# CEZ GROUP ANNUAL REPORT 2011

# WE PUT ENERGY INTO EVERYTHING WE DO AND CREATE. THIS IS WHAT WE LIVE BY.

CZK 51.1 billion
capital expenditures

42.8 TWh
sales of electricity
to end customers

CZK 40.8 billion
net income

CZK 26.7 billion
dividends declared

18.2 %
return on equity

# RESPECTFUL TO NATURE, CONSIDERATE TO PEOPLE

In the European market, CEZ Group is a respected utility whose priorities go beyond merely fulfilling business goals: they also include acting responsibly toward the environment, people, and the future. The Group purposefully upholds a policy of social responsibility and compliance with strict ethical rules.

# CEZ GROUP: AN INTRODUCTION



CEZ Group is an established, integrated electricity conglomerate with operations in a number of countries in Central and Southeastern Europe and Turkey, headquartered in the Czech Republic. Its principal businesses encompass generation, trading, and distribution of power and heat, trading in and sales of natural gas, and coal mining. The shares of the Group's parent company, ČEZ, a. s., are traded on the Prague and Warsaw Stock Exchanges. As of December 31, 2011, the Czech Republic remained the company's largest shareholder with a nearly 70% stake in the stated capital.

A crucial part of CEZ Group's mission is to maximize the return on investments in the Group, and ensure long-term growth in shareholder value. To this end, it emphasizes continual growth in internal efficiency. Since September 2010, a stabilization project entitled NEW VISION has been underway, reflecting the realities of the energy sector caused by the economic crisis. In light of those realities, CEZ Group's CAPEX and acquisition program was reassessed and adapted to reflect the Company's current and near-term forecasted capacity. To address the growing level of uncertainty in the markets, CEZ Group added five concrete, strategic elements to the NEW VISION project, one year after it was launched. The new elements focus on growth opportunities currently available to the Group. In addition to ongoing preparations for construction of new nuclear power plant generating units, CEZ Group will focus on completing negotiations on securing fuel for its coal-fired sources, developing renewable sources of energy abroad, and distributed generation. Beyond that, CEZ Group is endeavoring to grow its business volumes in regulated sectors – an effort that has already brought results in the district heat area.

To ensure continued success in the Czech Republic market, which is crucial to CEZ Group in terms of its business interests, renewal of the plant portfolio is necessary. Therefore, ČEZ is investing, and will continue to invest substantial sums in upgrading its aging brown coal-fired power plants and building new, high-efficiency sources.

In the Czech Republic, CEZ Group companies generate and distribute electricity and heat, engage in electricity trading, and mine coal, as well as selling natural gas to end customers. In selected countries outside the Czech Republic, CEZ Group focuses in particular on markets in Central and Southeastern Europe. Primarily, it concentrates on countries in which it already operates in some form, and where it can apply its rich experience in managing an electricity conglomerate at a time of a newly liberalized power market and pass on its know-how. Another important aspect of CEZ Group's international operations is renewable sources of energy – in locations where the natural conditions are amenable to this purpose.

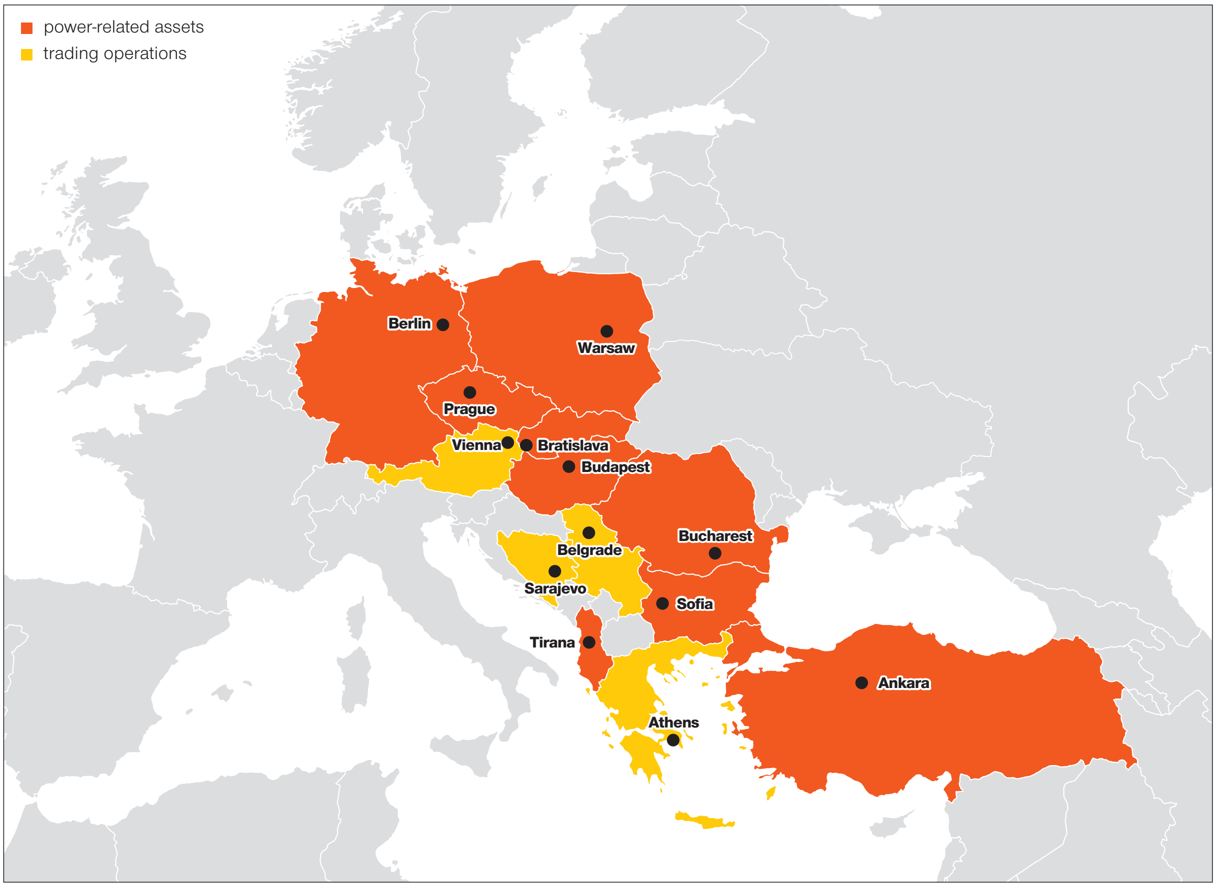
In addition to the Czech Republic, there are CEZ Group companies with direct energy sector operations in Albania, Bulgaria, Hungary, the Netherlands, Poland, Romania, Slovakia, Serbia, and Turkey. In Albania, CEZ Group operates the country's sole distribution company. In Bulgaria, it distributes and sells electricity in the western part of the country and generates power in its own coal-fired power plant near Varna, the Black Sea port city. In Poland, two black coal-fired power plants near the country's border with the Czech Republic are part of CEZ Group, as is a company that is preparing to build wind power plants. In Romania, CEZ Group is involved in the generation of electricity from renewable sources through the operation of the Fântânele and Cogealac wind farms and the Reşiţa hydro power system, in addition to electricity distribution operations. In Turkey, CEZ Group and its local partner operate a distribution company and generate electricity in gas, hydro, and wind power plants. In the remaining countries, the companies carry on wholesale operations in electricity, other commodities, and related derivatives, function as holding companies, or engage in financing activities. Throughout Central and Southeastern Europe, CEZ Group engages in wholesale trading in electricity and natural gas.

CEZ Group continues to implement technologies of the future. It commissioned its first charging station for electric cars and preparations for more are ongoing with partners. It is investing in research and development, environmental protection, and energy conservation projects.

As part of its business activities, CEZ Group upholds principles of sustainable development, supports energy efficiency, rolls out new technologies, systematically mitigates the environmental burden posed by its business, and supports the development of education, child care, and health.

CEZ Group operates its plant and equipment to the highest possible standards of safety. Although the corporate culture is performance-oriented, at the same time CEZ Group's business activities are governed by strict ethical standards – this includes acting responsibly toward local communities, society, and the environment. CEZ Group is a major supporter of a number of non-profit organizations and public-benefit initiatives.

**CEZ Group Territory**



## Contents



The CEZ Group 2011 Annual Report contains QR codes that link to the specific web pages, PDF documents, and information in plain text that appear either in the Annual Report body text or next to the QR code in question. To read a QR code you will need a mobile telephone with a camera and installed "QR code reader" software, and to view a web page you will also need an Internet connection. Take a picture of the QR code and the reader will decode it and give you access to the information it contains.

# STATUTORY DECLARATION OF PERSONS RESPONSIBLE FOR THE CEZ GROUP ANNUAL REPORT

**Statutory Declaration**

With the use of all reasonable care, to the best of our knowledge the consolidated Annual Report provides a true and fair description of the financial situation, business activities, and results of operations of the issuer and its consolidated group for the year 2011 and of the outlook for the future development of the financial situation, 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, April 3, 2012

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

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

# INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of ČEZ, a. s.:**

I. We have audited the consolidated financial statements of CEZ Group as at December 31, 2011 presented in the annual report of ČEZ, a. s. ("the Company") on pages 202–253 on which we have issued an auditors' report dated February 27, 2012, presented in the annual report on pages 200–201. We have also audited the separate financial statements of the Company as at December 31, 2011 presented in the annual report of the Company on pages 256–295 on which we have issued an auditors' report dated February 27, 2012, presented in the annual report on pages 254–255 (both referred further as "financial statements").

II. We have also audited the consistency of the annual report with the financial statements described above. The management of ČEZ, a. s. is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.
We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report on pages 1–189 is consistent with that contained in the audited financial statements as at December 31, 2011. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.
Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements described above.

III. In addition, we have reviewed the accuracy of the information contained in the report on related parties of ČEZ, a. s. for the year ended December 31, 2011 presented in the annual report of the Company on pages 190–193. The management of ČEZ, a. s. is responsible for the preparation and accuracy of the report on related parties. Our responsibility is to issue a report based on our review.
We conducted our review in accordance with the applicable International Standard on Review Engagements and the related Czech standard No. 56 issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the report on related parties is free from material misstatement. The review is limited primarily to enquiries of company personnel, to analytical procedures applied to financial data and to examining, on a test basis, the accuracy of information, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.
Based on our review, nothing has come to our attention that causes us to believe that the report on related parties of ČEZ, a. s. for the year ended December 31, 2011 is materially misstated.

Ernst & Young

Ernst & Young Audit, s.r.o.
License No. 401
Represented by partner

Josef Pivoňka
Auditor, License No. 1963

April 3, 2012
Prague, Czech Republic

Daniel Beneš
Chairman of the Board of Directors and
Chief Executive Officer of ČEZ, a. s.

# INTRODUCTION BY DANIEL BENEŠ, CHAIRMAN OF THE BOARD OF DIRECTORS AND CHIEF EXECUTIVE OFFICER OF ČEZ, A. S.

Dear shareholders:

Allow me to address you once again after a year, but for the first time as Chairman of the Board of Directors and Chief Executive Officer of the Company, in this section of the CEZ Group Annual Report. In introduction, I would like to assure you that ČEZ's intent is and will continue to be to bring shareholders the highest possible return on their investment, even though the energy sector is laboring under the economic and debt problems of the Eurozone countries. When I took over leadership of ČEZ in September we were in good, stable shape and, despite the adverse external conditions, CEZ Group posted solid financial performance results for the year 2011.

Net income of CEZ Group reached CZK 40.8 billion in 2011, while operating profit before depreciation and amortization (EBITDA) exceeded CZK 87.3 billion. Although the 2011 operating results are 1.7% lower than in 2010, in the end ČEZ delivered a higher than expected net income. Another very positive signal is the fact that ČEZ, as one of few power utilities to do so, managed to maintain its credit rating throughout 2011, reflecting the Company's overall financial stability.

The results justified our long-term focus on CEZ Group internal efficiency. This imperative is something that we also demand of our international companies as their contribution to the overall CEZ Group results continues to grow. Thanks to the fact that all our international acquisitions meet or exceed their expected rates of return, their cumulative EBITDA at year-end 2011 covered 70% of capital expenditures. The average annual rate of return on CEZ Group international acquisitions is now 17.6% (in terms of operating profit).

In 2011 we put a lot of effort into fine-tuning CEZ Group's strategy to address rising uncertainty concerning the future economic development and business environment in Europe.

In addition to the Eurozone debt crisis and the risk of recession in Europe, another significant factor bringing fundamental uncertainty into all ČEZ decision-making processes is the future of European Union regulation in the power industry.

The entire energy sector is going through a period of turbulence and long-term investments are subject to extreme levels of uncertainty.

Due to this situation, in the last decade construction of power plants – other than renewables – practically ground to a halt in European Union Member States. The track record to date, however, clearly confirms the opinion of energy professionals that renewable sources in their current form cannot cover energy needs. For the time being, then, conventional plants play a crucial role in the energy mix because they generate electricity regardless of the weather, enabling them to absorb deviations in output from renewable sources. The United Kingdom, which in the past has utilized its geographic position and invested massively in renewable sources in general, and wind power plants in particular, came forward with a comprehensive energy sector support package focused, among other things, on building new nuclear power plants.

Nuclear power is a very important part of the energy mix, both in the Czech Republic and in Europe as a whole. If it were to be partially or fully replaced, an alternative source of baseload power would need to be found. Renewables cannot be that alternative, and what's more their feasibility relies on massive subsidies. More likely it would be a combination of increased generation from natural gas and a renaissance in power generation from coal. Reducing $CO_2$ emissions – something the European Union has pledged to do – would in all likelihood become more difficult, and it would become even more urgent to develop and roll out solutions for capturing and storing carbon dioxide from coal-fired power plants, regardless of the effect this would have on electricity prices.

A common thread that runs through the entire CEZ Group strategic decision-making process is the question of the future direction of energy sector regulation in the European Union. Here, the decisive factors will be how, and to what extent, to support renewable sources, and how, and over what time period, will $CO_2$ emissions be regulated. These two factors will have a major impact on the competitiveness of European utilities and on prioritization of investments in the energy sector. Another fundamental question is what requirements will be placed on the operation and construction of nuclear power plants in Europe in the wake of the natural catastrophe in Japan and Germany's unprecedented decision to prematurely close down selected nuclear power plants.

In autumn 2011, we updated the CEZ Group strategy to take into account the range of possible responses to these issues. We vetted 15 possible scenarios and selected the seven most probable. For each of these seven scenarios, we modeled how CEZ Group's cash flow and value would develop. At the same time, we analyzed the energy needs, conceptual priorities, and capacity of the Czech Republic, which as a European Union Member State is a part of the regional market. Based on our comprehensive assessment, we selected a strategy that we are convinced will be the best in all the scenarios under consideration, and will ensure CEZ Group has the financial strength and stability necessary to successfully build a new nuclear power source in Temelín.

So, the development of nuclear energy and, primarily, the construction of new generating units at Temelín Nuclear Power Station, is at the forefront of our strategic objectives. In 2011, we made substantial progress in our preparations when, in late October, we distributed a call for bids and Request For Proposal (RFP) documentation to qualified parties interested in completing the power plant. This is the biggest tender, not just in ČEZ or the Czech Republic, but within all of central Europe. More, it is the only nuclear power plant tender in the world that is subject to public procurement laws, underlining the transparency of the whole process.

Concerning nuclear power, I should add that both existing nuclear power plants successfully underwent comprehensive "stress tests", which the countries of the European Union agreed to do in light of the consequences the natural catastrophe in Japan had on the plant in Fukushima. I am pleased that the positive results of these comprehensive tests confirmed long-term assessments from relevant national and international institutions. Both plants are built to withstand even extreme natural forces with a large margin of safety, and are located in areas that are extremely favorable in terms of seismic activity and climate. The result of the stress tests also confirmed that our philosophy of taking an active approach to nuclear power plant safety, in which we continually vet and improve plant parameters, is the right one.

CEZ Group has a broad portfolio of generating facilities and our development plans call for its further diversification. We will focus on resolving relations with coal suppliers and on securing sufficient fuel for operating our coal-fired power plants. We also anticipate continued development and use of biomass and other alternative fuels to ensure the maximum possible increase in the value of our conventional installations. Closely related to this is our emphasis on regional power, with increased investment in district heat and cogeneration, including the search for environmentally-friendly ways to utilize waste in the energy industry.

The updated strategy reaffirms our priority focus on the Czech Republic in our business operations. Going forward, we intend to expand only those international projects that are highly profitable and relate to renewable sources – particularly wind power installations with short payback periods that will help us to obtain stable future cash flows and thereby enable us to implement the chosen development strategy. Currently, we have renewables projects either in operation or in the implementation phase in Romania and Poland.

In conventional power, we are already retrofitting those coal-fired power plants for which we have secured sufficient coal for their future operations. In 2011, we made major progress in all the coal plant retrofit projects, as well as in building a new installation in Ledvice. We also commenced construction on a large CCGT power plant in Počerady and the Egemer CCGT installation in Turkey. We are increasing the efficiency of our existing hydro power plants as well. Through the FUTUR/E/MOTION program, we are also involved in the "new power" area – cogeneration, distributed generation of power and heat, electromobility, and smart distribution grids.

In addition to the strategic priorities discussed above, we will continue – both this year and in the years to come – to take measures designed to maximize the internal efficiency of CEZ Group.

Although the forecasts for this year show only modest growth potential, we are confident that we will post good results in 2012 for you, our shareholders.

May you, too, have a successful 2012.



Daniel Beneš
Chairman of the Board of Directors and
Chief Executive Officer of ČEZ, a. s.

# SELECTED INDICATORS OF CEZ GROUP

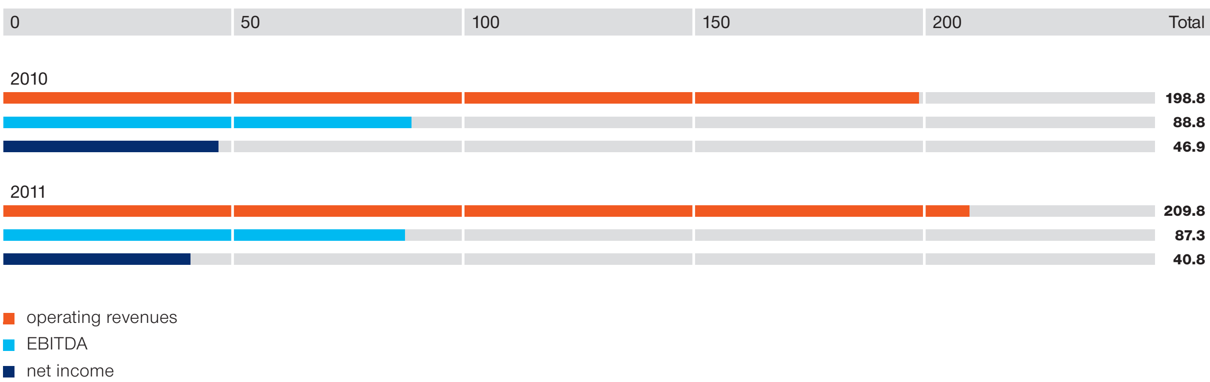


**Selected Indicators of CEZ Group in Accordance with IFRS**

| | Units | 2007 | 2008 | 2009 | 2010 [1] | 2011 | Index 2011/2010 (%) |
|---|---|---|---|---|---|---|---|
| Electricity generated (gross) | GWh | 73,793 | 67,595 | 65,344 | 68,433 | 69,209 | 101.1 |
| Installed capacity | MW | 14,292 | 14,288 | 14,395 | 15,018 | 15,122 | 100.7 |
| Electricity sold [2] | GWh | 38,624 | 38,820 | 43,817 | 44,594 | 42,846 | 96.1 |
| Heat sold | TJ | 15,540 | 14,016 | 13,040 | 16,918 | 15,249 | 90.1 |
| Operating revenues | CZK millions | 176,356 | 183,958 | 196,352 | 198,848 | 209,761 | 105.5 |
| of which: sales of electricity | CZK millions | 160,046 | 165,317 | 173,494 | 175,277 | 181,793 | 103.7 |
| Operating expenses (excluding depreciation and amortization) | CZK millions | (101,023) | (95,257) | (105,277) | (110,000) | (122,449) | 111.3 |
| EBITDA | CZK millions | 75,333 | 88,701 | 91,075 | 88,848 | 87,312 | 98.3 |
| EBIT | CZK millions | 53,210 | 66,654 | 68,199 | 64,788 | 61,542 | 95.0 |
| Net income | CZK millions | 42,764 | 47,351 | 51,855 | 46,941 | 40,753 | 86.8 |
| of which: net income attributable to equity holders of parent | CZK millions | 41,555 | 46,510 | 51,547 | 47,051 | 40,756 | 86.6 |
| Earnings per share | CZK/share | 72.9 | 87.0 | 96.7 | 88.1 | 76.3 | 86.6 |
| Dividend per share (gross) [3] | CZK/share | 20.0 | 40.0 | 50.0 | 53.0 | 50.0 | 94.3 |
| Return of Invested Capital (ROIC) | % | 13.7 | 17.2 | 16.7 | 14.4 | 12.5 | 86.8 |
| Return on Equity (ROE), net | % | 22.7 | 27.0 | 27.6 | 22.3 | 18.2 | 81.6 |
| Equity (including non-controlling shares) | CZK millions | 184,226 | 185,410 | 206,675 | 227,052 | 232,078 | 102.2 |
| Net debt | CZK millions | 54,675 | 68,040 | 124,412 | 134,538 | 159,363 | 118.5 |
| Net debt/EBITDA | 1 | 0.73 | 0.77 | 1.37 | 1.51 | 1.83 | 120.9 |
| Capital expenditure [4] | CZK millions | (30,666) | (46,271) | (56,622) | (61,715) | (51,113) | 82.8 |
| Investments [5] | CZK millions | (2,462) | (15,118) [6] | (38,075) [7] | (11,128) [8] | (927) | 8.3 |
| Net cash provided by operating activities | CZK millions | 59,219 | 70,583 | 87,354 | 77,165 | 61,773 | 80.1 |
| Work force head count at December 31 | persons | 30,094 | 27,232 | 32,985 | 32,627 | 31,420 | 96.3 |

[1] Data published in 2010 have been adjusted to reflect the financial valuation of the Trmice Power Heating Plant acquisition
[2] Sales to end customers (outside CEZ Group)
[3] Approved and paid in the given year, from the previous year's income
[4] Additions to property, plant and equipment and intangibles
[5] Acquisition of subsidiaries, associates, and joint-ventures, net of cash acquired
[6] Including loan to MOL
[7] Including investment in Pražská teplárenská
[8] Including investment in DALKIA ČR

**CEZ Group Results of Operations (CZK billions)**



# SELECTED EVENTS OF 2011 AND 2012 UP TO ANNUAL REPORT CLOSING DATE

## Selected Events of 2011

### January

- supplies of natural gas to large end-customers and sales of electricity and natural gas to small end-customers commence in the Slovak Republic
- a new company, CEZ Bulgarian Investments B.V., is formed in conjunction with CEZ Group's plans to develop renewable sources of energy in Bulgaria

### March

- construction begins on a new 840 MW power source, fired by natural gas, on the Počerady Power Station grounds, with completion planned for 2013

### April

- offer to migrate customers in the residential segment to a new product line, eTarif, thanks to which both customers and CEZ Group can save on the monthly fixed fee for electricity. In this way, CEZ Group encourages customers to use electronic communications to deal with their requirements

### May

- first partners announced for rolling out charging station infrastructure for electric cars in the Czech Republic

- 100% stake acquired in the Romanian company TMK Hydroenergy Power S.R.L., which owns a complex of hydro power plants near the city of Reşiţa

### June

- stress tests of nuclear power plants begin
- Annual General Meeting of ČEZ, a. s. is held, and approves CZK 50/share dividend
- OSART review team visits Dukovany Nuclear Power Station

### July

- European Commission absolves ČEZ of accusations of electricity price manipulation and alleged participation in a cartel. The European Commission's investigation is now limited to just the charge of potentially preventing other market participants from entering the Czech power plant construction market
- plan announced to sell stake in MIBRAG mining company and acquire the company Energotrans. The transaction will close after it is approved by relevant anti-trust bodies

### August

- trial operation commences of a new KK 1300 excavator at Bílina Mines, a unit of Severočeské doly

### September

- Daniel Beneš, the erstwhile Chief Operating Officer of ČEZ, a. s., is named Chairman of the Board of Directors and Chief Executive Officer. Martin Roman, who resigned from both positions, is elected Chairman of the Supervisory Board
- points of updated strategy presented at the eighth ČEZ Management Meeting (CMM)

October

- Request For Proposal (RFP) documentation distributed to qualified bidders in the RFP proceedings for the public procurement tender Completion of Temelín Nuclear Power Station. Deadline for submission of bids is July 2, 2012

- two new members (Pavel Cyrani and Michaela Chaloupková) elected to the ČEZ, a. s. Board of Directors. Subsequently, Martin Novák is elected Vice Chairman of the same body
- results from nuclear power plant stress tests submitted to the State Office for Nuclear Safety

November

- Grid4EU project officially launched. With support from the European Union, six distribution grid operators from European Union Member States will create six large demonstration projects focused on distribution grids with distributed generating facilities and active involvement of customers

December

- contracts signed by CEZ Poland Distribution B.V., a member of CEZ Group, to buy a 67% stake in Eco-Wind Construction S.A., a leading Polish wind farm developer
- additional 15% stake in Teplárna Trmice, a.s. purchased
- unit 21 of Tušimice II is synchronized to the grid
- cooperation agreement signed between ČEZ, a. s. and the Ústí Region of the Czech Republic

## Selected Events of 2012 Up to Annual Report Closing Date

January

- reorganization at ČEZ, a. s. eliminates office of Chief Operating Officer and reduces number of other divisions reporting directly the CEO or COO from nine to seven
- results announced of an inquiry into relations between CEZ Group and ŠKODA POWER s.r.o., conducted by the Internal Audit Section of ČEZ, a. s. The relations were found to be standard and no indications of informal ties were found
- bonds repurchased in a total volume of roughly EUR 350 million (approximately CZK 8.9 billion)
- credit rating agency Standard & Poor's reaffirms CEZ Group's A– rating

February

- credit rating agency Moody's reaffirms CEZ Group's A2 rating

March

- steps commenced toward spin-off of Počerady Power Station into a separate company

April

- issue of ČEZ, a. s. bonds maturing in 2022 in total nominal value of USD 700,000,000 with 4.25% annual coupon in USD and issue of bonds maturing in 2042 in a total nominal value of USD 300,000,000 with a 5.625% annual coupon in USD. In a related move, ČEZ, a. s. enters into a USD/EUR currency swap in an amount corresponding to the combined total nominal value of the bonds and all interest payable up until the day the bonds mature. The bonds have been accepted for trading on the Luxembourg Stock Exchange

# GENERATION IN THE RIGHT PLACE

CEZ Group is building another strategic pillar, founded upon generation of energy at the location of consumption. Decentralized cogeneration units (with installed capacity ranging from hundreds of $kW_e$ to units of $MW_e$) are making it possible to generate power and heat right where it is used, thereby eliminating losses and electricity distribution costs.

So far, 45 cogeneration units have been commissioned, with 12 $MW_e$ of total installed capacity.

The thermal installed capacity of all units in operation is nearly 14 $MW_t$.

The efficiency of the cogeneration units is 80–90%.

Currently, cogeneration is one of the most environmentally friendly and economical means of generating electricity and heat.

# GOVERNING BODIES OF ČEZ, A. S.

(A Separate Part of the Annual Report in Accordance with Section 118(4)(j) of Act No. 256/2004 Sb.)

ČEZ, a. s. is a joint-stock company incorporated in the Commercial Register on May 6, 1992. The Company's core businesses are generation and distribution of electricity, electricity trading, generation and distribution of heat, gas trading, and related activities. The Company's headquarters address is Duhová 2/1444, Prague 4, Czech Republic. The Company's website address is **www.cez.cz** 1.
For purposes of the 2011 Annual Report, persons with executive authority are the members of the Supervisory Board, Board of Directors, Audit Committee, and senior management.

The Company has the following governing bodies:
- the General Meeting
- the Supervisory Board
- the Board of Directors
- the Audit Committee.

## General Meeting

The highest governing body of ČEZ, a. s. is the General Meeting. The Annual General Meeting is held at least once per year, no later than six months after the last day of the accounting period.

The exclusive powers of the General Meeting include, in particular, the following:
- deciding on amendments to the Articles of Association
- deciding on increases and decreases of the stated capital
- deciding on issues of convertible and/or priority bonds
- electing and removing members of the Supervisory Board other than those elected and removed by the employees, approving Supervisory Board membership contracts and rules for providing consideration to members of the Supervisory Board beyond that required by law
- approving the annual financial statements, extraordinary financial statements, consolidated financial statements, and (in cases stipulated by law) interim financial statements, decisions on distribution of net income or settlement of loss, determination of Board member bonuses and dividends, and allocations of income to Company reserves
- deciding on remuneration of members of the Board of Directors, Supervisory Board, and Audit Committee, deciding on payments and rules for distribution of Board member bonuses among individual members of the Board of Directors and Supervisory Board
- deciding on the Company's overall sponsorship expenditure for the period in question
- deciding on changes in the class or form of shares and changes in rights associated with a particular class of shares
- discussing the yearly report of the Board of Directors on the Company's business operations and the state of its assets
- deciding on the Company's business policy and revisions thereof
- deciding on appointment of an auditor to audit the Company's financial statements and consolidated financial statements
- electing and removing members of the Audit Committee, approving their membership contracts and rules for providing consideration to members of the Audit Committee beyond that required by law.

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www

### General Meeting Rules of Order

The General Meeting represents a quorum if shareholders are present holding shares whose cumulative face value exceeds 30% of the company's stated capital. The Chairman of the General Meeting is required to cause all motions, countermotions, and requests for explanation put forward by shareholders to be presented at the General Meeting, provided they relate to an item on the General Meeting agenda and provided the shareholder in question insists they be so presented. Further, the Chairman of the General Meeting is required to ensure that a response is given at the General Meeting to shareholder requests for explanation of company-related matters that are on the agenda.

### How the General Meeting Makes Decisions

The General Meeting makes decisions by a simple majority of the votes of shareholders present, unless a different majority is required by law or the Articles of Association. Each CZK 100 face value Company share carries one vote. A majority of at least two thirds of the votes of shareholders present is required for the General Meeting to make decisions concerning, *inter alia*:

- amendments to the Articles of Association, unless the amendment in question arises out of an increase in the stated capital by the Board of Directors or the amendment took place on the basis of other legal circumstances
- increases and/or decreases in the stated capital
- approval of agreements on transfer of undertaking or part thereof.

A majority of at least three quarters of the votes of shareholders present is required for the General Meeting to make decisions concerning:

- exclusion or restriction of preferential rights of acquisition of convertible and/or priority bonds
- exclusion or restriction of preferential rights concerning subscription of new shares pursuant to Section 204a of the Commercial Code
- approval of or amendments to a control agreement
- approval of or amendments to an agreement on transfer of profits
- increase of the stated capital through non-monetary contributions.

General Meeting decisions regarding changes in the class and/or form of shares, changes to rights adhering to a certain class of shares, or withdrawal of shares from trading on an official stock market also require a three-quarters majority vote of shareholders present and holding the shares in question. General Meeting decisions on mergers of shares require the consent of all shareholders whose shares are to be merged.

General Meeting minutes along with the General Meeting announcement and the attendance list, including submitted powers of attorney, shall be stored in the company archive for as long as the company shall exist.

## Supervisory Board

The Supervisory Board is the Company's oversight body, which oversees the Board of Directors' exercise of authority and the conduct of the Company's business. It notifies the General Meeting of the results of its oversight activity. The Supervisory Board's powers include, *inter alia*, the following:

- vet compliance with generally binding legislation, the Articles of Association, and resolutions of the General Meeting
- verify how the Board of Directors exercises ownership rights in legal entities in which the Company holds equity stakes
- review annual, extraordinary, consolidated, and/or interim financial statements, income distribution proposals including stipulation of the amount and manner of payment of dividends and Board member bonuses or loss settlement proposals; and present its conclusions to the General Meeting
- discuss the quarterly financial performance results, half-year and annual reports pursuant to the Act on Doing Business in the Capital Market and the Accounting Act, and the yearly report on the Company's business operations and the state of its assets
- elect and remove members of the Board of Directors
- approve Board of Directors membership contracts and rules for providing consideration to members of the Board of Directors beyond that required by law, in accordance with Section 194(1) of the Commercial Code.

The Supervisory Board grants the Board of Directors prior consent for the implementation of certain decisions. These include, *inter alia*, decisions regarding:

- acquisition, divestiture, encumbrance, or lease of real property and/or movables with a book value exceeding CZK 500 million
- Company capital projects with a value exceeding CZK 500 million
- disposition of ownership stakes in other legal entities, provided the value of the stake in question exceeds CZK 500 million
- transfer and encumbrance of the Company's treasury shares
- staffing of the supervisory boards of companies in which ČEZ, a. s. holds an ownership stake exceeding CZK 500 million in stated capital as well as companies where the Supervisory Board has reserved the right of prior consent
- draft contract with the auditor designated by the General Meeting to audit the financial statements
- provision of options on Company shares
- entering into manager contracts and determination of remuneration for Executives who are also members of the Board of Directors, as well as Chief Officers (division heads), and appointments to the office of Chief Executive Officer
- stipulation and evaluation of tasks assigned to Executives who are also members of the Board of Directors, or to Chief Officers (division heads)
- distribution of Request For Proposal (RFP) documentation to bidders in public tenders pursuant to the Public Procurement Act, provided the anticipated value of the tender is higher than one third of the equity figure given by the latest consolidated financial statements.

The Supervisory Board reviews the Board of Directors' Related Parties Report. It notifies the General Meeting of the review of said report, along with its conclusion.

**Composition and Functioning of the Supervisory Board**

The Supervisory Board has 12 members, two thirds of which are elected and removed by the General Meeting and one third of which is elected and removed by the Company's employees. To be eligible for election to the Supervisory Board by the Company's employees, a candidate must be either an employee of the Company, or a representative of the employees, or be elected under a special regulation. The Supervisory Board itself elects and removes its Chairman and two Vice Chairmen. Members of the Supervisory Board serve for four-year terms and re-election is possible.

The Supervisory Board meets at least once per month. In 2011, 14 meetings were held: 12 regularly scheduled meetings and two extraordinary meetings. The work address of members of the Supervisory Board is the Company's headquarters: Duhová 2/1444, 140 53 Prague 4, Czech Republic.

**How the Supervisory Board Makes Decisions**

The Supervisory Board makes decisions by a simple majority of all its members, unless the Articles of Association stipulate otherwise. The Supervisory Board represents a quorum when a simple majority of its members is present at a meeting. Each member has one vote. Minutes are kept of all meetings and resolutions adopted, and the minutes also include minority opinions, if requested by the members in question, and should any member elected by the employees have a differing opinion, it is included in the minutes as well. When necessary in urgent matters, a *per rollam* resolution may be called. The resolution is deemed to have been passed if at least two thirds of all members cast votes and a simple majority voted for the resolution. Decisions taken outside of regular meetings must be included in the minutes of the next Supervisory Board meeting. At its discretion, the Supervisory Board may invite to its meetings members of the Company's other governing bodies, its employees, or other persons.

## Members of the ČEZ, a. s. Supervisory Board

### Martin Roman

Chairman since September 15, 2011,
Member since September 15, 2011

A graduate of the Charles University, Prague, Faculty of Law, Mr. Roman was awarded a one-year scholarship to study at the University of St. Gallen, Switzerland, Faculty of Economics, and completed a one-year study stay at Karl-Ruprechtsuniversität, Heidelberg, Germany.
He gained managerial and professional experience in positions such as Chairman of the Board of Directors of Škoda Holding and Chairman of the Board of Directors and Chief Executive Officer of ČEZ, a. s.

Number of ČEZ, a. s. shares at December 31, 2011: 56,000.
Number of ČEZ, a. s. share options at December 31, 2011: 750,000 (all of which were obtained by virtue of his previous position as Chairman of the Board of Directors of ČEZ, a. s. and all of which expired, unutilized, on February 20, 2012).
Number of ČEZ, a. s. share options at March 31, 2012: 0.

- VIENNA INSURANCE GROUP Wiener Städtische Versicherung AG – member of the Supervisory Board since June 29, 2010 (four-year term)
- Prague Stock Exchange – member of the Supervisory Board since June 9, 2005, re-elected June 10, 2010 (five-year term)
- University of Economics, Prague, Faculty of Macroeconomics – member of the Science Council since July 1, 2006, re-elected July 1, 2010 (four-year term)
- PORG – gymnázium a základní škola, o.p.s. – Chairman of the Board of Trustees since October 8, 2007, re-elected September 20, 2010 (three-year term)
- Martin and Lenka Roman Foundation for PORG – Founder, established July 24, 2008
- Martin Roman Foundation – Founder, established December 27, 2010
- Academy of Fine Arts – member of the Board of Trustees since October 1, 2008 (four-year term)
- MOL Hungarian Oil and Gas Plc – member of the Board of Directors since April 29, 2010 (five-year term)
- Akenerji Elektrik Üretim A.S. – member of the Board of Directors since May 13, 2009 (term expires May 6, 2013), Vice Chairman of the Board of Directors since May 15, 2009
- ■ Confederation of Industry and Transport of the Czech Republic – Vice President in 2004–2011
- ■ České dráhy, a.s. – member of the Supervisory Board in 2007–2009.

### Ivo Foltýn

Vice Chairman since July 28, 2011,
Member since November 22, 2010

A graduate of the Brno University of Technology, Faculty of Mechanical Engineering, the University of Economics, Prague, Faculty of Business Administration, and the Chicago University (United States of America) – MBA.
He gained managerial and professional experience in positions such as Chairman of the Board of Directors and Chief Executive Officer of Penzijní fond České pojišťovny, a.s., Executive Board Member, Česká pojišťovna a.s., and Member of the Executive Committee, Head of CIS Countries Holding, Pensions & Health Insurance Generali PPF Holding, B.V.

Number of ČEZ, a. s. shares at December 31, 2011: 0.
Number of ČEZ, a. s. share options at December 31, 2011: under a decision of the General Meeting, not eligible for options.

- Fox hole a.s. – sole member of the Board of Directors since July 29, 2009 (five-year term), sole shareholder since March 20, 2008
- nexum Trilog a.s. – member and Chairman of the Supervisory Board since December 15, 2010 (five-year term)
- Ambeat Health Care a.s. – member of the Board of Directors since September 23, 2011 (five-year term).

Czech Republic
- ■ Penzijní fond České pojišťovny, a.s. – member and Chairman of the Board of Directors in 1997–2007 and 2008–2009
- ■ Oborová zdravotní pojišťovna zaměstnanců bank, pojišťoven a stavebnictví – Chairman of the Board of Administration in 2007–2010.

Slovak Republic
- ■ VÚB Generali dôchodková správcovská spoločnosť, a.s. – member of the Supervisory Board in 2008–2009.

Russian Federation
- ■ Inphorce, Russia – member of the Supervisory Board in 2008–2009
- ■ Penzijní fond "Generali PPF" – Chairman of the Board of Directors in 2007–2010
- ■ Generali PPF Life Insurance – member of the Board of Directors in 2005–2009.

Ukraine
- ■ CJSC "IC Generali Life Insurance" – Chairman of the Supervisory Board in 2008–2009
- ■ Generali Garant Life Insurance – member of the Supervisory Board in 2008–2010
- ■ OJSC "UIC Generali Garant" – member of the Supervisory Board in 2008–2009
- ■ CJSC "CZI Ukraine" Pension Fund – member of the Supervisory Board in 2007–2009.

Kazakhstan
- ■ Česká pojišťovna Kazakhstan – member of the Supervisory Board in 2007–2009.

Belarus
- ■ Česká pojišťovna Belarus – member of the Supervisory Board in 2007–2009.

- Current memberships in governing bodies outside CEZ Group or in CEZ Group associates and/or joint-ventures in the past five years.
- ■ Memberships in governing bodies outside CEZ Group or in CEZ Group associates and/or joint-ventures terminated in the past five years.

### Lubomír Klosík

Vice Chairman since January 27, 2011,
member elected by the employees since January 22, 2009

A graduate of the Secondary Industrial School of Chemical Technology in Ostrava, he also completed a three-year continuing education course of study in Social and Economic Management at the Mendel University in Brno, Faculty of Business and Economics.
He gained managerial and professional experience in the position of shift foreman at Dětmarovice Power Plant.

Number of ČEZ, a. s. shares at December 31, 2011: 2.
Number of ČEZ, a. s. share options at December 31, 2011: under a decision of the General Meeting, not eligible for options.

- ECHO Labor Union – member of the Board of Trustees since 2004 (term expires in 2013)
- CEZ Group European Works Council – member and Vice Chairman since June 26, 2007, re-elected a member on June 28, 2011 (four-year term)
- CEZ Group European Works Council – Vice Chairman in 2007–2011
- Regional Federation of Labor Unions of the Czech-Moravian Confederation of Labor Unions, Moravia-Silesia Region – Chairman in 2007–2011
- Association for Development of the Moravia-Silesia Region – member of the Council in 2007–2011
- Eurest-T Beskydy – member of the Steering Committee of the international cooperation project in 2008–2011
- Moravia-Silesian Employment Pact – member of the Steering Committee in 2010–2011.

### Liběna Dobrovolná

Member since June 1, 2011

A graduate of the Charles University, Faculty of Law.
She gained managerial and professional experience in positions such as Director, Legal Section at UNIVERSAL BANKA, a.s. and as a judge.

Number of ČEZ, a. s. shares at December 31, 2011: 0.
Number of ČEZ, a. s. share options at December 31, 2011: under a decision of the General Meeting, not eligible for options.

### Ján Dzvoník

Member since June 1, 2011

A graduate of the University of Economics in Bratislava, Faculty of Management, major in automated financial management systems.
He gained managerial and professional experience in positions such as Deputy Minister of Defense and member of the Executive Committee of the National Property Fund of the Czech Republic.

Number of ČEZ, a. s. shares at December 31, 2011: 0.
Number of ČEZ, a. s. share options at December 31, 2011: under a decision of the General Meeting, not eligible for options.

- MERO ČR, a.s. – member of the Supervisory Board since June 25, 2008 (four-year term), Chairman of the Supervisory Board since August 5, 2008, member of the Audit Committee since December 16, 2009 (four-year term)
- MERO Germany AG – Vice Chairman of the Supervisory Board since September 16, 2009 (four-year term)
- ALIATROS spol. s r.o. – Managing Director and Owner in 2008–2010
- Česká pošta, s.p. – member of the Supervisory Board in 2007–2009.

### Petr Gross

Member elected by the employees since January 22, 2009

A graduate of the Secondary Industrial School of Electrical Engineering in Kutná Hora, specializing in measurement, regulation, and computer-assisted techniques.

Number of ČEZ, a. s. shares at December 31, 2011: 10.
Number of ČEZ, a. s. share options at December 31, 2011: under a decision of the General Meeting, not eligible for options.

- Czech Power Industry Labor Union – member of the Coordination Committee since 2005 (four-year term, second term expires in 2013).

### Vladimír Hronek

Member elected by the employees since
September 30, 2010

A graduate of the Secondary Industrial School of Electrical Engineering, Prague.
He gained managerial and professional experience in positions such as member and Vice Chairman of the CEZ Group European Works Council.

Number of ČEZ, a. s. shares at December 31, 2011: 0.
Number of ČEZ, a. s. share options at December 31, 2011: under a decision of the General Meeting, not eligible for options.

- Association of apartment owners at Komenského 693 – Vice Chairman of the Committee since June 11, 2003.

## Jiří Kadrnka

Member since November 22, 2010

A graduate of the Brno University of Technology, Faculty of Mechanical Engineering, with a major in industrial robots, manipulators, milling and shaping machines.
He has managerial and professional experience from a tenure in the financial group PM holding and from positions such as member of the Board of Directors of Vodovody a kanalizace Břeclav, a.s. and Managing Director of MOSS logistics s.r.o.

Number of ČEZ, a. s. shares at December 31, 2011: 0.
Number of ČEZ, a. s. share options at December 31, 2011: under a decision of the General Meeting, not eligible for options.

- MOSS logistics s.r.o. – Managing Director since September 24, 1997, Partner since February 5, 1998, Head of Field Office of MOSS logistics s.r.o., Slovak Republic organizational unit since December 4, 2009
- Janáček Academy of Music and Performing Arts in Brno – member of the Board of Trustees since October 2011
- MOSS plus s.r.o. – Managing Director in 1997–2009, Head of Field Office of MOSS plus s.r.o., Slovak Republic organizational unit in 2007–2009
- Vodovody a kanalizace Břeclav, a.s. – member of the Board of Directors in 2003–2007
- Energo Hustopeče s.r.o. – member of the Supervisory Board in 2000–2010.

## Jan Kohout

Member since November 22, 2010

A graduate of the Charles University, Prague, Faculty of Arts.
He gained managerial and professional experience in positions such as Ambassador, the Czech Republic's permanent representative at the European Union, Minister of Foreign Affairs of the Czech Republic, and Vice Chairman of the Government of the Czech Republic.

Number of ČEZ, a. s. shares at December 31, 2011: 0.
Number of ČEZ, a. s. share options at December 31, 2011: under a decision of the General Meeting, not eligible for options.

- PERMIT, spol. s r.o. – Partner since November 23, 2010, Managing Director since March 30, 2011
- Mixed Czech-Chinese Chamber of Mutual Cooperation – President of the Chamber since August 30, 2011.

## Drahoslav Šimek

Member elected by the employees since June 29, 2006, re-elected by the employees since September 30, 2010

A graduate of the Secondary Vocational School in Domažlice (electrician) and the Secondary Vocational School in Chomutov (workshop fitter).
He gained professional experience in positions such as Reactor Technician at Dukovany Nuclear Power Station.

Number of ČEZ, a. s. shares at December 31, 2011: 1,500.
Number of ČEZ, a. s. share options at December 31, 2011: under a decision of the General Meeting, not eligible for options.

- Basic Labor Organization of the Czech Labor Union of Power Industry Workers, Labor Organization of Shift Workers at Dukovany Power Plant – Vice Chairman since 1995.



- Current memberships in governing bodies outside CEZ Group or in CEZ Group associates and/or joint-ventures in the past five years.
- Memberships in governing bodies outside CEZ Group or in CEZ Group associates and/or joint-ventures terminated in the past five years.

**Members of the ČEZ, a. s. Supervisory Board whose memberships ceased in 2011 or before the Annual Report closing date:**

Eduard Janota
Vice Chairman from September 16, 2010 to May 20, 2011,
Member from August 13, 2010 to May 20, 2011

Lukáš Hampl
Member from November 22, 2010 to February 24, 2012

Number of ČEZ, a. s. shares at December 31, 2011: 0.
Number of ČEZ, a. s. share options at December 31, 2011: under a decision of the General Meeting, not eligible for options.

Zdeněk Hrubý
Member from February 22, 2007 to May 22, 2011

Lubomír Lízal
Member from November 22, 2010 to February 24, 2011

Aleš Klepek
Member from June 1, 2011 to September 15, 2011

Martin Říman
Chairman from September 16, 2010 to September 15, 2011,
Member from August 13, 2010 to December 20, 2011

**Committees of the ČEZ, a. s. Supervisory Board**
Within the scope of its powers, the Supervisory Board sets up committees. Only Supervisory Board members are eligible for membership in these committees, and committee members are elected and removed by the Supervisory Board. The term of office of committee members is identical to their term of office in the Supervisory Board, unless the member in question is removed or resigns from the committee. Each committee of the Supervisory Board elects a Chairman and a Vice Chairman. The committees meet as needed, but no less than once per quarter.

**Strategy Committee of the Supervisory Board** – whose mission is to facilitate the Supervisory Board's decision-making process in matters concerning the Company's strategic development. The committee is involved, *inter alia*, in evaluating proposals for major business activities in the following areas:
- investment, acquisition, and divestment projects (in particular, purchases and sales of material assets and/or equity stakes in the Czech Republic and abroad)
- establishing or winding up ČEZ, a. s. subsidiaries
- building new generation facilities
- shutting down, selling, and renewal of generation capacity.

**Members of the Strategy Committee of the Supervisory Board:**

Ivo Foltýn
Chairman since March 20, 2012,
Vice Chairman from December 16, 2010 to July 28, 2011, and from November 29, 2011 to March 20, 2012,
Member since December 2, 2010

Jan Kohout
Vice Chairman since March 20, 2012,
Member since December 2, 2010

Vladimír Hronek
Member since February 24, 2012

Martin Roman
Member since September 21, 2011

**Members of the Strategy Committee of the Supervisory Board whose memberships terminated in 2011 or before the Annual Report closing date:**

Lukáš Hampl
Chairman from November 29, 2011 to February 24, 2012,
Vice Chairman from July 28, 2011 to November 28, 2011,
Member from December 2, 2010 to February 24, 2012

Aleš Klepek
Chairman from July 28, 2011 to September 15, 2011,
Member from June 23, 2011 to September 15, 2011

Lubomír Lízal
Chairman from December 16, 2010 to February 24, 2011,
Member from December 2, 2010 to February 24, 2011

Martin Říman
Member from December 2, 2010 to December 20, 2011

**Personnel Committee of the Supervisory Board:**

- makes proposals to the Supervisory Board regarding its personnel policies vis-à-vis the Board of Directors
- presents its opinion on proposals to elect and remove members of the Board of Directors
- is responsible for submitting nominations of candidates for membership of the Board of Directors to the Supervisory Board for approval
- gives recommendations to the Supervisory Board regarding issuance of opinions in matters relating to the appointment and manner of remuneration of the Chief Executive Officer and members of the Board of Directors that are employees of the Company
- gives recommendations to the Supervisory Board on proposals of the Board of Directors regarding the appointment of personnel to the Supervisory Boards of companies in which ČEZ, a. s. has an equity stake exceeding CZK 500 million in the stated capital.

**Members of the Personnel Committee of the Supervisory Board:**

Petr Gross
Chairman since December 16, 2010,
Vice Chairman from March 26, 2009 to December 15, 2010,
Member since May 21, 2009

Jiří Kadrnka
Vice Chairman since December 16, 2010,
Member since December 2, 2010

Liběna Dobrovolná
Member since June 23, 2011

Vladimír Hronek
Member since December 2, 2010

**Members of the Personnel Committee of the Supervisory Board whose memberships terminated in 2011 or before the Annual Report closing date:**

Lubomír Lízal
Member from December 2, 2010 to February 24, 2011

**How the Committees of the Supervisory Board Make Decisions**

For any committee of the Supervisory Board to make a decision, a simple majority of the votes of all members of the committee in question is necessary. Minutes are kept of all meetings of committees of the Supervisory Board, and the minutes are archived for as long as the Company remains in existence.

## Board of Directors

As the statutory body, the Board of Directors manages the Company's operations and acts in its name. It decides in all matters not reserved for the General Meeting or the Supervisory Board. It is governed by principles and instructions approved by the General Meeting, as well as by applicable legislation and the Articles of Association.

In particular, the Board of Directors:

- sees to the Company's commercial management, including keeping of proper accounts
- convenes and organizes the General Meeting
- implements resolutions of the General Meeting
- grants and revokes the power to sign on behalf of the Company
- removes Company Executives pursuant to Section 73 of the Labor Code
- signs agreements governing membership of Company governing bodies with individual members of said bodies
- decides on distribution of bonuses stipulated by the General Meeting between the Board of Directors and the Supervisory Board, by applying rules approved by the General Meeting.

It submits to the General Meeting the following, *inter alia*:

- the Company's draft business policy and draft amendments thereto
- draft amendments to the Articles of Association
- proposals to increase/decrease the stated capital and to issue convertible and/or priority bonds
- annual, extraordinary, consolidated, and/or interim financial statements
- income distribution proposals including stipulation of dividend amount, manner of pay-out, and due date, amount of Board member bonuses, and amounts to be allocated to reserves or manner of settling Company losses
- yearly report on the Company's business operations and the state of its assets
- summary explanatory report pursuant to Section 118(8) of the Act on Doing Business in the Capital Market
- nomination of auditor to carry out the mandatory audit, including the audit of the Company's financial statements and consolidated financial statements, as recommended by the Audit Committee.

**Composition and Activities**

The Board of Directors has seven members, all of whom are elected and removed by the Supervisory Board. The Board of Directors itself elects and removes its Chairman and Vice Chairman. Members of the Board of Directors serve for four-year terms; re-election is possible. The work address of members of the Board of Directors is the Company headquarters, i.e.: Duhová 2/1444, 140 53 Prague 4, Czech Republic.
The Board of Directors meets at least once per month. In 2011, a total of 45 meetings were held: 34 regular meetings and 11 extraordinary meetings.

**How the Board of Directors Makes Decisions**

In order for the Board of Directors to make a decision, a simple majority of the votes of all its members is necessary. The Board of Directors represents a quorum when a simple majority of its members is present at a meeting. Each member of the Board of Directors has one vote. When necessary in urgent matters, a decision may be made without holding a meeting – such decisions are referred to as *per rollam* and must be included in the minutes of the next Board of Directors meeting. At its discretion, the Board of Directors may invite to its meetings members of the Company's other governing bodies, its employees, or other persons.

**Description of the Activities, Responsibilities, and Decision-making Powers of Members of the ČEZ, a. s. Board of Directors**

The office of member of the ČEZ, a. s. Board of Directors includes the exercise of all rights and obligations that are associated with the office of member of the Board of Directors under applicable laws and regulations; the Articles of Association; the Rules of Order of the Company's Board of Directors; resolutions of the Company's governing bodies; Board of Directors membership contracts; and the Company's internal regulations.
In particular, members of the Board of Directors are obligated to carry out their activities for the company in person and to their best knowledge and ability, to cooperate with the other members of the Board of Directors, and to protect the Company's interests to the greatest extent possible. The Board of Directors can assign specific tasks to individual members in the manner set forth in the Rules of Order of the Board of Directors.

In accordance with applicable laws and regulations and Section 14(7)(a) of the Articles of Association, members of the Board of Directors are entitled to take part in the Company's commercial management, including the keeping of proper accounts. In seeing to the Company's commercial management, members of the Board of Directors take part in the Board of Director's decision-making in matters such as, *inter alia*:

a) use of the company's non-distributable reserve fund, unless stipulated otherwise by law
b) increase of the company's stated capital in accordance with Section 210 of the Commercial Code and the Articles of Association, and the issuance of Company shares booked to owner in conjunction therewith
c) price proposals submitted to the regulatory body
d) draft purchase agreements relating to electricity, heat, natural gas, and greenhouse gas emission rights; distribution, transmission and ancillary services; commodity derivatives; and commodity commercial services – if called for by the ČEZ, a. s. Signature Rules
e) capital projects and their implementation, subject to the Articles of Association
f) acceptance of long-term loans (credits) with maturities of longer than one year and other similar long-term financial transactions of the Company, except for hedging transactions – if called for by the ČEZ, a. s. Signature Rules
g) the content of the Annual Report pursuant to the Accounting Act and the Half-year Report pursuant to the Act on Doing Business in the Capital Market
h) agreements on formation of business companies or interest associations of legal entities, and/or acquisition by the Company of ownership stakes in another legal entity, as well as on the winding up of a business company or interest association of legal entities and/or on the sale, by the Company, of an ownership stake in another legal entity
i) divestiture of real property or lease of real property for a term exceeding three years
j) acquisition, divestiture, encumbrance, or lease of real property and/or movables (except for inventories and securities used for liquidity management purposes), provided they are, or are intended to be, part of the Company's business assets and their book value exceeds CZK 500 million
k) disposition of ownership stakes in other legal entities headquartered in the Czech Republic or abroad, subject to the terms and conditions set forth in the Articles of Association
l) issuance of bonds other than those whose issue requires the consent of the General Meeting pursuant to Section 160 of the Commercial Code
m) agreements pursuant to Section 193(2) of the Commercial Code
n) submission of Request For Proposal (RFP) documentation to bidders in public tenders and content of the RFP documentation pursuant to the Public Procurement Act, provided the anticipated value of the tender exceeds one third of the equity figure given in the latest consolidated financial statements
o) the Company's draft business plan within the business policy approved by the Company's General Meeting
p) the draft business policies of controlled entities with share capital exceeding CZK 500 million.

In accordance with the Articles of Association, some of the above decisions of the Board of Directors require the prior consent of the Supervisory Board before they can be implemented, and the Board of Directors is required to submit some of these decisions to the Supervisory Board for discussion and request its opinion.

**Members of the Board of Directors**

Daniel Beneš
Chairman of the Board of Directors and
Chief Executive Officer of ČEZ, a. s.

Martin Novák
Vice Chairman of the Board of Directors and
Chief Finance Officer

Peter Bodnár
Member of the Board of Directors and
Chief Investment Officer

Pavel Cyrani
Member of the Board of Directors and
Chief Strategy Officer

Vladimír Hlavinka
Member of the Board of Directors and
Chief Production Officer

Michaela Chaloupková
Member of the Board of Directors and
Chief Procurement Officer

Tomáš Pleskač
Member of the Board of Directors and
Chief Distribution and International
Affairs Officer

### Daniel Beneš

Chairman since September 15, 2011,
Vice Chairman from June 29, 2010 to September 15, 2011,
First Vice Chairman since May 21, 2008,
re-elected from December 16, 2009 to June 29, 2010,
Vice Chairman from May 10, 2006 to May 20, 2008,
Member since December 15, 2005,
re-elected effective from December 16, 2009

A graduate of the Technical University of Ostrava, Faculty of Mechanical Engineering, and the Brno International Business School Nottingham Trent University (MBA).
He gained managerial and professional experience in positions such as Director, Procurement Section, Chief Administration Officer, and Chief Operating Officer of ČEZ, a. s.
The Supervisory Board has elected Daniel Beneš to the Board of Directors for the term of office which will run from December 17, 2013 to December 17, 2017, following the expiration of his current term. The reason is to cover the entire period of the commencement of completion of Temelín Nuclear Power Station.

Number of ČEZ, a. s. shares at December 31, 2011: 0.
Number of ČEZ, a. s. share options at December 31, 2011: 362,602.
Number of ČEZ, a. s. share options at March 31, 2012: 362,602.

- Technical University of Ostrava – member of the Board of Trustees since August 14, 2009 (six-year term)
- University of South Bohemia in České Budějovice – member of the Board of Trustees since April 20, 2011 (six-year term)
- Jadrová energetická spoločnosť Slovenska, a. s. – member and Vice Chairman of the Supervisory Board since December 31, 2009 (five-year term)
- Nadace CEZ foundation – member of the Board of Trustees since March 26, 2007 (term expires July 16, 2013), Chairman of the Board of Trustees since May 31, 2007
- Association of Apartment Owners at Pařížská čp. 131/28, Prague 1 – member of the committee since November 15, 2011 (three-year term)
- Coal Energy, a.s. in liquidation – member and Chairman of the Supervisory Board in 2006–2009.

### Martin Novák

Vice Chairman since October 20, 2011,
Member since May 22, 2008,
re-elected effective from May 22, 2012

A graduate of the University of Economics, Prague, Faculty of International Relations, major in international trade and business law. In 2007 Mr. Novák completed an Executive Masters of Business Administration (MBA) program at the University of Pittsburgh's KATZ School of Business, specializing in the power industry.
He has been a member of the Chamber of Tax Advisers since 1996.
He gained managerial and professional experience in managerial positions at the world headquarters of ConocoPhillips and at its regional headquarters in London. Later, he worked for several years at ConocoPhillips Czech Republic, s.r.o. as Director of Finance with responsibility for the region of Central & Eastern Europe (in this position he also served as statutory representative for several regional branches of ConocoPhillips) and at ČEZ, a. s. as Director of the Accounting Section.

Number of ČEZ, a. s. shares at December 31, 2011: 900.
Number of ČEZ, a. s. share options at December 31, 2011: 195,000.
Number of ČEZ, a. s. share options at March 31, 2012: 218,497.

- Vyhlídka Apartment Cooperative, in liquidation – member of the Board of Directors since April 12, 2010
- Association of Apartment Owners at Suchý vršek 2101–2106 – committee member since September 21, 2010.

### Peter Bodnár

Member since August 21, 2009

A graduate of the Slovak Technical University, Bratislava, Slovak Republic, Faculty of Mechanical Engineering, where he majored in thermal and nuclear power engineering.
He gained managerial and professional experience in positions such as Managing Director and Chief Executive Officer at ALSTOM Power Slovakia, s.r.o., ALSTOM Power, s.r.o., and ALSTOM Group, Brno, as well as Director, Quality and Process Improvement Division at Slovenské elektrárne, a.s., Bratislava, Slovak Republic (ENEL Produzione S.P.A., Republic of Italy).

Number of ČEZ, a. s. shares at December 31, 2011: 0.
Number of ČEZ, a. s. share options at December 31, 2011: 180,000.
Number of ČEZ, a. s. share options at March 31, 2012: 180,000.

- Akenerji Elektrik Üretim A.S. – member of the Board of Directors since May 12, 2009 (term expires May 6, 2013)
- Jadrová energetická spoločnosť Slovenska, a. s. – member of the Supervisory Board since December 31, 2009 (five-year term)
- Chladiace veže Bohunice, spol. s r.o. – member and Chairman of the Supervisory Board in 2006–2007
- DECOM Slovakia, spol. s r.o. – member of the Supervisory Board in 2006–2007.

Pavel Cyrani

Member since October 20, 2011

A graduate of the University of Economics, Prague, major in international trade, and the Kellogg School of Management in Evanston, Illinois (USA), where he was awarded an MBA in Finance.

He gained managerial and professional experience in McKinsey & Company and ČEZ, a. s., where he held the positions of Director, Planning & Controlling and Director, Asset Management.

Number of ČEZ, a. s. shares at December 31, 2011: 216.
Number of ČEZ, a. s. share options at December 31, 2011: 30,000.
Number of ČEZ, a. s. share options at March 31, 2012: 66,256.

- Loyalty Consulting s.r.o. – Managing Director since September 9, 2003, Partner since October 15, 2003 (inactive company)
- CM European Power International B.V. – member of the Board of Directors since October 19, 2011 (three-year term)
- Loyalty Management CZ, a.s. – Vice Chairman of the Board of Directors in 2003–2010 (resignation letter delivered as of May 13, 2010, but termination of position not yet reflected in the Commercial Register)
- Dalkia Česká republika, a.s. – member of the Supervisory Board from May 7, 2010 to February 17, 2012.

Vladimír Hlavinka

Member since January 1, 2008,
re-elected effective from October 20, 2011

A graduate of the Brno University of Technology, major in thermal and nuclear power engineering, and the Masaryk University, Brno, Faculty of Law.

He gained managerial and professional experience in positions such as member of the Board of Directors, ALTA, a.s.; Director, Temelín Nuclear Power Station; and Director, Power Plants Section.

Number of ČEZ, a. s. shares at December 31, 2011: 0.
Number of ČEZ, a. s. share options at December 31, 2011: 225,000.
Number of ČEZ, a. s. share options at March 31, 2012: 285,000.

- Radioactive Waste Repository Authority – council member since December 1, 2011 (five-year term)
- RIPSL a.s. “in liquidation” – member of the Supervisory Board in 2005–2007.

Michaela Chaloupková

Member since October 20, 2011

A graduate of the University of West Bohemia in Pilsen, Faculty of Law. In 2007 she graduated from the Executive Master of Business Administration (MBA) program at the University of Pittsburgh’s KATZ School of Business, specializing in the power industry.

She gained managerial and professional experience at Stratego Invest a.s. (later i-Tech Capital, a.s.), where she served as Head of the Controlling Department and Vice Chairman of the Board of Directors, as well as at ČEZ, a. s. in the position of Director, Procurement Section.

Number of ČEZ, a. s. shares at December 31, 2011: 0.
Number of ČEZ, a. s. share options at December 31, 2011: 30,000.
Number of ČEZ, a. s. share options at March 31, 2012: 84,153.

Tomáš Pleskač

Member since January 26, 2006,
re-elected effective from January 27, 2010,
Vice Chairman from February 11, 2008 to May 20, 2008,
Second Vice Chairman since May 21, 2008,
re-elected from January 27, 2010 to June 29, 2010

A graduate of the Brno Institute of Agriculture, Faculty of Business and Economics, Mr. Pleskač also holds an MBA from Prague International Business School.

He gained managerial and professional experience in positions such as Financial Director, Severomoravská energetika, a. s. and Deputy Director for Finance, Dukovany Nuclear Power Station.

Number of ČEZ, a. s. shares at December 31, 2011: 0.
Number of ČEZ, a. s. share options at December 31, 2011: 130,000.
Number of ČEZ, a. s. share options at March 31, 2012: 190,000.

- CM European Power International B.V. – member of the Board of Directors since July 17, 2008, re-elected effective from July 17, 2011 (three-year term), Vice Chairman of the Board of Directors since September 5, 2008, Chairman of the Board of Directors since August 5, 2011
- Akenerji Elektrik Üretim A.S. – member of the Board of Directors since May 13, 2009 (term expires May 6, 2013)
- Mitteldeutsche Braunkohlengesellschaft mbH – member of the Supervisory Board since June 10, 2009 (term runs until the General Meeting that will approve the 2011 financial statements – expected in April 2012)
- “U Petrské věže” Owners Association for Building No. 1157 – committee member since July 22, 2007, re-elected on November 2, 2010 (three-year term).

- Current memberships in governing bodies outside CEZ Group or in CEZ Group associates and/or joint-ventures in the past five years.
- Memberships in governing bodies outside CEZ Group or in CEZ Group associates and/or joint-ventures terminated in the past five years.

**Members of the ČEZ, a. s. Board of Directors whose membership ceased in 2011 or before the Annual Report closing date:**

Martin Roman

Chairman from February 23, 2004 to September 15, 2011,
Member from February 19, 2004 to September 15, 2011
As of September 15, 2011 Martin Roman is Chairman and Member of the Supervisory Board of ČEZ, a. s.

Daniel Beneš

Vice Chairman from May 10, 2006 to September 15, 2011
As of September 15, 2011 Daniel Beneš is Chairman of the Board of Directors of ČEZ, a. s.

**Committees of the Board of Directors**

The Board of Directors is entitled to set up committees and other teams to facilitate its work. No committees or other teams were formed in 2011.

## Audit Committee of ČEZ, a. s.

The Audit Committee is a governing body of the Company that conducts the following activities, *inter alia*, without prejudicing the responsibilities of members of the Board of Directors and the Supervisory Board:

- monitoring the process of compiling the financial statements and consolidated financial statements
- evaluating the effectiveness of the Company's internal controls, internal audit, and risk management systems, if applicable
- monitoring the process of conducting the mandatory audit of the financial statements and consolidated financial statements
- assessing the independence of the statutory auditor and audit firm and, in particular, the provision of supplementary services to the Company
- recommending an auditor to conduct the mandatory audit, including the audit of the Company's financial statements and consolidated financial statements.

The external auditor submits to the Audit Committee, on an ongoing basis, reports concerning material facts ensuing from the mandatory audit and, in particular, those concerning any fundamental shortcomings in the system of internal controls in relation to compilation of the financial statements and/or consolidated financial statements. Members of the Audit Committee attend the General Meeting and are required to present the results of their activities to the General Meeting.

The Audit Committee has five members, all of which are elected and removed by the General Meeting from among the members of the Supervisory Board or third parties. Members of the Board of Directors and Company Proxies are not eligible for Audit Committee membership. The Audit Committee itself elects a Chairman and a Vice Chairman. On December 2, 2010, the Audit Committee designated Eduard Janota as an independent expert. Eduard Janota passed away on May 20, 2011. On March 8, 2012, Ivo Foltýn was designated as an independent expert. Currently, the Audit Committee has four members. Members serve for terms of four years.

**How the Audit Committee Makes Decisions**

The Audit Committee makes decisions by a simple majority of the votes of all its members. It represents a quorum when a simple majority of its members is present at a meeting. Each member has one vote. When voting to elect or remove the Committee's Chairman or Vice Chairman, the person in question does not vote. The Audit Committee meets once every two months, as a rule. In 2011 there were seven regular meetings.

**Members of the Audit Committee:**

Ján Dzvoník

Chairman since March 8, 2012,
Member since June 1, 2011
For personal data, see entry under Supervisory Board, above.

Lubomír Klosík

Vice Chairman since March 8, 2012,
Member since May 13, 2009
For personal data, see entry under Supervisory Board, above.

Ivo Foltýn

Audit Committee Expert since March 8, 2012,
Co-opted member since February 24, 2012
For personal data, see entry under Supervisory Board, above.

Drahoslav Šimek

Member since May 13, 2009
For personal data, see entry under Supervisory Board, above.

**Members of the ČEZ, a. s. Audit Committee whose membership ceased in 2011 or before the Annual Report closing date:**

Zdeněk Hrubý

Chairman from June 25, 2009 to June 1, 2011,
Member from May 13, 2009 to June 1, 2011

Eduard Janota

Vice Chairman from December 2, 2010 to May 20, 2011,
Audit Committee Expert from December 2, 2010 to May 20, 2011,
Member from September 16, 2010 to May 20, 2011

Martin Říman

Member from September 16, 2010 to December 20, 2011

**Remuneration Principles – Members of the Board of Directors, Supervisory Board, and Audit Committee**
Remuneration of members of the Board of Directors, Supervisory Board, and Audit Committee, including all benefits, are approved by the General Meeting. In accordance with resolutions passed by the General Meeting, the Company enters into a membership contract with each member of these bodies.

Members of the Company's governing bodies receive the following remuneration and benefits:

- fixed remuneration (members of the Board of Directors and Supervisory Board) – paid regularly, following the end of each calendar month. Should a member of the Board of Directors fall ill, he or she is entitled to full monthly remuneration for the first 30 days; should the board member be incapacitated for longer than 30 days, the amount of the monthly remuneration for the period following the 31st day of incapacitation to the end thereof shall be decided by the Board of Directors under the condition that said monthly remuneration may not be less than 50% of the full monthly remuneration amount. In the event a member of the Supervisory Board is temporarily unable to discharge his or her office due to illness or long-term absence, the member in question shall be entitled to remuneration provided he or she delivers to the Chairman of the Supervisory Board a written statement on the agenda items of missed meetings before said meetings take place, unless the Supervisory Board decides otherwise. Granting of remuneration in the event of a Supervisory Board member's temporary inability to discharge office shall be decided by the Supervisory Board.
- remuneration (members of the Audit Committee) – paid regularly, following the end of each calendar month. In the event a member is temporarily unable to discharge his or her office due to illness or long-term absence, the member shall be entitled to remuneration if he or she delivers to the Committee Chairman a written statement on the agenda items of missed meetings before the meetings take place, unless the Audit Committee decides otherwise. Granting of remuneration in the event of temporary inability to discharge office shall be decided by the Audit Committee.
- target remuneration – based on fulfillment of specific tasks assigned by the General Meeting, a member of the Board of Directors may receive target remuneration up to six times the amount of his or her monthly remuneration. Details, including amount and due date of the target remuneration, are set by the Board of Directors after discussing the matter with the Supervisory Board, subject to principles laid down by the General Meeting.
- board membership bonuses – paid to members of the Board of Directors and Supervisory Board by General Meeting decision. The amount of the bonus for individual members of the Board of Directors is set pursuant to rules approved by the General Meeting.
- stock options – members of the Board of Directors are entitled to Company stock options under the conditions set forth in the relevant option contract. Members of the Supervisory Board and Audit Committee do not receive stock options.
- insurance – endowment life insurance is taken out at Company expense, and upon termination of office or upon the Company withdrawing from the endowment life insurance contract, it is transferred free of charge to the member of the Board of Directors or Supervisory Board. Endowment life insurance premiums paid by the Company are treated as part of the board member's wages and, as such, are subject to withholding of income tax and health insurance premiums.
- company car – members of the Board of Directors are entitled to a company car for business and personal use. Members of the Supervisory Board may be assigned a company car for use in the course of discharging their office. Terms and conditions for lending and use of company cars are set forth in separate agreements. Company cars provided for business and personal use are subject to taxation, and fuel consumed for personal use is paid for by the board member through income withholding. In the event a member of one of the Company's governing boards uses his or her own car on Company business, the costs associated with such use are paid by the Company in accordance with applicable laws and regulations.
- severance pay – in the event membership is terminated before the end of the four-year term (except in cases of resignation), members of the Board of Directors are entitled, under conditions set forth in their contract, to severance pay in the aggregate total of the monthly remuneration payments the member would otherwise have received, should he have remained in office until the end of his or her term. The terms and conditions for payment of severance pay are set forth in the membership contract.
- reimbursement of travel expenses – when traveling on business, members of the Board of Directors and Supervisory Board are entitled to receive meal allowances and per diem at rates above those set forth in applicable laws and regulations; other expenses and insurance premiums are reimbursed at face value. In the case of work-related travel by Audit Committee members, meal allowances and per diem are provided at the maximum rates pursuant to the Labor Code.

