’19

Half-Year Report

CEZ Group

CEZ Group Profile

Headquartered in Czechia, CEZ Group is an integrated energy conglomerate with operations in Western, Central, and Southeastern European countries. Its core business is the generation, distribution, trade in, and sales of electricity and heat, trade in and sales of natural gas, and coal extraction. It also provides comprehensive energy services to its customers. CEZ Group companies employed more than 32,000 people at the end of the first half of 2019.

The largest shareholder of the parent company ČEZ is the Czech Republic with a nearly 70% stake in the company's stated capital. ČEZ shares are traded on the Prague and Warsaw stock exchanges and included in the PX and WIG-CEE exchange indices.

CEZ Group's mission is to provide safe, reliable, and positive energy to its customers and society at large. Its long-term vision is to bring innovations for resolving energy needs and to help improve the quality of life. CEZ Group's strategy consists of four priorities: Efficient Operation, Optimum Generation Portfolio Utilization and Development; Modern Distribution and Care for Customers' Energy Needs; New Energy Sector Development in Czechia; and Energy Services Development in Europe. CEZ Group companies in Czechia generate and distribute and supply electricity and heat, trade in electricity, natural gas, and other commodities, and one company extracts and sells coal. They also provide comprehensive energy services to customers. Their generation portfolio consists of nuclear, coal-fired, gas-fired, hydroelectric, photovoltaic, wind, biomass, and biogas facilities.

CEZ Group's business activities abroad concern primarily electricity distribution, generation, trading, and sales, as well as natural gas trading and sales, commodity trading in wholesale markets, and active presence in energy services. Foreign countries where CEZ Group is doing business include, most importantly, Germany, France, Poland, Romania, Hungary, Slovakia, and Turkey.

CEZ Group's business activities are governed by strict ethical standards that include responsible behavior toward employees, society, and the environment. In its business activities, CEZ Group embraces the principles of sustainable development, supports energy efficiency, promotes new technologies, and creates an environment for employees' professional growth. Its corporate culture emphasizes safety, continuous growth in internal efficiency, and support for innovation in order to increase CEZ Group's value.

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Statutory Declaration of Persons Responsible for the CEZ Group Half-Year Report

With the use of all reasonable care, to the best of our knowledge the consolidated half-year report provides a true and fair view of the financial standing, business activities, and results of operations of the issuer and its consolidated group for the first half of 2019 and of the outlook for the future development of the financial standing, business activities, and results of operations of the issuer and its consolidated group, and no facts have been omitted that could change the meaning of this report.

Prague, August 26, 2019

Martin Novák
Vice-Chairman of the Board of Directors, ČEZ, a. s.

Pavel Cyrani
Member of the Board of Directors, ČEZ, a. s.

Selected Indicators of CEZ Group

Selected Indicators of CEZ Group

	Unit	H1 2018	H1 2019	2019/2018 Index (%)
Electricity generated (gross)	GWh	30,743	32,066	104.3
Electricity sold [1]	GWh	19,043	18,229	95.7
Heat sold [1]	TJ	12,857 [2]	13,865	107.8
Gas sold [1]	GWh	5,206	5,379	103.3
Workforce headcount as at June 30	Persons	30,392	32,030	105.4
Operating revenues	CZK millions	86,252	100,028	116.0
Of which: Sales of electricity, heat, gas and coal	CZK millions	56,470 [3]	64,575	114.4
EBITDA	CZK millions	26,893	32,092	119.3
EBIT	CZK millions	12,677	17,102	134.9
Net income	CZK millions	7,715	11,221	145.4
Adjusted net income [4]	CZK millions	7,843	11,955	152.4
Earnings per share—basic	CZK/share	14.0	20.8	x
Dividend per ČEZ, a. s. share (gross) [5]	CZK/share	33.0	24.0	72.7
Net cash provided by operating activities	CZK millions	21,110	27,943	132.4
Capital expenditures (CAPEX) [6]	CZK millions	(8,962)	(11,608)	129.5
Investments [7]	CZK millions	(289)	(2,538)	878.2
Total assets	CZK millions	707,443 [8]	678,804	96.0
Of which: Property, plant, and equipment [9]	CZK millions	415,908 [8]	416,842	100.2
Equity (including noncontrolling iterests)	CZK millions	239,281 [8]	247,565	103.5
Net debt [4]	CZK millions	128,256	143,218	111.7
Net debt / EBITDA [4]	1	2.59	2.62	x

[1] Sold to end-use customers (outside CEZ Group).
[2] Heat sales including ČEZ Energo w ere 13,468 TJ in H1 2018.
[3] Statement presentation changed at the end of 2018. Data for previous period w ere adjusted to be comparable to current period data.
[4] Refer to Methods Used to Calculate Indicators Unspecified in IFRS for the definition.
[5] Aw arded in a given year to be paid out of the previous years' income.
[6] Additions to property, plant, and equipment and intangibles.
[7] Acquisition of subsidiaries, associations, and joint ventures, net of cash acquired.
[8] As at December 31, 2018.
[9] Property, plant, and equipment (including nuclear fuel and construction w ork in progress).

Selected Indicators of the Most Significant Regions of CEZ Group Presence (CZK Millions)

	Czechia		Germany		Poland		Romania		Bulgaria		Further Countries and Inter-Segment Eliminations	
	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019
Operating revenues	64,495	74,889	4,489	5,928	5,082	5,020	6,555	8,132	8,447	8,805	(2,816)	(2,745)
EBITDA	23,591	28,695	330	455	457	354	2,001	1,709	765	862	(251)	17
Net income	6,786	10,765	(136)	(228)	122	13	896	481	553	184	(506)	6

Credit Rating

ČEZ's long-term credit ratings remained unchanged in the first half of 2019.

S&P Global Ratings Europe Limited reaffirmed ČEZ's long-term credit rating of A− with a stable outlook on November 23, 2018. Moody's Investors Service Ltd. updated its Credit Opinion on ČEZ on January 23, 2019, leaving its long-term credit rating at Baa1 with a positive outlook.

Both credit rating agencies are included in the list of credit rating agencies pursuant to Regulation (EC) No. 1060/2009 of the European Parliament and of the Council, as amended by Regulation (EU) No. 513/2011 of the European Parliament and of the Council and Regulation (EU) No. 462/2013 of the European Parliament and of the Council. When selecting credit rating agencies, ČEZ complies with Article 8d of the above-mentioned Regulation.

Shares

Five CEZ Group companies have publicly traded shares.

1) ČEZ, a. s.

As at June 30, 2019, the total stated capital of ČEZ, a. s., was CZK 53,798,975,900. The Company's stated capital consisted of 537,989,759 shares with a nominal value of CZK 100. Their ISIN is CZ0005112300.

Structure of Shareholders—by Entity Type (%)

	Share in Stated Capital	Share in Voting Rights	Share in Stated Capital	Share in Voting Rights	Share in Stated Capital	Share in Voting Rights
	June 15, 2018 [1]		November 23, 2018 [2]		June 19, 2019 [3]	
Legal entities, total	**89.80**	**89.73**	**89.67**	**89.61**	**89.07**	**89.02**
Of which: Czech Republic	69.78	70.20	69.78	70.19	69.78	70.12
ČEZ, a. s.	0.60	—	0.58	—	0.48	—
Other legal entities	19.42	19.53	19.31	19.42	18.81	18.90
Private individuals, total	**10.20**	**10.27**	**10.33**	**10.39**	**10.93**	**10.98**

[1] Date of record for attendance at the 26th shareholders' meeting.
[2] Date of record for attendance at the 27th shareholders' meeting.
[3] Date of record for attendance at the 28th shareholders' meeting.

Entities Holding at Least 1% of the Shares of ČEZ, a. s.

Entities holding a state amounting to at least 1% of the stated capital of ČEZ, a. s., as registered in the Central Securities Depository as at June 19, 2019, were:

- Czech Republic, represented by the Ministry of Finance of the Czech Republic, holding a stake amounting in total to 69.78% of the stated capital, i.e., 70.12% of voting rights
- Chase Nominees Limited, holding a stake amounting to 2.09% of the stated capital, i.e., 2.10% of voting rights
- Clearstream Banking, s.a., holding a stake amounting to 1.92% of the stated capital, i.e., 1.93% of voting rights
- State Street Bank and Trust Co., holding a stake amounting to 1.04% of the stated capital, i.e., 1.05% of voting rights

On March 14, 2018, a group of shareholders (consisting of Ing. Michal Šnobr, J&T Securities Management Limited, Tinsel Enterprises Limited, and Hamafin Resources Limited), declaring itself to act in concert and having the status of a qualified shareholder, delivered a notice of its share in voting rights pursuant to Section 122(1) of the Capital Market Undertakings Act. According to the notice, its share in voting rights was 1%. According to the records of the Central Securities Depository, the share of this group of shareholders in voting rights was 1.24% as at June 19, 2019.

Said entities have rights pursuant to Section 365 et seq. of the Business Corporations Act. The possibility that some of the aforementioned entities manage shares owned by third parties cannot be excluded.

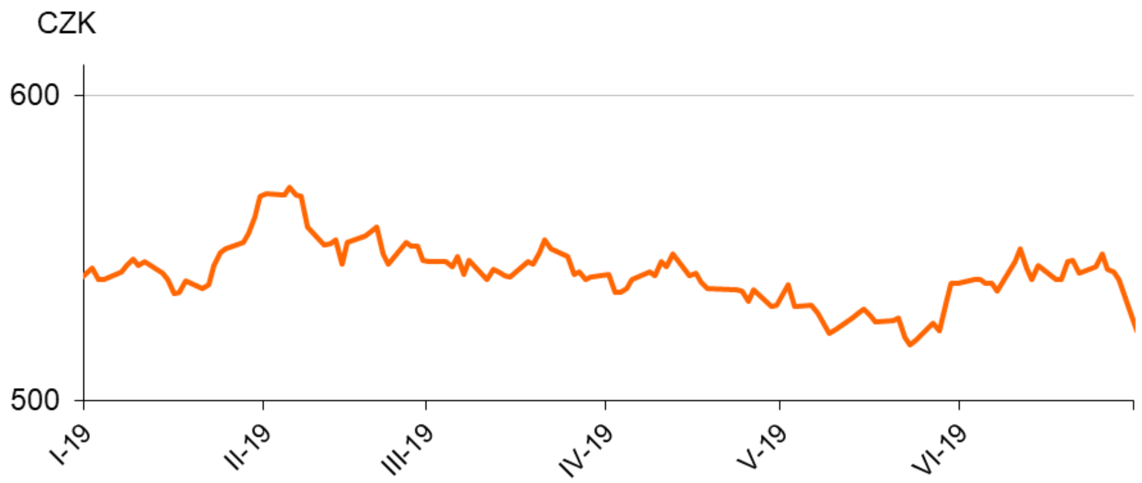
Treasury Shares

To cover claims arising out of the Company's stock option plan, 3,125,021 treasury shares, representing 0.58% of its stated capital, were held on the asset account of ČEZ, a. s., with the Central Securities Depository as at January 1, 2019.

ČEZ used 558,781 shares, representing 0.1% of its stated capital, to satisfy the claims of beneficiaries under the Company's stock option plan in the first half of 2019. The average call price for which the shares were sold to the beneficiaries amounted to CZK 436.05 per share. The total amount received for the transfer of the shares to the beneficiaries was CZK 243.7 million (including interest).

At June 30, 2019, the above-mentioned asset account contained 2,566,240 treasury shares, that is, 0.48% of the Company's stated capital.

ČEZ, a. s., Share Price in H1 2019



Payment of Dividends to Shareholders

The Company's annual shareholders' meeting, which started on June 26, 2019, decided on June 27, 2019, to pay a dividend of CZK 24 per share before tax to Company shareholders. The approved dividend amount is in line with the Board of Directors' proposal at the upper limit of the payout ratio under the current dividend policy. The share of profit to be distributed among shareholders is CZK 12,911,754,216, of which CZK 12,850,164,456 is to be paid out, representing 98.4% of consolidated net income adjusted for extraordinary effects, or 122.4% of consolidated net income.

Entities that were shareholders of ČEZ at the record date, that is, July 2, 2019, are entitled to the dividend. The dividend on treasury shares held by the Company at the record date was not paid out and was transferred to the retained earnings account.

The dividend for 2018 becomes payable on August 1, 2019, and can be claimed until July 31, 2023.

Dividend Policy

Starting from 2015, ČEZ, a. s., applied a dividend policy that anticipated paying out 60–80% of consolidated net income adjusted for extraordinary effects generally unrelated to ordinary financial performance in a given year. The payout ratio was temporarily increased in 2017 to 60%–100% of consolidated adjusted net income until the Company's development strategy is refined. In May 2019, the Board of Directors of ČEZ, a. s., decided to update the dividend policy by raising the lower endpoint of the payout ratio interval. The new payout ratio is 80%–100% of CEZ Group's consolidated net income adjusted for extraordinary effects. The principal reason for the change was an update to CEZ Group's business strategy and policy, which does not anticipate any major investments in renewables abroad.

2) ČEZ OZ uzavřený investiční fond a.s.

The company's shares were admitted to trading on the Prague Stock Exchange's regulated market with effect from December 31, 2015. The ISIN is CZ0008041787. An issue of 5,310,498 shares, that is, 15% of the total number of the company's shares, previously held by ČEZ, was admitted to trading. ČEZ held an almost 99.6% stake in the company as at June 30, 2019; other shareholders were ČEZ Obnovitelné zdroje and ČEZ Korporátní služby. Shareholders outside CEZ Group held a 0.04% stake in the company's stated capital.

3) Akenerji Elektrik Üretim A.S.

The company's shares are traded freely on the stock exchange. A portion of shares representing a 25.3% stake in the company's capital has been freely traded on the Istanbul stock exchange since

July 3, 2000. The ISIN is TRAAKENR91L9. The shares are not traded on any other public markets. ČEZ, a. s., held an almost 37.4% stake in the company's stated capital as at June 30, 2019.

4) CEZ Elektro Bulgaria AD

The company's shares have been traded on the Bulgarian Stock Exchange since October 29, 2012. The ISIN is BG1100024113. The shares are not traded on any other public markets. As at June 30, 2019, ČEZ held a 67% stake and the second largest shareholder, the Chimimport group, held a 24.92% stake in the company's stated capital.

5) CEZ Razpredelenie Bulgaria AD

The company's shares have been traded on the Bulgarian Stock Exchange since October 29, 2012. The ISIN is BG1100025110. The shares are not traded on any other public markets. As at June 30, 2019, ČEZ held a 67% stake and the second largest shareholder, the DOVERIE group, held a 11.06% stake in the company's stated capital.

Selected Events

Selected Events in H1 2019

January

- Wind turbine projects with an installed capacity of up to 119 MW were purchased in France.
- The www.bezstavy.cz site was launched for ČEZ Distribuce customers, where they can get, for example, information about power outages during natural disasters and expected power restoration times.
- Inven Capital, CEZ Group's investment fund seeking opportunities in the new energy sector, bought a share in Driivz, a company whose modular charging management system is used by 300,000 drivers globally.

February

- Inven Capital sold its stake in sonnen, a Bavarian battery system manufacturer; the selling price was about two times the purchase price.

March

- The European Parliament excluded nuclear, coal, and gas power from the category of sustainable finance, increasing the risk of a future change in EU regulation—as contrasted to sustainable sources having a "green investment label."
- INVEN CAPITAL acquired a share in CyberX, an Israeli company delivering comprehensive solutions for industrial cybersecurity.
- A memorandum on crisis communication during natural disasters was signed by Czech energy distribution companies ČEZ Distribuce and E.ON Distribuce of the one part and telecommunications infrastructure operators of the other part.

April

- The agreement with Inercom for the sale of CEZ Group's assets in Bulgaria was terminated.
- CEZ Group began selling electric vehicles to households and sole traders.

May

- A decision was taken to update the dividend policy as follow-up to an update to CEZ Group's strategy, which no longer anticipates any major investments in renewables abroad; the payout ratio was raised to 80%–100% of consolidated net income adjusted for extraordinary effects.
- HERMOS, a German group involved in ESCO services, was acquired.

June

- An agreement was made with Eurohold for the sale of CEZ Group's assets in Bulgaria for EUR 335 million (about CZK 8.6 billion).
- INVEN CAPITAL acquired a share in Neuron Soundware, a Czech company delivering smart solutions for machinery diagnostics based on acoustic analysis of machine operation.
- A WANO international review began at the Temelín Nuclear Power Plant; final results of the mission will be available in October.
- The 28th annual shareholders' meeting of ČEZ was held, approving, among other things, an update to the business policy of CEZ Group and ČEZ, a. s.

Selected Events until the Closing Date for the Half-Year Report

July

- The “Electricity and Gas Market Participant Declaration for Consumer Protection,” which CEZ Group is a signatory to, entered into effect; in the Declaration, suppliers undertook to voluntarily comply with new rules helping to further cultivate energy sales in Czechia.
- CEZ Group opened its 100th fast-charging station for electric vehicles in Czechia.
- The Ministry of the Environment issued a favorable environmental impact opinion for coal mining extension at the Bílina Mine until 2035.

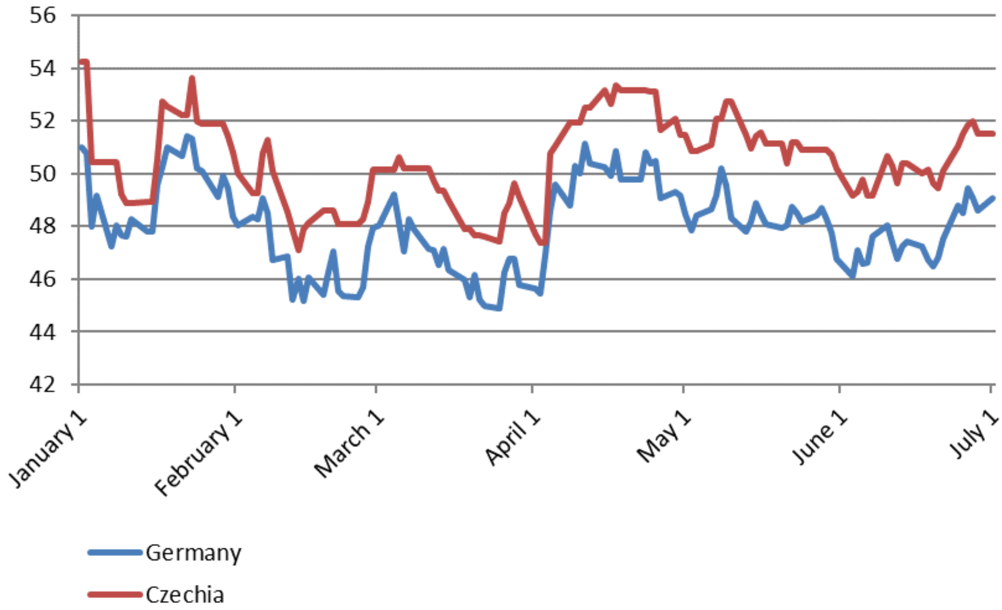
Developments in Relevant Energy Markets

Wholesale prices of electricity in Czechia derive from prices in Germany due to the close interconnection of these two markets. Electricity prices are influenced by the following factors in particular:

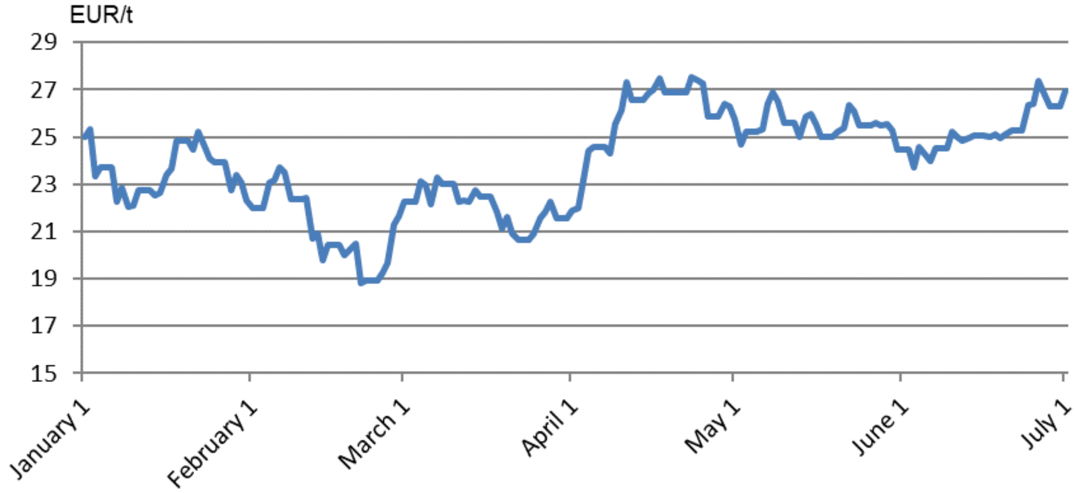
- Commodity prices determining variable generation costs, particularly the prices of coal, natural gas, and emission allowances
- Macroeconomic developments, which affect the level of demand for electricity
- Changes in the volume and structure of generation capacities in Europe, especially renewables

Electricity prices did not have any strong trend in the first half of 2019, ranging between 45 and 51 EUR/MWh. They closed the half-year at 48.6 EUR/MWh, which is 5% less as compared to the beginning of 2019. This development reflects stabilization in the prices of CO_2 emission allowances, which came after a sharp rise in the prices in 2018. The persisting stable price of electricity and a concurrent slight decrease in coal and gas prices (especially in the second quarter) have a slightly positive effect on margins.

Wholesale Price of Electricity in 2019 (2020 Year Band) in EUR/MWh



Prices of Emission Allowances in 2019 (2020 Forward Contracts)



European Union

Developments in Regulation for the Electricity Sector

A significant body of EU legislation with impact on the energy industry was published in the Official Journal of the EU in the first half of 2019.

A Commission Regulation (2019/331) determining transitional Union-wide rules for harmonized free allocation of CO_2 emission allowances pursuant to Article 10a of the EU-ETS Directive was promulgated at the end of February. The implementing regulation applies to the free allocation of emission allowances for stationary installations for periods after 2021, with the exception of transitional free allocation of emission allowances for the modernization of electricity generation under the Modernization Fund.

A change to the Commission implementing regulation (389/2013) establishing a Union Registry was promulgated in March. The implementing regulation changes EU legislation in relation to the Union Registry ensuring accurate accounting for transactions with emission allowances according to the EU-ETS in connection with the United Kingdom’s withdrawal from the EU.

In June, the Official Journal of the EU also published the long-awaited last part of the legislative package named Clean Energy for All Europeans, containing a regulation on risk-preparedness in the electricity sector (2019/941), as well as a regulation establishing a European Union Agency for the Cooperation of Energy Regulators (2019/942) and a regulation on the internal market for electricity (2019/943). Besides these three regulations, the legislative procedure adopting the Clean Energy for All Europeans package was completed by publishing a directive on common rules for the internal market in electricity.

The European Parliament passed a resolution on the proposal for a regulation on the establishment of a framework to facilitate sustainable investment at first reading in March 2019; however, it did not adopt a mandate for trialogue before the European Parliament elections in May 2019. The regulation will establish a uniform classification system (taxonomy) aiming to harmonize criteria for the purposes of determining whether an economic activity may be considered sustainable under existing market practices. The trialogue is expected to start during the Finnish presidency of the EU Council in the second half of 2019. A Commission technical expert group issued a technical report on the taxonomy in June, opening consultations whose results it will incorporate before the end of its mandate, that is by the end of 2019. The Directorate-General for Financial Stability and Capital Markets invited investors to take account of the taxonomy even though the procedure has not finished yet.

A Brief Forecast of the Development of the Electricity Sector from CEZ Group’s Perspective

Europe’s energy sector will continue to be affected primarily by commodity price changes in wholesale markets, political goals, and technological advancement. Each of these factors contributes to big changes in the energy sector, most importantly its gradual decentralization and the emergence of new consumer-centered business models.

Wholesale electricity prices reached several-year highs. The principal factor for their rise was the price of emission allowances, which had quadrupled since the beginning of 2018 and exceeded its ten-year highs. Prices rose in spite of a huge surplus of allowances from past years in the system. The reason was the introduction of a Market Stability Reserve (MSR), which began to significantly reduce the amount of allowances in auctions starting from January 2019. This resulted in some energy companies’ efforts to stock up on allowances in advance as well as in increased demand by new players in the market (investors and speculators). On the other hand, surplus holders’ willingness to sell their previously acquired allowances decreased. These factors may keep the price of emission allowances relatively high in the short and medium term. Nevertheless, their price may also be volatile due to a continued surplus of allowances in the market.

Electricity prices are also greatly affected by changes in the prices of energy commodities—coal and gas. The price of hard coal ranges between 60 and 85 USD/t. A crucial factor for the global market in hard coal is events in China, the world’s largest producer and importer. Recently, the Chinese government has been attempting to stabilize the domestic coal market, which is reflected in stabilizing hard coal prices worldwide. The price of gas is also affected by developments in China. Imports of liquefied natural gas (LNG) to China increased by 50% year-on-year to 70 bcm—which makes China the world's second biggest LNG importer after Japan (global imports are 350 bcm). On the supply side, new LNG liquefaction terminals were being put into operation (large projects in Australia and the U.S.). Still, these new capacities could not satisfy the new Asian demand in late 2018, which resulted in the redirection of LNG deliveries from Europe to Asia and increased gas prices in both Europe and Asia. However, after a relatively mild winter, gas prices began to decrease again in the spring of 2019.

In the longer run, developments in the energy sector will also be crucially affected by regulatory measures, especially the implementation of the European Union's energy and climate targets for 2030. After lengthy and difficult debates, an agreement was reached on raising the targets for renewable energy sources (RES) and energy efficiency. EU member states will have to specify their contribution to meeting these targets in forthcoming integrated energy and climate plans, which are to be approved by the Commission by the end of 2019. They must set an almost linear trajectory for reaching the RES target in their plans. The target value for the share of renewables was increased from the previous 27% to 32% of consumed energy, which means more than half of electricity should be generated from RES in 2030, making less room for conventional energy. Increased generation at photovoltaic plants will cause a further decrease in the prices of electricity during today's peaks. Unstable, weather-dependent supply will require large flexible capacity at power plants or higher flexibility on the side of consumption, and will contribute to the advancement of electricity storage technologies. At the same time, renewable generation development will be considerably cheaper in the next years than it was in the past, primarily due to technological advancement and a greater number of competitive elements in RES support.

The target for energy efficiency was also increased—from the previous 27% to the current 32.5% in 2030. A positive effect on demand can be derived from decarbonization efforts in the transportation and heat sectors through incremental electrification. Emphasis on an increased share of renewables and on reducing electricity consumption will negatively affect demand for emission allowances and the whole emissions trading system (EU ETS) in the long run. However, proposals for increasing the emission target ambitions from the existing 40% to 45% are also beginning to emerge, although this discussion is still at the very beginning.

