ČEZ, a. s.

FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS OF DECEMBER 31, 2018

ČEZ, a. s.
BALANCE SHEET
AS OF DECEMBER 31, 2018

in CZK Millions

	Note	2018	2017 *	Jan 1, 2017 *
ASSETS:				
Plant in service		454,354	448,250	394,262
Less accumulated depreciation and impairment		(244,830)	(231,024)	(218,114)
Net plant in service		209,524	217,226	176,148
Nuclear fuel, at amortized cost		14,331	15,100	14,745
Construction work in progress, net		7,242	7,903	50,337
Total property, plant and equipment	3	231,097	240,229	241,230
Restricted financial assets, net	4	13,336	13,026	13,290
Other non-current financial assets, net	5	177,479	169,340	183,885
Intangible assets, net	6	4,235	604	581
Total other non-current assets		195,050	182,970	197,756
Total non-current assets		426,147	423,199	438,986
Cash and cash equivalents, net	7	454	1,272	454
Trade receivables, net	8	64,287	41,242	39,302
Income tax receivable		7	323	571
Materials and supplies, net		6,526	5,921	5,291
Fossil fuel stocks		462	446	407
Emission rights	9	13,157	7,036	2,013
Other current financial assets, net	5	106,133	51,229	45,320
Other current assets, net	10	2,362	2,102	3,854
Assets classified as held for sale, net	11	6,540	-	736
Total current assets		199,928	109,571	97,948
Total assets		626,075	532,770	536,934

* The way of presentation was changed in 2018 (see Note 2.2.3). The prior year figures were changed accordingly to provide comparative information on the same basis.

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

ČEZ, a. s.
BALANCE SHEET
AS OF DECEMBER 31, 2018

continued

	Note	2018	2017 *	Jan 1, 2017 *
EQUITY AND LIABILITIES:				
Stated capital		53,799	53,799	53,799
Treasury shares		(3,534)	(4,077)	(4,246)
Retained earnings and other reserves		132,947	137,785	151,145
Total equity	12	183,212	187,507	200,698
Long-term debt, net of current portion	13	133,026	121,743	131,960
Provisions	16	62,971	61,171	55,006
Other long-term financial liabilities	17	13,776	11,571	7,019
Deferred tax liability	31	4,539	8,232	9,003
Total non-current liabilities		214,312	202,717	202,988
Short-term loans	18	11,709	10,748	7,874
Current portion of long-term debt	13	5,590	9,360	5,631
Trade payables		51,208	34,401	33,591
Income tax payable		-	-	1
Provisions	16	6,889	5,090	3,904
Other short-term financial liabilities	17	152,544	82,391	81,662
Other short-term liabilities	19	611	556	585
Total current liabilities		228,551	142,546	133,248
Total equity and liabilities		626,075	532,770	536,934

* The way of presentation was changed in 2018 (see Note 2.2.3). The prior year figures were changed accordingly to provide comparative information on the same basis.

ČEZ, a. s.
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

in CZK Millions

	Note	2018	2017 *
Sales of electricity, heat and gas		74,151	69,759
Sales of services and other revenues		4,834	5,225
Other operating income		764	2,273
Total revenues and other operating income	20	79,749	77,257
Gains and losses from commodity derivative trading	21	300	1,071
Purchase of electricity, gas and other energies	22	(33,071)	(31,239)
Fuel and emission rights	23	(14,741)	(12,829)
Services	24	(9,104)	(9,120)
Salaries and wages	25	(6,533)	(6,232)
Materials and supplies		(1,823)	(1,571)
Capitalization of expenses to the cost of assets and change in own inventories		99	96
Depreciation and amortization	3, 6	(14,310)	(15,555)
Impairment of property, plant and equipment and intangible assets		(188)	1,839
Impairment of trade and other receivables		(46)	723
Other operating expenses	26	(1,281)	(1,549)
Income (loss) before other income (expenses) and income taxes		(949)	2,891
Interest on debt, net of capitalized interest		(5,378)	(3,646)
Interest on provisions	16	(1,571)	(1,403)
Interest income	27	870	691
Impairment of financial assets	28	(3,468)	(9,516)
Other financial expenses	29	(897)	(1,264)
Other financial income	30	34,002	16,795
Total other income (expenses)		23,558	1,657
Income before income taxes		22,609	4,548
Income taxes	31	1,167	557
Net income		23,776	5,105
Net income per share (CZK per share):	34		
Basic		44.5	9.6
Diluted		44.4	9.6

* The way of presentation was changed in 2018 (see Note 2.2.3). The prior year figures were changed accordingly to provide comparative information on the same basis.

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

ČEZ, a. s.
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

in CZK Millions

	Note	2018	2017
Net income		23,776	5,105
Change in fair value of cash flow hedges		(16,016)	(3,950)
Cash flow hedges reclassified to statement of income		3,927	4,026
Cash flow hedges reclassified to assets		(972)	(394)
Change in fair value of debt financial instruments		(227)	(677)
Deferred tax related to other comprehensive income	31	2,525	189
Net other comprehensive income that may be reclassified to statement of income or to assets in subsequent periods		(10,763)	(806)
Change in fair value of equity instruments		59	-
Deferred tax related to other comprehensive income	31	(11)	-
Net other comprehensive income not to be reclassified from equity		48	-
Total other comprehensive income, net of tax		(10,715)	(806)
Total comprehensive income, net of tax		13,061	4,299

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

ČEZ, a. s.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

In CZK Millions

	Note	Stated capital	Treasury shares	Cash flow hedge reserve	Debt financial instruments	Equity financial instruments and other reserves	Retained earnings	**Total equity**
January 1, 2017 *		53,799	(4,246)	(7,536)	842	84	157,755	200,698
Net income		-	-	-	-	-	5,105	5,105
Other comprehensive income		-	-	(258)	(548)	-	-	(806)
Total comprehensive income		-	-	(258)	(548)	-	5,105	4,299
Dividends		-	-	-	-	-	(17,586)	(17,586)
Sale of treasury shares		-	169	-	-	-	(101)	68
Share options	25	-	-	-	-	28	-	28
Transfer of exercised and forfeited share options within equity		-	-	-	-	(34)	34	-
December 31, 2017 *		53,799	(4,077)	(7,794)	294	78	145,207	187,507
Application of IFRS 9	2.2.1	-	-	-	-		(34)	(34)
January 1, 2018 (restated)		53,799	(4,077)	(7,794)	294	78	145,173	187,473
Net income		-	-	-	-	-	23,776	23,776
Other comprehensive income		-	-	(10,579)	(184)	48	-	(10,715)
Total comprehensive income		-	-	(10,579)	(184)	48	23,776	13,061
Effect of merger		-	-	-	-	3	35	38
Dividends		-	-	-	-	-	(17,603)	(17,603)
Sale of treasury shares		-	543	-	-	-	(333)	210
Share options	25	-	-	-	-	33	-	33
Transfer of exercised and forfeited share options within equity		-	-	-	-	(45)	45	-
December 31, 2018		53,799	(3,534)	(18,373)	110	117	151,093	183,212

* The way of presentation was changed in 2018 (see Note 2.2.3). The prior year figures were changed accordingly to provide comparative information on the same basis.

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

ČEZ, a. s.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

In CZK Millions

	2018	2017
OPERATING ACTIVITIES:		
Income before income taxes	22,609	4,548
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation and amortization	14,310	15,555
Amortization of nuclear fuel	4,005	3,695
(Gains) and losses on non-current asset retirements	(37)	(1,966)
Foreign exchange rate loss (gain)	808	(1,058)
Interest expense, interest income and dividend income	(27,481)	(11,925)
Provisions	1,133	898
Impairment of property, plant and equipment and intangible assets	188	(1,839)
Other impairment and other adjustments	(251)	12,375
Changes in assets and liabilities:		
Receivables and contract assets	(23,756)	(771)
Materials, supplies and fossil fuel stocks	(545)	(737)
Receivables and payables from derivatives	1,048	(682)
Other assets	(2,925)	(3,265)
Trade payables	20,126	587
Other liabilities	44	(351)
Cash generated from operations	9,276	15,064
Income taxes received	321	221
Interest paid, net of capitalized interest	(5,299)	(3,489)
Interest received	825	674
Dividends received	31,989	14,886
Net cash provided by operating activities	37,112	27,356
INVESTING ACTIVITIES:		
Acquisition of subsidiaries	(1,813)	(2,786)
Proceeds from disposal of subsidiaries and joint-ventures including liquidation distribution received	156	2,142
Additions to non-current assets, including capitalized interest	(7,893)	(10,412)
Proceeds from sale of non-current assets	2,865	1,425
Loans made	(18,536)	(5,839)
Repayment of loans	3,338	1,535
Change in restricted financial assets	(548)	(541)
Total cash used in investing activities	(22,431)	(14,476)

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

ČEZ, a. s.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

continued

	2018	2017
FINANCING ACTIVITIES:		
Proceeds from borrowings	124,391	147,524
Payments of borrowings	(117,934)	(141,021)
Payments of other long-term liabilities	(500)	-
Change in payables/receivables from group cashpooling	(3,933)	(1,064)
Dividends paid	(17,596)	(17,618)
Sale of treasury shares	210	68
Net cash used in financing activities	(15,362)	(12,111)
Net effect of currency translation and allowances in cash	(137)	49
Net increase (decrease) in cash and cash equivalents	(818)	818
Cash and cash equivalents at beginning of period	1,272	454
Cash and cash equivalents at end of period	454	1,272

Supplementary cash flow information:

Total cash paid for interest	5,522	5,045

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

ČEZ, a. s.
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2018

CONTENT:

ČEZ, a. s.
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2018

1. Description of the Company

ČEZ, a. s. (ČEZ or the Company), business registration number 45274649, is a joint-stock company incorporated on May 6, 1992 under the laws of the Czech Republic in the Commercial Register maintained by the Municipal Court in Prague (Section B, Insert 1581). The Company's registered office is located at Duhová 2/1444, Prague 4, Czech Republic.

The Company is involved primarily in the production, trading and sale of electricity and the related support services and in the production, distribution and sale of heat and sale of gas.

The average number of employees was 5,212 and 5,155 in 2018 and 2017, respectively.

The Czech Republic represented by the Ministry of Finance is a majority shareholder holding 69.8% of the Company's share capital at December 31, 2018. The majority shareholder's share of the voting rights represented 70.2% at the same date.

2. Summary of Significant Accounting Policies

2.1. Financial Statements

These separate financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).

The financial statements are prepared under the historical cost convention, except when IFRS requires other measurement basis as disclosed in the accounting policies below.

Based on the economic substance of the underlying events and circumstances relevant to the Company, the functional and presentation currency has been determined to be Czech crowns (CZK).

The Company also compiled consolidated IFRS financial statements of the CEZ Group for the same period.

2.2. Changes in Accounting Policies

2.2.1. Adoption of New IFRS Standards in 2018

The accounting policies adopted are consistent with those of the previous financial year, except for as follows. The Company has adopted the following new or amended and endorsed by EU IFRS and IFRIC interpretations as of January 1, 2018:

IFRS 9 Financial Instruments – Classification and measurement
The IFRS 9 was originally issued in November 2009 and is intended to replace IAS 39 Financial Instruments: Recognition and measurement. The standard introduces new requirements for classifying and measuring financial assets and liabilities. In October 2010 the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities and derecognition of financial assets and liabilities. Most of the requirements in IAS 39 for classification and measurement of financial liabilities and derecognition of financial assets and liabilities were carried forward unchanged to IFRS 9. The standard eliminates categories of financial instruments, which existed in IAS 39: available-for-sale and held-to-maturity. According to IFRS 9 all financial assets and liabilities are initially recognized at fair value plus transaction costs.

Financial assets
Debt instruments may, if the fair value option (FVO) is not applied, be subsequently measured at amortized cost if the following both conditions are met:

- the asset is held within a business model that has the objective to hold the assets to collect the contractual cash flows;
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

All other debt instruments, where the above mentioned conditions are not met, are subsequently measured at fair value.

All equity investment financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity instruments held for trading must be measured at fair value through profit or loss. Entities have an irrevocable choice of recognizing changes in fair value either in OCI or profit or loss by instrument for all other equity investment financial assets.

Financial liabilities
For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

Impairment
The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model. The ECL model applies to: debt instruments accounted for at amortized cost or at FVOCI; most loan commitments; financial guarantee contracts; contract assets under IFRS 15; and lease receivables under IAS 17 *Leases*.

Entities are generally required to recognize either 12-months or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition (or when the commitment or guarantee was entered into). For some trade receivables, the simplified approach may be applied whereby the lifetime expected credit losses are always recognized.

Hedge accounting
The Company decided not to use the option to delay the application of IFRS 9 to hedging accounting. The Company applies the IFRS 9 policy for all hedging designated relationships.

New chapter on hedge accounting has been added to IFRS 9. This represents a major overhaul of hedge accounting and puts in place a new model that introduces improvements principally by aligning the accounting more closely with risk management. There are also improvements to the disclosures about hedge accounting and risk management.

The Company has adopted 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 Company split category of Available-for-sale financial assets, presented in previous period, into new categories Debt instruments and Equity instruments. The impact of the change in the presentation affected the layout of the statement of changes in equity and the statement of comprehensive income for the actual and previous period.

The impact of the creation of new allowances on receivables and other assets with an impact on equity is as follows (in CZK millions):

	Adjustment
Trade receivables, net	(26)
Other assets, net	(13)
Total assets	(39)
Deferred tax liability	5
Impact on equity	(34)

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014. The standard outlines the principles an entity must apply to measure and recognize revenue. The core principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 will be applied using a five-step model:
1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted.

The Company assessed impact of the adoption of this standard and the impact to the Company's financial statements as of the date of application. There was no significant impact in this case.

Clarification IFRS 15 Revenue from Contracts with Customers
The Clarifications apply for annual periods beginning on or after January 1, 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. This Clarification did not have significant impact to the Company's financial statements.

IFRS 2 Classification and Measurement of Share-based Payment Transactions-Amendment to IFRS 2
The IASB issued Amendment to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendment is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The amendment did not have significant impact to the Company's financial statements.

Amendment IAS 40 Transfers to Investment Property
The Amendment is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. The Amendment clarifies when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendment states that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. This Amendment did not have impact to the Company's financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
The Interpretation is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must

determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation did not have significant impact to the Company's financial statements.

Annual Improvements to IFRSs 2014–2016
In December 2017 the IASB issued a collection of amendments to IAS and IFRS for annual periods beginning on or after January 1, 2018 in which they focused on areas of inconsistency in IFRSs and IASs or where the clarification of wording was required. These annual improvements have been endorsed by the EU on February 8, 2018. The following standards were amended:

IFRS 1 First-time Adoption of International Financial Reporting Standards:
This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

IAS 28 Investments in Associates and Joint Ventures:
The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

These improvements did not have significant impact to the Company's financial statements.

2.2.2. New IFRS Standards and IFRIC Interpretations either not yet Effective or not yet Adopted by the EU

The Company is currently assessing the potential impacts of the new and revised standards and interpretations that will be effective or adopted by the EU from January 1, 2019 or later. Standards and interpretations most relevant to the Company's activities are detailed below:

IFRS 16 Leases
The new standard is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied or is applied at the same date as IFRS 16. The standard deals with accounting, measurement and presentation of leases and disclosure requirements for the notes of the financial statements for both contract parties, i.e. for customer (lessee) and for supplier (lessor). Lessees will use single accounting model for all leases (with certain exceptions). Accounting by lessor is substantially unchanged. The Company will apply IFRS 16 from January 1, 2019.

The Company assessed the impact of the adoption of this standard and expects the impact on Net plant in service in the approximate amount of CZK 2,616 million and on long-term debts, which include lease liabilities (following the change in balance sheet structure in 2018), in the approximate amount of CZK 2,606 million. The Company assumes that lease liability will be paid as follows (in CZK million):

Less than 1 year	1,222
Between 1 and 5 years	690
Thereafter	694

Amendment IAS 19 Plan Amendment, Curtailment or Settlement
The Amendment is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted. The Amendment requires entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendment also clarifies how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. This Amendment has not yet been endorsed by the EU. This Amendment does not have material impact on the Company's financial statements.

Amendment IFRS 9 Prepayment features with negative compensation
The Amendment is effective for annual reporting periods beginning on or after January 1, 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. This Amendment has not yet been endorsed by the EU. This Amendment is not expected to have significant impact to the Company's financial statements.

