and the Group holds similar call option. The acquisition of the non-controlling interest is currently expected to be realized in 2022.



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

	Elevion Group	OEM Energy	Other	Total
Share of the Group being acquired	100%	51%		
Property, plant and equipment	99	1	56	156
Intangible assets, net	1,385	105	1	1,491
Other non-current assets	2	-	-	2
Materials and supplies, net	1,437	13	55	1,505
Receivables, net	902	33	85	1,020
Cash and cash equivalents	370	14	40	424
Other current assets	32	-	6	38
Non-current provisions	(51)	-	-	(51)
Deferred tax liability	(488)	(20)	(1)	(509)
Other long-term liabilities	-	-	(21)	(21)
Trade and other payables	(1,615)	(17)	(52)	(1,684)
Income tax payable	(68)	-	(3)	(71)
Current provisions	(375)	-	(1)	(376)
Other current liabilities	(64)	(1)	(50)	(115)
<b>Total net assets</b>	<b>1,566</b>	<b>128</b>	<b>115</b>	<b>1,809</b>
Share of net assets acquired	1,566	65	100	1,731
Goodwill	3,460	57	145	3,662
<b>Total purchase consideration</b>	<b>5,026</b>	<b>122</b>	<b>245</b>	<b>5,393</b>
Liabilities from acquisition of the subsidiary	-	(15)	(33)	(48)
Cash outflow on acquisition of the subsidiary in 2017	5,026	107	212	5,345
Less: Cash and cash equivalents in the subsidiary acquired	(370)	(14)	(40)	(424)
<b>Cash outflow on acquisition of the subsidiary in 2017, net</b>	<b>4,656</b>	<b>93</b>	<b>172</b>	<b>4,921</b>
Revenues and other operating income since 1.1. till acquisition date	4,366	62	417	4,845
Net income (loss) since 1.1. till acquisition date	3	(10)	32	25

If the combinations had taken place at the beginning of the year 2017, net income for CEZ Group as of December 31, 2017 would have been CZK 18,984 million and the revenues and other operating income from continuing operations would have been CZK 206,751 million. The amounts of goodwill recognized as a result of the business combinations comprise the value of expected synergies arising from the acquisitions.

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

	Elevion Group	OEM Energy	Other	Total
Revenues and other operating income	2,827	43	112	2,982
Income (loss) before other income (expense) and income taxes	88	(1)	11	98
Net income (loss)	47	(1)	9	55
Net income (loss) attributable:				
Equity holders of the parent	45	(1)	8	52
Non-controlling interests	2	-	1	3

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

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

#### Acquisitions of non-controlling interests from third parties in 2017

On December 20, 2017 the Group increased the ownership interest from 95% to 100% in company Areál Třeboradice, a.s. The following table summarizes the critical terms of this transaction (in CZK millions):

Acquired share of net assets derecognized from non-controlling interests	10
Amount directly recognized in equity	7
Total purchase consideration	<u>17</u>

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

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

### Sale of subsidiaries and disposal of investments in joint-venture in 2017

The sale of interest in Elektrárna Tisová, a.s. took place on January 2, 2017. As at December 31, 2016 the Group classified the assets and the liabilities of Tisová power plant as the assets held for sale (Note 16).

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

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

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

	Elektrárna Tisová	TEC Varna
Derecognized balance sheet items:		
Net plant in service	194	137
Restricted financial assets	13	-
Cash and cash equivalents	104	1
Receivables, net	152	1
Other current assets	152	13
Non-current provisions	(328)	(130)
Deferred tax liability	-	(2)
Current provisions	(129)	(18)
Trade and other payables	(24)	(6)
Other current liabilities	(89)	-
Net assets derecognized from balance sheet	45	(4)
Effect of intercompany balances:		
Receivables, net	(92)	-
Trade and other payables	381	493
Payables from group cash pooling	335	-
Accrued liabilities	67	-
Total	691	493
Translation differences reclassified from equity	-	757
Total cost of sale of the Group	736	1,246
Revenue on sale	736	1,232
Gain (loss) on sale	-	(14)

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

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

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

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

#### Acquisitions of subsidiaries from third parties in 2016

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

	AZ KLIMA	Energie2 Prodej	Other	Total
Share of the Group	100%	100%		
Property, plant and equipment	57	-	18	75
Other non-current assets	31	4	10	45
Materials and supplies, net	50	-	46	96
Receivables, net	240	99	34	373
Cash and cash equivalents	15	16	23	54
Other current assets	35	5	-	40
Long-term debt, net of current portion	(50)	-	(1)	(51)
Other long-term liabilities	(7)	(87)	-	(94)
Short-term loans	(30)	-	-	(30)
Trade and other payables	(163)	(79)	(41)	(283)
Current provisions	(49)	-	-	(49)
Accrued liabilities	(25)	(26)	(4)	(55)
	<hr/>	<hr/>	<hr/>	<hr/>
Total net assets	104	(68)	85	121
Share of net assets acquired	104	(68)	68	104
Goodwill	245	87	4	336
	<hr/>	<hr/>	<hr/>	<hr/>
Total purchase consideration	349	19	72	440
Less: Interest acquired in previous periods	-	-	(18)	(18)
	<hr/>	<hr/>	<hr/>	<hr/>
Cash outflow on acquisition of the subsidiary in 2016	349	19	54	422
Less: Cash and cash equivalents in the subsidiaries acquired	(15)	(16)	(23)	(54)
	<hr/>	<hr/>	<hr/>	<hr/>
Cash outflow on acquisition of the subsidiary in 2016, net	<u>334</u>	<u>3</u>	<u>31</u>	<u>368</u>
Net income since 1.1. till acquisition date	40	17	8	65
Revenues and other operating income since 1.1. till acquisition date	608	87	3	698

If the combinations had taken place at the beginning of the year 2016, net income for CEZ Group as of December 31, 2016 would have been CZK 14,640 million and the revenues and other operating income from continuing operations would have been CZK 204,442 million. The amounts of goodwill recognized as

a result of the business combinations comprise the value of expected synergies arising from the acquisitions.

From the acquisition date, the newly acquired subsidiaries have contributed the following balances to the Group's statement of income for 2016 (in CZK millions):

	AZ KLIMA	Energie2 Prodej	Other	Total
Revenues and other operating income	211	72	358	641
Income before other income (expense) and income taxes	17	17	35	69
Net income	14	13	31	58
Net income attributable:				
Equity holders of the parent	14	13	26	53
Non-controlling interests	-	-	5	5

#### Acquisitions of non-controlling interests from third parties in 2016

On November 22, 2016 the Group increased the ownership interest from 75% to 100% in company EVČ, s.r.o. The following table summarizes the critical terms of this transaction (in CZK millions):

Acquired share of net assets derecognized from non-controlling interests	17
Amount directly recognized in equity	10
Total purchase consideration	27

## 9. Investments in Subsidiaries, Associates and Joint-ventures

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

Subsidiaries	Country of incorporation	% equity interest *		% voting interest	
		2017	2016	2017	2016
A.E. Wind S.A.	Poland	100.00%	100.00%	100.00%	100.00%
AirPlus, spol. s r.o.	Czech Republic	100.00%	-	100.00%	-
Areál Třeboradice, a.s.	Czech Republic	100.00%	95.00%	100.00%	95.00%
AZ KLIMA a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
AZ KLIMA SK, s.r.o.	Slovakia	100.00%	100.00%	100.00%	100.00%
Baltic Green Construction sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
Baltic Green I sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
Baltic Green II sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
Baltic Green III sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
Baltic Green IV sp. z o.o. <sup>1)</sup>	Poland	-	100.00%	-	100.00%
Baltic Green IX sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
Baltic Green V sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
Baltic Green VI sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
Baltic Green VII sp. z o.o. <sup>1)</sup>	Poland	-	100.00%	-	100.00%
Baltic Green VIII sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
Baltic Green X sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
BANDRA Mobiliengesellschaft mbH & Co. KG <sup>2)</sup>	Germany	100.00%	-	100.00%	-
Bara Group EOOD	Bulgaria	100.00%	100.00%	100.00%	100.00%
CASANO Mobiliengesellschaft mbH & Co. KG <sup>2)</sup>	Germany	100.00%	-	100.00%	-
Centrum výzkumu Řež s.r.o.	Czech Republic	52.46%	52.46%	100.00%	100.00%
CEZ Bulgaria EAD	Bulgaria	100.00%	100.00%	100.00%	100.00%
CEZ Bulgarian Investments B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ Deutschland GmbH	Germany	100.00%	100.00%	100.00%	100.00%
CEZ Elektro Bulgaria AD	Bulgaria	67.00%	67.00%	67.00%	67.00%
CEZ Erneuerbare Energien Beteiligungs GmbH	Germany	100.00%	100.00%	100.00%	100.00%
CEZ Erneuerbare Energien Verwaltungs GmbH	Germany	100.00%	100.00%	100.00%	100.00%
CEZ ESCO Bulgaria EOOD <sup>3)</sup>	Bulgaria	100.00%	-	100.00%	-
CEZ ESCO I GmbH <sup>3)</sup>	Germany	95.00%	-	92.00%	-
CEZ ESCO Poland B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ ESCO Polska sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
CEZ France S.A.S. <sup>3)</sup>	France	100.00%	-	100.00%	-
CEZ Hungary Ltd.	Hungary	100.00%	100.00%	100.00%	100.00%
CEZ Chorzów S.A.	Poland	100.00%	100.00%	100.00%	100.00%
CEZ ICT Bulgaria EAD	Bulgaria	67.00%	67.00%	100.00%	100.00%
CEZ International Finance B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ MH B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ Poland Distribution B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ Polska sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
CEZ Produkty Energetyczne Polska sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
CEZ Razpredelenie Bulgaria AD	Bulgaria	67.00%	67.00%	67.00%	67.00%
CEZ Romania S.A.	Romania	100.00%	100.00%	100.00%	100.00%

<sup>1)</sup> The company was liquidated in 2017.

<sup>2)</sup> The share in the company was acquired in 2017, but the transaction was not a business combination.

<sup>3)</sup> The company was newly established in 2017.