Members of the Supervisory Board and Audit Committee that, due to statutory restrictions, are not allowed to earn remuneration do not receive monthly fixed remuneration or any other consideration not permitted under the law.

# PERSONS WITH EXECUTIVE AUTHORITY AT ČEZ, A. S.

## ČEZ, a. s. Senior Management

At the executive employees level, the Company's senior management in 2011 consisted of the Chief Executive Officer, the Chief Operating Officer, and the other chief officers. The work address of members of senior management is the Company's headquarters, i.e.: ČEZ, a. s., Duhová 2/1444, 140 53 Prague 4, Czech Republic.
A new Strategy Division was formed as of October 1, 2011. Effective from January 1, 2012 and April 1, 2012, respectively, two fundamental changes were made in the Company's organization structure, including the elimination of the Chief Operating Officer post. These reorganizations are described in more detail on page 36.
The Chief Executive Officer (CEO) carries out decisions of the Board of Directors and decides in Company matters that are not reserved for the General Meeting, the Supervisory Board, or the Board of Directors. The CEO manages the activities of the Chief Finance Officer, the Chief Strategy Officer, the Chief Distribution and International Affairs Officer, the Chief Sales Officer, the Chief Production Officer, the Chief Investment Officer, and the Chief Procurement Officer, as well as conducting senior management of the units in the CEO's Division. In the course of carrying out his duties of office, the CEO is accountable to the Company's statutory body.

Daniel Beneš
Chief Executive Officer since September 16, 2011
Daniel Beneš served as the Company's Chief Operating Officer in the period from June 1, 2007 to September 15, 2011. On September 16, 2011 he was appointed Chief Executive Officer in the place of Martin Roman, who remains with the Company as Chairman of the Supervisory Board. The personal data of Daniel Beneš are given in the entry for his position as Chairman of the Board of Directors.

**Members of the ČEZ, a. s. senior management whose membership ceased in 2011 or before the Annual Report closing date:**

Martin Roman
Chief Executive Officer from April 1, 2004 to September 15, 2011

Daniel Beneš
Chief Operating Officer from June 1, 2007 to September 15, 2011
Due to the Chief Operating Officer's position being vacant from September 16, 2011 to December 31, 2011, when the position of Chief Operating Officer was eliminated, he directly managed the units of the Chief Operating Officer's Division.

**Committees of the Chief Executive Officer**

- The Senior Management Council, which operates within the Company as a senior management advisory body to the Chief Executive Officer. For the purpose of ensuring unified platforms for assessing major CEZ Group projects and initiatives in various phases of their life cycles, effective from January 1, 2012 the portfolios of the Strategy Committee and the Development Committee, which were eliminated as of December 31, 2011, were transferred to the Senior Management Council. The Senior Management Council meets once per week, as a rule. From January 2012 a special "strategy meeting" of the Senior Management Council is held, considering among other things market developments, strategic projects, the composition of capital expenditures, and proposals concerning Company strategy which are subsequently submitted to the relevant Company bodies for decision. Strategy meetings of the Senior Management Council are held at least four times per year.
- The Risk Management Committee develops and administers the integrated risk management system in accordance with the CEZ Group strategy, manages venture capital, continually monitors the overall impact of various risks, and oversees risk management within CEZ Group.
- The Committee for ČEZ, a. s. Plant Safety assesses the overall level and condition of ČEZ, a. s. plant safety and evaluates the level of corporate culture, current and potential problems, quality issues, and their optimal solution in terms of quality and safety.

The following committees of the Chief Executive Officer were eliminated as of December 31, 2011:

- Development Committee
- Strategy Committee.

These committees' portfolios were integrated into that of the Senior Management Council.

The following committees of the Chief Operating Officer were eliminated as of December 31, 2011:

- Human Resources Committee
- International Holdings Committee
- Environmental Investment Committee.

The full portfolio of these committees is now dealt with by standard line management.

As of December 31, 2011 the following committees of the Chief Operating Officer were transferred:

- ICT Committee – now reports to the Chief Finance Officer
- Committee for ČEZ, a. s. Plant Safety – now reports directly to the CEO
- Plant Construction and Renewal Committee – now reports to the Chief Investment Officer.

**Division Heads**

Martin Novák

Chief Finance Officer since January 1, 2008

For personal data, see entry under Board of Directors, above.

Peter Bodnár

Chief Investment Officer since January 1, 2008

For personal data, see entry under Board of Directors, above.

Pavel Cyrani

Chief Strategy Officer since October 1, 2011

For personal data, see entry under Board of Directors, above.

Vladimír Hlavinka

Chief Production Officer since January 1, 2008

For personal data, see entry under Board of Directors, above.

Michaela Chaloupková

Chief Procurement Officer since January 1, 2012

For personal data, see entry under Board of Directors, above.

Hana Krbcová

Chief Human Resources Officer since October 1, 2009

A graduate of the University of Economics, Prague, major in industrial economics, the Charles University, Prague, Faculty of Law, specialization in labor law (two-year specialization course), and International Studies in Strategic Management (two-year program).

She gained managerial and other professional experience in positions such as Director of the Human Resources Section, Severomoravská energetika, a. s. and Director of the CEZ Group Human Resources Section, ČEZ, a. s.

Number of ČEZ, a. s. shares at December 31, 2011: 0.

Number of ČEZ, a. s. share options at December 31, 2011: 90,000.

Number of ČEZ, a. s. share options at March 31, 2012: 90,000.

- People Management Forum (formerly the Czech Human Resources Development Society) – member of the Board of Directors since February 19, 2007, re-elected on February 15, 2011 (four-year term)
- Czech Association of Power Industry Employers – member of the Board of Directors since October 2009.

Tomáš Pleskač

Chief Distribution and International Affairs Officer since April 1, 2012

For personal data, see entry under Board of Directors, above.

■ Current memberships in governing bodies outside CEZ Group or in CEZ Group associates and/or joint-ventures in the past five years.

Alan Svoboda

Chief Sales Officer since January 4, 2005

A graduate of the University of West Bohemia, Pilsen, major in information and financial management, Mr. Svoboda also holds an MBA in Finance and an MA in Economics from the University of Missouri, Kansas City, Missouri (USA). He gained managerial and other professional experience in positions such as Partner at McKinsey & Company, where he focused on the power industry.

Number of ČEZ, a. s. shares at December 31, 2011: 94,223.
Number of ČEZ, a. s. share options at December 31, 2011: 100,000.
Number of ČEZ, a. s. share options at March 31, 2012: 100,000.

- Eurelectric, the international association based in Brussels – deputy member of the Board of Directors since December 1, 2005
- EFET, the international association of electricity traders based in Amsterdam – member of the Board of Directors since November 20, 2007, re-elected on November 1, 2009 (term expires October 31, 2012)
- University of Economics, Faculty of Business Administration – member of the Science Council since July 1, 2010 (four-year term)
- Charles University, Faculty of Social Sciences, Institute of Economic Studies – member of the Science Pedagogy Council since December 9, 2009 (unlimited term)
- Foratom, the international association based in Brussels – member of the General Assembly and Executive Committee in 2005–2009.

**Members of ČEZ, a. s. senior management whose membership ceased in 2011 or before the Annual Report closing date:**

Ivan Lapin

Chief Administration Officer from July 1, 2007 to December 31, 2011

Number of ČEZ, a. s. shares at December 31, 2011: 220.
Number of ČEZ, a. s. share options at December 31, 2011: 105,000.

Jiří Kudrnáč

Chief Distribution Officer from January 1, 2008 to March 31, 2012

Number of ČEZ, a. s. shares at December 31, 2011: 0.
Number of ČEZ, a. s. share options at December 31, 2011: 90,000.
Number of ČEZ, a. s. share options at March 31, 2012: 90,000.

**Reorganization as of January 1, 2012**

In October 2011, the Board of Directors of ČEZ, a. s. decided, in accordance with the Articles of Association, to carry out a major Company reorganization as of January 1, 2012, changing the number and structure of divisions (the Company's basic organizational units). The reorganization was carried out for the purpose of simplifying and streamlining the Company's line management at the top level.

The reorganization eliminated the Chief Operating Officer's division, including the Chief Operating Officer position itself. Some units of the erstwhile Chief Operating Officer's division were moved to the Chief Executive Officer's division, while the procurement unit was made into a division that will oversee the centralization of all procurement processes, including the fuel cycle.

The administration and human resources divisions were made subordinate to the Chief Finance Officer's division. The distribution division was run by the Chief International Affairs Officer to facilitate the transfer of best practices among distribution companies both here at home and abroad.

Following the reorganization, from January 1, 2012 the Chief Finance Officer, the Chief International Affairs Officer, the Chief Strategy Officer, the Chief Sales Officer, the Chief Production Officer, the Chief Investment Officer, and the Chief Procurement Officer all reported directly to the CEO. The Chief Human Resources Officer and the Chief Administration Officer reported to the Chief Finance Officer and the Chief Distribution Officer reported to the Chief International Affairs Officer.

**Reorganization as of April 1, 2012**

As of April 1, 2012 there was a reorganization that affected two ČEZ, a. s. divisions, building on the prior step of placing the distribution division under the authority of the international affairs division. The activities of the distribution and international affairs divisions were merged, giving rise to a new Distribution and International Affairs Division. At the same time, the powers and responsibilities of the new division's director were also changed accordingly.

- Current memberships in governing bodies outside CEZ Group or in CEZ Group associates and/or joint-ventures in the past five years.
- Memberships in governing bodies outside CEZ Group or in CEZ Group associates and/or joint-ventures terminated in the past five years.

**Powers and Responsibilities as at April 1, 2012**

## Chief Executive Officer

The Chief Executive Officer manages the activities of the Chief Finance Officer, the Chief Strategy Officer, the Chief Distribution and International Affairs Officer, the Chief Sales Officer, the Chief Production Officer, the Chief Investment Officer, and the Chief Procurement Officer, as well as conducting senior management of the units that comprise the Chief Executive Officer's Division.
In the course of carrying out his duties of office, he is accountable to the Board of Directors.
The Chief Executive Officer co-sets the Company's strategy and manages the following activities, *inter alia*: legal services for the Company and the provision of such services within CEZ Group, external communications, implementation of measures to protect confidential information in the areas of administrative, personnel, and physical security, protection of personal data within CEZ Group, management of physical protection within CEZ Group, the management system, and quality, as well as the development thereof in the Company, independent supervision of nuclear safety compliance, radiation protection, and physical protection of nuclear installations and nuclear materials, accident preparedness, occupational health & safety, and environmental protection.

## Chief Finance Officer

The Chief Finance Director is in charge of the Finance Division and he reports to the Chief Executive Officer. He also supervises the Chief Administration Officer and the Chief Human Resources Officer.
He co-sets Company strategy and manages the following activities, *inter alia*: Company planning, controlling, accounting, taxes, and risk management; Company/CEZ Group external financing, including acquisitions and equity stakes; payments; financial deals; communicating with investors; compliance with requirements of stock exchanges where securities issued by the Company are listed for trading; setting parameters of the CEZ Group information system in the areas of accounting and controlling, including access rights; management reporting and external reporting (including the Annual Report and the Half-Year Report); drafting of economic analyses, controlling in capital expenditure and transformation projects; all tax matters of the Company and selected CEZ Group companies; compilation of the financial statements of the Company and selected CEZ Group companies, as well as the CEZ Group consolidated financial statements; records of assets and accounting for their commissioning, depreciation, and amortization; cash management services; invoicing; sending of reminders and collection of late-payment penalties in selected operational areas; implementation of risk management systems at CEZ Group; use of venture capital; risk reporting; strategic management of information and telecommunication services and processes within CEZ Group, including the Enterprise Architecture; and vetting the quality and scope of same.

## Chief Investment Officer

The Chief Investment Officer sees to the senior management of the Investment Division and is accountable to the Chief Executive Officer.
He co-sets Company strategy and manages the following activities, *inter alia*: construction of new CEZ Group power plant generating facilities and comprehensive retrofits of existing ones; drafting of documents related to capital construction in the Czech Republic and abroad; preparation and implementation of projects for new nuclear installations; cooperation in selecting contractors and entering into contracts; coordination of activities related to budgets, invoicing, and financial reporting of capital projects; support for acquisition processes; safety, quality, and compliance with legislative requirements during construction and commissioning of power plants; risks, timelines, and drawing down of costs in the course of capital projects.

## Chief Strategy Officer

The Chief Strategy Officer sees to the senior management of the Strategy Division and is accountable to the Chief Executive Officer.
He co-sets Company strategy and manages the following activities, *inter alia*: formulation of strategy, long-term goals, and directions of CEZ Group development; strategic initiatives and projects for making CEZ Group more effective; drafting of business plans for key projects, including the technical and economic assessment of same and optimizing of necessary resources in relation to project benefits and CEZ Group strategic objectives; development, implementation, and monitoring of science and research conducted within CEZ Group; evaluation of the correctness of various units' conceptual plans and management processes, including change proposals; prioritization and implementation of change projects and initiatives.

## Chief Production Officer

The Chief Production Officer sees to the senior management of the Production Division and is accountable to the Chief Executive Officer.
He co-sets Company strategy and manages the following activities, *inter alia*: ensuring safe, reliable, and economic generation of electricity and heat in the Company's plants; carrying out the position of segment guarantor for the area of safety; ensuring of nuclear safety, radiation protection, accident preparedness, physical protection of nuclear installations and materials, fire safety, technical safety, occupational safety and health, and environmental protection; supervision of activities important in terms of nuclear safety, technical safety, and radiation protection under the Nuclear Act; fulfilling the ČEZ, a. s. international cooperation policy; representation in international organizations and associations; maintaining power plant condition and plant personnel fitness at the required level; final economic assessments of projects; the proper functioning of the system of power plant maintenance and monitoring thereof; dealing with deviations; supervision of the supplier quality system; conduct of customer quality audits; the process of obtaining licenses for managed activities for the operation of nuclear power plants; safe handling of nuclear power plant waste and decontamination; maximizing the value of the CEZ Group portfolio of power generation and district heat assets.

### Chief Procurement Officer

The Chief Procurement Officer sees to the senior management of the Procurement Division and is accountable to the Chief Executive Officer.
She co-sets Company strategy and manages the following activities, *inter alia*: purchasing of materials and services for the Company and CEZ Group companies under Service Level Agreements (SLA); organization of tenders, particular in relation to the construction and renewal of new and existing power plant installations; procurement of fossil fuels, biomass, sorbents (lime and limestone), and surface water for generation of electricity and heat; procurement of nuclear fuel, nuclear materials, and related services, including licensing of fuel modifications; management of the front and back portions of the nuclear power plant fuel cycle and decommissioning of nuclear facilities; support for procurement processes within CEZ Group, including coordination of purchasing, sales, and logistical activities abroad and cooperation in international tenders.

### Chief Human Resources Officer

The Chief Human Resources Officer sees to the senior management of the Human Resources Division and is accountable to the Chief Finance Officer.
She co-sets Company strategy and manages the following activities, *inter alia*: services in the area of human resources; consulting in the areas of personnel processes, personnel management, and labor law; comprehensive support to managers in the area of personnel processes; communication with management and with labor organizations (including collective bargaining); personnel planning, recruitment, selection, laying off, preparation, and education of employees; the employee evaluations process; services in the area of labor law; securing labor-law compliance documentation; entering into membership contracts with members of the Company's governing bodies; and fulfillment of employer obligations in relation to the CEZ Group European Works Council.

### Chief Distribution and International Affairs Officer

The Chief Distribution and International Affairs Officer sees to the senior management of the Distribution and International Affairs Division and is accountable to the Chief Executive Officer.
He co-sets Company strategy and manages the following activities, *inter alia*: strategic projects abroad; international negotiations related to the preparation and implementation of same; implementation of systems for managing international equity stakes; corporate practice and know-how transfer; coordination of CEZ Group business activities in the given country, including search for new business opportunities; seeing to post-acquisition and integration processes including fulfillment of conditions ensuing from transaction documents. He bears overall responsibility for the development of renewable sources within CEZ Group, and manages international plant construction and renewal projects. He also manages the overall M&A process (acquisition and divestment projects).
In the distribution area, he manages the distribution process including distribution grid development, coordination of technical policy, and sharing of best practices among distribution companies in the Czech Republic and abroad.

### Chief Sales Officer

The Chief Sales Officer sees to the senior management of the Sales Division and is accountable to the Chief Executive Officer.
He co-sets Company strategy and manages the following activities, *inter alia*: CEZ Group commercial operations in wholesale markets for electricity, gas, coal, emission rights and credits, cross-border transmission capacity, ancillary services, and other commodities and derivatives of same; sale of electricity, gas, and related services to end customers in the Czech Republic; negotiation of commodity contracts for new development opportunities; coordination of the CEZ Group Europe portfolio including communication with the European Commission and other European Union institutions; coordination of the regulatory portfolio in the Czech Republic, including communication with government agencies; coordination of the operations of CEZ Group international commercial representation offices; optimizing the operation of power plants with regard to business opportunities in wholesale markets; and optimal deployment of generation sources.

**Chief Administration Officer – the position of Chief Administration Officer has been vacant since January 1, 2012; the units of the Administration Division are run directly by the Chief Finance Officer**

The Administration Division carries out the following activities: administration of domestic and international equity holdings, including drafting of plans for key performance indicators and incentive targets; setting strategy concerning information and telecommunication technology services and processes in CEZ Group; and verifying the quality and scope of same.

**Remuneration Principles – Division Heads**

The manager contracts and the manner of remuneration of executives who are also members of the Board of Directors and/or division heads of the Company ("Executives"), as well as the stipulation and evaluation of tasks assigned to these Executives, are subject to the prior consent of the Supervisory Board.

The remuneration principles for these Executives are set forth in manager contracts entered into between the Company and the Executive in question for the period during which they are to remain in office.

Executives receive the following consideration:

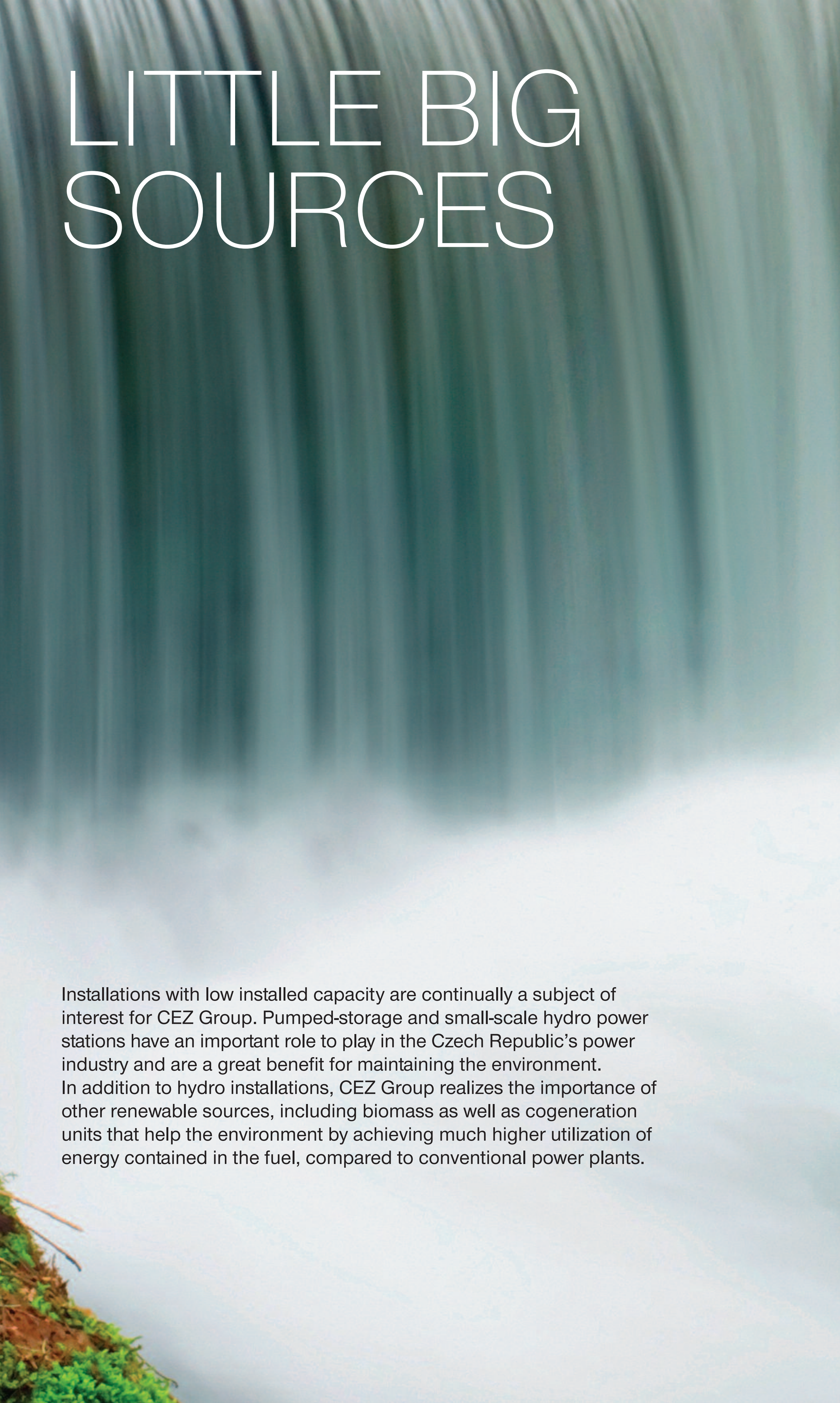
- base monthly wage – paid regularly for each calendar month. The base monthly wage is paid for the amount of time worked.
- annual bonus – to which the Executive is entitled in addition to the base monthly wage. The bonus amount depends on fulfillment of criteria stipulated in advance. Expressed as a percentage of annual income (base wage and annual bonus), the annual bonus may be as much as:
  - 77.8% for the Chief Executive Officer
  - 71.4% for the Chief Operating Officer/Chief Finance Officer
  - 60.0% (as a rule) for the other Chief Officers (division heads).

  The criteria for granting an individual annual bonus to an Executive are based on the Company's strategic priorities and principal objectives, which are announced each year by the Chief Executive Officer in an executive order. For 2011, the weightings of the individual criteria were stipulated as follows:
  - 10% for the CEZ Group economic indicator (ROIC)
  - 20% for an economic indicator (e.g. IPFE – influencable portion of fixed expenses) linked to expenses and income of the unit managed
  - 70% for specifically stated and deadlined tasks.

  The final amount of the annual bonus is dependent upon the degree of EBITDA target fulfillment.

  The tasks are assigned, and degree of task fulfillment assessed, by each Executive's direct supervisor pursuant to a decision of the Board of Directors taken with the prior consent of the Supervisory Board; in the case of the Chief Executive Officer, this is done by the Board of Directors with the prior consent of the Supervisory Board. The economic indicators in question are taken from the Board of Directors-approved and Supervisory Board-reviewed budget, and fulfillment is assessed by the Controlling unit based on the financial statements of the Company/CEZ Group or other measurable criteria.
- strategic bonuses – in the case of the Chief Investment Officer, in view of the different character of the sections managed by him, a system of strategic bonuses is used, tied to fulfillment of specific, long-term tasks in the areas of plant construction and renewal. Pay-out of the bonuses is linked to fulfillment of criteria defined in advance, such as compliance with timeline, budget, and technical parameters of the individual projects in question.
- stock options – based on a decision of the Board of Directors and the consent of the Supervisory Board, a selected group of Executives is entitled to Company stock options under the terms of a stock option agreement.
- company car – Executives are entitled to a company car for business and personal use, subject to the terms and conditions of a special agreement. Company cars provided for business and personal use are subject to taxation and withholding of social security and health insurance premiums. Fuel consumed for personal use is paid for by the Executive through income withholding. In the event an Executive uses his or her own car for Company business, the costs associated with such use are paid by the Company in accordance with applicable laws and regulations.
- insurance – based on a decision of the Company's Board of Directors, endowment life insurance policies are taken out at Company expense for the benefit of a selected group of Executives. When the executive leaves his or her executive position or when the Company withdraws from the endowment life insurance policy, the insurance is transferred free-of-charge to the executive. Endowment life insurance premiums paid by the Company are treated as part of the executive's wages and, as such, are subject to income tax withholding.
- reimbursement of travel expenses – when traveling on business, Executives receive meal allowances and per diem at higher than mandated rates.
- severance pay – is provided in accordance with the Labor Code and the terms set forth in the valid Collective Agreement.
- cash settlement under non-compete agreement – with regard to the character of the information, knowledge, and expertise gained by the Executive during the course of his or her employment, the employer agrees to provide the Executive a cash settlement upon termination of his or her employment, for a period of six months (as a rule), subject to the conditions set forth in the Non-Compete Agreement. The cash settlement is payable monthly in arrears.
- mobility program – the employer reimburses Executives participating in the Mobility Program for a portion of costs of temporary accommodation and provides them a contribution to help defray the costs of travelling to visit their families.
- employee benefits – Executives receive premium healthcare. In addition, all Executives receive the benefits set forth in the valid Collective Agreement.

In the event an Executive also serves as a member of the Company's Board of Directors, he or she is entitled to stock options, company car, and reimbursement of travel expenses only once.



# LITTLE BIG SOURCES

Installations with low installed capacity are continually a subject of interest for CEZ Group. Pumped-storage and small-scale hydro power stations have an important role to play in the Czech Republic's power industry and are a great benefit for maintaining the environment.
In addition to hydro installations, CEZ Group realizes the importance of other renewable sources, including biomass as well as cogeneration units that help the environment by achieving much higher utilization of energy contained in the fuel, compared to conventional power plants.

The oldest Czech hydro power plant in CEZ Group is Čeňkova Pila, built in 1912. The newest is the Mělník small-scale hydro power plant.

Pure biomass is utilized by power plants located in Hodonín and Otín u Jindřichova Hradce.

# SUPPLEMENTARY INFORMATION ON PERSONS WITH EXECUTIVE AUTHORITY AT ČEZ, A. S.

**Information on Cash and In-kind Income (Gross Amounts), Loans, and Securities**

| | Units | Supervisory Board | Board of Directors | Other persons with executive authority |
|---|---|---|---|---|
| Information on cash and in-kind income | | | | |
| Base wage [1] | CZK '000 | 2,255 | – | 47,959 |
| Bonus linked to Company performance and wage compensation [1] | CZK '000 | 49 | – | 116,671 |
| Remuneration to members of governing bodies | CZK '000 | 8,488 | 4,820 | – |
| 2010 bonus paid to members of governing bodies | CZK '000 | 16,219 | 9,281 | – |
| Severance pay and cash settlement | CZK '000 | – | – | – |
| Other cash income | CZK '000 | 7,504 | 1,486 | 4,776 |
| of which: Supplemental Pension Insurance contributions [1] | CZK '000 | 62 | – | 113 |
| endowment life insurance | CZK '000 | 7,335 | 1,486 | 4,220 |
| use of employee personal account [1] | CZK '000 | 42 | – | 176 |
| life jubilee bonus [1] | CZK '000 | – | – | – |
| domestic business travel reimbursement above limit | CZK '000 | – | – | 13 |
| international business travel reimbursement above limit | CZK '000 | 4 | – | 254 |
| other cash income | CZK '000 | 61 | – | – |
| Other in-kind income [1] | CZK '000 | 805 | 1,812 | 979 |
| of which: company car for business and personal use | CZK '000 | 791 | 1,783 | 884 |
| mobile telephone for business and personal use | CZK '000 | 14 | 29 | 18 |
| mobility program | CZK '000 | – | – | 77 |
| other in-kind income | CZK '000 | – | – | – |
| Income from entities controlled by the issuer | CZK '000 | 468 | – | 10,576 |
| of which: remuneration to members of governing bodies of controlled companies | CZK '000 | 468 | – | 10,057 |
| endowment life insurance | CZK '000 | – | – | 519 |
| company car for personal use [1] | CZK '000 | – | – | – |
| other cash and in-kind income | CZK '000 | – | – | – |
| Information on loans and securities | | | | |
| Loans provided by the issuer | CZK '000 | – | – | – |
| Loans provided by entities controlled by the issuer | CZK '000 | – | – | – |
| Number of options held at December 31, 2010 | number | – | 1,620,000 | 375,000 |
| average option price | CZK | – | 1,101.80 | 979.59 |
| Number of options to which claim arose in 2011 | number | – | 342,602 | 160,000 |
| average option price | CZK | – | 804.70 | 860.63 |
| Incoming (new) members | number | 750,000 | 60,000 | 10,000 |
| average option price | CZK | 1,192.74 | 833.17 | 848.08 |
| Outgoing members | number | – | (750,000) | (30,000) |
| average option price | CZK | – | 1,192.74 | 775.74 |
| Number of shares on which option was exercised | number | – | 120,000 | 50,000 |
| average option price | CZK | – | 796.60 | 833.32 |
| resulting in-kind income taxed | CZK millions | – | 17 | 5 |
| Number of shares on which option expired or was otherwise terminated | number | – | – | 80,000 |
| average option price | CZK | – | – | 1,221.58 |
| Number of options held at December 31, 2011 | number | 750,000 | 1,152,602 | 385,000 |
| average option price | CZK | 1,192.74 | 972.10 | 911.33 |
| Number of Company shares at December 31, 2011 held by members of governing bodies and other persons with executive authority [2] | number | 57,512 | 1,116 | 94,443 |

[1] Cash and in-kind income of Supervisory Board members in these items includes income from their present and/or past employment with the Company.

[2] Figures shown are for all persons that were members of the Company's governing bodies or other persons with executive authority in the Company as at December 31, 2011.

In this Annual Report, figures for stock options belonging to members of ČEZ governance bodies and other persons with executive authority are taken from stock option agreements actually in effect as of the date in question. Options include those for which all conditions set forth in the option agreement have been met and the beneficiary can exercise the option as early as the day in question, those that can be exercised in the future, and those for which all conditions set forth in the option agreement have not been met, but the option will be granted in the future provided the conditions are met.

**Convictions for fraud-related crimes during the past five years:**
No members of the Supervisory Board or Board of Directors have been convicted for fraud-related crimes, nor have any other persons with executive authority.

**Bankruptcy proceedings, administration, and/or liquidation during the past five years:**
Jiří Kadrnka was founder and member of the Board of Trustees of the Civic Foundation Fund in liquidation. His membership of the Board of Trustees ceased on June 29, 2004 (see liquidation resolution of October 21, 2011, deposited in the Collection of Documents of the Regional Court in Brno); however, this fact is not reflected in the relevant Commercial Register.
Daniel Beneš was a member and Chairman of the Supervisory Board of Coal Energy a.s. in liquidation in 2006–2009.
Martin Novák is a member of the Board of Directors of the Vyhlídka Housing Cooperative, in liquidation, which is being transformed into the Association of Apartment Owners at Suchý vršek 2101–2106, where he is a member of the Committee. The liquidation of the cooperative is ongoing and its completion is planned for 2012.
Vladimír Hlavinka was a member of the Supervisory Board of RIPSL a.s. "in liquidation" in 2005–2007.

**Official public charges or sanctions brought/imposed by statutory or regulatory bodies (including designated professional bodies) and court-ordered declarations of incompetence to act as a member of statutory or supervisory bodies:**
Pursuant to a Decision of the Czech National Bank dated May 15, 2008, a fine of CZK 50,000 was imposed on Martin Roman for breach of obligations under Section 125(5) of the Act on Doing Business in the Capital Market, by which he committed a misdemeanor under Section 184(1) of the Act on Doing Business in the Capital Market.
In 2006, Alan Svoboda was charged with abuse of information in business relations pursuant to Section 128(1) and (3) of the Penal Code. By a decision of the Municipal Court in Prague dated March 18, 2009, the criminal charges were dropped and the matter was forwarded to the Czech National Bank for completion of an investigation into a possible misdemeanor. In administrative proceedings, the Czech National Bank decided that a misdemeanor had occurred in the course of trading ČEZ, a. s. shares in 2005. Alan Svoboda filed an administrative complaint seeking reversal of the Czech National Bank's decision. On April 3, 2012, the Municipal Court in Prague reversed, with full legal force, the Czech National Bank's decision on the misdemeanor.

**Information on employment or other contracts with the issuer and/or its subsidiaries along with a description of benefits received upon termination of employment:**

The employment relationship with members of the Supervisory Board who are also employees of ČEZ, a. s. arose upon the execution of the employment contract. When their employment ends, in certain defined cases they are entitled to severance pay in accordance with applicable laws, regulations, and the Collective Agreement.

The employment relationships with the Chief Executive Officer and the division heads arose either by appointment or by execution of the respective employment contract. When the employment ends, all said persons are entitled to severance pay in certain defined cases, in accordance with applicable laws, regulations, and the Collective Agreement. They are also entitled to a cash settlement in return for refraining from engaging in gainful employment identical to a core business of ČEZ, a. s. or any activity that would be competitive in nature, toward the employer.

**Potential conflicts of interest:**

No member of the Supervisory Board, Board of Directors or Audit Committee, nor any other person with executive authority, has any conflict of interest in conjunction with his or her role at ČEZ, a. s.

**Agreements with key shareholders and/or other entities concerning selection for current job position:**

Members of the Supervisory Board who are not employees of ČEZ, a. s. are appointed to their offices by a decision of the General Meeting, which is usually taken at the behest of the majority shareholder.

**Agreement with issuer concerning restrictions on disposition of its securities:**

Beneficiaries of the stock options program, the parameters of which were approved by the General Meeting in May 2008, must upon each exercise of stock options maintain such a number of ČEZ, a. s. shares that corresponds to the value of 20% of the gain achieved on the day when they exercised the options in question. The beneficiaries are obligated to hold these shares until the termination or expiration of their stock options program.

A portion of stock option program beneficiaries whose stock option agreement was entered into during the period between the General Meeting held in May 2006 and the General Meeting held in May 2008 are subject, in their stock option agreements, to an obligation to hold 10% of shares acquired in each exercise of stock options until the termination or expiration of their stock options program.

Prior to the General Meeting of May 2006, the parameters of the stock options program did not include a requirement that beneficiaries hold any specific number of shares acquired from exercising their stock options.

# FULFILLMENT OF CORPORATE GOVERNANCE CODICES

Our corporate governance is based on the recommendations of the 2004 Corporate Governance Codex, in the drafting of which in the Czech Republic ČEZ, a. s. took part and whose provisions we comply with in all material respects. The Codex was compiled under the patronage of the erstwhile Securities Commission and it can be found on the website of the Ministry of Finance of the Czech Republic under the link www.mfcr.cz/cps/rde/xbcr/mfcr/Kodex_spravy_a_rizeni_spolecnosti_2004.pdf 1. Important information on the Company's governing bodies, a description of how they are established, their current composition, a description of how their members are remunerated, and a summary of Supervisory Board committees can be found on pages 16–33 of this Annual Report. ČEZ, a. s. complies with all Commercial Code provisions regarding shareholder rights, convening its General Meetings and ensuring equal treatment of all shareholders.

As an issuer of securities accepted for trading on the Warsaw Stock Exchange (GPW), ČEZ, a. s. is obligated to comply with the Codex released by said exchange.

As part of the preparations for launching its shares on this exchange, ČEZ, a. s. issued a declaration of compliance with the GPW Codex. On April 6, 2011, ČEZ, a. s. released a Codex compliance summary for the previous year, i.e. 2010, which is available in Czech, English, and Polish on the CEZ Group website, in the “Regulatory announcements” section. During the rest of 2011 and up until the closing date of this Annual Report, there was no change in the method of Codex compliance and it remained as published.

The text of the GPW Codex can be found on the Warsaw Stock Exchange special-purpose website, in English at www.corp-gov.gpw.pl/assets/library/english/regulacje/bestpractices%2019_10_2011_en.pdf 2, and in Polish at www.corp-gov.gpw.pl/assets/library/polish/regulacje/dobre_praktyki_19_10_2011_final.pdf 3.



1

2

3

In its activities, ČEZ, a. s. takes into account all material rules of the GPW Codex. Nevertheless, for the reasons set out below, certain aspects of ČEZ's practices in 2011 departed from the provisions of the GPW Codex in the following cases:

1) The GPW Codex requires General Meeting announcements to include biographical and other information on persons nominated for membership of the Supervisory Board. Because these persons are nominated by the shareholders, ČEZ, a. s. has no means of obtaining the information on nominees from the shareholders.
2) In terms of the manner of replacing the audit firm charged with auditing the financial statements, ČEZ, a. s. is governed by the valid Act No. 93/2009 Sb. on Auditors, which comprehensively treats this issue, and therefore ČEZ, a. s. deems it superfluous to set rules on the matter in question by an internal directive which, according to the GPW Codex, is to be published on the Company website.
3) ČEZ, a. s. requires members of the Supervisory Board to disclose, each year in a sworn statement to the Company, any possible conflicts of interest which, in the opinion of ČEZ, a. s., also includes their relationships (financial, family) with shareholders controlling at least 5% of the voting rights at the General Meeting, the identification of which is required by the GPW Codex.
4) Under the GPW Codex, members of the Supervisory Board are not to resign from their positions in cases when doing so could threaten the Supervisory Board's viability or cause it to not make quorum. At ČEZ, however, there is an effective mechanism that prevents such a situation from arising: the Supervisory Board is authorized to appoint substitute Supervisory Board members to serve until the next General Meeting. This procedure can only be used under the condition that the proportion of members elected by the General Meeting has not fallen below one half, i.e. usually four persons.
5) The GPW Codex requires that at least two members of the Supervisory Board be independent of ČEZ, a. s. and affiliated entities. As at December 31, 2011 this criterion was fulfilled; however, as a general rule the Company has no means to secure its fulfillment, since the members of the Supervisory Board are elected by the shareholders and employees and hence ČEZ, a. s. has no influence over the Supervisory Board's composition.
6) In general, ČEZ, a. s. does not prohibit the presence of representatives of the mass media at the ČEZ, a. s. General Meeting. If these representatives are not company shareholders, their presence at the General Meeting is subject to approval by the Board of Directors.
7) Under the GPW Codex, the beginning of dividend pay-out is to come as soon as possible after the dividend strike date, and the time delay should be at most 15 business days. As this matter is not addressed by ČEZ, a. s. internal directives, the company always deals with it on a one-time basis, in the General Meeting decision on dividend pay-out.
8) The GPW Codex requires that shareholders be allowed to attend the General Meeting electronically, through one or more of the following:
   - direct broadcast of the proceedings of the General Meeting
   - bidirectional communication in real time, enabling the shareholder to enter the debate, even if he or she is not present where the General Meeting is being held
   - voting at the General Meeting, either in person or through an authorized representative.

   Shareholders have the option of being represented by an authorized agent who attends the General Meeting directly, in person. To enable shareholders to participate in the General Meeting remotely, the Commercial Code requires that this method of participation be treated in the Articles of Association. For technical and organizational reasons related to organizing the General Meeting, ČEZ has decided not to include in the Articles of Association the possibility for shareholders to participate in the General Meeting by the above mentioned remote access methods.
9) In terms of providing and publishing answers to shareholder questions, ČEZ is governed by applicable law, which requires that it provide answers to shareholder questions at the General Meeting. Explanations on individual agenda items may also be provided to shareholders by publishing them on the Company website no later than the day prior to the General Meeting and, subsequently, they are made available at the General Meeting itself as well. Questions and answers are included in the minutes of the General Meeting proceedings, which are available to shareholders upon request. Despite the GPW Codex's requirement, ČEZ, a. s. does not publish them on its website. ČEZ, a. s. deems this manner of providing answers to shareholder questions to be sufficient.

# APPROACH TO RISKS IN RELATION TO FINANCIAL REPORTING

ČEZ, a. s. maintains accounts in accordance with International Financial Reporting Standards (IFRS) and, for purposes of the Income Tax Act, in accordance with Czech Accounting Standards (CAS). This is done by maintaining two general ledgers: one for IFRS and the other for CAS.

ČEZ also provides accounting services to selected subsidiaries (referred to as "integrated" subsidiaries) headquartered in the Czech Republic, which together with ČEZ, a. s. and other companies make up the CEZ Consolidated Group. The books of these integrated subsidiaries are kept in accordance with Czech accounting regulations and, at the same time, documentation is prepared for use in consolidation according to IFRS.

Accounting processes at ČEZ and in the integrated subsidiaries are governed by joint directives issued by ČEZ, a. s., which are valid also in said subsidiaries, or by directives issued by the parent company and subsidiaries individually, but based on unified rules. The principles contained in these directives are then worked out in more detail in work procedures and methodological materials, which describe specific parts of the accounting function.

Unified accounting policies at ČEZ and the integrated subsidiaries are set in full compliance with generally binding laws and regulations in the CEZ Group Accounting Standards. These standards are further supplemented by a set of lower-level methodological materials focusing in more detail on specific areas of the accounting process. Consolidation rules and other general principles used to prepare the CEZ Group statutory consolidated financial statements are stipulated in the Rules of Consolidation.

Accounting documents are processed in accordance with a directive issued by each company individually, subject to the general principle that all accounting documents are recorded only when approved by two authorized employees. Approval takes place either in writing for documents forwarded to the accounting department in paper form, or electronically through the SAP (enterprise information system) approval process for documents forwarded in electronic form. The scope of each approving officer's signature authority is set forth in the management directives of the company in question.

In terms of the organization, the accounting function is separate from the process of managing business partners, including management of bank account information and settlement of accounts payable. This rules out any possibility of a single employee entering a business partner in the database, recording a payable with respect to that partner, and issuing a payment order. Accounts are paid only when approved by the employee authorized to purchase the goods or services in question and by an employee authorized to confirm that the goods and/or services have been received.

Only users with the necessary authorization have access to the accounting system. The process of granting access to the system takes place through a software application and is subject to approval by a superior and by the owner of the accounting process. Access is authorized according to the employee's job position. Access for active operations (recording transactions) in the accounting system is limited to employees of the accounting department only. All logins to the accounting system are recorded in a database and can be searched retroactively. For each accounting document in the system there are records on who created it, as well as who changed it or reversed it, if applicable.

Inventory-taking of assets and liabilities is an integral part of the system of accounting controls. The inventory-taking process verifies whether all predictable risks and potential losses associated with assets have been reflected in the accounts, whether the assets are properly protected and maintained, and whether records of assets and liabilities are accurate.

The correctness of the accounts and the financial statements is checked internally by the Accounting Section as well as audited by an external auditor, who carries out the audit of the individual and consolidated financial statements as at December 31 of the current year.

Selected accounting areas are also subjected to an internal audit to determine whether the procedures used are in compliance with applicable legislation and the Company's internal directives. Where discrepancies are found, corrective measures are immediately proposed and implemented in the shortest possible time.

The effectiveness of ČEZ's system of internal controls and the process of compiling the financial statements of ČEZ, a. s. and the consolidated financial statements of CEZ Group, as well as of the external audit process on the mentioned financial statements, is also verified by the Audit Committee which, as a Company governing body, conducts these activities without prejudicing the responsibilities of members of the Board of Directors and Supervisory Board.

# SUMMARY REPORT PURSUANT TO SECTION 118(8) OF THE ACT ON DOING BUSINESS IN THE CAPITAL MARKET, ON CERTAIN ASPECTS OF THE SHAREHOLDERS' EQUITY OF ČEZ, A. S.

**Structure of Shareholders**

The Summary Report pursuant to Section 118(8) of the Act on Doing Business on the Capital Market, on certain aspects of shareholders' equity, is based on the requirements set forth in Sections 118(5)(a)-(k) of said Act.

As at December 31, 2011, the Company's stated capital as recorded in the Commercial Register totaled CZK 53,798,975,900. It was composed of 537,989,759 shares, each with a face value of CZK 100. The issue price of all shares had been fully paid in. All the shares were booked to owner, and were listed.

The Company's stated capital is allocated exclusively to common shares, with no special rights attached. All of the Company's shares are accepted for trading on the Prague Stock Exchange and the Warsaw Stock Exchange in the Republic of Poland and are negotiable without limitations. No other securities issued by ČEZ, a. s. are limited in their negotiability, nor are any special rights attached thereto.

Treasury shares were carried in the amount of CZK 4,381,867,000, which is their historical cost.

Retained earnings and other reserves totaled CZK 143,183,695,000.

**Structure of Shareholders (%)**

| | Stake in stated capital | Stake in voting rights | Stake in stated capital | Stake in voting rights |
|---|---|---|---|---|
| | at December 31, 2010 | | at December 31, 2011 | |
| **Legal entities, total** | **94.87** | **94.83** | **95.69** | **95.66** |
| Czech Republic | 69.78 | 70.31 | 69.78 | 70.29 |
| Other legal entities | 2.34 | 1.59 | 12.91 | 12.28 |
| of which: domestic | 1.22 | 0.46 | 1.73 | 1.02 |
| of which: ČEZ, a. s. | 0.76 | – | 0.72 | – |
| third parties | 0.46 | 0.46 | 1.01 | 1.02 |
| foreign | 1.12 | 1.13 | 11.18 | 11.26 |
| Asset managers | 22.75 | 22.93 | 13.00 | 13.09 |
| **Private individuals, total** | **5.13** | **5.17** | **4.31** | **4.34** |
| of which: domestic | 4.43 | 4.47 | 4.17 | 4.20 |
| foreign | 0.70 | 0.70 | 0.14 | 0.14 |

ČEZ, a. s. has no way to distinguish whether the asset managers manage shares on behalf of real shareholders, or for other asset managers, and therefore in compiling the structure of shareholders all entities whose shares are managed by asset managers pursuant to the Act on Doing Business in the Capital Market are included under "Asset managers" and are not reflected in the other parts of the table.

As of December 31, 2011, the following entities were recorded as having stakes of at least 3% of the stated capital of ČEZ, a. s.:

- The Czech Republic, represented by the Ministry of Finance of the Czech Republic and the Ministry of Labor and Social Affairs of the Czech Republic, with a combined total stake of 69.78% of the stated capital.
  The Czech Republic's equity stake allows it to exercise direct control over ČEZ using conventional means, i.e. in particular by voting at General Meetings. Other shareholders are informed of any negative influence the controlling entity may have on the Company through the Related Parties Report, which is a public document under Czech law and is attached to the Annual Report.
- Chase Nominees, whose stake is 4.83% of the stated capital.
- The asset manager Citibank Europe plc, which managed 96 accounts with shares corresponding to an aggregate total of 4.80% of the stated capital of ČEZ, a. s.
- The asset manager Československá obchodní banka, a. s., which managed 198 accounts with shares corresponding to an aggregate total of 4.17% of the stated capital of ČEZ, a. s.

These entities hold the rights set forth in Sections 181 and 182 of the Commercial Code.
In terms of restrictions on voting rights associated with certain shares, the following applies: in accordance with Section 161d of the Commercial Code, the voting rights associated with treasury shares acquired by ČEZ on the basis of a General Meeting resolution are not exercised by the Company. As at December 31, 2011, ČEZ, a. s. held 3,875,021 such treasury shares.
ČEZ is not aware of any contracts among its shareholders that could result in any limitations on the negotiability of shares or voting rights.
Amendments to the Articles of Association are decided by the General Meeting by a qualified, two-thirds majority of votes present.
As the statutory body, the Board of Directors runs the Company and acts in its name. In accordance with the Articles of Association, the Supervisory Board elects members to and removes them from the Board of Directors by a simple majority vote. It decides in all Company matters not reserved for the General Meeting or the Supervisory Board by the Commercial Code or the Articles of Association. Except as described above, the Board of Directors has no other special powers.
ČEZ, a. s. has entered into material contracts that take effect, change, or are voided in the event control over ČEZ changes as a result of a takeover offer. They are: the 5th, 6th, 7th, 8th, 11th, 12th, 13th, 14th, 19th, 20th, 21st, 23rd, and 24th Eurobond issues, the 1st and 2nd Namensschuldverschreibung issue, the bill of exchange program, loan agreements with the EIB for EUR 300 million signed in 2009, for EUR 100 million signed in 2010, for EUR 180 million signed in 2011, and a EUR 200 million loan guarantee agreement with the EIB signed in 2010 for the benefit of a subsidiary in Romania. In all of these contracts, should there be a change in the controlling entity of ČEZ, the counterparty would be entitled, but not required, to demand early repayment.

At the same time, however, this right can be exercised only if either Standard & Poor's or Moody's publicly declares or communicates to ČEZ in writing that it has reduced ČEZ's credit rating due in full or in part to the change in controlling entity. A reduction in the existing credit rating is defined as a change from investment to non-investment grade, any rating lower than an originally non-investment-grade rating, or non-determination of investment grade if no rating was assigned at all. The above reduction would have to take place in the period from when the step that could result in the change in controlling entity was made public until 180 days after the notification of the change in controlling entity. The counterparty could not exercise its right to early repayment if, following a factual change in the controlling entity, the rating agency in question re-evaluated its position and, within the period defined above, either returned ČEZ to investment grade or restored the previous non-investment-grade rating. The contractual provisions on a change in control over ČEZ should be seen in the context of ČEZ's credit rating, which in 2011 was A– from Standard & Poor's and A2 from Moody's, with stable outlook, i.e. 4 and 5 levels, respectively, above the agencies' highest non-investment-grade ratings. The change-of-rating condition mentioned above does not apply to the EIB loan agreements, representing a total of EUR 780 million, as in the case of these agreements the counterparty's right is already fulfilled by the change in control over ČEZ, a. s.

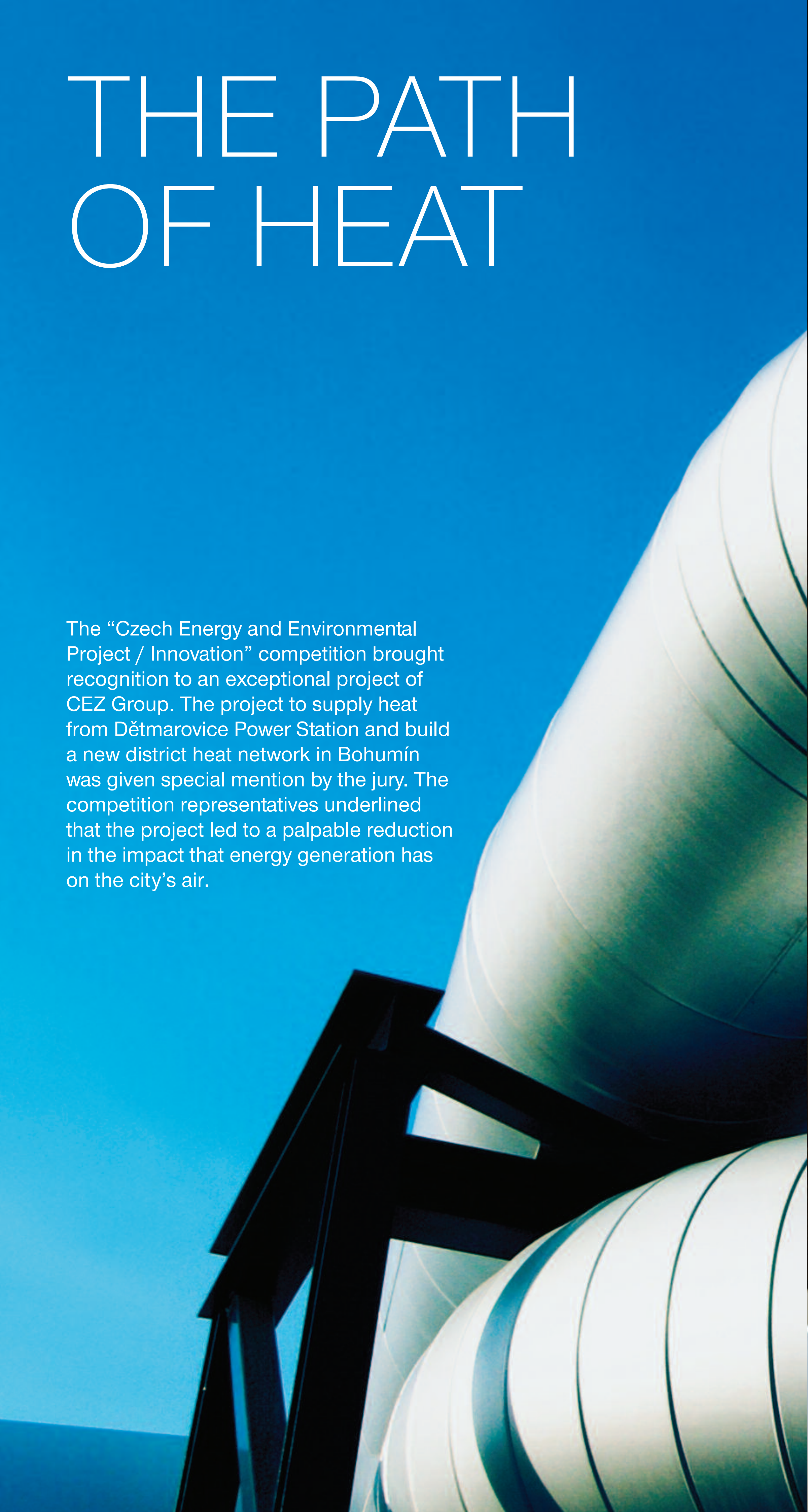
No contracts have been entered into between ČEZ and members of its Board of Directors and/or employees that would bind ČEZ, a. s. to provide consideration in the event they should leave their office and/or employment in conjunction with a takeover offer.

At ČEZ, remuneration of senior executives includes an incentive program that enables these executives to acquire Company shares. Members of the Board of Directors and selected employees were/are entitled to options on the Company's common shares under the conditions set forth in a stock option contract.

Under the rules for granting stock options approved by the General Meeting in May 2008, members of the Board of Directors and selected employees receive options for a certain number of the Company's shares on an annual basis for as long as they remain in office. The purchase price of one share is set as the weighted average of the prices at which trades in the Company's shares took place in a regulated market in the Czech Republic during the month before the annual option granting date. Members of the Board of Directors are entitled to call upon the Company to transfer a number of shares no larger than the given option grant, no earlier than two years and no later than the mid-point of the fourth year after each option grant. The option right is restricted in that the appreciation of the Company's shares may be at most 100% compared to the purchase price and the member of the Board of Directors is obligated to hold in his or her asset account such a number of shares obtained on the basis of a call to transfer that corresponds to the value of 20% of the gain achieved at the date of the call, for as long as the stock option program shall last. Members of the Board of Directors to whom the new option program rules apply and who also participated in the option program under principles that applied prior to May 2008, will be allowed to participate in the revised stock option program provided they fulfill the eligibility criteria and the conditions approved by the General Meeting in May 2008.

In 2011, among employees and members of the Board of Directors there were 12 persons who had obtained shares through the stock options program and also owned shares during that year. Of this number, one person exercised their right to attend the General Meeting of ČEZ, a. s. as a Company shareholder and cast votes there. A total of eight persons exercised their right to dividends. According to information submitted to the Company for the purpose of drafting this report, no beneficiary of the stock options program transferred any separately negotiable right attaching to their shares to any third party.

# THE PATH OF HEAT

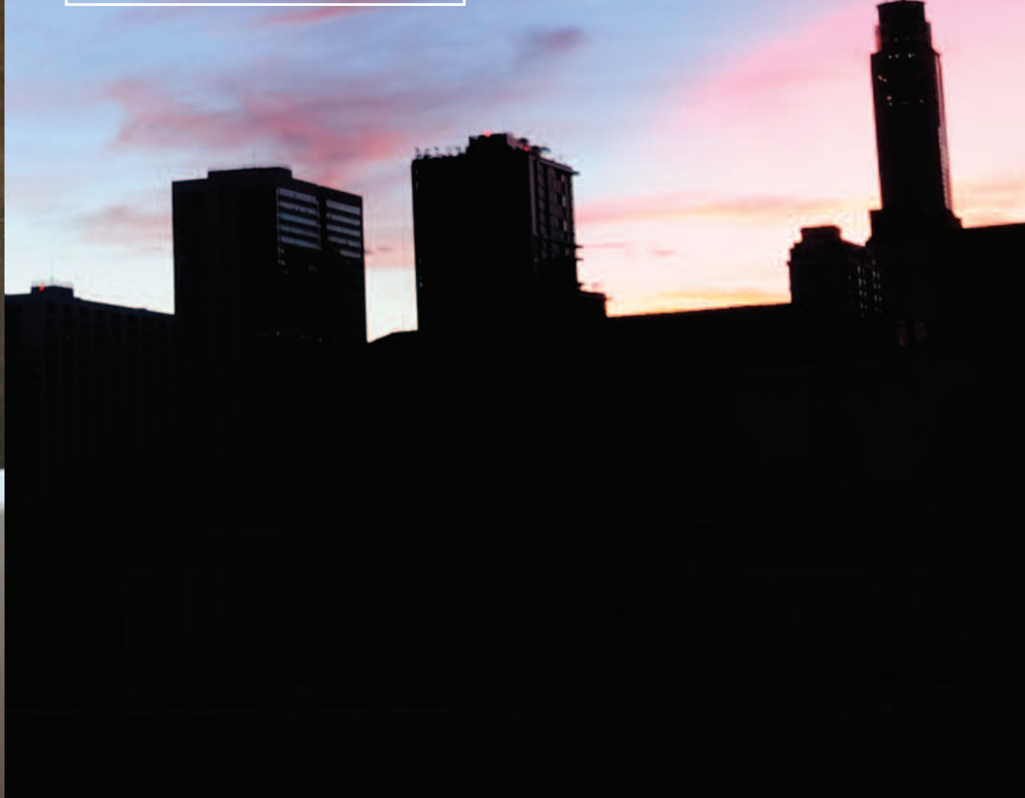


The “Czech Energy and Environmental Project / Innovation” competition brought recognition to an exceptional project of CEZ Group. The project to supply heat from Dětmarovice Power Station and build a new district heat network in Bohumín was given special mention by the jury. The competition representatives underlined that the project led to a palpable reduction in the impact that energy generation has on the city’s air.

Thanks to the building of the district heat network, 61 boiler installations were shut down.

The burden on Bohumín's air is now 11.9 tons of nitrogen oxides per year less.

Bohumín residents will save approximately 20% of their heat and hot water costs.



# REPORT ON OPERATIONS
# FINANCIAL PERFORMANCE OF CEZ GROUP

For accounting purposes, the CEZ Consolidated Group consisted of a total of 120 companies as at December 31, 2011. Of this number 99 were fully consolidated, and 21 associates and joint-ventures were consolidated by the equity method.

## Breakdown of CEZ Group by Segment

For accounting purposes, the companies of the CEZ Consolidated Group are divided into seven operational segments.

Power Production & Trading Central Europe
ČEZ, a. s.
3 L invest a.s.
A.E. Wind sp. z o.o.
AREA-GROUP CL a.s.
Bioplyn technologie s.r.o.
Bohemian Development, a.s.
CEZ Bosna i Hercegovina d.o.o.
CEZ Deutschland GmbH
CEZ Finance B.V.
CEZ Chorzow B.V.
CEZ MH B.V.
CEZ Nowa Skawina S.A.
CEZ Poland Distribution B.V.
CEZ Produkty Energetyczne Polska sp. z o.o.
CEZ Silesia B.V.
CEZ Srbija d.o.o.
CEZ Towarowy Dom Maklerski sp. z o.o.
CEZ Trade Albania Sh.P.K.
CEZ Trade Romania S.R.L.
ČEZ Bohunice a.s.
ČEZ Energetické produkty, s.r.o.
ČEZ Energo, s.r.o.
ČEZ Obnovitelné zdroje, s.r.o.
ČEZ OZ uzavřený investiční fond a.s.
ČEZ Teplárenská, a.s.
DOMICA FPI s.r.o.
Eco-Wind Construction S.A.
eEnergy Hodonín a.s.
eEnergy Ralsko a.s.
eEnergy Ralsko - Kuřívody a.s.
Elektrárna Chvaletice a.s.
Elektrociepłownia Chorzów ELCHO sp. z o.o.
Elektrownia Skawina S.A.
Elektrownie Wiatrowe Lubiechowo sp. z o.o.
F.W. Tolkowiec sp. z o.o.
Farma Wiatrowa Leśce sp. z o.o.
Farma Wiatrowa Wilkolaz-Bychawa sp. z o.o.
Energetické centrum s.r.o.
FVE Buštěhrad a.s.
FVE Vranovská Ves a.s.
GENTLEY a.s.
KEFARIUM,a.s.
MARTIA a.s.
Mega Energy sp. z o.o.
PPC Úžín, a.s.
Tepelné hospodářství města Ústí nad Labem s.r.o.
Teplárna Trmice, a.s.
CM European Power International B.V. *)
CM European Power International s. r. o. *)
CM European Power Slovakia, s. r. o. *)
Jadrová energetická spoločnosť Slovenska, a. s. *)
JESS Invest, s. r. o. *)
MOL - CEZ European Power Hungary Kft. *)

## Distribution & Sale Central Europe

CEZ Magyarország Kft.
CEZ Slovensko, s.r.o.
CEZ Trade Polska sp. z o.o.
ČEZ Distribuce, a. s.
ČEZ Prodej, s.r.o.

## Mining Central Europe

CEZ International Finance B.V.
Severočeské doly a.s.
JTSD - Braunkohlebergbau GmbH *)
LOMY MOŘINA spol. s r.o. *)
Mitteldeutsche Braunkohlengesellschaft mbH *)

## Other Central Europe

Centrum výzkumu Řež s.r.o.
CEZ Finance Ireland Ltd.
CEZ International Finance Ireland Ltd.
CEZ Polska sp. z o.o.
ČEZ Distribuční služby, s.r.o.
ČEZ Energetické služby, s.r.o.
ČEZ ENERGOSERVIS spol. s r.o.
ČEZ ICT Services, a. s.
ČEZ Logistika, s.r.o.
ČEZ Měření, s.r.o.
ČEZ Správa majetku, s.r.o.
ČEZ Zákaznické služby, s.r.o.
PRODECO, a.s.
SD - 1.strojírenská, a.s.
SD - Autodoprava, a.s.
SD - Kolejová doprava, a.s.
SD - KOMES, a.s.
SD - Rekultivace, a.s.
STE - obchodní služby spol. s r.o. in liquidation
ŠKODA PRAHA a.s.
ŠKODA PRAHA Invest s.r.o.
Ústav jaderného výzkumu Řež a.s.

## Power Production & Trading Southeastern Europe

CEZ Bulgarian Investments B.V.
CEZ Elektroproizvodstvo Bulgaria AD
Free Energy Project Oreshets EAD
M.W. Team Invest S.R.L.
NERS d.o.o.
Ovidiu Development S.R.L.
Taidana Limited
TEC Varna EAD
TMK Hydroenergy Power S.R.L.
Tomis Team S.R.L.
Aken B.V. *)
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. *)
Akka Elektrik Üretim A.S. *)
Akkur Enerji Üretim Ticaret ve Sanayi A.S. *)
AK-EL Kemah Elektrik Üretim ve Ticaret A.S. *)
AK-EL Yalova Elektrik Üretim A.S. *)
Egemer Elektrik Üretim A.S. *)
Mem Enerji Elektrik Üretim Sanayi ve Ticaret A.S. *)

## Distribution & Sale Southeastern Europe

CEZ Albania Sh.A.
CEZ Distributie S.A.
CEZ Elektro Bulgaria AD
CEZ Razpredelenie Bulgaria AD
CEZ Shpërndarje Sh.A.
CEZ Trade Bulgaria EAD
CEZ Vanzare S.A.
Akcez Enerji A.S. *)
Sakarya Elektrik Dagitim A.S. *)

## Other Southeastern Europe

CEZ Bulgaria EAD
CEZ Laboratories Bulgaria EOOD – in liquidation
CEZ Romania S.A.
CEZ RUS OOO
CEZ Ukraine LLC
New Kosovo Energy L.L.C.

*) associate or joint-venture

# CEZ Consolidated Group as at December 31, 2011

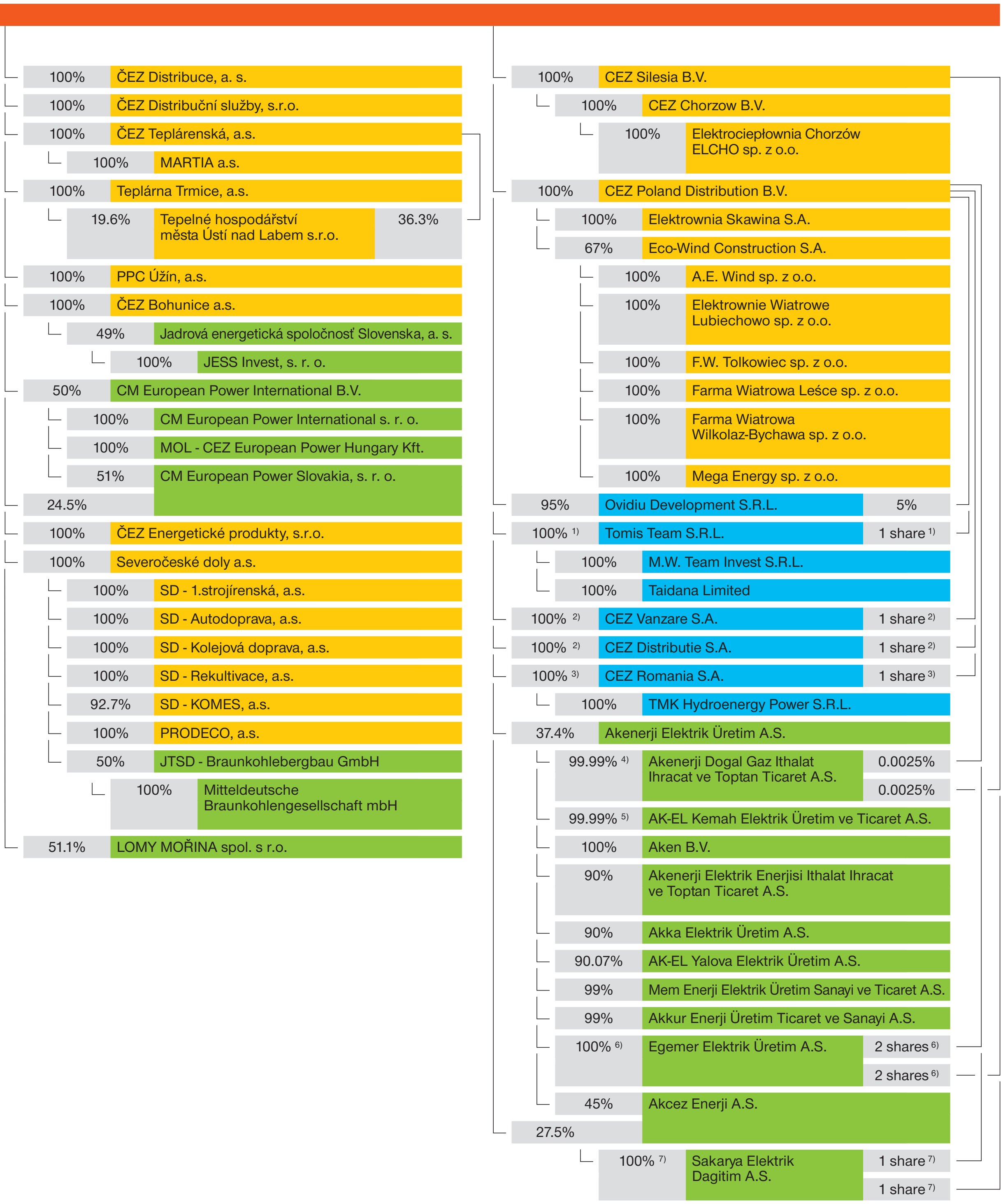
ČEZ, a. s.

| Stake | Company | Other stake |
|---|---|---|
| 100% | CEZ Deutschland GmbH | |
| 100% | CEZ Finance B.V. | |
| 100% | CEZ Finance Ireland Ltd. | |
| └ 100% | CEZ International Finance Ireland Ltd. | |
| 100% | CEZ Hungary Ltd. | |
| 100% | CEZ International Finance B.V. | |
| 100% | CEZ MH B.V. | |
| 100% | CEZ Polska sp. z o.o. | |
| 100% | CEZ Produkty Energetyczne Polska sp. z o.o. | |
| 100% | CEZ Nowa Skawina S.A. | |
| 100% | CEZ Trade Albania Sh.P.K. | |
| 100% | CEZ Slovensko, s.r.o. | |
| 100% | CEZ Trade Polska sp. z o.o. | |
| 100% | ČEZ Prodej, s.r.o. | |
| 100% | CEZ Srbija d.o.o. | |
| 100% | Energetické centrum s.r.o. | |
| 100% | ČEZ Měření, s.r.o. | |
| 50.1% | ČEZ Energo, s.r.o. | |
| 52.5% | Ústav jaderného výzkumu Řež a.s. | |
| └ 100% | Centrum výzkumu Řež s.r.o. | |
| 100% | ČEZ Energetické služby, s.r.o. | |
| 100% | ČEZ ICT Services, a. s. | |
| 100% | ČEZ Logistika, s.r.o. | |
| 100% | ČEZ Správa majetku, s.r.o. | |
| 99.99% | CEZ Trade Romania S.R.L. | 0.01% |
| 99.9% | ČEZ Obnovitelné zdroje, s.r.o. | 0.1% |
| └ 100% | Bioplyn technologie s.r.o. | |
| └ 100% | FVE Buštěhrad a.s. | |
| └ 100% | KEFARIUM,a.s. | |
| 50% | ČEZ OZ uzavřený investiční fond a.s. | 50% |
| 100% | FVE Vranovská Ves a.s. | |
| 99.92% | DOMICA FPI s.r.o. | 0.08% |

| Stake | Company | Other stake |
|---|---|---|
| 100% | eEnergy Ralsko - Kuřívody a.s. | |
| 99.61% | AREA-GROUP CL a.s. | 0.39% |
| 100% | eEnergy Hodonín a.s. | |
| 100% | ČEZ Zákaznické služby, s.r.o. | |
| 100% | STE - obchodní služby spol. s r.o. in liquidation | |
| 100% | ŠKODA PRAHA a.s. | |
| 100% | ŠKODA PRAHA Invest s.r.o. | |
| 100% | ČEZ ENERGOSERVIS spol. s r.o. | |
| 100% | Elektrárna Chvaletice a.s. | |
| 100% | CEZ Towarowy Dom Maklerski sp. z o.o. | |
| 100% | GENTLEY a.s. | |
| └ 100% | Bohemian Development, a.s. | |
| 100% | eEnergy Ralsko a.s. | |
| 99.64% | 3 L invest a.s. | 0.36% |
| 76% | CEZ Shpërndarje Sh.A. | |
| 100% | TEC Varna EAD | |
| 100% | CEZ Albania Sh.A. | |
| 100% | CEZ Bulgaria EAD | |
| 100% | CEZ Bulgarian Investments B.V. | |
| └ 100% | Free Energy Project Oreshets EAD | |
| 100% | CEZ Bosna i Hercegovina d.o.o. | |
| 67% | CEZ Elektro Bulgaria AD | |
| 100% | CEZ Elektroproizvodstvo Bulgaria AD | |
| 100% | CEZ Laboratories Bulgaria EOOD – in liquidation | |
| 67% | CEZ Razpredelenie Bulgaria AD | |
| 100% | CEZ RUS OOO | |
| 100% | CEZ Trade Bulgaria EAD | |
| 100% | CEZ Ukraine LLC | |
| 51% | NERS d.o.o. | |
| 100% | New Kosovo Energy L.L.C. | |

% indicates controlling entity's stake in the company's stated capital

- parent company
- subsidiary in Central Europe
- subsidiary in Southeastern Europe
- associate or joint-venture




[1] In the case of Tomis Team S.R.L., ČEZ, a. s. owns 46,777,102 shares and CEZ Poland Distribution B.V. one share, out of a total of 46,777,103 shares. The respective stakes are: ČEZ, a. s., 99.999998%; and CEZ Poland Distribution B.V., 0.000002%.

[2] In the case of CEZ Vanzare S.A. and CEZ Distributie S.A., ČEZ, a. s. owns 71,523,468 shares and CEZ Poland Distribution B.V. one share, out of a total of 71,523,469 shares. The respective stakes are: ČEZ, a. s., 99.9999986%; and CEZ Poland Distribution B.V., 0.0000014%.

[3] In the case of CEZ Romania S.A., ČEZ, a. s. owns 192,118 shares and CEZ Poland Distribution B.V. one share, out of a total of 192,119 shares. The respective stakes are: ČEZ, a. s., 99.9995%; and CEZ Poland Distribution B.V., 0.0005%.

[4] In the case of Akenerji Dogal Gaz Ithalat Ihracat ve Toptan Ticaret A.S., Akenerji Elektrik Üretim A.S. owns 3,312,714 shares, CEZ Poland Distribution B.V. 83 shares, and CEZ Silesia B.V. 83 shares, out of a total of 3,313,046 shares. The respective stakes are: Akenerji Elektrik Üretim A.S., 99.99%; CEZ Poland Distribution B.V., 0.0025%; and CEZ Silesia B.V., 0.0025%.