Amendment IAS 28 Long-term Interests in Associates and Joint-Ventures
The Amendment is effective for annual reporting periods beginning on or after January 1, 2019 with earlier application permitted. The Amendment relates to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendment clarifies that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. This Amendment has not yet been endorsed by the EU. This Amendment is not expected to have significant impact to the Company's financial statements.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint-Venture
The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint-venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3 Business Combinations, between an investor and its associate or joint-venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint-venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments are not expected to have significant impact to the Company's financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments
The Interpretation is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. This Interpretation is not expected to have significant impact to the Company's financial statements.

IFRS 17 Insurance Contracts
The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not been yet endorsed by the EU. This standard is not expected to have significant impact to the Company's financial statements.

Conceptual Framework in IFRS standards
The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual

Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. This amendment is not expected to have significant impact to the Company's financial statements.

Amendment IFRS 3: Business Combinations
The IASB issued Amendment in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendment is effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. This Amendment have not yet been endorsed by the EU. This amendment is not expected to have significant impact to the Company's financial statements.

Amendments IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material'
The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU. These amendments are not expected to have significant impact to the Company's financial statements.

The Company does not expect early adoption of any of the above mentioned standards, improvements or amendments.

Annual Improvements to IFRSs 2015–2017
In December 2017 the IASB issued a collection of amendments to IAS and IFRS for annual periods beginning on or after January 1, 2019 in which they focused on areas of inconsistency in IFRSs and IASs or where the clarification of wording was required. These annual improvements have not yet been endorsed by the EU. The following standards were amended:

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:
The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

IAS 12 Income Taxes:
The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

IAS 23 Borrowing Costs:
The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

These improvements are not expected to have significant impact to the Company's financial statements.

2.2.3. Changes in the Presentation of the Financial Statements

The way of presentation of items in balance sheet and in statement of income was changed in 2018.The main goal of the changes was to enhance relevancy of information contained on the face of the financial statements and reflect the developments in the best practice of financial reporting in the industry with regard to all IFRS requirements. The changes have been made to the balance sheet and statement of income. As a result, reclassifications for the prior period have been made to provide fully comparative information on the same basis. The reclassifications have also been made to the balance sheet at the beginning of the earliest comparative period, i.e. at January 1, 2017.

One of the main changes in the balance sheet is the transfer of accrued interest to debt and borrowings that were reported on the lines of Other current assets and Accrues liabilities directly to the line where the debt or loan is reported. Other current assets and Other short-term liabilities (previously Accrued liabilities) include only receivables and payables of a non-financial nature such as accruals, prepayments or contractual assets and liabilities. Other long-term and short-term financial assets are newly reported only assets of a financial nature (for example: financial investments, debt securities and derivatives) that are not presented separately in the balance sheet. Similarly, other long-term and short-term financial liabilities are presented on the lines of financial liabilities (for example derivatives) that are not shown in a separate line in the balance sheet.

There were the following two primary objectives for the changes made to the statement of income: (a) consistently separate commodities and services in operating revenues and costs (sale and purchase of electricity was presented together with the related distribution, system and ancillary services) and (b) change the presentation of emission rights – the original line Emission rights, net was removed and its items were reclassified into the lines:

- Fuel and emission rights – cost of emission rights for generation
- Gains and losses from commodity derivative trading – commodity derivative trading with emission rights and emission rights for trading

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

	Reclassifications 2017	Reclassifications Jan 1, 2017
ASSETS:		
Trade receivables, net	(8,726)	(5,111)
Other current financial assets, net	7,720	2,307
Other current assets, net	1,006	2,804
Total assets	-	-
EQUITY AND LIABILITIES:		
Other long-term financial liabilities	11,571	7,019
Other long-term liabilities	(11,571)	(7,019)
Total non-current liabilities	-	-
Short-term loans	1	-
Current portion of long-term debt	2,101	2,147
Trade payables	(77,865)	(76,819)
Other short-term financial liabilities	82,391	81,662
Other short-term liabilities	(6,628)	(6,990)
Total current liabilities	-	-
Total equity and liabilities	-	-

	Reclassifications 2017
INCOME STATEMENT:	
Sales of electricity, heat and gas	69,759
Sales of services and other revenues	5,225
Sales of electricity *	(65,830)
Sales of gas, heat and other revenues *	(9,154)
Total revenues and other operating income	-
Gain and losses from commodity derivative trading	251
Purchase of electricity, gas and other energies	(31,239)
Fuel and emission rights	(12,829)
Fuel *	(10,975)
Purchase power and related services *	(31,356)
Services	(9,120)
Repairs and maintenance *	3,501
Capitalization of expenses to the cost of assets and change in own inventories	96
Impairment of trade and other receivables	723
Emission rights, net *	1,602
Other operating expenses	4,684
Income (loss) before other income (expenses) and income taxes	-
Impairment of financial assets	(9,516)
Other financial expenses	9,516
Other financial income	1,863
Foreign exchange rate gains (losses), net *	(1,058)
Gain on sale of subsidiaries and associates *	(805)
Total other income (expenses)	-
Net income	-

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

2.3. Estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates. Explanation of key assumptions is included in relevant sections of notes where significant estimates are being described.

Significant estimates are made by the Company while determining recoverable amounts for property, plant and equipment and financial assets (see Notes 3 and 5), accounting for the nuclear provisions (see Notes 2.21 and 16.1), provisions for waste storage reclamation (see Note 16.2), fair value of commodity contracts (see Notes 2.13 and 14) and financial derivatives (see Notes 2.12 and 14).

2.4. Revenues and Other Income

The Company recognizes revenue from supplies of electricity, heat and gas based on contract terms. Differences between contracted amounts and actual supplies for electricity and gas are settled through the market operator.

Revenues are recognized when the Company has satisfied a performance obligation and the amount of revenue can be reliably measured. The Company will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled (after reduction for expected discounts) in exchange for transferring goods or services to a customer.

Sales are recognized net of value added tax.

Revenue from sale of assets is recognized when they are delivered and related significant risks and rewards of ownership have passed to the buyer.

Revenue from services provided is recognized when the services are rendered.

Dividends earned on investments are recognized when the right of payment has been established.

2.5. Fuel Costs

Fuel costs are expensed as fuel is consumed. Fuel expense includes the amortization of the cost of nuclear fuel (see Note 2.8).

2.6. Interest

The Company capitalizes all interest incurred in connection with its construction program that theoretically could have been avoided if expenditures for the qualifying assets had not been made. The qualifying assets include assets, for which the construction represents a substantial period of time.

2.7. Property, Plant and Equipment

Property, plant and equipment are recorded at cost, net of accumulated depreciation and impairment in value. Cost of plant in service includes materials, labor, payroll-related costs and the cost of debt financing used during construction. The cost also includes the estimated cost of dismantling and removing the asset and restoring the site, to the extent that is recognized as a provision under IAS 37, Provisions, Contingent Liabilities and Contingent Assets. Government grants received for construction of certain items of property, plant and equipment decrease the acquisition cost of the respective items.

Internally developed property, plant and equipment are recorded at their accumulated cost. The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense when incurred. Renewals and improvements are capitalized. Upon sale, retirement or replacement of part of an item of property, plant and equipment the cost, related accumulated depreciation and eventual impairment of the disposed item or its replaced part are derecognized from the balance sheet. Any resulting gains or losses are included in profit or loss.

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company reviews the recoverable amounts of its property, plant and equipment to determine whether such amounts continue to exceed the assets' carrying values. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. Identified impairment of property, plant and equipment is recognized directly in profit or loss in the line item Impairment of property, plant and equipment and intangible assets.

At each reporting date, an assessment is made whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss in the line item Impairment of property, plant and equipment and intangible assets.

The Company depreciates the original cost of property, plant and equipment less its residual value by using the straight-line method over the estimated economic lives. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The depreciable useful lives used for property, plant and equipment are as follows:

	Useful lives (years)
Buildings and structures	20–50
Machinery and equipment	4–35
Vehicles	8–25
Furniture and fixtures	4–15

Average depreciable lives based on the functional use of property, plant and equipment are as follows:

	Average life (years)
Hydro plants	
Buildings and structures	45
Machinery and equipment	12
Fossil fuel plants	
Buildings and structures	39
Machinery and equipment	12
Nuclear power plant	
Buildings and structures	38
Machinery and equipment	13

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

2.8. Nuclear Fuel

The Company presents nuclear fuel as part of property, plant and equipment, because its useful life exceeds 1 year. Nuclear fuel is recorded at cost, net of accumulated amortization and possible impairment in value. The nuclear fuel includes the capitalized portion of the provision for interim storage of nuclear fuel. Amortization of fuel in the reactor is based on the amount of power generated and is recognized in the income statement in the line item Fuel and emission rights. The amortization of nuclear fuel includes charges in respect of additions to the accumulated provision for interim storage of spent nuclear fuel.

2.9. Intangible Assets

Intangible assets are valued at their acquisition costs and related expenses. Intangible assets are amortized over their useful lives using the straight-line method. The estimated useful life of intangible assets ranges from 3 to 16 years. The intangible assets' residual values, useful lives and methods of amortization are reviewed, and adjusted if appropriate, at each financial year end. Improvements are capitalized.

Intangible assets are tested for impairment whenever facts or changes in circumstances indicate that the carrying amount could be impaired. The recoverable amount of an intangible asset not yet available for use is tested for impairment annually, irrespective of whether there is any indication that it may be impaired. Identified impairment of intangible assets is recognized directly in profit or loss in the line item Impairment of property, plant and equipment and intangible assets.

At each reporting date an assessment is made as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss in the line item Impairment of property, plant and equipment and intangible assets.

2.10. Emission Rights

Emission right represents the right of the operator of a facility, which in the course of its operation emits greenhouse gases, to emit during the calendar year equivalent of one ton of carbon dioxide. Based on the National Allocation Plans the Company have been granted emission rights. The Company is responsible for determining and reporting the amount of greenhouse gases produced by its facilities in the calendar year and this amount has to be audited by an authorized person.

On April 30 of the following year, at the latest, the Company is required to remit a number of allowances representing the number of tones of CO_2 actually emitted in previous year.

The emission rights which were granted free of charge are stated at their nominal value, i.e. at zero. Purchased emission rights are carried at cost (except for emission rights for trading). The Company recognizes a provision to cover emissions made corresponding to the difference between released emissions and amount of the emission rights which were granted free. This provision is measured firstly with regard to the cost of emission rights and credits purchased with the intention of covering the greenhouse gases emissions of the reporting period. The reserve for released emissions above the amount of these emissions rights and credits is measured at the market price ruling at the balance sheet date. The emission rights purchased for the own use purpose in the next year are presented under current assets in the line Emission rights. The emission rights with an expected later using are presented as part of the intangible assets.

The Company also holds emission rights and credits for trading purposes. The portfolio of emission rights and credits held for trading is measured at fair value. The changes in fair value of the emission rights and credits held for trading are recognized directly in profit or loss in the line item of Gains and losses from commodity derivative trading. The emission rights and credits for the trading purpose are presented under current assets in the line Emission rights.

At each reporting date, the Company assesses whether there is any indication that emission rights may be impaired. Where an indicator of impairment exists, the Company reviews the recoverable amounts of the cash-generating units, to which the emission rights were allocated, to determine whether such amounts continue to exceed the assets' carrying values. Any identified impairment of emission rights is recognized directly in profit or loss in the line item of Other operating expenses.

Sale and repurchase agreements with emission rights are accounted for as collateralized borrowing.

2.11. Classification of Financial Instruments

A financial asset is mainly cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset.

A financial liability is mainly a contractual obligation to deliver cash or another financial asset.

Financial liabilities and assets are presented as current (short-term) or non-current (long-term). Financial assets are presented as current when the Company expects to realize them within 12 months of the balance sheet date or if there is no reasonable certainty that the Company will hold the financial assets for more than 12 months of the balance sheet date.

Financial liabilities are presented as current when they are due within 12 months of the balance sheet date. The financial assets and liabilities for trading are presented as current.

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

2.11.1. Financial Assets

Financial assets are classified into categories at amortized cost, at fair value depending on whether the financial assets is held for trading or is held within a business model whose objective is to hold assets to collect contractual cash flows, and at cost.

The Company defines financial assets to the following categories:

a) financial assets at amortized cost
This category includes the financial assets held with strategy to collect contractual cash flows, which consists of both principal and interest payments. Examples for such financial assets are loans, securities held to maturity, trade receivables.
Expected credit losses, foreign exchange rate differences and interest revenues are recognized in the income statement.

b) financial assets at fair value through other comprehensive income
This category includes the financial assets held with strategy to collect contractual cash flows or to sell financial assets. This model distinguishes two types of accounting treatment:

- no recycling to the income statement – used for equity instruments
Expected credit loss is not calculated and recognized. Changes in the fair value are recognized in other comprehensive income. When the financial asset is derecognized no profit or loss is recognized in the income statement – it never affects profit or loss.. In case that equity instrument was sold an accumulated revaluation reserve is reclassified to retained earnings. Foreign exchange rate differences are recognized in other comprehensive income (part of revaluation reserve). In case that equity instrument was sold gain/loss remains in other comprehensive income is reclassified to retained earnings. Dividends from these financial assets are recognized in the income statement providing it does not result in an impairment loss of investment at the same time.

- recycling to the income statement – used for debt instruments
Expected credit loss is recognized in the income statement. Changes in the fair value are recognized in other comprehensive income. When the financial asset is derecognized, profit or loss is recognized in the income statement (profit or loss is reclassified from other comprehensive income to the income statement). Foreign exchange rate differences in relation to revaluation reserve are recognized in other comprehensive income. Foreign exchange rate differences in relation to impairment are recognized in the income statement. Interest revenues are recognized in the income statement.

c) financial assets at fair value through profit or loss
This category includes the financial assets held with strategy of active trade with financial asset. Contractual cash flow collection is not the primary objective of business model.
Examples for such financial assets are securities for trading, derivatives, not used for hedging.
Expected credit losses are not calculated and recognized. Changes in the fair value and foreign exchange rate differences are recognized in the income statement.
Changes in the fair values are included in lines Other financial expenses or Other financial income.

d) financial assets at cost
This category includes share on subsidiaries, associates and joint-ventures. The creation of the impairment loss is recognized in the statement of income.

2.11.2. Financial Liabilities

Financial liabilities are classified into two main categories (a) at amortized cost and (b) at fair value through profit or loss. Classification into these categories is similar to the financial assets above.

For “Fair Value Option” liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

2.11.3. Derivatives

Specific category of the financial assets and liabilities are derivatives. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The presentation of derivatives is described in the Note 2.12.

2.11.4. Impairment of Financial Assets

Impairment of financial assets by applying the IFRS 9 requirements is based on expected credit loss (ECL) model which applies to the following financial assets:

a) debt instruments at amortized cost (trade receivables, loans, debt securities),

b) debt instruments at fair value through other comprehensive income,

c) lease receivables,

d) financial guarantee contracts,

e) bank accounts and term deposits.

The Company recognizes either 12-months or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition (or when the commitment or guarantee was entered into). For some trade receivables, the simplified approach are applied whereby the lifetime expected credit losses are always recognized.

For the purposes of ECL model calculation, the portfolio of financial assets is split into 3 stages. At the date of the first recognition, the financial assets are included in stage 1, with the lowest allowance, which is determined using percentage of unpaid receivables in the past. Subsequent reclassification to the stages 1 and 2 is carried out according to the definition of significant increase in credit risk of a debtor. The interest revenue from receivables in the stage 3 is based on the net carrying amount.

2.12. Derivative Financial Instruments

The Company uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value. In the balance sheet such derivatives are presented as part of current and non-current financial assets or as part of other long-term and short-term financial liabilities.

The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognized asset or liability; or cash flow hedges when they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

2.12.1. Fair Value Hedge

Gain or loss from re-measuring the hedging instrument at fair value is recognized immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognized in the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortized to profit or loss over the remaining term to maturity.

2.12.2. Cash Flow Hedge

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are initially recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized in the income statement in the line item Other financial expenses or Other financial income.

Amounts accumulated in equity are transferred to the income statement in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recorded to the income statement when the forecast transaction is ultimately recognized. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

2.12.3. Other Derivatives

Certain derivative instruments are not designated for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement.

2.13. Commodity Contracts

According to IFRS 9, certain commodity contracts are treated as financial instruments and fall into the scope of the standard. Most commodity purchase and sales contracts entered into by the Company provide for physical delivery of quantities intended to be consumed or sold as part of its ordinary business; such contracts are thus excluded from the scope of IFRS 9.

