Half-year Report

2016

CEZ GROUP

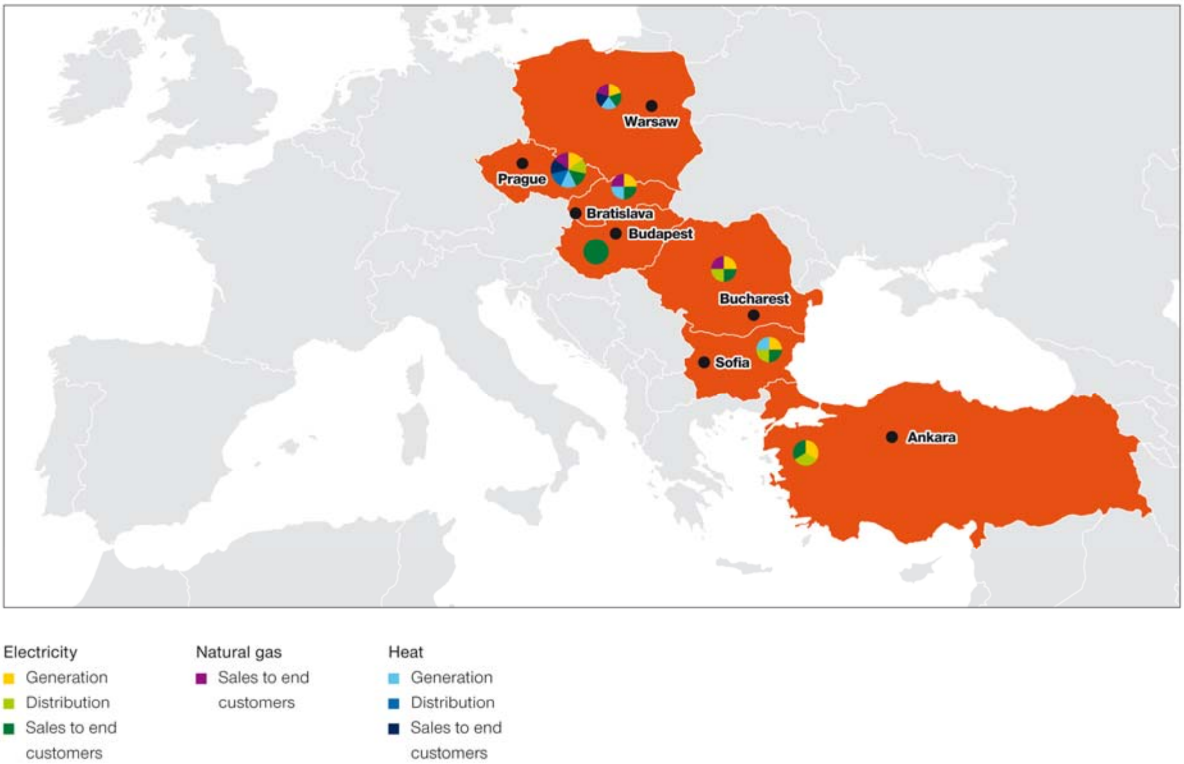
CEZ Group's Profile

Headquartered in the Czech Republic, CEZ Group is an integrated energy conglomerate with operations in a number of Central and Southeastern European countries and Turkey. Its core business is the generation, distribution, trade in, and sales of electricity and heat, trade in and sales of natural gas, coal extraction, and energy services. CEZ Group companies employ over 26,000 people.

The largest shareholder of the Group's parent company, ČEZ, a. s., is the Czech Republic with a nearly 70% stake in the Company's stated capital (as at May 27, 2016). ČEZ, a. s. shares are traded on the Prague and Warsaw stock exchanges and included in the PX and WIG-CEE exchange indices.

CEZ Group's mission is to provide safe, reliable, and positive energy to its customers and society as a whole; its goal is to bring innovations for resolving energy needs and to help improve the quality of life. Its strategy reflects the major transformation of Europe's energy market. CEZ Group wants to operate its power assets as efficiently as possible and adapt to the growing share of decentralized and zero-emission generation. Another of its priorities is to offer its customers a wide range of products and services in synergy with the sale of electricity and gas. Its third priority is to invest actively in promising energy assets with focus on the Central European region and in support for advanced technologies in an early stage of development.

CEZ Group's Presence in the Energy Sector by Territory



CEZ Group companies in the Czech Republic extract and sell coal, generate and distribute electricity and heat, and trade in electricity and other commodities. They sell commodities such as electricity, heat, and natural gas to end-use customers, offer them electricity generation and storage facilities, and provide them with other services, especially in relation to energy savings. Their power generation portfolio consists of nuclear, coal-fired, gas-fired, hydroelectric, photovoltaic, wind, and biogas facilities.

CEZ Group's activities abroad consist mainly of electricity distribution, generation, trading, and sale. CEZ Group is the owner or co-owner of generation and distribution assets in Poland, Romania, Bulgaria, Turkey, and Slovakia. CEZ Group's subsidiaries in the Netherlands and Ireland are ownership intermediaries and companies providing its financing.

In many European countries, CEZ Group trades in electricity and other commodities on wholesale markets. Besides the Czech Republic, CEZ Group sells electricity or natural gas to end-use customers in Romania, Bulgaria, Turkey, Hungary, Poland, and Slovakia, in particular.

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

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

With the use of all reasonable care, to the best of our knowledge the consolidated half-year report provides a true and fair description of the financial standing, business activities, and results of operations of the issuer and its consolidated group for H1 2016 and of the outlook for the future development of the financial standing, business activities, and results of operations of the issuer and its consolidated group, and no facts have been omitted that could change the meaning of this report.

Prague, August 22, 2016

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

Tomáš Pleskač
Member of the Board of Directors, ČEZ, a. s.

Selected Indicators of CEZ Group

Selected Indicators of CEZ Group in Accordance with IFRS

	Unit	H1 2015	H1 2016	2016/2015 index (%)
Installed capacity as at June 30	MW	15,926	15,920	100.0
Electricity generated (gross)	GWh	32,235	31,804	98.7
Electricity sold [1]	GWh	19,197	18,561	96.7
Heat sold [1]	TJ	13,055	13,431	102.9
Gas sold [1]	GWh	3,837	4,223	110.1
Workforce headcount as at June 30	persons	25,748	26,080	101.3
Operating revenues	CZK millions	104,524	98,903	94.6
of which: sales of electricity and related services	CZK millions	90,458	84,654	93.6
EBITDA	CZK millions	35,524	33,098	93.2
EBIT	CZK millions	21,300	17,998	84.5
Net income	CZK millions	15,414	13,797	89.5
Adjusted net income[2]	CZK millions	15,432	14,770	95.7
Earnings per share – basic	CZK / share	28.8	25.5	88.5
Dividend per ČEZ, a. s. share (gross) [3]	CZK / share	40.0	40.0	100.0
Net cash provided by operating activities	CZK millions	28,676	25,893	90.3
Capital expenditures (CAPEX) [4]	CZK millions	(13,409)	(13,268)	98.9
Investments [5]	CZK millions	-	(42)	
Total assets	CZK millions	602,686 [7]	611,060	101.4
of which: property, plant, and equipment [6]	CZK millions	421,364 [7]	417,976	99.2
Equity (including non-controlling interests)	CZK millions	272,155 [7]	264,418	97.2
Net debt [2]	CZK millions	131,083	124,418	94.9
Return on Equity, net (ROE) [2]	%	8.0	7.3	91.3
Net debt / EBITDA [2]	1	1.93	1.99	103.1

[1] Sales to end-use customers (outside CEZ Group).
[2] Definition on the page 71—73
[3] Awarded in a given year to be paid out of the previous year's income.
[4] Additions to property, plant, and equipment and intangibles.
[5] Acquisition of subsidiaries and joint ventures, net of cash acquired.
[6] Property, plant, and equipment (including nuclear fuel and construction work in progress).
[7] As at December 31, 2015

Credit Rating

During its revision of European energy companies' credit ratings in connection with an ongoing decrease in electric power prices, Standard & Poor's Credit Market Services Europe Limited reaffirmed ČEZ's long-term rating of A– with a stable outlook on February 26, 2016. The rating remained unchanged in H1 2016.

Moody's Investors Service Ltd., also revising European energy companies' credit ratings in connection with decreasing electric power prices, lowered its long-term credit rating of ČEZ, a. s. by one notch to Baa1 with a stable outlook (from the previous A3 with a stable outlook) on April 6, 2016.

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

Shares

Five CEZ Group companies have publicly traded shares.

1) ČEZ, a. s.

As at June 30, 2016, the stated capital of ČEZ, a. s. totaled CZK 53,798,975,900. The company's stated capital comprises 537,989,759 shares with a par value of CZK 100.

Structure of Shareholders—by Entity Type (%)

	Share in stated capital	Share in voting rights	Share in stated capital	Share in voting rights
	as at June 5, 2015 [1]		as at May 27, 2016 [2]	
Legal entities, total	**93.06**	**93.01**	**90.26**	**90.19**
of which: Czech Republic	69.78	70.27	69.78	70.27
ČEZ, a. s.	0.70		0.70	
Other legal entities	22.58	22.74	19.78	19.92
Private individuals, total	**6.94**	**6.99**	**9.74**	**9.81**

[1] Date of record for participation in the 23rd Annual General Meeting.

[2] Date of record for participation in the 24th Annual General Meeting.

Entities Holding over 1% of the Shares of ČEZ, a. s. as at May 27, 2016

Entities with a share amounting to at least 1% of the stated capital of ČEZ, a. s., as registered in the Central Securities Depository on May 27, 2016, included:

- Czech Republic, represented by the Ministry of Finance of the Czech Republic and the Office for Government Representation in Property Affairs, having a total share of 69.78% in the stated capital
- Clearstream Banking, s.a., having a share of 3.31% in the stated capital
- Nortrust Nominees Limited, having a share of 1.75% in the stated capital
- State Street Bank and Trust Co., having a share of 1.53% in the stated capital
- Chase Nominees Limited, having a share of 1.16% in the stated capital

On June 16, 2016, BlackRock, Inc. delivered a notice of its share in voting rights pursuant to Section 122(1) of the Capital Market Undertakings Act. According to the notice, its share in the voting rights is 1.19%; its share in the stated capital is 1.21%.

These entities have rights pursuant to Section 365 et seq. of the Business Corporations Act.

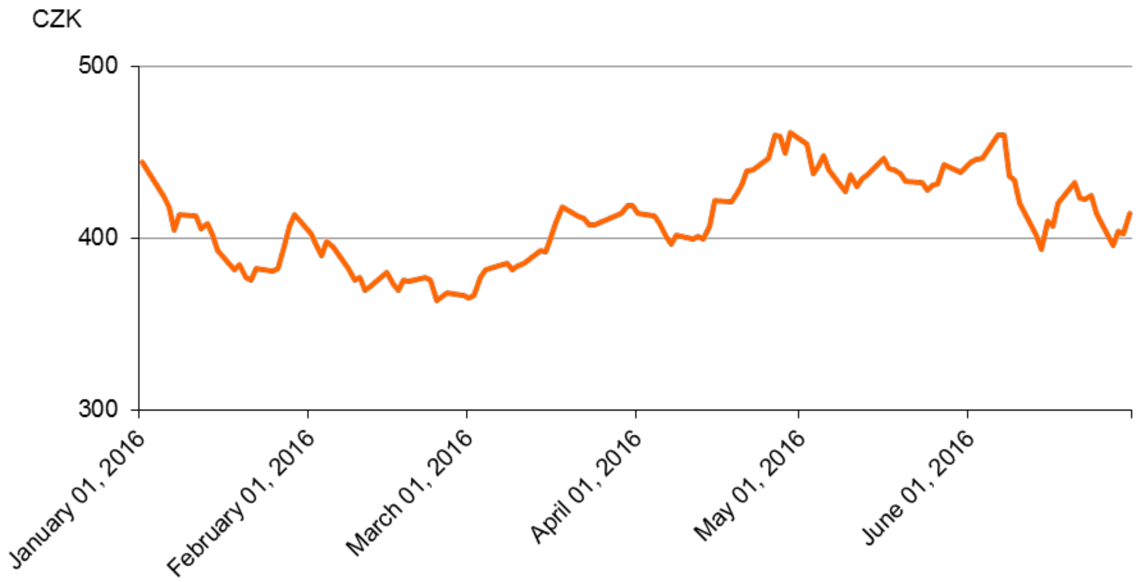
Treasury Shares

To cover claims arising out of the Company's stock option plan, 3,755,021 treasury shares, representing 0.70% of the stated capital were held on the asset account of ČEZ, a. s. with the Central Securities Depository at the beginning of 2016.

No stock option plan beneficiary claimed the grant of any share options of ČEZ, a. s. during H1 2016.

The balance of treasury shares had not changed by June 30, 2016, and there were 3,755,021 treasury shares, i.e. 0.70% of the stated capital, registered on the asset account of ČEZ, a. s. with the Central Securities Depository on that date.

ČEZ, a. s. Share Prices in H1 2016



The share price was CZK 444 at the beginning of 2016, reaching a half-year low of CZK 364 on February 24, a half-year high of CZK 461 on April 29, and closing the half-year at CZK 414.

Payment of Dividends to Shareholders

The General Meeting held on June 3, 2016 decided to pay a dividend of CZK 40 per share before tax. The share in profits awarded to the shareholders of ČEZ, a. s. is CZK 21,519,590 thousand in total, of which CZK 21,369,390 thousand is to be paid out, representing 77.3% of the adjusted consolidated net income and 104.0% of the consolidated net income. The dividend on treasury shares held by the Company at the record date, i.e. the difference between the amounts above, is included in retained earnings. Entities that were shareholders of ČEZ on the record date, i.e. June 9, 2016, are entitled to the dividend.

The dividend is payable on August 1, 2016 and can be claimed until July 31, 2020.

2) ČEZ OZ uzavřený investiční fond a.s.

The company's shares, whose ISIN is CZ0008041787, are admitted to trading on the Prague Stock Exchange's regulated market. On March 31, 2016, the common dematerialized shares of ČEZ, a. s. were exchanged for the common materialized shares of ČEZ Obnovitelné zdroje, s.r.o., in the amount of 136,544 shares, and the common dematerialized shares of ČEZ, a. s. were exchanged for the common materialized shares of ČEZ Korporátní služby, s.r.o., in the amount of 6,301 shares. The exchange of shares did not result in any change in the shareholders' stakes.

As at June 30, 2016, ČEZ, a. s. held a 99.596% stake in the company; the other shareholders were ČEZ Obnovitelné zdroje, s.r.o. with a 0.386% stake and ČEZ Korporátní služby, s.r.o. with a 0.018% stake in the company's capital.

3) Akenerji Elektrik Üretim A.S.

The company's shares are traded freely on the stock exchange. A portion of the shares representing a 25.3% stake in the company's capital has been traded on the Istanbul stock exchange since July 3, 2000. The ISIN is TRAAKENR91L9. The shares are not traded on any other public markets. ČEZ, a. s. held a 37.4% stake in the company's capital as at June 30, 2016.

4) CEZ Elektro Bulgaria AD

The company's shares have been traded on the BSE stock exchange (Българска Фондова Борса) since October 29, 2012. Their ISIN is BG1100024113. The shares are not traded on any other public markets. As at June 30, 2016, ČEZ, a. s. held a 67% stake and the second largest shareholder, the Chimimport group, held a 24.86% stake in the company's capital.

5) CEZ Razpredelenie Bulgaria AD

The company's shares have been traded on the BSE stock exchange (Българска Фондова Борса) since October 29, 2012. Their ISIN is BG1100025110. The shares are not traded on any other public markets. As at June 30, 2016, ČEZ, a. s. held a 67% stake and the second largest shareholder, the Doverie group, held a 11.96% stake in the company's capital.

Selected Events in H1 2016

February

- Units 1 and 2 of the Dukovany Nuclear Power Plant resumed operation.
- Standard & Poor’s credit rating of ČEZ was reaffirmed at A− including a stable outlook,
- CEZ Group became a partner of Rockstart, a Dutch startup accelerator, where it will become a minority stakeholder in three portfolios with a total of 30 innovative companies under the Smart Energy program in 2016 to 2018; supported projects aim at innovations intended to make more efficient use of energies.

March

- An operating license for an indefinite period of time was received for Unit 1 of the Dukovany Nuclear Power Plant; the validity of the license is conditional on meeting a number of operating conditions.
- ČEZ Energy Services Forum was organized for the first time, presenting the ČEZ ESCO group’s objectives and products to three hundred business, municipal, and institutional customers.

April

- A new product line for electricity, ČEZ ELE WITH REWARD, was introduced, offering customers a 20% discount off the basic price list for entering into a three-year contract.
- Internal investigation into issues associated with insufficient checks of welded joints at the nuclear power plants was finished and systemic measures were adopted.
- A stake was acquired in tado GmbH, a Bavarian technology company offering smart temperature controllers for homes.

May

- Unit 4 of the Dukovany Nuclear Power Plant resumed operation.

June

- The 24th Annual General Meeting was held, which approved, among other things, a gross dividend of CZK 40 per share and the spin-off of a part of the enterprise – the “NJZ ETE” and “NJZ EDU” organizational units.
- Two units of the Prunéřov II Power Plant were accepted for service.
- The individual notification of support for renewable electricity generation at the Fântânele Vest and Cogealac wind parks in Romania was approved by the European Commission (DG COMP).

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

July

- The last of the three units of the Prunéřov II Power Plant was accepted for service, completing the comprehensive renovation.
- Documents needed for the start of the process of comprehensive environmental impact assessment (EIA) of the planned construction of new units at the Dukovany Nuclear Power Plant were delivered to the Ministry of the Environment on July 20, 2016.
- A request for arbitration against the Republic of Bulgaria was filed, whereby ČEZ officially commenced international investment arbitration for the non-protection of its investment under the Energy Charter Treaty.
- An application was filed with the SONS for the extension of the existing operating license for Unit 2 of the Dukovany Nuclear Power Plant, which is valid until December 31, 2016, for until July 10, 2017.

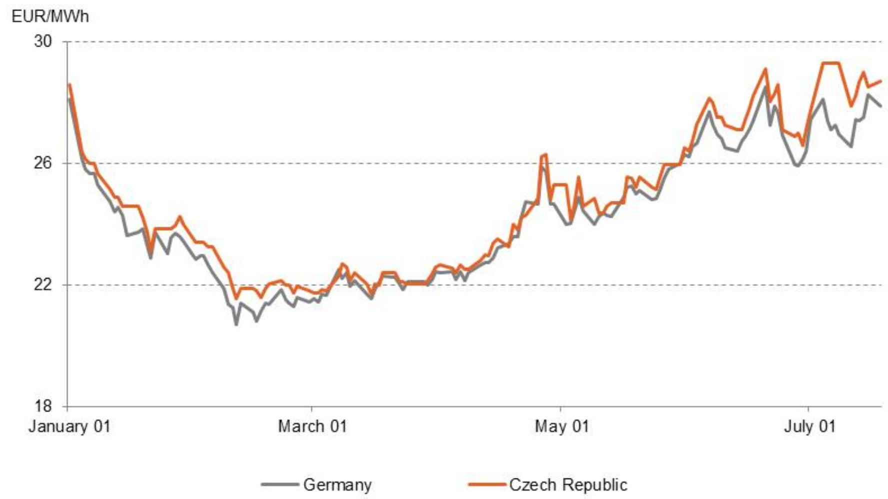
Developments in Relevant Energy Markets

Wholesale prices of electricity in the Czech Republic are linked to prices in Germany due to the close interconnection of these two markets. Electricity prices are influenced by the following factors in particular:

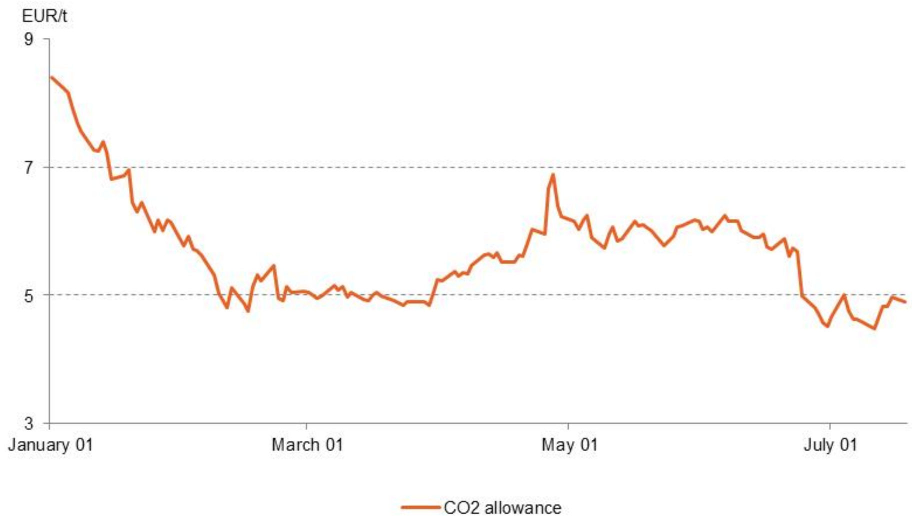
- Commodity prices determining variable generation costs, i.e. especially the prices of coal, natural gas, and emission allowances
- Macroeconomic developments, which affect the level of demand for electricity
- Changes in generation capacities in Europe, especially renewable sources

The prices of electricity with delivery in 2017 fell by 20% in early 2016, hitting a many-year low of 20.7 EUR/MWh in mid-February. We witnessed a similar drop in oil prices over the same period, which adversely affected the sentiment on all commodity markets. Coal prices were no exception and, together with a concurrent slump in the prices of emission allowances, were the main cause of the fall in the prices of electricity. However, coal prices started to rise in the second half of February due to lower production in Indonesia and China, helping overturn the trend in the prices of electricity, which closed the first half-year at a level of 27 EUR/MWh. Unlike coal prices, the market in emission allowances did not get any positive fundamental signal, so their prices remain very low. They closed the half-year at 4.5 EUR/t.

Wholesale Price of Electricity (2017 Year Band)



Prices of Emission Allowances (2017 Forward Contracts)



External Conditions in the Energy Business

European Union

Developments in Regulation

In February, the European Commission published a package of new rules and strategies to implement the Energy Union, focusing primarily on natural gas (a proposal for a security of natural gas supply regulation, a proposal for a decision on intergovernmental agreements in energy, a communication concerning the liquefied natural gas and gas storage strategy, and a communication containing the EU's heating and cooling strategy).

A noteworthy non-legislative document is the Heating and Cooling Strategy, which focuses on removing barriers to decarbonization in buildings and industry. From the perspective of the preparation of new EU legislation, the strategy will be important for a revision of the energy efficiency directive and the directive on the energy performance of buildings.

On April 11, 2016, the EU Council adopted its decision on the European Union's ratification of the Paris Agreement concluded under the United Nations Framework Convention on Climate Change. In view of the EU's efforts to ensure an integrated internal market in electricity and the security of supply, a very important piece of legislation was passed in April. It is the network code on requirements for grid connection of generators, adopted in the form of Commission Regulation 2016/631 of April 14, 2016. It lays down detailed conditions for grid connection of power-generating facilities, namely synchronous power-generating modules, power park modules and offshore power park modules, to the interconnected system. In addition to the detailed conditions for grid connection of generating facilities, it contains regulatory aspects, including the obligations of transmission system operators and owners of generating facilities.

Regulation of the Emission Allowance Market

Directive 2003/87/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC is being revised at the moment. The revision aims to speed up CO_2 emission reduction within the EU ETS emission allowance trading system, to change the rules to protect industry against "carbon leakage" (enterprises relocating to other parts of the world due to increased costs resulting from the EU's excessively strict legislation concerning greenhouse gas emissions), and to utilize supporting funds and define rules for free allowances for the electricity sector.

