CEZ Group

Half-year Report

2018

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 currently employ more than 30,000 people.

The largest shareholder of its 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. Our vision is to bring innovations for resolving energy needs and to help improve the quality of life. CEZ Group's strategy is based on three priorities: we are among the best in the operation of conventional power facilities and proactively respond to the challenges of the 21st century, we offer a wide range of products and services addressing our customers' needs, and we reinforce CEZ Group's position in Europe by investing in promising energy assets. The energy sector is heading towards greater decentralization and renewable energy sources, which are areas where CEZ Group is actively seeking additional opportunities and new markets. CEZ Group focuses on modern technologies, which will continue to alter the shape of the energy sector and which it wants to play a major proactive role in.

CEZ Group companies in Czechia extract and sell coal, generate and distribute electricity and heat, and trade in electricity, natural gas and other commodities. They also offer customers technologies for electricity generation and storage and provide them with comprehensive energy services. Their generation portfolio consists of nuclear, coal-fired, gas-fired, hydroelectric, photovoltaic, wind, 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 and renewables. Foreign countries where CEZ Group is doing business include, most importantly, Germany, France, Poland, Romania, Bulgaria, 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.

Table of Contents

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 2018 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 27, 2018

Daniel Beneš
Chairman of the Board of Directors, ČEZ, a. s.

Tomáš Pleskač
Vice-Chairman of the Board of Directors, ČEZ, a. s.

Selected Indicators of CEZ Group

Selected Indicators of CEZ Group

	Unit	H1 2017		H1 2018	2018/2017 Index (%)
Electricity generated (gross)	GWh	31,816		30,743	96.6
Electricity sold [1]	GWh	18,897		19,043	100.8
Heat sold [1]	TJ	13,737		12,857	93.6
Gas sold [1]	GWh	5,407		5,206	96.3
Workforce headcount as at June 30	Persons	26,956		30,392	112.7
Operating revenues	CZK millions	100,883		86,299	85.5
Operating revenues—comparable [2]	CZK millions	85,372		86,299	101.1
of which: sales of electricity and related services [2]	CZK millions	70,633		67,445	95.5
EBITDA	CZK millions	31,311		26,893	85.9
EBIT	CZK millions	17,241		12,677	73.5
Net income	CZK millions	16,658		7,715	46.3
Adjusted net income [3]	CZK millions	16,953		7,843	46.3
Earnings per share—basic	CZK/share	30.5		14.0	45.9
Dividend per ČEZ, a. s. share (gross) [4]	CZK/share	33.0		33.0	100.0
Net cash provided by operating activities	CZK millions	23,597		21,110	89.5
Capital expenditures (CAPEX) [5]	CZK millions	(11,913)		(8,962)	75.2
Investments [6]	CZK millions	(95)		(289)	304.2
Total assets	CZK millions	626,207	[8]	671,642	107.3
of which: property, plant and equipment [7]	CZK millions	428,019	[8]	411,592	96.2
Equity (including non-controling interests)	CZK millions	254,322	[8]	242,869	95.5
Net debt [3]	CZK millions	119,398		128,256	107.4
Return on equity, net (ROE) [3]	%	6.6		4.1	61.3
Net debt/EBITDA [3]	1	2.12		2.59	122.2

[1] Sold to end-use customers (outside CEZ Group).

[2] Comparison applying IFRS 15 on the first half of 2017. According to the standard, w hich changed the manner of reporting as of January 1, 2018, distribution revenue and costs are not reported w here the Group sells electricity in a area in w hich it does not ow n the distribution grid. Application of the standard significantly affects the total revenues and expenses of utility groups (now reported as balance).

[3] For a definition, refer to Methods Used to Calculate Indicators Unspecified in IFRS.

[4] Aw arded in a given year to be paid out of the previous years' income.

[5] Additions to property, plant, and equipment and intangibles.

[6] Acquisition of subsidiaries, associates and joint ventures, net of cash acquired.

[7] Property, plant, and equipment (including nuclear fuel and construction w ork in progress).

[8] As at December 31, 2017.

Credit Rating

The credit ratings of ČEZ, a. s., remained unchanged in the first half of 2018 except for Moody's outlook.

On November 23, 2017, Standard & Poor's Credit Market Services Europe Limited reaffirmed ČEZ's long-term credit rating of A– with a stable outlook. On April 24, 2018, Moody's Investors Service Ltd. reaffirmed ČEZ's long-term credit ratings of Baa1, with the outlook changed from stable to positive in relation to a previous change from stable to positive outlook in the Czech Republic's credit rating (A1).

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, 2018, 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
	as at June 14, 2017 [1]		as at June 15, 2018 [2]	
Legal entities, total	**89.83**	**89.76**	**89.80**	**89.73**
of which: Czech Republic	69.78	70.27	69.78	70.20
ČEZ, a. s.	0.70	–	0.60	–
Other legal entities	19.35	19.49	19.42	19.53
Private individuals, total	**10.17**	**10.24**	**10.20**	**10.27**

[1] Date of record for participation in the 25th Annual Shareholders' Meeting.

[2] Date of record for participation in the 26th Annual Shareholders' Meeting.

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

Entities holding a share amounting to at least 1% of the stated capital of ČEZ, a. s., as registered in the Central Securities Depository as at June 15, 2018, were:

- Czech Republic, represented by the Ministry of Finance of the Czech Republic, holding a share amounting in total to 69.78% of the stated capital, i.e., 70.20% of voting rights
- Clearstream Banking, s.a., holding a share amounting to 2.29% of the stated capital, i.e., 2.30% of voting rights
- Chase Nominees Limited, holding a share amounting to 1.93% of the stated capital, i.e., 1.94% of voting rights
- State Street Bank and Trust Co., holding a share amounting to 1.17% of the stated capital, i.e., 1.18% of voting rights

On March 14, 2018, a group of shareholders acting in concert and having the status of a qualified shareholder, consisting of Ing. Michal Šnobr, J&T Securities Management Limited, Tinsel Enterprises Limited, and Hamafin Resources Limited, 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 1.15% as at June 15, 2018.

On June 20, 2018, Barclays Bank PLC 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 is 1.07%. On July 2, 2018, Barclays Bank PLC delivered a notice stating that its share in voting rights had decreased to 0.89%.

These 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.

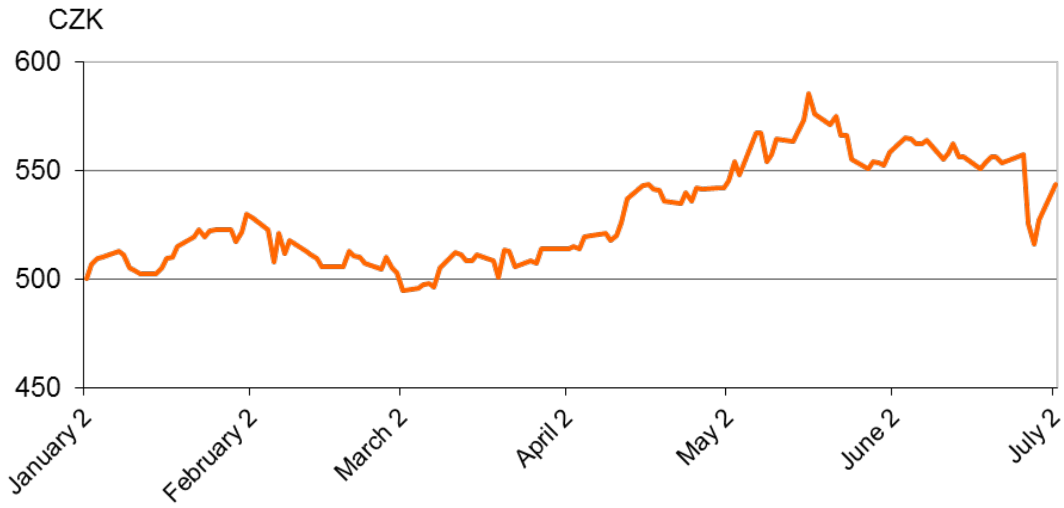
Treasury Shares

To cover claims arising out of the Company's stock option plan, 3,605,021 treasury shares, representing 0.67% of its stated capital, were held on the asset account of ČEZ, a. s., with the Central Securities Depository as at January 1, 2018.

ČEZ used 465,000 shares to satisfy the claims of beneficiaries under the Company's stock option plan in the first half of 2018. The average price was CZK 438.05 per share. The total amount received for the transfer of shares to the beneficiaries was CZK 203.7 million (including interest).

At June 30, 2018, the above-mentioned asset account contained 3,140,021 treasury shares with a nominal value of CZK 314,002,100, that is, 0.58% of the Company's stated capital.

ČEZ, a. s. Share Prices in H1 2018



The share price was CZK 496.50 at the beginning of 2018, reaching a half-year low of CZK 495 on March 2, 2018, a half-year high of CZK 585.50 on May 17, 2018, and closing the half-year at CZK 527.

Payment of Dividends to Shareholders

The annual shareholders' meeting, which was held on June 22 to 23, 2018, decided to pay a dividend of CZK 33 per share before tax. The share of profit to be distributed among shareholders is CZK 17,753,662,047, of which CZK 17,647,731,354 is to be paid out, representing 85.3% of consolidated adjusted net income and 93.1% of consolidated net income.

Entities that were shareholders of ČEZ at the record date, that is, June 28, 2018, 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 2017 becomes payable on August 1, 2018 and can be claimed until July 29, 2022.

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. Their 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. As at the date of admission to trading, ČEZ held a 99.596% stake in the company, the other shareholders being ČEZ Obnovitelné zdroje with a 0.386% stake and ČEZ Korporátní služby with a 0.018% stake in the company's stated capital. On January 2, 2018, 14,000 company shares (0.040%) were sold on the PSE.

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. Their ISIN is TRAAKENR91L9. The shares are not traded on any other public markets. ČEZ, a. s. held a 37.361% stake in the company's stated capital as at June 30, 2018.

4) CEZ Elektro Bulgaria AD

The company’s shares have been traded on the Bulgarian Stock Exchange (Българска Фондова Борса) since October 29, 2012. Their ISIN is BG1100024113. The shares are not traded on any other public markets. As at June 30, 2018, ČEZ held a 67% share and the second largest shareholder, the Chimimport group, held a 25.02% share in the company’s capital.

5) CEZ Razpredelenie Bulgaria AD

The company’s shares have been traded on the Bulgarian Stock Exchange (Българска Фондова Борса) since October 29, 2012. Their ISIN is BG1100025110. The shares are not traded on any other public markets. As at June 30, 2018, ČEZ held a 67% share and the second largest shareholder, the DOVERIE group, held a 11.10% share in the company’s capital.

Selected Events

Selected Events in H1 2018

January

- SÚJB's decision granting an operating license for an indefinite period of time for Units 3 and 4 of the Dukovany nuclear power plant came into effect.
- ČEZ Distribuční služby ceased to exist as a result of a merger by acquisition by ČEZ Distribuce.
- ČEZ Inženýring ceased to exist as a result of a merger by acquisition by ČEZ, a. s.
- A 100% stake was acquired in Polish company Metrolog sp. z o.o.
- A 25% stake in ENESA was acquired by ČEZ ESCO, becoming its sole shareholder.

February

- A sales contract was signed for the sale of CEZ Group's assets in Bulgaria (Oreshets and Bara power plants as well as electricity distribution, sales, and trading, including the provision of support services).
- A change in the legal form of INVEN CAPITAL from a closed-end investment fund to an investment company with variable capital (SICAV) was completed, fulfilling the condition for the management of EUR 50 million from the European Investment Bank.

March

- A technical and economic study of the long-term operation of the Temelín Nuclear Power Plant was completed, confirming the feasibility of the long-term operation of the source by 2060 for Unit 1 and 2062 for Unit 2; no significant safety engineering limitations were identified in the study for operation even beyond this horizon.
- An integrated permit for the first of CEZ Group's prepared wind farms in France (Aschères-le-Marché) came into effect.
- ČEZ Distribuce launched notification of planned outages and failures via email and cell phone texts.

April

- We opened the first of fast-charging stations for electric vehicles planned in collaboration with the Kaufland retail chain in Czechia.
- Engineering modifications to the high-pressure stage of the turbine increased the achievable capacity of Unit 1 of the Temelín Nuclear Power Plant by 2 MW_e.

May

- A ČEZ HEATING SERVICE was launched to provide customers with comprehensive maintenance services for their gas boilers.
- A pilot project for a 3MW lithium-ion battery system was launched at Tušimice; the system should provide ancillary services to the transmission system operator.
- A favorable opinion was received from the Ministry of the Environment of the Czech Republic on the EIA report for the New Fluidized-Bed Boiler and Gas-Fired Boiler Plant project at Mělník.

June

- The annual shareholders' meeting of ČEZ was held, approving dividend payment, among other things; the dividend awarded was CZK 17.8 billion.
- We opened the first of fast-charging points for electric vehicles planned in collaboration with the Benzina gas station network in Czechia; furthermore, we put into operation CEZ Group's 100th charging station for electric vehicles in Czechia.
- A series of public hearings concerning the EIA report for a new nuclear power plant at Dukovany took place in Hungary and Czechia and public debates were held in Austria and Germany.
- ČEZ published its Sustainability Report for 2017.

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

July

- American journal Institutional Investor published its international rankings according to which ČEZ has the best investor relations and the best corporate governance system among developing utilities in the EMEA (Europe, Middle East, and Africa) region; Martin Novák was ranked as the best CFO and Daniel Beneš ranked second among the region's CEOs.
- ČEZ Prodej's code of conduct was updated in accordance with the Energy Regulatory Office's template, now stricter, especially in the supplier switching process; the code of conduct describes rules for traders' dealings with customers as well as rules for dealings between traders.
- The transaction to sell CEZ Group's Bulgarian assets was disapproved by the Commission for Protection of Competition in Bulgaria; the buyer, Inercom, brought an administrative action against the decision.

August

- ČEZ brought an administrative action against the decision of the Bulgarian Commission for Protection of Competition concerning the sale of CEZ Group's Bulgarian assets.

Developments in Relevant Energy Markets

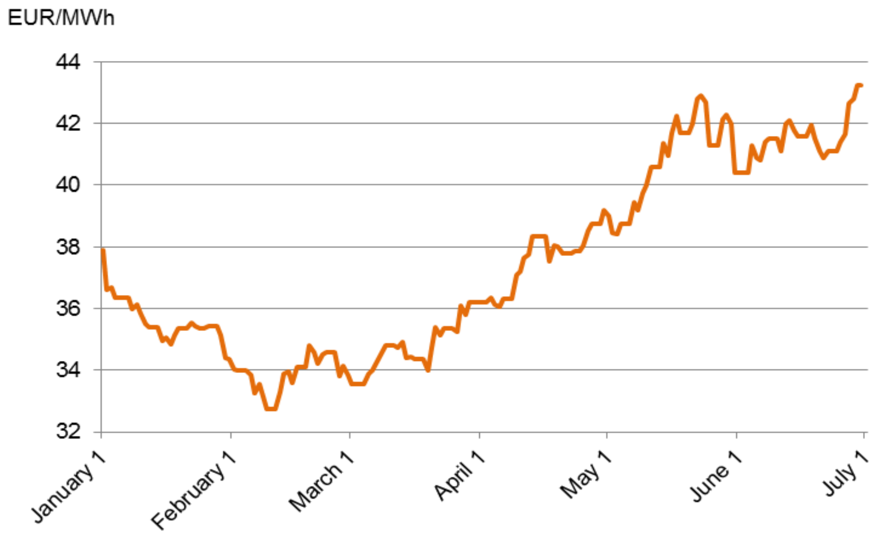
Wholesale prices of electricity in Czechia derive from prices in Germany due to the close interconnection of these two markets. Electricity prices are influenced by the following factors in particular:

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

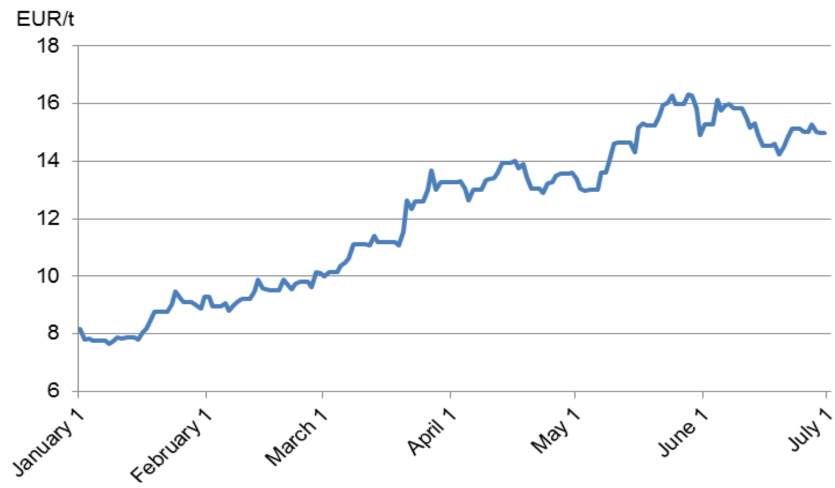
Electricity prices kept their upward trend in the first half of 2018. The price of the German baseload for 2019 increased from 37 EUR/MWh to 43 EUR/MWh, that is, by 16%. The main factor was the increasing price of emission allowances, followed by increases in gas and hard coal prices. Emission allowance prices continue to increase in the second half-year and have reached a ten-year high.

The price of allowances almost doubled from EUR 8 to EUR 15 during the first half of 2018. This is probably caused by an imminent reduction in the supply of allowances in auctions due to the introduction of the Market Stability Reserve (MSR) in 2019.

Wholesale Price of Electricity in 2018 (2019 Year Band) in Germany



Prices of Emission Allowances in 2018 (2019 Forward Contracts)



External Conditions in the Energy Sector

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 2018.

A revision of the EU ETS Directive (2003/87/EC), a key legislative tool for the EU's efforts to reduce greenhouse gas emissions, was published in March. The revised EU ETS should enable reaching the 40% reduction target for 2030 (from 1990 levels) in a cost-effective manner as well as meeting obligations arising out of the Paris Agreement made in 2015. The key parameters of the revised directive include streamlining the system, maintaining measures to prevent carbon leakage (reducing CO_2 emissions only in developed countries), and providing support from low-carbon mechanisms. A balance should be achieved in the carbon market by accelerated withdrawal of surplus allowances in the first five years of operation of the Market Stability Reserve (MSR) and cancellation of surplus allowances within the system starting from 2023.

Also related to efforts to reduce greenhouse gas emissions is Regulation (EU) 2018/841 of the European Parliament and of the Council of May 30, 2018, on the inclusion of greenhouse gas emissions and removals from land use, land use change, and forestry in the 2030 climate and energy framework, and amending Regulation (EU) No. 525/2013 and Decision No. 529/2013/EU, which was published in June. Sectors affected by the regulation include agriculture and forestry, transportation including the building sector, and waste processing. Altogether, those sectors produce about 60% of all EU emissions.

The Official Journal also published in June a package comprising four directives concerning waste management, landfilling, electrical and electronic equipment packaging and waste, waste batteries and accumulators, and disposal of retired vehicles, jointly referred to as the "Waste Package." According to the newly passed legislation, at least 55% of municipal waste, that is, waste from households and small businesses, should be recycled by 2025. The new legislation also introduces a limit for the amount of waste that can be landfilled. It should be no more than 10% of municipal waste in 2035.

Winter Package—Clean Energy for All Europeans

The legislative process of debating the European Commission's extensive package published under the title "Clean Energy for All Europeans" on November 30, 2016, continued in the first half of 2018. Its goal is to transform the European energy market to make it barrier-free, interconnected, based on renewable energy sources, flexible, and with full participation by the demand side.

In terms of potential impacts on the functioning of the whole electricity sector, the most significant proposals are those concerning revision of the energy efficiency directive, revision of the directive on the energy performance of buildings, legislation applicable to the electricity market design (revision of the directive on common rules for the market in electricity, revision of the regulation on the internal market in electricity, revision of the regulation on the ACER—Agency for the Cooperation of Energy Regulators, and a regulation on risk preparedness in the energy sector), revision of the directive on the promotion of the use of energy from renewable sources, and a brand-new regulation on the governance of the Energy Union.

The final versions of three of the legal documents, namely the revision of the directive on the promotion of the use of energy from renewable sources, the revision of the energy efficiency directive, and the regulation on the governance of the Energy Union, were approved during trilateral negotiations (Trialogues) among the European Commission, the Council, and the Parliament at the end of the first half of 2018. The revision of the directive on the energy performance of buildings, the final version of which was approved in late 2017, was published in the Official Journal of the EU in June 2018. Concerning the legislation governing electricity market design, the European Parliament's position and the Council's general approach were adopted in the past period and the approval process is getting to the Trialogue stage. The legislation is expected to be passed in the second half of 2018.

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 have reached several-year highs. The main factor in this growth is the price of emission allowances, which has more than doubled since the beginning of the year. The reason is the forthcoming introduction of the Market Stability Reserve (MSR), which will begin to significantly reduce the amount of allowances in auctions as from the next year. Although the accumulated surplus of allowances in the market is more than enough to cover this deficit in supply in the next years, the market price started to increase relatively quickly. This resulted in: first, some energy companies' efforts to buy more allowances in advance; and second, increased demand by new players in the market (investors and speculators). On the other hand there is a decreasing willingness of surplus holders to sell their previously acquired allowances. These factors may keep the price of emission allowances relatively high in the short and medium term. However, their price may also be volatile due to the continued surplus of allowances in the market.