In respect of the emissions of other pollutants such as nitrogen oxides, sulfur oxides and other substances, approval of BAT/BREF limits for large combustion plants will have a significant impact in the next years. Stricter limits for these emissions will require considerable investments in coal-fired facilities in many European countries. Besides the effects of the European Union's policies and targets, prices are significantly affected by individual political decisions in European countries. Examples include a decision to shut down nuclear power plants in Germany, discussions about shutting down German coal-fired power plants, efforts to reduce the share of nuclear generation in France, the launch of capacity payments in Poland, or the planned introduction of a minimum price for CO_2 in the energy sector in the Netherlands. Such effects then result in another wave of uncertainty in market prices. Technological advancement will be a key factor for the future of the energy sector. The biggest changes it produces are seen in renewable generation and decentral solutions. Investment costs for large photovoltaic power plants have dropped to less than 15% of their initial levels during the past 10 years and a further decrease is expected in the future. Costs have been decreasing and parameters have been improving rapidly for other types of renewable energy sources, too. There is also significant advancement in energy storage technologies, which help decarbonize the energy sector by enabling storage of electricity generated from intermittent renewable energy sources. Large batteries with hundreds of MW of capacity have been put into operation in Europe in just the past few years. The European Commission adopted a strategic action plan for battery development and manufacture in Europe already in 2018.

Technological advancement will result in increased energy decentralization at the expense of large facilities. The development of distributed generation will be driven more and more by cost competitiveness rather than subsidies as before. At the same time, distributed generation will bring about new business opportunities for energy companies.

CEZ Group Strategy

Europe’s energy sector is undergoing a major transformation. Traditional energy is stagnating but remains an indispensable part of the energy sector. Renewables and decentral energy keep growing. Customers require comprehensive services relating to energy use. The European Commission approved new ambitious targets for 2030 in decarbonization, renewables, and energy efficiency.

Complex changes are also underway in the Czech energy market. Czechia began elaborating the European Commission’s targets into an energy and climate plan with an increased share of generation from renewable energy sources, an update to Czechia’s State Energy Policy is discussed, there has been a progress in discussions about the mode of preparation and construction of a new nuclear power plant, work on the National Action Plan for Smart Grids and Electric Mobility is underway, and Czechia's digitization is being prepared.

CEZ Group Strategy Update

The principal determinant strategic factors remain the same, but new, mostly regionally specific challenges occurred and CEZ Group responded to them by updating its business policy and strategy. The annual shareholders’ meeting approved the updated business policy of CEZ Group and ČEZ, a. s., on June 27, 2019.

CEZ Group’s major challenges in the traditional energy sector include decarbonization, phase-out of coal-fired generating facilities, ensuring stable supplies when those facilities are shut down, and continued preparation of projects for new nuclear power plants.

In the new energy sector, CEZ Group anticipates further development of renewables and growth in the energy services market, where it wants to remain a major player innovating both products and services. In distribution and sales, the most important issue is gradual digitization and decentralization.

CEZ Group’s updated strategy and business policy aims at the following business opportunities:

- Participation in enhancing Czechia’s energy security
- Modernization of the Czech energy sector and decentral energy growth
- Fulfillment of Czechia’s energy and climate plan meeting the European Union targets
- Interconnection of Czech industry and trade with neighboring countries

In comparison with the previous strategy from 2014, the current strategy has stronger focus on the Czech market. Its aim for abroad is long-term growth primarily in comprehensive energy services. New development investments will be mostly made in the new energy sector and distribution assets in Czechia and in energy services abroad.

CEZ Group’s mission and vision remain unchanged. CEZ Group’s mission is to provide safe, reliable, and positive energy to its customers and society as a whole. Its vision is to bring innovations for resolving energy needs and to help improve quality of life.

CEZ Group’s Strategic Priorities

1) <u>Efficient Operation, Optimum Generation Portfolio Utilization and Development</u>

   Efficient management of nuclear power plants and of coal-fired power plants located in mining regions, preparation of conditions for the construction of a new nuclear power plant as part of energy security enhancement and decarbonization of the generation portfolio in Czechia.

   - Enhancing the safety, security, and effectiveness of the operation of nuclear power plants in accordance with international practices and ensuring their long-term operation
   - Managing efficiently the portfolio of coal-fired power plants and heating plants in mining regions and mines
   - Operating efficiently and phasing out the portfolio of power plants located outside mining regions
   - Continuing the preparation of the project for a new nuclear power plant at Dukovany, including the negotiation of a contractual framework with the Czech state to cover, most importantly, the regulatory and market risks of the project

2) <u>Modern Distribution and Care for Customers' Energy Needs</u>

Modernizing and digitizing distribution and sales in Czechia with respect to customers' energy needs in the context of the development of the Czech energy sector.

In distribution:

- Increasing investments in the distribution network in the context of changes induced by decentral energy and in the context of conditions imposed by a new regulatory period
- Increasing investments in smart and innovative solutions focused on Smart Grid, electric mobility integration, and decentralized energy sources
- Digitizing operations to optimize operating expenses

In sales:

- Maintaining the current profitability and customer base in commodities.
- Keep extending the base of satisfied customers through offerings of noncommodity products and services enhancing their quality of life
- Digitizing the whole sales process to optimize operating expenses

3) <u>New Energy Sector Development in Czechia</u>

Developing energy services and renewables in Czechia and taking advantage of conditions set under Czechia's energy and climate plan.

- Building an efficient structure to cover the entire value chain associated with the development of renewable energy sources in the domestic market
- Achieving a major position in the generation and supply of heat from renewable energy sources
- Consolidating the energy services market

4) <u>Energy Services Development in Europe</u>

Developing energy services abroad with the aim of achieving a major position in European markets close to Czechia.

- Keeping growing in the energy services market in Germany, northern Italy, and Poland
- Offering customers innovative products that will allow them to cut their expenses on energies, heating and cooling, and lighting and enhance their comfort in other areas

The updated strategy anticipates leaving some markets and segments abroad. The current divestment strategy focuses on the completion of the sale of assets in Bulgaria and on sale of generation and distribution assets in Romania, Poland, and Turkey.

As concerns the current portfolio of renewables abroad, the goal is to finish development and ensure return of invested funds.

CEZ Group Financial Performance

As at June 30, 2019, the consolidated CEZ Group comprised a total of 200 companies, with 174 companies fully consolidated and 26 associates and joint ventures consolidated using the equity method.

CEZ Group Consolidated Unit as at June 30, 2019

The companies of the consolidated accounting unit of CEZ Group are divided into six operating segments.

Generation—Traditional Energy

ČEZ, a. s.
Areál Třeboradice, a.s.
AYIN, s.r.o.
Centrum výzkumu Řež s.r.o.
CEZ Chorzów S.A.
CEZ Chorzów II sp. z o.o.
CEZ Magyarország Kft.
CEZ Produkty Energetyczne Polska sp. z o.o.
CEZ Skawina S.A.
CEZ Srbija d.o.o.
CEZ Towarowy Dom Maklerski sp. z o.o.
CEZ Trade Romania S.R.L.
ČEZ Bohunice a.s.
ČEZ Energetické produkty, s.r.o.
ČEZ ENERGOSERVIS spol. s r.o.
ČEZ Teplárenská, a.s.
EGP INVEST, spol. s r.o.
Elektrárna Dětmarovice, a.s.
Elektrárna Dukovany II, a. s.
Elektrárna Mělník III, a. s.
Elektrárna Počerady, a.s.
Elektrárna Temelín II, a. s.
Energetické centrum s.r.o.
Energotrans, a.s.
ITX MEDIA a.s.
MARTIA a.s.
OSC, a.s.
ŠKODA PRAHA a.s.
Tepelné hospodářství města Ústí nad Labem s.r.o.
ÚJV Řež, a. s.

AK-EL Kemah Elektrik Üretim ve Ticaret A.S. *)
AK-EL Yalova Elektrik Üretim A.S. *)
Akenerji Dogal Gaz Ithalat Ihracat ve Toptan Ticaret A.S. *)
Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan Ticaret A.S. *)
Akenerji Elektrik Üretim A.S. *)
Jadrová energetická spoločnosť Slovenska, a. s.*)

Generation—New Energy

A.E. Wind S.A.
Baltic Green Construction sp. z o.o.
Baltic Green I sp. z o.o.
Baltic Green II sp. z o.o.
Baltic Green III sp. z o.o.
Baltic Green V sp. z o.o.
Baltic Green VI sp. z o.o.
Baltic Green VIII sp. z o.o.
Baltic Green IX sp. z o.o.
BANDRA Mobiliengesellschaft mbH & Co. KG
Bara Group EOOD
CASANO Mobiliengesellschaft mbH & Co. KG
CEZ Bulgarian Investments B.V.
CEZ Deutschland GmbH
CEZ Erneuerbare Energien Beteiligungs GmbH
CEZ Erneuerbare Energien Beteiligungs II GmbH
CEZ Erneuerbare Energien Verwaltungs GmbH
CEZ France SAS
CEZ Holdings B.V.
CEZ New Energy Investments B.V.
CEZ Windparks Lee GmbH
CEZ Windparks Luv GmbH
CEZ Windparks Nordwind GmbH
ČEZ Obnovitelné zdroje, s.r.o.
ČEZ OZ uzavřený investiční fond a.s.
ČEZ Recyklace, s.r.o.
Ferme éolienne d'Allas-Nieul SAS
Ferme Eolienne d'Andelaroche SAS
Ferme éolienne de Feuillade et Souffrignac SAS
Ferme éolienne de Genouillé SAS
Ferme éolienne de la Petite Valade SAS
Ferme Eolienne de la Piballe SAS
Ferme Eolienne de Neuville-aux-Bois SAS
Ferme éolienne de Nueil-sous-Faye SAS
Ferme Eolienne de Saint-Laurent-de-Ceris SAS
Ferme éolienne de Saugon SAS
Ferme Eolienne de Seigny SAS
Ferme Eolienne de Thorigny SAS
Ferme éolienne des Besses SAS
Ferme Eolienne des Breuils SAS
Ferme Eolienne des Grands Clos SAS
Ferme éolienne du Blessonnier SAS
Ferme Eolienne du Germancé SAS
Free Energy Project Oreshets EAD
Inven Capital, SICAV, a.s.
M.W. Team Invest S.R.L.

Ovidiu Development S.R.L.
REN Development s.r.o.
TMK Hydroenergy Power S.R.L.
Tomis Team S.A.
Windpark Baben Erweiterung GmbH & Co. KG
Windpark Badow GmbH & Co. KG
Windpark Cheinitz-Zethlingen GmbH & Co. KG
Windpark Frauenmark III GmbH & Co. KG
Windpark Fohren-Linden GmbH & Co. KG
Windpark Gremersdorf GmbH & Co. KG
Windpark Mengeringhausen GmbH & Co. KG
Windpark Naundorf GmbH & Co. KG
Windpark Zagelsdorf GmbH & Co. KG

GP JOULE PPX Verwaltungs GmbH *)
GP JOULE PP1 GmbH & Co. KG *)
Green Wind Deutschland GmbH *)
juwi Wind Germany 100 GmbH & Co. KG *)
Socrates JVCo Verwaltungs GmbH *)
Socrates Windprojekt GmbH & Co. KG *)
Windpark Bad Berleburg GmbH & Co. KG *)
Windpark Berka GmbH & Co. KG *)
Windpark Harrenstetter Heide GmbH & Co. KG *)
Windpark Moringen Nord GmbH & Co. KG *)
Windpark Prezelle GmbH & Co. KG *)
Windpark Palmpohl GmbH & Co. KG *)
Windpark Soeste GmbH & Co. KG *)

Distribution

CEZ Bulgaria EAD
CEZ ICT Bulgaria EAD
CEZ Razpredelenie Bulgaria AD
CEZ Romania S.A.
ČEZ Distribuce, a. s.
Distributie Energie Oltenia S.A.

Akcez Enerji A.S.*)
Sakarya Elektrik Dagitim A.S. *)

Sales

AirPlus, spol. s r.o.
AZ KLIMA a.s.
AZ KLIMA SK, s.r.o.
CEZ Elektro Bulgaria AD
CEZ ESCO Bulgaria EOOD
CEZ ESCO I GmbH
CEZ ESCO II GmbH
CEZ ESCO Polska sp. z o.o.
CEZ ESCO Romania S.A.
CEZ Slovensko, s.r.o.
CEZ Trade Bulgaria EAD
CEZ Trade Polska sp. z o.o.
CEZ Vanzare S.A.
ČEZ Bytové domy, s.r.o.
ČEZ Distribučné sústavy a.s.
ČEZ Energetické služby, s.r.o.
ČEZ Energo, s.r.o.
ČEZ ESCO, a.s.
ČEZ LDS s.r.o.
ČEZ Prodej, a.s.
ČEZ SERVIS, s.r.o.
ČEZ Solární, s.r.o.
D-I-E ELEKTRO AG
Domat Control System s.r.o.
Domat Holding s.r.o.
EAB Automation Solutions GmbH
EAB Elektroanlagenbau GmbH Rhein/Main
Elektro-Decker GmbH
Elevion GmbH
En.plus GmbH
Energocentrum Vítkovice, a. s.

ENESA a.s.
ESCO City I sp. z o.o.
ESCO City II sp. z o.o.
ESCO City III sp. z o.o.
ESCO City IV sp. z o.o.
ESCO City V sp. z o.o.
ESCO City VI sp. z o.o.
ETS Efficient Technical Solutions GmbH
ETS Efficient Technical Solutions Shanghai Co. Ltd.
ETS Engineering Kft.
H & R Elektromontagen GmbH
HA.EM OSTRAVA, s.r.o.
Hermos AG
Hermos Gesellschaft für Steuer-, Meß- und Regeltechnik mbH
HERMOS International GmbH
HERMOS SDN. BHD
Hermos Schaltanlagen GmbH
Hermos Sp. z.o.o.
Hermos Systems GmbH
High-Tech Clima d.o.o.
High-Tech Clima S.A.
HORMEN CE a.s.
Hybridkraftwerk Culemeyerstraße Projekt GmbH
Jäger & Co. Gesellschaft mit beschränkter Haftung
KART, spol. s r.o.
Kofler Energies Energieeffizienz GmbH
Kofler Energies Ingenieurgesellschaft mbH
Kofler Energies International GmbH
Kofler Energies Italia S.r.l.
Kofler Energies Systems GmbH
Metrolog sp. z o.o.
NEK Facility Management GmbH
OEM Energy sp. z o.o.
Rudolf Fritz GmbH
SPRAVBYTKOMFORT,a.s. Prešov
TENAUR, s.r.o.
WPG Projekt GmbH

Bytkomfort, s.r.o. *)
Elevion Co-Investment GmbH & Co. KG *)
KLF-Distribúcia, s.r.o.*)
Sakarya Elektrik Perakende Satis A.S.*)

Mining

PRODECO, a.s.
Revitrans, a.s.
SD - Kolejová doprava, a.s.
Severočeské doly a.s.

LOMY MOŘINA spol. s r.o. *)

Support Services

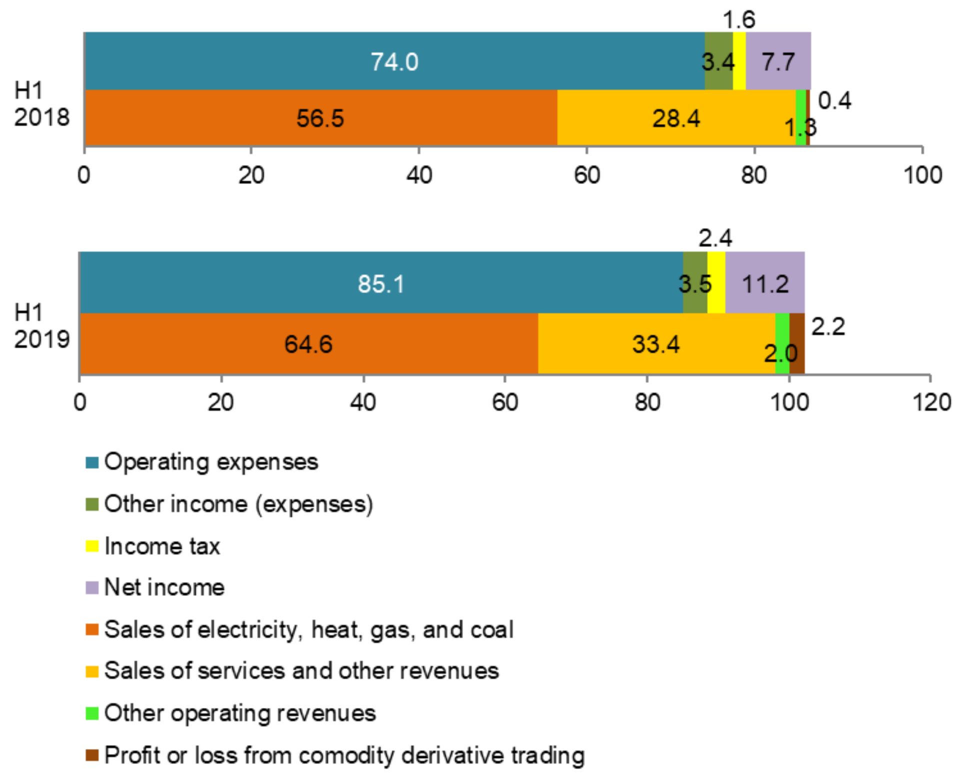
CEZ MH B.V.
CEZ Polska sp. z o.o.
CEZ Ukraine LLC
ČEZ Asset Holding, a. s.
ČEZ ICT Services, a. s.
ČEZ Korporátní služby, s.r.o.
Telco Pro Services, a. s.

**) Joint venture or associate*

CEZ Group's Financial Results

Changes in Revenues, Expenses, and Income

CEZ Group Net Income Breakdown (CZK Billions)



Net income (after-tax income) in the first half of 2019 amounted to CZK 11.2 billion, which is a year-on-year increase of CZK 3.5 billion. The growth reflects a year-on-year increase in operating income, reflecting in turn growth in gross margin on electricity generation.

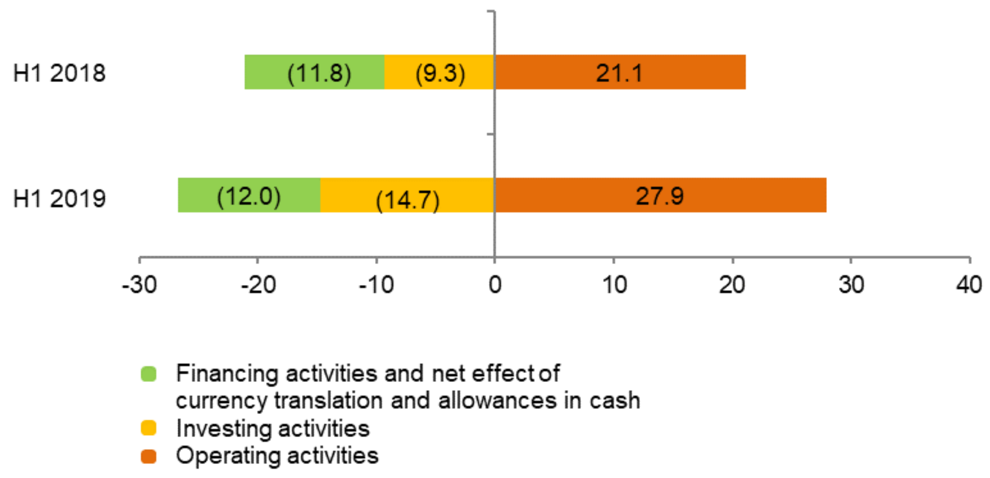
Operating revenues increased by CZK 13.8 billion year-on-year, primarily due to higher revenues from sales of electricity, heat, gas, and coal (CZK +8.1 billion), of which the highest increase of CZK 6.7 billion was in electricity sales, reflecting higher realization prices of generated electricity in Czechia and higher generation by traditional facilities in Czechia. The increase in revenues was also contributed to by sales of services and other revenues (CZK +5.0 billion), including sales of distribution services increasing by CZK 2.7 billion and revenue from other services increasing by CZK 2.0 billion, primarily in relation to revenues of newly acquired energy service companies.

Operating expenses grew by CZK 11.1 billion year-on-year. A negative effect on the year-on-year comparison was produced primarily by higher expenses on purchases of electricity, gas, and other energies (CZK +4.1 billion), expenses on fuel and emission allowances (CZK +2.1 billion), purchased services (CZK +1.7 billion), personnel costs (CZK +1.4 billion), and material costs (CZK +0.6 billion). The year-on-year increase in operating expenses was also due to higher expenses on fixed asset impairments (CZK +0.7 billion) and higher other operating expenses (CZK +0.5 billion) relating primarily to the acquisition of new energy service companies.

Other income (expenses) increased by just CZK 0.1 billion year-on-year, primarily due to higher interest expenses. Income tax increased by CZK 0.8 billion due to higher earnings before taxes.

Cash Flows

CEZ Group Cash Flows (CZK Billions)



Cash flows from operating activities increased by CZK 6.8 billion year-on-year to CZK 27.9 billion. In year-on-year comparison, there was a positive effect of increase in income before income taxes adjusted for noncash operations (CZK +6.9 billion) and decrease in income tax paid (CZK +0.2 billion). Change in working capital had a negative effect on cash flows from operating activities (CZK -0.2 billion). Interest paid, net of capitalized interest, increased (CZK -0.2 billion) in 2019.

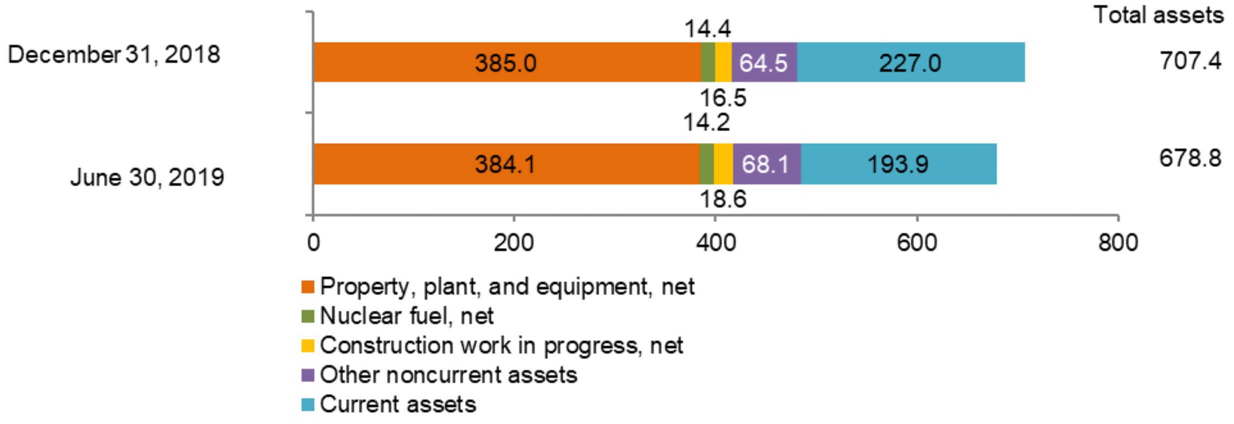
Cash used in investing activities increased by CZK 5.4 billion in year-on-year comparison, amounting to CZK 14.7 billion. The main cause was higher acquisition of fixed assets, including capitalized interest (CZK -3.1 billion), primarily due to higher investments in property, plant, and equipment. Acquisition of subsidiaries increased year-on-year (CZK -2.2 billion) and there was a bigger change in financial assets with limited availability (CZK -0.7 billion). Proceeds from sale of noncurrent assets increased year-on-year (CZK +0.7 billion).

Cash used in financing activities, including the net effect of currency translation and valuation allowances in cash, increased by CZK 0.2 billion year-on-year to CZK 12.0 billion. This was primarily due to lease payments being moved from the operating activities part to the financing activities part of the statement of cash flows in accordance with current IFRS requirements (CZK -0.4 billion). In contrast, the balance of loans and repayments was positive (CZK +0.2 billion) in year-on-year comparison. Conversely, the net effect of currency translation and allowances in cash was negative (CZK -0.1 billion) in year-on-year comparison.

Structure of Assets, Equity, and Liabilities

The value of CEZ Group's consolidated assets, and equity & liabilities decreased by CZK 28.6 billion in the first half of 2019 to CZK 678.8 billion.

Structure of CEZ Group Assets (CZK Billions)

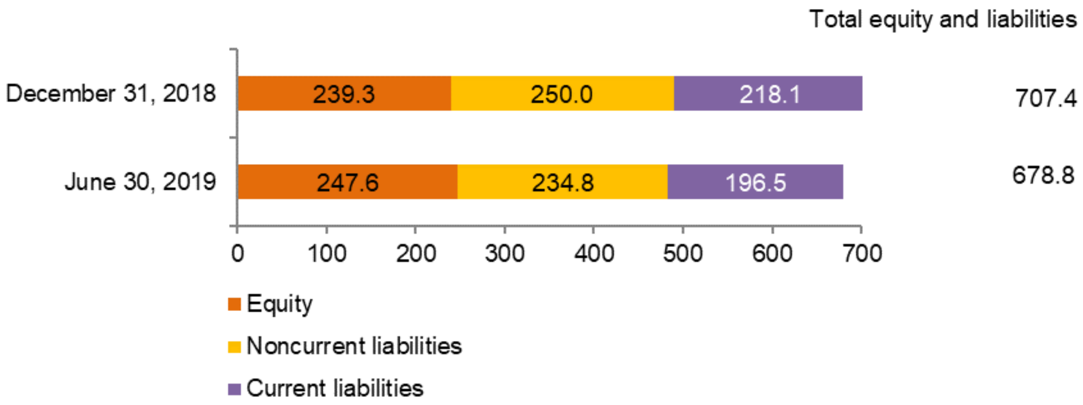


Noncurrent assets increased by CZK 4.5 billion to CZK 484.9 billion. The value of property, plant, and equipment, nuclear fuel, and construction work in progress increased by CZK 0.9 billion to CZK 416.8 billion. Capital expenditures were greater than accumulated depreciation and fixed asset impairments (CZK +1.2 billion). Nuclear fuel, net, decreased (CZK -0.2 billion).

Other noncurrent assets increased by CZK 3.6 billion in the first half of 2019, to CZK 68.1 billion, which was primarily due to increase in financial assets with limited availability (CZK +1.9 billion). Noncurrent intangible assets increased (CZK +1.6 billion) due to acquisitions of new subsidiaries.

Current assets decreased by CZK 33.1 billion in the first half of 2019, to CZK 193.9 billion, primarily due to decreased receivables from derivatives (CZK -31.5 billion). Trade receivables, net, decreased (CZK -7.3 billion) while other current assets, primarily unbilled goods and services and contingent assets, increased (CZK +3.3 billion). Income tax assets increased in the first half of 2019 (CZK +1.6 billion). Other items of current assets were up (CZK +0.8 billion), with the highest increase in inventories of materials and fossil fuels.

Structure of CEZ Group Equity and Liabilities (CZK Billions)



Equity, including noncontrolling interests, increased by CZK 8.3 billion to CZK 247.6 billion. Net income in the reporting period was (CZK +11.2 billion) and other comprehensive income was (CZK +9.6 billion). Furthermore, there was a positive effect of sales of treasury stock on equity (CZK +0.2 billion). In contrast, dividends awarded to shareholders decreased equity by (CZK -12.9 billion).

Noncurrent liabilities decreased by CZK 15.2 billion to CZK 234.8 billion primarily due to decrease in long-term liabilities from bonds issued and long-term bank loans (CZK -21.9 billion). Noncurrent derivative liabilities decreased noncurrent liabilities (CZK -3.3 billion). In contrast, deferred tax liability increased (CZK +4.5 billion). The application of a new IFRS increased noncurrent lease liabilities (CZK +4.1 billion). Long-term provisions increased (CZK +1.5 billion).