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

The European energy sector is facing a period of major changes and increased pressure on the wholesale price of electricity. The European Union's policy continues to endeavor to reduce emissions in electricity generation. The prices of global energy commodities are falling to many-year lows. The market deformed by the constant creation of new regulatory measures lacks the necessary stability for making long-term, market-based investment decisions. Global commodity markets keep experiencing technological revolution concerning the extraction of oil and shale gas. The success of the extraction technology in the U.S. was directly reflected in the drop of oil prices, which fell to its 12-year low. Although oil prices have stabilized at around 50 USD/bbl in recent months, market disequilibrium and high levels of stockpiles limit further growth.

The development in oil prices was also reflected in the prices of other energy commodities—hard coal and natural gas. In light of recent investments in increasing mining and transportation capacities worldwide and the slow growth in global demand, world coal and gas markets will remain sufficiently supplied in the next few years. As a result, fuel prices should remain at lower levels than in past years.

CEZ Group Strategic Objectives

Europe's energy sector in early 2016 continued to be burdened with market and regulatory uncertainties and declining commodity prices, resulting in further decrease in electricity prices in the wholesale market, which however registered a correction in the second quarter, getting back to the levels of the beginning of 2016. Renewables, decentralized solutions, and comprehensive customer products are increasingly coming to the fore.

The development in 2016 thus fully validated the assumptions behind CEZ Group's strategy, which reacted to these trends already in the fall of 2014, when it also updated its mission and vision. CEZ Group's mission is to provide safe, reliable, and positive energy to its customers and society as a whole. Its vision is to bring innovations for resolving energy needs and help improve the quality of life.

The practical fulfillment of CEZ Group's strategy pivots on three strategic priorities, under which CEZ Group focuses primarily on the following activities:

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

- Focus on operational efficiency as a prerequisite for further existence in both conventional and new energy,
- Ensure long-term operation of the Dukovany Nuclear Power Plant
- Phase out older condensing units
- Develop new unit projects at Temelín and Dukovany sites depending on changes in the Czech state's attitude to nuclear energy development
- Continually improve the efficiency of the distribution grid

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

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

III. Strengthen and consolidate our position in Central Europe

- Strive to acquire assets and companies in the segments of distribution, renewables, conventionals, heating; sales companies that deliver energy and related products to end-use customers; and companies developing new products and services that are promising from the perspective of future decentralized energy (in renewables, our intention is to increase installed capacity to three times the current capacity over 8 years)
- Optimize capital and ownership structure, possibly divesting some assets in order to reduce risk exposure in selected regions
- Structure transactions so that they use as little of CEZ Group's debt capacity as possible
- Focus on regions with a stable regulatory environment

To accelerate the fulfillment of our strategy and to direct more capacities toward development activities, we changed our method of management and established two teams, Operations and Development, with effect from January 1, 2016.

The Operations team focuses fully on efficient use of CEZ Group's conventional energy assets, mining, and ancillary services.

The Development team actively seeks new opportunities in renewables, decentralized energy, distribution, sales of energy commodities, and related services.

The management change involved bolstering segment management across the countries that CEZ Group operates in. A segment is a functionally autonomous part of CEZ Group that serves a single part of the value chain in the energy sector and is within the purview of individual members of the ČEZ, a. s. Board of Directors. As part of the change to the management of CEZ Group, segments became the primary units responsible for activities across countries and for achieving the ambitious financial targets with effect from January 1, 2016. Moreover, they allow better sharing of relevant best practices regardless of geographic boundaries.

Financial Performance of CEZ Group

As at June 30, 2016, the consolidated CEZ Group comprised a total of 113 companies, with 99 companies fully consolidated and 14 associates and joint ventures consolidated using the equity method.

CEZ Group Consolidated Unit as at June 30, 2016

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

Generation—Traditional Energy

ČEZ, a. s.
Areál Třeboradice, a.s.
CEZ Chorzów S.A.
CEZ Skawina S.A.
CEZ Srbija d.o.o.
CEZ Towarowy Dom Maklerski sp. z o.o.
CEZ Trade Romania S.R.L.
ČEZ Teplárenská, a.s.
Elektrárna Dětmarovice, a.s.
Elektrárna Dukovany II, a. s.
Elektrárna Mělník III, a. s.
Elektrárna Počerady, a.s.
Elektrárna Temelín II., a.s.
Elektrárna Tisová, a.s.
Energetické centrum s.r.o.
Energocentrum Vítkovice, a. s.
Energotrans, a.s.
TEC Varna EAD
Tepelné hospodářství města Ústí nad Labem s.r.o.
AK-EL Kemah Elektrik Üretim ve Ticaret A.S. *)
AK-EL Yalova Elektrik Üretim A.S. *)
Akenerji Dogal Gaz Ithalat Ihracat ve Toptan Ticaret A.S. *)
Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan Ticaret A.S. *)
Akenerji Elektrik Üretim A.S. *)
CM European Power Slovakia, s.r.o. *)
Egemer Elektrik Üretim A.S. *)

Generation—New Energy

A.E. Wind S.A.
Baltic Green I sp. z o.o.
Baltic Green II sp. z o.o.
Baltic Green III sp. z o.o.
Baltic Green IV sp. z o.o.
Baltic Green V sp. z o.o.
Baltic Green VI sp. z o.o.
Baltic Green VII sp. z o.o.
Baltic Green VIII sp. z o.o.
Baltic Green IX sp. z o.o.
Baltic Green Construction sp. z o.o.
Bara Group EOOD
CEZ Erneuerbare Energien Beteiligungs GmbH
CEZ Erneuerbare Energien Verwaltungs GmbH
ČEZ Obnovitelné zdroje, s.r.o.
ČEZ OZ uzavřený investiční fond a.s.
ČEZ Recyklace, s.r.o.
Eco-Wind Construction S.A.
Elektrownie Wiatrowe Lubiechowo sp. z o.o.
Farma Wiatrowa Leśce sp. z o.o.
Farma Wiatrova Wilkołaz-Bychava sp. z o.o.
Free Energy Project Oreshets EAD
M.W. Team Invest S.R.L.
Mega Energy sp. z o.o.
Ovidiu Development S.R.L.
TMK Hydroenergy Power S.R.L.
Tomis Team S.A.
ČEZ Energo, s.r.o. *)

Distribution

CEZ Distributie S.A.
CEZ Razpredelenie Bulgaria AD
ČEZ Distribuce, a. s.
ČEZ Distribuční služby, s.r.o.
Sakarya Elektrik Dagitim A.S. *)

Sales

CEZ Elektro Bulgaria AD
CEZ ESCO Polska sp. z o.o.
CEZ Magyarország Kft.
CEZ Slovensko, s.r.o.
CEZ Trade Bulgaria EAD
CEZ Trade Polska sp. z o.o.
CEZ Vanzare S.A.
ČEZ Energetické služby, s.r.o.
ČEZ ESCO, a.s.
ČEZ Prodej, s.r.o.
ČEZ Solární, s.r.o.
ČEZ Zákaznické služby, s.r.o.
Energie2 Prodej, s.r.o.
ENESA a.s.
EVČ s r.o.
Sakarya Elektrik Perakende Satis A.S. *)

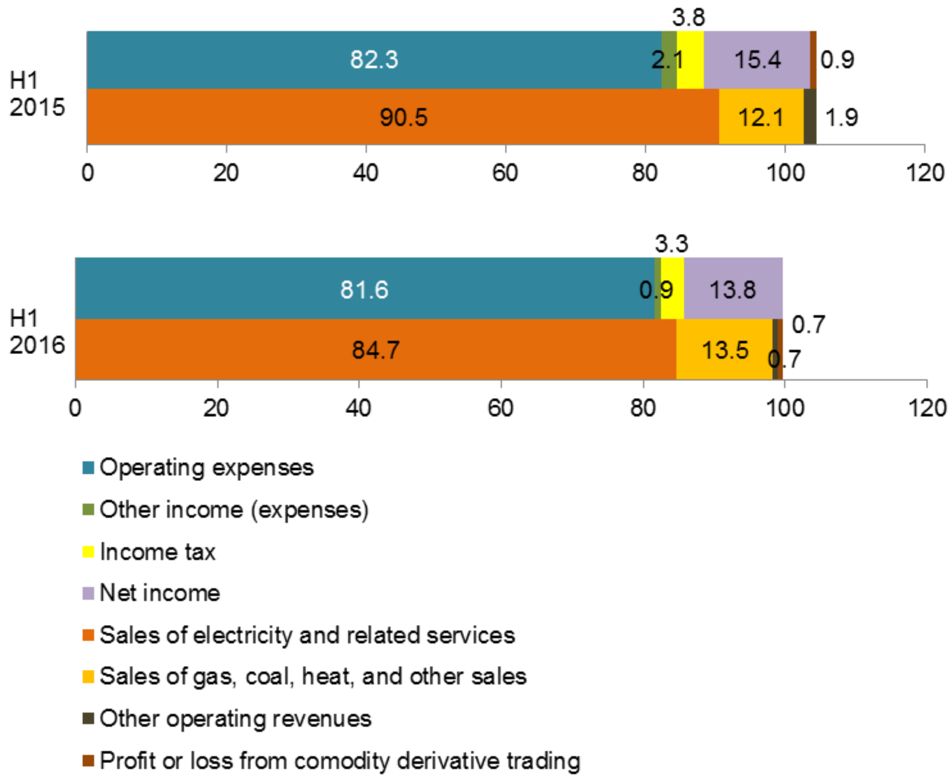
Mining	Other
Severočeské doly a.s. LOMY MOŘINA spol. s r.o. *)	Centrum výzkumu Řež s.r.o. CEZ Bulgaria EAD CEZ Bulgarian Investments B.V. CEZ Deutschland GmbH CEZ ESCO Poland B.V. CEZ Finance Ireland Ltd. CEZ ICT Bulgaria EAD CEZ International Finance B.V. CEZ International Finance Ireland Ltd. CEZ MH B.V. CEZ Poland Distribution B.V. CEZ Polska sp. z o.o. CEZ Produkty Energetyczne Polska sp. z o.o. CEZ Romania S. A. CEZ Silesia B.V. CEZ Ukraine LLC ČEZ Bohunice a.s. ČEZ Energetické produkty, s.r.o. ČEZ ENERGOSERVIS spol. s r.o. ČEZ ICT Services, a. s. ČEZ Inženýring, s.r.o. ČEZ Korporátní služby, s.r.o. ČEZ Nová energetika, a.s. EGP INVEST, spol. s r.o. MARTIA a.s. PRODECO, a.s. Revitrans, a.s. SD – Kolejová doprava, a.s. Shared Services Albania Sh.A. ŠKODA PRAHA a.s. ŠKODA PRAHA Invest s.r.o. Telco Pro Services, a. s. ÚJV Řež, a. s. Akcez Enerji A.S.*) CM European Power International B.V.*) Jadrová energetická spoločnosť Slovenska, a. s.*)

**) Joint venture*

CEZ Group's Financial Results

Changes in Revenues, Expenses, and Profits

CEZ Group Net Income Breakdown (CZK Billions)



EBITDA decreased by CZK 2.4bn year-on-year to CZK 33.1bn. Net income (after-tax income) decreased by CZK 1.6bn year-on-year to CZK 13.8bn.

Main causes for the year-on-year decrease in net income included, in particular, a decrease in the realization prices of generated electricity, repayment of debts (from 2010) by Správa železniční dopravní cesty (SŽDC) on the basis of a court decision in 2015, and additions to impairments of property, plant, and equipment in Romania. Main positive effects included foreign exchange effects on the financial performance of joint ventures in Turkey, higher profit on commodity trading, and resumed allocation of green certificates for Fântânele Vest and Cogealac.

Adjusted net income (refer to the indicator's calculation and definition on pages 71 and 73 in this Half-Year Report) decreased by CZK 0.7bn year-on-year. In H1 2016, net income was adjusted for the negative effect of additions to the impairments of property, plant, and equipment at the Romanian wind parks amounting to CZK 1.0bn.

Operating revenues decreased by CZK 5.6bn year-on-year primarily due to a decrease in revenue from sales of electricity and related services (CZK -5.8bn). Other operating revenues decreased (CZK -1.2bn) primarily due to repayment of debts (from 2010) by Správa železniční dopravní cesty (SŽDC) on the basis of a court decision in 2015.

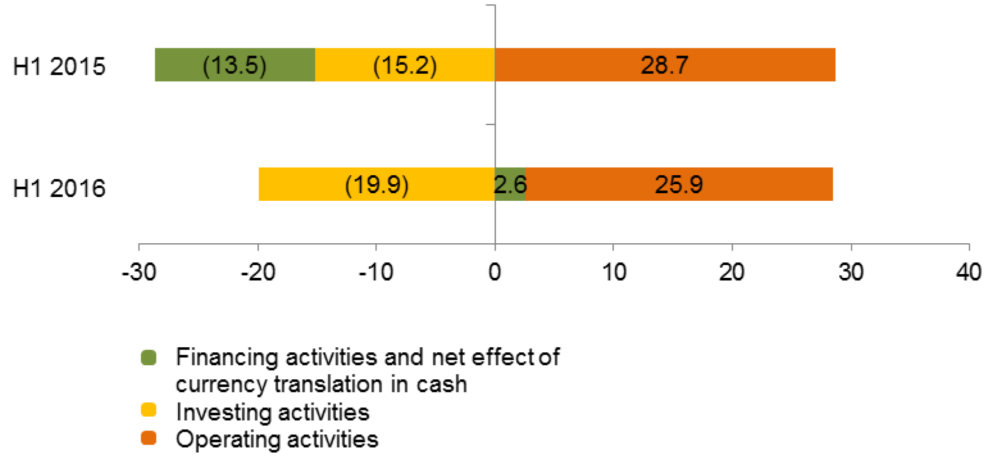
A positive year-on-year effect was produced by commodity derivative trading (CZK +1.6bn) and revenue from sales of gas, coal, heat, and other sales (CZK +1.4bn), which increased year-on-year primarily due to an increased amount of gas sold.

Operating expenses decreased by CZK 0.7bn year-on-year primarily due to decreased purchase costs of energy and related services (CZK +1.8bn), relating to lower market prices of purchased

commodities, especially electricity. The decrease in operating expenses was partially offset by higher impairments of property, plant, and equipment in Romania (CZK -1.0bn).
Other income (expenses) increased income by CZK 1.2bn year-on-year primarily due to better financial performance by joint ventures in Turkey (CZK +1.0bn), resulting mostly from a positive change in the TRY/USD exchange rate. There was also a positive effect of the level of debt on interest expense (CZK +0.5bn).

Cash Flows

CEZ Group Cash Flows (CZK Billions)



Cash flows from operating activities decreased by CZK 2.8bn year-on-year primarily due to a decrease in earnings before taxes (CZK -2.1bn). Other items decreased cash flows from operating activities year-on-year (CZK -0.7bn).

The year-on-year change in assets and liabilities had a negative effect (CZK -2.7bn). This was caused primarily by a year-on-year change in the balance of payables and receivables (CZK -2.8bn), change in the inventory of emission allowances (CZK -2.7bn), and change in the balance of payables and receivables from derivatives including options (CZK -1.6bn). By contrast, there was a positive effect of a decrease in term deposits with more than 6-month maturity and liquid securities (CZK +3.3bn) and a decrease in the other items of change in assets, equity, and liabilities (CZK +1.0bn), primarily taxes and fees other than income tax.

Adjustments to earnings before taxes had a positive effect (CZK +1.8bn), primarily changes in provisions (CZK +2.0bn), impairments of tangible and intangible fixed assets (CZK +1.0bn), and the non-cash impact of the better financial results of joint ventures in Turkey (CZK -1.0bn).

The positive balance of interest expenses and income (CZK +0.7bn) and higher dividends received (CZK +0.2bn) were almost offset by higher income tax paid (CZK -0.7bn).

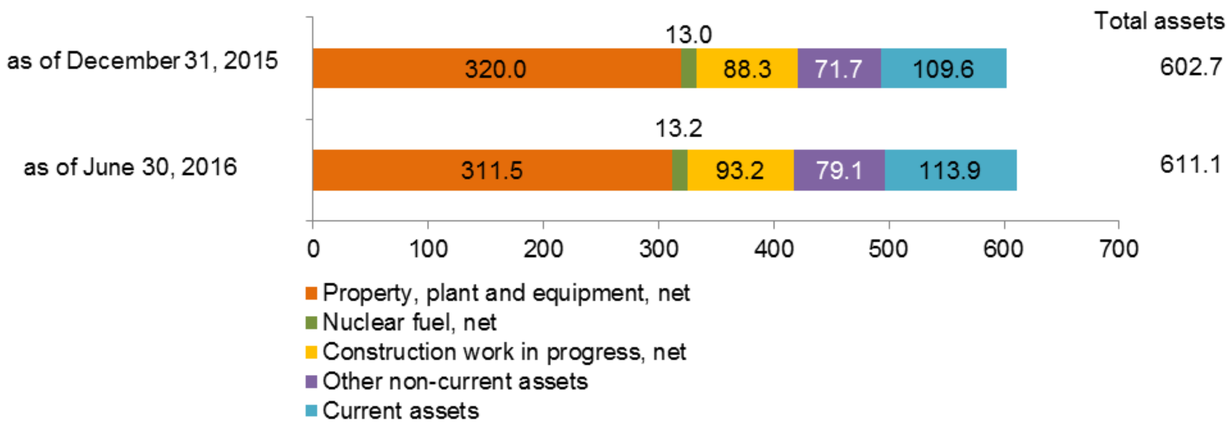
Cash used in investing activities increased by CZK 4.7bn year-on-year primarily due to a purchase of bonds in H1 2016 (CZK -4.7bn) and a higher year-on-year increase in restricted financial assets (CZK -0.4bn). There was a positive effect of change in liabilities attributable to capital expenditure (CZK +0.3bn).

Net cash flow from financing activities, including the net effect of currency translation in cash, increased by CZK 16.1bn year-on-year. The main reason was a year-on-year increase in the balance of proceeds from and repayments of borrowings (CZK +16.4bn). The year-on-year lower balance of payments of and increases in other long-term liabilities (CZK -0.6bn) was partially offset by the positive net effect of currency translation in cash (CZK +0.3bn).

Structure of Assets, Equity, and Liabilities

The value of CEZ Group's consolidated assets, equity and liabilities increased by CZK 8.4bn to CZK 611.1bn in H1 2016.

Structure of CEZ Group Assets (CZK Billions)



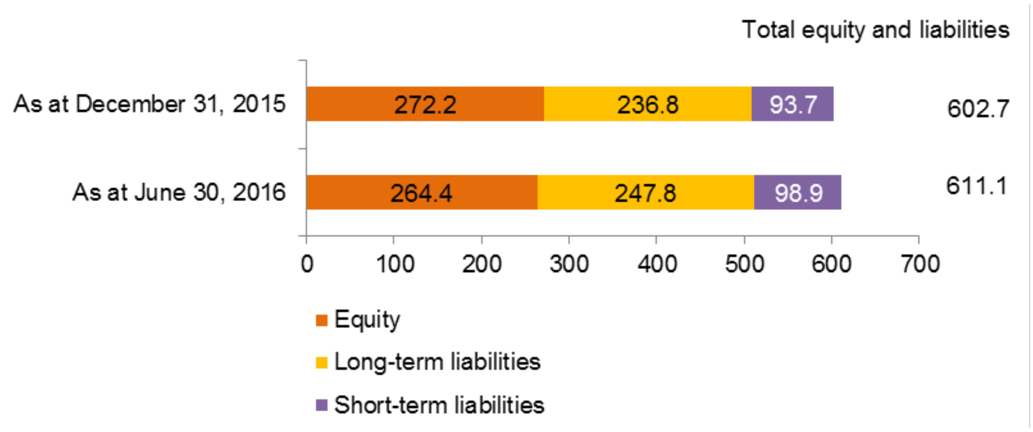
Fixed assets increased by CZK 4.1bn to CZK 497.1bn.

The value of property, plant, and equipment, nuclear fuel, and construction work in progress decreased by CZK 3.4bn. A decrease in net property, plant, and equipment of CZK 8.5bn was partially offset by an increase in construction work in progress of CZK 4.9bn and an increase in nuclear fuel inventory of CZK 0.2bn.

An increase in other non-current assets CZK 7.5bn was most significantly affected by an increase in available-for-sale securities of CZK 6.0bn, including a purchase of bonds (CZK +4.7bn) and positive revaluation of MOL Nyrt. shares (CZK +1.4bn). There was also an increase in financial assets with limited disposal rights of CZK 1.0bn and in long-term receivables from derivative trading of CZK 0.7bn. Conversely, the deferred tax asset decreased, bringing other non-current assets down by CZK 0.5bn.

Current assets increased by CZK 4.3bn to CZK 113.9bn in H1 2016. There was an increase in cash and cash equivalents of CZK 8.5bn and in income tax receivables CZK 2.3bn. By contrast, there was a decrease of CZK 1.6bn in short-term receivables from derivative trading including options, CZK 1.6bn in emission allowances, CZK 1.4bn in liquid securities and short-term deposits, and CZK 1.2bn in net receivables, in particular trade receivables, and inventories of fossil fuels and materials decreasing by CZK 0.6bn.

Structure of CEZ Group Equity and Liabilities (CZK Billions)



Equity, including non-controlling interests, decreased by CZK 7.7bn to CZK 264.4bn.

Net income generated in H1 2016 increased equity by CZK 13.8bn, while dividends declared (excluding dividends on treasury shares) decreased equity by CZK 21.4bn. Other comprehensive income decreased equity by CZK 0.2bn, with the negative effect of cash flow hedging (CZK -1.6bn) partially offset by the positive effect of change in the fair value of available-for-sale securities (CZK +1.4bn).

Long-term liabilities increased by CZK 10.9bn to CZK 247.8bn primarily due to an increase in liabilities arising out of issued bonds of CZK 6.7bn, long-term bank loans of CZK 1.9bn, and deferred tax liability increase of CZK 2.3bn.

Short-term liabilities increased by CZK 5.2bn to CZK 98.9bn due to an increase in liabilities to shareholders on account of the decision to pay dividends of CZK 21.3bn. The increase was offset by a decrease in trade payables including advances of CZK 4.6bn, a decrease in the current portion of long-term debt incl. short-term bank loans of CZK 4.1bn, a decrease in unbilled goods and services of CZK 2.5bn, a decrease in provision on emission allowances of CZK 2.2bn, a decrease in income tax payables of CZK 1.4bn and other liabilities of CZK 1.2bn.

Comprehensive Income

Net comprehensive income decreased by CZK 5.3bn year-on-year to CZK 13.6bn.

There was a negative effect of a year-on-year decrease in other comprehensive income of CZK 3.7bn and decrease in net income of CZK 1.6bn.

Other comprehensive income was affected primarily by cash flow hedging, which decreased it by CZK 5.9bn year-on-year. Other comprehensive income was increased year-on-year by CZK 0.9bn by deferred tax associated with other comprehensive income, CZK 0.8bn by foreign exchange translation differences in equity, and CZK 0.3bn by available-for-sale securities in equity.

