

# **CEZ GROUP**

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

**CEZ GROUP  
CONSOLIDATED BALANCE SHEET  
AS OF SEPTEMBER 30, 2019**

in CZK Millions

	Note	September 30, 2019	December 31, 2018
<b>ASSETS:</b>			
Plant in service		846,412	830,955
Less accumulated depreciation and impairment		(463,744)	(445,926)
<b>Net plant in service</b>		<b>382,668</b>	<b>385,029</b>
Nuclear fuel, at amortized cost		14,138	14,427
Construction work in progress, net		19,503	16,452
<b>Total property, plant and equipment</b>		<b>416,309</b>	<b>415,908</b>
Investments in associates and joint-ventures		3,328	3,361
Restricted financial assets, net		21,080	18,834
Other non-current financial assets, net		12,082	9,948
Intangible assets, net		33,941	31,127
Deferred tax assets		996	1,269
<b>Total other non-current assets</b>		<b>71,427</b>	<b>64,539</b>
<b>Total non-current assets</b>		<b>487,736</b>	<b>480,447</b>
Cash and cash equivalents, net		8,138	7,278
Trade receivables, net		69,065	72,234
Income tax receivable		2,614	352
Materials and supplies, net		9,806	8,737
Fossil fuel stocks		1,565	1,066
Emission rights		20,525	16,655
Other current financial assets, net		42,175	93,303
Other current assets, net		13,085	9,874
Assets classified as held for sale	5	17,248	17,497
<b>Total current assets</b>		<b>184,221</b>	<b>226,996</b>
<b>Total assets</b>		<b>671,957</b>	<b>707,443</b>

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

**CEZ GROUP  
CONSOLIDATED BALANCE SHEET  
AS OF SEPTEMBER 30, 2019**

continued

	Note	September 30, 2019	December 31, 2018
<b>EQUITY AND LIABILITIES:</b>			
Stated capital		53,799	53,799
Treasury shares		(2,885)	(3,534)
Retained earnings and other reserves		192,469	184,456
<b>Total equity attributable to equity holders of the parent</b>		<b>243,383</b>	<b>234,721</b>
Non-controlling interests		4,733	4,560
<b>Total equity</b>		<b>248,116</b>	<b>239,281</b>
Long-term debt, net of current portion	7	126,875	142,440
Provisions		77,692	75,798
Other long-term financial liabilities		11,423	15,054
Deferred tax liability		21,200	16,699
Other long-term liabilities		32	31
<b>Total non-current liabilities</b>		<b>237,222</b>	<b>250,022</b>
Short-term loans	8	10,765	11,783
Current portion of long-term debt	7	26,969	6,743
Trade payables		57,455	63,093
Income tax payable		105	253
Provisions		12,258	12,323
Other short-term financial liabilities		63,427	110,287
Other short-term liabilities		10,418	7,461
Liabilities associated with assets classified as held for sale	5	5,222	6,197
<b>Total current liabilities</b>		<b>186,619</b>	<b>218,140</b>
<b>Total equity and liabilities</b>		<b>671,957</b>	<b>707,443</b>

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

**CEZ GROUP**  
**CONSOLIDATED STATEMENT OF INCOME**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019**

in CZK Millions

	Note	1-9/2019	1-9/2018 *	7-9/2019 **	7-9/2018 *
Sales of electricity, heat, gas and coal		94,313	86,708	29,738	30,238
Sales of services and other revenues		50,879	43,118	17,456	14,675
Other operating income		2,863	1,943	833	604
<b>Total revenues and other operating income</b>	9	148,055	131,769	48,027	45,517
Gains and losses from commodity derivative trading		5,476	711	557	317
Purchase of electricity, gas and other energies		(41,745)	(37,679)	(13,934)	(14,002)
Fuel and emission rights		(15,090)	(12,488)	(5,279)	(4,743)
Services		(20,887)	(17,561)	(7,870)	(6,292)
Salaries and wages		(20,341)	(18,018)	(7,077)	(6,187)
Material and supplies		(7,329)	(5,886)	(2,906)	(2,101)
Capitalization of expenses to the cost of assets and change in own inventories		2,680	2,299	1,092	789
Depreciation and amortization		(21,419)	(21,126)	(7,215)	(7,030)
Impairment of property, plant and equipment and intangible assets		(1,234)	(884)	(408)	(727)
Impairment of trade and other receivables		(117)	(149)	(16)	50
Other operating expenses		(5,952)	(4,269)	(2,725)	(1,549)
<b>Income before other income (expenses) and income taxes</b>		22,097	16,719	2,246	4,042
Interest on debt		(4,057)	(3,787)	(1,359)	(1,295)
Interest on provisions		(1,402)	(1,350)	(469)	(450)
Interest income		304	203	94	78
Share of profit (loss) from associates and joint-ventures		187	(952)	274	(669)
Impairment of financial assets		(225)	(399)	(256)	(402)
Other financial expenses		(630)	(527)	(242)	(33)
Other financial income		465	1,655	64	968
<b>Total other income (expenses)</b>		(5,358)	(5,157)	(1,894)	(1,803)
<b>Income before income taxes</b>		16,739	11,562	352	2,239
Income taxes		(3,124)	(2,438)	(185)	(830)
<b>Net income</b>		13,615	9,124	167	1,409
Net income attributable to:					
Equity holders of the parent		13,448	8,991	88	1,482
Non-controlling interests		167	133	79	(73)
Net income per share attributable to equity holders of the parent (CZK per share):					
Basic		25.1	16.8	0.2	2.8
Diluted		25.1	16.8	0.2	2.8