[5] In the case of AK-EL Kemah Elektrik Üretim ve Ticaret A.S., Akenerji Elektrik Üretim A.S. owns 46,601 shares out of a total of 46,605 shares. The stake of Akenerji Elektrik Üretim A.S. is 99.9914172%.

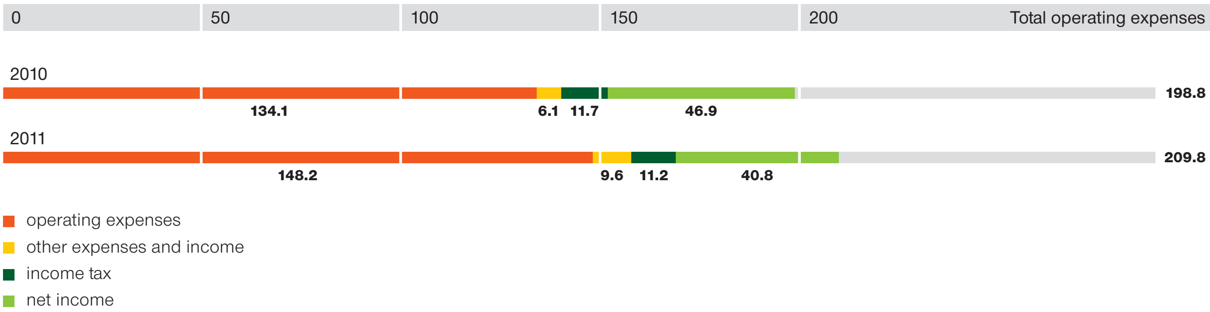
[6] In the case of Egemer Elektrik Üretim A.S., Akenerji Elektrik Üretim A.S. owns 134,999,992 shares, CEZ Poland Distribution B.V. two shares, and CEZ Silesia B.V. two shares, out of a total of 135,000,000 shares. The respective stakes are: Akenerji Elektrik Üretim A.S., 99.9999944%; CEZ Poland Distribution B.V., 0.0000014%; and CEZ Silesia B.V., 0.0000014%.

[7] In the case of Sakarya Elektrik Dagitim, Akcez Enerji A.S. owns 232,994,896 shares, CEZ Poland Distribution B.V. one share, and CEZ Silesia B.V. one share. The respective stakes are: Akcez Enerji A.S., 99.99999828%; CEZ Poland Distribution B.V., 0.00000043%; and CEZ Silesia B.V., 0.00000043%.

## CEZ Group Financial Performance Results

Net income fell CZK 6.1 billion year-on-year, to CZK 40.8 billion. Earnings before interest, taxes, depreciation, and amortization (EBITDA) decreased by CZK 1.5 billion year-on-year, to CZK 87.3 billion.

**Net Income Breakdown (CZK billions)**




The main factor contributing to the CZK 6.1 billion decline in income was other expenses and income (down CZK 3.5 billion) – especially the newly imposed tax on emission rights (CZK −3.6 billion) and the year-on-year accounting impact of the MIBRAG transactions (CZK −3.0 billion). These negative factors were partially offset by lower foreign exchange rate losses (CZK +2.4 billion), as the Czech Koruna weakened against the Euro.

Positive factors, on the other hand, included a CZK 10.9 billion rise in sales revenues, driven by higher revenues from electricity distribution, electricity export revenues, and revenues from sales of gas. This increase in sales revenues, however, was offset by a CZK 14.2 billion increase in operating expenses, attributable to higher distribution expenses for mandatory purchasing of renewable sources and higher gas procurement expenses.

### Other Expenses and Income

Other expenses and income caused income to fall by CZK 3.5 billion.

Interest expenses rose CZK 1.5 billion on higher capital expenditures, while interest revenues – mostly from loans made – were down CZK 0.2 billion.

Foreign exchange rate gains (losses) and financial derivative gains and losses increased income by CZK 2.9 billion, primarily on weakening of the CZK against the EUR (CZK +2.4 billion) and a CZK 0.4 billion increase in the gain on the MOL option.

Based on goodwill testing conducted in 2011, the goodwill amount for the Albanian company CEZ Shpërndarje was reduced by CZK 0.3 billion. The main reason was the regulator's announcement of lower tariffs for the coming period. In 2010, CZK 2.8 billion of goodwill in the Bulgarian companies was written off. Thus, the positive influence on income was CZK 2.5 billion.

Shares in the results of companies consolidated by the equity method caused income to decline by CZK 3.8 billion. In particular, this resulted from the accounting classification of MIBRAG as an asset held for sale, which caused a year-on-year loss of CZK 3.0 billion, as well as from the results of the Turkish companies, which declined by CZK 0.9 billion on unfavorable movement of Turkish Lira exchange rates against the U.S. Dollar.

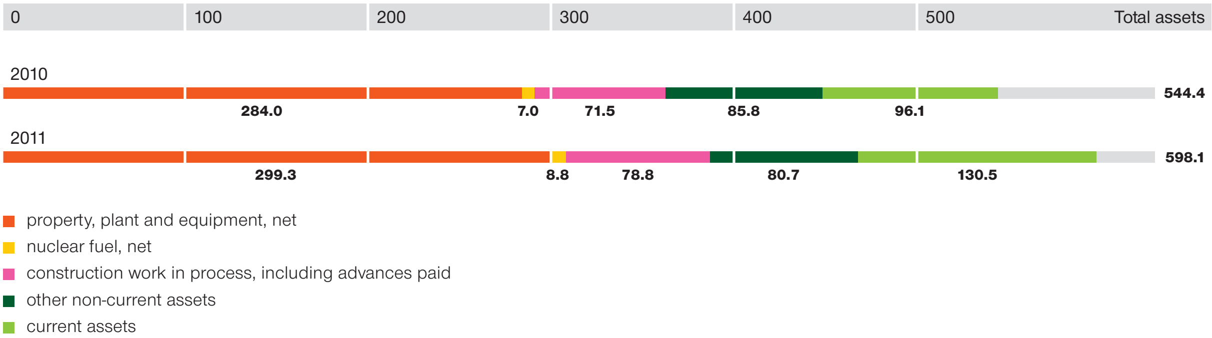
2011 saw the imposition of a gift tax on emission rights, which brought a CZK 3.6 billion negative impact on other financial expenses and income.

Dividend income was up CZK 0.4 billion in 2011, on higher dividends from Dalkia ČR.

Income tax was down CZK 0.5 billion year-on-year, due to the lower income.

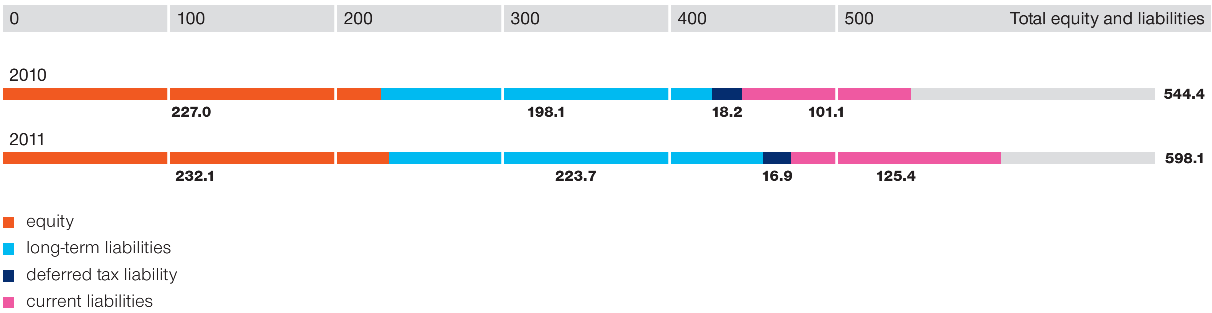
## Structure of Assets and Capital

**Structure of Assets as at December 31 (CZK billions)**




CEZ Group consolidated assets grew CZK 53.7 billion compared to 2010, to CZK 598.1 billion.
Fixed assets increased by CZK 19.3 billion to CZK 467.6 billion. Within this amount, the book value of property, plant and equipment, nuclear fuel, and construction work in progress rose CZK 24.4 billion on new acquisitions and capital expenditures. Other fixed assets fell CZK 5.1 billion on a decline in the value of the Group's holdings in associates and joint-ventures, which was due primarily to a reclassification of MIBRAG to assets held for sale, as well as a decrease in the value of the Turkish companies.
Current assets grew CZK 34.4 billion in 2011, to CZK 130.5 billion, primarily on a CZK 15.3 billion increase in trade receivables, a CZK 4.6 billion increase in liquid securities, a CZK 2.9 billion rise in the valuation of emission rights granted due to the inclusion of gift tax, a CZK 8.6 billion increase in derivative receivables (offset on the short-term liabilities side by a CZK 8.0 billion increase in derivative liabilities), and a CZK 3.0 billion rise in other current assets.

**Structure of Equity and Liabilities as at December 31 (CZK billions)**




Equity, including non-controlling interests, grew to CZK 232.1 billion in 2011. Net income generated in 2011 increased equity by CZK 40.8 billion; dividends reduced equity by CZK 26.7 billion. Other factors, which reduced equity by CZK 9.1 billion, included (in order of significance) a change in the fair value of cash-flow hedge instruments carried in equity (CZK −7.3 billion) and removal of cash-flow hedges from equity (CZK −2.3 billion). On the other hand, all the other items in this category, and deferred tax on items in other comprehensive income especially, increased equity.

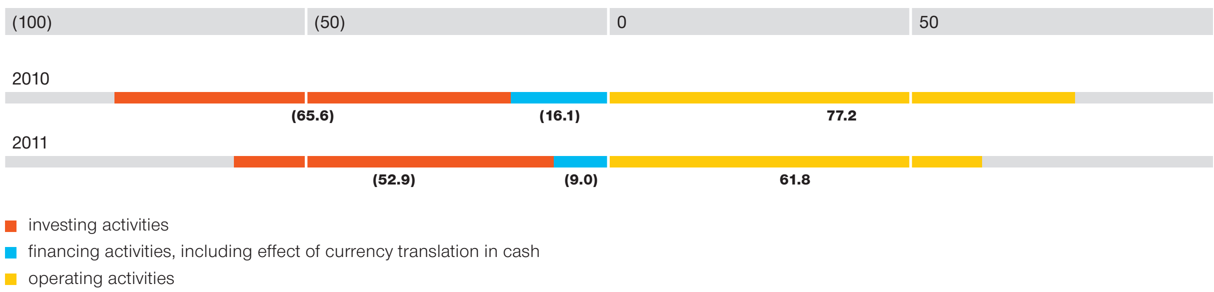
Long-term liabilities, including nuclear provisions, rose CZK 25.6 billion to a total of CZK 223.7 billion, primarily on growth in long-term bank loans and bond issues. The value of bonds outstanding, net of current portion, as at December 31, 2011 was CZK 133.2 billion, up CZK 8.1 billion year-on-year. The value of long-term bank loans at year end 2011 was CZK 29.8 billion, a year-on-year increase of CZK 16.5 billion.

Deferred tax liabilities fell CZK 1.3 billion year-on-year, to CZK 16.9 billion.

The CZK 24.3 billion rise in short-term liabilities, to CZK 125.4 billion, was caused primarily by a CZK 8.0 billion increase in derivative payables, which however was offset on the assets side by a CZK 8.6 billion increase in derivative receivables. Other factors contributing to the growth in short-term liabilities were a CZK 8.7 billion increase in trade payables (offset on the assets side by growth in trade receivables) and a CZK 7.6 billion rise in accrued liabilities and estimated items.

## Cash Flows as at December 31

**Cash Flows (CZK billions)**




**Cash Flows (CZK billions)**

| | 2011 | 2010 |
|---|---|---|
| Cash and cash equivalents at beginning of period | 22.2 | 26.7 |
| Operating activities | 61.8 | 77.2 |
| Investing activities | (52.9) | (65.6) |
| Financing activities, including net effect of currency translation in cash | (9.0) | (16.1) |
| Cash and cash equivalents at end of period | 22.1 | 22.2 |

In 2011, there was a CZK 15.4 billion decline in net cash provided by operating activities. The biggest factor in the decrease was a CZK 13.0 billion increase in working capital, due in particular to a CZK 6.0 billion increase in the trade receivables/payables balance as receivables grew faster than payables, a CZK 2.1 billion increase in the volume of highly liquid securities, a CZK 2.0 billion rise in fossil fuel stocks, a CZK 1.0 billion increase in the valuation of emission rights due to inclusion of the gift tax, and a slight (CZK +0.4 billion) rise in materials and supplies. Further, in operating activities, a CZK 1.7 billion increase in interest paid, due to higher indebtedness, had a negative impact while, on the other hand, a CZK 3.0 billion drop in income taxes paid was of positive influence.

Total cash used in investing activities fell CZK 12.7 billion year-on-year, primarily on lower investments in shares of subsidiaries, associates and joint-ventures (CZK −7.0 billion), lower additions to property, plant and equipment and other non-current assets (CZK −9.8 billion), and lower repayment of provided loans (CZK −4.2 billion).

Cash used in financing activities, including the net effect of currency translation in cash, fell CZK 7.1 billion year-on-year. Here, the main reason was lower payments of borrowings accompanied, however, by lower proceeds from borrowings with an aggregate net effect of CZK 4.8 billion. Another factor was a CZK 1.6 billion drop in dividends paid.

**Comprehensive Income**

The comprehensive income, net of tax, fell CZK 16.0 billion year-on-year, to CZK 32.6 billion. Within this figure, net income declined CZK 6.1 billion year-on-year, to CZK 40.8 billion. Additionally, changes in equity caused comprehensive income to fall by CZK 9.8 billion. The biggest factors in the latter reduction were weakening of the Czech Koruna in relation to the Euro, causing the overall fair value of cash-flow hedges to fall by CZK 16.1 billion. On the other hand, foreign currency translation and deferred taxes increased comprehensive income by CZK 3.5 billion and CZK 3.1 billion, respectively.

# CEZ Group Financial Performance Results, by Segment

**Segment Analysis**

| Segment | Sales other than intersegment sales CZK millions | Intersegment sales CZK millions | Total revenues CZK millions | EBITDA CZK millions | Depreciation and amortization CZK millions |
|---|---|---|---|---|---|
| Power Production & Trading CE | | | | | |
| 2010 | 61,860 | 53,378 | 115,238 | 62,031 | (14,409) |
| 2011 | 69,436 | 49,635 | 119,071 | 55,745 | (14,989) |
| Distribution & Sale CE | | | | | |
| 2010 | 91,721 | 6,728 | 98,449 | 13,382 | (3,221) |
| 2011 | 93,793 | 9,946 | 103,739 | 15,996 | (3,453) |
| Mining CE | | | | | |
| 2010 | 4,688 | 5,850 | 10,538 | 4,273 | (1,631) |
| 2011 | 4,806 | 6,083 | 10,889 | 4,793 | (1,876) |
| Other CE | | | | | |
| 2010 | 3,758 | 41,034 | 44,792 | 4,699 | (2,044) |
| 2011 | 3,274 | 38,050 | 41,324 | 4,996 | (2,170) |
| Power Production & Trading SEE | | | | | |
| 2010 | 3,524 | 280 | 3,804 | 611 | (428) |
| 2011 | 3,860 | 706 | 4,566 | 2,310 | (937) |
| Distribution & Sale SEE | | | | | |
| 2010 | 33,277 | 81 | 33,358 | 3,690 | (2,255) |
| 2011 | 34,567 | 353 | 34,920 | 3,551 | (2,285) |
| Other SEE | | | | | |
| 2010 | 20 | 2,181 | 2,201 | 103 | (72) |
| 2011 | 25 | 2,207 | 2,232 | 88 | (60) |
| Elimination | | | | | |
| 2010 | – | (109,532) | (109,532) | 59 | – |
| 2011 | – | (106,980) | (106,980) | (167) | – |
| Consolidated | | | | | |
| 2010 | 198,848 | – | 198,848 | 88,848 | (24,060) |
| 2011 | 209,761 | – | 209,761 | 87,312 | (25,770) |

The EBITDA of the Mining Central Europe segment grew CZK 0.5 billion (+12.2%). Severočeské doly a.s. mined a record CZK 25.1 million tons of coal in 2011, a year-on-year increase of 3.3 million tons, primarily on higher demand from ČEZ, a. s. (CZK +0.4 billion; +2.4 million tons) and, at the same time, from external customers as well (CZK +0.3 billion; +0.9 million tons). The German MIBRAG mines, consolidated by the equity method, are only reflected in the segment's net income. In conjunction with the planned sale of the stake in these mines, the influence on earnings fell by CZK 3.0 billion year-on-year. After the CZK +0.3 billion profit posted in 2010, in 2011 a CZK 2.7 billion loss was recorded due to the reversal of goodwill that had positively affected earnings in 2009.

The Power Production & Trading Central Europe segment, which is still the most important in CEZ Group, posted an EBITDA of CZK 55.7 billion, down CZK 6.3 billion (–10.1%) year-on-year. This was caused primarily by a decline in electricity selling prices in the wholesale market and a drop in the CZK/EUR hedging exchange rate. In 2010 an extraordinary gain on emission rights derivatives was recorded, and another negative factor was the decline in the price of emission rights that took place during 2011, from 13.8 EUR/t $CO_2$ down to 6.8 EUR/t $CO_2$. On the other hand, higher electricity generation and net proceeds (before depreciation and amortization) from the operation of CEZ Group photovoltaic power plants in the Czech Republic had a positive impact (CZK +0.8 billion; +0.2 TWh).

Generation in the Group's power plants in the Czech Republic remained at the same level as in 2010, i.e. 63.3 TWh. Generation in nuclear sources rose moderately (+0.3 TWh) on higher availability at Dukovany Nuclear Power Station, but this was accompanied by a 0.4 TWh decline in hydro generation, due to above-average precipitation in 2010.

The coal-fired power plants in Poland generated 0.1 TWh more than they did in 2010.

The EBITDA of the Distribution & Sale Central Europe segment grew CZK 2.6 billion (+19.5%) year-on-year, to CZK 16.0 billion. In year-on-year terms, the electricity distribution volume reported by ČEZ Distribuce was down slightly, by 0.3 TWh (–1.0%). The positive financial performance is driven by growth in the gross margin, due in particular to a year-on-year increase in permitted revenues as stipulated by the regulator (CZK +1.6 billion).

In the electricity sales area, there was a CZK 2.6 TWh (9.6%) decline in the volume of electricity sold to end customers, resulting in a CZK 0.4 billion negative impact on EBITDA. The benefit of lower electricity procurement costs exceeded the negative impact of lower selling prices (CZK +1.6 billion). Another negative year-on-year factor in this area was revenue from uninvoiced electricity in 2010 (CZK –0.9 billion).

| EBIT CZK millions | Income tax CZK millions | Net income CZK millions | Capital expenditure CZK millions | Work force head count at December 31 persons | Segment |
|---|---|---|---|---|---|
| | | | | | Power Production & Trading CE |
| 47,622 | (8,385) | 43,465 | 39,779 | 7,596 | 2010 |
| 40,756 | (7,177) | 43,189 | 27,533 | 7,519 | 2011 |
| | | | | | Distribution & Sale CE |
| 10,161 | (1,850) | 8,035 | 9,645 | 1,490 | 2010 |
| 12,543 | (2,281) | 10,044 | 9,670 | 1,466 | 2011 |
| | | | | | Mining CE |
| 2,642 | (505) | 3,033 | 3,990 | 3,464 | 2010 |
| 2,917 | (542) | 193 | 4,121 | 3,467 | 2011 |
| | | | | | Other CE |
| 2,655 | (452) | 2,331 | 27,456 | 8,754 | 2010 |
| 2,826 | (642) | 2,220 | 23,751 | 8,555 | 2011 |
| | | | | | Power Production & Trading SEE |
| 183 | 57 | (2,012) | 3,459 | 536 | 2010 |
| 1,373 | (80) | (103) | 4,886 | 563 | 2011 |
| | | | | | Distribution & Sale SEE |
| 1,435 | (589) | (324) | 2,994 | 9,463 | 2010 |
| 1,266 | (517) | (140) | 2,534 | 8,631 | 2011 |
| | | | | | Other SEE |
| 31 | (15) | 8 | 729 | 1,324 | 2010 |
| 28 | – | 6 | 775 | 1,219 | 2011 |
| | | | | | Elimination |
| 59 | – | (7,595) | (26,337) | – | 2010 |
| (167) | 40 | (14,656) | (22,157) | – | 2011 |
| | | | | | Consolidated |
| 64,788 | (11,739) | 46,941 | 61,715 | 32,627 | 2010 |
| 61,542 | (11,199) | 40,753 | 51,113 | 31,420 | 2011 |

The EBITDA of the Power Production & Trading Southeastern Europe segment grew CZK 1.7 billion, to CZK 2.3 billion. Varna Power Station generated 3.0 TWh of electricity, up 0.2 TWh (+6.8%) from the previous year. The year-on-year EBITDA growth was driven by a positive margin on sales of emission rights (CZK 1.1 billion), but on the other hand it was necessary to increase provisioning in relation to compliance with new environmental protection laws in Bulgaria. In Romania, the gross margin grew year-on-year as the Fântânele wind farm ramped up production (+0.4 TWh). The granting of the second green certificate is beginning to have a positive effect. Taken together, these developments caused EBITDA to rise by CZK 0.9 billion year-on-year.

The EBITDA of the Distribution & Sale Southeastern Europe segment fell slightly (–3.8%), to CZK 3.6 billion. Companies in Bulgaria, Romania, and Albania distributed a total of 21.0 TWh of electricity to end customers and sales to end customers totaled 18.3 TWh, up 6.6% year-on-year.

The EBITDA of the Romanian companies fell CZK 0.7 billion year-on-year due to the regulator's stipulated increase in 2010 revenue (reversal of the correction factor from 2008). Other factors included lower proceeds from fines due to a legislative change in the maximum penalty interest rate on overdue receivables, reversal of provisions for other receivables (not including Romanian Railways) in 2010, and higher creation of provisions for legislation in 2011.

The EBITDA of the Bulgarian companies remained at 2010's level, i.e. CZK 1.1 billion. Average distribution tariffs were lower in 2011, but this was offset by a 0.3 TWh increase in electricity distribution volume and lower distribution losses.

The EBITDA of the Albanian companies grew CZK 0.6 billion year-on-year. Positive factors included a +0.1 TWh (+2.4%) year-on-year increase in electricity distribution volume, the positive impact of restructuring measures, and lower creation of provisions for receivables (CZK +1.1 billion). Unfavorable, on the other hand, were higher operating expenses (CZK –0.5 billion) relating to the installation of new electric meters, more accurate measurements in the grid, and broader customer services.

## Anticipated Commercial and Financial Situation in 2012

CEZ Group anticipates moderate year-on-year growth in performance at the level of the consolidated financial indicators. Consolidated EBITDA is expected to reach CZK 87.9 billion, which would be 0.7% year-on-year. The consolidated net income is forecast to be CZK 41.0 billion, also up 0.7% year-on-year. The parent company, ČEZ, a. s., is expected to post EBITDA of CZK 48.8 billion (down 1.8% from 2011). These expectations reflect probable stagnation in the economies of European countries, the uncertain outcome of the Eurozone debt crisis and, in particular, the anticipated impacts of developments in the energy market and known year-on-year factors.

Positive factors driving predictions of year-on-year growth include an anticipated increase in electricity generation in nuclear and coal-fired power plants, as well as higher generation volume and profitability in CEZ Group wind farms in Romania, where newly obtained higher guaranteed support in the form of the second green certificate will be one of the factors helping us achieve higher sales revenues. Another positive factor foreseen is the planned inclusion of Energotrans in the Group. Growth is also expected in natural gas trading. In addition, CEZ Group anticipates year-on-year lower gift tax for greenhouse gas emission rights granted free of charge, due to the decline in their market price.

Factors affecting the prediction in a negative direction include the impact on distribution in the Czech Republic of the “correction factors” used by the regulator, on a sliding, two-years-in-arrears basis, to reflect the difference between actual and permitted electricity distribution revenues and expenses. Another negative factor is the decline in the CZK:EUR realization hedging exchange rate, which has been affected by the long-term appreciation trend in the Czech Koruna. The year-on-year results forecast is also negatively influenced by a one-off gain from sales of emission rights in Bulgaria in 2011. In light of the ongoing program of extensive capital expenditures, as individual CAPEX projects are completed CEZ Group expects to see a year-on-year rise in depreciation along with year-on-year growth in interest expenses.

In general, CEZ Group expects to see a moderate recovery in energy markets in 2012, which will bring with it stabilized wholesale electricity prices. Important external factors will include developments in regulation of $CO_2$ emissions, developments relating to regulation of and support for nuclear power in Europe, and the overall performance of the Eurozone economy.

# FINANCIAL PERFORMANCE OF ČEZ, A. S.



The core businesses include generation, distribution, and trading of electricity, generation and distribution of heat, and trading in natural gas.

**Key Figures of ČEZ, a. s. (IFRS)**

| | Units | 2010 | 2011 | Index 2011/2010 (%) |
|---|---|---|---|---|
| Electricity generated (gross) | GWh | 62,728 | 59,584 | 95.0 |
| Installed capacity | MW | 11,559 | 11,633 | 100.6 |
| Heat sold | TJ | 10,301 | 8,811 | 85.5 |
| Operating revenues | CZK millions | 110,198 | 113,441 | 102.9 |
| Operating expenses (excluding depreciation and amortization) | CZK millions | 52,011 | 63,751 | 122.6 |
| EBITDA | CZK millions | 58,187 | 49,690 | 85.4 |
| EBIT | CZK millions | 45,009 | 36,850 | 81.9 |
| Net income | CZK millions | 34,762 | 37,337 | 107.4 |
| Dividend per share (gross) *) | CZK/share | 53.00 | 50.00 | 94.3 |
| Total assets | CZK millions | 469,161 | 503,660 | 107.4 |
| Equity | CZK millions | 189,488 | 192,600 | 101.6 |
| Financial debt | CZK millions | 153,850 | 167,585 | 108.9 |
| Return on Assets (ROA), net | % | 7.6 | 7.7 | 100.9 |
| Return on Equity (ROE), net | % | 18.9 | 19.5 | 103.2 |
| Net debt/EBITDA | 1 | 2.31 | 2.96 | 128.0 |
| Capital expenditure | CZK millions | 29,686 | 26,491 | 89.2 |
| Work force head count at December 31 | persons | 6,009 | 5,933 | 98.7 |

*) Approved and paid in the given year, from the previous year's income.

**Revenues, Expenses, Income**

In 2011, ČEZ, a. s. generated EBITDA of CZK 49.7 billion, down CZK 8.5 billion (–14.6%) year-on-year. Net income was up CZK 2.6 billion (+7.4%) year-on-year.

Operating revenues grew CZK 3.2 billion (+2.9%), particularly on growth in gas sales revenues, which were up CZK 4.1 billion. However, they were negatively impacted by a CZK 1.6 billion decline in electricity sales revenues, which was partially offset by the CZK 0.5 billion positive result of electricity derivatives trading. Excluding Chvaletice Power Station, which was spun off in 2010, ČEZ, a. s. power generation in 2011 reached 59.6 TWh, remaining at the previous year's level. A 0.4 TWh drop in generation from renewable sources caused by above-average precipitation in 2010 was offset by higher generation in nuclear (thanks to the increased availability of Dukovany Nuclear Power Station) and coal-fired power plants.

The ČEZ, a. s. generation figure shown in the table, 62.7 TWh, also includes Chvaletice Power Station's output for the entire year, which was 3.2 TWh.

Total operating expenses (including depreciation and amortization) were up CZK 11.4 billion (to CZK 76.6 billion), particularly on higher procurement costs for energy and related services (CZK 11.0 billion), which were attributable to higher electricity purchasing volumes in wholesale markets (CZK 8.0 billion) and higher gas purchasing expenses (CZK 4.1 billion).

A CZK 1.7 billion decrease in fuel consumption had a positive effect, driven by a CZK 1.3 billion drop in fossil fuel consumption combined with a CZK 0.5 billion drop in nuclear fuel consumption (2010 was negatively affected by replacement of nuclear fuel at Temelín Nuclear Power Station and write-off of unused fuel).

Lower revenues from emission rights (down CZK 1.6 billion) had a negative impact and were caused by the extraordinary gains on emission derivatives realized in 2010 (CZK –1.1 billion) and, secondarily, by the decline in the price of emission rights in 2011 (CZK –0.4 billion).

Other operating expenses were up CZK 1.4 billion on a CZK 0.9 billion change in the nuclear provisions estimate and, further, a CZK 0.3 billion reversal of nuclear fuel storage provisions.

**Other Expenses and Income**

Other expenses and income grew CZK 9.7 billion year-on-year, to CZK 7.0 billion, primarily on a CZK 7.9 billion increase in other financial income (expenses) driven a CZK 7.4 billion rise in dividend income, particularly within CEZ Group. This category of expenses was negatively influenced by the newly imposed tax on emission rights (CZK 3.3 billion), offset by a CZK 3.6 billion decline in creation of provisions and allowances for financial expenses (2010 was affected by creation of allowances for reduction of goodwill in Bulgarian subsidiaries).
Another positive factor was a CZK 2.3 billion decrease in foreign exchange rate losses, due to the weakening of the Czech Koruna against the Euro.
Interest expenses on debts were up CZK 0.8 billion year-on-year, due to the higher volume of indebtedness.

**Structure of Assets and Capital**

Total assets rose CZK 34.5 billion year-on-year, to CZK 503.7 billion.
Fixed assets grew CZK 21.9 billion year-on-year, to CZK 399.7 billion, primarily on new corporate acquisitions and capital expenditures.
Current assets increased CZK 12.6 billion in 2011, to CZK 104.0 billion, driven primarily by a CZK 8.6 billion increase in derivative receivables (offset, on the equity and liabilities side, by a CZK 9.2 billion increase in derivative payables) and a CZK 4.2 billion rise in short-term securities. Also in 2011, emission rights grew CZK 2.9 billion as the valuation of emission rights granted now includes gift tax. On the other hand receivables, including income tax receivables, were down CZK 3.0 billion.
Equity grew CZK 3.1 billion in 2011, to CZK 192.6 billion. Net income generated in 2011 contributed CZK 37.3 billion to the increase in equity. Subsequently, the increase was partially reduced by the approval of CZK 26.7 billion in dividends. Hedge accounting-related changes in equity reduced equity by CZK 7.4 billion.
Long-term liabilities were up CZK 11.6 billion, to CZK 187.6 billion, primarily on new bond issues (CZK 8.1 billion) and increased volume of bank loans (CZK 2.1 billion) to meet the need for additional sources of financing to cover capital expenditures. The deferred tax liability fell CZK 1.7 billion, to CZK 8.8 billion.
Current liabilities grew CZK 21.5 billion, to CZK 114.6 billion. The most significant factors were a CZK 9.2 billion increase in derivative payables (offset, on the assets side, by a CZK 8.6 billion increase in derivative receivables), a CZK 7.1 billion increase in trade payables, and a CZK 6.4 billion rise in the current portion of long-term debt. Other items, mostly short-term loans, fell by CZK 1.2 billion.

**Cash Flows**

2011 saw net cash provided by operating activities contract by CZK 10.1 billion. One of the factors contributing to this development was a CZK 10.9 billion year-on-year drop in income before income taxes after adjustments to reconcile income before income taxes to net cash provided by operating activities. Working capital rose CZK 7.7 billion, particularly on a CZK 4.9 billion increase in net trade receivables/payables, a CZK 1.5 billion increase in the valuation of emission rights including gift tax, and a CZK 0.6 billion increase in the volume of highly liquid securities.
Dividend income grew CZK 5.2 billion; at the same time, income tax paid declined CZK 4.0 billion, which caused net cash provided by operating activities to rise.
Cash used in investing activities was down CZK 33.3 billion, primarily on lower loans made within CEZ Group (down CZK 27.1 billion, net) and lower additions to non-current assets (down CZK 7.0 billion).
Net cash provided by financing activities fell CZK 24.9 billion year-on-year. The biggest factors were a CZK 19.7 billion drop in borrowings and other long-term liabilities, net, and a CZK 6.3 billion lower change in payables/receivables from group cashpooling. On the other hand, dividends paid were down CZK 1.6 billion, which increased net cash provided by financing activities.

**Comprehensive Income**

The comprehensive income, net of tax, fell CZK 10.5 billion year-on-year, to CZK 29.5 billion. The CZK 2.6 billion increase in net income, to CZK 37.3 billion, had a positive effect. Negative effects included, most significantly, a change in the fair value of cash flow hedges (CZK 16.4 billion), which was partially offset by deferred tax relating to other comprehensive income (CZK 3.1 billion).

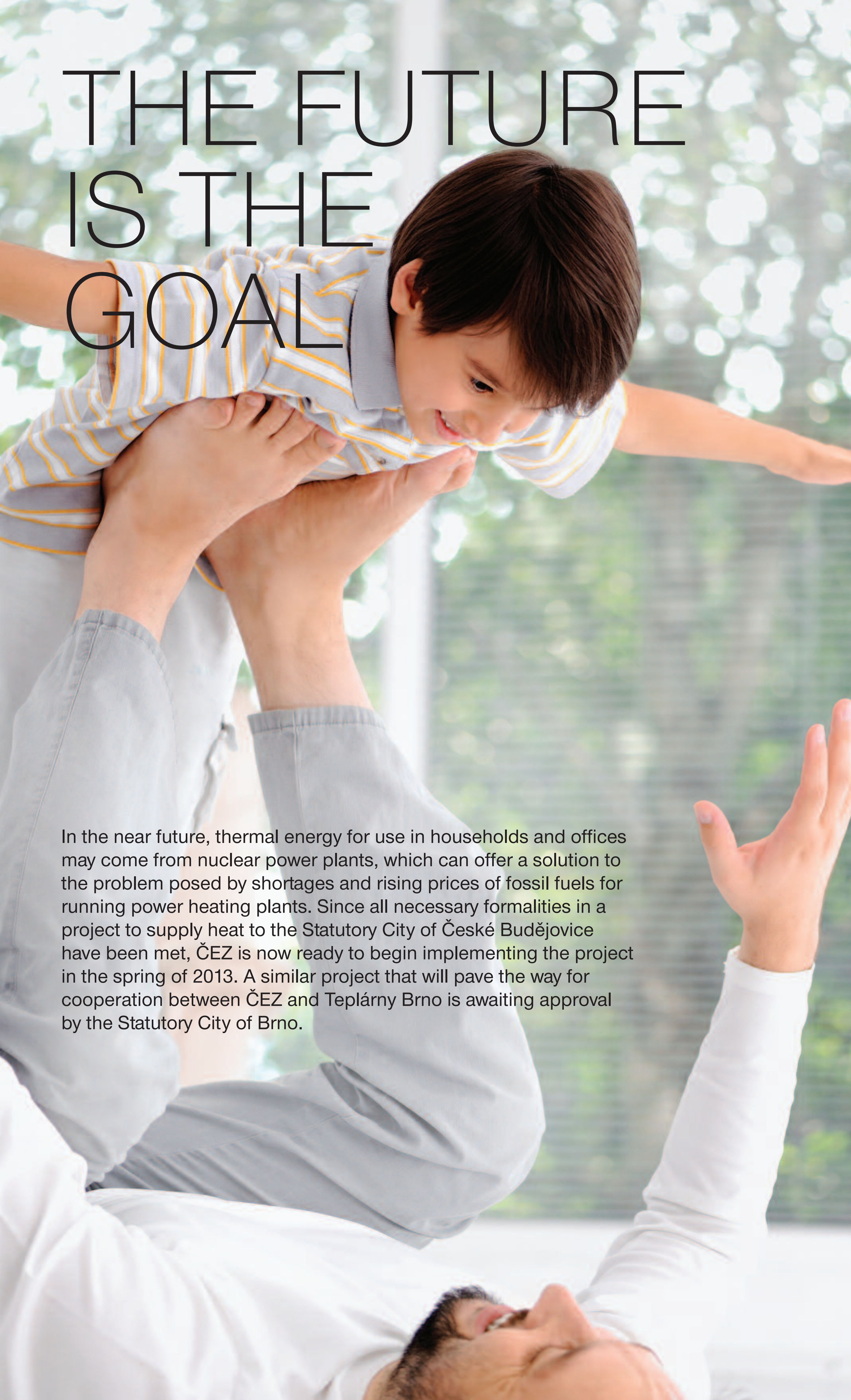
## Borrowings and Their Maturity

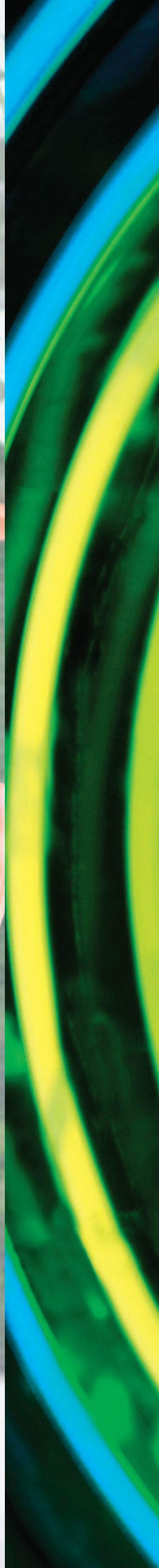
### a) Long-term loans

| Creditor | Currency | Maximum loan amount in given currency (millions) | Amount owed at December 31, 2011 (CZK millions) | Maturity | Collateral |
|---|---|---|---|---|---|
| European Investment Bank | CZK | 3,058 | 470 | Sep 16, 2013 | none |
| European Investment Bank | EUR | 200 | 5,160 | Nov 12, 2019 | none |
| European Investment Bank | EUR | 100 | 2,580 | Jan 13, 2020 | none |
| European Investment Bank | EUR | 100 | 2,580 | Jul 26, 2021 | none |
| European Investment Bank | EUR | 80 | 2,064 | Jul 26, 2021 | none |
| Long-term loans, total | | | 12,854 | | |
| of which: portion falling due by year end 2012 | | | 786 | | |
| Long-term loans, net of portion falling due within one year | | | 12,068 | | |

### b) Short-term loans

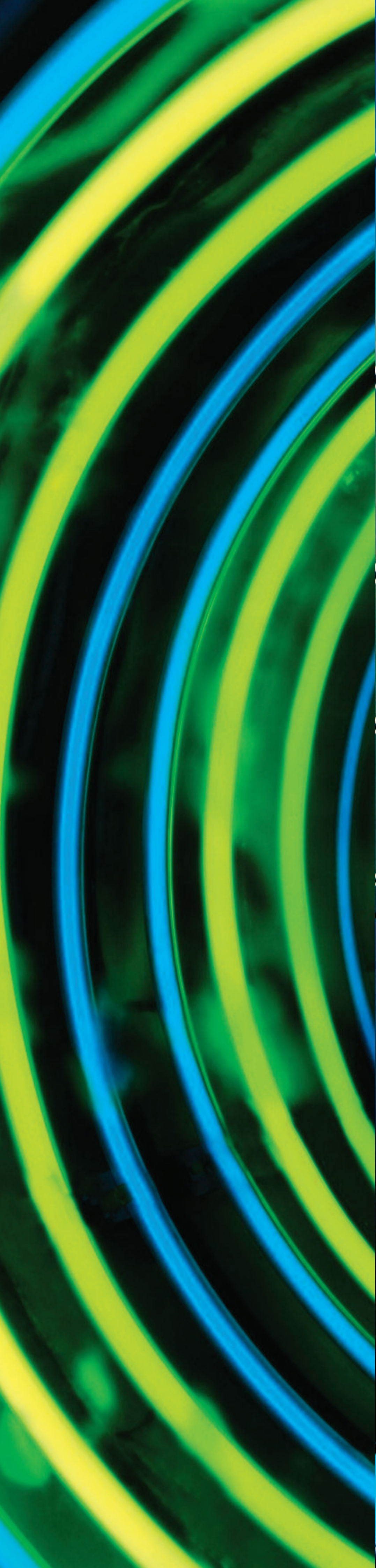
| | Indebtness as at December 31, 2011 (CZK millions) |
|---|---|
| Short-term bank loans | 3,561 |
| Negative balance facilities | 63 |
| Portion of long-term loans falling due by year end 2012 | 786 |
| Other short-term financing | – |
| Short-term loans, total | 4,410 |

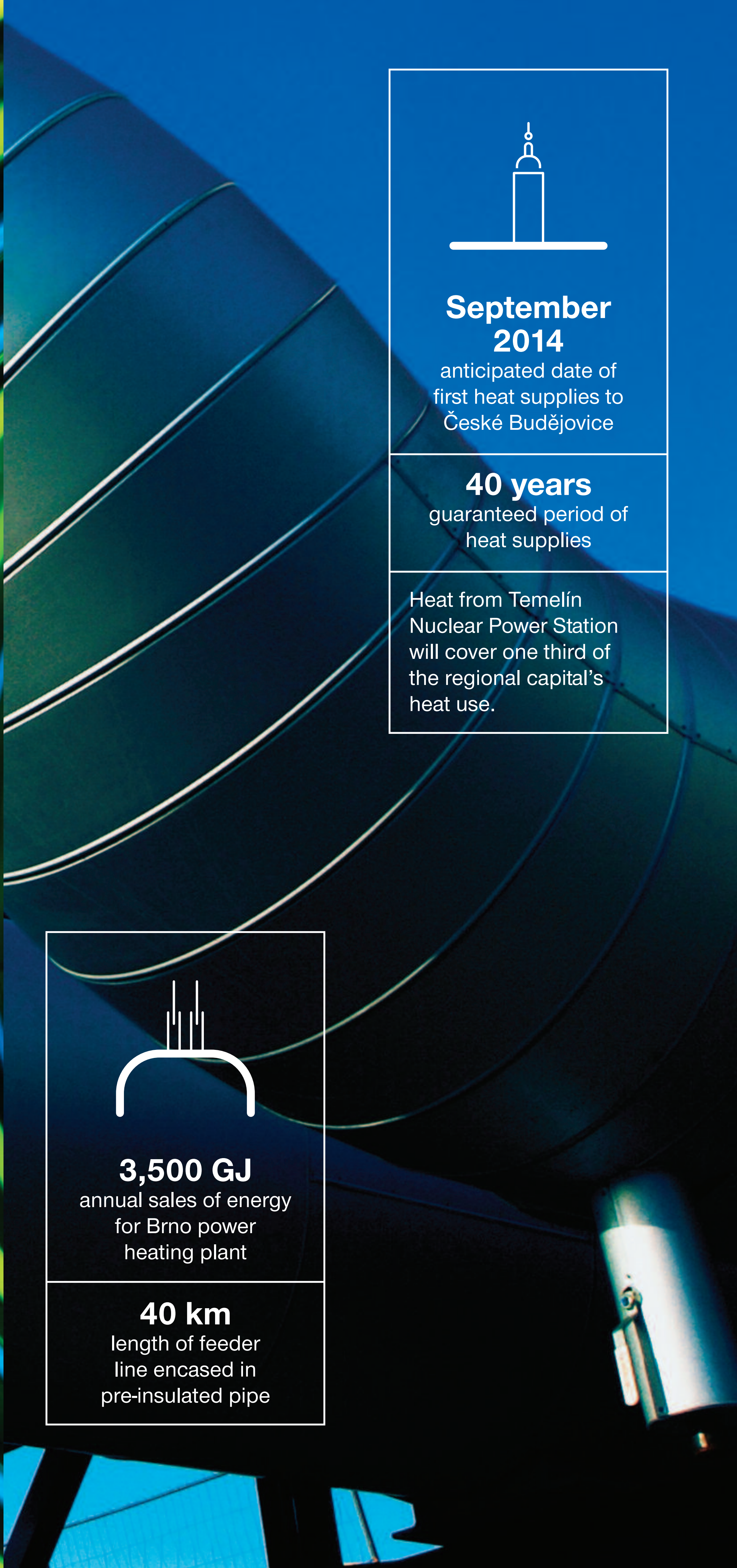




# THE FUTURE IS THE GOAL

In the near future, thermal energy for use in households and offices may come from nuclear power plants, which can offer a solution to the problem posed by shortages and rising prices of fossil fuels for running power heating plants. Since all necessary formalities in a project to supply heat to the Statutory City of České Budějovice have been met, ČEZ is now ready to begin implementing the project in the spring of 2013. A similar project that will pave the way for cooperation between ČEZ and Teplárny Brno is awaiting approval by the Statutory City of Brno.





**September 2014**
anticipated date of first heat supplies to České Budějovice

**40 years**
guaranteed period of heat supplies

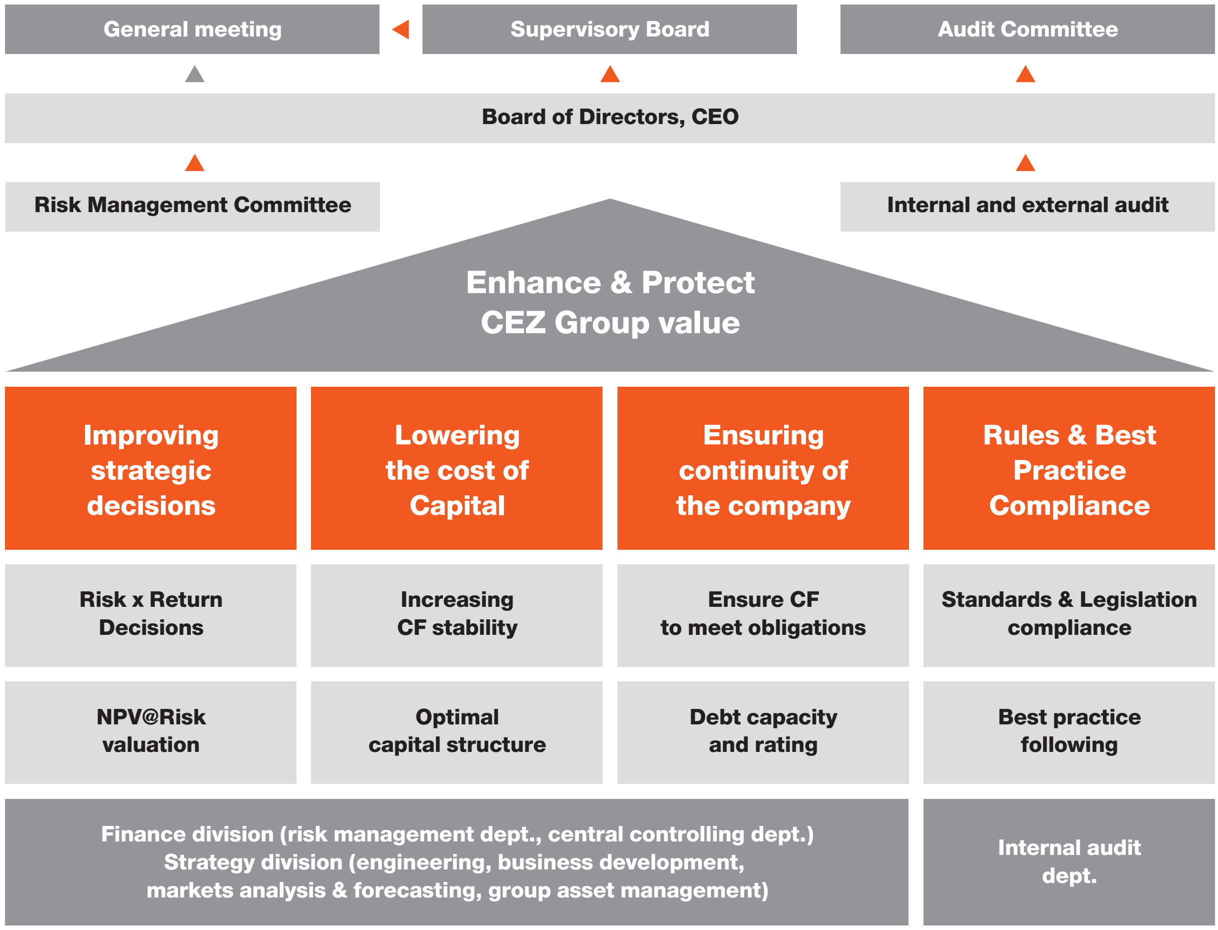
Heat from Temelín Nuclear Power Station will cover one third of the regional capital's heat use.

**3,500 GJ**
annual sales of energy for Brno power heating plant

**40 km**
length of feeder line encased in pre-insulated pipe

# RISK MANAGEMENT AT CEZ GROUP

CEZ Group continually develops an integrated risk management system and a system of internal control mechanisms, including an independent internal audit function that continually vets all processes (including risk management) for compliance with best practices, internal and external standards, and legislation. The principal functions, objective, and reporting method of CEZ Group risk management are illustrated by the following chart.



## Risk Management

An important risk management body is the Risk Management Committee, an advisory committee to the Chief Executive Officer of ČEZ, a. s. which, with the exception of approving the risk limit in the one-year plan (in the competency of the ČEZ, a. s. Board of Directors), proposes how the integrated risk management system will be developed; proposes the overall allocation of risk capital to individual risks and organization units; proposes binding rules, accountability, and a structure of limits for individual risks; and monitors the overall impact of risks on CEZ Group, including the degree to which CEZ Group's debt capacity is drawn down, and fulfillment of rating requirements.
The aim of the integrated risk management system is to increase the value of CEZ Group while taking on an acceptable level of risk. Centralized risk management is based on the perception of risk as a measurable degree of uncertainty (potential deviation between actual and planned developments), expressed in Czech Korunas at the chosen unified reliability level (enabling various types of risk to be compared and priorities to be set accordingly).
Centralized risk management relies on tools and models for managing and quantifying risk in one-year and medium-term time frames. Along with the CEZ Group budget, an aggregate risk limit (Profit at Risk) is approved, expressing CEZ Group's risk profile for the given year, and subsequently the Risk Management Committee allocates this limit among the various operations.
Risks in the form of specific threats and/or events are managed in a decentralized fashion, with only the most significant of them being reported centrally, in unified fashion, within the process of updating the CEZ Group business plan.
The monthly reports for the Risk Management Committee quantify unified development scenarios for selected risk factors and their impact on the current year, the business plan period, and the debt capacity.

These tools and processes allow CEZ Group to:

- measure the objective sensitivity of internal resources to changes in market and credit risks (utilizing selected Basel II principles used in the banking industry)
- manage the degree of fixation of future cash flows, thereby minimizing the potential danger to the fundamental value of CEZ Group
- make decisions concerning acquisitions and investments in light of real debt capacity
- monitor compliance with requirements stipulated by creditors and credit rating agencies in terms of debt indicators over the medium term, thereby minimizing the risk of being degraded
- update the strategy to bring it into line with the anticipated financial capacity of CEZ Group.

During 2011, these tools were further integrated with the strategy and central controlling processes, and in a particularly significant development, central unified management and quantification tools were introduced for risks associated with new plant and plant retrofit CAPEX projects, including putting additional emphasis on the importance of the risk profile of CAPEX projects being considered as the projects compete internally for CEZ Group resources. ČEZ, a. s. maintained its current credit rating throughout 2011.

CEZ Group uses a unified system for categorizing risks according to their primary causes:

**1. Market risk**

- commodity risks threatening the generation margin associated with power plant operation (managed through sliding electricity sales up to three years in advance, long-term electricity sales contracts, and ongoing management of the overall $CO_2$ position)
- commodity risks ensuing from trading in electricity, emission rights, natural gas, and black coal (managed by setting financial limits on deviations from plan, position limits, and rules)
- currency and interest rate risks hedged by maintaining balanced operating, investing, and financing cash flows denominated in foreign currencies while utilizing standard financial instruments in accordance with risk limits
- electricity from renewable sources purchasing volume risk is quantified and reported on a monthly basis (due to the Czech Republic's photovoltaic boom in 2010, the annual results are now considerably more sensitive to the amount of sunlight in the year).

In particular, 2011 saw an increase in the number of centrally managed and quantified currency and commodity risks, driven by increased integration of the Group's ownership stakes in Romania, Poland, and Turkey.

**2. Credit risk**

- credit risk linked to CEZ Group's trading and financing counterparties is managed by setting individual limits; due to the ongoing crisis and uncertainty in Europe and the USA, conservative rules are still in place for entering into trading transactions
- electricity and gas end-customer credit risk is managed by setting payment terms on the basis of the customer's internally determined credit (in 2011 average customer credit once again declined slightly, which led to an increase in bad debt-related losses).

Developments in 2011 included a deepening of regular supplier credibility assessments conducted when entering into material contracts with suppliers, and the creation of Group-wide credit rules and systems for gas trading in the Czech Republic and Slovakia.

**3. Operational risk**

- the risk that actual output of nuclear and Czech coal-fired power plants will deviate from plan is quantified and reported on a monthly basis, and the long-term results are utilized to optimize the scope of maintenance work undertaken at these installations
- another material operational risk is the ongoing plant construction and renewal program including, in particular, the retrofits of coal-fired power plants in the Czech Republic, construction of a wind farm in Romania, and construction of new CEZ Group gas-fired installations. Risks posed by the preparation and implementation of these CAPEX projects are quantified in a unified fashion and reported on a quarterly basis.

2011 saw the financial quantification process for CAPEX risks integrated with the process for developing overall budgets for CAPEX projects and evaluating draw-down of those budgets, as well as with the process for prioritizing material CAPEX projects. Furthermore, the categorization of the causes of risk and quality-management discrepancies was unified and central risk management principles were extended to cover CAPEX projects (above CZK 100 million) relating to maintenance of existing generation facilities in the Czech Republic.

**4. Business risk**

- strategic, regulatory, and legislative business risks are evaluated on an ongoing basis and taken into account when updating the acquisition and investment strategy, with the aim of respecting CEZ Group's current debt capacity and financial means. In 2011, a new, unified strategy was developed, reflecting shareholder priorities and the principal business risks affecting CEZ Group (developments in the European and Czech economies, development of the EU integration project, the debt crisis in European Union countries, developments in $CO_2$ regulation, and the scope and manner of support for renewable sources of energy in Europe)
- due to the European debt crisis, CEZ Group is more exposed to risks posed by new taxes and decisions of European Union anti-trust and regulatory authorities, as well as political risks in all countries where it operates.

2011 brought standardization of the process of ongoing, central quantification and coordination of the management of the ten biggest risks to CEZ Group cash flows over the business plan period, including clear allocation of accountability for managing these predominantly business risks, with regular reporting to the Risk Management Committee.

## ČEZ, a. s. Internal Control Mechanisms

**Internal Control Principles**

The Company's system of internal controls consists of a number of rules and procedures put in place by management. The purpose is to help meet targets in terms of proper and effective Company operation, which means monitoring, in particular, the following:

- adherence to management policies
- proper care for and protection of Company assets
- improvements in the efficiency of utilization of Company assets
- economical use of all Company resources
- safe and reliable operation of plant and equipment
- prevention and identification of fraud and errors
- correct and complete accounting, compilation of reliable financial statements
- timely identification of risks, assignment of responsibility, and adoption of adequate measures.

The system applies throughout the Company and provides crucial feedback in the management process. It includes all activities of executives at all levels of management, through which it determines, on an ongoing basis, whether achieved results are in line with plan.

Company management endeavors to continuously improve the Company's internal control system in line with changing internal and external business conditions.

The state and effectiveness of the internal control system are monitored and assessed by the Internal Audit Section, based on the principles of internationally recognized standards, and are evaluated by the external auditor as well. Coordination of activities between the external and internal auditors, as well as vetting of the assessment of the internal control system for objectiveness, are the responsibility of the ČEZ, a. s. Audit Committee.

**Internal Audit**

The Internal Audit Section of ČEZ, a. s. is independent of the Company's executive management. It reports directly to the Board of Directors and submits the results of its auditing activities to the ČEZ, a. s. Audit Committee and to the statutory bodies of the respective subsidiaries within CEZ Group as well. The Director of the Internal Audit Section of ČEZ, a. s. has direct access to meetings of the Board of Directors, which he attends, and he also participates as a guest in meetings of the Safety Committee, the Risk Management Committee, and the Senior Management Council. The unit's independence and the compliance of its activities with the Standards of Professional Internal Audit Practice were vetted by an external quality assessment in late 2011.

The internal audit activity plan is compiled on the basis of an assessment of the risk inherent in individual processes utilizing suggestions provided by CEZ Group executives, and integrates follow-up audits. In 2011, a total of 64 audits were conducted: 18 at ČEZ, a. s. and 46 in the subsidiaries (including 11 audits in international holdings), where they are conducted by the Internal Audit Section of ČEZ, a. s. under contract. ČEZ's audit operations are coordinated with the separate audit departments that exist in certain CEZ Group companies (ČEZ Distribuce, a. s., Severočeské doly a.s., as well as separate audit units in Albania, Bulgaria, and Romania).

Based on the results of audits, Final Reports are drafted in which all objective findings are documented, and recommendations given in cases where shortcomings are found. These reports are discussed with the managements of the audited entities, which subsequently take corrective measures. Implementation of these measures is verified by the Internal Audit Section through follow-up audits.

On a quarterly basis, the Board of Directors and Audit Committee of ČEZ, a. s. are informed on the results of the audit activities, including modifications to the audit plan, if any. In the event of serious findings or shortcomings whose solution exceeds the competency of the audited entity, the Board of Directors of ČEZ, a. s. orders corrective measures by passing a resolution.

# SAFETY AND QUALITY MANAGEMENT AT CEZ GROUP

**Safety and Quality Management**

The safety and quality management system is an integral part of CEZ Group management. It is implemented, maintained, and assessed as an integrated management system in a structure that encompasses all levels, from top management to the rank-and-file.

Senior management is fully aware of its responsibility for demonstrating compliance with quality and safety assurance requirements vis-à-vis stakeholders; for ensuring the resources necessary for quality, safety, and the environment; and for creating added value for customers through rigorous management of all internal processes at ČEZ, a. s.

In 2011, the safety management system underwent a major change associated with a shift closer to risks, in both generation and distribution. Two segment centers were established, which either oversee or manage (directly or by setting policies) safety and environmental protection in the divisions and in selected CEZ Group subsidiaries.

The CEZ Group Safety Inspectorate, charged with conducting independent management oversight and generating feedback in all areas related to safety and environmental protection, is now part of the Chief Executive Officer’s division.

The new Safety and Environmental Protection Policy became a part of strategic management and formulated safety objectives that were subsequently reflected in the division- and organization-wide management systems.

Nuclear safety management is treated by internal directives in accordance with national legislation and international recommendations so as to give nuclear safety top priority in all processes and operations. This system is subject to an internal, three-tiered system of regular checks – self-evaluation, a check by the Safety Department, and a review by the CEZ Group Safety Inspectorate. Outside review and feedback are provided by government regulators and international organizations – WANO, IAEA and Euratom.

Management of occupational safety and environmental protection is also treated by internal directives in accordance with legislation and with the utilization of certification systems. All ČEZ conventional, nuclear, and hydro power stations are long-standing holders of ISO 14001 and Safe Enterprise certifications. One half of the subsidiaries subject to the new safety management system are holders of Safe Enterprise and/or OHSAS 18001 certifications, and depending on the character of their business nearly one half (43%) hold ISO 14001 certification.

**Nuclear Plant Operational Safety**

From June to October 2011, "stress tests" were carried out at both ČEZ, a. s. nuclear power plants to comply with a requirement of the State Office for Nuclear Safety that nuclear power plants be assessed in light of the accident at the Fukushima Daiichi nuclear power plant. In the European Union, the scope of this assessment was defined by an annex to a declaration by ENSREG (European Nuclear Safety Regulators Group), so it was the same for all European Union Member States. The safety assessment and evaluation of safety-related issues at the Dukovany and Temelín Nuclear Power Plants focused on the following areas:

1) extreme natural conditions at the site (earthquakes, floods)
2) loss of safety functions (AC power, cooling capability)
3) organizational and technical preparedness to manage extraordinary conditions.

On October 31, 2011, ČEZ submitted the Final Reports relating to the stress tests carried out at the nuclear power plants. After assessing them, the State Office for Nuclear Safety drafted a National Report, which it submitted to the European Commission. The stress test conclusions showed that no conditions were found that would require safety steps. Both Czech nuclear power plants are capable of safely handling even highly improbable, extreme accident conditions without threatening their surrounding areas.

Although the stress tests demonstrated a high level of safety in terms of site selection, sufficient robustness of the VVER technology, and defense-in-depth protection at both nuclear power plants, opportunities to increase safety were identified. The great majority of these, however, do not represent new measures, since the same opportunities were already identified in previous periodic safety audits conducted at both nuclear power plants.

The first public hearing on the stress tests took place in Brussels on January 17, 2012. The reports from individual countries are made public, in English, at www.ensreg.eu/EU-Stress-Tests/Country-Specific-Reports [1]. The report of the Czech State Office for Nuclear Safety, in the Czech language, is available at www.sujb.cz/fileadmin/sujb/docs/aktualne/Narodni_zprava_ceska_final_1.pdf [2], and the ČEZ, a. s. reports are at www.cez.cz/cs/vyroba-elektriny/jaderna-energetika/zatezove-testy-eu.html [3].

During the month of June, an international OSART review, organized by the IAEA, was conducted at Dukovany Nuclear Power Station. The objective was to compare the level of safe operation at the plant with international standards and IAEA recommendations. The review team stated that the plant is a very well-operated installation. In September, the insurance company EMANI (European Mutual Association for Nuclear Insurance) conducted a periodic risk inspection focused primarily on the operation, maintenance, maintenance procedures, orderliness, and overall condition of the nuclear power plants. EMANI representatives stated that they were satisfied with the inspections, which did not result in any fundamental findings or recommendations. Another two inspections related to occupational safety and health and environmental protection, respectively.

In late November and early December, Temelín Nuclear Power Station was visited by a team of experts from the international WANO Peer Review for the purpose of finding ways to improve selected areas of operation and administration. Subsequently, the draft report set out areas for improvement and described several good practices. In June 2011, EMANI held a periodic risk inspection, which ended with an identical, positive conclusion as in the case of Dukovany Nuclear Power Station. Other inspections focused on occupational safety and health and protection of the environment.

1 www

2

3 www

# CEZ GROUP CAPITAL EXPENDITURES

In 2011, the companies of CEZ Group incurred capital construction expenditures totalling CZK 51,113 million, down 17.2% from 2010.

**Capital Expenditures, by Area (CZK millions)**

| | Central Europe | | Southeastern Europe | | Total | |
|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 |
| Nuclear energy, including fuel procurement | 7,814 | 9,118 | – | – | 7,814 | 9,118 |
| Coal and CCGT power plants | 20,462 | 15,819 | 11 | 10 | 20,473 | 15,829 |
| of which: retrofits | 8,552 | 6,707 | – | 10 | 8,552 | 6,717 |
| new-build | 11,235 | 8,483 | 11 | – | 11,246 | 8,483 |
| other | 675 | 629 | – | – | 675 | 629 |
| Hydro sources, not including renewables | 128 | 138 | – | – | 128 | 138 |
| Renewables | 10,428 | 1,360 | 3,043 | 4,851 | 13,471 | 6,211 |
| Distribution of electricity | 9,685 | 9,639 | 2,816 | 2,593 | 12,501 | 12,232 |
| Generation and distribution of heat | 273 | 546 | – | – | 273 | 546 |
| Mining of raw materials | 3,869 | 3,693 | – | – | 3,869 | 3,693 |
| Environmental | 504 | 826 | – | – | 504 | 826 |
| Information systems | 963 | 1,199 | 86 | 76 | 1,049 | 1,275 |
| Waste management | 1 | – | – | – | 1 | – |
| Other | 1,574 | 1,159 | 58 | 86 | 1,632 | 1,245 |
| Total | 55,701 | 43,497 | 6,014 | 7,616 | 61,715 | 51,113 |

**Additions to Property, Plant and Equipment and Other Non-Current Assets, Including Capitalized Interest (CZK millions)**

| | 2010 | 2011 |
|---|---|---|
| Additions to property, plant and equipment | 60,438 | 49,887 |
| of which: nuclear fuel procurement | 3,675 | 4,527 |
| Additions to intangibles | 1,277 | 1,226 |
| Additions to long-term financial assets | 3,536 | 833 |
| Change in balance of liabilities attributable to capital expenditure | (2,233) | 1,295 |
| Total | 63,018 | 53,241 |

# ENERGY PROCUREMENT AND DISPOSITION

## Procurement and Disposition of Electricity

### Electricity Procured and Sold (GWh)

| | 2010 | 2011 | Index 2011/2010 (%) |
|---|---|---|---|
| **Electricity procured** | **61,952** | **62,532** | **100.9** |
| Generated in-house | 68,433 | 69,209 | 101.1 |
| In-house and other consumption, including pumping in pumped-storage plants | (6,481) | (6,677) | 103.0 |
| **Sold to end customers** | **(44,594)** | **(42,846)** | **96.1** |
| **Wholesale balance** | **(9,984)** | **(12,365)** | **123.8** |
| Sold in the wholesale market | (160,712) | (220,388) | 137.1 |
| Purchased in the wholesale market | 150,728 | 208,023 | 138.0 |
| **Grid losses** | **(7,374)** | **(7,321)** | **99.3** |

### Electricity Generation, by Source of Energy (GWh)

| | Czech Republic | | Poland | | Bulgaria | | Romania | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 |
| Nuclear | 27,998 | 28,283 | – | – | – | – | – | – | 27,998 | 28,283 |
| Coal | 32,575 | 32,573 | 1,900 | 1,892 | 2,850 | 3,043 | – | – | 37,325 | 37,508 |
| Hydro | 2,328 | 1,868 | 5 | 6 | – | – | – | 21 | 2,333 | 1,895 |
| Biomass | 337 | 428 | 158 | 306 | – | – | – | – | 495 | 734 |
| Photovoltaic | 16 | 130 | – | – | – | – | – | – | 16 | 130 |
| Wind | 9 | 9 | – | – | – | – | 256 | 620 | 265 | 629 |
| Natural gas | 1 | 30 | – | – | – | – | – | – | 1 | 30 |
| Total | 63,264 | 63,321 | 2,063 | 2,204 | 2,850 | 3,043 | 256 | 641 | 68,433 | 69,209 |

**Electricity Sold to End Customers (GWh)**

| | Czech Republic *) | | Poland | | Bulgaria | |
|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 |
| Large end-customers | 11,579 | 10,085 | 660 | 95 | 1,897 | 2,900 |
| Retail – commercial | 4,255 | 3,579 | – | – | 2,717 | 2,837 |
| Residential | 9,311 | 8,305 | – | – | 4,181 | 4,286 |
| End customers, total | 25,145 | 21,969 | 660 | 95 | 8,795 | 10,023 |

*) In the 2010 breakdown by country CEZ Trade Bulgaria EAD, which conducted and conducts electricity trading and sells electricity to end customers in Bulgaria, was included in the figures for the Czech Republic because trading operations were actually run by ČEZ, a. s. from the Czech Republic. For this reason, all results of CEZ Trade Bulgaria EAD in 2010 were reported in the Czech Republic section, even though the operations related to the Bulgarian market and the electricity in question was delivered to Bulgarian customers.

## Other Commodities

**Useful Supplies of Heat from Power Heating Plants (GWh)**

| | Useful supplies of heat from power heating plants | | Of which: sold to customers outside CEZ Group | |
|---|---|---|---|---|
| | 2010 | 2011 | 2010 | 2011 |
| ČEZ | 12,387 | 10,682 | 2,948 | 2,295 |
| Chvaletice Power Station | 76 | 175 | 4 | 8 |
| Energetické centrum | 131 | 109 | 131 | 109 |
| ČEZ Energetické služby | 104 | 68 | 104 | 66 |
| ČEZ Teplárenská | 532 | 437 | 6,141 | 5,149 |
| ČEZ Energo | – | 391 | – | 391 |
| Trmice Power Heating Plant | 1,838 | 2,419 | 1,825 | 2,404 |
| Czech Republic, total | 15,068 | 14,281 | 11,153 | 10,422 |
| ELCHO | 2,815 | 2,270 | 2,734 | 2,225 |
| Skawina | 3,091 | 2,645 | 3,025 | 2,597 |
| Poland, total | 5,906 | 4,915 | 5,759 | 4,822 |
| Varna | 7 | 5 | 6 | 5 |
| Bulgaria, total | 7 | 5 | 6 | 5 |
| CEZ Group, total | 20,981 | 19,201 | 16,918 | 15,249 |

| Romania | | Albania | | Other countries | | Total | |
|---|---|---|---|---|---|---|---|
| 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 |
| 787 | 805 | 1,077 | 1,386 | 2,169 | 2,423 | 18,169 | 17,694 |
| 932 | 935 | 941 | 999 | – | 9 | 8,845 | 8,359 |
| 1,500 | 1,555 | 2,588 | 2,647 | – | – | 17,580 | 16,793 |
| 3,219 | 3,295 | 4,606 | 5,032 | 2,169 | 2,432 | 44,594 | 42,846 |

**Natural Gas Procured and Sold (MWh)**

| | CEZ Group 2011 |
|---|---|
| Procured | 9,249,807 |
| Outside suppliers | 9,170,957 |
| OTE | 78,850 |
| Removed from storage | 355,068 |
| Sold | (8,135,646) |
| External large end-customers | (6,503,300) |
| Medium-sized end-customers | (469,570) |
| Small end-customers | (314,041) |
| Residential | (778,572) |
| OTE | (70,163) |
| Placed in storage | (817,616) |
| Consumed in-house | (651,613) |

# SMART SOLUTIONS FOR EXCITING TIMES

CEZ Group continues to work on the Smart Region project in Vrchlabí, a practical realization of the Smart Grid concept. The distribution grid is undergoing the requisite modifications – in the summer months, smart electric meters were installed, measures were taken to support and develop electromobility, and distribution grid elements (primarily medium-voltage cables) were replaced. The project has been in the implementation phase since 2009 and now, after two years of painstaking preparations, work on the ground has begun.

Installation and testing of smart electric meters in three areas: Pardubice, Jeřmanice, and the Vrchlabí Smart Region.

Currently, approximately 33,000 Czech households are using smart meters.

In Smart Grids, CEZ Group sees potential for automated, reliable management of distribution grid operation, based on the principle of interactive communications between generation sources, the distribution grid, and customers concerning current possibilities for energy generation and consumption.

# CEZ GROUP STRATEGIC OBJECTIVES

In 2011, CEZ Group responded to turbulence in the electricity market related to economic stagnation in the Eurozone and European countries' reaction to the situation in Fukushima. In conjunction with the NEW VISION strategic initiative, the CEZ Group strategy was updated. The updated strategy aspires to minimize the principal risks threatening CEZ Group's business performance and, at the same time, leverage current growth opportunities at the intersection of several possible electricity market development scenarios.

## Important Milestones in 2011

CEZ Group's portfolio development activities, both within the Czech Republic and in all of Central and Southeastern Europe, have a common denominator: reduction of greenhouse gas exposure in relation to European Union regulation. For this reason, CEZ Group gives preference to investments that help lower the overall emission factor. Not just in the renewal of domestic brown-coal installations, but also in nuclear power development projects and investments in renewables-based sources.

An important milestone in nuclear power came in October 2011, when ČEZ, a. s. gave bidders who qualified for the Request For Proposal (RFP) proceedings in the Completion of the Temelín Nuclear Power Station tender a call to submit bids, including the RFP documentation. The deadline for submission of bids is in early July 2012.

In renewable sources, construction continued on the Fântânele wind farm and work began on the neighboring Cogealac farm. When they are completed, CEZ Group will be the operator of the largest wind farm in Europe, with 600 MW total installed capacity.

In 2011, CEZ Romania S.A. obtained a 100% stake in TMK Hydroenergy Power S.R.L., thereby completing the acquisition of a hydroelectric power system with approximately 18 MW of total capacity.

In plant portfolio renewal, the long-term goal is to increase the efficiency of the existing coal-fired power plants and reduce the emission factor through the ongoing program of retrofits of the aging coal-fired power plants Tušimice and Prunéřov, and the building of a new installation in Ledvice. 2011 saw the commissioning of another generating unit at Tušimice Power Station. The operation of three already retrofitted units is being stabilized, and the efficiency level currently achieved, 41%, is three percentage points higher than originally planned.

In March 2011, construction commenced on ČEZ's first CCGT power plant, with 840 MW of capacity, in the Počerady Power Station compound. Additional CCGT projects are under preparation in the international portfolio in Central and Southeastern Europe, primarily through joint-ventures with strategic partners such as MOL Group in Hungary and AKKÖK Group in Turkey.

Another aspect of building a strong position in target markets is CEZ Group's launch of natural gas trading and supply of natural gas to small and large end-customers in the Czech Republic and the neighboring Slovak Republic. This is a natural step in leveraging the existing base of electricity customers to reinforce our position in the end-customer market for energy commodities.