CEZ Group Net Debt (CZK Billions)

	H1 2015	H1 2016
Long-term debt, net of current portion	157.4	154.2
Current portion of long-term debt	11.4	2.9
Short-term borrowings	1.5	4.8
Financial debt	**170.3**	**162.0**
Cash and cash equivalents	(20.0)	(22.0)
Highly liquid financial assets	(19.2)	(15.6)
Net debt	**131.1**	**124.4**
EBITDA (as in preceding 12 months)	**68.1**	**62.7**
Net debt / EBITDA	**1.93**	**1.99**

CEZ Group Financial Results by Segment

Segments and Their Contributions to CEZ Group's Overall Financial Performance

	Operating revenues other than intersegment revenues (CZK millions)	Operating intersegment revenues (CZK millions)	Total operating revenues (CZK millions)	EBITDA (CZK millions)	EBIT (CZK millions)	Income tax (CZK millions)	Net income (CZK millions)	CAPEX (CZK millions)	Workforce headcount as at June 30 (persons)
Generation−Traditional Energy									
H1 2015	27,009	18,632	45,641	17,370	9,049	(1,557)	25,526	7,673	6,672
H1 2016	25,578	15,915	41,493	14,787	6,460	(1,061)	18,015	7,736	6,613
Gneration−New Energy									
H1 2015	1,811	449	2,260	1,373	520	(15)	255	38	73
H1 2016	1,790	344	2,134	1,858	115	(134)	(61)	(1)	76
Distribution									
H1 2015	15,258	15,746	31,004	9,827	6,909	(1,264)	5,607	4,183	7,681
H1 2016	14,500	15,041	29,541	9,997	7,027	(1,296)	5,590	4,379	7,807
Sales									
H1 2015	57,604	3,288	60,892	3,695	3,679	(713)	3,106	13	1,679
H1 2016	53,729	2,732	56,461	3,207	3,210	(561)	2,742	15	1,840
Mining									
H1 2015	2,096	2,461	4,557	2,013	803	(143)	1,128	670	2,682
H1 2016	2,170	2,389	4,559	2,008	783	(135)	1,402	634	2,675
Other									
H1 2015	746	8,771	9,517	1,245	339	(68)	568	4,325	6,961
H1 2016	1,136	8,230	9,366	1,238	400	(113)	855	3,876	7,069
Elimination									
H1 2015		(49,347)	(49,347)	1	1	0	(20,776)	(3,493)	-
H1 2016		(44,651)	(44,651)	3	3	0	(14,746)	(3,371)	-
Consolidated									
H1 2015	104,524		104,524	35,524	21,300	(3,760)	15,414	13,409	25,748
H1 2016	98,903		98,903	33,098	17,998	(3,300)	13,797	13,268	26,080

The segmentation of CEZ Group changed in 2016. As opposed to the previous geographical segmentation into Central and Southeast Europe, it now accentuates segmentation according to the value chain (mining, generation, distribution, sales, and other activities). Generation is divided into traditional and new energy, according to the type of generating facilities prevailing in a given company. New energy consists primarily of renewable generation, while traditional energy includes mainly generation by conventional nuclear and coal-fired facilities.

CEZ Group's biggest segment, Generation—Traditional Energy, saw its EBITDA decrease by CZK 2.6bn. A decrease in EBITDA in the Czech Republic of CZK 2.5bn was primarily due to lower realization prices of generated electricity including the effect of revaluation of commodity derivatives (CZK -3.2bn), and to a decrease in the volume and change in the structure of production (CZK -0.3bn) and lower revenue from ancillary services (CZK -0.2bn). Conversely, there was a positive effect of higher revenue from commodity trading (CZK +0.8bn) and effect of the USD/EUR exchange rate on oil-linked contract hedging (CZK +0.4bn).

The EBITDA of the Generation—New Energy segment grew by CZK 0.5bn primarily due to resumed allocation of green certificates for the Fântânele Vest and Cogealac wind parks in Romania.

Production in the Czech Republic decreased by 0.3 TWh (-1.0%) year-on-year. A decrease in production occurred at nuclear power plants (-1.0 TWh) in connection with extended outages at the Dukovany Nuclear Power Plant (due to weld inspections). Conversely, a growth in production at coal-fired facilities of 0.5 TWh was primarily due to the completion of the comprehensive renovation of the Prunéřov Power Plant and the operation of a new facility at the Ledvice 4 Power Plant during its construction. The Počerady CCGT plant also increased its production by 0.2 TWh. The volume of production at power plants in Poland did not change significantly year-on-year, reaching 1.4 TWh. Sales of heat generated by CEZ Group's plants increased by 0.4 thousand TJ year-on-year due to higher production in the Chorzów power plant.

The EBITDA of the Distribution segment increased by CZK 0.2bn year-on-year primarily due to better performance by the Czech distribution. Electricity distribution in the Czech Republic grew in EBITDA by CZK 0.4bn year-on-year in connection with an increase in the distributed amount of electricity of 0.25 TWh. A decrease in EBITDA in Romania of CZK 0.4bn was primarily due to a decrease in regulated prices and a lower amount of electricity distributed. Higher connection revenue and overhead reduction in the Bulgarian distribution resulted in an increase of CZK 0.1bn in EBITDA.

The Sales segment is down CZK 0.5bn year-on-year due the non-recurring payment of SŽDC debts (from 2010) to ČEZ Prodej based on a court decision in H1 2015, which then contributed CZK 1.1bn.

A positive effect was produced primarily by ČEZ Prodej's higher gross margin (CZK +0.5bn) affected by decreased costs of purchased gas and electricity and a higher amount of delivered gas in connection with continued acquisition of new customers.

The gross margin on electricity sales changed slightly positively in all countries of operations despite decreasing or stagnating volumes of sales (Czech Republic -0.5 TWh, Romania -0.1 TWh, Bulgaria -0.1 TWh). Electricity sales did well in Poland, increasing by 0.1 TWh year-on-year thanks to the acquisition of new customers. Gas sold to end-use customers increased in volume by 0.4 TWh (+9%), especially in the segment of residential and commercial retail customers in the Czech Republic.

The Mining segment's performance was fully comparable to H1 2015; its EBITDA was CZK 2.0bn and sale reached 10 million tons, which represented a year-on-year decrease of 0.1 million tons (-1%) in connection with a slight decrease in demand for thermal coal.

The Other segment also performed similarly to H1 2015 and its EBITDA was also CZK 1.2bn.

Related Parties

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

	Receivables		Payables	
	as at December 31, 2015	as at June 30, 2016	as at December 31, 2015	as at June 30, 2016
Akcez Enerji A.S.	10	6		
CM European Power International B.V.	86	2		
CM European Power Slovakia s.r.o.	494	420		
ČEZ Energo, s.r.o.	127	21	35	5
LOMY MOŘINA spol. s r.o.		14	21	17
OSC, a.s.		24	32	13
Výzkumný a zkušební ústav Plzeň s.r.o.	58	55	3	
Others	31	16	49	14
Total	**806**	**558**	**140**	**49**

Sales, Purchases, and Other Information—Related Parties (CZK Millions)

	Sales to related parties		Purchases from related parties	
	H1 2015	H1 2016	H1 2015	H1 2016
Akcez Enerji A.S.	17	14		
Akenerji Elektrik Üretim A.S.	18	16		
ČEZ Energo, s.r.o.	147	136	158	23
In PROJEKT LOUNY ENGINEERING s.r.o.	5	13	5	9
LOMY MOŘINA spol. s r.o.	5	5	83	91
OSC, a.s.			54	42
Teplo Klášterec s.r.o.	31	32		
Výzkumný a zkušební ústav Plzeň s.r.o.	68	1	1	1
Others	59	32	45	29
Total	**350**	**249**	**346**	**195**

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

	Interest and other financial income		Income from received shares of profit	
	H1 2015	H1 2016	H1 2015	H1 2016
Akcez Enerji A.S.	13			
CZ European Power Slovakia s.r.o.	7	5	108	
LOMY MOŘINA spol. s r.o.			20	14
OSC, a.s.			21	24
Others	2			
Total	**22**	**5**	**149**	**38**

Economic and Financial Outlook

As at August 9, 2016, CEZ Group expected its consolidated 2016 EBITDA to reach CZK 58bn.

The expectations echo, in particular, a year-on-year decrease in wholesale electricity prices, the course of energy sector regulation in Europe, and an expected increase in the generation of traditional electricity.

The major causes of the year-on-year change in financial performance are listed below to indicate CEZ Group's expected economic situation in 2016.

EBITDA is expected to decrease by CZK 7.1bn year-on-year (i.e. by 10.9% of the actual 2015 figure).

An expected decrease in the Generation—Traditional Energy segment's EBITDA of CZK 5.4bn is negatively affected by market and regulation (CZK -7.9bn), primarily the effect of decreased electricity realization prices including currency hedging (CZK -6.7bn), lower allocation of emission allowances (CZK -0.7bn), and lower revenue from ancillary services for ČEPS (CZK -0.4bn); conversely, there is a positive effect of increased production at coal-fired power plants (CZK +2.0bn) as well as higher revenue from commodity trading (CZK +0.7bn). The Generation—New Energy segment expects a year-on-year growth of CZK 1.0bn primarily due to resumed allocation of green certificates for Fântânele Vest and Cogealac. The Distribution segment expects a year-on-year decrease of CZK 0.4bn primarily due to a negative effect of correction factors in Romania. The Sales segment expects a year-on-year decrease of CZK 2.3bn primarily due to extraordinary income from the repayment of SŽDC's debt in 2015 and the settlement of unbilled electricity in the Czech Republic in 2015. Adjusted net income expected by CEZ Group is at the level of CZK 18bn, while the 2015 figure was CZK 27.7bn.

Risks to the above prediction of 2016 income as seen by CEZ Group are, in particular, lower availability of generating facilities, developments in the energy sector's regulatory and legislative conditions, and changes in exchange rates (especially the Turkish lira against the U.S. dollar).

The 2016 adjusted net income of the parent company, ČEZ, a. s., is expected to be approximately CZK 13bn, the bulk of which consists of dividends received from subsidiaries.

Capital expenditure expected by CEZ Group in 2016 is approximately CZK 34bn, with a majority planned to be invested in production and distribution assets in the Czech Republic.

No major changes are expected in the overall structure of assets from which the 2016 income will be generated.

Concerning cash flows, CEZ Group anticipates that it will be able to cover planned investment and financial expenditures, including dividends, from cash flows generated by operating activities. For this reason, no major change in CEZ Group's net debt is expected in 2016.

List of CEZ Group Bonds Outstanding as at June 30, 2016

Security	Issuer	ISIN	Issue date	Volume	Interest	Maturity	Issued as	Face value	Manager	Administrator	Market	Traded since	Issue rating (S&P/Moody's)
7th Eurobond issue [1)]	ČEZ, a. s.	XS0384970652	September 17, 2008	JPY 12bn	3.005%	2038	Dematerialized bearer	JPY 1,000,000,000	Citigroup Global Markets Limited	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	September 17, 2008	A−/Baa1
12th Eurobond issue [1)]	ČEZ, a. s.	XS0447067843	September 8, 2009	JPY 8bn	2.845%	2039	Dematerialized bearer	JPY 1,000,000,000	Citigroup Global Markets Limited	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	September 8, 2009	A−/Baa1
13th Eurobond issue [2)]	ČEZ, a. s.	XS0458257796	October 19, 2009	EUR 750m	5.00%	2021	Dematerialized bearer	EUR 50,000	BNP Paribas, Société Générale, The Royal Bank of Scotland plc, Erste Group Bank AG	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	October 19, 2009	A−/Baa1
14th Eurobond issue	ČEZ, a. s.	XS0462797605	November 4, 2009	EUR 50m	6M Euribor + 1.25%	2019	Dematerialized bearer	EUR 50,000	Citigroup Global Markets Limited	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	November 4, 2009	A−/Baa1
19th Eurobond issue	ČEZ, a. s.	XS0502286908	April 16, 2010	EUR 750m	4.875%	2025	Dematerialized bearer	EUR 50,000	Bayerische Landesbank, Erste Group Bank AG, HSBC Bank plc, Société Générale, UniCredit Bank AG	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	April 16, 2010	A−/Baa1
20th Eurobond issue [3)]	ČEZ, a. s.	XS0521158500	June 28, 2010	EUR 750m	4.500%	2020	Dematerialized bearer	EUR 50,000	Citigroup Global Markets Limited, Crédit Agricole Corporate and Investment Bank, Deutsche Bank AG, London Branch, Erste Group Bank AG, The Royal Bank of Scotland plc	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	June 28, 2010	A−/Baa1
1st NSV (Namensschuldverschreibungen)	ČEZ, a. s.	XF0000NS9FM8	November 29, 2010	EUR 40m	4.500%	2030	Global Depository Receipt	EUR 500,000	—	—	—	—	—/—
2nd NSV (Namensschuldverschreibungen)	ČEZ, a. s.	XF0000NS9TZ1	January 31, 2011	EUR 40m	4.75%	2023	Global Depository Receipt	EUR 500,000	—	—	—	—	—/—
21st Eurobond issue [4)]	ČEZ, a. s.	XS0592280217	February 17, 2011	JPY 11.5bn	2.160%	2023	Dematerialized bearer	JPY 100,000,000	Crédit Agricole Corporate and Investment Bank	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	February 17, 2011	A−/Baa1

1) Proceeds from the issue in Japanese yen were swapped for euro through a credit linked swap.
2) Eurobonds in the amount of EUR 60m and then EUR 90m were issued in February 2010 and added to the EUR 600m issue of October 19, 2009. The volume of the issue increased to EUR 750m.
3) Eurobonds in the amount of EUR 250m were issued in December 2010 and added to the EUR 500m issue of June 28, 2010. The volume of the issue increased to EUR 750m.
4) Proceeds of issue converted to EUR via a swap.

Security	Issuer	ISIN	Issue date	Volume	Interest	Maturity	Issued as	Face value	Manager	Administrator	Market	Traded since	Issue rating (S&P/Moody's)
22nd Eurobond issue	ČEZ, a. s.	XS0622499787	May 3, 2011	CZK 1.25bn	4.600%	2023	Dematerialized bearer	CZK 5,000,000	Česká spořitelna, a.s.	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	May 3, 2011	A–/Baa1
24th Eurobond issue 5)	ČEZ, a. s.	XS0635263394	June 21, 2011	EUR 100m	2.15% * CPI Index Ratio	2021	Dematerialized bearer	EUR 100,000	Barclays Bank plc	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	—	—	A–/Baa1
25th Eurobond issue	ČEZ, a. s.	XS0713866787	December 5, 2011	EUR 50m	4.102%	2021	Dematerialized bearer	EUR 100,000	UBS Limited	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	December 5, 2011	—/—
3rd NSV (Namensschuldverschreibungen) issue	ČEZ, a. s.	XF0000B03489	April 2, 2012	EUR 40m	4.7%	2032	Global Depository Receipt	EUR 1,000,000	Commerzbank AG	—	—	—	—/—
1st US bond issue 4), 6), 7)	ČEZ, a. s.	US157214AA57	April 3, 2012	USD 288.594m	4.25%	2022	Dematerialized bearer	USD 200,000	Barclays Bank plc, Citigroup Global Markets Inc., Goldman Sachs International, SG Americas Securities, LLC	Citibank, N.A., London Branch	Bourse de Luxembourg	April 3, 2012	A–/Baa1
2nd US bond issue 4), 6)	ČEZ, a. s.	US157214AB31	April 3, 2012	USD 300m	5.625%	2042	Dematerialized bearer	USD 200,000	Barclays Bank plc, Citigroup Global Markets Inc., Goldman Sachs International, SG Americas Securities, LLC	Citibank, N.A., London Branch	Bourse de Luxembourg	April 3, 2012	A–/Baa1
26th Eurobond issue	ČEZ, a. s.	XS0814711775	August 8, 2012	EUR 50m	4.375%	2042	Dematerialized bearer	EUR 100,000	UBS Limited	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	August 8, 2012	A–/Baa1
27th Eurobond issue	ČEZ, a. s.	XS0818793209	August 20, 2012	EUR 50m	4.5%	2047	Dematerialized bearer	EUR 100,000	UBS Limited	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	August 20, 2012	A–/Baa1
28th Eurobond issue 8)	ČEZ, a. s.	XS0822571799	September 3, 2012	EUR 80m	4.383%	2047	Dematerialized bearer	EUR 100,000	UniCredit Bank AG	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	September 3, 2012	A–/Baa1
4th NSV (Namensschuldverschreibungen) issue 9)	ČEZ, a. s.	XFCA00H08349 XFCA00H08356 XFCA00H08364	December 10, 2012	EUR 61m	4.27%	2047	Global Depository Receipt	EUR 500,000	UniCredit Bank AG	—	—	—	—/—

5) Using a swap, the inflation-linked coupon was fixed at a value that ensures an effective fixed interest expense for ČEZ regardless of changes in inflation.
6) The issue was sold within a non-public bond offer to qualified institutional buyers pursuant to Rule 144A of the United States Securities Act of 1933, as amended ("Securities Act") and outside the United States to certain non-US entities pursuant to Regulation S of the Securities Act.
7) Issue partially bought back in November 2015; original volume of issue was EUR 700m.
8) Eurobonds in the amount of EUR 20m were issued in November 2012 and added to the EUR 60m issue of September 3, 2012. The volume of the issue increased to EUR 80m.
9) The volume of the issue was divided into three receipts.

Security	Issuer	ISIN	Issue date	Volume	Interest	Maturity	Issued as	Face value	Manager	Administrator	Market	Traded since	Issue rating (S&P/Moody's)
5th NSV (Namensschuldverschreibungen) issue [10]	ČEZ, a. s.	XS0920182374 XS0920710570	March 26, 2013	EUR 30m	3.55%	2038	Global Depository Receipt	EUR 1,000,000	Citigroup Global Markets Limited	—	—	—	—/—
30th Eurobond issue	ČEZ, a. s.	XS0940293763	June 5, 2013	EUR 500m	3.00%	2028	Dematerialized bearer	EUR 100,000	Commerzbank Aktiengesellschaft, Deutsche Bank AG, London Branch, Erste Group Bank AG, ING Bank N.V., The Royal Bank of Scotland plc, Banca IMI S.p.A., Crédit Agricole Corporate and Investment Bank	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	June 5, 2013	A−/Baa1
Issue of guaranteed bonds convertible into MOL shares [11]	CEZ MH B.V.	XS1027633434	April 2, 2014	EUR 470.2m	0%	2017	Dematerialized bearer	EUR 100,000	Barclays Bank Plc., Deutsche Bank AG, London Branch, HSBC Bank plc, Société Générale Corporate & Investment Banking	The Bank of New York Mellon, London Branch	Börse Frankfurt Freiverkehr (Open Market)	April 2, 2014	A−/Baa1
31st Eurobond issue	ČEZ, a. s.	XS1144490080	November 27, 2014	EUR 45m	3M Euribor + 0.35%	2017	Dematerialized bearer	EUR 100,000	Citigroup Global Markets Limited	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	November 27, 2014	A−/Baa1
32nd Eurobond issue [12), 13)]	ČEZ, a. s.	XS1354388982	February 5, 2016	EUR 200m	3M Euribor + 0.55%	2018	Dematerialized bearer	EUR 100,000	Mitsubishi UFJ Securities International plc, Citigroup Global Markets Ltd., HSBC Bank plc. BNP Paribas	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	February 5, 2016	A−/Baa1

10) The volume of the issue was divided into two receipts.
11) Bond issue guaranteed by ČEZ, a. s.
12) Eurobonds in the amount of EUR 15m were issued on February 9, 2016 and added to the EUR 86m issue of February 5, 2016. The volume of the issue increased to EUR 101m.
13) Eurobonds in the amount of EUR 99m were issued on March 14, 2016 and added to the issue of February 5, 2016 and February 9, 2016. The volume of the issue increased to EUR 200m.

ČEZ, a. s. has not issued any bonds convertible into its own shares. Under the issue terms, the bonds are not guaranteed by the State or by any bank.
The 32nd Eurobond issue was issued under the EMTN program in February and March 2016.

CEZ Group Capital Expenditures

Capital Expenditures (CZK Millions)

	H1 2015	H1 2016
Additions to property, plant, and equipment and other non-current assets, including capitalized interest	**15,246**	**19,501**
Additions to property, plant, and equipment	13,151	12,971
of which: nuclear fuel procurement	2,007	2,517
Additions to intangibles	258	297
Additions to long-term financial assets	401	5,125
Change in balance of liabilities attributable to capital expenditure	1,436	1,108
Financial investments [1]	**-**	**42**
Capital expenditures, total	**15,246**	**19,543**

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

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

	H1 2015	H1 2016
Nuclear plants (including fuel procurement)	3,793	3,567
Coal-fired and CCGT plants	3,976	4,172
of which: new-build	1,536	1,449
renewal and other	2,440	2,723
Hydro plants other than renewables	29	20
Renewables	102	8
Electricity distribution	4,135	3,999
Heat distribution	40	42
Mining	682	626
Information systems	424	342
Other	228	493
Total	**13,409**	**13,268**

The total 2016 capital expenditure on CEZ Group’s non-current assets is expected to be approximately CZK 34bn.

Electricity Procured and Delivered

Electricity Procured and Sold (GWh)

	H1 2015	H1 2016	2016/2015 index (%)
Electricity procured	**28,844**	**28,558**	**99.0**
Generation	32,235	31,804	98.7
In-house and other consumption, including pumping in pumped-storage plants	(3,391)	(3,245)	95.7
Sold to end-use customers	**(19,197)**	**(18,561)**	**96.7**
Wholesale balance	**(7,111)**	**(7,704)**	**108.3**
Sold in the wholesale market	(99,630)	(93,860)	94.2
Purchased in the wholesale market	92,519	86,156	93.1
Grid losses	**(2,536)**	**(2,293)**	**90.4**

Electricity Generation, by Source of Energy (GWh)

	Czech Republic		Poland		Bulgaria		Romania		Total	
	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016
Nuclear	15,294	14,322							15,294	14,322
Coal	13,292	13,811	1,147	1,184					14,439	14,995
Hydro	1,227	1,102	6	6			30	49	1,263	1,156
Biomass	164	252	207	165					371	417
Photovoltaic	71	67			3	3			74	70
Wind	5	4					696	567	701	571
Natural gas	92	272							92	272
Biogas	1	1							1	1
Total	**30,146**	**29,830**	**1,360**	**1,354**	**3**	**3**	**726**	**616**	**32,235**	**31,804**

Electricity Sold to End-Use Customers (GWh)

	Czech Republic		Poland		Bulgaria		Romania		Other countries		Total	
	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016
Large end-use customers	5,246	4,814	850	918	1,447	1,666	434	379	1,438	1,363	9,414	9,139
Retail–commercial	1,231	1,152			1,166	951	451	424	45	55	2,893	2,581
Residential	3,720	3,732			2,285	2,196	818	843	67	69	6,890	6,840
Total	**10,197**	**9,698**	**850**	**918**	**4,898**	**4,813**	**1,703**	**1,645**	**1,550**	**1,487**	**19,197**	**18,561**

Heat

Heat Supplied and Sold (TJ)

	Heat supplied for heating purposes		External heat sales (outside CEZ Group)	
	H1 2015	H1 2016	H1 2015	H1 2016
Czech Republic	12,540	12,195	10,162	10,166
Poland	2,944	3,328	2,893	3,265
CEZ Group, total	**15,484**	**15,523**	**13,055**	**13,431**

Natural Gas

Natural Gas Procured and Sold (GWh)

	H1 2015	H1 2016	2016/2015 index (%)
Procured	**51,675**	**64,789**	**125.4**
of which: external suppliers	51,467	64,579	125.5
OTE	208	210	100.9
Removed from storage	**2,485**	**2,157**	**86.8**
Sold	**(52,461)**	**(64,792)**	**123.5**
of which: trading	(48,438)	(60,342)	124.6
external large end-use customers	(1,278)	(1,363)	106.7
medium-sized end-use customers	(304)	(349)	114.7
small end-use customers	(474)	(587)	124.0
residential	(1,781)	(1,923)	108.0
OTE	(186)	(226)	121.8
Placed in storage	**(1,141)**	**(1,319)**	**115.6**
Consumed in-house	**(557)**	**(834)**	**149.7**

CEZ Group in the Czech Republic

Legislative Environment in the Energy Sector

During H1 2016, amendments to some regulations implementing Act No. 458/2000 Sb., on business conditions and state administration in the energy sectors and on amendments to some acts ("Energy Act"), and Act No. 165/2012 Sb., on supported energy sources ("SES Act"), were being completed, in relation to extensive amendments to those acts passed in 2015.