\* 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 accounting with impact on financial results published for I. and II. quarter 2019 was made in the past period (Note 2.2.3).

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

**CEZ GROUP**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019**

in CZK Millions

	Note	1-9/2019	1-9/2018	7-9/2019 *	7-9/2018
<b>Net income</b>		13,615	9,124	167	1,409
Change in fair value of cash flow hedges		4,009	(16,515)	(909)	(9,304)
Cash flow hedges reclassified to statement of income		5,486	2,952	1,221	1,232
Change in fair value of debt instruments		650	(531)	250	(18)
Disposal of debt instruments		1	-	-	-
Translation differences – subsidiaries		(524)	95	439	(486)
Translation differences – associates and joint-ventures		37	359	17	258
Disposal of translation differences		-	(42)	-	(54)
Share on other equity movements of associates and joint-ventures		(5)	-	(9)	-
Deferred tax related to other comprehensive income	10	(1,926)	2,680	(106)	1,538
<b>Net other comprehensive income that may be reclassified to statement of income or to assets in subsequent periods</b>		7,728	(11,002)	903	(6,834)
Re-measurement gains (losses) on defined benefit plans		2	-	-	-
<b>Net other comprehensive income not to be reclassified from equity in subsequent periods</b>		2	-	-	-
<b>Total other comprehensive income, net of tax</b>		7,730	(11,002)	903	(6,834)
<b>Total comprehensive income, net of tax</b>		21,345	(1,878)	1,070	(5,425)
Total comprehensive income attributable to:					
Equity holders of the parent		21,167	(2,034)	939	(5,309)
Non-controlling interests		178	156	131	(116)

\* The accounting with impact on financial results published for I. and II. quarter 2019 was made in the past period (Note 2.2.3).

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**CEZ GROUP**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019**

in CZK Millions

	Note	Attributable to equity holders of the parent						Total	Non-controlling interests	Total equity	
		Stated capital	Treasury shares	Translation difference	Cash flow hedge reserve	Debt instruments	Equity instruments and other reserves				Retained earnings
<b>December 31, 2017</b>		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		-	-	143	-	-	(493)	2,818	2,468	(24)	2,444
<b>January 1, 2018 (restated)</b>		53,799	(4,077)	(11,763)	(7,757)	678	77	221,529	252,486	4,280	256,766
Net income		-	-	-	-	-	-	8,991	8,991	133	9,124
Other comprehensive income		-	-	389	(10,986)	(428)	-	-	(11,025)	23	(11,002)
<b>Total comprehensive income</b>		-	-	389	(10,986)	(428)	-	8,991	(2,034)	156	(1,878)
Dividends		-	-	-	-	-	-	(17,604)	(17,604)	(17)	(17,621)
Sale of treasury shares		-	543	-	-	-	-	(333)	210	-	210
Share options		-	-	-	-	-	25	-	25	-	25
Transfer of exercised and forfeited share options		-	-	-	-	-	(36)	36	-	-	-
Acquisition of subsidiaries		-	-	-	-	-	-	-	-	651	651
Acquisition of non-controlling interests		-	-	-	-	-	-	9	9	(13)	(4)
Sale of non-controlling interests		-	-	-	-	-	-	-	-	4	4
Put options held by non-controlling interests		-	-	-	-	-	-	(62)	(62)	(637)	(699)
<b>September 30, 2018</b>		<u>53,799</u>	<u>(3,534)</u>	<u>(11,374)</u>	<u>(18,743)</u>	<u>250</u>	<u>66</u>	<u>212,566</u>	<u>233,030</u>	<u>4,424</u>	<u>237,454</u>