Current liabilities decreased by CZK 21.7 billion to CZK 196.5 billion. The decrease was primarily due to decrease in current liabilities from derivative trading, including options (CZK -31.6 billion), as well as decrease in short-term loans (CZK -9.8 billion) and trade payables (CZK -8.7 billion). The provision for emission allowances decreased (CZK -2.6 billion). Conversely, the current portion of long-term debt increased (CZK +18.9 billion). The liability from dividends awarded to shareholders was accounted for in the first half of 2019, increasing current liabilities (CZK +12.9 billion). Other items decreased (CZK -0.8 billion).

Comprehensive Income

Net comprehensive income in the first half of 2019 increased by CZK 17.2 billion as compared to the first half of 2018, to CZK 20.8 billion.

Net income increased by CZK 3.5 billion year-on-year to CZK 11.2 billion and other comprehensive income increased by CZK 13.7 billion to CZK 9.6 billion. In year-on-year comparison, other comprehensive income was positively affected primarily by change in the fair value of financial instruments for cash flow hedges (CZK +15.5 billion) and derecognition of cash flow hedges in income (CZK +2.5 billion). Translation differences for subsidiaries had a negative effect on comprehensive income (CZK -1.5 billion). Deferred tax associated with other comprehensive income had a negative effect (CZK -3.6 billion). Other changes in comprehensive income (CZK +0.8 billion).

Net Debt

CEZ Group Net Debt (CZK Billions)

	December 31, 2018	June 30, 2019
Long-term debt, net of current portion	142.4	124.7
Current portion of long-term debt	6.7	25.7
Short-term borrowings	11.8	1.9
Long-term debt, net of current portion related to assets held for sale	1.3	1.6
Current portion of long-term debt related to assets held for sale	0.2	0.1
Short-term borrowings related to assets held for sale	0.3	0.2
Total debt	**162.8**	**154.3**
Cash and cash equivalents	(7.3)	(8.3)
Cash and cash equivalents classified as held for sale	(2.0)	(2.3)
Highly liquid financial assets	(2.3)	(0.5)
Net debt	**151.3**	**143.2**
EBITDA (in 12 preceding months)	**49.5**	**54.7**
Net debt/EBITDA	**3.05**	**2.62**

Financial Results of CEZ Group Segments

Segments and Their Contributions to CEZ Group's Financial Performance

	Operating Revenues Other Than Intersegment Revenues (CZK millions)	Operating Intersegment Revenues (CZK millions)	Total Operating Revenues (CZK millions)	EBITDA (CZK millions)	Net Income (CZK millions)	CAPEX (CZK millions)	Workforce Headcount as at June 30 (persons)
Generation—Traditional Energy							
H1 2018	23,891	15,906	39,797	9,560	29,519	2,463	9,822
H1 2019	29,997	19,188	49,185	14,106	14,169	3,763	9,930
Generation—New Energy							
H1 2018	2,922	279	3,201	1,980	1,049	118	162
H1 2019	3,399	195	3,594	2,273	1,589	486	162
Distribution							
H1 2018	20,013	4,047	24,060	10,061	5,207	5,254	9,167
H1 2019	21,320	313	21,633	10,398	4,718	5,651	9,015
Sales							
H1 2018	36,925	6,463	43,388	2,134	1,649	133	5,324
H1 2019	42,924	3,814	46,738	1,933	1,146	622	7,051
Mining							
H1 2018	2,366	2,637	5,003	2,381	843	618	4,839
H1 2019	2,239	3,052	5,291	2,525	942	770	4,778
Support Services							
H1 2018	135	2,127	2,262	773	833	470	1,078
H1 2019	149	2,109	2,258	854	759	370	1,094
Elimination							
H1 2018	—	(31,459)	(31,459)	4	(31,385)	(94)	—
H1 2019	—	(28,671)	(28,671)	3	(12,102)	(54)	—
Consolidated							
H1 2018	86,252	—	86,252	26,893	7,715	8,962	30,392
H1 2019	100,028	—	100,028	32,092	11,221	11,608	32,030

The net income of CEZ Group's biggest segment, Generation—Traditional Energy, decreased by CZK 15.3 billion year-on-year, which was however due to higher dividends received by the parent company ČEZ from companies in other CEZ Group segments in 2018 (CZK -19.4 billion). The year-on-year decrease in net income is also attributable to higher income tax (CZK -1.0 billion), primarily due to ČEZ's lower deferred tax in 2018. In contrast, there was a positive year-on-year effect of the higher operating income before depreciation and amortization, allowances, and sales of assets (EBITDA) of the segment (CZK +4.5 billion) and lower depreciation and amortization at ČEZ (CZK +0.6 billion).

The Generation–New Energy segment's net income increased by CZK 0.5 billion. In Czechia, it increased by CZK 0.1 billion primarily due to higher electricity generation. Romania showed an improvement (CZK +0.2 billion) also due to higher electricity generation on account of more favorable climatic conditions and a higher allocation of certificates (CZK +0.1 billion) and lower income tax (CZK +0.1 billion). There was also a positive effect of CEZ New Energy Investments dividends received (CZK +0.2 million).

The Distribution segment's net income decreased by CZK 0.5 billion. The main cause was decrease in Bulgarian distribution (CZK -0.5 billion) primarily due to additions to impairments of assets held for sale. Net income in Romania decreased by CZK 0.3 billion due to lower EBITDA (CZK -0.1 billion) and additions to impairments of fixed assets (CZK -0.1 billion). In contrast, net income in Czechia increased by CZK 0.1 billion due to higher EBITDA (CZK +0.5 billion), which was however partially offset by increased depreciation and amortization of fixed assets (CZK -0.2 billion) and increased interest expenses (CZK -0.2 billion). Share in the profit or loss of Turkish companies in the Distribution segment had a positive effect on the year-on-year comparison of net income (CZK +0.2 billion).

The Sales segment's net income decreased by CZK 0.5 billion year-on-year. It decreased in Czechia (CZK -0.3 billion) primarily due to lower gross margin on commodity sales, reflecting primarily higher expenses on purchases of electricity and natural gas (CZK -0.5 billion). It decreased in Romania (CZK -0.3 billion) due to a nonrecurrent positive impact of regulatory correction in 2018 and lower gross margin on commodity sales. The increase in Slovakia (CZK +0.2 billion) was due to higher gross margin on electricity sales and new ESCO acquisitions. It decreased in Germany (CZK -0.1 billion) due to higher depreciation and amortization and expenses on the funding of new acquisitions. It increased in Bulgaria (CZK +0.1 billion).

The Mining segment's net income increased by CZK 0.1 billion year-on-year due to higher revenue from coal sales.

The Support Services segment's net income decreased by CZK 0.1 billion year-on-year.

Concerning other indicators of individual segments included in the table, comments are provided below on year-on-year changes in EBITDA (operating income before depreciation and amortization, impairment, and asset sales), which is the most frequently used indicator of the operating performance of companies traded on global exchanges and is monitored by shareholders, creditors, investors, and foreign and domestic analysts.

The EBITDA of CEZ Group's biggest segment, Generation—Traditional Energy, increased by CZK 4.5 billion. In Czechia, the value of the indicator increased (CZK +4.6 billion) due to higher realization prices of generated electricity, including the impact of hedges and commodity trading (CZK +2.9 billion), and higher generation at nuclear power plants (CZK +0.2 billion) and other generating facilities (CZK +0.4 billion). Furthermore, there was a positive effect of higher heat sales (CZK +0.3 billion), higher sales of ancillary services (CZK +0.2 billion), and, most importantly, the specific effect of increase in commodity prices in the first half of 2018 (CZK +1.6 billion), of which CZK 1.2 billion was due to revaluation of hedges for electricity generation in Czechia with delivery in the second half of 2018 and CZK 0.4 billion was due to commercial procurement of allowances for 2018. Conversely, there was a negative effect of higher expenses on emission allowances for generation (CZK -0.8 billion). The value of the indicator decreased in Poland (CZK -0.1 billion).

The Generation–New Energy segment's indicator increased by CZK 0.3 billion. The increase in Czechia (CZK +0.1 billion) resulted from higher electricity generation (CZK +0.1 billion) due to better climatic conditions. In Romania, the indicator also increased by CZK 0.1 billion due to higher electricity generation and a higher allocation of certificates. An overall increase in other countries (CZK +0.1 billion) was primarily due to lower fixed operating expenses.

The Distribution segment's indicator increased by CZK 0.3 billion year-on-year. A year-on-year increase in the indicator in Czechia (CZK +0.5 billion) was primarily due to higher gross margin on electricity distribution (CZK +0.3 billion), higher revenues from activities to ensure power input and connection (CZK +0.1 billion), and lower additions to allowances on receivables (CZK +0.1 billion). A decrease occurred in Romania (CZK -0.1 billion) primarily due to higher costs to cover losses in the distribution grid and due to a higher average purchase price. There was no year-on-year change in Bulgaria.

The Sales segment's EBITDA decreased by CZK 0.2 billion year-on-year. The decrease in Czechia (CZK -0.3 billion) resulted from year-on-year lower gross margin on commodity sales (CZK -0.5 billion) primarily due to higher expenses on electricity and natural gas purchases. Conversely, there was a positive effect of noncommodity ESCO activities in the segment (CZK +0.2 billion). The decrease in Romania (CZK -0.3 billion) was due to a nonrecurrent positive impact of regulatory correction in 2018 and lower gross margin on commodity sales. The increase in Bulgaria (CZK +0.1 billion) reflects primarily lower expenses on commodity procurement. The increase in Slovakia (CZK +0.2 billion) is due to higher gross margin on electricity sales and new ESCO acquisitions. A positive effect was produced in 2019 by the Elevion group's improved financial performance and the acquisition of En.plus in Germany (CZK +0.1 billion).

The Mining segment's indicator increased by CZK 0.1 billion as compared to 2018 due to higher revenue from coal sales.

The Support Services segment's EBITDA increased by CZK 0.1 billion. The indicator increased by CZK 0.1 billion in Czechia primarily due to an effect of the application of IFRS 16, whereby a portion of total expenses on leases was moved to depreciation and interest expense (and thus out of EBITDA).

Related Parties

Overview of Receivables from and Payables to Related Parties (CZK Millions)

	Receivables		Payables	
	December 31, 2018	June 30, 2019	December 31, 2018	June 30, 2019
Akenerji Elektrik Üretim A.S.	18	4	—	—
Elevion Co-Investment GmbH & Co. KG	—	—	123	79
LOMY MOŘINA spol. s r.o.	2	6	20	16
Ústav aplikované mechaniky Brno, s.r.o.	3	—	67	16
Výzkumný a zkušební ústav Plzeň s.r.o.	74	85	2	1
Výzkumný ústav pro hnědé uhlí a.s.	2	5	5	3
Others	19	7	11	10
Total	**118**	**107**	**228**	**125**

Sales to and Purchases from Related Parties (CZK Millions)

	Sales to Related Parties		Purchases from Related Parties	
	H1 2018	H1 2019	H1 2018	H1 2019
Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan Ticaret A.S.	—	—	—	58
ČEZ Energo, s.r.o. [1)]	129	—	57	—
LOMY MOŘINA spol. s r.o.	5	5	93	92
Teplo Klášterec s.r.o.	30	32	—	—
Ústav aplikované mechaniky Brno, s.r.o.	1	1	27	44
VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s.	16	16	1	1
Others	19	13	12	15
Total	**200**	**67**	**190**	**210**

[1)] *Related party until June 30, 2018.*

Interest, Other Finance Income, and Revenue from Shares of Profit Received from Related Parties (CZK millions)

	Interest and Other Financial Expenses		Interest and Other Financial Income		Income from Received Shares of Profit	
	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019
Akcez Enerji A.S.	—	—	7	17	—	—
Elevion Co-Investment GmbH & Co. KG	4	3	—	—	—	—
LOMY MOŘINA spol. s r.o.	—	—	—	—	5	5
Sakarya Elektrik Dagitim A.S.	—	—	3	3	—	—
Výzkumný ústav pro hnědé uhlí a.s.	—	—	—	—	—	5
Total	**4**	**3**	**10**	**20**	**5**	**10**

Economic and Financial Outlook for 2019

As at August 13, 2019, CEZ Group estimated its 2019 consolidated net income*) at CZK 17 to 19 billion. The estimated year-on-year increase is primarily due to estimated increase in consolidated operating income before depreciation and amortization, impairment, and asset sales (EBITDA) in all business segments. Conversely, there is a negative effect of nonrecurrent 2018 proceeds from refunded interest on emission allowance tax for 2011 and 2012, higher income tax in 2019, and other effects (most importantly, foreign exchange effects and revaluation of financial derivatives and higher interest expenses).

The 2019 EBITDA was estimated by CEZ Group at CZK 57 to 59 billion as at August 13, 2019, which is a year-on-year increase of approximately CZK 8.5 billion (that is, 17% more than the actual 2018 figure).

The major causes of the year-on-year change in financial performance are listed below, broken down by the segment structure applicable since January 1, 2019, to indicate CEZ Group's expected financial position in 2019.

The Mining segment is estimated to grow by CZK 0.5 billion year-on-year due to higher production and increasing coal prices. The Generation—Traditional Energy segment is estimated to grow by CZK 6.3 billion year-on-year, with positive effects including higher realization prices of generated electricity, including the effects of hedging, and increased generation in Czechia and negative effects including higher expenses on emission allowances for generation. The Generation—New Energy segment is estimated to grow by CZK 0.9 billion primarily due to provisioning for a potential refund of Čekanice photovoltaic power plant revenue in 2018 and due to higher electricity prices and higher generation at wind farms in Romania. The Distribution segment is estimated to grow by CZK 0.1 billion year-on-year. The Sales segment is estimated to grow by CZK 0.4 billion year-on-year, with positive effects including growth in comprehensive energy services and negative effects including lower gross margin on electricity sales in Czechia due to higher purchase prices for deliveries in 2019. The Support Services segment is estimated to grow by CZK 0.3 billion year-on-year due to the application of the new IFRS 16 to leases.

Reasons for using an interval for the prediction of CEZ Group's 2019 EBITDA and net income include the following risks and opportunities in particular: availability of generating facilities, lawsuits (particularly with SŽDC), and new development acquisitions.

CEZ Group estimates its 2019 capital expenditures at CZK 33.7 billion, with a majority planned to be invested in generation and distribution assets in Czechia.

The 2019 net income of the parent company, ČEZ, a. s., is estimated at CZK 12 to 14 billion, the bulk of which consists of estimated dividends received from subsidiaries.

*) *When assessing the fulfillment of estimates, CEZ Group adjusts achieved net income for extraordinary effects that are generally unrelated to ordinary financial performance in a given year (such as fixed asset impairments and goodwill write-offs) and such adjusted net income of CEZ Group then forms the basis for the application of the Company's current dividend policy.*

CEZ Group Capital Expenditures

Capital Expenditures (CZK Millions)

	H1 2018	H1 2019
Additions to property, plant, and equipment and other noncurrent assets, including capitalized interest	**10,013**	**13,064**
Additions to property, plant, and equipment	8,847	11,306
Of which: nuclear fuel procurement	1,088	1,629
Additions to intangibles	115	302
Additions to long-term financial assets	—	216
Change in balance of liabilities attributable to capital expenditure	1,051	1,240
Financial investments [1)]	**289**	**2,538**
Capital expenditures, total	**10,302**	**15,602**

[1)] Acquisition of subsidiaries and joint ventures, net of cash acquired.

Additions to Property, Plant, and Equipment and Intangibles (CAPEX), by Type (CZK Millions)

	Czechia		Germany		Poland		France		Romania		Bulgaria		Others		Total	
	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019
Mining	618	770	—	—	—	—	—	—	—	—	—	—	—	—	618	770
Generation—Traditional Energy	2,434	3,651	—	—	29	112	—	—	—	—	—	—	—	—	2,463	3,763
Of which: Nuclear fuel procurement	1,075	1,629	—	—	—	—	—	—	—	—	—	—	—	—	1,075	1,629
Generation—New Energy	—	2	—	1	—	18	—	349	118	116	—	—	—	—	118	486
Distribution	4,257	4,356	—	—	—	—	—	—	644	549	353	745	—	—	5,254	5,651
Sales	59	309	72	302	3	1	—	—	—	—	—	—	—	10	133	622
Support Services *)	374	314	—	—	2	2	—	—	—	—	—	—	—	—	376	316
Total	**7,741**	**9,402**	**72**	**303**	**34**	**133**	**—**	**349**	**763**	**666**	**353**	**745**	—	**10**	**8,962**	**11,608**

**) Including the value of intersegment elimination*

CEZ Group Commodity Procurement, Sales, and Generation

Electricity

Electricity Procured and Sold (GWh)

	H1 2018	H1 2019	2019/2018 Index (%)
Electricity procured	**27,584**	**28,998**	**105.1**
Generation	30,743	32,066	104.3
In-house and other consumption, including pumping in pumped-storage plants	(3,159)	(3,069)	97.2
Sold to end-use customers	**(19,043)**	**(18,229)**	**95.7**
Wholesale balance	**(6,467)**	**(8,795)**	**136.0**
Sold in the wholesale market	(157,386)	(160,770)	102.1
Purchased in the wholesale market	150,919	151,975	100.7
Grid losses	**(2,074)**	**(1,974)**	**95.2**

Operations and Development Teams Electricity Generation, by Source of Energy (GWh)

H1 2018	Czechia		Germany		Poland		Romania		Bulgaria		H1 2018 Total	
	Operations	Development	Operations	Development	Operations	Development	Operations	Development	Operations	Development	Operations	Development
Nuclear	14,851	—	—	—	—	—	—	—	—	—	14,851	—
Coal	11,965	42	—	—	1,164	—	—	—	—	—	13,128	42
Hydro	1,012	121	—	—	3	—	—	46	—	—	1,015	166
Biomass	246	—	—	—	120	—	—	—	—	—	366	—
Photovoltaic	—	72	—	—	—	—	—	—	—	3	—	75
Wind	—	5	—	142	—	—	—	593	—	—	—	740
Natural gas	358	—	—	—	—	—	—	—	—	—	358	—
Biogas	—	2	—	—	—	—	—	—	—	—	—	2
Total	**28,431**	**241**	**—**	**142**	**1,286**	**—**	**—**	**639**	**—**	**3**	**29,718**	**1,025**

H1 2019	Czechia		Germany		Poland		Romania		Bulgaria		H1 2019 Total	
	Operations	Development	Operations	Development	Operations	Development	Operations	Development	Operations	Development	Operations	Development
Nuclear	15,115	—	—	—	—	—	—	—	—	—	15,115	—
Coal	11,877	—	—	—	1,006	—	—	—	—	—	12,883	—
Hydro	1,106	133	—	—	2	—	—	46	—	—	1,109	179
Biomass	289	—	—	—	179	—	—	—	—	—	468	—
Photovoltaic	—	74	—	—	—	—	—	—	—	3	—	77
Wind	—	6	—	153	—	—	—	643	—	—	—	802
Natural gas	1,267	166	—	—	—	—	—	—	—	—	1,267	166
Biogas	—	1	—	—	—	—	—	—	—	—	—	1
Total	**29,655**	**379**	**—**	**153**	**1,187**	**—**	**—**	**689**	**—**	**3**	**30,842**	**1,224**

Electricity Sales to End-Use Customers (GWh)

	Czechia		Poland		Romania		Bulgaria		Slovakia		Hungary		Total	
	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019
Large end-use customers	4,158	3,975	1,259	842	330	504	2,342	2,197	900	625	758	751	9,747	8,893
Retail–commercial	1,042	1,091	135	71	444	498	775	808	78	76	—	—	2,475	2,544
Residential	3,719	3,601	—	—	868	869	2,235	2,322	—	—	—	—	6,821	6,791
Total	**8,919**	**8,667**	**1,394**	**913**	**1,642**	**1,870**	**5,353**	**5,327**	**977**	**701**	**758**	**751**	**19,043**	**18,229**

Operations and Development Teams Installed Capacity by Type of Generation Facility and Country (MW)

H1 2018	Czechia		Germany		Poland		Romania		Bulgaria		Total	
	Operations	Development	Operations	Development	Operations	Development	Operations	Development	Operations	Development	Operations	Development
Nuclear power plants	4,290	–	–	–	–	–	–	–	–	–	4,290	–
CCGT power plants; gas-fired cogeneration units and boiler plants	845	–	–	–	–	–	–	–	–	–	845	–
Coal-fired power plants and heating plants	6,114	79	–	–	678	–	–	–	–	–	6,792	79
Hydro power plants	1,893	68	–	–	2	–	–	22	–	–	1,895	90
Photovoltaic power plants	–	125	–	–	–	–	–	–	–	5	–	130
Wind power plants	–	8	–	134	–	–	–	600	–	–	–	742
Biogas power plants	–	1	–	–	–	–	–	–	–	–	–	1
Total	**13,142**	**281**	**–**	**134**	**681**	**–**	**–**	**622**	**–**	**5**	**13,823**	**1,042**

H1 2019	Czechia		Germany		Poland		Romania		Bulgaria		Total	
	Operations	Development	Operations	Development	Operations	Development	Operations	Development	Operations	Development	Operations	Development
Nuclear power plants	4,290	–	–	–	–	–	–	–	–	–	4,290	–
CCGT power plants; gas-fired cogeneration units and boiler plants *)	845	104	–	–	–	–	–	–	–	–	845	104
Coal-fired power plants and heating plants	6,114	79	–	–	568	–	–	–	–	–	6,682	79
Hydro power plants	1,893	68	–	–	1	–	–	22	–	–	1,894	90
Photovoltaic power plants	–	125	–	–	–	–	–	–	–	5	–	130
Wind power plants	–	8	–	134	–	–	–	600	–	–	–	742
Biogas power plants	–	1	–	–	–	–	–	–	–	–	–	1
Total	**13,142**	**385**	**–**	**134**	**569**	**–**	**–**	**622**	**–**	**5**	**13,711**	**1,145**

*) *ČEZ Energo, s.r.o., was included among CEZ Group's fully consolidated companies in H2 2018. ČEZ Energo takes care of the operation and subsequent development of a portfolio of small local electricity and heat generation facilities. Its target partners include municipalities, district heating system operators, industry, hospitals, sports facilities, accommodation facilities, and residential or administrative complexes.*

Electricity Distributed to End-Use Customers (GWh)

	Czechia		Romania		Bulgaria		Total	
	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019
Electricity distributed to end-use customers	18,299	18,362	3,407	3,439	4,891	4,921	26,598	26,722

Heat

Heat Supplied and Sold (TJ)

	Heat Supplied for Heating Purposes		External Heat Sales (outside CEZ Group)	
	H1 2018	H1 2019	H1 2018	H1 2019
Czechia	11,654	12,677	9,719	10,751
Poland	3,238	3,177	3,138	3,114
CEZ Group, total	**14,892**	**15,854**	**12,857**	**13,865**

Natural Gas

Natural Gas Procured and Sold (GWh)

		H1 2018	H1 2019	2019/2018 Index (%)
Procured		**108,976**	**151,258**	**138.8**
Of which:	External suppliers	108,712	150,943	138.8
	OTE	264	315	119.5
Removed from storage		**2,344**	**5,221**	**222.8**
Sold		**(108,494)**	**(147,003)**	**135.5**
Of which:	Trading	(103,000)	(141,296)	137.2
	External large end-use customers	(1,957)	(2,134)	109.0
	Midsize end-use customers	(914)	(847)	92.7
	Small end-use customers	(671)	(654)	97.5
	Residential	(1,664)	(1,744)	104.8
	OTE	(288)	(328)	113.8
Placed in storage		**(1,951)**	**(6,251)**	**320.3**
Consumed in-house		**(874)**	**(3,225)**	**368.8**

Natural Gas Sold to End-Use Customers (GWh)

	Czechia		Poland		Romania		Slovakia		Total	
	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019
External large end-use customers	626	493	405	496	–	–	926	1,145	1,957	2,134
Midsize end-use customers	215	162	39	15	608	626	51	44	914	847
Small end-use customers	592	573	–	–	–	–	79	81	671	654
Residentials	1,661	1,741	–	–	–	–	2	3	1,664	1,744
Total	**3,094**	**2,969**	**445**	**512**	**608**	**626**	**1,059**	**1,272**	**5,206**	**5,379**

OPERATIONS TEAM

The Operations Team consists of companies in the segments of Mining, Generation—Traditional Energy, and Support Services. The Operations Team (its Generation–Traditional Energy segment) includes the parent company ČEZ, a. s.

The team's objective is to fulfill CEZ Group's first strategic priority, namely to ensure efficient operation, optimum use, and development of the generation portfolio.

This primarily involves ensuring safe and efficient generation at nuclear power plants with a medium-term target for annual electricity generation above 31.5 TWh, long-term operation of the nuclear power plants (Temelín units at least until 2060 and 2062, Dukovany units until 2045 and 2047), as well as maximizing the value of coal extraction, generation at conventional power plants, efficient generation at power plants and heating plants located in mining regions, and controlled phase-out of power plants elsewhere. The team's permanent objective is efficiency across segments and optimization of centralized and supporting activities.

An important strategic task, going beyond the Operations team, is negotiating a framework for the construction of a new nuclear unit at Dukovany to cover the regulatory and market risks of the project and then starting project preparations in accordance with the contractual framework agreed with the Czech state.

Safety Management under the Operations Team

Safety and Quality Management

Safety is CEZ Group's topmost priority. The Board of Directors of ČEZ fully accepts its responsibility for ensuring the safety and security of generating facilities and the protection of individuals and the public. In environmental protection, it proceeds in compliance with applicable law as well as Czechia's international commitments. CEZ Group's centrally managed internal regulations give priority to safety and security in all processes and activities.

The safety management system at CEZ Group is structured into safety segments according to risks prevailing in the pursuit of activities and with respect to strategic management. In accordance with rules defined in CEZ Group, safety management under the Operations team is divided into two safety management segment centers:

- **Nuclear energy**
  - **ČEZ, a. s., division:** Nuclear Energy
  - **Subsidiaries:** ČEZ ENERGOSERVIS spol. s r.o.; Elektrárna Dukovany II, a. s.; and Elektrárna Temelín II, a. s.
- **Conventional energy**
  - **ČEZ, a. s., divisions:** Fossil and Hydro Generation, CEO Division, Finance, Sales and Strategy, Administration
  - **Subsidiaries:** ČEZ Teplárenská, a.s.; Energotrans, a.s.; ČEZ Energetické produkty, s.r.o.; Energetické centrum s.r.o.; Elektrárna Dětmarovice, a.s.; Elektrárna Počerady, a.s.; and ČEZ ICT Services, a. s.

In accordance with a declared concern interest, "CEZ Group Uniform Governance System" management systems are introduced to support corporate governance and are certified by accredited certification bodies or audited by relevant independent bodies, as appropriate. The certification of individual companies within CEZ Group supports transparency and communication toward the general public and other stakeholders. Management systems are a tool for systematically reducing the risks of environmental disasters and serious work-related injuries. Established management systems include continuous improvement.

A quality management system according to ISO 9001 is introduced and certified at the following CEZ Group companies: Energetické produkty, s.r.o., and ČEZ ENERGOSERVIS spol. s r.o.

An environmental management system according to ISO 14001 is introduced and certified at the following CEZ Group companies: ČEZ, a. s.—Fossil and Hydro Generation Division; ČEZ, a. s.—Nuclear Energy Division; Elektrárna Dětmarovice, a.s.; Elektrárna Počerady, a.s.; Energotrans, a.s.; ČEZ Energetické produkty, s.r.o.; and ČEZ ENERGOSERVIS spol. s r.o.

