

CEZ GROUP

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS OF SEPTEMBER 30, 2018

**CEZ GROUP
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2018**

in CZK Millions

	Note	September 30, 2018	December 31, 2017
ASSETS:			
Plant in service		823,785	833,359
Less accumulated depreciation and impairment		(441,331)	(437,210)
Net plant in service		382,454	396,149
Nuclear fuel, at amortized cost		15,043	15,218
Construction work in progress		16,437	16,652
Total property, plant and equipment		413,934	428,019
Investment in associates and joint-ventures		3,127	3,520
Restricted financial assets, net		18,797	18,468
Investments and other financial assets, net		8,995	9,845
Intangible assets, net		26,366	26,804
Deferred tax assets		763	1,297
Total other non-current assets		58,048	59,934
Total non-current assets		471,982	487,953
Cash and cash equivalents, net		12,168	12,623
Receivables, net		71,942	57,766
Income tax receivable		2,939	1,171
Materials and supplies, net		11,253	9,537
Fossil fuel stocks		1,074	1,021
Emission rights		10,637	9,370
Other financial assets, net	5	140,574	43,052
Other current assets		3,822	3,684
Assets classified as held for sale	6	16,488	30
Total current assets		270,897	138,254
Total assets		742,879	626,207

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

**CEZ GROUP
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2018**

continued

	Note	September 30, 2018	December 31, 2017
EQUITY AND LIABILITIES:			
Stated capital		53,799	53,799
Treasury shares		(3,534)	(4,077)
Retained earnings and other reserves		182,774	200,296
Total equity attributable to equity holders of the parent		233,039	250,018
Non-controlling interests		4,427	4,304
Total equity		237,466	254,322
Long-term debt, net of current portion	8	130,903	132,475
Provisions	9	75,635	73,291
Deferred tax liabilities		19,184	19,993
Other long-term liabilities		19,069	15,844
Total long-term liabilities		244,791	241,603
Short-term loans	10	15,997	11,072
Current portion of long-term debt	8	3,177	8,622
Trade and other payables	11	214,931	87,236
Income tax payable		178	176
Provisions	9	9,758	9,226
Accrued liabilities		11,045	13,950
Liabilities associated with assets classified as held for sale	6	5,536	-
Total current liabilities		260,622	130,282
Total equity and liabilities		742,879	626,207

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

CEZ GROUP
CONSOLIDATED STATEMENT OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

in CZK Millions

	Note	1-9/2018	1-9/2017 (restated *)	7-9/2018	7-9/2017 (restated *)
Sales of electricity and related services		104,343	124,671	36,898	40,057
Sales of gas, coal, heat and other revenues		23,733	19,496	5,711	5,373
Other operating income		1,244	2,576	412	430
Total revenues and other operating income	12	129,320	146,743	43,021	45,860
Gains and losses from commodity derivative trading, net		775	(116)	764	(715)
Fuel		(9,522)	(9,384)	(3,759)	(3,046)
Purchased power and related services		(41,615)	(65,275)	(15,288)	(21,007)
Repairs and maintenance		(2,866)	(2,889)	(1,167)	(1,330)
Depreciation and amortization		(21,121)	(22,562)	(7,025)	(7,580)
Impairment of property, plant and equipment and intangible assets including goodwill	13	(884)	(267)	(727)	4
Salaries and wages		(18,018)	(14,596)	(6,187)	(4,956)
Materials and supplies		(5,886)	(3,588)	(2,101)	(1,261)
Emission rights, net		(3,146)	(1,660)	(1,549)	(941)
Other operating expenses		(10,312)	(6,988)	(1,934)	(2,851)
Income before other income (expenses) and income taxes		16,725	19,418	4,048	2,177
Interest on debt, net of capitalized interest		(3,787)	(2,679)	(1,295)	(879)
Interest on provisions		(1,350)	(1,220)	(450)	(406)
Interest income		202	207	77	73
Foreign exchange rate gains (losses), net		(396)	726	(1)	265
Gain on sale of subsidiaries, associates and joint-ventures	4	165	-	163	-
Other financial expenses		(531)	(1,309)	(435)	(215)
Other financial income		1,491	5,668	806	109
Share of profit (loss) from associates and joint-ventures		(952)	(1,350)	(669)	(1,095)
Total other income (expenses)		(5,158)	43	(1,804)	(2,148)
Income before income taxes		11,567	19,461	2,244	29
Income taxes		(2,438)	(2,877)	(830)	(103)
Net income (loss)		9,129	16,584	1,414	(74)
Net income attributable to:					
Equity holders of the parent		8,994	16,100	1,485	(214)
Non-controlling interests		135	484	(71)	140
Net income per share attributable to equity holders of the parent (CZK per share):					
Basic		16.8	30.1	2.8	(0.4)
Diluted		16.8	30.1	2.8	(0.4)

* Certain numbers shown were restated due to the final report of fair value of Elevation group as of the acquisition date and do not correspond to the interim consolidated financial statements as of September 30, 2017.