Subsidiaries	Country of incorporation	% equity interest *		% voting interest	
		2017	2016	2017	2016
CEZ Skawina S.A.	Poland	100.00%	100.00%	100.00%	100.00%
CEZ Slovensko, s.r.o.	Slovakia	100.00%	100.00%	100.00%	100.00%
CEZ Srbija d.o.o.	Serbia	100.00%	100.00%	100.00%	100.00%
CEZ Towarowy Dom Maklerski sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
CEZ Trade Bulgaria EAD	Bulgaria	100.00%	100.00%	100.00%	100.00%
CEZ Trade Polska sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
CEZ Trade Romania S.R.L.	Romania	100.00%	100.00%	100.00%	100.00%
CEZ Ukraine LLC	Ukraine	100.00%	100.00%	100.00%	100.00%
CEZ Vanzare S.A.	Romania	100.00%	100.00%	100.00%	100.00%
CEZ Windparks Lee GmbH <sup>4)</sup>	Germany	100.00%	100.00%	100.00%	100.00%
CEZ Windparks Luv GmbH <sup>5)</sup>	Germany	100.00%	100.00%	100.00%	100.00%
CEZ Windparks Nordwind GmbH <sup>6)</sup>	Germany	100.00%	100.00%	100.00%	100.00%
ČEZ Bohunice a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Bytové domy, s.r.o. <sup>3)</sup>	Czech Republic	51.00%	-	51.00%	-
ČEZ Distribuce, a. s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Distribuční služby, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Energetické produkty, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Energetické služby, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ ENERGOSERVIS spol. s r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ ESCO, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ ICT Services, a. s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Inženýring, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Korporátní služby, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ LDS s.r.o.	Czech Republic	51.00%	51.00%	51.00%	51.00%
ČEZ Obnovitelné zdroje, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ OZ uzavřený investiční fond a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Prodej, a.s. <sup>7)</sup>	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Recyklace, s.r.o.	Czech Republic	99.00%	99.00%	99.00%	99.00%
ČEZ Solární, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Teplárenská, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Zákaznické služby, s.r.o. <sup>8)</sup>	Czech Republic	-	100.00%	-	100.00%
D-I-E ELEKTRO AG	Germany	95.00%	-	100.00%	-
Distributie Energie Oltenia S.A. <sup>9)</sup>	Romania	100.00%	100.00%	100.00%	100.00%
EAB Automation Solutions GmbH	Germany	95.00%	-	100.00%	-
EAB Elektroanlagenbau GmbH Rhein/Main	Germany	95.00%	-	100.00%	-
EASY POWER s.r.o.	Czech Republic	51.00%	-	100.00%	-
Eco-Wind Construction S.A.	Poland	100.00%	100.00%	100.00%	100.00%
EGP INVEST, spol. s r.o.	Czech Republic	52.46%	52.46%	100.00%	100.00%
Elektrárna Dětmárovice, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Elektrárna Dukovany II, a. s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Elektrárna Mělník III, a. s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Elektrárna Počerady, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Elektrárna Temelín II, a. s.	Czech Republic	100.00%	100.00%	100.00%	100.00%

4) In 2017 the company name wpd Windparks Lee GmbH was changed to CEZ Windparks Lee GmbH

5) In 2017 the company name wpd Windparks Luv GmbH was changed to CEZ Windparks Luv GmbH

6) In 2017 the company name wpd Windparks Nordwind GmbH was changed to CEZ Windparks Nordwind GmbH

7) In 2017 the company ČEZ Prodej, s.r.o. changed its legal form to a joint-stock company and was renamed to ČEZ Prodej, a.s.

8) The company merged with the succession company ČEZ Prodej, a.s. in 2017.

9) In 2017 the company name CEZ Distributie S.A. was changed to Distributie Energie Oltenia S.A.

Subsidiaries	Country of incorporation	% equity interest *		% voting interest	
		2017	2016	2017	2016
Elektrárna Tisová, a.s. <sup>10)</sup>	Czech Republic	-	100.00%	-	100.00%
Elektro-Decker GmbH	Germany	95.00%	-	100.00%	-
Elektrownie Wiatrowe Lubiechowo sp. z o.o. <sup>1)</sup>	Poland	-	100.00%	-	100.00%
Elevion GmbH	Germany	95.00%	-	100.00%	-
Energetické centrum s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Energie2 Prodej, s.r.o. <sup>8)</sup>	Czech Republic	-	100.00%	-	100.00%
Energocentrum Vítkovice, a. s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Energotrans, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ENESA a.s.	Czech Republic	75.00%	75.00%	75.00%	75.00%
ESCO City I sp. z o.o. <sup>3)</sup>	Poland	100.00%	-	100.00%	-
ESCO City II sp. z o.o. <sup>3)</sup>	Poland	100.00%	-	100.00%	-
ESCO City III sp. z o.o. <sup>3)</sup>	Poland	100.00%	-	100.00%	-
ETS Efficient Technical Solutions GmbH	Germany	95.00%	-	100.00%	-
ETS Efficient Technical Solutions Shanghai Co. Ltd.	China	95.00%	-	100.00%	-
EVČ s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Farma Wiatrowa Leśce sp. z o.o. <sup>1)</sup>	Poland	-	100.00%	-	100.00%
Farma Wiatrowa Wilkolaz-Bychawa sp. z o.o. <sup>1)</sup>	Poland	-	100.00%	-	100.00%
Ferme Eolienne de la Piballe S.A.S. <sup>2)</sup>	France	100.00%	-	100.00%	-
Ferme Eolienne de Neuville-aux-Bois S.A.S. <sup>2)</sup>	France	100.00%	-	100.00%	-
Ferme Eolienne de Saint-Aulaye S.A.S. <sup>2)</sup>	France	100.00%	-	100.00%	-
Ferme Eolienne de Saint-Laurent-de-Ceris S.A.S. <sup>2)</sup>	France	100.00%	-	100.00%	-
Ferme Eolienne de Seigny S.A.S. <sup>2)</sup>	France	100.00%	-	100.00%	-
Ferme Eolienne de Thorigny S.A.S. <sup>2)</sup>	France	100.00%	-	100.00%	-
Ferme Eolienne des Breuils S.A.S. <sup>2)</sup>	France	100.00%	-	100.00%	-
Ferme Eolienne des Grands Clos S.A.S. <sup>2)</sup>	France	100.00%	-	100.00%	-
Ferme Eolienne du Germancé S.A.S. <sup>2)</sup>	France	100.00%	-	100.00%	-
Free Energy Project Oreshets EAD	Bulgaria	100.00%	100.00%	100.00%	100.00%
HAu.S GmbH	Germany	95.00%	-	100.00%	-
HORMEN CE a.s.	Czech Republic	51.00%	-	51.00%	-
Inven Capital, investiční fond, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
KART, spol. s r.o.	Czech Republic	100.00%	-	100.00%	-
M.W. Team Invest S.R.L.	Romania	100.00%	100.00%	100.00%	100.00%
MARTIA a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Mega Energy sp. z o.o. <sup>1)</sup>	Poland	-	100.00%	-	100.00%
OEM Energy sp. z o.o. <sup>11)</sup>	Poland	50.00%	-	51.00%	-
OSC, a.s.	Czech Republic	66.67%	66.67%	66.67%	66.67%
Ovidiu Development S.R.L.	Romania	100.00%	100.00%	100.00%	100.00%
PRODECO, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Revitrans, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Rudolf Fritz GmbH	Germany	95.00%	-	100.00%	-
SD - Kolejová doprava, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Severočeské doly a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Shared Services Albania Sh.A.	Albania	100.00%	100.00%	100.00%	100.00%

<sup>10)</sup> The Group sold its interest in the company in 2017 (Note 8).

<sup>11)</sup> The formal registration of the increase of Group's equity interest to 51% was realized in February 2018.



Subsidiaries	Country of incorporation	% equity interest *		% voting interest	
		2017	2016	2017	2016
ŠKODA PRAHA a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ŠKODA PRAHA Invest s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
TEC Varna EAD <sup>10)</sup>	Bulgaria	-	100.00%	-	100.00%
Telco Pro Services, a. s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Tepelné hospodářství města Ústí nad Labem s.r.o.	Czech Republic	55.83%	55.83%	55.83%	55.83%
TMK Hydroenergy Power S.R.L.	Romania	100.00%	100.00%	100.00%	100.00%
Tomis Team S.A.	Romania	100.00%	100.00%	100.00%	100.00%
ÚJV Řež, a. s.	Czech Republic	52.46%	52.46%	52.46%	52.46%
Windpark Baben Erweiterung GmbH & Co. KG	Germany	100.00%	100.00%	100.00%	100.00%
Windpark Badow GmbH & Co. KG	Germany	100.00%	100.00%	100.00%	100.00%
Windpark Fohren-Linden GmbH & Co. KG	Germany	100.00%	100.00%	100.00%	100.00%
Windpark Frauenmark III GmbH & Co. KG	Germany	100.00%	100.00%	100.00%	100.00%
Windpark Gremersdorf GmbH & Co. KG	Germany	100.00%	100.00%	100.00%	100.00%
Windpark Cheinitz-Zethlingen GmbH & Co. KG	Germany	100.00%	100.00%	100.00%	100.00%
Windpark Mengerlinghausen GmbH & Co. KG	Germany	100.00%	100.00%	100.00%	100.00%
Windpark Naundorf GmbH & Co. KG	Germany	100.00%	100.00%	100.00%	100.00%
Windpark Zagelsdorf GmbH & Co. KG	Germany	100.00%	100.00%	100.00%	100.00%

Associates and Joint-ventures	Country of incorporation	% equity interest *		% voting interest	
		2017	2016	2017	2016
Akcez Enerji A.S.	Turkey	50.00%	50.00%	50.00%	50.00%
AK-EL Kemah Elektrik Üretim ve Ticaret A.S.	Turkey	37.36%	37.36%	50.00%	50.00%
AK-EL Yalova Elektrik Üretim A.S.	Turkey	37.36%	37.36%	50.00%	50.00%
Akenerji Dogal Gaz Ithalat Ihracat ve Toptan Ticaret A.S.	Turkey	37.36%	37.36%	50.00%	50.00%
Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan Ticaret A.S.	Turkey	37.36%	37.36%	50.00%	50.00%
Akenerji Elektrik Üretim A.S.	Turkey	37.36%	37.36%	37.36%	37.36%
CM European Power International B.V. <sup>1)</sup>	Netherlands	-	50.00%	-	50.00%
ČEZ Energo, s.r.o.	Czech Republic	50.10%	50.10%	50.10%	50.10%
Egemer Elektrik Üretim A.S.	Turkey	37.36%	37.36%	50.00%	50.00%
Elevion Co-Investment GmbH & Co. KG	Germany	37.50%	-	37.50%	-
Jadrová energetická spoločnosť Slovenska, a. s.	Slovakia	49.00%	49.00%	50.00%	50.00%
juwi Wind Germany 100 GmbH & Co. KG <sup>2)</sup>	Germany	51.00%	-	51.00%	-
LOMY MOŘINA spol. s r.o.	Czech Republic	51.05%	51.05%	51.05%	51.05%
Sakarya Elektrik Dagitim A.S.	Turkey	50.00%	50.00%	50.00%	50.00%
Sakarya Elektrik Perakende Satis A.S.	Turkey	50.00%	50.00%	50.00%	50.00%

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

### Subsidiaries with non-controlling interests

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

	2017		2016	
	Non-controlling interests	Dividends paid	Non-controlling interests	Dividends paid
CEZ Razpredelenie Bulgaria AD	2,742	217	3,194	-
ÚJV Řež, a. s.	831	-	791	-
CEZ Elektro Bulgaria AD	541	-	407	-
Other	190	24	156	8
<b>Total</b>	<b>4,304</b>	<b>241</b>	<b>4,548</b>	<b>8</b>

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

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

The following table shows summarized financial information of subsidiaries that have material non-controlling interests for the year ended December 31, 2016 (in CZK millions):