Forward purchases and sales for physical delivery of energy are considered to fall outside the scope of application of IFRS 9, when the contract concerned is considered to have been entered into as part of the normal business activity. This is demonstrated to be the case when all the following conditions are fulfilled:

- A physical delivery takes place under such contracts;
- The volumes purchased or sold under the contracts correspond to the Company’s operating requirements;
- The contract cannot be considered as a written option as defined by the standard IFRS 9. In the specific case of electricity sales contracts, the contract is substantially equivalent to a firm forward sale or can be considered as a capacity sale.

The Company thus considers that transactions negotiated with a view to balancing the volumes between electricity purchases and sale commitments are part of its ordinary business as an integrated electric utility company and do not therefore come under the scope of IFRS 9.

Commodity contracts which fall under the scope of IFRS 9 are carried at fair value with changes in the fair value recognized in the income statement. The Company presents revenues and expenses related to commodity trading net in the line Gains and losses from commodity derivative trading.

2.14. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, current accounts with banks and short-term bank notes with a maturity of 6 months or less. Foreign currency deposits are translated using the exchange rates published as at the balance sheet date.

2.15. Financial Assets Restricted in Use

Restricted balances of cash and other financial assets, which are shown as restricted funds (see Note 4), relate to deposits for funding of nuclear decommissioning liabilities, waste storage reclamation and cash guarantees given to transaction partners. The non-current classification is based on the expected timing of the release of the funds to the Company.

2.16. Receivables, Payables and Accruals

Receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An impairment analysis of receivables is performed by the Company at each reporting date on an individual basis for significant specific receivables. In addition, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively where the individual approach is not applicable. The calculation is based on actual incurred historical data of these groups.

Payables are recorded at invoiced values and accruals are reported at expected settlement values.

2.17. Materials and Supplies

Purchased inventories are valued at actual cost, using the weighted average method. Costs of purchased inventories comprise expenses which have been incurred in respect of the acquisition of materials and supplies including transportation costs. When consumed, inventories are charged to income or capitalized as part of property, plant and equipment. Work-in-progress is valued at actual cost. Costs of inventories produced internally include direct material and labor costs. Obsolete inventories are reduced to their realizable value by a provision charged to the income statement. At December 31, 2018 and 2017 the provision for obsolescence amounted to CZK 7 million and CZK 80 million, respectively.

2.18. Fossil Fuel Stocks

Fossil fuel stocks are stated at actual cost using weighted average cost method.

2.19. Income Taxes

The provision for corporate tax is calculated in accordance with the Czech tax regulations and is based on the income or loss reported under the Czech accounting regulations, increased or decreased by the appropriate permanent and temporary differences (e.g. differences between book and tax depreciation). Income tax due is provided at a rate of 19% for the years ended December 31, 2018 and 2017, respectively, from income before income taxes after adjustments for certain items which are not deductible, or taxable, for taxation purposes. The Czech corporate income tax rate enacted for 2018 and on is 19%.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets and liabilities are recognized regardless of when the temporary difference is likely to revers. Deferred tax assets and liabilities are not discounted. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. A deferred tax liability is recognized for all taxable temporary differences

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

Change in the carrying amount of deferred tax assets and liabilities due to change in tax rate is recognized in the income statement, except to the extent that it relates to items previously charged or credited to equity.

2.20. Long-term Debt

Borrowings are initially recognized at the amount of the proceeds received, net of transaction costs. They are subsequently carried at amortized cost using the effective interest rate method, the difference between net proceeds and redemption value is being recognized in the net income over the life of the borrowings as interest expense.

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges.

The carrying amount of long-term debt, which is hedged against the changes in its fair value, is adjusted by the changes in the fair value attributable to the hedged risk. The changes in the fair value of the hedged long-term debt are recognized in profit or loss and are included in the income statement line Other financial expenses or Other financial income. The adjustment to the carrying amount of the hedged long-term debt in a fair value hedge is subsequently amortized to profit or loss using the effective interest rate method.

2.21. Nuclear Provisions

The Company has recognized provisions for its obligations to decommission its nuclear power plants at the end of their operating lives, to store the related spent nuclear fuel and other radioactive waste initially on an interim basis and provision for its obligation to provide financing for subsequent permanent storage of spent nuclear fuel and irradiated parts of reactors (see Note 16.1).

The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels at the date of the estimate, are discounted at December 31, 2018 and 2017 using a long-term real rate of interest of 1.25% per annum to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the period when the nuclear power plants generate electricity. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being presented in the income statement on the line Interest on provisions. At December 31, 2018 and 2017 the estimate for the effect of inflation is 1.25%.

The decommissioning process is expected to continue for approximately a fifty-year period subsequent to the final operation of the plants. It is currently anticipated that the permanent storage facility for spent nuclear fuel will become available in 2065 and the process of final disposal of the spent nuclear fuel will then continue until approximately 2090. While the Company has made its best estimate in establishing its nuclear provisions, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning and interim and permanent fuel storage activities, the ultimate provision requirements could vary significantly from the Company's current estimates.

Changes in a decommissioning liability and in liability for permanent storage of spent nuclear fuel that result from a change in the current best estimate of timing and/or amount of cash flows required to settle the obligation or from a change in the discount rate are added to (or deducted from) the amount recognized as the related asset. However, to the extent that such a treatment would result in a negative asset, the effect of the change is recognized in the income for the current period.

2.22. Treasury Shares

Treasury shares are presented in the balance sheet as a deduction from equity. The acquisition of treasury shares is presented in the statement of equity as a reduction in equity. No gain or loss is recognized in the income statement on the sale, issuance or cancellation of treasury shares. Consideration received is presented in the financial statements as an addition to equity.

2.23. Share Options

Members of Board of Directors and selected managers have been granted options to purchase common shares of the Company. Expense related to the share option plan is measured on the date of the grant by reference to the fair value of the share options granted. The expense is accrued over the vesting period of the equity instruments granted. The expense recognized reflects the best estimate of the number of share options which will ultimately vest.

2.24. Foreign Currency Transactions

Assets and liabilities whose acquisition or production costs were denominated in foreign currencies are translated into Czech crowns using the exchange rate prevailing at the date of the transaction, as published by the Czech National Bank. In the accompanying financial statements, monetary assets and liabilities are translated at the rate of exchange ruling at December 31. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity for qualifying cash flow hedges.

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary items such as equity instruments held for trading are reported as part of the fair value gain or loss. Translation differences on available-for-sale equity securities are included in equity.

Exchange rates used as at December 31, 2018 and 2017 for the translation of assets and liabilities denominated in foreign currencies were as follows:

	2018	2017
CZK per 1 EUR	25.725	25.540
CZK per 1 USD	22.466	21.291
CZK per 1 PLN	5.980	6.114
CZK per 1 BGN	13.153	13.058
CZK per 1 RON	5.516	5.482
CZK per 100 JPY	20.447	18.915
CZK per 1 TRY	4.247	5.617

2.25. Non-current Assets Held for Sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortized.

3. Property, Plant and Equipment

Net plant in service at December 31, 2018 and 2017 was as follows (in CZK millions):

	Buildings	Plant and equipment	Land and other	Total plant in service	Nuclear fuel	Construction work in progress	Total
Cost at January 1, 2018	109,230	337,845	1,175	448,250	23,318	8,944	480,512
Additions	-	-	3	3	-	6,605	6,608
Disposals	(192)	(285)	(3)	(480)	(3,149)	(9)	(3,638)
Bring into use	601	3,707	1	4,309	2,856	(7,165)	-
Change in capitalized part of the provision	(67)	2,339	-	2,272	-	-	2,272
Non-monetary contribution	-	-	-	-	-	-	-
Reclassification and other	-	-	-	-	-	(2)	(2)
Cost at December 31, 2018	109,572	343,606	1,176	454,354	23,025	8,373	485,752
Accumulated depreciation and impairment at January 1, 2018	(48,138)	(182,886)	-	(231,024)	(8,218)	(1,041)	(240,283)
Depreciation and amortization of nuclear fuel [1)]	(2,698)	(11,441)	(3)	(14,142)	(3,625)	-	(17,767)
Net book value of assets disposed	(9)	(45)	-	(54)	-	-	(54)
Disposals	192	285	3	480	3,149	-	3,629
Non-monetary contribution	-	-	-	-	-	-	-
Reclassification and other	-	-	-	-	-	-	-
Impairment losses recognized	(7)	-	(83)	(90)	-	(90)	(180)
Impairment losses reversed	-	-	-	-	-	-	-
Accumulated depreciation and impairment at December 31, 2018	(50,660)	(194,087)	(83)	(244,830)	(8,694)	(1,131)	(254,655)
Total property, plant and equipment at December 31, 2018	58,912	149,519	1,093	209,524	14,331	7,242	231,097

[1)] The amortization of nuclear fuel also includes charges in respect of additions to the accumulated provision for interim storage of spent nuclear fuel in the amount of CZK 380 million.

	Buildings	Plant and equipment	Land and other	Plant in service total	Nuclear fuel	Construction work in progress	Total
Cost at January 1, 2017	99,188	293,898	1,176	394,262	22,139	51,193	467,594
Additions	-	3	-	3	-	9,951	9,954
Disposals	(434)	(195)	(26)	(655)	(2,646)	(19)	(3,320)
Bring into use	10,566	37,850	29	48,445	3,825	(52,270)	-
Change in capitalized part of the provision	2	6,204	-	6,206	-	-	6,206
Non-monetary contribution	(7)	-	(4)	(11)	-	-	(11)
Reclassification and other	(85)	85	-	-	-	89	89
Cost at December 31, 2017	109,230	337,845	1,175	448,250	23,318	8,944	480,512
Accumulated depreciation and impairment at January 1, 2017	(46,232)	(171,882)	-	(218,114)	(7,394)	(856)	(226,364)
Depreciation and amortization of nuclear fuel [1)]	(2,602)	(12,689)	-	(15,291)	(3,470)	-	(18,761)
Net book value of assets disposed	(263)	(16)	-	(279)	-	-	(279)
Disposals	434	195	-	629	2,646	-	3,275
Non-monetary contribution	7	-	-	7	-	-	7
Reclassification and other	42	(42)	-	-	-	-	-
Impairment losses recognized	(14)	-	-	(14)	-	(185)	(199)
Impairment losses reversed	490	1,548	-	2,038	-	-	2,038
Accumulated depreciation and impairment at December 31, 2017	(48,138)	(182,886)	-	(231,024)	(8,218)	(1,041)	(240,283)
Total property, plant and equipment at December 31, 2017	61,092	154,959	1,175	217,226	15,100	7,903	240,229

[1)] The amortization of nuclear fuel also includes charges in respect of additions to the accumulated provision for interim storage of spent nuclear fuel in the amount of CZK 225 million.

In 2018 and 2017 a composite depreciation rate of Plant in service was 3.1% and 3.6%, respectively.

In 2018 and 2017 capitalized interest costs amounted to CZK 227 million and CZK 1,585 million, respectively, and the interest capitalization rate was 4,2% and 4.1%, respectively.

Construction work in progress contains mainly investments related to the acquisition of nuclear fuel and refurbishments performed on Temelín, Ledvice and Dukovany power plants.

Company's generation assets are tested for any possible impairment as a single cash-generating unit with the exception of specific assets, e.g. the gas fired power plant in Počerady. Company's cash-generating unit of generation assets is characterized by portfolio management in the deployment and maintenance of various power plants and the cash flows generated from these activities.

As part of testing the recoverable value of fixed assets of the cash generating unit of ČEZ, a. s. (hereinafter the ČEZ Value), we performed a sensitivity analysis of the test results to changes in certain key parameters of the used model – changes in wholesale power prices (hereinafter the EE prices), changes in the discount rate used in the calculation of the present value of future cash flows and changes in CZK/EUR exchange rate.

The development of commodity prices and, in particular, the development of wholesale power prices in Germany (as German power prices have a major impact on the development of wholesale power prices in the Czech Republic) are the key assumptions used for the ČEZ Value model. The developments of wholesale prices are primarily determined by the EU political decisions, the development of global demand and supply of commodities and the technological progress.

The development of EE price is influenced by a number of external factors, including, in particular, changes in the structure and availability of generation capacity in the Czech Republic and neighboring countries, the macroeconomic development of the Central European region and the regulation of the energy sector in the EU and Germany (fundamental impacts of premature decommissioning of German nuclear power plants in 2020–2022 and impacts of the EU approved climate and energy targets for 2030) and also by development of the Czech Republic State Energy Concept. The model was constructed for a period adequate to the useful life of the power plants, i.e. for a period that significantly exceeds the period for which commodities, including wholesale power price contracts, are traded on public liquid markets. In addition, the power market is subject to structural changes (the Market Design) and major industry regulation; consequently, complete abandonment of market-based power pricing mechanisms and implementation of alternative, centrally regulated payments for the availability and supply of power plants within the period of useful life of the power plants is actually possible.

With respect to the fact that we are using a long-term model, there are certain internal factors and assumptions that affect the ČEZ Value sensitivity to the development of power prices, such as varying deployment of the generation portfolio depending on the development of power prices, emission allowances and variable generation costs and, in a longer perspective, also the development of fixed costs reflecting the development of the power plants gross margin.

The sensitivity test results reflect expert estimates of the status and development of the above factors in the period of the model and the status of commercial securing of the generation portfolio as at December 31, 2018.

The test considers long-term EE prices at the level used to prepare Company's business plan for 2019–2023. The plan was prepared in the fourth quarter 2018 whereas the plan was based on the active market parameters observed in August and September (power prices on EEX energy exchange in Germany, prices on PXE energy exchange in the Czech Republic, price of CO_2 emission rights, FX rate CZK/EUR, interest rates etc.). There is a liquidity for power contracts traded on EEX for the period covering the horizon of the business plan and with regard to links between German and Czech power transmission network, the EEX prices are basic market price indicator for EE prices in the Czech Republic. For the purposes of the sensitivity analysis, the input EE prices, emission rights prices and foreign exchange rates were applied to the relevant opened positions of the Company.

A change of the assumed EE prices as per the models by 1%, with other parameters remaining unchanged, would have an impact of approximately CZK 6.7 billion on the ČEZ Value test results. Future cash flows of the model were discounted using a 4.5% rate. A change of 0.1 percentage point in the discount rate, with other parameters remaining unchanged, would change the ČEZ Value by approximately CZK 4.6 billion. A change of 1% in the CZK/EUR exchange rate, with other parameters remaining unchanged, would result in a change of approximately CZK 5.8 billion in the ČEZ Value.

4. Restricted Financial Assets, Net

Restricted financial assets, net at December 31, 2018, and 2017 consist of the following (in CZK millions):

	2018	2017
Czech government bonds	10,608	9,610
Cash in banks, net	2,728	3,416
Total restricted financial assets, net	13,336	13,026

The Czech government bonds are measured at fair value through other comprehensive income. At December 31, 2018 and 2017 the most important restricted financial assets are restricted funds related to accumulated provision for nuclear decommissioning totaled CZK 13,094 million and CZK 12,739 million, respectively, and restricted funds related to accumulated provision for waste storage and reclamation totaled CZK 185 million and CZK 231 million, respectively.

5. Other Financial Assets, Net

Other financial assets, net at December 31, 2018 and 2017 consist of the following (in CZK millions):

	2018			2017		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Loans granted	20,481	7,851	28,332	5,596	7,681	13,277
Receivables from Group cashpooling	-	2,358	2,358	-	-	-
Term deposits	-	502	502	500	503	1,003
Other financial receivables	10	29	39	10	36	46
Total financial assets at amortized costs	20,491	10,740	31,231	6,106	8,220	14,326
Fair value of cash flow hedge derivatives	2,186	124	2,310	1,581	-	1,581
Total hedge derivatives at fair value	2,186	124	2,310	1,581	-	1,581
Equity financial assets (Inven Capital, SICAV, a.s., Podfond ČEZ)	3,286	-	3,286	-	-	-
Commodity and other derivatives	1,247	93,982	95,229	923	40,202	41,125
Total financial assets at fair value through profit or loss	4,533	93,982	98,515	923	40,202	41,125
Equity financial assets (Veolia Energie ČR, a.s.)	2,791	-	2,791	-	-	-
Debt financial assets	-	1,287	1,287	1,277	2,807	4,084
Total financial assets at fair value through other comprehensive income	2,791	1,287	4,078	1,277	2,807	4,084
Equity financial assets (Veolia Energie ČR, a.s.)	-	-	-	2,732	-	2,732
Share on subsidiaries, associates and joint-ventures	147,478	-	147,478	156,721	-	156,721
Total financial assets at cost	147,478	-	147,478	159,453	-	159,453
Total	177,479	106,133	283,612	169,340	51,229	220,569

Derivatives balance comprises mainly positive fair value of commodity trading contracts.