Increasing prices of energy commodities—coal and gas—are another factor behind the rise in the price of electricity in the recent months. These commodities now largely follow the price of oil, which was rising due to greater global demand and the effect of geopolitical factors. However, the relatively high price of oil instigates new oil production so price stabilization is rather likely to be seen in the future. In addition, the global market in hard coal is cardinally affected by events in China, the world's largest producer and importer of hard coal. The Chinese government has recently attempted to stabilize the domestic coal market. However, the alternating restriction and liberalization of mining in China, if anything, results in uncertainty and consequent price volatility in the market. Coal consumption throughout the world will be more closely associated with increasingly strict emission regulation, which will impair the price competitiveness of coal compared to other fuels and renewables.

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 discussions, an agreement was reached on increasing 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, the first version of which should be prepared by the end of this year and the final version 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 increased from the previous 27% to 32% of consumed energy, which means more than half of electricity generated from renewable sources in 2030 and thus 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, development in renewable generation will be considerably cheaper in the next years than it was in the past, primarily due to technological advancement and multiple elements of competition in RES support.

The target for energy efficiency also increased, from the previous 27% to the current 32.5% in 2030. This means additional pressure on energy savings and, consequently, demand for electricity. In contrast, demand can be positively affected by decarbonization efforts in the transportation and heat sectors through incremental electrification. The emphasis on increased share of renewables and on reduction in 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 major 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. Large batteries with several hundreds of MW of capacity have been put into operation in Europe in just the past few years.

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

CEZ Group Strategic Objectives

The energy market keeps transforming. The electricity generation side keeps showing a reinforcing trend toward generation gradually shifting from conventional facilities to renewables and decentralized facilities. On the side of end-use customers, comprehensive decentralized solutions and customized products are increasingly coming to the fore. Both these trends bring about growing demands for flexibility in generating facilities and transmission and distribution grids. The priorities defined in CEZ Group's strategy address these trends adequately, hence we are not changing the strategy. CEZ Group's mission is to provide safe, reliable, and positive energy to its customers and society at large. Its vision is to bring innovations for resolving energy needs and to help improve quality of life.

CEZ Group's strategy is built on three priorities, namely:

I. Be among the best in the operation of traditional power facilities and proactively respond to the challenges of the 21st century

II. Offer customers a wide range of products and services addressing their energy needs

III. Strengthen and consolidate our position in Europe.

Under these three strategic priorities, CEZ Group concentrates primarily on the following activities:

I. Be Among the Best in the Operation of Traditional Power Facilities and Proactively Respond to the Challenges of the 21st Century

- Focus on operational efficiency as a prerequisite for further existence in both traditional and new energy, while operational safety remains an absolute priority
- Make provisions for the long-term operation of the Dukovany Nuclear Power Plant and prepare well for ensuring the long-term operation of the Temelín Nuclear Power Plant
- Develop new unit projects at Dukovany and Temelín depending on changes in the Czech state's attitude to nuclear energy development
- In conventional facilities, give priority to CEZ Group's brown coal-fired power plants adjacent to open-pit brown coal mines; regularly assess further steps for facilities at other locations
- Phase out older condensing units
- Continually improve the efficiency and flexibility of our distribution grid

II. Offer Customers a Wide Range of Products and Services Addressing Their Energy Needs

- Achieve the top level in customer care and electricity and gas sales
- Develop additional products and services and leverage synergies with energy commodities
- Launch new business models—from equipment deliveries to electricity generation and supply at the customer's point of consumption, including financing and related services
- Invest in early opportunities and technologies to allow CEZ Group to establish promising positions in the future energy environment
- Prepare distribution grids for operation under the conditions of increasingly decentralized generation

III. Strengthen and Consolidate Our Position in Europe

- Strive to acquire assets and companies in the distribution, renewables, and traditional energy segments, sales companies that deliver energy and related products to end-use customers, and companies developing new products and services that are promising from the perspective of future decentralized energy
- Optimize our capital and ownership structure, possibly divesting selected assets in order to reduce risk exposure in selected regions
- Structure transactions so that they use as little of CEZ Group's debt capacity as possible

- Focus on regions with a stable regulatory environment

The idea of CEZ Group transformation, or modification to CEZ Group’s internal governance and structure, is based on current changes in the energy sector, and CEZ Group not only implements its approved strategy but is also contemplating possible transformation that has potential to bring benefits to all its shareholders. There are two main reasons why the transformation is contemplated by the management of ČEZ, a. s.

The first reason is the fact that Europe’s energy sector has shown a clearly discernible tendency to principally split into two different and increasingly diverging directions in recent years. One direction is traditional energy, characterized by large generating facilities with a focus on the operation and maintenance of existing power plants. This is significantly affected by ever stricter legislation, increasing safety requirements, and tighter regulation in general. The other direction is the dynamically growing segment of new and decentralized energy, prevailingly oriented toward comprehensive customer energy services and decentralized renewable energy sources.

The second reason is the fact that already executed transformations of utilities taking into consideration the aforementioned changes in the energy sector, brought a number of benefits to their shareholders. They resulted in the creation of various kinds of entities with a clear strategic focus and, usually, in a rise in the market price of their shares, as investors find the new energy sector’s profile attractive. Now is apparently the right moment for IPOs to obtain funding for development projects. The traditional energy sector can then better concentrate on the operation and possibly construction of large generating facilities to help fulfill energy policy and energy security goals, in response to both regulatory rules and arising market and support mechanisms.

Last but not least, the contemplated transformation of CEZ Group would give CEZ Group a structure suited to the variant of a new nuclear power plant being constructed by an entity wholly owned by the Czech state, creating the conditions for fulfilling the State Energy Policy and Czechia’s other goals concerning energy policy and energy security.

Although ČEZ management is contemplating transformation for the above reasons, no conclusions on this matter have been adopted by the Company’s Board of Directors.

CEZ Group Financial Performance

As at June 30, 2018, the consolidated CEZ Group comprised a total of 148 companies, with 134 companies fully consolidated and 14 associates and joint ventures consolidated using the equity method.

CEZ Group Consolidated Unit as at June 30, 2018

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

Generation—Traditional Energy

ČEZ, a. s.
Areál Třeboradice, a.s.
CEZ Chorzów S.A.
CEZ Skawina S.A.
CEZ Srbija d.o.o.
CEZ Towarowy Dom Maklerski sp. z o.o.
CEZ Trade Romania S.R.L.
ČEZ Teplárenská, a.s.
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.
Energocentrum Vítkovice, a. s.
Energotrans, a.s.
OSC, a.s.
Tepelné hospodářství města Ústí nad Labem s.r.o.
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. *)
Egemer Elektrik Üretim 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 Erneuerbare Energien Beteiligungs GmbH
CEZ Erneuerbare Energien Verwaltungs GmbH
CEZ France S.A.S.
CEZ Chorzów II sp. z o.o.
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.
Eco-Wind Construction S.A.
Ferme Eolienne de la Piballe S.A.S.
Ferme Eolienne de Neuville-aux-Bois S.A.S.
Ferme Eolienne de Saint-Aulaye S.A.S.
Ferme Eolienne de Saint-Laurent-de-Ceris S.A.S.
Ferme Eolienne de Seigny S.A.S.
Ferme Eolienne de Thorigny S.A.S.
Ferme Eolienne des Breuils S.A.S.
Ferme Eolienne des Grands Clos S.A.S.
Ferme Eolienne du Germancé S.A.S.
Free Energy Project Oreshets EAD
M.W. Team Invest S.R.L.
Ovidiu Development S.R.L.
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
ČEZ Energo, s.r.o. *)

juwi Wind Germany 100 GmbH & Co. KG *)

Distribution

CEZ Razpredelenie Bulgaria AD
ČEZ Distribuce, a. s.
Distributie Energie Oltenia S.A.
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 Magyarország Kft.
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 Energetické služby, s.r.o.
ČEZ ESCO, a.s.
ČEZ LDS s.r.o.
ČEZ Prodej, a.s.
ČEZ Solární, s.r.o.
D-I-E ELEKTRO AG
EAB Automation Solutions GmbH
EAB Elektroanlagenbau GmbH Rhein/Main
EASY POWER s.r.o.
Elektro-Decker GmbH
Elevion GmbH
ENESA a.s.
ESCO City I sp. z o.o.
ESCO City II sp. z o.o.
ESCO City III sp. z o.o.
ETS Efficient Technical Solutions GmbH
ETS Efficient Technical Solutions Shanghai Co. Ltd.
EVČ s.r.o.
HAu.S GmbH
HORMEN CE a.s.
KART, spol. s r.o.
Metrolog sp. z o.o.
OEM Energy sp. z o.o.
Rudolf Fritz GmbH
Elevion Co-Investment GmbH & Co. KG *)
Sakarya Elektrik Perakende Satis A.S.*)

Mining

Severočeské doly a.s.
LOMY MOŘINA spol. s r.o. *)

Other

Centrum výzkumu Řež s.r.o.
CEZ Bulgaria EAD
CEZ Bulgarian Investments B.V.
CEZ Deutschland GmbH
CEZ Holdings B.V.
CEZ ICT Bulgaria EAD
CEZ International Finance B.V.
CEZ MH B.V.
CEZ New Energy Investments B.V.
CEZ Polska sp. z o.o.
CEZ Produkty Energetyczne Polska sp. z o.o.
CEZ Romania S.A.

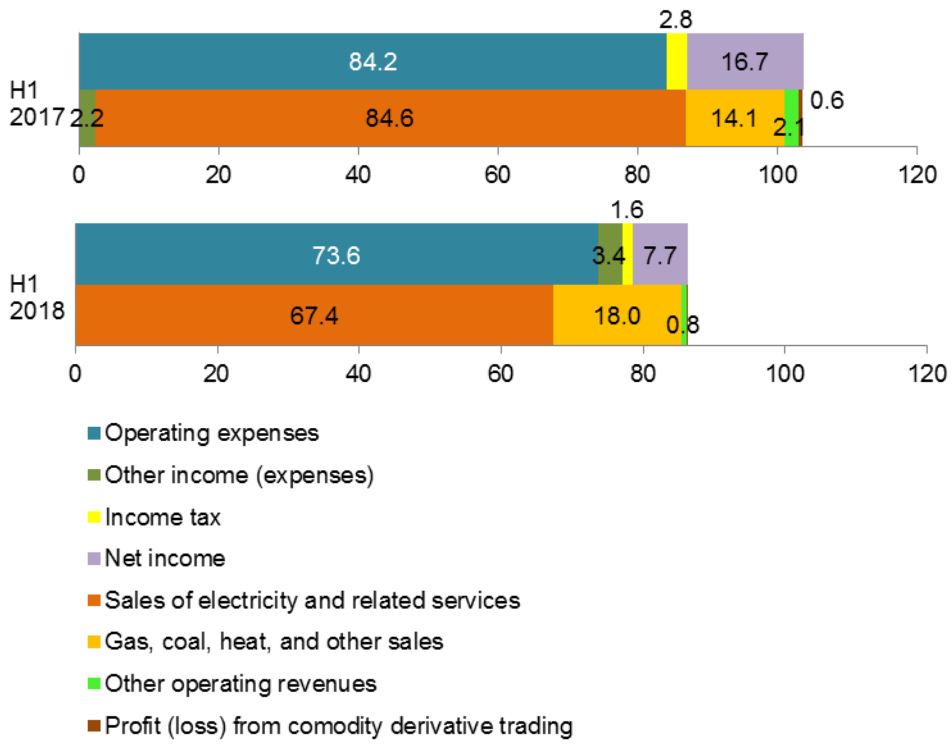
CEZ Ukraine LLC
ČEZ Bohunice a.s.
ČEZ Energetické produkty, s.r.o.
ČEZ ENERGOSERVIS spol. s r.o.
ČEZ ICT Services, a. s.
ČEZ Korporátní služby, s.r.o.
EGP INVEST, spol. s r.o.
Inven Capital, SICAV, a.s.
MARTIA a.s.
PRODECO, a.s.
Revitrans, a.s.
SD - Kolejová doprava, a.s.
ŠKODA PRAHA a.s.
ŠKODA PRAHA Invest s.r.o.
Telco Pro Services, a. s.
ÚJV Řež, a. s.
Akcez Enerji A.S.*)
Jadrová energetická spoločnosť Slovenska, a. s.*)

*) *Joint venture or associate*

CEZ Group Financial Results

Changes in Revenues, Expenses, and Income

CEZ Group Net Income Breakdown (CZK Billions)



Earnings before depreciation and amortization, allowances, sales of property, plant, and equipment and intangibles, and write-off of canceled investments (EBITDA) decreased by CZK 4.4 billion year-on-year to CZK 26.9 billion. Net income (after-tax income) decreased by CZK 8.9 billion to CZK 7.7 billion.

The year-on-year decrease in net income was significantly affected by nonrecurrent 2017 revenue of CZK 6.7 billion in total, including the effect of termination of MOL stockholding (CZK 4.5 billion), revenue from the sale of residential properties in Prague (CZK 1.1 billion), the effect of a settlement agreement with Sokolovská uhelná (CZK 0.7 billion), and the effect of a settlement agreement with Bulgarian state-owned energy company NEK (CZK 0.4 billion). The year-on-year comparison is also negatively affected by revaluation of hedges for the supplies of electricity from planned generation for the second half of 2018 due to a large increase in the market prices of commodities in the first half of 2018. This temporary negative effect of CZK 1.2 billion will be offset in the second half of 2018 because actual supplies of electricity will be realized at a value CZK 1.2 billion higher than the nominal value of hedging.

Adjusted net income decreased by CZK 9.1 billion year-on-year to CZK 7.8 billion: net income decreased by CZK 8.9 billion while adjustment for the negative effect of fixed asset impairments was CZK 0.2 billion lower.

Operating revenues increased by CZK 0.9 billion year-on-year after adjustment for methodology changes in IFRS, primarily due to higher revenue from the sales of services (CZK +5.4 billion) relating mainly to the acquisition of German Elevion group (consolidated since September 2017). In contrast, the year-on-year comparison is negatively affected by lower revenue from the sales of electricity and related services (CZK -3.2 billion) and the effect of the sale of real property in Prague in 2017 (CZK -1.4 billion).

Operating expenses increased by CZK 4.6 billion after adjustment for methodology changes in IFRS. The year-on-year comparison was negatively affected primarily by higher personnel expenses

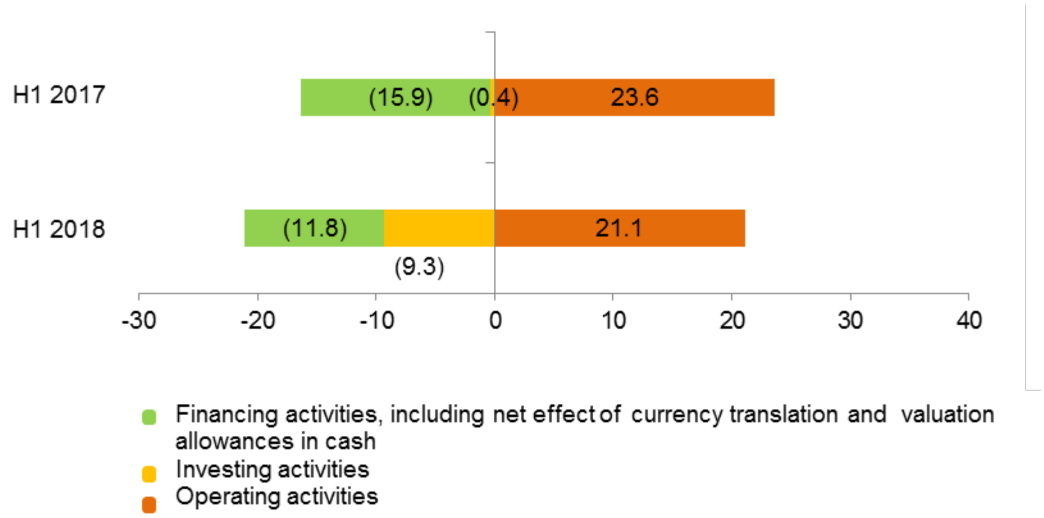
(CZK -2.2 billion), higher purchased services (CZK -2.2 billion), and higher costs of material (CZK -1.5 billion), primarily due to the acquisition of German Elevion group (consolidated since September 2017). Another negative effect was produced by a change in the balance of impairments and provisions (CZK -1.5 billion), primarily in connection with the termination of disputes with Sokolovská uhelná in 2017, and higher expenses on emission allowances (CZK -0.9 billion). In contrast, operating expenses were brought down in year-on-year comparison by lower expenses on the purchases of electricity and related services (CZK +2.8 billion) and lower depreciation and amortization of fixed assets (CZK +0.9 billion) due to updated estimates of the service life of ČEZ power plants, which exceeded the effect of the start of depreciation of the new Ledvice facility after its completion in late 2017.

Other income (expenses) decreased earnings by CZK 5.5 billion year-on-year, primarily due to the termination of MOL stockholding including related operations in 2017 (CZK -4.5 billion). In addition, earnings were negatively affected by higher interest expenses due to lower interest capitalization after the completion of the new Ledvice facility (CZK -0.7 billion) and other effects (CZK -0.3 billion), primarily exchange differences.

Income tax decreased by CZK 1.2 billion due to lower earnings before taxes.

Cash Flows

CEZ Group Cash Flows (CZK Billions)



Cash flows from operating activities decreased by CZK 2.5 billion year-on-year to CZK 21.1 billion. In year-on-year comparison, there was a decrease in earnings before taxes adjusted for non-cash operations (CZK -1.1 billion) and change in working capital (CZK -0.8 billion). Interest paid, net of capitalized interest, increased (CZK -1.0 billion) and received dividends decreased (CZK -0.2 billion) in 2018, while income tax paid decreased (CZK +0.6 billion).

Cash used in investing activities increased by CZK 8.9 billion in year-on-year comparison. This was primarily due to a decrease in proceeds from sale of noncurrent assets (CZK -11.1 billion), primarily due to the sale of MOL Nyrt. stock in 2017 (CZK -12.0 billion), and lower proceeds from disposal of subsidiaries and joint ventures (CZK -1.2 billion) due to CMEPI B.V. liquidation balance in 2017 and the sale of the Tisová power plant in 2017. In contrast, additions to noncurrent assets decreased year-on-year (CZK +3.8 billion) due to lower investments in property, plant, and equipment. Repayment of loans decreased year-on-year (CZK -0.4 billion).

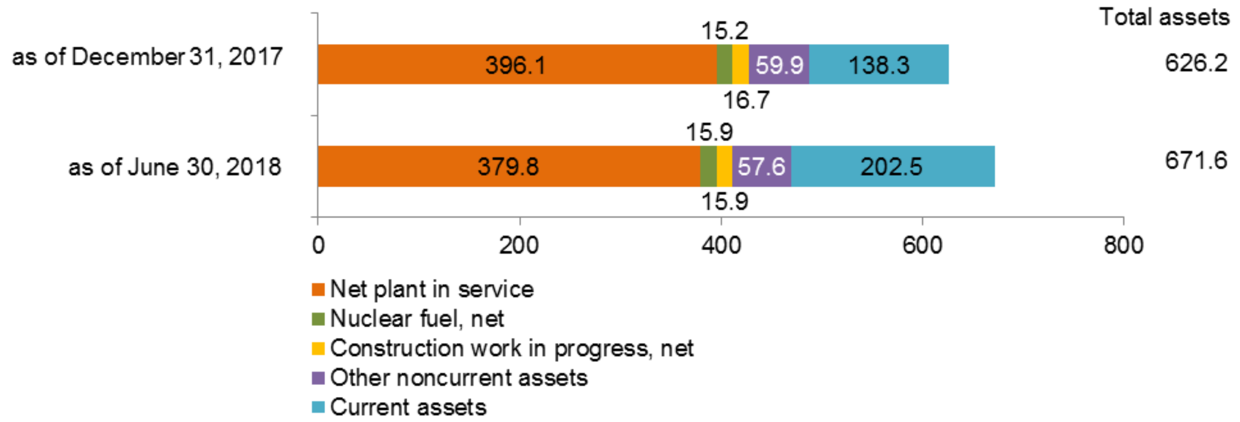
Cash used in financing activities decreased by CZK 3.9 billion year-on-year. This was primarily due to a lower balance of loans and repayments in 2018 (CZK +3.7 billion). Sales of treasury shares were higher in 2018 (CZK +0.2 billion).

The net effect of currency translation and valuation allowances in cash was positive in year-on-year comparison (CZK +0.2 billion).

Structure of Assets, Equity, and Liabilities

The value of CEZ Group's consolidated assets, equity, and liabilities increased by CZK 45.4 billion to CZK 671.6 billion in the first half of 2018.