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

CEZ GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

in CZK Millions

	Note	1-9/2018	1-9/2017 (restated *)	7-9/2018	7-9/2017 (restated *)
Net income (loss)		9,129	16,584	7,814	(74)
Change in fair value of cash flow hedges recognized in equity		(16,515)	(965)	(9,304)	(4,727)
Cash flow hedges reclassified to statement of income		2,952	3,633	1,232	896
Change in fair value of debt instruments recognized in equity		(531)	(848)	(18)	(182)
Debt instruments reclassified from equity		-	(51)	-	(19)
Change in fair value of equity instruments recognized in equity		-	(303)	-	(112)
Equity instruments reclassified from equity		-	(5,537)	-	48
Translation differences – subsidiaries		94	(2,362)	(487)	(910)
Translation differences – associates and joint-ventures		359	538	258	877
Translation differences reclassified from equity		(42)	-	(54)	-
Share on other equity movements of associates and joint-ventures		-	44	-	9
Deferred tax related to other comprehensive income	14	2,680	(330)	1,538	769
Net other comprehensive income that may be reclassified to statement of income or to assets in subsequent periods		<u>(11,003)</u>	<u>(6,181)</u>	<u>(6,835)</u>	<u>(3,351)</u>
Total comprehensive income, net of tax		<u><u>(1,874)</u></u>	<u><u>10,403</u></u>	<u><u>979</u></u>	<u><u>(3,425)</u></u>
Total comprehensive income attributable to:					
Equity holders of the parent		(2,032)	10,064	1,093	(3,494)
Non-controlling interests		158	339	(114)	69

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CEZ GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

in CZK Millions

	Note	Attributable to equity holders of the parent						Total	Non-controlling interests	Total equity	
		Stated capital	Treasury shares	Translation difference	Cash flow hedge reserve	Debt instruments	Equity instruments and other reserves				Retained earnings
December 31, 2016		53,799	(4,246)	(10,779)	(7,499)	1,666	6,173	217,698	256,812	4,548	261,360
Net income		-	-	-	-	-	-	16,100	16,100	484	16,584
Other comprehensive income		-	-	(1,678)	2,161	(276)	(6,287)	44	(6,036)	(145)	(6,181)
Total comprehensive income		-	-	(1,678)	2,161	(276)	(6,287)	16,144	10,064	339	10,403
Dividends		-	-	-	-	-	-	(17,586)	(17,586)	(237)	(17,823)
Share options		-	-	-	-	-	19	-	19	-	19
Transfer of forfeited share options within equity		-	-	-	-	-	(22)	22	-	-	-
September 30, 2017 (restated *)		<u>53,799</u>	<u>(4,246)</u>	<u>(12,457)</u>	<u>(5,338)</u>	<u>1,390</u>	<u>(117)</u>	<u>216,278</u>	<u>249,309</u>	<u>4,650</u>	<u>253,959</u>

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CEZ GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

continued

	Note	Attributable to equity holders of the parent							Non-controlling interests	Total equity	
		Stated capital	Treasury shares	Translation difference	Cash flow hedge reserve	Debt instruments	Equity instruments and other reserves	Retained earnings			Total
December 31, 2017		53,799	(4,077)	(11,906)	(7,757)	677	571	218,711	250,018	4,304	254,322
Application of new IFRSs	2.2	-	-	143	-	-	(493)	2,818	2,468	(24)	2,444
January 1, 2018 (restated)		53,799	(4,077)	(11,763)	(7,757)	677	78	221,529	252,486	4,280	256,766
Net income		-	-	-	-	-	-	8,994	8,994	135	9,129
Other comprehensive income		-	-	388	(10,986)	(428)	-	-	(11,026)	23	(11,003)
Total comprehensive income		-	-	388	(10,986)	(428)	-	8,994	(2,032)	158	(1,874)
Dividends	7	-	-	-	-	-	-	(17,604)	(17,604)	(17)	(17,621)
Sale of treasury shares		-	543	-	-	-	-	(333)	210	-	210
Share options		-	-	-	-	-	25	-	25	-	25
Transfer of exercised and forfeited share options within equity		-	-	-	-	-	(36)	36	-	-	-
Acquisition of subsidiaries		-	-	-	-	-	-	-	-	658	658
Acquisition of non-controlling interests		-	-	-	-	-	-	9	9	(13)	(4)
Sale of non-controlling interests		-	-	-	-	-	-	-	-	4	4
Put options held by non-controlling interests		-	-	-	-	-	-	(55)	(55)	(643)	(698)
September 30, 2018		<u>53,799</u>	<u>(3,534)</u>	<u>(11,375)</u>	<u>(18,743)</u>	<u>249</u>	<u>67</u>	<u>212,576</u>	<u>233,039</u>	<u>4,427</u>	<u>237,466</u>