## NEW VISION Strategic Initiative

2011 saw further deterioration in external conditions for doing business in the power sector. Already burdened by sustained low electricity prices, European Union climate protection measures, and the massive roll-out of renewable sources, the situation was exacerbated by political decisions taken in Europe following the events at the Fukushima nuclear power plant in Japan. Germany's withdrawal from nuclear power in particular is a fundamental step that will transform the further direction of the European power sector over at least the next 20 years. At the same time, there is ongoing uncertainty over how the debt crisis in European countries will be resolved, and the risk of an economic slowdown in Europe persists.
During 2011, CEZ Group responded to these difficult-to-foresee power market developments by updating its strategy. The objective of the strategy is to minimize the principal risks threatening CEZ Group's business performance, while at the same time capitalizing on current growth opportunities. It is based on a combination of several possible scenarios of the electricity market's future development.
The existing NEW VISION program was chosen as the base platform for implementing the updated strategy. To it were added five new strategic initiatives, which are to contribute to CEZ Group's stability and increase its value:

**1. New nuclear source**
The principal strategic objective is to complete Temelín Nuclear Power Station by building Units 3 and 4. The goals are to achieve conditions that will enable the completion project to be implemented and financed, and to deal with risks associated with construction and regulation.

**2. Fuel procurement**
The objective of the second strategic initiative is to secure sufficient fuel to operate the coal-fired power plants. The initiative is two-pronged: optimizing supplier relations and using alternative fuels to the maximum possible extent.

**3. Performance**
The objective of this initiative is to build on the optimizing measures that are already running as part of NEW VISION by securing additional surplus cash and bringing about a long-term improvement in CEZ Group's performance.

**4. Regional power**
In this initiative, CEZ Group will focus on building a strong position in the regions by building generation plants of local significance and deepening our involvement in district heating, combined heat and power generation, and the conversion of waste and biomass into energy.

**5. Renewable sources**
The aim of this initiative is to increase the overall installed capacity of wind and hydro power plants by 2016, in locations where prevailing weather conditions are suitable for this type of installation – international locations in particular – with the goal of achieving high rates of return and increasing the proportion of stable sources of CEZ Group cash income.

2011 was a year of conducting analyses and preparing measures in the individual business segments which, cumulatively, are to secure sufficient, stable cash flow for maintaining an optimal level of debt and thereby also enable ČEZ, a. s. to maintain its credit rating.

**Production Segment**

In the Production segment, 2011 saw continued implementation of the SAFELY 15 TERA ETE project, the objective of which is to achieve annual generation volume of at least 15 TWh at Temelín Nuclear Power Station in 2012. The project moved ahead according to plan, with activities focused on plant & equipment, safety, working with suppliers, human resources, and organization & management. The principal project priorities in 2011 were operational reliability of equipment and organization of work during outages. In the human resources development area, the year saw continued development of a program for increasing the quality of human performance and standardizing it in the power plant's executive processes. Temelín Nuclear Power Station's failure rate held steady at a very low level in 2011 – the final figure of 1.51% is the second best in the plant's history. The fact that the plant and equipment is in such good technical condition helped the plant to generate a total of 13,917 GWh of electricity in 2011, surpassing the previous record (set in 2010) by approximately 91 GWh.
The goal of the SAFELY 16 TERA EDU is to increase the annual electricity generation volume of Dukovany Nuclear Power Station to approximately 16 TWh starting from 2013, while maintaining the current level of safety and operating reliability. The project is reaching its goal by shortening planned outages for fuel replacement and by increasing the output of the plant's generating units. Output is being increased by making modifications to the main generating equipment to bring it up to its full design capacity. Through unit transformer and turbogenerator rebuilds, fuel modifications, and other improvements, the target output of 510 $MW_e$ has so far been achieved on Units 1, 3 and 4 – one by one starting in 2009. Project implementation on Unit 2 will be completed in 2012. The new, shorter outage plans are also being implemented with success.
The "Securing LTO EDU" (Long Term Operation) project is the first phase of the Securing the Long-term Operation of Dukovany Nuclear Power Station program. The program's objective is to operate the plant's reactors, while maintaining at least the current level of safety, beyond 2015. The project's goal is to prepare the plant's equipment, personnel, documentation, and processes for an extension of the plant's license beyond 2015 and carry out those measures necessary to operate the plant until 2025 with an outlook for further extension of operations. Progress made in implementing the project is documented and submitted each year to the State Office for Nuclear Safety.
2011 also saw application of the Design-to-Cost methodology in the Production division. This methodology is utilized with the aim of increasing the effectiveness of expenses incurred in developing the Production division's portfolio, including repair and maintenance expenses. During 2011, the methodology was applied in cost-intensive projects. All told, 14 projects with conservative cost estimates of CZK 3.8 billion were prepared, in which the use of Design-to-Cost tools resulted in potential savings amounting to 24% of total costs, with no changes to key project parameters. From 2012 on, the experience gained in application will be expanded to additional projects.

**Distribution Segment**

In distribution, 2011 saw the successful optimizing of preventive maintenance rules while maintaining compliance with all applicable laws, regulations, and safety standards. At ČEZ Distribuce, a project entitled Asset Management was implemented, the main outcome of which was a proposal for improving the effectiveness of internal asset management processes combined with extensive organizational changes that are being rolled out from February 2012. Internal processes were also optimized at ČEZ Distribuční služby, as well as in the technical operations section of ČEZ Měření.

**International Affairs Segment**

International operations have brought sustained, long-term reductions in operating expenses by transferring best practices in corporate management, as well as rigorous management of companies' working capital. Another major priority in this area has been maximizing the repatriation of funds expended abroad, back to the corporate parent.

In Albania, a modification of the customer system brought improvements in the way we work to collect payments, and a major reorganization of the entire distribution and sales company was carried out. In Bulgaria, the system for managing capital expenditures in the distribution grid was revamped, another wave of optimizing all distribution processes was implemented, and work began on optimizing the operation of the coal-fired Varna Power Station, including the obtaining of an extended plant operation permit.

In Poland, projects continued to increase biomass co-combustion volume. In Romania, work commenced on construction of the Cogealac wind farm, and by the end of 2011 the first turbines had been erected as part of this phase. In the distribution and sales area, a project to cut losses in the distribution grid was successfully implemented and benefits are also being reaped from optimizing the receivables management function.

In both the joint-venture with MOL and the joint-venture with our Turkish partner, optimized timelines and needs were agreed, leading to minimized needs for additional financing and, thereby, to an increase in ČEZ's available cash.

The total dividend paid from CEZ Group's international assets in 2011 was CZK 2.5 billion.

**Sales Segment**

The goal of this project is to become, by 2015, a high-quality and, at the same time, cost-effective provider of multi-commodity services focusing on sales and CEZ Group end-customer serice. In order to achieve the results demanded of the segment, it is necessary to bring about a substantial improvement in the success rate in retaining the current customer portfolio, seek out new roads to market, and be even more aggressive in reducing sales and customer service costs. The project is focused on potential improvements within the segment (e.g. improving churn management – convincing customers to stay, reducing customer service costs, accelerating cash flows, optimizing the supplier switching process), as well as without (acquiring new gas customers in the Czech Republic, improving information support, acquiring end customers in the Slovak Republic).

## FutureMotion

In June 2009, we launched an initiative entitled "FutureMotion – the Energy of Tomorrow" with the objective of securing a long-term stable and positive outlook for ČEZ, a. s. and the Czech power industry in the "knowledge economy" and help people lead comfortable and safe lives while minimizing environmental impacts. The initiative consists of several programs:

**Electromobility**

The building of a network of public charging stations for electric vehicles got fully underway in 2011. The first public charging station – in front of ČEZ's headquarters in Prague's Duhová Street – opened on November 30, 2011. As of December 2011, seven CEZ Group public charging stations were in operation, in Prague and Chrášťany, Prague-West district.

During 2011 there was an increase in the number of partners that pledged to support the ČEZ Electromobility project. They include, for example, the Czech bus manufacturer SOR Libchavy, whose electric bus was tested in municipal mass transit operations in Vrchlabí, and electric truck manufacturers SMITH Electric Vehicles and Avia Ashok Leyland Motors s.r.o.

**Solid Biofuels**

Through the biomass project, CEZ Group continues to increase solid biofuels-based generation. An automatic biomass sampling system was developed, installed, and – in early 2012 – commissioned at Hodonín Power Station, and a conveyance system for biomass pellets was installed at the same plant to increase the performance of the fluidized-bed boiler running on 100% biomass. At Poříčí Power Station, project design work went forward and a contractor was selected to modify the fluidized-bed boiler to allow a higher share of biomass in the boiler's fuel mix.

At the Ostrava-Vítkovice Power Station, a test was conducted in which a mixture of black coal and biomass pellets was ground up to verify possibilities for co-combustion of biomass.

**Small-Scale Cogeneration**

ČEZ Energo, s.r.o. is involved in the construction and subsequent operation of CCGT installations for combined heat and power generation, with installed capacities ranging from hundreds of $kW_e$ up to units of $MW_e$. It operates 45 such installations with an overall installed electricity generation capacity of 12 $MW_e$ and installed heat capacity in excess of 14 $MW_t$. During 2011, over 100 business opportunities were in various stages of negotiation, and contracts were signed for 14 of them, with implementation planned for 2012. In the future, CEZ Group intends to gain a 10% share in this market segment in the Czech Republic, thereby adding another pillar – distributed generation – alongside conventional power in its business mix.

**Smart Region**

The Smart Region project continued according to the project timeline in 2011, with active collaboration between CEZ Group and the Vrchlabí city leadership.
In the distribution area, the year saw the completion of projects and the commencement of medium-voltage cable replacement, including installation of protective tubing for fiber-optic cables. Engineering work continues on medium- and low-voltage cabling and distribution transformer stations. Measurements of the physical parameters of electrical energy are being taken with the objective of utilizing the data gathered to parameterize the grid.
ČEZ, a. s. signed agreements with the City of Vrchlabí and the Krkonoše Mountains National Park on the operation of one electric vehicle each; both vehicles have already been put into service.
In the R&D area, CEZ Group completed a study entitled Island Operation, continued its Distribution Grid Dynamic Modeling project, and worked on studies of Circuit Breaker Selectivity in Low-Voltage Grids.
As part of an Advanced Metering Management (AMM) initiative, data concentrators were installed in distribution transformer stations and preparations went forward for multiutility metering (electricity, gas, water, heat) in a model apartment building.

**AMM (Advanced Metering Management)**

The AMM project entered its most important phase in 2011. From June to the end of 2011, CEZ Group installed a total of 33,000 smart electric meters at customer connection points in three selected locations – Pardubice (24,000), Jeřmanice in North Bohemia (5,000) and in Smart Region Vrchlabí (4,000).
Together with this, a new web portal, pnd.cez.cz [1], was launched where customers with smart electric meters can monitor the metering data in real time. Approximately one thousand customers were offered a new tariff entitled AMM with a different electricity price during the day (low and high tariff), allowing customers to manage their electric bill.
In the Smart Region Vrchlabí pilot project, CEZ Group and its partners unveiled a unique system for multiutility metering in a prefabricated concrete panel apartment building in Vrchlabí. 40 apartments were equipped with roughly 320 smart meters – electric meters, water meters, gas meters, and radiator-mounted heating cost indicators – making it possible to measure the consumption of all types of energy used in each apartment – from electricity, gas, cold and hot water, to heating.

[1]

www

## Brief Power Industry Development Forecast from the Perspective of CEZ Group

Europe's power industry will continue to be influenced, in particular, by macroeconomic developments and the European Union's energy policy. 2011 saw a substantial deterioration in the economic situation of European countries. Uncertainty surrounding the end result of the escalating debt crisis and related questions concerning the future of the Eurozone and the European Union itself are causing a major downwards adjustment in economic growth forecasts for the next few years. It is highly probable that, for the near future, it will be more difficult to obtain financing, government spending will fall, and household consumption, investments, and capital expenditures will be postponed until the outcome of the crisis becomes clear. All of this will have a negative impact on the level of economic activity and this will subsequently be reflected in the rate of growth in electricity consumption.

In addition to liberalization and market integration, the European Union's policy in the energy sector is characterized by its climate policy, defined by the "3x20" goals: i.e., achievement of a 20% share of renewable sources in power consumption, a 20% reduction in carbon dioxide emissions, and a 20% energy savings – compared to today – all by 2020. The development of generation from renewable sources in particular, which is to rise by 2020 to double today's Europe-wide figure of 600 TWh, is having and will continue to have fundamental impacts on the electricity market. Even today, we are seeing major drops in peak electricity prices due to rapid growth in generation in photovoltaic power plants, and the potential for conventional power is narrowing. Further integration of renewables will bring about a great need for flexible output management. However, in a situation where the market is deformed by more and more new regulatory measures, the stability necessary to make long-term investment decisions on a market basis is lacking. Therefore, a number of European countries are considering the imposition of "capacity payments", which should ensure sufficient flexible capacity. Rapid growth in generation – particularly in photovoltaic and wind power plants (which are relatively unstable) – is also cause for concern among transmission grid operators. Their European association (ENTSO-E) has drafted a plan for necessary grid reinforcement, but the pace of construction is much slower than needed.

In electric power and other industries, the European Union is fulfilling its pledge to reduce emissions, in particular through a system of trading in $CO_2$ emission rights. Current price levels of these emission rights are low, however, and the entire system is going through a crisis, of sorts, due to emission rights allocation surpluses as well as the lack of international agreement on greenhouse gas reductions. However, in mid-December 2011 the European Commission unveiled an ambitious plan, entitled Roadmap 2050, for achieving the goal of reducing emissions by over 80% by 2050, without adversely affecting energy supplies or competitiveness.

In terms of emission regulation in the years to come, the power industry will also be influenced by the Large Combustion Plant Directive (LCPD), which will force substantial generating capacities to be shut down by 2016, particularly in the United Kingdom, Poland, and Romania. Over the longer term, emission standards will be made even stricter by the Industrial Emissions Directive (IED), the implementation of which will lead to closure of many aging installations in all European Union Member States.

In June 2011, the European Commission presented a new draft directive on energy efficiency containing a set of ambitious measures for better utilization of energy, along with a mechanism for achieving energy savings.

However, the political consensus concerning the long-term direction of the European power industry will, to a considerable extent, be determined by the economic performance of the Member States, and the outlook in this area is less than optimistic due to the debt crisis.

# DEVELOPMENTS IN WORLD MARKETS

World markets related to the power industry (electricity, coal, emission rights, natural gas) were flat during the first two months of 2011. The price of the EEX BL 2012 one-year forward contract for electricity during this time was 51–54 EUR/MWh. Margins on forward contracts remained low, as did trading volume on the spot market. In addition, the market struggled with over-supply.

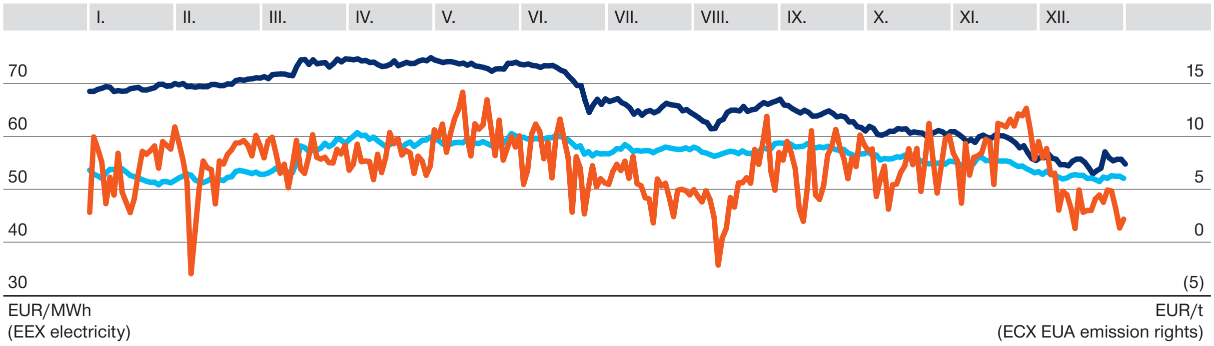
Development changed in mid-March. The price of electricity increased sharply upon the announcement that the seven oldest nuclear reactors in Germany would be decommissioned in the wake of the accident at the nuclear power plant in Fukushima, Japan. Later, the first jump in price to 58 EUR/MWh was surpassed and the price climbed up to 60.68 EUR/MWh, its highest level in the past two years of trading. The markets for greenhouse gas emission rights and fuels reacted similarly. The price of oil rose, on civil unrest in north Africa and in the Near East, until early May.

Subsequently, late in the first half, the markets for emission rights and electricity dropped substantially. The cause was an announcement by the European Investment Bank that it would auction 300 million tons of emission rights and a pledge by European Union Member States to increase energy efficiency by 20% by 2020.

The second half of 2011 was characterized by flat or declining prices. The price of electricity – specifically, the EEX BL 2012 forward contract – fell to 52 EUR/MWh during this period. The reason was lack of support from the spot market, which remained at low levels due to above-average temperatures and weak consumption. In December, over-supply joined the list of negative factors due to an unforeseen high volume of generation from renewable sources. Other significant factors were falling prices of emission rights and fuels traded on European markets (European coal, natural gas) due to the Eurozone debt crisis and related financial instability and lack of confidence in the economy.

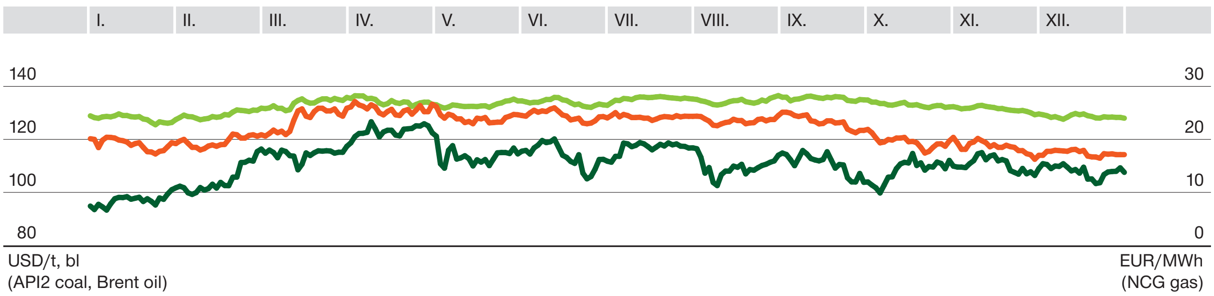
Movements in the price of oil showed no correlation with the situation in Europe. After the abovementioned rise in the first half of 2011 and subsequent correction, the oil price remained constant. In the case of the basic Brent front month contract, it was 110 USD/bl. The other commodity markets moved in line with the oil market.

**Electricity and Emission Rights**




- EEX Spot – spot contract for electricity on the EEX
- EEX BL 2012 – one-year futures contract for electricity on the EEX, baseload supply during 2012
- ECX EUA 2011 – futures contract for emission right with delivery in December 2011, on the ICE

**Coal, Oil and Gas**




- API2 2012 – one-year futures contract for API2 coal on the ICE, delivery during 2012 (financial settlement only, without physical delivery)
- Brent front month – front month (in the current month) contracts for Brent oil on the ICE
- NCG 2012 – one-year futures contract on the NCG (NetConnect Germany – a natural gas trading platform in Germany) for natural gas, delivery during 2012

# TRADING IN ELECTRICITY AND OTHER COMMODITIES

## Trading in the Wholesale Market for Electricity and Other Energy Commodities

Trading in wholesale markets for electricity and other energy commodities in the various European countries where CEZ Group has operations is run centrally by the parent company, ČEZ, a. s. It encompasses the following functions:

- sale of in-house generated electricity in wholesale markets
- sale of ancillary services provided by CEZ Group power sources
- procurement of electricity in the wholesale market for resale to end customers
- proprietary trading in electricity, EUAs, CERs, natural gas, and black coal in wholesale markets.

In their operations in individual country markets, CEZ Group companies must respect the local situation, which is based on local energy legislation, the state of market liberalization, the relative balance between supply and demand, cross-border electricity supplies, etc. ČEZ, a. s. trades directly in those countries where a license is not required to trade in electricity or where eligibility for such a license is not limited to entities formed under local law (Austria, Germany, France, Poland, Hungary, Romania, Kosovo, Greece, Montenegro). In other countries (Slovakia, Bulgaria, Serbia, Bosnia and Herzegovina, Albania, Romania – OPCOM), ČEZ, a. s. operated in 2011 through subsidiaries holding the necessary local permits. CEZ Group companies engaged in production or supply to end customers are always organized under local law. In markets for other commodities (emission rights EUAs, CERs, black coal, natural gas), ČEZ, a. s. operates directly.

## Proprietary Trading

Among other uses, proprietary trading serves to generate additional profits by leveraging arbitrage opportunities and other forms of speculative trading in the wholesale markets. To a certain extent, these trades also serve as hedges for future sales of the electricity generated within the Group or for future procurement of electricity for end customers, and partially to make up for electricity shortfalls in the event of outages in one or more of the Group's own plants.
The commodities in which the Group engages in proprietary trading are mainly traditional ones for ČEZ, a. s., such as electricity and emission rights. Also significant, however, is ČEZ, a. s. trading in black coal products of the futures type on the ICE (IntercontinentalExchange) exchange in London, as well as coal commodity swaps over the OTC market. Another traded commodity is natural gas – as futures products on the ICE, the EEX (European Energy Exchange) in Leipzig, and as OTC trades on the virtual trading points TTF (Title Transfer Facility) in the Netherlands, NBP (National Balancing Point) in the United Kingdom – in preparation, and OTE (Operátor trhu s elektřinou) in the Czech Republic. CEZ Group also operates on the following energy exchanges: the PXE (Power Exchange Central Europe) in the Czech Republic, the HUPX (Hungarian Power Exchange) in Hungary, the TGE (Towarowa Gielda Energii) in Poland, EPEX SPOT (European Power Exchange – spot products) in France, HTSO (Hellenic Transmission System Operator) in Greece, OPCOM (Romanian power market operator), GreenX (the Green Exchange) in the USA, and BlueNext Spot in France.

## Wholesale Market Regulation

Regulation (EU) No. 1227/2011 of the European Parliament and of the Council of October 25, 2011 on wholesale energy market integrity and transparency (REMIT), which took effect on December 28, 2011, introduced regulation of wholesale energy markets at the European Union level. Market participants are required to make public, in effective and timely fashion, certain internal information concerning the participant's undertaking. Subject to this disclosure is information relating to the capacity and utilization of plant and equipment for generation, consumption, and/or transmission of electricity. Since the first day the regulation took effect, ČEZ, a. s. has disclosed information on generation sources in the Czech Republic, including outages of same, via its website www.cez.cz/cs/vyroba-elektriny/remit.html [1]. The disclosures cover ČEZ, a. s., Chvaletice Power Station, and Trmice Power Heating Plant. Information on power plants owned by CEZ Group abroad is disclosed via the relevant national websites.
The regulation also bans the use of unfair practices that have an impact on wholesale energy markets. Supervision of market participants' compliance with the disclosure requirements is carried out by the Energy Regulatory Office.

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www

# A NETWORK THAT MAKES SENSE

CEZ Group has begun building a network of charging stations for electric cars and other vehicles that run on electricity. We are offering our partners electric buses, electric trucks, and electric cars for testing. All these vehicles have one thing in common – a comfortable and quiet ride, with zero emissions of harmful gases. Electromobility is a concept of the future and CEZ Group has the potential and means to be a part of making it a reality.

The first CEZ Group charging station for electric vehicles is located in front of the ČEZ, a. s. headquarters in Prague’s Duhová Street.

Fast-charging stations, which operate at higher voltages, enable car batteries to be charged to 100% capacity within 50 minutes.

The advantages of electromobility are: zero direct emissions, lower noise, lower running costs, and lower maintenance costs.

CEZ Group is building the network of charging stations to be well-designed, fully functional, and at the same time compliant with the highest standards.

# CEZ GROUP OPERATIONS IN THE CZECH REPUBLIC

## Commodities Supplied by CEZ Group

In 2011, CEZ Group offered end customers in the Czech Republic the following commodities and related services:

- electricity (ČEZ Prodej, s.r.o., ČEZ, a. s.)
- natural gas (ČEZ Prodej, s.r.o.)
- heat/thermal energy (ČEZ, a. s., Teplárna Trmice, a.s., ČEZ Teplárenská, a.s., ČEZ Energo, s.r.o., Elektrárna Chvaletice a.s., Energetické centrum, s.r.o., ČEZ Energetické služby, s.r.o.)
- electricity distribution (ČEZ Distribuce, a. s.).

Customers can order electricity and natural gas either directly, in the form of supplies of the actual commodity (Electricity or Natural Gas Supply Contract), in which case the customer obtains distribution service through a separate Distribution Service Supply Contract, or – much more frequently – through an Integrated Supply Contract for the commodity in question, under which ČEZ Prodej, s.r.o. provides the customer not only with supplies of the commodity, but also arranges for provision of distribution services by the relevant local distributor in accordance with applicable legislation.

**Electricity**

Despite ongoing market liberalization, CEZ Group is still the biggest supplier of electricity to end customers in the Czech Republic. We offer our existing and potential new customers in all market segments innovative products and services, and adapt them to the customer's needs in justified cases. This enabled us to defend our leading position in all three basic segments – large end-customers, retail-commercial, and retail-residential – in 2011.
As increased competitive pressure in the electricity market has expanded into the retail-commercial and retail-residential segments, CEZ Group's market share in these segments declined despite the above-average success rate of our customer retention initiatives in 2011.

**Natural Gas**

In 2011, CEZ Group became the biggest alternative supplier of natural gas in the Czech Republic in terms of the number of customers acquired. The chosen strategy in the residential segment, resulting in over 174,000 new customers acquired in 2011, followed the Group's successful entry into the natural gas market in the corporate customers segment in past years. Thus, CEZ Group now supplies natural gas to customers in all market segments – large end-customers, medium-sized end-customers, small end-customers, and residential customers.

## Business Environment in the Power Industry

The Czech power market is fully liberalized. Access to the transmission and distribution grids is regulated. The wholesale market in the Czech Republic is a part of the larger Central European market, thanks primarily to extensive cross-border transmission capacities between the Czech Republic and the transmission grids of neighboring countries. The region's primary price-setting market is Germany and its exchange in Leipzig. Prices in the wholesale market are set on the basis of supply and demand, through trading on the Power Exchange Central Europe (PXE), Prague, and bilateral contracts. The instruments that can be traded on the Czech Republic's exchange range from one-year contracts down to one-day contracts. Anonymous single-day trades can also be realized through the organized markets of OTE, a.s. In addition to single-day trades, the organized markets of OTE, a.s. also enable intra-day trading. Over 30 traders and 6 brokers actively operate in the wholesale market.

Since 2009, the single-day electricity market in the Czech Republic has been "coupled" with its counterpart in the Slovak Republic. This market coupling brought increased liquidity to the single-day market run by OTE, a.s. and de facto unification of Czech and Slovak wholesale electricity prices. During 2011, work began on coupling the Hungarian market to the joint Czech-Slovak market.

Since 2011, offering of capacity on individual cross-border transmission lines is coordinated by a joint auction house run by a group of transmission grid operators, CAO Central Auction Office GmbH headquartered in Freising Germany, for all of the Czech Republic's borders except the Czech-Slovak border. There, thanks to the market coupling arrangement, capacity is allocated on a single-day basis, along with electricity, through spot markets.

In the period in question, ČEZ, a. s. reaffirmed its role as an active trader in the European context, and especially within Central and Southeastern Europe. It trades electricity in over ten countries, as well as trading in natural gas, black coal, and $CO_2$ emission rights, and is a provider of ancillary services to transmission grid operators in the Czech Republic, Poland, Bulgaria, and Slovakia. CEZ Group is an advocate of market liberalization and endeavors to contribute to increasing transparency in the relevant markets. In 2011, we reaffirmed this position in the formulation of new rules for allocation of cross-border transmission capacities in the region of Central Europe. We continue to advocate these positions through our memberships in the professional associations EURELECTRIC, EFET, and IETA.

The principal trading channels for the forward market are the PXE and the OTC market (broker platforms and bilateral contracts) while, in the spot market, short-term trades (Czech abbreviation: OKO) organized by OTE, a.s. remain the main trading channel for the time being. Off the PXE, electricity generated by ČEZ, a. s. was sold through the OTC market designated for CEZ Group customers (through ČEZ Prodej, s.r.o.) for the implementation of valid multi-year contracts, as well as for operating reserves and provision of ancillary services. The OTC market was also utilized for conversion of active contracts from the PXE to the OTC market.

In 2011, ČEZ, a. s. sold electricity for the years 2012, 2013, and 2014 on the PXE through standard exchange products (one-year, one-quarter, one-month) and through the OTC market. ČEZ, a. s., continues to sell the ancillary services provided by its power plants, mostly to the transmission grid operator, ČEPS, a.s.

Ancillary services are purchased by transmission grid operators in auctions for a wide range of products and various time bands. In this segment, the Czech market is one of the most competitive in Europe, with independent producers outside of CEZ Group offering approximately half of the necessary ancillary services capacity. That caused ČEZ's share of this market to decline in years past, but the situation stabilized in 2011. Expressed in technical units, ČEZ's share in the supply of ancillary services was 62.7% (up from 55.4% in 2010) and, for 2012, it currently stands at 62.1% of the total amount of ancillary services contracted so far by ČEPS, a.s.

There are currently approximately 40 traders (with over 100 connection points registered with OTE, a.s.) active in the retail market, supplying electricity to end customers. Substantial numbers of residential customers began switching electricity suppliers in 2009, and in 2010–2011 their numbers grew massively. According to OTE, a.s. figures, the total number of electricity supplier switches at all voltage levels for the entire Czech Republic in 2011 was 448,860, up from 249,181 switches in 2010 and 96,744 in 2009. That means that approximately 7.9% of connection points switched electricity suppliers in 2011.

In view of the fact that the wholesale electricity market in the Czech Republic is fully liberalized and transparent, based on an established exchange, the PXE, combined with the capabilities of producers outside of CEZ Group and the transmission capacities of cross-border lines, over half of electricity consumption in the Czech Republic can be covered by producers other than ČEZ, a. s. CEZ Group's shares in the market for supplies of electricity to end customers are: approximately 27.8% in the large end-customers segment (connected to the high- and medium-voltage grids), and 54.2% in the retail customers segment. New suppliers other than the three traditional ones – CEZ Group, E.ON, and PRE – have taken over approximately 12% of the market.

In the distribution area, 2011 saw 11,909 new connection points (215 at the medium- and high-voltage levels, and 11,694 low-voltage) connected to the grid. Legislative amendments passed in 2010 in the area of support (mandatory purchasing and bonuses) for generation of electricity from renewable sources of energy caused major changes in conditions for 2011, especially in support for photovoltaics. The rapid growth trend in the number of new photovoltaic installations seen in 2009, and especially in 2010, came to a halt in 2011. The number of photovoltaic electricity generation installations connected in ČEZ Distribuce's service area (including installations connected in local distribution grids and island operations) at December 31, 2011 was 7,803 with combined installed capacity of 936.7 MW. As at December 31, 2010, there were 7,720 installations connected, representing 876.6 MW of installed capacity, while at year end 2009 the figures were just 3,914 installations with 187.9 MW of total installed capacity.

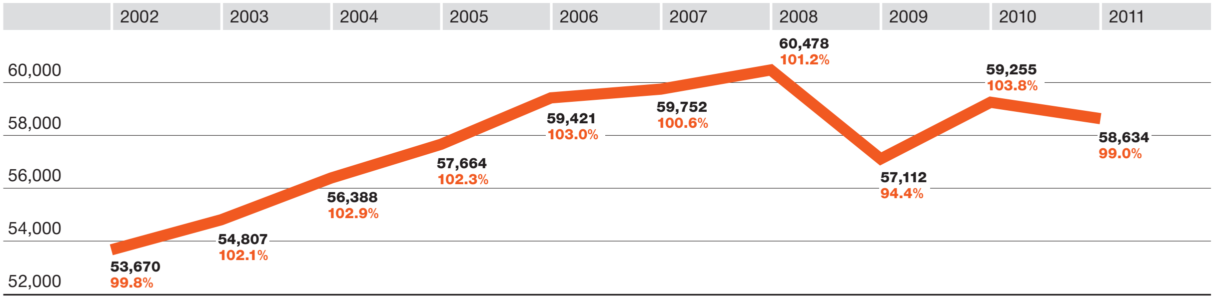
In the Czech Republic, the global economic recession caused household electricity consumption to decline in 2009 only. Starting from January 2010, the statistics once again showed a 2.4% year-on-year growth in consumption (after adjusting for weather). Then, in 2011, consumption grew by 0.3% (after adjusting for weather) compared to 2010. While the overall cross-border export capacity remained the same, 2011 once again saw a narrowing of the difference in wholesale price levels between the Czech Republic and the Federal Republic of Germany, from 0.79 EUR/MWh in 2010 to 0.56 EUR/MWh in 2010 (difference between EEX and OKO spot markets).

The natural gas market in the Czech Republic, too, is fully liberalized and the basic rules governing its functioning are similar to those in the electricity market, although the gas market is currently at an earlier stage than its electricity counterpart, and competitive pressures are not as strong. On the other hand, since all key players are already experienced, the pace of liberalization and development of a competitive environment is much faster. Therefore, we expect both markets to reach the same level of competitiveness during 2012. Market convergence is evident from the following facts: the markets for both commodities are organized and managed by the same entities (the Energy Regulatory Office and OTE, a.s.), most active traders offer their customers both commodities, and customers are more and more frequently sourcing both electricity and gas from the same supplier. In the retail market, there are 33 active traders (i.e. traders that have over 100 connection points registered with OTE, a.s.). As activity in the natural gas market grows in intensity, more and more customers are switching suppliers. In 2011 there were 361,941 switches throughout the Czech Republic, while the numbers for 2010 and 2009 were 84,424 and 33,327, respectively. Thus, approximately 11.43% of connection points switched to a different supplier in 2011.

CEZ Group began operating in the retail market for natural gas (the market consisting of supplies to end customers) through ČEZ Prodej, s.r.o. as early as 2009, when it began to offer gas to large and medium-sized end-customers. In the second half of 2010, the offering was extended to retail customers as well, i.e. to small end-customers and residential customers. In 2011, ČEZ Prodej, s.r.o. supplied an aggregate total of 3.4 TWh of natural gas to its customers, giving CEZ Group a gas market share of 5.9% in the large end-customers segment, and 5.5% for medium-sized end-customers. With a total number of 131,852 connection points representing 4.7% of the total number of connection points in the Czech Republic, ČEZ Prodej, s.r.o. is one of the biggest alternative gas suppliers.

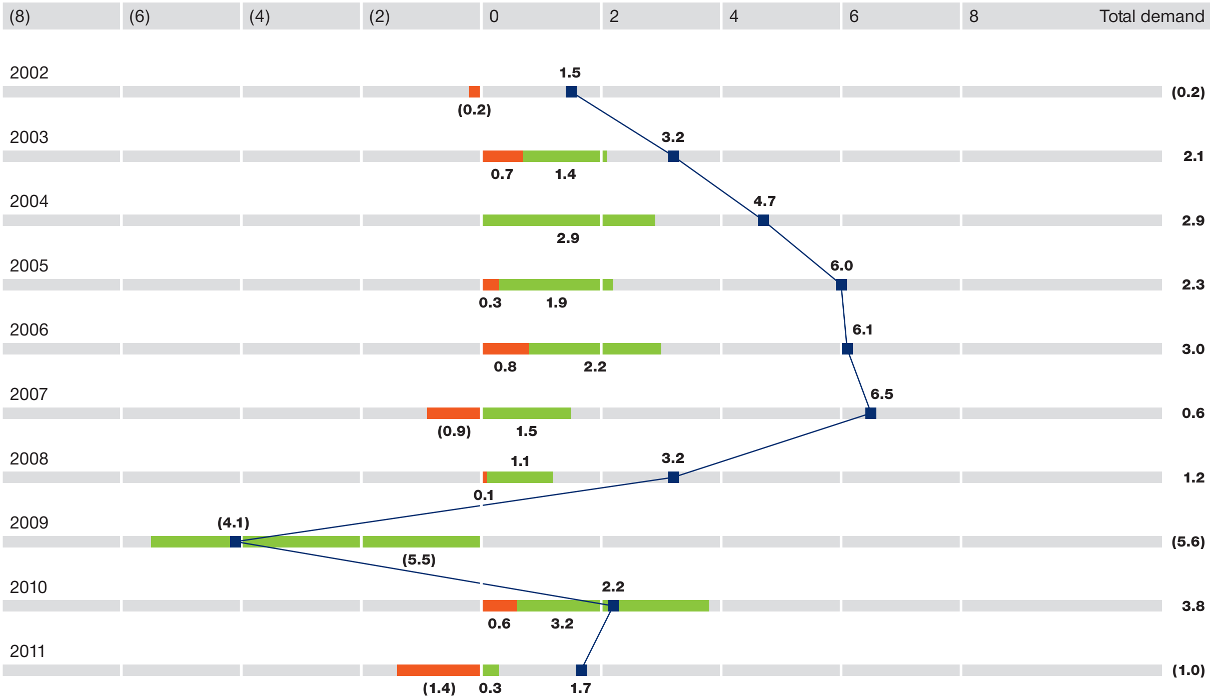
## Czech Republic – Selected Indicators

### Electricity Demand in the Czech Republic (GWh)



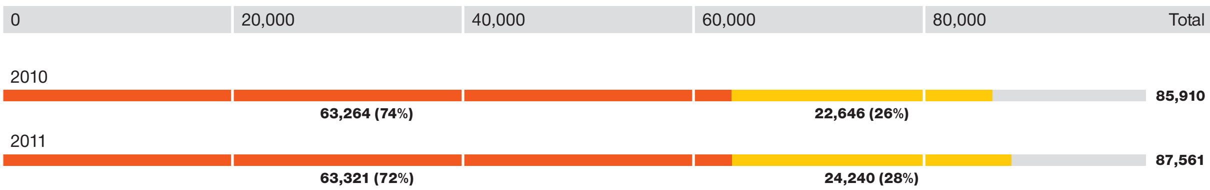

year-on-year change

### Comparison of Gross Domestic Product to Electricity Demand in the Czech Republic (year-on-year change in %)




- contribution to growth in household demand
- contribution to growth in demand, households excluded
- GDP growth

### Electricity Generation in the Czech Republic, Gross (GWh)



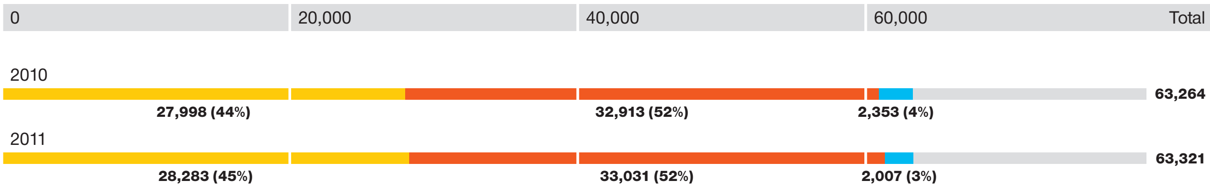

- CEZ Group in the Czech Republic
- other producers in the Czech Republic

# Electricity and Heat Generation

## Electricity Generation

In 2011, CEZ Group power plants in the Czech Republic generated a total of 63,321 GWh of electricity, up 57 GWh from 2010.

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

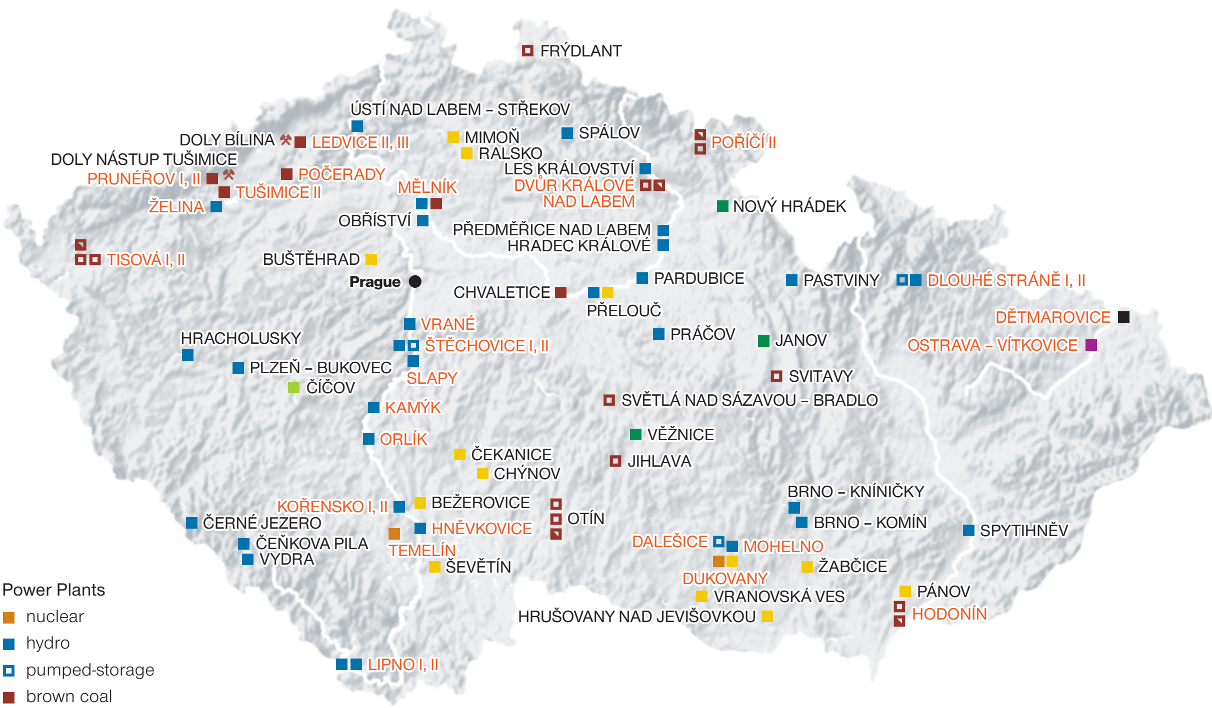



- nuclear power plants
- coal, gas, and CCGT power plants
- hydro, photovoltaic, and wind power plants

## Installed Capacity

At December 31, 2011, CEZ Group companies in the Czech Republic owned generation installations with aggregate installed capacity of 12,813.6 MW, up 85.7 MW from year-end 2010. The most significant changes included a 70 MW increase in the installed capacity of Unit 1 of Dukovany Nuclear Power Station following a turbine rebuild, the obtaining of 11.1 MW of installed capacity in cogeneration units within ČEZ Energo, s.r.o., the commissioning of a new turbine with 4.1 MW of installed capacity in Dvůr Králové nad Labem, and the commissioning of the Číčov biogas station belonging to Bioplyn technologie s.r.o. with 0.5 MW of installed capacity.

**Location of CEZ Group Power Sources in the Czech Republic**




Power Plants
- nuclear
- hydro
- pumped-storage
- brown coal
- biomass combustion
- power heating plants
- black coal
- wind
- photovoltaic
- black coal with coke gas combustion
- biogas

Mines
- brown coal

NAME OF POWER PLANT/MINE – owned by ČEZ, a. s.
NAME OF POWER PLANT/MINE – owned by other CEZ Group member (sources in operation)

Remark: Only those power heating plants with over 1 MW of installed capacity are shown.

## List of CEZ Group Power Plants in the Czech Republic

### Nuclear Power Plants

| Plant | Owner | Installed capacity (MW) at December 31, 2011 | Year commissioned |
|---|---|---|---|
| Dukovany | ČEZ, a. s. | 3 x 510; 1 x 440 | 1985–1987, overhaul 2009, overhaul 2010, overhaul 2011 |
| Temelín | ČEZ, a. s. | 2 x 1,000 | 2002–2003 |
| Nuclear power plants, total | | 3,970.0 | |

### Coal-Fired Power Plants

| Plant | Owner | Type of fuel | Installed capacity (MW) at December 31, 2011 | Year commissioned | Desulfurized since |
|---|---|---|---|---|---|
| Dětmarovice | ČEZ, a. s. | black coal brown coal | 4 x 200 | 1975–1976 | 1998 |
| Chvaletice | Elektrárna Chvaletice, a.s. | brown coal | 4 x 200 | 1977–1978 | 1997, 1998 |
| Ledvice II | ČEZ, a. s. | brown coal | 2 x 110 | 1966 | 1996 |
| Ledvice III | ČEZ, a. s. | brown coal | 1 x 110 | 1968 | 1998 |
| Mělník II | ČEZ, a. s. | brown coal | 2 x 110 | 1971 | 1998 |
| Mělník III | ČEZ, a. s. | brown coal | 1 x 500 | 1981 | 1998 |
| Počerady | ČEZ, a. s. | brown coal | 5 x 200 | 1970–1971, 1977 | 1994, 1996 |
| Prunéřov I | ČEZ, a. s. | brown coal | 4 x 110 | 1967–1968 | 1995 |
| Prunéřov II | ČEZ, a. s. | brown coal | 5 x 210 | 1981–1982 | 1996 |
| Tušimice II | ČEZ, a. s. | brown coal | 4 x 200 | 1974–1975, comprehensive retrofit 2010–2011 | 1997 |
| Coal-fired power plants, total | | | 5,940.0 | | |

### Power Heating Plants

| Plant | Owner | Type of fuel | Installed capacity (MW) at December 31, 2011 | Year commissioned | Desulfurized since |
|---|---|---|---|---|---|
| Dvůr Králové nad Labem | ČEZ, a. s. | brown coal | 1 x 6.3; 1 x 4.1 | 1955, 2011 | 1997 |
| Hodonín | ČEZ, a. s. | lignite | 1 x 50; 1 x 55 | 1954–1958 | 1996–1997 |
| Ostrava – Vítkovice | ČEZ, a. s. | black coal | 2 x 16; 1 x 25; 1 x 22 | 1983–1995 | |
| Poříčí II | ČEZ, a. s. | black coal, brown coal | 3 x 55 | 1957–1958 | 1996, 1998 |
| Tisová I | ČEZ, a. s. | brown coal | 3 x 57; 1 x 12.8 | 1959–1960 | 1996–1997 |
| Tisová II | ČEZ, a. s. | brown coal | 1 x 112 | 1961 | 1997 |
| Otín u Jindřichova Hradce | Energetické centrum, s.r.o. | biomass<br>heavy heating oil, gas | 1 x 6.272<br>1 x 2.5 | 2008<br>1970 | |
| Trmice | Teplárna Trmice, a.s. | brown coal | 2 x 20; 3 x 16 | 1970–1997 | 1997 |
| Trmice | Teplárna Trmice, a.s. | gas | 1 x 70 | 1998 | |
| Fórum Třebíč | ČEZ Energo, s.r.o. | gas | 1 x 0.03 | 1997 | |
| Boiler Unit – Jihlava, U Břízek | ČEZ Energo, s.r.o. | gas | 1 x 2.014 | 2010 | |
| Boiler Unit – Sušice, Kaštanová | ČEZ Energo, s.r.o. | gas | 2 x 0.175 | 2010 | |
| Boiler Unit – Sušice, Sirkařská | ČEZ Energo, s.r.o. | gas | 1 x 0.34 | 2010 | |
| Bazén – Jeseník Boiler Installation | ČEZ Energo, s.r.o. | gas | 1 x 0.022 | 1998 | |
| Bradlo Boiler Installation | ČEZ Energo, s.r.o. | gas | 1 x 2.014 | 2009 | |
| Dukelská – Jeseník Boiler Installation | ČEZ Energo, s.r.o. | gas | 1 x 0.140; 1 x 0.045 | 1996, 1995 | |
| Frýdlant Boiler Installation | ČEZ Energo, s.r.o. | gas | 1 x 1.169 | 2010 | |
| Govorova – Smiřice Boiler Installation | ČEZ Energo, s.r.o. | gas | 1 x 0.170; 1 x 0.008 | 2008, 2009 | |
| Humpolec Boiler Installation | ČEZ Energo, s.r.o. | gas | 1 x 0.13 | 1995 | |
| Husova – Jeseník Boiler Installation | ČEZ Energo, s.r.o. | gas | 1 x 0.022 | 1998 | |
| Krátká – Železná Ruda Boiler Installation | ČEZ Energo, s.r.o. | gas | 1 x 0.170; 1 x 0.008 | 2008, 2009 | |
| Lipovská – Jeseník Boiler Installation | ČEZ Energo, s.r.o. | gas | 1 x 0.022 | 1993 | |
| Nábřežní – Jeseník Boiler Installation | ČEZ Energo, s.r.o. | gas | 1 x 0.045 | 1997 | |
| Příbor Boiler Installation | ČEZ Energo, s.r.o. | gas | 1 x 0.265; 2 x 0.022 | 1998 | |
| Světlá – Bradlo Boiler Installation | ČEZ Energo, s.r.o. | gas | 1 x 0.022 | 2002 | |
| Svitavy – Dimitrovova Boiler Installation | ČEZ Energo, s.r.o. | gas | 1 x 0.01; 1 x 0.140 | 1996, 2000 | |
| Svitavy – Tovární Boiler Installation | ČEZ Energo, s.r.o. | gas | 1 x 0.01; 1 x 0.266 | 1996, 2000 | |
| Svitavy – Větrná Boiler Installation | ČEZ Energo, s.r.o. | gas | 2 x 0.022; 1 x 2.080 | 1996, 2000 | |
| Tyršova – Jeseník Boiler Installation | ČEZ Energo, s.r.o. | gas | 1 x 0.150 | 1995 | |
| Volyně Boiler Installation | ČEZ Energo, s.r.o. | gas | 1 x 0.19; 1 x 0.035; 1 x 0.009 | 1999 | |
| Votice Boiler Installation | ČEZ Energo, s.r.o. | gas | 1 x 0.150 | 2000 | |
| Zruč – Okružní Boiler Installation | ČEZ Energo, s.r.o. | gas | 1 x 0.408; 1 x 0.022 | 2004, 2007 | |
| Zruč – Na Výsluní Boiler Installation | ČEZ Energo, s.r.o. | gas | 1 x 0.390; 2 x 0.022 | 1999 | |
| Jiráskova – Smiřice Elementary School Boiler Installation | ČEZ Energo, s.r.o. | gas | 1 x 0.008 | 2010 | |
| Velká Chuchle Elementary School Boiler Installation | ČEZ Energo, s.r.o. | gas | 1 x 0.03 | 2011 | |
| Hořovice Swimming Pool [1)] | ČEZ Energo, s.r.o. | gas | 1 x 0.075 | | out of service since December 31, 2011 |
| ÚSP Jindřichov in Silesia | ČEZ Energo, s.r.o. | gas | 1 x 0.022 | 2000 | |
| Power heating plants, total | | | 833.1 | | |

[1)] License revoked effective January 1, 2012.

## Hydro Power Plants

### 1. Accumulation and run-of-river hydro power plants

| Plant | Owner | Installed capacity (MW) at December 31, 2011 | Year commissioned |
|---|---|---|---|
| Kamýk | ČEZ, a. s. | 4 x 10 | 1961 |
| Lipno I | ČEZ, a. s. | 2 x 60 | 1959 |
| Orlík | ČEZ, a. s. | 4 x 91 | 1961–1962 |
| Slapy | ČEZ, a. s. | 3 x 48 | 1954–1955 |
| Štěchovice I | ČEZ, a. s. | 2 x 11.25 | 1943–1944 |
| Vrané | ČEZ, a. s. | 2 x 6.94 | 1936 |
| Střekov | ČEZ Obnovitelné zdroje, s.r.o. | 3 x 6.5 | 1936 |
| Accumulation and run-of-river hydro power plants, total | | 723.9 | |

### 2. Small-scale hydro power plants

| Plant | Owner | Installed capacity (MW) at December 31, 2011 | Year commissioned |
|---|---|---|---|
| Dlouhé Stráně II | ČEZ, a. s. | 1 x 0.163 | 2000 |
| Hněvkovice | ČEZ, a. s. | 2 x 4.8 | 1992 |
| Kořensko I | ČEZ, a. s. | 2 x 1.9 | 1992 |
| Kořensko II | ČEZ, a. s. | 1 x 0.94 | 2000 |
| Lipno II | ČEZ, a. s. | 1 x 1.5 | 1957 |
| Mohelno | ČEZ, a. s. | 1 x 1.2; 1 x 0.56 | 1977, 1999 |
| Želina | ČEZ, a. s. | 2 x 0.315 | 1994 |
| Brno – Kníničky | ČEZ Obnovitelné zdroje, s.r.o. | 1 x 3.1 | 1941 |
| Brno – Komín | ČEZ Obnovitelné zdroje, s.r.o. | 1 x 0.106; 1 x 0.140 | 1923, overhaul 2008 |
| Čeňkova Pila | ČEZ Obnovitelné zdroje, s.r.o. | 1 x 0.096 | 1912 |
| Černé jezero | ČEZ Obnovitelné zdroje, s.r.o. | 1 x 1.5; 1 x 0.04; 1 x 0.37 | 1930, 2004, 2005 |
| Hradec Králové | ČEZ Obnovitelné zdroje, s.r.o. | 3 x 0.25 | 1926 |
| Hracholusky | ČEZ Obnovitelné zdroje, s.r.o. | 1 x 2.55 | 1964 |
| Les Království | ČEZ Obnovitelné zdroje, s.r.o. | 2 x 1.105 | 1923, overhaul 2005 |
| Mělník | ČEZ Obnovitelné zdroje, s.r.o. | 1 x 0.590 | 2010 |
| Obříství | ČEZ Obnovitelné zdroje, s.r.o. | 2 x 1.679 | 1995 |
| Pardubice | ČEZ Obnovitelné zdroje, s.r.o. | 1 x 1.96 | 1978 |
| Pastviny | ČEZ Obnovitelné zdroje, s.r.o. | 1 x 3 | 1938, overhaul 2003 |
| Plzeň – Bukovec | ČEZ Obnovitelné zdroje, s.r.o. | 2 x 0.315 | 2007 |
| Práčov | ČEZ Obnovitelné zdroje, s.r.o. | 1 x 9.75 | 1953, overhaul 2001 |
| Předměřice nad Labem | ČEZ Obnovitelné zdroje, s.r.o. | 1 x 2.6 | 1953, overhaul 2009 |
| Přelouč | ČEZ Obnovitelné zdroje, s.r.o. | 2 x 0.68; 2 x 0.49 | 1927, overhaul 2005 |
| Spálov | ČEZ Obnovitelné zdroje, s.r.o. | 2 x 1.2 | 1926, overhaul 1999 |
| Spytihněv | ČEZ Obnovitelné zdroje, s.r.o. | 2 x 2 | 1951, overhaul 2009 |
| Vydra | ČEZ Obnovitelné zdroje, s.r.o. | 2 x 3.2 | 1939 |
| Small-scale hydro power plants, total | | 66.3 | |

### 3. Pumped-storage hydro power plants

| Plant | Owner | Installed capacity (MW) at December 31, 2011 | Year commissioned |
|---|---|---|---|
| Dalešice | ČEZ, a. s. | 4 x 112.5 | 1978 |
| Dlouhé Stráně I | ČEZ, a. s. | 2 x 325 | 1996 |
| Štěchovice II | ČEZ, a. s. | 1 x 45 | 1947–1949, overhaul 1996 |
| Pumped-storage hydro power plants, total | | 1,145.0 | |
| | | | |
| Hydro power plants, total | | 1,935.2 | |

### Photovoltaic Power Plants

| Plant | Owner | Installed capacity (MW) at December 31, 2011 | Year commissioned |
|---|---|---|---|
| Dukovany | ČEZ, a. s. | 0.01 | 1998, 2003 |
| Bežerovice | ČEZ Obnovitelné zdroje, s.r.o. | 3.013 | 2009 |
| Čekanice u Tábora | ČEZ Obnovitelné zdroje, s.r.o. | 4.48 | 2009 |
| Hrušovany pod Jevišovkou | ČEZ Obnovitelné zdroje, s.r.o. | 3.802 | 2009 |
| Chýnov u Tábora | ČEZ Obnovitelné zdroje, s.r.o. | 2.009 | 2009 |
| Přelouč | ČEZ Obnovitelné zdroje, s.r.o. | 0.021 | 2009 |
| Žabčice | ČEZ Obnovitelné zdroje, s.r.o. | 5.6 | 2009 |
| Buštěhrad | FVE Buštěhrad a.s. | 2.396 | 2010 |
| Vranovská Ves [2)] | FVE Vranovská Ves a.s. | 16.033 | 2010 |
| Ševětín | GENTLEY a.s. | 29.902 | 2010 |
| Mimoň Ra3 [3)] | eEnergy Ralsko - Kuřívody a.s. | 17.494 | 2010 |
| Pánov | eEnergy Hodonín a.s. | 2.134 | 2010 |
| Ralsko Ra1 [4)] | eEnergy Ralsko a.s. | 38.269 | 2010 |
| Photovoltaic power plants, total | | 125.2 | |

[2)] Generation license holder is DOMICA FPI s.r.o.
[3)] Generation license holder is AREA-GROUP CL a.s.
[4)] Generation license holder is 3 L invest a.s.

### Wind Power Plants

| Plant | Owner | Installed capacity (MW) at December 31, 2011 | Year commissioned |
|---|---|---|---|
| Janov | ČEZ Obnovitelné zdroje, s.r.o. | 2 x 2 | 2009 |
| Nový Hrádek [5)] | ČEZ Obnovitelné zdroje, s.r.o. | 4 x 0.4 | 2002 |
| Věžnice | ČEZ Obnovitelné zdroje, s.r.o. | 2 x 2.05 | 2009 |
| Wind power plants, total | | 9.7 | |

[5)] Not in operation, pending overhaul.

### Biogas Stations

| Plant | Owner | Type of fuel | Installed capacity (MW) at December 31, 2011 | Year commissioned |
|---|---|---|---|---|
| BGS Číčov | Bioplyn technologie s.r.o. | biogas | 1 x 0.526 | 2011 |
| Biogas stations, total | | | 0.5 | |

## Fuel

### Nuclear Fuel

Fuel for Dukovany Nuclear Power Station is sourced under a long-term contract with Russia-based OAO TVEL, which not only fabricates the fuel, but also provides conversion and enrichment services as well as some of the base raw material (uranium). In 2011, only the improved, latest version of the VVER 440 second-generation fuel was supplied.
Up until a fuel replacement in Temelín Nuclear Power Station, 2011 saw continued operation with modified fuel from Westinghouse Electric Company LLC (USA) on Unit 2 (fuel with a reinforced structural skeleton and utilizing the modern ZIRLO™ alloy).
Concurrently, a project to develop and license a new fuel of the TVSA-T type from the Russian supplier OAO TVEL was successfully implemented. All necessary permits from the State Office for Nuclear Safety were obtained. A complete fuel replacement was undertaken on Unit 1 as early as 2010. Also in 2010, ahead of schedule, delivery of a portion of the fuel for Unit 2 was secured, while the remaining fuel was delivered on schedule in the first half of 2011. During a planned outage, all 163 fuel assemblies in Unit 2 of Temelín Nuclear Power Station were replaced.
In the years to come, the TVSA-T fuel both units are now running on will enable a further planned increase in the output of Temelín Nuclear Power Station.
Raw uranium necessary to fabricate nuclear fuel, and processing thereof (conversion and enrichment services), were sourced under long-term contracts. Nearly one third of our uranium needs is covered long-term by supplies from the domestic uranium producer DIAMO, s.p., with the remainder purchased from international suppliers or through direct deliveries of complete fuel assemblies (mostly for Dukovany Nuclear Power Station).
Based on the change in the supplier of fuel for Temelín Nuclear Power Station, in late 2010 ČEZ, a. s. began implementing physical deliveries to Russia of enriched uranium processed by suppliers of conversion and enrichment services in the European Union. This strategy will continue in order to maintain the desirable diversification of suppliers, as recommended by the supply management policy of the EURATOM Supply Agency. Concurrently, ČEZ, a. s. also maintains a strategic inventory of uranium in various stages of processing, at supplier sites, in order to mitigate the risk of supply interruption.

### Solid Fossil Fuels and Sorbents

Supplies of solid fuels for ČEZ, a. s. coal-fired power plants in 2011 were dominated by brown coal, at 28.0 million tons, accounting for 95.0% of total coal consumption.
The biggest suppliers of brown power generation coal to ČEZ, a. s. are Severočeské doly a.s., Czech Coal a.s., and Sokolovská uhelná, právní nástupce, a.s.
Long-term coal supply contracts are in effect with Severočeské doly a.s. (agreement on future purchase agreements; valid until 2052) and Sokolovská uhelná, právní nástupce, a.s. (purchase agreement; valid until 2027).
Medium-term purchase agreements are in effect with Severočeské doly a.s. (2011–2015) and Czech Coal a.s. (2006–2012).
Black coal volume supplied to ČEZ, a. s. power plants totaled 1.4 million tons (5.0%). The bulk, 1.0 million tons (71.0%), was supplied by OKD, a.s. The remaining 0.4 million tons (29.0%) was sourced by import from Polish and Russian suppliers. Black coal supplies take place under one-year purchase contracts.
The total volume of sorbents for flue gas desulfurization at coal-fired power plants in 2011 was 1.3 million tons.

### Biomass Combustion and Co-combustion

Biomass consumption within ČEZ, a. s. in 2011 totaled 379,749 tons, up 1.9% year-on-year. Most frequently, biomass is combusted in the form of wood chip, as well as biomass from plant matter in the form of pellets made of straw, sugar beet, and sunflower, or in some cases briquettes and shreddings. For the time being, the share of purpose-grown energy crops is low. Within ČEZ, a. s., biomass is combusted in the existing coal-fired power and power heating plants Hodonín, Poříčí, Tisová, and Dvůr Králové nad Labem.
The company Energetické centrum consumed a total of 44,886 tons of this raw material in 2011 for its biomass-fired power plant in Otín u Jindřichova Hradce.

### Natural Gas

ČEZ, a. s. secured flexible supplies of natural gas for the CCGT power plant in Počerady, which is to enter trial operation in 2012.

**Capital Expenditure**

CEZ Group incurred capital expenditures totaling CZK 43,312.1 million in the Czech Republic in 2011.

Nuclear Energy

Dukovany Nuclear Power Station

During an outage on Unit 1 that included complete removal of nuclear fuel from the reactor, a CAPEX project was carried out that enabled full utilization of the unit's design capacity, increasing its output to 510 MW. The unit first achieved the new output level on November 23, 2011, as the third of the power plant's four units to do so. A similar modification to the last unit (no. 2) will be carried out in 2012.

Temelín Nuclear Power Station

In the first half of 2011, the WEC fuel (Westinghouse) was replaced by TVEL fuel in the plant's Unit 2.

Tender for Completion of Temelín Nuclear Power Station

On October 31, 2011, the Request For Proposal (RFP) documentation for the tender to find a supplier of two new units was handed over to the qualified bidders Westinghouse Electric Corporation (in consortium with Westinghouse Electric Company Czech Republic), AREVA NP, the Škoda JS – Atomstroyexport consortium, and JSC OKB Gidropress. The RFP documentation contains requirements for the bid, key parameters of the future project, a draft of the basic EPC contract, and a draft contract for supply of nuclear fuel for the new units covering roughly ten years of operation. The nuclear fuel will be supplied under a fuel contract to be entered into within the tender proceedings with the bidder chosen to supply Units 3 and 4 of Temelín Nuclear Power Station.

The deadline for submission of bids was set for July 2, 2012, corresponding to the eight-month period for bid preparation agreed with the bidders. During that time, meetings will take place with the bidders during two site visits and a pre-bid conference. After the bids are received, they will be evaluated and, if necessary, clarified, followed by an assessment and negotiations on the bids. Selection of the supplier and signing of the contract is planned for late 2013.

The Environmental Impact Assessment (EIA) process for Units 3 and 4 of Temelín Nuclear Power Station continued. The neighboring countries (Austria, Germany, Slovakia, and Poland) joined the process and provided their comments, to which a response was drafted. Currently the EIA process is underway and a public hearing on the EIA and associated documentation is expected to take place in the second quarter of 2012.

Conventional Power

Comprehensive Renewal of Tušimice II Power Station

Warranty operation of generating units 23 and 24, retrofitted in Phase 1, is underway. In Phase 2 of the project, installation of generating units 21 and 22 was completed. On November 9, 2011 the hand-over protocol for unit 21 was signed, on December 17 the unit was connected to the grid, and currently tests are being conducted, including certification and warranty tests. Hand-over of unit 22 is expected in May 2012.

Comprehensive Renewal of Prunéřov II Power Station

The zoning decision entered into legal force on December 22, 2011. On December 27, 2011 the building permit application was filed to the relevant building permits authority. It is expected to be obtained in August 2012. Handing-over of the last generating unit for trial operation is expected in the first half of 2015.

Construction of a CCGT Installation at Počerady Power Station

The project entered the implementation phase on March 28, 2011. Construction work got underway. The boilers were installed, including bundles and flue-gas inlets, and two stacks were built, as was the steel superstructure for the main generating unit, including cladding and an encapsulated substation. Work also took place on the chemical water treatment plant, the generator machine room, transformer foundations, vertical structures, fire containment walls, and foundations for the gas regulation station. The new installation is to be handed over for trial operation in mid-2013.

Construction of a New 660 MW Installation at Ledvice Power Station

2011 saw continued installation work on the boiler building, machine room, and flue-gas desulfurization system. In the electrical portion of the project, installation of the main transformer, branch transformer, and substation were completed. The first trial activation of the 400 kV line took place in early December 2011.

Due to delays in installation of the boiler's steel superstructure and problems that arose in the manufacture of a component of the boiler's pressure system (membrane walls), commissioning for trial operation is expected in 2015.

### Electricity Generation Outlook

A repair of Unit 1 of Temelín Nuclear Power Station is planned, which will be accompanied by partial fuel replacement and preparations for possibly increasing the unit's output to 1,053 MW. On Unit 2, a standard planned repair will take place, combined with partial fuel replacement. At Dukovany Nuclear Power Station, planned repairs will take place on Units 1, 2, and 4 in the standard scope, combined with partial fuel replacement. On Unit 2, an extended-scope repair will be carried out with the aim of increasing achievable capacity to 500 MW. A 1.9 TWh year-on-year increase in nuclear power plant generation volume is expected.

As for the ČEZ, a. s. coal-fired power plants, major repairs will be undertaken at Mělník III, Tušimice II, Poříčí, and Hodonín Power Stations. The comprehensive renewal of Tušimice II Power Station is to be completed with commissioning of unit no. 21. Comprehensive renewal is to begin on three units at Prunéřov II Power Station. Generation volume at ČEZ, a. s. coal-fired power plants is anticipated at roughly the same level as in 2011.

In hydro power, major repairs are planned at the Lipno I and Dlouhé Stráně power plants. Hydro generation volume is expected to be in line with 2011.

### Heat

CEZ Group heat generation sources in the Czech Republic supplied a total of 10,422 TJ in 2011. In terms of the year-on-year comparison, this represents a 731 TJ (−7%) decline in supplies. Compared to 2010, the only addition to the production portfolio was the company ČEZ Energo, s.r.o., which generates heat in small-scale gas-fired cogeneration units.

In 2010, heat supplies from Teplárna Trmice, a.s. were part of the overall CEZ Group figures starting from the second half. In 2011, they were included throughout the entire year, but supplies from that company dropped substantially due to the insolvency of its biggest customer, causing that customer to not use any of the company's heat in 2011. The decline in supplies from other companies, compared to 2010, was caused by weather conditions, since both portions of the 2011 heating season were characterized by temperatures above the long-term average.

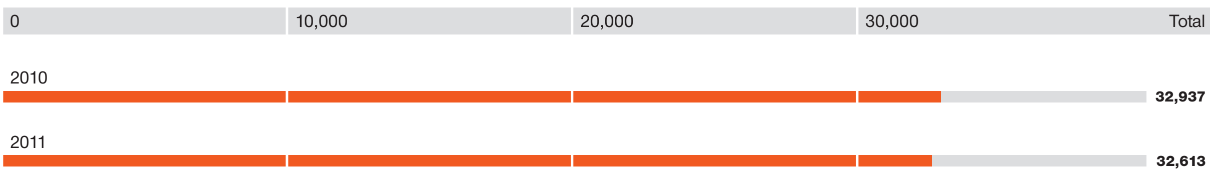
### Heat Generation Outlook

Supplies of heat from ČEZ, a. s. installations will be affected as ČEZ Teplárenská, a.s. gradually grows the number of its heat customers connected to the network supply heat from ČEZ power plants and power heating plants. The subsidiary ČEZ Energo, s.r.o. is successfully fulfilling its business plan of building and operating small cogeneration units that generate power and heat from natural gas. In cooperation with its partners, CEZ Group continues preparations for a project to supply heat to České Budějovice from Temelín Nuclear Power Station.

## Distribution and Sale

### Distribution of Electricity

**Electricity Distributed by CEZ Group to End Customers in the Czech Republic (GWh)**




In the Czech Republic, the CEZ Group company that distributes electricity is CEZ Distribuce, a. s., which arranged for 32,613 GWh of electricity to be supplied to customers in 2011. The year-on-year decrease of 324 GWh was caused, in particular, by lower demand for electricity associated with weather conditions. In terms of voltage levels, the decrease took place mainly in the low-voltage segment (down 736 GWh). At the medium and high voltage levels, on the other hand, distribution volume grew – by 324 GWh and 88 GWh, respectively.

Capital Expenditure

The principal objective of investing in renewal and development of the distribution grid is to increase and improve distribution grid quality, reliability, and safety, as well as to automate the management of grid operation.
New activities include building a “smart” distribution grid as part of the Smart Region project in northeastern Bohemia. The new grid will make it possible to effectively combine electricity from traditional and alternative sources.
ČEZ Distribuce, a. s. invested CZK 10.2 billion in distribution grid renewal and development in 2011.
This included projects initiated by customers (36%), investments in underground and overhead power lines (29%), and investments in substations, transformer stations, and transformers (20%).

In 2011 the most significant projects included:

- Kletné, 110/22 kV transformer station
- Řeporyje, 110 kV substation, instrumentation and control systems
- Ústí nad Labem Střed, 110 kV substation and 110 kV transformer station
- Přeštice – Rokycany, rebuild of 110 kV line
- Dluhonice – Hodolany, rebuild of 110 kV line
- Hoštice – Horní Životice, rebuild of 110 kV line
- Rychnov – Týniště, rebuild of 110 kV line
- Slaný, 110/22 kV transformer station
- Liberec – Ostašov, T 103 transformer and 35 kV substation
- Unified distribution control system.

Electricity Distribution Outlook for 2012

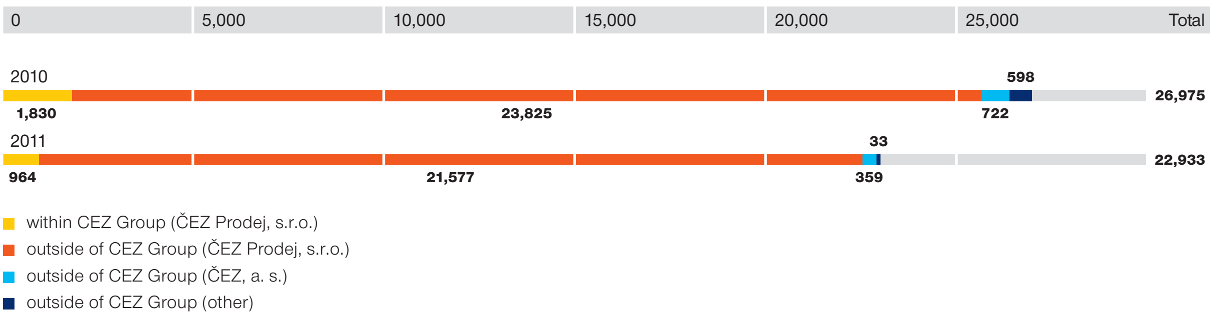
In 2012 the company plans to supply 33,230 GWh of electricity to customers, and invest CZK 8.4 billion in grid renewal and development.

## Sales

Sale of Electricity to End Customers

The retail electricity market (i.e. the market consisting of electricity supplies to end customers) in the Czech Republic is fully liberalized and, judging from the current number of active traders (over 40) and the frequency with which customers change suppliers, it is a highly competitive environment.
The CEZ Group company in charge of selling electricity to end customers in the Czech Republic is ČEZ Prodej, s.r.o. which, despite growing competitive pressures, holds its lead position in the market in all customer segments – large end-customers, retail-commercial customers, and retail-residential customers.

**Electricity Sold to End Customers in the Czech Republic (GWh)**




In 2011, ČEZ Prodej, s.r.o. supplied an aggregate total of 21.6 TWh of electricity to its customers for a market share of 37.9%. Smaller amounts of electricity were also sold to end customers by the companies ČEZ Energo, Chvaletice Power Station, and Energetické centrum.
In 2010, electricity sales figures for the Czech Republic also included CEZ Trade Bulgaria, which supplied 598 GWh to end customers. From 2011 this company is included in the sales figures for the Republic of Bulgaria.
In 2012, CEZ Group expects the volume of electricity supplied to corporate customers to be on the same level as in 2011. In the smaller corporates and residential segment, it expects to see a decline in market share caused by ongoing, increasing competitive pressure, similar to the situation in 2011.