Structure of CEZ Group Assets (CZK Billions)

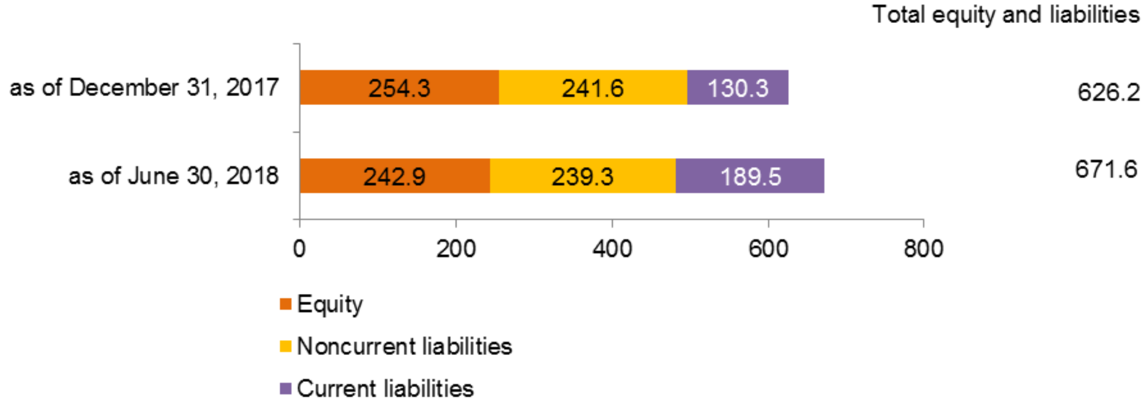


Noncurrent assets decreased by CZK 18.8 billion to CZK 469.2 billion. The value of property, plant, and equipment, nuclear fuel, and construction work in progress decreased by CZK 16.4 billion. The decrease was primarily due to the reclassification of Bulgarian companies as assets held for sale (CZK -10.3 billion). It was also due to depreciation, amortization and fixed asset impairments, which exceeded capital expenditure (CZK -6.2 billion).

Other noncurrent assets decreased by CZK 2.3 billion to CZK 57.6 billion in the first half of 2018 as a result of decrease in other long-term financial assets, net, due to sale of liquid bonds (CZK -1.3 billion). Noncurrent intangible assets decreased (CZK -0.9 billion), with the effect of the reclassification of Bulgarian companies as assets held for sale being (CZK -0.4 billion).

Current assets increased by CZK 64.2 billion to CZK 202.5 billion in the first half-year, primarily due to increased receivables from derivatives including options (CZK +45.9 billion) and the reclassification of Bulgarian companies as assets held for sale (CZK +16.8 billion). Other primary factors for the increase in current assets were higher trade receivables (CZK +3.6 billion), higher income tax assets (CZK +1.9 billion), and higher inventories (CZK +0.4 billion). By contrast, there was decrease in cash and cash equivalents (CZK -2.1 billion), decrease in liquid securities (CZK -1.6 billion), and decrease in emission allowances (CZK -0.7 billion).

Structure of CEZ Group Equity and Liabilities (CZK Billions)



Equity, including noncontrolling interests, decreased by CZK 11.5 billion to CZK 242.9 billion. The decrease was primarily due to change in equity in relation to dividend awarded to shareholders (CZK -17.7 billion). By contrast, net income generated in 2018 increased equity by CZK 7.7 billion. The application of new IFRS standards starting from January 1, 2018, resulting in the reclassification of connection fees received from customers until 2009 as retained earnings, increased equity by CZK 2.4 billion. Other comprehensive income decreased equity (CZK -4.2 billion).

Noncurrent liabilities decreased by CZK 2.3 billion to CZK 239.3 billion, primarily due to the application of new IFRS standards on connection fees (CZK -3.1 billion), while long-term derivatives increased (CZK +0.8 billion).

Current liabilities increased by CZK 59.2 billion to CZK 189.5 billion. The increase was primarily due to increase in payables from short-term derivative trading including options (CZK +51.7 billion) and increase in payables to shareholders in the distribution of profit (CZK +17.7 billion). Liabilities associated with assets held for sale increased (CZK +5.8 billion). In contrast, short-term borrowings decreased (CZK -5.6 billion), as did the current portion of long-term debt (CZK -5.4 billion) and provisions (CZK -1.8 billion) primarily due to decrease in the provision for emission allowances. Other liabilities decreased (CZK -2.3 billion).

Comprehensive Income

Net comprehensive income in the first half of 2018 decreased by CZK 10.3 billion, as compared to the first half of 2017, to CZK 3.5 billion.

Net income decreased by CZK 8.9 billion year-on-year and other comprehensive income decreased by CZK 1.3 billion. Other comprehensive income was negatively affected, year-on-year, primarily by change in the fair value of financial instruments for cash flow hedges (CZK -11.0 billion); in contrast, termination of MOL stockholding in 2017 resulted in the derecognition of equity instruments from equity with a year-on-year effect of (CZK +5.6 billion) on comprehensive income. Translation differences for subsidiaries were (CZK +2.0 billion). Deferred tax associated with other comprehensive income had a positive effect (CZK +2.2 billion).

Net Debt

CEZ Group Net Debt (CZK Billions)

	H1 2017	H1 2018
Long-term debt, net of current portion	131.5	132.4
Current portion of long-term debt	9.6	3.2
Short-term loans	5.5	5.5
Total debt	**146.6**	**141.1**
Cash and cash equivalents	(18.7)	(10.5)
Highly liquid financial assets	(8.5)	(2.3)
Net debt	**119.4**	**128.3**
EBITDA (as in preceding 12 months)	**56.3**	**49.5**
Net debt / EBITDA	**2.12**	**2.59**

Financial Results of CEZ Group Segments

Segments and Their Contributions to CEZ Group's Financial Performance

	Operating Revenues Other Than Intersegment Revenues	Operating Intersegment Revenues	Total Operating Revenues	EBITDA	EBIT	Income Tax	Net Income	CAPEX	Workforce Headcount as at June 30
	(CZK millions)	(CZK millions)	(CZK millions)	(CZK millions)	(CZK millions)	(CZK millions)	(CZK millions)	(CZK millions)	(persons)
Generation—Traditional Energy									
H1 2017	27,763	15,372	43,135	12,733	4,813	(563)	13,818	5,120	6,618
H1 2018	22,118	16,901	39,019	9,549	1,310	340	29,647	2,385	6,880
Gneration—New Energy									
H1 2017	2,175	407	2,582	2,324	1,207	(119)	931	173	57
H1 2018	2,447	278	2,725	2,152	1,276	(60)	1,092	117	133
Distribution									
H1 2017	14,493	14,450	28,943	10,046	6,943	(1,249)	5,575	5,279	8,212
H1 2018	11,591	12,230	23,821	9,973	6,892	(1,241)	5,602	5,342	8,353
Sales									
H1 2017	53,066	2,356	55,422	2,732	2,692	(511)	2,067	39	2,309
H1 2018	46,802	6,436	53,238	2,129	1,970	(349)	1,620	134	5,271
Mining									
H1 2017	2,211	2,367	4,578	2,095	938	(179)	1,341	331	2,692
H1 2018	2,302	2,361	4,663	2,029	877	(160)	1,187	273	2,653
Other									
H1 2017	1,175	7,177	8,352	1,378	645	(153)	5,439	3,118	7,068
H1 2018	1,039	5,509	6,548	1,057	348	(138)	498	1,168	7,102
Elimination									
H1 2017	–	(42,129)	(42,129)	3	3	–	(12,513)	(2,147)	–
H1 2018	–	(43,715)	(43,715)	4	4	–	(31,931)	(457)	–
Consolidated									
H1 2017	100,883	–	100,883	31,311	17,241	(2,774)	16,658	11,913	26,956
H1 2018	86,299	–	86,299	26,893	12,677	(1,608)	7,715	8,962	30,392

The EBITDA of CEZ Group's most important segment, Generation—Traditional Energy, decreased by CZK 3.2 billion, of which CZK 3.1 billion in Czechia. The decrease was primarily due to revaluation of hedges for electricity generation in the second half of 2018, reflecting an increase in market electricity prices (CZK -1.2 billion)[1], lower realization prices of generated electricity in the first half-year including the effect of hedges (CZK -0.2 billion), and higher expenses on emission allowances for generation (CZK -1.0 billion). In addition, there was a negative year-on-year effect of decreased generation at the Počerady CCGT plant (CZK -0.3 billion) and coal-fired power plants (CZK -0.2 billion) and higher cost of generating facility maintenance (CZK -0.3 billion). The year-on-year comparison is also negatively affected by the positive effect of the settlement agreement with Sokolovská uhelná in 2017 (CZK -0.7 billion). In contrast, there was a positive effect of increased generation at nuclear power plants (CZK +0.6 billion) and higher revenue from commodity trading (CZK +0.3 billion). EBITDA in Poland decreased by CZK 0.1 billion due to lower amounts of heat supplied (CZK -0.1 billion) primarily due to climatic conditions.

The Generation–New Energy segment's EBITDA decreased by CZK 0.2 billion. In Romania, it decreased by CZK 0.3 billion primarily due to lower allocation of green certificates to wind farms, which have been allocated just one certificate per MWh generated since January 1, 2018, as opposed to two certificates allocated in 2017 (CZK -0.5 billion). The decrease was partially offset by higher selling prices of electricity (CZK +0.1 billion). In Germany, EBITDA increased by CZK 0.1 billion due to the acquisition of wind parks with an installed capacity of 35.4 MW at Lettweiler Höhe (in CEZ Group's portfolio since September 2017). In Czechia (CZK +0.1 billion), it was helped by higher generation and selling prices of electricity.

The EBITDA of the Distribution segment barely changed year-on-year and was CZK 10.0 billion. A year-on-year increase of CZK 0.1 billion was achieved in Czechia thanks to higher gross margin on electricity distribution. The higher margin was primarily due to a year-on-year increase in permitted revenue, partially offset by higher fixed expenses due to an increase in the number of employees related to increased investments in the distribution system and a negative effect of the application of IFRS 15 on revenues from activities to ensure power input and connection (CZK +0.3 billion). The result was negatively affected by higher additions to allowances on receivables (CZK -0.2 billion). There was a minor decrease in Romania (CZK -0.1 billion) and Bulgaria (CZK -0.1 billion), which were also affected by the application of IFRS 15 on revenues from activities to ensure power input and

[1] This temporary negative effect will be offset in the second half of 2018 because supplies of generated electricity will be realized at a price CZK 1.2 billion higher than the nominal value of hedge contracts.

connection. Other causes of the decrease were higher fixed operating expenses (especially personnel expenses and facility maintenance) in Romania and higher expenses to cover grid losses (lower amount of losses but higher prices of electricity purchased to cover the losses) in Bulgaria.

The Sales segment reported a year-on-year decrease of CZK 0.6 billion in EBITDA. A decrease in Czechia (CZK -0.6 billion) was due to ČEZ Prodej's lower gross margin resulting primarily from higher expenses on purchases of electricity (CZK -0.5 billion) and gas (CZK -0.2 billion) and was partially offset by higher margin on sales of energy services. A decrease in Bulgaria (CZK -0.5 billion) was due to the positive effect of an out-of-court settlement agreement made between CEZ Elektro Bulgaria and state-owned energy company NEK in 2017 (CZK -0.4 billion). EBITDA in Romania increased by CZK 0.3 billion due to higher gross margin related to delayed reflection of actual expenses on electricity purchases in regulated prices for end-use customers. Thanks to the acquisition of the Elevion group, which has been included in CEZ Group's consolidated results since September 2017, EBITDA in Germany increased by CZK 0.1 billion year-on-year.

The Mining segment's EBITDA decreased by CZK 0.1 billion as compared to the first half of 2017, primarily due to lower coal consumption by CEZ Group companies, which was partially offset by higher sales to external customers. There was also a negative effect of higher fixed expenses and changed frequency of payments for mined minerals.

The Other segment reported a decrease of CZK 0.3 billion in EBITDA, primarily in relation to a decrease in intragroup deliveries and margins in Czechia.

Related Parties

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

	Receivables		Payables	
	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018
ČEZ Energo, s.r.o.	83	44	23	9
LOMY MOŘINA spol. s r.o.	2	1	12	18
Elevion Co-Investment GmbH & Co. KG	–	–	124	125
Ústav aplikované mechaniky Brno, s.r.o.	7	1	44	9
Výzkumný a zkušební ústav Plzeň s.r.o.	49	54	2	1
Others	27	15	16	6
Total	**168**	**115**	**221**	**168**

Sales to and Purchases from Related Parties (CZK Millions)

	Sales to related parties		Purchase from related parties	
	H1 2017	H1 2018	H1 2017	H1 2018
Akcez Enerji A.S.	13	6	–	–
Akenerji Elektrik Üretim A.S.	14	8	–	–
ČEZ Energo, s.r.o.	147	129	139	57
LOMY MOŘINA spol. s r.o.	5	5	93	93
Teplo Klášterec s.r.o.	32	30	–	–
Ústav aplikované mechaniky Brno, s.r.o.	4	1	23	27
VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s.	16	16	1	1
Others	22	5	26	12
Total	**253**	**200**	**282**	**190**

Interest and Revenue from Shares of Profit Received—Related Parties (CZK Millions)

	Interest and other financial expenses		Interest and other financial income		Dividend income	
	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018
Akcez Enerji A.S.	–	–	9	7	–	–
CM European Power International B.V. [1)]	–	–	–	–	208	–
Elevion Co-Investment GmbH & Co. KG	–	4	–	–	–	–
LOMY MOŘINA spol. s r.o.	–	–	–	–	11	5
Sakarya Elektrik Dagitim A.S.	–	–	1	3	–	–
Výzkumý ústav pro hnědé uhlí a.s.	–	–	–	–	11	–
Total	**–**	**4**	**10**	**10**	**230**	**5**

[1)] *Related party until December 31, 2017, when its liquidation was completed.*

Commercial and Financial Outlook for 2018

As at August 7, 2018, CEZ Group estimated 2018 consolidated operating income before depreciation and amortization, impairments including goodwill amortization, and sales of fixed assets (EBITDA) at CZK 51 to 53 billion. The outlook anticipates that CEZ Group will generate a total of 64 TWh of electricity in 2018, including almost 30 TWh at nuclear power plants and almost 29 TWh at coal-fired power plants.

EBITDA is estimated to decrease year-on-year primarily due to specific year-on-year effects totaling CZK 3 billion, including the valuation of green certificates for Romanian wind parks (allocated in the past) in 2017 (CZK -0.8 billion), lower allocation of green certificates to Romanian wind parks since January 1, 2018 (CZK -0.7 billion), the settlement agreement made with Sokolovská uhelná in 2017 (CZK -0.7 billion), the effect of the out-of-court settlement agreement made with Bulgarian state-owned company NEK in 2017 (CZK -0.4 billion), and better-than-average revenue from commodity trading in 2017.

CEZ Group estimates its 2018 adjusted net income at CZK 12 to 14 billion. The estimated year-on-year decrease is primarily due to lower EBITDA as well as the effect of termination of MOL shareholding in 2017 (CZK -4.5 billion), lower interest capitalization (CZK -1.3 billion), and revenue from the sale of real property in Prague in 2017 (CZK -1.1 billion). The use of an interval in the prediction of CEZ Group’s 2018 EBITDA and net income is primarily caused by the following risks and opportunities: payment of SŽDC debt from 2011, availability of generating facilities, and possible new RES and ESCO acquisitions.

CEZ Group estimates its 2018 capital expenditures at approximately CZK 30 billion, with a majority planned to be invested in generation and distribution assets in Czechia.

No major changes are expected in the overall structure of assets from which the income for 2018 will be generated.

CEZ Group Capital Expenditures

Capital Expenditures (CZK Millions)

	H1 2017	H1 2018
Additions to property, plant and equipment and other non-current assets, including capitalized interest	**13,791**	**10,013**
Additions to property, plant and equipment	11,552	8,847
of which: nuclear fuel procurement	1,744	1,088
Additions to intangibles	361	115
Additions to long-term financial assets	108	–
Change in balance of liabilities attributable to capital expenditure	1,770	1,051
Financial investments [1)]	**95**	**289**
Capital expenditures, total	**13,886**	**10,302**

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

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

	Czechia		Germany		France		Poland		Romania		Bulgaria		Other		Total	
	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018
Mining	331	273	–	–	–	–	–	–	–	–	–	–	–	–	331	273
Generation—Traditional energy	5,091	2,356	–	–	–	–	29	29	–	–	–	–	–	–	5,120	2,385
of which: nuclear fuel procurement	1,744	1,075	–	–	–	–	–	–	–	–	–	–	–	–	1,744	1,075
Generation—New energy	–	–	28	–	–	1	14	4	131	111	–	–	–	–	173	117
Distribution	3,878	4,329	–	–	–	–	–	–	738	574	663	439	–	–	5,279	5,342
Sales	38	56	–	72	–	–	–	2	–	–	–	3	1	1	39	134
Other [1) 2)]	932	692	1	1	–	–	2	3	18	15	18	–	–	–	971	711
Total	**10,271**	**7,707**	**28**	**73**	**–**	**1**	**45**	**38**	**886**	**701**	**681**	**442**	**1**	**1**	**11,913**	**8,962**

[1)] *Including the value of inter-segment elimination*

[2)] *Including the purchases of nuclear fuel by Centrum výzkumu Řež*

CEZ Group Commodity Procurement, Sales, and Generation

Electricity Procured and Supplied

Electricity Procured and Sold (GWh)

	H1 2017	H1 2018	2018/2017 Index (%)
Electricity procured	**28,640**	**27,584**	**96.3**
Generation	31,816	30,743	96.6
In-house and other consumption, including pumping in pumped-storage plants	(3,176)	(3,159)	99.5
Sold to end-use customers	**(18,897)**	**(19,043)**	**100.8**
Wholesale balance	**(7,440)**	**(6,467)**	**86.9**
Sold in the wholesale market	(126,442)	(157,386)	124.5
Purchased in the wholesale market	119,003	150,919	126.8
Grid losses	**(2,304)**	**(2,074)**	**90.0**

Electricity Generation, by Source of Energy (GWh)

	Czechia		Germany		Poland		Romania		Bulgaria		Total	
	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018
Nuclear	13,876	14,851	–	–	–	–	–	–	–	–	13,876	14,851
Coal	13,652	12,006	–	–	1,164	1,164	–	–	–	–	14,816	13,170
Hydro	1,132	1,133	–	–	5	3	43	46	–	–	1,180	1,181
Biomass	298	246	–	–	87	120	–	–	–	–	385	366
Photovoltaic	73	72	–	–	–	–	–	–	3	3	76	75
Wind	3	5	97	142	–	–	654	593	–	–	754	740
Natural gas	727	358	–	–	–	–	–	–	–	–	727	358
Biogas	2	2	–	–	–	–	–	–	–	–	2	2
Total	**29,763**	**28,673**	**97**	**142**	**1,256**	**1,286**	**697**	**639**	**3**	**3**	**31,816**	**30,743**

Electricity Sold to End-Use Customers (GWh)

	Czechia		Poland		Romania		Bulgaria		Slovakia		Hungary		Total	
	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018
Large end-use customers	4,283	4,158	1,317	1,259	434	330	1,943	2,342	778	900	596	758	9,350	9,747
Commercial retail	1,084	1,042	140	135	415	444	808	775	59	78	–	–	2,506	2,475
Residential	3,779	3,719	–	–	865	868	2,331	2,235	65	–	–	–	7,040	6,821
Total	**9,146**	**8,919**	**1,457**	**1,394**	**1,714**	**1,642**	**5,082**	**5,353**	**902**	**977**	**596**	**758**	**18,897**	**19,043**

Installed Capacity

Installed Capacity by Type of Generation and Country (MW)

	Czechia		Germany		Poland		Romania		Bulgaria		Total	
	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018
Nuclear power plants	4,290	4,290	–	–	–	–	–	–	–	–	4,290	4,290
CCGT power plants	845	845	–	–	–	–	–	–	–	–	845	845
Coal-fired power plants and heating plants	5,533	6,193	–	–	678	678	–	–	1,260	–	7,471	6,871
Hydro power plants	1,960	1,961	–	–	2	2	22	22	–	–	1,985	1,986
Photovoltaic power plants	125	125	–	–	–	–	–	–	5	5	130	130
Wind power plants	8	8	98	134	–	–	600	600	–	–	706	742
Biogas power plants	1	1	–	–	–	–	–	–	2	–	2	1
Total	**12,762**	**13,423**	**98**	**134**	**681**	**681**	**622**	**622**	**1,267**	**5**	**15,430**	**14,864**

Heat

Heat Supplied and Sold (TJ)

	Heat supplied for heating purposes		External heat sales (outside CEZ Group)	
	H1 2017	H1 2018	H1 2017	H1 2018
Czechia	12,443	11,654	10,268	9,719
Poland	3,538	3,238	3,470	3,138
CEZ Group, total	**15,981**	**14,892**	**13,737**	**12,857**

Natural Gas

Natural Gas Procured and Sold (GWh)

	H1 2017	H1 2018	2018/2017 Index (%)
Procured	**98,029**	**108,976**	**111.2**
Of which: External suppliers	97,741	108,712	111.2
OTE	288	264	91.6
Removed from storage	**2,224**	**2,344**	**105.4**
Sold	**(96,859)**	**(108,494)**	**112.0**
Of which: Trading	(91,141)	(103,000)	113.0
External large end-use customers	(2,158)	(1,957)	90.7
Medium-sized end-use customers	(496)	(914)	184.2
Small end-use customers	(706)	(671)	95.0
Residential	(2,047)	(1,664)	81.3
OTE	(311)	(288)	92.6
Placed in storage	**(1,819)**	**(1,951)**	**107.3**
Consumed in-house	**(1,576)**	**(874)**	**55.5**

Distributed Electricity

Electricity Distributed by CEZ Group (GWh)

	Czechia		Romania		Bulgaria		Total	
	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018
Electricity distributed to end-use customers	18,337	18,299	3,298	3,407	4,976	4,891	26,611	26,598

Selected Information Concerning the Performance of Generation Segments

Czechia

	Unit	Generation— Traditional Energy		Generation— New Energy		Total	
		H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018
Electricity generation	GWh	29,573	28,473	190	199	29,763	28,673
External heat sales	TJ	10,268	9,719	–	–	10,268	9,719

Germany

	Unit	Generation— Traditional Energy		Generation— New Energy		Total	
		H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018
Electricity generation	GWh	–	–	97	142	97	142
External heat sales	TJ	–	–	–	–	–	–

Poland

	Unit	Generation— Traditional Energy		Generation— New Energy		Total	
		H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018
Electricity generation	GWh	1,256	1,286	–	–	1,256	1,286
External heat sales	TJ	3,470	3,138	–	–	3,470	3,138

Romania

	Unit	Generation— Traditional Energy		Generation— New Energy		Total	
		H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018
Electricity generation	GWh	–	–	697	639	697	639
External heat sales	TJ	–	–	–	–	–	–

Bulgaria

	Unit	Generation— Traditional Energy		Generation— New Energy		Total	
		H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018
Electricity generation	GWh	–	–	3	3	3	3
External heat sales	TJ	–	–	–	–	–	–

OPERATIONS TEAM

The Operations Team's primary task is to carry out activities supporting CEZ Group's first strategic priority, namely to be among the best in the operation of traditional power facilities, in order to help create good conditions for the Company's financial strength.