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

CEZ GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

in CZK Millions

	Note	1-9/2018	1-9/2017 (restated *)
OPERATING ACTIVITIES:			
Income before income taxes		11,567	19,461
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization		21,121	22,562
Amortization of nuclear fuel		2,846	2,663
Gain on non-current asset retirements, net		(279)	(5,845)
Foreign exchange rate losses (gains), net		396	(726)
Interest expense, interest income and dividend income, net		3,429	2,237
Provisions		(249)	(882)
Impairment of property, plant and equipment and intangible assets including goodwill		884	267
Valuation allowances and other adjustments		772	1,042
Share of (profit) loss from associates and joint-ventures		952	1,350
Changes in assets and liabilities:			
Receivables		(17,541)	5,754
Materials, supplies and fossil fuel stocks		(1,769)	(966)
Receivables and payables from derivatives		1,081	(2,429)
Other current assets		2,210	(1,363)
Trade and other payables		19,726	1,221
Accrued liabilities		(3,192)	(3,301)
Cash generated from operations		41,954	41,045
Income taxes paid		(2,291)	(3,026)
Interest paid, net of capitalized interest		(3,474)	(2,509)
Interest received		177	214
Dividends received		161	433
Net cash provided by operating activities		36,527	36,157
INVESTING ACTIVITIES:			
Acquisition of subsidiaries, associates and joint-ventures, net of cash acquired	4	(1,295)	(4,898)
Disposal of subsidiaries, associates and joint-ventures, net of cash disposed of		155	1,315
Additions to non-current assets, including capitalized interest		(15,964)	(21,631)
Proceeds from sale of non-current assets		3,047	14,023
Loans made		(221)	(21)
Repayment of loans		11	356
Change in restricted financial assets		(869)	(867)
Total cash used in investing activities		(15,136)	(11,723)

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

CEZ GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

continued

	Note	1-9/2018	1-9/2017 (restated *)
FINANCING ACTIVITIES:			
Proceeds from borrowings		63,532	118,777
Payments of borrowings		(65,866)	(121,919)
Proceeds from other long-term liabilities		128	52
Payments of other long-term liabilities		(67)	(54)
Dividends paid to Company's shareholders		(17,538)	(17,544)
Dividends paid to non-controlling interests		(17)	(237)
Sale of treasury shares		210	-
Acquisition of non-controlling interests		-	(259)
Sale of non-controlling interests		5	-
Total cash used in financing activities		<u>(19,613)</u>	<u>(21,184)</u>
Net effect of currency translation and impairment in cash		17	(253)
Net increase in cash and cash equivalents		1,795	2,997
Cash and cash equivalents at beginning of period		<u>12,623</u>	<u>11,330</u>
Cash and cash equivalents at end of period		<u><u>14,418</u></u>	<u><u>14,327</u></u>

Supplementary cash flow information

Total cash paid for interest	3,650	3,907
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The accompanying notes are an integral part of these interim consolidated financial statements.

CEZ GROUP

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2018

1. The Company

ČEZ, a. s. (“ČEZ” or “the Company”) is a Czech joint-stock company, owned 69.8% (70.2% of voting rights) at September 30, 2018 by the Czech Republic represented by the Ministry of Finance. The remaining shares of the Company are publicly held. The address of the Company's registered office is Duhová 2/1444, Praha 4, 140 53, Czech Republic.

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

2. Summary of Significant Accounting Policies

2.1. Financial Statements

The interim consolidated financial statements for the nine months ended September 30, 2018 have been prepared in accordance with IAS 34 and have not been audited by an independent auditor. The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with [the Group's annual financial statements as of December 31, 2017](#).

2.2. Changes in Accounting Policies

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of [the Group's annual financial statements for the year ended December 31, 2017](#), except for as follows. As of January 1, 2018 the Group applies new International Financial Reporting Standards IFRS 9 Financial Instruments and IFRS 15 Revenues from Contracts with Customers. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim consolidated financial statements.