Sale of Natural Gas

The retail gas market (i.e. the market consisting of supplies of gas to end customers) in the Czech Republic is also fully liberalized. The CEZ Group company charged with selling gas to end customers in the Czech Republic is ČEZ Prodej, s.r.o., which offers all customers in the Czech republic (large end-customers, medium-sized end customers, retail-commercial customers, and residential customers) a complete portfolio of natural gas products. In addition to high-quality services and customer care, the customer also offers financial savings, since supplies of natural gas from CEZ Group are based on the latest, best prices/products on the wholesale market (exchange/commodity formulas).

In 2011, ČEZ Prodej, s.r.o. supplied its end customers with an aggregate total of 3.4 TWh of natural gas for a market share of 4.7%.

Thanks to ongoing acquisition efforts, among other factors, in 2012 we expect to supply over 5.5 TWh of natural gas to our customers at over 400,000 connection points throughout the Czech Republic.

## Mining

**Severočeské doly a.s.**

The core business of Severočeské doly a.s. is mining activity. Once again in 2011, the company maintained its position as the largest Czech brown coal company. Its share of the brown coal market rose by 4.3 percentage points compared to 2010, to reach 53.7%. The company has two mining operations: Bílina Mines and Nástup Tušimice Mines.

Bílina Mines, operating in the Teplice-Bílina area, mines coal that is characterized by a high heat content and a low proportion of hazardous substances. In 2011, the unit extracted 10.44 million tons of coal. Bílina Mines supplies power generation coal to the Ledvice and Mělník III Power Stations and to other large power heating plants. Bílina sorted coal, of which the company supplied 2.3 million tons, is another important component in the unit's production range. The mining operations permit for the Bílina pit was issued under the Opening, Preparation, and Extraction Plan for the Years 2010–2030 by the Most District Mining Office on November 8, 2010, and it entered into legal force on January 26, 2011. As at December 31, 2011, Bílina Mines had approximately 164 million tons of extractable coal reserves.

The Nástup Tušimice Mines brown coal-mining operation is located in the westernmost portion of the Ústí Region. In 2011, Nástup Tušimice Mines extracted 14.9 million tons of coal, all of which was destined for the following recipients: Tušimice and Prunéřov Power Stations, which are local to the mine; the Chvaletice and Mělník II Power Stations; and the Komořany power heating plant (United Energy právní nástupce a.s.). Nástup Tušimice Mines' operations in the Tušimice Extraction Area take place under the Opening, Preparation, and Extraction Plan and are permitted by a decision of the Most District Mining Office dated February 28, 2006. The validity of this decision will end when the mining operation reaches the boundaries of the overburden and coal extraction advances set forth in the documentation accompanying the Opening, Preparation, and Extraction Plan of November 2005 (estimated to take place in 2014). As at December 31, 2011, Nástup Tušimice Mines had approximately 240 million tons of extractable reserves.

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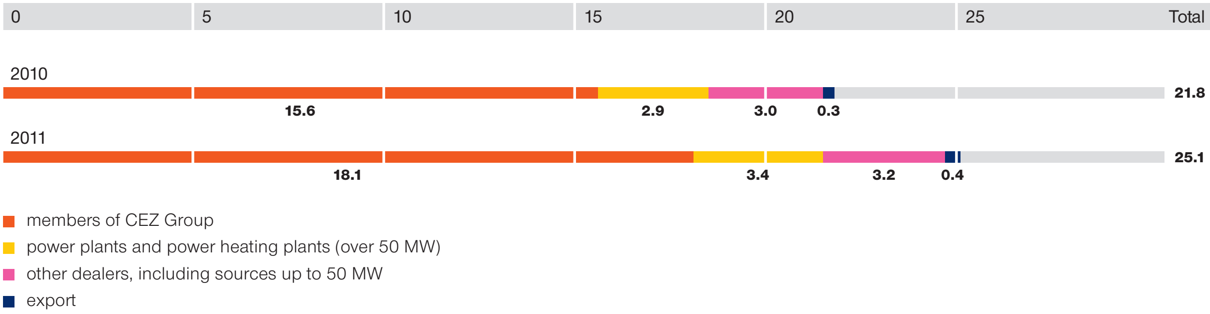
## Sale of Coal

Severočeské doly sold a total of 25.1 million tons of brown coal in 2011, a 3.3 million ton increase in sales volume compared to 2010.

**Coal Sales, by Customer (millions of tons)**




## Capital Expenditure

In 2011 Severočeské doly incurred capital expenditures totaling CZK 4.3 billion. The biggest CAPEX projects were the acquisition of a new KK 1300.1 excavator, shifting of the South Slopes trunk belt conveyor, construction of the second overburden cut, assembly of the first overburden cut's trunk belt conveyor, the Ledvice power infrastructure corridor, and clean-up of the Braňany Spoilbank.

In terms of environmental projects, Bílina Mines continued in 2011 with construction projects designed to protect cities and towns by mitigating the negative impacts of mining activity, primarily noise and dust.

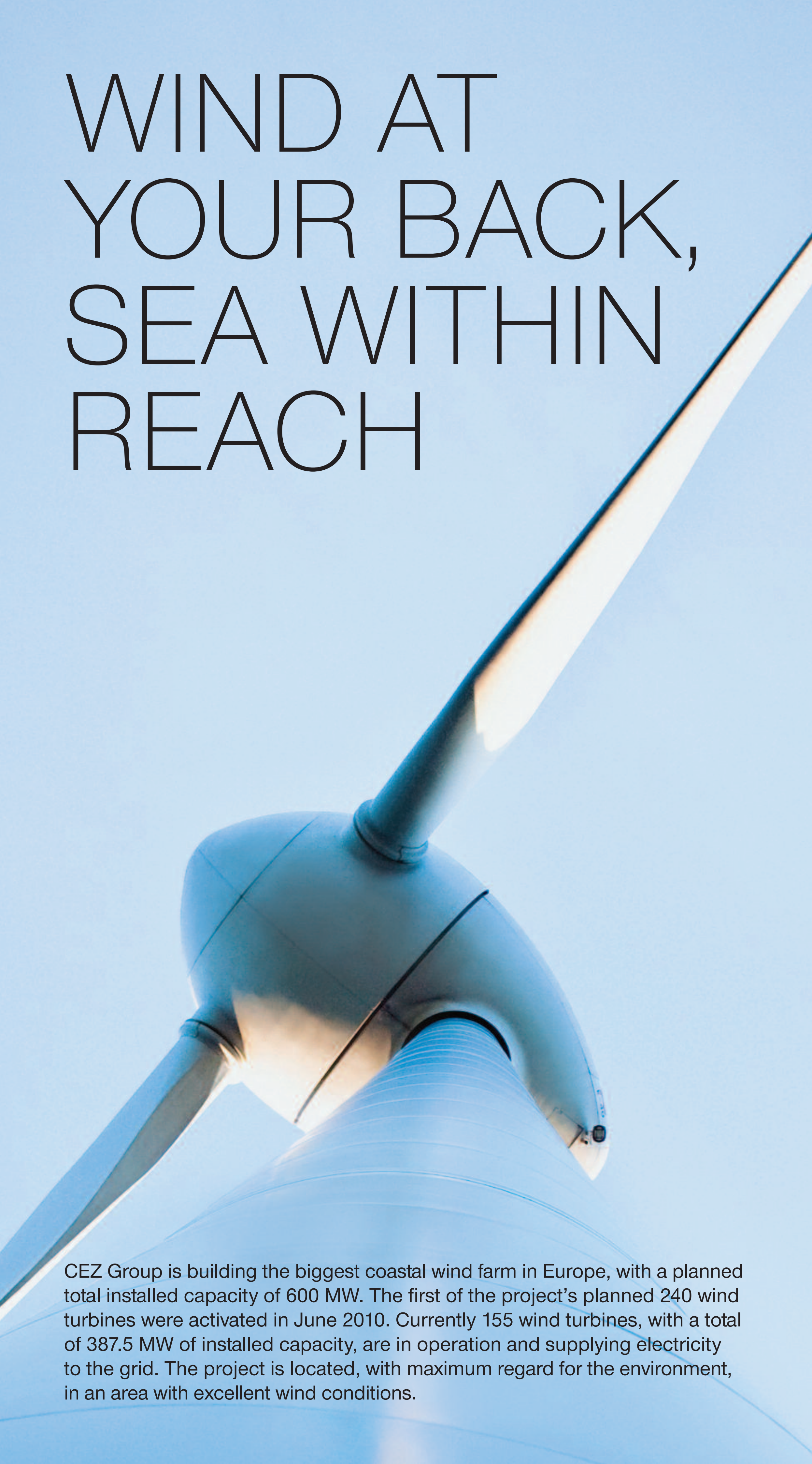
## Brown Coal Mining Outlook

Coal sales in 2012 are expected in a similar amount and structure as in 2011.

**LOMY MOŘINA spol. s r.o.**

ČEZ, a. s. owns a 51.05% stake in LOMY MOŘINA spol. s r.o. The company's core business is the mining and processing of rock matter for use in the construction industry and high-percentage limestones utilized in the flue-gas desulfurization (FGD) systems of coal-fired power plants. The company is a major supplier of limestone for use in the FGD systems of CEZ Group coal-fired power plants, to which it supplies approximately 600,000–700,000 tons of limestone per year, approximately half of their annual consumption of this commodity. In 2011, supplies to ČEZ, a. s. power plants totaled approximately 675,000 tons of limestone. In 2012, they are expected to reach approximately 700,000 tons. The second key commodity offered by LOMY MOŘINA is construction rock. All of the company's customers for this commodity are from outside the CEZ Group, and LOMY MOŘINA supplies them approximately 300,000 tons, with a moderately declining year-on-year trend.

Verified limestone reserves provide good prospects for sustained, long-term extraction operations.



# WIND AT YOUR BACK, SEA WITHIN REACH

CEZ Group is building the biggest coastal wind farm in Europe, with a planned total installed capacity of 600 MW. The first of the project's planned 240 wind turbines were activated in June 2010. Currently 155 wind turbines, with a total of 387.5 MW of installed capacity, are in operation and supplying electricity to the grid. The project is located, with maximum regard for the environment, in an area with excellent wind conditions.

**CZK 26 billion**
CEZ Group investment in the project

**2012**
anticipated completion of the wind farm near the towns of Fântânele and Cogealac

**10% share**
in the Romanian market for energy from renewable sources, when construction is completed

The project uses GE 2.5xl turbines with 2.5 MW of installed capacity each. This type of wind power plant is 100 meters high and the rotor diameter is 99 meters.

# CEZ GROUP INTERNATIONAL OPERATIONS

## Republic of Poland

### Business Environment in the Power Industry

The Polish power market is fully liberalized. Tariffs for households, i.e. distribution and trading fees, are regulated. According to data published by Poland's Energy Regulatory Office (Urząd Regulacji Energetyki), 2011 saw continued growth in customer movements between suppliers. 14,105 large end-customers of electricity changed their supplier – double 2010's figure. Among small customers, only 13,001 households decided to make such a change. All told, customers representing total consumption of 34.2 TWh decided to switch.

Electricity generation in Poland rose 4.4% in 2011, while electricity consumption grew 1.9%. The differences between electricity prices in Poland and those in neighboring countries are slowly narrowing. In 2010, the average spot price for electricity in Poland was approximately 1 EUR/MWh lower than in the spot market in Germany or on the OTE in the Czech Republic, but in certain months of 2011 it was up to 3 EUR/MWh higher than on the Scandinavian exchange, Nord Pool Spot.

In preparation for the third $CO_2$ emission rights allocation period, Poland obtained an exception and the option to allocate emissions rights for electricity generation free-of-charge in the period 2013–2020 against capital expenditures toward upgrading existing sources and building new installations with the objective of lowering $CO_2$ emissions. Poland sent its proposed allocation of emission rights, together with the national CAPEX plan, to the European Commission in September 2011. The European Commission will assess it and confirm both the allocation of $CO_2$ emission rights and the CAPEX plan, which must be approved before the $CO_2$ allocation for 2013–2020 is granted. After the European Commission's decision, which is expected in late July 2012, Poland will have to implement all the conclusions in its national legislation and draft implementing regulations.

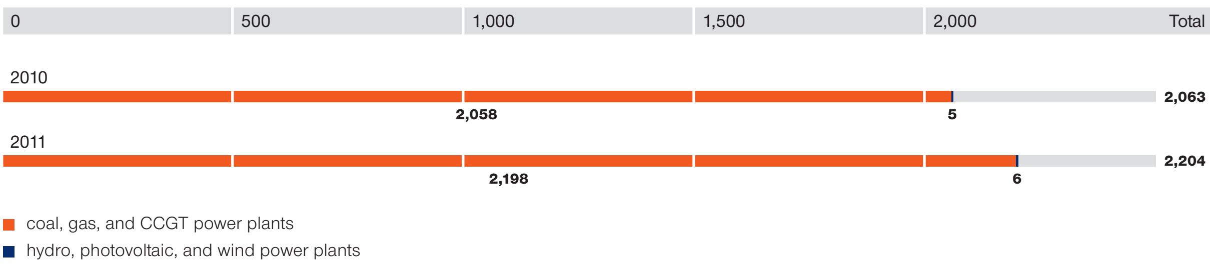
In 2011, material ownership transfers of electric power assets continued in Poland. Sweden-based Vattenfall sold its distribution grids in Silesia and its cogeneration power plants in Warsaw to the distribution company TAURON Polska Energia S.A., and gas distributor and producer Polskie Górnictwo Naftowe i Gazownictwo SA., respectively, for a total of PLN 7.6 billion.

Combined heat and power generation in Poland is supported by a system of red and yellow certificates, depending on whether heat is generated from coal or from gas. Generation of energy from renewable sources is supported through a system of green certificates.

### Electricity Generation

In 2011, CEZ Group power plants in Poland generated 2,204 GWh of electricity, up 141 GWh (+6.8%) year-on-year. The increase was attributable to maximizing of the volume of biomass combusted in both power plants for the purpose of achieving the highest possible gross margin, including proceeds from sale of $CO_2$ emission rights and revenue from compensation for termination of long-term contracts with PSE S.A.

**Electricity Generated in Poland, Gross (GWh)**




www.cezpolska.pl

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**Installed Capacity**

As at December 31, 2011, CEZ Group companies in the Republic of Poland owned generating facilities with a combined total installed capacity of 730 MW, 728 MW of which was attributable to coal-fired power plants and the remaining 2 MW to a single hydro power plant.

**Location of CEZ Group Power Sources in Poland**

## List of CEZ Group Power Plants in Poland

### Coal-Fired Power Plants

| Plant | Owner | Type of fuel | Installed capacity (MW) at December 31, 2011 | Year commissioned | Desulfurized since |
|---|---|---|---|---|---|
| ELCHO | Elektrociepłownia Chorzów ELCHO sp. z o.o. | black coal | 2 x 119.2 | 2003 | [1] |
| Skawina | Elektrownia Skawina S.A. | black coal | 4 x 110; 1 x 50 | 1957 | 2008 |
| Coal-fired power plants, total | | | 728.4 | | |

[1] ELCHO has complied with $SO_X$ limits from the moment it was commissioned.

### Small-Scale Hydro Power Plants

| Plant | Owner | Installed capacity (MW) at December 31, 2011 | Year commissioned |
|---|---|---|---|
| Skawina/Skawinka | Elektrownia Skawina S.A. | 1 x 1.6 | 1961 |
| Small-scale hydro power plants, total | | 1.6 | |

### Electricity Generation Outlook

In 2012, Polish power plants are expected to generate 2.2 TWh, i.e. approximately the same amount as was actually generated in 2011. This is the result of optimizing electricity and heat generation according to market price movements with the objective of maximizing profit.

### Sale of Electricity in Poland

Electricity is sold by CEZ Trade Polska sp. z o.o. as a supplementary activity to support electricity trading. In 2011, 95 GWh of electricity was supplied to large end-customers. The decline from 2010's level was caused by the fact that sales had to be restricted because the market situation and regulatory conditions prevented alternative suppliers from making offerings based on the market price.

### Sale of Electricity for 2012

In 2012, we expect to see supply volume grow to 201 GWh, driven by an increase in the number of customers in the portfolio and expansion of the offering into the medium-sized and small companies segment.

### Solid Fossil Fuels and Sorbents

In 2011, the Skawina and ELCHO Power Stations consumed a total of 1.06 million tons of black coal, sourced from mining companies in their vicinity. ELCHO Power Station purchases coal under a long-term contract with Kompania Węglowa S.A. In 2011, Skawina Power Station sourced most of its coal (approximately 63%) from Kompania Węglowa S.A. Other suppliers of power generation coal were Katowicki Holding Węglowy S.A., Temax Sp. z o.o., and CARBOUNION BOHEMIA, spol. s.r.o. The Polish power plants utilize biomass as another significant power generation fuel. In 2011, both plants invested in equipment to increase the volume of biomass they are able to combust.

Skawina Power Station invested in equipment designed to inject biomass directly into boilers, and thereby combusted 106,800 tons of biomass, which is 16.5% of the plant's total fuel consumption, to produce 152.4 GWh of electricity, i.e. up 66.1 GWh from 2010. ELCHO Power Station built a second line for conveying biomass to the boiler and combusted a total of 105,400 tons of biomass (accounting for 16.8% of its overall fuel consumption) to produce 154.1 GWh of electricity, up 82 GWh from 2010.

### Heat

The Polish power plants of CEZ Group sold a total of 4,822 TJ of heat in 2011. Of this figure, Skawina Power Station sold 2,597 TJ and ELCHO Power Station 2,225 TJ.

In cooperation with its biggest heat customer, Miejskie Przedsiębiorstwo Energetyki Cieplnej S.A. w Krakowie, Skawina Power Station organized a number of marketing events and promotions with the objective of acquiring new heat customers. These initiatives helped to grow orders in 2011, expressed by a 15.4 $MW_t$ incremental increase in output.

ELCHO Power Station supplied heat to two distribution companies and one end customer. As in the past, the biggest customer was Tauron Ciepło S.A. in Katowice (formerly Przedsiębiorstwo Energetyki Cieplnej Katowice S.A.), which supplies heat to the cities of Katowice, Chorzów, Świętochłowice, and Siemianowice Śląskie. A new marketing agreement between ELCHO Power Station and Tauron Ciepło S.A. aims to step up joint initiatives and acquire new heat customers from among small and large end-customers in Upper Silesia. In 2011, ELCHO Power Station connected new heat customers corresponding to a 2.017 $MW_t$ increase in plant output.

### Capital Expenditure

In 2011, Skawina Power Station invested, in particular, in biomass milling equipment to ensure the biomass quality level necessary for direct injection into the boilers, and built a roof over the biomass storage area. Another major CAPEX project is the ongoing construction of a new small-scale hydro power plant with output of 950 $kW_e$. These investments totaled CZK 61 million.

ELCHO Power Station carried out its first overhaul of Turbine No. 1 in 2011, as well as investing in the construction of a second line for conveying biomass to the boiler. These investments also totaled CZK 61 million.

### Equity Stakes in Poland

#### CEZ Polska sp. z o.o.

This company's principal objective is to provide administrative and management services to CEZ Group companies within the territory of Poland. At the same time, it comprehensively represents CEZ Group in the country and provides support to the acquisition team in the event of future acquisitions.

#### CEZ Trade Polska sp. z o.o.

Following the transfer of electricity wholesale trading operations to ČEZ, a. s., this company is tasked mainly with selling electricity to end customers, providing scheduling for CEZ Group members in Poland, and wholesale support.

#### Elektrownia Skawina S.A. and Elektrociepłownia Chorzów ELCHO sp. z o.o.

Part of CEZ Group since May 2006, these two power companies are owned through companies registered in the Kingdom of the Netherlands. In the case of ELCHO Power Station, ownership is through the company CEZ Chorzow B.V., which is owned by CEZ Silesia B.V. Skawina Power Station is owned through CEZ Poland Distribution B.V., which is a 100% subsidiary of ČEZ, a. s.

#### CEZ Towarowy Dom Maklerski sp. z o.o. (formerly CEZ Ciepło Polska sp. z o.o.)

In 2011, the company's stated capital was raised from PLN 130,000 to PLN 500,000 and both its seat and name were changed as well. The company was originally established for new acquisitions in district heat; now, following changes to Polish legislation, the company is being transformed into an exchange trading broker.

#### CEZ Produkty Energetyczne Polska sp. z o.o.

This company was established in January 2009 in conjunction with optimizing of power generation by-products management at the ELCHO and Skawina Power Stations. Its core business is management of power generation by-products.

#### CEZ Nowa Skawina S.A.

In 2009, the company CEZ Nowa Skawina S.A. was established with its seat in Skawina for purposes of building a new source in this location. For the time being, technical and commercial preparations for this project have been suspended in accordance with CEZ Group strategic objectives.

#### Eco-Wind Construction S.A.

On December 30, 2011, CEZ Poland Distribution B.V. (a 100% subsidiary of ČEZ, a. s. headquartered in the Kingdom of the Netherlands) acquired a 67% stake in Eco-Wind Construction S.A. with its seat in Warsaw. This is a wind farm developer with projects in Poland representing a total of approximately 700 MW in various phases of development. The acquisition correlates with CEZ Group's plan to strengthen its position in renewable sources at the international level.

Eco-Wind Construction S.A. owns 100% stakes in the companies A.E. Wind sp. z o.o., Elektrownie Wiatrowe Lubiechowo sp. z o.o., Farma Wiatrowa Leśce sp. z o.o., Farma Wiatrowa Wilkolaz-Bychawa sp. z o.o., F.W. Tolkowiec sp. z o.o., and Mega Energy sp. z o.o.

# Republic of Bulgaria

### Business Environment in the Power Industry

Although the Energy Act liberalized the Bulgarian electricity market on July 1, 2007, the country still uses a system of quotas to determine supplies of electricity at prices regulated by the State. Most electricity supplied for consumption within Bulgaria is sold at regulated prices.

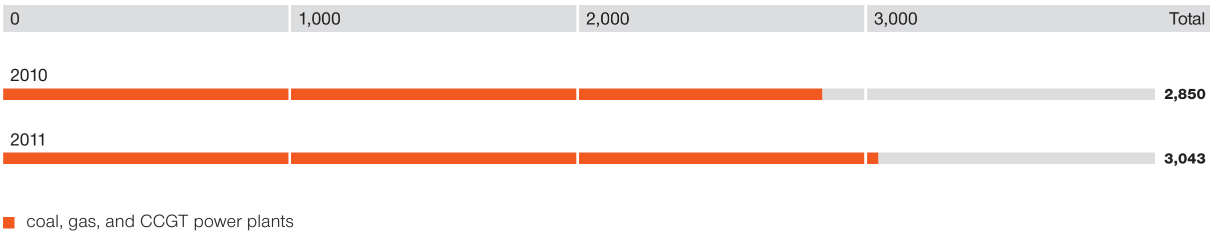
2011 saw continued preparations for the establishment of a Bulgarian energy exchange. A simulation of the introduction of new market rules is to be completed in June 2012. Also in 2012, due to the launch of the European Union's third liberalization package, the transmission grid and related assets are to be spun off from the company NEK EAD to the company ESO EAD ("ЕЛЕКТРОЕНЕРГИЕН СИСТЕМЕН ОПЕРАТОР" ЕАД).

June 2011 saw the commencement of Phase 3 of trial synchronized operation of the Bulgarian transmission grid with its Turkish and Greek counterparts within ENTSO-E. Later, the first commercial cross-border flows of electricity took place. This gave Bulgaria market access to the grids of all neighboring countries.

In March 2012, Bulgaria cancelled plans to build the Belene Nuclear Power Station with planned installed capacity of 2,000 MW. A natural gas-fired power plant will be built at the site instead.

### Electricity Generation

Electricity Generated in Bulgaria, Gross (GWh)




The sole CEZ Group power plant in Bulgaria, Varna Power Station, generated 3,043 GWh of electricity in 2011, up 193 GWh (+6.8%) from 2010. The main driver of growth was higher generation for the regulated market, and activation of the cold reserve in particular. Varna Power Station accounts for 60% of Bulgaria's backup generation capacity.

### Installed Capacity

CEZ Group has 1,260 MW of installed capacity in Bulgaria. Varna Power Station, which accounts for 100% of this amount, is CEZ Group's largest coal-fired power plant.

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Location of CEZ Group Power Source in Bulgaria


## List of CEZ Group Power Plants in Bulgaria

### Coal-Fired Power Plants

| Plant | Owner | Type of fuel | Installed capacity (MW) at December 31, 2011 | Year commissioned |
|---|---|---|---|---|
| Varna | TEC Varna EAD | black coal | 6 x 210 | 1968–1969<br>1977–1979 |
| Coal-fired power plants, total | | | 1,260.0 | |

### Solid Fossil Fuels and Sorbents

In 2011, Varna Power Station consumed a total of 1,392,000 tons of black coal. Coal is imported from Russia and Ukraine – transported by sea from Mariupol, Ukraine. Compared with 2010, the quality of imported coal improved. As a result, the 3.6% increase in coal consumption is approximately half the increase in electricity generation volume.

### Electricity Generation Outlook

In 2012, Varna Power Station plans to reduce electricity output, due to expectations of lower cold reserve activation by ESO, the Bulgarian operator, than in 2011.

### Heat

Varna Power Station generated and supplied only a small amount of heat to sites in its vicinity (Village of Ezerovo). Revenue from this commodity, at CZK 1 million, was only of marginal importance.

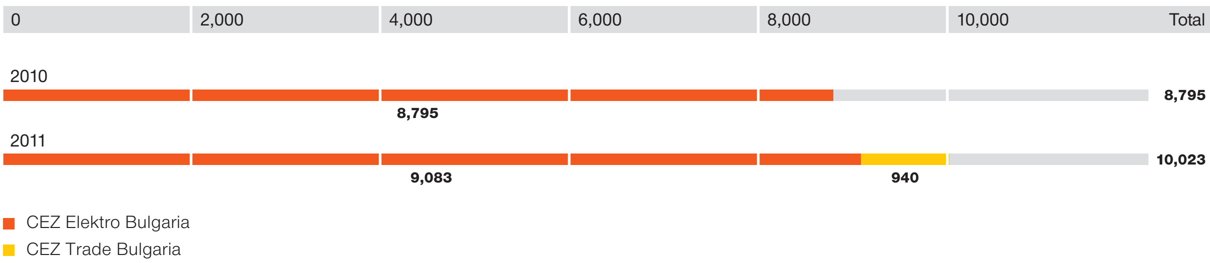
### Distribution of Electricity

**Electricity Distributed to End Customers in Bulgaria (GWh)**


The volume of electricity distributed in Bulgaria in the area served by CEZ Group in 2011 was 9,193 GWh, a year-on-year increase of 301 GWh (+3.4%). This growth was driven mainly by connection of new customers to the distribution grid, weather conditions, and a recovery of consumption in the commercial segment (corporate customers at the medium- and low-voltage levels). In year-on-year terms, losses in the distribution grid were lower thanks to targeted investments in distribution infrastructure (transformer replacements and upgrades, replacement of electric meters) and further optimizing of the process of managing non-technical losses.

### Sale of Electricity

**Electricity Sold to End Customers in Bulgaria (GWh)**




CEZ Elektro Bulgaria AD sold 9,083 GWh of electricity to end customers in 2011, up 288 GWh (+3.3%) year-on-year. Growth was driven by increased consumption by commercial customers, by 3.3% and 4.4% at the medium- and low-voltage levels, respectively, as well as by a 2.2% increase in residential consumption (in line with the long-term moderate growth trend in this segment). Also, the number of new customers grew and there was no exodus of eligible customers to the free market. In addition to the power sold to customers at regulated prices by CEZ Elektro Bulgaria AD, the company CEZ Trade Bulgaria EAD supplied 940 GWh of electricity to eligible customers in 2011. In 2010, the electricity volume supplied on behalf of CEZ Trade Bulgaria EAD was reported in the Czech Republic.

### Sale and Distribution of Electricity in 2012

In 2012, we anticipate moderate growth in electricity distribution volume due to new connections to the distribution grid and growing residential and commercial consumption by customers of dealers other than CEZ Elektro Bulgaria AD. Electricity sales figures for both the eligible and regulated customer segments are expected to be in line with 2011.

### Capital Expenditure

In 2011, distribution grid CAPEX reached approximately CZK 883 million. It went primarily on improving distribution grid quality, replacing electric meters, new connections to the distribution grid, and purchasing of power infrastructure-related buildings pursuant to the Energy Act. Once again in 2012, CAPEX will focus on improving the quality of the distribution grid, replacing electric meters, and purchasing power-related buildings.

CAPEX at Varna Power Station totaled CZK 10 million in 2011, and related in particular to raising of the ash dump embankment and modifications to units 5 and 6.

### Equity Stakes in Bulgaria

#### CEZ Bulgaria EAD

This company's primary aim is to provide administrative and managerial services to CEZ Group in Bulgaria. At the same time, the company comprehensively represents CEZ Group in the country and provides support to the acquisition team in the event of further acquisitions.

#### CEZ Trade Bulgaria EAD

This company is tasked primarily with wholesale trading in electricity and supplying electricity to eligible end customers. The company holds an electricity trading license and is actively engaged in this activity.

#### CEZ Razpredelenie Bulgaria AD

This company is involved primarily in distribution of electricity in western Bulgaria. It is owned by ČEZ, a. s. (67% stake) and the Republic of Bulgaria (33% stake).

#### CEZ Elektro Bulgaria AD

This company, involved in selling electricity to end customers at regulated prices, was created in conjunction with the unbundling process (the separation of distribution operations from other operations of the power utility).

ČEZ, a. s. owns a 67% stake, while the remaining 33% is in the hands of the Bulgarian State.

#### TEC Varna EAD

As of October 2006, ČEZ, a. s. is the sole owner of the coal-fired Varna Power Station.

#### CEZ Laboratories Bulgaria EOOD – in liquidation

This company is 100% owned by ČEZ, a. s. In 2008, the company obtained a license from the State Agency for Metrological and Technical Supervision to perform initial and periodic checks of electric meters. Granting of this license was preceded by ISO certification. In 2011, the company went into liquidation, since in view of Bulgarian legislation and a subsequent decision of the Anti-trust Office, it can no longer do business in the field of electric meter verification. Operations not subject to licensing, such as container logistics and the delivery, installation, deinstallation, and liquidation of electric meters, were shifted to CEZ Razpredelenie Bulgaria AD.

#### CEZ Elektroproizvodstvo Bulgaria AD

This company was formed in conjunction with preparation of a project to build a CCGT power source in Varna, with a planned installed capacity of 880 MW. This project was suspended, and in conjunction with the strategic objectives of CEZ Group, the company is being merged with TEC Varna EAD. The merger is to be completed in 2012.

#### Free Energy Project Oreshets EAD

The sole owner of this company is a 100% subsidiary of ČEZ, a. s. – CEZ Bulgarian Investments B.V. with its seat in the Kingdom of the Netherlands, which acquired it in October 2011 when its name was Free Energy Project EAD. In November 2011 the company's name was changed to its current name, Free Energy Project Oreshets EAD. The company was acquired in conjunction with the operation of the Oreshets photovoltaic power plant with planned capacity of 4.9 MW, and is one of the projects in which CEZ Bulgarian Investments B.V. plans to invest in Bulgaria. Commissioning is expected in the second quarter of 2012. The objective of this investment is to fulfill ČEZ's obligation under the Investment Memorandum signed in conjunction with the acquisition of Varna Power Station, relating to investments in renewable sources in Bulgaria.

## Romania

### Business Environment in the Power Industry

The legal framework for the energy sector is compatible with the model prevailing in European Union Member States. Individual functions have already been legally separated (unbundled) and partially privatized. Most generation assets are concentrated in State-owned companies. Two key producers are Hidroelectrica and Nuclearelectrica. Certain municipal and local power heating plants are under municipal ownership. In 2012, the Romanian State is preparing to privatize a portion of its minority stakes in companies that own power sources. The transmission grid is administered by Compania Națională de Transport al Energiei Electrice "TRANSELECTRICA" S.A. The distribution segment is by far the most open – three regions are served by the State-owned Electrica, while another five have been privatized into the hands of foreign investors. In the next few years, minority shares in several State-owned distribution companies are to be privatized. Regulatory activity is carried out by Autoritatea Națională de Reglementare în domeniul Energiei.

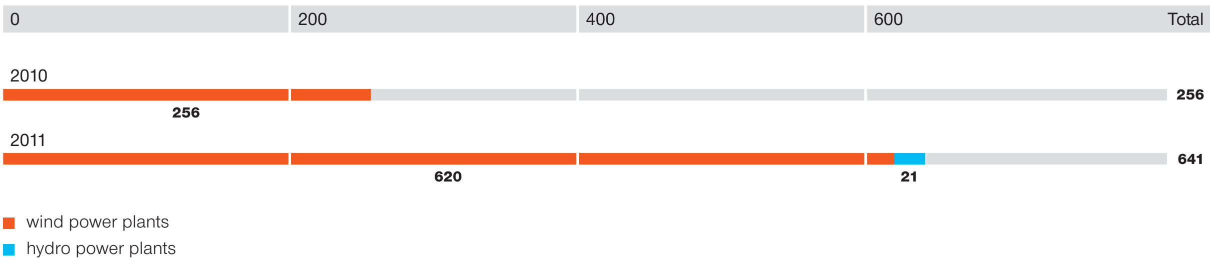
Full market liberalization is to be achieved by 2013 for the commercial customers segment, and by 2017 for households. By year end 2011, approximately 56% of customers had obtained eligible customer status, while the remaining 44% are subject to regulation. A substantial share of production is traded through one-year contracts and single-day supplies. The organizer of the electricity market is Societatea Comercială Operatorul Pieței de Energie Electrică – OPCOM S.A.

Romania supports the generation of electricity from renewable sources of energy through “green certificates”. On July 14, 2011 the European Commission approved the scheme for granting a second green certificate. On October 12, 2011 the Romanian Government approved a decree implementing the Act on Renewable Sources and the granting of a second green certificate for generation from wind power plants, effective from November 1, 2011. Until that time, generation from wind power plants was supported by a single certificate for each MWh generated.

With the country’s accession to the European Union, Romania became a member of the EU ETS and adopted a plan to comply with LCPD (regulation of $SO_X$, $NO_X$, and solid particulate emissions).

### Electricity Generation

Electricity Generated in Romania, Gross (GWh)




### Fântânele and Cogealac Wind Farm

On August 26, 2008 CEZ Group purchased the Fântânele and Cogealac wind project in Constanța County. Completion of both farms, with 600 MW of total installed capacity, is planned for 2012.

In 2011, the 120 power plants connected to the grid so far (based on a generation license granted as of December 31, 2011) in the Fântânele wind farm generated a total of 620 GWh of electricity, up 364 GWh from the previous year. Work on the project continued in 2011. The third and last transformer (400/110 kV) was installed in the main transformer station, another 12 turbines were erected, and three were completed in the first days of 2012. The last four turbines will be connected to the grid by the end of 2012.

Construction work continued on the Cogealac wind farm, although it was suspended from March to May 2011 due to a court injunction. Work resumed in June 2011 and by December 31, 2011 the first 13 wind turbines had been erected. Completion of the entire wind farm is expected in 2012.

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**Reşiţa Complex of Hydro Power Plants**

2011 saw completion of the acquisition of TMK Hydroenergy Power S.R.L., which is located in the southwestern portion of Romania in Caraş-Severin County, near the city of Reşiţa.

The assets of the newly acquired company consist of four small-scale hydro power plants with total installed capacity of 18 MW, one pumped-storage pumping station (Trei Ape), four dams with reservoirs totaling 20 million $m^3$, and 64 km of canals and waterways. Immediately upon acquiring the stake, project design work began on upgrading the hydro plants. Completion of the upgrades is planned for late 2013, after which the installed capacity will increase to 20.6 MW.

In the period from December 2011 to commencement of the upgrades, the company obtained support for generation of electricity from renewable sources in the amount of one green certificate for every two MWh generated. After the upgrades are completed, the support will be increased to two certificates for every MWh generated.

The generation volume from all four small-scale hydro power plants for the full year 2011 was 54 GWh. During the period from July, when the company became part of the CEZ Consolidated Group, to December the small-scale hydro plants generated 21 GWh. The Grebla power plant accounted for nearly half this amount.

**Location of Power Sources in Romania**

## List of CEZ Group Power Plants in Romania

### Hydro Power Plants at the Reşiţa Site

| Plant | Owner | Installed capacity (MW) at December 31, 2011 | Year commissioned |
|---|---|---|---|
| Crainicel 1 | TMK Hydroenergy Power S.R.L. | 8.380 | 1950 |
| Crainicel 2 | TMK Hydroenergy Power S.R.L. | 3.750 | 1997 |
| Grebla | TMK Hydroenergy Power S.R.L. | 5.500 | 1970 |
| Breazova | TMK Hydroenergy Power S.R.L. | 0.370 | 1977 |
| Small-scale hydro power plants, total | | 18.0 | |

### Wind Power Plants

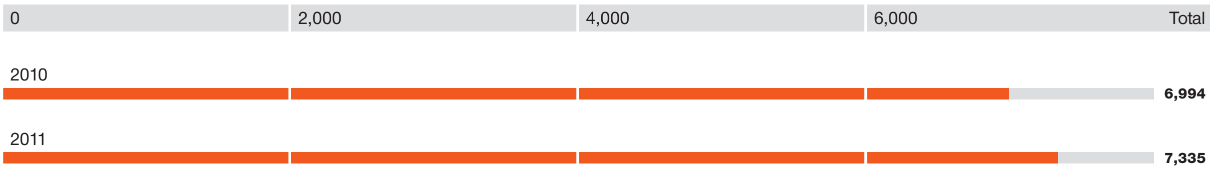
| Plant | Owner | Installed capacity (MW) at December 31, 2011 | Year commissioned |
|---|---|---|---|
| Fântânele | Tomis Team S.R.L.<br>MW Team Invest S.R.L. | 300 | 2010 |
| Wind power plants, total | | 300.0 | |

## Electricity Generation Outlook for 2012

Electricity generation totals for the Fântânele and Cogealac wind farms are expected to reach 0.8 TWh and 0.3 TWh, respectively. In May 2012 the Reşiţa complex of hydro power plants is to be shut down for upgrades.

## Distribution of Electricity

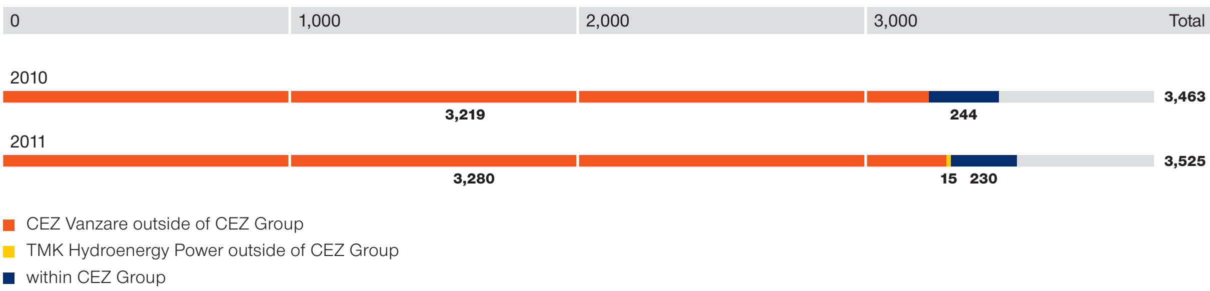
### Electricity Distributed to End Customers in Romania (GWh)




The Romanian distribution company, CEZ Distributie S.A., distributed 7,335 GWh of electricity in 2011, up 341 GWh year-on-year.

## Sale of Electricity

### Electricity Sold to End Customers in Romania (GWh)




The Romanian sales company, CEZ Vanzare S.A., sold 3,510 GWh of electricity to end customers in 2011, up 47 GWh year-on-year. Starting from 2011, the company TMK Hydroenergy Power S.R.L. also began supplying electricity.

**Distribution and Sale of Electricity in 2012**

The plan calls for 3.3 TWh of electricity to be sold to end customers. Electricity distribution volume to end customers in 2012 is planned at 7.4 TWh.

**Capital Expenditure**

Besides construction of the Fântânele and Cogealac wind farms, 2011 capital expenditures in Romania also went toward improving distribution grid parameters at all voltage levels. In addition to that, a 110/20 kV transformer station was upgraded in Craiova. Last, but not least, capital expenditure also went on a project to upgrade small-scale hydro power plants belonging to TMK Hydroenergy Power S.R.L. Total CAPEX dedicated to generation and distribution of electricity in 2011 was CZK 6.3 billion.

**Equity Stakes in Romania**

CEZ Romania S.A.

CEZ Romania's primary objective is to provide administrative and management services to CEZ Group within Romanian territory and, at the same time, to represent CEZ Group in Romania. ČEZ, a. s. owns a 99.9998% stake in the company, with the remaining portion belonging – for compliance with Romanian legislation – to CEZ Poland Distribution B.V., a member of CEZ Group headquartered in the Netherlands.

CEZ Trade Romania S.R.L.

This company was established for the purpose of electricity trading. ČEZ, a. s. owns 99.99% of the company, while the remaining 0.01% belongs to ČEZ Správa majetku. In 2009, wholesale electricity trading operations were transferred to ČEZ, a. s. and the company's principal business was changed to providing wholesale support and trading in natural gas. The company obtained a natural gas license in February 2010.

CEZ Distributie S.A.

CEZ Distributie S.A. is an electricity distribution company.

CEZ Vanzare S.A.

This company sells electricity to end customers. In 2009, CEZ Vanzare S.A. also obtained a license to sell natural gas and it has been selling natural gas to end customers since 2010.

Tomis Team S.R.L.

ČEZ, a. s. acquired a stake in Tomis Team S.R.L., headquartered in Bucharest, in conjunction with the acquisition of the Fântânele wind farm project in 2008.

MW Team Invest S.R.L.

MW Team Invest S.R.L. is a 100% subsidiary of Tomis Team S.R.L. headquartered in Bucharest and it, too, is a part of the Fântânele project.

Ovidiu Development S.R.L.

ČEZ, a. s. acquired a stake in Ovidiu Development S.R.L. in conjunction with the acquisition of the Cogealac wind farm project in 2008.

TMK Hydroenergy Power S.R.L.

In May 2011, CEZ Romania S.A. acquired TMK Hydroenergy Power S.R.L., which owns and operates four small-scale hydro power plants in Romania with a combined total installed capacity of 18 MW, as well as four dams and related infrastructure. The company's headquarters are in Reşiţa.

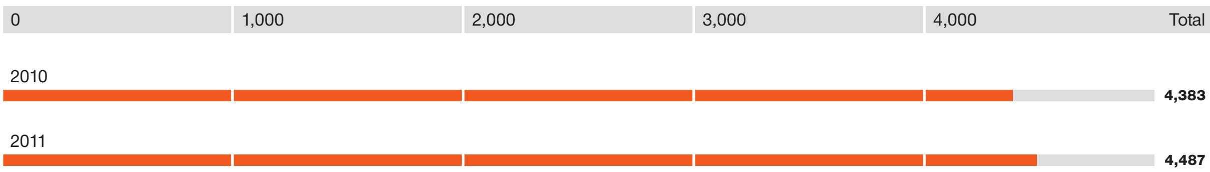
## Republic of Albania

### Business Environment in the Power Industry

Until now, the ownership transformation of the power sector in Albania has been limited to distribution. There are no plans as yet to privatize generation, which is dominated by large hydro power plants that belong to the State-owned company Korporata Energjitike Shqiptare (KESH) sh.a. Construction of new power sources, large and small, has been liberalized and, in the case of hydro power plants, is governed by an uncomplicated process involving the granting of concessions. International financial corporations are endeavoring, by making loans at advantageous terms, to support construction of individual new hydro and wind power sources; however, limiting factors such as low purchase prices and the necessity of additional capital expenditures to connect the new installations to the grid are having a major impact on project payback periods.
The electricity market is regulated. Partial liberalization of electricity supplies is offered to large consumers that mine raw materials and produce steel and other metals, and to cement producers in particular. Only a few eligible customers took advantage of it in 2011. In late 2011, at the regulator's initiative, a major statutory amendment was passed making it mandatory for a considerable number of large end-customers to give up their tariff customer status and become eligible customers from January 1, 2012.
Per capita electricity consumption in Albania is still substantially below levels seen in advanced European countries. The private sector, and the residential segment in particular, is seeing sustained growth in consumption. However, whether a fast pace of consumption growth will be maintained depends heavily on the continued in-flow of new capital into generation and distribution. The economic crisis in Europe, and economic turbulence in Italy and Greece in particular, had a major impact on Albania's economy as well, causing growth in electricity consumption there to slow in 2011.
In 2011, intensive negotiations took place with the Energy Market Regulator (ERE) to set basic parameters for calculating end-customer prices for the 2012–2014 period and to arrive at a realistic number for the past period's losses (Bad Debt Study). 2011 was characterized by extremely low precipitation, which posed major problems for KESH, the Albanian electricity producer which generates nearly all of its electricity in hydro power plants – forcing it to import expensive electricity from abroad. This unfavorable situation was reflected in the structure of end-customer tariffs approved by the regulator for individual entities in the electric power market for the next period and caused considerable liquidity and profitability problems for the entire energy sector.
On March 26, 2012, CEZ Shpërndarje sent the World Bank a notification letter calling for it to take steps to ward off the exercise of a EUR 60 million (approximately CZK 1.5 billion) guarantee agreed when this distribution company was privatized in 2009. Since January 2012, CEZ Shpërndarje Sh.A. has been forced to purchase electricity from its electricity supplier, which is a monopoly, at a price that is 91% higher than in 2011, but this higher price was not reflected in end customer prices, causing CEZ Shpërndarje to sustain a loss. CEZ Shpërndarje agreed with the Albanian Government on a mutual set-off of debts – CEZ Shpërndarje toward the State and its organizations, and vice versa. Implementation of the agreement was made conditional on CEZ Shpërndarje receiving additional financing from its majority owner in return for corrective action on the tariff decision. However, at the time the notification letter was sent the regulatory terms had not yet been modified.

### Electricity Distribution

**Electricity Distributed to End Customers in Albania (GWh)**




Distribution of electricity and its sale to end customers are handled by CEZ Shpërndarje Sh.A. which, as part of its 2009 privatization, was spun off from the State-owned company Korporata Energjitike Shqiptare sh.a. under the name Operatori i Sistemit te Shperndarjes Sh.A. (OSSh). ČEZ subsequently acquired a majority, 76% stake in the company, which is the sole distribution company in the Albanian power market.
In 2011, the company distributed a total of 4,487 GWh of electricity to its customers, up 104 GWh from 2010. The ongoing growth in electricity distribution volumes reflects the overall trend of the past few years and is related to steady growth in industrial production and the improving standard of living in Albania.

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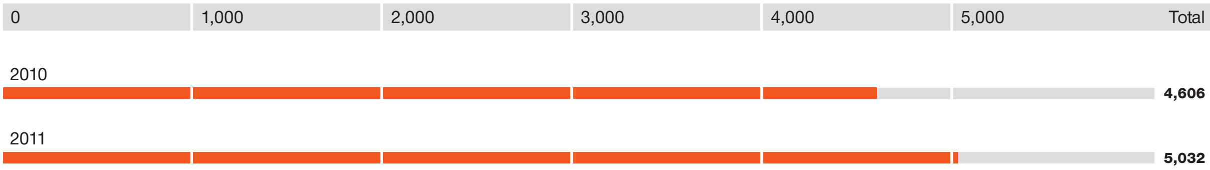
## Sale of Electricity

**Electricity Sold to End Customers in Albania (GWh)**




CEZ Shpërndarje Sh.A. sold 5,032 GWh of electricity to end customers in 2011, a year-on-year increase of 426 GWh (+9.2%). The bulk of this growth was attributable to industrial enterprises connected to the medium-voltage grid. Electricity consumption in Albania, which is still far below levels commonly seen elsewhere in Europe, thereby confirmed its potential for long-term growth and reflects the ongoing structural shifts in the country's economy.

### Distribution and Sale of Electricity for 2012

In the next few years we anticipate steady, moderate growth in overall electricity consumption in Albania. Despite CEZ Shpërndarje's exclusive position in the market for electric power, electricity distribution and sales volumes will be impacted by two decisions made by the regulator that take effect from January 2012. The first is the classification of customers that purchase a total of over 50 GWh per year as eligible customers and the second is the exclusion of invoiced economic damages associated with unauthorized electricity use by consumers from the "electricity sold" category in the statement of electricity procured and sold. The former decision will impact the volume of electricity sold only, while the latter will affect both electricity sales and distribution volumes.
Thus, CEZ Shpërndarje's reported electricity sales and distribution volumes may be lower, year-on-year, as a result of these factors despite the growth trend in electricity consumption in Albania.

### Capital Expenditure

In 2011, the distribution company CEZ Shpërndarje focused on upgrading the low-voltage grid, primarily by completing the process of installing electric meters at all connection points and replacing obsolete power lines with insulated cables to prevent unauthorized electricity use. Capital expenditures in 2011 exceeded CZK 273 million.

### Equity Stakes in Albania

CEZ Albania Sh.A.
CEZ Albania Sh.A. was established as a 100% subsidiary of ČEZ, a. s. with its seat in Tirana for the purpose of providing administrative and management services to CEZ Group in Albania. At the same time, it comprehensively represents CEZ Group in the country and supports the acquisition team for future acquisitions.
CEZ Trade Albania Sh.A.
The principal business of this 100% subsidiary of ČEZ, a. s., with its seat in Tirana, is electricity trading. It obtained the necessary license for this activity in January 2010.
CEZ Shpërndarje Sh.A.
ČEZ, a. s. acquired a 76% stake in the Albanian distribution company in May 2009. The Albanian State owns the other 24%. The company is headquartered in Tirana and is involved in the distribution and sale of electricity.

## Republic of Turkey

### Business Environment in the Power Industry

By 2010, the Turkish market had recovered from the impacts of the 2008–2009 global economic crisis and it continues to grow at a fast pace. Due to its dynamism and growth potential, Turkey is a suitable environment for investing in the construction of power plants, and a number of attractive opportunities are available there, connected with privatization. The first phase of the government's privatization plan, which entails privatization of distribution companies, is still ongoing (in many regions, assets have yet to be transferred to their new owners, due to their insolvency). The Turkish market has been partially liberalized since the end of 2009, but only about one fifth of production is sold in the free market. The Turkish government wants to make the market more effective by privatizing power generation sources with a combined installed capacity of up to 16 GW, currently owned by the State.

### Electricity Generation

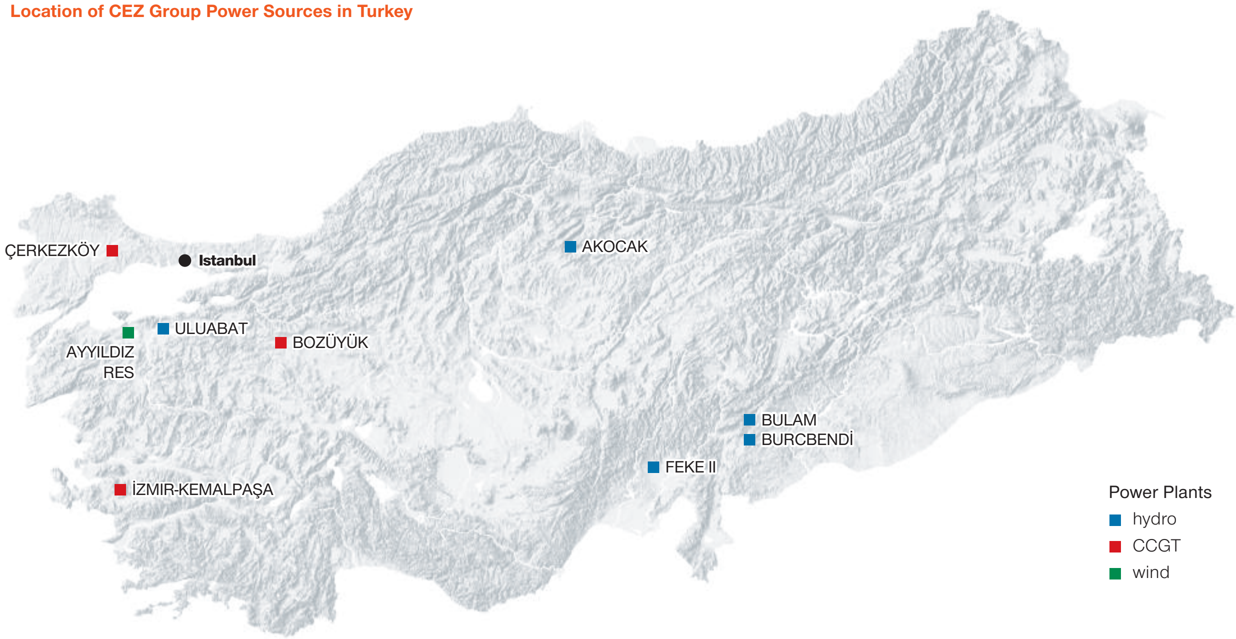
Electricity is generated by Akenerji Elektrik Üretim A.S. and its subsidiaries Akkur Enerji Üretim Ticaret ve Sanayi A.S. and Mem Enerji Elektrik Üretim A.S.

In total, these companies generated 2,594 GWh of electricity in 2011. The growth in generation over the previous year was driven, in particular, by the connection to the grid of hydro power plants commissioned in the second half of 2010.

### Electricity Generation for 2012

This year, we anticipate continued growth in electricity generation due to the planned completion and start-up of another three hydro sources: Himmetli, Feke I, and Gökkaya. Electricity generation volume is to reach 2,969 GWh.

**Location of CEZ Group Power Sources in Turkey**



## List of Power Plants Co-owned by CEZ Group in Turkey

### Gas-Fired Power Plants

| Plant | Owner | Type of fuel | Installed capacity (MW) at December 31, 2011 | Year commissioned |
|---|---|---|---|---|
| Çerkezköy | Akenerji Elektrik Üretim A.S. | natural gas | 1 x 21.5<br>1 x 43.5<br>1 x 33 | 1993<br>1995<br>1996 |
| Bozüyük | Akenerji Elektrik Üretim A.S. | natural gas | 1 x 45<br>2 x 43.5 | 1997<br>1997 |
| İzmir-Kemalpaşa | Akenerji Elektrik Üretim A.S. | natural gas | 2 x 43.6<br>1 x 40 | 2005<br>2005 |
| Gas-fired power plants, total | | | 357.2 | |

### Wind Power Plants

| Plant | Owner | Installed capacity (MW) at December 31, 2011 | Year commissioned |
|---|---|---|---|
| Ayyıldız RES | Akenerji Elektrik Üretim A.S. | 5 x 3 | 2009 |
| Wind power plants, total | | 15.0 | |

### Hydro Power Plants

| Plant | Owner | Installed capacity (MW) at December 31, 2011 | Year commissioned |
|---|---|---|---|
| Uluabat | Akenerji Elektrik Üretim A.S. | 97.02 | 2010 |
| Akocak | Akenerji Elektrik Üretim A.S. | 81 | 2010 |
| Feke II | Akkur Enerji Üretim Ticaret ve Sanayi A.S. | 69.35 | 2010 |
| Burcbendi | Akkur Enerji Üretim Ticaret ve Sanayi A.S. | 27.33 | 2010 |
| Bulam | Mem Enerji Elektrik Üretim A.S. | 7.03 | 2010 |
| Hydro power plants, total | | 281.7 | |



### Electricity Distribution and Sale

Sakarya Elektrik Dagitim A.S. distributed a total of 7,646 GWh in 2011, and sold 6,106 GWh of electricity to end customers. Remark: Figures (technical units and work force head counts) for the power plants and distribution companies in Turkey are not included in the CEZ Group totals, because the assets in question are owned by associates.

### Electricity Distribution and Sale for 2012

Distribution companies in Turkey are facing an expansion in the number of wholesalers offering substantial discounts to large customers, industrial enterprises in particular. Due to the shrinking number of these customers in the portfolio of Sakarya Elektrik Dagitim A.S., there was a reduction in the amount of electricity sold in 2011. In 2012, we expect a partial reversal of this trend, and the volume of electricity sold to end customers is projected to rise to 6,614 GWh.

### Capital Expenditure

In 2011, construction work was underway on the hydro power plants Himmetli, Feke I, and Gökkaya (total installed capacity 84 MW) with completion planned in 2012.

The biggest CAPEX project is the construction of an 872 MW CCGT at Hatay on the southeastern coast of Turkey; it reached the implementation phase in the last quarter of 2011. This is an extraordinarily efficient power plant (57% efficiency) with a minimum lifetime of 30 years. Commissioning of this source is planned for July 2014.

A CAPEX project currently in preparation is the construction of a pumped-storage hydro power plant with installed capacity of approximately 241 MW. Currently, legislative steps are being taken in relation to the pumped-storage design, which is not currently treated by local legislation.

**Equity Stakes in Turkey**

Akenerji Elektrik Üretim A.S.

In May 2009, ČEZ, a. s. acquired a stake in the Turkish company Akenerji Elektrik Üretim A.S. This company is listed on the Istanbul Stock Exchange. ČEZ's stake in the company is 37.3614% and representatives of our Turkish partner own a stake of the same size (the shares held by some of the Turkish partner's representatives have been consolidated in the company Akarsu Enerji Yatirimlari Sanayi ve Ticaret A.S.). The remaining stake consists of publicly listed shares held by other shareholders. The company is headquartered in Istanbul and in addition to its core electricity business it is the majority owner of several subsidiaries that are also in the electricity business: Egemer Elektrik Üretim A.S., AK-EL Yalova Elektrik Üretim A.S., Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan ve Ticaret A.S., Akkur Enerji Elektrik Üretim Sanayi ve Ticaret A.S., Mem Enerji Elektrik Üretim Sanayi ve Ticaret A.S., AKKA Elektrik Üretim A.S., AK-EL Kemah Elektrik Üretim ve Ticaret A.S., and Akenerji Dogal Gaz Ithalat Ihracat ve Toptan Ticaret A.S., all headquartered in Turkey, and Aken B.V. headquartered in the Kingdom of the Netherlands.

Akcez Enerji A.S.

A company headquartered in Istanbul, established in 2008. ČEZ and representatives of the Turkish partner each own a 27.5% stake; Akenerji Elektrik Üretim A.S. owns 45%. Akcez itself owns a stake of over 99% in Sakarya Elektrik Dagitim A.S.

Sakarya Elektrik Dagitim A.S.

Since February 2009, Akcez Enerji A.S. has owned a stake in Sakarya Elektrik Dagitim A.S. The stake of Akcez Enerji A.S. is 99.99999828%; the remaining minority stake is held by CEZ Poland Distribution B.V., CEZ Silesia B.V., and representatives of the Turkish partner. This company distributes electricity in the Sakarya area.

## Hungary

**Business Environment in the Power Industry**

The Hungarian electricity market has been liberalized since early 2008, with two exceptions. The first exception is for supplies to residential customers and customers with mains circuit breakers up to 3x63 A nominal current: these customers are entitled to a tariff set by the regulator. The second exception is support for electricity generation from cogeneration and from renewable sources of energy.

Electricity consumption continued to grow, reaching 39 TWh in 2011. However, the year-on-year comparative trend slowed slightly, to +1.3%.

One quarter of generation capacity is controlled by State-owned Magyar Villamos Művek Zrt. (Hungarian Power Plants, limited-liability company), while the rest is in the hands of independent companies. Most power generation facilities are gas- and heavy heating oil-fired, although there is one nuclear power plant in operation as well. Distribution companies have been privatized and are owned by the foreign companies RWE-EnBW, E.ON, and EdF.

Overall electricity generation in Hungary totaled 33 TWh in 2011, down 2.2% year-on-year. 2011 saw a continuation of the trend toward cheaper imports edging out expensive domestic electricity generation; the situation in 2010 was similar.

The volume of electricity generated from renewable sources traded in the "KÁT" system (mandatory purchasing of renewable energy) in 2011 fell 8.6% to 7 TWh.

The capacity of potential new-build wind power plants continues to be limited to 740 MW. Although Hungary has relatively favorable sunlight conditions for photovoltaic sources, these sources are not attractive for investors because regulated electricity prices are relatively low.

The Hungarian member of CEZ Group, CEZ Magyarország Kft., which is an important seller in the Hungarian electricity market, grew its customer base while maintaining electricity supply volume. The company supplied 1.2 TWh of electricity to approximately 602 hand-over points for over 28 end customers. However, its bottom line was once again negatively impacted by a turnover tax (iparági különadó) imposed on companies in the energy, telecommunications, and retail sectors since 2010.




Process steam for the Danube refinery was generated by MOL - CEZ European Power Hungary Kft. In 2011 the company generated 1,735 TJ of heat from gas purchased from MOL Energiakereskedő Zrt. (50% owned by MOL Nyrt.).

**Sale of Electricity in Hungary**

Electricity was sold through CEZ Magyarország Kft. In 2011, it supplied 1,184 GWh to customers in the large end-customer segment.

**Sale of Electricity for 2012**

1,012 GWh of 2012 electricity has been sold. The final supply figure will rise during the year as more electricity is sold. We expect the total supply volume for 2012 to be similar to 2011's figure.

**Capital Expenditure**

The biggest capital project currently in preparation is the construction of a 850 MW CCGT power plant at Százhalombatta – the site of the most important refinery of MOL Nyrt., CEZ Group's partner in Hungary. In 2011, a tender was held to find a general contractor to build the plant and contracts were signed with equipment suppliers. Now, the deciding factor for commencing project execution is the signing of contracts for gas supplies and sale of steam.

**Equity Stakes in Hungary**

CEZ Magyarország Kft. (CEZ Hungary Ltd.)

Owned by ČEZ, a. s. and headquartered in Budapest, this company was established for the purpose of trading in electricity. In 2009, electricity wholesale trading operations were transferred to ČEZ, a. s. and the company's principal tasks were changed to selling electricity to end customers and providing support for wholesale trade.

MOL - CEZ European Power Hungary Kft.

Headquartered in Százhalombatta, this company is 100% owned by CM European Power International B.V. Its core business is the generation and sale of heat.

# Other Countries with CEZ Group Operations

## Slovak Republic

### Generation of Electricity and Heat

The company CM European Power Slovakia, s. r. o. generates process steam and electricity, which are sold to the Slovnaft refinery (part of MOL Group). In 2011, CM European Power Slovakia, s. r. o. generated 508 GWh of electricity and 5,192 TJ of heat.

CM European Power Slovakia, s. r. o. purchases heating oil and refinery gas from the Slovnaft refinery.

### Sale of Electricity and Natural Gas in Slovakia

Electricity and gas are sold by ČEZ Slovensko, s.r.o. In 2011, this company supplied electricity and gas to entities in the large end-customers segment, and in January 2011 it also commenced selling electricity and gas in the small end-customers segment, i.e. to households and small and medium-sized companies. In the small end-customers segment, 2011 saw approximately 74,000 contracts signed. All told, 1,048 GWh of electricity and 488 GWh of natural gas was supplied to end customers in all segments in 2011.

### Sale of Electricity and Natural Gas for 2012

In 2012, we anticipate supply volumes to grow in all segments. The 2012 sales forecast for all segments is approximately 1.7 TWh for electricity and 1.2 TWh for natural gas. Active market operations will continue with the objective of growing market share.

### Capital Expenditure

In cooperation with MOL Group, CEZ Group is preparing to build a 850 MW CCGT power plant at the Slovnaft site. The project plan has been drawn up and is pending approval. Currently the only activities ongoing in the project are those relating to the legislative process.

CM European Power Slovakia, s. r. o. is implementing a flue-gas desulfurization project in order to meet emissions limits from the beginning of 2013, as well as a boiler rebuild to increase the security of process heat supplies to the Slovnaft refinery.

### Equity Stakes in the Slovak Republic

CEZ Slovensko, s.r.o.

This company's core business is wholesale electricity trading and sale of electricity and natural gas to end customers.

CM European Power International s. r. o.

The sole owner of this company is CM European Power International B.V., in which ČEZ, a. s. holds a 50% stake. The company supports and develops CCGT power plant projects for its parent company.

CM European Power Slovakia, s. r. o.

This company has the following ownership structure: CM European Power International B.V., 51%; ČEZ, a. s. direct stake, 24.5%; and SLOVNAFT, a.s. (a member of MOL Group), 24.5%. Its core business is the generation and sale of electricity and heat, primarily for the purposes of Slovnaft refineries.

Jadrová energetická spoločnosť Slovenska, a. s.

This company was established in conjunction with preparation of a project to build a new nuclear power plant, Jaslovské Bohunice, in the Slovak Republic. The company is 51% owned by Jadrová a vyraďovacia spoločnosť, a.s. and the remaining 49% is held by ČEZ Bohunice a.s. (a 100% subsidiary of ČEZ, a. s.).

JESS Invest, s. r. o.

This company is tasked with preparing land for construction of the Jaslovské Bohunice power plant. Its sole owner is the company Jadrová energetická spoločnosť Slovenska, a. s.

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## Federal Republic of Germany

**Location of CEZ Group Power Sources in the Federal Republic of Germany**


Power Plants
- power heating plants
- wind

Mines
- brown coal

**Coal Mining**

At CEZ Group in Germany, brown coal mining took place in the Tagebau Profen and Vereinigtes Schleenhain mines. 18.9 million tons was extracted in 2011, compared to 19.6 million tons in 2010. The planned extraction volume for 2012 is 19.5 million tons.

**Electricity Generation**

Electricity was generated by the Mumsdorf, Wählitz, and Deuben coal-fired power plants with 208 MW of total installed capacity, as well as by a modern wind farm, Am Geyersberg, with 6.9 MW of installed capacity. The brown coal-fired power plants and the wind farm generated a total of 1,112 GWh and 13.9 GWh, respectively, of electricity in 2011. In 2012, generation volume is expected at 1,117 GWh for the brown coal-fired power plants and 17.4 GWh for the wind farm.

**Equity Stakes in Germany**

CEZ Deutschland GmbH

A 100% subsidiary of ČEZ, a. s. established in 2001. During 2011 the company no longer had any activities and is planned to be liquidated.

Mitteldeutsche Braunkohlengesellschaft mbH (MIBRAG)

MIBRAG owns and operates two brown coal surface mines in eastern Germany, and at current extraction rates it holds coal reserves for another 25 years, at minimum, in mines with favorable overburden ratios. The principal coal customers are the Lippendorf and Schkopau Power Stations. At year end 2011, the company had 2,008 employees. MIBRAG also owns stakes in another six companies, and co-owns a stake in a seventh. These companies are engaged in, for example, consulting in the field of coal mining, processing of waste materials, and logistics (MIBRAG Neue Energie GmbH, Montan Bildungs- und Entwicklungsgesellschaft mbH, GALA-MIBRAG-Service GmbH, MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH, Fernwärme GmbH Hohenmölsen - Webau, and Ingenieurbüro für Grundwasser GmbH). The company also operates its own rail spur.

The subsidiary Gröbener Logistik GmbH was wound up without liquidation and on January 1, 2011 it merged with the company GALA-MIBRAG-Service GmbH.

JTSD - Braunkohlebergbau GmbH

Through Severočeské doly a.s., ČEZ, a. s. owns a 50% stake in JTSD - Braunkohlebergbau GmbH. The second owner of the joint-venture is LIGNITE INVESTMENTS 1 LIMITED. In 2011, this company will become a part of Energetický a průmyslový holding, a.s.

JTSD - Braunkohlebergbau GmbH is headquartered in Zeitz, Germany and is the direct 100% owner of the German company Mitteldeutsche Braunkohlengesellschaft mbH.

**Steps in the German Market**

On July 28, 2011 an agreement was entered into by ČEZ, a. s., Severočeské doly a.s., and ČEZ International Finance B.V., on one hand, and LIGNITE INVESTMENTS 1 LIMITED and EP Energy, a.s., on the other, on the sale of a stake in JTSD-Braunkohlebergbau GmbH, owned by Severočeské doly a.s., to companies in the EPH Group. The transaction has not yet been settled, as conditions precedent, including anti-trust proceedings, are still in the process of being met.

The exit from the brown coal power segment of the German market results from a strategy of concentrating on growth programs and reinforcing activities in key countries that are attractive for their high growth potential. The German regulatory environment is characterized by consistent support for the renewable sources segment and ambitious goals in terms of growing installed capacity in that segment. That is having negative impacts on conventional power. CEZ Group has therefore decided to focus its German investments on wind energy. In the electricity trading area there is no change and CEZ Group's engagement there continues.

## Kingdom of the Netherlands

**Equity Stakes in the Netherlands**

CEZ Group has had operations in the Kingdom of the Netherlands since 1994, when the company CEZ Finance B.V. (a 100% subsidiary of ČEZ, a. s.) was established. Through it, ČEZ, a. s. issued its bonds denominated in foreign currencies prior to the Czech Republic's accession to the European Union. Additional companies – CEZ Silesia B.V. (100% ČEZ, a. s.), CEZ Chorzow B.V. (100% CEZ Silesia B.V.), and CEZ Poland Distribution B.V. (100% ČEZ, a.s.) – were acquired by ČEZ, a. s. in 2006 in conjunction with the acquisition of stakes in the Polish power companies Elektrociepłownia Chorzów ELCHO sp. z o.o. and Elektrownia Skawina S.A. The ownership model of the Polish power plants was taken over by ČEZ, a. s. from the seller. Through the company CEZ MH B.V. (100% ČEZ, a. s.), established in 2007, CEZ Group owns a 7% stake in MOL Nyrt. (MOL Magyar Olaj – és Gázipari Nyilvánosan Működő Részvénytársaság), which was acquired in conjunction with the formation of a joint-venture with MOL.

In 2008, a joint-venture – CM European Power International B.V. – was formed between ČEZ and MOL, in which both partners hold identical, 50% stakes.

In conjunction with the financing of CEZ Group projects, and the MIBRAG project in particular, 2009 saw the establishment of CEZ International Finance B.V. in the Kingdom of the Netherlands.

As a result of the expansion into Turkey, the company Aken B.V. is also a part of CEZ Group through Akenerji Elektrik Üretim A.S.

On January 3, 2011, the company CEZ Bulgarian Investments B.V. was established in the Kingdom of the Netherlands. This is a 100% subsidiary of ČEZ, a. s. established with the objective of supporting the development of CEZ Group renewable sources in Bulgaria.

ČEZ, a. s. has no direct energy business activities in the Kingdom of the Netherlands. The companies listed above are holding companies that are utilized for various CEZ Group projects.

## Bosnia and Herzegovina

### NERS d.o.o.

This company was established as a limited-liability company, with ČEZ, a. s. as a 51% shareholder and the remaining 49% owned by Mješoviti Holding "Elektroprivreda" Republike Srpske Trebinje – Matično preduzeće akcionarsko društvo Trebinje (MH ERS). The company is headquartered in Gacko, Bosnia and Herzegovina and its date of inception is December 22, 2006.

In December 2011, KM 6,630,320.41 was added to the stated capital of NERS d.o.o., bringing it to a total of KM 7,430,320.41.

In 2007, following the signing of the Implementation Agreement, implementation began on the Gacko project in the Republic of Serbia in Bosnia and Herzegovina. This project was to have involved the operation of the existing Gacko I Power Station, the construction of a new power plant, and the opening of a new mine at the Gacko site. However, the Bosnian Serb partners did not meet their obligations under the above mentioned agreement and failed to invest the assets of the existing power plant and mine in the joint-venture. Therefore, on January 27, 2009, ČEZ, a. s. exercised its put option – thereby activating the mechanism for ČEZ, a. s. to withdraw from the joint-venture – which consisted of an offer to sell ČEZ's 51% stake in the joint-venture company NERS to the local partner, who was required to accept the offer. The deadline for MH ERS to accept the put option passed on February 18, 2009.

Due to the breach of the Implementation Agreement and MH ERS's failure to accept the put option, ČEZ, a. s. initiated arbitration proceedings against the Government of the Republic of Serbia in Bosnia and Herzegovina, MH ERS, and RiTE Gacko. In 2011, an interim decision of the arbitration court excluded the Republic of Serbia in Bosnia and Herzegovina from the proceedings. The other defendants remain parties to the proceedings. The arbitration proceedings commenced on May 19, 2009 and are ongoing before the International Court of Arbitration of the International Chamber of Commerce, with jurisdiction in Vienna. In the meantime, an amendment to the Implementation Agreement was signed, treating the composition of the arbitration tribunal, and the procedure of appointing the tribunal's chairman took place in late 2009. The parties continue to be bound by confidentiality obligations concerning the dispute. The decision of the tribunal in the matter itself is expected in the second half of 2012.