Its key tasks include concentration on high operational safety and operational efficiency. This involves above all ensuring the long-term operation of nuclear power plants at both operated sites and developing projects for new nuclear power plants depending on the Czech state's attitude to both their funding and the development of nuclear energy in general. As regards conventional facilities, the Operations Team gives priority to brown coal-fired power plants adjacent to open-pit brown coal mines operated by CEZ Group. It will prepare the phaseout of older condensing units.

Czechia

Business Environment in the Energy Sector

The following significant legislation relevant to the energy sector was amended in the first half of 2018:

- **Act No. 254/2001 Sb.**, on waters and on amendment to some acts

The amendment focused on two aspects; one was making several transposition adjustments to remedy insufficient implementation of EU law. In terms of impacts on the energy sector, the more important aspect was a predominantly formal modification of procedures (technical adjustments to the legislation) relating to fees for groundwater extraction and wastewater discharge to surface water. For example, the amendment abolished the system for making and reporting the method of calculation of advance payments for the discharge of wastewater. This will also slightly reduce the administrative burden, as administration associated with the system of advance payments outweighed the actual benefit of the system of advance payments for the operators of chargeable facilities. After the amendment, the operator of a chargeable facility will calculate and directly pay the fee once a year. As for the level of fees, there were no changes that would affect CEZ Group's financial performance. The amendment is set to enter into effect on January 1, 2019.

Furthermore, some decrees were amended:

- **Decree No. 145/2016 Sb.**, on the reporting of energy from promoted sources

The amendment to the decree on the reporting of electricity and heat from promoted sources and implementing some other provisions of the act on promoted energy sources rectified ambiguities in interpretation occurring in the application of the amended provisions in the decree in relation to deadlines for submitting information on electricity and heat generation to the market operator.

- **Decrees relating to Act No. 183/2006 Sb.**, Building Act

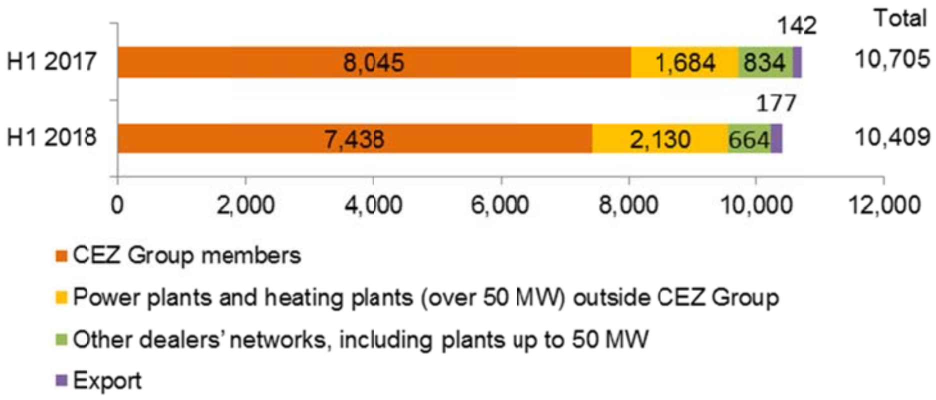
In connection with a change in legislation concerning land use planning and the building code (amendment to Act No. 183/2006 Sb., Building Act, which was made in 2017 with effect from January 1, 2018), changes were also made to its related and implementing regulations. An amendment to Decree No. 499/2006 Sb., on building documentation, entered into effect concurrently with the Building Act. Another amendment to Decree No. 500/2006 Sb., on zoning data, planning documents, and manner of recording planning activities, and an amendment to Decree No. 503/2006, on detailed rules for land use permit proceedings, land use measures, and the building code, were published in the Collection of Laws and entered into effect in the first half of 2018. With respect to the amendments to the two decrees promulgated in the first half of 2018, the more eagerly awaited one was the amendment to decree No. 503, published in April 2018, as it sets down detailed requirements for an application for a decision and the contents of individual types of decisions issued under the Building Act. This information is crucial both for applicants, so that they know what information they should submit to the building authority, and for the building authority in the formulation of a decision/permit.

Mining

Coal Mining and Sales

The CEZ Group company engaged in brown coal mining is Severočeské doly. It sold approximately 10,409,000 tons of coal in the first half of 2018. This is a year-on-year decrease of approximately 296,000 tons of coal, due to lower consumption by CEZ Group companies. The decrease was partially offset by higher demand from external customers.

Coal Sales, by Customer (Thousands of Tons)



Capital Construction

In the first half of 2018, the capital investment program of Severočeské doly focused primarily on projects making provisions for extraction in its two mines. Its 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.

The most significant mining technology projects implemented in this period included the upgrade and repair of bucket-wheel excavator K68 and the delivery of a new PV 2500 mobile conveyor. Upcoming windbreak screens at coal bunkers will help minimize the impact of mining activities on neighboring communities.

Generation

Generation—TE—Conventional Energy

Electricity Generation

In conventional energy, electricity generation at CEZ Group generating facilities was 13,623 GWh in the first half of 2018, as compared to 15,698 GWh in the first half of 2017.

Coal-fired power plants (biomass excluded) generated 12,006 GWh of electricity, that is, 1,646 GWh less than in the same period of 2017. The largest drop was in the generation of the Dětmarovice power plant, which has operated on a limited scale since a fire in 2017, resulting in a decrease of 705 GWh year-on-year. Other year-on-year decreases in generation occurred at the Prunéřov II and Mělník III power plants, in particular. By contrast, there was a positive year-on-year effect of increased generation by the new Ledvice 4 power plant unit.

The Počerady II CCGT plant generated 358 GWh of electricity, that is, 369 GWh less year-on-year, due to less favorable spot market prices of electricity and gas in 2018.

Generation from biomass amounted to 246 GWh, that is, 52 GWh less year-on-year. This was due to lower biomass utilization in generation at the Hodonín power plant.

Generation by large hydroelectric power plants was 1,012 GWh, that is, 7 GWh less year-on-year, with the most significant drop in generation registered at the Lipno and Slapy power plants.

Capital Construction

In conventional energy, we continued with preparatory, designing, and implementing work for projects concerning 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.

Installed Capacity

As at June 30, 2018, conventional generating facilities operated by CEZ Group in Czechia had a total installed capacity of 8,930.6 MW (coal-fired power plants and heating plants: 6,192.9 MW; CCGT plants: 844.9 MW; hydroelectric and pumped-storage plants: 1,892.8 MW).

The start of two-year pilot operation at the new unit of the Ledvice brown coal-fired power plant increased the installed capacity by a total of 660 MW as compared to June 30, 2017. The installed capacity decreased slightly due to the disassembly and termination of license of the Dukovany photovoltaic installation (-10 kW).

Electricity Generation Outlook for 2018

Generation by conventional coal-fired power plants is estimated at 25.5 TWh in 2018. Generation will decrease, in particular, at the Mělník III and Dětmarovice power plants, while increased generation is anticipated at the Ledvice 4 and Tušimice power plants.

Hydroelectric power plants are estimated to generate the same amounts of electricity as in 2017.

Heat Generation and Sales

A total of 9,719 TJ of heat was supplied to customers from CEZ Group’s facilities in Czechia in the first half of 2018, which represented a 5% decrease (549 TJ) compared to the same period of 2017. This was primarily due to lower amounts of heat supplied by the Energotrans facility.

Heat Generation Outlook for 2018

Total generation of heat for heating purposes is estimated to remain at the 2017 level, representing approximately 21,000 TJ.

Generation—TE—Nuclear Energy

Safety of Operated Nuclear Power Plants

ČEZ's nuclear power plants were operated in compliance with applicable nuclear energy legislation, fulfilling the conditions of all valid licenses. Their operation has had a negligible impact on the environment and the populace. The physical protection systems at the two nuclear power plants are maintained at Level 1 of 4. We continued implementing the requirements of the new Atomic Energy Act and its implementing decrees.

In the wake of the new nuclear legislation, we issued our Nuclear Safety Policy aiming to protect people and the environment from the effects of ionizing radiation through the safe operation of ČEZ's nuclear facilities. The policy includes annual assessments, updates, and implementation of the nuclear power plants' Safety Enhancement Plans. The assessments and updates are carried out every April and submitted to the State Officer for Nuclear Safety (SÚJB).

Dukovany Nuclear Power Plant

Since January 2018, all four units have been operated on the basis of the Decision of the State Office for Nuclear Safety in which it approved the operation of the units under certain conditions the fulfillment of which is regularly reviewed and documented.

We gradually undertake modernization work on radiation protection-related systems for further power plant operation, completely rebuilding the Electronic Personal Dosimetry System and reconstructing the radiation protection system of the radioactive waste processing facility; we also continued with a multi-year project to upgrade sub-distribution switchgear.

The first-ever cooperation exercise of the Czech Army, the Czech Police, and ČEZ, a. s., that aimed to prepare participants for the defense and protection of facilities important for national defense took place in April; in this case, the facility was the Dalešice pumped-storage hydroelectric power plant, whose reservoir is the source of cooling water for the Dukovany Nuclear Power Plant.

An "RWR Event" exercise took place in May to test the capability of personnel present on the Radioactive Waste Repository (RWR) site to report an event to appropriate points at the Dukovany Nuclear Power Plant.

"Radiation Incident Using DAM Equipment" exercises took place in May and June to test personnel activities when using DAM (diverse and mobile) equipment to resolve an event and train them in using DAM equipment.

Temelín Nuclear Power Plant#

Since the beginning of the year, work has been fully underway on the Periodic Safety Review (PSR ETE 20), which is undertaken at ten-year intervals. The Periodic Safety Review (PSR) is an internationally widely applied tool for thoroughly assessing the condition of key areas affecting safety and specifying technical and organizational improvements to be made in order to remedy any identified deviations from current national and internationally recognized safety standards and practices.

The nuclear fuel reserve was replenished in May and it now allows the nuclear power plant to be operated for at least two years even if fuel deliveries were suspended.

The "Radiation Incident and Environmental Event Response" emergency exercise took place in April with the involvement of the WANO regional crisis center (Moscow).

Two emergency response exercises took place in May. The first full-site exercise took place with the involvement of the State Office for Nuclear Safety. It included practicing the sheltering of all site staff except operators, health center personnel, and kitchen staff, as well as a training callout of mobile monitoring groups, which practiced sample collection and radioactivity measurement in the power plant's neighborhood. The theme of the second exercise was "Response to a Radiation Incident—Large Aircraft Crash" and it aimed to test the activities of the emergency response organization at the Temelín Nuclear Power Plant following a large commercial aircraft crashing right on the power plant site.

Electricity Generation

Nuclear power plants generated 14,851 GWh of electricity in the first half of 2018, or 975 GWh more year-on-year. The Dukovany Nuclear Power Plant generated 1,555 GWh more, primarily due to generation stabilization following extensive inspections of welded joints, and the Temelín Nuclear Power Plant generated 580 GWh less due to a scheduled outage at the beginning of 2018.

Capital Construction

Dukovany Nuclear Power Plant

At the Dukovany Nuclear Power Plant, work continued in the first half-year on projects started in previous years, focusing on the enhancement of nuclear safety and necessary equipment renovation. Preparatory, implementation, and completion work was also initiated under capital construction projects relating to upgrading, stabilizing, securing, and improving the efficiency of generation in relation to the extension of operation. Preparatory work and selection procedures were underway for projects aimed to fulfill legislative requirements arising from the amended Atomic Energy Act.

Temelín Nuclear Power Plant

At the Temelín Nuclear Power Plant, work on projects from previous years continued in the first half-year; preparatory, implementation, and completion work was initiated under capital construction projects aimed at enhancing nuclear safety, fulfilling legislative requirements arising from the amended Atomic Energy Act, or undertaking necessary equipment renovation.

New Nuclear Power Plants (NNPPs) at Dukovany and Temelín

Documents named “Procedure for the Preparation and Construction of New Nuclear Power Plants at Dukovany and Temelín” and “Analysis of Selected Investment Models for the Construction of New Nuclear Power Plants and the Manner of Their Financing” were prepared. These documents were debated at the 9th meeting of the standing government committee on nuclear energy on May 17, 2018. This will be followed by the preparation of individual tasks and the submission of a proposal for NNPP investment arrangements and manner of financing to the government; the government should take a decision on further steps in the preparation of the NNPP projects in December.

As regards the Dukovany NNPP project, the year 2035 was set out as the optimum deadline for the completion of construction of a new unit at Dukovany. The preparation of an opinion on the EIA report was started. Intergovernmental consultations with Germany and Austria took place. Public hearings concerning the Dukovany NNPP EIA took place in Budapest, Hungary, and public discussions were held in Vienna, Austria, and Munich, Germany. In Czechia, a public hearing concerning the Dukovany NNPP EIA took place in Třebíč on June 19, 2018. A proposal is being prepared for the contents of individual chapters of documentation for the issue of a siting decision; support documents are being prepared for the incorporation of the Dukovany NNPP project, including related and induced investments, in all levels of planning documentation.

Conditions arising from the obtained EIA opinion are being fulfilled for the Temelín NNPP project. Support documents for a siting application for Temelín Units 3 and 4 are being updated. A concept is being prepared for engineering arrangements for the project preparation stage, which will be prepared in relation to the investment and business model chosen by the government. There is continued collaboration with ČEPS and precontract fulfillment and collaboration with the Southern Bohemia Regional Authority and state-owned enterprise Povodí Vltavy. A proposal is being prepared for the contents of individual chapters of documentation for the issue of a siting decision for the nuclear plant site, support documents are being prepared for a change to the local plan of the municipality of Temelín, and support documents for a siting application for Temelín Units 3 and 4 are being updated.

Installed Capacity

As at June 30, 2018, CEZ Group’s installed capacity at nuclear power plants remained unchanged year-on-year, being 4,290 MW (2,040 MW at Dukovany, 2,250 MW at Temelín).

Electricity Generation Outlook for 2018

Nuclear power plants are estimated to increase their production to a total of 29.8 TWh, that is, by 1.5 TWh as compared to the year 2017, which was significantly affected by finishing weld inspections and related prolonged unit outages. There is also a positive effect of the early completion of a scheduled outage at Temelín Unit 1, during which its achievable capacity was increased by 2 MW_e.

A standard refueling-related outage of Unit 2 of the Temelín Nuclear Power Plant is underway; the reconstruction of the drain of the high-pressure flow part of the turbine, postponed from 2017, will also be carried out during the outage. The reconstruction is expected to increase the achievable capacity of Unit 2 by 2 MW_e.

Refueling outages will occur at the Dukovany Nuclear Power Plant in 2018. In addition to those standard tasks, steps to further improve operational efficiency will be taken on all units. Moreover, Units 1 and 2 will have their sub-distribution switchgear reconstructed and Unit 4 will undergo a regular revision of its turbines and generators after eight years.

Research and Development

Nuclear R&D included the performance of tests and analyses of segments of fuel cladding tubes irradiated in the reactor core with the aim of obtaining more detailed information on the behaviour of these 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. Non-nuclear R&D included pilot spectrometric combustion chamber measurement to improve the flexibility and emission parameters of the combustion process in pulverized coal boilers.

Two projects of the Technology Agency of the Czech Republic (TA CR) were started, focusing on the implementation of measures to reduce mercury emissions at coal-fired power plants and the collection of information on the stability of steels used in modern generating units. We continued participating in two large TA CR projects, supported under Competence Center programs, focusing on diagnostic methods for steam turbines and waste-to-energy methods.

We also started McSafe, a project that uses Monte Carlo simulation method for advanced simulations light-water nuclear reactors’ core..

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 2018, 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 2018, ČEZ sold electricity for delivery in 2019 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 electricity in case of corporate plant outages.

Proprietary trading primarily involves commodities that are traditional for ČEZ, a. s., such as electricity or emission allowances, which are traded both in OTC markets and on energy exchanges, e.g. the European Energy Exchange (EEX) in Leipzig, Germany. 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 2018, it also traded in options with electricity as their underlying assets, gas, EUAs, and oil with financial settlement.

ČEZ 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 2018.

ČEZ expanded its trading activities to new markets such as Slovenia, Belgium, Croatia, and Lithuania. 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

Capacity Market Act

In December 2017, the Capacity Market Act introduced support in the form of additional remuneration (capacity payments) for energy companies for their power plants being able to deliver required capacity for a contracted period if necessary, for example, in case of electricity shortage.

The government expects that energy companies with such additional income will be able to fund upgrades to or construction of new units. The goal is to make the period for which a power plant can be awarded such a contract grow with the size of investment—existing, upgraded, and newly built facilities can get a 1-year, 5-year, and 15-year contract, respectively. Long-term contracts will also be awarded to units with low CO_2 emissions and those that supply a sufficient amount of heat to local and municipal heating systems.

CEZ Group's power plants in Poland—Skawina and Chorzów—were entered in the capacity market register of existing and planned units. As regards the Skawina power plant, three existing turbine generators were certified with an indicated gross/net capacity of 285 MW/240 MW. In addition, a planned Skawina OCGT (Open Cycle Gas Turbine) unit was registered (indicated gross/net capacity 200 MW/197 MW). Two units were certified at the Chorzów power plant, each with a gross/net capacity of 113 MW/102 MW.

Cogeneration Support

Public consultations on a bill proposing new support for cogeneration finished on April 20, 2018. The law is expected to enter into effect on January 1, 2019. The proposed system of support anticipates separate regulations for new and upgraded units—for installations from 1 MW to 50 MW (in the form of a "pay-as-bid" auction system, in which the bidder gets the price they bid at), for existing and upgraded units from 1 MW to 50 MW (in the form of a premium set down by an ordinance annually). Units with a capacity less than 1 MW will receive support in the form of a feed-in-premium, that is, a market price markup. Support for generating facilities with a capacity greater than 50 MW will be specified individually for each specific facility by the Energy Regulatory Office. Support for units with a capacity exceeding 300 MW must be approved by the European Commission.

According to the current interpretation of the Energy Regulatory Office, participation in the capacity market prevents participation in the cogeneration support system for both new and existing generating units.

Operations Team's Activities in Poland

Electricity Generation

CEZ Group's coal-fired power plants in Poland generated 1,283 GWh of electricity in the first half of 2018, that is, 32 GWh (+3%) more than in the same period of 2017. The Borek Szlachecki small hydropower plant generated 2.1 GWh of electricity and the Skawinka small hydropower plant generated 0.7 GWh of electricity.

Heat Generation

The Chorzów and Skawina power plants in Poland supplied 3,138 TJ of heat in the first half of 2018, that is, 332 TJ (approximately 10%) less than in the same period of 2017, which was primarily due to climatic conditions.

Capital Construction

The largest portion of capital expenditures went to denitrification at the Skawina power plant.

Installed Capacity

As at June 30, 2018, CEZ Group companies in Poland owned generating facilities with an installed capacity of 680.9 MW: 678.4 MW in coal-fired power plants and 2.5 MW in hydroelectric power plants. There was no year-on-year change.

Electricity Generation Outlook for 2018

CEZ Group power plants in Poland are estimated to generate 2.8 TWh of electricity in 2018.

Heat Generation Outlook for 2018

The total amount of supplied heat is estimated at approximately 5,500 TJ.

Other Countries

Slovakia

Prepared New Nuclear Power Plant at Jaslovské Bohunice

The project team currently focuses mainly on a sub-project for legislation changes, aiming to prepare draft amendments to legislation to allow planning permission proceedings for the new nuclear power plant to take place while project specifics remain unknown so as to apply the Final EIA Opinion by April 2023.

Turkey

The business environment in the energy sector is described in the section Development Team in Turkey.

Akenerji operates a modern CCGT plant with an installed capacity of 904 MW at Egemer. The power plant generated 1,870 GWh of electricity in the first half of 2018, as compared to 2,050 GWh in the same period of 2017.