The Company concluded two put option agreements with Vršanská uhelná a.s. in March 2013. Under these contracts the Company has the right to transfer 100% of the shares of its subsidiary Elektrárna Počerady, a.s. to Vršanská uhelná a.s. First option for the year 2016 was not exercised, second option can be exercised in 2024 for cash consideration of CZK 2 billion. The option agreement can be inactivated until December 31, 2019. The contracts represent derivatives that will be settled by the delivery of unquoted equity instrument. Elektrárna Počerady, a.s. is not quoted on any market. There is significant variability in the range of reasonable fair values for this equity instrument (there is no similar power plant in the Czech Republic for sale and also no similar transaction took place) and thus it is difficult to reasonably assess the probabilities of various estimates. As a result the fair value cannot be reliably measured. Consequently, the put option is measured at cost. There was no option premium paid on the options and therefore the cost of these instruments is zero.

Movements in impairment provisions of financial assets at amortized costs (in CZK millions):

	2018	2017
Opening balance	(37,173)	(35,649)
Application of IFRS 9	(11)	-
Additions (see Note 28)	(2,566)	(9,516)
Reversals	3	-
Derecognition of impaired and sold financial assets	73	7,992
Transfer to assets classified as held for sale	2,159	-
Closing balance	(37,515)	(37,173)

Additions and reversals of impairment provisions against financial assets are described in Note 28.

In 2018, an impairment loss of CZK 73 million in Shared Services was derecognized in connection with the liquidation of the Company.

In 2017, an impairment loss of CZK 7,992 million in TEC Varna EAD was derecognized in connection with the sale of a share in the Company.

Loans granted and other financial assets, net at December 31, 2018 are contracted to mature in the following periods after the balance sheet date (in CZK millions):

	Loans granted	Receivables from Group cashpooling	Term deposits	Other financial receivables	Debt assets at fair value through other comprehensive income
Current portion	7,851	2,358	502	29	1,287
Due in 1–2 years	572	-	-	8	-
Due in 2–3 years	584	-	-	1	-
Due in 3–4 years	560	-	-	1	-
Due in 4–5 years	560	-	-	-	-
Due in more than 5 years	18,205	-	-	-	-
Total	28,332	2,358	502	39	1,287

Loans granted and other financial assets, net at December 31, and 2017 are contracted to mature in the following periods after the balance sheet date (in CZK millions):

	Loans granted	Term deposits	Other financial receivables	Debt assets at fair value through other comprehensive income
Current portion	7,681	503	36	2,807
Due in 1–2 years	1,090	500	7	1,277
Due in 2–3 years	1,075	-	1	-
Due in 3–4 years	1,074	-	1	-
Due in 4–5 years	817	-	1	-
Due in more than 5 years	1,540	-	-	-
Total	13,277	1,003	46	4,084

Loans granted and other financial assets, net at December 31, 2018 have following effective interest rate structure (in CZK millions):

	Loans granted	Receivables from Group cashpooling	Term deposits	Other financial receivables	Debt assets at fair value through other comprehen-sive income
Less than 2.00%	7,115	2,358	502	39	1,287
From 2.00% to 2.99%	3,888	-	-	-	-
From 3.00% to 3.99%	17,273	-	-	-	-
From 4.00% to 4.99%	56	-	-	-	-
Total	28,332	2,358	502	39	1,287

Loans granted and other financial assets, net at December 31, 2017 have following effective interest rate structure (in CZK millions):

	Loans granted	Term deposits	Other financial receivables	Debt assets at fair value through other comprehen-sive income
Less than 2.00%	5,589	1,003	46	4,084
From 2.00% to 2.99%	5,015	-	-	-
From 3.00% to 3.99%	2,673	-	-	-
Total	13,277	1,003	46	4,084

Loans granted and other financial assets, net at December 31, 2018 according to currencies (in CZK millions):

	Loans granted	Receivables from Group cashpooling	Term deposits	Other financial receivables	Debt assets at fair value through other comprehen-sive income
CZK	21,139	391	502	37	1,287
EUR	7,193	1,878	-	1	-
PLN	-	19	-	-	-
USD	-	-	-	1	-
HUF	-	70	-	-	-
Total	28,332	2,358	502	39	1,287

Loans granted and other financial assets, net at December 31, 2017 according to currencies (in CZK millions):

	Loans granted	Term deposits	Other financial receivables	Debt assets at fair value through other comprehen-sive income
CZK	7,075	1,003	45	2,806
EUR	6,202	-	1	1,278
Total	13,277	1,003	46	4,084

Changes of Equity Securities and Interests in 2018

Two subsidiaries ČEZ Asset Holding, a. s. (100%) and REN Development s. r. o. (100%) were established.

Part of the assets of the companies ČEZ Korporátní služby, s.r.o. and ČEZ Prodej, a.s. was spun off and transferred to successor companies ČEZ Distribuce, a. s. and ČEZ ESCO, a.s., respectively, which was reflected by reallocation of the cost of these investments.

The equities of CEZ Holdings B.V. in the amount of CZK 657 million, CEZ Towarowy Dom Maklerski in the amount of CZK 72 million, CEZ Hungary Ltd. in the amount of CZK 38 million, ČEZ ESCO, a.s. in the amount of CZK 820 million and CEZ Trade Polska sp. z o.o. in the amount of CZK 211 million were increased by cash contributions outside the registered capital.

In 2018 shares of sub-fund ČEZ of the company Inven Capital, SICAV, a.s. were purchased newly issued investment in the amount of CZK 1,000 million.

In 2018 the Company disposed of its interest in Osvětlení a energetické systémy a.s. in the amount of CZK 43 million.

Due to the subsequent sale of 14 thousand shares of the Company ČEZ OZ uzavřený investiční fond a.s. in the amount of CZK 5 million the share in the company decreased to 99.56%.

The subsidiaries Shared Services Albania Sh.A. and CEZ International Finance B.V. were liquidated in 2018.

Changes of Equity Securities and Interests in 2017

In 2017 the Company sold its share in TEC Varna EAD in the amount of CZK 426 million.

The share capital of CEZ Deutschland GmbH was increased in the amount of CZK 135 million by cash contribution.

The equity of ČEZ ESCO, a.s. was increased by cash and non-monetary contributions of non-controlling shares in ŠKO-ENERGO, s.r.o. and ŠKO-ENERGO FIN, s.r.o. in the amount of CZK 435 million. The share capital of ČEZ ESCO, a.s. was increased by non-monetary contribution of 100% share in CEZ Slovensko, a.s. in the amount of CZK 557 million.

In 2017 was increased equity of ČEZ Energetické produkty, s.r.o. by non-monetary contribution outside the registered capital in the amount of CZK 1 million.

The equity of CEZ Poland Distribution B.V. was increased by capitalization of receivables in the amount of CZK 865 million and by cash contribution outside the registered capital in the amount of CZK 2,140 million.

The subsidiary CM European Power International B.V. was liquidated at December 31, 2017.

In 2017 the Company sold its 100% share in Elektrárna Tisová, a.s. in the amount of CZK 736 million, classified as asset held for sale in 2016 and recognized in the balance sheet as a part of current assets.

The following table summarizes investments in subsidiaries, associates and joint-ventures and other ownership interests at December 31, 2018 and 2017:

As at December 31, 2018 Company	Country	Interest, net in CZK millions	% interest[5)]	Dividends in CZK millions
ČEZ Distribuce, a. s. [1)]	Czech Republic	32,742	100.00	25,599
Energotrans, a.s.	Czech Republic	17,986	100.00	500
Severočeské doly a.s.	Czech Republic	14,343	100.00	1,707
Distributie Energie Oltenia S.A.	Romania	13,020	100.00	-
CEZ Holdings B.V. [2)]	Netherlands	12,917	100.00	-
ČEZ OZ uzavřený investiční fond a.s.	Czech Republic	12,873	99.56	1,198
Tomis Team S.A.	Romania	7,388	100.00	-
Ovidiu Development S.R.L.	Romania	7,298	99.98	-
ČEZ ICT Services, a. s.	Czech Republic	4,236	100.00	120
ČEZ ESCO, a.s.	Czech Republic	4,170	100.00	-
ČEZ Bohunice a.s.	Czech Republic	3,592	100.00	-
ČEZ Korporátní služby, s.r.o.	Czech Republic	3,301	100.00	119
Inven Capital, SICAV, a.s., podfond ČEZ	Czech Republic	3,286	99.87	-
ČEZ Teplárenská, a.s.	Czech Republic	3,053	100.00	130
Veolia Energie ČR, a.s.	Czech Republic	2,791	15.00	152
Elektrárna Temelín II, a. s.	Czech Republic	2,045	100.00	-
Elektrárna Dětmarovice, a.s.	Czech Republic	1,343	100.00	-
Elektrárna Počerady, a.s.	Czech Republic	1,280	100.00	311
Elektrárna Dukovany II, a. s.	Czech Republic	1,048	100.00	-
ČEZ Prodej, a.s.	Czech Republic	1,008	100.00	2,003
ŠKODA PRAHA a.s.	Czech Republic	846	100.00	-
CEZ Vanzare S.A.	Romania	817	100.00	89
CEZ Bulgarian Investments B.V.	Netherlands	589	100.00	-
Energetické centrum s.r.o.	Czech Republic	515	100.00	-
ÚJV Řež, a. s.	Czech Republic	185	52.46	-
LOMY MOŘINA spol. s r.o.	Czech Republic	169	51.05	5
CEZ Deutschland GmbH	Germany	167	100.00	-
CEZ Towarowy Dom Maklerski sp. z o.o.	Poland	107	100.00	-
CEZ Romania S.A.	Romania	92	100.00	-
ŠKODA PRAHA Invest s.r.o.	Czech Republic	81	100.00	-
ČEZ Obnovitelné zdroje, s.r.o.	Czech Republic	73	100.00	-
VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s.	Czech Republic	55	41.87	-
CEZ Polska sp. z o.o.	Poland	50	0.67	-
CEZ Srbija d.o.o.	Serbia	8	100.00	-
Other		81		56
Total, net		153,555		31,989

As at December 31, 2017 Company	Country	Interest, net in CZK millions	% interest[5)]	Dividends in CZK millions
ČEZ Distribuce, a. s.	Czech Republic	31,405	100.00	4,269
Energotrans, a.s.	Czech Republic	17,986	100.00	899
Severočeské doly a.s.	Czech Republic	14,343	100.00	1,707
Distributie Energie Oltenia S.A.	Romania	13,020	100.00	47
ČEZ OZ uzavřený investiční fond a.s.	Czech Republic	12,878	99.60	776
CEZ Poland Distribution B.V. [2)]	Netherlands	12,260	100.00	-
Tomis Team S.A.	Romania	7,388	100.00	-
Ovidiu Development S.R.L.	Romania	7,298	99.98	-
CEZ Razpredelenie Bulgaria AD [4)]	Bulgaria	6,529	67.00	441
ČEZ Teplárenská, a.s.	Czech Republic	4,626	100.00	200
ČEZ ICT Services, a. s.	Czech Republic	4,236	100.00	-
ČEZ Bohunice a.s.	Czech Republic	3,592	100.00	-
ČEZ Korporátní služby, s.r.o.	Czech Republic	3,494	100.00	120
ČEZ ESCO, a.s.	Czech Republic	3,238	100.00	-
Veolia Energie ČR, a.s.	Czech Republic	2,732	15.00	198
Elektrárna Temelín II, a. s.	Czech Republic	2,045	100.00	-
Inven Capital, investiční fond, a.s. [3)]	Czech Republic	2,004	99.80	-
Elektrárna Dětmarovice, a.s.	Czech Republic	1,762	100.00	259
Elektrárna Počerady, a.s.	Czech Republic	1,280	100.00	281
ČEZ Distribuční služby, s.r.o. [1)]	Czech Republic	1,145	100.00	226
ČEZ Prodej, a.s.	Czech Republic	1,121	100.00	3,628
Elektrárna Dukovany II, a. s.	Czech Republic	1,048	100.00	-
ŠKODA PRAHA a.s.	Czech Republic	846	100.00	-
CEZ Vanzare S.A.	Romania	817	100.00	93
CEZ Bulgarian Investments B.V.	Netherlands	589	100.00	-
Energetické centrum s.r.o.	Czech Republic	515	100.00	-
ÚJV Řež, a. s.	Czech Republic	185	52.46	-
LOMY MOŘINA spol. s r.o.	Czech Republic	169	51.05	11
CEZ Deutschland GmbH	Germany	167	100.00	-
CEZ Romania S.A.	Romania	92	100.00	-
ŠKODA PRAHA Invest s.r.o.	Czech Republic	81	100.00	-
ČEZ Inženýring, s.r.o.	Czech Republic	80	100.00	-
ČEZ Obnovitelné zdroje, s.r.o.	Czech Republic	73	100.00	-
CEZ Hungary Ltd.	Hungary	56	100.00	-
VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s.	Czech Republic	55	41.87	-
CEZ Polska sp. z o.o.	Poland	50	0.67	-
CEZ Trade Polska sp. z o.o.	Poland	45	100.00	-
Osvětlení a energetické systémy a.s.	Czech Republic	43	48.00	28
CEZ Srbija d.o.o.	Serbia	36	100.00	-
CEZ International Finance B.V.	Netherlands	2	100.00	1,428
Other		122		268
Total, net		159,453		14,879

1) The company ČEZ Distribuční služby, s.r.o. merged with the succession company ČEZ Distribuce, a. s. with the legal effective date of January 1, 2018.
2) The company name CEZ Poland Distribution B.V. was changed to CEZ Holdings B.V. 2018.
3) In 2018 was the company Inven Capital, investiční fond, a.s. transformed into Inven Capital, SICAV, a.s.
4) In 2018 were interests in Bulgarian companies reclassified to assets classified as held for sale (see Note 11) and recognized in the balance sheet as a part of current assets.
5) Equity interest is equal to voting rights.

6. Intangible Assets, Net

Intangible assets, net, at December 31, 2018 and 2017 were as follows (in CZK millions):

	Software	Rights and other	Intangibles in progress	Emission rights	Total
Cost at January 1, 2018	2,155	1,236	136	-	3,527
Additions	-	-	170	2,759	2,929
Disposals	(1)	(4)	-	-	(5)
Bring to use	75	12	(87)	-	-
Reclassification and other	2	-	-	866	868
Cost at December 31, 2018	2,231	1,244	219	3,625	7,319
Accumulated amortization at January 1, 2018	(1,767)	(1,156)	-	-	(2,923)
Amortization	(131)	(37)	-	-	(168)
Disposals	2	5	-	-	7
Accumulated amortization at December 31, 2018	(1,896)	(1,188)	-	-	(3,084)
Net intangible assets at December 31, 2018	335	56	219	3,625	4,235

	Software	Rights and other	Intangibles in progress	Total
Cost at January 1, 2017	1,774	1,243	240	3,257
Additions	-	-	378	378
Disposals	(7)	(10)	-	(17)
Bring to use	377	3	(380)	-
Reclassification and other	11	-	(102)	(91)
Cost at December 31, 2017	2,155	1,236	136	3,527
Accumulated amortization at January 1, 2017	(1,556)	(1,120)	-	(2,676)
Amortization	(218)	(46)	-	(264)
Disposals	7	10	-	17
Accumulated amortization at December 31, 2017	(1,767)	(1,156)	-	(2,923)
Net intangible assets at December 31, 2017	388	80	136	604

Research and development costs, net of grants and subsidies received, that are not eligible for capitalization have been expensed in the period incurred and amounted to CZK 278 million and CZK 277 million, respectively, in 2018 and 2017, respectively.

7. Cash and Cash Equivalents, Net

The composition of cash and cash equivalents, net at December 31, 2018 and 2017 is as follows (in CZK millions):

	2018	2017
Cash on hand and current accounts with banks	454	972
Short-term securities	-	300
Total	454	1,272

At December 31, 2018 and 2017, cash and cash equivalents included foreign currency deposits of CZK 257 million and CZK 225 million, respectively.

The weighted average interest rate on short-term securities at December 31, 2018 was 0.3%. For the years 2018 and 2017 the weighted average interest rate was 0.7% and 0.1%, respectively.

8. Trade Receivables, Net

The composition of trade receivables, net, at December 31, 2018 and 2017 is as follows (in CZK millions):

	2018	2017
Trade receivables	64,432	41,322
Allowance	(145)	(80)
Total	64,287	41,242

The information about receivables from related parties is included in Note 32.

At December 31, 2018 and 2017 the ageing analysis of trade receivables, net is as follows (in CZK millions):

	2018	2017
Not past due	64,200	41,224
Past due:		
less than 3 months	46	7
3–6 months	20	7
6–12 months	21	4
Total	64,287	41,242

Receivables include impairment allowance based on the collective assessment of impairment of receivables that are not individually significant.

