

# **CEZ GROUP**

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS  
AS OF JUNE 30, 2020

# CEZ GROUP CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2020

In CZK Millions

	Note	June 30, 2020	December 31, 2019
<b>ASSETS:</b>			
Plant in service		871,864	865,106
Less accumulated depreciation and impairment		(484,003)	(469,476)
<b>Net plant in service</b>		<b>387,861</b>	<b>395,630</b>
Nuclear fuel, at amortized cost		13,215	14,250
Construction work in progress, net		23,186	18,208
<b>Total property, plant and equipment</b>		<b>424,262</b>	<b>428,088</b>
Investments in associates and joint-ventures		4,228	3,283
Restricted financial assets, net		22,034	20,732
Other non-current financial assets, net		12,470	10,923
Intangible assets, net		31,221	37,429
Deferred tax assets		1,346	1,481
<b>Total other non-current assets</b>		<b>71,299</b>	<b>73,848</b>
<b>Total non-current assets</b>		<b>495,561</b>	<b>501,936</b>
Cash and cash equivalents, net		7,027	9,755
Trade receivables, net		53,351	65,030
Income tax receivable		2,004	707
Materials and supplies, net		10,484	8,889
Fossil fuel stocks		1,565	1,764
Emission rights		33,329	27,029
Other current financial assets, net		65,122	61,114
Other current assets, net		13,485	11,070
Assets classified as held for sale	5	17,953	17,280
<b>Total current assets</b>		<b>204,320</b>	<b>202,638</b>
<b>Total assets</b>		<b>699,881</b>	<b>704,574</b>

**CEZ GROUP  
CONSOLIDATED BALANCE SHEET  
AS OF JUNE 30, 2020**

Continued

	Note	June 30, 2020	December 31, 2019
<b>EQUITY AND LIABILITIES:</b>			
Stated capital		53,799	53,799
Treasury shares		(2,845)	(2,885)
Retained earnings and other reserves		195,641	199,847
<b>Total equity attributable to equity holders of the parent</b>		<b>246,595</b>	<b>250,761</b>
Non-controlling interests		4,995	4,603
<b>Total equity</b>		<b>251,590</b>	<b>255,364</b>
Long-term debt, net of current portion	7	149,710	142,570
Provisions		89,795	89,512
Other long-term financial liabilities		8,366	9,700
Deferred tax liability		23,204	20,626
Other long-term liabilities		41	31
<b>Total non-current liabilities</b>		<b>271,116</b>	<b>262,439</b>
Short-term loans		4,322	4,260
Current portion of long-term debt	7	8,229	25,063
Trade payables		52,179	66,244
Income tax payable		636	628
Provisions		12,283	14,253
Other short-term financial liabilities		86,813	63,187
Other short-term liabilities		7,519	7,544
Liabilities associated with assets classified as held for sale	5	5,194	5,592
<b>Total current liabilities</b>		<b>177,175</b>	<b>186,771</b>
<b>Total equity and liabilities</b>		<b>699,881</b>	<b>704,574</b>

# CEZ GROUP

## CONSOLIDATED STATEMENT OF INCOME

### FOR THE SIX MONTHS ENDED JUNE 30, 2020

In CZK Millions

	Note	1-6/2020	1-6/2019 *	4-6/2020	4-6/2019 *
Sales of electricity, heat, gas and coal		69,294	64,575	31,076	29,680
Sales of services and other revenues		34,928	33,422	17,113	17,334
Other operating income		2,031	2,030	1,018	1,164
<b>Total revenues and other operating income</b>	8	106,253	100,027	49,207	48,178
Gains and losses from commodity derivative trading		5,964	4,919	28	1,144
Purchase of electricity, gas and other energies		(28,392)	(27,811)	(14,162)	(13,402)
Fuel and emission rights		(11,205)	(9,811)	(4,600)	(4,442)
Services		(13,241)	(13,017)	(7,078)	(6,973)
Salaries and wages		(14,401)	(13,264)	(7,445)	(6,953)
Material and supplies		(4,961)	(4,423)	(2,455)	(2,407)
Capitalization of expenses to the cost of assets and change in own inventories		1,696	1,588	951	294
Depreciation and amortization		(14,878)	(14,213)	(7,548)	(7,224)
Impairment of property, plant and equipment and intangible assets	9	(1,901)	(826)	(2,157)	(314)
Impairment of trade and other receivables		(135)	(101)	(149)	(119)
Other operating expenses		(2,839)	(3,227)	(1,439)	(1,742)
<b>Income before other income (expenses) and income taxes</b>		21,960	19,841	3,153	6,040
Interest on debt		(2,810)	(2,698)	(1,439)	(1,334)
Interest on provisions		(979)	(933)	(491)	(467)
Interest income		221	210	91	100
Share of profit (loss) from associates and joint-ventures		(128)	(88)	20	(25)
Impairment of financial assets		(34)	31	(195)	(6)
Other financial expenses		(823)	(388)	(468)	(361)
Other financial income		842	401	386	214
<b>Total other income (expenses)</b>		(3,711)	(3,465)	(2,096)	(1,879)
<b>Income before income taxes</b>		18,249	16,376	1,057	4,161
Income taxes		(3,548)	(2,935)	(518)	(645)
<b>Net income</b>		14,701	13,441	539	3,516
Net income attributable to:					
Equity holders of the parent		14,437	13,353	632	3,529
Non-controlling interests		264	88	(93)	(13)
Net income per share attributable to equity holders of the parent (CZK per share):					
Basic		27.0	25.0	1.2	6.6
Diluted		27.0	24.9	1.2	6.6