In addition, Akenerji operates 7 hydroelectric power plants with an installed capacity of 289 MW and a wind park with an installed capacity of 28 MW. Renewables generated 517 GWh of electricity in the first half of 2018: hydroelectric power plants generated 475 GWh and wind turbines generated 42 GWh. This is an increase of 130 GWh as compared to the same period of 2017, when renewables generated 387 GWh.

Electricity Generation Outlook for 2018

The Egemer power plant's generation in 2018 is estimated at 3.9 TWh. The year-on-year decrease is due to expected lower generation in connection with scheduled outages. Renewable generation is estimated at approximately 0.8 TWh, of which hydroelectric power plants account for 0.7 TWh and wind turbines account for 0.1 TWh.

Note: The Turkish companies are consolidated using the equity method; consequently, neither their generation nor their installed capacity is included in CEZ Group's aggregate figures.

DEVELOPMENT TEAM

Offering customers a wide range of products and services addressing their energy needs and reinforcing and consolidating our position in Europe—fulfilling CEZ Group's second and third strategic priorities—is the main task of the Development Team. It focuses on growth and innovation through organic and acquisition-based growth in energy services (ESCO) and renewable energy sources.

Targeted countries include both Czechia and other European countries that are close in terms of both geography and regulation, namely Germany, France, Romania, Slovakia, and Poland as well as other countries in Central and Western Europe. An indispensable part of the team's activities is the preparation of distribution grids for the energy sector's future with a high share of decentral electricity generation.

Last but not least, the Development Team's tasks include Inven Capital's investments in early opportunities and technologies to allow CEZ Group to establish promising positions in the future energy environment.

Czechia

Business Environment in the Energy Sector

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) and a market operator guaranteeing the functioning of the market. The price of electricity distribution is regulated.

As regards price regulation in the energy sector in the first half of 2018, the Energy Regulatory Office published:

- **Price Regulation Principles**

Pursuant to Section 19a(9) of Energy Act No. 458/2000 Sb., the Energy Regulatory Office publishes price regulation principles that lay down procedures for the regulation of the price of related service in the electricity sector and related service in the gas sector for a regulatory period and the manner of setting prices for the electricity transmission system operator, the gas transmission system operator, distribution system operators, and the market operator. The validity of the current price regulation principles for 2016–2018 was extended until December 31, 2020.

Furthermore, some decrees were amended:

- **Decree No. 145/2016 Sb.**, on the reporting of energy from promoted sources
- **Decrees relating to Act No. 183/2006 Sb.**, Building Act

For details, refer to the section Operations Team in Czechia.

Distribution

Electricity Distribution

CEZ Group's electricity distribution business in the Czech Republic is taken care of by ČEZ Distribuce, which distributed 18.3 TWh of electricity to customers in the first half of 2018. This is the same amount as in the comparable period of 2017. With regard to individual voltage levels, there was an increase of 0.2 TWh at the medium-voltage level, a decrease of 0.1 TWh at the high-voltage level, and the same decrease at the low-voltage level, where decreased consumption was primarily due to higher average temperatures in 2018.

A merger between ČEZ Distribuce and ČEZ Distribuční služby was carried out with effect from January 1, 2018; the surviving entity is ČEZ Distribuce. This step finalized the creation of one large distribution company and fulfilled regulatory requirements.

Capital Construction

ČEZ Distribuce's capital expenditures in the first half of 2018 went mostly into distribution networks at all voltage levels as well as into transformer station reconstructions. Some capital expenditure was made on construction projects initiated at customers' request.

ČEZ Distribuce participated in a project of the Technology Agency of the Czech Republic named "Smart System for Safe and Reliable Electricity Supplies to an Area," which was completed successfully. Its objective was to find as reliable a solution as possible to ensure electricity supplies to critical infrastructure (medical centers, emergency services, etc.) in Prague in case of a large-scale failure of the transmission system.

Electricity Distribution Outlook for 2018

ČEZ Distribuce expects to supply 36 TWh of electricity to customers in 2018.

Sales

Sales of Electricity and Natural Gas

CEZ Prodej offered electricity, natural gas, and related services to end-use customers in Czechia in the first half of 2018.

Customers in Czechia can order electricity and natural gas as supplies of the commodity alone (Electricity/Natural Gas Supply Contract) and purchase distribution services directly from a competent distributor under a separate Distribution Service Contract. However, the much more frequent form is "integrated supply" under an Integrated Supply Contract for the commodity in question, under which ČEZ Prodej not only supplies the commodity to the customer but also arranges for the provision of distribution services by a distributor according to the rules specified by law.

In order to meet EU-wide rules liberalizing the electricity market, CEZ Group became the first energy market player in Czechia that fully separated the provision of customer services for sales customers and distribution customers. Concurrently with the separation, ČEZ Prodej launched a new information system that will, moreover, better address its needs resulting from the expansion of its range of products offered to customers.

Electricity and natural gas sales to end-use customers in the first half of 2018 amounted to 8,919 GWh and 3,094 GWh, respectively.

Sales of Decentralized Energy Services and Energy Solutions (ESCO)

ČEZ ESCO consolidates CEZ Group's expert and sales capacity in energy savings, decentralized sources, lighting, and other energy products. It concentrates on creating integrated offers for business (corporate) customers, small and midsize businesses, and the public sector. It offers solutions to customers' energy needs especially at the decentralized level with emphasis on new technologies, efficient use of energy, and integrated product offers. ČEZ ESCO's guiding principle is preparing turnkey solutions and services for its customers.

The individual products and services are provided by subsidiaries of ČEZ ESCO: ČEZ Energo, ČEZ Energetické služby, EVČ, ENESA, ČEZ Solární, Energocentrum Vítkovice, AZ KLIMA, ČEZ LDS, ČEZ Bytové domy, KART, AirPlus, HORMEN CE.

ČEZ ESCO further develops its activities focusing on the commercial products and services of the Electromobility and Smart City projects.

The ESCO group's noncommodity sales were CZK 2.4 billion in the first half of 2018.

Sales of Other Products and Services *(Mobile Telephony, Insurance, Etc.)*

ČEZ Prodej is the market leader in commodity sales to residential customers in Czechia. Besides electricity and gas supplies, it offers additional services connected with modern energy business. It delivers turnkey rooftop photovoltaic installations, complete with battery systems and water accumulation systems; 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 Savings program. In addition, ČEZ Prodej offers complete solutions for heating: consultancy and designing for household heating reconstruction projects and the installation of condensing boilers or heat pumps. To provide truly comprehensive services, it provides regular boiler maintenance, flue way inspections, and assistance services for all boiler owners through its ČEZ Service product. ČEZ Prodej is also the exclusive dealer of a smart thermostat made by Bavarian company tado° in the Czech market.

ČEZ Prodej 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, ČEZ Prodej's portfolio of more than 80,000 SIM cards makes it one of the largest MVNOs in Czechia. Insurance and assistance services were used by more than 276,000 customers in June 2018, with about 216,000 customers having assistance service insurance and about 60,000 customers having payment protection insurance covering energy bills in case of sickness or job loss.

Outlook for Sales of Electricity, Natural Gas, and Other Products in 2018

ČEZ Prodej expects a slight decrease in the volume of supplies for the residential customer segment in 2018 as compared to 2017. Prices in the main price list, Electricity Indefinitely, were raised with effect from June 1, 2018, due to a significant increase in wholesale electricity prices that ČEZ Prodej purchases electricity at.

Contracts with individually served customers (B2B) will be transferred from ČEZ Prodej to ČEZ ESCO under a "Division by Spin-Off and Merger" project with effect from September 1, 2018. This change takes the form of a formal change of supplier from ČEZ Prodej to ČEZ ESCO. This activity aims to improve the quality of service and care for individually served customers under a single company focusing on this segment, namely ČEZ ESCO. All business and price terms applying to affected customers remain the same. The project includes establishing a functional ICT system.

CEZ Group expects a positive development in the natural gas market in 2018 and plans to increase the volume supplied to its end-use customers in Czechia.

ČEZ Prodej expects to maintain its position on the market in other products in 2018 and provide its customers in Czechia with the best service possible.

Regarding ESCO, it is planned to merge EASY POWER with ČEZ LDS in the second half of 2018. A project to merge EVČ s.r.o. and ENESA a.s. under a single brand will continue. Not only will this merger resolve internal competition within the ESCO group, as both companies work on very similar projects, it will also combine two well-run entities to allow taking advantage of both companies' competences and strengths to create a sturdy background for the development of new services.

Generation

Electricity Generation—New Energy

Electricity generation by facilities operated by ČEZ OZ uzavřený investiční fond in Czechia totaled 199 GWh in the first half of 2018, that is, 9 GW more than in the same period of 2017. Hydroelectric power plants generated 121 GWh, solar power plants 72 GWh, wind turbines 5 GWh, and biogas plants 2 GWh of electricity.

The highest year-on-year increase was registered at hydroelectric power plants due to better-than-average hydrological conditions in winter months. Following an outage due to emergency valve repair in 2017, the Brno-Kníničky small hydropower plant increased its generation by 2.1 GWh year-on-year.

Capital Construction
Hydroelectric Power Plants and RES

Modernization investments were made at power plants operated by ČEZ OZ uzavřený investiční fond in the first half of 2018. Financial data will not be available until all invoices are received.

Installed Capacity

As at June 30, 2018, ČEZ OZ uzavřený investiční fond operated generating facilities in Czechia with a 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 total installed capacity increased by approximately 1 MW as compared to June 30, 2017, due to increased capacity at the Brno-Kníničky (+428 kW) and Hracholusky (+488 kW) small hydropower plants.

Electricity Generation Outlook for 2018

Renewable generation in 2018 is estimated at 348 GWh, which would mean a year-on-year decrease of 11 GWh. Small hydropower plants will account for the highest share of generation, estimated at 208 GWh, which would mean 7 GWh less than in 2017, primarily due to the Hradec Králové small hydropower plant’s ongoing year-long outage for modernization. Generation by photovoltaic power plants is estimated at 128 GWh, that is, 4 GWh less than in 2017. Generation by wind turbines should amount to 9 GWh.

Investments in New Technologies

Inven Capital

Investment fund Inven Capital, investiční fond, a.s., was transformed into Inven Capital, SICAV, a.s., an investment company with variable capital, with effect from February 1, 2018. The reason was meeting conditions for the provision of EUR 50 million by the European Investment Bank (EIB) for joint investments in innovative European startups oriented to "new energy." This includes, for example, the field of energy efficiency, distributed energy generation, energy generation flexibility (that is, generating facilities capable of quickly changing the volume of generation to be able to promptly respond to intermittent generation from renewables) and energy storage, customer-oriented products, clean transportation, and smart cities.

Inven Capital SICAV, a.s. ("Inven") is a joint-stock company with variable capital that has established 2 sub-funds: Inven Capital—Sub-fund A and Inven Capital—Sub-fund B. Inven's stated capital is CZK 2 million and the holder of founder's shares is ČEZ, a. s. Investment shares of Sub-fund A are held by CEZ Group; investment shares of Sub-fund B are held by EIB.

Inven focuses primarily on later-stage growth investment opportunities with a sound business model proven by sales and with considerable growth potential. In addition to financial return on investment, Inven provides CEZ Group with access to globally unique technologies and business models that already affect or will significantly affect, sooner or later, the energy sector in Czechia and neighboring countries. Moreover, ČEZ works actively with Inven's portfolio companies both by selling their products to its customers (sonnen, tado) and by undertaking pilot projects (SunFire).

Inven's team reviews up to 500 potential investment opportunities from all around Europe every year, of which approximately 10% proceed to a detailed analysis stage, about 5 or 6 are presented to the investment committee, and 2 or 3 per year are carried through. Since its establishment, Inven has invested more than a quarter of its investment framework in five businesses and the London-based Environmental Technologies Fund (ETF). The businesses comprise four German companies and one French company:

sonnen—a manufacturer of smart battery systems for storing energy from solar panels and other renewables

SunFire—the developer and manufacturer of a fuel cell technology 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, builder, and operator of the most energy- and cost-efficient distributed and centralized data centers deploying water-cooled servers whose waste heat is used to heat buildings and hot water

VU LOG—the global leader in providing technology for carsharing involving green cars in cities

Inven's sub-funds increased their investments in the current portfolio companies sonnen, SunFire, ETF, and tado in the first half of 2018.

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 continues to work with Rockstart, a Dutch start-up accelerator where it participated as a partner in the third round of the Smart Energy program. Under the six-month program, supported by major commercial entities, the best 9 to 10 chosen energy startups sought to consolidate their business potential and expand their know-how so as to become coveted trading partners in the market after the end of the program.

Electromobility

In electromobility, CEZ Group has focused primarily on the expansion of its network of public charging stations. As at June 30, 2018, it operated a total of 110 charging stations, comprising 54 fast charging stations (DC) and 56 normal charging stations (AC). As the number of operated charging stations grows, the number of partners involved in the ČEZ Electromobility project increases both among private entities and among state administration and municipal entities. Cooperation with ARRIVA CITY and PASSERINVEST GROUP continued successfully.

Construction is significantly supported under two projects funded by the EU's Connecting Europe Facility (CEF). Altogether, 102 fast charging stations (DC) should be built, as well as two sites featuring a combination of a renewable energy source, energy storage, and three charging stations each. In all cases, the DC fast charging stations will be located close to major TEN-T (Trans-European Transport Network) roads.

At the same time, CEZ Group offers a wide range of related electromobility services and products for companies, municipalities, and regions through its ČEZ ESCO subsidiary. These include, for example, turnkey charging station design and installation, wallboxes, charging cables, vehicle fleet electrification, charging platforms, including IT solutions, and lease or sale of electric vehicles. For municipalities, CEZ Group offers the implementation and operation of electric-bus charging stations or conceptual designs of electromobility for individual cities and regions. Development in electromobility takes place under the National Action Plan for Clean Mobility (NAP CM) as well as under the Memorandum on the Future of the Automotive Industry in Czechia signed recently by the Czech government and the Automotive Industry Association.

Germany

Business Environment in the Energy Sector

Renewables are considered by Germany to be the most important source of energy and their further exploitation is a central pillar of “Energiewende,” its transition to low-carbon and sustainable energy generation. The share of renewable energy sources in electricity generation has been growing steadily.

Since 2017, the system of support for renewable energy sources has been based on regularly held auctions, in which the lowest bid is the determining criterion for receiving support.

A total of 4 auctions for the construction of onshore wind turbines are planned for 2018 (February, May, August, October). There was a change of rules for community projects, formerly having a number of advantages over other participants, in 2018 as compared to previous auction rounds in 2017. Community businesses, just as any other participant, must now furnish an environmental permit pursuant to the Federal Immission Control Act (BImSchG). Eighty-three successful projects with a total installed capacity of 709 MW were selected in the first auction (the originally declared allocable limit was 700 MW). In the second auction, support was granted to 111 projects with a total installed capacity of 604 MW; however, it was the first time since the start of the selection system that the whole declared capacity (670 MW) was not allocated.

Auctions for the construction of solar facilities were scheduled for February, June, and October in 2018. A total of 79 bids were made in the first auction round with a capacity of 546 MW, which considerably exceeded the allocated capacity of 200 MW. Fifty-nine bids (360 MW) were made in the second round. The Federal Network Agency granted support to a total of 28 projects with a capacity of 183 MW in the two rounds.

CEZ Group Operations in Germany

Our revised strategy for entering renewables markets focuses on key technologies in the segment. ČEZ focuses primarily on onshore wind parks, including smaller projects with an installed capacity of up to 20 MW, taking advantage of existing know-how. As a country with a stable regulatory environment and system of support, Germany is the key market for RES expansion. In view of the trends on the market in developed projects, ČEZ aims primarily at the development onshore wind turbines.

CEZ Deutschland GmbH, a Hamburg-based subsidiary, provides support in order to achieve the defined objectives. Through CEZ Deutschland GmbH, ČEZ is a member of leading energy associations of businesses along the entire value chain in the renewables industry and participates in the activities of their working groups.

In August 2017, CEZ Group successfully bought into the Elevion group—specialists in the installation, modernization, and reconstruction of energy facilities in commercial and industrial buildings, bringing together experts engaged in the construction, optimization, and maintenance of electrical and mechanical installations for industrial customers and buildings and the installation and management of automated heat control systems with focus on thermal savings. Elevion is a well-established brand in the German ESCO market and one of the largest providers of comprehensive energy services in the country.

The potential for CEZ Group’s dynamic growth in ESCO is amplified by the EU countries’ commitment to major energy savings by 2030. We estimate investment costs necessitated by the EU energy efficiency directive in Germany (derived from GDP developments) at approximately EUR 600 billion by 2030. High demand for ESCO services in the future is primarily guaranteed by attractiveness for customers, whom new technologies provide with greater comfort and modern functionalities, not to mention effectively paying for themselves from savings (not needing to be subsidized).

Electricity Generation

CEZ Group's wind parks in Germany generated 142 GWh of electricity in the first half of 2018; it was 97 GWh in the same period of 2017 (with a lower installed capacity).

Installed Capacity

The installed capacity of CEZ Group's facilities—onshore wind parks—was 133.5 MW as at June 30, 2018, increasing by 35.4 MW as compared to June 30, 2017.

Electricity Generation Outlook for 2018

CEZ Group power plants in Germany are projected to generate 316 GWh of electricity in 2018.

Sales—ESCO Services

The Elevion group acquired Kirschbaum & Rohrlack GmbH, a German company providing building automation services, in May 2018. CEZ Group acquired Kofler Energies, a German group providing a wide range of ESCO services, in July.

CEZ Group keeps monitoring the German market in order to identify potential future investment opportunities in all of its business segments.

The sales of noncommodity products by CEZ Group's German ESCO companies amounted to CZK 4.7 billion in the first half of 2018.

ESCO Sales Outlook

Construction investments in Germany are estimated to rise by 2.6%, adjusted for inflation, in 2018. Especially the manufacturing sector expects increased investments in energy supply systems and energy consumption optimization and reduction. Therefore, CEZ Group wants to focus, through the Elevion group or a separate acquisition platform, on decentral energy generation, such as cogeneration units, in addition to building energy and mechanical installations.

France

Business Environment in the Energy Sector

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. It also defined the objective to reduce the nuclear sector's share in electricity generation from 75% to 50% by 2025, which the government postponed until 2030 or 2035. A precise plan for the shutdown of 7–25 reactors will be presented by the end of 2018.

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). In mid-March, the French government started a public consultation on the future energy direction concerning the program for 2019; opinions on the increase in the installed capacity of renewables and the provision of energy supplies in the period in question, in particular, could be expressed by the end of June. The state discusses the PPE with all stakeholders, especially with companies in which it is a shareholder. An amendment to the upcoming program, aiming to precisely specify energy targets, should be finished by the end of 2018.

The country has a working mechanism of support for renewable electricity generation. Producers are 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.

A total of 2 auctions for the construction of onshore wind turbines are planned for 2018 (June, December). Twenty-two successful projects with a total installed capacity of 508 MW were selected in the first auction held in December 2017. The average bid price in the auction round was 6.54¢/kWh. Most of the successful projects were from the regions of Hauts-de-France (227 MW), Centre-Val de Loire (72 MW), and Pays de la Loire (70 MW). The results of the auction held in June 2018 are not known as yet.

A working group tasked to draw up a proposal simplifying and consolidating rules for onshore wind farms with the aim of reducing administrative burden, providing better access to financial support, and improving fiscal incentives relating to these projects presented its conclusion in January 2018. Presented proposals for simplification are expected to be put into practice in the second half of 2018.

CEZ Group Operations in France

Capital Construction

In the first half of 2018, CEZ Group proceeded with the development of a portfolio of 9 wind farms that it acquired from ABO Wind, a renowned German development firm, in 2017.

All necessary permits for the construction and operation of the first wind farm, Aschères-le-Marché, having an installed capacity of 13.6 MW, have already entered into effect. Construction work is expected to start as early as in the second half of 2018. Several other projects are approaching a similar milestone in their advanced stage of development.

In line with the renewables strategy, CEZ Group keeps an interest in projects in the development stage in France on the order of hundreds of megawatts of installed capacity.

Other Activities

CEZ Group's Inven Capital owns a minority stake in VU LOG, the Nice, France-based global leader in the provision of technology for green mobility sharing (autopartage) in cities. The company offers a comprehensive Software-as-a-Service platform enabling carsharing operators to provide services to their end customers. VU LOG's customers are operators from various countries around the world.

Poland

Business Environment in the Energy Sector

The Polish energy market is almost fully liberalized. Wholesale market prices are based on market conditions. 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.

The target share of renewable electricity for 2020 is 15% of the total gross electricity consumption.

The Ministry of Energy presented a contemplated amendment to the act on renewable energy sources (RES) in early June 2017. The Senate passed the amendment to the RES act of June 7, 2018, amending the renewable energy sources act and some other acts, without its own amendments on June 29, 2018. The new legislation entered into effect on July 14, 2018. The effect of the amended laws allows the Energy Regulatory Office (ERO) to announce auctions for renewables. The ERO must announce an auction no later than 30 days before its date. The first auction is expected to be held this autumn.

The year 2018 was the third year of the effective operation of the act on investments in wind power plants relating to the development of wind generation in Poland. The adopted amendment to the RES act also amended other acts, including the act on investments in wind power plants. The changes in the amended law are not highly significant to CEZ Group's remaining projects in Poland.