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

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

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

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

	IFRS 9	IFRS 15	Total
Receivables, net	(62)	-	(62)
Other	(17)	-	(17)
Total assets	(79)	-	(79)
Deferred tax liability	13	(581)	(568)
Other long-term liabilities	-	3,091	3,091
Total liabilities	13	2,510	2,523
Increase (decrease) in Total equity	(66)	2,510	2,444

Impact on total equity attributable to:

Equity holders of the parent	(62)	2,530	2,468
Non-controlling interests	(4)	(20)	(24)

In addition to above mentioned effect of IFRS 15 related to connection fees, the Group as a result of application of IFRS 15 changed from January 1, 2018 also the way of presentation revenue and costs in situation when the Group acts as energy provider without distributing it. In these circumstances the Group acts as an agent under IFRS 15 and no revenue and costs for distribution services is recognized, with no effect to net income. The table below presents amounts for selected items of statement of income for 1-9/2017 comparing previously reported figures according to IAS 18, which was replaced from January 1, 2018 by IFRS 15, and adjustments which would be necessary for compliance with IFRS 15 (in CZK millions):

	1-9/2017 according to IAS 18	Effect of connection fees	Effect of agent vs. principal	1-9/2017 according to IFRS 15
Sales of electricity and related services	124,671	-	(19,999)	104,672
Sales of gas, coal, heat and other revenues	19,496	(450)	(1,545)	17,501
Other operating income	2,576	-	(41)	2,535
Total revenues and other operating income	146,743	(450)	(21,585)	124,708
Purchased power and related services	(65,275)	-	21,526	(43,749)
Other operating expenses	(6,988)	-	59	(6,929)
Income before income taxes	19,461	(450)	-	19,011
Income taxes	(2,877)	74	-	(2,803)
Net income	16,584	(376)	-	16,208

3. Seasonality of Operations

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

4. Changes in the Group Structure

Acquisitions of subsidiaries from third parties in the first nine months of 2018

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

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

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

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

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

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

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

	Metrolog	ČEZ Energo	Kofler Energies	Other	Total
Share acquired	100 %	-	100 %		
Property, plant and equipment	83	2,029	27	92	2,231
Intangible assets, net	51	24	129	-	204
Investment in financial leasing receivable, net of current portion	-	-	225	-	225
Other non-current assets	-	3	8	1	12
Cash and cash equivalents	99	131	33	79	342
Receivables, net	61	165	130	104	460
Materials and supplies, net	22	1	33	8	64
Other current assets	2	10	92	11	114
Long-term debt, net of current portion	-	(733)	(44)	(29)	(806)
Long-term financial leasing liability, net of current portion	-	-	(195)	-	(195)
Deferred tax liabilities	(10)	(139)	(61)	(7)	(217)
Other long-term liabilities	-	-	(2)	(12)	(14)
Trade and other payables	(36)	(156)	(116)	(74)	(382)
Other short-term liabilities	(21)	(18)	(109)	(82)	(230)
Total net assets	251	1,317	150	91	1,808
Share of net assets acquired	251	660	150	91	1,152
Goodwill	120	42	614	187	963
Gain from bargain purchase	-	-	-	(1)	(1)
Total purchase consideration	371	702	764	277	2,114
Liabilities from acquisition of the subsidiary	(40)	-	-	(11)	(51)
Book value of previously held investment in joint-venture	-	(599)	-	-	(599)
Gain from remeasurement of previously held investment to fair value *	-	(103)	-	-	(103)
Cash outflow on acquisition of the subsidiary in 2018	331	-	764	266	1,361
Less:					
Cash and cash equivalents in the subsidiary acquired	(99)	(131)	(33)	(79)	(342)
Cash outflow on acquisition of the subsidiary in 2018, net	232	(131)	731	187	1,019
Revenues and other operating income since 1.1. till acquisition date	23	333	219	117	692
Net income (loss) since 1.1. till acquisition date **	(1)	47	1	-	47

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

** Net income of the Group already includes its share on net income of ČEZ Energo, s.r.o. for 1-6/2018 in the amount of CZK 28 million.

If the combinations had taken place at the beginning of the year 2018, net income for CEZ Group as of September 30, 2018 would have been CZK 9,148 million and the revenues and other operating income from continuing operations would have been CZK 130,012 million. The amount of goodwill recognized as a result of the business combination comprises the value of expected synergies arising from the acquisition.