Changes affected the following regulations implementing the Energy Act:

- **Decree No. 82/2011 Sb.**, on electricity metering and the method for determining damages in case of unauthorized consumption, unauthorized supply, unauthorized transmission, or unauthorized distribution of electricity

  The decree amendment primarily responds to newly introduced option for customers with lower consumption to have a higher-level meter installed at their service point (for "smart" metering) and specifies a new type of metering, "M". In addition, it lays down rules for the determination of damages in case of unauthorized consumption.

- **Decree No. 16/2016 Sb.**, on conditions for connection to the electricity system

  The new decree responds to simplification of conditions for the operation of small generation facilities of up 10 kW, which are not required to hold an electricity generation license issued by the ERO, and introduces a procedure for the simplified connection of microsources. The decree also lays down uniform general rules for the connection of electricity market participants' facilities to transmission or distribution systems while taking account of the specifics of methods for the connection of different electricity market participants' facilities to the electricity system.

- **Decree No. 8/2016 Sb.**, on the details of licensing for doing business in the energy sectors

  The new decree takes into consideration changes implemented by the new Civil Code while also responds to simplification of procedure in the notification of changes to operated facilities by the operators of power and gas supply systems.

- **Decree No. 70/2016 Sb.**, on the billing of supplies and related services in the energy sectors

  The new decree expands the scope of required information to be included in bills for supplies and related services, e.g. including information on the average price in the billing period.

Regulations implementing the Supported Sources Act were also changed; specifically, the following new decrees were promulgated:

- **Decree No. 9/2016 Sb.**, on procedures for the registration of support with the market operator and the implementation of some other provisions of the Supported Energy Sources Act (Registration Decree)

  The new decree responds to cancellation of support for biomethane and support for decentralized electricity generation while taking account of previous experience with the operation of the support registration and recording system.

- **Decree No. 37/2016 Sb.**, on electricity from high-efficiency combined heat and power generation and electricity from secondary sources

  The decree provides a more detailed definition of a cogeneration unit and more detailed specification of its system boundaries with effect from January 1, 2017. Operators whose generating facilities will not meet the definition will have to apply for a new CHP electricity generation certificate for the cogeneration unit in question.

  The decree also specifies a more detailed procedure for the determination of the amount of supported CHP electricity and reflects new EU legislation, specifically Commission Regulation (EU) 2015/2402 of October 12, 2015 reviewing harmonized efficiency reference values for separate production of electricity and heat in application of Directive 2012/27/EU of the European Parliament and of the Council and repealing Commission Implementing Decision 2011/877/EU.

- **Decree No. 145/2016 Sb.**, on the reporting of electricity and heat from supported sources and the implementation of some other provisions of the Supported Energy Sources Act (Supported Source Energy Reporting Decree)

  The new regulation responds to new, more detailed laws applicable to metering required for the determination of relevant supported amounts (i.e. the metering of electricity and heat and related amounts of fuel) as well as the introduction of a new operating support for heat, newly regulating, among other things, the commissioning procedure for heat generating facilities.

  Furthermore, the decree combines some information reported in different reports, reducing the total number of reports to be submitted.

Business Environment in the Energy Sector

The first half of 2016 was a period when the 2015 amendment to the Energy Act was first applied in practice. From the perspective of the business environment in the energy sector, the most noticeable innovations are the possibility of electricity “autoproduction” at “microsources” (generating facilities of up to 10 kW of installed capacity) without a license granted by the ERO under the Energy Act and the possibility of “simplified connection” of such “microsources.”

In the former case, an “autoproducer” customer can operate a facility of up to 10 kW primarily to cover their own consumption without a license, just on the basis of a connection agreement. Such an agreement will include reserved input capacity for consuming electricity from the distribution grid, which the customer already has, as well as reserved output capacity that should match the installed capacity of the autoproduction facility. In such a case, the “autoproducer” does not have to obtain a license from the ERO and even does not have to become a business entity with all the associated negative consequences for the “autoproducer” (e.g. such persons will be entitled to unemployment benefits if they become unemployed). In their agreement with a trader, the “autoproducer” will make arrangements for the purchase of the portion of electricity that the “autoproducer” does not produce on their own as well as the responsibility of any deviation relating to electricity generated in-house and, most importantly, the handling of electricity that the “autoproducer” generates but does not consume at a given moment.

In the latter case, the possibility only applies to sources with nominal alternating phase current of up to 16 A (10 A under certain conditions) per phase, connected to a point of consumption at the low-voltage level. The possibility is conditional on meeting a number of conditions. These include preventing electricity supply to the distribution system at any moment, grid impedance measured at the source’s interconnection point being less than the limit value of reference impedance published by the distribution system operator, and installing a meter to measure consumption and any “unauthorized” supply at the interconnection point. If the conditions are met, the “autoproducer” does not have to request connection from the operator; the “autoproducer” just has the source connected and notifies the operator before commissioning. This is followed by updating the connection agreement, which will however state zero reserved capacity.

For the sake of completeness, it should be noted that the two new possibilities can be combined, if relevant requirements are met.

Both new possibilities should contribute to further development in decentralized energy and generation as mentioned in the updated State Energy Policy approved in 2015.

The first half of 2016 has already shown that traders are starting to exploit the new opportunities and offer their “autoproducer” customers products that allow taking advantage especially of the “autoproduction” without a license, often combined with government subsidies under the “New Green for Savings” program. Under the program, applicants can get investment subsidies but only under certain conditions including being able to consume 70% of their autoproduction at their point of consumption (e.g. family house).

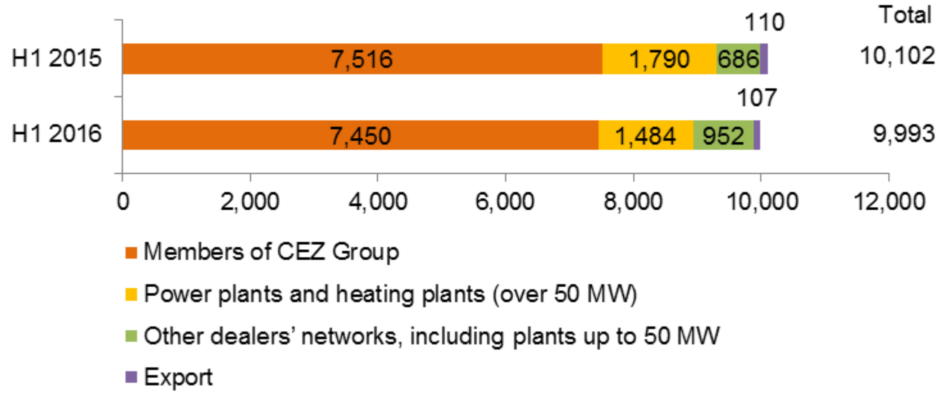
Mining

Coal Mining and Sales

The CEZ Group company engaged in brown coal mining is Severočeské doly. It produced approximately 9,993,000 tons of coal in H1 2016. This is a slight year-on-year decrease of approximately 109,000 tons of coal, due to lower consumption by both CEZ Group companies and external customers.

Lower deliveries of sized coal to external customers were largely due to the warm winter.

Coal Sales, by Customer (Thousands of Tons)



Capital Construction

In the first half of 2016, Severočeské doly invested CZK 658m in capital construction. The major part of its capital investment program comprised projects to ensure the progress of extraction in its two mines. The structure of capital investment consists primarily of deliveries, renovation, and upgrades of mining equipment and dressing and crushing plants and construction of stabilization measures and water management structures.

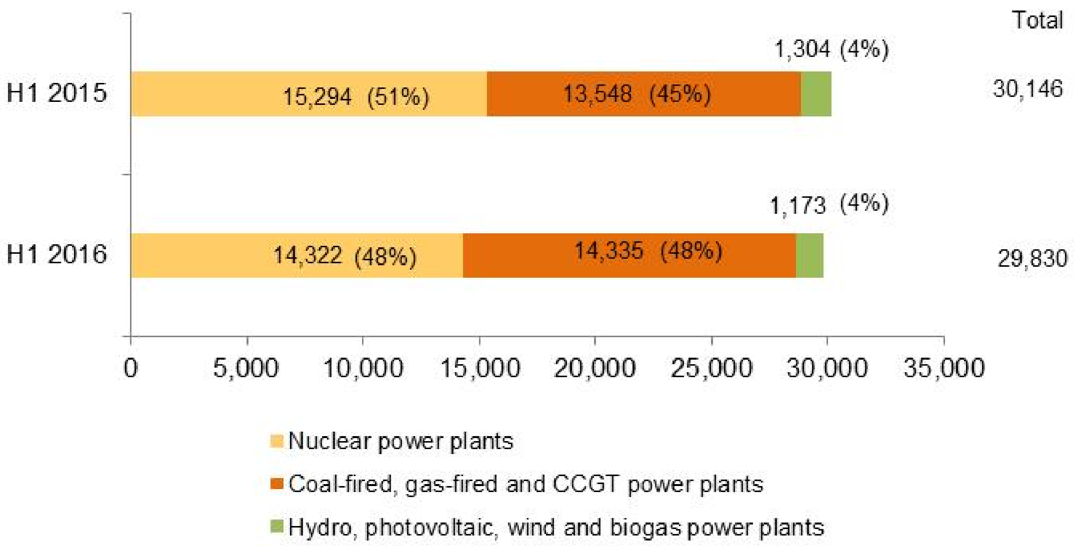
The most important projects completed in the first half of 2016 include the Belt Conveyor Stacker Renovation and the Tripper Electrics Renovation at the Bílina Mine. A major capital investment and operational project named High-Capacity Disposal Site Upgrade was accepted for pilot operation and the upgrade of a belt conveyor was completed at the Nástup Tušimice Mines.

Generation

Electricity Generation

Electricity production at CEZ Group's generating facilities in the Czech Republic in H1 2016 totaled 29,830 GWh, i.e. 316 GWh (-1.0%) less than in the same period of 2015.

Electricity Generated by CEZ Group in the Czech Republic, Gross (GWh)



Nuclear power plants' total electricity production decreased by 973 GWh year-on-year; while the Temelín Nuclear Power Plant produced 1,353 GWh more thanks to an increase in achievable capacity in H1 2016, the Dukovany Nuclear Power Plant produced 2,326 GWh less primarily due to outages for weld inspections.

Coal-fired power plants' production increased by 607 GWh year-on-year primarily due to the operation of the comprehensively renovated Prunéřov II plant and the new Ledvice 4 unit. The Počerady II CCGT plant produced 180 GWh of electricity more due to a lower gas price in comparison with 2015.

A 125GWh year-on-year decrease in production was recorded by hydropower plants. Other facilities generated approximately the same amount of electricity as in H1 2015.

Safety of Operated Nuclear Power Plants

The safety of operated nuclear facilities is our priority. During the first half of 2016, both ČEZ, a. s. nuclear power plants were operated in compliance with applicable nuclear energy legislation, fulfilling the conditions of valid licenses.

In January, both nuclear power plants' physical security systems were switched from mode 1, which they had been put into due to intensified safety measures after terrorist attacks in Paris, to the standard mode. In March, both nuclear power plants' physical security systems were switched over to mode 1 again in reaction to terrorist attacks in Brussels.

<u>Dukovany Nuclear Power Plant</u>

In February, ČEZ, a. s. asked the SONS to resume administrative proceedings concerning the licensing of future operation of Unit 1, which was suspended at the end of 2015 due to reviews of weld X-ray documentation. The unit was put into operation after the results of the inspections of welded joints were submitted, and on March 30, 2016, ČEZ, a. s. received a renewed operating license for Unit 1 for an indefinite period of time, conditional on meeting a number of defined conditions.

Preparations for submitting an application for Unit 1 further operating license culminated early this year. A unique tightness and pressure test of the unit's gas-tight enclosure, which is performed once every ten years, was carried out during an outage. For the first time ever, the test was performed at 130 kPa, which is one of the highest levels of overpressure among power plants worldwide. The test proved that the unit is in very good condition, meeting the conditions for further, long-term, safe operation.

Capital investment projects to upgrade the power plant and enhance its operational safety, resulting from stress testing, were completed, including e.g. the completion of seismic resistance enhancements to building structures or the connection of new seismic-resistant forced-draft towers for the cooling of service water system. A newly reconstructed main entrance and gate, upgraded to improve the power plant's physical protection, were put into operation.

The first secret exercise was carried out in May to test the operation of a backup site for the emergency response board in Moravský Krumlov and the preparedness of the members of the emergency response board. The State Labor Inspection Office carried out its annual audit of electrical and gas technology, transportation (both on-site and by rail), and construction activities. The audit confirmed compliance with the criteria of the Safe Enterprise program.

In early June, there was a full-site emergency response exercise supervised by inspectors from the SONS, including the simulation of a multi-unit event and staff sheltering, which tested the preparedness of the power plant and its staff for such an event that might theoretically occur.

In late June, there was a mission of the IPSART (International Probabilistic Safety Assessment Review Team) of the International Atomic Energy Agency (IAEA), conducted to thoroughly check newly updated models for the probabilistic safety assessment (PSA) of the Dukovany Nuclear Power Plant. The mission confirmed that the PSAs are prepared and documented in accordance with recognized methodologies by qualified personnel with adequate quality to be usable in a wide range of risk-informed applications. The experts also made several suggestions for improvement.

<u>Temelín Nuclear Power Plant</u>

In April, the power plant underwent the State Labor Inspection Office's annual audit concerning construction preparation and execution, chemicals, oil management, the wastewater treatment plant, and generating and operating systems (gas, pressure, machinery), which were found in compliance with the "Safe Enterprise" program.

Practicing the use of new equipment acquired under the National Action Plan continued in May, e.g. by verifying the operability of a backup emergency response center in České Budějovice or checking the preparedness of emergency response board members with secret calls.

Reviews of X-Ray Images of Dissimilar Metal Welds

The documentation and X-ray images of welds at the Dukovany Nuclear Power Plant were reviewed from September 2015 to January 2016 in order to check the results of past tests whose evaluation was not completely conclusive. Some documentation of X-ray tests was found to be of low quality, mostly in respect of low-diameter pipes used for the measurement of process parameters. The findings did not apply to the key components of the primary circuit such as the reactor pressure vessel or the pressurizer. On the grounds of the findings from the Dukovany Nuclear Power Plant, ČEZ, a. s. also reviewed the X-ray image documentation at the Temelín Nuclear Power Plant, finding similar deficiencies in the quality of the documentation of X-ray tests. However, some welded joints there were tested in the past using other non-destructive methods whose results are of adequate quality.

Even though the high level of nuclear safety had not been compromised, the internal inquiry committee recommended taking a number of measures. The main objective is greater labor efficiency with emphasis on better and more consistent performance of control processes. Based on findings from the weld documentation reviews and experience with the process of applying for a new license for the long-term operation of Dukovany Unit One, CEZ Group is hiring new experts. The nuclear power plants will have about a hundred new employees. An important role will be played by ÚJV Řež, CEZ Group member company, which has replaced contractors for selected non-destructive tests in the nuclear power plants since June 1, 2016. Other systemic measures were taken on the basis of the internal inquiry in the issues, such as the introduction of a third generation of contracts with contractors (guaranteeing e.g. limitation of subcontractor chains), a new comprehensive contractor performance control system, or measures aimed at simplifying the management structure and enhancing internal controls.

<u>Summing up the weld inspections at generating facilities:</u>

The total number of welds reviewed was approximately 13,000 at the Dukovany Nuclear Power Plant and approximately 8,500 at the Temelín Nuclear Power Plant. Welds that could not be reviewed due to low-quality X-ray images were subjected to new imaging.

Deficiencies found at Unit 1 of the Dukovany Nuclear Power Plant were remedied and the relicensing administrative proceedings were completed on March 30, 2016 by the issuance of a decision permitting further operation of the Dukovany Nuclear Power Plant's Unit 1. Urgent deficiencies at Unit 2 of the Dukovany Nuclear Power Plant were remedied during an outage in the first quarter of 2016. A Safety Status Assessment was prepared in regard to the other deficiencies, demonstrating that Unit 2 can be operated safely until the next outage. Similar work was started at Unit 3 of the Dukovany Nuclear Power Plant in April. Urgent deficiencies at Unit 4 of the Dukovany Nuclear Power Plant were remedied during an outage in H1 2016. A Safety Status Assessment was prepared in regard to the other deficiencies, demonstrating that Unit 4 can be operated safely until the next outage. Follow-up work will also be carried out at all units of the Dukovany Nuclear Power Plant during planned unit outages in 2016 and 2017; this will provide the power plant with complete confidence and inputs to be used in the documentation of the facilities' status in relicensing applications.

Inspections of welds at the Temelín Nuclear Power Plant were also performed during unit operation if possible and especially during a Unit 2 outage started in June. Follow-up work at Unit 2 and similar work at Unit 1 of the Temelín Nuclear Power Plant will be carried out during outages in 2016 and 2017.

Heat Generation and Sales

In the first six months of 2016, a total of 10,166 TJ of heat generated by CEZ Group's facilities in the Czech Republic was delivered to customers, which is almost the same amount as in 2015 (increase of 4 TJ).

Capital Construction

Nuclear Facilities

CZK 3,567m was invested in nuclear power plants in the first half, of which CZK 2,517m was used to purchase nuclear fuel.

Dukovany Nuclear Power Plant

The reconstruction of the main entrance and gate to the Dukovany Nuclear Power Plant site was completed. In particular, turnstiles were replaced with new ones with maximum stopping capacity and the gateway to the secured area was fitted with a new gate and roadblock. There were also ongoing nuclear safety enhancement projects resulting from the events at the Fukushima nuclear power plant. Preparatory, implementation and completion work was also carried out under capital construction projects aimed at upgrading, stabilizing, securing, and improving the efficiency of generation in relation to the planned extension of operation.

Temelín Nuclear Power Plant

There was continued implementation of projects fulfilling requirements from the National Action Plan for Safety Enhancement, relating to stress tests following the events at the Fukushima nuclear power plant, as well as other capital construction projects relating to technology upgrade and renovation.

Preparations were underway for the construction of a multi-purpose hall for working with and handling of nuclear fuel packaging, which will also allow, in compliance with required legislation, long-term storage of special handling equipment.

New Nuclear Units at Dukovany and Temelín

Work under the “New Nuclear Power Plant at Dukovany” project included geological and hydrogeological surveys of the intended construction site and its neighborhood and environmental surveys of areas that might be affected during the construction or operation of the new nuclear power plant. Documents needed for the start of the process of comprehensive environmental impact assessment of the planned construction of new units were delivered to the Ministry of the Environment. Work under the “New Nuclear Power Plant at Temelín” included mostly activities to fulfill the conditions defined in the issued EIA statement and the issued siting permit.

To prepare for various alternatives of investor and financing arrangements, the General Meeting of ČEZ, a. s. approved the spin-off of assets related to the new nuclear power plant projects into separate subsidiaries, Elektrárna Temelín II, a. s. and Elektrárna Dukovany II, a. s. on June 3, 2016.

On June 15, 2016, the Government of the Czech Republic appointed ing. Ján Štuller as the Government Representative for nuclear energy for a period of four years. The Government Representative’s responsibilities include negotiations with key stakeholders, such as potential contractors and strategic investors for the new nuclear power plants, and representatives of the European Commission.

Coal-Fired Facilities

Preparatory, designing, and implementing work, in particular, was underway during the first half of 2016 to support projects relating to long-term disposal of coal combustion byproducts (CCBs) from new and comprehensively renovated plants. Other capital projects included, in particular, investment in the renovation of technology and maximization of operational safety and generation efficiency, such as investment in coal crushers at the Poříčí site.

Comprehensive Renovation of Prunéřov II Power Plant

After the renovation was completed, based on successful integration testing, all three units were accepted from the contractor on June 10, June 30, and July 15, 2016, respectively. They then commenced pilot operation. Defects and arrears are being remedied. The main reasons for a partial delay in the comprehensive renovation were administrative and technical obstacles, including a change in design. The renovation of the generating units brings increase in the installed capacity of each of the 3 units from an original 210 to 250 MW_e, enhancing their efficiency in combination with heat generation to over 40% and improving all emission parameters by 60% on average.

Construction of New 660MW Unit at Ledvice Power Plant

Unit commissioning and adjustment continues. Due to persisting difficulties accompanying the commissioning of the unit, caused by complications in boiler slag extraction and excessive fly ash behind electrostatic precipitators, the unit will undergo necessary modifications and its acceptance date will thus be postponed. The new unit is expected to be completed no sooner than in 2017.

Hydro Power Plants

Standard capital investment projects were undertaken at hydro power plants, investing in plant upgrades and generation efficiency improvement in line with the approved renovation program, such as the general overhaul of turbine generator 1 at the Lipno power plant and preparatory work for the general overhaul of turbine generator 4 at the Kamýk power plant.

Installed Capacity

As at June 30, 2016, CEZ Group operated generating facilities with a total installed capacity of 13,351 MW in the Czech Republic. The total installed capacity of its nuclear power plants at Dukovany and Temelín was 4,290 MW. Coal-fired power plants and heating plants have a capacity of 6,967 MW, hydroelectric and pumped-storage power plants have 1,960 MW, and other power plants with renewable energy sources have 134 MW.

In comparison with the first half of the past year, there was only one change in installed capacity in the Czech Republic, namely a decrease of 7 MW at the Tisová II power plant’s generating unit 6.

Selected Information Concerning the Performance of the Generation Segments in the Czech Republic

	Unit	Generation—Traditional Energy		Generation—New Energy		Total	
		H1 2015	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016
Electricity generation	GWh	29,944	29,630	202	201	30,146	29,830
Heat supply	TJ	10,129	9,810	0	0	10,129	9,810
Installed capacity	MW	13,157	13,150	201	201	13,358	13,351

Electricity Generation Outlook for 2016

The 2016 production of CEZ Group’s facilities in the Czech Republic is expected to be 59.1 TWh, i.e. 2.4 TWh more than the production in 2015. Nuclear power plants are expected to generate 26.4 TWh; coal-fired, gas-fired and CCGT plants 29.8 TWh; and other plants 2.9 TWh.

Distribution

Electricity Distribution

CEZ Group’s electricity distribution business in the Czech Republic is taken care of by ČEZ Distribuce, a. s., which distributed 17.6 TWh of electricity to customers in H1 2016. This is an increase of 0.25 TWh over the comparable period of the previous year. The deliveries increased most significantly at the medium-voltage level due to increased consumption by corporate customers but also at the low-voltage level primarily due to an increased number of customers using heating tariffs. A slight decrease was registered at the high-voltage level.

Capital Construction

Capital expenditures of ČEZ Distribuce amounted to CZK 3.3bn in H1 2016. They went primarily into distribution networks at all voltage levels as well as transformer station reconstructions. Approximately CZK 0.9bn of the above amount was allocated to construction projects initiated at customers’ requests.

Strategic Program for Distribution Czech Republic Segment Redesign

The Distribution Czech Republic Segment Redesign strategic program continues as scheduled. As at July 1, 2016, 836 metering employees were transferred from ČEZ Distribuční služby to ČEZ Distribuce. The remaining staff of around 1,700 will be transferred as at January 1, 2018. The implementation of the program, i.e. integration of metering activities, will bring approximately CZK 200m a year by streamlining performed activities and achieving synergistic effects; the strategic program will also ensure compliance with legal and regulatory requirements.