The energy efficiency act changed the system of “white certificates” and obliged entrepreneurs and public authorities to implement solutions enhancing energy efficiency and competitiveness. The regulation has a positive effect on the condition of the natural environment and the number of investments in energy savings and contributes to an economical and more efficient use of energy.

CEZ Group Operations in Poland

Sales

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 1,394 GWh of electricity to its large and commercial retail customers in the first half of 2018, which is a year-on-year decrease of 63 GWh. The company supplied 445 GWh of natural gas to its customers in the first half of 2018 (180 GWh in the first half of 2017); the significant increase was due to the acquisition of new customers.

Sales of ESCO Services

CEZ ESCO Polska, established in 2016, now has a working organizational structure and offers ESCO products. The company has established several partnerships with local companies to develop energy-saving projects in the Polish market. At the moment, CEZ ESCO Polska actively participates in public and industrial tendering procedures in the street lighting and energy efficiency segments. In addition, 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 thermal and photovoltaic panels, hot water tanks, and heat pumps.

In addition, CEZ Group purchased Metrolog (100% share), which is a leading manufacturer of compact district heating substations in the Polish market, offering comprehensive services for investments in thermal energy and the construction of water treatment systems.

Sales of noncommodity products amounted to CZK 0.7 billion (of which CZK 0.2 billion for Metrolog) in the first half of 2018.

Electricity, Natural Gas, and ESCO Services Sales Outlook for 2018

The total amount of electricity supplied in 2018 is estimated to be 2.7 TWh. Supplies of natural gas and heat are estimated at 0.8 TWh and 5,500 TJ, respectively.

CEZ Group keeps monitoring the Polish market in order to identify potential future investment opportunities in all of its business segments and expects further acquisitions of companies focusing on energy savings in the Polish market.

Romania

Business Environment in the Energy Sector

Market liberalization was completed in 2013 for the corporate customer segment and at January 1, 2018, for residential customers. All electricity users are now entitled to choose their supplier in the free market.

Renewable generation in Romania is supported through "green certificates." On the basis of a government ordinance, new rules governing support for renewable generation entered into force on March 31, 2017. The new legal rules resulted in the tradability of green certificates issued on or after April 1, 2017, being extended from one year until March 31, 2032. Another change was that the price of green certificates was fixed, and the period of tradability of previously deferred certificates as well as the period for which such certificates will be reallocated were extended to eight years starting from January 1, 2018. The government ordinance was valid and effective but still required a formal approval by the Romanian parliament. The parliament approved the government ordinance in the form of an amendment on June 26, 2018, and the Romanian president signed it into law on July 18, 2018. The amendment to the law was published in the Official Gazette of Romania on July 20, 2018.

CEZ Group in Romania

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 one green certificate in 2018; the support period in which they received two green certificates ended in 2017.

The Fântânele and Cogealac wind parks generated 593 GWh of electricity in the first half of 2018, which represented a year-on-year decrease of 60 GWh. The decrease in generation as compared to the first half of 2017 was primarily due to worse weather conditions.

Small hydropower plants operated by TMK Hydroenergy Power S.R.L. at Reşiţa site generated 46 GWh of electricity in H1 2018.

Capital Construction

Capital expenditure made in the first half of 2018 was primarily aimed at renovating individual turbine components at the Fântânele and Cogealac wind parks and buying a crane for in-house repair purposes.

No major capital expenditure was made at hydroelectric power plants operated by TMK Hydroenergy Power S.R.L. in the first half of 2018.

Installed Capacity

As at June 30, 2018, 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 Generation Outlook for 2018

The annual generation estimate for 2018 is 1.2 TWh at wind parks and 0.1 TWh at hydropower plants.

Electricity Distribution

Distributie Energie Oltenia S.A. distribution company distributed a total of 3,407 GWh of electricity in the first half of 2018, registering a year-on-year increase of 110 GWh.

Tariffs for the regulated distribution sector effective from January 1, 2018, were published by the Romanian regulatory authority in December 2017. The average distribution tariff decreased by more than 5%. The rates were decreased for the third time in a row. In the previous year, the regulatory authority decreased distribution tariffs by 4.5% on average. The gradual reduction of prices results from lower-than-planned inflation rates and corrections for higher volumes of distributed electricity in previous years.

A new five-year regulatory period is expected to start in 2019. A new methodology for the calculation of permitted revenue for distribution companies is now being prepared during joint discussions with Romanian authorities. It is expected that the methodology will be updated in September in the form of a legislation amendment that will set down a procedure for the recognition of capital expenditure, the calculation of return on noncurrent assets, and the recognition of operating expenses for all Romanian distribution companies.

Capital Construction

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

Electricity Distribution Outlook for 2018

The amount of electricity distributed to end-use customers in 2018 is estimated at 6.9 TWh.

Sales

Sales of Electricity and Natural Gas

CEZ Vanzare S.A. sold 1,642 GWh of electricity to end-use customers in the first half of 2018, which was a year-on-year decrease of 72 GWh. The company also supplied 608 GWh of natural gas to both existing and new end-use customers, which was a year-on-year increase of 452 GWh.

Sales—ESCO Services

CEZ ESCO ROMANIA S.A. was newly established on August 3, 2018. Potential acquisition targets in the field of energy services are currently being analyzed.

Electricity and Natural Gas Sales Outlook for 2018

Electricity sales to end-use customers are estimated at 3.5 TWh. The estimated amount of natural gas supplied in 2018 is 1.4 TWh.

Bulgaria

Business Environment in the Energy Sector

Customers have been able to choose their energy supplier in the open market and make a contract for supplies at unregulated prices since 2016. Yet, households and businesses connected to the low-voltage grid 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). The successful completion of liberalization is significantly jeopardized by lack of secondary legislation, a limited portfolio of products on the Independent Bulgarian Energy Exchange (IBEX), the existence of cross subsidization, and the government's pressure on keeping residential energy prices low.

An amended energy act bringing a number of changes came into effect on July 1, 2018. The changes include, most importantly, mandatory purchases of electricity to cover losses directly through an exchange at market prices, increase in the mandatory security for electricity traders, and the regulatory authority's obligation to approve sales of energy assets where ownership interest exceeds 20%.

CEZ Group Operations in Bulgaria

As part of a transparent selling process, a contract of sale 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 is subject to approval by the Commission for Protection of Competition in Bulgaria, which formally initiated the proceedings on June 26, 2018, and published its decision to disapprove the sale of ČEZ's Bulgarian assets to Inercom on its website on July 19, 2018. An administrative action was brought against the decision by Inercom on July 30 and by ČEZ, a. s. on August 1.

Following a number of interventions by Bulgarian authorities injuring ČEZ companies' business in Bulgaria, ČEZ commenced international investment arbitration 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

Electricity was generated only at the Oreshets photovoltaic power plant in the first half of 2018 and the amount generated was 3.1 GWh, which was a slight decrease of 2% as compared to the same period (i.e. H1) of 2017.

No capital expenditure on the Bulgarian generation assets was made in the first half of 2018.

Installed Capacity

Due to the sale of the Varna coal-fired power plant and the sale of a part of the Bara biomass gasification power plant, CEZ Group's installed capacity decreased year-on-year from 1,266.7 MW to 5.0 MW as at June 30, 2018.

Electricity Distribution

On July 1, 2018, the Bulgarian regulatory authority EWRC issued a price decision effective from July 1, 2018, to June 30, 2019.

The price decision does not have a major negative impact on performance estimates for the second half-year. However, the regulatory authority still refuses to recognize the actual amount of technological losses in the grid, so a portion of the costs of losses is borne by distribution companies.

In Bulgaria, electricity is distributed by CEZ Razpredelenie Bulgaria AD, which distributed a total of 4,891 GWh of electricity to end-use customers in the first half of 2018, or 85 GWh less year-on-year.

Capital Construction

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

Distribution Outlook for 2018

CEZ Group estimates the total amount of electricity distributed in 2018 at 9.5 TWh.

Electricity Sales

A growing level of competition on the liberalized part of the market is expected in electricity sales.

CEZ Elektro Bulgaria AD sold end-use customers a total of 3,173 GWh of electricity in the first half of 2018, which was a year-on-year decrease of 83 GWh.

CEZ Trade Bulgaria EAD sold end-use customers 2,180 GWh of electricity in the free market in the first half of 2018, that is, approximately 354 GWh more year-on-year. The increase was due to successful acquisition of new customers switching from the regulated market to the free market.

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.

Electricity Generation and Sales Outlook for 2018

For 2018, the volume of generated electricity is estimated at 6.1 GWh, the volume of electricity supplied to CEZ Elektro Bulgaria’s customers is estimated at 6.0 TWh, and the volume of electricity supplied by CEZ Trade Bulgaria EAD is estimated to exceed 4.1 TWh.

Turkey

Business Environment in the Energy Sector

Early parliamentary and presidential elections were held in June 2018, whose winners were the incumbent president R. T. Erdoğan and his political party AK Parti. The result of the elections led to a transformation of the parliamentary democracy into a presidential political system, as enabled by an amendment to the constitution approved by a narrow majority in a referendum in 2017. Power is more closely concentrated in the hands of the president, who formed a government following the abolishment of the office of the prime minister. A state of emergency was ended in the country after two years.

The Turkish lira weakened by 21% in the first 6 months of 2018 and the exchange rate was 4.6 TRY/USD on June 30, 2018, while the low in the first half of 2018 was 4.9 TRY/USD. The Turkish lira then fell considerably; the exchange rate was 6.01 TRY/USD on August 24, 2018. The depreciating lira negatively affects the performance of Turkish companies that are funded with loans denominated in US dollars.

International financial institutions are lowering their predictions for GDP growth in the next year and the country's investment rating remains in the speculative category. Standard & Poor's undertook an unplanned downgrade of Turkey's rating from BB to BB− on May 1, 2018, due to growing concerns over a deteriorating inflation outlook (15.39% year-on-year in June 2018, 12.15% year-on-year in May 2018), the long-term depreciation and volatility of the Turkish lira, and the state's encroachments on the central bank's independence. Following further devaluation of the Turkish lira, Standard & Poor's lowered Turkey's rating by another notch to B+ on August 17, with the stable outlook remaining unchanged.

CEZ Group Operations

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 2018 was 4,473 GWh, which was an increase of 1% over the same period of 2017.

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.

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 2018 was 6,654 GWh, which was a 35% increase year-on-year. The increase was due partially to higher demand and partially to acquiring new eligible customers in and outside of the distribution area.

Electricity Distribution and Sales Outlook for 2018

The estimates for 2018 are 9.1 TWh of electricity distributed and 13.7 TWh of electricity sold.

Note: The Turkish companies are consolidated using the equity method; consequently, neither their generation nor their installed capacity is included in CEZ Group's aggregate figures.

Other Countries

Slovakia

Sales of electricity and natural gas to large customers and small and medium-sized businesses continued in the first half of 2018. Total electricity supplies to all customer segments in the first half of 2018 amounted to 977 GWh, that is, 76 GWh more than in the same period of 2017. The main reason was higher economic activity and consumption by customers across all segments.

Natural gas supplies amounted to 1,059 GWh in the first half of 2018; in year-on-year comparison, this is 616 GWh less than last year. This was primarily due to the sale of the residential customer portfolio at December 1, 2017, and the loss of the largest customer.

In ESCO services, energy services for customers from among industrial enterprises started to be actively offered in 2018.

Hungary

In Hungary, CEZ Magyarország Kft. (CEZ Hungary Ltd.) sold 758 GWh of electricity to end-use customers in the first half of 2018, that is, 27% more than in the same period of 2017.

The total amount of supplies in 2018 is estimated at 1,442 GWh.

CEZ Group, through the German Elevion group, acquired a 100% share in Hungarian companies TGS Engineering Kft. (in March 2018) and TFS Hungary Kft. (in June 2018), which are based in Budapest and focus on companies, mostly German, with operations in the Hungarian automotive industry. They offer them the designing, construction, and maintenance of heating, cooling, and ventilation systems and plumbing installations.

China

Two CEZ Group companies operate in the country—one is part of the German Elevion group, the other of the French VU LOG group.

Italy

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

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.

Ukraine

CEZ Group's activities in Ukraine were discontinued. The existing subsidiary CEZ Ukraine LLC is in liquidation.

Changes in CEZ Group Ownership Interests

Czechia

- January 1—ČEZ Distribuční služby, s.r.o. ceased to exist by a merger with ČEZ Distribuce, a. s.
- January 1—ČEZ Inženýring, s.r.o. ceased to exist by a merger with ČEZ, a. s.
- January 2—ČEZ ESCO, a.s. increased its stake in ENESA a.s. from 75% to 100%.
- January 10—ČEZ, a. s. sold its 48% stake in Osvětlení a energetické systémy a.s.
- February 1—Transformation of Inven Capital, investiční fond, a.s. into an investment company with variable capital (SICAV) took place, together with the change of the name to Inven Capital, SICAV, a.s.
- July 1—ČEZ Teplárenská, a.s. acquired a 100% stake in AYIN, s.r.o., a company that operates the district heating system for the town of Nejdek under a lease contract effective until the end of 2027.

Albania

- February 1—Shared Services Albania Sh.A. ceased to exist by liquidation.

Italy

- July 31—Under an acquisition of German Kofler Energies group, a 100% stake was acquired in Kofler Energies Italia S.r.l.

Hungary

- March 9—TGS Engineering Kft. was acquired. A 100% stake in the company is held by ETS Efficient Technical Solutions GmbH, a member of the Elevion group.
- June 19 and June 28—An acquisition of TFS Hungary Kft. took place, the resulting 100% stake in the company is held by ETS Efficient Technical Solutions GmbH, a member of the Elevion group.

Germany

- June 20—CEZ ESCO II GmbH was established; its sole member is Dutch company CEZ New Energy Investments B.V.
- July 31—A 100% stake was acquired in the German Kofler Energies group.

Netherlands

- April 1—CEZ Poland Distribution B.V. was renamed to CEZ Holdings B.V.
- April 1—CEZ ESCO Poland B.V. was renamed to CEZ New Energy Investments B.V.

Poland

- January 31—CEZ ESCO Poland B.V. (now CEZ New Energy Investments B.V.) acquired a 100% stake in Metrolog sp. z o.o.
- February 21—CEZ Group increased its stake in OEM Energy sp. z o.o. from 50% to 51%.
- May 4—Baltic Green X sp. z o.o. was renamed to CEZ Chorzów II sp. z o.o.

Romania

- August 3—CEZ ESCO ROMANIA S.A. was established.

Slovakia

- July 10—ČEZ LDS s.r.o., a subsidiary of ČEZ ESCO, a.s., acquired a 100% stake in TMT Energy, a.s.

Shareholders’ Meeting of ČEZ, a. s.

The 26th annual shareholders’ meeting of ČEZ, a. s. started on June 22, 2018, and ended on June 23, 2018. The shareholders’ meeting, among other things:

- Heard the Board of Directors’ Report on the Company’s Business Activities and Assets for 2017, the Summary Report pursuant to Section 118(9) of the Capital Market Undertakings Act, Conclusions from the Related Parties Report for 2017, 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 2017
- Approved the distribution of the 2017 profit of ČEZ, a. s. amounting to CZK 5,105,174,054.40 and a portion of retained earnings amounting to CZK 12,648,487,992.60 as follows:
  - Share in profit to be distributed to shareholders (dividend) calculated from the total number of issued shares CZK 17,753,662,047.00

  The dividend is CZK 33 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 2018
- Approved the 2019 donations budget of CZK 110 million
- Heard information on reasons for contemplating CEZ Group transformation
- Removed Václav Pačes, Petr Polák, and Robert Šťastný from the Supervisory Board
- Elected new members of the Supervisory Board: Otakar Hora, Lubomír Lízal, and Karel Tyll
- Reelected Zdeněk Černý as member of the Supervisory Board with effect from June 28, 2018
- Reelected Andrea Lukasíková as member of the Audit Committee with effect from June 28, 2018.

Changes in ČEZ, a. s., Governance Bodies

Supervisory Board

Members of the Supervisory Board whose membership began in H1 2018 or before the half-year report closing date:

Otakar Hora	Chairman of the Supervisory Board since August 16, 2018 Member of the Supervisory Board (term running from June 23, 2018, to June 23, 2022)
Lubomír Lízal	Member of the Supervisory Board (term running from June 23, 2018, to June 23, 2022)
Karel Tyll	Member of the Supervisory Board (term running from June 23, 2018, to June 23, 2022)

Members of the Supervisory Board reelected for another term:

Zdeněk Černý	Vice-Chairman of the Supervisory Board since August 16, 2018 Member of the Supervisory Board elected by the shareholders' meeting with effect from June 27, 2014, elected by the shareholders' meeting (term running from June 28, 2018, to June 28, 2022)
Jitka Čermáková	Member of the Supervisory Board elected from among employees by the shareholders' meeting with effect from April 12, 2017, elected by employees (term running from January 23, 2018, to January 23, 2022)
Vladimír Hronek	Member of the Supervisory Board elected by employees with effect from September 30, 2010, elected from among employees by the shareholders' meeting with effect from October 1, 2014, elected by employees (term running from January 23, 2018, to January 23, 2022), Vice-Chairman of the Supervisory Board from March 20, 2013 to April 11, 2017 Vice-Chairman of the Supervisory Board from April 27, 2017, to January 22, 2018
Lubomír Klosík	Member of the Supervisory Board elected from among employees by the shareholders' meeting with effect from April 12, 2017, elected by employees (term running from January 23, 2018, to January 23, 2022)
Josef Suchánek	Member of the Supervisory Board elected from among employees by the shareholders' meeting with effect from April 12, 2017, elected by employees (term running from January 23, 2018, to January 23, 2022)

Members of the Supervisory Board whose membership terminated in H1 2018 or before the half-year report closing date:

Václav Pačes	Chairman of the Supervisory Board from June 27, 2014, to June 21, 2017, and from June 29, 2017, to June 23, 2018 Member of the Supervisory Board from March 20, 2013, to June 23, 2018
Petr Polák	Member of the Supervisory Board from February 25, 2016, to June 23, 2018
Robert Šťastný	Member of the Supervisory Board from September 29, 2014, to June 23, 2018

Audit Committee

Members of the Audit Committee reelected for another term:

Andrea Lukasíková	Member of the Audit Committee since June 27, 2014, reelected with effect from June 28, 2018 (term ending June 28, 2022)

Board of Directors

Members of the Board of Directors reelected for another term:

Tomáš Pleskač	Vice-Chairman of the Board of Directors since June 26, 2017 Member of the Board of Directors since January 26, 2006, reelected with effect from January 29, 2018 (term ending January 29, 2022)

Legal and Other Proceedings Involving CEZ Group Companies

Legal Proceedings

Czechia

ČEZ, a. s.

1. ČEZ, a. s., registers minority shareholders' declaratory judgment actions on the adequacy of consideration in compulsory sales of corporate securities:
   - I) Against ČEZ, a. s. and Severočeské doly a.s. started in 2006. Should the plaintiffs win, the total additional payment could be on the order of hundreds of millions of CZK. The case is heard at first instance. The outcome of the proceeding is impossible to predict.
   - II) Against ČEZ Teplárenská, a.s. concerning a squeezeout at United Energy, a.s., started in 2006. The case was finally dismissed in May 2018 by a ruling of the court of first instance following a settlement agreement between the parties. ČEZ Teplárenská, a.s., is not obliged to make any settlement payment. The case was thereby closed.
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 case is heard at first instance. The outcome of the proceeding is impossible to predict.
4. Lesy České republiky, s.p., carries on 30 lawsuits against ČEZ, a. s. and some of its subsidiaries based on actions filed since 1999. 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 1999–2014. Damages claimed total CZK 290 million plus interest and costs. The outcome of the proceeding is impossible to predict.
5. M8 Slovakia, spol. s r.o., carries on a lawsuit against ČEZ, a. s. based on an action filed in 2013 on grounds of nonpayment of EUR 4 million plus interest and costs. The claims, which were assigned several times, allegedly arose from a consulting services contract made between ČEZ, a. s., and Boston Capital Services Ltd. in connection with the CET Galati project in Romania in 2009. The court of first instance dismissed the action, the court of second instance upheld the ruling, the Supreme Court refused leave to appeal. The case is heard by the Czech Constitutional Court. The outcome of the proceeding is impossible to predict.
6. ČEZ, a. s., carries 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 case is heard by the Commercial Court of the Canton of Zürich. The outcome of the proceeding is impossible to predict.
7. Teplárna Trmice, a.s., the legal predecessor of ČEZ Teplárenská, a.s., in an insolvency proceeding against PLP a.s. submitted:

   (i) an unsecured claim for CZK 191 million, consisting of losses arising from failure to pay for electricity, heat, and raw water supplied, and

   (ii) a claim for nearly CZK 29 million arising from the penalty requested.

   Both claims were recognized in review hearings that took place in H1 2011. The enterprise of the debtor, PLP a.s., was realized for USD 10 million. 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 insolvency proceeding has not yet been concluded.