\* The figures for comparative period 1-6/2019 and 4-6/2019 were adjusted compared to figures presented in the interim consolidated financial statements as of June 30, 2019 (Note 2.2.2).

**CEZ GROUP**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2020**

In CZK Millions

	Note	1-6/2020	1-6/2019 *	4-6/2020	4-6/2019 *
<b>Net income</b>		14,701	13,441	539	3,516
Change in fair value of cash flow hedges		(2,799)	4,918	(4,897)	(2,065)
Cash flow hedges reclassified to statement of income		(596)	4,265	750	2,185
Change in fair value of debt instruments		730	400	797	367
Disposal of debt instruments		-	1	-	-
Translation differences – subsidiaries		2,041	(964)	(1,178)	(494)
Translation differences – associates and joint-ventures		211	20	(23)	(15)
Share on other equity movements of associates and joint-ventures		(13)	4	(7)	8
Deferred tax related to other comprehensive income	10	508	(1,820)	637	(93)
<b>Net other comprehensive income that may be reclassified to statement of income or to assets in subsequent periods</b>		82	6,824	(3,921)	(107)
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>		82	6,826	(3,921)	(107)
<b>Total comprehensive income, net of tax</b>		14,783	20,267	(3,382)	3,409
Total comprehensive income attributable to:					
Equity holders of the parent		14,322	20,220	(3,189)	3,473
Non-controlling interests		461	47	(193)	(64)

\* The figures for comparative period 1-6/2019 and 4-6/2019 were adjusted compared to figures presented in the interim consolidated financial statements as of June 30, 2019 (Note 2.2.2).

**CEZ GROUP  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED JUNE 30, 2020**

In CZK Millions

	Note	Attributable to equity holders of the parent							Non-controlling interests	Total equity	
		Stated capital	Treasury shares	Translation difference	Cash flow hedge reserve	Debt instruments	Equity instruments and other reserves	Retained earnings			Total
<b>Balance as at January 1, 2019</b>		53,799	(3,534)	(11,565)	(18,337)	388	113	213,857	234,721	4,560	239,281
Net income		-	-	-	-	-	-	13,353	13,353	88	13,441
Other comprehensive income		-	-	(903)	7,438	326	-	6	6,867	(41)	6,826
<b>Total comprehensive income</b>		-	-	(903)	7,438	326	-	13,359	20,220	47	20,267
Dividends		-	-	-	-	-	-	(12,850)	(12,850)	(21)	(12,871)
Sale of treasury shares		-	632	-	-	-	-	(388)	244	-	244
Share options		-	-	-	-	-	16	-	16	-	16
Exercised and forfeited share options		-	-	-	-	-	(15)	15	-	-	-
Put options held by non-controlling interests		-	-	(3)	-	-	-	109	106	(5)	101
<b>Balance as at June 30, 2019 *</b>		<u>53,799</u>	<u>(2,902)</u>	<u>(12,471)</u>	<u>(10,899)</u>	<u>714</u>	<u>114</u>	<u>214,102</u>	<u>242,457</u>	<u>4,581</u>	<u>247,038</u>

\* The figures for comparative period 1-6/2019 were adjusted compared to figures presented in the interim consolidated financial statements as of June 30, 2019 (Note 2.2.2).

**CEZ GROUP  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED JUNE 30, 2020**

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>Balance as at January 1, 2020</b>		53,799	(2,885)	(12,837)	(2,831)	648	(160)	215,027	250,761	4,603	255,364
Net income		-	-	-	-	-	-	14,437	14,437	264	14,701
Other comprehensive income		-	-	2,056	(2,750)	592	-	(13)	(115)	197	82
<b>Total comprehensive income</b>		-	-	2,056	(2,750)	592	-	14,424	14,322	461	14,783
Dividends	6	-	-	-	-	-	-	(18,206)	(18,206)	(17)	(18,223)
Sale of treasury shares		-	40	-	-	-	-	(25)	15	-	15
Exercised and forfeited share options		-	-	-	-	-	(8)	8	-	-	-
Contribution from owners of non-controlling interests		-	-	-	-	-	-	-	-	13	13
Acquisition of non-controlling interests	4.3	-	-	-	-	-	-	(336)	(336)	(767)	(1,103)
Put options held by non-controlling interests		-	-	10	-	-	-	30	40	701	741
<b>Balance as at June 30, 2020</b>		<u>53,799</u>	<u>(2,845)</u>	<u>(10,771)</u>	<u>(5,581)</u>	<u>1,240</u>	<u>(168)</u>	<u>210,922</u>	<u>246,596</u>	<u>4,994</u>	<u>251,590</u>