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

**CEZ GROUP**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019**

continued

	Note	Attributable to equity holders of the parent							Non-controlling interests	Total equity	
		Stated capital	Treasury shares	Translation difference	Cash flow hedge reserve	Debt instruments	Equity instruments and other reserves	Retained earnings			Total
<b>January 1, 2019</b>		53,799	(3,534)	(11,565)	(18,337)	388	113	213,857	234,721	4,560	239,281
Net income		-	-	-	-	-	-	13,448	13,448	167	13,615
Other comprehensive income		-	-	(497)	7,691	529	-	(4)	7,719	11	7,730
<b>Total comprehensive income</b>		-	-	(497)	7,691	529	-	13,444	21,167	178	21,345
Dividends	6	-	-	-	-	-	-	(12,806)	(12,806)	(25)	(12,831)
Sale of treasury shares		-	649	-	-	-	-	(400)	249	-	249
Share options		-	-	-	-	-	23	-	23	-	23
Transfer of exercised and forfeited share options		-	-	-	-	-	(24)	24	-	-	-
Acquisition of subsidiaries		-	-	-	-	-	-	-	-	2	2
Acquisition of non-controlling interests		-	-	(1)	-	-	-	(93)	(94)	29	(65)
Put options held by non-controlling interests		-	-	(1)	-	-	-	124	123	(11)	112
<b>September 30, 2019</b>		<u>53,799</u>	<u>(2,885)</u>	<u>(12,064)</u>	<u>(10,646)</u>	<u>917</u>	<u>112</u>	<u>214,150</u>	<u>243,383</u>	<u>4,733</u>	<u>248,116</u>

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

**CEZ GROUP**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019**

in CZK Millions

	Note	1-9/2019	1-9/2018
<b>OPERATING ACTIVITIES:</b>			
<b>Income before income taxes</b>		16,739	11,562
<b>Adjustments to reconcile income before income taxes to net cash provided by operating activities:</b>			
Depreciation and amortization		21,419	21,126
Amortization of nuclear fuel		2,982	2,846
(Gains) and losses on non-current asset retirements		(83)	(279)
Foreign exchange rate loss (gain)		328	396
Interest expense, interest income and dividend income		3,628	3,429
Provisions		161	(249)
Impairment of property, plant and equipment and intangible assets		1,234	884
Valuation allowances and other adjustments		7,582	773
Share of (profit) loss from associates and joint-ventures		(187)	952
<b>Changes in assets and liabilities:</b>			
Receivables and contract assets		460	(17,541)
Materials, supplies and fossil fuel stocks		(1,498)	(1,769)
Receivables and payables from derivatives		527	1,081
Other assets		(3,600)	2,210
Trade payables		(5,820)	19,726
Other liabilities		2,798	(3,192)
<b>Cash generated from operations</b>		46,670	41,955
Income taxes paid		(2,886)	(2,291)
Interest paid, net of capitalized interest		(3,695)	(3,474)
Interest received		306	177
Dividends received		134	161
<b>Net cash provided by operating activities</b>		40,529	36,528
<b>INVESTING ACTIVITIES:</b>			
Acquisition of subsidiaries, associates and joint-ventures, net of cash acquired	4	(3,596)	(1,295)
Disposal of subsidiaries, associates and joint-ventures, net of cash disposed of		188	155
Additions to non-current assets, including capitalized interest		(19,923)	(15,964)
Proceeds from sale of non-current assets		2,414	3,047
Loans made		(166)	(221)
Repayment of loans		31	11
Change in restricted financial assets		(1,589)	(869)
<b>Total cash used in investing activities</b>		(22,641)	(15,136)

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



**CEZ GROUP**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019**

continued

	Note	1-9/2019	1-9/2018
<b>FINANCING ACTIVITIES:</b>			
Proceeds from borrowings		125,165	63,532
Payments of borrowings		(128,703)	(65,866)
Lease payments		(520)	-
Proceeds from other long-term liabilities		49	128
Payments of other long-term liabilities		(59)	(67)
Dividends paid to Company's shareholders		(12,771)	(17,538)
Dividends paid to non-controlling interests		(25)	(17)
Sale of treasury shares		249	210
(Purchase) and sale of non-controlling interests, net		(15)	5
<b>Total cash used in financing activities</b>		<u>(16,630)</u>	<u>(19,613)</u>
Net effect of currency translation and allowances in cash		30	17
<b>Net increase in cash and cash equivalents</b>		1,288	1,796
<b>Cash and cash equivalents at beginning of period *</b>		<u>9,245</u>	<u>12,623</u>
<b>Cash and cash equivalents at end of period *</b>		<u><u>10,533</u></u>	<u><u>14,419</u></u>

Supplementary cash flow information:

Total cash paid for interest	3,870	3,650
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\* 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 SEPTEMBER 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 September 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 nine months ended September 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 interim consolidated financial statements.