Sales

CEZ Group offered end-use customers in the Czech Republic the following commodities and related services in H1 2016:

- Electricity (ČEZ Prodej, s.r.o., ČEZ, a. s., Elektrárna Počerady, a.s., Elektrárna Dětmarovice, a.s., Energocentrum Vítkovice, a. s., Energetické centrum s.r.o., Energotrans, a.s., and Elektrárna Tisová, a.s.)
- Natural gas (ČEZ Prodej, s.r.o., ČEZ Energetické služby, s.r.o.)
- Heat / thermal energy (ČEZ, a. s., ČEZ Teplárenská, a.s., Energetické centrum s.r.o., ČEZ Energetické služby, s.r.o., Energotrans, a.s., Elektrárna Počerady, a.s., Elektrárna Dětmarovice, a.s., Elektrárna Tisová, a.s., Energocentrum Vítkovice, a.s.)
- Electricity distribution (ČEZ Distribuce, a. s.)

Commodity Products Offered by ČEZ Prodej

Sales of Electricity to End-Use Customers

CEZ Group sells electricity in the Czech Republic largely through ČEZ Prodej, s.r.o., which sold a total of 9.6 TWh to end-use customers outside of CEZ Group in H1 2016 (CEZ Group's total was 9.7 TWh). A decrease of 0.5 TWh from the same period in 2015 was primarily due to the non-renewal of a contract with a major customer.

Sales of Natural Gas

In H1 2016, the company managed to add the most new connection points among all suppliers, over 10,000 (i.e. 26.4% of the net overall market growth), reaching around 395,000 connection points. ČEZ Prodej thus became the second largest gas supplier in the Czech Republic in terms of connection points.

CEZ Prodej's success in selling gas to end-use customers is based on relevant services as well as financially advantageous terms for its customers. Prices of natural gas supplies to large end-use customers by ČEZ Prodej and ČEZ Energetické služby are derived from the most favorable prices/products in the wholesale market at the moment. In April and May 2016, ČEZ Prodej responded to changes in market prices by lowering the price of its ČEZ with Reward, ČEZ with Guarantee, Comfort, and Praktik product lines.

In H1 2016, ČEZ Prodej, s.r.o. supplied its end-use customers with an aggregate total of 3.1 TWh of natural gas (including 2.9 TWh supplied to end-use customers outside CEZ Group).

Besides ČEZ Prodej, s.r.o., considerably smaller amounts of natural gas were sold to end-use customers by ČEZ Energetické služby, s.r.o., which supplied 18.5 GWh in H1 2016 (including 0.2 GWh to end-use customers outside CEZ Group).

Non-Commodity Products Offered by ČEZ Prodej

Mobile Telephony

ČEZ Prodej is a fully-fledged mobile virtual network operator (MVNO) with its own offer of mobile telephony products. In terms of the scope of its services, it belongs to the medium-sized MVNO category. With over 72,000 active SIM cards, ČEZ Prodej is one of the largest MVNOs in the Czech Republic.

Financial Services

Starting in March 2016, ČEZ Prodej expanded its services for customers to include financial credit services, provided in collaboration with Essox s.r.o., a subsidiary of Komerční banka a.s. These consist of extending credit to purchase selected energy solutions for households, nonpurpose credit, and credit cards.

ČEZ ESCO Services

ČEZ ESCO wants to be the first choice for those who are interested in the installation or operation of a local source of energy or distribution grid and want to consume energy in an efficient and thrifty manner. Its offer for decentralized energy consolidates CEZ Group's expert and sales capacity in energy savings, decentralized sources, lighting, and other energy products and services. It concentrates on creating personalized offers for business customers, small and midsize businesses, and the public sector. The individual products are provided by ČEZ Prodej, ČEZ Energo, ČEZ Energetické služby, EVČ, ENESA, and other companies, which are gradually integrated into the ČEZ ESCO group.

In photovoltaics, CEZ Group announced its offer of turnkey rooftop solar energy systems for both businesses and residential customers at the end of October 2015. Based on this, ČEZ Solární (CEZ Group member company) delivered 1,200 offers for rooftop photovoltaic installations to its customers.

EPC (Energy Performance Contracting) projects, under which investment in the customer's installation is covered by resulting energy savings, continued for example with energy upgrades at the Prague National Theater's studios or an extensive savings program for the Prague Congress Center.

Electricity and Natural Gas Sales Outlook for 2016

CEZ Group does not expect any major changes by the end of 2016 in comparison with planned electricity supplies, which are approximately the same as the actual result of 2015. The amount of supplies and the market share in the retail segment are expected to stabilize in spite of the highly competitive environment due to our optimized retention activities and continued acquisition of new customers. These efforts have been supported by lowering the price of some product lines and actively approaching customers whose fixed-term contracts are about to expire.

On the market in natural gas, CEZ Group expects to deliver to their customers in the Czech Republic approximately 0.63 TWh of gas more in 2016 than it did in 2015. Sales are expected to grow primarily in the residential and corporate client segments.

Other Activities

Innovation Projects

Electromobility

The ČEZ Electromobility project continues to develop in line with the project outline for 2016–2017, which was approved by Company management in January 2016. The project keeps focusing primarily on building a public charging infrastructure network and offering related products. It also involves other complementary activities related to electric mobility.

The number of fast-charging stations increased to 15 by July 1, 2016 and 21 by August 11, 2016. The numbers of standard charging stations was 48 and 46, respectively. The installation of other charging stations is prepared so as to cover major populated areas and the most important roads in dozens of places throughout the whole Czech Republic. Negotiations continue with partners among private companies, commercial entities, and municipalities that have sites suitable for the construction of the charging station network. As the offer of electric vehicles on the Czech market grows and the capacity of vehicle batteries increases (to offer greater driving range), collaboration with vehicle vendors is intensifying.

CEZ Group has almost thirty electric vehicles in its fleet and is testing them actively. Testing the regular use of electric vehicles continues in collaboration with partners—in the first half of the year, this involved e.g. long-term testing of two electric utility vehicles by Czech Postal Service.

In February 2016, CEZ Group in collaboration with ARRIVA PRAHA s.r.o. and PASSERINVEST GROUP, a.s. put two electric buses of SOR brand into regular operation in Prague.

In collaboration with selected car manufacturers, ČEZ has prepared a special vehicle acquisition offer intended exclusively for public administration bodies.

There is ongoing collaboration with selected regions and ministries, especially in regard of the implementation of a strategic framework for the development of clean mobility in line with the National Action Plan for Clean Mobility.

Investments in New Technologies

ČEZ Nová energetika, under the brand name of INVEN CAPITAL, seeks opportunities for investment in smaller to midsize innovative businesses operating in Europe's new energy sector. The objective is to generate long-term value through active collaboration with portfolio companies and their founders.

In the first half of 2016, an investment was made in tado GmbH, a Bavarian technology company doing business in smart temperature control for homes based on the user's location and habits. The smart thermostats it offers are compatible with most boilers in Europe and can also control air-conditioning units. Furthermore, they allow offering customers additional services such as online offers of boiler repairs. Another investment made in this period was in the Environmental Technologies Fund, a renowned London-based fund focusing on investments in fast growing companies in the sector of clean technologies. CEZ Group expects the investment to bring a return of 20–25% and provide it with access to unique investment opportunities and know-how.

Investments in Startups

In 2016, ČEZ continues its partnership with Czech ICT Incubator @ Silicon Valley, a contest organized by Czech ICT Alliance. In this contest, with ČEZ playing the role of one of the expert jurors, startups compete for participation in and mentoring by Runway, a prestigious Silicon Valley incubator. Applications for the third round organized in March were sent by 23 promising startups from the Czech Republic, from which the jury, after two rounds of selection, chose two winners: BattSwap, a company offering fast battery swap solutions for electric vehicles, and Lumitrix, a company manufacturing compact systems for long-term outdoor projection (video mapping).

Rockstart, an Amsterdam-based startup accelerator where ČEZ is a partner, organized the first round of its Smart Energy program in the first half of 2016. A total of 10 startups received 180 days of intensive mentoring, allowing them to work on their business models, seek partners and customers, or hire new members for their teams. The whole program is finished with a conference named Smart Energy Demo Day, where the startups present their ideas and successes to potential investors.

Activities across CEZ Group

CEZ Group companies provide their services within CEZ Group as well as to customers in the free market. By doing so, they aptly complement CEZ Group's core business and create the necessary conditions for all of CEZ Group's activities.

ČEZ Korporátní služby

The company offers a wide range of ancillary services. It offers its customers purchases and leases of means of transportation and mechanization; fleet administration services; the administration and operation of non-energy property, including movables; and personnel services, including payroll accounting and administrative services (operation of mail rooms, archives, receptions, etc.).

ČEZ ICT Services

The company provides information and telecommunications services within CEZ Group, based on a consolidated application and technology architecture. This includes, for example, enterprise resource planning (ERP) systems, customer sales promotion systems interconnected with customer service and analytical tools, as well as trading systems for electricity and other commodities. Its portfolio of telecommunication services includes voice and data services as well as the operation of independent radio networks for technology operation and crew dispatch.

Legislative and Business Environment in the Energy Sector

The Polish energy market is almost fully liberalized. Wholesale market prices are based on market conditions. The only regulated electricity tariffs are those for households. Distribution fees are also regulated. Prices in the heat market are based on a tariff system and each change in prices requires approval by the Energy Regulatory Office.

Generation-Related Aspects

Generation of renewable energy is supported through a system of green certificates. Support for biomass, biogas, co-combustion, wind energy, and other renewables has been amended by the Renewable Energy Sources Act of 2015. The Act presents a new support mechanism, an “auction system”, which intends to reduce the cost of support for renewable energy generation.

An act on investment in wind farms, related to the development of the wind energy sector, came into effect on July 16, 2016. Pursuant to the Act, a wind turbine (together with its foundation, tower, and technology) will be deemed to be a building as defined by building law. This change can result in a significant increase in property tax paid by wind farm operators. In addition, the location of a wind farm will have to be identified in a local zoning plan, which is to specify the maximum total height of a wind turbine. The Act also introduces rules concerning the minimum distance between a wind turbine and residential buildings or sites of high natural value, which must be equal to or greater than ten times the wind turbine height. In respect of wind farm operations, only repairs and necessary maintenance are allowed; activities aimed to increase wind farm productivity are prohibited.

This effectively postponed the first expected auctions; the law also poses a threat to the implementation of wind park projects throughout Poland, including CEZ Group’s projects developed by Eco-Wind Construction.

Regulations concerning energy efficiency were adopted to support energy savings and activities related to energy efficiency. Reducing energy consumption will be supported by a system of white certificates.

Generation

Electricity Generation

Coal-fired power plants generated 1,349 GWh of electricity in H1 2016, i.e. 5 GWh less than in the same period of 2015. As at June 30, 2016, the Borek Szlachecki small hydropower plant with an installed capacity of 885 kW produced 3.0 GWh of electricity and the Skawinka small hydropower plant generated 2.7 GWh of electricity.

Heat Generation

In H1 2016, the Chorzów and Skawina power plants in Poland supplied 3,265 TJ of heat, i.e. 372 TJ (13%) more than in the same period of 2015.

Capital Construction

CEZ Group companies made capital expenditures of CZK 37m in Poland in H1 2016. The largest portion of the capital expenditures went to an overhaul of boilers and the connection of Turbine Generator 3 at the Skawina power plant.

Installed Capacity

As at June 30, 2016, CEZ Group companies owned power plants with a total installed capacity of 680.9 MW in Poland: coal-fired power plants with 678.4 MW and hydropower plants with 2.5 MW.

Selected Information Concerning the Performance of the Generation Segments

	Unit	Generation—Traditional Energy		Generation—New Energy		Total	
		H1 2015	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016
Electricity generation	GWh	1,360	1,354	-	-	1,360	1,354
Heat supply	TJ	2,893	3,265	-	-	2,893	3,265
Installed capacity	MW	681	681	-	-	681	681

Electricity Generation Outlook for 2016

CEZ Group power plants in Poland are projected to generate 3.0 TWh of electricity in 2016.

Heat Sales Outlook for 2016

Heat sales are expected to total approximately 5,800 TJ in 2016.

Sales

Sales of Electricity and Natural Gas

Electricity is sold to end-use customers in Poland by CEZ Trade Polska sp. z o.o., which also started to supply natural gas to end-customers in 2016.
The company supplied 918 GWh of electricity to its customers in H1 2016, which is a year-on-year increase of 68 GWh. The company also supplied 30 GWh of natural gas in H1 2016.

Electricity and Natural Gas Sales Outlook for 2016

The total amount of electricity sold to end-use customers in 2016 is expected to be 1,917 GWh, i.e. 305 GWh more than in 2015. The estimated amount of natural gas supplied in 2016 is 70 GWh. CEZ Group will continue to sell electricity and gas with the aim of increasing its market share during 2016.

CEZ ESCO Polska

CEZ ESCO Polska has operated on the Polish market since May; just like its counterpart in the Czech Republic, it will offer businesses, municipalities, and public institutions optimization of energy utilization as well as a wide range of energy services, from the installation and operation of cogeneration units or photovoltaic installations to energy audits, consulting, and comprehensive turnkey energy solutions.

CEZ Group in Bulgaria

Legislative and Business Environment in the Energy Sector

Households and businesses connected to the low-voltage grid are generally supplied at regulated prices using a system of quotas in accordance with the Energy Act and decisions of the regulatory authority—the Energy and Water Regulatory Commission (EWRC). Since April 1, 2016, these customers have been able to enter the open market and get electricity supply contracts at unregulated prices in relation to the introduction of Standardized Load Profiles (SLPs) and the regulator's publication of supplier switching guidelines. However, the successful completion of liberalization, previously identified by the EWRC as one of its main tasks for 2016, is put at significant risk by lack of secondary legislation, the existence of cross subsidization, and the government's pressure on keeping residential energy prices low.

Electricity producers started to offer electricity by means of electronic tenders, which help create an electricity spot market in the country. The Independent Bulgarian Energy Exchange (IBEX) started its full operation on January 19, 2016.

Electricity Distribution-Related Aspects

On June 30, 2016, the EWRC published a price decision with effect from July 1, 2016. It also announced that it was not expecting the residential market to become completely open yet, at least not during the current price period, which will last until June 30, 2017.

An amendment to the Energy Market Rules entered into effect on November 20, 2015. New rules were adopted for opening the market to low-voltage customers, in particular for distribution companies, which are allowed to create and use load profiles for their customers and must, together with sales companies, create profile use guidelines and publish them mandatorily. Eight Standardized Load Profiles (SLPs) were presented by the EWRC on January 29, 2016 and subsequently approved by it.

Electricity Sales-Related Aspects

On March 19, 2014, the EWRC initiated a new procedure for revoking the electricity trading license of CEZ Elektro Bulgaria. The initiation of the procedure is the result of Bulgarian authorities' long-term inactivity in matters concerning RES support regulation in 2012 and 2013. There is no current progress in the procedure in spite of constant appeals for its cessation, including interventions by the European Commission.

Generation

Electricity Generation

The Varna coal-fired power plant did not generate any electricity in 2016 because its operation was suspended at January 1, 2015 due to non-compliance with environmental limits set down in the integrated permit. The situation in Bulgaria's energy sector and the current state of related legislation do not allow making a positive return on investment in necessary modifications.

The photovoltaic power plant in Oreshets generated 3.1 GWh of electricity in H1 2016, which is 5% less than in the same period of H1 2015.

The completed Bara biomass gasification power plant was not put into commercial operation in 2016 due to a change in support as the amended law canceled support in the form of a feed-in tariff for biomass-to-electricity projects.

Capital Construction

No capital construction was carried out in H1 2016.

Installed Capacity

CEZ Group has an installed capacity of 1,266.7 MW in Bulgaria: 1,260 MW in the coal-fired Varna Power Plant, 5 MW in the photovoltaic Oreshets Power Plant, and 1.7 MW in the Bara Group's biomass gasification power plan.

Selected Information Concerning the Performance of the Generation Segments

	Unit	Generation—Traditional Energy		Generation—New Energy		Total	
		H1 2015	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016
Electricity generation	GWh	-	-	3.2	3.1	3.2	3.1
Heat supply	TJ	-	-	-	-	-	-
Installed capacity	MW	1,260.0	1,260.0	5.0	6.7	1,265.0	1,266.7

Electricity Generation Outlook for 2016

The photovoltaic Oreshets Power Plant is expected to generate 5.9 GWh of electricity in 2016. The Varna and Bara power plants are not expected to operate.

Distribution

In Bulgaria, electricity is distributed by CEZ Razpredelenie Bulgaria AD, which distributed a total of 4,692 GWh of electricity to end-use customers in H1 2016, i.e. 113 GWh less year-on-year. The decrease was due to warmer winter months.

Capital Construction

A total of CZK 387m was spent on capital construction in Bulgaria in H1 2016. Similarly to the same period of 2015, capital expenditures were aimed primarily at improving distribution grid quality, replacing electric meters, critical infrastructure in Sofia, and new connections to the distribution grid. In addition, CZK 153bn was spent on mandatory buyouts of distribution assets.

Sales

Sales of Electricity to End-Use Customers

CEZ Trade Bulgaria EAD sold 1,527 GWh of electricity to end-use customers on the free market in H1 2016, i.e. 281 GWh (+22.6%) more year-on-year. The increase was due to successful acquisition of new customers switching from the regulated market to the free market.

The sales company CEZ Elektro Bulgaria AD sold a total of 3,287 GWh of electricity to end-use customers in H1 2016, which was a decrease of 366 GWh (10%) year-on-year. The decrease was due to a warmer winter and lower sales to corporate customers at the medium-voltage and low-voltage levels, some of whom switched to a different seller on the free market.

Electricity Sales Outlook for 2016

CEZ Elektro Bulgaria AD expects to sell 6,053 GWh of electricity and CEZ Trade Bulgaria EAD expects to sell 3,458 GWh of electricity in 2016.

Legislative and Business Environment in the Energy Sector

The energy market in Romania is undergoing gradual liberalization. Full market liberalization in the corporate customer segment was completed in 2013 and should be completed for households in 2017. Liberalization of the sales segment continues during 2016 according to the specified schedule.

Renewable generation in Romania is supported through "green certificates." The Romanian government amended the renewables support program in July 2013, with the result that the negotiability of a portion of allocated green certificates was suspended. Wind parks can temporarily trade in just one of two certificates allocated per generated MWh. The withheld certificates should be traded by wind parks from January 1, 2018 until the end of 2020.

Electricity Generation-Related Aspects

Temporary accreditations approved on September 2, 2015 entitled the Fântânele Vest and Cogealac wind parks to receive support for 12 months in the form of green certificates, getting one certificate per MWh while the other certificate remains deferred until 2018–2020. In April 2016, the regulatory authority approved a 12-month renewal of the temporary accreditation until September 2017. What was crucial for the allocation of support in the long term was the completion of the formal notification process by the European Commission (more specifically, its Directorate-General for Competition—DG COMP). Romanian authorities sent formal notifications concerning the two wind farms to the European Commission in February 2016. The European Commission (DG COMP) completed the process of approving state aid for renewable electricity generation and approved the individual notifications for the Fântânele Vest and Cogealac wind parks on June 3, 2016. On the basis of this approval by the European Commission (DG COMP), the wind parks are now entitled to be part of the renewable generation support program in accordance with applicable legislation and obtain green certificates for the electricity they generate. For 2016, this means support amounting to two green certificates – one allocated and one deferred.

Distribution-Related Aspects

Tariffs for the regulated sector of distribution and sales, with effect from January 1, 2016, were published by the Romanian regulatory authority in the second half of December 2015. The Romanian regulatory authority decreased CEZ Distributie's average distribution tariff by 11%. It decreased the tariffs of other distribution companies in a similar manner despite the fact that the distribution tariff calculation methodology effective at the beginning of the regulatory period set the limit of a year-on-year change in an average tariff to ±7%. However, the regulatory authority changed the tariff calculation methodology just before its new price decision, removing the 7% limit by its unilateral decision. CEZ Distributie filed a complaint against the above-mentioned decision with a court on January 18, 2016, simultaneously filing an appeal with the regulatory authority. The regulatory authority dismissed the appeal. The court of first instance decided in favor of the company. The decision has not become effective yet.

Generation

Electricity Generation

The Fântânele and Cogealac wind parks generated 567 GWh of electricity in H1 2016, which was a decrease of 129 GWh year-on-year. The lower production was due to worse weather conditions and generation restrictions imposed by the semi-state-owned transmission system operator in order to regulate the transmission system.

Small hydropower plants operated by TMK Hydroenergy Power S.R.L. at Reşiţa produced 49 GWh of electricity.

Capital Construction

Minor capital expenditures of CZK 0.3m were made in respect of the Fântânele and Cogealac wind parks and the small hydropower plants owned by Hydroenergy Power S.R.L.

Installed Capacity

As at June 30, 2016, CEZ Group companies in Romania owned generating facilities with an installed electricity generation capacity of 622 MW (600 MW in wind parks, 22 MW in hydro plants).

Selected Information Concerning the Performance of the Generation Segments

	Unit	Generation—Traditional Energy		Generation—New Energy		Total	
		H1 2015	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016
Electricity generation	GWh	-	-	726	616	726	616
Heat supply	TJ	-	-	-	-	-	-
Installed capacity	MW	-	-	622	622	622	622

Electricity Generation Outlook for 2016

The annual amount expected to be generated in 2016 is 1,167 GWh for wind parks and 90 GWh for hydropower plants.

Distribution

The CEZ Group company that distributes electricity in Romania is CEZ Distributie S.A., which distributed a total of 3,162 GWh of electricity in H1 2016, which was a slight decrease of 35 GWh year-on-year.

Capital Construction

Capital expenditures of CZK 624m were aimed primarily at distribution assets and new electricity meters.

Sales

CEZ Vanzare S.A. sold 1,645 GWh of electricity to end-use customers in H1 2016, which was a decrease of 58 GWh year-on-year. This was primarily due to lower sales to customers among industrial enterprises.

Electricity Sales Outlook for 2016

The total annual sales of electricity are expected to amount to 3,316 GWh.

CEZ Group in Turkey

Legislative and Business Environment in the Energy Sector

The exchange rate of the Turkish lira against the U.S. dollar was below the 2015 year-end level during virtually all the first half of the year, although it kept slightly fluctuating. However, it varied over a narrow range throughout H1 2016, as compared to the significant weakening against the U.S. dollar in 2015.

The prices of electric power in Turkey decreased in Q1 year-on-year, primarily due to greater generation at hydropower plants. They grew slightly in Q2 to levels higher than those of 2015 in connection with greater demand.

Transmission charges legislation was amended during the first half of the year, which will result in increased transmission charges. Other amendments to legislation concerned renewable energy sources and allowed providing ancillary services also to sources that receive support. Selected hydropower plants owned by Akenerji will thus be able to generate additional revenue from ancillary services.

In electricity distribution and sales, negotiations concerning amendments to the conditions of the new regulatory period starting on January 1, 2016 were held in H1 2016 with the regulatory authority. After its prevailingly negative decision, a formal action was filed with a court.

In late June/early July, internal political instability in Turkey escalated after a defeated coup by a portion of the Turkish military. The exchange rate of the Turkish lira reacted with a short-term weakening to a many-year low but returned almost to its previous values later. Standard & Poor's responded to the political uncertainty in the country by lowering its credit rating. CEZ Group is monitoring the situation in the country in cooperation with its Turkish partner; however, it believes it is still too early to draw any conclusions from it. The generation, sales, and distribution assets continue to generate cash as planned.