**CEZ GROUP**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2020**

In CZK Millions

	Note	1-6/2020	1-6/2019 *
<b>OPERATING ACTIVITIES:</b>			
<b>Income before income taxes</b>		18,249	16,376
<b>Adjustments of income before income taxes to cash generated from operations:</b>			
Depreciation and amortization		14,878	14,213
Amortization of nuclear fuel		1,993	2,048
(Gains) and losses on non-current asset retirements		(76)	(49)
Foreign exchange rate loss (gain)		(559)	300
Interest expense, interest income and dividend income		2,581	2,331
Change in provisions		(1,969)	(2,856)
Impairment of property, plant and equipment and intangible assets		1,901	826
Valuation allowances and other non-cash expenses and income		(3,036)	4,876
Share of (profit) loss from associates and joint-ventures		128	88
<b>Changes in assets and liabilities:</b>			
Receivables and contract assets		9,114	3,509
Materials, supplies and fossil fuel stocks		(1,413)	(1,132)
Receivables and payables from derivatives		3,107	(15)
Other assets		3,509	27
Trade payables		(12,463)	(7,899)
Other liabilities		(84)	232
<b>Cash generated from operations</b>		35,860	32,875
Income taxes paid		(1,581)	(1,890)
Interest paid, net of capitalized interest		(3,341)	(3,257)
Interest received		206	213
Dividends received		-	2
<b>Net cash provided by operating activities</b>		31,144	27,943
<b>INVESTING ACTIVITIES:</b>			
Acquisition of subsidiaries, associates and joint-ventures, net of cash acquired	4	(1,027)	(2,494)
Disposal of subsidiaries, associates and joint-ventures, net of cash disposed of		246	188
Additions to non-current assets, including capitalized interest		(13,467)	(13,064)
Proceeds from sale of non-current assets		337	2,335
Loans made		(317)	(101)
Repayment of loans		21	22
Change in restricted financial assets		(564)	(1,537)
<b>Total cash used in investing activities</b>		(14,771)	(14,651)



**CEZ GROUP**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2020**

Continued

	Note	1-6/2020	1-6/2019 *
<b>FINANCING ACTIVITIES:</b>			
Proceeds from borrowings		38,985	43,221
Payments of borrowings		(56,469)	(54,984)
Lease payments		(416)	(357)
Proceeds from other long-term liabilities		168	33
Payments of other long-term liabilities		(31)	(38)
Dividends paid to Company's shareholders		(30)	(39)
(Dividends paid to) contributions received from non-controlling interests, net		13	(15)
Sale of treasury shares		15	244
Acquisition of non-controlling interests		(1,133)	-
<b>Total cash used in financing activities</b>		<b>(18,898)</b>	<b>(11,935)</b>
Net effect of currency translation and allowances in cash		605	(41)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(1,920)</b>	<b>1,316</b>
<b>Cash and cash equivalents at beginning of period **</b>		<b>11,906</b>	<b>9,245</b>
<b>Cash and cash equivalents at end of period **</b>		<b>9,986</b>	<b>10,561</b>

Supplementary cash flow information:

Total cash paid for interest	3,507	3,406
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\* The figures for comparative period 1-6/2019 were adjusted compared to figures presented in the interim consolidated financial statements as of June 30, 2019 (Note 2.2.2).

\*\* 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.

# **CEZ GROUP**

## **NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

### **AS OF JUNE 30, 2020**

#### **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, 2020 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, 2020 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, 2019](#).

##### **2.2. Changes in Accounting Policies**

###### **2.2.1. Adoption of New IFRS Standards in 2020**

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, 2019](#).

As of January 1, 2020, the Group did not adopt any new International Financial Reporting Standard that would have a significant impact on Group's interim consolidated financial statements.

## 2.2.2. Change of Reported Data for I. and II. Quarters 2019

After the financial results for I. and II. quarters 2019 were published, the accounting was made, which additionally brought more precise presentation of effects of hedging on individual quarters of 2019. 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.

The Group also adjusted a final recognition of the acquisition of the Hermos Group, specifying the fair values of the identifiable assets, liabilities and costs of the acquisition as at the acquisition date of May 15, 2019.