The Group used modified retrospective approach for application of IFRS 16. The comparable period was not affected by adoption of this standard. As of January 1, 2019 the Group increased the lease liabilities by CZK 5,447 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 of the Comparative Period

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 data for the comparative period were affected also by the adjustments related to the final accounting for the acquisition of the Kofler Energies group. These adjustments concerned the final determination of the fair values of acquired identified assets, liabilities and purchase consideration as of the acquisition date July 31, 2018.

The following table summarizes the effect of reclassifications on prior period presented (in CZK millions):

	Reclassifi- cations 1-9/2018	Final accounting of acquisitions	Total
<b>CONSOLIDATED STATEMENT OF INCOME:</b>			
Sales of electricity, heat, gas and coal	86,618	90	86,708
Sales of services and other revenues	43,118	-	43,118
Sales of electricity and related services *	(104,343)	-	(104,343)
Sales of gas, coal, heat and other revenues *	(23,733)	-	(23,733)
Other operating income	701	(2)	699
<b>Total revenues and other operating income</b>	<b>2,361</b>	<b>88</b>	<b>2,449</b>
Gains and losses from commodity derivative trading	(64)	-	(64)
Purchase of electricity, gas and other energies	(37,679)	-	(37,679)
Fuel and emission rights	(12,488)	-	(12,488)
Fuel *	9,522	-	9,522
Purchase power and related services *	41,615	-	41,615
Services	(17,564)	3	(17,561)
Repairs and maintenance *	2,866	-	2,866
Capitalization of expenses to the cost of assets and change in own inventories	2,393	(94)	2,299
Depreciation and amortization	-	(5)	(5)
Impairment of trade and other receivables	(149)	-	(149)
Emission rights, net *	3,146	-	3,146
Other operating expenses	6,041	2	6,043
<b>Income before other income (expenses) and income taxes</b>	<b>-</b>	<b>(6)</b>	<b>(6)</b>
Interest income	-	1	1
Impairment of financial assets	(399)	-	(399)
Other financial expenses	4	-	4
Other operating income	164	-	164
Foreign exchange rate gains (losses), net *	396	-	396
Gain on sale of subsidiaries and joint-ventures *	(165)	-	(165)
<b>Total other income (expenses)</b>	<b>-</b>	<b>1</b>	<b>1</b>
<b>Net income</b>	<b>-</b>	<b>(5)</b>	<b>(5)</b>

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

### 2.2.3. Change of Reported Data for I. and II. Quarter 2019

The accounting with impact on financial results published for I. and II. quarter 2019 was made in the past period. The adjustments recorded affected financial results of the company ČEZ, a. s., and they relate to commodity derivatives, which hedge price risks of future sales of generated electricity with supply in 2019.

At the same time, an internal procedure, which defines calculation procedure and the way of tracking of development of fair value of commodity derivatives and its classification for IFRS purposes, was updated. The update of the procedure reflects extension of the existing strategy for hedging of price risks on an annual basis by hedging of commodity risks on electricity generation during the year in order to reduce the volatility of quarterly financial results.

Quantification of the above-mentioned effects on reported amounts for I. and II. quarter of 2019 is provided by the following tables (in CZK millions):

	1-3/2019 adjustment	1-3/2019 adjusted	4-6/2019 adjustment	4-6/2019 adjusted
<b>CONSOLIDATED STATEMENT OF INCOME:</b>				
Gains and losses from commodity derivative trading	2,008	3,775	742	1,144
Income before other income (expenses) and income taxes	2,008	13,801	741	6,050
Income before income taxes	2,007	12,215	743	4,172
Income taxes	(381)	(2,290)	(142)	(649)
<b>Net income</b>	<b>1,626</b>	<b>9,925</b>	<b>601</b>	<b>3,523</b>
Net income attributable to equity holders of the parent	1,626	9,824	601	3,536
Net income per share attributable to equity holders of the parent (CZK per share):				
Basic	3.1	18.4	1.1	6.6
Diluted	3.1	18.4	1.1	6.6
<b>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME:</b>				
Net income	1,626	9,925	601	3,523
Change in fair value of cash flow hedges	(2,008)	6,983	(1,382)	(2,065)
Deferred tax related to other comprehensive income	382	(1,727)	262	(93)
Net other comprehensive income that may be reclassified to statement of income or to assets in subsequent periods	(1,626)	6,931	(1,120)	(106)
Total other comprehensive income, net of tax	(1,626)	6,933	(1,120)	(106)
<b>Total comprehensive income, net of tax</b>	<b>-</b>	<b>16,858</b>	<b>(519)</b>	<b>3,417</b>
Total comprehensive income attributable to equity holders of the parent	-	16,747	(519)	3,481
<b>CONSOLIDATED BALANCE SHEET:</b>				
			June 30 adjustment	June 30 adjusted
Other current financial assets, net			(641)	59,503
Total current assets			(641)	193,222
<b>Total assets</b>			<b>(641)</b>	<b>678,163</b>
Retained earnings and other reserves			(519)	192,568
Total equity attributable to equity holders of the parent			(519)	242,465
Total equity			(519)	247,046
Deferred tax liability			(122)	21,028
Total non-current liabilities			(122)	234,644
<b>Total equity and liabilities</b>			<b>(641)</b>	<b>678,163</b>