### CEZ Bosna i Hercegovina d.o.o.

This 100% subsidiary of ČEZ, a. s. with its seat in Sarajevo was established in March 2008 to support acquisition activities in Bosnia and Herzegovina and as an administrative support company for all CEZ Group activities in the country.

## Republic of Serbia

CEZ Srbija d.o.o.
This 100% subsidiary of ČEZ, a. s. with its seat in Belgrade was established in 2006 to develop acquisition activities, lay groundwork for trading in electricity, and prepare a structure for supporting new acquisitions and projects. In 2010, acquisition activities were phased out. The company continues to operate as a wholesale electricity trader.

## Republic of Kosovo

Wholesale electricity trading is conducted directly by ČEZ, a. s. As of October 30, 2010, its license was extended for two years.

New Kosovo Energy L.L.C.
This company entered liquidation in 2011. Completion of the liquidation process is planned in 2012.

## Russian Federation

CEZ RUS OOO
In conjunction with the phasing out of CEZ Group operations in this country, this company's operations were minimized and in 2011 the company went into liquidation.

## Ukraine

CEZ Ukraine CJSC
In conjunction with the phasing out of CEZ Group operations in this country, this company's operations were minimized in 2010 and in 2011 the company went into liquidation. Completion of the liquidation process is planned in 2012.

## Ireland

CEZ Finance Ireland Ltd.
This company is headquartered in Baile Átha Cliath (English name: Dublin) and its principal businesses are related to the financing of CEZ Group projects, and MIBRAG in particular. It is to be liquidated in 2012.
CEZ International Finance Ireland Ltd.
This company was set up in February 2011 in conjunction with a change in Irish legislation and is headquartered in Baile Átha Cliath (English name: Dublin). It is 100% owned by CEZ Finance Ireland Ltd. The company's core business is financing of CEZ Group activities.

CEZ Group has no direct energy business activities in Ireland.

## Cyprus

Taidana Limited
A Romanian member of CEZ Group, Tomis Team S.R.L., acquired a 100% stake in this company in 2010 in conjunction with the settlement of a 2008 transaction relating to the construction of the Fântânele and Cogealac wind farm. The company is headquartered in Limassol.

CEZ Group has no direct energy business activities in Cyprus.

# FINANCE

## ČEZ, a. s.

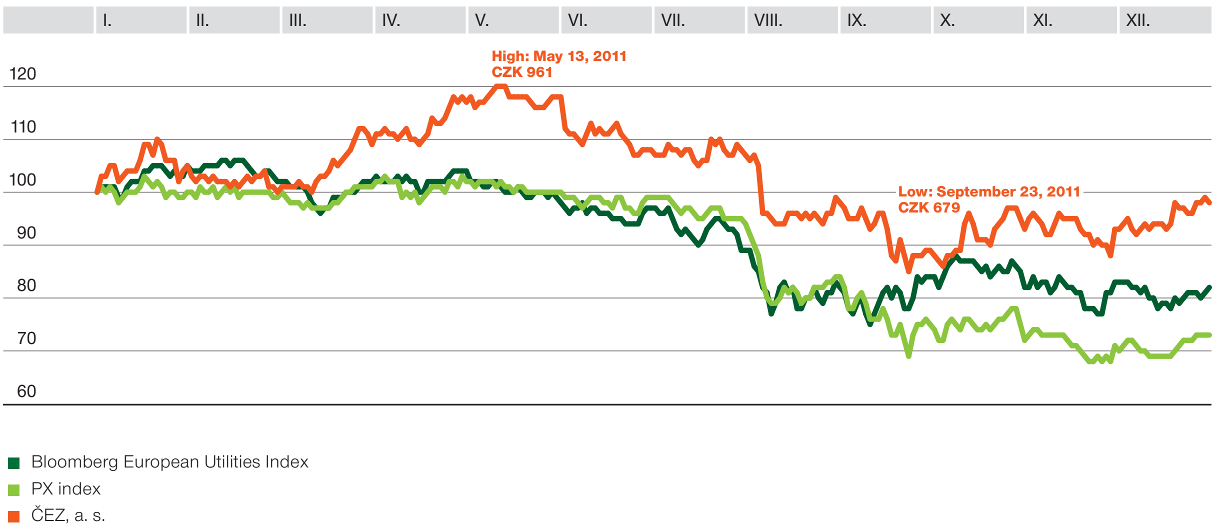
### Shares

As at December 31, 2011, the total stated capital of ČEZ, a. s. was CZK 53,798,975,900. The Company's stated capital consists of 537,989,759 shares, each with a nominal value of CZK 100.

**Shares**

| Security | ISIN | Issue date | Volume | Appearance | Form | Face value | Market | Traded since |
|---|---|---|---|---|---|---|---|---|
| Registered share | CZ0005112300 | February 15, 1999 | CZK 53.8 billion | booked | to owner | CZK 100 | PSE<br>PSE Main Market<br>RM-System<br>GPW | June 22, 1993<br>January 25, 1994<br>February 23, 1999<br>October 25, 2006 |

**ČEZ, a. s. Share Price in 2011 (%)**



**Per-Share Indicators**

| | Unit | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | Index 2011/2010 (%) |
|---|---|---|---|---|---|---|---|---|---|
| Net income per share – basic | CZK/share | 36.3 | 47.0 | 72.9 | 87.0 | 96.7 | 88.1 | 76.3 | 86.6 |
| Net income per share – diluted | CZK/share | 36.2 | 46.8 | 72.7 | 86.9 | 96.6 | 88.1 | 76.3 | 86.6 |
| Dividend per share (gross) [1] | CZK/share | 9.0 | 15.0 | 20.0 | 40.0 | 50.0 | 53.0 | 50.0 | 94.3 |
| Dividends declared | CZK billions | 5.3 | 8.9 | 11.8 | 21.3 | 26.6 | 28.3 | 26.7 | 94.4 |
| Dividend as percentage of previous year's consolidated net income [2] | % | 37.2 | 39.7 | 41.0 | 49.9 | 56.3 | 54.5 | 56.8 | 104.3 |
| High for year | CZK | 748.2 | 1,010.0 | 1,421.0 | 1,397.0 | 990.5 | 942.0 | 961.0 | 102.0 |
| Low for year | CZK | 346.6 | 565.5 | 827.5 | 581.0 | 639.5 | 741.5 | 679.0 | 91.6 |
| At year end | CZK | 736.3 | 960.0 | 1,362.0 | 784.8 | 864.0 | 783.0 | 786.0 | 100.4 |
| Number of registered shares (at December 31) | thousands | 592,211 | 592,211 | 592,211 | 592,211 | 537,990 | 537,990 | 537,990 | 100.0 |
| Number of treasury shares (at December 31) | thousands | 2,440 | 3,455 | 50,370 | 59,171 | 4,555 | 4,085 | 3,875 | 94.9 |
| Number of shares in circulation (at December 31) | thousands | 589,771 | 588,756 | 541,841 | 533,040 | 533,435 | 533,905 | 534,115 | 100.0 |
| Market capitalization (at December 31) | CZK billions | 434.2 | 565.2 | 738.0 | 418.3 | 460.9 | 418.0 | 419.8 | 100.4 |
| Book value per share | CZK | 299.2 | 330.8 | 300.6 | 324.1 | 375.8 | 414.8 | 424.5 | 102.3 |
| Price-to-book value ratio (P/BV) | % | 246.1 | 290.2 | 453.1 | 242.2 | 229.9 | 188.8 | 185.1 | 98.1 |
| Price-to-earnings ratio (P/E) | 1 | 20.3 | 20.4 | 18.7 | 9.0 | 8.9 | 8.9 | 10.3 | 116.0 |
| Total shareholder return (TSR) | % | 118.8 | 32.4 | 44.0 | (39.4) | 16.5 | (3.2) | 6.8 | – |
| ČEZ share trading volume on the PSE | CZK billions | 298.7 | 347.5 | 403.1 | 386.4 | 202.4 | 130.0 | 142.2 | 109.4 |
| ČEZ volume as proportion of overall PSE trading volume | % | 28.7 | 40.9 | 39.8 | 45.4 | 43.6 | 33.3 | 38.3 | – |

[1] Approved and paid in the given year out of income of the previous year.
[2] Dividend amounts shown include non-controlling interests.

**Payment of Dividends to Shareholders**

The General Meeting held on June 1, 2011 approved payment of a CZK 50/per share dividend, before tax, out of the 2010 net income. Eligible to receive dividends are those persons who were ČEZ, a. s. shareholders as of the dividend strike date, which was June 7, 2011.

The dividends are payable from August 1, 2011 to August 3, 2015.

**Credit Rating**

The credit rating of ČEZ, a. s. remained unchanged in 2011. On January 11, 2012 the rating agency Standard & Poor's reaffirmed the Company's A– rating with stable outlook and on February 2, 2012 the rating agency Moody's reaffirmed its A2 rating of the Company, also with stable outlook.

**Treasury Shares**

At the beginning of 2011, there were 4,085,021 treasury shares on ČEZ's asset account with Central Securities Depository Prague.

During the year, five beneficiaries of the motivational stock options program exercised claims to a total of 210,000 shares of ČEZ, a. s. The average price paid for these shares was CZK 806.74 (lowest price, CZK 773.12 per share; highest price, CZK 835.72 per share). The total proceeds of sales of shares to beneficiaries was CZK 169,512,767 including interest.

At the end of 2011, there were 3,875,021 treasury shares on ČEZ's asset account with Central Securities Depository Prague.

**General Meeting**

The 19th Annual General Meeting of ČEZ, a. s. was held on June 1, 2011. Among other things, it:

- heard the Report of the Board of Directors on the Company's Business Operations and the State of Its Assets in 2010 and the Summary Report Pursuant to Section 118(8) of the Act on Doing Business in the Capital Market
- heard the Report of the Supervisory Board on the results of its oversight activities
- heard the Report of the Audit Committee on the results of its activities
- approved the ČEZ, a. s. financial statements and CEZ Group consolidated financial statements for 2010
- approved the distribution of 2010 income as follows:
  - a CZK 50/share dividend, before tax, calculated from the total number of shares outstanding: CZK 26,899,488,000 (or CZK 26,705,737,000 when treasury shares are excluded)
  - bonuses to members of the Board of Directors and Supervisory Board: CZK 25,500,000
  - retained earnings: CZK 7,836,840,000.

  The dividend strike date was June 7, 2011. The dividend applicable to treasury shares held by the Company as of the strike date was not paid; instead, the corresponding amount was transferred to the Retained Earnings account.
  The General Meeting of ČEZ, a. s. approved the distribution of bonuses equally among members of the Board of Directors and Supervisory Board. Each statutory and supervisory board member's share was determined according to the length of his or her tenure as a member of the relevant body during 2010. Members of the Supervisory Board appointed by a government agency of which they were employees were not eligible for bonuses for the entire period during which this obstacle existed.
- designated the audit company Ernst & Young Audit, s.r.o. to carry out the mandatory audit, including the audit of the financial statements of ČEZ, a. s. and the consolidated financial statements of CEZ Group, for the accounting period corresponding to the calendar year 2011
- approved an amendment to the Articles of Association proposed by the Board of Directors
- approved the overall sponsorship expenditure for 2012 (CZK 228 million)
- elected the following new members of the Supervisory Board: Liběna Dobrovolná, Ján Dzvoník, and Aleš Klepek
- removed Zdeněk Hrubý from the ČEZ, a. s. Audit Committee and elected Ján Dzvoník to take his place
- approved the Supervisory Board member contracts between ČEZ, a. s. and Ivo Foltýn, Lukáš Hampl, Jiří Kadrnka, Jan Kohout, and Lubomír Lízal as well as Amendment No. 1 to the Supervisory Board member contract between ČEZ, a. s. and Lubomír Klosík
- approved the model Supervisory Board member contract, including rules for remuneration and providing other consideration to members of the Supervisory Board
- approved the model Audit Committee membership contract, including rules for remuneration and providing other consideration to members of the Audit Committee.

**ČEZ, a. s. Shareholder and Investor Relations**

ČEZ, a. s. upholds the principle of equal access for all shareholders in accordance with the provisions of the Commercial Code. On dates planned and announced in advance, the Company's shareholders receive timely quarterly reports on the financial and commercial performance of CEZ Group. The Company also informs shareholders on an ad hoc basis of important events and circumstances that may have an effect on the share price. These notifications are addressed to the Prague and Warsaw Stock Exchanges, where the shares are traded, and given in the Czech, English, and Polish languages. All reports are also publicly available at the Company website: www.cez.cz/cs/pro-investory/informacni-povinnost [1]. Upon opening the link, the chosen report is available in all three language versions.

Above and beyond the statutory requirements, the Company aims to be as transparent as possible and to engage all capital market players in an open dialog so that each of them has sufficient information to independently assess CEZ Group's performance and strategy. For this reason, the Company organizes regular telephone conference calls and press conferences on a quarterly basis. The Company's top executives and representatives in charge of investor relations meet regularly with potential and current investors at dozens of roadshows and investor conferences in the world's major financial centers, and hold meetings with individual shareholders at ČEZ, a. s. facilities. During these meetings, Company representatives give presentations on key events influencing the financial performance and strategy of CEZ Group, as well as answering questions. These efforts were underlined in an annual IR Magazine survey conducted among investors and analysts, and in 2011 ČEZ defended its Best Investor Relations status among Czech corporations.

## Akenerji Elektrik Üretim A.S.

A portion of this company's shares, representing a 25.3% stake in the stated capital, has been traded on the Istanbul Stock Exchange since July 3, 2000. The ISIN is TRAAKENR91L9. These shares are not traded in any other public markets.

## CEZ Group



**List of Bonds Outstanding as at December 31, 2011 Issued by CEZ Group**

| Security | Issuer | ISIN | Issue date | Volume | Interest | Maturity | Form |
|---|---|---|---|---|---|---|---|
| 7th bond issue | ČEZ, a. s. | CZ0003501058 | January 26, 1999 | CZK 2.5 billion | 9.22% [1] | 2014 | booked to owner |
| 4th Eurobond issue | ČEZ, a. s. | XS0271020850 | October 17, 2006 | EUR 500 million | 4.125% | 2013 | booked to owner |
| 5th Eurobond issue | ČEZ, a. s. | XS0324693968 | October 12, 2007 | EUR 500 million | 5.125% | 2012 | booked to owner |
| 6th Eurobond issue | ČEZ, a. s. | XS0376701206 | July 18, 2008 | EUR 600 million | 6.00% | 2014 | booked to owner |
| 7th Eurobond issue | ČEZ, a. s. | XS0384970652 | September 17, 2008 | JPY 12 billion [2] | 3.005% | 2038 | booked to owner |
| 8th Eurobond issue | ČEZ, a. s. | XS0387052706 | September 22, 2008 | EUR 6 million | zero coupon [3] | 2038 | booked to owner |
| 11th Eurobond issue | ČEZ, a. s. | XS0430082932 | May 26, 2009 | EUR 600 million | 5.75% | 2015 | booked to owner |
| 12th Eurobond issue | ČEZ, a. s. | XS0447067843 | September 8, 2009 | JPY 8 billion [2] | 2.845% | 2039 | booked to owner |
| 13th Eurobond issue | ČEZ, a. s. | XS0458257796 | October 19, 2009 | EUR 600 million [4] | 5.00% | 2021 | booked to owner |
| 14th Eurobond issue | ČEZ, a. s. | XS0462797605 | November 4, 2009 | EUR 50 million | 6M Euribor + 1.25% | 2019 | booked to owner |
| 16th Eurobond issue | ČEZ, a. s. | XS0470983197 | December 9, 2009 | USD 100 million | 3M USD Libor + 0.7% | 2012 | booked to owner |
| 18th Eurobond issue | ČEZ, a. s. | XS0473872306 | December 21, 2009 | CZK 3 billion | 6M Pribor + 0.62% | 2012 | booked to owner |
| 19th Eurobond issue | ČEZ, a. s. | XS0502286908 | April 16, 2010 | EUR 750 million | 4.875% | 2025 | booked to owner |
| 20th Eurobond issue | ČEZ, a. s. | XS0521158500 | June 28, 2010 | EUR 500 million [5] | 4.500% | 2020 | booked to owner |
| 1st NSV (Namensschuld-verschreibungen) registered bond issue | ČEZ, a. s. | XF0000NS9FM8 | November 29, 2010 | EUR 40 million | 4.500% | 2030 | Global Depositary Receipt (GDR) |
| 2nd NSV (Namensschuld-verschreibungen) registered bond issue | ČEZ, a. s. | XF0000NS9TZ1 | January 31, 2011 | EUR 40 million | 4.75% | 2023 | Global Depositary Receipt (GDR) |
| 21st Eurobond issue | ČEZ, a. s. | XS0592280217 | February 17, 2011 | JPY 11.5 billion [6] | 2.160% | 2023 | booked to owner |
| 22nd Eurobond issue | ČEZ, a. s. | XS0622499787 | May 3, 2011 | CZK 1.25 billion | 4.600% | 2023 | booked to owner |
| 23rd Eurobond issue | ČEZ, a. s. | XS0630397213 | May 27, 2011 | EUR 500 million | 3.625% | 2016 | booked to owner |
| 24th Eurobond issue | ČEZ, a. s. | XS0635263394 | June 21, 2011 | EUR 100 million | 2.15% * Index Ratio CPI [7] | 2021 | booked to owner |
| 25th Eurobond issue | ČEZ, a. s. | XS0713866787 | December 5, 2011 | EUR 50 million | 4.102% | 2021 | booked to owner |

[1] Starting in 2006, the bonds bear interest at a variable rate of CPI + 4.2%.
[2] Proceeds of issue in Japanese Yen were swapped for Euros through a Credit Linked Swap.
[3] Yield is determined by difference between issue price (EUR 1,071,696) and face value (EUR 6,000,000) of the bond.
[4] In February 2010, EUR 60 million and, subsequently, EUR 90 million in bonds was issued and added to the EUR 600 million issue of October 19, 2009, increasing the issue volume to EUR 750 million.
[5] In December 2010, EUR 250 million in bonds was issued and added to the EUR 500 million bond issue of June 28, 2010, increasing the issue volume to EUR 750 million.
[6] The proceeds of the issue were converted to EUR via a swap.
[7] Using a swap, the coupon tied to inflation was fixed to a value that ensures an effectively fixed interest expense for ČEZ, regardless of movements in inflation.

ČEZ, a. s. has not issued any convertible bonds. Under the issue terms, the bonds are not guaranteed by the State or by any bank.
With the exception of ČEZ, a. s., no CEZ Group company has any bonds outstanding at December 31, 2011.
In January 2011, the 2nd issue of NSV (Namensschuldverschreibung) registered bonds was issued.
In February 2011, the 21st Eurobond issue (in JPY) was issued through the EMTN Eurobond program.
In May 2011, the 22nd Eurobond issue (in CZK) and the 23rd Eurobond issue were issued through the EMTN Eurobond program.
In June 2011, the 24th Eurobond issue was issued through the EMTN Eurobond program.
In December 2011, the 25th Eurobond issue was issued through the EMTN Eurobond program.

| Face value | Manager | Administrator | Market | Traded since |
|---|---|---|---|---|
| CZK 1,000,000 | ING Barings Capital Markets | Citibank, a.s. | PSE Official Free Market<br>RM-System | January 26, 1999<br>December 5, 2001 |
| EUR 50,000 | Société Générale Corporate & Investment Banking | Deutsche Bank Luxembourg S.A., Deutsche Bank AG | Bourse de Luxembourg | October 17, 2006 |
| EUR 50,000 | BNP Paribas, Citi | Deutsche Bank Luxembourg S.A., Deutsche Bank AG | Bourse de Luxembourg | October 12, 2007 |
| EUR 50,000 | BNP Paribas, Deutsche Bank AG, ING Bank N.V., Erste Bank | Deutsche Bank Luxembourg S.A., Deutsche Bank AG | Bourse de Luxembourg | July 18, 2008 |
| JPY 1,000,000,000 | Citigroup Global Markets Limited | Deutsche Bank Luxembourg S.A., Deutsche Bank AG | Bourse de Luxembourg | September 17, 2008 |
| EUR 100,000 | Citigroup Global Markets Limited | Deutsche Bank Luxembourg S.A., Deutsche Bank AG | Bourse de Luxembourg | September 22, 2008 |
| EUR 50,000 | Banca IMI S.p.A., Citigroup Global Markets Limited, HSBC Bank plc, ING Bank N.V., Erste Group Bank AG | Deutsche Bank Luxembourg S.A., Deutsche Bank AG | Bourse de Luxembourg | May 26, 2009 |
| JPY 1,000,000,000 | Citigroup Global Markets Limited | Deutsche Bank Luxembourg S.A., Deutsche Bank AG | Bourse de Luxembourg | September 8, 2009 |
| 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 |
| EUR 50,000 | Citigroup Global Markets Limited | Deutsche Bank Luxembourg S.A., Deutsche Bank AG | Bourse de Luxembourg | November 4, 2009 |
| USD 75,000 | HSBC Bank plc | Deutsche Bank Luxembourg S.A., Deutsche Bank AG | Bourse de Luxembourg | December 9, 2009 |
| CZK 1,500,000 | Česká spořitelna, a.s., Československá obchodní banka, a. s. | Deutsche Bank Luxembourg S.A., Deutsche Bank AG | Bourse de Luxembourg | December 21, 2009 |
| EUR 50,000 | Bayerische Landesbank, Erste Group Bank AG, HSBC Bank plc, Société Générale, Uni Credit Bank AG | Deutsche Bank Luxembourg S.A., Deutsche Bank AG | Bourse de Luxembourg | April 16, 2010 |
| 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 |
| EUR 500,000 | – | – | – | – |
| EUR 500,000 | – | – | – | – |
| JPY 100,000,000 | Credit Agricole Corporate and Investment Bank | Deutsche Bank Luxembourg S.A., Deutsche Bank AG | Bourse de Luxembourg | February 17, 2011 |
| CZK 5,000,000 | Česká spořitelna, a.s. | Deutsche Bank Luxembourg S.A., Deutsche Bank AG | Bourse de Luxembourg | May 3, 2011 |
| EUR 100,000 | Banka IMI S.p.A., BNP Paribas, Erste Group Bank AG, HSBC Bank plc, UniCredit Bank AG, Commerzbank Aktiengesellschaft | Deutsche Bank Luxembourg S.A., Deutsche Bank AG | Bourse de Luxembourg | May 27, 2011 |
| EUR 100,000 | Barclays Bank plc | Deutsche Bank Luxembourg S.A., Deutsche Bank AG | – | – |
| EUR 100,000 | UBS Limited | Deutsche Bank Luxembourg S.A., Deutsche Bank AG | Bourse de Luxembourg | December 5, 2011 |

**Solvency in 2011**

CEZ Group's solvency in 2011 was good and the companies of CEZ Group had no difficulties meeting their obligations. 2011 saw the culmination of the CEZ Group capital expenditure program which, like in 2010, had an impact on the Group's liquidity position. Capital expenditures went on renewing brown coal-fired power plants in the Czech Republic, building a wind farm in Romania, and newly on building gas-fired power plant in the Czech Republic as well. ČEZ, a. s. did not settle any material acquisitions in 2011. The pay-out of dividends caused a substantial outflow of cash, as it did in years past.

In the first half of 2011, financial markets were buoyed by expectations of an improvement in the economic environment, but over time it became more and more evident that the improvement was not to be. To make matters worse, in the second half there was a significant rise in the perception of risk concerning the fiscal situation of countries on the periphery of the Eurozone, which subsequently expanded to include other Eurozone States and culminated in a lowering of the credit ratings of many European countries, including France and Austria. These problems quickly resulted in declining confidence in European banks, which are among the principal creditors of Eurozone countries.

CEZ Group concentrated most of its financing activities into the first half of 2011. In the course of renewing bilateral committed credit lines, which was successful in practically the same volume as in 2010, the maturity was extended to three years on nearly 40% of the CZK 30 billion total amount of committed credit lines. A large majority of the committed credit lines continues to be through the bills of exchange program. Once again in 2011, ČEZ, a. s. hardly used these credit lines and, like in 2010, it mostly issued bills of exchange from the bills of exchange program directly into the portfolios of end investors. In so doing, it achieved much better terms. As at December 31, 2011, bills of exchange outstanding totaled CZK 3.6 billion, and of that amount CZK 1 billion was from the committed lines.

In February 2011, CEZ Group entered into a EUR 80 million (approximately CZK 1.9 billion) loan agreement with the European Investment Bank to finance the construction of photovoltaic power plants in the Czech Republic; this was followed in December by EUR 100 million (approximately CZK 2.6 billion) to finance capital expenditures in the Czech distribution grid. Both loans have a maturity of ten years. In June 2011, CEZ Group entered into bilateral loan agreements with three banks in a total amount of EUR 255 million (approximately CZK 6.5 billion). Then, in July 2011, CEZ Shpërndarje Sh.A. obtained a 12-year, EUR 100 million (approximately CZK 2.5 billion) loan to renew distribution grid plant and equipment. The latter loan was provided by the European Bank for Reconstruction and Development and the International Finance Corporation, and is fully guaranteed by ČEZ, a. s.

In January 2011, CEZ Group issued another registered bond (Namensschuldverschreibung) in the German market, with a volume of EUR 40 million (approximately CZK 1.0 billion), maturing in 12 years. In late May, CEZ Group successfully subscribed a EUR 500 million (approximately CZK 12.3 billion) public issue of five-year Eurobonds. Also, throughout 2011, CEZ Group placed several private issues through its EMTN program, in a total volume of nearly CZK 8 billion with maturities of ten and 12 years in various currencies (JPY, CZK, EUR). Throughout the year, and even in the more problematic second half, demand for ČEZ, a. s. bonds was sustained at a satisfactory level in comparison with other comparable corporations.

In early 2012, ČEZ, a. s. bought back bonds maturing in October 2012 and 2013, focusing in particular on the issue with shorter maturity. In total, ČEZ, a. s. bought back bonds with a cumulative nominal value of approximately EUR 350 million (approximately CZK 8.8 billion), EUR 222 million (approximately CZK 5.6 billion) of which were from the issue maturing in 2012. By this transaction, CEZ Group effectively reduced costs associated with holding cash obtained from pre-financing the maturity of bonds.

The above transactions kept the average maturity of CEZ Group's financial debts longer than seven years.

At year end 2011, ČEZ, a. s. had drawn down roughly 3.5% of its backup facility.

**Insurance in CEZ Group**

At CEZ Group, a number of risk categories are dealt with through an insurance program that covers ČEZ, a. s. to a substantial extent. The most important classes of insurance are:

- liability insurance on operation of nuclear power plants pursuant to the Nuclear Act. There are separate insurance contracts for Dukovany Nuclear Power Station and for Temelín Nuclear Power Station. Each contract is for the statutory limit of CZK 2 billion. The insurers are Česká pojišťovna a.s., representing the Czech Nuclear Insurance Pool, and European Liability Insurance for the Nuclear Industry.
- insurance of liability risks arising in the transport of nuclear fuel pursuant to the Nuclear Act. The insurance covers transports of nuclear fuel for both nuclear power plants, subject to the statutory limit of CZK 300 million. The insurers are Česká pojišťovna a.s., representing the Czech Nuclear Insurance Pool, and European Liability Insurance for the Nuclear Industry.
- property insurance for the nuclear power plants, covering natural hazard and machinery risks, including damages arising out of a nuclear accident. The insurers are Česká pojišťovna a.s., representing the Czech Nuclear Insurance Pool, and European Mutual Association for Nuclear Insurance.
- property insurance for coal-fired and hydro power plants, providing insurance protection against natural hazards and machinery risks; for projects in the ČEZ, a. s. coal-fired plant renewal program, comprehensive construction-installation insurance has been taken out, including coverage of lost profits due to construction delays. ČEZ, a. s. did not receive any benefits from this coverage in 2011.
- property insurance for selected ČEZ, a. s. subsidiaries.
- property insurance covering the assets of ČEZ Distribuce, a. s., including insurance of distribution power lines.
- general third-party liability insurance that covers companies of CEZ Group against financial losses that may arise from damages sustained by third parties relating to each company's operations and/or resulting from a defective product.
- statutory and supervisory board liability insurance covering the statutory and supervisory board members of the Company as well as those of subsidiaries.

Subsidiaries in the Republic of Bulgaria carry property insurance, general third-party liability insurance, and insurance against occupational injuries and illnesses, in compliance with the provisions of licenses for the generation and distribution of electricity.
In Romania, construction-installation insurance is carried in conjunction with the Fântânele-Cogealac wind farm project, including insurance of investor lost profits due to construction delays. After the wind farm is completed, the construction-installation insurance cover will be converted into standard property insurance. General liability insurance is carried for the local subsidiaries.
In Poland, the ELCHO and Skawina Power Stations carry insurance covering property and machinery risks, including interruption of operation. They also carry general liability insurance coverage.
The Albanian distribution company has taken out insurance of property risks and liability insurance. It has also entered into a framework agreement for construction-installation insurance covering the renewal of the company's distribution grid plant and equipment.
For other companies, territories, and risks, we are gradually applying CEZ Group standards in line with the development of the CEZ Group insurance program and in compliance with applicable legislation.

# A PERFECT CONNECTION

CEZ Group has invested billions in developing, renewing, and upgrading its electricity distribution grid, enabling new customers to be connected and, at the same time, improving the quality of existing customers' connections. Electricity is supplied at a sustained, high level of reliability.

**CZK 12.2 billion**

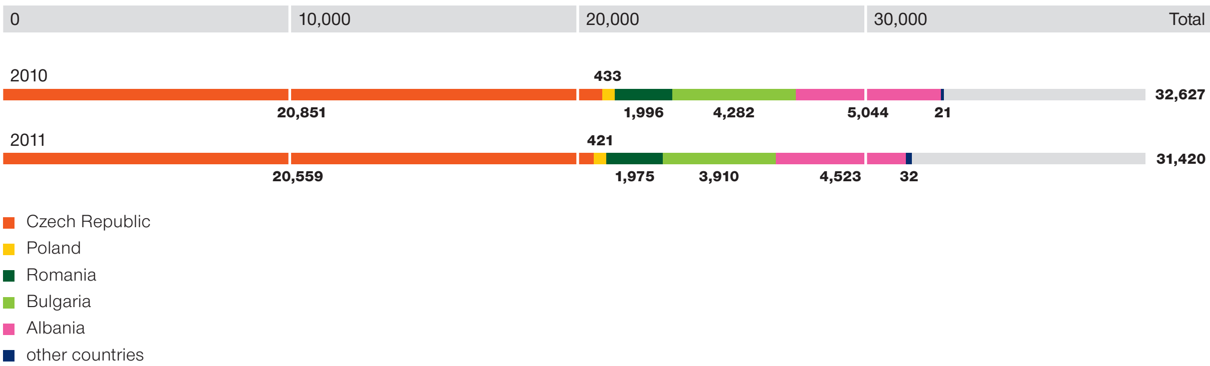
CEZ Group 2011 capital expenditures for grid renewal, repairs, and upgrades

# HUMAN RESOURCES

## Number of Employees

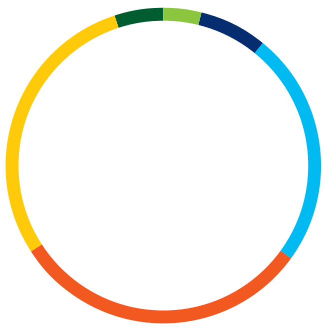
The work force head count of the CEZ Consolidated Group as at December 31, 2011 was 31,420 persons, a year-on-year decrease of 1,207 persons (–3.7%).

**Work Force Head Count (persons) as at December 31, by Location**




**Work Force by Age as at December 31, 2010 and 2011**

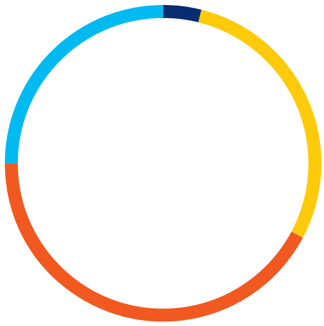
| | % |
|---|---|
| 25 years and under | 4 |
| 26–30 years | 7 |
| 31–40 years | 24 |
| 41–50 years | 31 |
| 51–60 years | 29 |
| 61 and more years | 5 |
| Total | 100 |



The age structure of the CEZ Group work force remained unchanged year-on-year.

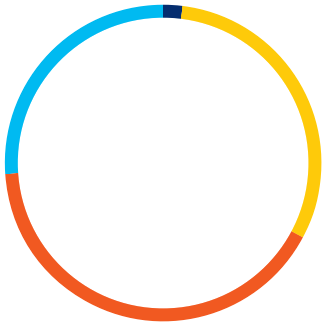
**Work Force by Highest Level of Education Achieved at December 31, 2010**

| | % |
|---|---|
| primary | 4 |
| apprenticeship | 29 |
| secondary | 42 |
| university | 25 |
| Total | 100 |



**Work Force by Highest Level of Education Achieved at December 31, 2011**

| | % |
|---|---|
| primary | 2 |
| apprenticeship | 31 |
| secondary | 41 |
| university | 26 |
| Total | 100 |



## Strategic Recruiting

2011 saw continued strategic recruiting-related initiatives, the goal of which is to incite interest in studying technical fields and ensure the availability of sufficient personnel to navigate the generational "changing of the guard" and to staff the newly built and retrofitted plants.The recruiting-support initiatives have been repeatedly given positive evaluations by university students, and CEZ Group defended its first-place ranking in The Most Desired Company survey within the Employer of the Year competition.

Strategic recruiting is based on activities that help to identify potential future employees while they are still in schools where technical subjects are taught – primarily subjects related to electrical and mechanical engineering. In 2011, the network of partner schools consisted of 13 faculties at seven universities, and 46 high schools.

As part of its cooperation with schools, CEZ Group supported a number of career-related events and activities. Once again in 2011, we were successful in enrolling talented students with the desired qualifications in our scholarship program. For example, in addition to standard plant tours, the "Nuclear School-Leaving Exams" and "Summer University" programs, which have become an established tradition, took place at both nuclear power plants, Temelín and Dukovany. The Electric Power School-Leaving Exam, focusing on conventional power at the Prunéřov and Ledvice Power Stations, was supplemented by the addition of a similar event focusing on electricity distribution.

## Training Program

The core business and strategic objectives of CEZ Group place high demands on the know-how, experience, and skills of its employees. In addition to providing employees with all the training they need to meet qualification requirements, CEZ Group focused, in particular, on the following:

- systematic professional training focused on specialized topics in electric power
- increasing perception of safety and quality as a routine part of everyday work
- expanding the portfolio of electronic training products supporting employee development
- continuing the ČEZ Manažer program to develop middle managers
- second year of ČEZ Leader for Nuclear Power Plants program for potential managers in both nuclear plants
- professional training of nuclear power plant personnel to meet the needs of the planned new nuclear installation.

At Temelín Nuclear Power Station, a new Practical Training Center opened its doors to both in-house personnel and employees of the plant's suppliers. At Dukovany Nuclear Power Station, an international OSART review was conducted, in which three "good practices" were recognized in the areas of training and qualification.
As part of the Knowledge Management process at ČEZ, a. s., important know-how and experience is identified and shared, thereby minimizing the risk of its loss. This makes our work more effective and fulfills the Safety Policy. In the International Atomic Energy Agency's international Nuclear Knowledge Management comparison, ČEZ's process-based management model was identified as a "good practice".

## Social Policy

At CEZ Group, social policy is focused on maintaining labor peace. Monetary and non-monetary employee benefits are set forth in Collective Agreements entered into between employers and labor organizations.
In addition to wages, the CEZ Group social policy in the Czech Republic also includes a shortened work week of 37.5 hours, an additional week of paid vacation beyond that required by law, paid personal time beyond that required by law, personal accounts for rest, relaxation and health of employees and their family members, Supplemental Pension Insurance contributions, life insurance contributions, employee meal plans, health care contributions and, in extraordinary cases, one-off social aid as well.
The basic principles of the CEZ Group social policy also apply to employees working for our international acquisitions. Here, however, social policy is pursued in a different legislative environment and in some cases long-term agreements signed between local labor unions and the previous employers must be taken into account.
Benefits for employees of international companies vary from country to country and company to company. Typically they include meal vouchers, contributions for employee holidays, expanded health care, and support upon birth of a child.

## Labor Relations

There are a total of 30 separate basic labor organizations at ČEZ, a. s., and approximately 2,000 employees, or 34% of the Company's total work force, were unionized in 2011.

At the integrated subsidiaries of CEZ Group, a total of 44 basic labor organizations operated, and approximately 3,200 employees, or 50% of these companies' total work force, were unionized. 35 basic labor organizations were members of four regional Associations of Basic Organizations, while another nine basic organizations operated independently in the subsidiaries.

The labor organizations are organized into two labor unions: the ECHO Labor Union and the Czech Union of Power Industry Employees.

During 2011, regular meetings were held between the employer and labor representatives, at which the labor organizations received information and topics set forth by the Labor Code and the Collective Agreement were discussed.

At ČEZ, a. s. and the integrated subsidiaries, the current Collective Agreements expire on December 31, 2014. In the autumn of 2011, collective bargaining took place on amendments to the collective agreements at ČEZ, a. s. and the integrated subsidiaries, relating primarily to wage growth for 2012. Collective bargaining culminated in December with the signing of Amendment No. 9 to the ČEZ, a. s. Collective Agreement and Amendment No. 6 to the collective agreements of the integrated subsidiaries.

15 basic labor organizations operate within the Severočeské doly Group. The collective agreements there are entered into for three-year periods and are currently set to expire at the end of 2012.

Labor organizations also operate in CEZ Group companies abroad.

At all three Romanian companies, CEZ Distributie S.A., CEZ Romania S.A., and CEZ Vanzare S.A., the current collective agreements are set to expire at the end of 2012. Negotiations with labor organizations in 2011 centered primarily on the gradual unification of all the collective agreements.

In the Polish CEZ Group companies, there were a total of four labor organizations in 2011. On January 13, 2011, a new collective agreement was entered into for employees of ELCHO Power Station, effective until December 31, 2013. The collective agreement for employees of Skawina Power Station has no pre-set expiration date.

Three labor organizations operate at Varna Power Station in Bulgaria. On December 9, 2011, a new collective agreement was signed, effective from January 1, 2012 for two years. At CEZ Razpredelenie Bulgaria AD there were four labor organizations, while CEZ Bulgaria EAD and CEZ Elektro Bulgaria AD had four and two labor organizations, respectively. From December 12, 2011 a newly signed collective agreement took effect in these companies; it expires on December 31, 2013.

At the Albanian distribution company CEZ Shpërndarje Sh.A. there were two labor organizations. On November 26, 2009, a four-year collective agreement was signed at the company.

The CEZ Group European Works Council is a platform for keeping employee representatives informed, and holding discussions with them, concerning key strategic issues of CEZ Group.

In 2011, 22 members of the CEZ Group European Works Council were elected for its second, four-year term. Of these, fourteen are from the Czech Republic, four from Bulgaria, two from Romania, and two from Poland. Two meetings of the CEZ Group European Works Council were held in 2011. Multinational reports and discussions related primarily to CEZ Group's policy and strategy, its organization and asset structure, its economic and financial situation, and occupational safety and health.

# DEVELOPMENT OF THE POWER INDUSTRY LEGISLATIVE FRAMEWORK IN THE CZECH REPUBLIC

The basic set of standards regulating the economic and commercial aspects of CEZ Group's business activities is contained in Act No. 513/1991 Sb., the Commercial Code, and as an issuer of a security accepted for trading in a public market, ČEZ is also subject to Act No. 256/2004 Sb. on Doing Business in the Capital Market. Both acts were amended several times in 2011. In selecting its suppliers, ČEZ, a. s. is bound by Act No. 137/2006 Sb. on Public Procurement, which was also amended several times in 2011 as well as being the subject of several new Government decrees and regulations.

In addition to the general legislative framework described above, legislation specifically treating the power industry is of key importance for CEZ Group. This sector-specific legislative framework is based on the following:

- Act No. 458/2000 Sb. on the Conditions for Doing Business and Exercising State Administration in the Energy Sectors and amending certain acts (the Energy Act)
- Act No. 18/1997 Sb. on the Peaceful Use of Nuclear Energy and Ionizing Radiation and amending certain acts (the Nuclear Act)
- Act No. 406/2000 Sb. on Energy Management
- Act No. 180/2005 Sb. on Promotion of Electricity Produced from Renewable Sources and amending certain acts (the Renewable Energy Promotion Act).

In addition to the four core acts listed above for the power sector, the energy business in general – and the generation of electricity and heat in particular – is being affected more and more by environmental legislation and legislation implementing the European Union's efforts to bring about a global improvement in the environment.
Of this legislation, the following acts are of key importance:

- Act No. 86/2002 Sb. on Air Protection and amending certain other acts (the Clean Air Act)
- Act No. 695/2004 Sb. on Conditions for Trading in Greenhouse Gas Emission Rights and Amending Certain Acts.

During 2011, the following significant amendments to these laws were adopted:

- Act No. 458/2000 Sb. on the Conditions for Doing Business and Exercising State Administration in the Energy Sectors and amending certain acts (the Energy Act)
  - direct amendment by Act No. 211/2011 Sb. – implementation of the "Third Liberalization Package", reinforced ERÚ competencies, introduced fee for ERÚ activity, "unbundling" of operator of the transmission and transport grid, transmission and transport grid operator certification process, authorization to build electricity generation facilities with total installed capacity of 1 MW and higher, reinforced customer protection (effective from August 18, 2011 with the exception of Section 17d concerning fee for ERÚ activity, which takes effect on January 1, 2012)
  - direct amendment by Act No. 299/2011 Sb. – concerning authorizations to build electricity generation facilities, this requirement now applies to facilities with total installed power generation capacity of 100 kW and higher; revised powers of the State Energy Inspection in conjunction with an amendment of the Act on Energy Management (effective from November 13, 2011).
- Act No. 18/1997 Sb. on the Peaceful Use of Nuclear Energy and Ionizing Radiation and amending certain acts (the Nuclear Act)
  - direct amendment by Act No. 249/2011 Sb. – introduction of fees for specialized activities of SÚJB (effective from August 30, 2011, January 1, 2012).
- Act No. 86/2002 Sb. on Air Protection and amending certain other acts (the Clean Air Act)
  - direct amendment by Act No. 221/2011 Sb. – transposition of regulation 2009/30/EC (effective from July 22, 2011, January 1, 2012)
  - direct amendment by Act No. 288/2011 Sb. – allow municipalities to declare "low-emission zones" (effective from October 29, 2011).

The following lower-level regulations were promulgated in 2011 that implement the above acts or amend other implementing regulations concerning:

- Act No. 458/2000 Sb. on the Conditions for Doing Business and Exercising State Administration in the Energy Sectors and amending certain acts (the Energy Act):
  - new Decree No. 82/2011 Sb. on electricity metering and on the method for determining damages in the event of unjustified use, unjustified supply, unjustified transmission, or unjustified distribution of electricity (effective from April 1, 2011, December 31, 2014, January 1, 2015)
  - new Decree No. 210/2011 Sb. on the scope, requirements, and dates for billing electricity, gas, heat, and related services (effective from December 15, 2011)
  - Decree No. 371/2011 Sb. amending Decree No. 541/2005 Sb. on the Electricity Market Rules, principles for setting prices for activities conducted by the electricity market operator and implementing certain other provisions of the Energy Act, as amended (effective from December 6, 2011, July 1, 2012)
  - Decree No. 393/2011 Sb. amending Decree No. 140/2009 Sb. on price regulation in the energy sectors and on price regulation procedures, as amended by Decree No. 264/2010 Sb. (effective from December 12, 2011).
- Act No. 18/1997 Sb. on the Peaceful Use of Nuclear Energy and Ionizing Radiation and amending certain acts (the Nuclear Act):
  - Government Regulation No. 399/2011 Sb. on fees for specialized activities of the State Office for Nuclear Safety (effective from January 1, 2012)
  - Government Regulation No. 461/2011 Sb. amending Government Regulation No. 416/2002 Sb. stipulating the amount of levy and method of its payment to the nuclear account by radioactive waste originators and the annual amount of the contribution to municipalities and rules for its provision, as amended (effective from December 31, 2011).
- Act No. 180/2005 Sb. on Promotion of Electricity Produced from Renewable Sources and amending certain acts (the Renewable Energy Promotion Act):
  - Government Regulation No. 316/2011 Sb. stipulating a limit on State budget funds for providing subsidies for payment of cost overruns associated with support for electricity from renewable sources for the year 2012 (effective from October 27, 2011)
  - ERÚ Notification No. 443/2011 Sb. on the amount of costs for payment of cost overruns associated with support for electricity from renewable sources paid by transmission grid operators or regional distribution grid operators in the form of subsidies out of State budget funds (effective from January 1, 2012).
- Act No. 86/2002 Sb. on Air Protection and amending certain other acts (the Clean Air Act):
  - Government Regulation No. 446/2011 Sb. on biofuels sustainability criteria (effective from January 12, 2012).

Because the Czech Republic is a part of the European Union, it is important to monitor the legal framework and changes thereto at the level of that community. Indeed, Member States are required to implement (in the case of directives) or directly comply with (in the case of directives and decisions) European Union legislation in modifying their own national legislative rules.

At the European Union level, 2011 brought the following legislative amendments that are significant in terms of CEZ Group's business:

- Regulation No. 1227/2011 of the European Parliament and of the Council of October 25, 2011 on wholesale energy market integrity and transparency
- 2011/280/EU: Commission Decision of May 16, 2011 on repealing Decision 2003/796/EC on establishing the European Regulators Group for Electricity and Gas
- Commission Implementing Decision of December 19, 2011 establishing harmonized efficiency reference values for separate production of electricity and heat in application of Directive 2004/8/EC of the European Parliament and of the Council and repealing Commission Decision 2007/74/EC
- Commission Decision of April 27, 2011 determining transitional Union-wide rules for harmonized free allocation of emission allowances pursuant to Article 10a of Directive 2003/87/EC of the European Parliament and of the Council
- Commission Decision of March 29, 2011 on guidance on the methodology to transitionally allocate free emission allowances to installations in respect of electricity production pursuant to Article 10c(3) of Directive 2003/87/EC
- Commission Regulation (EU) No. 1193/2011 of 18 November 2011 establishing a Union Registry for the trading period commencing on January 1, 2013, and subsequent trading periods, of the Union emissions trading scheme pursuant to Directive 2003/87/EC of the European Parliament and of the Council and Decision No. 280/2004/EC of the European Parliament and of the Council and amending Commission Regulations (EC) No. 2216/2004 and (EU) No. 920/2010
- Commission Regulation (EU) No. 550/2011 of 7 June 2011 on determining, pursuant to Directive 2003/87/EC of the European Parliament and of the Council, certain restrictions applicable to the use of international credits from projects involving industrial gases
- Commission Decision of November 11, 2011 amending Decisions 2010/2/EU and 2011/278/EU as regards the sectors and subsectors which are deemed to be exposed to a significant risk of carbon leakage.

# PROTECTION OF THE ENVIRONMENT



## Air Protection

### Czech Republic

The production of pollutant emissions released into the air from CEZ Group sources is continually monitored. In 2011, emission limits were complied with at all CEZ Group combustion sources, as was the ČEZ-wide emission sum ceiling along with all other technical conditions for operation relating to air protection, as imposed upon said sources in the operation permits issued by the relevant administrative authorities.

In operating coal-fired power plants and power heating plants, CEZ Group conducts long-term, systematic monitoring of their impact on air pollution through its own in-house network for measuring ground-level concentrations. Currently, 14 measurement stations are in operation, all located in the vicinity of coal-fired power plants and power heating plants. The stations measure gaseous pollutants ($SO_2$, $NO_X$) and suspended dust particles (PM10, PM2.5). The public is kept informed of the results of emissions and ground-level concentration monitoring conducted in conjunction with the operation of combustion sources through the website, where the results of emissions and ground-level concentration measurements are published, along with figures calculated for individual sources expressing the proportion of the air pollution in their vicinity attributable to them.

All ČEZ, a. s. coal-fired power plants, with the exception of the Dvůr Králové power heating plant, have implemented continuous measurement of $CO_2$ concentrations meeting the requirements of Decree No. 205/2009 Sb. of the Ministry of the Environment of the Czech Republic.

### Poland

In 2011, ELCHO Power Station built a new line for conveying biomass into the boilers. It is equipped with a dust separator that has contributed significantly to reducing dust particulate emissions.

### Greenhouse Gas Emission Rights

**Emission Rights Granted and $CO_2$ Produced in 2011**

| | Unit | Emission rights granted | $CO_2$ produced |
|---|---|---|---|
| ČEZ, a. s. | tons | 31,992,214 | 29,403,036 |
| ČEZ Teplárenská, a.s. | tons | 93,508 | 17,369 |
| Elektrárna Chvaletice a.s. | tons | 2,719,059 | 3,109,820 |
| Teplárna Trmice, a.s. | tons | 1,125,198 | 775,202 |
| Energetické centrum s.r.o. | tons | 19,203 | 1,426 |
| Poland | tons | 3,628,509 | 2,321,555 |
| Bulgaria | tons | 3,357,936 | 3,110,725 |
| Total | tons | 42,935,627 | 38,739,133 |

In accordance with legislative requirements, emission reports for all CEZ Group installations were independently verified by DET NORSKE VERITAS CZ s.r.o. Emission rights to cover these emissions will be stricken from the national registers of the individual countries in accordance with applicable legislation.

## Water Protection

Czech Republic

Water use and wastewater discharge is governed by conditions set forth in integrated permits issued by regional authorities and in decisions handed down by water management bodies. In the period in question, all CEZ Group generation facilities complied with discharge limits and all other water protection-related technical terms and conditions of operation as imposed in the operation permits issued by the relevant administrative bodies. No accidental discharges of hazardous substances entailing a threat to water quality were recorded. Analysis of groundwater samples demonstrated that, thanks to immediate clean-up response, a discharge of approximately 1.5 $m^3$ of ferric sulfate into the soil at Mělník Power Station in June 2011 resulting from a pipe failure did not pose any serious risk.

Investments in water management in relation to the comprehensive retrofit of Tušimice II Power Station and the construction of a new generating facility at Ledvice Power Station are designed to reduce discharges of pollutants into surface water flows.

Severočeské doly overhauled an all-terrain vehicle wash facility and upgraded its capacity. For 2012 it is preparing an expansion of the Emerán Minewater Processing Facility which treats minewater at Bílina Mines. A measure currently in preparation to make certain minewater discharge limits stricter effective from 2013 combined with the trend toward increasing minewater volumes makes it necessary to expand the processing facility by adding a chemical treatment stage based on lime. At the same time, water from future waterworks in the Ledvice corridor and the northern slopes will be diverted into the processing facility.

## Protection and Support of Fauna

Czech Republic

ČEZ Distribuce, a. s., the distribution grid operator, continued to equip selected power lines with supplemental features designed to protect birds from injury. Over 100 km of medium-voltage lines were so modified, and the company cooperates with ornithologists to give priority to sites that pose the greatest risk to birds. Another bird-protection initiative was the installation of a camera to conduct long-term monitoring of possible bird collisions with a medium-voltage power line at the location where it crosses the Elbe River in Dolní Žleb.

CEZ Group takes great interest in protecting fauna inside and around its power plant compounds. For example, CEZ Group's efforts made it possible to protect the Peregrine Falcon (*Falco peregrinus*), the acutely endangered European Beaver (*Castor fiber*), the specially protected Sand Martin (*Riparia riparia*) and the Grayling (*Hipparchia semele*), as well as endangered species of ants. In the vicinity of Dukovany Nuclear Power Station, CEZ Group is a long-term supporter of the Mohelno Serpentinine Steppe, which is home to the critically endangered species Praying Mantis (*Mantis religiosa*), the European Owlfly (*Ascalaphus macaronius*), and the European Green Lizard (*Lacerta viridis*).

Romania

In 2011, CEZ Distributie S.A. commenced a project to equip power lines with bird-protection devices.

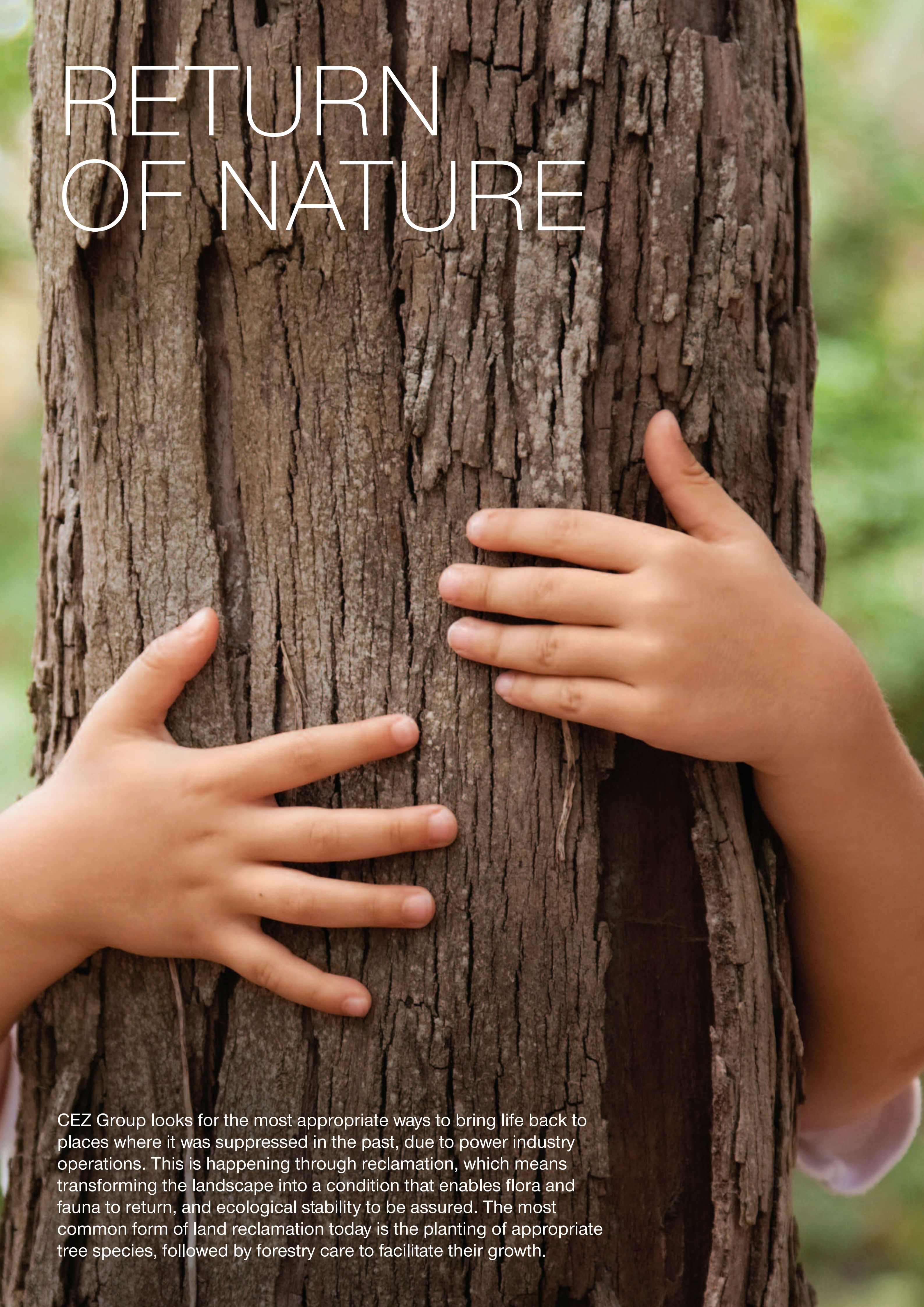
## Land Clean-up and Reclamation

### Czech Republic

In 2011, ČEZ, a. s. continued to reclaim sites in the vicinity of its conventional power plants (ash and other waste dumps, settling ponds, etc.). In 2011, over 7.5 million tons of certified power generation by-products were utilized in land reclamation. Reclamation work to renew the landscape and ecological stability following brown coal mining was also conducted by Severočeské doly: its focus in 2011 was on reforestation, while the reclamation plans for 2012 give greater scope for man-made lakes. The Trmice Power Heating Plant invested in reclamation of the waste dump at May 5th Mine (*Důl 5. květen*) and the Barbora III settling pond.

**CEZ Group Consumption, Waste, and Emissions**

| | Units | 2010 | 2011 |
|---|---|---|---|
| Total electricity | GWh | 5,664 | 5,774 |
| Total water consumption | $m^3$ '000 | 1,084,769 | 950,308 |
| of which: surface water | $m^3$ '000 | 760,741 | 948,183 |
| underground water | $m^3$ '000 | 2,910 | 2,125 |
| Emissions and unit emissions of air pollutants | | | |
| Solids | tons | 4,696 | 4,237 |
| Sulfur dioxide | tons | 91,687 | 93,841 |
| Nitrogen oxides | tons | 71,766 | 68,577 |
| Carbon monoxide | tons | 5,965 | 6,054 |
| Carbon dioxide | tons | 38,845,671 | 38,739,133 |



# RETURN OF NATURE

CEZ Group looks for the most appropriate ways to bring life back to places where it was suppressed in the past, due to power industry operations. This is happening through reclamation, which means transforming the landscape into a condition that enables flora and fauna to return, and ecological stability to be assured. The most common form of land reclamation today is the planting of appropriate tree species, followed by forestry care to facilitate their growth.

**CZK 4.34 billion**
anticipated capital expenditures for land reclamation and revitalization until 2025

Land reclamation is preceded by clean-up, which includes demolition of abandoned buildings and other industrial facilities, and other works to ensure the area does not pose a threat to the environment.

The first phase of reclamation, called technical reclamation, involves forming the new terrain, water management work, anti-erosion measures, and building of a network of roads and footpaths.

The second phase, called biological reclamation, creates optimal conditions for plant life to develop and grow.

# RESEARCH AND DEVELOPMENT

In 2011, CEZ Group spent CZK 794.2 million to support various research and development ("R&D") programs. The R&D costs of ČEZ, a. s. include a specimen surveillance program, which aims to obtain information on the current state of reactor pressure vessels and provide a scientific basis for predicting their useful lifetimes.

**CEZ Group Research and Development Expenditures in 2011 (CZK millions)**

| Company | |
|---|---|
| ČEZ, a. s. | 166.6 |
| Centrum výzkumu Řež s.r.o. | 251.1 |
| ČEZ Distribuce, a. s. | 4.9 |
| ČEZ Energetické produkty, s.r.o. | 10.9 |
| Severočeské doly a.s. | 27.6 |
| Ústav jaderného výzkumu Řež a.s. | 333.1 |
| Total | 794.2 |

## ČEZ, a. s.

By implementing centrally managed R&D projects, ČEZ, a. s. endeavors to reinforce its key existing operations. Of no less importance is the contribution R&D activities make to developing promising new fields in the energy sector. These activities benefit from close cooperation with domestic applied R&D institutions, including universities and the Academy of Sciences of the Czech Republic.

ČEZ's international R&D cooperation centered around two expert organizations: EPRI (Electric Power Research Institute, Inc.) in the nuclear field, and VGB Powertech, eV in conventional power. In addition, ČEZ, a. s. was involved in projects supported by FP7. ČEZ, a. s. is a member of three European technology platforms (TP):

- SNE-TP (sustainable nuclear energy)
- Smart Grids
- ETP-ZEP (clean coal and technologies for removing $CO_2$ from emissions).

In the Czech Republic, ČEZ, a. s. is an active member of the Sustainable Energy Technology Platform, which aims to improve conditions for undertaking energy-related R&D and rolling out innovations.

**Nuclear Power**

ČEZ, a. s. is a member of the EPRI nuclear program. This membership allows it to apply extensive know-how to nuclear power plants operated in the Czech Republic, as well as potentially utilizing it to design, build, and operate future facilities. The EPRI R&D program covers a broad range of areas, from fuel reliability, corrosion of materials, and safety aspects to new nuclear technologies.

Other nuclear-related R&D projects are focused primarily on further improving the safety, environmental, and economic parameters of nuclear power plants in operation.

**Conventional Power**

An innovative brown-coal mill is currently being tested at Mělník Power Station. The objective is to potentially improve the mill's parameters, primarily by increasing its output, reducing $NO_X$ emissions, achieving reduced maintenance costs, and lowering the mill's own energy consumption. At Počerady Power Station, a specialized work-site was built to vet methods for intensifying flue-gas desulfurization. At the same time, a project is underway to look into possibilities for reducing emissions and increasing the efficiency of fluidized-bed and dry-bottom boilers by optimizing coal combustion conditions.

Another area of interest is detailed monitoring of Carbon Capture and Storage (CCS) technologies. For these reasons, ČEZ, a. s. is participating in the $CO_2$ Europipe project (part of FP7), where it is leading a smaller project focused on preparing infrastructure for the transport and storage of $CO_2$ in Central Europe.

**Innovative Renewable Sources of Energy**

A significant development was the completion of the development of an automatic biomass sampler that was put into routine operation at Hodonín Power Station. Work begun in past years continued on developing a conceptually new type of hydro turbine that can be utilized at low-head sites. 2011 saw the launch of a project to test the refinement and purification of biogas using a membrane-based technique, as well as a project focused on describing the fire-safety characteristics of unconventional fuels (plastics, solid municipal waste).

Also, work began on a project aiming to identify and verify possibilities for increasing the potential of existing photovoltaic power plants.

**Energy Storage**

The rapid development of electricity generation from renewable sources with difficult-to-predict output and the emergence of distributed generation are giving rise to the need for energy storage. Therefore, ČEZ, a. s. is evaluating promising directions and applications of energy storage technologies, primarily battery-based.

**Distribution Grid Development**

ČEZ, a. s. became a partner of the FP7 project Grid4EU, which aims to implement six large demonstration projects focusing on distribution grids with distributed generation and active customer involvement. Each of the demonstration projects will be implemented in a different country and under diverse conditions, but they will all have one element in common: collaboration at the European level in developing new concepts for modern distribution grids with the aim of fulfilling Europe 2020, the European energy strategy for the period until 2020.

## ČEZ Distribuce, a. s.

ČEZ Distribuce's focus in the R&D area centered on designs and pilot projects of new medium- and low-voltage distribution grid technologies. Mostly this involved work on the "Smart Grids" project. Another area of R&D investment was continued work on designing a fault detector for suspended insulated cables used on medium-voltage power lines, which will contribute significantly to more accurate detection and localization of faults on this type of line.

## ČEZ Energetické produkty, s.r.o.

This company engaged in two projects with funding support from the Ministry of Industry and Trade of the Czech Republic's TIP program, focusing on finding new ways to utilize and increase the commercial potential of ash matter: continued work on a project focused on new technologies for making high-value porous rock from various types of fly ash and a new project aiming to utilize power generation fly ash as an alternative adhesive in the production of eco-friendly cement composites.

## Severočeské doly, a. s.

Research and development focused on technical innovations of mining, conveyance, and processing equipment, research and assessment of mining conditions, and mitigation of environmental burdens. Results in this area serve to improve operational reliability in the production process and reduce negative impacts of open-pit mining operations, particularly noise and dust in work and urban settings.

## Řež Nuclear Research Institute

The Řež Nuclear Research Institute (Ústav jaderného výzkumu Řež a.s. – ÚJV) is a leading institution in the European research space, contributing to the development of sustainable power. Its core activities are concentrated primarily on research, development, and design services for operators and suppliers of power installations. ÚJV's involvement in R&D at the international level is significant, particularly in FP7 in the area of nuclear fission (EURATOM) and in other international projects focused primarily on increasing the safety of nuclear power plants with VVER-type reactors.
ÚJV and its subsidiaries have at their disposal extensive facilities for conducting experiments in the course of their R&D projects. In addition to research reactors, hot- and semi-hot cells, these include other laboratory facilities such as an experimental pavilion with reactor loops for materials research for fourth-generation reactors cooled with supercritical water and high-temperature reactors cooled with helium.
Currently, members of the ÚJV Group are members of a number of European technology platforms, consortia, and specialized professional networks within the European Union, such as: SNE-TP (sustainable nuclear energy), FCH JTI (hydrogen and fuel cells platform), HTR–TN (high-temperature reactors technology network), JHR consortium (Jules Horowitz Reactor), EERA (European Energy Research Alliance), and IGDTP (platform for implementing geological disposal of highly active RAW).

**Major R&D tasks assigned to ÚJV by Czech Republic institutions included, in particular, the following:**

Ministry of Industry and Trade of the Czech Republic:
- a new nuclear power source – technical, safety, and legislative aspects
- risk studies, safety analyses, and proposals for utilizing the full design capacity of VVER reactor units
- R&D on new materials and technologies for treatment of radioactive and hazardous waste and barriers research for radioactive waste repositories
- safety aspects of advanced nuclear reactors
- methods and technologies for $CO_2$ capture in fossil fuel-fired power plants and its storage in geological formations within the Czech Republic.

Grant Agency of the Czech Republic:
- separation methods for isolating selected nuclides from reprocessed irradiated fuel.

Technology Agency of the Czech Republic:
- research, development, and validation of a universal technology to meet the need for modern ultrasound checking of welding joints in the complex piping systems of nuclear power plants
- research and development of advanced technologies for producing hydrogen through high-temperature electrolysis.

Ministry of Education, Youth, and Sports of the Czech Republic:
- support for participation in OECD Nuclear Energy Agency projects
- participation in and utilization of results of EDFA program (nuclear fusion).

Ústav jaderného výzkumu Řež a.s. also participates in FP7 (EURATOM) projects such as:
- ESFR-CP (European Sodium Fast Reactor)
- ADRIANA (ADvanced Reactor Initiative And Network Arrangement)
- LONGLIFE (Radiation-induced brittleness in reactor pressure vessels)
- CROCK (Crystalline Rock retention processes).

## Centrum výzkumu Řež s.r.o. (CV Řež)

Centrum výzkumu Řež s.r.o. is a non-profit organization that implements projects in the areas of nuclear energy and ionizing radiation, chemistry, information technology, and pharmaceuticals. Its research activities are focused on three principle areas:
1. projects relating to irradiation in reactors
2. participation in the implementation of the Jules Horowitz research reactor in France – research and manufacture of prototype hot cells for this reactor, which is currently under construction in the CEA research center in Cadarache
3. a large project entitled "Sustainable Energy (SUSEN)" – within the Research and Development Operation Program, approximately EUR 100 million was approved to build modern R&D infrastructure in four areas: technological and experimental circuits, structural and systemic diagnosis, the nuclear fuel cycle, and materials research.

**Fees Relating to Registration of ČEZ, a. s. Trademarks in 2011 (CZK '000)**

| | |
|---|---|
| Fees to patent representatives | 140.4 |
| Fees to Industrial Property Office in Prague for registration and extensions of trademarks in the Czech Republic | 83.0 |
| Total | 223.4 |

# LITIGATION CONCERNING CEZ GROUP COMPANIES

## Litigation Before Courts

1. In a suit commenced in 2001 – The State of Upper Austria vs. ČEZ, a. s., demanding cease-and-desist from generating alleged ionizing radiation from Temelín Nuclear Power Station – first-instance deliberations of the matter were completed in October 2011. On January 4, 2012 the Linz Regional Court issued a decision rejecting the suit in the light of ČEZ's arguments, relying in particular upon prior decisions of the European Court of Justice and documents relating to the Melk Protocol signed between the Governments of the Czech Republic and the Republic of Austria in 2000. This decision can be appealed within four weeks of its delivery. The State of Upper Austria appealed the decision. In the second instance, the matter will be decided by the High Regional Court in Linz.

2. ČEZ, a. s. is a party to suits relating to the realization of takeover offers and squeeze-outs of minority shareholders in the former regional electricity distribution companies, Severočeské doly a.s., and ČEZ Teplárenská, a.s.:
   - In the case of the review of consideration paid and stipulation of a different consideration amount in the squeeze-out of minority shareholders from Severomoravská energetika, a. s., an appellate court decision entered into legal force on April 2, 2012. The decision upheld the requirement to pay an additional amount stipulated by an expert opinion prepared at the court's order, but at the same time denied the penalty interest awarded by the court of first instance. Under these terms, the maximum additional payment amount is estimated at CZK 74 million.
   - A suit for payment of the difference from a takeover offer for shares of Severomoravská energetika, a. s. made in 2005. The proceedings are pending before the court of first instance. Should the complainants win, the total additional amount could be as much as approximately CZK 1,005 million. The results of the proceedings are impossible to predict.
   - A suit seeking review of consideration paid and stipulation of a different consideration amount in the squeeze-out of minority shareholders from Západočeská energetika, 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 approximately CZK 767 million. The result of the proceedings is impossible to predict.
   - A suit seeking review of consideration paid and stipulation of a different consideration amount in the squeeze-out of minority shareholders from Východočeská energetika, a.s. A court-appointed expert has drawn up an opinion in the matter. Should the complainants win, the total additional payment could be as much as approximately CZK 188 million. The outcome of the proceedings is impossible to predict.
   - A suit seeking review of consideration paid and stipulation of a different consideration amount in the squeeze-out of minority shareholders from Severočeská energetika, 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 approximately CZK 821 million. The outcome of the proceedings is impossible to predict.
   - Suits seeking review of consideration paid and stipulation of a different consideration amount in the squeeze-out of minority shareholders from Středočeská energetická a.s. A court-appointed expert has drawn up an opinion in the matter. Should the complainants win, the total additional payment could be as much as approximately CZK 536 million. The outcome of the proceedings is impossible to predict.
   - A suit seeking review of consideration paid and stipulation of a different consideration amount in the squeeze-out of minority shareholders from 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 approximately CZK 1,608 million. The result of the proceedings is impossible to predict.
   - A suit against ČEZ Teplárenská, a.s. seeking review of past consideration paid in the squeeze-out of minority shareholders from United Energy, a.s., i.e. the legal predecessor of ČEZ Teplárenská, a.s. The proceedings are pending before the court of first instance. The possible impact of this suit on ČEZ Teplárenská, a.s. is impossible to determine at this phase of the proceedings.

3. In all cases of the General Meetings that decided on squeeze-outs in the former regional electricity distribution companies, Severočeské doly a.s., and ČEZ Teplárenská, a.s., minority shareholders have filed suits seeking that the resolutions of these General Meetings be declared null and void. In three of these cases, the suits challenging the General Meetings of regional electricity distribution companies have been set aside.

4. In addition, in conjunction with the restructuring of CEZ Group, minority shareholders have filed suits seeking nullification of contributions of part of undertaking of the former regional electricity distribution company Středočeská energetická a.s. to certain ČEZ, a. s. subsidiaries and, further, asking that the court declare null and void the General Meeting resolutions by which these contributions of part of undertaking were approved:
   - A suit seeking nullification of the resolution of the General Meeting of Středočeská energetická a.s. held on October 17, 2005 as well as of contracts on contribution of part of an undertaking. The proceedings before the court of first instance in the actual matter have not yet been completed in legally binding fashion and the result of the litigation is impossible to predict.
   - A suit seeking nullification of the resolution of the General Meeting of Středočeská energetická a.s. held on June 21, 2006 and of contracts on contribution of part of an undertaking. The court proceedings have not yet been completed in legally binding fashion and the result of the litigation is impossible to predict.

5. In an insolvency proceeding ongoing against Lignit Hodonín, s.r.o., ČEZ, a. s. registered a receivable exceeding CZK 115 million, CZK 23 million of which is a loss resulting from failure to pay for electricity supplied. The remainder of the receivable consists of penalty interest under valid contracts. The receivable was confirmed in full. The debtor's undertaking was sold on September 2, 2010 and currently settlement of creditors is underway. It can be assumed that ČEZ's satisfaction will be nearly nil. At the same time, the insolvency administrator filed suit against ČEZ, a. s. seeking CZK 196.2 million in damages due to alleged abuse of ČEZ's dominant position in setting the purchase price for supplies of brown coal. ČEZ, a. s. denies said claim in full. On November 30, 2010 ÚVR Mníšek pod Brdy, a.s., the company that purchased the undertaking, filed an "incidence suit" within the insolvency proceedings seeking to have this receivable excluded from the debtor's assets for settlement purposes. For this reason, the Municipal Court in Prague suspended the proceedings regarding damages pending final termination of proceedings in the incidence suit.

6. Lesy České republiky, s.p. has filed 15 suits against the Company, all identical in substance. The complainant is seeking compensation for damages to forests allegedly caused by ČEZ, a. s. operations in 1997–2009. The oldest suit is from 1999 and the latest was filed in 2011. The total amount sought in all the suits is CZK 235.1 million, plus interest.