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

<b>CONSOLIDATED STATEMENT OF INCOME:</b>	<u>1-3/2019 adjustment of hedging</u>	<u>4-6/2019 adjustment of hedging</u>	<u>4-6/2019 adjustment of Hermos's acquisition</u>	<u>1-6/2019 total adjustment</u>
Gains and losses from commodity derivative trading	2,008	742	-	2,750
Depreciation and amortization	-	-	(9)	(9)
Income before other income (expenses) and income taxes	2,008	741	(10)	2,739
Income before income taxes	2,007	743	(11)	2,739
Income taxes	(381)	(142)	4	(519)
<b>Net income</b>	<b>1,626</b>	<b>601</b>	<b>(7)</b>	<b>2,220</b>
Net income attributable to equity holders of the parent	1,626	601	(7)	2,220
Net income per share attributable to equity holders of the parent (CZK per share):				
Basic	3.1	1.1	0.0	4.1
Diluted	3.1	1.1	0.0	4.1
<b>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME:</b>	<u>1-3/2019 adjustment of hedging</u>	<u>4-6/2019 adjustment of hedging</u>	<u>4-6/2019 adjustment of Hermos's acquisition</u>	<u>1-6/2019 total adjustment</u>
Net income	1,626	601	(7)	2,220
Change in fair value of cash flow hedges	(2,008)	(1,382)	-	(3,390)
Deferred tax related to other comprehensive income	382	262	-	644
Net other comprehensive income that may be reclassified to statement of income or to assets in subsequent periods	(1,626)	(1,120)	(1)	(2,747)
Total other comprehensive income, net of tax	(1,626)	(1,120)	(1)	(2,747)
<b>Total comprehensive income, net of tax</b>	<b>-</b>	<b>(519)</b>	<b>(8)</b>	<b>(527)</b>
Total comprehensive income attributable to equity holders of the parent	-	(519)	(8)	(527)

<b>CONSOLIDATED BALANCE SHEET:</b>	June 30, 2019 original	Adjustment of hedging	Adjustment of Hermos's acquisition	June 30, 2019 adjusted
Net plant in service	384,081	-	199	384,280
Other non-current financial assets, net	10,264	-	(86)	10,178
Intangible assets, net	32,755	-	192	32,947
of which: Goodwill	15,060	-	14	15,074
Total non-current assets	484,941	-	310	485,251
Cash and cash equivalents, net	8,266	-	44	8,310
Other current financial assets, net	60,144	(641)	-	59,503
Other current assets, net	13,167	-	49	13,216
Total current assets	193,863	(641)	105	193,327
<b>Total assets</b>	<b>678,804</b>	<b>(641)</b>	<b>415</b>	<b>678,578</b>
Retained earnings and other reserves	192,087	(519)	(8)	191,560
Total equity attributable to equity holders of the parent	242,984	(519)	(8)	242,457
Total equity	247,565	(519)	(8)	247,038
Long-term debt, net of current portion	124,668	-	65	124,733
Non-current provisions	77,304	-	16	77,320
Deferred tax liability	21,150	(122)	194	21,222
Total non-current liabilities	234,786	(122)	275	234,939
Trade payables	54,355	-	107	54,462
Current provisions	9,682	-	25	9,707
Total current liabilities	196,453	-	148	196,601
<b>Total liabilities</b>	<b>678,804</b>	<b>(641)</b>	<b>415</b>	<b>678,578</b>

<b>CONSOLIDATED STATEMENT OF CASH FLOWS:</b>	1-6/2019 adjustment of hedging	1-6/2019 adjustment of Hermos's acquisition	1-6/2019 total adjustment
Income before income taxes	2,750	(11)	2,739
Depreciation and amortization	-	9	9
Receivables and payables from derivatives	(2,750)	-	(2,750)
Acquisition of subsidiaries, associates and joint-ventures, net of cash acquired	-	44	44
Total cash used in investing activities	-	44	44
Net increase (decrease) in cash and cash equivalents	-	44	44
Cash and cash equivalents at end of period	-	44	44

<b>CONSOLIDATED STATEMENT OF CHANGES IN EQUITY as of June 30, 2019:</b>	Adjustment		
	Cash flow hedge reserve	Retained earnings	Total equity
Net income	-	2,220	2,220
Other comprehensive income	(2,747)	-	(2,747)
Total comprehensive income	(2,747)	2,220	(527)
<b>Balance as of June 30, 2019</b>	<b>(2,747)</b>	<b>2,220</b>	<b>(527)</b>

### 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

The following table summarizes the cash flows related to acquisitions in first six months of 2020 (in CZK millions):

Cash outflow on acquisition of the subsidiaries	116
Cash outflow on investment in joint-ventures	791
Cash contributions to joint-ventures	1
Payments of payables from acquisitions of previous periods	119
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Total cash outflows on acquisition	1,027
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#### 4.1. Acquisitions of Subsidiaries in the First Six Months of 2020

On April 9, 2020 the Group acquired a 100% interest in Austrian company Moser & Partner Ingenieurbüro GmbH, which focuses on building engineering services and energy saving projects.