Movements in allowance for doubtful receivables (in CZK millions):

	2018	2017
Opening balance	(80)	(2,663)
Application of IFRS 9	(20)	-
Additions	(61)	(9)
Reversals	16	733
Derecognition of impaired assets	-	1,860
Currency translation difference	-	(1)
Closing balance	(145)	(80)

9. Emission Rights

The following table summarizes the movements in the quantity (in thousand tons) and book value of emission rights and credits held by the Company during 2018 and 2017 (in CZK millions):

	2018		2017	
	in thousands tons	in CZK millions	in thousands tons	in CZK millions
Emission rights and credits granted and purchased for own use:				
Granted and purchased emission rights and credits at January 1	21,588	2,493	16,643	1,188
Emission rights granted	3,458	-	5,015	-
Settlement of prior year actual emissions with register	(14,944)	(1,626)	(16,187)	(1,110)
Emission rights purchased	23,462	6,524	15,967	2,414
Emission rights sold	-	-	-	-
Emission credits purchased	123	1	150	1
Granted and purchased emission rights and credits at December 31	33,687	7,392	21,588	2,493
Emission rights and credits held for trading:				
Emission rights and credits held for trading at January 1	21,824	4,543	4,650	825
Settlement of prior year actual emissions with register	(1,133)	(382)	-	-
Emission rights purchased	122,576	45,171	132,577	19,963
Emission rights sold	(128,470)	(47,337)	(115,403)	(18,630)
Fair value adjustment	-	7,395	-	2,385
Emission rights and credits held for trading at December 31	14,797	9,390	21,824	4,543

Emission rights for own use at December 31, 2018 (in CZK millions):

	2018		2017	
	in thousands tons	in CZK millions	in thousands tons	in CZK millions
Emission rights granted and purchased for own use:				
Long-term	12,580	3,625	-	-
Short-term	21,107	3,767	21,588	2,493

At December 31, 2018 emission rights for own use and held for trading amounted to CZK 13,157 million and are presented in current assets in the line Emission rights. Non-current emission rights for own use are presented as part of the intangible assets.

In 2018 and 2017, total emissions of greenhouse gases made by the Company amounted to an equivalent of 15,780 thousand tons and 16,077 thousand tons of CO_2, respectively. At December 31, 2018 and 2017 the Company recognized a provision for CO_2 emissions in total amount of CZK 2,515 million and CZK 1,860 million, respectively (see Notes 2.10 and 16).

10. Other Current Assets, Net

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

	2018	2017
Prepayments	387	393
Taxes and fees, except income tax	824	755
Advances paid	690	581
Others	461	373
Total	2,362	2,102

11. Non-current Assets Held for Sale, net

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 sellers for CEZ Group are ČEZ, a. s. and CEZ Bulgarian Investments B.V. 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 transaction is a subject to approval by the Bulgarian anti-trust authority, the proceedings are now suspended. While the sales contract remains in force, there are ongoing parallel negotiations with other parties interested in these Bulgarian assets. As at December 31, 2018 Bulgarian assets held for sale amounted to CZK 6,540 million.

12. Equity

As at December 31, 2018 and 2017, the share capital of the Company registered in the Commercial Register totaled CZK 53,798,975,900 and consisted of 537,989,759 shares with a nominal value of CZK 100 per share. All shares are bearer common shares that are fully paid and listed and do not convey any special rights.

Movements of treasury shares in 2018 and 2017 (in pieces):

	2018	2017
Number of treasury shares at beginning of period	3,605,021	3,755,021
Sales of treasury shares	(480,000)	(150,000)
Number of treasury shares at end of period	3,125,021	3,605,021

Treasury shares remaining at end of period are presented at cost as a deduction from equity.

Declared dividends per share before tax were CZK 33 in 2018 and 2017. Dividends for the year 2018 will be declared at the general meeting which will be held in the first half of 2019.

Capital management

The primary objective of the Company’s capital management is to keep its credit rating on the investment grade and on the level that is common in the industry and to maintain healthy capital ratios in order to support its business and maximize value for shareholders. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Company primarily monitors capital using the ratio of net debt to EBITDA. Considering the current structure and stability of cash flow and the development strategy, the goal of the Group is the level of this ratio in range 2.5 to 3.0. In addition, the Company also monitors capital using a total debt to total capital ratio. The Company’s policy is to keep the total debt to total capital ratio below 50% in the long term.

EBITDA consists of income before income taxes and other income (expenses) plus depreciation and amortization, plus impairment of property, plant and equipment and intangible assets and less gain (or loss) on sale of property, plant and equipment. The Group includes within total debt the long-term and short-term interest bearing loans and borrowings. Net debt is defined as total debt less cash and cash equivalents and highly liquid financial assets. Highly liquid financial assets consist for capital management purposes of short-term debt financial assets and both short-term and long-term bank deposits. Total capital is total equity attributable to equity holders of the parent plus total debt. The items related to assets classified as held for sale, which are presented separately on the balance sheet, are always included in these calculations.

The calculation and evaluation of the ratios is done using consolidated figures (in CZK millions):

	2018	2017 *
Total long-term debt	149,183	143,234
Total short-term loans	11,783	11,073
Total long-term debt associated with assets held for sale	1,537	-
Total short-term loans associated with assets held for sale	309	-
Total debt	162,812	154,307
Less:		
Cash and cash equivalents	(7,278)	(12,623)
Cash and cash equivalents classified as held for sale	(1,967)	-
Highly liquid financial assets:		
Current debt financial assets	(1,287)	(2,807)
Non-current debt financial assets	(513)	(1,787)
Current term deposits	(505)	(503)
Non-current term deposits	-	(500)
Total net debt	151,262	136,087
Income before income taxes and other income (expenses)	19,759	25,620
Depreciation and amortization	28,139	29,305
Impairment of property, plant and equipment and intangible assets	1,766	230
Gains and losses on sale of property, plant and equipment	(129)	(1,234)
EBITDA	49,535	53,921
Total equity attributable to equity holders of the parent	234,721	250,018
Total debt	162,812	154,307
Total capital	397,533	404,325
Net debt to EBITDA ratio	3.05	2.52
Total debt to total capital ratio	41.0%	38.2%

* The way of presentation of the balance sheet was changed in 2018. Part of total debt are newly accrued interest expenses, which amounted to CZK 2,200 million and CZK 2,135 million as of December 31, 2018 and 2017, respectively, and also lease liabilities, which amounted to CZK 245 million and CZK 3 million as of December 31, 2018 and 2017, respectively. The prior year figures were changed accordingly to provide comparative information on the same basis.

13. Long-term Debt

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

	2018	2017
3.005% Eurobonds, due 2038 (JPY 12,000 million)	2,468	2,283
2.845% Eurobonds, due 2039 (JPY 8,000 million)	1,647	1,523
5.000% Eurobonds, due 2021 (EUR 750 million)	19,457	19,306
6M Euribor + 1.25% Eurobonds, due 2019 (EUR 50 million)	1,287	1,277
4.875% Eurobonds, due 2025 (EUR 750 million)	19,909	19,757
4.500% Eurobonds, due 2020 (EUR 750 million)	19,693	19,524
2.160% Eurobonds, due in 2023 (JPY 11,500 million)	2,370	2,193
4.600% Eurobonds, due in 2023 (CZK 1,250 million)	1,287	1,287
2.150%*IR CPI Eurobonds, due 2021 (EUR 100 million) 1)	2,634	2,615
4.102% Eurobonds, due 2021 (EUR 50 million)	1,288	1,278
4.375% Eurobonds, due 2042 (EUR 50 million)	1,286	1,276
4.500% Eurobonds, due 2047 (EUR 50 million)	1,284	1,274
4.383% Eurobonds, due 2047 (EUR 80 million)	2,087	2,072
3.000% Eurobonds, due 2028 (EUR 725 million)	19,419	19,327
3M Euribor + 0.55% Eurobonds, due 2018 (EUR 200 million)	-	5,108
0.875% Eurobonds, due 2022 (EUR 500 million)	12,824	-
4.250% U.S. bonds, due 2022 (USD 289 million)	6,525	6,177
5.625% U.S. bonds, due 2042 (USD 300 million)	6,768	6,411
4.500% Registered bonds, due 2030 (EUR 40 million)	1,017	1,008
4.750% Registered bonds, due 2023 (EUR 40 million)	1,068	1,059
4.700% Registered bonds, due 2032 (EUR 40 million)	1,060	1,052
4.270% Registered bonds, due 2047 (EUR 61 million)	1,549	1,538
3.550% Registered bonds, due 2038 (EUR 30 million)	790	784
Total bonds and debentures	127,717	118,129
Less: Current portion	(3,419)	(7,203)
Bonds and debentures, net of current portion	124,298	110,926
Long-term bank loans (less than 2% p.a.)	10,899	12,974
Less: Current portion	(2,171)	(2,157)
Long-term bank loans, net of current portion	8,728	10,817
Total long-term debt	138,616	131,103
Less: Current portion	(5,590)	(9,360)
Total long-term debt, net of current portion	133,026	121,743

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.

The interest rates indicated above are historical rates for fixed rate debt and current market rates for floating rate debt. The actual interest payments are affected by interest rate risk hedging carried out by the Company.

All long-term debt is recognized in original currencies while the related hedging derivatives are recognized using the method described in Note 2.12.

Future maturities of long-term debt are as follows (in CZK millions):

	2018	2017
Current portion	5,590	9,360
Between 1 and 2 years	21,421	3,427
Between 2 and 3 years	25,046	21,240
Between 3 and 4 years	20,550	24,855
Between 4 and 5 years	5,561	7,385
Thereafter	60,448	64,836
Total long-term debt	138,616	131,103

The following table analyses long-term debt by currency (in millions):

	2018		2017	
	Foreign currency	CZK	Foreign currency	CZK
EUR	4,570	117,551	4,355	111,229
USD	592	13,293	591	12,588
JPY	31,714	6,485	31,711	5,999
CZK	-	1,287	-	1,287
Total long-term debt		138,616		131,103

Long-term debt with floating interest rates exposes the Company to interest rate risk. The following table summarizes long-term debt with floating rates of interest by contractual reprising dates at December 31, 2018 and 2017 without considering interest rate hedging (in CZK millions):

	2018	2017
Floating rate long-term debt		
with interest rate fixed from 1 to 3 months	-	5,108
with interest rate fixed from 3 months to 1 year	12,186	14,251
Total floating rate long-term debt	12,186	19,359
Fixed rate long-term debt	126,430	111,744
Total long-term debt	138,616	131,103

Fixed rate long-term debt exposes the Company to the risk of changes in fair values of these financial instruments. For related fair value information and risk management policies of all financial instruments see Notes 14 and 15.

The following table analyses changes in liabilities and receivables arising from financing activities in 2018 (in CZK millions):

	Debt	Other long-term financial liabilities	Other short-term financial liabilities	Other current financial assets, net	Total liabilities / assets from financing activities
Amount presented on balance sheet at January 1, 2017	145,465	7,019	81,662	(45,320)	
Less: Liabilities / assets from other than financing activities	-	(5,769)	(41,077)	45,295	
Liabilities / assets arising from financing activities at January 1, 2017	145,465	1,250	40,585	(25)	187,275
Cash flows	6,503	-	(18,672)	(10)	(12,179)
Foreign exchange movement	(4,088)	-	(306)	-	(4,394)
Changes in fair values	(6,076)	-	-	-	(6,076)
Declared dividends	-	-	17,586	-	17,586
Other	47	-	9	-	56
Liabilities / assets arising from financing activities at December 31, 2017	141,851	1,250	39,202	(35)	182,268
Liabilities / assets arising from other than financing activities	-	10,321	43,189	(51,194)	
Total amount on balance sheet at December 31, 2017	141,851	11,571	82,391	(51,229)	
Less: Liabilities / assets from other than financing activities	-	(10,321)	(43,189)	51,194	
Liabilities / assets arising from financing activities at January 1, 2018	141,851	1,250	39,202	(35)	182,268
Cash flows	6,457	(500)	(19,201)	(2,328)	(15,572)
Foreign exchange movement	1,702	-	16	-	1,718
Changes in fair values	255	-	-	-	255
Declared dividends	-	-	17,604	-	17,604
Reclassification	-	(750)	750	-	-
Other	60	157	(30)	(25)	162
Liabilities / assets arising from financing activities at December 31, 2018	150,325	157	38,341	(2,388)	186,435
Liabilities / assets arising from other than financing activities	-	13,619	114,203	(103,745)	
Total amount on balance sheet at December 31, 2018	150,325	13,776	152,544	(106,133)	

The column Debt consists of balance sheet items Long-term debt, net of current portion, Current portion of long-term debt and Short-term loans. In terms of financing activities, item Other long-term financial liabilities consists of long-term payable to the subsidiary Severočeské doly a.s., item Other short-term financial liabilities consists of dividend payable, current portion of long-term deposit and current portion of the payable to the subsidiary Severočeské doly a.s, payables from Group cashpooling and similar intra-group loans, item Other current financial assets, net consists of advanced payments to dividend administrator.

14. Fair Value of Financial Instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, current investments

The carrying amount of cash and other current financial assets approximates fair value due to the relatively short-term maturity of these financial instruments.

Securities held for trading

The fair values of equity and debt securities that are held for trading are estimated based on quoted market prices.

Investments

The fair values of instruments, which are publicly traded on active markets, are determined based on quoted market prices. For unquoted equity instruments the Company considered the use of valuation models and concluded that the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore unquoted equity instruments are carried at cost and the fair value information is not disclosed.

Short-term receivables and payables

The carrying amount of receivables and payables approximates fair value due to the short-term maturity of these financial instruments.

Short-term loans

The carrying amount approximates fair value because of the short period to maturity of those instruments.

Long-term debt

The fair value of long-term debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The carrying amount of long-term debt and other payables with variable interest rates approximates their fair values.

Derivatives

The fair value of derivatives is based upon mark to market valuations.

Carrying amounts and the estimated fair values of financial assets (except for derivatives) at December 31, 2018 and 2017 are as follows (in CZK millions):

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current assets at amortized cost:				
Loans granted	20,481	20,481	5,596	5,596
Term deposits			500	500
Other financial receivables	10	10	10	10
Non-current assets at fair value through other comprehensive income:				
Restricted debt securities	10,608	10,608	9,610	9,610
Equity financial assets	2,791	2,791	-	-
Debt financial assets	-	-	1,277	1,277
Non-current assets at fair value through profit or loss:				
Equity financial assets	3,286	3,286	-	-
Non-current assets at cost [1]:				
Equity financial assets	-	-	2,732	-
Current assets at amortized cost:				
Loans granted	7,851	7,851	7,681	7,681
Term deposits	502	502	503	503
Other financial receivables	29	29	36	36
Current assets at fair value through other comprehensive income:				
Debt financial assets	1,287	1,287	2,807	2,807

[1] Equity financial assets that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost.

Carrying amounts and the estimated fair values of financial liabilities (except for derivatives) at December 31, 2018 and 2017 are as follows (in CZK millions):

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt	(138,616)	(147,795)	(131,103)	(144,903)
Other long-term financial liabilities	(157)	(157)	(1,250)	(1,250)
Short-term loans	(11,709)	(11,709)	(10,748)	(10,748)
Other short-term financial liabilities	(1,120)	(1,120)	(313)	(313)

Carrying amounts and the estimated fair values of derivatives at December 31, 2018 and 2017 are as follows (in CZK millions):

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash flow hedges:				
Short-term receivables	124	124	-	-
Long-term receivables	2,186	2,186	1,581	1,581
Short-term liabilities	(9,637)	(9,637)	-	-
Long-term liabilities	(12,733)	(12,733)	(9,131)	(9,131)
Commodity derivatives:				
Short-term receivables	93,704	93,704	39,984	39,984
Long-term receivables	99	99	97	97
Short-term liabilities	(101,528)	(101,528)	(42,749)	(42,749)
Other derivatives:				
Short-term receivables	278	278	218	218
Long-term receivables	1,148	1,148	826	826
Short-term liabilities	(138)	(138)	(140)	(140)
Long-term liabilities	(886)	(886)	(1,190)	(1,190)

14.1. Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There were no transfers between the levels in 2018 and 2017.