	CEZ Razpredelenie Bulgaria AD	ÚJV Řež, a. s.	CEZ Elektro Bulgaria AD
Ownership share of non-controlling interests	33.00%	47.54%	33.00%
Current assets	1,778	1,077	4,344
Non-current assets	10,349	1,756	81
Current liabilities	(1,826)	(605)	(3,074)
Non-current liabilities	(960)	(554)	(119)
Equity	9,341	1,674	1,232
Attributable to:			
Equity holders of the parent	6,147	883	825
Non-controlling interests	3,194	791	407
Revenues and other operating income	5,633	1,583	17,462
Income before other income (expenses) and income taxes	677	164	13
Income before income taxes	667	151	12
Income taxes	(67)	(20)	(3)
Net income (loss)	600	131	9
Attributable to:			
Equity holders of the parent	402	69	6
Non-controlling interests	198	62	3
Total comprehensive income	596	126	10
Attributable to:			
Equity holders of the parent	400	66	7
Non-controlling interests	196	60	3
Operating cash flow	1,037	150	492
Investing cash flow	(1,095)	(55)	-
Financing cash flow	185	(4)	(5)
Net effect of currency translation in cash	-	1	(1)
Net increase in cash and cash equivalents	127	92	486

## Interests in associates and joint-ventures

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

	Carrying amount of investment	Dividends received	Group's share of associate's and joint-venture's:		
			Net income (loss)	Other comprehensive income	Total comprehensive income
Akcez Group	-	-	(566)	2	(564)
Akenerji Group *	-	-	(1,110)	1,577	467
CM European Power International B.V.**	-	208	(1)	(30)	(31)
Jadrová energetická spoločnosť Slovenska, a. s.	2,652	-	(35)	(155)	(190)
ČEZ Energo, s.r.o.	646	-	27	-	27
Other	222	11	5	-	5
<b>Total</b>	<b>3,520</b>	<b>219</b>	<b>(1,680)</b>	<b>1,394</b>	<b>(286)</b>

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

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

As of December 31, 2017 the share on losses of joint-ventures Akcez Enerji A.S. and Akenerji Elektrik Üretim A.S. exceeded the carrying amounts of Group's investments in these joint-ventures. The Group is a guarantor for the liabilities of Akcez Enerji A.S. (see Note 20.2), therefore the Group recognized its share on losses in full and recognized a liability in the amount of CZK 259 million as of December 31, 2017. The Group has made no obligations on behalf of Akenerji Elektrik Üretim A.S. and consequently recognized its full share on net loss and its share on other comprehensive income to the extent not to recognize liability as of December 31, 2017. The amount of unrecognized share of the Group on losses of Akenerji Group amounted to CZK 1,353 million as of December 31, 2017.

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

The following table shows the composition of Group's investment in joint-ventures and share of main financial results from joint-ventures for the year ended December 31, 2016 (in CZK millions):

	Carrying amount of investment	Dividends received	Group's share of joint-venture's:		
			Net income (loss)	Other comprehensive income	Total comprehensive income
Akcez Group *	305	-	(884)	(180)	(1,064)
Akenerji Group	240	-	(1,499)	(411)	(1,910)
CM European Power International B.V.	1,189	-	167	-	167
CM European Power Slovakia s.r.o. **	-	-	132	1	133
Jadrová energetická spoločnosť Slovenska, a. s.	2,842	-	(46)	(1)	(47)
ČEZ Energo, s.r.o.	544	-	17	-	17
Other	189	14	10	(6)	4
<b>Total</b>	<b>5,309</b>	<b>14</b>	<b>(2,103)</b>	<b>(597)</b>	<b>(2,700)</b>

\* In 2016 the Group impaired goodwill allocated to Akcez Group in total amount of CZK 630 million. This impairment loss was recognized in the statement of income in the line Share of profit (loss) from joint-ventures.

\*\* In 2016 the Group sold its share in CM European Power Slovakia s.r.o.

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

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

The following tables present summarized financial information of material joint-ventures for the year ended December 31, 2016 (in CZK millions):

	Current assets	Out of which: Cash and cash equivalents	Non-current assets	Current liabilities	Non-current liabilities	Equity	Share of the Group	Goodwill	Total carrying amount of the investment
Akcez Enerji A.S.	25	1	7,026	656	5,103	1,292			
Sakarya Elektrik Dagitim A.S.	2,112	83	2,995	2,902	1,145	1,060			
Sakarya Elektrik Perakende Satis A.S.	5,003	229	2,348	4,279	443	2,629			
Akcez Group						610	305	-	305
Akenerji Elektrik Üretim A.S.	3,685	2,834	14,462	1,786	8,890	7,471			
Egemer Elektrik Üretim A.S.	1,373	77	11,827	3,004	14,469	(4,273)			
Akenerji Group						(1,486)	(555)	795	240
CM European Power International B.V.	2,379	1,648	-	1	-	2,378	1,189	-	1,189
Jadrová energetická spoločnosť Slovenska, a. s.	1,811	1,791	4,007	17	1	5,800	2,842	-	2,842
ČEZ Energo, s.r.o.	215	97	1,699	188	831	895	448	96	544
	Revenues and other operating income	Depreciation and amortization	Interest income	Interest expense	Income taxes	Net income (loss)	Other comprehensive income	Total comprehensive income	
Akcez Enerji A.S.	-	-	46	(332)	(15)	(861)	(250)	(1,111)	
Sakarya Elektrik Dagitim A.S.	5,542	(2)	20	(205)	66	553	143	696	
Sakarya Elektrik Perakende Satis A.S.	19,379	(143)	121	(19)	60	(883)	(633)	(1,516)	
Akenerji Elektrik Üretim A.S.	1,711	(433)	142	(1,051)	(62)	(737)	(1,292)	(2,029)	
Egemer Elektrik Üretim A.S.	7,898	(437)	47	(1,179)	798	(3,416)	119	(3,297)	
CM European Power International B.V.	-	-	19	(2)	(3)	889	(1)	888	
CM European Power Slovakia s.r.o.	1,421	-	306	(34)	(32)	264	(1)	263	
Jadrová energetická spoločnosť Slovenska, a. s.	19	(23)	13	-	(3)	(92)	(23)	(115)	
ČEZ Energo, s.r.o.	825	(145)	-	(18)	-	34	-	34	

## 10. Cash and Cash Equivalents

The composition of cash and cash equivalents at December 31, 2017 and 2016 is as follows (in CZK millions):

	<u>2017</u>	<u>2016</u>
Cash on hand and current accounts with banks	8,293	7,685
Short-term securities	901	201
Term deposits	<u>3,429</u>	<u>3,340</u>
Total	<u><u>12,623</u></u>	<u><u>11,226</u></u>

At December 31, 2017 and 2016, cash and cash equivalents included foreign currency deposits of CZK 4,409 million and CZK 3,590 million, respectively.

The weighted average interest rate on short-term securities and term deposits at December 31, 2017 and 2016 was 0.2%. For the years 2017 and 2016 the weighted average interest rate was 0.2%.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at December 31, 2017 and 2016 (in CZK millions):

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents as a separate line in the balance sheet	12,623	11,226
Cash and cash equivalents attributable to assets classified as held for sale (Note 16)	<u>-</u>	<u>104</u>
Total	<u><u>12,623</u></u>	<u><u>11,330</u></u>

## 11. Receivables, Net

The composition of receivables, net, at December 31, 2017 and 2016 is as follows (in CZK millions):

	<u>2017</u>	<u>2016</u>
Unbilled electricity supplied to retail customers	2,712	7,876
Received advances from retail customers	<u>(1,111)</u>	<u>(6,206)</u>
Unbilled supplies to retail customers, net	1,601	1,670
Trade receivables	50,235	50,234
Taxes and fees, excluding income taxes	1,541	2,026
Other receivables	9,128	10,090
Allowance for doubtful receivables	<u>(4,739)</u>	<u>(7,689)</u>
Total	<u><u>57,766</u></u>	<u><u>56,331</u></u>

The information about receivables from related parties is included in Note 34.

Group's receivables pledged as security for liabilities at December 31, 2017 and 2016 are CZK 63 million and CZK 344 million, respectively.



At December 31, 2017 and 2016, the ageing analysis of receivables, net is as follows (in CZK millions):

	<u>2017</u>	<u>2016</u>
Not past due	55,099	52,943
Past due but not impaired <sup>1)</sup> :		
Less than 3 months	1,364	2,530
3 – 6 months	387	287
6 – 12 months	344	196
more than 12 months	<u>572</u>	<u>375</u>
Total	<u><u>57,766</u></u>	<u><u>56,331</u></u>

<sup>1)</sup> Past due but not impaired receivables include net receivables, for which the Group 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):

	<u>2017</u>	<u>2016</u>
Opening balance	(7,689)	(6,731)
Additions	(1,988)	(2,173)
Reversals	2,634	1,236
Derecognition of impaired assets	2,236	-
Acquisition of subsidiaries	(69)	(26)
Disposal of subsidiaries	8	-
Currency translation differences	<u>129</u>	<u>5</u>
Closing balance	<u><u>(4,739)</u></u>	<u><u>(7,689)</u></u>

## 12. Materials and Supplies, Net

The composition of materials and supplies, net at December 31, 2017 and 2016 is as follows (in CZK millions):

	<u>2017</u>	<u>2016</u>
Gross construction contracts work in progress	6,171	-
Received billings and advances	<u>(4,958)</u>	<u>-</u>
Net asset from construction contracts	1,213	-
Gross costs incurred on wind projects in Poland in development	960	968
Allowance to wind projects in Poland	<u>(955)</u>	<u>(808)</u>
Wind projects in Poland in development, net	5	160
Materials	7,804	6,814
Other work in progress	728	665
Other supplies	126	169
Allowance for obsolescence	<u>(339)</u>	<u>(288)</u>
Total	<u><u>9,537</u></u>	<u><u>7,520</u></u>

### 13. Emission Rights

The following table summarizes the movements in the quantity (in thousand tons) and book value of emission rights and credits held by the Group during 2017 and 2016 (in CZK millions):

	2017		2016	
	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	27,409	2,229	30,677	2,212
Emission rights granted	8,078	-	11,775	-
Settlement of prior year actual emissions with register	(28,974)	(2,452)	(28,667)	(1,954)
Emission rights purchased	23,021	3,478	15,057	2,079
Emission credits purchased	150	1	30	-
Reclassified to assets classified as held for sale	-	-	(1,463)	(91)
Disposal of subsidiary	(8)	(1)	-	-
Currency translation differences	-	-	-	(17)
Granted and purchased emission rights and credits at December 31	<u>29,676</u>	<u>3,255</u>	<u>27,409</u>	<u>2,229</u>
Emission rights and credits held for trading:				
Emission rights and credits held for trading at January 1	4,660	827	2,800	624
Settlement of prior year actual emissions with register	-	-	(8)	(2)
Emission rights purchased	124,803	18,798	15,921	2,438
Emission rights sold	(107,639)	(17,461)	(14,053)	(2,121)
Fair value adjustment	-	2,378	-	(112)
Emission rights and credits held for trading at December 31	<u>21,824</u>	<u>4,542</u>	<u>4,660</u>	<u>827</u>

During 2017 and 2016 total emissions of greenhouse gases made by the Group companies amounted to an equivalent of 27,850 thousand tons and 28,974 thousand tons of CO<sub>2</sub>, respectively. At December 31, 2017 and 2016 the Group recognized a provision for CO<sub>2</sub> emissions in total amount of CZK 3,664 million and CZK 2,699 million, respectively (see Notes 2.13 and 21).