From the acquisition date, the newly acquired subsidiaries have contributed the following balances to the Group's statement of income for 2018 (in CZK millions):

	Metrolog	ČEZ Energo	Kofler Energies	Other	Total
Revenues and other operating income	388	130	88	100	706
Income before other income (expense) and income taxes	23	(52)	15	15	1
Net income (loss)	16	(28)	12	14	14
Net income (loss) attributable to:					
Equity holders of the parent	16	(14)	12	12	26
Non-controlling interests	-	(14)	-	2	(12)

New investments in joint-ventures in the first nine months of 2018

On August 31, 2018 the Group acquired 50% share in Slovak company KLF-Distribúcia, s.r.o. The aim of KLF-Distribúcia, s.r.o. is to build and operate 110 kV substations for a local distribution system in the industrial area in Kysucké Nové Mesto. On September 18, 2018 the Group acquired 49% share in Slovak company Bytkomfort, s.r.o., which owns and operates the municipal heating system in Nové Zámky and provides related energy services, including maintenance and operational activities.

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

	KLF-Distribúcia	Bytkomfort	Total
Shares acquired in 2018	50%	49%	
Total net assets	26	208	234
Share of net assets acquired	13	102	115
Goodwill	-	136	136
Total purchase consideration	13	238	251
Cash outflows on investment of joint-venture	13	238	251

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

Cash outflow on acquisitions of the subsidiaries	1,361
Cash outflow on investments in joint-ventures	251
Cash outflow on financial assets in progress	25
Less: Cash and cash equivalents in the subsidiaries acquired	(342)
Total cash outflows on acquisitions	1,295

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

On September 13, 2018 the bankruptcy of the company Eco-Wind Construction S.A. was announced. As a result of taking control over the company by a bankruptcy trustee appointed by the court, the Group lost control over the company. Due to the loss of control, the net assets were derecognized from the consolidated balance sheet and the related gain from the loss of control of CZK 163 million was recognized in the statement of income on the line Gain on sale of subsidiaries, associates and joint-ventures.

5. Other Financial Assets, Net

Other financial assets, net, at September 30, 2018 and December 31, 2017 were as follows (in CZK millions):

	September 30, 2018	December 31, 2017
Debt securities at fair value through other comprehensive income	1,286	2,807
Term deposits	502	500
Cash flow hedges	489	2
Commodity derivatives	124,377	38,967
Other derivatives	13,920	776
Total	<u>140,574</u>	<u>43,052</u>

Commodity derivatives balance comprises mainly the positive fair values of electricity trading contracts.

6. Assets and Associated Liabilities Classified as Held for Sale

On February 23, 2018, a sales contract for the sale of interests in Bulgarian companies CEZ Razpredelenie Bulgaria AD (including its interest in CEZ ICT Bulgaria EAD), CEZ Trade Bulgaria EAD, CEZ Bulgaria EAD, CEZ Elektro Bulgaria AD, Free Energy Project Oreshets EAD and Bara Group EOOD was signed. The requirements of standard IFRS 5 to classify the assets as held for sale were met by granting prior consent to the transaction by the supervisory board of ČEZ, a. s. which took place on February 22, 2018.

As of September 30, 2018 the Group performed an impairment test for any potential impairment loss related to assets held for sale. As a result of the test performed, there was an impairment loss in the amount of CZK 465 million, which was presented in the statement of income on the line Impairment of property, plant and equipment and intangible assets including goodwill (Note 13).

The assets classified as held for sale and associated liabilities at September 30, 2018 and December 31, 2017 are as follows (in CZK millions):

	September 30, 2018	December 31, 2017
	Bulgarian companies	Other
Property, plant and equipment	10,073	30
Intangible assets	434	-
Other non-current assets	49	-
Cash and cash equivalents	2,250	-
Receivables, net	3,143	-
Other current assets	539	-
Assets classified as held for sale	16,488	30
Non-current provisions	115	-
Long-term liabilities	1,758	-
Deferred tax liabilities	237	-
Short-term loans	519	-
Trade and other payables	2,264	-
Current provisions	532	-
Other current liabilities	111	-
Liabilities associated with assets classified as held for sale	5,536	-

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

7. Equity

On June 22, 2018 the Annual Shareholders Meeting of ČEZ, a. s. approved the dividends per share before tax of CZK 33.0. The total amount of dividend approved for distribution to shareholders net of treasury shares amounts to CZK 17,648 million.