As at December 31, 2018, the fair value hierarchy was the following (in CZK millions):

Assets measured at fair value

	Total	Level 1	Level 2	Level 3
Commodity derivatives	93,803	7,851	85,952	-
Cash flow hedges	2,310	23	2,287	-
Other derivatives	1,426	-	1,426	-
Restricted debt securities	10,608	10,608	-	-
Debt financial assets	1,287	1,287	-	-
Equity financial assets	6,077	-	-	6,077

Liabilities measured at fair value

	Total	Level 1	Level 2	Level 3
Commodity derivatives	(101,528)	(11,552)	(89,976)	-
Cash flow hedges	(22,370)	(4,594)	(17,776)	-
Other derivatives	(1,024)	-	(1,024)	-

Assets and liabilities for which fair value is disclosed

	Total	Level 1	Level 2	Level 3
Loans granted	28,332	-	28,332	-
Term deposits	502	-	502	-
Other financial receivables	39	-	39	-
Long-term debt	(147,795)	(112,369)	(35,426)	-
Short-term loans	(11,709)	-	(11,709)	-
Other short-term financial liabilities	(1,120)	-	(1,120)	-

As at December 31, 2017, the fair value hierarchy was the following (in CZK millions):

Assets measured at fair value

	Total	Level 1	Level 2	Level 3
Commodity derivatives	40,081	2,295	37,786	-
Cash flow hedges	1,581	-	1,581	-
Other derivatives	1,044	-	1,044	-
Restricted debt securities	9,610	9,610	-	-
Debt financial assets	4,084	4,084	-	-

Liabilities measured at fair value

	Total	Level 1	Level 2	Level 3
Commodity derivatives	(42,749)	(2,457)	(40,292)	-
Cash flow hedges	(9,131)	(2,354)	(6,777)	-
Other derivatives	(1,330)	-	(1,330)	-

Assets and liabilities for which fair value is disclosed

	Total	Level 1	Level 2	Level 3
Loans granted	13,277	-	13,277	-
Term deposits	1,003	-	1,003	-
Other financial receivables	46	-	46	-
Long-term debt	(144,903)	(102,208)	(42,695)	-
Short-term loans	(10,748)	-	(10,748)	-
Other short-term financial liabilities	(313)	-	(313)	-

The Company enters into derivative financial instruments with various counterparties, principally large power and utility group and financial institutions with high credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly commodity forward and futures contracts, foreign exchange forward contracts, interest rate swaps and options. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations and option pricing models (e.g. Black-Scholes). The models incorporate various inputs including the forward rate curves of the underlying commodity, foreign exchange spot and forward rates and interest rate curves.

Roll forward of the financial assets measured at fair value – Level 3 (in CZK millions):

	Equity financial assets at fair value through profit or loss	Equity financial assets at fair value through other comprehensive income
Balance at January 1, 2018	-	-
Application of IFRS 9 [1)]	2,002	2,732
Additions	1,000	-
Revaluation	284	59
Balance at December 31, 2018	3,286	2,791

[1)] Transfer form category measured at cost

The main investment in the portfolio Equity financial assets at fair value through other comprehensive income is 15% interest in the company Veolia Energie ČR, a.s. (see Note 5). Equity instruments of the company are not quoted on any market. Fair value at December 31, 2018 was determined using available public EBITDA data and the usual range of 8 to 10 EBITDA multiples which corresponds to the transactions observed on the market for acquisition of the 100% interest before the adjustment for outstanding debt. The fair value at December 31, 2018 was determined using 9 EBITDA multiple as the best estimate of the fair value.

Equity financial assets at fair value through profit or loss includes investment in investment fund ČEZ in the company Inven Capital, SICAV, a.s. (see Note 5). The fair value of the investment was determined at 31 December 2018 by valuator's appraisal. The fair value is stated especially with regard to capital contributions and to other forms of financing made by the co-investors recently. In addition, the valuation takes into account further developments and eventual subsequent significant events, such as received bids for redemption.

14.2. Offsetting of Financial Instruments

The following table shows the recognized financial instruments that are offset, or subject to enforceable master netting agreement or other similar agreements but not offset, as of December 31, 2018 and 2017 (in CZK millions):

	2018		2017	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Derivatives	97,538	(124,921)	42,706	(53,209)
Other financial instruments [1)]	45,579	(42,102)	29,200	(25,788)
Collaterals paid (received) [2)]	2,878	(1,611)	482	(2,290)
Gross financial assets / liabilities	145,995	(168,634)	72,388	(81,287)
Assets / liabilities set off under IAS 32	-	-	-	-
Amounts presented in the balance sheet	145,995	(168,634)	72,388	(81,287)
Effect of master netting agreements	(131,116)	131,116	(63,483)	63,483
Net amount after master netting agreements	14,879	(37,518)	8,905	(17,804)

1) Other financial instruments consist of invoices due from derivative trading and are included in Trade receivables, net or Trade payables.

2) Collaterals paid are included in Trade receivables, net and collaterals received are in included in Trade payables.

When trading with derivative instruments, the Company enters into the EFET and ISDA framework contracts. These contracts generally allow mutual offset of receivables and payables upon the premature termination of agreement. The reason for premature termination is insolvency or non-fulfillment of agreed terms by the counterparty. The right to mutual offset is either embedded in the framework contract or results from the security provided. There is CSA (Credit Support Annex) concluded with some counterparties defining the permitted limit of exposure. When the limit is exceeded, there is a transfer of cash reducing exposure below an agreed level. Cash security (collateral) is also included in the final offset.

Short-term derivative assets are included in the balance sheet in Other current financial assets, net, long-term derivative assets in Other non-current financial assets, net, short-term derivative liabilities in Other short-term financial liabilities and long-term derivative liabilities in Other long-term financial liabilities.

15. Financial Risk Management

Risk management approach

A risk management system is being successfully developed in order to protect the Group's value while taking the level of risk acceptable for the shareholders. In the Group, the risk is defined as a potential difference between the actual and the expected (planned) developments and is measured by means of the extent of such difference in CZK and the likelihood with which such a difference may occur.

A risk capital concept is applied within the Group. The concept allows the setting of basic cap for partial risk limits and, in particular, the unified quantification of all kinds of risks. The value of aggregate annual risk limit (Profit@Risk) is approved by the Board of Directors based on the Risk Management Committee proposal for every financial year. The proposed limit value is derived from historical volatility of profit, revenues and costs of the Group (the top-down method). The approved value in CZK is set on the basis of a 95% confidence level and expresses a maximum profit decrease, which is the Group willing to take in order to reach the planned annual profit.

The bottom-up method is used for setting and updating the Risk frames. The Risk frames include the definition of risk and departments/units of the Group for which the frame is obligatory; definition of rules and responsibilities for risk management; permitted instruments and methods of risk management and actual risk limits, including a limit which expresses the share in the annual Profit@Risk limit.

The main Business Plan market risks are quantified in the Group (EBITDA@Risk based on MonteCarlo simulation in Y+1 to Y+5 horizon). The market risks are actively managed through gradual electricity sales and emission allowances' purchases in the following 6-year horizon, closed long-term contracts for electricity sale and emission allowances' purchase and the FX and IR risk hedging in medium-term horizon. In Business Plan horizon, the risk management is also based on Debt Capacity concept which enables to assess the impact of main Investment and other Activities (incl. the risk characteristics), on expected cash flow and total debt in order to maintain corporate rating.

Risk management organization

The supreme authority responsible for risk management in ČEZ, a. s. is the CFO, except for approval of the aggregate annual budget risk limit (Profit@Risk) within the competence of the ČEZ, a. s. Board of Directors. CFO decides, based on the recommendation of the Risk Management Committee, on the development of a system of risk management, on an overall allocation of risk capital to the individual risks and organizational units, he approves obligatory rules, responsibilities and limit structure for the management of partial risks.

The Risk Management Committee (advisory committee of CFO) continuously monitors an overall risk impact on the Group, including Group risk limits utilization, status of risks linked to Business Plan horizon, hedging strategies status, assessment of impact of Investment and other Activities on potential Group debt capacity and cash flow in order to maintain corporate rating.

Overview and methods of risk management

The Group applies a unified categorization of the Group's risks which reflects the specifics of a corporate, i.e. non-banking company, and focuses on primary causes of unexpected development. The risks are divided into four basic categories listed below.

1. Market risks	**2. Credit risks**	**3. Operation risks**	**4. Business risks**
1.1 Financial (FX, IR)	2.1 Counterparty default	3.1 Operating	4.1 Strategic
1.2 Commodity	2.2 Supplier default	3.2 Internal change	4.2 Political
1.3 Volumetric	2.3 Settlement	3.3 Liquidity management	4.3 Regulatory
1.4 Market liquidity		3.4 Security	4.4 Reputation

From the view of risk management, the Group activities can be divided into two basic groups:

- activities with the unified quantification of the share of respective activity in the aggregate risk limit of the Group (i.e. using specific likelihood, it is possible to objectively determine what risk is associated with an activity/planned profit). These risks are managed by the rules and limits set by the CFO of ČEZ, a. s. based on the recommendation of the Risk Management Committee and, concurrently, in accordance with governing documents of the respective units/processes of the Group;
- activities whose share in the aggregate risk limit of the Group has not been quantified so far or for objective reasons. These risks are managed by the responsible owners of the relevant processes in accordance with internal governing documents of the respective units/processes of the Group.

For all risks quantified on a unified basis, a partial risk limit is set whose continuous utilization is evaluated on a monthly basis and is usually defined as a sum of the actually expected deviation of expected annual profit from the plan and the potential risk of loss on a 95% confidence. The Group's methodologies and data provide for a unified quantification of the following risks:

- market risks: financial (currency, interest and stock price) risks, commodity prices (electricity, emission allowances, coal, gas, crude oil), volume (volume of electricity produced by wind power plants);
- credit risks: financial and business counterparty risk and electricity, gas and heat end customer risk;
- operational risks: risks of nuclear and fossil power plants operation, investment risks.

The development of quantified risks is reported to the Risk Management Committee every month through 3 regular reports:

- Annual budget risks (annual Profit@Risk limit utilization);
- Business plan risks (EBITDA@Risk based on MonteCarlo simulation);
- Debt capacity (actual deviation from the optimal debt within Y+5 horizon, derived from rating agency requirements on debt indicators in order to preserve the ČEZ rating).

15.1. Qualitative Description of ČEZ, a. s. Risks Associated with Financial Instruments

Commodity risks

The development of electricity, emission allowances, coal and gas prices is a key risk factor of the ČEZ value. The current system of commodity risk management is focused on (i) the margin from the own electricity production sales, i.e. from trades resulting in optimizing the sales of ČEZ's production and in optimizing the emission allowances position for production (the potential risk is managed on the EaR, VaR and the EBITDA@Risk bases), and (ii) the margin from the proprietary trading of commodities (the potential risk is managed on the VaR basis).

Market financial risks (currency and interest risks)

The development of foreign exchange rates and interest rates is a significant risk factor of the ČEZ value. The current system of financial risk management is focused mainly on (i) the future cash flows and (ii) financial trades which are realized for the purposes of an overall risk position management in accordance with the risk limits (the potential risk is managed on the basis of VaR, EBITDA@Risk and complementary position limits). Own financial instruments (i.e. active and passive financial trades and derivative trades) are realized entirely in the context of an overall expected cash flows (including operational and investment foreign currency flows).

Credit risks

Credit exposures of individual financial partners and wholesale partners are managed in accordance with individual credit limits. The individual limits are set and continuously updated according to the counterparty's credibility (in accordance with international rating and internal financial evaluation of counterparties with no international rating).

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty.

Company's maximum exposure to credit risk to receivables and other financial instruments as at 31 December 2018 and 2017 is the carrying value of each class of financial assets except for financial guarantees.

In accordance with the credit risk methodology applied to the banking sector per Basel II, every month the expected and potential losses are quantified on a 95% confidence level. It means that the share of credit risks in the aggregate annual Profit@Risk limit is quantified and evaluated.

Liquidity risks

Liquidity risk is primarily perceived as an operational risk (risk of liquidity management) and a risk factor is the internal ability to effectively manage the future cash flows planning process and to secure the adequate liquidity and effective short-term financing (the risk is managed on a qualitative basis). The fundamental liquidity risk management (i.e. liquidity risk within the meaning for banking purposes) is covered by the risk management system as a whole. In any given period, the future deviations of the expected cash flows are managed in accordance with the aggregate risk limit and in the context of the actual and the targeted debt/equity ratio of ČEZ.

15.2. Quantitative Description of ČEZ, a. s. Risks Associated with Financial Instruments

Commodity risks

The required quantitative information on risks (i.e. a potential change of market value resulting from the effects of risk factors as at December 31) was prepared based on the assumptions given below:

- the indicator of risk associated with financial instruments is defined as the monthly parametric VaR (95% confidence) which expresses a maximum potential decrease in fair value of contracts classified as derivatives under IFRS 9 (the underlying commodities in the Company‘s derivative transactions are: electricity, EUA and CER/ERU emission allowances, gas, coal ARA, Richards Bay, Newcastle and crude oil and crude oil products) on the given confidence level;
- highly probable forecasted future electricity generation sales with the delivery in the CZ power grid are included in the VAR calculation to reflect the hedging character of significant portion of the existing derivative sales of electricity with delivery in Germany;
- for the calculation of volatility and correlations (between commodity prices), the SMA (Simple Moving Average) method is applied to 60 daily time series;
- the source of market data is mainly EEX, PXE and ICE;
- the indicator VaR illustrates mainly the impact of revaluation of above mentioned financial instruments to Income Statement.

Potential impact of the above risk factors as at December 31 (in CZK millions):

	2018	2017
Monthly VaR (95%) – impact of changes in commodity prices	2,734	933

Currency risks

The required quantitative information on risks (i.e. a potential change of market value resulting from the effects of currency risk as at December 31) was prepared based on the assumptions given below:

- the indicator of currency risk is defined as the monthly VaR (95% confidence);
- for the calculation of VaR, based on volatility and internal correlations of each considered currency, the method of historical simulation VaR is applied to 90 daily historical time series;
- the relevant currency position is defined mainly as a discounted value of foreign currency cash flows from all contracted financial instruments, from expected foreign currency operational revenues and costs in 2018 and from highly probable forecasted foreign currency revenues, costs or capital expenditures that are being hedged by financial instruments etc;
- the relevant currency positions reflect all significant foreign-currency flows in the monitored basket of foreign currencies;
- the source of market FX and interest rate data is mainly IS Reuters and IS Bloomberg;
- the indicator VaR illustrates mainly the impact of revaluation of above mentioned currency position to Income Statement.

Potential impact of the currency risk as at December 31 (in CZK millions):

	2018	2017
Monthly currency VaR (95% confidence)	169	95

Interest risks

For the quantification of the potential impact of the interest risk was chosen the sensitivity of the interest revenue and cost to the parallel shift of yield curves. The approximate quantification as at December 31 was based on these assumptions:

- parallel shift of the yield curves (+10bp) was selected as the indicator of interest risk;
- the Income Statement sensitivity is measured as an annual change of the interest revenue and cost resulting from the interest-sensitive positions as at December 31;
- the considered interest positions reflect all significant interest-sensitive positions;
- the source of market interest rates is mainly IS Reuters and IS Bloomberg.

Potential impact of the interest rate risk as at December 31 (in CZK millions):

	2018	2017
IR sensitivity* to parallel yield curve shift (+10bp)	(1)	(10)

* Negative result denotes higher increase in interest costs than interest income

Credit exposure

The Company is exposed to credit risk arising on all financial assets presented on the balance sheet and from provided guarantees. Credit exposure from provided guarantees not recorded on balance sheet at December 31 (in CZK millions):

	2018	2017
Guarantees provided to subsidiaries and joint-ventures not recorded on balance sheet	6,165	5,063

At December 31, 2018 and 2017, the guarantees provided to subsidiaries amounted to CZK 4,221 million and CZK 2,220 million, respectively and guarantees provided to joint-ventures amounted to CZK 1,944 million and CZK 2,843 million, respectively. The guarantees provided represent mainly guarantees issued in connection with concluded contracts, bank loans and other obligations of the respective companies. The beneficiary may claim the guarantee only under the conditions of the letter of guarantee, usually in relation to non-payment of amounts arising out of the contract or failure to fulfil the obligations arising out of the contract. The companies whose liabilities are subject to the guarantees currently comply with their obligations. The guarantees have various maturities. As of December 31, 2018 and 2017, some of the guarantees could be called until December 2030 at the latest.