<b>CONSOLIDATED STATEMENT OF CASH FLOWS:</b>	1-3/2019 adjustment	1-3/2019 adjusted	1-6/2019 adjustment	1-6/2019 adjusted
Income before income taxes	2,007	12,215	2,750	16,387
Receivables and payables from derivatives	(2,007)	(3,270)	(2,750)	(15)

	Adjustment			Adjusted		
	Cash flow hedge reserve	Retained earnings	Total equity	Cash flow hedge reserve	Retained earnings	Total equity
<b>CONSOLIDATED STATEMENT OF CHANGES IN EQUITY as at March 31, 2019:</b>						
Net income	-	1,626	1,626	-	9,824	9,925
Other comprehensive income	(1,626)	-	(1,626)	7,341	(1)	6,933
Total comprehensive income	(1,626)	1,626	-	7,341	9,823	16,858
<b>March 31, 2019</b>	(1,626)	1,626	-	(10,996)	223,582	256,226

<b>CONSOLIDATED STATEMENT OF CHANGES IN EQUITY as at June 30, 2019:</b>						
Net income	-	2,227	2,227	-	13,360	13,448
Other comprehensive income	(2,746)	-	(2,746)	7,438	6	6,827
Total comprehensive income	(2,746)	2,227	(519)	7,438	13,366	20,275
<b>June 30, 2019</b>	(2,746)	2,227	(519)	(10,899)	214,109	247,046

### 3. Seasonality of Operations

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

### 4. Changes in the Group Structure

#### Acquisitions of subsidiaries from third parties in the first nine months of 2019

On January 1, 2019 the Group acquired a 100% interest in the company ITX MEDIA, a.s., which owned and operated 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 equipment.

On May 13, 2019 the Group acquired a 100% interest in Slovak company e-Dome a.s., which provides energy services.

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

On May 16, 2019 the Group acquired a 100% interest (effective interest 95%) in German company FEA Automation GmbH, which deals with buildings automation systems.

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.

On August 30, 2019 the Group acquired a 76% interest in Polish company Euroklimat sp. z o.o., which is a contractor for sanitary installations and provides fitting, maintenance and design services. The part of the transaction is call option of CEZ Group and the symmetrical put option of sellers for the remaining 24%. With regard to the fact, that the contractual terms of these options effectively transfer economic benefits of the ownership to CEZ Group as at the acquisition date, the transaction is accounted for as the acquisition of 100% with the contingent consideration which will be paid after the option is exercised.

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	Euroklimat	En.plus	Other	Total
Share of the Group being acquired	100%	100%	100%		
Property, plant and equipment, net	74	68	18	22	182
Intangible assets, net	661	1	92	60	814
Another non-current assets	102	16	-	-	118
Cash and cash equivalents	157	10	-	28	195
Trade receivables, net	184	278	195	81	738
Contractual assets	331	7	29	19	386
Another current assets	39	126	3	8	176
Long-term debt, net of current portion	-	(42)	-	(5)	(47)
Long-term provisions	(29)	(24)	-	(1)	(54)
Deferred tax liability	(195)	-	(28)	-	(223)
Short-term loans	(17)	-	(103)	(2)	(122)
Current portion of long-term debt	-	(4)	-	-	(4)
Trade payables	(55)	(191)	(47)	(95)	(388)
Current provisions	(65)	(7)	(14)	(15)	(101)
Another current liabilities	(32)	(95)	(15)	(15)	(157)
Total net assets	1,155	143	130	85	1,513
Share of net assets acquired	1,155	143	130	83	1,511
Goodwill	1,087	1,009	222	155	2,473
Total purchase consideration	2,242	1,152	352	238	3,984
Liabilities from acquisition of the subsidiary	-	(291)	(66)	(33)	(390)
Cash outflow on acquisition of the subsidiary in 2019	2,242	861	286	205	3,594
Less: Cash and cash equivalents in the subsidiary acquired	(157)	(10)	-	(28)	(195)
Cash outflow in 2019, net	2,085	851	286	177	3,399