8. Long-term Debt

Long-term debt at September 30, 2018 and December 31, 2017 is as follows (in CZK millions):

	September 30, 2018	December 31, 2017
3.005% Eurobonds, due 2038 (JPY 12,000 million)	2,328	2,263
2.845% Eurobonds, due 2039 (JPY 8,000 million)	1,553	1,510
5.000% Eurobonds, due 2021 (EUR 750 million)	19,254	19,114
6M Euribor + 1.25% Eurobonds, due 2019 (EUR 50 million)	1,284	1,275
3M Euribor + 0,55% Eurobonds, due 2018 (EUR 200 million)	-	5,106
4.875% Eurobonds, due 2025 (EUR 750 million)	19,232	19,095
4.500% Eurobonds, due 2020 (EUR 750 million)	19,239	19,087
2.160% Eurobonds, due 2023 (JPY 11,500 million)	2,238	2,175
4.600% Eurobonds, due 2023 (CZK 1,250 million)	1,249	1,249
2.150%*IR CPI Eurobonds, due 2021 (EUR 100 million) ¹⁾	2,572	2,554
4.102% Eurobonds, due 2021 (EUR 50 million)	1,284	1,275
4.250% U.S. bonds, due 2022 (USD 289 million)	6,313	6,114
5.625% U.S. bonds, due 2042 (USD 300 million)	6,527	6,325
4.375% Eurobonds, due 2042 (EUR 50 million)	1,263	1,254
4.500% Eurobonds, due 2047 (EUR 50 million)	1,263	1,254
4.383% Eurobonds, due 2047 (EUR 80 million)	2,057	2,043
3.000% Eurobonds, due 2028 (EUR 725 million)	19,103	19,008
4.500% registered bonds, due 2030 (EUR 40 million)	1,012	1,004
4.750% registered bonds, due 2023 (EUR 40 million)	1,022	1,014
4.700% registered bonds, due 2032 (EUR 40 million)	1,024	1,016
4.270% registered bonds, due 2047 (EUR 61 million)	1,545	1,534
3.550% registered bonds, due 2038 (EUR 30 million)	768	763
Total bonds and debentures	112,130	116,032
Less: Current portion	-	(5,106)
Bonds and debentures, net of current portion	112,130	110,926
Long-term bank and other loans:		
Total long-term bank and other loans	21,950	25,065
Less: Current portion	(3,177)	(3,516)
Long-term bank and other loans, net of current portion	18,773	21,549
Total long-term debt	134,080	141,097
Less: Current portion	(3,177)	(8,622)
Total long-term debt, net of current portion	130,903	132,475

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

9. Provisions

Provisions at September 30, 2018 and December 31, 2017 are as follows (in CZK millions):

	September 30, 2018			December 31, 2017		
	Non-current	Current	Total	Non-current	Current	Total
Nuclear provisions	61,769	2,197	63,966	59,419	2,197	61,616
Provision for reclamation of mines and mining damages	7,936	220	8,156	7,702	220	7,922
Provision for waste storage reclamation	950	53	1,003	949	53	1,002
Provision for CO ₂ emissions	-	3,078	3,078	-	3,664	3,664
Provision for obligation in case of claim from guarantee for Akcez group loans	-	1,392	1,392	-	-	-
Other provisions	4,980	2,818	7,798	5,221	3,092	8,313
Total	75,635	9,758	85,393	73,291	9,226	82,517

As of September 30, 2018 the Group recorded a change in estimate in provision for nuclear decommissioning due to the update of the expert decommissioning study for nuclear power plant in Dukovany. The effect of change in estimate increasing the provision and added to property, plant and equipment amounted to CZK 2,539 million.

The actual decommissioning and spent fuel storage costs (referred to above as "Nuclear provisions") 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.

The Group is a guarantor for the liabilities of companies within the joint-venture with Akcez Enerji A.S. in the amount of USD 118.2 million and TRY 74.8 million as of September 30, 2018. Due to the development of Turkey's macroeconomic and political situation leading to a further weakening of the Turkish currency (TRY) the risk of potential obligation in case of claim from guarantees provided by the Group increased in connection with increased probability of lack of future cash flows to settle all liabilities of Akcez group. Based on calculation of recoverable amount from future cash flows a provision in the amount of CZK 1,392 million was recognized as of September 30, 2018. Because the Group's total cumulative share on losses of Akcez group did not exceeded the amount of the guarantee provided, the Group recognized its share on losses of Akcez group in full (in the statement of income included in the line Share of profit (loss) from associates and joint-ventures). As of September 30, 2018, the liability in the amount of CZK 990 million was recorded on the balance sheet and the Group recognized additional provision in the amount of CZK 402 million (in the statement of income on the line Other financial expenses). The liability recorded from share on losses of Akcez group was reclassified on the balance sheet from the line Other long-term liabilities to the line Provisions within the current liabilities.