An energy management system according to ISO 50001 is introduced and certified at the following CEZ Group companies: ČEZ, a. s.; Energotrans, a.s.; Elektrárna Dětmarovice, a.s.; Elektrárna Počerady, a.s.; ČEZ ENERGOSERVIS spol. s r.o.; and Energetické centrum s.r.o.

The following CEZ Group companies have an occupational safety and health management system in place and are certified either as a Safe Enterprise or according to OHSAS 18001: ČEZ, a. s.—Fossil and Hydro Generation Division; ČEZ, a. s.—Nuclear Energy Division; Elektrárna Dětmarovice, a.s.; Energotrans, a.s.; ČEZ Energetické produkty, s.r.o.; and ČEZ ENERGOSERVIS spol. s r.o.

Fourteen testing laboratories, four calibration laboratories, and two inspection bodies within CEZ Group are accredited for testing, calibration, and inspection activities, respectively.

Fulfillment of obligations arising from our Safety and Environmental Protection Policy is reviewed regularly within CEZ Group through "Safety Topic of the Year" assessments. The Safety Topic of the Year 2019 is "When selecting and assessing suppliers, we take into account their approach to safety and the environment."

Safety of Operated Nuclear Power Plants

ČEZ's nuclear power plants were operated in compliance with applicable nuclear energy legislation in the first half of 2019, fulfilling the conditions of their valid licenses. Their operation had a negligible impact on the environment and the populace. We continued implementing requirements set down in the new Atomic Energy Act and its implementing decrees.

Our nuclear plants' Safety Enhancement Plans were assessed, updated, and implemented as a follow-up to our Nuclear Safety Policy. The assessment and updating takes place every April and this year's assessment showed that campaigns to enhance the safety of our nuclear power plants were conducted on schedule. Both nuclear power plants carried out a qualitative upgrade (update) to their Severe Accident Management Guidelines (SAMGs) and enhanced the functions of the Standby Emergency Response Organization (SERO)—communication with external entities.

A number of exercises with various themes took place at both nuclear power plants during the first half-year.

Dukovany Nuclear Power Plant

A WANO Follow-Up Peer Review took place at the Dukovany NPP in February to review nine areas for improvement defined by a WANO review back in 2017. Room for improvement was identified in maintenance, human performance, and engineering. On a four-grade evaluation scale, two best grades of "A" were given for chemistry and engineering and seven very good grades of "B" were given for the remaining areas. WANO team members appreciated the change and discernible progress that the power plant had made in the areas.

Standard equipment tests before the restoration of Unit 2 operation after refueling, performed in June, identified a chemistry deviation from expected values at steam generator 6. Taking a conservative approach, a decision was made to shut down the unit, check the condition of the equipment, and repair any defects as appropriate. The shutdown was also used to check steam generator 2. The performed checks showed thinning of the heat-transfer areas of several tubes, which were plugged and then checked using the bubble method and eddy currents. A repair procedure is now being prepared for the last part of steam generator 6.

Temelín Nuclear Power Plant

An unannounced exercise—call-up and gathering at the backup control center—took place in April. All members of SERO arrived to the Radiation Monitoring Laboratory building in České Budějovice, where the premises of the backup emergency and support center are located, within sixty minutes of the allowed ninety-minute limit.

The power plant was inspected by 28 experts from 17 countries on July 17 to August 2. This was the very first time when a mission took place during an outage and was led by WANO's Paris center. Final results will be available in October. Preliminary conclusions from the mission confirm a high standard of the nuclear power plant's operations.

Cybersecurity

ČEZ has been the administrator of a critical information infrastructure pursuant to the Cybersecurity Act (CSA), No. 181/2014 Sb., since 2016.

At the request of the Czech National Cyber and Information Security Agency, ČEZ is undergoing a process of reviewing the critical information infrastructure and appointing the operators of fundamental services in 2019. It is expected that the National Cyber and Information Security Agency will designate most systems necessary for the safety, security, and control of operated generating facilities at ČEZ as critical information infrastructures or fundamental service systems during the process.

In relation to a warning against the use of software and hardware made by Huawei Technologies Co., Ltd., and ZTE Corporation, issued by the Czech National Cyber and Information Security Agency in December 2018 and stating that such use presents a security threat, ČEZ reviewed its risk analysis of protected systems and took appropriate measures in the first half of 2019.

In May and June 2019, ČEZ underwent an inspection pursuant to CSA, performed by the National Cyber and Information Security Agency at the Dukovany Nuclear Power Plant site. In the final report, the inspection team stated that cybersecurity was handled at an appropriate level as required by CSA. Outcomes and recommendations from the inspection are addressed by ČEZ under its established management system.

ČEZ also duly honors its obligations concerning computer security pursuant to Act No. 263/2016 Sb., Atomic Energy Act. In this context, comprehensive documentation of computer security provisions pursuant to the Atomic Energy Act was prepared for both operated nuclear power plants in the first half of 2019.

Czechia

Business Environment

The Czech government approved the establishment of a coal commission on July 30, 2019. The new government advisory body’s main task will be to evaluate future need for brown coal and prepare expert recommendations on how to adapt Czechia to the times while the use of fossil energy is being phased out. The commission’s outputs should be available to the government by the end of 2020.

For more information, refer to Development Team in Czechia—Business Environment.

Construction of New Nuclear Units

Working groups under the Standing Committee on the Construction of New Nuclear Power Plants in Czechia prepared documents named “Steps for the Preparation and Construction of New Nuclear Power Plants at Dukovany and Temelín” (Dukovany II NNPP and Temelín II NNPP) and “Analysis of Selected Investment Models for the Construction of New Nuclear Power Plants and the Manner of Their Financing.” In the past half-year, the commission arrived at the conclusion that the most adequate construction investment model would be using a specifically established ČEZ subsidiary. At the same time, it is necessary that there be an agreement with the Czech state covering regulatory and market risks. As a follow-up, negotiations about the terms and conditions of such an agreement were initiated and a team was established to coordinate dealings with the European Commission. At its July 8, 2019, meeting, the government then debated a document that should create the conditions for further progress in preparations and, not least, arrange a meeting in Brussels on the necessary commercial arrangements to confirm permitted state aid conforming to EU rules.

CEZ Group continued to prepare projects for the new nuclear power plants. Complete draft tender specifications are prepared for the selection of a power plant building contractor and a fuel contractor for both projects. The specifications will be modified later as needed, depending on the chosen business model and manner of contractor selection.

Dukovany New Nuclear Power Plant

The preparation of an opinion on the EIA report was completed. An opinion is expected to be issued by the Ministry of the Environment this summer. Draft contents of individual chapters of documentation for the issue of a siting approval were being prepared; a contract was signed with the preparer of documentation for land use proceedings. Support documents are being prepared for the incorporation of the Dukovany NNPP project in all levels of off-site planning documentation. Geological and hydrogeological surveys of the intended construction site and its neighborhood continued and environmental surveys were carried out in a number of environmental compartments.

Temelín New Nuclear Power Plant

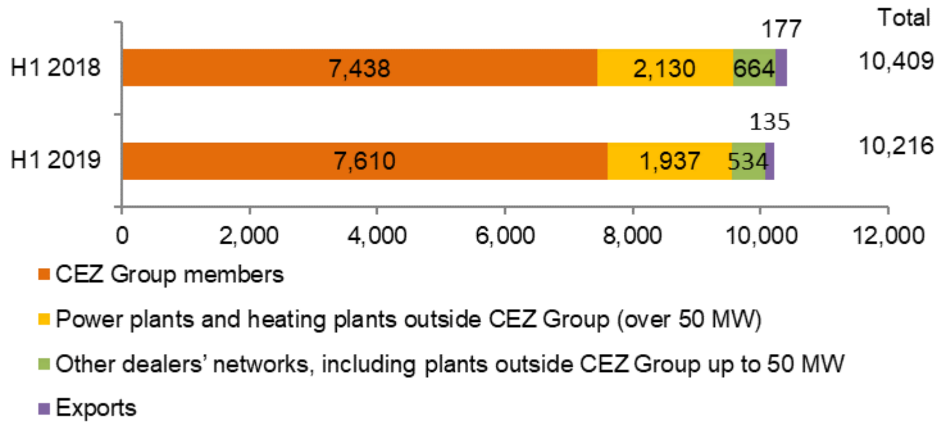
Necessary preparatory activities were carried out, the implementation of conditions arising from the issued EIA opinion and the issued siting permit for Temelín Units 3 and 4 in particular.

Mining

Coal Mining and Sales

The CEZ Group company engaged in brown coal mining is Severočeské doly. It sold approximately 10,216,000 tons of coal in the first half of 2019. This is a year-on-year decrease of approximately 192,000 tons, resulting from lower consumption by external customers due to a warmer winter and loss of some customers. The decrease was partially offset by higher demand from within CEZ Group.

Coal Sales, by Customer (Thousands of Tons)



Capital Construction

Severočeské doly's investment program focuses primarily on projects making provisions for extraction in the Bílina Mine. The Ministry of the Environment issued a favorable environmental impact opinion for extended coal mining at the Bílina Mine until 2035 on July 30, 2019. Severočeské doly must meet 31 conditions including, for example, building embankments and planting greenery to reduce noise and dust. To be able to extend mining activities, a permit must be obtained from the mining office. Previously, mining at the mine was permitted until 2030.

Capital investments consisted primarily of deliveries, renovations, and upgrades of mining equipment and dressing and crushing plants and construction of stabilization measures and water management structures.

Outlook for 2019

Severočeské doly plans to produce 21.4 million tons of coal in 2019. Increase in the planned deliveries is allowed primarily by higher planned demand by CEZ Group as compared to 2018 when failures occurred at units 24 and 25 of the Prunéřov 2 power plant and the operation of the Ledvice power plant stabilized more slowly than expected. Fuel deliveries will be determined primarily by the needs of coal-fired power plants, which are in turn based on demand for electricity and also related to winter temperatures.

Zinnwaldite Exploration

In July, ČEZ signed an agreement to provide a convertible loan of up to EUR 2 million (approximately CZK 51 million) to European Metals Holdings Limited (EMH), the owner of a 100% share in Geomet, a company having an exclusive license for exploration for zinnwaldite, a mineral containing lithium, at Cínovec, Czechia. Conditions precedent for the loan have not yet been fulfilled. A detailed due diligence process was started for the mining deposit.

Generation

Electricity Generation

Electricity generation by CEZ Group, Operations team facilities in Czechia was 29,655 GWh in the first half of 2019, increasing by 1,223 GWh as compared to the same period of 2018.

Nuclear power plants generated 15,115 GWh of electricity in the first half of 2019, or 264 GWh more year-on-year. Out of this figure, the Dukovany Nuclear Power Plant generated 440 GWh more due to higher availability and lower failure rate and the Temelín Nuclear Power Plant generated 176 GWh less due to longer scheduled outages.

Coal-fired power plants of the Operations team generated 11,877 GWh of electricity (excluding biomass), or 87 GWh less year-on-year. The largest decrease was in the generation of the Dětmarovice power plant, which generated less for economic reasons, and the Počerady power plant, which registered an increased failure rate this year. Conversely, the Mělník III power plant generated more due to a change in its operating regime resulting in facility stabilization.

The Počerady II CCGT plant generated 1,267 GWh of electricity, that is, 910 GWh more year-on-year, due to favorable spot market prices of electricity and gas in this year.

Generation from biomass amounted to 289.1 GWh, that is, 43 GWh more year-on-year, due to higher generation at the Poříčí and Hodonín power plants resulting from lower failure rates and a lower price of biomass.

Generation by large hydroelectric power plants was 1,106 GWh, that is, 94 GWh more year-on-year, due to overhauls of the Lipno and Slapy power plants in 2018.

Heat Generation and Sales

A total of 9,703 TJ of heat was supplied to customers from CEZ Group, Operations team facilities in Czechia in the first half of 2019, which represented a 3% increase (298 TJ) as compared to the same period of 2018. This was primarily due to higher amounts of heat supplied by the Energotrans facility.

Capital Construction

Nuclear Energy—Existing Facilities

At the Dukovany and Temelín nuclear power plants, work continued on projects started in previous years, focusing on the enhancement of nuclear safety and necessary plant renovation. Preparations were also started and implementation and completion work was underway under capital construction projects relating to upgrading, stabilizing, securing, and improving the efficiency of generation, at Dukovany also in relation to the permitted extension of operation.

Preparatory work, selection procedures, and implementation were also underway for projects aimed to fulfill legislative requirements arising from the amended Atomic Energy Act. A major capital investment project for supplying heat from the Temelín Nuclear Power Plant to the regional capital of České Budějovice continues in the Southern Bohemia Region.

Conventional Energy

Preparatory, designing, and implementing work continued on projects relating to plant renovation and the maximization of operational safety, efficiency, and environmental friendliness, giving priority to projects enabling plant operation after 2020, when new BREF limits (applied to integrated permits issued to polluters) are to enter into force, and projects relating to planned overhauls of facilities that are anticipated to be operated in the long term.

Installed Capacity

As at June 30, 2019, the installed capacity of the Operations team’s generating facilities remained the same as in 2018, that is, 13,142 MW: nuclear power plants 4,290 MW (Dukovany 2,040 MW, Temelín 2,250 MW), conventional generating facilities 8,852 MW in total (coal-fired power plants and heating plants 6,113.9 MW, CCGT plants 844.9 MW, hydroelectric and pumped-storage plants 1,892.8 MW, cogeneration units and boiler plants 0.4 MW).

Outlook for 2019

Nuclear Power Plants

According to the current estimate, ČEZ nuclear power plants will generate 30.6 TWh of electricity in 2019. The availability of nuclear power plants is affected by scheduled outages related not only to refueling and the performance of scheduled maintenance but also activities aimed at continual upgrades and enhancement of the operational efficiency of the two plants.

A periodic safety review is being prepared for the Temelín Nuclear Power Plant as a necessary part of the renewal of its operating license for after 2020.

Standard activities at the Dukovany Nuclear Power Plant are complemented by activities related to the fulfillment of conditions and incorporation of recommendations arising from the license for the long-term operation of its units.

Costly, tight-scheduled activities take place at both nuclear facilities to meet the stricter legal requirements arising out of an amendment to the Atomic Energy Act.

Coal-Fired and Gas-Fired Power Plants

Generation by conventional coal-fired power plants is estimated at 25 TWh in 2019. The CCGT power plant is estimated to generate 4 TWh. In the portfolio of CEZ Group coal-fired power plants, the focus in 2019 is on achieving as high facility utilization as possible and stabilizing the operation of the 660 MW coal-fired unit at the Ledvice IV power plant and the Prunéřov II power plant.

CEZ Group continues to make environmental upgrades to its generating facilities. New desulfurization plant is planned to be completed at the Mělník I power plant. When it is put into operation, the generating facility will comply with new, stricter limits for emissions of pollutants. A new gas-fired boiler plants will be put into operation at the Trmice heating plant in 2019 to secure heat supplies for Ústí nad Labem in years to come.

Hydroelectric Power Plants

Generation by hydroelectric power plants is estimated at 2 TWh. The estimated year-on-year increase is primarily due to high utilization of the Dalešice and Dlouhé Stráně pumped-storage hydroelectric power plants. The Dlouhé Stráně pumped-storage plant will newly be usable as a significant black-start facility in case of problems in the electricity system. For hydroelectric power plants, significant repairs are expected to take place at the Kamýk, Hněvkovice, and Slapy hydroelectric power plants. As for the last one, its first generating set will undergo a comprehensive overhaul after more than 60 years of operation.

Heat Generation

Estimated heat supplies to customers from Operations team facilities in Czechia are 17,307 TJ. Stabilization in the generation of heat for heating purposes is expected with regard to developments in the heat market. The construction of a hot-water pipe from the Temelín Nuclear Power Plant to České Budějovice was commenced in 2019. Heat supplies to České Budějovice are expected to start in 2020.

Trading

Trading in Electricity and Other Energy Commodities

Trading in electricity and other energy commodities in each European country where CEZ Group operates is organized centrally by the parent company ČEZ. This involves the following activities:

- Selling electricity generated by corporate plants on wholesale markets, including active control
- Selling ancillary services provided by CEZ Group's plants
- Procuring electricity and natural gas for resale to end customers, procuring emission allowances for in-house consumption
- Proprietary trading

In the first half of 2019, ČEZ continued trading under active control, which includes intraday trading optimization of production positions of CEZ Group across European electricity markets, including optimization outside working hours. Active control includes business operations motivated by the utilization of the flexibility of CEZ Group's generating facilities. Like any market participant, ČEZ is a clearing entity responsible for any deviation and its financial settlement with the market operator. ČEZ seeks to minimize the cost of deviations caused by unplanned outages of facilities or inaccurate predictions through active control, reserve planning and dispatching management of the Company's generating facilities.

ČEZ was also the provider of ancillary services for the transmission system operator in Czechia.

In the first half of 2019, ČEZ sold electricity for delivery in 2020 to 2024, particularly through standard products (one-year, one-quarter, one-month) in the OTC market and at exchanges. It also sold electricity at spot exchanges and intraday platforms. In wholesale markets, it made hedges for future sales of electricity generated by corporate plants, hedges for future provisioning of electricity for end-use customers, and purchases of additional electricity in case of corporate plants' outages.

Proprietary trading involves mainly commodities that are traditional for ČEZ, a. s., such as electricity or emission allowances traded both on OTC markets and on energy exchanges, such as the European Energy Exchange (EEX) in Leipzig. Other traded commodities included natural gas in the form of futures products on the Intercontinental Exchange (ICE) in London, the European EEX, and other trading platforms. Last but not least, ČEZ trades in hard coal using futures-type products on the ICE in London and the OTC market in commodity coal swaps. In the first half of 2019, it also traded in options with electricity as their underlying assets, gas, EUAs, and oil with financial settlement.

ČEZ, a. s., engaged in proprietary trading in the majority of EU markets as well as in Switzerland and in the electricity market in Serbia in the first half of 2019. Besides electricity, in which it trades in 19 countries, it also trades in natural gas, hard coal, oil products, and emission allowances.

There are specific risk management frameworks for all trading and dealing activities, which define allowed products, time frames, counterparties, and especially market and credit rules and limits on the basis of stop-loss orders (closing a position when a certain loss is made), value at risk, current credit exposure, and future credit exposure. Adherence to the limits is reviewed daily and any excesses are dealt with in accordance with the applicable risk management framework.

In addition, proprietary trading has been regulated by the European Union since 2011 as a result of wholesale market regulation.

Poland

Business Environment in the Energy Sector

The Polish energy market is almost fully liberalized. Wholesale market pricing is based on market factors. Electricity tariffs for residential customers and distribution charges are regulated. Prices in the heat market are based on a tariff system and require annual approval by the Energy Regulatory Office.

Capacity Markets

Capacity market mechanisms are aimed at creating investment incentives, in particular for coal-fired and gas-fired power plants, which can then serve as a backup in case there is lack of electricity in the grid. They involve paying operators for keeping their power plants on standby to be able to quickly start supplying electricity to the grid. PSE (the Polish transmission system operator) continued with the certification of additional generating units that want to participate in the capacity market in 2019. Changes in the capacity market act can be expected in the second half of 2019, arising from a European Union regulation under which generating units with emissions exceeding 550 gCO_2/kWh and annual average emissions greater than 350 $kgCO_2$/kW of installed capacity will not be allowed to participate in capacity mechanisms starting from July 1, 2025.

Cogeneration Support

A new act on support for electricity cogeneration entered into force in January. In April, the European Commission approved the Polish program of support for high-efficiency cogeneration.

Operations Team's Activities in Poland

Electricity Generation

CEZ Group's coal-fired power plants in Poland generated 1,006 GWh of electricity (excluding biomass) in the first half of 2019, that is, 158 GWh (-14%) less than in the same period of 2018, due to the planned shutdown of one unit at the Skawina power plant.

Generation from biomass amounted to 179 GWh, that is, 60 GWh more year-on-year, due to more favorable economic conditions for biomass combustion in 2019.

The Borek Szlachecki small hydropower plant generated 2 GWh of electricity.

Heat Generation

Polish power plants at Chorzów and Skawina supplied 3,114 TJ of heat, approximately the same amount as in the previous year.

Capital Construction

Capital expenditures were primarily made on denitrification at the Skawina and Chorzów power plants and on the preparation of a project for a new Skawinka small hydropower plant.

Installed Capacity

As at June 30, 2019, CEZ Group companies in Poland owned generating facilities with an installed capacity of 569.3 MW: 568.4 MW in coal-fired power plants and 0.9 MW in hydroelectric power plants. The capacity decreased by 111.60 MW year-on-year. One 110 MW unit of the Skawina coal-fired power plant and the 1.6 MW Skawinka hydroelectric power plant were shut down as planned.

Prediction for 2019

CEZ Group power plants in Poland are estimated to generate 2.6 TWh of electricity in 2019; the amount of supplied heat should be approximately 5,500 TJ. Investments will be made primarily in boiler repairs at the Skawina power plant.

Other Countries

Slovakia

Prepared New Nuclear Power Plant at Jaslovské Bohunice

ČEZ Bohunice a.s. owns a 49% stake in Jadrová energetická spoločnosť Slovenska, a company established for the purpose of constructing a new nuclear power plant at Bohunice. A project business plan specifying necessary activities in the preparation of the project in the years to come has been discussed and approved.

DEVELOPMENT TEAM

The Development team consists of companies in the segments of Distribution, Sales, and Generation—New Energy.

The team's objective is to fulfill the second, third, and fourth of CEZ Group's strategic priorities, namely to pursue modern distribution and care for customers' energy needs, develop new energy in Czechia, and develop energy services in Europe.

In distribution, the team's tasks include responding to changes induced by decentral energy; in sales, it strives to maintain the current customer base, increase the level of customer satisfaction, and expand offerings of noncommodity products and services.

Its strategic goal for the development of new energy in Czechia is to take a significant share in the growth of renewables in Czechia; its goal for ESCO services (comprehensive energy services) in Czechia and Slovakia is to keep a share of more than 25% in the growing market. In ESCO services in Europe, its objective is to keep expanding in Germany, northern Italy, and Poland and become one of the top 3 players in these target markets.

Last but not least, the Development team makes portfolio investments from the Inven Capital investment fund in early opportunities and technologies to allow CEZ Group to establish promising positions in the future energy environment.

Safety Management under the Development Team

Safety and Quality Management

The Development team runs a segment safety management center—**New Energy**. The segment center covers:

- ČEZ, a. s., divisions: New Energy and Distribution
- Subsidiaries: ČEZ Distribuce, a. s.; ČEZ Korporátní služby, s.r.o.; ČEZ ESCO, a.s.; ČEZ Prodej, a.s.; and ČEZ Obnovitelné zdroje, s.r.o.

For details concerning CEZ Group's safety management, refer to Operations Team in Czechia.

A quality management system according to ISO 9001 is introduced and certified at the following CEZ Group companies: ČEZ Distribuce, a. s., and ČEZ ESCO, a.s.

An environmental management system according to ISO 14001 is introduced and certified at the following CEZ Group company: ČEZ Distribuce, a. s.

An energy management system according to ISO 50001 is introduced and certified at the following CEZ Group companies: ČEZ Distribuce, a. s., and ČEZ Korporátní služby, s.r.o.

The following CEZ Group company has an occupational safety and health management system in place and is certified as a Safe Enterprise or according to OHSAS 18001: ČEZ Distribuce, a. s.

Czechia

Business Environment

The energy market in Czechia is fully liberalized and all customers, including residential customers, can choose their electricity supplier. There is a functional electricity exchange (PXE, which is part of the EEX) and a market operator guaranteeing the functioning of the market. The price of electricity distribution is regulated.

Work that will result in amendments to a number of legal regulations started in the first half of 2019; these amendments can be expected to be passed over the course of the second half of 2019 and during 2020.

The following significant legislation relevant to the energy sector was amended in the first half of 2019:

- **Act No. 31/2019 Sb.**, amending Act No. 182/2006 Sb., on bankruptcy and composition (Insolvency Act), as amended; Act No. 120/2001 Sb., on bailiffs and judgment enforcement activities (Rules of Judgment Enforcement) and on amendments to other acts, as amended; Act No. 6/2002 Sb., on courts of justice, judges, assistant judges, and the state administration of courts of justice and on amendments to some other acts (Courts of Justice and Judges Act), as amended; Act No. 312/2006 Sb., on trustees in bankruptcy, as amended; and Act No. 296/2017 Sb., amending Act No. 99/1963 Sb., Code of Civil Procedure, as amended, Act No. 292/2013 Sb., on special judicial proceedings, as amended, and some other acts

Act No. 31/2019 Sb. entered into effect on February 7, 2019. Some parts of the amendment have a later date of effect. The amendment to the Insolvency Act abolishes the condition of repaying 30% of ascertained claims for applying for discharge from debts; in addition, it introduces a new discharge range that will allow discharge from debts after 3 years of discharge period approval if the debtor pays its creditors at least 60% of their claims. The amendment also introduces “zero satisfaction” of unsecured creditors if the debtor proves that they made every effort to satisfy claims registered by such creditors. The debtor will have a new obligation to demonstrate that they will be able to pay their creditors at least the same amount as the trustee’s compensation should be during the discharge period; the general discharge period remains at 5 years but is shortened to 3 years for highly vulnerable individuals (old-age pensioners, people with disabilities) (effective from June 1, 2019).

- **Act No. 80/2019 Sb.**, amending some acts applicable to taxes and some other acts

Act No. 80/2019 Sb. entered into effect on April 1, 2019. Some parts of the amendment have a later date of effect. The amendment to the Value Added Tax Act decreased VAT from 15% to 10% for heat and cold (effective from January 1, 2020) and allowed VAT deduction for irrecoverable debts.

- **Act No. 111/2019 Sb.**, amending some acts in relation to the adoption of the Personal Data Processing Act

Act No. 111/2019 Sb. entered into effect on April 24, 2019. One of the acts it amended is the **Civil Registration Act, No. 133/2000 Sb.,** under which a customer’s birth registration number may be used without the customer’s consent if such use is necessary for the recovery of private claims or for preventing the emergence of unsettled claims provided that specific measures are taken to protect the rights and freedoms of data subjects that are adequate to the state of the art, the cost of implementation, and the nature, scope, context, and purposes of processing as well as the risks of varying likelihood and severity for rights and freedoms of natural persons.

Furthermore, some decrees were amended:

- **Decree No. 189/2013 Sb.,** on woody plant protection and cutting permitting

An amendment to Decree No. 189/2013 Sb., on woody plant protection and cutting permitting, entered into effect on April 1, 2019, newly stipulating that the property owner’s written consent to cutting will no longer be required for cutting woody plants growing outside of a wood or forest if the cutting is performed in connection with a project that allows expropriation of rights. This stipulation is similar to a stipulation in the Building Act applicable to building applications. This should facilitate the construction of power lines, in particular.

Generation

Electricity Generation

Electricity generation by facilities operated by ČEZ OZ uzavřený investiční fond in Czechia totaled 213 GWh in the first half of 2019, that is, 14 GW more than in the same period of 2018. This includes 133 GWh of electricity generated by hydroelectric power plants, 74 GWh generated by photovoltaic power plants, 6 GWh generated by wind turbines, and 1 GWh generated by biogas plants.

The highest year-on-year increase of 12 GWh was registered at hydroelectric power plants due to better-than-average hydrological conditions in the winter months.

ČEZ Energo generated 166 GWh of electricity from natural gas in the first half of 2019; the company was not included in consolidated figures for the first half of 2018.