If the combinations had taken place at the beginning of the year 2019, net income for CEZ Group as of September 30, 2019 would have been CZK 13,796 million and the revenues and other operating income from continuing operations would have been CZK 150,533 million. The amount of goodwill recognized as a result of the business combination comprises the fair 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):

	<u>Hermos</u>	<u>Euroklimat</u>	<u>En.plus</u>	<u>Other</u>	<u>Total</u>
Revenues and other operating income	610	129	644	222	1,605
Income before other income (expense) and income taxes	49	29	23	17	118
Net income	31	28	17	15	91
Net income attributable to:					
Equity holders of the parent	30	28	16	16	90
Non-controlling interests	1	-	1	(1)	1

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

Cash outflow on acquisitions of the subsidiaries	3,594
Cash outflow on investments in joint-ventures	2
Cash outflow on acquisitions of the subsidiaries where provisional accounting was not completed yet	125
Payments of payables from acquisitions in previous periods	70
Less: Cash and cash equivalents acquired	<u>(195)</u>
Total cash outflows on acquisitions	<u><u>3,596</u></u>

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

As of September 30, 2019 the Group performed an impairment test for any potential impairment loss related to assets and associated 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 1,052 million, which was presented in the statement of income on the line Impairment of property, plant and equipment and intangible assets.

The current development related to the sale of the Bulgarian assets is described in Note 13.

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

	September 30, 2019	December 31, 2018
	Bulgarian companies	Bulgarian companies
Property, plant and equipment, net	10,851	10,411
Intangible assets, net	460	446
Other non-current assets	143	128
Cash and cash equivalents	2,395	1,967
Trade receivables, net	2,955	4,092
Other current assets	444	453
Assets classified as held for sale	17,248	17,497
Long-term debt, net of current portion	1,625	1,313
Non-current provisions	141	144
Other long-term financial liabilities	252	218
Deferred tax liability	306	291
Short-term loans	344	309
Current portion of long-term debt	121	224
Trade payables	1,889	2,999
Current provisions	339	479
Other current liabilities	205	220
Liabilities associated with assets classified as held for sale	5,222	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 September 30, 2019 and December 31, 2018 is as follows (in CZK millions):

	September 30, 2019	December 31, 2018
3.005% Eurobonds, due 2038 (JPY 12,000 million)	2,630	2,468
2.845% Eurobonds, due 2039 (JPY 8,000 million)	1,755	1,647
5.000% Eurobonds, due 2021 (EUR 750 million)	20,257	19,457
6M Euribor + 1.25% Eurobonds, due 2019 (EUR 50 million)	1,296	1,287
4.875% Eurobonds, due 2025 (EUR 750 million)	19,746	19,909
4.500% Eurobonds, due 2020 (EUR 750 million)	19,562	19,693
2.160% Eurobonds, due in 2023 (JPY 11,500 million)	2,531	2,370
4.600% Eurobonds, due in 2023 (CZK 1,250 million)	1,273	1,287
2.150%*IR CPI Eurobonds, due 2021 (EUR 100 million) <sup>1)</sup>	2,614	2,634
4.102% Eurobonds, due 2021 (EUR 50 million)	1,333	1,288
4.375% Eurobonds, due 2042 (EUR 50 million)	1,277	1,286
4.500% Eurobonds, due 2047 (EUR 50 million)	1,275	1,284
4.383% Eurobonds, due 2047 (EUR 80 million)	2,123	2,087
3.000% Eurobonds, due 2028 (EUR 725 million)	19,258	19,419
0.875% Eurobonds, due 2022 (EUR 500 million)	12,957	12,824
4.250% U.S. bonds, due 2022 (USD 289 million)	6,964	6,525
5.625% U.S. bonds, due 2042 (USD 300 million)	7,244	6,768
4.500% Registered bonds, due 2030 (EUR 40 million)	1,056	1,017
4.750% Registered bonds, due 2023 (EUR 40 million)	1,060	1,068
4.700% Registered bonds, due 2032 (EUR 40 million)	1,052	1,060
4.270% Registered bonds, due 2047 (EUR 61 million)	1,606	1,549
3.550% Registered bonds, due 2038 (EUR 30 million)	786	790
	<hr/>	<hr/>
Total bonds and debentures	129,655	127,717
Less: Current portion	(23,119)	(3,419)
	<hr/>	<hr/>
Bonds and debentures, net of current portion	106,536	124,298
	<hr/>	<hr/>
Long-term bank loans and lease payables:	24,189	21,466
Less: Current portion	(3,850)	(3,324)
	<hr/>	<hr/>
Long-term bank loans and lease payables, net of current portion	20,339	18,142
	<hr/>	<hr/>
Total long-term debt	153,844	149,183
Less: Current portion	(26,969)	(6,743)
	<hr/>	<hr/>
Total long-term debt, net of current portion	<u>126,875</u>	<u>142,440</u>