7. In insolvency proceedings against companies from the PORCELA PLUS and BCT groups (total of eight companies), ČEZ Prodej, s.r.o. has registered receivables totaling over CZK 285 million. Within this amount, a receivable from the debtor SKLÁRNY KAVALIER, a.s. amounts to approximately CZK 120 million, a receivable from CRYSTALEX a.s. amounts to CZK 65.6 million, a receivable from Sklo Bohemia, a.s. amounts to CZK 64.5 million, a receivable from the debtor Karlovarský porcelán a.s. amounts to CZK 21.7 million, and a receivable from Sklárny BOHEMIA a.s. amounts to CZK 13.8 million. The remaining receivables registered do not exceed CZK 0.5 million. All of ČEZ Prodej's receivables were confirmed in the respective review proceedings. Although the bulk of the assets of all debtors was liquidated during 2009 and 2010, satisfaction of the receivables will be minimal, or nil as in the case of Sklo Bohemia, a.s., where the court issued a decision terminating the bankruptcy proceedings on January 3, 2012.

8. Since June 2, 2010, ČEZ Prodej, s.r.o. has been involved in a dispute with Správa železniční dopravní cesty, s.o. (SŽDC), in which it is seeking CZK 805 million in damages. The dispute is currently before the Municipal Court in Prague, with ČEZ Prodej, s.r.o. as the complainant. So far in the matter, a payment order has been issued, which was appealed by SŽDC. No hearing has been scheduled yet. The subject matter of the dispute is breach of an electricity supply contract by SŽDC – failure to take delivery of the agreed amount of electricity in 2010 and damages resulting therefrom.

9. In insolvency proceedings against MORAVIA ENERGO, a.s., ČEZ, a. s. registered a receivable of CZK 1,505.9 million, which was confirmed in full. On August 1, 2011 a partial schedule decision was issued, based upon which ČEZ's receivable was satisfied in the amount of CZK 71.3 million. The insolvency proceedings are ongoing and the debtor's assets continue to be liquidated.

10. In insolvency proceedings against PLP a.s., the company Teplárna Trmice, a.s. registered a receivable of CZK 191 million, consisting of losses arising out of failure to pay for electricity, heat, and raw water supplied, and a CZK 59 million receivable for a contractual penalty. In review proceedings that took place in the first half of 2011, both of these receivables were confirmed. At the same time, the insolvency administrator is continuing in a suit before the Arbitration Court in Prague, in which PLP a.s. is seeking CZK 139.9 million in damages from Teplárna Trmice, a.s. due to supply irregularities. This suit was retracted on December 23, 2011.

11. On October 15, 2010, ČEZ, a. s. filed suit against Czech Coal a.s., Czech Coal Services a.s., and Vršanská uhelná a.s. seeking protection against unfair competition and seeking reasonable satisfaction in the amount of CZK 11 billion and, at the same time, filed contractual penalty claims totaling approximately CZK 327 million and a claim of approximately CZK 14 million in damages. The Municipal Court in Prague referred the suit to the Regional Court in Ústí nad Labem, which has not decided in the matter.

12. A dispute is ongoing between ČEZ, a. s. and Sokolovská uhelná, právní nástupce, a.s. ("SU") regarding the amount of coal supplied by SU to ČEZ, a. s. under a long-term purchase agreement (valid until exhaustion of coal reserves in SU mines or until 2027, whichever comes first), and the price of same. SU is challenging the validity of said long-term purchase agreement. So far in conjunction with this dispute, ČEZ, a. s. initiated proceedings against SU on July 13, 2011 before the Regional Court in Pilsen, in which proceedings ČEZ, a. s. is demanding, in relation to payments for supplies of brown coal from January to May, 2011, the surrender of approximately CZK 56 million, with interest, of unjust enrichment by SU. The Regional Court in Pilsen has not yet scheduled a hearing in the matter.

13. In a decision taken in 2010, DKEVR set an upper limit on prices of supplementary services provided by companies and which are subject to regulation under the Energy Act. CEZ Razpredelenie Bulgaria AD and CEZ Elektro Bulgaria AD rejected this decision in court, because the prices set for the services are not sufficient to cover the costs of providing the services. In 2011, proceedings in the matter took place before the court of first instance. As of year-end 2011, a decision had been issued only in the case of CEZ Elektro Bulgaria AD, where the court rejected the company's complaint.

14. The Bulgarian Consumer Protection Commission (KOS) filed a class-action suit against CEZ Razpredelenie Bulgaria AD with the Sofia District Court (SDC), asking the court to declare null and void certain clauses of the General Terms and Conditions applicable to the company's contracts governing use of the distribution grid. Decisions by the court of first instance and the appellate court (SDC and the Sofia Appellate Court (SAC), respectively) declared sections 43(2) and 44(2) of said General Terms and Conditions null and void and ordered cease-and-desist of their enforcement. A cassation complaint against the SAS decision was filed with the Higher Cassation Court; proceedings in the matter are still pending.

15. A suit brought by İzmir Kemalpaşa Organize Sanayi Bölgesi (the Kemalpaşa Industrial Zone Organization) against the companies Akenerji Elektrik Üretim A.S. and Boru Hatları İle Petrol Taşıma Anonim Şirketi (BOTAŞ – Pipeline Transport of Petroleum, joint-stock company) was considered by the Third Commercial Court in Ankara. The complainant sought nullification of an agreement on supplies of natural gas entered into between Akenerji Elektrik Üretim A.S. and BOTAŞ. The court rejected the suit and in the end the complainant was not successful before the appellate court, either.

16. The State Power Company KESH, sh.a. requested issuance of a payment order for ALL 3.4 billion (approximately CZK 680 million) against CEZ Shpërndarje Sh.A. relating to outstanding debts owed by CEZ Shpërndarje Sh.A. These arose from the purchase of electricity in several months of 2011. The court issued the payment order despite the fact that the relevant invoices issued by KESH, sh.a. cannot be deemed valid grounds for payment under Albanian law and due judicial process was not upheld. CEZ Shpërndarje Sh.A. challenged the payment order in court, resulting in the handing down of an injunction suspending payment until a final decision is taken on the grounds for payment.

17. In December 2011 ERE, the Albanian regulator, issued a decision for CEZ Shpërndarje Sh.A. setting new tariffs for the following three-year regulation period. The decision is at odds with several principles contained in the Declaration on Regulation, which has the form of a law from 2009, the year in which ČEZ, a. s. acquired an ownership interest in the Albanian distribution and sales company. CEZ Shpërndarje Sh.A. challenged the tariff decision upon its disclosure in the official bulletin. Application of the new tariffs would have a negative impact on CEZ Shpërndarje Sh.A. of up to CZK 10.15 billion in the years 2012–2014 (this amount includes the CZK 6.5 billion mentioned in the next section).

18. At the time the stake in CEZ Shpërndarje Sh.A. was acquired, it was agreed in the Declaration on Regulation that, due to the imprecise and incomplete nature of certain figures used as parameters for regulation such as, for example, the extent of losses and bad debts, additional independent studies would be conducted by independent experts to verify these figures. The study results were to be subsequently reflected by the regulator in setting tariffs. CEZ Shpërndarje Sh.A. provided the regulator, ERE, with a detailed study of bad debts indicating that their proportion was substantially higher than originally assumed. In spite of the Declaration on Regulation, however, ERE did not approve the study, nor did it reflect the study's results in its decision on tariffs for the years 2012–2014. CEZ Shpërndarje Sh.A. filed a suit against the ERE decision, but the suit is still pending. In the event the extent of bad debts is not recognized, the possible negative impact could reach up to CZK 6.5 billion.

19. In March 2011, ERE issued a decision approving the agreement on purchase of electricity for the year 2011 between CEZ Shpërndarje Sh.A. and KESH, sh.a. It did so over objections put forward by CEZ Shpërndarje Sh.A. because the agreement contains provisions that are in conflict with Albanian law. They give KESH, sh.a. the ability to demand compensation from CEZ Shpërndarje Sh.A. in excess of what is set forth in the Regulation Declaration – specifically, for the difference between the estimated amount of electricity for 2011 and the amount actually used. CEZ Shpërndarje Sh.A. challenged the ERE's decision in court, but the court proceedings are still pending. KESH, sh.a. has stated in writing that it intends to issue an invoice for ALL 5 billion (approximately CZK 1 billion) in compensation.

20. Lawsuits have been filed to the European Human Rights Court by the Romanian citizens Cernea et al. (Mirela Cernea, Mihai Cernea, Marius Oprescu, Ioana Oprescu, and Violeta Sporiş) and Diaconescu et al. (Corneliu Diaconescu and Elena Diaconescu) against the Romanian State in the matter of unauthorized placement by Electrica Oltenia S.A. (a former regional distribution company owned by ČEZ) of electrical equipment on lands owned by them. In both cases, these suits were filed after an unsuccessful appeal to the court of second instance in Piteşti. Now, the complainants are seeking recognition that the Romanian State failed to protect their ownership right and are demanding compensation of damages. The landowners' dispute could become material for CEZ Group in Romania, should the Romanian State lose and similar disputes be opened against CEZ Distributie S.A. For the time being, the financial impact is impossible to determine precisely. In the case of the complainants Cernea et al., on May 31, 2011 the European Human Rights Court decided that the suit was inadmissible. In the second case, of complainants Diaconescu a spol., the European Human Rights Court has not yet made a decision.

21. In conjunction with the project to build the Fântânele-Cogealac wind farm in Romania, the respective CEZ Group project companies are party to litigation commenced by the Town of Cogealac and certain other Romanian individuals and legal entities, who are challenging certain building permits, other administrative permits, and ownership rights relating to the project and, in this respect, are demanding that certain construction work be stopped. Some of the disputes are before the Curtea Constituțională a României (constitutional court). The project companies have also filed several criminal charges to the investigative office in Constanța. This litigation is extending the timeline for construction of the project in question. Construction of the wind farms continues despite these circumstances, and full completion is anticipated.

22. The companies CEZ Distributie S.A. and CEZ Vanzare S.A. are carrying receivables totaling RON 368.4 million (approximately CZK 2.2 billion) from State-owned corporations in the group representing the Romanian railways Compania Națională de Căi Ferate "CFR". Of this figure, a suit seeking repayment of RON 175.7 million (approximately CZK 1.0 billion) was filed as of December 31, 2011. As of January 24, 2012, CEZ Distributie S.A. and CEZ Vanzare S.A. arrived at an agreement with CFR and the Ministry of Transportation and Infrastructure on a partial payment of RON 88.2 million (approximately CZK 526 million), with further payments promised. The RON 88.2 million amount was duly paid.

23. A lawsuit is currently pending before the District Court in Banská Bystrica, Slovak Republic, filed by ČEZ Slovensko, s.r.o. against PPA Power s.r.o. seeking EUR 12.187 million (approximately CZK 305 million) in damages arising out of breach of an electricity supply contract in 2010. A payment order was issued in the matter, which PPA Power s.r.o. appealed, and four court hearings have been held, so far without any final decision. The next court hearing is scheduled for July 2012. The subject matter of the dispute is breach of contract by PPA Power s.r.o. when it failed to take delivery of the agreed amount of electricity in 2010, and resulting damages.



## Other Proceedings

On November 24, 2009 a decision of the European Commission (the "Commission") of November 16, 2009 was delivered to the Company. This decision ordered the Company and its subsidiaries and other controlled enterprises to submit to inspections under Article 20, paragraph 4 of Council Regulation (EC) No. 1/2003 on the implementation of the rules on competition laid down in Articles 81 and 82 of the EC Treaty (now Articles 101 and 102 of the Treaty on the Functioning of the European Union). A similar inspection was also conducted at Severočeské doly a.s. On July 11, 2011 the Commission issued a Decision on Commencement of Proceedings pursuant to Title III of Council Regulation (EC) No. 1/2003 against ČEZ, a. s. and entities controlled by it. In contrast to the original focus on the inspection, the Commission reduced the scope of the inquiry down to a suspicion of violation of Article 102 of the Treaty on the Functioning of the European Union (abuse of dominant position). In the Commission's view, this suspicion arises from ČEZ allegedly preventing the competition from entering the wholesale electricity market by reserving more transmission grid capacity for its existing and future projects than was actually necessary. Commencement of proceedings is a process-related decision, meaning that the Commission will give priority to this inquiry. In no way does it presage the final decision in the matter, since the inquiry is still ongoing and many questions remain unanswered. Since the beginning of the investigation, the Company has received several written Requests For Information (RFI). The company continued to provide all necessary cooperation with the Commission's investigation.

# CEZ GROUP DONORSHIP AND ADVERTISING PARTNERSHIPS

Corporate donorship is a long-term, major priority for CEZ Group. Philanthropic activities at CEZ Group are governed by the motto: “We help where we operate”.

## Donorship

In 2011, CEZ Group actively engaged in volunteer work, which it considers an integral part of its corporate social responsibility.
Also in 2011, CEZ Group defended its number-one position in the TOP Responsible Corporation ranking, in the category Biggest Corporate Donor 2011 by volume of funding. Also in TOP Responsible Corporation, the Group won a special award in the Company and School category from the Business for Society platform, in recognition of our systematic, strategic approach to development of education and talent in the Czech Republic. The award underlined the results from 19 years of the World of Energy education program.
CEZ Group’s long history of donorship initiatives makes it one of the most active corporations in the Czech Republic.

## Financial Donorship

In 2011, CEZ Group companies donated a total of CZK 432.7 million. Of this amount, direct donations accounted for CZK 268.8 million and contributions to the Nadace CEZ foundation totaled CZK 163.9 million.

**CEZ Group Direct Donations (CZK millions)**

| Company | Total value |
|---|---|
| Czech Republic | |
| ČEZ, a. s. | 147.1 |
| ČEZ Distribuce, a. s. | 5.9 |
| ČEZ Distribuční služby, s.r.o. | 1.7 |
| ČEZ Logistika, s.r.o. | 0.1 |
| ČEZ Obnovitelné zdroje, s.r.o. | 0.3 |
| ČEZ Prodej, s.r.o. | 3.1 |
| ČEZ Správa majetku, s.r.o. | 3.7 |
| ČEZ Teplárenská, a.s. | 0.4 |
| ČEZ Zákaznické služby, s.r.o. | 0.7 |
| Energetické centrum s.r.o. | [1] |
| PRODECO, a.s. | 0.2 |
| SD - 1.strojírenská, a.s. | [1] |
| SD - Kolejová doprava, a.s. | [1] |
| SD - Rekultivace, a.s. | 0.1 |
| Severočeské doly a.s. | 100.0 |
| Tepelné hospodářství města Ústí nad Labem s.r.o. | [1] |
| Teplárna Trmice, a.s. | 0.3 |
| Ústav jaderného výzkumu Řež a.s. | 0.4 |
| Poland | |
| CEZ Polska sp. z o.o. | 0.1 |
| Eco-Wind Construction S.A. | 1.1 |
| Elektrociepłownia Chorzów ELCHO sp. z o.o. | 0.3 |
| Elektrownia Skawina S.A. | 0.6 |
| Bulgaria | |
| CEZ Bulgaria EAD | 1.3 |
| CEZ Razpredelenie Bulgaria AD | 1.1 |
| TEC Varna EAD | 0.1 |
| Romania | |
| CEZ Distributie S.A. | 0.2 |
| Tomis Team S.R.L. | [1] |
| Hungary | |
| CEZ Magyarország Kft. | [1] |
| Total | 268.8 |

[1] Less than CZK 0.1 million.

**CEZ Group Direct Donations, by Area**

| Area | CZK millions | % |
|---|---|---|
| municipal infrastructure and regional development | 136.5 | 50.7 |
| culture, the arts, and the environment | 25.5 | 9.5 |
| education, science, and youth | 19.6 | 7.3 |
| healthcare | 11.8 | 4.4 |
| sport | 60.1 | 22.4 |
| needy and handicapped | 15.3 | 5.7 |
| Total | 268.8 | 100.0 |

## Nadace ČEZ Foundation

**Contributions by CEZ Group Companies to Nadace ČEZ Foundation (CZK millions)**

| Company | Contribution |
|---|---|
| ČEZ, a. s. | 54.5 |
| ČEZ Distribuce, a. s. | 66.0 |
| ČEZ Distribuční služby, s.r.o. | 4.2 |
| ČEZ Logistika, s.r.o. | 11.2 |
| ČEZ Měření, s.r.o. | 3.2 |
| ČEZ Prodej, s.r.o. | 21.6 |
| ČEZ Zákaznické služby, s.r.o. | 3.2 |
| Total | 163.9 |

The Nadace CEZ foundation has been contributing to public-benefit activities in the Czech Republic since 2002. In 2011, it supported 528 projects with a total amount of CZK 171.7 million, making it one of the most generous foundations in the Czech Republic.
Since its establishment, the Nadace CEZ foundation has been supporting projects that support and encourage healthy, active lifestyles for children and youth, improve the quality of life of disadvantaged population groups, and help drive the overall development of civic society activities. The Nadace CEZ foundation operates the following grant programs: Support for Regions, Orange Playgrounds, Orange Wheel, Orange Classroom, Orange Stairs, and Trees 2011.
The Trees 2011 project was announced by the Nadace CEZ foundation in May 2011. Through it, cities and towns throughout the Czech Republic can obtain foundation funding for, e.g., renewing trees along streets and avenues, building new parks, and green noise barriers. A total of 117 towns, cities, and city districts obtained funding, and over 44,000 trees were planted.

## Advertising Partnerships

As a major corporation, CEZ Group supported, through advertising, a number of projects from various walks of life. Among sports-related projects connected with environmental protection, we are a traditional supporter of trails, existing and new, for cycling and cross-country skiing.

Significant regional projects supported by CEZ Group in the Czech Republic included:
- Support in regions – NATO Days in Ostrava, Třebíč – Dukovany Nuclear Power Station cycling trail, Horní Počaply – Vlíněves – Zelčín cycling trail, South Bohemia Cycling Trails Foundation
- Culture and the arts – Karlovy Vary International Film Festival, Colours of Ostrava music festival, Vysmáté léto (Summer Laughs) festival, Děčín Municipal Theater, Grand Festival of Laughter, Anifest Teplice, Smetana's Litomyšl, Jičín – City of Fairy Tales, Janáček's May, Bohemia Jazz Fest, general partner of the Revolving Auditorium in Český Krumlov, EKOFILM 2011
- Amateur sports – maintenance of the Jizerská magistrála cross-country skiing trail, maintenance of cross-country skiing trails in Srní, support for cycling as a form of transportation in Karlovy Vary, the Pilsen Half-Marathon, ČEZ STREET hockey, Track & Field for Kids in Kladno
- Professional sports – the Czech Extraliga, Chomutov Pirates and Sportovní klub Kadaň ice-hockey teams, ČEZ Basketball Nymburk basketball team, Basketball All-star Game, the Golden Helmet (Zlatá přilba), the Golden Spike (Zlatá tretra), the Kutná Hora Bar (Kutnohorská laťka), the Cyclo-cross World Cup in Tábor, junior players in the FK Teplice football club
- Education – Science and Technology Days in Pilsen and Brno, Techmania, mining museums
- Aid for the needy – Beauty Helps Children, I'm Alive Just Like You Are, Mamma HELP
- The environment – Let's Clean Up the Jizerka Mountains, Ústí nad Labem Zoo, Liberec Zoo, Pilsen Zoo, Dvůr Králové nad Labem Zoo, Hluboká nad Vltavou Zoo
- Healthcare – Water Rescue Service of the Czech Red Cross, Paramedic Rescue Service of the South Bohemia Region, Ostrava Municipal Hospital, Žatec Hospital, Třebíč Hospital.

At the international level, CEZ Group informed its customers of an option to contribute to SOS Children's Villages Bulgaria, supported the operation of the www.energiainfo.hu 1 website with power industry-related information, and provided funding for local projects in the vicinity of the Romanian wind park sites focused on local infrastructural and environmental improvements, as well as equipping healthcare facilities.

www.nadacecez.cz www

1 www

# YOUR CHOICE

The CEZ Group “Your Choice” project opens a dialog with the public and gives it an entirely concrete way to decide on the allocation of funding budgeted for the purposes of volunteer work. Through the project, active members of the public take part in deciding whom CEZ Group, in cooperation with the Nadace CEZ foundation, will support.

The Náchod Area Hospital revamped its Clinical Hematology Center and Transfusion Service thanks to a CZK 500,000 contribution from the Your Choice project.

Through the Your Choice project, CEZ Group is poised to support a total of seven projects in various regions throughout the Czech Republic and one project that goes beyond the regional scope, based on its own proposals.

# BASIC ORGANIZATION CHART OF ČEZ, A. S. AS AT APRIL 1, 2012

**General Meeting**

**Board of Directors**

- **901000000 Chief Executive Officer's Division** – Daniel Beneš
  - 901002000 Internal Audit
  - 901003000 Legal
  - 901004000 CEZ Group Communications
  - 901007000 ČEZ Ombudsman's Office
  - 901008000 CEZ Group Security
  - 901009000 Quality and Management System
  - 90100A00 CEZ Group Safety Inspectorate
  - 901000010 Chief Executive Officer's Office
  - **90B000000 Strategy Division** – Pavel Cyrani
    - 90B001000 Engineering
    - 90B002000 Business Development
    - 90B003000 Markets Analysis and Forecasting
    - 90B004000 Group Asset Management
  - **90A000000 Distribution and International Affairs Division** – Tomáš Pleskač
    - 90A001000 Management of International Equity Stakes
    - 90A003000 Foreign Acquisitions – Romania
    - 90A005000 Foreign Acquisitions – Turkey
    - 90A007000 Performance Management
    - 90A009000 Asset Management – Technical Support
    - 90A002000 Foreign Acquisitions – Bulgaria
    - 90A004000 Foreign Acquisitions – Poland
    - 90A006000 Foreign Acquisitions – Albania
    - 90A008000 Distribution
    - 90A000500 Foreign Acquisition – MOL
    - 90A000700 Mergers & Acquisitions Execution
  - **904000000 Sales Division** – Alan Svoboda
    - 904003000 Trading
    - 904005000 Legislation and Markets
    - 904000100 European Affairs
    - 904000200 Foreign Commercial Representation
    - 904000400 Sales Management Support
    - 904000500 Portfolio Optimization
    - 904000600 Long-Term Contracts
  - **905000000 Production Division** – Vladimír Hlavinka
    - 905002000 Safety
    - 905004000 Production Management
    - 905005000 Asset Management
    - 905006000 Central Engineering
    - 905007000 Supplier System Management
    - 905008000 Cogeneration
    - 905000100 Production Division Analytical Support

**Supervisory Board**

**Audit Committee**

- 9053DU000 Dukovany Nuclear Power Station
- 9053TE000 Temelín Nuclear Power Station
- 9053DE000 Dětmarovice Power Station
- 9053ME000 Mělník Power Station
- 9053PL000 Počerady and Ledvice Power Stations
- 9053TP000 Tušimice and Prunéřov Power Stations
- 9053VD000 Hydro Power Stations
- 9053VT000 Hodonín, Poříčí, Tisová and Vítkovice Power Heating Plants

**909000000 Investment Division**
Peter Bodnár

- 909001000 Commercial Management of Projects
- 909004000 Conventional Power Plant Construction
- 909005000 Nuclear Power Plant Construction

**908000000 Procurement Division**
Michaela Chaloupková

- 908001000 Power Plant Procurement, Construction, and Renewal
- 908002000 Production-related Procurement
- 908003000 Distribution-related Procurement
- 908004000 Procurement of Non-core Services and Supplies
- 908007000 Fuel Cycle
- 908000100 Procurement Support

**902000000 Finance Division**
Martin Novák

- 902001000 Accounting
- 902002000 Central Controlling
- 902003000 Financing
- 902004000 Taxes
- 902005000 Risk Management

**906000000 Administration Division**
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- 906001000 ICT Strategy
- 906003000 Equity Stakes

**907000000 Human Resources Division**
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- 907001000 CEZ Group HR Management
- 907002000 HR Development
- 907003000 CEZ Group Personnel Services
- 9070004000 HR Compensation
- 907005000 Internal Communications
- 907006000 Strategic Recruiting
- 907007000 HR Services to Customers
- 907008000 Social Relations
- 907000001 Human Resources Division Support

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# CEZ GROUP INFORMATION CENTERS AND FACILITIES AVAILABLE FOR PUBLIC TOURS

| Štěchovice Hydro Power Station | |
|---|---|
| Type of exhibit | run-of-river and pumped-storage hydro power plant and information center |
| Operator | ČEZ, a. s. |
| Street and street number | Prof. Vl. Lista 329 |
| Postcode and city | 252 07 Štěchovice |
| Telephone | 602 107 453<br>603 769 197<br>608 308 759<br>211 026 111 |
| Fax | 211 026 577 |
| E-mail | cez@cez.cz |
| Opening hours | Open year-round:<br>8:00 a.m.–3:00 p.m. |
| Advance reservation necessary | yes |
| Name of nearest public transport station/stop | Štěchovice (bus) |

| Dalešice Hydro Power Station | |
|---|---|
| Type of exhibit | pumped-storage hydro power plant and information center |
| Operator | ČEZ, a. s. |
| Postcode and city | 675 77 Kramolín |
| Telephone | 561 105 519 |
| Fax | 561 104 960 |
| E-mail | infocentrum.edu@cez.cz |
| Opening hours | July–August:<br>Sunday to Saturday<br>9:00 a.m.–4:00 p.m.<br>September–June:<br>Monday to Friday<br>by advance reservation only |
| Advance reservation necessary | September–June |
| Name of nearest public transport station/stop | Kramolín (bus) |

| Lipno Hydro Power Station | |
|---|---|
| Type of exhibit | information center |
| Operator | ČEZ, a. s. |
| Postcode and city | 382 78 Lipno nad Vltavou |
| Telephone | 731 562 835<br>725 614 409<br>607 666 928<br>607 673 651<br>380 746 621 |
| E-mail | infocentrum.eli@cez.cz |
| Opening hours | June 15–September 15:<br>seven days a week,<br>tours begin on the hour<br>(first tour 10:00 a.m.,<br>last tour 3:00 p.m.)<br>Tours in German language<br>each Wednesday and Friday<br>at 4:00 p.m. |
| Advance reservation necessary | September 16–June 14 |
| Name of nearest public transport station/stop | Lipno nad Vltavou žel. st. (bus);<br>Lipno nad Vltavou (train) |

| Orlík Hydro Power Station | |
|---|---|
| Type of exhibit | tour of power plant and dam |
| Operator | Rozvoj destinace Písecká o.s. |
| Street and street number | Vodní elektrárna Orlík,<br>P.O. Box 9 |
| Postcode and city | 262 33 Solenice |
| Telephone | 737 506 950 |
| E-mail | pisecko@email.cz |
| Opening hours | Monday–Friday (except State holidays) at 11:00 a.m.,<br>Saturday–Sunday at 10:00 a.m. |
| Advance reservation necessary | yes |
| Name of nearest public transport station/stop | Bohostice,<br>přehrada Hotel (bus);<br>Solenice – Orlík přehrada or<br>Orlík – přehrada (boat) |

| Vydra and Čeňkova Pila Hydro Power Stations | |
|---|---|
| Type of exhibit | permanent exhibition "Energy of the Bohemian Forest" on utilization of Bohemian Forest water resources in past and present; small-scale hydro power plant |
| Operator | ČEZ Obnovitelné zdroje, s.r.o. |
| Street and street number | Čeňkova Pila |
| Postcode and city | 341 92 Kašperské Hory |
| Telephone | 376 599 237 |
| E-mail | cez@cez.cz |
| Opening hours | June–September: Sunday and Tuesday–Saturday, tours begin at 9:00 a.m., 11:00 a.m., 1:00 p.m. and 3:00 p.m. May: Wednesday and Saturday only |
| Advance reservation necessary | October–April |
| Name of nearest public transport station/stop | Srní, Čeňkova Pila (bus) |

| Dlouhé Stráně Pumped-storage Hydro Power Station | |
|---|---|
| Type of exhibit | pumped-storage hydro power plant |
| Operator | K3 Sport, s.r.o. |
| Street and street number | Přečerpávací vodní elektrárna Dlouhé Stráně |
| Postcode and city | 788 11 Kouty nad Desnou |
| Telephone | 602 322 244<br>583 283 282 |
| E-mail | info@k3-sport.cz;<br>infocentrum.eds@cez.cz<br>www.dlouhe-strane.cz |
| Opening hours | year round, seven days a week including State holidays: 8:00 a.m. to 5:00 p.m. |
| Advance reservation necessary | yes |
| Name of nearest public transport station/stop | Loučná nad Desnou, Kouty nad Desnou, restaurace (bus) |

| Renewable Energy Sources Information Center | |
|---|---|
| Type of exhibit | information center, small-scale hydro power plant |
| Operator | ČEZ Obnovitelné zdroje, s.r.o. |
| Street and street number | Křižíkova 233 |
| Postcode and city | 500 03 Hradec Králové |
| Telephone | 492 122 660<br>725 781 564<br>725 781 565 |
| E-mail | infocentrum.oze@cez.cz |
| Opening hours | seven days a week, 9:00 a.m. to 4:00 p.m.; tours of the Hradec Králové Small-scale Power Station take place on Saturdays, Sundays, and State holidays at 2:00 p.m.; closed January 1, Easter Monday, December 24, December 31, and on the first Monday of each month |
| Advance reservation necessary | power plant tours: Monday–Friday (no advance reservation required for information center); advance reservation required for all groups above ten persons |
| Name of nearest public transport station/stop | Labská kotlina Obří akvárium (bus, trolleybus) |

| Řež Nuclear Research Institute | |
|---|---|
| Type of exhibit | LVR – 15 and LR – 0 reactors, experimental hall |
| Operator | Ústav jaderného výzkumu Řež a.s., Centrum výzkumu Řež s.r.o. |
| Street and street number | Husinec – Řež č.p. 130 |
| Postcode and city | 250 68 Husinec |
| Telephone | 266 173 463 |
| Fax | 266 173 464 |
| E-mail | scr@ujv.cz |
| Opening hours | by advance reservation |
| Advance reservation necessary | yes |
| Name of nearest public transport station/stop | Husinec, Řež, závod (bus) |

| Dukovany Nuclear Power Station | |
|---|---|
| Type of exhibit | information center |
| Operator | ČEZ, a. s. |
| Street and street number | Jaderná elektrárna Dukovany |
| Postcode and city | 675 50 Dukovany 2, č. p. 269 |
| Telephone | 561 105 519 |
| E-mail | infocentrum.edu@cez.cz |
| Opening hours | year round, seven days a week, including State holidays: 9:00 a.m. to 4:00 p.m.; in July and August extended hours until 5:00 p.m.; closed January 1, Easter Monday, December 24–26, and on the first Monday of each month |
| Advance reservation necessary | yes, for groups above five persons |
| Name of nearest public transport station/stop | Dukovany, EDU (bus) |

| Temelín Nuclear Power Station | |
|---|---|
| Type of exhibit | information center |
| Operator | ČEZ, a. s. |
| Street and street number | Jaderná elektrárna Temelín (Vysoký Hrádek Chateau, next to power station) |
| Postcode and city | 373 05 Temelín – elektrárna |
| Telephone | 381 102 639 |
| Fax | 381 104 900 |
| E-mail | infocentrum.ete@cez.cz |
| Opening hours | year round, seven days a week, including State holidays: 9:00 a.m. to 4:00 p.m.; in July and August extended hours until 5:30 p.m.; closed January 1, December 24–26, December 31 |
| Advance reservation necessary | yes, for groups above five persons |
| Name of nearest public transport station/stop | Temelín, Březí u Týna, JE (bus) |

| Ledvice Coal-fired Power Station | |
|---|---|
| Type of exhibit | information center |
| Operator | ČEZ Správa majetku, s.r.o. |
| Street and street number | Bílina 141 |
| Postcode and city | 418 48 Bílina |
| Telephone | 411 102 313 |
| E-mail | infocentrum.ele@cez.cz |
| Opening hours | Monday–Friday from 8:00 a.m. to 4:00 p.m.; closed on State holidays |
| Advance reservation necessary | yes, for groups above ten persons |
| Name of nearest public transport station/stop | Chudeřice, závod (bus); Chotějovice (train) |

| Severočeské doly a.s. Information Center | |
|---|---|
| Type of exhibit | Severočeské doly a.s. information center |
| Operator | AGENTURA MODUA s.r.o. |
| Street and street number | Boženy Němcové 5359 |
| Postcode and city | 430 01 Chomutov |
| Telephone | 474 604 636 |
| E-mail | www.infocentrumsdas.cz/page-o-infocentru |
| Opening hours | Monday–Friday from 8:00 a.m. to 4:00 p.m.; closed on State holidays |
| Advance reservation necessary | groups only |
| Name of nearest public transport station/stop | Chomutov, Palackého (municipal and regional buses, trolleybus); Chomutov, autobusové nádraží (long-distance buses) |

| Nástup Tušimice Mines | |
|---|---|
| Type of exhibit | surface mine |
| Operator | Severočeské doly a.s. |
| Postcode and city | 432 01 Kadaň |
| Telephone | 474 602 956 |
| Fax | 474 602 957 |
| E-mail | buskova@sdas.cz |
| Opening hours | Monday–Friday: 6:00 a.m. to 2:00 p.m. |
| Advance reservation necessary | yes |
| Name of nearest public transport station/stop | Tušimice, důl Merkur (bus) |

| Bílina Mines | |
|---|---|
| Type of exhibit | surface mine |
| Operator | Severočeské doly a.s. |
| Street and street number | Důlní 375/89 |
| Postcode and city | 418 29 Bílina |
| Telephone | 417 805 012 |
| Fax | 417 804 002 |
| E-mail | bila@sdas.cz |
| Opening hours | Monday–Friday: 6:00 a.m. to 2:00 p.m. |
| Advance reservation necessary | yes |
| Name of nearest public transport station/stop | Bílina, aut. nádr. (bus); Bílina (train) |

| ELCHO Power Station | |
|---|---|
| Type of exhibit | power plant |
| Operator | Elektrociepłownia Chorzów ELCHO sp. z o.o. |
| Street and street number | ul. Marii Skłodowskiej-Curie 30 |
| Postcode and city | 41-503 Chorzów |
| Telephone | +48 327 714 001 |
| Fax | +48 327 714 020 |
| E-mail | anna.kotlarska@cezpolska.pl |
| Opening hours | by advance appointment |
| Advance reservation necessary | yes |
| Name of nearest public transport station/stop | Chorzów, plac Jana (bus) |

| Skawina Power Station | |
|---|---|
| Type of exhibit | power plant |
| Operator | Elektrownia Skawina S.A. |
| Street and street number | ul. Piłsudskiego 10 |
| Postcode and city | 32-050 Skawina |
| Telephone | +48 122 772 000 |
| Fax | +48 122 778 618 |
| E-mail | teresa.detyna@cezpolska.pl |
| Opening hours | by advance appointment |
| Advance reservation necessary | yes |
| Name of nearest public transport station/stop | Skawina, Elektrownia (bus) |

# INFORMATION FOR SHAREHOLDERS AND INVESTORS

| Financial Calendar | Date |
|---|---|
| CEZ Group audited consolidated financial statements for the year 2011 | February 28, 2012 |
| ČEZ, a. s. audited financial statements for the year 2011 | February 28, 2012 |
| Press conference | February 28, 2012 |
| Conference call (in English) | February 28, 2012 |
| Year-end financial statements of subsidiaries included in the CEZ Consolidated Group | March 15, 2012 |
| Selected figures of associates and joint-ventures included in the CEZ Consolidated Group | March 15, 2012 |
| CEZ Group 2011 Annual Report – electronic version in Czech, English, and Polish; Czech version in print | April 30, 2012 |
| CEZ Group 2011 Annual Report – Polish version in print | May 7, 2012 |
| CEZ Group non-audited consolidated financial figures for Q1 2012 | May 10, 2012 |
| ČEZ, a. s. non-audited financial figures for Q1 2012 | May 10, 2012 |
| Interim consolidated financial statements | May 10, 2012 |
| Press conference | May 10, 2012 |
| Conference call (in English) | May 10, 2012 |
| CEZ Group 2011 Annual Report – English version in print | May 15, 2012 |
| Annual General Meeting | June 26, 2012 |
| CEZ Group non-audited consolidated financial figures for H1 2012 | August 9, 2012 |
| ČEZ, a. s. non-audited financial figures for H1 2012 | August 9, 2012 |
| Interim consolidated financial statements | August 9, 2012 |
| Press conference | August 9, 2012 |
| Conference call (in English) | August 9, 2012 |
| CEZ Group 2012 Half-Year Report | August 31, 2012 |
| CEZ Group non-audited consolidated financial figures for Q1–Q3 2012 | November 8, 2012 |
| ČEZ, a. s. non-audited financial figures for Q1–Q3 2012 | November 8, 2012 |
| Interim consolidated financial statements | November 8, 2012 |
| Press conference | November 8, 2012 |
| Conference call (in English) | November 8, 2012 |
| CEZ Group audited consolidated financial statements for the year 2012 | February 28, 2013 |
| ČEZ, a. s. audited financial statements for the year 2012 | February 28, 2013 |
| Press conference | February 28, 2013 |
| Conference call (in English) | February 28, 2013 |

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| | zaklienta@cez.bg | 0700 10 010 (when calling from Bulgaria) |
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| Customer line in Slovakia | | |
| | cez@cez.sk | 0850 888 444 (when calling from Slovakia) |
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| postal address: | | |
| Josef Sedlák, Ombudsman ČEZ | | |
| Hvězdova 1716/2b, 140 62 Prague 4 | | |
| Czech Republic | cannot be contacted by telephone | |

## CEZ Group Electronic Presentations

CEZ Group electronic presentations and communications make it easier for shareholders and other interested parties to find the information they seek.

Through its website, www.cez.cz, CEZ Group provides a comprehensive information service, including multimedia news reports.

Information on the website is available in Czech and English, with some information in German as well. Selected reports are also published in the Polish language. In 2011, www.cez.cz recorded nearly 2 million visitors, over one half of which were newcomers to the site. At the same time, according to Google Analytics the visitors spend over four minutes, on average, at the site and one third of them come back regularly. CEZ Group operates a set of websites, with unified design, in the various countries where it has operations. The unique concept of a multilingual web portal based on the Czech website operates at the addresses www.cez.al for Albania, www.cez.bg for Bulgaria, www.cez.hu for Hungary, www.cez.ro for Romania, www.cezpolska.pl for Poland, and www.cez.sk for Slovakia. Other than the last two, the sites also provide a subset of information in the English language as well. The number-one CEZ Group international website in terms of visitorship, with nearly 0.5 million visitors per month, is the Bulgarian CEZ Group site. The sites contain descriptions of the operations in the given country, a listing of local events, and information for customers.

In 2011, CEZ Group also launched the first ever version of its corporate website, www.cez.cz, for mobile devices. The service is optimized for all mobile phones and will be gradually expanded to offer visitors other useful functions.

In addition to the sites mentioned above, the Group also operates the following “thematic microsites”, which supplement the information on the primary website:

1) www.cezregionum.cz presents projects through which CEZ Group engages with customers in various regions of the Czech Republic.
2) www.kdejinde.cz provides information on job vacancies and highlights the advantages of working for CEZ Group.
3) www.futuremotion.cz and www.elektromobilita.cz introduce visitors to the FutureMotion project.
4) www.levnyplynodcez.cz and www.cez.cz/etarif inform customers of special offers, and include a practical price calculator.

At the very end of the year, the self-service CEZ Group Geoportal was launched at the address geoportal.cez.cz. By providing grid maps and facility location information, the Geoportal enables builders and engineers to obtain statements regarding the existence of power grid and network infrastructure and other necessary information from the companies ČEZ ICT Services and ČEZ Distribuce.
Also, CEZ Group videos are available at the address www.youtube.com/user/SkupinaCEZ.
The Corporate Responsibility Report for the years 2008 and 2009 was published in 2010. It is located on the CEZ Group website at www.cez.cz/cs/odpovedna-firma/zprava-o-spolecenske-odpovednosti-skupiny-cez.html. The Corporate Responsibility Report for the years 2010 and 2011 is to be published in 2012.

CEZ Group also publishes a number of magazines on various topics, the complete editions or on-line versions of which can be found on the Internet:

1) ČEZ Info, a quarterly magazine for corporate customers with news from CEZ Group and the power industry: www.cez.cz/cs/pro-zakazniky/ke-stazeni/magazin-cez-info.html
2) Šťáva (Juice), a customer lifestyle magazine targeting retail customers: www.stava.cz
3) our employee magazine, ČEZ News (11 editions per year), looks in-depth at what’s going on at CEZ Group: www.cez.cz/cs/pro-media/casopis-cez-news
4) Dukovany Nuclear Power Station’s magazine, entitled Zpravodaj (Bulletin), is dedicated to the people living in the vicinity of this power plant: www.cez.cz/cs/vyroba-elektriny/jaderna-energetika/jaderne-elektrarny-cez/edu/informacni-centrum/zpravodaj.html
5) Temelín Nuclear Power Station’s magazine, entitled Temelínky, informs its readers on the latest activities and news from around the plant: www.cez.cz/cs/vyroba-elektriny/jaderna-energetika/jaderne-elektrarny-cez/ete/informacni-centrum/temelinky.html
6) the e-zine (an electronic magazine) Třetí pól, or Third Pole, popularizes science and technology with an emphasis on the power industry: www.tretipol.cz
7) an information site sponsored by CEZ Group in Hungary, carrying energy- and power industry-related news reports, can be found at: www.energiainfo.hu
8) the monthly bulletin Energetika v EU (Power Industry in the EU) keeps its readers abreast of European integration-related developments in the power industry: www.cez.cz/cs/o-spolecnosti/evropska-agenda/bulletin-energetika-eu.html

For the professional public, we have two sites in the English language: first, a presentation for investors at www.cez.cz/cs/pro-investory/prezentace-pro-investory/ and, second, recordings of conference calls held on days when the Group holds press conferences, available at www.cez.cz/cs/pro-investory/kalendar-ir-akci.html. In both cases, one must first select a year to display the relevant information.

## CEZ Group Presentations on Social Networks

CEZ Group is an active participant in leading social networks. Here, we use Facebook in particular, where we operate five pages:

1) www.facebook.com/PracevCEZu, where we present opportunities for building a career with CEZ Group, both in the Czech Republic and abroad
2) www.facebook.com/fandime.elektromobilum, where we present progress reports on projects relating to the development of electromobility in the Czech Republic
3) www.facebook.com/CEZlidem – launched in 2011, the ČEZ lidem, or ČEZ for People, page provides visitors with information concerning the Nadace CEZ foundation, social responsibility, corporate volunteer work, and other CEZ Group engagement projects in the various regions of the Czech Republic
4) www.facebook.com/CEZinformacni.centra, where we publish reports on what’s going on at CEZ Group power station information centers
5) www.facebook.com/CEZslovensko, also launched in 2011, is the Facebook page of ČEZ Slovensko, offering an energy savings calculator along with the opportunity to order gas and/or electricity from CEZ Group.

On the Twitter platform, CEZ Group operates at the address www.twitter.com/SkupinaCEZ. CEZ Group uses this tool to distribute press releases, particularly to those who access the Internet through their cell phones.

## Glossary of Terms and Abbreviations

| Term | Commentary |
|---|---|
| CCGT | Combined Cycle Gas Turbine |
| Design-to-Cost | a decision-making restriction on project contents achieved by setting a cost limit for project execution |
| DKEVR | Държавна комисия за енерго и водно регулиране<br>State Energy and Water Regulation Commission (in Bulgaria) |
| EPC contract | Engineering, Procurement and Construction contract<br>A turn-key delivery of an industrial installation. The supplier is responsible for the completion of the project and construction of the installation. |
| ERE | Enti Rregullator i Energjise<br>Energy Market Regulator (in Albania) |
| ERÚ | Energetický regulační úřad<br>The Energy Regulatory Office |
| EU ETS | EU Emissions Trading Scheme<br>The EU ETS is one of several tools for meeting the EU's reduction pledge under the Kyoto Protocol. It charges a fee for each ton of carbon released. It was put into place in 2005 and currently is applied in the 27 European Union Member States, Iceland, Liechtenstein, and Norway. |
| Euratom | European Atomic Energy Community |
| FP7 | The European Union's 7th Framework Program for Research, Technological Development, and Demonstration Activities<br>The European Union's principal tool for financing research and development. |
| GPW | Giełda papierów wartościowych w Warszawie SA<br>The Warsaw Stock Exchange |
| IAEA | International Atomic Energy Agency<br>An inter-governmental organization within the UN system, promoting the peaceful utilization of nuclear energy. |
| ICE | IntercontinentalExchange<br>(an electronic exchange for electricity trading) |
| KM | Convertible Mark<br>The official currency of Bosnia and Herzegovina. Since its inception in 1998, it has been pegged to the German Mark (DEM), and from 2002 to the Euro. |
| OSART | Operational Safety Review Team<br>A review of nuclear power plant operation and development. Takes place at the recommendation of the IAEA every ten years at the invitation of the Government of the Czech Republic. Serves to compare the reviewed plants practices with international standards and IAEA recommendations in nine areas, as well as monitoring the attitudes and approaches of all participants to the culture of safety. |
| Photovoltaic power plant | Photovoltaic (solar) power plants consist of photovoltaic (solar) panels, where solar radiation is converted into electricity. Particles of light, called photons, falling upon the surface of the solar panel cause electrons to be released, thereby generating electrical current. |
| SLA | Service Level Agreement<br>Part of a service agreement stipulating parameters for the service to be provided under the agreement. |
| SÚJB | Státní úřad pro jadernou bezpečnost<br>The State Office for Nuclear Safety |
| WANO | World Association of Nuclear Operators |
| ZIRLO | A trademark owned by Westinghouse Electric Company, Pittsburgh, United States of America |

## List of Units and Abbreviations Used

| Unit | Commentary |
|---|---|
| Wh | watt-hour; a unit of work |
| V | volt; a unit of electrical potential (voltage) |
| W | watt; a unit of power (load) |
| t | metric ton; a unit of mass |
| TJ | terajoule; a unit of work (energy) |
| $J.kg^{-1}$ | joules per kilogram; a unit of heat content |

## Method Used to Calculate CEZ Group Key Indicators

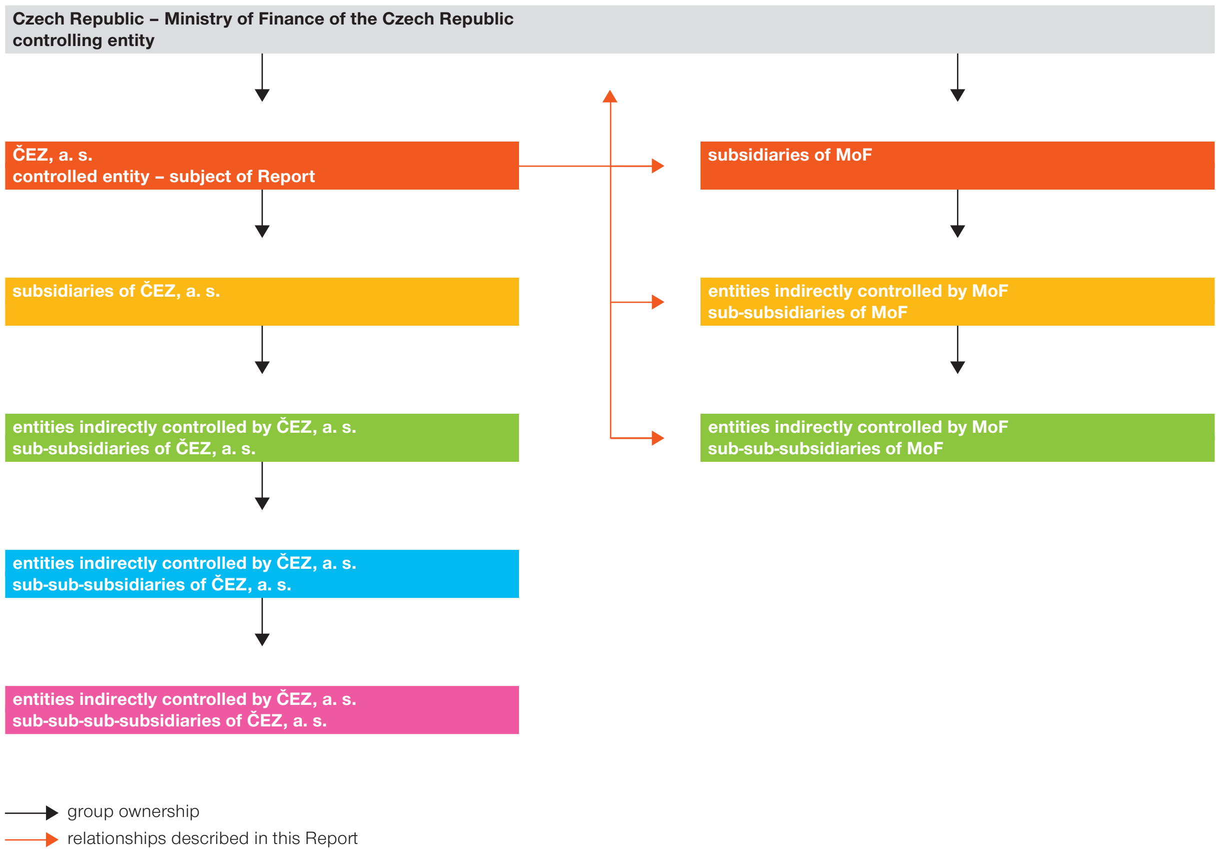
| Indicator | Calculation |
|---|---|
| Current ratio | Current assets / Current liabilities |
| Total debt | Long-term debt, net of current portion + Current portion of long-term debt + Short-term loans |
| Total capital | Equity attributable to equity holders of the parent + Total debt |
| Net debt | Long-term debt, net of current portion + Current portion of long-term debt + Short-term loans – (Cash and cash equivalents + Highly liquid financial assets) |
| Net debt / EBITDA | Net debt / Earnings before interest, taxes, depreciation and amortization |
| Dividend per share (gross) | Dividend granted in current year, before tax, on shares outstanding (paid in the year in question, out of previous year's income) |
| EBIT | Earnings before interests and taxes |
| EBITDA | Earnings before interest, taxes, depreciation and amortization |
| Return on Assets (ROA), net | Net income / Average total assets [2)] |
| Return on Invested Capital (ROIC) | (EBIT + Creation/release of other provisions) * (1 – Corporate income tax rate) / (Average invested capital) [2)] |
| Return on Equity (ROE), net | Net income attributable to equity holders of the parent / Average equity attributable to equity holders of the parent [2)]<br>[1)] Net income / Average equity [2)] |

[1)] Definition applicable to ČEZ, a. s. (different from definition for CEZ Group).
[2)] Average value = (Value at end of previous year + Value at end of current year) / 2.

# LIST OF TABLES AND GRAPHS IN THE ANNUAL REPORT

# ČEZ, A. S. RELATED PARTIES REPORT FOR THE YEAR 2011

## 1. Legend




## 2. Group structure chart

See insert under back cover flap.

## 3. Controlling entity and compiler of the Related Parties Report

| Czech Republic – Ministry of Finance – controlling entity | |
|---|---|
| Name | Ministry of Finance of the Czech Republic |
| With its seat at | Letenská 525/15, 118 10 Prague 1 |
| ID Number | 00006947 |

| ČEZ, a. s. – controlled entity – compiler of the Report | |
|---|---|
| Company | ČEZ, a. s. |
| With its seat at | Duhová 2/1444, 140 53 Prague 4 |
| ID Number | 45274649 |

Incorporated in the Commercial Register maintained by Municipal Court in Prague, Part B, insert 1581.

| | |
|---|---|
| Size of equity interest | At December 31, 2011 the controlling entity, MoF, owned a 69.37% equity interest in ČEZ, a. s. |

In accordance with Section 66a(9) of the Commercial Code, the Related Parties Report covers the period January 1, 2011 – December 31, 2011.

## 4. Alphabetical list of companies – Group members

See insert under back cover flap.

## 5. Contractual relations

During the period from January 1, 2011 to December 31, 2011, the following agreement was entered into, and the following purchase order accepted, between ČEZ, a. s. and related parties, i.e. between the controlling entity and a controlled entity or between a controlled entity and other entities controlled by the same controlling entity:

ČEPRO, a.s.

Agreement No. 4100032408 on storage, purchase, and sale of fuel, dated June 25, 2011. The agreement was entered into with a predefined validity period, from July 1, 2011 to June 30, 2019. The subject matter of the agreement is to secure the storage, stocking, filling, and release of diesel fuel owned by ČEPRO, a.s. in tanks located in buildings of Dukovany Nuclear Power Station and Temelín Nuclear Power Station.

Letiště Praha, a. s.

Purchase Order No. 4100032408 for VIP check-in services at Ruzyně Airport, dated March 4, 2011.

The above agreement and purchase order were entered into at arm's length: the consideration and counter-consideration provided was in line with customary business terms. This business relation did not damage ČEZ, a. s. in any way.

## 6. Other relations

ČEZ, a. s. did not take any legal actions in the interests of related parties nor did it accept or perform any other measures in the interests of related parties or at their behest.

## 7. Other information

### 7.1. Confidentiality

Within the Group, information and facts are considered confidential if they constitute part of a business secret of related parties or if they have been declared confidential by any entity that is part of the Group. Also considered confidential is all commercial information that could be, by itself or in conjunction with other information, injurious to any of the entities constituting the Group. For this reason, Part 5 of this Report does not contain information on prices or quantities.

### 7.2. Auditor's review of the Related Parties Report for the Year 2011

This Related Parties Report has been reviewed by the auditor, Ernst & Young Audit, s.r.o., License No. 401. The auditor's statement is given in the 2011 Annual Report of CEZ Group.

### 7.3. Companies that did not provide information

Despite the use by the compiler of this Report of the best efforts that can be fairly expected of it to obtain the information necessary for inclusion in this Report, the following Group companies failed to provide the requested information:
Hotelinvest a.s. in bankruptcy
HOLDING KLADNO a.s. "in liquidation"
Severočeské mlékárny, a.s. Teplice in bankruptcy

## 8. Conclusion

The compilation of the Related Parties Report was secured by the statutory body of ČEZ, a. s. within the time stipulated by law.
The Related Parties Report was compiled according to the best knowledge and awareness of the compiler and best efforts were used to obtain the documentation from which the information was drawn.
The definition of the Czech Republic's Group was prepared from information provided by the MoF.
The auditor's statement is given in the 2011 Annual Report of CEZ Group. The Report was submitted to the Supervisory Board for review. The Supervisory Board will present its opinion at the Company's General Meeting.

Prague, March 12, 2012

Daniel Beneš
Chairman of the Board of Directors

Martin Novák
Vice Chairman of the Board of Directors

# SUPPLEMENTARY INFORMATION ON CEZ GROUP MEMBERS

**Fees Charged by External Auditors of Companies of the CEZ Consolidated Group in 2011 (CZK millions)**

| | Audit services | Tax consulting | Economic and organizational consulting | Other | Total |
|---|---|---|---|---|---|
| ČEZ, a. s. | 22.0 | 3.5 | 8.0 | – | 33.5 |
| Fully consolidated CEZ Group companies | 57.1 | 5.3 | 20.4 | 11.6 | 94.5 |
| **CEZ Group, total** | **79.1** | **8.8** | **28.4** | **11.6** | **128.0** |

**CEZ Group External Auditors**

| CEZ Group Company | Name of audit firm |
|---|---|
| Czech Republic | |
| ČEZ, a. s. | Ernst & Young Audit, s.r.o. |
| 3 L invest a.s. | Alfery Audit s.r.o. |
| AREA-GROUP CL a.s. | Alfery Audit s.r.o. |
| Bioplyn technologie s.r.o. | Alfery Audit s.r.o. |
| Bohemian Development a.s. | Alfery Audit s.r.o. |
| Centrum výzkumu Řež s.r.o. | NEXIA AP a.s. |
| | PRAGUE TAX SERVICES, a.s. |
| | PKM Audit & Tax s.r.o. |
| ČEZ Bohunice a.s. | Ernst & Young Audit, s.r.o. |
| ČEZ Distribuce, a. s. | Ernst & Young Audit, s.r.o. |
| ČEZ Distribuční služby, s.r.o. | Ernst & Young Audit, s.r.o. |
| ČEZ Energetické produkty, s.r.o. | – |
| ČEZ Energetické služby, s.r.o. | Ernst & Young Audit, s.r.o. |
| ČEZ Energo, s.r.o. | BDO CA s.r.o. |
| ČEZ ENERGOSERVIS spol. s r.o. | Ernst & Young Audit, s.r.o. |
| ČEZ ICT Services, a. s. | Ernst & Young Audit, s.r.o. |
| ČEZ Logistika, s.r.o. | Ernst & Young Audit, s.r.o. |
| ČEZ Měření, s.r.o. | Ernst & Young Audit, s.r.o. |
| ČEZ Obnovitelné zdroje, s.r.o. | Ernst & Young Audit, s.r.o. |
| ČEZ OZ uzavřený IF a.s. | Ernst & Young Audit, s.r.o. |
| ČEZ Prodej, s.r.o. | Ernst & Young Audit, s.r.o. |
| ČEZ Správa majetku, s.r.o. | Ernst & Young Audit, s.r.o. |
| ČEZ Teplárenská, a.s. | Ernst & Young Audit, s.r.o. |
| ČEZ Zákaznické služby, s.r.o. | Ernst & Young Audit, s.r.o. |
| DOMICA FPI s.r.o. | Alfery Audit s.r.o. |
| eEnergy Hodonín a.s. | Alfery Audit s.r.o. |
| eEnergy Ralsko a.s. | Alfery Audit s.r.o. |
| eEnergy Ralsko - Kuřívody a.s. | Alfery Audit s.r.o. |
| Elektrárna Chvaletice a.s. | Ernst & Young Audit, s.r.o. |
| Energetické centrum s.r.o. | Consultas - Audit s.r.o. |
| FVE Buštěhrad a.s. | Alfery Audit s.r.o. |
| FVE Vranovská Ves a.s. | Alfery Audit s.r.o. |
| GENTLEY a.s. | Alfery Audit s.r.o. |

| CEZ Group Company | Name of audit firm |
|---|---|
| KEFARIUM,a.s. | Alfery Audit s.r.o. |
| MARTIA a.s. | ADaKa s.r.o. |
| PPC Úžín, a.s. | Konzultační, expertizní a poradenské služby, spol. s r.o. in liquidation |
| PRODECO, a.s. | NEXIA AP a.s. |
| SD - 1.strojírenská, a.s. | NEXIA AP a.s. |
| SD - Autodoprava, a.s. | NEXIA AP a.s. |
| SD - Kolejová doprava, a.s. | NEXIA AP a.s. |
| SD - KOMES, a.s. | NEXIA AP a.s. |
| SD - Rekultivace, a.s. | NEXIA AP a.s. |
| Severočeské doly a.s. | Ernst & Young Audit, s.r.o. |
| STE - obchodní služby spol. s r.o. in liquidation | – |
| ŠKODA PRAHA a.s. | Ernst & Young Audit, s.r.o. |
| ŠKODA PRAHA Invest s.r.o. | Ernst & Young Audit, s.r.o. |
| Tepelné hospodářství města Ústí nad Labem s.r.o. | ADaKa s.r.o. |
| Teplárna Trmice, a.s. | Ernst & Young Audit, s.r.o. |
| Ústav jaderného výzkumu Řež a.s. | NEXIA AP a.s. |
| | PKM Audit & Tax s.r.o. |

| Republic of Poland | |
|---|---|
| A.E. Wind sp. z o.o. | – |
| CEZ Nowa Skawina S.A. | Ernst & Young Audit sp. z o.o. |
| CEZ Polska sp. z o.o. | Ernst & Young Audit sp. z o.o. |
| CEZ Produkty Energetyczne Polska sp. z o.o. | Ernst & Young Audit sp. z o.o. |
| CEZ Towarowy Dom Maklerski sp. z o.o. | – |
| CEZ Trade Polska sp. z o.o. | Ernst & Young Audit sp. z o.o. |
| Eco-Wind Construction S.A. | – |
| Elektrociepłownia Chorzów ELCHO sp. z o.o. | Ernst & Young Audit sp. z o.o. |
| Elektrownia Skawina S.A. | Ernst & Young Audit sp. z o.o. |
| Elektrownie Wiatrowe Lubiechowo sp. z o.o. | – |
| F.W. Tolkowiec sp. z o.o. | – |
| Farma Wiatrowa Leśce sp. z o.o. | – |
| Farma Wiatrowa Wilkolaz-Bychawa sp. z o.o. | – |
| Mega Energy sp. z.o.o. | – |

| Republic of Bulgaria | |
|---|---|
| CEZ Bulgaria EAD | Ernst & Young Audit OOD |
| CEZ Elektro Bulgaria AD | Ernst & Young Audit OOD |
| CEZ Elektroproizvodstvo Bulgaria AD | Ernst & Young Audit OOD |
| CEZ Laboratories Bulgaria EOOD – in liquidation | – |
| CEZ Razpredelenie Bulgaria AD | Ernst & Young Audit OOD |
| CEZ Trade Bulgaria EAD | Ernst & Young Audit OOD |
| Free Energy Project Oreshets EAD | Ernst & Young Audit OOD |
| TEC Varna EAD | Ernst & Young Audit OOD |

| CEZ Group Company | Name of audit firm |
|---|---|
| Romania | |
| CEZ Distributie S.A. | Ernst & Young S.R.L. |
| | Ernst & Young Assurance Services S.R.L. |
| | Price Waterhouse Coopers |
| | SRAC CERT SRL |
| | KPMG Romania SRL |
| | Profesional Audit SRL |
| CEZ Romania S.A. | Ernst & Young S.R.L. |
| | Ernst & Young Assurance Services S.R.L. |
| | KPMG Romania SRL |
| | Deloitte Consultanta SRL |
| | RADIX CONSULT |
| | PKF FINCONTA SRL |
| CEZ Trade Romania S.R.L. | Ernst & Young Assurance Services S.R.L. |
| CEZ Vanzare S.A. | Ernst & Young S.R.L. |
| | Ernst & Young Assurance Services S.R.L. |
| | SRAC CERT SRL |
| | Price Waterhouse Coopers |
| M.W. Team Invest S.R.L. | ARTHUR D. LITTLE GmbH |
| | KPMG Romania SRL |
| | Ernst & Young Assurance Services SRL |
| | Ernst & Young SRL |
| Ovidiu Development S.R.L. | KPMG Romania SRL |
| | Ernst & Young Assurance Services SRL |
| | Ernst & Young SRL |
| TMK Hydroenergy Power S.R.L. | Ernst & Young Assurance Services SRL |
| Tomis Team S.R.L. | ARTHUR D. LITTLE GmbH |
| | Ernst & Young Assurance Services SRL |
| | Ernst & Young SRL |
| | KPMG Romania SRL |
| Albania | |
| CEZ Albania Sh.A. | Ernst & Young |
| | Hoxha, Memi & Hoxha |
| | Fatmir Kazazi |
| CEZ Trade Albania Sh.P.K. | Ernst & Young Certified Auditors Sh.P.K. - Skopje, Tirana Branch |
| | INTER BBK AUDITING Sh.P.K. |
| CEZ Shpërndarje Sh.A. | Ernst & Young |
| | A.T.KEARNEY |
| | PRICEWATER COOPERS, Albania |
| | WOLF THEISS Albania |
| | TRENKWALDER CIVET 2000 |
| | GFK Albania |
| | ConPRO s.r.o. |
| | DELOITTE Albania Sh.P.K. |

| CEZ Group Company | Name of audit firm |
|---|---|
| **Federal Republic of Germany** | |
| CEZ Deutschland GmbH | – |
| **Netherlands** | |
| CEZ Bulgarian Investments B.V. | Ernst & Young Nederland |
| CEZ Finance B.V. | Ernst & Young Nederland |
| CEZ Chorzow B.V. | Ernst & Young Nederland |
| CEZ International Finance B.V. | Ernst & Young Nederland |
| CEZ MH B.V. | Ernst & Young Nederland |
| CEZ Poland Distribution B.V. | Ernst & Young Nederland |
| CEZ Silesia B.V. | Ernst & Young Nederland |
| **Ireland** | |
| CEZ Finance Ireland Ltd. | Ernst & Young |
| CEZ International Finance Ireland Ltd. | Ernst & Young |
| **Slovakia** | |
| CEZ Slovensko, s.r.o. | Ernst & Young Slovakia, spol. s r.o. |
| **Hungary** | |
| CEZ Magyarország Kft. | Ernst & Young Kft. |
| | KPMG Tanácsadó Kft. |
| | Nova-Audit Kft. |
| **Russia** | |
| CEZ RUS OOO | Limited Liability Company "CONFIB" |
| | Ernst & Young Audit, s.r.o. |
| **Serbia** | |
| CEZ Srbija d.o.o. | Ernst & Young Beograd d.o.o. |
| | KPMG d.o.o. Beograd |
| **Republic of Kosovo** | |
| New Kosovo Energy L.L.C | Ernst & Young Audit, s.r.o. |
| **Bosnia and Herzegovina** | |
| CEZ Bosna i Hercegovina d.o.o. | REVIDENT d.o.o. Zenica |
| NERS d.o.o. | – |
| **Ukraine** | |
| CEZ Ukraine LLC | Ernst & Young |
| **Cyprus** | |
| Taidana Limited | Ernst & Young Cyprus |

# AWARDS RECEIVED BY CEZ GROUP IN 2011 AND IN 2012 UP TO ANNUAL REPORT CLOSING DATE

## Awards in 2011

### April

- 2nd place overall in the 100 Most Admired Companies of the Czech Republic competition – 2011. The competition is organized by the CZECH TOP 100 Association
- 1st place in a competition for implemented district heating and cooling system projects organized by the Association of Power Heating Plants of the Czech Republic. CEZ Group and the City of Bohumín won in the category "Development of District Heat Systems" for a project to supply a district heat system from Dětmarovice Power Station and build a new district heat network in the City of Bohumín.

### June

- 2nd place overall in the 100 Most Admired Companies of the Czech Republic competition – 2010, organized by the CZECH TOP 100 Association
- CEZ Group defends top ranking in the "country – Czech Republic" category in an annual survey of investors and analysts conducted by IR Magazine.

### July

- Industry Champion Award Winner for the Czech Republic goes to ČEZ Zákaznické služby, s.r.o. The award, decided by an international jury vote, was granted by the Global Association For Contact Center Best Practices & Networking in cooperation with Contact Center World on the occasion of the 2011 Top Ranking Performers in the Contact Center World conference
- 1st place in the Employer of the Year competition in the category "Most Desired Company" – according to a survey conducted among university students – and HR managers' award for the human resources project "Kde jinde..." ("Where else...") designed to encourage students to study at technical schools and to recruit graduates. The competition is organized by Fincentrum Media under the patronage of the Ministry of Labor and Social Affairs of the Czech Republic.

### October

- Platinum star for quality awarded to ČEZ Zákaznické služby, s.r.o. in the 2011 International Quality Award competition, in recognition of CEZ Group customer services
- 1st place in the Energy Sector in the WebTOP100 competition, 7th place overall. The competition is organized by the WebTOP100 club.

### November

- awards for ČEZ, a. s. from the Business for Society platform in the TOP Responsible Company 2011 ranking: 1st place in "Biggest Corporate Donor" category, 7th place in "TOP Responsible Large Corporation" category, 5th place in "Most Engaged Employees" category, 5th place in "Socially Beneficial Project" category, 5th place in "Environmental Innovator" category, and a special award in the "Company and School" category for the Company's systematic, strategic to the development of education in the Czech Republic
- honorable mention by the jury of the 9th annual nationwide competition "Czech Energy and Environmental Project / Innovation" for the project to supply heat for heating homes and businesses from Dětmarovice Power Station and a new district heating system in Bohumín
- 1st place in the Best Annual Report 2010 ranking, 1st place in "Information Value" category, 2nd place in "Graphic Design" category, and 1st place in "Magazine for Employees" category. The competition is organized by the CZECH TOP 100 Association
- 2nd place for ČEZ, a. s. and 10th place for Severočeské doly a.s. in the Českých 100 nejlepších ("100 Best Czech") competition organized by Comenius, the pan-European Society for Culture, Education, Scientific & Technical Co-operation.

### December

- certification award for the Dlouhé Stráně pumped-storage hydro power plant – absolute winner in the public survey "The Seven Wonders of the Olomouc Region". The plant also placed first in a similar survey conducted by the *Olomoucký deník*, a daily newspaper.

## Award in 2012

### March

- 2nd place overall in the 100 Most Admired Companies of the Czech Republic – 2012, a competition organized by the CZECH TOP 100 Association.

# Contents of the Financial Section

# INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of ČEZ, a. s.:**

We have audited the accompanying consolidated financial statements of CEZ Group which comprise the consolidated balance sheet as at December 31, 2011, and consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details of CEZ Group see Notes 1 and 7 to the consolidated financial statements.

## Management's Responsibility for the Consolidated Financial Statements

Board of Directors of ČEZ, a. s. is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing as amended by implementation guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including an assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CEZ Group as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

Ernst & Young

Ernst & Young Audit, s.r.o.
License No. 401
Represented by partner

Josef Pivoňka
Auditor, License No. 1963

February 27, 2012
Prague, Czech Republic

# CEZ GROUP
# CONSOLIDATED BALANCE SHEET IN ACCORDANCE WITH IFRS AS OF DECEMBER 31, 2011

**(in CZK millions)**

| ASSETS | 2011 | 2010 (restated *) |
|---|---|---|
| Property, plant and equipment | | |
| Plant in service | 605,063 | 559,349 |
| Less accumulated provision for depreciation | (305,813) | (275,329) |
| Net plant in service (Note 3) | 299,250 | 284,020 |
| Nuclear fuel, at amortized cost | 8,844 | 7,005 |
| Construction work in progress (Note 3) | 78,769 | 71,485 |
| Total property, plant and equipment | 386,863 | 362,510 |
| Other non-current assets | | |
| Investment in associates and joint-ventures | 11,292 | 16,927 |
| Investments and other financial assets, net (Note 4) | 51,810 | 52,512 |
| Intangible assets, net (Note 5) | 16,788 | 15,670 |
| Deferred tax assets (Note 28) | 826 | 655 |
| Total other non-current assets | 80,716 | 85,764 |
| Total non-current assets | 467,579 | 448,274 |
| Current assets | | |
| Cash and cash equivalents (Note 8) | 22,062 | 22,163 |
| Receivables, net (Note 9) | 54,732 | 39,627 |
| Income tax receivable | 678 | 1,711 |
| Materials and supplies, net | 6,215 | 5,369 |
| Fossil fuel stocks | 2,657 | 1,800 |
| Emission rights (Note 10) | 6,013 | 3,077 |
| Other financial assets, net (Note 11) | 29,569 | 16,402 |
| Other current assets (Note 12) | 4,779 | 3,394 |
| Assets classified as held for sale (Note 13) | 3,823 | 2,558 |
| Total current assets | 130,528 | 96,101 |
| TOTAL ASSETS | 598,107 | 544,375 |

| EQUITY AND LIABILITIES | 2011 | 2010 (restated *) |
|---|---|---|
| Equity | | |
| Equity attributable to equity holders of the parent | | |
| Stated capital | 53,799 | 53,799 |
| Treasury shares | (4,382) | (4,619) |
| Retained earnings and other reserves | 177,296 | 172,251 |
| Total equity attributable to equity holders of the parent (Note 14) | 226,713 | 221,431 |
| Non-controlling interests | 5,365 | 5,621 |
| Total equity | 232,078 | 227,052 |
| Long-term liabilities | | |
| Long-term debt, net of current portion (Note 15) | 164,685 | 140,040 |
| Accumulated provision for nuclear decommissioning and fuel storage (Note 18) | 37,285 | 36,848 |
| Other long-term liabilities (Note 19) | 21,721 | 21,173 |
| Total long-term liabilities | 223,691 | 198,061 |
| Deferred tax liability (Note 28) | 16,946 | 18,191 |
| Current liabilities | | |
| Short-term loans (Note 20) | 5,500 | 9,618 |
| Current portion of long-term debt (Note 15) | 19,264 | 14,786 |
| Trade and other payables (Note 21) | 78,186 | 58,804 |
| Income tax payable | 1,701 | 689 |
| Accrued liabilities (Note 22) | 20,741 | 16,414 |
| Liabilities directly associated with assets classified as held for sale (Note 13) | – | 760 |
| Total current liabilities | 125,392 | 101,071 |
| TOTAL EQUITY AND LIABILITIES | 598,107 | 544,375 |

* Certain numbers shown were restated due to the final purchase price allocation of Teplárna Trmice, a.s. as of the acquisition date and do not correspond to the 2010 consolidated financial statements.