Energocentrum Vítkovice took two hard coal-fired boilers out of active operation on January 28, 2019, as they would not meet the emission limits applicable in 2020 in line with obligations agreed at the COP21 Paris conference. These boilers were replaced with a gas boiler plant with three boilers and cogeneration units, which are currently used just for heat generation rather than combined generation of electricity and heat. The modernization reduced emissions of sulfur, nitrogen, dust, and carbon dioxide in the environmentally challenged Ostrava region.

Heat Generation and Sales

A total of 1,047 TJ was supplied to customers from CEZ Group Development team facilities in Czechia in the first half of 2019, as compared to 313 TJ in the same period of 2018. The increase is primarily due to the inclusion of ČEZ Energo in consolidated figures. The company supplied 711 TJ of heat.

Capital Construction
Hydroelectric Power Plants and RES

Modernization investments were made at power plants operated by ČEZ OZ uzavřený investiční fond. Financial reporting is postponed until all invoices are received.

Installed Capacity

As at June 30, 2019, the CEZ Group Development team operated generating facilities with a total installed capacity of 384.9 MW in Czechia. Year-on-year increase of 103.7 MW was primarily due to the inclusion of ČEZ Energo in consolidated figures. ČEZ OZ uzavřený investiční fond operated generating facilities in Czechia with an unchanged total installed capacity of 202.2 MW (hydroelectric power plants: 68.3 MW; photovoltaic power plants: 125.2 MW; wind turbines: 8.2 MW; biogas plants: 0.5 MW). The Vítkovice Heating Plant (79 MW) owned by Energocentrum Vítkovice has been on cold standby since January 28, 2019.

Outlook for 2019

Renewable generation in 2019 is estimated at 331 GWh. ČEZ Energo’s cogeneration units are estimated to generate 305 GWh.

Distribution

Electricity Distribution

CEZ Group's electricity distribution business in Czechia is taken care of by ČEZ Distribuce, which distributed 18.36 TWh of electricity to customers in the first half of 2019, which was 0.06 TWh more than in the same period of 2018. With regard to individual voltage levels, there was an increase of 0.11 TWh at the low-voltage level but a decrease of 0.05 TWh at the high-voltage and medium-voltage levels.

Capital Construction

ČEZ Distribuce's capital expenditures went mostly into the renovation of distribution grids at all voltage levels, transformer substation reconstructions, and transformer and electricity meter renovations. The principal objective of these capital expenditures was to ensure reliable operation of the distribution system. A major portion of the funds was connected with developing the distribution system to address customer requests for connection to the distribution system.

The company continued to make capital expenditures in the fields of digitization and smart technologies in the first half 2019. The capital expenditures were mostly aimed at adding metering equipment to distribution substations, installing remotely controlled elements in medium-voltage grids, and continuing the construction of fiber-optic infrastructure development projects.

Outlook for 2019

ČEZ Distribuce estimates its 2019 electricity supplies to customers at 36 TWh.

Priority areas in distribution include increasing the level of distribution grid automation and digitization, introducing tools for more efficient work with clients and digitizing selected internal processes.

ČEZ Distribuce continues implementing its strategy for fiber-optic infrastructure development in order to ensure long-term development of advanced technologies in distribution grid management, in synergy with preparations for a higher degree of grid automation.

Sales

Sales of Electricity and Natural Gas

Commodity sales to end-use customers in Czechia were carried out primarily by ČEZ Prodej and ČEZ ESCO.

ČEZ Prodej offered electricity and natural gas supplies and related services only to bulk-service customers, namely residential customers and small and midsize businesses, in the first half of 2019. The company concentrated on improving the quality of its bulk service and increasing the efficiency of customer acquisition. Its key activities undertaken in this field in the first half of 2019 included setting up new principles for the commercial operation of its network of customer care centers and launching a new lead management system, primarily for call center sales teams.

Similarly to other suppliers, ČEZ Prodej had to react to a considerable rise in the wholesale market prices of commodities and slightly increase the price of both electricity and natural gas in the first quarter of 2019.

Sales to end-use customers in the first half of 2019 amounted to 8,667 GWh of electricity and 2,969 GWh of natural gas. This was a decrease of 252 GWh in electricity and a decrease of 126 GWh in natural gas, as compared to the first half of 2018. This was caused by the course of temperatures in both years and changes in the customer portfolio as well as the inclusion of ČEZ Energo among fully consolidated companies starting from the second half of 2018.

Sales of Energy Services

Companies providing energy services in Czechia had revenue from sales of CZK 2.3 billion in the first half of 2019. CEZ Group's expert and sales capacity in energy savings is consolidated at ČEZ ESCO, which systematically innovates and develops its activities focusing on commercial EPC products, engineering systems in buildings, air conditioning and air handling plants, lighting fixtures, photovoltaics, local distribution networks, as well as services under the Electromobility and Smart City projects.

The company provides new energy services and turnkey solutions. It concentrates on creating integrated offers for corporate customers, small and midsize businesses, and the public sector. It offers solutions to customers' energy needs especially at decentral level with emphasis on new technologies, efficient use of energy, and integrated product offers.

Besides electricity and gas supplies, ČEZ Prodej offers additional services connected with modern energy business. It delivers turnkey rooftop photovoltaic installations, complete with battery systems and water accumulation systems (generated electricity is used to heat water); it also designs these PV installations, looks after their operation, takes care of licensing, and provides customers with consultancy on subsidies under the New Green for Savings program. Furthermore, it focuses on delivering complete heating solutions using heat pumps, including remote control and monitoring. In addition, it does not forget about conventional condensing gas boilers. These are provided with the comprehensive ČEZ Heating Service, which takes care of regular boiler maintenance, flue way inspections, and assistance services for all boiler owners. It is also the Czech market's exclusive seller of a smart thermostat made by tado, a Bavarian company in which a stake is held by INVEN CAPITAL, CEZ Group's investment fund.[1]

It also offers additional complementary services besides services directly related to energy. It is a fully-fledged mobile virtual network operator (MVNO) with its own offer of "MOBILE FROM ČEZ" products. Classified as a medium-sized MVNO by the scope of provided services, its portfolio of more than 80,000 SIM cards makes it one of the largest MVNOs in Czechia.

Outlook for 2019

CEZ Group estimates electricity sales at 16.9 TWh, which would be 0.6 TWh less than in 2018. This is due to the loss of a major customer, partially offset by the inclusion of ČEZ Energo among fully consolidated companies starting from the second half of 2018.

[1] Product not available at the moment

A decrease of 0.3 TWh is estimated for natural gas supplies by CEZ Group, primarily due to the loss of some large customers.

Business growth is expected for the market in ESCO products in the areas of air conditioning, lighting, EPC (Energy Performance Contracting) projects, and building services. The company will continue developing the smart cities and electric mobility concepts and also newly focus on building information modeling (BIM)**.**

Germany

Business Environment

Germany keeps pursuing its goals set in the Energiewende, whose focal point is ensuring sustainable energy supplies and creating additional economic value. To succeed, the Energiewende and climate protection policies require purposeful, efficient, network-synchronized, and market-oriented construction of renewables. The share of renewables in electricity consumption grew constantly: from about 6% in 2000 to 37.8% in 2018. The 2020 target of 35% was exceeded ahead of schedule. Renewables should cover 40%–45% of Germany's electricity consumption by 2025 and the share should further increase to 65% in 2030. The system of subsidies for renewable energy sources is based on regularly held auctions, in which the lowest bid is the determining criterion for receiving support.

The coal exit commission published a report anticipating complete coal phaseout by 2038 with an option to bring the deadline forward to 2035. The first step is shutting down at least 12.5 GW of installed coal capacity (including facilities that were planned to be put on standby anyway) by 2022.

For the first time ever, renewables (photovoltaic, wind, biomass, hydroelectric) in Germany generated more electricity than coal-fired and nuclear power plants combined. Their share in electricity generation was 47.3% in the first half of 2019, while the share of coal-fired and nuclear plants was just 43.4%. At the same time, carbon dioxide emissions decreased by 15% year-on-year.

The leading role in renewables expansion is played by wind turbines, which have the second largest share in electricity generation. Two auctions for the construction of onshore wind facilities (support granted to projects with a total capacity of 746 MW), two auctions for the construction of solar facilities (support granted to projects with a total capacity of 683.2 MW), and one mixed auction for the construction of onshore wind and solar facilities (support granted to projects with a total capacity of 210.8 MW) have been held in 2019 to date.

Development Team's Activities

CEZ Group in Germany concentrates on the development of its existing wind portfolio with a capacity of up to 305.6 MW. Completing the Holt Holding transaction in the first quarter of 2019, CEZ Group formed a joint venture with developer H. u. H. Holt Holding GmbH to jointly develop three projects with a planned capacity of up to 112.5 MW. The projects are in an early stage of development and are located in northwestern Germany.

Electricity Generation

CEZ Group's wind turbines in Germany generated 153 GWh of electricity in the first half of 2019, 11 GWh more than in the same period of 2018.

Installed Capacity

As at June 30, 2019, CEZ Group companies owned ten wind farms in Germany, consisting of 53 wind turbines with a total installed capacity of 133.5 MW.

Sales—ESCO Services

Energy service companies' sales were CZK 5.5 billion in the first half of 2019. Several 100% stakes in German ESCO companies were purchased through the Elevion group.

Acquisitions of three companies were completed in January: En.plus GmbH, GBM Gesellschaft für Büromanagement mbH, and H & R Elektromontagen GmbH. En.plus GmbH provides its customers with efficient building systems and creates innovative energy generation concepts. En.plus GmbH customers come from various fields, including health care, culture, industry, and commercial development. GBM Gesellschaft für Büromanagement mbH, based in Jena, focuses on IT, information, and data technology, including a data center usable for the entire Elevion group. H & R Elektromontagen GmbH specializes in jobs for major international customers in the chemical and petrochemical industry, to whom it offers comprehensive electrical installation and subsequent maintenance and repair.

In May, CEZ Group continued with the acquisitions of German ESCO companies by acquiring HERMOS group companies and FEA Automation GmbH. HERMOS is an international group specializing in automation and IT solutions for industry, the energy sector, the environment, and buildings and in the final assembly of smart switchboards. FEA Automation GmbH is a company operating throughout Germany with headquarters in Chemnitz and an engineering office in Erkelenz (Cologne). The company plans, designs, installs, commissions, and maintains fully automated building systems.

In June, CEZ Group completed two acquisitions of German ESCO companies through the Elevion group: Detlef Walther GmbH and Kälteanlagenbau Schröder GmbH. Detlef Walther GmbH, based in the town of Wernburg (federal state of Thuringia), focuses on the installation of gas and water heating solutions. Kälteanlagenbau Schröder GmbH, based in Magdeburg, provides its customers with complete cooling systems and advanced air-conditioning technologies designed to customers' specific requirements.

Outlook for 2019

CEZ Group power plants in Germany are estimated to generate 0.3 TWh of electricity.

In ESCO services, CEZ Group intends to focus, in addition to energy and mechanical systems for buildings, on decentral energy supplies, such as cogeneration units, and deliveries of heating, ventilation, and air-conditioning equipment.

Poland

Business Environment

The target share of renewable electricity in Poland’s total gross electricity consumption in 2020 is set to 15% but the Polish government stated that Poland would not meet this target in the official proposal for its National Energy and Climate Plan for 2021–2030 submitted to the European Commission. The share will be approximately 13.8% in 2020. The Ministry of Energy also announced another national RES share target, namely a share of 21% in 2030.

An amendment to the Renewable Energy Sources Act, adopted by the Polish government in late June 2019, aims to clear the way for further development of RES, including wind energy.

Under the State Energy Policy until 2040, the Ministry of Energy plans to begin the operation of wind turbines with a planned installed capacity of up to 9 GW in the Baltic Sea from 2026. Polish state-owned energy groups as well as domestic private investors and large multinational corporations take interest in projects for wind turbines whose fixed part is built in the sea (offshore). Applications for connection to the distribution grid plus already issued connection agreements already total almost 7 GW. The offshore wind industry is awaiting the adoption of relevant acts in construction law and energy law to define a legal framework for the construction and operation of offshore wind farms. The relevant legislation could be passed in the fourth quarter of 2019.

Development Team’s Activities

Sales of Electricity and Natural Gas

Electricity and natural gas are sold to end-use customers in Poland by CEZ Trade Polska sp. z o.o. The company supplied 913 GWh of electricity to its large and commercial retail customers in the first half of 2019, which was a year-on-year decrease of 481 GWh resulting from suspension of new sales to end-use customers due to prepared legislation changes. The company supplied 512 GWh of natural gas to its customers in the first half of 2019 (67 GWh more than in the first half of 2018).

Sales of ESCO Services

CEZ Group provides ESCO services through OEM Energy. OEM Energy is a Polish market leader in solar panels, offering the modernization and installation of solar and photovoltaic panels, hot water tanks, and heat pumps. In addition, CEZ Group provides ESCO services in Poland through Metrolog, a leading manufacturer of compact district heating substations in the Polish market. Metrolog also offers comprehensive services for investments in thermal energy and the construction of water treatment systems.

Outlook for 2019

The total amount of electricity supplied in 2019 is estimated at 1.8 TWh. The estimated amount of natural gas supplied in 2019 is 1.0 TWh.

In ESCO services, CEZ Group will continue to focus on the Polish market in air-handling solutions, technical facility management, and energy savings.

France

Business Environment

The Energy Transition for Green Growth Act specifies an intention to increase the share of renewables to 23% of final gross energy consumption in 2020 and to 32% by 2030. The Act also set the goal of reducing the nuclear sector's share in electricity generation from 75% to 50% by 2025; however, the government postponed the deadline in November 2017 by 10 years, until 2035, stating that such a fast phaseout was not feasible and would result in increased CO_2 emissions and pose a threat to the security of electricity supply and the employment rate. Two reactors at Fessenheim will be shut down by 2020 and another 4–6 reactors will be shut down by 2030. Overall, 14 reactors should be shut down by 2035.

The main tool for the strategic management of energy transformation and detailed specification of development goals for individual energy sectors is the "Multiyear Energy Program" (PPE), which gives a strong incentive for solar and wind sector development. The installed capacity of photovoltaic power plants should increase to 35.6–44.5 GW by 2028 (from 8.4 GW in 2018); the installed capacity of onshore wind farms should increase to 34.1–35.6 GW by 2028 (from 14.3 GW in 2018). Offshore wind farms had the goals for 2023 slightly decreased (2.4 GW), while up to 4.7–5.2 GW is expected for 2028.

An energy and climate act preliminarily debated in late June 2019 introduces the goal of achieving carbon neutrality by 2050. The tools for fulfilling it include the termination of coal-fired electricity generation starting from January 1, 2022, elimination of building heat losses, and other measures including improved environmental reporting by businesses.

Competition-based support for renewable electricity generation has been implemented for solar facilities since 2016 and for large onshore wind farms since 2017. Producers are thus directly exposed to market signals, having revenue from direct sales of electricity in the market while being protected by a compensatory premium paid up to a reference amount.

Development Team's Activities

Renewable Generation

CEZ Group entered the French market in renewable generation in June 2017, buying a portfolio of 9 onshore wind farm projects with a potential installed capacity of up to 101.8 MW. Commercial generation at the first wind farm with an installed capacity of 13.6 MW, located at Aschères-le-Marché, is planned to start in 2020. Four other projects have already been issued construction and operating permits. After these permits become effective, negotiations will start to arrange similar provision of services.

In January 2019, CEZ Group acquired another set of 8 onshore wind farm projects in France in an advanced stage of development with a potential installed capacity of up to 119 MW. Two of the projects have already been issued construction and operating permits, which have not become effect yet.

Other Activities

There are two companies operating in the country that have been acquired by CEZ Group's investment fund Inven Capital for its portfolio. Cosmo Tech, based in Lyon, specializes in the development of a software platform for the optimization of decision-making processes in the management of critical infrastructures and processes. Its solution combines human and artificial intelligence to offer alternative views of the future development of complex environments, improving and accelerating businesses' decision-making processes. In early 2019, the company became a finalist of the "10 000 startups pour changer le monde" (10,000 World-Changing Startups) award in a competition of the most innovative startups organized by BNP Paribas and La Tribune.

VU LOG, based in Nice, is a global leader in the provision of technology for green mobility sharing (autopartage) in cities. In May, it announced the beginning of cooperation with automaker Groupe Renault, consisting in the manufacture of vehicles that will be sharing-ready from the factory. Groupe Renault will install VU LOG hardware to its Zoe electric cars directly on its assembly line, providing for instant integration into car sharing fleets. In late June, automaker Volkswagen put the biggest yet fleet of shared cars consisting solely of electric vehicles (1,500 e-Golfs) into operation under the name of WeShare in the German capital of Berlin. The sharing is based on a technological solution by VU LOG. Expansion to Hamburg and Prague is planned for 2020.

Outlook for 2019

We expect another project from the project portfolio acquired in 2017 to move on from its development stage to the construction stage at the end of 2019.

Romania

Business Environment

The liberalization of the energy market in Romania was completed in the past years. For business-sector customers, it took place in 2013; for residential customers, it occurred on January 1, 2018. All electricity users are now entitled to choose their supplier in the free market.

A government regulation on business activities of licensed entities was published on December 29, 2018. It introduced an increase in the fee paid to the regulator ANRE from 0.1% of turnover to 2% of gross margin of licensed entities, re-establishment of regulated electricity tariffs for contracts with residential customers, including regulated electricity supply prices for manufacturers, price restrictions for gas supplies to residential customers, and an extension of the validity of monopoly tax until December 31, 2021.

Development Team's Activities

Following on from its new strategy, CEZ Group plans to sell its assets in Romania. The divestment process is planned to start in the fall of 2019. The sale will be decided on depending on received bids.

Electricity Generation

According to applicable legislation, the Fântânele and Cogealac wind parks are entitled to be part of the renewable generation support program and get green certificates for the electricity they generate. They are allocated 1 green certificate per MWh of generated electricity in 2019.

The Fântânele and Cogealac wind parks generated 643 GWh of electricity in the first half of 2019, which was a year-on-year increase of 50 GWh, primarily due to better weather conditions.

Small hydropower plants operated by TMK Hydroenergy Power S.R.L. at Reşiţa generated 46 GWh of electricity.

Capital Construction

Capital expenditures went primarily into the renovation of turbine components at the Fântânele and Cogealac wind parks; no major capital projects were undertaken at TMK Hydroenergy Power S.R.L. hydroelectric plants.

Installed Capacity

As at June 30, 2019, CEZ Group companies in Romania owned generating facilities with an installed capacity of 622 MW (600 MW in wind parks, 22 MW in hydro plants).

Electricity Distribution

Distributie Energie Oltenia S.A. distributed a total of 3,439 GWh of electricity, which was a year-on-year increase of 32 GWh.

The Romania regulatory authority (ANRE) decided on distribution tariffs effective from July 1, 2019. The average tariff of CEZ Group's distribution company—Distributie Energie Oltenia—increased by 2.49%. This means that final prices will reflect an increase in WACC, an indicator that the regulatory authority decided on already on May 23, 2019, when the average value of the fundamental indicator of return on distribution assets increased from 5.66% to 6.9% pursuant to the authority's regulation.

Capital Construction

Capital expenditures went primarily into distribution assets and new electricity meters.

Sales

Sales of Electricity and Natural Gas

CEZ Vanzare S.A. sold 1,870 GWh of electricity to end-use customers, which was a year-on-year increase of 229 GWh. It also supplied 626 GWh of natural gas to both existing and new end-use customers, which was a year-on-year increase of 18 GWh.

Sales—ESCO Services

CEZ Group provides ESCO services in Romania through High-Tech Clima S.A. High-Tech Clima S.A. is a Romanian market leader in deliveries of HVAC systems and electrical installation work for commercial facility owners. It is also an industrial supplier for manufacturing plants, logistic parks, business offices, buildings, and shopping malls.

Outlook for 2019

The annual generation estimate for 2019 is 1.2 TWh at wind parks and 0.1 TWh at hydropower plants.

The amount of electricity distributed to end-use customers in 2019 is estimated at 6.9 TWh.

Electricity sales to end-use customers are estimated at 3.7 TWh. The estimated amount of natural gas supplied in 2019 is 1.9 TWh.

Bulgaria

Business Environment

Corporate and residential low-voltage customers have been able to choose a supplier of electricity at unregulated prices since April 2016. However, these customers largely keep their protected customer status and are generally supplied with energy at regulated prices set by the regulatory authority—the Energy and Water Regulatory Commission (EWRC).

New rules for electricity metering entered into force on May 1, 2019. The most significant changes include distributors' authorization to directly bill customers for illegally consumed electricity and distributors' obligation to check electricity meters every 3 months.

The Energy Act obliges electricity generators with an installed capacity of 1–4 MW to sell generated electricity on the IBEX exchange starting from July 1, 2019; previously, such electricity was purchased by NEK. The state will compensate generators for any difference between the market price and the guaranteed purchase price. This measure is expected to increase the exchange's liquidity.

Bulgaria lifted its tax on electricity exports and imports and introduced a fee for access to the grid for all generators, being the last country in Europe to do so.

Efforts continued to increase the interconnectedness of electricity markets in Southeast Europe. IBEX commenced talks about market coupling with Serbia and Croatia; a similar plan was later signed by the transmission system operators of Bulgaria, North Macedonia, and Albania. According to a memorandum from 2018, the coupling of the Bulgarian and North Macedonian markets should take place as early as in January 2020.

Development Team's Activities

As part of a transparent selling process, a sales agreement was made with Inercom on February 23, 2018. The sale concerns seven companies: CEZ Bulgaria, CEZ Elektro Bulgaria, CEZ Razpredelenie Bulgaria, CEZ Trade Bulgaria, CEZ ICT Bulgaria, Free Energy Project Oreshets, and Bara Group.

The transaction needed to be approved by the Bulgarian Commission for Protection of Competition (KZK). Inercom filed two applications for merger approval in relation to this transaction; the first proceedings resulted in rejection by the KZK on July 19, 2018, and the other proceedings were suspended by the KZK.

After more than a year of its signing, the sales agreement with Inercom was terminated on April 15, 2019, because the Bulgarian state's actions frustrated the fulfillment of conditions precedent and thus the performance of the agreement.

Following the rejection by the KZK, ČEZ initiated simultaneous talks with other prospective buyers of its Bulgarian assets. ČEZ received two new, binding offers from Eurohold and India Power in the resumed selection procedure and assessed Eurohold's offer as the better of the two. Furthermore, the offer was in general more advantageous than the terms and conditions of the terminated agreement with Inercom.

Having been debated and approved by the company's governance bodies, an agreement for the sale of CEZ Group's Bulgarian assets was made with Eurohold on June 20, 2019. The settlement of the transaction is subject to approval by the KZK and the Bulgarian energy regulatory authority. On August 2, 2019, Eurohold field an application with the KZK concerning a review of the purchase of Bulgarian assets owned by CEZ Group.

Following a number of interventions by Bulgarian authorities injuring ČEZ companies' business in Bulgaria, ČEZ commenced international investment arbitration back in 2016 against the Republic of Bulgaria under the Energy Charter Treaty on grounds of investment nonprotection. The arbitration claim was not sold off and the arbitration is carried on by ČEZ, a. s.

Electricity Generation

The Oreshets photovoltaic power plant generated 3.0 GWh of electricity in the first half of 2019, which was a slight decrease (2%) as compared to the same period of 2018.

No capital expenditure on the Bulgarian generation assets was made in the first half of 2019.

Installed Capacity

The installed capacity of generating facilities in Bulgaria remained unchanged. As at June 30, 2019, the subsidiary Free Energy Project Oreshets owned a photovoltaic power plant with an installed capacity of 5 MW.

Electricity Distribution

On July 1, 2019, the EWRC issued a price decision effective from July 1, 2019, to June 30, 2020. Increasing distribution tariffs by 3.46% on average has a positive effect on the total amount of distributors' permitted revenue. However, the regulatory authority still refuses to recognize the actual amount of all operating costs associated with carrying out the licensed electricity distribution activity, so a portion of the costs is borne by distribution companies.

Electricity is distributed in Bulgaria by CEZ Razpredelenie Bulgaria AD, which distributed a total of 4,921 GWh of electricity to end-use customers in the first half of 2019, that is, 30 GWh more year-on-year.

Capital Construction

Distribution capital expenditures went primarily to distribution grid quality improvements, electricity meters replacements, critical infrastructure in Sofia, and new connections to the distribution grid. Furthermore, capital expenditure was used for mandatory buyouts of distribution assets.

Electricity Sales

CEZ Elektro Bulgaria AD sold end-use customers a total of 3,283 GWh of electricity, which was a year-on-year increase of 110 GWh.

CEZ Trade Bulgaria EAD sold end-use customers 2,044 GWh of electricity in the free market, that is, approximately 136 GWh less year-on-year.

Sales—ESCO Services

CEZ ESCO Bulgaria EOOD was established in Bulgaria in 2017. The company implements energy projects for end-use customers in the Bulgarian market. Seven projects for energy savings were signed before mid-2019.

Outlook for 2019

For 2019, the volume of generated electricity is estimated at 6.2 GWh, the volume of electricity sold to CEZ Elektro Bulgaria's customers is estimated at 6.2 TWh, and the volume of electricity sold by CEZ Trade Bulgaria EAD is estimated at over 3.9 TWh.

CEZ Group estimates the total amount of electricity distributed in 2019 at 9.6 TWh.

The implementation of energy saving projects will continue, primarily in photovoltaics, lighting, and HVAC.

Other Countries

Turkey

Business Environment

Turkey's internal political situation was affected by March local government elections as the president's ruling party, AK Parti, won overall but failed especially in large cities (Ankara, Izmir, Istanbul). What followed was a decision to repeat the elections in Istanbul, Turkey's major economic hub, in which the opposition candidate scored a clear-cut victory. There is continued tension in relations with the U.S. over the country's armament program, which augments the local currency's volatility and a negative view of the environment among foreign investors. In the energy sector, politicization of the distribution and retail business continues, full liberalization have not been completed yet, and electricity prices continue to be tampered with.

Turkey is currently in stagflation as its GDP is decreasing and inflation is on the rise. The Turkish lira continues to weaken against the dollar and there is double-digit inflation (currently 19%). The Turkish lira weakened by 8% in the first six months of 2019 and the exchange rate was 5.77 TRY/USD on June 30, 2019; the Turkish lira's low in the first half of 2019 was approximately 6.2 TRY/USD (on May 9, 2019). Reasons given for the falling exchange rate include worsened perception of risks associated with the country's macroeconomic policy and increased political tensions resulting from the course of its international relations. The weakening lira negatively affects the performance of Turkish companies that are funded with loans denominated in U.S. dollars.

Moody's decreased Turkey's credit rating by one notch to B1 on June 14, 2019. The rating thus shifted from the speculative category to the category of highly speculative. Its outlook remains negative.

Development Team's Activities

Electricity Distribution

Electricity is distributed in Turkey by regulated regional distribution companies. One of them is Sakarya Elektrik Dagıtım A.Ş. (SEDAŞ), indirectly controlled by ČEZ and its Turkish partner AKKÖK (through their joint venture Akcez Enerji A.Ş.). The amount of electricity distributed to end-use customers in the first half of 2019 was 4,795 GWh, which was an increase of 7% over the same period of 2018.

Capital Construction

Based on an approved five-year plan, capital expenditures in distribution were primarily made to enhance capacities and meet new requirements for connection, to upgrade the grid, and to ensure the continuity and quality of electricity supply.