At December 31, 2017 and 2016 the item Emission rights in the balance sheet includes also green and similar certificates in total amount CZK 1,573 million and CZK 902 million, respectively.

The following table shows the impact of transactions with emission rights and credits, green and similar certificates on income for the years ended December 31, 2017 and 2016 (in CZK millions):

	2017	2016
Net gain (loss) from trading with emission rights	1,017	(90)
Gain on green and similar certificates	1,440	1,734
Net loss from derivatives	(3,119)	(85)
Creation of provision for CO <sub>2</sub> emissions	(3,447)	(2,639)
Settlement of provision for CO <sub>2</sub> emissions	2,563	2,628
Remitted emission rights and credits	(2,452)	(1,956)
Fair value adjustment	2,378	(112)
Net loss related to emission rights, emission credits and green and similar certificates	<u>(1,620)</u>	<u>(520)</u>

#### 14. Other Financial Assets, Net

Other financial assets, net, at December 31, 2017 and 2016 were as follows (in CZK millions):

	2017	2016
Debt securities held-to-maturity	-	2,945
Debt securities available-for-sale	2,807	7
Term deposits	500	2,040
Investment in MOL	-	13,815
Derivatives	39,745	37,694
Total	<u>43,052</u>	<u>56,501</u>

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

On February 4, 2014 the Group issued EUR 470.2 million exchangeable bonds due 2017 exchangeable for existing ordinary shares of MOL Hungarian Oil and Gas PLC (MOL). The deal has been priced on January 28, 2014 bearing no coupon and initial exchange price has been set at EUR 61.25 per share, reflecting a premium of 35%. Bondholders have had the right to exchange the bonds for shares from January 25, 2017, subject to the issuer's right to elect to deliver an equivalent amount in cash for all or part of the shares. Embedded conversion option was separated and was shown as a separate liability from derivatives in Trade and other payables.

On April 4, 2017 the settlement of equity placing of MOL took place. The funds received were used to buy back the exchangeable bonds. There were exchangeable bonds of EUR 463.1 million of the principal amount bought back in these transactions, the remaining part of the exchangeable bonds was converted into MOL shares due to called options during the period of February to May 2017. The accumulated gain from revaluation of these shares was reclassified from equity and was recognized in the statement of income (see Note 32) on the disposal of the shares from the balance sheet. The cash received from sale of MOL shares in the amount of CZK 12,037 million is presented on the line Proceeds from sale of non-current assets in the statement of cash flows. The cash outflow related to exchangeable bond buy back in the amount of CZK 12,822 million is presented on the line Payments of borrowings in the statement of cash flows. This amount includes the cash outflow attributable to embedded conversion option, which ceased to exist on bond redemption, in the amount of CZK 686 million.

Short-term debt securities held-to-maturity at December 31, 2017 and 2016 have the following effective interest rate structure (in CZK millions):

	<u>2017</u>	<u>2016</u>
Less than 2.00%	-	2,945
Total	<u>-</u>	<u>2,945</u>

Debt securities available-for-sale at December 31, 2017 and 2016 have the following effective interest rate structure (in CZK millions):

	<u>2017</u>	<u>2016</u>
Less than 2.00%	2,807	7
Total	<u>2,807</u>	<u>7</u>

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

## 15. Other Current Assets

The composition of other current assets at December 31, 2017 and 2016 is as follows (in CZK millions):

	<u>2017</u>	<u>2016</u>
Advances paid	2,371	1,969
Prepayments	1,313	1,258
Total	<u>3,684</u>	<u>3,227</u>

## 16. Assets and Associated Liabilities Classified as Held for Sale

As at December 31, 2016 the Group classified the assets and the liabilities of Tisová power plant as the assets held for sale. As at December 31, 2016 the Group recognized an impairment of these assets held for sale in the amount of CZK 299 million. This expense, representing the difference between the original book value and the sale price, is recognized in the Statement of Income in the row Impairment of Property, Plant and Equipment and Intangible Assets including Goodwill (Note 7). The sale of interest in Elektrárna Tisová took place on January 2, 2017 (Note 8).

The assets classified as held for sale and associated liabilities at December 31, 2017 and 2016 are as follows (in CZK millions):

	2017		2016	
	Other	Tisová power plant	Other	Total
Property, plant and equipment	30	194	32	226
Restricted financial assets	-	13	-	13
Cash and cash equivalents	-	104	-	104
Receivables, net	-	152	-	152
Other current assets	-	152	-	152
Assets classified as held for sale	30	615	32	647
Non-current provisions	-	328	-	328
Trade and other payables	-	24	-	24
Current provisions	-	129	-	129
Other current liabilities	-	89	-	89
Liabilities associated with assets classified as held for sale	-	570	-	570

The assets and results associated with the assets classified as held for sale are reported in the operating segments Generation - Traditional Energy and Generation - New Energy.

## 17. Equity

As at December 31, 2017 and 2016, 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 2017 and 2016 (in pieces):

	2017	2016
Number of treasury shares at beginning of period	3,755,021	3,755,021
Sales of treasury shares	(150,000)	-
Number of treasury shares at end of period	3,605,021	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 33 in 2017 and CZK 40 in 2016. Dividends for the year 2017 will be declared at the general meeting, which will be held in the first half of 2018.

## Capital management

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

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

EBITDA consists of income before income taxes and other income (expenses) plus depreciation and amortization, plus impairment of property, plant and equipment and intangible assets including goodwill and less gain (or loss) on sale of property, plant and equipment. The Group includes within total debt the long-term and short-term interest bearing loans and borrowings. Net debt is defined as total debt less cash and cash equivalents and highly liquid financial assets. Highly liquid financial assets consist for capital management purposes of short-term equity and debt securities available-for-sale, short-term and long-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):

	<u>2017</u>	<u>2016</u>
Total long-term debt	141,097	159,473
Total short-term loans	<u>11,072</u>	<u>8,343</u>
Total debt	152,169	167,816
Less:		
Cash and cash equivalents	(12,623)	(11,226)
Highly liquid financial assets:		
Short-term debt securities available-for-sale (Note 14)	(2,807)	(7)
Short-term debt securities held-to-maturity (Note 14)	-	(2,945)
Short-term deposits (Note 14)	(500)	(2,040)
Long-term deposits (Note 5)	(500)	(500)
Long-term debt securities available-for-sale (Note 5)	(1,777)	(4,646)
Long-term debt securities held-to-maturity (Note 5)	<u>(10)</u>	<u>-</u>
Total net debt	133,952	146,452
Income before income taxes and other income (expenses)	25,620	26,114
Depreciation and amortization	29,305	28,978
Impairment of property, plant and equipment and intangible assets including goodwill	230	3,114
Gains and losses on sale of property, plant and equipment (Note 26 and 29)	<u>(1,234)</u>	<u>(124)</u>
EBITDA	53,921	58,082
Total equity attributable to equity holders of the parent	250,018	256,812
Total debt	<u>152,169</u>	<u>167,816</u>
Total capital	402,187	424,628
Net debt to EBITDA ratio	<u>2.48</u>	<u>2.52</u>
Total debt to total capital ratio	<u>37.8%</u>	<u>39.5%</u>

## 18. Long-term Debt

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

	2017	2016
3.005% Eurobonds, due 2038 (JPY 12,000 million)	2,263	2,621
2.845% Eurobonds, due 2039 (JPY 8,000 million)	1,510	1,748
5.000% Eurobonds, due 2021 (EUR 750 million)	19,114	20,211
6M Euribor + 1.25% Eurobonds, due 2019 (EUR 50 million)	1,275	1,348
3M Euribor + 0.35% Eurobonds, due 2017 (EUR 45 million)	-	1,207
3M Euribor + 0.55% Eurobonds, due 2018 (EUR 200 million)	5,106	5,383
4.875% Eurobonds, due 2025 (EUR 750 million)	19,095	20,193
4.500% Eurobonds, due 2020 (EUR 750 million)	19,087	20,165
2.160% Eurobonds, due 2023 (JPY 11,500 million)	2,175	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) <sup>1)</sup>	2,554	2,702
4.102% Eurobonds, due 2021 (EUR 50 million)	1,275	1,348
4.250% U.S. bonds, due 2022 (USD 289 million)	6,114	7,353
5.625% U.S. bonds, due 2042 (USD 300 million)	6,325	7,613
4.375% Eurobonds, due 2042 (EUR 50 million)	1,254	1,326
4.500% Eurobonds, due 2047 (EUR 50 million)	1,254	1,325
4.383% Eurobonds, due 2047 (EUR 80 million)	2,043	2,162
3.000% Eurobonds, due 2028 (EUR 725 million) <sup>2)</sup>	19,008	13,337
4.500% registered bonds, due 2030 (EUR 40 million)	1,004	1,061
4.750% registered bonds, due 2023 (EUR 40 million)	1,014	1,072
4.700% registered bonds, due 2032 (EUR 40 million)	1,016	1,075
4.270% registered bonds, due 2047 (EUR 61 million)	1,534	1,622
3.550% registered bonds, due 2038 (EUR 30 million)	763	807
Exchangeable bonds, due 2017 (EUR 470.2 million) <sup>3)</sup>	-	12,598
	<u>116,032</u>	<u>132,044</u>
Total bonds and debentures		
Less: Current portion	(5,106)	(13,805)
	<u>110,926</u>	<u>118,239</u>
Long-term bank and other loans:		
Less than 2.00% p. a.	16,940	18,881
2.00% to 2.99% p. a.	7,328	8,545
3.00% to 3.99% p. a.	783	-
4.00% p. a. and more	14	3
	<u>25,065</u>	<u>27,429</u>
Total long-term bank and other loans		
Less: Current portion	(3,516)	(3,403)
	<u>21,549</u>	<u>24,026</u>
Total long-term debt	141,097	159,473
Less: Current portion	(8,622)	(17,208)
	<u>132,475</u>	<u>142,265</u>

<sup>1)</sup> 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.

<sup>2)</sup> Original principal amount (EUR 500 million) was increased by EUR 225 million in September 2017.

<sup>3)</sup> Exchangeable bonds for ordinary shares of MOL Hungarian Oil and Gas PLC (see Note 14). The bonds carry no interest and the separation of embedded conversion option resulted in effective interest rate of 1.43% p. a.

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

All long-term debt is recognized in original currencies while the related hedging derivatives are recognized using the method described in Note 2.20.