10. Short-term Loans

Short-term loans at September 30, 2018 and December 31, 2017 are as follows (in CZK millions):

	September 30, 2018	December 31, 2017
Short-term bank loans	15,484	10,976
Bank overdrafts	513	96
Total	15,997	11,072

11. Trade and Other Payables

Trade and other payables at September 30, 2018 and December 31, 2017 are as follows (in CZK millions):

	September 30, 2018	December 31, 2017
Advances received from retail customers	17,733	17,006
Unbilled electricity supplied to retail customers	(13,040)	(14,687)
Received advances from retail customers, net	4,693	2,319
Trade payables	44,431	39,366
Commodity derivatives	123,517	40,777
Cash flow hedges	8,832	-
Other derivatives	20,985	1,576
Other payables	12,473	3,198
Total	<u>214,931</u>	<u>87,236</u>

12. Revenues and Other Operating Income

The composition of revenues and other operating income for the first nine months ended September 30, 2018 and 2017 is as follows (in CZK millions):

	1-9/2018	1-9/2017
Sales of electricity and related services:		
Sales of electricity to end customers *	32,944	36,063
Sales of electricity through energy exchange	2,775	2,657
Sales of electricity to traders	26,030	26,978
Sales to distribution and transmission companies	136	174
Other sales of electricity	15,509	13,870
Effect of hedging - presales of electricity	(3,798)	244
Effect of hedging - currency risk hedging	450	(1,438)
Sales of ancillary, system, distribution and other services *	30,297	46,123
Total sales of electricity and related services	<u>104,343</u>	<u>124,671</u>
Sales of gas, coal, heat and other revenues:		
Sales of gas	4,951	6,825
Sales of coal	3,395	3,381
Sales of heat	4,367	4,536
Other *	11,020	4,754
Total sales of gas, coal, heat and other revenues	<u>23,733</u>	<u>19,496</u>
Other operating income:		
Contractual fines and interest fees for delays	196	91
Gain on sale of property, plant and equipment	65	1,193
Gain on sale of material	133	113
Other *	850	1,179
Total other operating income	<u>1,244</u>	<u>2,576</u>
Total revenues and other operating income	<u>129,320</u>	<u>146,743</u>

* Application of IFRS 15 from January 1, 2018 affected this item (see also Note 2.2).

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

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired or that previously recognized impairment losses (except for goodwill) may no longer exist or may have decreased. The result of the assessment made at September 30, 2018 was that certain assets might have been impaired. In such case, the Group reviews the recoverable amounts of the assets to determine whether such amounts continue to exceed the assets' carrying values. If not, the Group recognizes impairment loss directly in profit or loss in the line item of Impairment of property, plant and equipment and intangible assets including goodwill.

The Group recognized for first nine months ended September 30, 2018 the total amount of impairment loss of CZK 884 million as a result of updated estimate of recoverable amounts.

The book impairment loss in the amount of CZK 465 million is related to impairment of property, plant and equipment of cash-generating unit Bulgarian distribution. The impairment was caused by the fact that the assets are classified as held for sale (Note 6) and the contracted sale price is fixed and denominated in EUR (so-called "locked box") and the carrying amount of assets exceeded the contracted amount. The impairment loss in the amount of CZK 183 million is related to impairment of goodwill of cash-generating unit ČEZ Teplárenská. The impairment was caused mainly due to increase of the rate used for discounting of cash flows from 3.2% in 2017 to 4.0% in 2018.

Information about breakdown by operating segments is included in Note 15.

14. Income Taxes

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

	1-9/2018			1-9/2017		
	Before tax amount	Tax effect	Net of tax amount	Before tax amount	Tax effect	Net of tax amount
Change in fair value of cash flow hedges recognized in equity	(16,515)	3,138	(13,377)	(965)	183	(782)
Cash flow hedges reclassified to statement of income	2,952	(561)	2,391	3,633	(690)	2,943
Change in fair value of debt instruments recognized in equity	(531)	103	(428)	(848)	164	(684)
Debt instruments reclassified from equity	-	-	-	(51)	13	(38)
Change in fair value of equity instruments recognized in equity	-	-	-	(303)	-	(303)
Equity instruments reclassified from equity	-	-	-	(5,537)	-	(5,537)
Translation differences – subsidiaries	94	-	94	(2,362)	-	(2,362)
Translation differences – associates and joint-ventures	359	-	359	538	-	538
Translation differences reclassified from equity	(42)	-	(42)	-	-	-
Share on other equity movements of associates and joint-ventures	-	-	-	44	-	44
Total	(13,683)	2,680	(11,003)	(5,851)	(330)	(6,181)

15. Segment Information

The Group reports its result using six reportable operating segments:

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

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

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

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

	<u>1-9/2018</u>	<u>1-9/2017</u>
Income before other income (expenses) and income taxes (EBIT)	16,725	19,418
Depreciation and amortization	21,121	22,562
Impairment of property, plant and equipment and intangible assets including goodwill	884	267
Gains and losses on sale of property, plant and equipment, net *	<u>(51)</u>	<u>(1,193)</u>
EBITDA	<u><u>38,679</u></u>	<u><u>41,054</u></u>

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

The following tables summarize segment information by operating segments for the nine months ended September 30, 2018 and 2017 and at December 31, 2017 (in CZK millions):

September 30, 2018:	Gene- ration - Traditional Energy	Gene- ration - New Energy	Distribu- tion	Sales	Mining	Other	Combined	Elimination	Consoli- dated
Revenues and other operating income - other than intersegment	35,864	3,613	17,201	67,490	3,559	1,593	129,320	-	129,320
Revenues and other operating income - intersegment	24,236	404	17,576	9,615	3,486	9,163	64,480	(64,480)	-
Total revenues and other operating income	60,100	4,017	34,777	77,105	7,045	10,756	193,800	(64,480)	129,320
EBITDA	12,843	3,012	14,698	3,405	3,030	1,688	38,676	3	38,679
Depreciation and amortization	(12,141)	(1,311)	(4,560)	(304)	(1,749)	(1,056)	(21,121)	-	(21,121)
Impairment of property, plant and equipment and intangible assets including goodwill	(362)	-	(512)	1	16	(27)	(884)	-	(884)
EBIT	344	1,702	9,645	3,100	1,299	632	16,722	3	16,725
Interest on debt and provisions	(4,802)	(236)	(241)	(105)	(147)	(178)	(5,709)	572	(5,137)
Interest income	349	11	69	29	20	296	774	(572)	202
Share of profit (loss) from associates and joint-ventures	-	-	(96)	158	5	(1,019)	(952)	-	(952)
Income taxes	759	(296)	(1,762)	(694)	(237)	(208)	(2,438)	-	(2,438)
Net income	28,356	1,342	7,609	2,479	1,525	(253)	41,058	(31,929)	9,129
Identifiable assets	247,413	27,712	107,686	3,329	19,525	9,008	414,673	(739)	413,934
Investment in associates and joint- ventures	-	-	-	301	176	2,650	3,127	-	3,127
Unallocated assets									325,818
Total assets									742,879
Capital expenditure	3,856	214	8,674	278	729	2,594	16,345	(1,079)	15,266

September 30, 2017 (restated *):	Gene- ration - Traditional Energy	Gene- ration - New Energy	Distribu- tion	Sales	Mining	Other	Combined	Elimination	Consoli- dated
Revenues and other operating income - other than intersegment	40,166	3,290	21,520	76,518	3,542	1,707	146,743	-	146,743
Revenues and other operating income - intersegment	21,830	556	20,647	3,543	3,410	10,882	60,868	(60,868)	-
Total revenues and other operating income	61,996	3,846	42,167	80,061	6,952	12,589	207,611	(60,868)	146,743
EBITDA	14,343	3,386	14,559	3,494	3,287	1,981	41,050	4	41,054
Depreciation and amortization	(13,660)	(1,270)	(4,669)	(75)	(1,743)	(1,145)	(22,562)	-	(22,562)
Impairment of property, plant and equipment and intangible assets including goodwill	-	(267)	(6)	-	-	6	(267)	-	(267)
EBIT	1,833	1,849	9,900	3,421	1,545	866	19,414	4	19,418
Interest on debt and provisions	(3,544)	(202)	(248)	(19)	(141)	(201)	(4,355)	456	(3,899)
Interest income	482	-	22	1	2	156	663	(456)	207
Share of profit (loss) from associates and joint-ventures	(682)	-	42	(515)	4	(199)	(1,350)	-	(1,350)
Income taxes	197	(186)	(1,776)	(606)	(295)	(211)	(2,877)	-	(2,877)
Net income	10,113	1,456	7,941	2,243	1,831	5,509	29,093	(12,509)	16,584
Capital expenditure	7,471	517	8,653	131	893	4,527	22,192	(2,957)	19,235
December 31, 2017:	Gene- ration - Traditional Energy	Gene- ration - New Energy	Distribu- tion	Sales	Mining	Other	Combined	Elimination	Consoli- dated
Identifiable assets	255,773	28,845	113,805	1,110	20,517	9,050	429,100	(1,081)	428,019
Investment in associates joint-ventures	-	-	-	693	175	2,652	3,520	-	3,520
Unallocated assets									194,668
Total assets									<u>626,207</u>

* Certain numbers shown were restated due to the final report of fair value of Elevion group as of the acquisition date and do not correspond to the interim consolidated financial statements as of September 30, 2017.