Electricity Sales

Sakarya Elektrik Perakende Satis A.Ş. (SEPAŞ), a sales company controlled through the joint venture Akcez Enerji A.Ş., sells electricity to end-use customers mostly in the SEDAŞ distribution area. The amount of electricity sold in the first half of 2019 was 5,669 GWh, which was a 15% decrease year-on-year.

CEZ Group Operations in Electricity Generation

Akenerji operates a modern CCGT plant at Erzin, which generated 1,023 GWh of electricity in the first half of 2019. The figure in the same period of 2018 was 1,870 GWh.

Renewables generated 793 GWh of electricity: hydroelectric power plants generated 752 GWh and wind turbines generated 41 GWh. This is an increase of 275 GWh as compared to the same period of 2018, when renewables generated 517 GWh.

The installed capacity of the Erzin CCGT plant was 904.0 MW; in addition, Akenerji operated 7 hydroelectric power plants with an installed capacity of 288.9 MW and a wind park with an installed capacity of 28.2 MW.

Outlook for 2019

The amounts of distributed electricity and sold electricity are estimated at 10 TWh and 10.8 TWh, respectively.

The total amount of generated electricity is estimated at 4.7 TWh. The estimated year-on-year decrease is due to lower generation at the CCGT plant in connection with higher generation by hydroelectric power plants in the locality.

Note: The Turkish companies are consolidated using the equity method; consequently, their sales, generation or installed capacity are not included in CEZ Group's aggregate figures.

Slovakia

Sales of Electricity and Gas

Sales of electricity and natural gas to large customers and small and midsize businesses continued in the first half of 2019. Total electricity supplies to all customer segments in the first half-year amounted to 701 GWh, that is, 276 GWh less than in the same period of 2018.

Natural gas supplies amounted to 1,272 GWh in the first half of 2019; in year-on-year comparison, this is 213 GWh more than last year.

Sales of ESCO Services

CEZ Group has been doing business in energy savings, decentralized sources, lighting, and other energy products in Slovakia since 2018. A new acquisition of 2019 is e-Dome, a company undertaking EPC projects. Its other products are energy management, which sets up optimum processes to reduce consumption especially for businesses, energy audits, and consulting.

Outlook for 2019

The size of its portfolio in the segments of industrial enterprises and small and midsize businesses still makes CEZ Slovensko a crucial market player in commodity supplies. Its goal for 2019 is to serve the customer portfolio to protect it against increasing market and volume risks, stabilizing and increasing the profitability of both customer portfolios.

In ESCO activities, an expansion of comprehensive energy services provided to customers is planned for the second half of 2019, especially energy saving (EPC) projects and projects for the construction and operation of energy facilities.

Hungary

Electricity Sales

In Hungary, CEZ Magyarország Kft. sold 751 GWh of electricity to end-use customers in the first half of 2019, which is 1% less year-on-year as compared to the same period of 2018.

Sales of ESCO Services

CEZ Group provides designing support for the planning and implementation of energy saving projects through ETS Engineering.

Outlook for 2019

CEZ Magyarország Kft. estimates its 2019 electricity sales to end-use customers at 1.5 TWh.

No significant expansion of ESCO activities in Hungary is planned by CEZ Group.

Presence in other Countries

China: ETS Efficient Technical Solutions (Shanghai) Co., Ltd., a member of the German Elevion group, operates in the country. It is engaged in HVAC, decentral energy, and building automation.

Italy: One company belonging to the German Kofler Energies group operates in the country.

Malaysia: HERMOS SDN. BHD, a member of the German Elevion group, operates in the country. HERMOS SDN. BHD is engaged in building automation and facility management.

Netherlands: CEZ Group operates in the wholesale market in electricity and natural gas (with both physical and financial settlement). Otherwise, it does not carry out any business activities in the country. The local subsidiaries are holding or financing companies.

Serbia: CEZ Group operates in the wholesale market in electricity in Serbia and one of its design companies is active in the HVAC sector there.

Ukraine: CEZ Group operations in Ukraine have been terminated; the existing subsidiary CEZ Ukraine LLC is in liquidation.

Research and Development

Nuclear R&D included the performance of tests and analyses of segments of fuel cladding tubes irradiated in a reactor core with the aim of obtaining more detailed information on the behavior of those materials. The implementation of another project, the testing of increased concentration of circulating cooling water at the Dukovany Nuclear Power Plant, will result in reduced consumption of water for the operation of generating units. We also continued with the McSafe project (supported with EU Horizon 2020 funding), which uses Monte Carlo simulation methods for advanced simulations of the core of light-water nuclear reactors. Non-nuclear R&D included continued pilot spectrometric measurements of a combustion chamber for improved flexibility and emission parameters of the combustion process in dry bottom boilers. We are successfully implementing projects supported by the Technology Agency of the Czech Republic (TACR)—projects nearing completion include CESEN (Center for Reliable Energy Research and Experimental Development), a waste-to-energy project, as well as projects aimed to implement measures to reduce mercury emissions at coal-fired power plants and collect information on the stability of steels used in modern generating units.

In the first half of 2019, we started undertaking a new complex project supported by the TACR under the National Competence Center program. This national energy competence center is coordinated by the VSB—Technical University of Ostrava and participated in by a broad range of businesses and research organizations. ČEZ participates in a total of 17 work packages ranging from nuclear power plant materials to assembly reliability models for conventional power plants to energy storage and hydrogen technology.

Investments in New Technologies

Inven Capital

Inven Capital, SICAV, a.s., is a joint-stock company with variable capital that manages two subfunds: Inven Capital—Subfund A and Inven Capital—Subfund B. The holder of founder's shares in Inven Capital, SICAV, a.s., is ČEZ, a. s., investment shares of Subfund A are held by CEZ Group, and investment shares of Subfund B are held by the European Investment Bank.

Inven Capital focuses on investments in clean-tech startups in later stages of growth with a business model proven by sales and with considerable growth potential. Since its establishment, Inven Capital has invested in nine companies (four German, two French, two Israeli, and one Czech) and in the Environmental Technologies Fund 2 (ETF II) in the U.K.

In February 2019, Inven Capital sold off the first company from its portfolio. It was sonnen, a company that was also Inven Capital's first acquisition back in 2015. Inven Capital's current portfolio consists of the following companies:

- **SunFire**—a manufacturer of fuel cells that can convert fuel into electricity and heat but also turn electricity back into hydrogen and other gases (power-to-gas)
- **tado**—the European leader offering smart temperature control for households based on the user's location and habits
- **Cloud&Heat Technologies**—the designer, vendor, and operator of the most energy- and cost-efficient distributed data centers deploying water-cooled servers whose waste heat is used to heat buildings and hot water
- **VU LOG**—a global leader in providing technology for carsharing involving green cars in cities
- **Cosmo Tech**—the vendor of a software platform for modeling complex systems, providing key information to corporate asset managers to optimize their decision-making concerning investments in and the maintenance and risk management of the assets they manage
- **Driivz**—the vendor of a software platform for electric vehicle charging station management, including energy management (charging optimization)
- **CyberX** —the vendor of a software platform providing comprehensive solutions for industrial cybersecurity
- **NeuronSW**—a technology firm that developed a comprehensive solution for sound analysis enabling prediction of machinery failures

Inven Capital sold its share in Bavarian company **sonnen** in February 2019, together with other shareholders, to the Royal Dutch Shell group, which has recently been reinforcing its position in decentralized energy and electric mobility. The selling price was about two times the purchase price of the share. Being the German market leader in smart electricity storage solutions for households, sonnen is also a pioneer in innovative electricity offerings and energy services, such as sonnenCommunity.

Promoting Innovation

ČEZ, a. s., is a founding member of the I2US cooperation platform, associating primarily innovative, mutually noncompeting utilities. The I2US platform attempts to accelerate innovation to exploit business opportunities and address the needs of customers as well as the energy sector itself. Its main collaboration tool is sharing innovation opportunities and experience from the implementation of new services, products, business models, and methods for cooperation with partners.

ČEZ created a virtual Test Center in 2019 in order to obtain first-hand information on technology features and capabilities to facilitate decision-making on commercial deployment within CEZ Group. The Test Center's objective is to accelerate the launches of services and products built on new technologies and reduce risks associated with guarantees given for and customer experience with existing products.

Electric Mobility in Czechia

Charging Stations

Concerning the construction and operation of a public charging network, CEZ Group focused on the expansion of its network of public fast charging stations. As at June 30, 2019, it operated a total of 167 charging stations in Czechia, comprising 109 fast charging (DC) and 58 standard charging (AC) stations. Construction remains significantly supported under two projects funded by the EU's Connecting Europe Facility (CEF), which aims to promote the construction of fast charging stations located close to major TEN-T (Trans-European Transport Network) roads.

ČEZ successfully obtained subsidies for two projects under the Transportation II operational program. One received a subsidy in the second call under a program for a backbone network of DC fast charging stations, during which 125 stations should be built throughout Czechia, and the other in a call for a complementary network of AC charging stations allowing the construction of another 127 standard charging stations. The total worth of the projects is CZK 181 million and the amount of subsidy can be up to CZK 113 million.

As part of its support for zero-emission transportation, CEZ Group guarantees, in the form of guarantees of origin, that those public charging stations that are connected as independent service points so that CEZ Group can influence the choice of the electricity supplier will use renewable electricity.

Offer for Households and Sole Traders

ČEZ Prodej began selling electric mobility as a comprehensive service. Together with a purchased vehicle, it offers a wall box, a check of sufficient electrical installation robustness for home charging, or a chip for charging at public stations. It also provides advantageous credit to fund the purchase of an electric car. ČEZ Prodej currently offers three brands of vehicles (Hyundai, Nissan, and Volkswagen), 14 types of wall boxes for home charging, and 6 types of charging cables. The company will expand its offer over time. To top up its package, ČEZ Prodej offers Electricity for Charging, a special product for electric vehicle owners.

Offer for Large Customers

ČEZ ESCO already had a comprehensive offer of electric mobility products in the first half of 2019. It covers everything starting from consulting on electric mobility: information on subsidy programs, design of an appropriate solution with regard to the required useful value for the client, turnkey solution delivery and performance, funding arrangements, and the provision of all related services, including such services as arranging access to ČEZ's public charging infrastructure. The advantage of this comprehensive offering is its "multibrand" concept, that is, being able to offer charging stations and electric vehicles of all available categories and different brands. At the same time, the company was able to prepare and present to select clients its draft concept of an integrated solution that interconnects electric mobility elements (charging stations) with other ČEZ ESCO solutions, most importantly battery systems, photovoltaics, and also energy management solutions.

ČEZ ESCO also became a partner for electric mobility implementation for VW/ŠKODA concern dealerships.

Changes in CEZ Group Ownership Interests

Czechia

- January 1—ŠKODA PRAHA Invest s.r.o. ceased to exist in a merger by acquisition with ŠKODA PRAHA a.s.
- January 1—EVČ s.r.o. ceased to exist in a merger by acquisition with ENESA, a.s.
- January 1—A stake was acquired in ITX MEDIA; its sole shareholder is ČEZ Teplárenská, a.s.
- January 2—A stake was acquired in Caverion Česká republika s.r.o. (now KART TZB, spol. s r.o.); its sole member is KART, spol. s r.o.
- January 23—Nuclear Safety & Technology Centre s.r.o. v likvidaci was struck off the Commercial Register
- April 26—CEZ Group sold off its stake in EASY POWER s.r.o.
- June 28—A 100% stake was acquired in HA.EM OSTRAVA, s.r.o.; its sole member is ČEZ Energetické služby, s.r.o.
- August 1—ČEZ Teplárenská, a.s., merged with its wholly-owned subsidiaries AYIN, s.r.o., and ITX MEDIA a.s.

France

- January 15—A stake was acquired in Ferme éolienne de Feuillade et Souffrignac SAS, Ferme éolienne du Blessonnier SAS, Ferme éolienne de Saugon SAS, Ferme éolienne de Genouillé SAS, Ferme éolienne d'Allas-Nieul SAS, Ferme éolienne de la Petite Valade SAS, Ferme éolienne des Besses SAS, and Ferme éolienne de Nueil-sous-Faye SAS; the holder of 100% stakes in all these companies is CEZ France SAS
- February 5—Ferme Eolienne de Saint-Aulaye SAS ceased to exist without liquidation

Malaysia

- May 15—Hermos SDN. BHD was acquired in connection with the acquisition of German company Hermos AG

Germany

- January 7—CEZ Erneuerbare Energien Beteiligungs II GmbH acquired a 50% stake in Windpark Bad Berleburg GmbH & Co. KG; the remaining 50% is held by BayWa r.e. Wind GmbH
- January 7—Elektro-Decker GmbH (a member of the Elevion group) acquired a 100% stake in H & R Elektromontagen GmbH
- January 9—Elevion GmbH acquired a 100% stake in GBM Gesellschaft für Büromanagement mbH
- January 9—CEZ Erneuerbare Energien Beteiligungs II GmbH acquired a 50% stake in Windpark Berka GmbH & Co. KG; the remaining 50% is held by BayWa r.e. Wind GmbH
- January 25—Elevion GmbH acquired a 100% stake in En.plus GmbH
- February 5—Kirschbaum & Rohrlack GmbH ceased to exist in a merger with ETS Efficient Technical Solutions GmbH; the merger record date is June 1, 2018
- March 20—HAu.S GmbH ceased to exist in a merger with ETS Efficient Technical Solutions GmbH; the merger record date is January 1, 2019

- April 11—A 50% stake in Socrates JVCo Verwaltungs GmbH was acquired through CEZ Erneuerbare Energien Beteiligungs II GmbH; the remaining 50% is held by H. und H. Holt Holding GmbH
- April 30—A 50% stake in Socrates Windprojekt GmbH & Co. KG was acquired through CEZ Erneuerbare Energien Beteiligungs II GmbH; the remaining 50% is held by H. und H. Holt Holding GmbH
- April 30—A 100% stake in Socrates SPV General Partner GmbH was acquired through CEZ Erneuerbare Energien Beteiligungs II GmbH; the sole member of the company is Socrates Windprojekt GmbH & Co. KG
- April 30—Windpark Palmpohl GmbH & Co. KG and Windpark Soeste GmbH & Co. KG were acquired through Socrates Windprojekt GmbH & Co. KG
- May 15—Elevion GmbH acquired a 100% stake in Hermos AG and its subsidiaries and sub-subsidiaries Hermos Systems GmbH, Hermos Gesellschaft für Steuer-, Meß- und Regeltechnik mbH, and HERMOS International GmbH
- May 15—Elevion GmbH acquired a 100% stake in Hermos Schaltanlagen GmbH
- May 15—Elevion, through Hermos AG, acquired a 40% stake in Hermos Gesellschaft für Automatisierungstechnik GmbH (the company was acquired as part of the transaction involving HERMOS group companies; it is currently in liquidation)
- May 16—D-I-E Elektro AG (a member of the Elevion group) acquired a 100% stake in FEA Automation GmbH
- June 3—Windpark Harrenstetter Heide GmbH & Co. KG was acquired through Socrates Windprojekt GmbH & Co. KG
- June 21—ETS Efficient Technical Solutions GmbH (a member of the Elevion group) acquired a 100% stake in Detlef Walther GmbH
- June 24—En.plus GmbH (a member of the Elevion group) acquired a 100% stake in Kälteanlagenbau Schröder GmbH

Poland

- May 15—Hermos sp. z o.o. was acquired in connection with the acquisition of German company Hermos AG

Slovakia

- February 26—SERVISKOMFORT s.r.o. was renamed to ČEZ SERVIS, s.r.o.
- May 13—A 51% stake was acquired in e-Dome a. s.

Shareholders’ Meeting of ČEZ, a. s.

The annual shareholders’ meeting of ČEZ, a. s., began on June 26, 2019, and ended on June 27, 2019. In its session, the shareholders’ meeting:

- Heard the Board of Directors’ Report on the Company’s Business Activities and Assets for 2018, the Summary Report pursuant to Section 118(9) of the Capital Market Undertakings Act, Conclusions from the Related Parties Report for 2018, the Supervisory Board’s Report, and the Audit Committee’s Report on the Results of Its Activities
- Approved the financial statements of ČEZ, a. s., and the consolidated financial statements of CEZ Group for the year ended December 31, 2018
- Approved the distribution of the company’s 2018 profit amounting to CZK 23,776,000,035.70 as follows:
  - Share in profit to be distributed to shareholders (“dividend”) CZK 12,911,754,216.00
  - Transfer to the retained earnings account CZK 10,864,245,819.70

  The dividend is CZK 24 per share before tax
- Appointed Ernst & Young Audit, s.r.o., as the auditor to perform the statutory audit for the accounting period of the calendar year of 2019
- Approved a 2020 donations budget of CZK 110 million
- Approved an update to the business policy of CEZ Group and ČEZ, a. s., as presented to the shareholders’ meeting by the company’s Board of Directors
- Removed Šárka Vinklerová from the Supervisory Board
- Elected Jan Vaněček as a member of the Supervisory Board and the Audit Committee

Changes in ČEZ, a. s., Governance Bodies

Supervisory Board

Members of the Supervisory Board whose membership began in the first half of 2019 or before the half-year report closing date:

Jan Vaněček	Member of the Supervisory Board Since June 27, 2019 (term ending June 27, 2023)

Members of the Supervisory Board whose membership ended in the first half of 2019 or before the half-year report closing date:

Šárka Vinklerová	Member of the Supervisory Board from June 3, 2016, to June 27, 2019

Audit Committee

Members of the Audit Committee whose membership began in the first half of 2019 or before the half-year report closing date:

Jan Vaněček	Chairman of the Audit Committee since June 27, 2019 Member of the Audit Committee since June 27, 2019 (term ending June 27, 2023)
	Chairman of the Audit Committee from September 25, 2015, to June 12, 2019 Member of the Audit Committee from June 12, 2015, to June 12, 2019

Board of Directors

Members of the Board of Directors reelected for another term:

Pavel Cyrani	Member of the Board of Directors since October 20, 2011 Reelected with effect from October 22, 2019 (term ending October 22, 2023)

Board of Directors Committees

A ČEZ, a. s., Corporate Compliance Committee was established as an advisory body to the Board of Directors. Its mission is to contribute to the expertise and efficiency of decision-making at ČEZ, a. s., within its defined purview. The Committee's tasks include assessing current and potential compliance risks, their impact, and the level of their management at ČEZ.

Legal and Other Proceedings Involving CEZ Group Companies

Legal Proceedings

Czechia

ČEZ, a. s.

1. Minority shareholders carry on a lawsuit against ČEZ, a. s., and Severočeské doly a.s. based on an action filed in 2006, seeking declaratory judgment on the adequacy of consideration in compulsory sale of corporate securities. Should the plaintiffs win, the total additional payment could be in the order of hundreds of millions of CZK. The case is heard at first instance. The outcome of the proceeding is impossible to predict.
2. Ultra Plus Holding Limited carries on a lawsuit against ČEZ, a. s., based on an action filed in August 2010, seeking the payment of an amount in excess of CZK 196 million plus interest and costs on grounds of alleged abuse of a dominant position in determining the purchase price of brown coal (lignite) deliveries and the amount of the maximum discount for faulty performance. The court of first instance dismissed the action. The case is heard at second instance. The outcome of the proceeding is impossible to predict.
3. ČEZ, a. s., carries on a lawsuit against the Appellate Financial Directorate based on an administrative action brought against the decision of the Specialized Tax Office imposing a fine of CZK 150 million for violating the Prices Act in the payment of the price of brown thermal coal supplied by Sokolovská uhelná, právní nástupce, a.s., in 2010, 2012, and 2013. The administrative court admitted the action. The case is heard by the Supreme Administrative Court based on a cassation appeal filed by the Appellate Financial Directorate (however, the Appellate Financial Directorate rescinded the fine imposing decision based on the legal opinion of the court of first instance). The outcome of the proceeding is impossible to predict.
4. Lesy České republiky, s.p., carries on 33 lawsuits against ČEZ, a. s., and some of its subsidiaries based on actions filed since 1997. The issue in dispute is a claim for compensation for loss caused by the operations of ČEZ, a. s., and its subsidiaries in forest crops in 1997 and 1999-2015. Damages claimed total CZK 295 million plus interest and costs. The outcome of the proceedings is impossible to predict.
5. ČEZ, a. s., carried on a lawsuit against Walo Bertschinger AG, registered in Switzerland, based on an action filed in 2016, seeking remedy of defects in performance consisting in repairs of the Dlouhé Stráně hydroelectric power plant or, if the defects are not remedied by the defendant as ruled, payment of CZK 205 million plus interest and costs. The Commercial Court of the Canton of Zürich dismissed the action in 2019; the dispute between the parties was definitively terminated.
6. In an insolvency proceeding against PLP a.s., Teplárna Trmice, a.s., the legal predecessor of ČEZ Teplárenská, a. s., submitted claims totaling CZK 220 million. The enterprise of the debtor, PLP a.s., was realized for USD 10 million and the proceeds were rendered to the secured creditor in July 2013. The amount of settlement for ČEZ Teplárenská, a.s., in the insolvency proceeding in question is still nil. The outcome of the proceeding is impossible to predict.
7. ČEZ, a. s., carries on a lawsuit against ŠKODA JS a.s. based on an action filed in 2016, seeking payment of CZK 611 million plus interest and costs. The issue in dispute is damages for lost profits due to wrongly performed radiographic inspections of welded joints at the Dukovany Nuclear Power Plant. The proceeding is pending in first instance and has been stayed on grounds of ongoing negotiations for out-of-court settlement; these negotiations have not been concluded yet. The outcome of the proceeding is impossible to predict.
8. Eleven tenants of apartments carry on a declaratory judgment suit against CIB RENT PÍSNICE s.r.o. concerning title to properties in the cadastral district of Písnice, based on an action filed in 2017. ČEZ, a. s., is an intervenor in the proceeding on grounds of its past title to the properties. The plaintiffs claim that the owner of the properties is the Czech Republic. The court of first instance dismissed the action. The court of second instance upheld the judgment of the court of first instance; in the matter of cost of proceedings, the appellate court returned the case to the court of first instance. The outcome of the proceeding is impossible to predict.

9. ČEZ, a. s., carried on two lawsuits against the Appellate Financial Directorate based on administrative actions filed against decisions of the Appellate Financial Directorate concerning interest on tax authority misconduct in relation to a refunded overpayment of gift tax on emission allowances for 2011 and 2012. The administrative court rescinded the disputed decision of the Appellate Financial Directorate. The Appellate Financial Directorate filed cassation appeals against the administrative court's rulings with the Supreme Administrative Court. During the cassation appeal proceedings, the Appellate Financial Directorate issued decisions in August 2018 awarding ČEZ, a. s., interest on tax authority misconduct in 2011 and 2012 but only for the periods after additional payment assessments; the cassation appeal proceedings are concluded. ČEZ, a. s., filed two analogous actions as the successor to Teplárna Trmice, a.s. The proceedings are pending before an administrative court; during the proceedings, the Appellate Financial Directorate issued decisions in December 2018 awarding ČEZ, a. s., as the successor to Teplárna Trmice, a.s., interest on tax authority misconduct in 2011 and 2012 but also just for the periods after additional payment assessments.
10. ČEZ, a. s., carries on two lawsuits against the Appellate Financial Directorate based on administrative actions filed against the Appellate Financial Directorate's decisions by which the Appellate Financial Directorate awarded ČEZ, a. s., interest on tax authority misconduct in 2011 and 2012 but only for the periods after additional payment assessments. ČEZ, a. s., believes that there was an error in law in the assessment of the periods for which ČEZ, a. s., is entitled to interest on tax authority misconduct. The proceedings are pending before an administrative court. The outcomes of the proceedings are impossible to predict.

ČEZ Distribuce, a. s.

11. SPR a.s. carries on a lawsuit against ČEZ Distribuce, a. s., based on an action filed in May 2013, seeking payment of CZK 213 million plus interest and costs. The matter in dispute is the existence of loss alleged by the plaintiff, which was allegedly incurred due to a breach of obligations by ČEZ Distribuce, a. s., in relation to the connection of the Dubí PV power plant to the distribution grid. The case is heard at first instance and has been stayed. The outcome of the proceeding is impossible to predict.
12. Four electricity generators/local distribution system operators carry on significant lawsuits against ČEZ Distribuce, a. s., based on actions filed in 2015, 2016, and 2017. The matter in dispute is a claim for recovery of unjust enrichment consisting in the electricity distribution price component to cover costs associated with electricity support that was allegedly incorrectly billed but duly paid by the plaintiffs in relation to local (internal) electricity consumption from January 1, 2013, to October 1, 2013. The total payment claimed from ČEZ Distribuce exceeds CZK 1 billion plus interest and costs. Following a special panel's decision on conflict of jurisdiction, court proceedings in all of the lawsuits were discontinued in 2019 and the matter was referred to the Energy Regulatory Office. The outcomes of the proceedings are impossible to predict.
13. ČEZ Distribuce, a. s., carries on three lawsuits against OTE, a.s., based on actions brought in 2016 and 2017, seeking recovery of unjust enrichment from OTE amounting to CZK 7.6 billion plus interest and costs, consisting in the electricity distribution price component to cover costs associated with electricity support being incorrectly billed but duly paid by ČEZ Distribuce, a. s., from January 1, 2013, to December 31, 2013. Following a special panel's decision on conflict of jurisdiction, court proceedings in two of the lawsuits were discontinued in 2019 and the matter was referred to the Energy Regulatory Office. The proceeding in the last lawsuit has been stayed. The outcomes of the proceedings are impossible to predict.
14. ČEZ Distribuce, a. s., carries on a lawsuit against ŠKO-ENERGO, s.r.o., based on an action filed in 2016, seeking payment from ŠKO-ENERGO in excess of CZK 113 million plus interest and costs. The matter in dispute is additional payment of the electricity distribution price component to cover costs associated with electricity support for the period from April 1, 2013, to October 1, 2013. The courts of first and second instance discontinued the proceedings on grounds of lack of jurisdiction over the subject matter. Both parties applied for leave to appeal to the Czech Supreme Court. The Czech Supreme Court rejected ČEZ Distribuce's application for leave to appeal; consequently, the Energy Regulatory Office is competent to decide the matter. The outcome of the proceeding is impossible to predict.

15. ČEZ Distribuce, a. s., carries on a lawsuit against Liberty Ostrava a.s. (formerly ArcelorMittal Ostrava a.s.), based on an action filed in 2019, seeking payment of approximately CZK 225 million plus interest and costs. The matter in dispute is unreceived payments for system services for the period from February 2016 to November 2018 that ČEZ Distribuce, a. s., invoiced ArcelorMittal Ostrava a.s. for in connection with electricity distribution. The case is heard at first instance and has been stayed. The outcome of the proceeding is impossible to predict.
16. In an insolvency proceeding against Česká energie, a.s., ČEZ Distribuce, a. s., submitted an unsecured claim for approximately CZK 138 million plus interest and costs arising from failure to pay for distribution system services under a contract. The insolvency proceeding commenced in December 2016 and is still pending. The outcome of the proceeding is impossible to predict.
17. ČEZ Distribuce, a. s., filed an insolvency petition combined with a bankruptcy petition against SCP first payment of receivables s.r.o. (formerly ENWOX ENERGY s.r.o.) in December 2017, submitting its matured unsecured claim for approximately CZK 115 million plus interest and costs in the proceeding. The claim arose from failure to pay for distribution system services under a contract. The insolvency proceeding is pending. The outcome of the proceeding is impossible to predict.
18. In an insolvency proceeding against One Energy & One Mobile a.s., ČEZ Distribuce, a. s., submitted an unsecured claim for approximately CZK 154 million plus interest and costs arising from failure to pay for distribution system services under a contract. The insolvency proceeding commenced in 2018 and is still pending. The outcome of the proceeding is impossible to predict.