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

	<u>2017</u>	<u>2016</u>
Current portion	8,622	17,208
Between 1 and 2 years	4,783	8,746
Between 2 and 3 years	22,582	4,676
Between 3 and 4 years	26,098	23,439
Between 4 and 5 years	11,328	27,225
Thereafter	<u>67,684</u>	<u>78,179</u>
Total long-term debt	<u><u>141,097</u></u>	<u><u>159,473</u></u>

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

	<u>2017</u>		<u>2016</u>	
	Foreign currency	CZK	Foreign currency	CZK
EUR	4,449	113,620	4,761	128,784
USD	584	12,438	584	14,966
JPY	31,446	5,948	31,443	6,888
BGN	133	1,738	42	582
PLN	512	3,128	587	3,595
RON	523	2,868	560	3,331
CZK	-	<u>1,357</u>	-	<u>1,327</u>
Total long-term debt		<u><u>141,097</u></u>		<u><u>159,473</u></u>

Long-term debt with floating interest rates exposes the Group to interest rate risk. The following table summarizes long-term debt with floating rates of interest by contractual reprising dates at December 31, 2017 and 2016 without considering interest rate hedging (in CZK millions):

	<u>2017</u>	<u>2016</u>
Floating rate long-term debt		
with interest rate fixed from 1 to 3 months	11,183	13,592
with interest rate fixed from 3 months to 1 year	14,250	17,346
with interest rate fixed more than 1 year	<u>1,738</u>	<u>582</u>
Total floating rate long-term debt	27,171	31,520
Fixed rate long-term debt	<u>113,926</u>	<u>127,953</u>
Total long-term debt	<u><u>141,097</u></u>	<u><u>159,473</u></u>

Fixed rate long-term debt exposes the Group to the risk of changes in fair values of these financial instruments. For related fair value information and risk management policies of all financial instruments see Note 19 and Note 20.



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

	Debt	Other long-term liabilities	Trade and other payables	Receivables, net	Total liabilities / receivables from financing activities
Amount presented on balance sheet at January 1, 2017	167,816	11,203	80,516	(56,331)	
Less: Liabilities / receivables from other than financing activities	-	(9,748)	(80,103)	56,306	
Liabilities / receivables arising from financing activities at January 1, 2017	167,816	1,455	413	(25)	169,659
Cash flows	(6,150)	18	(17,873)	(10)	(24,015)
Foreign exchange movement	(4,970)	(12)	(1)	-	(4,983)
Changes in fair values	(6,076)	-	-	-	(6,076)
Acquisition of subsidiaries	882	-	-	-	882
Declared dividends	-	-	17,827	-	17,827
Other *	667	255	6	-	928
Liabilities / receivables arising from financing activities at December 31, 2017	152,169	1,716	372	(35)	154,222
Liabilities / receivables arising from other than financing activities	-	14,128	86,864	(57,731)	
Total amount on balance sheet at December 31, 2017	<u>152,169</u>	<u>15,844</u>	<u>87,236</u>	<u>(57,766)</u>	

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

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

## 19. Fair Value of Financial Instruments

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

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

### Cash and cash equivalents, current investments

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

### Securities held for trading

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

### Investments

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

### Short-term receivables and payables

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

### Short-term loans

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

### Long-term debt

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

### Derivatives

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

Carrying amounts and the estimated fair values of financial instruments at December 31, 2017 and 2016 are as follows (in CZK millions):

	Cate- gory	2017		2016	
		Carrying amount	Fair value	Carrying amount	Fair value
Assets:					
Investments:					
Restricted debt securities available-for-sale	AFS	13,971	13,971	15,920	15,920
Restricted cash	LaR	4,497	4,497	3,091	3,091
Financial assets in progress	LaR	6	6	6	6
Term deposits	LaR	500	500	500	500
Debt securities available-for-sale	AFS	1,777	1,777	4,646	4,646
Debt securities held-to-maturity	HTM	10	10	-	-
Equity securities available-for- sale	AFS	1,658	1,658	1,132	1,132
Equity securities available-for- sale at cost *	AFS	3,111	-	3,219	-
Long-term receivables	LaR	269	269	794	794
Current assets:					
Receivables	LaR	56,225	56,225	54,305	54,305
Cash and cash equivalents	LaR	12,623	12,623	11,226	11,226
Debt securities held-to-maturity	HTM	-	-	2,945	2,945
Term deposits	LaR	500	500	2,040	2,040
Debt securities available-for-sale	AFS	2,807	2,807	7	7
Equity securities available-for- sale	AFS	-	-	13,815	13,815
Other current assets	LaR	2,371	2,371	1,969	1,969
Liabilities:					
Long-term debt	AC	(141,097)	(157,181)	(159,473)	(180,430)
Short-term loans	AC	(11,072)	(11,072)	(8,343)	(8,343)
Accounts payable	AC	(44,883)	(44,883)	(42,112)	(42,112)
Derivatives:					
Cash flow hedges:					
Short-term receivables	HFT	2	2	5	5
Long-term receivables	HFT	1,581	1,581	2,684	2,684
Long-term liabilities	HFT	(9,131)	(9,131)	(4,740)	(4,740)
Total cash flow hedges		(7,548)	(7,548)	(2,051)	(2,051)

\* Equity securities available-for-sale that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost.

	Cate- gory	2017		2016	
		Carrying amount	Fair value	Carrying amount	Fair value
Commodity derivatives:					
Short-term receivables	HFT	38,967	38,967	37,286	37,286
Long-term receivables	HFT	-	-	530	530
Short-term liabilities	HFT	(40,777)	(40,777)	(36,924)	(36,924)
Total commodity derivatives		(1,810)	(1,810)	892	892
Other derivatives:					
Short-term receivables	HFT	776	776	403	403
Long-term receivables	HFT	933	933	949	949
Short-term liabilities	HFT	(1,576)	(1,576)	(1,480)	(1,480)
Long-term liabilities	HFT	(1,193)	(1,193)	(1,028)	(1,028)
Total other derivatives		(1,060)	(1,060)	(1,156)	(1,156)

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

### 19.1. Fair Value Hierarchy

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

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

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

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

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

There were no transfers between the levels in 2017 and 2016.

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

Assets measured at fair value

	Total	Level 1	Level 2	Level 3
Commodity derivatives	38,967	1,777	37,190	-
Cash flow hedges	1,583	3	1,580	-
Other derivatives	1,709	358	1,351	-
Restricted debt securities available-for-sale	13,971	13,971	-	-
Debt securities available-for-sale	4,584	4,584	-	-
Equity securities available-for-sale	1,658	1,658	-	-

Liabilities measured at fair value

	Total	Level 1	Level 2	Level 3
Commodity derivatives	(40,777)	(1,615)	(39,162)	-
Cash flow hedges	(9,131)	(2,353)	(6,778)	-
Other derivatives	(2,769)	(860)	(1,909)	-

Assets and liabilities for which fair values are disclosed

	Total	Level 1	Level 2	Level 3
Debt securities held-to-maturity	10	-	10	-
Term deposits	1,000	-	1,000	-
Long-term debt	(157,181)	(102,208)	(54,973)	-

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	37,816	433	37,383	-
Cash flow hedges	2,689	447	2,242	-
Other derivatives	1,352	131	1,221	-
Restricted debt securities available-for-sale	15,920	15,920	-	-
Debt securities available-for-sale	4,653	4,653	-	-
Equity securities available-for-sale	14,947	14,947	-	-

Liabilities measured at fair value

	Total	Level 1	Level 2	Level 3
Commodity derivatives	(36,924)	(2,133)	(34,791)	-
Cash flow hedges	(4,740)	(983)	(3,757)	-
Other derivatives	(2,508)	(10)	(2,498)	-

Assets and liabilities for which fair values are 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	(180,430)	(118,956)	(61,474)	-

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

## 19.2. 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, 2017 and 2016 (in CZK millions):

	2017		2016	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Derivatives	42,259	(52,677)	41,857	(44,172)
Other financial instruments *	27,565	(25,540)	28,617	(23,827)
Collaterals paid (received) **	482	(2,290)	1,341	(1,222)
Gross financial assets / liabilities	70,306	(80,507)	71,815	(69,221)
Assets / liabilities set off under IAS 32	-	-	-	-
Amounts presented in the balance sheet	70,306	(80,507)	71,815	(69,221)
Effect of master netting agreements	(62,970)	62,970	(68,965)	68,965
Net amount after master netting agreements	7,336	(17,537)	2,850	(256)

\* 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 included in Trade and other payables.

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

The information about offset of unbilled electricity supplied to retail customers with advances received is included in Note 11 and 24. The information about offset of construction contracts and related billings and advances received is included in Note 12.

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.

## 20. Financial Risk Management

### Risk management approach

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

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

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

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

### Risk management organization

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

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

### Overview and methods of risk management

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

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

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

- Activities with the unified quantification of the share of respective activity in the aggregate risk limit of the Group (i.e. using specific likelihood, it is possible to objectively determine what risk is associated with an activity/planned profit). These risks are managed by the rules and limits set by the CFO of ČEZ,

- a. s. based on the recommendation of the Risk Management Committee and, concurrently, in accordance with governing documents of the respective units/processes of the Group.
- Activities whose share in the aggregate risk limit of the Group has not been quantified so far or for objective reasons. These risks are managed by the responsible owners of the relevant processes in accordance with internal governing documents of the respective units/processes of the Group.

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

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

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

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

## **20.1. Qualitative Description of Risks Associated with Financial Instruments**

### Commodity risks

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

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

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

### Credit risks

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

With respect to the electricity sales to end customers in the Czech Republic, the actual credibility is monitored for each business partner based on payment history (in addition, the financial standing is considered for selected partners). This credibility determines the payment conditions of partners (i.e. it indirectly determines an amount of an approved credit exposure) and also serves to quantify both the expected and the potential losses.



The Group's maximum exposure to credit risk to receivables and other financial instruments as at December 31, 2017 and 2016 is the carrying value of each class of financial assets except for financial guarantees. Credit risk from balances with banks and financial institutions is managed by the Group's risk management department in cooperation with Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty.

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

#### Liquidity risks

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

## **20.2. Quantitative Description of Risks Associated with Financial Instruments**

#### Commodity risks

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

- the indicator of risk associated with financial instruments is defined as the monthly parametric VaR (95% confidence) which expresses a maximum potential decrease in fair value of contracts classified as derivatives under IAS 39 (the underlying commodities in the Group's derivative transactions are: electricity, EUA and CER/ERU emission allowances, gas, coal ARA, Richards Bay, Newcastle and crude oil and crude oil products) on the given confidence level
- highly probable forecasted future electricity generation sales with the delivery in the CZ power grid are included in the VAR calculation to reflect the hedging character of significant portion of the existing derivative sales of electricity with delivery in Germany
- for the calculation of volatility and correlations (between commodity prices), the SMA (Simple Moving Average) method is applied to 60 daily time series
- the source of market data is mainly EEX, PXE and ICE
- the indicator VaR illustrates mainly the impact of revaluation of above mentioned financial instruments to statement of income.