8. 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 case is heard at first instance. The outcome of the proceeding is impossible to predict.
9. 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 intervener 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 case is heard at second instance. The outcome of the proceeding is impossible to predict.
10. ČEZ, a. s. carries on 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. ČEZ, a. s. also filed analogous actions as the successor of Teplárna Trmice, a.s. In two cases the actions were rescinded and the cases are heard by the Czech Supreme Administrative Court following an appeal filed by the Appellate Financial Directorate. The other two cases are heard at first instance. 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 2013, seeking payment of CZK 213 million plus interest and costs. The matter in dispute is loss allegedly incurred due to a breach of obligations by ČEZ Distribuce, a. s. in relation to the connection of the Dubí photovoltaic power plant to the distribution grid. The case is heard at first instance. The outcome of the proceeding is impossible to predict.
12. Four local distribution system users carry on lawsuits against ČEZ Distribuce 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 local distribution system users in relation to local (internal) electricity consumption from January 1, 2013, to October 1, 2013. The total payment claimed exceeds CZK 1 billion plus interest and costs. In two lawsuits, the court of first instance dismissed the actions by a nonfinal ruling; both plaintiffs filed an appeal. In one lawsuit, the court of first instance partially admitted the action and ČEZ Distribuce filed an appeal. The proceeding in the last lawsuit was stayed. The outcomes of the proceedings are impossible to predict.
13. ČEZ Distribuce, a. s. carries on 3 lawsuits against OTE, a.s., based on actions filed in 2016 and 2017, seeking recovery of unjust enrichment 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. The courts of first and second instance discontinued the proceedings on grounds of lack of competence to decide the matter. Following two devolutive appeals, the Czech Supreme Court concluded there was court competence to decide the matter in one case. 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 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 of April 1, 2013, to October 1, 2013. The courts of first and second instance discontinued the proceedings on grounds of lack of competence to decide the matter. Following devolutive appeals filed by both parties, the case is now pending before the Czech Supreme Court. The outcome of the proceeding is impossible to predict.
15. 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. The outcome of the proceeding is impossible to predict.

16. 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 nonpayment for distribution system services under a contract. The insolvency proceeding is pending. The outcome of the proceeding is impossible to predict.

ČEZ Prodej, a.s.

17. 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 a 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 a devolutive 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 by a nonfinal ruling. SŽDC, which had paid the amount claimed, then brought an action against ČEZ Prodej, seeking recovery of unjust enrichment amounting to the paid sum of CZK 857 million plus interest and costs. The outcomes of the two proceedings are impossible to predict.
18. 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 a 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.
19. ČEZ Prodej, a.s. carries on a lawsuit against OTE, a.s., seeking annulment of a final administrative decision by the Energy Regulatory Office concluding an administrative proceeding 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 filed in 2016. The court of first instance dismissed the action by a nonfinal ruling. The outcome of the proceeding is impossible to predict.
20. 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 the loss caused by the actions of ACTHERM, spol. s r.o. during the registration of 3 solar electricity producers in the market operator's system and the delivery of information on the amount of support paid to the producers to ČEZ Prodej, a.s. The proceeding is pending at first instance and is stayed on grounds of the lawsuit against OTE, a.s. (see above). The outcome of the proceeding is impossible to predict.
21. ČEZ Prodej, a.s., carries on 3 lawsuits with solar electricity producers based on actions filed in March 2017, seeking recovery of unjust enrichment amounting to 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 proceedings are pending at first instance and are stayed on grounds of the lawsuit against OTE, a.s. (see above). The outcomes of the proceedings are impossible to predict.

ŠKODA PRAHA Invest s.r.o.

22. ŠKODA PRAHA Invest s.r.o. submitted claims in insolvency proceedings against:

a) MODŘANY Power, a.s., namely conditional and unconditional claims relating to the execution of projects for the construction of a new 660MW$_e$ unit at the Ledvice Power Plant, the comprehensive renovation of the Prunéřov II Power Plant, and the construction of a new 880MW$_e$ CCGT unit at the Počerady Power Plant, as well as projects at the Dukovany Nuclear Power Plant, totaling approximately CZK 5 billion (CZK 348 million in unconditional claims, approximately CZK 4.4

billion in conditional claims, and approximately CZK 314 million in conditional claims), based on filings in 2015. The filing for the conditional claims amounting to approximately CZK 314 million was withdrawn in June 2017, following the final dismissal of an action seeking the annulment of an award of the Arbitration Court attached to the Economic Chamber of the Czech Republic and Agricultural Chamber of the Czech Republic. While the unconditional claims were settled by the parties out of court, in a settlement agreement in December 2017 (the filing for their first portion and relevant incidental action were withdrawn already in December 2016), the remaining conditional claims are no longer part of the insolvency proceeding, which was concluded upon the fulfillment of the reorganization plan in 2018. The case is thus finished.

b) Chladicí věže Praha, a. s., namely conditional and unconditional claims relating to the execution of the 880MWe 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 Invest s.r.o. carries on a lawsuit against the receiver based on an action filed 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.

c) VÍTKOVICE POWER ENGINEERING a.s., namely conditional and unconditional claims relating to the execution of the project for the construction of a new 660MW$_e$ unit at the Ledvice Power Plant and the 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 and/or the debtor. Therefore, ŠKODA PRAHA Invest s.r.o. 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 the 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 and the relevant incidental proceeding was discontinued. The other proceedings are pending at first instance and their outcomes are impossible to predict.

d) KRÁLOVOPOLSKÁ RIA, a.s., namely conditional and unconditional claims relating to the execution of the project for the construction of a new 660MW$_e$ unit at the Ledvice Power Plant, the comprehensive renovation of the Prunéřov II Power Plant, and the project for the construction of a new 880MW$_e$ CCGT unit at the Počerady Power Plant, totaling approximately CZK 1.89 billion (approximately CZK 1.85 billion in conditional claims, approximately CZK 16,600 in an unconditional claims based on filings in 2017, and approximately CZK 38.7 million in a claim for damages based on a filing in 2018). Conditional claims totaling approximately CZK 1.85 billion were denied by the receiver and KRÁLOVOPOLSKÁ RIA, a.s. Therefore, ŠKODA PRAHA Invest s.r.o. 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. The 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 questioned by ŠKODA PRAHA Invest s.r.o.) has not been reviewed yet.

23. ŠKODA PRAHA Invest s.r.o. carries on a lawsuit against PPF banka a.s. based on an action filed in 2016, seeking payment of approximately CZK 43 million plus interest and costs. The matter in dispute is a bank guarantee issued by PPF banka a.s. The court of first instance admitted the action. Following an appeal filed by the defendant, the proceeding is pending at second instance. The outcome of the proceeding is impossible to predict.

24. ŠKODA PRAHA Invest s.r.o. carries on two lawsuits against NOEN, a.s., based on two actions filed in 2017, seeking the payment of an amount in excess of CZK 228 million plus interest and costs. The amount claimed is a penalty. The cases are heard at first instance. The outcome of the proceeding is impossible to predict.

25. The receiver of Chladicí věže Praha, a. s. carries on a lawsuit against ŠKODA PRAHA Invest s.r.o. based on an action filed in 2018, seeking the payment of an amount in excess of CZK 43 million plus interest and costs. The title to the amount claimed is an alleged breach of a lien on the claims of Chladicí věže Praha, a. s. under a security agreement with PPF banka a.s. The case is heard at first instance. The outcome of the proceeding is impossible to predict.

26. The receiver of VÍTKOVICE POWER ENGINEERING a.s. carries on a lawsuit against ŠKODA PRAHA Invest s.r.o. based on an action filed in 2018, seeking the payment of an amount in excess of CZK 5.4 million plus interest and costs. The title to the amount claimed is alleged additional cost

relating to a lime suspension accident during the comprehensive renovation of the Prunéřov II Power Plant. The case is heard at first instance. The outcome of the proceeding is impossible to predict.

Energotrans, a.s.

27. Energotrans, a.s. carries on 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 tax overpayment was refunded in 2015 and the tax authority refused to award interest on tax authority misconduct). The case is heard at first instance. The outcomes of the proceedings are impossible to predict.

Abroad

Poland

28. In 2009, Agrowind Kończewo sp. z o.o. (AWK) filed a lawsuit against 7 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 668 million). The litigation can be expected to last for up to several years.

Turkey

29. From 2011 and 2013, respectively, Sakarya Elektrik Dağitim A.S. (SEDAŞ) and Sakarya Elektrik Perakende Satış A.S. (SEPAŞ) filed appeals against the 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. The level of SEDAŞ's and SEPAŞ's operating costs is defined by EPDK's decision. The level of both companies' operating costs was gradually reduced by EPDK's decisions, which the companies appealed against and strove to get canceled. On December 18, 2012, one of the disputes was decided by the administrative court in Ankara in favor of SEDAŞ. EPDK appealed against the first instance decision to the Supreme Administrative Court of Turkey. No decision on the appeal has been taken yet. Four disputes were decided by the administrative court in favor of the regulatory authority EPDK during 2016. SEPAŞ and SEDAŞ appealed against the first instance decision to the Supreme Administrative Court of Turkey. No decisions on the appeals have been taken yet. The remaining lawsuit is in the stage of submission of pleadings.
30. 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 and SEPAŞ, the total amount of pending lawsuits is currently immaterial for the companies and, with regard to legislation adopted in 2016, it is expected that the cases will be decided in favor of SEDAŞ and SEPAŞ.
31. In March and May 2016, SEDAŞ filed three administrative actions and SEPAŞ filed two 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, and regulating the limits of SEPAŞ's revenue from electricity sales and limits of SEPAŞ's costs and expenses in the regulatory period of 2016 to 2020. The court of first instance decided one of the cases partly in favor of SEPAŞ on March 6, 2017, and EPDK appealed against the decision. In late 2016, some of the administrative decisions contested in court were modified by EPDK in favor of SEDAŞ and SEPAŞ; however, EPDK took only partial account of the companies' claims. Therefore, SEDAŞ and SEPAŞ filed new administrative actions against said administrative decisions in April 2017. Some of the actions were re-filed on July 10, 2017, owing to a previous procedural decision of the administrative court.

Romania

32. Distributie Energie Oltenia S.A. has been carrying on a lawsuit against the regulatory authority concerning distribution tariffs in the 2nd regulatory period since early 2014. 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 case will be heard by a court of second instance.

Bulgaria

33. CEZ Razpredelenie Bulgaria AD and CEZ Elektro Bulgaria AD appealed in 2016, 2017, and 2018 against numerous decisions of the regulatory authority—Energy and Water Regulatory Commission (EWRC)—stipulating prices of electricity. Legal proceedings are underway.
34. CEZ Razpredelenie Bulgaria AD appealed against certain decisions of the regulatory authority stipulating prices of access to the distribution grid for producers of electricity from RES purchased at preferential prices, and obligatory compensation to producers of electricity from RES. The regulatory authority's decision on prices of access to the distribution grid for RES producers was revoked by the court. The case was returned to the regulatory authority to adopt a new decision. The court rejected the company's appeal by its decision from June 2017. Other legal proceedings concerning the stipulation of obligatory compensation for individual producers of electricity from RES were reopened.
35. CEZ Razpredelenie Bulgaria AD and CEZ Elektro Bulgaria AD carry on a lawsuit against the EWRC concerning changes affecting electricity price regulation in effect since June 2018. The outcome of the proceeding is impossible to predict.
36. In March 2014, NEK (Natsionalna Elektricheska Kompania EAD) filed an action against CEZ Razpredelenie Bulgaria AD with 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 the ESO EAD's action on December 11, 2017, and ESO EAD appealed against the ruling. The outcome of the proceeding is impossible to predict.
37. As a result of a regulatory audit of compliance with distribution license conditions in the period of 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 197 final court rulings, of which 96 confirmed the imposed penalties and the penalties were paid by the company; 101 rulings definitely dismissed the penalties. The remaining cases are still pending.
38. 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 outcome of the proceeding is impossible to predict.
39. 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. The outcome of the proceeding is impossible to predict.

40. 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 SANO EPC EOOD appealed against the dismissing court ruling.

Other Proceedings

Czechia

As part of an investigation into possible criminal activity related to obtaining a license to operate the Vranovská Ves Photovoltaic 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. as at June 30, 2018 in the form of the paid support for the green bonus, in the total amount of nearly CZK 644 million; the amount in question will be deposited on a bank account maintained by 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; for the duration of the security, ČEZ, a. s. cannot dispose of these funds.

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 consequently ČEZ, a. s., are injured parties in the case.

Bulgaria

On March 19, 2014, the Bulgarian regulatory authority EWRC initiated a procedure for revoking the electricity trading license of CEZ Elektro Bulgaria. The initiation of the procedure was the result of Bulgarian authorities' long-term inactivity in matters concerning RES support regulation in 2012 and 2013. There has been no progress in the procedure as at June 30, 2018.

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 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 Bulgarian assets approved by ČEZ's governance and supervisory bodies in February 2018 and the arbitration is still carried on by ČEZ, a. s.

Contacts

CEZ Group Spokespeople		
Ladislav Kříž	ladislav.kriz@cez.cz	+420 211 042 383
Roman Gazdík	roman.gazdik@cez.cz	+420 211 042 456
Alice Horáková	alice.horakova@cez.cz	+420 211 042 460
List of Area Contacts in Czechia	http://www.cez.cz/cs/pro-media/kontakt-pro-media.html	
Information Centers	http://www.cez.cz/cs/o-spolecnosti/kontakty-skupina-cez/informacni-centra.html	
Virtual Power Plant Tours	http://virtualniprohlidky.cez.cz/cez-virtualni-prohlidky/	
Investor Relations		
Barbara Seidlová	barbara.seidlova@cez.cz	+420 211 042 529
Website	www.cez.cz	
Václav Beneš	vaclav.benes@cez.cz	+420 211 043 194
Martin Schreier	martin.schreier@cez.cz	+420 211 042 612
ČEZ Foundation	www.nadacecez.cz	+420 211 046 726
Customer Care Line in Czechia—Sales Mailing address: ČEZ Prodej, a.s. Guldenerova 2577/19 326 00 Plzeň	https://www.cez.cz/cs/kontakty.html	+420 800 810 820 Fax: +420 371 102 008 When calling from abroad: +420 371 100 100
Customer Care Line in Czechia—Distribution Mailing address: ČEZ Distribuce, a. s. Guldenerova 2577/19 326 00 Plzeň	https://www.cez.cz/cs/kontakty.html	+420 800 850 860
Energy Services—Contact ČEZ ESCO Duhová 1444/2 140 00 Praha 4	www.cezesco.cz obchod@cezesco.cz	+420 211 043 320
Customer Care Line in Bulgaria—Sales	info@cezelectro.bg	0700 10 010 (when calling from Bulgaria) Fax: +359 (0)2 9871 852

Customer Care Line in Bulgaria—Distribution	klienti@cez-rp.bg	0700 10 010 (when calling from Bulgaria) Fax: +359 (0)2 8959 667
Customer Care Line in Hungary	sales@cez.hu	+36 1 266 9324 Fax: +36 1 266 9331
Customer Care Line in Romania—Sales Mailing address: CEZ Romania S.A. Str. Depozitelor 2 Târgu Jiu, judetul Gorj cod postal 210152	cez_crc@cez.ro	0251 929 (when calling from Romania) Fax: 0248 524 834
Customer Care Line in Romania—Distribution Mailing address: Distributie Oltenia S.A. Str. Depozitelor 2 Târgu Jiu, judetul Gorj cod postal 210238	relatiiclienti@distributieoltenia.ro distributie@distributieoltenia.ro	0800 500 000 0251 408 006 0251 408 007 0251 408 008 Fax: 0251 216 471 0372 526 471
Customer Care Line in Slovakia Mailing address: ČEZ Slovensko, s.r.o. Mlynské nivy 48 821 09 Bratislava	cez@cez.sk www.cez.sk	0850 888 444 (when calling from Slovakia)
Representation in France	info@cezfrance.fr Additional information: www.youtube.com/watch?v=NCd9FC0Q48Q	
Representation in Germany	info@cezdeutschland.de	+49 (0) 40 999 995 30
Web Sales Office (ČEZ ON-LINE)	https://cezonline.cez.cz	
CEZ Group Ombudsman in Czechia Josef Sedlák Mailing address: Ombudsman ČEZ Hvězdova 1716/2b 140 62 Praha 4	www.cez.cz/ombudsman	No phone contact
CEZ Group Ombudsman in Bulgaria Radoslav Dimitrov Mailing address: Tsarigradsko Shosse 159 1784 Sofia	http://www.cez.bg/edee/qf/bg/bsramjet/bg3/ombudsman	+359 (0) 28 958 450 Fax: +359 (0) 28 959 770

Methods Used to Calculate Indicators Unspecified in IFRS

In accordance with ESMA guidelines, ČEZ provides detailed information on indicators that are not defined in financial statements or other similar statements prepared in accordance with IFRS. Such indicators represent supplementary information in respect of financial data, providing report users with additional information to assess 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).
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).
EBITDA (EBIT Before Depreciation and Amortization, Impairments, and Asset Sales)	Purpose: This is an important economic indicator showing a business's operating efficiency comparable to other companies, as it is unrelated to the company's depreciation and amortization policy and capital structure or tax treatment. It is one of the fundamental indicators used by companies to set their key financial and strategic objectives. Definition: Earnings before taxes and other expenses and revenues + depreciation and amortization +/− impairments of property, plant, and equipment and intangible assets, including goodwill (including write-off of canceled investments) +/− sales of property, plant, and equipment and intangible assets.

Indicator	
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., the amount of EBITDA generated from July 1 of the previous year to June 30; Net Debt is the amount at the end of the period, i.e., at June 30.

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:

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

	As at Jun 30, 2017	As at Jun 30, 2018
Short-term debt securities available for sale	2,804	1,301
Short-term debt securities held to maturity	900	–
Short-term deposits	2,500	500
Long-term deposits	500	–
Long-term debt securities available for sale	1,809	512
Highly liquid financial assets, total	**8,512**	**2,313**

Adjusted Net Income indicator—individual components:

Adjusted Net Income (After-Tax Income, Adjusted)	Unit	Q1–Q2 2017	Q1–Q2 2018
Net income	CZK millions	16,658	7,715
Impairments of property, plant, and equipment and intangible assets, including goodwill	CZK millions	271	157
Impairments of developed projects*)	CZK millions	–	–
Impairments of property, plant, and equipment and intangible assets, including goodwill, at joint ventures**)	CZK millions	75	–
Effects of additions to or reversals of impairments on income tax***)	CZK millions	(51)	(28)
Other extraordinary effects	CZK millions	–	–
Adjusted net income	**CZK millions**	**16,953**	**7,843**

*) *Included in the row Other operating expenses (impairments of inventories) 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

Glossary of Selected Terms and Abbreviations

Term	Commentary
BAT	Best available techniques The most efficient and most advanced technologies and methods of their use for environmental protection
PSE	Prague Stock Exchange
BREF	BAT reference documents Documents providing summary information on the best available techniques in the European Union for individual facility categories
EIA	Environmental impact assessment
EUA	EU Allowances
EU ETS	EU Emissions Trading System
SHP	Small hydropower plant
RES	Renewable energy sources Energy resources that can be naturally replenished, either partially or in full. They include, in particular, solar, wind, and hydro energy, biomass, and biogas.
SÚJB	State Office for Nuclear Safety (Státní úřad pro jadernou bezpečnost)
TE	Traditional energy
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, 2018

CEZ GROUP
CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2018

in CZK Millions

	Note	June 30, 2018	December 31, 2017
ASSETS:			
Plant in service		814,942	833,359
Less accumulated depreciation and impairment		(435,117)	(437,210)
Net plant in service		379,825	396,149
Nuclear fuel, at amortized cost		15,887	15,218
Construction work in progress		15,880	16,652
Total property, plant and equipment		411,592	428,019
Investment in associates and joint-ventures		3,508	3,520
Restricted financial assets, net		18,763	18,468
Investments and other financial assets, net		8,547	9,845
Intangible assets, net		25,858	26,804
Deferred tax assets		913	1,297
Total other non-current assets		57,589	59,934
Total non-current assets		469,181	487,953
Cash and cash equivalents, net		10,539	12,623
Receivables, net		61,331	57,766
Income tax receivable		3,072	1,171
Materials and supplies, net		9,966	9,537
Fossil fuel stocks		1,020	1,021
Emission rights		8,641	9,370
Other financial assets, net		87,433	43,052
Other current assets		3,632	3,684
Assets classified as held for sale	5	16,827	30
Total current assets		202,461	138,254
Total assets		671,642	626,207

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

CEZ GROUP
CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2018

continued

	Note	June 30, 2018	December 31, 2017
EQUITY AND LIABILITIES:			
Stated capital		53,799	53,799
Treasury shares		(3,551)	(4,077)
Retained earnings and other reserves		188,094	200,296
Total equity attributable to equity holders of the parent		238,342	250,018
Non-controlling interests		4,527	4,304
Total equity		242,869	254,322
Long-term debt, net of current portion	7	132,420	132,475
Provisions		73,043	73,291
Deferred tax liabilities		20,289	19,993
Other long-term liabilities		13,510	15,844
Total long-term liabilities		239,262	241,603
Short-term loans	8	5,476	11,072
Current portion of long-term debt	7	3,212	8,622
Trade and other payables		155,777	87,236
Income tax payable		154	176
Provisions		7,442	9,226
Accrued liabilities		11,667	13,950
Liabilities associated with assets classified as held for sale	5	5,783	-
Total current liabilities		189,511	130,282
Total equity and liabilities		671,642	626,207