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):

	Moser
Share of the Group being acquired	100%
Property, plant and equipment, net	46
Intangible assets, net	57
Another non-current assets	1
Cash and cash equivalents	-
Trade receivables, net	10
Contractual assets	12
Long-term debt, net of current portion	(37)
Deferred tax liability	(12)
Current portion of long-term debt	(3)
Income tax payable	(6)
Current provisions	(8)
Another current liabilities	(3)
	<hr/>
Total net assets	57
Share of net assets acquired	57
Goodwill	97
	<hr/>
Total purchase consideration	154
Liabilities from acquisition of the subsidiary	(38)
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Cash outflow on acquisition of the subsidiary in 2020	116
Less: Cash and cash equivalents in the subsidiary acquired	-
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Cash outflow in 2020, net	116
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If the combinations had taken place at the beginning of the year 2020, net income for CEZ Group as of June 30, 2020 would have been CZK 14,692 million and the revenues and other operating income from continuing operations would have been CZK 106,262 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 subsidiary has contributed the following balances to the Group's statement of income (in CZK millions):

	<u>Moser</u>
Revenues and other operating income	28
Income before other income (expense) and income taxes	10
Net income	8
Net income attributable to:	
Equity holders of the parent	8
Non-controlling interests	-

#### 4.2. Acquisitions of Joint-ventures in the First Six Months of 2020

On April 27, 2020, the Group acquired a 51% interest in the company GEOMET s.r.o. The intention of the joint-venture, in which the second partner is the company European Metals Holdings Limited, is to develop a project for potential lithium mining in Cínovec. Based on the analysis of the relevant agreements, competencies of the partners in the decision making processes and the relevant activities, the Group assessed the current relationship as a joint control.

The following table provides an overview of the basic financial information associated with this transaction (in CZK millions):

	<u>GEOMET</u>
Share acquired in 2020	51%
Total net assets	610
Share of net assets acquired	311
Goodwill	480
Total purchase consideration	<u>791</u>

The fair values of identifiable assets and liabilities of the joint-venture have been stated provisionally and could be adjusted in the subsequent period.

#### 4.3. Acquisitions of Non-controlling in the First Six Months of 2020

On June 4, 2020, the Group acquired a part of the non-controlling interest representing a 26.68% interest in the company OEM Energy sp. z o.o., which increased Group's interest to 77.68%. The original owners held an option to sell the non-controlling interest to the Group. In such a case, as long as the option is in force, the non-controlling interest is derecognized at the end of the reporting period and the liability is recognized at the present value of the amount payable on exercise. This option partially expired and therefore the relevant part of the liability was derecognized and the non-controlling interest was accounted for (recognized), however, at the same time it was immediately derecognized due to the purchase of the non-controlling interest.

On June 30, 2020, the Group acquired the remaining non-controlling 49.90% interest in ČEZ Energo, s.r.o. Also in this case there was a put option held by the original partner, which ceased to exist.

The following table provides an overview of the basic financial information associated with these transactions (in CZK millions):

	<u>OEM Energy</u>	<u>ČEZ Energo</u>	<u>Total</u>
Share acquired in 2020	26.68 %	49.90 %	
Option liability derecognized from the balance sheet	20	733	753
Direct impact on equity from recognition of non-controlling interest after the expiration of the put options	35	(21)	14
Acquired share of net assets derecognized from non-controlling interests	55	712	767
Amount directly recognized in equity caused by acquisition of non-controlling interest	48	288	336
Total purchase consideration	<u>103</u>	<u>1,000</u>	<u>1,103</u>

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

As of June 30, 2020 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 a reversal of a part of previously recognized impairment of assets in the amount of CZK 685 million, which was presented in the statement of income on the line Impairment of property, plant and equipment and intangible assets (see Note 9).

If the intention to sell should be abandoned in the future, or the sale should no longer be highly probable in the next twelve months respectively, CEZ Group does not expect material effect on net income caused by the reclassification from assets held for sale.

The assets classified as held for sale and associated liabilities at June 30, 2020 and December 31, 2019 are as follows (in CZK millions):

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
	<u>Bulgarian companies</u>	<u>Bulgarian companies</u>
Property, plant and equipment, net	10,964	10,539
Intangible assets, net	492	461
Other non-current assets	178	145
Cash and cash equivalents	2,959	2,151
Trade receivables, net	2,690	2,875
Other current assets	670	1,109
Assets classified as held for sale	<u>17,953</u>	<u>17,280</u>
Long-term debt, net of current portion	1,424	1,357
Non-current provisions	191	183
Other long-term financial liabilities	168	247
Deferred tax liability	337	247
Short-term loans	359	170
Current portion of long-term debt	136	251
Trade payables	1,820	2,498
Current provisions	448	432
Other current liabilities	311	207
Liabilities associated with assets classified as held for sale	<u>5,194</u>	<u>5,592</u>

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

## 6. Equity

On June 29, 2020 the Annual Shareholders Meeting of ČEZ, a. s. approved the dividends per share before tax of CZK 34.0. The total amount of dividend approved for distribution to shareholders net of treasury shares amounts to CZK 18,206 million.