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

	2017	2016
Monthly VaR (95%) – impact of changes in commodity prices	902	962

### Currency risks

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

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

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

	2017	2016
Monthly currency VaR (95% confidence)	184	599

### Interest risks

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

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

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

	2017	2016
IR sensitivity* to parallel yield curve shift (+10bp)	(12)	(18)

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

### Stock price risks

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

- monthly VaR (95% confidence) was selected as the indicator of stock price risk
- the relevant stock position is defined as market value of stocks/stock options as at December 31
- the considered stock positions reflect all significant stock-sensitive deals of the CEZ Group companies
- the relevant volatility and standard deviation is determined from risk module IS Bloomberg
- the source of market data is IS Bloomberg and ČNB data
- the indicator VaR illustrates mainly impact of revaluation of above mentioned stock position, classified as equity securities available-for-sale, to statement of comprehensive income.

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

	2017	2016
Monthly stock VaR (95% confidence)	-	1,326

#### Credit exposure

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

	2017	2016
Guarantees provided to joint-ventures *	2,584	3,212

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

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

#### Liquidity risk

Maturity profile of financial liabilities based on contractual undiscounted payments at December 31, 2017 (in CZK millions):

	Loans	Bonds and debentures	Trade payables and other liabilities	Derivatives *	Guarantees issued **
Due in 2018	14,790	9,875	49,939	302,134	2,584
Due in 2019	3,792	6,042	1,410	75,564	-
Due in 2020	3,649	23,840	-	25,581	-
Due in 2021	3,283	26,834	-	11,906	-
Due in 2022	5,904	8,748	-	13,414	-
Thereafter	6,212	84,339	15	32,771	-
<b>Total</b>	<b>37,630</b>	<b>159,678</b>	<b>51,364</b>	<b>461,370</b>	<b>2,584</b>

Contractual maturity of undiscounted cash-flow of financial liabilities at December 31, 2016 (in CZK millions):

	Loans	Bonds and debentures	Trade payables and other liabilities	Derivatives *	Guarantees issued **
Due in 2017	11,941	18,788	42,189	242,087	3,212
Due in 2018	3,647	10,352	9	32,828	-
Due in 2019	3,474	6,314	1,251	12,371	-
Due in 2020	3,399	25,114	-	6,298	-
Due in 2021	3,063	28,298	-	9,880	-
Thereafter	11,168	94,038	-	45,963	-
<b>Total</b>	<b>36,692</b>	<b>182,904</b>	<b>43,449</b>	<b>349,427</b>	<b>3,212</b>

\* Contractual maturities for derivatives represent contractual cash out-flows of these instruments, but at the same time the Group will receive corresponding consideration. For fair values of derivatives see Note 19.

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

The committed credit facilities available to the Group as at December 31, 2017 and 2016 amounted to CZK 18.7 billion and CZK 21.7 billion, respectively.

### 20.3. Hedge Accounting

The Group enters into cash flow hedges of future highly probable cash inflows from the sales denominated in EUR against the currency risk. The hedged cash flows are expected to occur in the period from 2018 to 2023. The hedging instruments as at December 31, 2017 and 2016 are the EUR denominated liabilities from the issued Eurobonds and bank loans in the total amount of EUR 4.1 billion and EUR 3.9 billion, respectively, and currency forward contracts and swaps. The fair value of these derivative hedging instruments (currency forward contracts and swaps) amounted to CZK (16) million and CZK 1,537 million at December 31, 2017 and 2016, respectively.

The Group also enters into cash flow hedges of highly probable future sales of electricity in the Czech Republic from 2019 to 2023. The hedging instruments are the futures and forward contracts electricity sales in Germany. The fair value of these derivative hedging instruments amounted to CZK (7,532) million and CZK (3,588) million at December 31, 2017 and 2016, respectively.

The Group applied cash flow hedges of future highly probable purchases of emission allowances which had been expected to occur in 2017 and 2016. The hedging instruments were the futures contracts for the purchase of allowances equivalent to 7.0 million and 7.3 million tons of CO<sub>2</sub> emissions, respectively. The final settlement of the purchase of these hedged emission allowances was in December 2017 and 2016.

In 2017 and 2016 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 and related services, Gains and losses from commodity derivative trading, net, Emission rights, net, Other financial expenses and Other financial income and on the balance sheet in the line Emission rights. In 2017 and 2016 the Group recognized in profit or loss the ineffectiveness that arises from cash flow hedges in the amount of CZK (3) million and CZK (29) million, respectively. The ineffectiveness in 2017 and 2016 was mainly caused by the fact that the hedged cash flows are no more highly probable to occur.

### 21. Provisions

Provisions at December 31, 2017 and 2016 are as follows (in CZK millions):

	2017			2016		
	Non-current	Current	Total	Non-current	Current	Total
Nuclear provisions	59,419	2,197	61,616	53,585	1,918	55,503
Provision for reclamation of mines and mining damages	7,702	220	7,922	7,362	271	7,633
Provision for waste storage reclamation	949	53	1,002	974	98	1,072
Provision for CO <sub>2</sub> emissions (see Note 13)	-	3,664	3,664	-	2,699	2,699
Other provisions	5,221	3,092	8,313	4,439	3,174	7,613
<b>Total</b>	<b>73,291</b>	<b>9,226</b>	<b>82,517</b>	<b>66,360</b>	<b>8,160</b>	<b>74,520</b>

## 21.1. 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 2037 for Dukovany and 2052 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 account 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 (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 2017 and 2016, the payments to the nuclear account amounted to CZK 1,559 million and CZK 1,205 million, respectively. The originator of radioactive waste and spent fuel directly covers all costs associated with interim storage of radioactive waste and spent fuel.

The Group has established provisions as described in Note 2.24, to recognize its estimated liabilities for decommissioning and spent fuel storage. The following is a summary of the provisions for the years ended December 31, 2017 and 2016 (in CZK millions):

	Accumulated provisions			
	Nuclear Decommissioning	Spent fuel storage		Total
		Interim	Long-term	
Balance at December 31, 2015	19,498	7,500	23,123	50,121
Movements during 2016:				
Discount accretion and effect of inflation	487	188	578	1,253
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 (Note 2.24)	(1,093)	46	6,748	5,701
Current cash expenditures	-	(716)	(1,205)	(1,921)
Balance at December 31, 2016	18,892	7,367	29,244	55,503
Movements during 2017:				
Discount accretion and effect of inflation	472	184	731	1,387
Provision charged to income statement	-	380	-	380
Effect of change in estimate charged to income statement	-	275	-	275
Effect of change in estimate added to fixed assets (Note 2.24)	1,449	-	4,740	6,189
Current cash expenditures	-	(559)	(1,559)	(2,118)
Balance at December 31, 2017	20,813	7,647	33,156	61,616

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

In 2016, the Group 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.

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.

## 21.2. Provision for Mine Reclamation and Mining Damages and Waste Storage Reclamation

The following table shows the movements of provisions for the years ended December 31, 2017 and 2016 (in CZK millions):

	Mine reclamation and damages	Waste storage
Balance at December 31, 2015	7,563	1,600
Movements during 2015:		
Discount accretion and effect of inflation	182	31
Provision charged to income statement	72	22
Effect of change in estimate added to (deducted from) fixed assets (Note 2.25)	78	(149)
Reclassification to liabilities associated with assets classified as held for sale	-	(323)
Current cash expenditures	(262)	(70)
Reversal of provision	-	(39)
Balance at December 31, 2016	<u>7,633</u>	<u>1,072</u>
Movements during 2016:		
Discount accretion and effect of inflation	185	26
Provision charged to income statement	85	-
Effect of change in estimate added to fixed assets (Note 2.25)	265	-
Current cash expenditures	(246)	(75)
Reversal of provision	-	(21)
Balance at December 31, 2017	<u>7,922</u>	<u>1,002</u>

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

## 22. Other Long-term Liabilities

Other long-term liabilities at December 31, 2017 and 2016 are as follows (in CZK millions):

	<u>2017</u>	<u>2016</u>
Deferred connection fees	3,304	3,924
Derivatives	10,324	5,768
Other	2,216	1,511
Total	<u>15,844</u>	<u>11,203</u>

## 23. Short-term Loans

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

	<u>2017</u>	<u>2016</u>
Short-term bank loans	10,976	7,962
Bank overdrafts	96	381
Total	<u>11,072</u>	<u>8,343</u>

Interest on short-term loans is variable. The weighted average interest rate was 0.1% and 0.2% at December 31, 2017 and 2016, respectively. For the years 2017 and 2016 the weighted average interest rate was 0.3% and 0.4%, respectively.

## 24. Trade and Other Payables

Trade and other payables at December 31, 2017 and 2016 are as follows (in CZK millions):

	<u>2017</u>	<u>2016</u>
Advances received from retail customers	17,006	12,160
Unbilled electricity supplied to retail customers	(14,687)	(11,022)
Received advances from retail customers, net	2,319	1,138
Trade payables	39,366	36,941
Fair value of option (see Note 14)	-	1,228
Derivatives	42,353	37,176
Other	3,198	4,033
Total	<u>87,236</u>	<u>80,516</u>

The information about payables to related parties is included in Note 34.

## 25. Accrued Liabilities

Accrued liabilities at December 31, 2017 and 2016 consist of the following (in CZK millions):

	<u>2017</u>	<u>2016</u>
Accrued interest	2,165	2,203
Taxes and fees, except income tax	1,730	2,039
Unbilled goods and services	9,673	9,627
Deferred income	240	251
Other	142	131
	<u>13,950</u>	<u>14,251</u>

## 26. Revenues and Other Operating Income

The composition of revenues and other operating income for the years ended December 31, 2017 and 2016 is as follows (in CZK millions):

	<u>2017</u>	<u>2016</u>
Sales of electricity and related services:		
Sales of electricity to end customers	48,504	50,159
Sales of electricity through energy exchange	3,669	4,766
Sales of electricity to traders	35,524	37,138
Sales to distribution and transmission companies	239	324
Other sales of electricity	17,208	15,653
Effect of hedging - presales of electricity (Note 20.3)	326	2,989
Effect of hedging - currency risk hedging (Note 20.3)	(1,397)	(1,957)
Sales of ancillary, system, distribution and other services	63,685	65,872
	<u>167,758</u>	<u>174,944</u>
Sales of gas, coal, heat and other revenues:		
Sales of gas	9,589	9,214
Sales of coal	4,593	4,518
Sales of heat	6,727	6,877
Other	9,848	6,456
	<u>30,757</u>	<u>27,065</u>
Other operating income:		
Contractual fines and interest fees for delays	210	442
Gain on sale of property, plant and equipment	1,243	148
Gain on sale of material	107	87
Other	1,831	1,058
	<u>3,391</u>	<u>1,735</u>
Total revenues and other operating income	<u>201,906</u>	<u>203,744</u>



## 27. Gains and Losses from Commodity Derivative Trading, Net

The composition of gains and losses from commodity derivative trading, net for the years ended December 31, 2017 and 2016 is as follows (in CZK millions):