ČEZ Prodej, a.s.

19. ČEZ Prodej, a.s., carries on a lawsuit against Správa železniční dopravní cesty, státní organizace ("SŽDC"), based on an action filed in 2010, seeking damages in the amount of CZK 805 million plus interest and costs. The matter in dispute is an alleged breach of an electricity supply contract by SŽDC, consisting in failure to take deliveries of an agreed amount of electricity in 2010, and the resulting loss. Following an application for leave to appeal filed by SŽDC, the Czech Supreme Court overturned the rulings of the courts of first and second instance and returned the case to the court of first instance. The court of first instance dismissed the action. The case is heard at second instance but also by the Czech Constitutional Court following a constitutional complaint. The court of second instance upheld the ruling of the court of first instance in May 2019. ČEZ Prodej, a.s., withdrew the action before it was served the judgment of the court of second instance. SŽDC, which had paid the amount claimed, subsequently brought an action against ČEZ Prodej, a.s., seeking recovery of unjust enrichment amounting to the paid sum of CZK 1,116 million plus interest and costs, which the court of first instance admitted. The case is heard at second instance. The outcomes of the proceedings are impossible to predict.
20. ČEZ Prodej, a.s., carries on a lawsuit against SŽDC based on an action filed in 2013, seeking damages in the amount of CZK 857 million plus interest and costs. The matter in dispute is an alleged breach of an electricity supply contract by SŽDC, consisting in failure to take deliveries of an agreed amount of electricity in 2011, and the resulting loss. After the decision of the court of first instance was overturned by the appellate court, the case is now reheard by the court of first instance. The outcome of the proceeding is impossible to predict.
21. ČEZ Prodej, a.s., carries on a lawsuit against OTE, a.s., seeking substitution of a decision by the Energy Regulatory Office and a decision by the Chairwoman of the Energy Regulatory Office concerning the payment of an amount in excess of CZK 124 million as the outstanding difference in purchase prices paid to solar electricity producers, which were paid by OTE, a.s., to ČEZ Prodej, a.s., as the mandatory purchaser on the basis of an action brought in 2016. The court of first instance dismissed the action. The court of second instance upheld the ruling of the court of first instance. The case is pending before the Czech Supreme Court. The outcome of the proceeding is impossible to predict.
22. ČEZ Prodej, a.s., carries on a lawsuit against ACTHERM, spol. s r.o. (a distribution system operator), seeking damages in excess of CZK 185 million plus interest and costs based on an action filed in 2016 (CZK 124 million) and its extension in 2017 concerning loss incurred in the subsequent period (CZK 61 million). The matter in dispute is loss caused by the actions of ACTHERM, spol. s r.o., during the registration of three solar electricity producers in the market

operator's system and the delivery of information on the registration to ČEZ Prodej, a.s. The case is heard at first instance; the proceeding has been resumed after a stay. The outcome of the proceeding is impossible to predict.

23. ČEZ Prodej, a.s., carries on three lawsuits with solar electricity producers based on actions filed in March 2017, seeking recovery of unjust enrichment of nearly CZK 160 million. The unjust enrichment consists in the collection of higher purchase prices than those reimbursed to ČEZ Prodej, a.s., by OTE, a.s. The court of first instance discontinued the proceedings in two cases and referred the cases to the Energy Regulatory Office for further proceedings. The action in the third case was dismissed and the case is heard at second instance. The outcomes of the proceedings are impossible to predict.
24. OTE, a.s., carries on a lawsuit against ČEZ Prodej, a.s., based on an action brought in 2018, seeking payment of approximately CZK 104.4 million plus interest and costs. The legal ground for the amount sought is recovery of the difference between the purchase price and the hourly price paid by OTE, a.s., to ČEZ Prodej, a.s., as a mandatory purchaser from a solar electricity producer in the period from January 1, 2013, to April 30, 2018. The court of first instance issued a ruling discontinuing the action and referring the case to the Energy Regulatory Office, which ČEZ Prodej, a.s., appealed against. The court of second instance upheld the ruling of the court of first instance. The proceeding between the parties will now be conducted by the Energy Regulatory Office. The outcome of the proceeding is impossible to predict.
25. OTE, a.s., carries on two administrative proceedings before the Energy Regulatory Office against ČEZ Prodej, a.s., based on petitions filed in July 2019, seeking recovery of unjust enrichment totaling approximately CZK 327 million. The legal ground for the amount claimed is recovery of the difference between the purchase price and the hourly price paid by OTE, a.s., to ČEZ Prodej, a.s., as a mandatory purchaser in the period from January 1, 2013, to May 31, 2018. The outcomes of the proceedings are impossible to predict.

ŠKODA PRAHA a.s., Successor to ŠKODA PRAHA Invest s.r.o. since January 1, 2019

26. ŠKODA PRAHA a.s. submitted claims in insolvency proceedings against

a) Chladicí věže Praha, a. s., namely conditional and unconditional claims relating to the execution of an 880 MW_e CCGT Unit project at the Počerady power plant totaling CZK 451 million, based on a filing in 2015. The submitted claims were denied by the receiver to the full amount. Therefore, ŠKODA PRAHA a.s. carries on a lawsuit against the receiver based on an action brought in 2016, seeking the determination of the authenticity and amounts of the denied claims. The case is heard at first instance. The outcome of the proceeding is impossible to predict.

b) VÍTKOVICE POWER ENGINEERING a.s., namely conditional and unconditional claims relating to the execution of a project for the construction of a new 660 MW_e unit at the Ledvice power plant and comprehensive renovation of the Prunéřov II power plant totaling approximately CZK 9 billion (unconditional claims amounted to approximately CZK 126 million, conditional claims approximately CZK 8.8 billion), based on a filing in 2016. All of the claims were denied by the receiver or the debtor or both. Therefore, ŠKODA PRAHA a.s. carries on lawsuits concerning the denied claims to determine the authenticity and amounts of the denied claims. In view of procedural changes resulting in the unconditional claims relating to the execution of a project for the construction of a new 660 MW_e unit at the Ledvice power plant being deemed established, the incidental action concerning those claims was withdrawn in full and the relevant incidental proceeding was discontinued. The other proceedings are pending at first instance and their outcomes are impossible to predict.

c) KRÁLOVOPOLSKÁ RIA, a.s., namely conditional and unconditional claims relating to the execution of a project for the construction of a new 660 MW_e unit at the Ledvice power plant, comprehensive renovation of the Prunéřov II power plant, and a project for the construction of a new 880 MW_e CCGT unit at the Počerady power plant, totaling approximately CZK 1.89 billion (conditional claims of approximately CZK 1.85 billion, an unconditional claim of approximately CZK 16,600 based on filings in 2017, and a claim for damages of approximately CZK 38.7 million based on a filing in 2018). Conditional claims totaling approximately CZK 1.85 billion were denied by both the receiver and KRÁLOVOPOLSKÁ RIA, a.s. Therefore, ŠKODA PRAHA a.s. carries on a lawsuit concerning the denied claims to determine the authenticity and amounts of the denied claims. The case is heard at first instance. The outcome of the proceeding is impossible to predict. A claim for damages arising from the denial of selected contracts for work by KRÁLOVOPOLSKÁ RIA, a.s., totaling approximately CZK 38.7 million (submitted in case the denial is upheld, although it is challenged by ŠKODA PRAHA a.s.) was denied by the receiver. ŠKODA PRAHA, a.s., carried on a lawsuit concerning this denied claim against the receiver based on an action brought in 2018, which was withdrawn in 2019 and the proceeding was discontinued. The outcome of the proceeding is impossible to predict.

27. ŠKODA PRAHA a.s. carried on two lawsuits against NOEN, a.s., based on two actions brought in 2017, seeking payment of an amount in excess of CZK 228 million plus interest and costs. The lawsuits concerned delivery dates for the comprehensive renovation of the Prunéřov II power plant, specifically the reconstruction of thermal coal transportation systems. The amount claimed was a penalty. Settlement agreements were made in both cases and the actions were abandoned in full in early 2019. The lawsuits were definitively terminated in March 2019.

Energotrans, a.s.

28. Energotrans, a.s., carries on two lawsuits against the Appellate Financial Directorate based on administrative actions filed against decisions of the Appellate Financial Directorate concerning interest on tax authority misconduct in relation to a refunded overpayment of gift tax on emission allowances for 2011 and 2012. The Appellate Financial Directorate issued decisions in December 2018 awarding Energotrans, a.s., interest on tax authority misconduct in 2011 and 2012 for the periods after additional payment assessments. The administrative court rescinded both disputed decisions of the Appellate Financial Directorate and reopened the proceedings. The proceedings are still pending and their outcomes are impossible to predict.

Abroad

Poland

29. In 2009, Agrowind Kończewo sp. z o.o. (AWK) filed a lawsuit against seven companies jointly and severally, one of which is Eco-Wind Construction S.A. (EWC), seeking PLN 22.7 million plus interest in compensation because the companies frustrated the installation of wind turbines and transformer stations on land that the claim alleges was held by AWK. On December 4, 2012, the claim was increased to a total of PLN 112.7 million plus interest (approximately CZK 673 million). The case was subsequently suspended on the ground of notified bankruptcy of one of the companies. Another hearing took place on January 9, 2019, but only with six parties that continue in the proceeding.

Germany

30. On June 12, 2017, D-I-E Elektro AG (a member of CEZ Group) brought an action against Minto GmbH in the regional court in Mönchengladbach, seeking payment of compensation under a contract for work of EUR 6,714,490 plus interest and costs. The case is pending in first instance. The outcome of the proceeding is impossible to predict.

31. In December 2018, Minto GmbH filed a counteraction against D-I-E Elektro AG with the regional court in Mönchengladbach, seeking payment of EUR 2,085,641 in compensation of additional expenses from a contract for work. Procedurally, the dispute is related to D-I-E Elektro AG’s action from June 2017. The outcome of the proceeding is impossible to predict.

Turkey

32. Starting from 2011, Sakarya Elektrik Dağitim A.S. (SEDAŞ) filed appeals against administrative decisions of the Turkish energy market regulatory authority (EPDK) that were the basis for reducing the portion of the companies’ operating costs that were automatically recognized in tariffs. SEDAŞ appealed against one of the first instance decisions to the Supreme Administrative Court of Turkey. The appeal was dismissed. The remaining lawsuits are in the pleading submission stage.

33. Distribution and sales companies in Turkey are facing lawsuits concerning a refund of the costs of technical and nontechnical losses paid for by the companies' customers. In the case of SEDAŞ, the total amount of pending lawsuits is immaterial and courts have been deciding in favor of the company with regard to legislation passed in 2016 as well as the Constitutional Court's jurisprudence.
34. In March and May 2016, SEDAŞ brought three administrative actions against EPDK's decisions regulating the limits of SEDAŞ's revenue from electricity distribution in the regulatory period of 2016 to 2020, including the method of calculation and application. The case is pending in the appellate court.

Romania

35. Distributie Energie Oltenia S.A. has been carrying on a lawsuit against the regulatory authority since early 2014, concerning distribution tariffs in the second regulatory period. In April 2016, the court of first instance partially admitted the complaint of Distributie Energie Oltenia S.A. against the regulatory authority and decided that the correction for the past regulatory period was applied wrongfully. The regulatory authority appealed against the judgment and also disputed a submitted expert opinion. The opinion says that the amount of the negative correction (the primary cause of a decrease in tariffs) is unjustified. The court of second instance overturned the ruling and returned the case to first instance. A hearing is scheduled for October 2019.
36. Distributie Energie Oltenia S.A. has been carrying on a lawsuit against the regulatory authority (ANRE) since late 2018, concerning administrative regulation No. 169/2018 governing distribution tariff methodology. The case is pending in first instance. The outcome of the proceeding is impossible to predict.
37. Distributie Energie Oltenia S.A. has been carrying on a lawsuit against the regulatory authority (ANRE) since late 2018, concerning administrative regulation No. 168/2018 governing WACC. The court has suspended the proceeding by the two parties' agreement.
38. Tomis Team S.A. carries on a lawsuit against the Municipal Authority of Fântânele concerning a property tax obligation for properties under turbines, as the Romanian law was amended in this aspect. The company filed the action in 2018. The case is heard at first instance. The proceeding was stayed at a May 2019 hearing.
39. Tomis Team S.A. carries on a lawsuit against the Municipal Authority of Fântânele concerning its obligation to pay property tax (in 2010–2014) and related penalty (totaling approximately RON 27.5 million, that is, approximately CZK 148 million), based on an action brought in 2016. The case is heard at first instance and has been stayed.

Bulgaria

40. CEZ Razpredelenie Bulgaria AD and CEZ Elektro Bulgaria AD appealed in 2016, 2017, 2018, and 2019 against numerous decisions of the regulatory authority—Energy and Water Regulatory Commission (EWRC)—stipulating prices of electricity. Legal proceedings are underway. The outcomes of the proceedings are impossible to predict.
41. CEZ Razpredelenie Bulgaria AD and CEZ Elektro Bulgaria AD carry on a lawsuit against the EWRC; the matter in dispute is changes affecting electricity price regulation in effect since June 2018. The outcome of the proceeding is impossible to predict.
42. CEZ Razpredelenie Bulgaria AD and CEZ Elektro Bulgaria AD appealed against changes in regulation No. 1 concerning electricity price regulation in June 2018. A hearing in the Supreme Administrative Court is scheduled for November 2019. The outcome of the proceeding is impossible to predict.
43. In March 2014, NEK (Natsionalna Elektricheska Kompania EAD) brought an action against CEZ Razpredelenie Bulgaria AD in the City Court of Sofia, seeking payment of BGN 5.9 million (approximately CZK 76 million) for electricity supplies in 2011 and 2012. CEZ Razpredelenie Bulgaria AD responded by submitting objections to NEK's action. In a closed hearing held on June 1, 2015, the court disallowed NEK's claim and called ESO EAD, the transmission system operator, as the plaintiff instead. The court dismissed ESO EAD's action on December 11, 2017, and ESO EAD appealed against the ruling. The appellate court in Sofia issued a ruling on August 17, 2018,

ordering CEZ Razpredelenie Bulgaria to make payments of BGN 5.7 million and BGN 2.75 million in interest. The company filed an appeal with the Supreme Administrative Court, which was subsequently denied. The proceeding was thus definitively terminated.

44. As a result of a regulatory audit of compliance with distribution license conditions in the period from July 1, 2008, to November 30, 2013, conducted by the EWRC, CEZ Razpredelenie Bulgaria AD was served 981 administrative decisions on a breach of obligations, which the company submitted written objections to. On the basis of the objections submitted, CEZ Razpredelenie Bulgaria AD subsequently received 206 penalty decisions issued by the EWRC for BGN 20,000 (approximately CZK 260,000) per breach. The company duly appealed against all of the penalty decisions. At the report closing date, there are 199 final court rulings, of which 96 confirmed the imposed penalties and the penalties were paid by the company; 103 rulings definitely dismissed the penalties. Additionally, seven proceedings are awaiting a court ruling.
45. In 2013, the Commission for Protection of Competition (CPC) initiated proceedings on infringements of the Competition Protection Act and Articles 101 and 102 of the Treaty on the Functioning of the European Union (cartel agreements consisting in concerted practices and abuse of a dominant position) by ČEZ companies and other companies in connection with the opening of the electricity market. On December 14, 2017, the CPC made a decision whereby CEZ Elektro Bulgaria AD was fined BGN 1.14 million (approximately CZK 14.3 million) and CEZ Razpredelenie Bulgaria AD was fined BGN 1.06 million (approximately CZK 13.9 million). Both companies appealed against this decision to the Supreme Administrative Court. The Supreme Administrative Court found the fines justified and dismissed both companies' appeals. An appeal was filed against this ruling. On May 22, 2019, the Supreme Administrative Court overturned the previous court ruling confirming the fine for CEZ Elektro Bulgaria and returned the case to the court of first instance to gather additional evidence. The next court hearing is scheduled for September 12, 2019.
46. The Commission for Protection against Discrimination opened case No. 258/2008 for alleged discrimination based on ethnic origin due to the installation of junction boxes at a height of 6–8 meters in some areas but at a height of 1–2 meters in other areas. The Court of Justice of the European Union in Luxembourg decided on July 16, 2015, that Anelya Nikolova was discriminated against. The Administrative Court in Sofia has taken the case over. On August 10, 2017, the Administrative Court decided to return the case to the Commission for Protection against Discrimination. The case was reopened by the Commission.
47. In April 2017, Piraeus Bank filed an action against Bara Group EOOD concerning pledged claims of SANO EPC EOOD against Bara Group EOOD. The action claiming BGN 50,000 (approximately CZK 0.6 million) is just a portion of the total pledged claim amounting to BGN 3 million (approximately CZK 39 million). Bara Group EOOD submitted its objections to the action in writing. The case is now in the appellate stage as the action was dismissed by the court of first instance and the opposite party appealed against the dismissing court ruling.
48. ESO EAD (transmission system operator) carries on two lawsuits against CEZ Razpredelenie Bulgaria AD, seeking payment of claims related to electricity transmission and supply, totaling approximately BGN 6.33 million (approximately CZK 83 million), for the period from March 2014 to January 2015, based on actions brought in 2014 and 2017. The legal ground for the amount claimed is article 7 of regulation No. 1 concerning electricity price regulation. One case was decided against CEZ Razpredelenie Bulgaria AD. The other case is in the appellate stage.

Other Proceedings

Czechia

As part of an investigation into possible criminal activity related to obtaining a license to operate the Vranovská Ves PV power plant, police authorities issued a resolution to secure a replacement value of the likely proceeds of this criminal activity pursuant to the Code of Criminal Procedure, specifically:

1. Securing of receivables of ČEZ Obnovitelné zdroje, s.r.o., against OTE, a.s., in the form of support paid for the green bonus, totaling nearly CZK 780 million as at July 31, 2019; the amount in question will be deposited on a bank account with the Czech National Bank for the duration of the security, and ČEZ Obnovitelné zdroje, s.r.o., cannot dispose of these funds.

2. Securing of funds on a bank account of ČEZ, a. s., in the amount of approximately CZK 223 million; ČEZ, a. s., cannot dispose of these funds for the duration of the security.

In both cases, these are interlocutory security measures taken by law enforcement authorities in a case where the accused are not employees of CEZ Group companies. ČEZ Obnovitelné zdroje, s.r.o., and ČEZ, a. s., are injured parties in the case.

Abroad

Bulgaria

On July 12, 2016, ČEZ, a. s., formally filed a Request for Arbitration with the International Centre for Settlement of Investment Disputes (ICSID), officially commencing international investment arbitration against the Republic of Bulgaria under the Energy Charter Treaty on the grounds of non-protection of investment. It decided to do so after a number of interventions by Bulgarian authorities injuring ČEZ companies' business in Bulgaria and as a result of a long-term, non-improving critical situation in the country's energy market. The claim amounts to hundreds of millions of EUR. ČEZ, a. s., repeatedly called upon the Bulgarian government to improve the existing situation speedily and compensate incurred losses. In November 2015, it sent the Bulgarian government a Notice of Dispute in which it asked for amicable settlement and reserved the right to commence investment arbitration. Efforts to initiate an amicable settlement with the Bulgarian government did not result in any official response by the competent authorities after November 2015. After the deadline for an amicable settlement expired in May 2016, ČEZ, a. s., formally notified Bulgaria that it would commence the international arbitration procedure. The arbitration claim is not part of the sale of the company's Bulgarian assets and the arbitration is carried on by ČEZ, a. s. The ICSID was officially asked to appoint the presiding arbitrator at the beginning of 2019. On this basis, the president was elected and the complete tribunal was appointed in February 2019. This will be followed by an exchange of the parties' filings and then an oral procedure; the first matter considered by the tribunal will be an objection to jurisdiction, that is, the competence of the arbitral tribunal to decide the dispute.

Contacts

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Customer Care Line in Czechia—Energy Services Contact address: ČEZ ESCO, a.s. Duhová 1444/2 140 00 Praha 4 Mailing address: ČEZ ESCO, a.s. Guldenerova 2577/19 326 00 Plzeň	www.cezesco.cz obchod@cezesco.cz	+420 371 101 101
Web Sales Office (ČEZ ON-LINE)	https://cezonline.cez.cz	
Current Condition of Electricity Distribution at a Particular Address (in Czechia)	https://bezstavy.cz	

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	E-mail/Website	Phone/Fax
CEZ Group Sustainability Report	www.cez.cz/cs/udrzitelny-rozvoj.html	
CEZ Group Ombudsmen		
Czechia Josef Sedlák Mailing address: Ombudsman ČEZ Hvězdova 1716/2b 140 62 Praha 4	www.cez.cz/ombudsman.html	Phone contact not possible
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Methods Used to Calculate Indicators Unspecified in IFRS

In accordance with ESMA guidelines, ČEZ provides detailed information on indicators that are not reported as standard in IFRS statements or the components of which are not directly available from standardized statements (financial statements). Such indicators represent supplementary information in respect of financial data, providing reports' users with additional information for their assessment of the financial position and performance of CEZ Group or ČEZ. In general, these indicators are also commonly used in other commercial companies, not only in the energy sector.

Indicator	
Net Debt	Purpose: The indicator shows the real level of a company's financial debt, i.e., the nominal amount of debt net of cash, cash equivalents, and highly liquid financial assets held by the company. The indicator is primarily used to assess the overall appropriateness of the company's debt, e.g., in comparison with selected corporate profit or balance sheet indicators. Definition: Long-Term Debt, Net of Current Portion + Current Portion of Long-Term Debt + Short-Term Loans – (Cash and Cash Equivalents + Highly Liquid Financial Assets). The components of the indicator, except for Highly Liquid Financial Assets, are included in the IFRS statement, with items related to assets held for sale are presented separately on the balance sheet.
Adjusted Net Income (After-Tax Income, Adjusted)	Purpose: This is a supporting indicator, intended primarily for investors, creditors, and shareholders, which allows interpreting achieved financial results with the exclusion of extraordinary, usually nonrecurring effects that are generally unrelated to ordinary financial performance and value creation in a given period. Definition: Net income (after-tax income) +/− additions to and reversals of impairments of property, plant, and equipment and intangible assets, including goodwill +/− additions to and reversals of impairments of developed projects +/− other extraordinary effects that are generally unrelated to ordinary financial performance in a given year and value creation in a given period +/− effects of the above on income tax.
Dividend per Share (Gross)	Purpose: The indicator expresses a shareholder's right to the payment of a share in a joint-stock company's profits (usually for the past year) corresponding to the holding of one share. The subsequent payment of the share in profits is usually subject to taxes, which may be different for different shareholders; therefore, the value before taxes is reported. Definition: Dividend awarded in the current year, before taxes, per outstanding share (paid in the reported year from the profits of prior periods).
Net Debt / EBITDA	Purpose: This indicates a company's capability to decrease and pay back its debt as well as its ability to take on additional debt to grow its business. CEZ Group uses this indicator primarily to assess the adequacy of its capital structure to the structure and stability of its expected cash flows. Definition: Net Debt / EBITDA. EBITDA is the running total for the past 12 months, i.e. EBITDA for the period from July 1 of previous year until June 30; Net Debt is the amount at the end of the period.

Most of the components used in the calculation of individual indicators are directly shown in financial statements. The components of calculations that are not included in the financial statements are usually shown directly in a company's books and are defined as follows:

Highly Liquid Financial Assets—component of Net Debt indicator (CZK millions):

	As at Dec 31, 2018	As at Jun 30, 2019
Current debt financial assets	1,287	0
Non-current debt financial assets	513	513
Current term deposits	505	3
Non-current term deposits	-	0
Short-term equity securities	-	0
Highly liquid financial assets, total	**2,305**	**516**

Adjusted Net Income indicator—individual components:

Adjusted Net Income (After-Tax Income, Adjusted)	Unit	Q1 – Q2 2018	Q1 – Q2 2019
Net income	CZK millions	7,715	11,221
Impairments of property, plant, and equipment and intangible assets	CZK millions	157	826
Impairments of developed projects*)	CZK millions	0	3
Impairments of property, plant, and equipment and intangible assets, including goodwill, at joint ventures**)	CZK millions	0	0
Effects of additions to or reversals of impairments on income tax***)	CZK millions	(28)	(95)
Other extraordinary effects	CZK millions	0	-
Adjusted net income	**CZK millions**	**7,843**	**11,955**

**) Included in the row Other operating expenses in the Consolidated Statement of Income*
***) Included in the row Share of profit (loss) from associates and joint-ventures in the Consolidated Statement of Income*
****) Included in the row Income taxes (deferred tax) in the Consolidated Statement of Income*

Abbreviations

Term	Commentary
BSE	Bulgarian Stock Exchange (Българска Фондова Борса)
Dukovany NPP	Dukovany nuclear power plant
Temelín NPP	Temelín nuclear power plant
ESCO	Company providing comprehensive energy services to municipalities, businesses, and organizations (Energy Service Company)
OTC	Over-the-Counter. A term for off-exchange trading in securities and other financial instruments. Trading is done directly between two parties that negotiate the individual terms of each transaction. (Over the Counter)
SERO	Standby Emergency Response Organization
SÚJB	State Office for Nuclear Safety (Státní úřad pro jadernou bezpečnost)
WANO	World Association of Nuclear Operators

Totals and subtotals in this Half-Year Report can differ from the sum of individual values due to rounding.

Information in this half-year report was not verified by an independent auditor.