Liquidity risk

Maturity profile of financial liabilities based on contractual undiscounted payments at December 31, 2018 (in CZK millions):

	Bonds and debentures	Loans	Derivatives [1]	Other financial liabilities	Trade payables	Guarantees issued [2]
Due in 2019	6,240	13,886	444,692	41,246	51,208	6,165
Due in 2020	24,194	2,176	104,659	60	-	-
Due in 2021	27,193	1,932	34,951	58	-	-
Due in 2022	22,071	1,285	16,952	45	-	-
Due in 2023	7,148	941	4,714	-	-	-
Thereafter	78,976	2,426	29,525	-	-	-
Total	165,822	22,646	635,493	41,409	51,208	6,165

Maturity profile of financial liabilities based on contractual undiscounted payments at December 31, 2017 (in CZK millions):

	Bonds and debentures	Loans	Derivatives [1]	Other financial liabilities	Trade payables	Guarantees issued [2]
Due in 2018	9,875	12,909	302,465	39,502	34,401	5,063
Due in 2019	6,042	2,161	75,609	1,250	-	-
Due in 2020	23,840	2,159	25,581	-	-	-
Due in 2021	26,834	1,918	11,906	-	-	-
Due in 2022	8,748	1,276	13,414	-	-	-
Thereafter	84,339	3,342	32,770	-	-	-
Total	159,678	23,765	461,745	40,752	34,401	5,063

[1] Contractual maturities for derivatives represent contractual cash out-flows of these instruments, but at the same time the Company will receive corresponding consideration. For fair values of derivatives see Note 14.

[2] Maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

The committed credit facilities available to the Company as at December 31, 2018 and 2017 amounted to CZK 15,8 billion and CZK 18.7 billion, respectively.

15.3. Hedge Accounting

The Company enters into cash flow hedges of future highly probable cash inflows from the sales denominated in EUR against the currency risk. The hedged cash flows are expected to occur in the period from 2019 to 2024. The hedging instruments as at December 31, 2018 and 2017 are the EUR denominated liabilities from the issued Eurobonds and bank loans in the total amount of EUR 4.0 billion and EUR 4.1 billion, respectively, and currency forward contracts and swaps. The fair value of these derivative hedging instruments (currency forward contracts and swaps) amounted to CZK 176 million and CZK (18) million at December 31, 2018 and 2017, respectively.

The Company also enters into cash flow hedges of highly probable future sales of electricity in the Czech Republic from 2019 to 2024. The hedging instruments are the futures and forward contracts electricity sales in Germany. The fair value of these derivative hedging instruments amounted to CZK (20,236) million and CZK (7,532) million at December 31, 2018 and 2017, respectively.

The Company applied cash flow hedges of future highly probable purchases of emission allowances which had been expected to occur in 2018 and 2017. The hedging instruments as at December 31, 2018 and 2017 were the futures contracts for the purchase of allowances equivalent to 6.0 million tons and 7.0 million tons of CO_2 emissions, respectively. The final settlement of the purchase of these hedged emission allowances was in December 2018 and 2017, respectively.

In 2018 and 2017 the amounts removed from equity in respect of cash flow hedges were recognized in profit or loss and included in the lines Sales of electricity, heat and gas, Gains and losses from commodity derivative trading, Other financial expenses and Other financial income and on the balance sheet in the line Intangible assets, net and Emission rights. In 2018 and 2017 the Company recognized in profit or loss the ineffectiveness that arises from cash flow hedges in the amount of CZK (29) million and CZK (3) million, respectively. The ineffectiveness in 2018 and 2017 was mainly caused by the fact that the hedged cash flows are no more highly probable to occur.

16. Provisions

The following is a summary of the provisions at December 31, 2018 and 2017 (in CZK millions):

	2018			2017		
	Long-term	Short-term	Total	Long-term	Short-term	Total
Nuclear provisions	61,095	2,282	63,377	59,137	2,197	61,334
Provision for waste storage reclamation	514	52	566	806	46	852
Provision for CO_2 emissions (see Note 9)	-	2,515	2,515	-	1,860	1,860
Provision for employee benefits	1,362	117	1,479	1,228	97	1,325
Provision for environmental claims	-	463	463	-	437	437
Provision for legal and commercial disputes	-	470	470	-	453	453
Provision for obligation in case of claim from guarantee for Akcez group loans	-	908	908	-	-	-
Other provisions	-	82	82	-	-	-
Total	62,971	6,889	69,860	61,171	5,090	66,261

16.1. Nuclear Provisions

The Company operates two nuclear power plants. Nuclear power plant Dukovany consists of four units which were put into service from 1985 to 1987. Nuclear power plant Temelín has two units which have started commercial operation in 2002 and 2003. A Nuclear Act (Act) which defines obligations for the decommissioning of nuclear facilities, the disposal of radioactive waste and spent fuel (disposal). The Act requires that all nuclear parts of plant and equipment be decommissioned following the end of the plant's operating life. For the purpose of accounting for the nuclear provisions, it is assumed that the end of the plant's operating life will be 2037 for Dukovany and 2052 for Temelín. A 2018 Dukovany and a 2014 Temelín decommissioning cost study estimate that nuclear decommissioning will cost CZK 28.6 billion and CZK 18.4 billion, respectively. The Company makes contributions to a restricted bank accounts in the amount of the nuclear provisions recorded under the Act. These restricted funds can be invested in government bonds and term deposits in accordance with the Act and are shown in the balance sheet as part of Restricted financial assets, net (see Note 4).

Pursuant to the Act, the Ministry of Industry and Trade established the Radioactive Waste Repository Authority (RAWRA) as the central organizer and operator of facilities for the final disposal of radioactive waste and spent fuel. The RAWRA operates, supervises and is responsible for disposal facilities and for disposal of radioactive waste and spent fuel therein. The activities of the RAWRA are financed through a nuclear account funded by the originators of radioactive waste. Contribution to the nuclear account is stated by Act at 55 CZK per MWh produced at nuclear power plants. In 2018 and 2017, the payments to the nuclear account amounted to CZK 1,646 million and CZK 1,559 million, respectively. The originator of radioactive waste and spent fuel directly covers all costs associated with interim storage of radioactive waste and spent fuel.

The Company has established provisions as described in Note 2.21, to recognize its estimated liabilities for decommissioning and spent fuel storage.

The following is a summary of the nuclear provisions for the years ended December 31, 2018 and 2017 (in CZK millions):

	Accumulated provisions			
	Nuclear decommis-sioning	Spent fuel storage		
		Interim	Long-term	Total
Balance at January 1, 2017	18,602	7,367	29,244	55,213
Movements during 2017:				
Discount accretion and effect of inflation	465	184	731	1,380
Provision charged to income statement	-	380	-	380
Effect of change in estimate credited to income statement	-	275	-	275
Effect of change in estimate added to fixed assets (see Note 2.21)	1,464	-	4,740	6,204
Current cash expenditures	-	(559)	(1,559)	(2,118)
Balance at December 31, 2017	20,531	7,647	33,156	61,334
Movements during 2018:				
Discount accretion and effect of inflation	530	191	829	1,550
Provision charged to income statement	-	527	-	527
Effect of change in estimate charged to income statement	-	(43)	-	(43)
Effect of change in estimate added to (deducted from) fixed assets (see Note 2.21)	2,449	-	(110)	2,339
Current cash expenditures	-	(684)	(1,646)	(2,330)
Balance at December 31, 2018	23,510	7,638	32,229	63,377

The current cash expenditures for the long-term storage of spent nuclear fuel represent payments to the state controlled nuclear account and the expenditures for interim storage represent mainly the purchase of interim fuel storage containers and other related equipment.

In 2018 the Company recorded the change in estimate for interim storage of spent nuclear fuel in connection with the change in expectations of future storage cost, the change in estimate in provision for nuclear decommissioning due to the update of the expert decommissioning study for nuclear power plant in Dukovany and the change in long-term spent fuel storage in connection with the modification of the expected output of the nuclear power plants.

In 2017 the Company recorded the change in estimate for interim storage of spent nuclear fuel in connection with the change in expectations of future storage costs and change in discount rate, the change in estimate in provision for nuclear decommissioning in connection with the change of timing of the costs for decommissioning expenditure in Temelín Nuclear Power Plant and change in discount rate and the change in long-term spent fuel storage in connection with the modification of the expected output of the nuclear power plants.

The actual decommissioning and spent fuel storage costs could vary substantially from the above estimates because of new regulatory requirements, changes in technology, increased costs of labor, materials and equipment and/or the actual time required to complete all decommissioning, disposal and storage activities.

16.2. Provision for Waste Storage Reclamation

The following table shows the movements of the provision for waste storage reclamation for the years ended December 31, 2018 and 2017 (in CZK millions):

Balance at January 1, 2017	915
Movements during 2017:	
Discount accretion and effect of inflation	23
Effect of change in estimate added to fixed assets	1
Current cash expenditures	(87)
Balance at December 31, 2017	852
Movements during 2018:	
Discount accretion and effect of inflation	21
Effect of change in estimate deducted from fixed assets	(67)
Reversal of provision	(213)
Current cash expenditures	(27)
Balance at December 31, 2018	566

17. Other Financial Liabilities

Other financial liabilities at December 31, 2018 are as follows (in CZK millions):

	2018		
	Long-term liabilities	Short-term liabilities	Total
Payables from Group cashpooling and similar intra-group loans	-	40,121	40,121
Deposit	-	750	750
Other	157	370	527
Financial liabilities at amortized costs	157	41,241	41,398
Cash flow hedge derivatives	12,733	9,637	22,370
Commodity and other derivatives	886	101,666	102,552
Financial liabilities at fair value	13,619	111,303	124,922
Total	13,776	152,544	166,320

Other financial liabilities at December 31, 2017 are as follows (in CZK millions):

	2017		
	Long-term liabilities	Short-term liabilities	Total
Payables from Group cashpooling and similar intra-group loans	-	39,189	39,189
Deposit	1,250	-	1,250
Other	-	313	313
Financial liabilities at amortized costs	1,250	39,502	40,752
Cash flow hedge derivatives	9,131	-	9,131
Commodity and other derivatives	1,190	42,889	44,079
Financial liabilities at fair value	10,321	42,889	53,210
Total	11,571	82,391	93,962

18. Short-term Loans

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

	2018	2017
Short-term bank loans	11,444	10,689
Bank overdrafts	265	58
Total	11,709	10,747

Interest on short-term loans is variable. The weighted average interest rate was 0.39% and 0.08% at December 31, 2018 and 2017, respectively. For the years 2018 and 2017 the weighted average interest rate was 0.47% and (0.01%), respectively.

19. Other Short-term Liabilities

Other short-term liabilities at December 31, 2018 and 2017 consist of the following (in CZK millions):

	2018	2017
Taxes and fees, except income tax	511	509
Deferred income	80	39
Advanced received	20	8
Total	611	556

20. Revenues and Other Operating Income

Revenues and other operating income for the years ended December 31, 2018 and 2017 were as follows (in CZK millions):

	2018	2017
Sale of electricity, heat and gas:		
Electricity sales – domestic:		
ČEZ Prodej, a.s.	17,904	15,625
POWER EXCHANGE CENTRAL EUROPE, a.s.	4,134	3,669
Other revenues from domestic customers	26,671	25,537
Other	7,151	5,047
Total electricity sales – domestic	55,860	49,878
Electricity sales – foreign	14,516	13,589
Effect of hedging – presales of electricity (Note 15.3)	(5,596)	326
Effect of hedging – currency risk hedging (Note 15.3)	878	(1,397)
Total sales of electricity	65,658	62,396
Sales of gas	6,544	5,450
Sales of heat	1,949	1,913
Total sales of gas, heat and other revenues	74,151	69,759
Sale of services and other income:		
Distribution services	26	131
Sales of ancillary and other services	4,784	5,060
Other revenues	24	34
Total sales of services and other revenues	4,834	5,225
Other operating income:	764	2,273
Total revenues and other operating income	79,749	77,257

21. Gains and Losses from Commodity Derivative Trading

Gains and losses from commodity derivative trading for the years ended December 31, 2018 and 2017 as follows (in CZK millions):

	2018	2017
Electricity derivative trading:		
Sales – domestic	13,493	6,802
Sales – foreign	261,334	184,640
Purchases – domestic	(13,271)	(6,618)
Purchases – foreign	(266,750)	(183,002)
Changes in fair value of derivatives	6,002	(866)
Total gains from electricity derivative trading, net	808	956
Other commodity derivative trading:		
Loss from gas derivative trading	(409)	(190)
Gain (loss) from oil derivative trading	(22)	43
Gain (loss) from coal derivative trading	(84)	11
Gain from emission rights derivative trading	7	251
Total gains and losses from derivative trading	300	1,071

22. Purchase of Electricity, Gas and Other Energies

Purchase of electricity, gas and other energies at December 31, 2018 and 2017 as follows (in CZK millions):

	2018	2017
Purchase of electricity for resale	(25,385)	(24,564)
Purchase of gas for resale	(6,003)	(5,350)
Purchase of other energies	(1,683)	(1,325)
Total Purchase of electricity, gas and other energies	(33,071)	(31,239)

23. Fuel and Emission Rights

Fuel and emission rights for production ended December 31, 2018 and 2017 as follows (in CZK millions):

	2018	2017
Fossil energy fuel and biomass	(5,792)	(5,654)
Amortization of nuclear fuel	(4,005)	(3,695)
Gas	(2,281)	(1,627)
Emission rights for generation	(2,663)	(1,853)
Total fuel and emission rights	(14,741)	(12,829)

24. Services

Purchase of services at December 31, 2018 and 2017 as follows (in CZK millions):

	2018	2017
Repairs and maintenance	(3,433)	(3,501)
Technology and operation support services	(968)	(993)
Rental, building administration and security	(731)	(723)
IT related services	(712)	(803)
Equipment operation services	(708)	(477)
Purchase of other services	(2,552)	(2,623)
Total purchase of services	(9,104)	(9,120)

Information about fees charged by independent auditor is provided in the annual report of CEZ Group.

25. Salaries and Wages

Salaries and wages for the years ended December 31, 2018 and 2017 were as follows (in CZK millions):

	2018		2017	
	Total	Key management personnel [1]	Total	Key management personnel [1]
Salaries and wages including remuneration of board members	(4,565)	(247)	(4,176)	(229)
Share options	(33)	(33)	(28)	(28)
Social and health security	(1,437)	(46)	(1,321)	(38)
Other personal expenses	(498)	(23)	(707)	(23)
Total	(6,533)	(349)	(6,232)	(318)

[1] Members of Supervisory Board, Audit Committee and Board of Directors and selected managers of departments with group field of activity. The remuneration of former members of company bodies is included in personal expenses.

The members of Board of Directors and selected managers were entitled to use company cars for both business and private purposes in addition to the personal expenses.

If the Company terminates a contract with a member of Board of Directors before his/her four-year term of office expires (except for resignation), the Director is entitled to a severance pay. Method of determination of the amount of the severance payment and conditions are stipulated in the respective contract of the member of Board of Directors.

At December 31, 2018 and 2017, the aggregate number of share options granted to members of Board of Directors and selected managers was 1,904 thousand and 2,326 thousand, respectively.

Members of the Board of Directors and selected managers are entitled to receive share options based on the conditions stipulated in the share option agreement. Members of the Board of Directors and selected managers are granted certain quantity of share options each year of their tenure according to rules of the share option plan. The exercise price for the granted options is based on the average quoted market price of the shares on the regulated exchange in the Czech Republic during one-month period preceding the grant date each year. Options granted could be exercised at the earliest 2 years and latest 3.5 years after each grant date. Option right is limited so that the profit per share option will not exceed 100% of exercise price and the beneficent has to hold at his account such number of shares exercised through options granted, which is equivalent to 20% of profit, made on exercise date until the end of share option plan.

The following table shows changes during 2018 and 2017 in the number of granted share options and the weighted average exercise price of these options:

	Number of share options			
	Board of Directors 000s	Selected managers 000s	Total 000s	Weighted average exercise price (CZK per share)
Share options at January 1, 2017	1,980	532	2,512	519.16
Options granted	574	185	759	447.74
Movements	20	(20)	-	523.50
Options exercised [1]	(150)	-	(150)	458.71
Options forfeited	(610)	(185)	(795)	527.57
Share options at December 31, 2017 [2]	1,814	512	2,326	496.89
Options granted	590	185	775	542.63
Options exercised [1]	(350)	(130)	(480)	438.03
Options forfeited	(560)	(157)	(717)	615.88
Share options at December 31, 2018 [2]	1,494	410	1,904	485.52

[1] In 2018 and 2017 the weighted average share price at the date of the exercise for the options exercised was CZK 539.42 and CZK 499.70, respectively.

[2] At December 31, 2018 and 2017 the number of exercisable options was 390 thousand and 932 thousand, respectively. The weighted average exercise price of the exercisable options was CZK 443.84 per share and CZK 586.22 per share at December 31, 2018 and 2017, respectively.