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

## 8. Short-term Loans

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

	September 30, 2019	December 31, 2018
Short-term bank loans	9,670	11,516
Bank overdrafts	1,095	267
	<hr/>	<hr/>
Total	<u>10,765</u>	<u>11,783</u>

## 9. Revenues and Other Operating Income

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

	<u>1-9/2019</u>	<u>1-9/2018</u>
Sales of electricity:		
Sales of electricity to end customers	35,542	32,944
Sales of electricity through energy exchange	600	2,775
Sales of electricity to traders	29,367	26,030
Sales to distribution and transmission companies	211	136
Other sales of electricity	20,912	15,509
Effect of hedging – presales of electricity	(7,598)	(3,798)
Effect of hedging – currency risk hedging	1,219	450
	<u>80,253</u>	<u>74,046</u>
Sales of gas, coal and heat:		
Sales of gas	5,621	4,900
Sales of coal	3,197	3,395
Sales of heat	5,242	4,367
	<u>14,060</u>	<u>12,662</u>
Total sales of electricity, heat, gas and coal	94,313	86,708
Sales of services and other revenues:		
Distribution services	32,665	28,695
Other services	16,538	12,968
Revenues from goods sold	854	778
Other revenues	822	677
	<u>50,879</u>	<u>43,118</u>
Other operating income:		
Granted green and similar certificates	841	690
Contractual fines and interest fees for delays	365	196
Gain on sale of property, plant and equipment	79	65
Gain on sale of material	105	133
Other	1,473	859
	<u>2,863</u>	<u>1,943</u>
Total revenues and other operating income	<u><u>148,055</u></u>	<u><u>131,769</u></u>

## 10. Income Taxes

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

	1-9/2019			1-9/2018		
	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	4,009	(762)	3,247	(16,515)	3,138	(13,377)
Cash flow hedges reclassified to statement of income	5,486	(1,042)	4,444	2,952	(561)	2,391
Change in fair value of debt instruments	650	(122)	528	(531)	103	(428)
Disposal of debt instruments	1	-	1	-	-	-
Translation differences – subsidiaries	(524)	-	(524)	95	-	95
Translation differences – associates and joint-ventures	37	-	37	359	-	359
Disposal of translation differences	-	-	-	(42)	-	(42)
Share on other equity movements of associates and joint-ventures	(5)	-	(5)	-	-	-
Re-measurement gains (losses) on defined benefit plans	2	-	2	-	-	-
<b>Total</b>	<b>9,656</b>	<b>(1,926)</b>	<b>7,730</b>	<b>(13,682)</b>	<b>2,680</b>	<b>(11,002)</b>

## 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):

	<u>1-9/2019</u>	<u>1-9/2018</u>
Income before other income (expenses) and income taxes (EBIT)	22,097	16,719
Depreciation and amortization	21,419	21,126
Impairment of property, plant and equipment and intangible assets	1,234	884
Gains and losses on sale of property, plant and equipment, net *	<u>(75)</u>	<u>(50)</u>
EBITDA	<u><u>44,675</u></u>	<u><u>38,679</u></u>

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

The following tables summarize segment information by operating segments for the nine months ended September 30, 2019 and 2018 and at December 31, 2018 (in CZK millions):