CEZ GROUP

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS OF JUNE 30, 2019

CEZ GROUP
CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2019

in CZK Millions

	Note	June 30, 2019	December 31, 2018
ASSETS:			
Plant in service		841,912	830,955
Less accumulated depreciation and impairment		(457,831)	(445,926)
Net plant in service		384,081	385,029
Nuclear fuel, at amortized cost		14,201	14,427
Construction work in progress, net		18,560	16,452
Total property, plant and equipment		416,842	415,908
Investments in associates and joint-ventures		3,301	3,361
Restricted financial assets, net		20,777	18,834
Other non-current financial assets, net		10,264	9,948
Intangible assets, net		32,755	31,127
Deferred tax assets		1,002	1,269
Total other non-current assets		68,099	64,539
Total non-current assets		484,941	480,447
Cash and cash equivalents, net		8,266	7,278
Trade receivables, net		64,886	72,234
Income tax receivable		1,945	352
Materials and supplies, net		9,676	8,737
Fossil fuel stocks		1,243	1,066
Emission rights		17,528	16,655
Other current financial assets, net		60,144	93,303
Other current assets, net		13,167	9,874
Assets classified as held for sale	5	17,008	17,497
Total current assets		193,863	226,996
Total assets		678,804	707,443

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

CEZ GROUP
CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2019

continued

	Note	June 30, 2019	December 31, 2018
EQUITY AND LIABILITIES:			
Stated capital		53,799	53,799
Treasury shares		(2,902)	(3,534)
Retained earnings and other reserves		192,087	184,456
Total equity attributable to equity holders of the parent		242,984	234,721
Non-controlling interests		4,581	4,560
Total equity		247,565	239,281
Long-term debt, net of current portion	7	124,668	142,440
Provisions		77,304	75,798
Other long-term financial liabilities		11,633	15,054
Deferred tax liability		21,150	16,699
Other long-term liabilities		31	31
Total non-current liabilities		234,786	250,022
Short-term loans	8	1,945	11,783
Current portion of long-term debt	7	25,661	6,743
Trade payables		54,355	63,093
Income tax payable		154	253
Provisions		9,682	12,323
Other short-term financial liabilities		91,517	110,287
Other short-term liabilities		7,698	7,461
Liabilities associated with assets classified as held for sale	5	5,441	6,197
Total current liabilities		196,453	218,140
Total equity and liabilities		678,804	707,443

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

CEZ GROUP
CONSOLIDATED STATEMENT OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2019

in CZK Millions

	Note	1-6/2019	1-6/2018 *	4-6/2019	4-6/2018 *
Sales of electricity, heat, gas and coal		64,575	56,470	29,680	26,362
Sales of services and other revenues		33,423	28,443	17,335	12,955
Other operating income		2,030	1,339	1,164	582
Total revenues and other operating income	9	100,028	86,252	48,179	39,899
Gains and losses from commodity derivative trading		2,169	394	402	(1,027)
Purchase of electricity, gas and other energies		(27,811)	(23,677)	(13,402)	(11,424)
Fuel and emission rights		(9,810)	(7,745)	(4,441)	(3,959)
Services		(13,017)	(11,269)	(6,973)	(5,432)
Salaries and wages		(13,264)	(11,831)	(6,953)	(6,122)
Material and supplies		(4,423)	(3,785)	(2,407)	(1,917)
Capitalization of expenses to the cost of assets and change in own inventories		1,588	1,510	294	922
Depreciation and amortization		(14,204)	(14,096)	(7,215)	(6,967)
Impairment of property, plant and equipment and intangible assets		(826)	(157)	(314)	(162)
Impairment of trade and other receivables		(101)	(199)	(119)	(189)
Other operating expenses		(3,227)	(2,720)	(1,742)	(1,344)
Income before other income (expenses) and income taxes		17,102	12,677	5,309	2,278
Interest on debt		(2,698)	(2,492)	(1,334)	(1,275)
Interest on provisions		(933)	(900)	(468)	(451)
Interest income		210	125	100	85
Share of profit (loss) from associates and joint-ventures		(88)	(283)	(25)	(254)
Impairment of financial assets		31	3	(6)	2
Other financial expenses		(388)	(494)	(361)	(244)
Other financial income		401	687	214	279
Total other income (expenses)		(3,465)	(3,354)	(1,880)	(1,858)
Income before income taxes		13,637	9,323	3,429	420
Income taxes		(2,416)	(1,608)	(507)	40
Net income		11,221	7,715	2,922	460
Net income attributable to:					
Equity holders of the parent		11,133	7,509	2,935	388
Non-controlling interests		88	206	(13)	72
Net income per share attributable to equity holders of the parent (CZK per share):					
Basic		20.8	14.0	5.5	0.7
Diluted		20.8	14.0	5.5	0.7

* The way of presentation was changed for 2018 year-end (see Note 2.2.2). The prior year figures were changed accordingly to provide comparative information on the same basis.

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

CEZ GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2019

in CZK Millions

	Note	1-6/2019	1-6/2018	4-6/2019	4-6/2018
Net income		11,221	7,715	2,922	460
Change in fair value of cash flow hedges		8,308	(7,211)	(683)	(8,022)
Cash flow hedges reclassified to statement of income		4,265	1,720	2,185	205
Change in fair value of debt instruments		400	(513)	367	(337)
Disposal of debt instruments		1	-	-	-
Translation differences – subsidiaries		(963)	581	(493)	860
Translation differences – associates and joint-ventures		20	101	(15)	90
Disposal of translation differences		-	12	-	-
Share on other equity movements of associates and joint-ventures		4	-	8	-
Deferred tax related to other comprehensive income	10	(2,464)	1,142	(355)	1,541
Net other comprehensive income that may be reclassified to statement of income or to assets in subsequent periods		9,571	(4,168)	1,014	(5,663)
Re-measurement gains (losses) on defined benefit plans		2	-	-	-
Net other comprehensive income not to be reclassified from equity in subsequent periods		2	-	-	-
Total other comprehensive income, net of tax		9,573	(4,168)	1,014	(5,663)
Total comprehensive income, net of tax		20,794	3,547	3,936	(5,203)
Total comprehensive income attributable to:					
Equity holders of the parent		20,747	3,275	4,000	(5,357)
Non-controlling interests		47	272	(64)	154

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

CEZ GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2019

in CZK Millions

	Note	Attributable to equity holders of the parent									
		Stated capital	Treasury shares	Translation difference	Cash flow hedge reserve	Debt instruments	Equity instruments and other reserves	Retained earnings	**Total**	Non-controlling interests	**Total equity**
December 31, 2017		53,799	(4,077)	(11,906)	(7,757)	678	570	218,711	250,018	4,304	254,322
Adoption of IFRS 9 and IFRS 15	2.2	-	-	143	-	-	(493)	2,818	2,468	(24)	2,444
January 1, 2018 (restated)		53,799	(4,077)	(11,763)	(7,757)	678	77	221,529	252,486	4,280	256,766
Net income		-	-	-	-	-	-	7,509	7,509	206	7,715
Other comprehensive income		-	-	628	(4,448)	(414)	-	-	(4,234)	66	(4,168)
Total comprehensive income		-	-	628	(4,448)	(414)	-	7,509	3,275	272	3,547
Dividends		-	-	-	-	-	-	(17,648)	(17,648)	(17)	(17,665)
Sale of treasury shares		-	526	-	-	-	-	(322)	204	-	204
Share options		-	-	-	-	-	17	-	17	-	17
Transfer of exercised and forfeited share options		-	-	-	-	-	(29)	29	-	-	-
Acquisition of non-controlling interests		-	-	-	-	-	-	8	8	(13)	(5)
Sale of non-controlling interests		-	-	-	-	-	-	-	-	4	4
Put options held by non-controlling interests		-	-	2	-	-	-	(2)	-	1	1
June 30, 2018		53,799	(3,551)	(11,133)	(12,205)	264	65	211,103	238,342	4,527	242,869

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

CEZ GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2019

continued

	Note	Attributable to equity holders of the parent									
		Stated capital	Treasury shares	Translation difference	Cash flow hedge reserve	Debt instruments	Equity instruments and other reserves	Retained earnings	**Total**	Non-controlling interests	**Total equity**
January 1, 2019		53,799	(3,534)	(11,565)	(18,337)	388	113	213,857	234,721	4,560	239,281
Net income		-	-	-	-	-	-	11,133	11,133	88	11,221
Other comprehensive income		-	-	(902)	10,184	326	-	6	9,614	(41)	9,573
Total comprehensive income		-	-	(902)	10,184	326	-	11,139	20,747	47	20,794
Dividends	6	-	-	-	-	-	-	(12,850)	(12,850)	(21)	(12,871)
Sale of treasury shares		-	632	-	-	-	-	(388)	244	-	244
Share options		-	-	-	-	-	16	-	16	-	16
Transfer of exercised and forfeited share options		-	-	-	-	-	(15)	15	-	-	-
Put options held by non-controlling interests		-	-	(3)	-	-	-	109	106	(5)	101
June 30, 2019		53,799	(2,902)	(12,470)	(8,153)	714	114	211,882	242,984	4,581	247,565

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

CEZ GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2019

in CZK Millions

	Note	1-6/2019	1-6/2018
OPERATING ACTIVITIES:			
Income before income taxes		13,637	9,323
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization		14,204	14,096
Amortization of nuclear fuel		2,048	1,949
(Gains) and losses on non-current asset retirements		(49)	(77)
Foreign exchange rate loss (gain)		300	395
Interest expense, interest income and dividend income		2,331	2,213
Provisions		(2,856)	(1,558)
Impairment of property, plant and equipment and intangible assets		826	157
Valuation allowances and other adjustments		4,874	1,733
Share of (profit) loss from associates and joint-ventures		88	283
Changes in assets and liabilities:			
Receivables and contract assets		3,509	(7,002)
Materials, supplies and fossil fuel stocks		(1,132)	(506)
Receivables and payables from derivatives		2,735	477
Other assets		27	3,521
Trade payables		(7,899)	2,776
Other liabilities		232	(1,635)
Cash generated from operations		32,875	26,145
Income taxes paid		(1,890)	(2,066)
Interest paid, net of capitalized interest		(3,257)	(3,098)
Interest received		213	124
Dividends received		2	5
Net cash provided by operating activities		27,943	21,110
INVESTING ACTIVITIES:			
Acquisition of subsidiaries, associates and joint-ventures, net of cash acquired	4	(2,538)	(289)
Disposal of subsidiaries, associates and joint-ventures, net of cash disposed of		188	156
Additions to non-current assets, including capitalized interest		(13,064)	(10,013)
Proceeds from sale of non-current assets		2,335	1,675
Loans made		(101)	(8)
Repayment of loans		22	-
Change in restricted financial assets		(1,537)	(816)
Total cash used in investing activities		(14,695)	(9,295)

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

CEZ GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2019

Continued

	Note	1-6/2019	1-6/2018
FINANCING ACTIVITIES:			
Proceeds from borrowings		43,221	33,815
Payments of borrowings		(54,984)	(45,827)
Lease payments		(357)	-
Proceeds from other long-term liabilities		33	20
Payments of other long-term liabilities		(38)	(33)
Dividends paid to Company's shareholders		(39)	(44)
Dividends paid to non-controlling interests		(15)	(7)
Sale of treasury shares		244	204
Sale of non-controlling interests		-	5
Total cash used in financing activities		(11,935)	(11,867)
Net effect of currency translation and allowances in cash		(41)	58
Net increase in cash and cash equivalents		1,272	6
Cash and cash equivalents at beginning of period *		9,245	12,623
Cash and cash equivalents at end of period *		10,517	12,629
Supplementary cash flow information:			
Total cash paid for interest		3,406	3,259

* Presented values of cash and cash equivalents contain also cash and cash equivalents included on the balance sheet on the line Assets classified as held for sale.

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

CEZ GROUP
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2019

1. The Company

ČEZ, a. s. ("ČEZ" or "the Company") is a Czech joint-stock company, owned 69.8% (70.1% of voting rights) at June 30, 2019 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 six months ended June 30, 2019 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 statement as of December 31, 2018.

2.2. Changes in Accounting Policies

2.2.1. Adoption of New IFRS Standards in 2019

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 statement as of December 31, 2018, except for as follows.

As of January 1, 2019, the Group has adopted new International Financial Reporting Standard IFRS 16 Leases. The Group has adopted also other amendments and interpretations, which did not have material impact on Group's financial statements.

The Group used modified retrospective approach for application of IFRS 16.The comparable period was not be affected by adoption of this standard. As of January 1, 2019 was the impact on lease liabilities in amount of CZK 5,124 million. The lease liabilities are included in long-term debts (see Note 7).

In addition, the Group has increased assets and associated liabilities held for sale in connection with adoption of IFRS 16 as of January 1, 2019 by CZK 367 million.

2.2.2. Changes in the Presentation of the Financial Statements

The way of presentation of certain items in the statement of income was changed in consolidated financial statements as of December 31, 2018. The main goal of the changes was to enhance relevancy of information contained on the face of the financial statements in accordance with financial management of the Group and reflect the developments in the best practice of financial reporting in the industry with regard to all IFRS requirements. As a result, reclassifications for the prior period have been made to provide fully comparative information on the same basis. The following tables summarize the effect of reclassifications on prior period presented (in CZK millions):

	Reclassifications 1-6/2018
CONSOLIDATED STATEMENT OF INCOME:	
Sales of electricity, heat, gas and coal	56,470
Sales of services and other revenues	28,443
Sales of electricity and related services *	(67,445)
Sales of gas, coal, heat and other revenues *	(18,022)
Other operating income	507
Total revenues and other operating income	(47)
Gains and losses from commodity derivative trading	383
Purchase of electricity, gas and other energies	(23,677)
Fuel and emission rights	(7,745)
Fuel *	5,763
Purchase power and related services *	26,327
Services	(11,269)
Repairs and maintenance *	1,699
Capitalization of expenses to the cost of assets and change in own inventories	1,510
Impairment of trade and other receivables	(199)
Emission rights, net *	1,597
Other operating expenses	5,658
Income before other income (expenses) and income taxes	-
Impairment of financial assets	3
Other financial expenses	(398)
Other operating income	2
Foreign exchange rate gains (losses), net *	395
Gain on sale of subsidiaries and joint-ventures *	(2)
Total other income (expenses)	-
Net income	-

* These items are not presented separately on the face of the financial statement.

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 six months of 2019

On January 1, 2019 the Group acquired a 100% interest in the company ITX MEDIA, a.s., which operates 22 heat pumps in two Teplice areas.

On January 7, 2019 the Group acquired a 100% interest (effective interest 95%) in German company H & R Elektromontagen GmbH.

On January 25, 2019 the Group acquired a 100% interest (effective interest 95%) in German company En.plus GmbH, which deals with designing and installation of air-conditioning and cooling equipments.

On May 15, 2019 the Group acquired a 100% interest (effective interest 95%) in German companies Hermos AG and Hermos Schaltanlagen GmbH (further also Hermos), that deliver solutions consisting of engineering, manufacturing of switchgears, software for automation systems and IT systems and from after-sale services.

On June 28, 2019 the Group acquired a 100% interest in the company HA.EM OSTRAVA, s.r.o., which supplies and installs technological equipment.

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):

	Hermos	En.plus	Other	Total
Share of the Group being acquired	100%	100%	100%	
Property, plant and equipment, net	74	18	16	108
Intangible assets, net	11	92	-	103
Other non-current assets	102	-	-	102
Cash and cash equivalents	157	-	17	174
Trade receivables, net	184	195	49	428
Contractual assets	331	29	-	360
Other current assets	37	3	7	47
Long-term provisions	(29)	-	-	(29)
Deferred tax liability	-	(28)	-	(28)
Short-term loans	(17)	(103)	(2)	(122)
Trade payables	(55)	(47)	(17)	(119)
Current provisions	(65)	(14)	(8)	(87)
Other current liabilities	(29)	(15)	(14)	(58)
Total net assets	701	130	48	879
Share of net assets acquired	701	130	48	879
Goodwill	1,541	222	73	1,836
Total purchase consideration	2,242	352	121	2,715
Liabilities from acquisition of the subsidiary	-	(66)	-	(66)
Cash outflow on acquisition of the subsidiary in 2019	2,242	286	121	2,649
Less: Cash and cash equivalents in the subsidiary acquired	(157)	-	(17)	(174)
Cash outflow on acquisition of the subsidiary in 2019, net	2,085	286	104	2,475

If the combinations had taken place at the beginning of the year 2019, net income for CEZ Group as of June 30, 2019 would have been CZK 11,236 million and the revenues and other operating income from continuing operations would have been CZK 100,853 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 (in CZK millions):

	Hermos	En.plus	Other	Total
Revenues and other operating income	-	390	76	466
Income before other income (expense) and income taxes	-	23	4	27
Net income	-	19	8	27
Net income attributable to:				
Equity holders of the parent	-	18	8	26
Non-controlling interests	-	1	-	1

The following table summarizes the cash flows related to acquisitions in the first six months of 2019 (in CZK millions):

Cash outflow on acquisitions of the subsidiaries	2,649
Cash outflow on investments in joint-ventures	2
Cash outflow on acquisitions of the subsidiaries where provisional accounting was not completed yet	30
Payments of payables from acquisitions in previous periods	31
Less: Cash and cash equivalents acquired	(174)
Total cash outflows on acquisitions	2,538

5. Assets and Associated Liabilities Classified as Held for Sale

As of June 30, 2019 the Group performed an impairment test for any potential impairment loss related to assets and liabilities held for sale in the Bulgarian companies CEZ Razpredelenie Bulgaria AD, CEZ ICT Bulgaria EAD, CEZ Trade Bulgaria EAD, CEZ Bulgaria EAD, CEZ Elektro Bulgaria AD, Free Energy Project Oreshets EAD and Bara Group EOOD. The result of this test, reflecting the contractual sales price of EUR 335 million, was an impairment of assets in the amount of CZK 639 million, which was presented in the statement of income on the line Impairment of property, plant and equipment and intangible assets.

The assets classified as held for sale and associated liabilities at June 30, 2019 and December 31, 2018 are as follows (in CZK millions):

	June 30, 2019	December 31, 2018
	Bulgarian companies	Bulgarian companies
Property, plant and equipment, net	10,704	10,411
Intangible assets, net	447	446
Other non-current assets	136	128
Cash and cash equivalents	2,251	1,967
Trade receivables, net	2,987	4,092
Other current assets	483	453
Assets classified as held for sale	17,008	17,497
Long-term debt, net of current portion	1,600	1,313
Non-current provisions	140	144
Other long-term financial liabilities	258	218
Deferred tax liability	298	291
Short-term loans	233	309
Current portion of long-term debt	144	224
Trade payables	2,145	2,999
Current provisions	397	479
Other current liabilities	226	220
Liabilities associated with assets classified as held for sale	5,441	6,197

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

6. Equity

On June 26, 2019 the Annual Shareholders Meeting of ČEZ, a. s. approved the dividends per share before tax of CZK 24.0. The total amount of dividend approved for distribution to shareholders net of treasury shares amounts to CZK 12,850 million.

7. Long-term Debt

Long-term debt at June 30, 2019 and December 31, 2018 is as follows (in CZK millions):

	June 30, 2019	December 31, 2018
3.005% Eurobonds, due 2038 (JPY 12,000 million)	2,506	2,468
2.845% Eurobonds, due 2039 (JPY 8,000 million)	1,672	1,647
5.000% Eurobonds, due 2021 (EUR 750 million)	19,723	19,457
6M Euribor + 1.25% Eurobonds, due 2019 (EUR 50 million)	1,274	1,287
4.875% Eurobonds, due 2025 (EUR 750 million)	19,227	19,909
4.500% Eurobonds, due 2020 (EUR 750 million)	19,059	19,693
2.160% Eurobonds, due in 2023 (JPY 11,500 million)	2,406	2,370
4.600% Eurobonds, due in 2023 (CZK 1,250 million)	1,258	1,287
2.150%*IR CPI Eurobonds, due 2021 (EUR 100 million) [1)]	2,547	2,634
4.102% Eurobonds, due 2021 (EUR 50 million)	1,300	1,288
4.375% Eurobonds, due 2042 (EUR 50 million)	1,301	1,286
4.500% Eurobonds, due 2047 (EUR 50 million)	1,299	1,284
4.383% Eurobonds, due 2047 (EUR 80 million)	2,160	2,087
3.000% Eurobonds, due 2028 (EUR 725 million)	18,854	19,419
0.875% Eurobonds, due 2022 (EUR 500 million)	12,740	12,824
4.250% U.S. bonds, due 2022 (USD 289 million)	6,499	6,525
5.625% U.S. bonds, due 2042 (USD 300 million)	6,738	6,768
4.500% Registered bonds, due 2030 (EUR 40 million)	1,029	1,017
4.750% Registered bonds, due 2023 (EUR 40 million)	1,032	1,068
4.700% Registered bonds, due 2032 (EUR 40 million)	1,025	1,060
4.270% Registered bonds, due 2047 (EUR 61 million)	1,566	1,549
3.550% Registered bonds, due 2038 (EUR 30 million)	768	790
Total bonds and debentures	125,983	127,717
Less: Current portion	(21,821)	(3,419)
Bonds and debentures, net of current portion	104,162	124,298
Long-term bank loans and lease payables:	24,346	21,466
Less: Current portion	(3,840)	(3,324)
Long-term bank loans and lease payables, net of current portion	20,506	18,142
Total long-term debt	150,329	149,183
Less: Current portion	(25,661)	(6,743)
Total long-term debt, net of current portion	124,668	142,440

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.

8. Short-term Loans

Short-term loans at June 30, 2019 and December 31, 2018 are as follows (in CZK millions):

	June 30, 2019	December 31, 2018
Short-term bank loans	1,054	11,516
Bank overdrafts	891	267
Total	1,945	11,783

9. **Revenues and Other Operating Income**

The composition of revenues and other operating income for the first six months ended June 30, 2019 and 2018 is as follows (in CZK millions):

	1-6/2019	1-6/2018
Sales of electricity:		
Sales of electricity to end customers	24,036	22,436
Sales of electricity through energy exchange	600	1,528
Sales of electricity to traders	19,713	16,140
Sales to distribution and transmission companies	179	91
Other sales of electricity	13,392	9,181
Effect of hedging – presales of electricity	(5,248)	(2,532)
Effect of hedging – currency risk hedging	1,028	112
Total sales of electricity	53,700	46,956
Sales of gas, coal and heat:		
Sales of gas	4,375	3,658
Sales of coal	2,090	2,192
Sales of heat	4,410	3,664
Total sales of gas, coal and heat	10,875	9,514
Total sales of electricity, heat, gas and coal	64,575	56,470
Sales of services and other revenues:		
Distribution services	22,247	19,543
Other services	10,093	8,069
Revenues from goods sold	578	430
Other revenues	505	401
Total sales of services and other revenues	33,423	28,443
Other operating income:		
Granted green and similar certificates	612	501
Contractual fines and interest fees for delays	289	144
Gain on sale of property, plant and equipment	41	47
Gain on sale of material	61	72
Other	1,027	575
Total other operating income	2,030	1,339
Total revenues and other operating income	100,028	86,252

10. Income Taxes

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

	1-6/2019			1-6/2018		
	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	8,308	(1,579)	6,729	(7,211)	1,370	(5,841)
Cash flow hedges reclassified to statement of income	4,265	(810)	3,455	1,720	(327)	1,393
Change in fair value of debt instruments	400	(75)	325	(513)	99	(414)
Disposal of debt instruments	1	-	1	-	-	-
Translation differences – subsidiaries	(963)	-	(963)	581	-	581
Translation differences – associates and joint-ventures	20	-	20	101	-	101
Disposal of translation differences	-	-	-	12	-	12
Share on other equity movements of associates and joint-ventures	4	-	4	-	-	-
Re-measurement gains (losses) on defined benefit plans	2	-	2	-	-	-
Total	12,037	(2,464)	9,573	(5,310)	1,142	(4,168)

11. Segment Information

The Group reports its result using six reportable operating segments:

- Generation – Traditional Energy
- Generation – New Energy
- Distribution
- Sales
- Mining
- Support Services

A change in the classification of CEZ Group companies into operating segments was made with effect from January 1, 2019. In particular, most companies from the “Other” segment were transferred to different segments and the segment was renamed to “Support Services”. The original segmentation primarily reflected core business activities of the respective company; now more account is taken of mutual business relations making up the overall segment chain. For example, SD - Kolejová doprava (a service subsidiary of Severočeské doly) was transferred from the “Other” segment to the “Mining” segment.

The change also reflects CEZ Group’s internal management and breakdown into the Operations team and the Development team. Starting from January 1, 2019, the classification of companies into segments matches exactly their classification into the Operations team (Mining, Generation – Traditional Energy, and Support Services segments) and Development team (Distribution, Sales and Generation – New Energy segments).

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

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

	1-6/2019	1-6/2018
Income before other income (expenses) and income taxes (EBIT)	17,102	12,677
Depreciation and amortization	14,204	14,096
Impairment of property, plant and equipment and intangible assets	826	157
Gains and losses on sale of property, plant and equipment, net *	(40)	(37)
EBITDA	32,092	26,893

* 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 six months ended June 30, 2019 and 2018 and at December 31, 2018 (in CZK millions):

June 30, 2019:	Generation – Traditional Energy	Generation – New Energy	Distribution	Sales	Mining	Support Services	Combined	Elimination	Consolidated
Revenues and other operating income – other than intersegment	29,997	3,399	21,320	42,924	2,239	149	100,028	-	100,028
Revenues and other operating income – intersegment	19,188	195	313	3,814	3,052	2,109	28,671	(28,671)	-
Total revenues and other operating income	49,185	3,594	21,633	46,738	5,291	2,258	128,699	(28,671)	100,028
EBITDA	14,106	2,273	10,398	1,933	2,525	854	32,089	3	32,092
Depreciation and amortization	(7,593)	(909)	(3,259)	(448)	(1,393)	(602)	(14,204)	-	(14,204)
Impairment of property, plant and equipment and intangible assets	(15)	(12)	(810)	-	11	-	(826)	-	(826)
EBIT	6,510	1,353	6,339	1,487	1,148	262	17,099	3	17,102
Interest on debt and provisions	(3,350)	(118)	(387)	(152)	(108)	(71)	(4,186)	555	(3,631)
Interest income	390	90	85	76	55	69	765	(555)	210
Share of profit (loss) from associates and joint-ventures	(16)	(1)	(130)	51	8	-	(88)	-	(88)
Income taxes	(672)	13	(1,199)	(295)	(223)	(40)	(2,416)	-	(2,416)
Net income	14,169	1,589	4,718	1,146	942	759	23,323	(12,102)	11,221
Identifiable assets	243,876	27,668	112,343	5,641	21,674	5,640	416,842	-	416,842
Investment in associates and joint-ventures	2,600	233	-	289	179	-	3,301	-	3,301
Unallocated assets									258,661
Total assets									678,804
Capital expenditure	3,763	486	5,651	622	770	370	11,662	(54)	11,608

June 30, 2018:	Generation – Traditional Energy	Generation – New Energy	Distribution	Sales	Mining	Support Services	Combined	Elimination	Consolidated
Revenues and other operating income – other than intersegment	23,891	2,922	20,013	36,925	2,366	135	86,252	-	86,252
Revenues and other operating income – intersegment	15,906	279	4,047	6,463	2,637	2,127	31,459	(31,459)	-
Total revenues and other operating income	39,797	3,201	24,060	43,388	5,003	2,262	117,711	(31,459)	86,252
EBITDA	9,560	1,980	10,061	2,134	2,381	773	26,889	4	26,893
Depreciation and amortization	(8,233)	(877)	(3,081)	(164)	(1,309)	(432)	(14,096)	-	(14,096)
Impairment of property, plant and equipment and intangible assets	(90)	-	(52)	-	10	(25)	(157)	-	(157)
EBIT	1,247	1,103	6,936	1,974	1,089	324	12,673	4	12,677
Interest on debt and provisions	(3,178)	(89)	(171)	(60)	(99)	(62)	(3,659)	267	(3,392)
Interest income	250	64	32	7	8	31	392	(267)	125
Share of profit (loss) from associates and joint-ventures	(14)	-	(336)	64	3	-	(283)	-	(283)
Income taxes	326	(60)	(1,247)	(349)	(209)	(69)	(1,608)	-	(1,608)
Net income	29,519	1,049	5,207	1,649	843	833	39,100	(31,385)	7,715
Capital expenditure	2,463	118	5,254	133	618	470	9,056	(94)	8,962

December 31, 2018:	Generation - Traditional Energy	Generation - New Energy	Distribution	Sales	Mining	Support Services	Combined	Elimination	Consolidated
Identifiable assets	247,784	27,400	109,806	4,046	22,055	4,823	415,914	(6)	415,908
Investment in associates joint-ventures	2,645	235	-	305	176	-	3,361	-	3,361
Unallocated assets									288,174
Total assets									707,443

Identification of ČEZ, a. s.

Fig. Dalešice Power Plant

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Czechia

Registered in the Commercial Register kept by the Municipal Court in Prague, Section B, File 1581

Established:	1992
Legal form:	Joint-stock company
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Closing date of the 2019 Half-Year Report: August 26, 2019