Generation

Electricity Generation

The total electricity production of the Akenerji group in H1 2016 was 1,710 GWh, including 607 GWh generated by hydropower plants, 1,082 GWh by gas-fired plants, and 21 GWh by wind parks. This is a decrease of 178 GWh from 2015, when 1,888 GWh was generated in H1 (989 GWh by hydropower plants, 878 GWh by gas-fired plants, and 20 GWh by wind parks).

Capital Construction

TRY 13.6m (approx. CZK 114m) was invested in electricity generation, primarily in the extension of the wind park at Ayyıldız.

Installed Capacity

Electricity is generated by Akenerji Elektrik Üretim A.Ş. and its subsidiaries. Akenerji owns one older, shut-down, gas-fired power plant, one modern CCGT plant, one wind park, and eight hydropower plants. The installed capacity of power plants co-owned by CEZ Group in Turkey totals 1,208 MW, with 289 MW in hydro plants, 904 MW in CCGT plants, and 15 MW in wind parks. Sales decreased year-on-year due to the sale of the Akocak hydropower plant.

Electricity Generation Outlook for 2016

The total amount of generated electricity is expected to be 3.7 TWh. The year-on-year decrease is due to expected lower generation at hydro and gas-fired power plants.

Distribution

Electricity is distributed in Turkey by regulated regional distribution companies. One of them is Sakarya Elektrik Dagıtım A.Ş. (SEDAŞ), indirectly controlled by ČEZ and its Turkish partner AKKÖK (through their joint venture Akcez Enerji A.Ş.). The volume of electricity distributed to end-use customers in H1 2016 was 4,341 GWh, which represented an increase of 4.5% over the same period of 2015.

Capital Construction

TRY 21.1m (approx. CZK 178m) was invested in distribution. The investments were primarily aimed at increasing capacity and efficiency of grid.

Sales

Sakarya Elektrik Perakende Satis A.Ş. (SEPAŞ), a sales company controlled through the joint venture Akcez Enerji A.Ş., sells electricity to end-use customers mostly in the SEDAŞ distribution area. The amount of electricity sold in H1 2016 was 4,196 GWh, which was a 9.5% increase year-on-year. The increase was due partially to higher demand and partially to acquiring new eligible customers.

Electricity Distribution and Sales Outlook for 2016

The expectations for 2016 are 8.7 TWh of electricity distributed and 8.9 TWh of electricity sold.

CEZ Group in Slovakia

CEZ Group directly owns a 24.5% stake (and indirectly, through a group of joint ventures with MOL, a 25.5% stake) in a heating plant at the Slovnaft refinery (CM European Power Slovakia s.r.o.).

Generation and Sales of Electricity and Heat

Process steam and electricity at the Slovnaft refinery are produced by CM European Power Slovakia, s. r. o., which belongs to a group of joint ventures of ČEZ and MOL. It delivered 2,468 TJ of heat and generated 250 GWh of electricity in H1 2016.

Capital Construction

The project for an 850MW CCGT plant at the Slovnaft site has been temporarily suspended due to unfavorable prices of electricity and gas, which do not guarantee any return on the investment.

New Nuclear Power Plant at Jaslovské Bohunice

Jadrová energetická spoločnosť Slovenska, a. s., in which 49% of shares are held by ČEZ, a. s. through ČEZ Bohunice a.s. and 51% of shares are held by JAVYS, a Slovak state-owned company, participates actively in the creation of zoning documentation in the municipality of Jaslovské Bohunice, primarily for the purposes of completing land acquisition. The final version of the zoning documentation was published on the municipality’s notice board until July 6, 2016 and is to be discussed and approved by the municipal council of Jaslovské Bohunice.

As part of the EIA process, the Ministry of the Environment of the Slovak Republic received the Expert Review of Proposed Activities and a Proposal for the Final Opinion – New Nuclear Power Plant at Jaslovské Bohunice on March 14, 2016. On April 15, 2016, the Ministry issued its final opinion, in which it recommends undertaking the proposed activities. The final opinion is valid for 7 years after the date of issue.

Regulation, financing, and return risks remain present in the project.

Sales

Sales of Electricity and Natural Gas to End-Use Customers

CEZ Slovensko, s.r.o. continued to sell electricity and natural gas to the large end-use customer segment and the small end-use customer segment, i.e. residential and SME customers, in H1 2016. Total H1 2016 deliveries in all customer segments amounted to 875 GWh of electricity, an amount similar to that of the same period of 2015, and 1,250 GWh of natural gas with a year-on-year increase of 129 GWh (+11.5%).

Electricity and Natural Gas Sales Outlook for 2016

The amount of electricity delivered to the large and small end-use customer segments in 2016 is expected to be similar to that of 2015, while a slight increase is expected for the total amount of natural gas delivered. We will continue to actively pursue growth in our market share.

Countries with Limited Presence

CEZ Group has only limited operations in some countries where it is present. These include countries where activities are still under development or have already been wound down, as well as countries where no energy-related business activities are pursued.

Germany

Germany continues to be a priority market under CEZ Group's updated strategy, focusing on strengthening its position in renewables in the Central European region.

A step toward the implementation of the renewables development strategy is collaboration with Aquila Capital, Germany's leading manager of assets in renewable energy sources. Aquila Capital is seeking potential opportunities for CEZ Group to invest in wind farms—both in shares in already operated wind farms and in projects with an approved form of support awaiting construction. The volume of investment under this collaboration will be within the single-digit hundreds of millions of euros within five years and the total capacity could reach about 120 MW. In the first half of the year, Aquila Capital presented 4 projects with a total capacity of 118 MW meeting the conditions of the collaboration. All the projects involved wind farms that are either already in operation or to be connected to the grid in 2016.

In H1 2016, CEZ Group analyzed and internally valued a number of onshore and offshore wind projects and biomass projects with a total installed capacity exceeding 1,000 MW. It also analyses biomethane plants, currently it concerns projects with a capacity of 1,450 Nm^3/h.

Hungary

Sales of Electricity to End-Use Customers

In Hungary, CEZ Magyarország Kft. sold 613 GWh of electricity to end-use customers in H1 2016, which was a decrease of 36 GWh (-5.5%) from the same period of 2015.

Electricity Sales Outlook for 2016

The total volume delivered in 2016 is expected to be lower than that of 2015. We will continue to actively pursue growth in our market share.

Albania

Another installment of EUR 21.1m (approx. CZK 570m) under the Settlement Agreement with Albania was duly paid on July 25, 2016. ČEZ, a. s. has already received EUR 52.8m out of the total of EUR 95m. Further payments are planned to be made in yearly installments until 2018.

Serbia

CEZ Group operates on the wholesale electricity market in Serbia. Acquisition activities have been wound down since 2010.

Ireland and the Netherlands

CEZ Group has no actual business operations in these countries. The subsidiaries located in these countries are holding or financing companies.

Changes in CEZ Group Ownership Interests

Czech Republic

- January 4—ČEZ ESCO, a.s. acquired a 49% stake in ENESA, a.s. from EVČ, s.r.o.; on January 6, ČEZ ESCO, a.s. acquired a 26% stake in ENESA, a.s. from other shareholders; ČEZ ESCO's total stake in ENESA thus reached 75%
- January 12—The contribution of a part of the enterprise, the Vítkovice Heating Plant, increased the stated capital of Energocentrum Vítkovice, a.s. to CZK 57m
- February 10—ČEZ ESCO, a.s. acquired a 100% stake in juwi, s.r.o. (renamed to ČEZ Solární, s.r.o. on March 7), a company providing customers with individualized photovoltaic system installation and maintenance services
- June 22—ČEZ Prodej, s.r.o. purchased a 100% stake in Energie2 Prodej, s.r.o.
- July 1—ČEZ Distribuční služby, s.r.o. sold the "Metering" part of its enterprise to ČEZ Distribuce, a. s.
- July 7—The ownership of a 100% stake in Energocentrum Vítkovice, a. s. was transferred from ČEZ, a. s. to ČEZ ESCO, a.s.
- July 13—EGI, a.s., owned by ŠKODA PRAHA a.s., ceased to exist

Ireland

- April 15—CEZ International Finance Ireland Ltd. went into liquidation

Cyprus

- February 6—Taidana Limited, which had been in liquidation since late 2014, ceased to exist

Netherlands

- April 8—Dutch company CEZ ESCO Poland B.V. was established as a wholly owned subsidiary of CEZ Poland Distribution B.V.
- August 18—a merger of the companies CEZ Silesia B.V. and CEZ Poland Distribution B.V. took place, with CEZ Poland Distribution B.V. becoming the successor company

Poland

- March 31—Baltic Green Construction sp. z o.o. became the 100% owner of A.E. Wind sp. z o.o.
- March 31—The legal form of A.E. Wind sp. z o.o. was changed to joint-stock company (legal form designation: S.A.)
- April 6—Baltic Green IX sp. z o.o. was established; it is wholly owned by Baltic Green Construction sp. z o.o.
- May 12—CEZ ESCO Polska sp. z o.o. was established; it is owned by Dutch companies CEZ ESCO Poland B.V. (99.97%) and CEZ Silesia B.V. (0.03%)
- July 12—Baltic Green X sp. z o.o. was established; it is wholly owned by Baltic Green Construction sp. z o.o.

Romania

- March 31—Minor changes were made to the stakes of the existing owners (ČEZ, a. s. and CEZ Poland Distribution B.V.) in Ovidiu Development S.R.L. and Tomis Team S.A.; both companies remain wholly owned by CEZ Group companies

Slovakia

- January 9—JESS Invest, s. r. o. ceased to exist

Germany

- April 15—ČEZ Nová energetika, a.s. acquired a 14.8% stake in tado GmbH
- May 31—CEZ Erneuerbare Energien Beteiligungs GmbH was established with its registered office in Hamburg; it is wholly owned by Dutch company CEZ Poland Distribution B.V.
- June 1—CEZ Erneuerbare Energien Verwaltungs GmbH was established with its registered office in Hamburg; it is wholly owned by Dutch company CEZ Poland Distribution B.V.

General Meeting of ČEZ, a. s.

The 24th Annual General Meeting of ČEZ, a. s. was held on June 3, 2016. Among other things, the General Meeting:

- Heard the Board of Directors' Report on the Company's Business Activities and Assets for 2015, the Summary Report pursuant to Section 118(8) of the Capital Market Undertakings Act, conclusions from the Related Parties Report for 2015, the Supervisory Board's Report, and the Audit Committee's Report on the Results of Its Activities
- Approved the financial statements of ČEZ, a. s. and consolidated financial statements for the year 2015
- Approved the distribution of the Company's 2015 profit of CZK 28,114,851 thousand as follows:
  - Share in profit awarded to shareholders ("dividend")............ CZK 21,519,590 thousand
  - Share in profits awarded to members of the governance bodies ("bonus")........... CZK 0
  - Transfer to the retained earnings account .... CZK 6,595,261 thousand

  The dividend is CZK 40 per share before tax.
- Appointed Ernst & Young Audit, s.r.o as the auditor to perform the statutory audit for the accounting period of the calendar year of 2016
- Approved the 2017 donorship budget at CZK 145m and the making of a non-monetary donation in 2016 with a total value of CZK 2.1m
- Removed some members from and elected new members of the Supervisory Board and confirmed one member as a member of the Supervisory Board; refer to Changes in ČEZ, a. s. Governance Bodies
- Elected the following candidates proposed from among employees of ČEZ, a. s. as members of the Supervisory Board with effect from April 12, 2017: Jitka Čermáková, Vladimír Hronek, Lubomír Klosík, and Josef Suchánek
- Removed one member from and elected one new member of the Audit Committee; refer to Changes in ČEZ, a. s. Governance Bodies
- Approved contracts of service on the Supervisory Board made with Petr Blažek, Petr Polák, and Jan Sixta; approved a template for contracts of service on the Supervisory Board
- Approved contracts of service on the Audit Committee made with Ivan Pilip and Jan Vaněček; approved a template for contracts of service on the Audit Committee
- Granted consent to the contribution of the part of the enterprise of ČEZ, a. s. represented by the "NJZ ETE" organizational unit to the stated capital of Elektrárna Temelín II, a. s. and consent to the contribution of the part of the enterprise of ČEZ, a. s. represented by the "NJZ EDU" organizational unit to the stated capital of Elektrárna Dukovany II, a. s.

Changes in ČEZ, a. s. Governance Bodies

Supervisory Board

Members of the Supervisory Board whose membership began in H1 2016 or before the half-year report closing date:

Petr Polák	Co-opted by the Supervisory Board with effect from February 25, 2016 (Confirmed by the General Meeting on June 3, 2016)
Vladimír Kohout	Elected by the General Meeting with effect from June 3, 2016
Ondřej Landa	Elected by the General Meeting with effect from June 3, 2016
Šárka Vinklerová	Elected by the General Meeting with effect from June 3, 2016
František Vágner	Elected by the General Meeting with effect from June 3, 2016

The Supervisory Board elected Ondřej Landa as its vice-chairman at its meeting held on June 23, 2016.

Members of the Supervisory Board whose membership terminated in H1 2016 or before the half-year report closing date:

Vladimír Vlk	Resigned from the Supervisory Board with effect from February 25, 2016
Petr Blažek	Vice-Chairman of the Supervisory Board from June 26, 2015 to June 3, 2016 Member of the Supervisory Board from June 12, 2015 to June 3, 2016
Jan Sixta	Member of the Supervisory Board from June 12, 2015 to June 3, 2016
Jiří Tyc	Member of the Supervisory Board from June 27, 2014 to June 3, 2016
Lukáš Wagenknecht	Member of the Supervisory Board from June 27, 2014 to June 3, 2016

Audit Committee

Members of the Audit Committee elected by the General Meeting on June 3, 2016:

Otakar Hora	Member of the Audit Committee since June 3, 2016

Members of the Audit Committee whose membership terminated in H1 2016 or before the half-year report closing date:

Lukáš Wagenknecht	Vice-Chairman of the Audit Committee from July 10, 2014 to June 3, 2016 Member of the Audit Committee from June 27, 2014 to June 3, 2016

Board of Directors

Members of the Board of Directors re-elected for another term in office:

Martin Novák	Vice-Chairman of the Board of Directors since October 20, 2011 Re-elected with effect from May 22, 2012 Re-elected with effect from May 23, 2016 Member of the Board of Directors since May 21, 2008 Re-elected with effect from May 22, 2012 Re-elected with effect from May 23, 2016

Litigation and Other Proceedings

Czech Republic

ČEZ, a. s.

1. ČEZ, a. s. registers suits related to the implementation of squeeze-outs:
   - A suit seeking review of the adequacy of consideration and award of the right to a different amount of consideration in the process of a squeeze-out in Severočeské doly a.s.; the proceedings are pending before the court of first instance. Should the complainants win the suit, the total additional payment could be up to CZK 1,800m. The outcome of the proceedings is impossible to predict.
   - A suit against ČEZ Teplárenská, a. s. seeking review of the adequacy of consideration and award of the right to a different amount of consideration in the process of squeeze-out in United Energy, a.s. The proceedings are pending before the court of first instance; in January 2015, a decision was made to resume the proceedings after a suit concerning the nullification of a general meeting was concluded. The possible impact of this suit on ČEZ Teplárenská, a.s. or ČEZ, a. s. is impossible to determine at this phase of the proceedings.
   - An action seeking nullification of the resolution of the General Meeting of United Energy, a.s. (ČEZ Teplárenská, a.s. is the successor) deciding on squeeze-out was dismissed upon final judgment.

2. In insolvency proceedings against Lignit Hodonín, s.r.o., ČEZ, a. s. submitted a claim for over CZK 115m, CZK 23m of which is loss arising from failure to pay for electricity supplied. The remainder of the claim consists of sanction claims ensuing from signed contracts. The submitted claim was recognized in full. The bankruptcy proceedings were canceled in September 2013 due to the bankrupt's estate being absolutely insufficient to settle the creditors' claims. As a result, the claim submitted by ČEZ, a. s. was not settled at all. Additionally, the receiver filed a suit against ČEZ, a. s. in August 2010 for damages exceeding CZK 196m, allegedly resulting from abuse of a dominant position in determining the purchase price of brown coal deliveries and the amount of the maximum discount for faulty performance. ČEZ, a. s. denies the claim in full. By a resolution of the Municipal Court in Prague from May 2012, a new claimant entered into the proceedings, namely UVR Mníšek pod Brdy a.s., which bought the debtor's enterprise. Subsequently, the claim in dispute was assigned several times. At the moment, the holder of the claim is FORMOSANA LIMITED, which acts as the claimant in the proceedings. The outcome of the proceedings is impossible to predict.

3. ČEZ, a. s. also faces 35 lawsuits initiated by the same claimant, Lesy České republiky, s.p. All the suits have the same grounds, namely a claim for compensation for loss caused by the operations of ČEZ, a. s. in forest crops in 1997 and 1999–2013. The oldest suit is from 1999 and the latest one is from 2015. The total amount claimed is CZK 510m plus accessories thereof.

4. In July 2013, Mr. Vladimír Juha filed an action against ČEZ, a. s. with the Municipal Court in Prague, in which (after action extension) he is seeking payment of a total of EUR 4m with accessories thereof. The claims in dispute allegedly arose from a consulting services contract made between ČEZ, a. s. and Boston Capital Services Ltd. in connection with the CET Galati project in Romania in 2009. The claims of Boston Capital Services Ltd. arising from said contract were allegedly assigned to Mr. Juha by an agreement from 2010. Based on Mr. Juha's notice of claim assignment, the court issued a resolution permitting that Mr. Juha be replaced in the case by the Slovak company M 8 Slovakia, spol. s r. o. The court of first instance dismissed the action in full. The case is now in the appellate stage initiated by the counterparty's appeal.

5. There is a dispute between ČEZ, a. s. and Sokolovská uhelná, právní nástupce, a.s. (SU) over the amount and price of brown coal supplied by SU for ČEZ, a. s., under a long-term purchase contract (valid until coal reserves in SU mines are depleted or until the end of 2027). SU is questioning the validity of said long-term purchase contract, or more precisely the validity of clauses concerning the purchase price and the amount to be supplied, and claims that ČEZ, a. s. is acting unlawfully when enforcing said contract. ČEZ, a. s. initiated several lawsuits against SU in connection with the dispute. One of the lawsuits is heard by the Regional Court in Pilsen and ČEZ, a. s. is seeking the recovery of unjust enrichment (overpayment) received by SU in connection with payments for brown coal deliveries from January to May 2011, amounting to

approx. CZK 56m with accessories thereof. Another lawsuit is heard by the District Court in Sokolov and ČEZ, a. s. is seeking the recovery of unjust enrichment (overpayment) received by SU in connection with payments for brown coal deliveries from June to December 2011, amounting to approx. CZK 77m with accessories thereof. Neither the Regional Court in Pilsen nor the District Court in Sokolov has yet decided the respective case. In addition, ČEZ, a. s. filed a lawsuit with the District Court in Sokolov claiming approx. CZK 342m with accessories thereof as a contractual penalty based on a ship-or-pay obligation in relation to brown coal deliveries in 2011. The case has not been decided yet either. Furthermore, ČEZ, a. s. filed an action against SU with the District Court in Sokolov in March 2015, seeking approx. CZK 206m with accessories thereof in damages arising from ČEZ, a. s. being forced to pay the cost of transportation of thermal brown coal to the Tisová Power Plant from January 2012 to December 2014, while the cost should have been paid by SU under the long-term thermal brown coal sales contract. The case is heard by the District Court in Sokolov and has not been decided yet. In late 2015, ČEZ, a. s. filed a lawsuit with the District Court in Sokolov claiming approx. CZK 430m with accessories thereof as a contractual penalty based on a ship-or-pay obligation in relation to brown coal deliveries in 2012. The case has not been decided yet. In connection with the above, ČEZ, a. s. also was or is the subject of proceedings conducted by the Office for the Protection of Competition and the Specialized Tax Office; the Specialized Tax Office case is now in the stage of review by administrative courts. Furthermore, SU filed an action against ČEZ, a. s. in February 2016, claiming approx. CZK 1,054m with accessories thereto. SU claims that ČEZ, a. s. was acting unlawfully when paying a price lower than the allegedly usual price for brown coal deliveries in 2010 through 2013. It claims price top-up and a contractual penalty. This case is currently heard by the District Court in Sokolov and has not been decided yet.

6. ČEZ, a. s. filed an action against Walo Bertschinger AG, a company having its registered office at Limmatstrasse 73, 8005 Zürich, with the Commercial Court of the Canton of Zurich, Swiss Confederation, in March 2016. The company was a contractor whose work consisted in repairs of the cladding of the upper reservoir of the Dlouhé Stráně hydropower plant. The action seeks repair of defects in the work or, if the defects are not remedied under a prospective favorable decision, payment of a monetary amount equal to the value in dispute. The value of the matter in dispute has been calculated as CZK 205m. The action was delivered to the counterparty and a term was provided (and subsequently extended) for submitting its answer. Considering, among other things, the early stage of the suit, its outcome is impossible to predict.

7. In insolvency proceedings against PLP a.s., Teplárna Trmice, a.s. submitted an unsecured claim for CZK 191m, consisting of losses arising from failure to pay for electricity, heat, and raw water supplied, and a claim for CZK 59m arising from the penalty requested. Both claims were recognized in review hearings that took place in the first half of 2011. In March 2013, an enterprise sale contract was signed as part of the realization of the debtor’s assets in the insolvency proceedings. The enterprise of the debtor, PLP a.s., was realized for USD 10m. The proceeds were rendered to the secured creditor in July 2013. The amount of settlement for Teplárna Trmice, a.s. in the insolvency proceedings in question, which have not been completed yet, has been zero so far.

ČEZ Distribuce, a. s.

8. In May 2013, ČEZ Distribuce, a. s. was served an action of SPR a.s., seeking payment of CZK 10m with accessories thereof. The claimant’s additional submissions successively increased the amount claimed to approx. CZK 180m. The claimant deems its claim to be the loss that it allegedly incurred due to a breach of obligations by ČEZ Distribuce, a. s. in relation to the connection of the Dubí photovoltaic power plant to the distribution grid. The case is pending; its outcome is impossible to predict.

9. An action seeking payment of CZK 303m with accessories thereof from August 2015 was filed with the District Court in Děčín by UNIPETROL RPA, s.r.o. as the claimant. The claimant is seeking the recovery of unjust enrichment by ČEZ Distribuce, a. s. as the defendant, consisting in the electricity distribution price component to cover costs associated with electricity support being allegedly incorrectly billed, but duly paid by UNIPETROL RPA, s.r.o., in relation to local (in-house) electricity consumption. The claimant believes that it was not supposed to pay the electricity distribution price component to cover costs associated with electricity support from January 1 to

October 1, 2013 and that it was billed for said price component without legal title by ČEZ Distribuce, a. s. The case is pending; its outcome is impossible to predict.