	<u>2017</u>	<u>2016</u>
Electricity derivative trading:		
Sales - domestic	6,825	4,017
Sales - foreign	183,258	134,083
Purchases - domestic	(6,640)	(3,418)
Purchases - foreign	(181,666)	(130,452)
Effect of hedging - currency risk hedging (Note 20.3)	-	(27)
Changes in fair value of derivatives	<u>(721)</u>	<u>(4,246)</u>
Total gains and losses from electricity derivative trading, net	1,056	(43)
Other commodity derivative trading:		
Loss from gas derivative trading	(190)	(221)
Gain (loss) from oil derivative trading	43	(92)
Gain (loss) from coal derivative trading	<u>11</u>	<u>(12)</u>
Total gains and losses from commodity derivative trading, net	<u><u>920</u></u>	<u><u>(368)</u></u>

## 28. Salaries and Wages

Salaries and wages for the years ended December 31, 2017 and 2016 were as follows (in CZK millions):

	<u>2017</u>		<u>2016</u>	
	<u>Total</u>	<u>Key management personnel <sup>1)</sup></u>	<u>Total</u>	<u>Key management personnel <sup>1)</sup></u>
Salaries and wages including remuneration of the board members	(15,294)	(229)	(13,591)	(217)
Share options	(28)	(28)	(22)	(22)
Social and health security	(4,788)	(38)	(4,326)	(36)
Other personal expenses	<u>(1,976)</u>	<u>(23)</u>	<u>(1,219)</u>	<u>(22)</u>
Total	<u><u>(22,086)</u></u>	<u><u>(318)</u></u>	<u><u>(19,158)</u></u>	<u><u>(297)</u></u>

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

At December 31, 2017 and 2016, the aggregate number of share options granted to members of Board of Directors and selected managers was 2,326 thousand and 2,512 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 2017 and 2016 the Company recognized a compensation expense of CZK 28 million and CZK 22 million, respectively, related to the granted options.

The following table shows changes during 2017 and 2016 in the number of granted share options and the weighted average exercise price of these options:

	Number of share options			Weighted average exercise price (CZK per share)
	Board of Directors '000s	Selected managers '000s	Total '000s	
Share options at December 31, 2015	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 <sup>1)</sup>	1,980	532	2,512	519.16
Options granted	574	185	759	447.74
Movements	20	(20)	-	523.50
Options exercised <sup>2)</sup>	(150)	-	(150)	458.71
Options forfeited	(610)	(185)	(795)	527.57
Share options at December 31, 2017 <sup>1)</sup>	1,814	512	2,326	496.89

<sup>1)</sup> At December 31, 2017 and 2016 the number of exercisable options was 932 thousand and 1,107 thousand, respectively. The weighted average exercise price of the exercisable options was CZK 586.22 per share and CZK 566.62 per share at December 31, 2017 and 2016, respectively.

<sup>2)</sup> In 2017 the weighted average market share price at the date of the exercise for the options exercised was CZK 499.70.

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:

	2017	2016
Weighted average assumptions:		
Dividend yield	3.7%	4.6%
Expected volatility	23.0%	24.1%
Mid-term risk-free interest rate	0.4%	0.3%
Expected life (years)	1.4	1.4
Grant-date share price (CZK per share)	451.2	422.7
Weighted average grant-date fair value of options (CZK per 1 option)	42.0	36.3

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

As at December 31, 2017 and 2016 the exercise prices of outstanding options were in the following ranges (in thousand pieces):

	2017	2016
CZK 350 – 550 per share	1,594	1,565
CZK 550 – 650 per share	732	947
Total	<u>2,326</u>	<u>2,512</u>

The options granted which were outstanding as at December 31, 2017 and 2016 had an average remaining contractual life of 1.9 years and 1.8 years, respectively.

## 29. Other Operating Expenses

Other operating expenses for the years ended December 31, 2017 and 2016 consist of the following (in CZK millions):

	2017	2016
Services	(13,580)	(11,812)
Travel expenses	(241)	(212)
Losses on sale of property, plant and equipment	(9)	(24)
Losses on sale of material	(13)	(66)
Capitalization of expenses to the cost of assets and change in own inventory	3,235	2,355
Fines and interest fees for delays	(62)	(20)
Change in provisions and valuation allowances *	2,879	(208)
Taxes and fees	(3,244)	(2,636)
Write-off of bad debts	(211)	(292)
Gifts	(323)	(351)
Other	(2,185)	(1,857)
Total	<u>(13,754)</u>	<u>(15,123)</u>

\* In 2017 and 2016 the Group impaired its work in progress related to wind projects in Poland in the amount of CZK 151 million and CZK 671 million, respectively. The increase in the valuation allowance was caused especially due to new legislation enacted in Poland in 2016 that resulted in decrease of expected future cash flows.

Taxes and fees include the contributions to the nuclear account (see Note 21.1). The settlement of the provision for long-term spent fuel storage is accounted for at the amount of contributions to nuclear account. Settlement of provision for long-term spent fuel storage is included in Change in provisions and valuation allowances. In the line Change in provisions and valuation allowances for 2017, there is also reversal of valuation allowances in the amount of CZK 708 million related to the settlement agreement between ČEZ and Sokolovská uhelná.

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

## 30. Interest Income

Interest income for each category of financial instruments for the years ended December 31, 2017 and 2016 is as follows (in CZK millions):

	2017	2016
Loans and receivables	23	47
Held-to-maturity investments	14	38
Available-for-sale investments	173	184
Bank accounts	25	34
Total	<u>235</u>	<u>303</u>

### 31. Other Financial Expenses

Other financial expenses for the years ended December 31, 2017 and 2016 consist of the following (in CZK millions):

	<u>2017</u>	<u>2016</u>
Derivative losses	(927)	(1,046)
Loss on sales of available-for-sale financial assets	(147)	(12)
Creation of provision	(157)	-
Cost of buy back of bonds	(490)	-
Other	(243)	(206)
Total	<u>(1,964)</u>	<u>(1,264)</u>

### 32. Other Financial Income

Other financial income for the years ended December 31, 2017 and 2016 consist of the following (in CZK millions):

	<u>2017</u>	<u>2016</u>
Derivative gains	504	325
Gain from sale of MOL shares *	4,560	-
Gain from sale of other available-for-sale financial assets	89	80
Dividend income	262	632
Other	268	305
Total	<u>5,683</u>	<u>1,342</u>

\* The accumulated gain from revaluation of MOL shares in the amount of CZK 5,490 million was reclassified from equity and was recognized in statement of income on the disposal of MOL shares from the balance sheet (see Note 14).

### 33. Income Taxes

Companies resident in the Czech Republic calculated corporate income tax in accordance with the Czech tax regulations at the rate of 19% in 2017 and 2016. The Czech corporate income tax rate enacted for 2018 and on is 19%. Management believes that it has adequately provided for tax liabilities in the accompanying financial statements. However, the risk remains that the relevant financial authorities could take differing positions with regard to interpretive issues, which could have a potential effect on reported income.

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

	<u>2017</u>	<u>2016</u>
Current income tax charge	(3,937)	(4,795)
Adjustments in respect of current income tax of previous periods	20	26
Deferred income taxes	123	16
Total	<u>(3,794)</u>	<u>(4,753)</u>

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

	<u>2017</u>	<u>2016</u>
Income before income taxes	22,753	19,328
Statutory income tax rate in Czech Republic	19%	19%
“Expected” income tax expense	(4,323)	(3,672)
Tax effect of:		
Non-deductible gains and losses from derivatives	95	(262)
Non-deductible expenses related to shareholdings	(22)	(25)
Goodwill and other non-current assets impairment	-	(204)
Non-deductible share based payment expense	(5)	(4)
Share of profit (loss) from associates and joint-ventures	(478)	(545)
Income already taxed or exempt	1,106	135
Tax credits	25	28
Gain (loss) on sale of subsidiaries and joint-ventures	(3)	31
Adjustments in respect of current income tax of previous periods	19	26
Effect of different tax rate in other countries	(110)	137
Change in unrecorded deferred tax asset	(58)	(344)
Other non-deductible items, net	(40)	(54)
Income taxes	<u>(3,794)</u>	<u>(4,753)</u>
Effective tax rate	17%	25%

Deferred income taxes, net, at December 31, 2017 and 2016 consist of the following (in CZK millions):

	<u>2017</u>	<u>2016</u>
Nuclear provisions	9,924	8,841
Financial statement depreciation in excess of tax depreciation	2,126	2,230
Revaluation of financial instruments	1,843	1,783
Allowances	1,126	1,506
Other provisions	2,537	2,309
Tax loss carry forwards	1,408	1,153
Other temporary differences	486	462
Unrecorded deferred tax asset	<u>(1,184)</u>	<u>(1,126)</u>
Total deferred tax assets	<u>18,266</u>	<u>17,158</u>
Tax depreciation in excess of financial statement depreciation	(34,625)	(33,250)
Revaluation of financial instruments	(179)	(415)
Other provisions	(485)	(527)
Other temporary differences	<u>(1,673)</u>	<u>(1,583)</u>
Total deferred tax liability	<u>(36,962)</u>	<u>(35,775)</u>
Total deferred tax liability, net	<u>(18,696)</u>	<u>(18,617)</u>
Reflected in the balance sheet as follows:		
Deferred tax assets	1,297	1,596
Deferred tax liability	<u>(19,993)</u>	<u>(20,213)</u>
Total deferred tax liability, net	<u>(18,696)</u>	<u>(18,617)</u>

Movements in net deferred tax liability, net, in 2017 and 2016 were as follows (in CZK millions):

	<u>2017</u>	<u>2016</u>
Opening balance	18,617	20,422
Deferred tax recognized in profit or loss	(123)	(16)
Deferred tax recognized in other comprehensive income	(301)	(1,732)
Acquisition of subsidiaries	509	(11)
Sale of subsidiaries	(2)	-
Currency translation differences	(4)	(46)
Closing balance	<u>18,696</u>	<u>18,617</u>

At December 31, 2017 and 2016 the aggregate amount of temporary differences associated with investments in subsidiaries, for which no deferred tax liability was recognized, amounted to CZK 39,778 million and CZK 33,800 million, respectively.