The fair value of the options is estimated on the date of grant using the binomial option-pricing model. Because these stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of stock options.

At the grant dates, the underlying assumptions and the resulting fair values per option were as follows:

	2018	2017
Weighted average assumptions:		
Dividend yield	2.7%	3.7%
Expected volatility	18.1%	23.0%
Mid-term risk-free interest rate	0.9%	0.4%
Expected life (years)	1.4	1.4
Share price (CZK per share)	543.4	451.2
Weighted average grant-date fair value of options (CZK per 1 option)	41.4	42.0

The expected life of the options is based on historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

At December 31, 2018 and 2017 the exercise prices of outstanding options (in thousands pieces) were in the following ranges:

	2018	2017
CZK 350–550 per share	1,544	1,594
CZK 550–650 per share	360	732
Total	1,904	2,326

The options granted which were outstanding as at December 31, 2018 and 2017 had an average remaining contractual life of 2.3 years and 1.9 years, respectively.

26. Other Operating Expenses

Other operating expenses for the years ended December 31, 2018 and 2017 consist of the following (in CZK millions):

	2018	2017
Change in provisions	1,734	1,296
Taxes and fees	(1,980)	(1,869)
Costs related to electricity, gas, coal and emission rights	(408)	(330)
Insurance	(312)	(307)
Gifts	(109)	(112)
Other	(206)	(227)
Total	(1,281)	(1,549)

Taxes and fees include the contributions to the nuclear account (see Note 16.1). The settlement of the provision for long-term spent fuel storage is accounted for in the amount of contributions to nuclear account. Settlement of provision for long-term spent fuel storage is included in Change in provisions.

27. Interest Income

Interest income for each category of financial instruments for the years ended December 31, 2018 and 2017 was as follows (in CZK millions):

	2018	2017
Group cashpooling	336	197
Loans and receivables	307	303
Debt financial assets at fair value through other comprehensive income	190	169
Bank accounts	34	8
Debt financial assets at amortized costs	3	14
Total	870	691

28. Impairment of Financial Assets

Additions and reversals of impairment of financial assets for each category for the years ended December 31, 2018 and 2017 was as follows (in CZK millions):

	2018	2017
Share on subsidiaries and joint-ventures	(2,371)	(9,516)
Loans granted	(194)	-
Guarantee for Akcez group loans	(908)	-
Other	5	-
Total	(3,468)	(9,516)

In 2018 the Company created impairment provisions against the investments in the amount of CZK 2,371 million in connection with reduction of recoverable amount. The most significant impairment has been created in companies ČEZ Teplárenská, a.s. in the amount of CZK 1,573 million, Elektrárna Dětmarovice, a.s. in the amount of CZK 419 million and CEZ Trade Polska sp. z o.o. in the amount of 256 million. In 2018 the Company created 100% impairment provision to the new loan provided to the company Akcez Enerji A.S. in the amount of CZK 193 million.

The Company is a guarantor for the liabilities of companies within the joint-venture with Akcez Enerji A.S. in the amount of USD 112.7 million and TRY 75.6 million as of December 31, 2018. Due to the development of Turkey's macroeconomic and political situation leading to a further weakening of the Turkish currency (TRY) the risk of potential obligation in case of claim from guarantees provided by the Company increased in connection with increased probability of lack of future cash flows to settle all liabilities of Akcez group. Based on calculation of recoverable amount from future cash flows a provision in the amount of CZK 908 million was recognized as of December 31, 2018.

In 2017 the Company created impairment provisions against the investments in the amount of CZK 9,516 million in connection with reduction of recoverable amount. The most significant impairment has been created in Turkish companies Akenerji Elektrik Üretim A.S. in the amount of CZK 9,043 million and Akcez Enerji A.S. in the amount of CZK 306 million. The decline in recoverable value of Turkish companies reflects the fulfilment of the asset's impairment indicator, namely the depreciation of the Turkish lira foreign exchange rate, that was considered temporary during 2016. The main events were the development of the geopolitical and economic situation in the region and changes in Turkish political system in 2017. These factors have a negative impact on the financial results and projections of future cash flows of Turkish equities, especially with regard to bank loans denominated in USD.

29. Other Financial Expenses

Other financial expenses for the years ended December 31, 2018 and 2017 consist of the following (in CZK millions):

	2018	2017
Foreign exchange rate loss	(808)	-
Derivative losses	-	(903)
Loss on sale of debt financial assets	(11)	(147)
Creation and settlement of provisions	(17)	(157)
Other	(61)	(57)
Total	(897)	(1,264)

30. Other Financial Income

Other financial income for the years ended December 31, 2018 and 2017 consist of the following (in CZK millions):

	2018	2017
Dividends received (see Note 5)	31,989	14,879
Foreign exchange rate gain	-	1,058
Derivative gains	931	-
Gain on sale debt financial assets	-	17
Gain on disposal of subsidiaries, associates and joint-ventures	29	805
Gain from revaluation of financial assets	284	-
Other	769	36
Total	34,002	16,795

31. Income Taxes

The Company calculated corporate income tax in accordance with the Czech tax regulations at the rate of 19% in 2018 and 2017.

Management believes that it has adequately provided for tax liabilities in the accompanying financial statements. However, the risk remains that the relevant financial authorities could take differing positions with regard to interpretive issues, which could have potential effect on reported income.

The components of the income tax provision were as follows (in CZK millions):

	2018	2017
Current income tax charge	(26)	(24)
Adjustments in respect of current income tax of previous periods	27	(1)
Deferred income taxes	1,166	582
Total	1,167	557

The differences between income tax expense computed at the statutory rate and income tax expense provided on earnings were as follows (in CZK millions):

	2018	2017
Income before income taxes	22,609	4,548
Statutory income tax rate	19%	19%
"Expected" income tax expense	(4,296)	(864)
Tax effect of:		
Non-deductible provisions and allowances, net	(728)	(1,817)
Non-deductible expenses related to shareholdings	(22)	(16)
Non-taxable income from dividends	6,078	2,827
Non-deductible share based payment expense	(6)	(5)
Non-taxable gain on sale of subsidiaries and joint-ventures	6	63
Liquidation of subsidiaries	14	-
Adjustments in respect of current income tax of previous periods	27	(1)
Other non-deductible items, net	94	370
Income tax	1,167	557
Effective tax rate	(5)%	(12)%

Deferred income tax liability, net, at December 31, 2018 and 2017 was calculated as follows (in CZK millions):

	2018	2017
Nuclear provisions	10,197	9,899
Other provisions	991	862
Allowances	267	241
Deferred tax recognized in equity	4,309	1,842
Other temporary differences	320	236
Total deferred tax assets	16,084	13,080
Tax depreciation in excess of financial statement depreciation	(19,117)	(20,685)
Deferred tax recognized in equity	(92)	(69)
Other temporary differences	(1,414)	(558)
Total deferred tax liability	(20,623)	(21,312)
Total deferred tax liability, net	(4,539)	(8,232)

Movements in net deferred tax liability, net, in 2018 and 2017 were as follows (in CZK millions):

	2018	2017
Opening balance	8,232	9,003
Application of IFRS 9	(4)	-
Effect of merger	(9)	-
Deferred tax recognized in profit or loss	(1,166)	(582)
Deferred tax recognized in other comprehensive income	(2,514)	(189)
Closing balance	4,539	8,232

Tax effects relating to each component of other comprehensive income (in CZK million):

	2018			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	(16,016)	3,043	(12,973)	(3,950)	750	(3,200)
Cash flow hedges reclassified to statement of income	3,927	(746)	(3,181)	4,026	(765)	3,261
Cash flow hedges reclassified to assets	(972)	185	(787)	(394)	75	(319)
Change in fair value of debt instruments	(227)	43	(184)	(677)	129	(548)
Change in fair value of equity instruments	59	(11)	48	-	-	-
Total	(13,229)	2,514	(10,715)	(995)	189	(806)

32. Related Parties

The Company purchases/sells products, goods and services from/to related parties in the ordinary course of business.

At December 31, 2018 and 2017, the receivables from related parties and payables to related parties were as follows (in CZK millions):

	Receivables		Payables	
	2018	2017	2018	2017
CEZ Bulgarian Investments B.V.	-	-	341	341
CEZ Deutschland GmbH	-	-	39	58
CEZ Erneubare Energien Beteiligung	242	52	-	-
CEZ France SAS	1	-	434	3
CEZ Holdings B.V. [1)]	5,966	5,562	79	13
CEZ Hungary Ltd.	524	334	83	11
CEZ Chorzów S.A.	206	203	1	-
CEZ MH B.V.	-	-	613	1,402
CEZ New Energy Investments B.V. [2)]	32	8	-	361
CEZ Polska sp. z o.o.	5	5	1,196	1,223
CEZ Razpredelenie Bulgaria AD	257	-	-	-
CEZ Romania S.A.	15	12	1,751	353
CEZ Skawina S.A.	264	148	67	80
CEZ Slovensko, s.r.o.	1,699	997	209	129
CEZ Trade Bulgaria EAD	319	11	72	10
CEZ Trade Polska sp. z o.o.	388	264	84	15
CEZ Vanzare S.A.	139	63	-	-
ČEZ Bohunice a.s.	-	-	176	179
ČEZ Distribuce, a. s. [3)]	20,900	7,054	5,586	11,001
ČEZ Energetické produkty, s.r.o.	118	48	255	295
ČEZ Energetické služby, s.r.o.	131	167	8	2
ČEZ ENERGOSERVIS spol. s r.o.	155	81	434	352
ČEZ ESCO, a.s.	43	7	1,649	60
ČEZ ICT Services, a. s.	61	28	943	1,051
ČEZ Korporátní služby, s.r.o.	239	7	591	529
ČEZ Obnovitelné zdroje, s.r.o.	12	7	227	224
ČEZ OZ uzavřený investiční fond a.s.	-	-	717	358
ČEZ Prodej, a.s.	3,242	3,412	10,126	10,656
ČEZ Solární, a.s.	94	42	-	-
ČEZ Teplárenská, a.s.	199	204	509	572
Elektrárna Dětmarovice, a.s.	339	357	1,030	1,319
Elektrárna Dukovany II, a. s.	8	13	70	171
Elektrárna Počerady, a.s.	647	277	8,466	7,607
Elektrárna Temelín II, a. s.	9	12	169	247
Elevion GmbH	1,002	640	-	-
Energetické centrum, s.r.o.	60	58	-	-
Energocentrum Vítkovice, a. s.	59	52	30	139
Energotrans, a.s.	317	342	1,267	1,006
Inven Capital, SICAV, a.s.	1	-	1,181	537
MARTIA a.s.	132	59	102	73
PRODECO, a.s.	1	1	291	358
Revitrans, a.s.	1	293	113	335
SD-Kolejová doprava, a.s.	1	2	81	80
Severočeské doly a.s.	87	26	4,323	1,589
ŠKODA PRAHA Invest s.r.o.	44	2	95	442
Telco Pro Services, a. s.	-	3	290	257
ÚJV Řež, a. s.	1	1	325	293
Other	313	149	404	377
Total	38,273	21,003	44,427	44,108

The following table provides the total amount of transactions (sales and purchases), which were entered into with related parties in 2018 and 2017 (in CZK millions):

	Sales to related parties		Purchases from related parties	
	2018	2017	2018	2017
CEZ Holdings B.V. [1]	56	38	-	-
CEZ Hungary Ltd.	1,762	1,508	(25)	78
CEZ Chorzów S.A.	207	196	-	-
CEZ Skawina S.A.	264	141	770	927
CEZ Slovensko, s.r.o.	3,809	3,194	613	95
CEZ Srbija d.o.o.	72	257	15	83
CEZ Trade Bulgaria EAD	114	19	641	212
CEZ Trade Polska sp. z o.o.	4,022	3,285	319	138
CEZ Vanzare S.A.	1,303	630	-	-
ČEZ Distribuce, a. s. [3]	514	532	99	63
ČEZ Energetické produkty,s.r.o.	25	20	913	934
ČEZ ENERGOSERVIS spol. s r.o.	25	33	1,160	1,119
ČEZ ESCO, a. s.	7,029	15	549	13
ČEZ ICT Services, a. s.	53	55	975	962
ČEZ Korporátní služby, s.r.o.	55	53	501	502
ČEZ Obnovitelné zdroje, s.r.o.	11	2	244	226
ČEZ Prodej, a.s.	15,495	20,213	1,921	1,480
ČEZ Teplárenská, a.s.	1,579	1,643	186	185
Distributie Energie Oltenia S.A.	164	196	-	-
Elektrárna Dětmarovice, a.s.	777	1,276	1,918	2,340
Elektrárna Dukovany II, a. s.	46	60	-	-
Elektrárna Počerady, a.s.	3,623	3,145	5,432	5,154
Elektrárna Temelín II, a. s.	52	51	-	-
Energocentrum Vítkovice, a. s.	154	149	89	60
Energotrans, a.s.	1,240	1,082	1,200	1,045
LOMY MOŘINA spol. s r.o.	-	-	176	172
MARTIA a.s.	9	7	337	286
OSC, a.s.	-	-	58	112
Ovidiu Development S.R.L.	12	23	575	219
Revitrans, a.s.	6	5	401	1
SD-Kolejová doprava, a.s.	25	14	586	601
Severočeské doly a.s.	259	143	4,005	3,822
ŠKODA PRAHA Invest s.r.o.	13	(163)	232	2,023
Tomis Team S.A.	6	4	591	335
ÚJV Řež, a. s.	2	2	701	783
Ústav aplikované mechaniky Brno, s.r.o.	-	-	136	67
Other	227	276	131	204
Total	43,010	38,104	25,449	24,241

[1] In 2018 the company CEZ Poland Distribution was renamed to CEZ Holdings B.V.
[2] In 2018 the company CEZ ESCO Poland was renamed to CEZ New Energy Investments B.V.
[3] The Company ČEZ Distribuční služby, s.r.o. merged with the succession company ČEZ Distribuce, a. s. with the legal effective date of January 1, 2018.

The Company and some of its subsidiaries are included in the cash-pool system. Receivables from subsidiaries related to cashpooling is included in other financial assets, net (see note 5), payables to subsidiaries related to cashpooling and similar borrowings are included in other financial liabilities (see note 17).

Information about compensation of key management personnel is included in Note 25. Information about guarantees is included in Note 15.2.

33. Segment Information

The Company is involved in the generation and sale of electricity and trading in electricity which represents a single operating segment. The Company operates mainly in the European Union markets. The Company has not identified any other separate operating segments.

34. Earnings per Share

	2018	2017
Numerator (CZK millions)		
Basic and diluted:		
Net income	23,776	5,105
Denominator (thousands shares)		
Basic:		
Weighted average shares outstanding	534,733	534,247
Dilutive effect of share options	246	149
Diluted:		
Adjusted weighted average shares	534,979	534,396
Net income per share (CZK per share)		
Basic	44.5	9.6
Diluted	44.4	9.6

35. Commitments and Contingencies

Investment Program

The Company is engaged in a continuous construction program, currently estimated as at December 31, 2018 over the next five years as follows (in CZK billion):

2019	11.2
2020	10.2
2021	12.3
2022	8.9
2023	10.9
Total	53.5

These figures do not include the expected acquisitions of subsidiaries, associates and joint-ventures, which will depend on the number of future investment opportunities, for which the Company will be a successful bidder and also considering the recoverability of these investments.

The construction programs are subject to periodic reviews and actual construction may vary from the above estimates. At December 31, 2018 significant purchase commitments were outstanding in connection with the construction program.

Insurance Matters

The Nuclear Act sets limits for liabilities for nuclear damages so that the operator of nuclear installations is liable for up to CZK 8 billion per incident. The Nuclear Act limits the liability for damage caused by other activities (such as transportation) to CZK 2 billion. The Nuclear Act also requires an operator to insure its liability connected with the operation of a nuclear power plant up to a minimum of CZK 2 billion and up to a minimum of CZK 300 million for other activities (such as transportation). The Company concluded the above mentioned insurance policies with Česká pojišťovna a.s. (representing the Czech Nuclear Insurance Pool) and European Liability Insurance for the Nuclear Industry. The Company has obtained all insurance policies with minimal limits as required by the law.

The Company also maintains the insurance policies covering the assets of its coal-fired, hydroelectric, CCGT and nuclear power plants and general third party liability insurance in connection with main operations of the Company.

36. Events after the Balance Sheet Date

On January 9, 2019 the equity of CEZ Holdings B.V. was increased by cash contribution in the amount of CZK 781 million.

These financial statements have been authorized for issue on March 18, 2019.

Daniel Beneš Chairman of Board of Directors	Martin Novák Vice-chairman of Board of Directors