10. An action seeking payment of CZK 394m with accessories thereof from August 2015 was filed with the District Court in Děčín by ArcelorMittal Ostrava a.s. as the claimant. The claimant is seeking the recovery of unjust enrichment by ČEZ Distribuce, a. s. as the defendant, consisting in the electricity distribution price component to cover costs associated with electricity support being allegedly incorrectly billed, but duly paid by ArcelorMittal Ostrava a.s., in relation to local (in-house) electricity consumption. The claimant believes that it was not supposed to pay the electricity distribution price component to cover costs associated with electricity support from January 1, 2013 to October 1, 2013 and that it was billed for said price component without legal title by ČEZ Distribuce, a. s. The case is pending; its outcome is impossible to predict.
11. In March 2016, ČEZ Distribuce, a. s. filed an action against OTE, a.s. with the District Court for Prague 8, seeking the recovery of unjust enrichment of almost CZK 1,858m (with accessories thereto) consisting in the electricity distribution price component to cover costs associated with electricity support being incorrectly billed, but duly paid by ČEZ Distribuce, a. s., in relation to local (in-house) electricity consumption in the period of January 1 to October 1, 2013 (hereinafter "Contribution"). The action results from ambiguous regulation in the period in question, as it is not certain whether or not ČEZ Distribuce, a. s. was required to collect the Contribution from its customers (and transfer it to OTE, a.s.). ČEZ Distribuce, a. s. filed the action to prevent the expiration of the period of limitation applicable to the claim. The case is pending; its outcome is impossible to predict.
12. An action seeking payment of approx. CZK 100m with accessories thereof from March 2016 was filed with the District Court in Děčín by Biocel Paskov a.s. as the claimant. The claimant is seeking the recovery of unjust enrichment by ČEZ Distribuce, a. s. as the defendant, consisting in the electricity distribution price component to cover costs associated with electricity support being allegedly incorrectly billed, but duly paid by Biocel Paskov a.s., in relation to local (in-house) electricity consumption (supported energy sources). The case is pending; its outcome is impossible to predict.

ČEZ Prodej, s.r.o.

13. Since June 2010, ČEZ Prodej, s.r.o. has been involved in a lawsuit with Správa železniční dopravní cesty, státní organizace (SŽDC), in which it is seeking CZK 805m in damages. The High Court in Prague as the court of appeal decided the case in its judgment from March 2015 by admitting the claim of ČEZ Prodej, s.r.o. in full, and SŽDC had to pay ČEZ Prodej, s.r.o. the full amount in dispute, including accessories thereto. The ground of the suit was a breach of an electricity supply contract by SŽDC, consisting in failure to take deliveries of the agreed amount of electricity in 2010, and the resulting loss. However, the case is still pending as SŽDC filed a devolutive appeal with the Supreme Court within the statutory time limit.
14. Since January 2013, ČEZ Prodej, s.r.o. has been involved in a lawsuit with Správa železniční dopravní cesty, státní organizace (SŽDC), in which it is seeking CZK 857m in damages. The suit is heard by the Municipal Court in Prague with ČEZ Prodej, s.r.o. as the claimant. The ground of the suit, which is still pending, is a breach of an electricity supply contract by SŽDC, consisting in failure to take deliveries of the agreed amount of electricity in 2011, and the resulting loss.
15. Since March 2012, ČEZ Prodej, s.r.o. has been involved in a lawsuit with VÍTKOVICE, a.s., heard by the Regional Court in Ostrava, in which it is seeking CZK 385m in damages as a result of a breach of an electricity supply contract in 2011 and CZK 10m as a payment for electricity consumed but unpaid for in 2011. A compulsory payment order was issued in the case, against which the defendant filed a protest; the case has not been decided yet.
16. ČEZ Prodej, s.r.o. is involved in a lawsuit against ACTHERM, spol. s r.o., heard by the District Court for Prague 4, seeking damages exceeding CZK 124m. The lawsuit was initiated in April 2016 on the grounds of loss incurred by ČEZ Prodej, s.r.o. due to the actions of the defendant as the operator of a local distribution system during the registration of photovoltaic electricity producers Saša - Sun s.r.o., Zdeněk - Sun s.r.o., and VT-SUN, s.r.o. in the market operator's system and the delivery of information on the amount of support paid to the producers. A motion has been filed to stay the proceeding until there is a decision on a preliminary question—the ERO's decision in an administrative proceeding against OTE, a.s.

ŠKODA PRAHA Invest s.r.o.

17. In insolvency proceedings against MODŘANY Power, a.s. (MoPo), ŠKODA PRAHA Invest s.r.o. submitted claims relating to the execution of projects for the construction of a new 660MW$_e$ unit at the Ledvice Power Plant, the comprehensive renovation of the Prunéřov II Power Plant, and the construction of a new 880MW$_e$ CCGT unit at the Počerady Power Plant, as well as projects at the Dukovany Nuclear Power Plant. Specifically, these are unconditional claims arising from contractual penalties for the late delivery of portions of the work, totaling CZK 348m; conditional claims arising from potential defects occurring during the warranty period, up to a possible total of CZK 4.4bn; and conditional claims concerning the payment of contractual penalties and the repayment of a sum paid for additional work in the Počerady Power Plant project in case the award of the Arbitration Court attached to the Economic Chamber of the Czech Republic (EC CR) and Agricultural Chamber of the Czech Republic (AC CR) is reversed, totaling approx. CZK 314m. During a review hearing held in March 2016, MoPo and the receiver denied the authenticity and the amounts of all the submitted unconditional claims arising from contractual penalties for the late delivery of portions of the work, totaling CZK 348m, as well as all the submitted conditional claims concerning the payment of contractual penalties and the repayment of a sum paid for additional work in the Počerady Power Plant project amounting to approx. CZK 314m. ŠKODA PRAHA Invest s.r.o. filed actions to determine the authenticity and amounts of all of the denied claims with the Municipal Court in Prague in April 2016. No decisions on these actions have been taken yet.
18. In connection with contracts for work concerning piping delivery and installation, made between ŠKODA PRAHA Invest s.r.o. and MoPo under the project for the comprehensive renovation of the Prunéřov II Power Plant, MoPo filed an action with the Arbitration Court attached to the EC CR and AC CR in March 2016, seeking the payment of the price of executed additional work of more than CZK 49m. No decision on this action has been taken yet. Furthermore, in amendments to contracts for work made in April 2015 in connection with the project for the comprehensive renovation of the Prunéřov II Power Plant, the parties declared that they are in dispute over MoPo's claims for the reimbursement of the costs of postponing the preliminary acceptance date, totaling approx. CZK 111m.
19. In connection with contracts for work concerning piping delivery and installation, made between ŠKODA PRAHA Invest s.r.o. and MoPo under the project for the construction of a new 660MW$_e$ unit at the Ledvice Power Plant, the parties, at a meeting held in June 2015, agreed that they were in dispute over MoPo's claims for the reimbursement of the costs of postponing the preliminary acceptance date, totaling approx. CZK 135m. MoPo, in its letter dated February 25, 2016, as well as MoPo's receiver, in his letter received by ŠKODA PRAHA Invest s.r.o. on June 6, 2016, disputed the legitimacy of ŠKODA PRAHA Invest s.r.o. cashing and using money from performance bonds (secured by MoPo), totaling approx. CZK 179m.
20. In insolvency proceedings involving the assets of Chladicí věže Praha, a. s. (CV), ŠKODA PRAHA Invest s.r.o. submitted claims relating to the execution of the 880MW$_e$ CCGT Unit project at the Počerady Power Plant. Specifically, there is a conditional claim arising from potential defects occurring during the warranty period, up to a possible total of CZK 438m, and ŠKODA PRAHA Invest s.r.o. notified the court that this claim is unconditional in the amount of approx. CZK 5m. Furthermore, there are unconditional claims arising from liability for defects and/or compensation for loss incurred in remedying defects and from a contractual penalty for default in remedying notified defects, in a total amount exceeding CZK 13m. Said submitted claims were denied by the receiver. Therefore, ŠKODA PRAHA Invest s.r.o. filed an action to determine the authenticity and amounts of all of the denied claims with the Municipal Court in Prague in July 2016. No decision on this action has been taken yet. In addition, ŠKODA PRAHA Invest s.r.o. is claiming its rights against CV arising out of a bank guarantee issued by PPF Banka in an action seeking payment of approx. CZK 43m, filed with the District Court for Prague 6 in March 2016. No decision on this action has been taken yet.

Bulgaria

21. In 2014 and 2015, CEZ Razpredelenie Bulgaria AD, CEZ Elektro Bulgaria AD, and TEC Varna EAD appealed against many decisions of the regulatory authority, Energy and Water Regulatory Commission (EWRC), stipulating prices of electricity, prices of access to the distribution network for producers of renewable electricity purchased at preferential prices, and obligatory compensation to producers of renewable electricity. Court hearings are scheduled for September and October 2016.

22. CEZ Razpredelenie Bulgaria AD and CEZ Elektro Bulgaria AD appealed against decree No. 1 of April 5, 2013, on electricity prices. The Supreme Administrative Court finally upheld the decision of the lower court repealing Article 10(2)(2) and (6), concerning lack of recognition of expenses for balancing and for reactive energy in electricity prices.

23. In March 2014, the National Energy Company EAD (NEK) commenced arbitration against CEZ Elektro Bulgaria AD before the Arbitration Court at the Bulgarian Chamber of Commerce and Industry. The matter in dispute is claims amounting to BGN 10m (approx. CZK 140m) for electricity deliveries in 2011–2012. CEZ Elektro Bulgaria AD considers the debt non-existent and the claim unsubstantiated. The final hearing was held on May 18, 2016; the result should be known in September 2016.

24. Additionally, NEK filed an action against CEZ Razpredelenie Bulgaria AD with the City Court of Sofia in March 2014, seeking payment of BGN 5.9m (approx. CZK 84m) for electricity deliveries in 2011 and 2012. CEZ Razpredelenie Bulgaria AD responded by submitting objections to NEK's action. In a closed hearing held on June 1, 2015, the court disallowed NEK's claim and called ESO EAD, the transmission system operator, as the plaintiff instead. The last hearing was held on May 17, 2016. A new hearing should be commenced before the court of first instance in September 2016.

25. As a result of a regulatory audit of compliance with distribution license conditions in the period of July 1, 2008 to November 30, 2013, conducted by the EWRC, CEZ Razpredelenie Bulgaria AD was served 206 decisions on penalty amounting to BGN 20,000 (approx. CZK 283,000) per breach. The company duly appealed against all of the penalty decisions. In the 108 appellate proceedings finished to date, 67 penalties were confirmed and 41 were quashed.

26. In 2013, the Commission for Protection of Competition commenced proceedings under Articles 101 and 102 of the Treaty on the Functioning of the European Union (cartel agreements) against companies belonging to CEZ Group. A hearing was held on October 22, 2014 and additional information and documents were subsequently requested. The Commission has not taken any further action or issued any decision since then. In addition, the Commission commenced several other proceedings against CEZ Razpredelenie Bulgaria AD in 2014 to 2016, with a maximum possible penalty of up to 10% of its turnover. Those proceedings have not been finished either.

27. On September 17, 2015, the National Energy Company EAD (NEK) brought an action against CEZ Elektro Bulgaria AD on the grounds of its alleged receivable for unpaid electricity from January–February 2014. The amount claimed is BGN 6.4m (approx. CZK 88.2m), including penalty interest. CEZ Elektro Bulgaria AD filed an objection to the action for its groundlessness, as it had set off its receivables from the claimant against the claimant's receivables. The last court hearing, during which the taking of evidence was finished, was held on July 12, 2016. The scope of claims made remained the same. The case has not been concluded yet.

28. The Commission for Protection against Discrimination opened case No. 258/2008, for alleged discrimination on the basis of ethnic origin, on the grounds that switchboards were installed at a height of 6–8 m in some areas but at 1–2 m in other areas. The Court of Justice of the European Union in Luxembourg decided on July 16, 2016 that Anelya Nikolova was discriminated against. A Bulgarian administrative court should now deliver a judgment and the Administrative Court in Sofia has reopened the case. The next court hearing is scheduled for October 3, 2016.

Poland

29. In 2009, Agrowind Kończewo sp. z o.o. (AWK) filed a lawsuit against seven companies jointly and severally, one of which is Eco-Wind Construction S.A. (EWC), seeking PLN 22,653,583 plus interest in compensation because the companies frustrated the installation of wind turbines and transformer stations on land that the claim alleges was held by AWK. At December 4, 2014, the claim was increased to a total of PLN 112,712,952 plus interest (approx. CZK 715m). The lawsuit can be expected to last for up to several years.

Romania

30. Lawsuits that arose in connection with the construction of the Fântânele and Cogealac wind parks in Romania still continue. The most important dispute concerning the ownership of land under a transformer station is suspended. In a related suit, the appellate court largely acknowledged the wind farm's ownership of the land in March 2016.

Turkey

31. In March and May 2016, Sakarya Elektrik Dağitim A.S. (SEDAŞ) filed three administrative actions and Sakarya Elektrik Perakende Satış A.S. (SEPAŞ) filed two administrative actions against the decisions of the Turkish energy regulatory authority (EPDK) regulating the limits of SEDAŞ's revenue from electricity distribution in the regulatory period of 2016 to 2020, including the method of calculation and application, and regulating the limits of SEPAŞ's revenue from electricity sales and limits of SEPAŞ's costs and expenses in the regulatory period of 2016 to 2020.
32. From 2011 and 2013, respectively, Sakarya Elektrik Dağitim A.S. (SEDAŞ) and Sakarya Elektrik Perakende Satış A.S. (SEPAŞ) filed appeals against the administrative decisions of the Turkish energy market regulatory authority (EPDK) that were the basis for reducing the portion of the companies' controllable operating costs that was automatically recognized in tariffs. The level of SEDAŞ's and SEPAŞ's operating costs is defined by EPDK's decision. The level of both companies' controllable operating costs was gradually reduced by EPDK's decisions, which the companies appealed against and strived to get canceled. On December 18, 2012, one of the disputes was decided by the administrative court in Ankara in favor of SEDAŞ. EPDK appealed against the first instance decision to the Supreme Administrative Court of Turkey. No decision on the appeal has been taken yet. On March 1, 2016, one of the disputes was decided by the administrative court in favor of EPDK. SEPAŞ appealed against the first instance decision to the Supreme Administrative Court of Turkey and no decision on the appeal has been taken yet. The other cases are in the stage of filing replies.
33. Distribution and sales companies in Turkey are facing lawsuits concerning a refund of the costs of technical and non-technical losses paid for by the companies' customers. For Sakarya Elektrik Dağitim A.S. (SEDAŞ) and Sakarya Elektrik Perakende Satış A.S. (SEPAŞ), the total amount of money in currently pending suits is immaterial.

Bulgaria – other proceedings

On July 12, 2016, CEZ Group formally filed a Request for Arbitration with the International Centre for Settlement of Investment Disputes (ICSID), officially commencing international investment arbitration against the Republic of Bulgaria under the Energy Charter Treaty on the grounds of non-protection of CEZ Group's investment. It decided to do so after a number of interventions by Bulgarian authorities injuring CEZ companies' business in Bulgaria and as a result of a long-term, non-improving critical situation in the country's energy market. The claim amounts to hundreds of millions of EUR.

ČEZ repeatedly called upon the Bulgarian government to improve the existing situation speedily and compensate incurred losses. It sent the Bulgarian government a Notice of Dispute in November 2015, in which it asked for amicable settlement and reserved the right to commence investment arbitration. The Bulgarian party did not take the opportunity to settle the dispute amicably in the time provided.

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Abbreviations

CHP	Combined heat and power
EIA	Environmental Impact Assessment
ERO	Energy Regulatory Office
EU ETS	EU Emission Trading System
ISIN	International Securities Identification Number
RES	Renewable energy sources
SONS	State Office for Nuclear Safety

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

Methods Used to Calculate Indicators Unspecified in IFRS

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

Indicator	
Net Debt	Purpose: The indicator shows the real level of a company's financial debt, i.e. the nominal amount of debt less cash, cash equivalents, and highly liquid financial assets held by the company. The indicator is primarily used to assess the overall appropriateness of the company's level of debt, i.e. for example in comparison with selected corporate profit or balance sheet indicators. Definition: Long-Term Debt, Net of Current Portion + Current Portion of Long-Term Debt + Short-Term Borrowings − (Cash and Cash Equivalents + Highly Liquid Financial Assets)
Adjusted Net Income (After-Tax Income, Adjusted)	Purpose: This is a supporting indicator primarily for investors, creditors, and shareholders that allows interpreting achieved financial results with the exclusion of extraordinary, usually non-recurring effects that are generally unrelated to ordinary financial performance and value creation in a given period. Definition*): Net income (after-tax income) +/− additions to and reversals of impairments of property, plant, and equipment and intangible assets including goodwill +/− loss/profit from sale of subsidiaries +/− other extraordinary effects that are generally unrelated to ordinary financial performance in a given year and value creation in a given period +/− effects of the above on deferred and current tax
Dividend per Share (Gross)	Purpose: The indicator reflects a shareholder's right to the payment of a share in a joint-stock company's profit (usually for the past year) corresponding to the holding of one share. The subsequent payment of the share in profit is usually subject to taxes, which may be different for different shareholders; therefore, the value before taxes is reported. Definition: Dividend awarded in the current year, before taxes, per outstanding share (paid in the reported year from the profit of prior periods).
EBITDA (EBIT Before Depreciation and Amortization, Impairments, and Asset Sales)	Purpose: This is an important economic indicator showing a business's operating efficiency comparable to other companies, as it is unrelated to the company's depreciation and amortization policy and capital structure or tax treatment. It is one of the fundamental indicators used by companies to set their key financial and strategic objectives. Definition: Earnings Before Taxes and Other Expenses and Revenues + Depreciation and Amortization +/− Impairments of Property, Plant, and Equipment and Intangible Assets Including Goodwill (including Write-Off of Canceled Investments) and Sales of Property, Plant, and Equipment and Intangible Assets

Indicator	
Net Debt / EBITDA	Purpose: This indicates a company's capability to decrease and pay back its debt as well as its ability to take on additional debt to grow its business. The indicator shows approximately how long it would take for a company to pay back its debt out of its primary source of operating cash flow. CEZ Group uses this indicator primarily to assess the adequacy of its capital structure to the structure and stability of its expected cash flows. Definition: Net Debt / EBITDA. Where EBITDA is the running total for the past 12 months, i.e. EBITDA generated from July 1 of the previous year to June 30, and Net Debt is the level at the end of the period, i.e. at June 30.
Return on Equity (ROE), Net	Purpose: This indicator is the ratio of generated income to shareholders' capital invested in a company. It allows investors to compare the appreciation of their investment (ROE achieved in a prior period) to their expectations. Definition: Net Income Attributable to Parent Company Shareholders / Average Equity Attributable to Parent Company Shareholders. Net Income is the running total for the past 12 months, i.e. the amount of Net Income generated from July 1 of the previous year to June 30. Equity is the average value of the current period and the period 12 months ago, i.e. the average of values at June 30.

*) Definition applied since January 1, 2016

Most of the components used in the calculation of an indicator are directly shown in financial statements, published in this Half-Year Report on page 75. The components of calculations that are not included in the financial statements are usually shown directly in a company's books and are defined as follows:

Net Debt indicator—Highly Liquid Financial Assets item:

CZK millions	June 30, 2015	June 30, 2016
Short-term equity securities available-for-sale	2,096	0
Short-term debt securities held-to-maturity	6,931	3,601
Short-term deposits	9,444	7,110
Long-term deposits	11	0
Long-term debt securities available-for-sale	681	4,839
Highly liquid financial assets in total	**19,164**	**15,550**

Adjusted Net Income indicator—individual components:

Adjusted Net Income (After-Tax Income, Adjusted)	Unit	H1 2015	H1 2016
Net income	CZK millions	15,414	13,797
Impairments of property, plant, and equipment and intangible assets including goodwill	CZK millions	21	973
Effects of the additions to or reversals of impairments on deferred and current tax	CZK millions	(3)	0
Profit (loss) from sale of subsidiaries and joint ventures	CZK millions	0	0
Other extraordinary effects	CZK millions	0	0
Adjusted net income	**CZK millions**	**15,432**	**14,770**

CEZ GROUP

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS OF JUNE 30, 2016

CEZ GROUP
CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2016

in CZK Millions

	Note	June 30, 2016	December 31, 2015
Assets			
Property, plant and equipment:			
Plant in service		724,326	719,633
Less accumulated depreciation and impairment		(412,800)	(399,608)
Net plant in service		311,526	320,025
Nuclear fuel, at amortized cost		13,213	12,997
Construction work in progress		93,237	88,342
Total property, plant and equipment		417,976	421,364
Other non-current assets:			
Investment in joint-ventures		9,255	9,239
Restricted financial assets		19,018	18,059
Investments and other financial assets, net		29,559	22,598
Intangible assets, net		20,139	20,164
Deferred tax assets		1,173	1,631
Total other non-current assets		79,144	71,691
Total non-current assets		497,120	493,055
Current assets:			
Cash and cash equivalents		21,996	13,482
Receivables, net		44,845	46,003
Income tax receivable		2,723	436
Materials and supplies, net		8,701	8,577
Fossil fuel stocks		781	1,554
Emission rights		1,883	3,456
Other financial assets, net		29,702	32,728
Other current assets		3,309	3,395
Total current assets		113,940	109,631
Total assets		611,060	602,686

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

CEZ GROUP
CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2016

continued

	Note	June 30, 2016	December 31, 2015
Equity and liabilities			
Equity:			
Equity attributable to equity holders of the parent:			
Stated capital		53,799	53,799
Treasury shares		(4,246)	(4,246)
Retained earnings and other reserves		210,420	218,340
Total equity attributable to equity holders of the parent		259,973	267,893
Non-controlling interests		4,445	4,262
Total equity		264,418	272,155
Long-term liabilities:			
Long-term debt, net of current portion	6	154,167	145,575
Provisions		60,617	60,525
Deferred tax liabilities		24,383	22,053
Other long-term liabilities		8,591	8,679
Total long-term liabilities		247,758	236,832
Current liabilities:			
Short-term loans	7	4,848	223
Current portion of long-term debt	6	2,948	11,696
Trade and other payables		73,781	58,010
Income tax payable		199	1,606
Provisions		5,614	8,219
Accrued liabilities		11,494	13,945
Total current liabilities		98,884	93,699
Total equity and liabilities		611,060	602,686

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

CEZ GROUP
CONSOLIDATED STATEMENT OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2016

in CZK Millions

	Note	1-6/2016	1-6/2015 *	4-6/2016	4-6/2015 *
Sales of electricity and related services		84,654	90,458	41,662	44,220
Sales of gas, coal, heat and other revenues		13,515	12,122	5,120	4,625
Other operating income		734	1,944	238	1,483
Total revenues and other operating income		98,903	104,524	47,020	50,328
Gains and losses from commodity derivative trading, net		683	(913)	(794)	45
Fuel		(6,371)	(6,364)	(2,816)	(2,665)
Purchased power and related services		(42,627)	(44,397)	(21,191)	(22,347)
Repairs and maintenance		(1,617)	(1,577)	(1,012)	(900)
Depreciation and amortization		(14,161)	(14,298)	(7,092)	(7,104)
Impairment of property, plant and equipment and intangible assets including goodwill	8	(973)	(21)	(971)	(83)
Salaries and wages		(8,946)	(8,643)	(4,588)	(4,399)
Materials and supplies		(2,067)	(1,916)	(1,107)	(1,008)
Emission rights, net		546	243	359	202
Other operating expenses		(5,372)	(5,338)	(2,777)	(2,796)
Income before other income (expenses) and income taxes		17,998	21,300	5,031	9,273
Interest on debt, net of capitalized interest		(1,117)	(1,608)	(560)	(795)
Interest on provisions		(746)	(843)	(373)	(421)
Interest income		171	226	95	116
Foreign exchange rate gains (losses), net		(681)	(562)	(729)	(169)
Other financial expenses		(317)	(338)	74	(238)
Other financial income		1,762	1,955	1,673	1,778
Share of profit (loss) from joint-ventures		27	(956)	(305)	54
Total other income (expenses)		(901)	(2,126)	(125)	325
Income before income taxes		17,097	19,174	4,906	9,598
Income taxes		(3,300)	(3,760)	(1,065)	(1,747)
Net income		13,797	15,414	3,841	7,851
Net income attributable to:					
Equity holders of the parent		13,629	15,375	3,753	7,860
Non-controlling interests		168	39	88	(9)
Net income per share attributable to equity holders of the parent (CZK per share)					
Basic		25.5	28.8	7.0	14.7
Diluted		25.5	28.8	7.0	14.7

* The way of presentation was changed (see Note 2.2.b). The prior year figures were changed accordingly to provide comparative information on the same basis and they do not fully correspond to the interim consolidated financial statements as of June 30, 2015.