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

	<u>2017</u>			<u>2016</u>		
	<u>Before tax amount</u>	<u>Tax effect</u>	<u>Net of tax amount</u>	<u>Before tax amount</u>	<u>Tax effect</u>	<u>Net of tax amount</u>
Change in fair value of cash flow hedges recognized in equity	(3,950)	750	(3,200)	(7,438)	1,413	(6,025)
Cash flow hedges reclassified to statement of income	4,026	(764)	3,262	(1,629)	310	(1,319)
Cash flow hedges reclassified to assets	(394)	75	(319)	(85)	16	(69)
Change in fair value of available-for-sale financial assets recognized in equity	(1,283)	226	(1,057)	4,620	(10)	4,610
Available-for-sale financial assets reclassified from equity	(5,542)	13	(5,529)	(10)	2	(8)
Translation differences - subsidiaries	(3,412)	-	(3,412)	(536)	-	(536)
Translation differences - associates and joint-ventures	1,340	-	1,340	(617)	-	(617)
Translation differences reclassified from equity	751	-	751	(127)	-	(127)
Share on other equity movements of associates and joint-ventures	54	-	54	26	-	26
Re-measurement gains (losses) on defined benefit plans	(5)	1	(4)	10	1	11
Total	<u>(8,415)</u>	<u>301</u>	<u>(8,114)</u>	<u>(5,786)</u>	<u>1,732</u>	<u>(4,054)</u>

### 34. Related Parties

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

At December 31, 2017 and 2016, the receivables from related parties and payables to related parties are as follows (in CZK millions):

	Receivables		Payables	
	2017	2016	2017	2016
Akcez Enerji A.S.	5	8	-	-
ČEZ Energo, s.r.o.	83	48	23	11
in PROJEKT LOUNY ENGINEERING s.r.o.	12	14	8	9
LOMY MOŘINA spol. s r.o.	2	1	12	22
Ústav aplikované mechaniky Brno, s.r.o.	7	1	44	32
Výzkumný a zkušební ústav Plzeň s.r.o.	49	55	2	8
Other	10	12	8	8
<b>Total</b>	<b>168</b>	<b>139</b>	<b>97</b>	<b>90</b>

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

	Sales to related parties		Purchases from related parties	
	2017	2016	2017	2016
Akcez Enerji A.S.	29	29	-	-
Akenerji Elektrik Üretim A.S.	33	33	-	-
ČEZ Energo, s.r.o.	274	269	273	51
in PROJEKT LOUNY ENGINEERING s.r.o.	21	28	15	36
LOMY MOŘINA spol. s r.o.	10	11	172	189
Teplo Klášterec s.r.o.	56	56	1	1
Ústav aplikované mechaniky Brno, s.r.o.	10	2	73	57
VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s.	28	27	2	3
Other	24	33	35	41
<b>Total</b>	<b>485</b>	<b>488</b>	<b>571</b>	<b>378</b>

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

	Interest and other financial income		Dividend income	
	2017	2016	2017	2016
Akcez Enerji A.S.	17	9	-	-
CM European Power International B.V. <sup>1)</sup>	-	-	208	-
LOMY MOŘINA spol. s r.o.	-	-	11	14
Osvětlení a energetické systémy a.s.	-	-	28	-
Teplo Klášterec s.r.o.	-	-	3	10
Other	2	3	12	-
<b>Total</b>	<b>19</b>	<b>12</b>	<b>262</b>	<b>24</b>

<sup>1)</sup> Company was related party till December 31, 2017.

Information about compensation of key management personnel is included in Note 28. Information about guarantees provided to joint-ventures is included in Note 20.2.

### **35. Segment Information**

The Group reports its result using six reportable operating segments:

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

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

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

The Group evaluates the performance of its segments based on EBITDA (see Note 17).



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

Year 2017:	Gene- ration - Traditional Energy	Gene- ration - New Energy	Distribu- tion	Sales	Mining	Other	Combined	Elimina- tion	Consoli- dated
Revenues and other operating income - other than intersegment	54,381	4,205	29,849	106,138	4,823	2,510	201,906	-	201,906
Revenues and other operating income - intersegment	29,959	752	28,336	4,856	4,725	15,428	84,056	(84,056)	-
Total revenues and other operating income	84,340	4,957	58,185	110,994	9,548	17,938	285,962	(84,056)	201,906
EBITDA	19,062	4,988	19,038	4,611	4,056	2,169	53,924	(3)	53,921
Depreciation and amortization	(17,301)	(1,736)	(6,262)	(155)	(2,337)	(1,514)	(29,305)	-	(29,305)
Impairment of property, plant and equipment and intangible assets including goodwill	1,389	(551)	(987)	1	(82)	-	(230)	-	(230)
EBIT	4,308	2,701	11,818	4,459	1,637	700	25,623	(3)	25,620
Interest on debt and provisions	(4,993)	(280)	(319)	(51)	(186)	(226)	(6,055)	676	(5,379)
Interest income	636	1	31	2	3	238	911	(676)	235
Share of profit (loss) from associates and joint-ventures	(1,818)	27	264	(494)	5	(371)	(2,387)	-	(2,387)
Income taxes	317	(561)	(2,188)	(792)	(310)	(260)	(3,794)	-	(3,794)
Net income	11,362	1,881	9,604	3,033	1,892	5,120	32,892	(13,933)	18,959
Identifiable assets	255,773	28,845	113,805	1,110	20,517	9,050	429,100	(1,081)	428,019
Investment in associates and joint- ventures	-	646	-	-	175	2,699	3,520	-	3,520
Unallocated assets									194,668
Total assets									626,207
Capital expenditure	11,872	749	12,905	330	1,569	5,985	33,410	(4,275)	29,135
Average number of employees	6,622	63	8,206	3,027	2,691	7,050	27,659	-	27,659

Year 2016:	Gene- ration - Traditional Energy	Gene- ration - New Energy	Distribu- tion	Sales	Mining	Other	Combined	Elimina- tion	Consoli- dated
Revenues and other operating income - other than intersegment	55,728	3,389	29,698	107,432	4,826	2,671	203,744	-	203,744
Revenues and other operating income - intersegment	32,121	597	30,872	5,362	5,091	19,125	93,168	(93,168)	-
Total revenues and other operating income	87,849	3,986	60,570	112,794	9,917	21,796	296,912	(93,168)	203,744
EBITDA	21,991	3,403	20,361	5,488	4,412	2,423	58,078	4	58,082
Depreciation and amortization	(17,199)	(1,589)	(6,044)	(72)	(2,415)	(1,659)	(28,978)	-	(28,978)
Impairment of property, plant and equipment and intangible assets including goodwill	(415)	(2,703)	(5)	(2)	-	11	(3,114)	-	(3,114)
EBIT	4,387	(890)	14,337	5,415	1,998	863	26,110	4	26,114
Interest on debt and provisions	(3,784)	(285)	(399)	(12)	(184)	(345)	(5,009)	753	(4,256)
Interest income	891	3	42	4	8	108	1,056	(753)	303
Share of profit (loss) from associates and joint-ventures	(1,366)	17	277	(442)	11	(1,230)	(2,733)	-	(2,733)
Income taxes	(312)	(260)	(2,523)	(1,039)	(364)	(255)	(4,753)	-	(4,753)
Net income	13,506	(1,248)	11,724	3,880	2,376	(916)	29,322	(14,747)	14,575
Identifiable assets	257,357	30,075	109,807	899	21,100	8,610	427,848	(953)	426,895
Investment in associates and joint- ventures	198	544	295	756	181	3,335	5,309	-	5,309
Unallocated assets									198,637
Total assets									630,841
Capital expenditure	16,079	1,053	10,257	105	1,985	8,652	38,131	(7,966)	30,165
Average number of employees	6,629	72	7,867	1,909	2,677	7,146	26,300	-	26,300

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

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

	<u>2017</u>	<u>2016</u>
Czech Republic	144,614	150,884
Bulgaria	24,145	24,431
Romania	12,405	13,070
Poland	8,655	7,606
Germany	3,404	2
Other	8,683	7,751
Total revenues and other operating income	<u><u>201,906</u></u>	<u><u>203,744</u></u>

The following table shows the split of property, plant and equipment according to the location of entity which they belong to at December 31, 2017 and 2016 (in CZK million):

	<u>2017</u>	<u>2016</u>
Czech Republic	380,530	377,539
Bulgaria	10,072	10,322
Romania	23,855	26,212
Poland	6,610	7,229
Germany	6,644	5,592
Other	308	1
Total property, plant and equipment	<u><u>428,019</u></u>	<u><u>426,895</u></u>

### 36. Net Income per Share

	<u>2017</u>	<u>2016</u>
Numerator (CZK millions)		
Basic and diluted:		
Net income attributable to equity holders of the parent	<u>18,765</u>	<u>14,281</u>
Denominator (thousands shares)		
Basic:		
Weighted average shares outstanding	534,247	534,235
Dilutive effect of share options	<u>149</u>	<u>7</u>
Diluted:		
Adjusted weighted average shares	<u><u>534,396</u></u>	<u><u>534,242</u></u>
Net income per share (CZK per share)		
Basic	35.1	26.7
Diluted	35.1	26.7

### 37. Commitment and Contingencies

#### Investment Program

The Group is engaged in a continuous construction program, currently estimated as of December 31, 2017 over the next five years as follows (in CZK billion):

2018	30.7
2019	36.9
2020	32.7
2021	31.6
2022	29.3
	<hr/>
Total	161.2
	<hr/> <hr/>

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

The construction programs are subject to periodic reviews and actual construction may vary from the above estimates. At December 31, 2017 significant purchase commitments were outstanding in connection with the construction program.

#### Insurance Matters

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

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

### 38. Events after the Balance Sheet Date

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

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

	<u>Metrolog</u>
Share of the Group acquired in 2018	100%
Property, plant and equipment	66
Cash and cash equivalents	116
Receivables, net	49
Materials and supplies, net	31
Other current assets	9
Trade and other payables	(59)
Other liabilities	<u>(15)</u>
Total net assets	197
Share of net assets acquired	197
Goodwill	<u>178</u>
Total purchase consideration	<u><u>375</u></u>

On February 23, 2018, a sales contract for the sale of interests in Bulgarian companies CEZ Razpredelenie Bulgaria AD (including its interest in CEZ ICT Bulgaria EAD), CEZ Trade Bulgaria EAD, CEZ Bulgaria EAD, CEZ Elektro Bulgaria AD, Free Energy Project Oreshets EAD and Bara Group EOOD was signed. The sellers for CEZ Group are ČEZ, a. s. and CEZ Bulgarian Investments B.V. Total selling price for the respective interests in the companies is in the amount of EUR 326 million. Approval by Bulgarian anti-trust authority and payment of the purchase price by the buyer are the conditions of closing the transaction. Claims asserted by ČEZ, a. s. in the investment arbitration against the Republic of Bulgaria are not subject of this transaction. The requirements of standard IFRS 5 to classify the assets as held for sale were met by granting prior consent to the transaction by the supervisory board of ČEZ, a. s. which took place on February 22, 2018. As a result of this reclassification, a test for potential impairment of assets being sold has been performed. Such impairment was not identified.

The following table presents balance sheet amounts at December 31, 2017 as if the Bulgarian assets being sold constituted a reportable segment of the Group (in CZK millions):

Property, plant and equipment	10,072
Other non-current assets	583
Current assets	6,348
Non-current liabilities	(2,161)
Current liabilities	<u>(4,986)</u>
Total equity	<u>9,856</u>
Equity attributable to:	
Equity holders of the parent	6,550
Out of which: Cumulative loss from translation differences	(1,587)
Non-controlling interests	3,306

These consolidated financial statements have been authorized for issue on March 19, 2018.

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Daniel Beneš  
Chairman of Board of Directors

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Martin Novák  
Vice-chairman of Board of Directors