## 7. Long-term Debt

Long-term debt at June 30, 2020 and December 31, 2019 is as follows (in CZK millions):

	June 30, 2020	December 31, 2019
3.005% Eurobonds, due 2038 (JPY 12,000 million)	2,675	2,516
2.845% Eurobonds, due 2039 (JPY 8,000 million)	1,785	1,679
5.000% Eurobonds, due 2021 (EUR 750 million)	20,739	19,228
4.875% Eurobonds, due 2025 (EUR 750 million)	20,214	19,671
4.500% Eurobonds, due 2020 (EUR 750 million)	-	19,478
2.160% Eurobonds, due in 2023 (JPY 11,500 million)	2,569	2,416
4.600% Eurobonds, due in 2023 (CZK 1,250 million)	1,258	1,287
2.150%*IR CPI Eurobonds, due 2021 (EUR 100 million) <sup>1)</sup>	2,677	2,602
4.102% Eurobonds, due 2021 (EUR 50 million)	1,367	1,273
4.375% Eurobonds, due 2042 (EUR 50 million)	1,368	1,271
4.500% Eurobonds, due 2047 (EUR 50 million)	1,366	1,269
4.383% Eurobonds, due 2047 (EUR 80 million)	2,216	2,062
3.000% Eurobonds, due 2028 (EUR 725 million)	19,817	19,133
0.875% Eurobonds, due 2022 (EUR 500 million)	13,404	12,675
0.875% Eurobonds, due 2026 (EUR 750 million)	19,937	18,847
4.250% U.S. bonds, due 2022 (USD 289 million)	6,948	6,578
5.625% U.S. bonds, due 2042 (USD 300 million)	7,198	6,817
4.500% Registered bonds, due 2030 (EUR 40 million)	1,083	1,006
4.750% Registered bonds, due 2023 (EUR 40 million)	1,087	1,056
4.700% Registered bonds, due 2032 (EUR 40 million)	1,078	1,048
4.270% Registered bonds, due 2047 (EUR 61 million)	1,647	1,531
3.550% Registered bonds, due 2038 (EUR 30 million)	807	780
Total bonds and debentures	131,240	144,223
Less: Current portion	(4,345)	(21,163)
Bonds and debentures, net of current portion	126,895	123,060
Long-term bank loans and lease liabilities:	26,699	23,410
Less: Current portion	(3,884)	(3,900)
Long-term bank loans and lease payables, net of current portion	22,815	19,510
Total long-term debt	157,939	167,633
Less: Current portion	(8,229)	(25,063)
Total long-term debt, net of current portion	149,710	142,570

<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. Revenues and Other Operating Income

The composition of revenues and other operating income for the first six months ended June 30, 2020 and 2019 is as follows (in CZK millions):

	1-6/2020	1-6/2019
Sales of electricity:		
Sales of electricity to end customers	25,652	24,036
Sales of electricity through energy exchange	1,084	600
Sales of electricity to traders	19,482	19,713
Sales to distribution and transmission companies	341	179
Other sales of electricity	12,620	13,392
Effect of hedging – presales of electricity	(741)	(5,248)
Effect of hedging – currency risk hedging	445	1,028
<b>Total sales of electricity</b>	<b>58,883</b>	<b>53,700</b>
Sales of gas, coal and heat:		
Sales of gas	3,955	4,375
Sales of coal	1,865	2,090
Sales of heat	4,591	4,410
<b>Total sales of gas, coal and heat</b>	<b>10,411</b>	<b>10,875</b>
<b>Total sales of electricity, heat, gas and coal</b>	<b>69,294</b>	<b>64,575</b>
Sales of services and other revenues:		
Distribution services	22,228	22,247
Other services	11,824	9,993
Rental income	102	99
Revenues from goods sold	431	578
Other revenues	343	505
<b>Total sales of services and other revenues</b>	<b>34,928</b>	<b>33,422</b>
Other operating income:		
Granted green and similar certificates	703	612
Contractual fines and interest fees for delays	172	289
Gain on sale of property, plant and equipment	49	41
Gain on sale of material	68	61
Other	1,039	1,027
<b>Total other operating income</b>	<b>2,031</b>	<b>2,030</b>
<b>Total revenues and other operating income</b>	<b>106,253</b>	<b>100,027</b>

Revenues from contracts with customers for the years ended June 30, 2020 and 2019 were CZK 104,416 million and CZK 102,118 million, respectively, and can be linked to the above figures as follows:

	1-6/2020	1-6/2019
Sales of electricity, heat, gas and coal	69,294	64,575
Sales of services and other revenues	34,928	33,422
<b>Total revenues</b>	<b>104,222</b>	<b>97,997</b>
Adjustments:		
Effect of hedging – presales of electricity	741	5,248
Effect of hedging – currency risk hedging	(445)	(1,028)
Rental income	(102)	(99)
<b>Revenues from contracts with customers</b>	<b>104,416</b>	<b>102,118</b>

## 9. Impairment of Property, Plant and Equipment and Intangible assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired or that previously recognized impairment loss, excluding goodwill, is no longer justified or should be reduced. The result of the analysis updated as at June 30, 2020 was the conclusion that selected assets of the Group could be impaired. In such a case, the Group reviews that the recoverable amount of these property, plant and equipment and intangible assets is not lower than their carrying amounts, and if so, the Group recognizes an impairment loss in profit or loss on the line Impairment of property, plant and equipment and intangible assets including goodwill.

Based on an updated estimate of recoverable amounts, the Group recognized a total impairment loss of CZK 1,901 million for the period 1-6/2020.

The decrease in the carrying amount of assets in the amount of CZK 798 million relates to the property, plant and equipment of the cash-generating unit of the Romanian wind farms. The decrease in value occurred mainly due to the expected decrease in electricity prices on the market in future compared to the previous long-term assumptions following the decrease in electricity prices in II. quarter. The decrease in the carrying amount of assets of CZK 685 million relates to the assets of the cash-generating unit Bulgarian distribution, whose assets are classified as held for sale (see Note 5). The impairment of assets of CZK 433 million relates to the goodwill of the cash-generating unit CEZ Chorzów S.A. The decrease in value occurred mainly due to a decrease in the expected gross margin from electricity and heat production due to the change in expected market prices of emission rights and electricity.

Although the ongoing COVID-19 pandemic was the indicator of a possible impairment of the Group's assets, according to updated analyses, this was not a crucial factor causing the impairment loss, as evidenced by the above descriptions of reasons that primarily led to the impairment loss. Further information on the effects of the COVID-19 pandemic on the Group's financial performance is provided in Note 12.

The segment information is provided in Note 11.

## 10. Income Taxes

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

	1-6/2020			1-6/2019		
	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	(2,799)	532	(2,267)	4,918	(935)	3,983
Cash flow hedges reclassified to statement of income	(596)	113	(483)	4,265	(810)	3,455
Change in fair value of debt instruments	730	(137)	593	400	(75)	325
Disposal of debt instruments	-	-	-	1	-	1
Translation differences – subsidiaries	2,041	-	2,041	(964)	-	(964)
Translation differences – associates and joint-ventures	211	-	211	20	-	20
Share on other equity movements of associates and joint-ventures	(13)	-	(13)	4	-	4
Re-measurement gains (losses) on defined benefit plans	-	-	-	2	-	2
<b>Total</b>	<b>(426)</b>	<b>508</b>	<b>82</b>	<b>8,646</b>	<b>(1,820)</b>	<b>6,826</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

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

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

In segment reporting, IFRS 16 is applied to external leases from the Group's perspective, but it is not applied to leases between individual operating segments, although in some cases the asset is leased to another segment internally.

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>1-6/2020</u>	<u>1-6/2019 *</u>
Income before other income (expenses) and income taxes (EBIT)	21,960	19,841
Depreciation and amortization	14,878	14,213
Impairment of property, plant and equipment and intangible assets	1,901	826
Gains and losses on sale of property, plant and equipment, net **	<u>(48)</u>	<u>(38)</u>
EBITDA	<u><u>38,691</u></u>	<u><u>34,842</u></u>

\* The figures for comparative period 1-6/2019 were adjusted compared to figures presented in the interim consolidated financial statements as of June 30, 2019 (Note 2.2.2).

\*\* 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, 2020 and 2019 and at December 31, 2019 (in CZK millions):

June 30, 2020:	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	32,523	3,197	21,990	46,008	2,003	532	106,253	-	106,253
Revenues and other operating income – intersegment	18,184	680	268	3,567	2,388	2,044	27,131	(27,131)	-
Total revenues and other operating income	50,707	3,877	22,258	49,575	4,391	2,576	133,384	(27,131)	106,253
EBITDA	19,739	2,718	10,901	2,862	1,750	719	38,689	2	38,691
Depreciation and amortization	(7,678)	(1,015)	(3,511)	(709)	(1,361)	(604)	(14,878)	-	(14,878)
Impairment of property, plant and equipment and intangible assets	(433)	(803)	(690)	-	12	13	(1,901)	-	(1,901)
EBIT	11,640	901	6,711	2,159	407	140	21,958	2	21,960
Interest on debt and provisions	(3,502)	(115)	(387)	(176)	(104)	(49)	(4,333)	544	(3,789)
Interest income	463	88	46	58	39	71	765	(544)	221
Share of profit (loss) from associates and joint-ventures	(9)	-	(175)	59	(3)	-	-128	-	-128
Income taxes	(1,841)	(101)	(1,166)	(360)	(82)	2	(3,548)	-	(3,548)
Net income	16,142	862	5,106	1,696	319	486	24,611	(9,910)	14,701
Identifiable assets	244,256	26,753	118,860	6,734	22,196	5,463	424,262	-	424,262
Investment in associates and joint- ventures	2,715	249	-	301	963	-	4,228	-	4,228
Unallocated assets									271,391
Total assets									699,881
Capital expenditure	4,122	248	6,239	431	928	272	12,240	(75)	12,165