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

CEZ GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2016

in CZK Millions

	Note	1-6/2016	1-6/2015 *	4-6/2016	4-6/2015 *
Net income		13,797	15,414	3,841	7,851
Other comprehensive income - items that may be reclassified subsequently to statement of income or to assets:					
Change in fair value of cash flow hedges recognized in equity		(1,288)	5,914	(2,924)	1,297
Cash flow hedges reclassified to statement of income		(264)	(1,611)	(859)	1,529
Change in fair value of available-for-sale financial assets recognized in equity		1,447	1,149	(244)	20
Available-for-sale financial assets reclassified from equity		(1)	(16)	-	(16)
Translation differences - subsidiaries		(266)	(480)	(398)	(915)
Translation differences - joint-ventures		(16)	(739)	37	(720)
Translation differences reclassified from equity		(102)	(1)	(35)	-
Share on other equity movements of joint-ventures		25	(17)	5	7
Deferred tax related to other comprehensive income	9	287	(660)	728	(318)
Net other comprehensive income that may be reclassified to statement of income or to assets in subsequent periods		(178)	3,539	(3,690)	884
Total comprehensive income, net of tax		13,619	18,953	151	8,735
Total comprehensive income attributable to:					
Equity holders of the parent		13,438	18,983	52	8,788
Non-controlling interests		181	(30)	99	(53)

* The way of presentation was changed (see Note 2.2.b). The prior year figures were changed accordingly to provide comparative information on the same basis and they do not fully correspond to the interim consolidated financial statements as of June 30, 2015.

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

CEZ GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2016

in CZK Millions

	Note	Attributable to equity holders of the parent								
		Stated capital	Treasury shares	Transla-tion difference	Cash flow hedge reserve	Available-for-sale and other reserves	Retained earnings	Total	Non-controlling interests	Total equity
December 31, 2014		53,799	(4,382)	(7,350)	(7,972)	1,849	225,364	261,308	4,543	265,851
Net income		-	-	-	-	-	15,375	15,375	39	15,414
Other comprehensive income		-	-	(1,150)	3,485	1,290	(17)	3,608	(69)	3,539
Total comprehensive income		-	-	(1,150)	3,485	1,290	15,358	18,983	(30)	18,953
Dividends		-	-	-	-	-	(21,370)	(21,370)	(4)	(21,374)
Sale of treasury shares		-	136	-	-	-	(68)	68	-	68
Share options		-	-	-	-	16	-	16	-	16
Transfer of exercised and forfeited share options within equity		-	-	-	-	(44)	44	-	-	-
Acquisition of non-controlling interests		-	-	19	-	-	(166)	(147)	(145)	(292)
Put options held by non-controlling interest		-	-	-	-	-	143	143	149	292
June 30, 2015		53,799	(4,246)	(8,481)	(4,487)	3,111	219,305	259,001	4,513	263,514

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

CEZ GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2016

continued

	Note	Attributable to equity holders of the parent								
		Stated capital	Treasury shares	Transla-tion difference	Cash flow hedge reserve	Available-for-sale and other reserves	Retained earnings	Total	Non-controlling interests	Total equity
December 31, 2015		53,799	(4,246)	(9,500)	(86)	3,242	224,684	267,893	4,262	272,155
Net income		-	-	-	-	-	13,629	13,629	168	13,797
Other comprehensive income		-	-	(397)	(1,257)	1,438	25	(191)	13	(178)
Total comprehensive income		-	-	(397)	(1,257)	1,438	13,654	13,438	181	13,619
Dividends	5	-	-	-	-	-	(21,369)	(21,369)	(8)	(21,377)
Share options		-	-	-	-	12	-	12	-	12
Transfer of forfeited share options within equity		-	-	-	-	(21)	21	-	-	-
Acquisition of subsidiaries	4	-	-	-	-	-	-	-	9	9
Put options held by non-controlling interest		-	-	-	-	-	(1)	(1)	1	-
June 30, 2016		53,799	(4,246)	(9,897)	(1,343)	4,671	216,989	259,973	4,445	264,418

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

CEZ GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2016

in CZK Millions

	Note	1-6/2016	1-6/2015 *
Operating activities:			
Income before income taxes		17,097	19,174
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization		14,161	14,298
Amortization of nuclear fuel		1,887	1,822
Gain on non-current asset retirements, net		(50)	(288)
Foreign exchange rate losses (gains), net		681	562
Interest expense, interest income and dividend income, net		345	705
Provisions		(2,673)	(4,690)
Impairment of property, plant and equipment and intangible assets including goodwill	8	973	21
Valuation allowances and other adjustments		(559)	(477)
Share of (profit) loss from joint-ventures		(27)	956
Changes in assets and liabilities:			
Receivables		1,217	5,650
Materials, supplies and fossil fuel stocks		590	674
Receivables and payables from derivatives		875	2,504
Other current assets		2,964	1,989
Trade and other payables		(5,560)	(5,689)
Accrued liabilities		(1,652)	(3,949)
Cash generated from operations		30,269	33,262
Income taxes paid		(3,873)	(3,146)
Interest paid, net of capitalized interest		(1,227)	(2,009)
Interest received		147	232
Dividends received		577	337
Net cash provided by operating activities		25,893	28,676
Investing activities:			
Acquisition of subsidiaries and joint-ventures, net of cash acquired	4	(42)	-
Disposal of subsidiaries and joint-ventures, net of cash disposed of		177	310
Additions to non-current assets, including capitalized interest		(19,501)	(15,246)
Proceeds from sale of non-current assets		173	267
Loans made		(3)	(30)
Repayment of loans		160	60
Change in restricted financial assets		(912)	(562)
Total cash used in investing activities		(19,948)	(15,201)

* The way of presentation was changed (see Note 2.2.b). The prior year figures were changed accordingly to provide comparative information on the same basis and they do not fully correspond to the interim consolidated financial statements as of June 30, 2015.

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

CEZ GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2016

continued

	Note	1-6/2016	1-6/2015 *
Financing activities:			
Proceeds from borrowings		27,908	45,507
Payments of borrowings		(24,701)	(58,731)
Proceeds from other long-term liabilities		30	42
Payments of other long-term liabilities		(648)	(79)
Dividends paid to Company's shareholders		(48)	(44)
Dividends paid to non-controlling interests		(7)	(4)
Sale of treasury shares		-	68
Total cash provided by (used in) financing activities		2,534	(13,241)
Net effect of currency translation in cash		35	(308)
Net increase (decrease) in cash and cash equivalents		8,514	(74)
Cash and cash equivalents at beginning of period		13,482	20,095
Cash and cash equivalents at end of period		21,996	20,021
Supplementary cash flow information			
Total cash paid for interest		3,563	4,482

* The way of presentation was changed (see Note 2.2.b). The prior year figures were changed accordingly to provide comparative information on the same basis and they do not fully correspond to the interim consolidated financial statements as of June 30, 2015.

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

1. The Company

ČEZ, a. s. ("ČEZ" or "the Company") is a Czech joint-stock company, owned 69.8% (70.3% of voting rights) at June 30, 2016 by the Czech Republic represented by the Ministry of Finance. The remaining shares of the Company are publicly held. The address of the Company's registered office is Duhová 2/1444, Praha 4, 140 53, Czech Republic.

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

2. Summary of Significant Accounting Policies

2.1. Financial Statements

The interim consolidated financial statements for the six months ended June 30, 2016 have been prepared in accordance with IAS 34 and have not been audited by an independent auditor. The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as of December 31, 2015.

2.2. Changes in Accounting Policies

a. Adoption of New IFRS Standards in 2016

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2015, except for as follows. The Group has adopted the following new or amended and endorsed by EU IFRS and IFRIC interpretations as of January 1, 2016:

- Amendments to IAS 1 Disclosure Initiative
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in joint operation
- Annual Improvements to IFRSs 2010 - 2012
- Annual Improvements to IFRSs 2012 - 2014

The impact of the adoption of standards or interpretations (or their annual improvements respectively) on the financial statements or performance of the Group is described below:

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements.

The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statement(s) of profit or loss and OCI and the balance sheet may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- that the share of OCI of associates and joint-ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

These amendments did not have a significant impact to the Group, but will assist in applying judgment when meeting the presentation and disclosure requirements.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
The amendments to IAS 19 are intended to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendments did not have a significant impact on Group's financial statements.

Amendments to IAS 27: Equity Method in Separate Financial Statements
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint-ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. These amendments do not have any impact on the Group's financial statements.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in joint operation
The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective. These amendments will affect eventual future relevant transactions.

Annual Improvements to IFRSs 2010 - 2012
In December 2013 the IASB issued a collection of amendments to IAS and IFRS in which they focused on areas of inconsistency in IFRSs and IASs or where the clarification of wording was required. The following standards were amended:

IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 8	Operating Segments
IFRS 13	Fair Value Measurement
IAS 16	Property, Plant and Equipment
IAS 24	Related Party Disclosures
IAS 38	Intangible Assets

The annual improvements had no significant impact on the Group's financial statements.

Annual Improvements to IFRSs 2012 - 2014
In September 2014 the IASB issued a collection of amendments to IAS and IFRS in which they focused on areas of inconsistency in IFRSs and IASs or where the clarification of wording was required. The following standards were amended:

IFRS 5	Non-Current Assets Held for Sale and Discontinued Operations
IFRS 7	Financial Instruments: Disclosures
IAS 19	Employee Benefits
IAS 34	Interim Financial Reporting

The annual improvements had no significant impact on the Group's financial statements.

b. Changes in the Presentation of the Financial Statements

The way of presentation of the financial statements was changed In the consolidated financial statements as of December 31, 2015. 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. As a result, reclassifications for the prior period have been made to provide fully comparative information on the same basis. The following table summarizes the effect of reclassifications on prior period presented (in CZK millions):

	Reclassifications 1-6/2015
Consolidated statement of income:	
Gains and losses from electricity, coal and gas derivative trading, net [1]	934
Sales of gas, coal, heat and other revenues	(1,249)
Other operating income	1,944
Total revenues and other operating income	1,629
Gains and losses from commodity derivative trading, net [1]	(913)
Purchased power and related services	100
Emission rights, net	4
Other operating expenses	(820)
Income before other income (expenses) and income taxes	-
Other income (expenses), net	(1,617)
Other financial expenses	(338)
Other financial income	1,955
Total other income (expenses)	-
Net income	-
EBITDA	-
Consolidated statement of comprehensive income:	
Translation differences	1,219
Translation differences - subsidiaries	(480)
Translation differences - joint-ventures	(739)
Other comprehensive income, net of tax	-
Total comprehensive income, net of tax	-
Consolidated statement of cash flows:	
Net cash provided by operating activities	33
Total cash used in financing activities	(33)
Net increase in cash and cash equivalents	-

[1] The headline of the line Gains and losses from commodity derivative trading, net was changed (formerly Gains and losses from electricity, coal and gas derivative trading, net). This line is not presented as part of Total revenues and other operating income.

3. Seasonality of Operations

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

4. Changes in the Group Structure

Acquisitions of subsidiaries from third parties in the first six months of 2016

On January 6, 2016 the Group acquired a 26% interest in ENESA a.s. Total interest of CEZ Group in ENESA is 75 % since this date. ENESA specializes in complex solutions for energy savings in public buildings and industrial plants.

On February 10, 2016 the Group acquired a 100% interest in ČEZ Solární, s.r.o. which constructs photovoltaic power plants.

On June 22, 2016 the Group acquired a 100% interest in Energie2 Prodej, s.r.o. which is a supplier of electricity and gas to all types of companies, organizations, households and public sector in the Czech Republic.

The fair values of acquired identifiable assets and liabilities as of the date of acquisition were as follows (in CZK millions):

	ENESA	ČEZ Solární	Energie2 Prodej
Share of the Group	75%	100%	100%
Property, plant and equipment	14	4	-
Intangible assets, net	-	-	86
Deferred tax assets	-	2	-
Materials and supplies, net	29	17	-
Receivables, net	27	7	123
Cash and cash equivalents	5	10	13
Long-term debt, net of current portion	-	(1)	-
Current portion of long-term debt	-	(1)	-
Other long-term liabilities	-	-	(87)
Trade and other payables	(39)	(2)	(91)
Accrued liabilities	-	(3)	(1)
Total net assets	36	33	43
Share of net assets acquired	27	33	43
Goodwill	6	3	-
Negative goodwill	-	-	(24)
Total purchase consideration	33	36	19
Less:			
Cash and cash equivalents in the subsidiary acquired	(5)	(10)	(13)
Interest acquired in previous periods	(18)	-	-
Cash outflow on acquisition of the subsidiary	10	26	6

If the combinations had taken place at the beginning of the year 2016, net income for CEZ Group as of June 30, 2016 would have been CZK 13,824 million and the revenues and other operating income from continuing operations would have been CZK 98,982 million. The amounts of goodwill recognized as a result of the business combinations comprise the value of expected synergies arising from the acquisitions.

5. Equity

On June 3, 2016 the Annual Shareholders Meeting of ČEZ, a. s. approved the dividends per share of CZK 40.0. The total amount of dividend approved amounts to CZK 21,369 million.

6. Long-term Debt

Long-term debt at June 30, 2016 and December 31, 2015 is as follows (in CZK millions):

	June 30, 2016	December 31, 2015
3.005% Eurobonds, due 2038 (JPY 12,000 million)	2,845	2,466
2.845% Eurobonds, due 2039 (JPY 8,000 million)	1,898	1,645
5.000% Eurobonds, due 2021 (EUR 750 million)	20,288	20,203
6M Euribor + 1.25% Eurobonds, due 2019 (EUR 50 million)	1,352	1,347
3M Euribor + 0.35% Eurobonds, due 2017 (EUR 45 million)	1,207	1,198
3M Euribor + 0,55% Eurobonds, due 2018 (EUR 200 milion)	5,407	-
4.875% Eurobonds, due 2025 (EUR 750 million)	20,270	20,188
4.500% Eurobonds, due 2020 (EUR 750 million)	20,233	20,140
2.160% Eurobonds, due 2023 (JPY 11,500 million)	2,735	2,372
4.600% Eurobonds, due 2023 (CZK 1,250 million)	1,248	1,248
3.625% Eurobonds, due 2016 (EUR 340 million)	-	9,176
2.150%*IR CPI Eurobonds, due 2021 (EUR 100 million) [1)]	2,713	2,702
4.102% Eurobonds, due 2021 (EUR 50 million)	1,353	1,347
4.250% U.S. bonds, due 2022 (USD 289 million)	7,003	7,111
5.625% U.S. bonds, due 2042 (USD 300 million)	7,254	7,368
4.375% Eurobonds, due 2042 (EUR 50 million)	1,331	1,325
4.500% Eurobonds, due 2047 (EUR 50 million)	1,331	1,325
4.383% Eurobonds, due 2047 (EUR 80 million)	2,170	2,162
3.000% Eurobonds, due 2028 (EUR 500 million)	13,384	13,325
4.500% registered bonds, due 2030 (EUR 40 million)	1,064	1,060
4.750% registered bonds, due 2023 (EUR 40 million)	1,075	1,070
4.700% registered bonds, due 2032 (EUR 40 million)	1,079	1,075
4.270% registered bonds, due 2047 (EUR 61 million)	1,628	1,621
3.550% registered bonds, due 2038 (EUR 30 million)	810	807
Exchangeable bonds, due 2017 (EUR 470.2 million) [2)]	12,550	12,420
Total bonds and debentures	132,228	134,701
Less: Current portion	-	(9,176)
Bonds and debentures, net of current portion	132,228	125,525
Long-term bank and other loans:		
Total long-term bank and other loans	24,887	22,570
Less: Current portion	(2,948)	(2,520)
Long-term bank and other loans, net of current portion	21,939	20,050
Total long-term debt	157,115	157,271
Less: Current portion	(2,948)	(11,696)
Total long-term debt, net of current portion	154,167	145,575

[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.

[2)] Bonds are exchangeable for ordinary shares of MOL Hungarian Oil and Gas PLC. The bonds carry no interest and the separation of embedded conversion option resulted in effective interest rate of 1.43% p. a.

7. Short-term Loans

Short-term loans at June 30, 2016 and December 31, 2015 are as follows (in CZK millions):

	June 30, 2016	December 31, 2015
Short-term bank loans	4,557	40
Bank overdrafts	291	183
Total	4,848	223

8. Impairment of Property, Plant and Equipment and Intangible Assets including Goodwill

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired or that previously recognized impairment losses (except for goodwill) may no longer exist or may have decreased. The result of the assessment made at June 30, 2016 was that certain assets might have been impaired. In such case, the Group reviews the recoverable amounts of the assets to determine whether such amounts continue to exceed the assets' carrying values. If not, the Group recognizes impairment loss directly in profit or loss in the line item of Impairment of property, plant and equipment and intangible assets including goodwill.

The Group recognized for first six months ended June 30, 2016 the total amount of impairment loss of CZK 997 million. The line item Impairment of property, plant and equipment and intangible assets including goodwill also includes gain from write-off of negative goodwill resulting from the acquisition of the company Energie2 Prodej, s.r.o. (see also Note 4) amounting to CZK 24 million.

The impairment loss in the amount of CZK 997 million is related to impairment of property, plant and equipment of cash-generating unit Romanian wind power farms. The impairment was caused especially by decrease in expected wholesale prices of electricity.

Information about breakdown by operating segments is included in Note 10.

9. Income Taxes

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

	1-6/2016			1-6/2015		
	Before tax amount	Tax effect	Net of tax amount	Before tax amount	Tax effect	Net of tax amount
Change in fair value of cash flow hedges recognized in equity	(1,288)	244	(1,044)	5,914	(1,124)	4,790
Cash flow hedges reclassified to statement of income	(264)	51	(213)	(1,611)	306	(1,305)
Change in fair value of available-for-sale financial assets recognized in equity	1,447	(8)	1,439	1,149	154	1,303
Available-for-sale financial assets reclassified from equity	(1)	-	(1)	(16)	4	(12)
Translation differences - subsidiaries	(266)	-	(266)	(480)	-	(480)
Translation differences - joint-ventures	(16)	-	(16)	(739)	-	(739)
Translation differences reclassified from equity	(102)	-	(102)	(1)	-	(1)
Share on other equity movements of joint-ventures	25	-	25	(17)	-	(17)
Total	(465)	287	(178)	4,199	(660)	3,539

10. Segment Information

The Group reports its result based on operating segments which are defined especially with respect to the nature of the products and services and with regard to regulatory environment. The Group has identified six reportable segments on this basis:

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

This definition of the operating segments is a result of organizational changes in corporate governance of the Group which have been made effective since January 1, 2016. The segments are defined across the countries that CEZ Group operates in now. Segment is a functionally autonomous part of CEZ Group that serves a single part of the value chain in the energy sector and is within the purview of individual members of the ČEZ, a. s. Board of Directors. The segment information for previous periods of the year 2015 has been adjusted to provide fully comparative information on the same basis.

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

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

	1-6/2016	1-6/2015
Income before other income (expenses) and income taxes (EBIT)	17,998	21,300
Depreciation and amortization	14,161	14,298
Impairment of property, plant and equipment and intangible assets including goodwill	973	21
Gains and losses on sale of property, plant and equipment, net *	(34)	(95)
EBITDA	33,098	35,524

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

The following tables summarize segment information by operating segments for the six months ended June 30, 2016 and 2015 and at December 31, 2015 (in CZK millions):

June 30, 2016:	Generation - Traditional Energy	Generation - New Energy	Distribution	Sales	Mining	Other	Combined	Elimination	Consolidated
Revenues and other operating income - other than intersegment	25,578	1,790	14,500	53,729	2,170	1,136	98,903	-	98,903
Revenues and other operating income - intersegment	15,915	344	15,041	2,732	2,389	8,230	44,651	(44,651)	-
Total revenues and other operating income	41,493	2,134	29,541	56,461	4,559	9,366	143,554	(44,651)	98,903
EBITDA	14,787	1,858	9,997	3,207	2,008	1,238	33,095	3	33,098
Depreciation and amortization	(8,312)	(747)	(2,972)	(21)	(1,228)	(881)	(14,161)	-	(14,161)
Impairment of property, plant and equipment and intangible assets including goodwill	1	(996)	(8)	24	1	5	(973)	-	(973)
EBIT	6,460	115	7,027	3,210	783	400	17,995	3	17,998
Interest on debt and provisions	(1,622)	(172)	(189)	(6)	(94)	(176)	(2,259)	396	(1,863)
Interest income	460	-	23	7	5	72	567	(396)	171
Share of profit (loss) from joint-ventures	(11)	20	27	94	2	(105)	27	-	27
Income taxes	(1,061)	(134)	(1,296)	(561)	(135)	(113)	(3,300)	-	(3,300)
Net income	18,015	(61)	5,590	2,742	1,402	855	28,543	(14,746)	13,797
Identifiable assets	254,172	26,534	107,487	493	20,894	9,516	419,096	(1,120)	417,976
Investment in joint-ventures	2,833	547	1,097	257	172	4,349	9,255	-	9,255
Unallocated assets									183,829
Total assets									611,060
Capital expenditure	7,736	(1)	4,379	15	634	3,876	16,639	(3,371)	13,268

June 30, 2015:	Generation - Traditional Energy	Generation - New Energy	Distribution	Sales	Mining	Other	Combined	Elimination	Consolidated
Revenues and other operating income - other than intersegment	27,009	1,811	15,258	57,604	2,096	746	104,524	-	104,524
Revenues and other operating income - intersegment	18,632	449	15,746	3,288	2,461	8,771	49,347	(49,347)	-
Total revenues and other operating income	45,641	2,260	31,004	60,892	4,557	9,517	153,871	(49,347)	104,524
EBITDA	17,370	1,373	9,827	3,695	2,013	1,245	35,523	1	35,524
Depreciation and amortization	(8,317)	(854)	(2,924)	(16)	(1,211)	(976)	(14,298)	-	(14,298)
Impairment of property, plant and equipment and intangible assets including goodwill	-	-	(9)	-	-	(12)	(21)	-	(21)
EBIT	9,049	520	6,909	3,679	803	339	21,299	1	21,300
Interest on debt and provisions	(2,248)	(275)	(149)	(1)	(101)	(150)	(2,924)	473	(2,451)
Interest income	511	1	25	5	7	150	699	(473)	226
Share of profit (loss) from joint-ventures	(654)	25	88	142	3	(560)	(956)	-	(956)
Income taxes	(1,557)	(15)	(1,264)	(713)	(143)	(68)	(3,760)	-	(3,760)
Net income	25,526	255	5,607	3,106	1,128	568	36,190	(20,776)	15,414
Capital expenditure	7,673	38	4,183	13	670	4,325	16,902	(3,493)	13,409

December 31, 2015:	Generation - Traditional Energy	Generation - New Energy	Distribution	Sales	Mining	Other	Combined	Elimination	Consolidated
Identifiable assets	256,633	28,212	105,982	367	21,480	9,754	422,428	(1,064)	421,364
Investment in joint-ventures	2,835	527	1,066	388	184	4,239	9,239	-	9,239
Unallocated assets									172,083
Total assets									602,686

11. Events after the Balance Sheet Date

On July 27, 2016 the Group issued zero coupon bonds due in October 2016 in the total nominal amount of EUR 130 million. The issue price represented 99.9977% of the nominal amount.

Identification of ČEZ, a. s.

ČEZ, a. s.
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Czech Republic

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

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Closing date of the 2016 Half-Year Report: August 22, 2016