September 30, 2019:	Gene- ration – Traditional Energy	Gene- ration – New Energy	Distribu- tion	Sales	Mining	Support Services	Combined	Elimination	Consoli- dated
Revenues and other operating income – other than intersegment	43,592	4,869	31,349	62,090	3,428	2,727	148,055	-	148,055
Revenues and other operating income – intersegment	26,606	237	486	5,006	4,396	3,595	40,326	(40,326)	-
Total revenues and other operating income	70,198	5,106	31,835	67,096	7,824	6,322	188,381	(40,326)	148,055
EBITDA	19,408	3,161	15,301	1,887	3,789	1,134	44,680	(5)	44,675
Depreciation and amortization	(11,354)	(1,355)	(4,951)	(783)	(2,123)	(853)	(21,419)	-	(21,419)
Impairment of property, plant and equipment and intangible assets	(17)	(11)	(1,222)	-	16	-	(1,234)	-	(1,234)
EBIT	8,055	1,795	9,143	1,107	1,698	304	22,102	(5)	22,097
Interest on debt and provisions	(5,053)	(169)	(579)	(230)	(161)	(106)	(6,298)	839	(5,459)
Interest income	567	135	138	115	82	106	1,143	(839)	304
Share of profit (loss) from associates and joint-ventures	(20)	(1)	99	104	5	-	187	-	187
Income taxes	(641)	(145)	(1,684)	(205)	(343)	(106)	(3,124)	-	(3,124)
Net income	14,056	1,856	6,865	848	1,372	719	25,716	(12,101)	13,615
Identifiable assets	241,515	27,664	114,121	5,640	21,780	5,618	416,338	(29)	416,309
Investment in associates and joint- ventures	2,634	236	-	282	176	-	3,328	-	3,328
Unallocated assets									252,320
Total assets									671,957
Capital expenditure	5,952	598	9,199	798	1,592	566	18,705	(126)	18,579

September 30, 2018:	Gene- ration – Traditional Energy	Gene- ration – New Energy	Distribu- tion	Sales	Mining	Support Services	Combined	Elimination	Consoli- dated
Revenues and other operating income – other than intersegment	38,588	4,251	29,385	55,702	3,645	198	131,769	-	131,769
Revenues and other operating income – intersegment	22,780	408	5,751	9,622	4,342	3,180	46,083	(46,083)	-
Total revenues and other operating income	61,368	4,659	35,136	65,324	7,987	3,378	177,852	(46,083)	131,769
EBITDA	12,848	2,817	14,843	3,422	3,611	1,135	38,676	3	38,679
Depreciation and amortization	(12,267)	(1,312)	(4,619)	(311)	(1,965)	(652)	(21,126)	-	(21,126)
Impairment of property, plant and equipment and intangible assets	(362)	-	(512)	1	16	(27)	(884)	-	(884)
EBIT	232	1,507	9,731	3,110	1,670	466	16,716	3	16,719
Interest on debt and provisions	(4,817)	(138)	(255)	(105)	(147)	(91)	(5,553)	416	(5,137)
Interest income	351	89	76	29	20	54	619	(416)	203
Share of profit (loss) from associates and joint-ventures	(20)	-	(1,095)	158	5	-	(952)	-	(952)
Income taxes	751	(299)	(1,772)	(699)	(320)	(99)	(2,438)	-	(2,438)
Net income	28,160	1,338	6,276	2,485	1,307	941	40,507	(31,383)	9,124
Capital expenditure	3,919	215	8,611	277	1,529	941	15,492	(226)	15,266
December 31, 2018:	Gene- ration – Traditional Energy	Gene- ration – New Energy	Distribu- tion	Sales	Mining	Support Services	Combined	Elimination	Consoli- dated
Identifiable assets	247,784	27,400	109,806	4,046	22,055	4,823	415,914	(6)	415,908
Investment in associates and joint- ventures	2,645	235	-	305	176	-	3,361	-	3,361
Unallocated assets									288,174
Total assets									<u>707,443</u>

## **12. Court Proceeding with SŽDC**

The Municipal Court in Prague in appeal proceedings held in the case of action of the company Správa železniční dopravní cesty (further as „SŽDC“) for the return of unjustified enrichment, confirmed the judgment of the Prague 4 District Court from February 5, 2019, which obliges ČEZ Prodej to pay SŽDC the amount of CZK 1,116 million plus interest and costs. SŽDC had paid it in 2015 as compensation for the contracted but not taken electricity in 2010. The company ČEZ Prodej paid this amount within the legal deadline in October 2019. ČEZ Prodej disagrees with the court's ruling and will file an appeal against it to the Supreme Court of the Czech Republic within the deadline December 9, 2019.

There is a provision charged in the statement of income for 1-9/2019 on the line Other operating expenses in the amount that fully corresponds to the paid amount including interest and costs.

## **13. Events after the Balance Sheet Date**

On October 24, 2019 the Bulgarian Commission for the Protection of Competition refused a transaction for the sale of Bulgarian assets to Eurohold. CEZ Group has filed an administrative action against this decision and is considering further legal steps that will protect interests of CEZ Group. The intention to sell these assets to Eurohold remains.

If the intention to sell should be changed in the future, or the sale should no longer be highly probable in the next twelve months respectively, the Group does not expect negative effects on its results from reclassification from assets held for sale.