June 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	29,997	3,397	21,320	42,925	2,239	149	100,027	-	100,027
Revenues and other operating income – intersegment	19,188	185	313	3,808	3,052	2,109	28,655	(28,655)	-
Total revenues and other operating income	49,185	3,582	21,633	46,733	5,291	2,258	128,682	(28,655)	100,027
EBITDA	16,856	2,322	10,398	1,884	2,525	854	34,839	3	34,842
Depreciation and amortization	(7,593)	(908)	(3,258)	(459)	(1,393)	(602)	(14,213)	-	(14,213)
Impairment of property, plant and equipment and intangible assets	(15)	(12)	(810)	-	11	-	(826)	-	(826)
EBIT	9,260	1,402	6,339	1,428	1,148	261	19,838	3	19,841
Interest on debt and provisions	(3,350)	(117)	(387)	(152)	(108)	(72)	(4,186)	555	(3,631)
Interest income	390	85	85	81	55	69	765	(555)	210
Share of profit (loss) from associates and joint-ventures	(16)	(1)	(130)	51	8	-	(88)	-	(88)
Income taxes	(1,194)	13	(1,199)	(292)	(223)	(40)	(2,935)	-	(2,935)
Net income	16,397	1,475	4,717	1,095	942	759	25,385	(11,944)	13,441
Capital expenditure	3,763	486	5,651	622	770	370	11,662	(54)	11,608
December 31, 2019:	Gene- ration – Traditional Energy	Gene- ration – New Energy	Distribu- tion	Sales	Mining	Support Services	Combined	Elimination	Consoli- dated
Identifiable assets	249,324	27,712	116,132	6,616	22,612	5,692	428,088	-	428,088
Investment in associates and joint- ventures	2,589	235	-	280	179	-	3,283	-	3,283
Unallocated assets									273,203
Total assets									<u>704,574</u>

\* The figures for comparative period 1-6/2019 were adjusted compared to figures presented in the interim consolidated financial statements as of June 30, 2019 (Note 2.2.2).

## 12. COVID-19 Pandemic

According to the current evaluation of the impacts of the COVID-19 pandemic on the Group, the existence of no Group company is endangered and, in general, the pandemic has a relatively limited and temporary impact on the Group. However, the reliability of the estimate of the long-term effects of the COVID-19 pandemic on the Group is considerably limited due to the uncertainty of the extent of the effects of the pandemic on the economies of individual countries in Europe and the measures of countries on the economic growth of relevant countries.

The negative impact on the Group's operations is expected mainly for the year 2020 and to a relatively limited extent in the order of percentage units. The Group expects the greatest negative impact of the pandemic on the Sales segment, where we expect a reduction in the margin on the sale of services, a reduction in the margin on the sale of commodities to corporate customers and a potential deterioration in customers' solvency. In the Distribution segment, we expect the overall impact of the pandemic with regard to regulation to a relatively limited extent, however, in 2020 we expect a decrease in the volume of electricity distributed, and thus in the overall profit of distribution companies. The pandemics have a negative effect on the Generation – Traditional Energy and Mining segments, especially as a factor causing a decline in consumption, and thus in market electricity prices. On the other hand, there was a significant increase in market prices of emission rights, which in turn led to an increase in market prices of electricity. Therefore, the pandemic has a negative effect on the lower use of coal-based generation sources, and thus on the decline in demand for coal and on the margin of mining companies. From the point of view of the medium-term economic outlook of the Generation – Traditional Energy segment, the negative impact of the pandemic is limited due to the high level of cash flow hedging. For 2020, almost all expected production has already been contracted, for 2021 approximately 71% of expected production revenues have been contracted and for 2022 approximately 42% has been contracted.

The COVID-19 pandemic is considered an indicator of a possible impairment of the Group's assets, and therefore recoverable value tests have been updated using the best estimates available. The results of the analyzes do not show that the pandemic caused a decrease in the value of the Group's assets. Primary reasons that led to a decrease in the value of selected assets in II. quarter were different (see Note 9). In the second half of 2020, all relevant assets will be tested based on updated business plans of individual segments. The impact of the pandemic in the coming years will depend mainly on the overall development of the economy in Europe.

The Group has taken adequate measures to eliminate the risks and impacts of the COVID-19 pandemic on key operations and employee health.