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, 2018

in CZK Millions

	Note	1-6/2018	1-6/2017	4-6/2018	4-6/2017
Sales of electricity and related services		67,445	84,614	32,857	40,752
Sales of gas, coal, heat and other revenues		18,022	14,123	7,669	5,615
Other operating income		832	2,146	371	1,694
Total revenues and other operating income	9	86,299	100,883	40,897	48,061
Gains and losses from commodity derivative trading, net		11	599	(846)	(934)
Fuel		(5,763)	(6,338)	(2,412)	(2,705)
Purchased power and related services		(26,327)	(44,268)	(11,907)	(20,768)
Repairs and maintenance		(1,699)	(1,559)	(1,076)	(973)
Depreciation and amortization		(14,096)	(14,982)	(6,967)	(7,485)
Impairment of property, plant and equipment and intangible assets including goodwill		(157)	(271)	(162)	(270)
Salaries and wages		(11,831)	(9,640)	(6,122)	(4,995)
Materials and supplies		(3,785)	(2,327)	(1,917)	(1,257)
Emission rights, net		(1,597)	(719)	(1,791)	(892)
Other operating expenses		(8,378)	(4,137)	(5,419)	(2,196)
Income before other income (expenses) and income taxes		12,677	17,241	2,278	5,586
Interest on debt, net of capitalized interest		(2,492)	(1,800)	(1,275)	(869)
Interest on provisions		(900)	(814)	(451)	(407)
Interest income		125	134	85	67
Foreign exchange rate gains (losses), net		(395)	461	(208)	561
Gain on sale of subsidiaries, associates and joint-ventures		2	-	2	-
Other financial expenses		(96)	(1,094)	(34)	(1,065)
Other financial income		685	5,559	277	4,760
Share of profit (loss) from associates and joint-ventures		(283)	(255)	(254)	138
Total other income (expenses)		(3,354)	2,191	(1,858)	3,185
Income before income taxes		9,323	19,432	420	8,771
Income taxes		(1,608)	(2,774)	40	(787)
Net income		7,715	16,658	460	7,984
Net income attributable to:					
Equity holders of the parent		7,509	16,314	388	7,745
Non-controlling interests		206	344	72	239
Net income per share attributable to equity holders of the parent (CZK per share)					
Basic		14.0	30.5	0.7	14.5
Diluted		14.0	30.5	0.7	14.5

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, 2018

In CZK Millions

	Note	1-6/2018	1-6/2017	4-6/2018	4-6/2017
Net income		7,715	16,658	460	7,984
Change in fair value of cash flow hedges recognized in equity		(7,211)	3,762	(8,022)	1,975
Cash flow hedges reclassified to statement of income		1,720	2,737	205	2,015
Change in fair value of debt instruments recognized in equity		-	(666)	-	(32)
Debt instruments reclassified from equity		(513)	(32)	(337)	(15)
Change in fair value of equity instruments recognized in equity		-	(191)	-	272
Equity instruments reclassified from equity		-	(5,585)	-	(5,566)
Translation differences – subsidiaries		581	(1,452)	860	(1,691)
Translation differences – associates and joint-ventures		101	(339)	90	(226)
Translation differences reclassified from equity		12	-	-	-
Share on other equity movements of associates and joint-ventures		-	35	-	9
Deferred tax related to other comprehensive income	10	1,142	(1,099)	1,541	(747)
Net other comprehensive income that may be reclassified to statement of income or to assets in subsequent periods		(4,168)	(2,830)	(5,663)	(4,006)
Total comprehensive income, net of tax		3,547	13,828	(5,203)	3,978
Total comprehensive income attributable to:					
Equity holders of the parent		3,275	13,558	(5,357)	3,814
Non-controlling interests		272	270	154	164

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, 2018

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, 2016		53,799	(4,246)	(10,779)	(7,499)	1,666	6,173	217,698	256,812	4,548	261,360
Net income		-	-	-	-	-	-	16,314	16,314	344	16,658
Other comprehensive income		-	-	(1,675)	5,263	(562)	(5,817)	35	(2,756)	(74)	(2,830)
Total comprehensive income		-	-	(1,675)	5,263	(562)	(5,817)	16,349	13,558	270	13,828
Dividends		-	-	-	-	-	-	(17,630)	(17,630)	(235)	(17,865)
Share options		-	-	-	-	-	12	-	12	-	12
Transfer of forfeited share options within equity		-	-	-	-	-	(15)	15	-	-	-
June 30, 2017		53,799	(4,246)	(12,454)	(2,236)	1,104	353	216,432	252,752	4,583	257,335

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, 2018
continued

	Note	Attributable to equity holders of the parent									
		Stated capital	Treasury shares	Transla-tion difference	Cash flow hedge reserve	Debt instru-ments	Equity instruments and other reserves	Retained earnings	**Total**	Non-controlling interests	**Total equity**
December 31, 2017		53,799	(4,077)	(11,906)	(7,757)	677	571	218,711	250,018	4,304	254,322
Application of new IFRSs	2.2	-	-	143	-	-	(493)	2,818	2,468	(24)	2,444
January 1, 2018 (restated)		53,799	(4,077)	(11,763)	(7,757)	677	78	221,529	252,486	4,280	256,766
Net income		-	-	-	-	-	-	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	6	-	-	-	-	-	-	(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 within equity		-	-	-	-	-	(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)	263	66	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 CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2018

In CZK Millions

	Note	1-6/2018	1-6/2017
OPERATING ACTIVITIES:			
Income before income taxes		9,323	19,432
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization		14,096	14,982
Amortization of nuclear fuel		1,949	1,817
Gain on non-current asset retirements, net		(77)	(5,858)
Foreign exchange rate losses (gains), net		395	(461)
Interest expense, interest income and dividend income, net		2,213	1,435
Provisions		(1,558)	(2,087)
Impairment of property, plant and equipment and intangible assets including goodwill		157	271
Valuation allowances and other adjustments		1,733	(222)
Share of (profit) loss from associates and joint-ventures		283	255
Changes in assets and liabilities:			
Receivables		(7,002)	7,652
Materials, supplies and fossil fuel stocks		(506)	(209)
Receivables and payables from derivatives		477	(2,706)
Other current assets		3,521	282
Trade and other payables		2,776	(3,968)
Accrued liabilities		(1,635)	(2,667)
Cash generated from operations		26,145	27,948
Income taxes paid		(2,066)	(2,643)
Interest paid, net of capitalized interest		(3,098)	(2,082)
Interest received		124	141
Dividends received		5	233
Net cash provided by operating activities		21,110	23,597
INVESTING ACTIVITIES:			
Acquisition of subsidiaries, associates and joint-ventures, net of cash acquired	4	(289)	(95)
Disposal of subsidiaries, associates and joint-ventures, net of cash disposed of		156	1,314
Additions to non-current assets, including capitalized interest		(10,013)	(13,791)
Proceeds from sale of non-current assets		1,675	12,734
Loans made		(8)	(19)
Repayment of loans		-	356
Change in restricted financial assets		(816)	(856)
Total cash used in investing activities		(9,295)	(357)

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, 2018

continued

	Note	1-6/2018	1-6/2017
FINANCING ACTIVITIES:			
Proceeds from borrowings		33,815	56,241
Payments of borrowings		(45,827)	(71,946)
Proceeds from other long-term liabilities		20	16
Payments of other long-term liabilities		(33)	(32)
Dividends paid to Company's shareholders		(44)	(56)
Dividends paid to non-controlling interests		(7)	(9)
Sale of treasury shares		204	-
Sale of non-controlling interests		5	-
Total cash used in financing activities		(11,867)	(15,786)
Net effect of currency translation and impairment in cash		58	(115)
Net increase in cash and cash equivalents		6	7,339
Cash and cash equivalents at beginning of period		12,623	11,330
Cash and cash equivalents at end of period		12,629	18,669

Supplementary cash flow information			
Total cash paid for interest		3,259	3,244

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, 2018

1. The Company

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

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

2. Summary of Significant Accounting Policies

2.1. Financial Statements

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

2.2. Changes in Accounting Policies

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

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

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

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

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

	IFRS 9	IFRS 15	Total
Receivables, net	(62)	-	(62)
Other	(17)	-	(17)
Total assets	(79)	-	(79)
Deferred tax liability	13	(581)	(568)
Other long-term liabilities	-	3,091	3,091
Total liabilities	13	2,510	2,523
Impact on Total equity	(66)	2,510	2,444
Less: Non-controlling interests	(4)	(20)	(24)
Impact on Total equity attributable to equity holders of the parent	(62)	2,530	2,468

In addition to above mentioned effect of IFRS 15 related to connection fees, the Group as a result of application of IFRS 15 changed from January 1, 2018 also the way of presentation revenue and costs in situation when the Group acts as energy provider without distributing it. In these circumstances the Group acts as an agent under IFRS 15 and no revenue and costs for distribution services is recognized, with no effect to net income. The table below presents amounts for selected items of statement of income for 1-6/2017 comparing previously reported figures according to IAS 18, which was replaced from January 1, 2018 by IFRS 15, and adjustments which would be necessary for compliance with IFRS 15 (in CZK millions):

	1-6/2017 according to IAS 18	Effect of connection fees	Effect of agent vs. principal	1-6/2017 according to IFRS 15
Sales of electricity and related services	84,614	-	(13,981)	70,633
Sales of gas, coal, heat and other revenues	14,123	(326)	(1,175)	12,622
Other operating income	2,146	-	(29)	2,117
Total revenues and other operating income	100,883	(326)	(15,185)	85,372
Purchased power and related services	(44,268)	-	15,143	(29,125)
Other operating expenses	(4,137)	-	42	(4,095)
Income before income taxes	19,432	(326)	-	19,106
Income taxes	(2,774)	51	-	(2,723)
Net income	16,658	(275)	-	16,383

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 2018

On January 31, 2018 the Group acquired a 100% interest in the polish company Metrolog sp. z o.o. The company is an engineering firm that focuses on complex services related to heat management and decentralized heat and electricity generation. The values of acquired identifiable assets and liabilities as of the date of acquisition were as follows (in CZK millions):

	Metrolog
Property, plant and equipment	83
Intangible assets, net	51
Cash and cash equivalents	99
Receivables, net	61
Materials and supplies, net	23
Other current assets	2
Deferred tax liabilities	(10)
Trade and other payables	(36)
Other short-term liabilities	(22)
Total net assets	251
Share of net assets acquired	251
Goodwill	120
Total purchase consideration	371
Liabilities from acquisition of the subsidiary	(40)
Cash outflow on acquisition of the subsidiary in 2018	331
Less:	
Cash and cash equivalents in the subsidiary acquired	(99)
Cash outflow on acquisition of the subsidiary in 2018, net	232
Revenues and other operating income since 1.1. till acquisition date	24
Net income since 1.1. till acquisition date	-

If the combination had taken place at the beginning of the year 2018, net income for CEZ Group as of June 30, 2018 would have been CZK 7,715 million and the revenues and other operating income from continuing operations would have been CZK 86,323 million. The amount of goodwill recognized as a result of the business combination comprises the value of expected synergies arising from the acquisition.

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

	Metrolog
Revenues and other operating income	192
Income before other income (expense) and income taxes	1
Net income (loss)	-
Net income (loss) attributable to:	
Equity holders of the parent	-
Non-controlling interests	-

5. Assets and Associated Liabilities Classified as Held for Sale

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

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

	June 30, 2018	December 31, 2017
	Bulgarian companies	Other
Property, plant and equipment	10,299	30
Intangible assets	433	-
Other non-current assets	46	-
Cash and cash equivalents	2,090	-
Receivables, net	3,334	-
Other current assets	625	-
Assets classified as held for sale	16,827	30
Non-current provisions	118	-
Long-term liabilities	1,774	-
Deferred tax liabilities	242	-
Short-term loans	715	-
Trade and other payables	2,366	-
Current provisions	509	-
Other current liabilities	59	-
Liabilities associated with assets classified as held for sale	5,783	-

6. Equity

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

7. Long-term Debt

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

	June 30, 2018	December 31, 2017
3.005% Eurobonds, due 2038 (JPY 12,000 million)	2,412	2,263
2.845% Eurobonds, due 2039 (JPY 8,000 million)	1,609	1,510
5.000% Eurobonds, due 2021 (EUR 750 million)	19,479	19,114
6M Euribor + 1.25% Eurobonds, due 2019 (EUR 50 million)	1,299	1,275
3M Euribor + 0,55% Eurobonds, due 2018 (EUR 200 million)	-	5,106
4.875% Eurobonds, due 2025 (EUR 750 million)	19,457	19,095
4.500% Eurobonds, due 2020 (EUR 750 million)	19,460	19,087
2.160% Eurobonds, due 2023 (JPY 11,500 million)	2,319	2,175
4.600% Eurobonds, due 2023 (CZK 1,250 million)	1,249	1,249
2.150%*IR CPI Eurobonds, due 2021 (EUR 100 million) [1)]	2,602	2,554
4.102% Eurobonds, due 2021 (EUR 50 million)	1,299	1,275
4.250% U.S. bonds, due 2022 (USD 289 million)	6,412	6,114
5.625% U.S. bonds, due 2042 (USD 300 million)	6,631	6,325
4.375% Eurobonds, due 2042 (EUR 50 million)	1,278	1,254
4.500% Eurobonds, due 2047 (EUR 50 million)	1,278	1,254
4.383% Eurobonds, due 2047 (EUR 80 million)	2,082	2,043
3.000% Eurobonds, due 2028 (EUR 725 million)	19,342	19,008
4.500% registered bonds, due 2030 (EUR 40 million)	1,024	1,004
4.750% registered bonds, due 2023 (EUR 40 million)	1,034	1,014
4.700% registered bonds, due 2032 (EUR 40 million)	1,036	1,016
4.270% registered bonds, due 2047 (EUR 61 million)	1,563	1,534
3.550% registered bonds, due 2038 (EUR 30 million)	777	763
Total bonds and debentures	113,642	116,032
Less: Current portion	-	(5,106)
Bonds and debentures, net of current portion	113,642	110,926
Long-term bank and other loans:		
Total long-term bank and other loans	21,990	25,065
Less: Current portion	(3,212)	(3,516)
Long-term bank and other loans, net of current portion	18,778	21,549
Total long-term debt	135,632	141,097
Less: Current portion	(3,212)	(8,622)
Total long-term debt, net of current portion	132,420	132,475

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

8. Short-term Loans

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

	June 30, 2018	December 31, 2017
Short-term bank loans	5,351	10,976
Bank overdrafts	125	96
Total	5,476	11,072

9. Revenues and Other Operating Income

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

	1-6/2018	1-6/2017
Sales of electricity and related services:		
Sales of electricity to end customers *	22,436	25,106
Sales of electricity through energy exchange	1,528	1,882
Sales of electricity to traders	16,140	18,030
Sales to distribution and transmission companies	91	127
Other sales of electricity	9,182	8,809
Effect of hedging - presales of electricity	(2,532)	161
Effect of hedging - currency risk hedging	112	(1,149)
Sales of ancillary, system, distribution and other services *	20,488	31,648
Total sales of electricity and related services	67,445	84,614
Sales of gas, coal, heat and other revenues:		
Sales of gas	3,693	5,113
Sales of coal	2,192	2,110
Sales of heat	3,664	3,826
Other *	8,473	3,074
Total sales of gas, coal, heat and other revenues	18,022	14,123
Other operating income:		
Contractual fines and interest fees for delays	144	32
Gain on sale of property, plant and equipment	47	1,184
Gain on sale of material	72	82
Other *	569	848
Total other operating income	832	2,146
Total revenues and other operating income	86,299	100,883

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

10. Income Taxes

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

	1-6/2018			1-6/2017		
	Before tax amount	Tax effect	Net of tax amount	Before tax amount	Tax effect	Net of tax amount
Change in fair value of cash flow hedges recognized in equity	(7,211)	1,370	(5,841)	3,762	(715)	3,047
Cash flow hedges reclassified to statement of income	1,720	(327)	1,393	2,737	(520)	2,217
Change in fair value of debt instruments recognized in equity	(513)	99	(414)	(666)	128	(538)
Debt instruments reclassified from equity	-	-	-	(32)	8	(24)
Change in fair value of equity instruments recognized in equity	-	-	-	(191)	-	(191)
Equity instruments reclassified from equity	-	-	-	(5,585)	-	(5,585)
Translation differences – subsidiaries	581	-	581	(1,452)	-	(1,452)
Translation differences – associates and joint-ventures	101	-	101	(339)	-	(339)
Translation differences reclassified from equity	12	-	12	-	-	-
Share on other equity movements of associates and joint-ventures	-	-	-	35	-	35
Total	(5,310)	1,142	(4,168)	(1,731)	(1,099)	(2,830)

11. Segment Information

The Group reports its result using six reportable operating segments:

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

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

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

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

	1-6/2018	1-6/2017
Income before other income (expenses) and income taxes (EBIT)	12,677	17,241
Depreciation and amortization	14,096	14,982
Impairment of property, plant and equipment and intangible assets including goodwill	157	271
Gains and losses on sale of property, plant and equipment, net *	(37)	(1,183)
EBITDA	26,893	31,311

* 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, 2018 and 2017 and at December 31, 2017 (in CZK millions):

June 30, 2018:	Generation - Traditional Energy	Generation - New Energy	Distribution	Sales	Mining	Other	Combined	Elimination	Consolidated
Revenues and other operating income - other than intersegment	22,118	2,447	11,591	46,802	2,302	1,039	86,299	-	86,299
Revenues and other operating income - intersegment	16,901	278	12,230	6,436	2,361	5,509	43,715	(43,715)	-
Total revenues and other operating income	39,019	2,725	23,821	53,238	4,663	6,548	130,014	(43,715)	86,299
EBITDA	9,549	2,152	9,973	2,129	2,029	1,057	26,889	4	26,893
Depreciation and amortization	(8,150)	(877)	(3,036)	(163)	(1,164)	(706)	(14,096)	-	(14,096)
Impairment of property, plant and equipment and intangible assets including goodwill	(90)	-	(52)	-	11	(26)	(157)	-	(157)
EBIT	1,310	1,276	6,892	1,970	877	348	12,673	4	12,677
Interest on debt and provisions	(3,168)	(156)	(164)	(60)	(98)	(116)	(3,762)	370	(3,392)
Interest income	250	5	29	7	8	196	495	(370)	125
Share of profit (loss) from associates and joint-ventures	-	28	93	36	3	(443)	(283)	-	(283)
Income taxes	340	(60)	(1,241)	(349)	(160)	(138)	(1,608)	-	(1,608)
Net income	29,647	1,092	5,602	1,620	1,187	498	39,646	(31,931)	7,715
Identifiable assets	248,116	28,317	106,385	1,215	19,646	8,972	412,651	(1,059)	411,592
Investment in associates and joint-ventures	-	599	-	-	173	2,736	3,508	-	3,508
Unallocated assets									256,542
Total assets									671,642
Capital expenditure	2,385	117	5,342	134	273	1,168	9,419	(457)	8,962

June 30,2017:	Generation - Traditional Energy	Generation - New Energy	Distribution	Sales	Mining	Other	Combined	Elimination	Consolidated
Revenues and other operating income - other than intersegment	27,763	2,175	14,493	53,066	2,211	1,175	100,883	-	100,883
Revenues and other operating income - intersegment	15,372	407	14,450	2,356	2,367	7,177	42,129	(42,129)	-
Total revenues and other operating income	43,135	2,582	28,943	55,422	4,578	8,352	143,012	(42,129)	100,883
EBITDA	12,733	2,324	10,046	2,732	2,095	1,378	31,308	3	31,311
Depreciation and amortization	(9,066)	(847)	(3,109)	(41)	(1,158)	(761)	(14,982)	-	(14,982)
Impairment of property, plant and equipment and intangible assets including goodwill	-	(269)	(8)	-	-	6	(271)	-	(271)
EBIT	4,813	1,207	6,943	2,692	938	645	17,238	3	17,241
Interest on debt and provisions	(2,379)	(119)	(167)	(4)	(95)	(146)	(2,910)	296	(2,614)
Interest income	328	-	15	1	1	85	430	(296)	134
Share of profit (loss) from associates and joint-ventures	(65)	(30)	34	(83)	2	(113)	(255)	-	(255)
Income taxes	(563)	(119)	(1,249)	(511)	(179)	(153)	(2,774)	-	(2,774)
Net income	13,818	931	5,575	2,067	1,341	5,439	29,171	(12,513)	16,658
Capital expenditure	5,120	173	5,279	39	331	3,118	14,060	(2,147)	11,913

December 31,2017:	Generation - Traditional Energy	Generation - New Energy	Distribution	Sales	Mining	Other	Combined	Elimination	Consolidated
Identifiable assets	255,773	28,845	113,805	1,110	20,517	9,050	429,100	(1,081)	428,019
Investment in associates joint-ventures	-	646	-	-	175	2,699	3,520	-	3,520
Unallocated assets									194,668
Total assets									626,207

Identification of ČEZ, a. s.

Fig. Environmental upgrades to the Energotrans generating facility, July 2018

ČEZ, a. s.
Duhová 2/1444
140 53 Praha 4
Czechia

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

Established:	1992
Legal form:	Joint-stock company
Company reg. No.:	452 74 649
LEI:	529900S5R9YHJHYKKG94
Banking details:	KB Praha 1, acc. No. 71504011/0100

Phone:	+420 211 041 111
Fax:	+420 211 042 001
Internet:	www.cez.cz
E-mail:	cez@cez.cz

Closing date of the 2018 Half-Year Report: August 24, 2018