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

# CEZ GROUP
# CONSOLIDATED STATEMENT OF INCOME IN ACCORDANCE WITH IFRS FOR THE YEAR ENDED DECEMBER 31, 2011

**(in CZK millions)**

| | 2011 | 2010 (restated *) |
|---|---|---|
| Revenues | | |
| Sales of electricity | 181,793 | 175,277 |
| Gains and losses from electricity, coal and gas derivative trading, net | 5,843 | 5,392 |
| Sales of gas, coal, heat and other revenues | 22,125 | 18,179 |
| Total revenues (Note 23) | 209,761 | 198,848 |
| Operating expenses | | |
| Fuel | (17,145) | (16,946) |
| Purchased power and related services | (65,865) | (54,353) |
| Repairs and maintenance | (5,014) | (5,465) |
| Depreciation and amortization | (25,770) | (24,060) |
| Salaries and wages (Note 24) | (18,105) | (18,717) |
| Materials and supplies | (5,478) | (4,844) |
| Emission rights, net (Note 10) | 2,895 | 2,148 |
| Other operating expenses (Note 25) | (13,737) | (11,823) |
| Total expenses | (148,219) | (134,060) |
| Income before other income (expenses) and income taxes | 61,542 | 64,788 |
| Other income (expenses) | | |
| Interest on debt, net of capitalized interest (Note 2.8) | (4,954) | (3,484) |
| Interest on nuclear and other provisions (Note 2.24, 18 and 19) | (2,002) | (2,014) |
| Interest income (Note 26) | 1,835 | 2,022 |
| Foreign exchange rate gains (losses), net | (566) | (2,943) |
| Loss on sale of subsidiaries, associates and joint-ventures | – | (121) |
| Goodwill impairment (Note 5) | (292) | (2,826) |
| Other income (expenses), net (Note 27) | 69 | 3,111 |
| Share of profit (loss) from associates and joint-ventures (Note 2.2) | (3,680) | 147 |
| Total other income (expenses) | (9,590) | (6,108) |
| Income before income taxes | 51,952 | 58,680 |
| Income taxes (Note 28) | (11,199) | (11,739) |
| Net income | 40,753 | 46,941 |
| Net income attributable to | | |
| Equity holders of the parent | 40,756 | 47,051 |
| Non-controlling interests | (3) | (110) |
| Net income per share attributable to equity holders of the parent (CZK per share) (Note 31) | | |
| Basic | 76.3 | 88.1 |
| Diluted | 76.3 | 88.1 |
| Average number of shares outstanding (000s) (Notes 14 and 31) | | |
| Basic | 534,041 | 533,811 |
| Diluted | 534,054 | 533,849 |

* Certain numbers shown were restated due to the final purchase price allocation of Teplárna Trmice, a.s. as of the acquisition date and do not correspond to the 2010 consolidated financial statements.

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

# CEZ GROUP
# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME IN ACCORDANCE WITH IFRS FOR THE YEAR ENDED DECEMBER 31, 2011

**(in CZK millions)**

| | 2011 | 2010 (restated *) |
|---|---|---|
| Net income | 40,753 | 46,941 |
| | | |
| Other comprehensive income | | |
| Change in fair value of cash flow hedges recognized in equity | (7,330) | 9,156 |
| Cash flow hedges removed from equity | (2,343) | (2,762) |
| Change in fair value of available-for-sale financial assets recognized in equity | 54 | 393 |
| Available-for-sale financial assets removed from equity | (33) | (29) |
| Translation differences | (330) | (3,860) |
| Share on equity movements of associates and joint-ventures | 1 | 5 |
| Deferred tax related to other comprehensive income (Note 28) | 1,828 | (1,286) |
| Other comprehensive income, net of tax | (8,153) | 1,617 |
| | | |
| Total comprehensive income, net of tax | 32,600 | 48,558 |
| | | |
| Total comprehensive income attributable to | | |
| Equity holders of the parent | 32,487 | 48,984 |
| Non-controlling interests | 113 | (426) |

# CEZ GROUP
# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IN ACCORDANCE WITH IFRS FOR THE YEAR ENDED DECEMBER 31, 2011

**(in CZK millions)**

| | Attributable to equity holders of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Stated capital | Treasury shares | Translation difference | Cash flow hedge reserve | Available-for-sale and other reserves | Retained earnings | Total | Non-controlling interests | Total equity |
| December 31, 2009 | 53,799 | (5,151) | (6,649) | (2,168) | 609 | 159,921 | 200,361 | 6,314 | 206,675 |
| Net income | – | – | – | – | – | 47,051 | 47,051 | (110) | 46,941 |
| Other comprehensive income | – | – | (3,544) | 5,177 | 295 | 5 | 1,933 | (316) | 1,617 |
| Total comprehensive income | – | – | (3,544) | 5,177 | 295 | 47,056 | 48,984 | (426) | 48,558 |
| Transaction costs related to business combinations | – | – | – | – | – | (211) | (211) | – | (211) |
| Dividends | – | – | – | – | – | (28,256) | (28,256) | (549) | (28,805) |
| Sale of treasury shares | – | 532 | – | – | – | (194) | 338 | – | 338 |
| Share options | – | – | – | – | 100 | – | 100 | – | 100 |
| Transfer of exercised and forfeited share options within equity | – | – | – | – | (97) | 97 | – | – | – |
| Acquisition of subsidiaries (Note 6) | – | – | – | – | – | – | – | 866 | 866 |
| Acquisition of non-controlling interests (Note 6) | – | – | – | – | – | 115 | 115 | (584) | (469) |
| December 31, 2010 (restated *) | 53,799 | (4,619) | (10,193) | 3,009 | 907 | 178,528 | 221,431 | 5,621 | 227,052 |
| Net income | – | – | – | – | – | 40,756 | 40,756 | (3) | 40,753 |
| Other comprehensive income | – | – | (454) | (7,835) | 19 | 1 | (8,269) | 116 | (8,153) |
| Total comprehensive income | – | – | (454) | (7,835) | 19 | 40,757 | 32,487 | 113 | 32,600 |
| Dividends | – | – | – | – | – | (26,674) | (26,674) | (4) | (26,678) |
| Sale of treasury shares | – | 237 | – | – | – | (68) | 169 | – | 169 |
| Share options | – | – | – | – | 73 | – | 73 | – | 73 |
| Transfer of exercised and forfeited share options within equity | – | – | – | – | (49) | 49 | – | – | – |
| Capital contributions by non-controlling interests | – | – | – | – | – | – | – | 43 | 43 |
| Acquisition of subsidiaries (Note 6) | – | – | – | – | – | – | – | 430 | 430 |
| Acquisition of non-controlling interests (Note 6) | – | – | – | – | – | (143) | (143) | (712) | (855) |
| Put options held by non-controlling interest | – | – | – | – | – | (630) | (630) | (126) | (756) |
| December 31, 2011 | 53,799 | (4,382) | (10,647) | (4,826) | 950 | 191,819 | 226,713 | 5,365 | 232,078 |

* Certain numbers shown were restated due to the final purchase price allocation of Teplárna Trmice, a.s. as of the acquisition date and do not correspond to the 2010 consolidated financial statements.

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

# CEZ GROUP
# CONSOLIDATED STATEMENT OF CASH FLOWS IN ACCORDANCE WITH IFRS FOR THE YEAR ENDED DECEMBER 31, 2011

**(in CZK millions)**

| | 2011 | 2010 (restated *) |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Income before income taxes | 51,952 | 58,680 |
| Adjustments to reconcile income before income taxes to net cash provided by operating activities | | |
| Depreciation, amortization and asset write-offs | 26,098 | 26,924 |
| Amortization of nuclear fuel | 3,225 | 3,705 |
| Gain on fixed asset retirements, net | (198) | (89) |
| Foreign exchange rate losses (gains), net | 566 | 2,943 |
| Interest expense, interest income and dividend income, net | 2,335 | 1,079 |
| Provision for nuclear decommissioning and fuel storage | (63) | (1,291) |
| Valuation allowances, other provisions and other adjustments | 1,005 | 528 |
| Share of (profit) loss from associates and joint-ventures | 3,680 | (147) |
| Changes in assets and liabilities | | |
| Receivables | (15,999) | 555 |
| Materials and supplies | (423) | (451) |
| Fossil fuel stocks | (846) | 1,101 |
| Other current assets | (17,480) | 11,995 |
| Trade and other payables | 18,369 | (15,254) |
| Accrued liabilities | 1,164 | (201) |
| Cash generated from operations | 73,385 | 90,077 |
| Income taxes paid | (8,916) | (11,944) |
| Interest paid, net of capitalized interest | (4,357) | (2,618) |
| Interest received | 876 | 1,268 |
| Dividends received | 785 | 382 |
| Net cash provided by operating activities | 61,773 | 77,165 |
| INVESTING ACTIVITIES | | |
| Acquisition of subsidiaries, associates and joint-ventures, net of cash acquired (Note 6) | (927) | (7,962) |
| Proceeds (refunds) from disposal of subsidiaries and associates, net of cash disposed of | – | (16) |
| Additions to property, plant and equipment and other non-current assets, including capitalized interest | (53,241) | (63,018) |
| Proceeds from sale of fixed assets | 1,752 | 1,979 |
| Loans made | (778) | (856) |
| Repayment of loans | 1,609 | 5,808 |
| Change in restricted financial assets | (1,291) | (1,519) |
| Total cash used in investing activities | (52,876) | (65,584) |
| FINANCING ACTIVITIES | | |
| Proceeds from borrowings | 101,624 | 192,551 |
| Payments of borrowings | (83,530) | (179,218) |
| Proceeds from other long-term liabilities | 116 | 97 |
| Payments of other long-term liabilities | (181) | (576) |
| Dividends paid to Company's shareholders | (26,655) | (28,234) |
| (Dividends paid to) contributions received from non-controlling interests, net | 38 | (549) |
| Sale of treasury shares | 169 | 337 |
| Total cash used in financing activities | (8,419) | (15,592) |
| Net effect of currency translation in cash | (602) | (530) |
| Net decrease in cash and cash equivalents | (124) | (4,541) |
| Cash and cash equivalents at beginning of period | 22,186 | 26,727 |
| Cash and cash equivalents at end of period (Note 8) | 22,062 | 22,186 |
| Supplementary cash flow information | | |
| Total cash paid for interest | 7,111 | 5,321 |

* Certain numbers shown were restated due to the final purchase price allocation of Teplárna Trmice, a.s. as of the acquisition date and do not correspond to the 2010 consolidated financial statements.

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

# CEZ GROUP
# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2011

## 1. The Company

ČEZ, a. s. ("ČEZ" or "the Company") is a Czech Republic joint-stock company, owned 69.8% (70.3% of voting rights) at December 31, 2011 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"), which is primarily engaged in the business of production, distribution and sale of electricity (see Notes 2.2 and 7). ČEZ is an electricity generation company, which in 2011 produced approximately 67% of the electricity and a portion of the district heating in the Czech Republic. In the Czech Republic the Company operates fifteen fossil fuel plants, sixteen hydroelectric plants and two nuclear plants. The Company also operates through its subsidiaries several power plants (fossil fuel, hydro, wind, solar, biomass, black oil, gas) in the Czech Republic, two fossil fuel plants and one hydroelectric plant in Poland, one fossil fuel plant in Bulgaria and a wind farm and complex of hydroelectric plants in Romania. Further the Group also controls certain electricity distribution companies in the Czech Republic, Bulgaria, Romania and Albania. The average number of employees of the Company and its consolidated subsidiaries was 31,805 and 32,937 in 2011 and 2010, respectively.

Responsibility for public administration in the energy sector is exercised by the Ministry of Industry and Trade (the "Ministry"), the Energy Regulatory Office and the State Energy Inspection Board.

The Ministry, as the central public administration body for the energy sector, issues state approval to construct new energy facilities in accordance with specified conditions, develops the energy policy of the state and ensures fulfillment of obligations resulting from international treaties binding on the Czech Republic or obligations resulting from membership in international organizations.

The Energy Regulatory Office was established as the administrative office to exercise regulation in the energy sector of the Czech Republic, to support economic competition and to protect consumers' interests in sectors where competition is not possible. The Energy Regulatory Office decides on the granting of a license, imposition of the supply obligation beyond the scope of the license, imposition of the obligation to let another license holder use energy facilities in cases of emergency, to exercise the supply obligation beyond the scope of the license and price regulation based on special legal regulations. The State Energy Inspection Board is the inspection body supervising the activities in the energy sector. All customers can select their suppliers of electricity.

## 2. Summary of Significant Accounting Policies

### 2.1. Financial Statements

The accompanying consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. IFRS as adopted by the EU which are relevant to and used by the Group do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB).

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

Certain numbers shown were restated due to the final purchase price allocation of Teplárna Trmice, a.s. as of the acquisition date and do not correspond to the 2010 consolidated financial statements (see Note 6).

### 2.2. Group Accounting

a. Group Structure
The financial statements of CEZ Group include the accounts of ČEZ, a. s., its subsidiaries, associates and joint-ventures, which are shown in the Note 7.

b. Subsidiaries
Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has a power to govern the financial and operating policies, are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

Business combinations from January 1, 2010
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are recognized in profit or loss as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability are recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Changes in the fair value of contingent consideration classified as equity are not recognized.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired ("negative goodwill"), then the Group first reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination. Any excess remaining after the reassessment is recognized immediately in profit or loss.

A change in the ownership interest of a subsidiary, without loss of control, is accounted as an equity transaction.

Losses within a subsidiary incurred since January 1, 2010 are attributed to the non-controlling interest even if that results in a deficit balance.

Business combinations prior to January 1, 2010
The purchase method of accounting is used to account for the acquisition of subsidiaries from unrelated parties. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the Group's interest in the fair value of the net assets of the subsidiary acquired is recorded as goodwill. If the Group's interest in the fair value of acquiree's net assets exceeds the cost of business combination ("negative goodwill"), then the Group first reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination. Any excess remaining after the reassessment is recognized immediately in profit or loss.

In case of subsequent acquisition of a non-controlling interest in a subsidiary, which has been already controlled by the Group, the goodwill is measured as the difference between the cost of the additionally acquired shares and the book value of the non-controlling interest acquired.

Put options held by non-controlling interests are recorded as a derecognition of non-controlling interest and recognition of a liability at the end of the reporting period. The liability is recognized at the present value of the amount payable on exercise, and any difference between the amount of non-controlling interest derecognized and this liability is accounted for within equity. Subsequent changes to the present value of the amount payable on exercise are recorded directly in equity.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless cost cannot be recovered. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

c. Associates
Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investments in associates are accounted for by the equity method of accounting. Under this method the Group's share of the post-acquisition profits or losses of associates is recognized in the income statement and its share of other post-acquisition movements in equity of associates is recognized directly in other comprehensive income. The cumulative post-acquisition movements are adjusted against the cost of the investment. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates includes goodwill (net of accumulated impairment losses) on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

d. Joint-ventures
Joint-venture is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognizes its interest in the joint-venture using the equity method of accounting (see Note 2.2c).

The financial statements of the joint-venture are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies into line with those of the Group. Adjustments are made in the Group's financial statements to eliminate the Group's share of unrealized gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets or an impairment loss.

e. Transactions Involving Entities under Common Control
Acquisitions of subsidiaries from entities under common control are recorded using a method similar to pooling of interests.

The assets and liabilities of the acquired subsidiaries are included in the consolidated financial statements at their book values. The cost of acquisition of subsidiaries from entities under common control is recorded directly in equity.

Net gain on sale of a subsidiary, an associated company or a joint-venture to an entity controlled by the Group's majority shareholder is recognized directly in equity.

**2.3. Change in Accounting Policies**

a. Adoption of New IFRS Standards in 2011
The accounting policies adopted are consistent with those of the previous financial year, 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, 2011:
– IAS 24 Related Party Disclosures (amendment) effective January 1, 2011
– IAS 32 Financial Instruments: Presentation (amendment) effective February 1, 2010
– IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective January 1, 2011
– IFRIC 17 Distributions of Non-cash Assets to Owners effective July 1, 2010
– IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments effective July 1, 2010
– Improvements to IFRSs (May 2010)

The impact of the adoption of standards or interpretations on the financial statements or performance of the Group is described below:

IAS 24 Related Party Disclosure
The amendments to IAS 24 Related Party Disclosures become effective for financial years beginning on or after January 1, 2011 and must be applied retrospectively. The revised standard simplifies the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government and clarifies the definition of a related party. As a result, such a reporting entity is exempt from the general disclosure requirements in relation to transactions and balances with the government and government-related entities. In addition, the revised standard amends the definition of a related party where the associate of an investor is now considered to be a related party to both the investor and its subsidiary whereas two associates of an entity are not regarded as related parties to each other. The Amendment does not have significant effect on the financial statements of the Group.

IAS 32 Financial Instruments: Presentation (Classification of Rights Issues)
In October 2009, the IASB issued an amendment to IAS 32 on the classification of rights issues. The amendment is effective for annual periods beginning on or after February 1, 2010. For rights issues offered for a fixed amount of foreign currency current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to an entity's all existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these types of instruments.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements; therefore the amendment of the interpretation has no effect on the financial position or performance of the Group.

IFRIC 17 Distributions of Non-cash Assets to Owners
This interpretation is effective for annual periods beginning on or after July 1, 2010. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. This interpretation does not have an impact on the consolidated financial statements as the Group does not make non-cash distributions to shareholders.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
This interpretation is effective for annual periods beginning on or after July 1, 2010. The interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. This interpretation does not have an impact on the consolidated financial statements as the Group currently does not have any such transactions.

Improvements to IFRSs
In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

IFRS 7 Financial Instruments – Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements.

IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

All other standards and interpretations whose application was mandatory for the period beginning on or after January 1, 2011 have no material impact on the Group's consolidated financial statements.

b. New IFRS Standards and Interpretations either not yet Effective or not yet Adopted by the EU
The Group is currently assessing the potential impacts of the new and revised standards and interpretations that will be effective or adopted by the EU from January 1, 2012 or later. Standards and interpretations most relevant to the Group's activities are detailed below:

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (OCI)
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and there is no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets
The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012. The Group does not currently have any investment property as well as is not using revaluation model therefore this will not affect its financial position or performance.

IFRS 7 Financial Instruments: Disclosures (Transfers of Financial Assets)
In October 2010, IASB issued an amendment to IFRS 7, which changes the required disclosures to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position. The Group does not expect that the amendment will have an impact on the financial position or performance of the Group.

IFRS 7 Financial Instruments: Disclosures (Offsetting Financial Assets and Financial Liabilities)
In December 2011, IASB issued an amendment to IFRS 7, which requires an entity to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. The Group is currently assessing the impact of this amended IFRS.

IAS 32 Financial Instruments: Presentation (Offsetting Financial Assets and Financial Liabilities)
In December 2011, IASB issued an amendment to IAS 32, which is intended to clarify existing application issues relating to the offsetting rules and reduce level of diversity in current practise. The Group is currently assessing the impact of this amended IFRS.

IFRS 9 Financial Instruments – Classification and measurement

The IFRS 9 was issued in November 2009 and is intended to replace IAS 39 Financial Instruments: Recognition and measurement. The standard introduces new requirements for classifying and measuring financial assets and liabilities that must be applied starting January 1, 2015. According to IFRS 9 all financial assets and liabilities are initially recognized at fair value plus transaction costs. The standard also eliminates categories of financial instruments currently existing in IAS 39: available-for-sale and held-to-maturity. In October 2010 the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities and derecognition of financial assets and liabilities. Most of the requirements in IAS 39 for classification and measurement of financial liabilities and derecognition of financial assets and liabilities were carried forward unchanged to IFRS 9. The requirements related to the fair value option for financial liabilities were changed to address own credit risk. As a result, the changes in liability's credit risk will not affect profit or loss unless the liability is held for trading. The completion of this project is expected in 2012. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets and liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation - Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013. The Group is currently assessing the impact of this new IFRS. The Group does not expect the standard will have a significant impact on current Group's interests in other entities, but may affect the treatment of future acquisitions.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities - Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 1, 2013. The Group is currently assessing the impact of this new IFRS. The Group does not expect the standard will have a significant impact on current Group's interests in other entities, but may affect the treatment of future acquisitions.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Some of the more extensive qualitative and quantitative disclosures of IFRS 12 include: provision of summarised financial information for each subsidiary with a material non-controlling interest; description of significant judgements used by management in determining control, joint control and significant influence, and the type of joint arrangement (i.e. joint operation or joint venture); provision of summarised financial information for each individually material joint venture and associate; and description of the nature of the risks associated with an entity's interests in unconsolidated structured entities. This standard becomes effective for annual periods beginning on or after January 1, 2013 and may affect the disclosures in the notes to financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

IAS 19 Employee benefits (revised)

The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The more significant changes include the following: for defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e. the corridor approach) has been removed; there are new or revised disclosure requirements which include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption; termination benefits will be recognised at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognised under IAS 37; the distinction between short-term and other long-term employee benefits will be based on expected timing of settlement rather than the employee's entitlement to the benefits. This standard becomes effective for annual periods beginning on or after January 1, 2013. The Group is currently assessing the impact of this revised standard, but does not expect any significant impact on its financial position or performance.

IAS 28 Investments in Associate and Joint Ventures (revised)
As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The Group does not expect that the amendment will have a significant impact on the financial position or performance of the Group.

Improvements to IFRSs
In May 2010 the IASB issued improvement to IFRS 3. The improvement is effective for annual periods beginning on or after July 1, 2011.

IFRS 3 Business Combinations: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of NCI are to be measured at their acquisition date fair value.

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

**2.5. Revenues**
The Group recognizes revenue from supplies of electricity and related services based on contract terms. Differences between contracted amounts and actual supplies are settled through the market operator.

Revenues are recognized, when it is probable that the economic benefits associated with the transaction will flow to the entity and the revenue can be reliably measured. Sales are recognized net of value added tax and discounts, if any.

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

Revenue from services provided to third parties is recognized when the services are rendered.

Connection fees received from customers are recognized in income in the period when the fees are received.

**2.6. Unbilled Electricity**
Electricity supplied to customers, which is not yet billed, is recognized in revenues at estimated amounts. The estimate of monthly change in unbilled electricity is derived from the measured delivery of electricity after deduction of invoiced consumption and estimated grid losses. The estimate of total unbilled electricity balance is also supported by extrapolation of consumption in the last measured period for individual locations. The ending balance of unbilled electricity is disclosed net in the balance sheet after deduction of advances received from customers and is included either in the line item of Receivables, net or Trade and other payables.

**2.7. Fuel Costs**
Fuel costs are expensed as fuel is consumed. Fuel expense includes the amortization of the cost of nuclear fuel. Amortization of nuclear fuel charged to fuel expense was CZK 3,225 million and CZK 3,705 million for the years ended December 31, 2011 and 2010, respectively. The amortization of nuclear fuel includes charges in respect of additions to the accumulated provision for interim storage of spent nuclear fuel to the extent they relate to the nuclear fuel consumed during the current accounting period (see Note 18). Such charges amounted to CZK 463 million and CZK 468 million in 2011 and 2010, respectively.

**2.8. Interest**
The Group capitalizes all interest incurred in connection with its construction program that theoretically could have been avoided if expenditures for the qualifying assets had not been made. The qualifying assets include assets, for which the construction represents a substantial period of time. Capitalized interest costs amounted to CZK 2,893 million and CZK 3,034 million and the interest capitalization rate was 4.4% and 4.2% in 2011 and 2010, respectively.

**2.9. Property, Plant and Equipment**

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

The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense when incurred. Renewals and improvements are capitalized. Upon sale, retirement or replacement of part of an item of property, plant and equipment, the cost and related accumulated depreciation of the disposed item or its replaced part are eliminated from the accounts. Any resulting gains or losses are included in profit or loss.

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group reviews the recoverable amounts of its property, plant and equipment to determine whether such amounts continue to exceed the assets' carrying values. Identified impairment of property, plant and equipment is recognized directly in profit or loss in the line item of Other operating expenses.

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

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

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

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

Depreciation of plant in service was CZK 24,383 million and CZK 22,845 million for the years ended December 31, 2011 and 2010, which was equivalent to a composite depreciation rate of 4.2% and 4.3%, respectively.

**2.10. Nuclear Fuel**

Nuclear fuel is stated at original cost, net of accumulated amortization and presented as part of property, plant and equipment. Amortization of fuel in the reactor is based on the amount of power generated.

Nuclear fuel includes capitalized costs of related provisions (see Note 2.24). At December 31, 2011 and 2010 capitalized costs at net book value amounted to CZK 0 million and CZK 114 million, respectively.

**2.11. Intangible Assets, Net**

Intangible assets are valued at their acquisition costs and related expenses. Intangible assets are amortized over their useful lives using the straight-line method. The estimated useful life of intangible assets ranges from 3 to 15 years. The assets' residual values, useful lives and methods of amortization are reviewed, and adjusted if appropriate, at each financial year end.

Intangible assets are tested for impairment (for goodwill see Note 2.12) whenever facts or changes in circumstances indicate that the carrying amount could be impaired. The recoverable amount of an intangible asset not yet available for use is tested for impairment annually, irrespective of whether there is any indication that it may be impaired. Identified impairment of intangible assets is recognized directly in profit or loss in the line item of Other operating expenses.

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

### 2.12. Goodwill

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed (see Note 2.2). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and joint-ventures is included in investments in associates and joint-ventures. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is lower than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### 2.13. Emission Rights

Emission right represents the right of the owner of a facility, which in the course of its operation emits greenhouse gases, to emit during the calendar year equivalent of one ton of carbon dioxide. Based on the National Allocation Plans in 2011 and 2010 certain companies of the Group have been granted emission rights free of charge. These companies are responsible for determining and reporting the amount of greenhouse gases produced by its facilities in the calendar year and this amount has to be audited by an authorized person.

On April, 30 of the following year, at latest, these companies are required to remit a number of allowances representing the number of tones of $CO_2$ actually emitted in previous year. If a company does not remit necessary number of emission rights, then the company has to pay a penalty in the amount of EUR 100 per 1 ton of $CO_2$.

In the financial statements until 2010, the emission rights which were granted free of charge are stated at their nominal value, i.e. at zero. Since 2011 the subject of a gift tax in the Czech Republic has been the allocation of emission rights granted free of charge to an entity operating certain electricity generation facilities specified by the law. As a result, granted emission rights are initially recognized at the amount of related gift tax as of the grant date. Purchased emission rights are carried at cost (except for emission rights for trading). Emission rights acquired in a business combination are initially recognized at their fair value at the date of acquisition and subsequently treated similarly to purchased emission rights. The Group recognizes a provision to cover emissions made which is measured at the cost of granted and purchased emission rights and credits up to the level of granted and purchased emission rights and credits held and then at the market price ruling at the balance sheet date. The amount of the gift tax on granted emission rights, which is charged to profit or loss as part of the charge of the provision, the eventual cost of emission rights sold or as part of the consumption of emission rights when the allowances are remitted from the register, is included in the line Other income (expenses), net.

The Group also holds emission rights for trading purposes. The portfolio of emission rights held for trading is measured at fair value. The changes in fair value of the emission rights held for trading are recognized directly in profit or loss.

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

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

The swaps of European emission rights (EUA) and certified emission reductions (CER) or credits are treated as derivatives in the period from the trade date to the maturity date. The swap is measured at fair value with any fair value changes being recognized in profit and loss. Any cash received before the EUA/CER swap matures would result in an offsetting change in the fair value of the swap. Upon the delivery of EUAs and CERs the difference between the total of cash received and the fair value of the CER received on one hand and the total of the carrying value of the EUA given up and the fair value of the EUA/CER-swap given up is recognized as a gain or loss.

**2.14. Investments**

Investments are classified into the following categories: held-to-maturity, loans and receivables, held for trading and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity other than loans and receivables originated by the Group are classified as held-to-maturity investments. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held for trading. All other investments, other than loans and receivables originated by the Group, are classified as available-for-sale.

Held-to-maturity investments, loans and receivables are included in non-current assets unless they mature within 12 months of the balance sheet date. Investments held for trading are included in current assets. Available-for-sale investments are classified as current assets if the Group intends to realize them within 12 months of the balance sheet date.

All purchases and sales of investments are recognized on the settlement date.

When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Available-for-sale and trading investments are subsequently carried at fair value without any deduction for transaction costs by reference to their quoted market price at the balance sheet date.

Gains or losses on remeasurement to fair value of available-for-sale investments are recognized directly in other comprehensive income, until the investment is sold or otherwise disposed of, or until it is determined to be impaired. Equity securities classified as available-for-sale and trading investments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost.

The carrying amounts of such available-for-sale investments are reviewed at each balance sheet date whether there is objective evidence for impairment. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement – is removed from other comprehensive income and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognized directly in other comprehensive income. In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and the entity has the intent and ability to hold these assets for the foreseeable future or maturity. The reclassification to held-to-maturity is permitted only when the entity has the ability and intent to hold the financial asset until maturity.

Changes in the fair values of trading investments are included in Other income (expenses), net.

Held-to-maturity investments and loans and receivables are carried at amortized cost using the effective interest rate method.

**2.15. Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, current accounts with banks and short-term bank notes with a maturity of three months or less. Foreign currency deposits are translated at December 31, 2011 and 2010 exchange rates, respectively.

**2.16. Financial Assets Restricted in Use**

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

### 2.17. Receivables, Payables and Accruals

Receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts.

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

### 2.18. Materials and Supplies

Materials and supplies are principally composed of maintenance materials and spare parts for repairs and maintenance of tangible assets. Materials and supplies are valued at actual cost using weighted average cost method. These materials are recorded in inventory when purchased and then expensed or capitalized to plant, as appropriate, when used. The Group records a provision for obsolete inventory as such items are identified. At December 31, 2011 and 2010 the provision for obsolescence amounted to CZK 437 million and CZK 526 million, respectively.

### 2.19. Fossil Fuel Stocks

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

### 2.20. Derivative Financial Instruments

The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

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

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

a. Fair value hedge

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

b. Cash flow hedge

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

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

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

c. Other derivatives

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

**2.21. Commodity Contracts**

According to IAS 39, certain commodity contracts are treated as financial instruments and fall into the scope of the standard. Most commodity purchase and sales contracts entered into by the Group provide for physical delivery of quantities intended to be consumed or sold as part of its ordinary business; such contracts are thus excluded from the scope of IAS 39.

In particular, forward purchases and sales for physical delivery of energy are considered to fall outside the scope of application of IAS 39, when the contract concerned is considered to have been entered into as part of the Group's normal business activity. This is demonstrated to be the case when all the following conditions are fulfilled:

- a physical delivery takes place under such contracts;
- the volumes purchased or sold under the contracts correspond to the Group's operating requirements;
- the contract cannot be considered as a written option as defined by the standard IAS 39. In the specific case of electricity sales contracts, the contract is substantially equivalent to a firm forward sale or can be considered as a capacity sale.

The Group thus considers that transactions negotiated with a view to balancing the volumes between electricity purchases and sale commitments are part of its ordinary business as an integrated electric utility company and do not therefore come under the scope of IAS 39.

Commodity contracts which fall under the scope of IAS 39 are carried at fair value with changes in the fair value recognized in the income statement. The Group presents revenues and expenses related to commodity trading net in the line Gains and losses from electricity, coal and gas derivative trading, net.

**2.22. Income Taxes**

The provision for corporate tax is calculated in accordance with the tax regulations of the states of residence of the Group companies and is based on the income or loss reported under local accounting regulations, adjusted for appropriate permanent and temporary differences from taxable income. Income taxes are calculated on an individual company basis as the Czech tax laws do not permit consolidated tax returns. For companies located in the Czech Republic income taxes are provided at a rate of 19% for the years ended December 31, 2011 and 2010, respectively, from income before income taxes after adjustments for certain items which are not deductible, or taxable, for taxation purposes. The Czech corporate income tax rate for 2012 and on will be 19%.

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

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

- where the deferred tax liability arises from initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

Deferred tax assets and liabilities of Group companies are not offset in the balance sheet.

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

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

### 2.23. Long-term Debt

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

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

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

### 2.24. Nuclear Provisions

The Group has recognized provisions for its obligations to decommission its nuclear power plants at the end of their operating lives, to store the related spent nuclear fuel and other radioactive waste initially on an interim basis and provision for its obligation to provide financing for subsequent permanent storage of spent fuel and irradiated parts of reactors (see Note 18).

The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels at the date of the estimate, are discounted using a long-term real rate of interest of 2.5% per annum to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the nuclear plants. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized as a component of interest expense. At December 31, 2011 and 2010 the estimate for the effect of inflation is 2.0%.

The decommissioning process is expected to continue for approximately a fifty-year period for Temelín plant and sixty-year period for Dukovany plant subsequent to the final operation of the plants. It is currently anticipated that the permanent storage facility will become available in 2065 and the process of final disposal of the spent nuclear fuel will then continue until approximately 2075 when the process should be finished. While the Group has made its best estimate in establishing its nuclear provisions, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning and fuel storage activities, the ultimate provision requirements could vary significantly from the Group's current estimates.

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

### 2.25. Provisions for Decommissioning and Reclamation of Mines and Mining Damages

The Group has recognized provisions for obligations to decommission and reclaim mines at the end of their operating lives (see Note 19). The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels, are discounted using a long-term real rate of interest of 2.5% per annum to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the mines. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized as a component of interest expense. At December 31, 2011 and 2010 the estimate for the effect of inflation is 2.0%.

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

### 2.26. Exploration for and Evaluation of Mineral Resources

Expenditures on exploration for and evaluation of mineral resources are charged to expense when incurred.

**2.27. Leases**

The determination of whether an arrangements is, or contains a lease is based on the substance of the arrangement at inception date or whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys the right to use the asset. A reassessment is made after inception of the lease only if one of the following conditions applies:

- There is a change in contractual terms, other than a renewal or extension of the arrangement;
- A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- There is a change in determination of whether fulfillment is dependent on a specified asset; or
- There is a substantial change to the asset.

Where reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the estimated useful life of the asset. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

**2.28. Treasury Shares**

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

**2.29. Share Options**

Members of Board of Directors and selected managers have been granted options to purchase common shares of the Company. Expense related to the share option plan is measured on the date of the grant by reference to the fair value of the share options granted. In case of options, which vest immediately, the expense is recognized directly in profit or loss with a corresponding increase in equity. In all other cases the expense is accrued over the vesting period of the equity instruments granted. The expense recognized reflects the best estimate of the number of share options, which will ultimately vest. In 2011 and 2010 the expense recognized in respect of the share option plan amounted to CZK 73 million and CZK 100 million, respectively.

**2.30. Translation of Foreign Currencies**

The consolidated financial statements are presented in Czech crowns (CZK), which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity for qualifying cash flow hedges.

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

The assets and liabilities of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The income statements items of foreign subsidiaries are translated at average exchange rates for the year. The exchange differences arising on the retranslation are taken directly to other comprehensive income. On disposal of a foreign entity, accumulated exchange differences are recognized in the income statement as a component of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign operation and are translated at the closing exchange rate.

Exchange rates used as at December 31, 2011 and 2010 for the translation of assets and liabilities denominated in foreign currencies were as follows:

| | 2011 | 2010 |
|---|---|---|
| CZK per 1 EUR | 25.800 | 25.060 |
| CZK per 1 USD | 19.940 | 18.751 |
| CZK per 1 PLN | 5.789 | 6.308 |
| CZK per 1 BGN | 13.191 | 12.813 |
| CZK per 1 RON | 5.969 | 5.869 |
| CZK per 100 JPY | 25.754 | 23.058 |
| CZK per 1 TRY | 10.550 | 12.105 |
| CZK per 100 ALL | 18.644 | 18.108 |

### 2.31. Non-current Assets Held for Sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

## 3. Property, Plant and Equipment

**Net plant in service at December 31, 2011 and 2010 is as follows (in CZK millions)**

| | Buildings | Plant and Equipment | Land and Other | Total 2011 | Total 2010 |
|---|---|---|---|---|---|
| Cost at January 1 | 209,519 | 343,514 | 6,316 | 559,349 | 509,618 |
| Plant additions | 13,694 | 23,307 | 510 | 37,511 | 62,197 |
| Disposals | (777) | (3,071) | (39) | (3,887) | (4,756) |
| Reclassification from (to) assets classified as held for sale | 3,849 | 7,167 | 38 | 11,054 | (11,054) |
| Acquisition of subsidiaries | 149 | 171 | 85 | 405 | 5,630 |
| Change in capitalized part of provisions | 209 | 208 | (192) | 225 | 606 |
| Reclassification and other | 54 | (67) | – | (13) | (11) |
| Currency translation differences | 293 | 111 | 15 | 419 | (2,881) |
| Cost at December 31 | 226,990 | 371,340 | 6,733 | 605,063 | 559,349 |
| Accumulated depreciation and impairment at January 1 | (84,212) | (190,311) | (806) | (275,329) | (266,377) |
| Depreciation | (6,359) | (17,998) | (26) | (24,383) | (22,845) |
| Net book value of assets disposed | (293) | (84) | (1) | (378) | (350) |
| Disposals | 777 | 3,071 | 8 | 3,856 | 4,752 |
| Reclassification (from) to assets classified as held for sale | (2,633) | (6,354) | – | (8,987) | 8,987 |
| Reclassification and other | (32) | 29 | – | (3) | (34) |
| Impairment losses recognized | (257) | (372) | (7) | (636) | (215) |
| Impairment losses reversed | 224 | 35 | 8 | 267 | 188 |
| Currency translation differences | (116) | (103) | (1) | (220) | 565 |
| Accumulated depreciation and impairment at December 31 | (92,901) | (212,087) | (825) | (305,813) | (275,329) |
| Net plant in service at December 31 | 134,089 | 159,253 | 5,908 | 299,250 | 284,020 |

At December 31, 2011 and 2010, plant and equipment included the capitalized costs of nuclear provisions as follows (in CZK millions):

| | 2011 | 2010 |
|---|---|---|
| Cost | 19,225 | 19,188 |
| Accumulated depreciation | (6,423) | (6,037) |
| Total net book value | 12,802 | 13,151 |

Group's plant in service pledged as security for liabilities at December 31, 2011 and 2010 is CZK 289 million and CZK 349 million, respectively.

Most of the balance of construction work in progress relates to refurbishments performed on Ledvice, Tušimice, Počerady, Prunéřov, Dukovany and Temelín power plants, electricity distribution network of subsidiary ČEZ Distribuce, a. s. and construction of the wind farm in Romania.

## 4. Investments and Other Financial Assets, Net

**Investments and other financial assets, net at December 31, 2011 and 2010 consist of the following (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Restricted debt securities available-for-sale | 11,048 | 9,639 |
| Restricted debt securities held to maturity | 50 | 17 |
| Restricted cash | 2,205 | 2,309 |
| Total restricted financial assets | 13,303 | 11,965 |
| Financial assets in progress, net | – | 902 |
| Debt securities held-to-maturity | 107 | 109 |
| Debt securities available-for-sale | 2,465 | 3,999 |
| Equity securities available-for-sale | 353 | 330 |
| Investment in Dalkia | 3,166 | 3,166 |
| Investment in Pražská teplárenská | 11,963 | 11,963 |
| Derivatives | 3,029 | 1,653 |
| Investment in MOL | 16,112 | 16,250 |
| Other long-term receivables, net | 1,312 | 2,175 |
| Total | 51,810 | 52,512 |

The financial assets in progress represent amounts paid in respect of ongoing acquisitions.

In 2010 CEZ Group acquired 15% equity interest in Dalkia Česká republika, a.s. The investment is classified as available-for-sale.

In 2009 CEZ Group agreed with J&T Group and paid for the equity interest of 49% in Pražská teplárenská (Prague's major heat supplier). Currently the Group does not exercise any significant influence and therefore the investment is classified as available-for-sale. Following the agreement between the parties from 2011, upon the completion of the acquisition of 100% stake in Energotrans, a.s. (see Note 13), the amount will be off-set with the liability arising from this acquisition.

In January 2008 the Group acquired a 7% share in MOL. At that time the Group granted to MOL a call option, which enabled MOL to reacquire the shares in the following 3 years for the price HUF 20,000 per share. The amount paid to MOL after deduction of option premium received was EUR 560 million. The transaction was recorded as a receivable together with a written put option. In 2009 the terms of the call option were amended whereas now MOL can reacquire the shares in the period until January 2014 which also resulted in the change in effective interest rate applied on recorded receivable. The purchase was originally financed through a new loan in the total amount of EUR 600 million. Within the scope of cooperation the Group together with MOL also established 50–50% joint-ventures in order to pursue jointly business opportunities and develop projects in the business of gas-fired power and heat plants in Central and South-Eastern Europe. The written put option is shown as a liability from derivatives in Trade and other payables (see Note 21).

**Movements in impairment provisions (in CZK millions)**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Available-for-sale financial assets | Long-term receivables | Available-for-sale financial assets | Long-term receivables |
| Opening balance | 43 | – | 53 | – |
| Additions | – | 16 | 1 | – |
| Reversals | – | – | (11) | – |
| Closing balance | 43 | 16 | 43 | – |

**Debt instruments at December 31, 2011 are contracted to mature in the following periods after the balance sheet date (in CZK millions)**

| | Long-term receivables | Debt securities held-to-maturity | Debt securities available-for-sale | Total |
|---|---|---|---|---|
| Due in 1–2 years | 1,280 | – | 375 | 1,655 |
| Due in 2–3 years | 16,120 | – | 49 | 16,169 |
| Due in 3–4 years | 8 | – | 428 | 436 |
| Due in 4–5 years | 4 | – | 385 | 389 |
| Due in more than 5 years | 12 | 107 | 1,228 | 1,347 |
| Total | 17,424 | 107 | 2,465 | 19,996 |

**Debt instruments at December 31, 2010 are contracted to mature in the following periods after the balance sheet date (in CZK millions)**

| | Long-term receivables | Debt securities held-to-maturity | Debt securities available-for-sale | Total |
|---|---|---|---|---|
| Due in 1–2 years | 299 | – | 1,068 | 1,367 |
| Due in 2–3 years | 141 | – | 483 | 624 |
| Due in 3–4 years | 16,257 | – | 49 | 16,306 |
| Due in 4–5 years | 10 | – | 422 | 432 |
| Due in more than 5 years | 1,718 | 109 | 1,977 | 3,804 |
| Total | 18,425 | 109 | 3,999 | 22,533 |

**Debt instruments at December 31, 2011 have following effective interest rate structure (in CZK millions)**

| | Long-term receivables | Debt securities held-to-maturity | Debt securities available-for-sale | Total |
|---|---|---|---|---|
| Less than 2.00% | 557 | – | 49 | 606 |
| From 2.00% to 2.99% | 214 | – | 447 | 661 |
| From 3.00% to 3.99% | 541 | – | 52 | 593 |
| From 4.00% to 4.99% | 16,112 | 107 | 1,917 | 18,136 |
| Total | 17,424 | 107 | 2,465 | 19,996 |

**Debt instruments at December 31, 2010 have following effective interest rate structure (in CZK millions)**

| | Long-term receivables | Debt securities held-to-maturity | Debt securities available-for-sale | Total |
|---|---|---|---|---|
| Less than 2.00% | 370 | – | 237 | 607 |
| From 2.00% to 2.99% | 114 | – | 458 | 572 |
| From 3.00% to 3.99% | – | – | 226 | 226 |
| From 4.00% to 4.99% | – | 109 | 2,971 | 3,080 |
| From 5.00% to 5.99% | 16,250 | – | 107 | 16,357 |
| Over 5.99% | 1,691 | – | – | 1,691 |
| Total | 18,425 | 109 | 3,999 | 22,533 |

**The following table analyses the debt instruments at December 31, 2011 by currency (in CZK millions)**

| | CZK | EUR | USD | Total |
|---|---|---|---|---|
| Long-term receivables | 529 | 16,894 | 1 | 17,424 |
| Debt securities held-to-maturity | 107 | – | – | 107 |
| Debt securities available-for-sale | 2,465 | – | – | 2,465 |
| Total | 3,101 | 16,894 | 1 | 19,996 |

**The following table analyses the debt instruments at December 31, 2010 by currency (in CZK millions)**

| | CZK | EUR | PLN | USD | Total |
|---|---|---|---|---|---|
| Long-term receivables | 328 | 18,095 | 1 | 1 | 18,425 |
| Debt securities held-to-maturity | 109 | – | – | – | 109 |
| Debt securities available-for-sale | 3,999 | – | – | – | 3,999 |
| Total | 4,436 | 18,095 | 1 | 1 | 22,533 |

## 5. Intangible Assets, Net

**Intangible assets, net, at December 31, 2011 and 2010 are as follows (in CZK millions)**

| | Software | Rights and Other | Goodwill | Total 2011 | Total 2010 |
|---|---|---|---|---|---|
| Cost at January 1 | 9,183 | 5,474 | 8,673 | 23,330 | 25,329 |
| Additions | 1,511 | 93 | 994 | 2,598 | 1,376 |
| Disposals | (232) | (3) | – | (235) | (221) |
| Reclassification from (to) assets classified as held for sale | 13 | 1 | – | 14 | (14) |
| Acquisition of subsidiaries | – | 6 | 622 | 628 | 376 |
| Impairment of goodwill | – | – | (292) | (292) | (2,826) |
| Reclassification and other | (2) | (14) | – | (16) | (3) |
| Currency translation differences | 1 | (177) | 51 | (125) | (687) |
| Cost at December 31 | 10,474 | 5,380 | 10,048 | 25,902 | 23,330 |
| Accumulated amortization and impairment at January 1 | (6,636) | (2,322) | – | (8,958) | (8,021) |
| Amortization charge for the year | (1,076) | (311) | – | (1,387) | (1,215) |
| Net book value of assets disposed | (15) | – | – | (15) | (6) |
| Disposals | 232 | 3 | – | 235 | 221 |
| Reclassification (from) to assets classified as held for sale | (13) | (1) | – | (14) | 14 |
| Impairment losses reversed | – | – | – | – | 2 |
| Currency translation differences | 1 | 72 | – | 73 | 47 |
| Accumulated amortization and impairment at December 31 | (7,507) | (2,559) | – | (10,066) | (8,958) |
| Net intangible assets at December 31 | 2,967 | 2,821 | 10,048 | 15,836 | 14,372 |

At December 31, 2011 and 2010, intangible assets presented in the balance sheet include intangible assets in progress in the amount of CZK 952 million and CZK 1,298 million, respectively.

At December 31, 2011 and 2010 goodwill was allocated to the respective operating segments based on the classification of the related subsidiaries (see Note 30).

### Impairment testing of goodwill

At December 31, 2011 and 2010 goodwill was allocated to the following cash-generating units for the purpose of impairment testing (in CZK millions):

| | 2011 | 2010 |
|---|---|---|
| Romanian distribution and sale | 3,384 | 3,360 |
| Czech distribution and sale | 2,976 | 2,182 |
| Polish power plants (ELCHO, Skawina) | 1,136 | 1,151 |
| ČEZ Teplárenská | 679 | 679 |
| Energetické centrum | 507 | 507 |
| Teplárna Trmice | 373 | 373 |
| TMK Hydroenergy Power | 292 | – |
| Eco-Wind Construction | 236 | – |
| Albanian distribution | – | 284 |
| Other | 465 | 137 |
| Total carrying amount of goodwill | 10,048 | 8,673 |

The Group performed impairment tests of goodwill and as a result of these tests in 2011 the Group recognized total impairment loss of CZK 292 million for the Albanian distribution. This impairment of goodwill was mainly a result of unexpected movement in regulated price of electricity set by the electricity regulator in Albania.

In 2010 the Group recognized the total impairment loss of CZK 2,826 million for the Bulgarian distribution and TEC Varna. This impairment of goodwill was mainly a result of worsened electricity market conditions and setting of the prices by electricity regulator in Bulgaria.

The impairment test involves determining the recoverable amount of the cash-generating unit, which corresponds to the value in use. Value in use is the present value of the future cash flows expected to be derived from a cash-generating unit. Value in use is determined on the basis of an enterprise valuation model and is assessed from a company internal perspective. Values in use are determined based on cash flow budgets, which are based on the medium-term budget for a period of 5 years, which has been approved by the management and which is valid when the impairment test is performed. These budgets are based on the past experience, as well as on future market trends.

The medium-term budget is based on general economic data derived from macroeconomic and financial studies and makes assumptions primarily on the development of gross domestic product, consumer prices, interest rates and nominal wages.

The recoverable amount of Polish power plants has been determined based on a value in use calculation. Those cash flow projections are based on financial budgets approved by management covering a five-year period and discount rate of 7.5%. Cash flows beyond the five-year period are extrapolated using 2.0% growth rate. This growth rate represents the predicted long-term average growth rate of cash flows under currently known capacities and circumstances. The calculation did not include any cash flows for Skawina power plant beyond 2012. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The value in use calculation was also used to calculate the recoverable amount of Czech distribution and sale, ČEZ Teplárenská, Teplárna Trmice and Energetické centrum. Those cash flow projections are also based on financial budgets approved by management covering a five-year period and discount rate of 6.6% for ČEZ Teplárenská, Teplárna Trmice and Energetické centrum and 4.9% for Czech distribution and sale. No growth rate is considered for cash flows beyond the five-year period for Energetické centrum. Cash-flows of Teplárna Trmice and ČEZ Teplárenská are extrapolated using an average growth rate of 2.0% beyond the 5 year business plan. This growth rate represents the predicted long-term average growth rate of cash flows under currently known circumstances. Cash flows beyond the five-year period for Czech distribution and sale is based on the terminal value of regulatory asset base. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The value in use calculation was also used to calculate the recoverable amount of Romanian distribution and sale. Those cash flow projections are based on financial budgets approved by management covering a five year period and discount rate of 9.1%. Cash flows beyond the five-year period is based on the terminal value of regulatory asset base using a growth rate of 2%. Recoverable amount of Romanian distribution and sale exceeds its carrying amount by CZK 91 million. Key assumptions include the discount rate, terminal value of regulatory asset base and gross margin. An increase of 0.1% in the discount rate, decrease of gross margin by 0.7% or decrease in terminal value of regulatory asset base by 1%, all other variables held constant, would cause the recoverable amount to be equal to carrying amount.

The calculations of value in use for all cash-generating units are most sensitive to the following assumptions:

Gross margins – Gross margins are based on average volumes achieved in three years preceding the start of the budget period. These are increased over the budget period for anticipated efficiency improvements.

Raw materials price inflation – Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is available, otherwise past actual raw material price movements have been used as an indicator of future price movements.

Discount rate – Discount rates reflect management's estimate of the risk specific to each unit. The basis used to determine the value assigned is weighted average cost of capital (WACC) of the related subsidiaries.

Estimated growth rate – The basis used to determine the value assigned to estimated growth rate is the forecast of market and regulatory environment, where subsidiaries conduct the business.

## 6. Changes in the Group Structure

Acquisitions of subsidiaries from third parties in 2011
In January 2011, the Group acquired a 50.11% interest in the company ČEZ Energo, s.r.o., which operates approximately 45 cogeneration units at total installed capacity 12 MWe and will build other projects of combined generation of electricity and heat with unit power up to 5 MWe. The control was gained by capital increase while ČEZ, a. s. made a cash contribution and TEDOM a.s. contributed part of its business operations.

In May 2011 the Group acquired 100% share in company TMK Hydroenergy Power S.R.L. ("TMK") which is engaged in the generation of electricity from renewable sources in the southwestern part of Romania. The assets of newly acquired company include a complex of four dams and four small hydroelectric power plants with a total capacity of 18 MWe.

In December 2011 the Group acquired 67% share in company Eco-Wind Construction S.A. ("EWC") which is a Polish developer of wind power farms.

Due to the fact that the fair values of acquired identifiable assets and liabilities in Eco-Wind Construction S.A. have not been determined, the Group has made a provisional accounting of the acquired identifiable assets and liabilities based on the carrying amounts in books which represent the best estimate of their fair values as of the date of financial statements.

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

| | ČEZ Energo | TMK | EWC |
|---|---|---|---|
| Share acquired in 2011 | 50.11% | 100% | 67% |
| Property, plant and equipment | 206 | 208 | 27 |
| Investments and other financial assets, net | 42 | – | – |
| Intangible assets, net | – | – | 6 |
| Deferred tax assets | – | – | 18 |
| Cash and cash equivalents | 401 | 3 | 3 |
| Receivables, net | 311 | 9 | 12 |
| Inventories, net | 1 | 1 | 341 |
| Other current assets | 2 | – | – |
| Other long-term liabilities | (48) | – | – |
| Deferred tax liability | (8) | (5) | – |
| Trade and other payables | (292) | (1) | (25) |
| Accrued liabilities | (5) | (1) | – |
| Total net assets | 610 | 214 | 382 |
| | | | |
| Share of net assets acquired | 306 | 214 | 256 |
| Goodwill | 95 | 291 | 236 |
| Total purchase consideration | 401 | 505 | 492 |
| | | | |
| Less | | | |
| Cash and cash equivalents in the subsidiary acquired | (401) | (3) | (3) |
| Payables from acquisitions | – | – | (10) |
| Consideration paid in previous periods | (401) | (508) | – |
| Cash outflow (inflow) on acquisition of the subsidiaries | (401) | (6) | 479 |

From the date of acquisition, the newly acquired subsidiaries have contributed the following balances to the Group's income statement for the year ended December 31, 2011 (in CZK millions):

| | ČEZ Energo | TMK | EWC |
|---|---|---|---|
| Revenues | 199 | 15 | – |
| Income before other income (expense) and income taxes | 40 | (15) | – |
| Net income (loss) | 20 | (14) | – |

If the combinations had taken place at the beginning of the year 2011, the profit for CEZ Group as of December 31, 2011 would have been CZK 40,761 million and revenues from continuing operations would have been CZK 209,812 million. The amount of goodwill recognized as a result of the business combinations comprises the value of expected synergies arising from the acquisitions.

### Acquisitions of non-controlling interests from third parties in 2011

In December 2011 the Group increased its capital share in Teplárna Trmice, a.s. from 85% to 100%.

The following table summarizes the critical terms of this transaction (in CZK millions):

| | Teplárna Trmice |
|---|---|
| Share of net assets acquired | 712 |
| Amount directly recognized in equity | 143 |
| Total purchase consideration | 855 |

The following table summarizes the cash flows related to acquisitions during 2011 (in CZK millions):

| | |
|---|---|
| Cash outflows on acquisition of subsidiaries | 489 |
| Cash outflows on acquisitions of non-controlling interests | 855 |
| Change in payables from acquisitions | (10) |
| Less cash acquired | (407) |
| Total cash outflows on acquisitions | 927 |

### Acquisitions of subsidiaries from third parties in 2010

In May 2010, the Group acquired an 85% interest in Teplárna Trmice, a.s., whose business is the production and sale of heat and electricity. As part of this business combination the Group also gained control over Tepelné hospodářství města Ústí nad Labem s.r.o. (together "Teplárna Trmice").

Previously presented provisional accounting for the acquisition of Teplárna Trmice, a.s. based on book values was replaced by the final accounting for the business combination based on determined fair values of acquired identifiable assets and liabilities as of the date of acquisition. The provisional values and the fair values of acquired identifiable assets and liabilities as of the date of acquisition were as follows (in CZK millions):

| | Provisional values | Final fair values |
|---|---|---|
| Share acquired in 2010 | 85% | 85% |
| Property, plant and equipment | 4,160 | 5,657 |
| Other non-current assets | 47 | 75 |
| Cash and cash equivalents | 298 | 298 |
| Receivables, net | 209 | 210 |
| Income tax receivable | 1 | 1 |
| Materials and supplies, net | 42 | 69 |
| Fossil fuel stocks | 26 | 26 |
| Emission rights | – | 429 |
| Other current assets | 371 | 371 |
| Non-controlling interests | (66) | (66) |
| Long-term debt, net of current portion | (27) | (27) |
| Other long-term liabilities | (2) | (2) |
| Deferred tax liability | (520) | (860) |
| Trade and other payables | (413) | (413) |
| Income tax payable | (35) | (35) |
| Accrued liabilities | (204) | (398) |
| Total net assets | 3,887 | 5,335 |
| | | |
| Share of net assets acquired | 3,304 | 4,535 |
| Goodwill | 1,579 | 373 |
| Total purchase consideration | 4,883 | 4,908 |
| | | |
| Less | | |
| Cash and cash equivalents in the subsidiary acquired | (298) | (298) |
| Consideration paid in previous periods | (38) | (63) |
| Cash outflow on acquisition of the subsidiary | 4,547 | 4,547 |

Final purchase price allocation compared with provisional accounting resulted in the decrease of CZK 217 million in consolidated net income which was caused mainly by change in the accounting for provision for emissions.

From the date of acquisition, the newly acquired subsidiary has contributed the following balances to the Group's income statement for the year 2010 (in CZK millions):

| | Teplárna Trmice |
|---|---|
| Revenues | 725 |
| Loss before other income (expense) and income taxes | (253) |
| Net loss | (225) |

If the combination had taken place at the beginning of the year 2010, the profit for CEZ Group as of December 31, 2010 would have been CZK 46,924 million and revenues from continuing operation would have been CZK 199,506 million. The amount of goodwill recognized as a result of the business combination comprises the fair value of expected synergies arising from the acquisition.

### Acquisitions of non-controlling interests from third parties in 2010

In July 2010 the Group increased its capital share in CEZ Servicii S.A. from 63% to 100%. In August 2010 the capital share of the Group in Elektrociepłownia Chorzów ELCHO sp. z o.o. was increased from 75.20% to 100%, whereas the share on profit was increased from 88.82% to 100%.

The following table summarizes the critical terms of these transactions (in CZK millions):

| | CEZ Servicii | ELCHO |
|---|---|---|
| Share of net assets acquired | 17 | 567 |
| Amount directly recognized in equity | 3 | (118) |
| Total purchase consideration | 20 | 449 |

The following table summarizes the cash outflows on acquisitions in 2010 (in CZK millions):

| | |
|---|---|
| Cash outflows on acquisition of the subsidiary | 4,845 |
| Additional cash outflows for acquisitions made in previous periods | 46 |
| Cash outflows paid on acquisitions in progress | 902 |
| Cash outflows on acquisitions of non-controlling interests | 469 |
| Cash contribution to joint-venture and associate | 1,904 |
| Change in payables from acquisitions | 94 |
| Less cash acquired | (298) |
| Total cash outflows on acquisitions | 7,962 |

## 7. Investments in Subsidiaries, Associates and Joint-ventures

The consolidated financial statements include the financial figures of ČEZ, a. s., and the subsidiaries, associates and joint-ventures listed in the following table:

| Subsidiaries | Country of incorporation | % equity interest | | % voting interest | |
|---|---|---|---|---|---|
| | | 2011 | 2010 | 2011 | 2010 |
| 3 L invest a.s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| A.E. Wind sp. z o.o. | Poland | 67.00% | – | 67.00% | – |
| AREA-GROUP CL a.s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| Bioplyn technologie s.r.o. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| Bohemian Development, a.s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| Centrum výzkumu Řež s.r.o. | Czech Republic | 52.46% | 52.46% | 100.00% | 100.00% |
| CEZ Albania Sh.A. | Albania | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ Bosna i Hercegovina d.o.o. | Bosnia and Herzegovina | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ Bulgaria EAD | Bulgaria | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ Bulgarian Investments B.V. | Netherlands | 100.00% | – | 100.00% | – |
| CEZ Deutschland GmbH | Germany | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ Distributie S.A. | Romania | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ Elektro Bulgaria AD | Bulgaria | 67.00% | 67.00% | 67.00% | 67.00% |
| CEZ Elektroproizvodstvo Bulgaria AD | Bulgaria | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ FINANCE B.V. | Netherlands | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ Finance Ireland Ltd. | Ireland | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ Hungary Ltd. | Hungary | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ Chorzow B.V. | Netherlands | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ International Finance B.V. | Netherlands | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ International Finance Ireland Ltd. | Ireland | 100.00% | – | 100.00% | – |
| CEZ Laboratories Bulgaria EOOD – in liquidation | Bulgaria | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ MH B.V. | Netherlands | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ Nowa Skawina S.A. | Poland | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ Poland Distribution B.V. | Netherlands | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ Polska sp. z o.o. | Poland | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ Produkty Energetyczne Polska sp. z o.o. | Poland | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ Razpredelenie Bulgaria AD | Bulgaria | 67.00% | 67.00% | 67.00% | 67.00% |
| CEZ Romania S.A. | Romania | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ RUS OOO | Russia | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ Servicii S.A. [1] | Romania | – | 100.00% | – | 100.00% |
| CEZ Shpërndarje Sh.A. | Albania | 76.00% | 76.00% | 76.00% | 76.00% |
| CEZ Silesia B.V. | Netherlands | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ Slovensko, s.r.o. | Slovakia | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ Srbija d.o.o. | Serbia | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ Towarowy Dom Maklerski sp. z o.o. [2] | Poland | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ Trade Albania Sh.P.K. | Albania | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ Trade Bulgaria EAD | Bulgaria | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ Trade Polska sp. z o.o. | Poland | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ Trade Romania S.R.L. | Romania | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ Ukraine LLC | Ukraine | 100.00% | 100.00% | 100.00% | 100.00% |
| CEZ Vanzare S.A. | Romania | 100.00% | 100.00% | 100.00% | 100.00% |
| ČEZ Bohunice a.s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| ČEZ Distribuce, a. s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| ČEZ Distribuční služby, s.r.o. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| ČEZ Energetické produkty, s.r.o. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| ČEZ Energetické služby, s.r.o. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| ČEZ Energo, s.r.o. | Czech Republic | 50.11% | – | 50.11% | – |
| ČEZ ENERGOSERVIS spol. s r.o. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| ČEZ ICT Services, a. s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| ČEZ Logistika, s.r.o. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| ČEZ Měření, s.r.o. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| ČEZ Obnovitelné zdroje, s.r.o. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| ČEZ OZ uzavřený investiční fond a.s. [3] | Czech Republic | 100.00% | – | 100.00% | – |
| ČEZ Prodej, s.r.o. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| ČEZ Správa majetku, s.r.o. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| ČEZ Teplárenská, a.s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| ČEZ Zákaznické služby, s.r.o. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| DOMICA FPI s.r.o. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| Eco-Wind Construction S.A. | Poland | 67.00% | – | 67.00% | – |
| eEnergy Hodonín a.s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| eEnergy Ralsko a.s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| eEnergy Ralsko - Kuřívody a.s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| Elektrárna Chvaletice a.s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| Elektrociepłownia Chorzów ELCHO sp. z o.o. | Poland | 100.00% | 100.00% | 100.00% | 100.00% |
| Elektrownia Skawina S.A. | Poland | 100.00% | 100.00% | 100.00% | 100.00% |

| Subsidiaries | Country of incorporation | % equity interest 2011 | 2010 | % voting interest 2011 | 2010 |
|---|---|---|---|---|---|
| Elektrownie Wiatrowe Lubiechowo sp. z o.o. | Poland | 67.00% | – | 67.00% | – |
| Energetické centrum s.r.o. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| Farma Wiatrowa Leśce sp. z o.o. | Poland | 67.00% | – | 67.00% | – |
| Farma Wiatrowa Wilkolaz-Bychawa sp. z o.o. | Poland | 67.00% | – | 67.00% | – |
| Free Energy Project Oreshets EAD | Bulgaria | 100.00% | – | 100.00% | – |
| FVE Buštěhrad a.s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| FVE Vranovská Ves a.s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| F.W. Tolkowiec sp. z o.o. | Poland | 67.00% | – | 67.00% | – |
| GENTLEY a.s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| KEFARIUM,a.s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| MARTIA a.s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| Mega Energy sp. z o.o. | Poland | 67.00% | – | 67.00% | – |
| M.W. Team Invest S.R.L. | Romania | 100.00% | 100.00% | 100.00% | 100.00% |
| NERS d.o.o. | Bosnia and Herzegovina | 51.00% | 51.00% | 51.00% | 51.00% |
| New Kosovo Energy L.L.C. | Kosovo | 100.00% | 100.00% | 100.00% | 100.00% |
| Ovidiu Development S.R.L. | Romania | 100.00% | 100.00% | 100.00% | 100.00% |
| PPC Úžín, a.s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| PRODECO, a.s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| SD - 1.strojírenská, a.s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| SD - Autodoprava, a.s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| SD - Kolejová doprava, a.s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| SD - KOMES, a.s. | Czech Republic | 92.65% | 92.65% | 92.65% | 92.65% |
| SD - Rekultivace, a.s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| Severočeské doly a.s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| STE - obchodní služby spol. s r.o. v likvidaci | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| ŠKODA PRAHA a.s. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| ŠKODA PRAHA Invest s.r.o. | Czech Republic | 100.00% | 100.00% | 100.00% | 100.00% |
| Taidana Limited | Cyprus | 100.00% | 100.00% | 100.00% | 100.00% |
| TEC Varna EAD | Bulgaria | 100.00% | 100.00% | 100.00% | 100.00% |
| Tepelné hospodářství města Ústí nad Labem s.r.o. | Czech Republic | 55.83% | 52.89% | 55.83% | 55.83% |
| Teplárna Trmice, a.s. | Czech Republic | 100.00% | 85.00% | 100.00% | 85.00% |
| TMK Hydroenergy Power S.R.L. | Romania | 100.00% | – | 100.00% | – |
| Tomis Team S.R.L. | Romania | 100.00% | 100.00% | 100.00% | 100.00% |
| Ústav jaderného výzkumu Řež a.s. | Czech Republic | 52.46% | 52.46% | 52.46% | 52.46% |

| Associates and joint-ventures | Country of incorporation | % equity interest 2011 | 2010 | % voting interest 2011 | 2010 |
|---|---|---|---|---|---|
| Akcez Enerji A.S. | Turkey | 44.31% | 44.31% | 50.00% | 50.00% |
| Aken B.V. | Netherlands | 37.36% | 37.36% | 50.00% | 50.00% |
| Akenerji Dogal Gaz Ithalat Ihracat ve Toptan Ticaret A.S. | Turkey | 37.36% | 37.36% | 50.00% | 50.00% |
| Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan Ticaret A.S. | Turkey | 33.63% | 33.63% | 45.00% | 45.00% |
| Akenerji Elektrik Üretim A.S. | Turkey | 37.36% | 37.36% | 37.36% | 37.36% |
| Akka Elektrik Üretim A.S. | Turkey | 33.63% | 33.63% | 45.00% | 45.00% |
| Akkur Enerji Üretim Ticaret ve Sanayi A.S. | Turkey | 36.99% | 36.99% | 49.50% | 49.50% |
| AK-EL Kemah Elektrik Üretim ve Ticaret A.S. [4)] | Turkey | 37.36% | 37.36% | 50.00% | 50.00% |
| AK-EL Yalova Elektrik Üretim A.S. | Turkey | 33.65% | 33.65% | 45.54% | 45.54% |
| CM European Power International B.V. | Netherlands | 50.00% | 50.00% | 50.00% | 50.00% |
| CM European Power International s.r.o. | Slovakia | 50.00% | 50.00% | 50.00% | 50.00% |
| CM European Power Slovakia s.r.o. | Slovakia | 50.00% | 50.00% | 50.00% | 50.00% |
| Egemer Elektrik Üretim A.S. | Turkey | 37.36% | 37.36% | 50.00% | 50.00% |
| Jadrová energetická spoločnosť Slovenska, a. s. | Slovakia | 49.00% | 49.00% | 50.00% | 50.00% |
| JESS Invest, s. r. o. | Slovakia | 49.00% | 49.00% | 50.00% | 50.00% |
| JTSD - Braunkohlebergbau GmbH | Germany | 50.00% | 50.00% | 50.00% | 50.00% |
| LOMY MOŘINA spol. s r.o. | Czech Republic | 51.05% | 51.05% | 50.00% | 50.00% |
| Mem Enerji Elektrik Üretim Sanayi ve Ticaret A.S. | Turkey | 36.99% | 36.99% | 49.50% | 49.50% |
| Mitteldeutsche Braunkohlengesellschaft mbH | Germany | 50.00% | 50.00% | 50.00% | 50.00% |
| MOL - CEZ European Power Hungary Ltd. | Hungary | 50.00% | 50.00% | 50.00% | 50.00% |
| Sakarya Elektrik Dagitim A.S. | Turkey | 44.31% | 44.31% | 50.00% | 50.00% |

The equity interest represents effective ownership interest of the Group.

[1)] CEZ Servicii S.A. merged with the succession company CEZ Romania S.A. with the effective date of January 1, 2011.
[2)] The former company name CEZ Ciepło Polska sp. z o.o. was changed to CEZ Towarowy Dom Maklerski sp. z o.o. in August 2011.
[3)] The company was acquired in September 2011. The former company name Patronus sedmý, uzavřený investiční fond, a.s. was changed to ČEZ OZ uzavřený investiční fond a.s. in November 2011.
[4)] The former company name Ickale Enerji Elektrik Üretim ve Ticaret A.S. was changed to AK-EL Kemah Elektrik Üretim ve Ticaret A.S. in May 2011.

The following table illustrates summarized financial information of joint-ventures for the year ended December 31, 2011 (in CZK millions):

| | Total current assets | Total non-current assets | Total current liabilities | Total non-current liabilities | Revenues | Expenses | Net income |
|---|---|---|---|---|---|---|---|
| Akcez Enerji A.S. | 10,481 | 10,163 | 668 | 6,136 | – | (1,247) | (1,247) |
| Aken B.V. | 28 | – | – | – | – | – | – |
| Akenerji Dogal Gaz Ithalat Ihracat ve Toptan Ticaret A.S. | 31 | – | – | – | – | (7) | (7) |
| Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan Ticaret A.S. | 735 | 15 | 625 | – | 3,938 | (3,987) | (49) |
| Akenerji Elektrik Üretim A.S. | 19,962 | 13,951 | 5,000 | 7,192 | 4,282 | (4,856) | (574) |
| Akka Elektrik Üretim A.S. | 14 | 12 | 148 | – | – | (133) | (133) |
| Akkur Enerji Üretim Ticaret ve Sanayi A.S. | 5,656 | 5,020 | 3,253 | 1,605 | 383 | (1,016) | (633) |
| AK-EL Kemah Elektrik Üretim ve Ticaret A.S. | 610 | 106 | 6 | – | 56 | – | 56 |
| AK-EL Yalova Elektrik Üretim A.S. | 155 | 2 | – | – | 23 | – | 23 |
| CM European Power International B.V. | 2,487 | 1,011 | 586 | – | 20 | – | 20 |
| CM European Power International s.r.o. | 191 | 175 | 62 | – | – | (22) | (22) |
| CM European Power Slovakia s.r.o. | 4,605 | 3,129 | 644 | 2,220 | 3,479 | (3,219) | 260 |
| Egemer Elektrik Üretim A.S. | 4,553 | 1,619 | 1,324 | 2,093 | – | (18) | (18) |
| Jadrová energetická spoločnosť Slovenska, a. s. | 5,996 | 3,256 | 31 | – | 36 | (106) | (70) |
| JESS Invest, s. r. o. | 103 | – | 3 | – | – | (1) | (1) |
| Mem Enerji Elektrik Üretim Sanayi ve Ticaret A.S. | 2,987 | 2,428 | 1,317 | 1,396 | 52 | (231) | (179) |
| Mitteldeutsche Braunkohlengesellschaft mbH [1)] | 22,085 | 19,351 | 4,575 | 10,853 | 10,282 | (10,352) | (70) |
| MOL - CEZ European Power Hungary Ltd. | 799 | 581 | 515 | – | 12 | 23 | 35 |
| Sakarya Elektrik Dagitim A.S. | 6,708 | 2,285 | 3,148 | 1,421 | 13,681 | (12,613) | 1,068 |

[1)] Financial information for Mitteldeutsche Braunkohlengesellschaft mbH includes also the financial information for JTSD - Braunkohlebergbau GmbH.

The following table illustrates summarized financial information of joint-ventures for the year ended December 31, 2010 (in CZK millions):

| | Total current assets | Total non-current assets | Total current liabilities | Total non-current liabilities | Revenues | Expenses | Net income |
|---|---|---|---|---|---|---|---|
| Akcez Enerji A.S. | 192 | 11,661 | 6,205 | – | – | (501) | (501) |
| Aken B.V. | 28 | – | 1 | – | – | – | – |
| Akenerji Dogal Gaz Ithalat Ihracat ve Toptan Ticaret A.S. | 475 | 1 | 432 | – | 458 | (453) | 5 |
| Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan Ticaret A.S. | 909 | 17 | 746 | – | 3,464 | (3,353) | 111 |
| Akenerji Elektrik Üretim A.S. | 6,329 | 14,282 | 4,814 | 6,232 | 4,269 | (4,388) | (119) |
| Akka Elektrik Üretim A.S. | 3 | 14 | 18 | – | – | – | – |
| Akkur Enerji Üretim Ticaret ve Sanayi A.S. | 851 | 4,842 | 3,402 | 1,898 | 20 | (131) | (111) |
| AK-EL Kemah Elektrik Üretim ve Ticaret A.S. | 584 | 53 | 10 | – | 15 | – | 15 |
| AK-EL Yalova Elektrik Üretim A.S. | 149 | 2 | – | – | – | (6) | (6) |
| CM European Power International B.V. | 861 | 1,013 | 2 | – | 33 | – | 33 |
| CM European Power International s.r.o. | 56 | 131 | 40 | – | – | (25) | (25) |
| CM European Power Slovakia s.r.o. | 1,866 | 1,448 | 1,106 | 811 | 3,365 | (3,134) | 231 |
| Egemer Elektrik Üretim A.S. | 1,444 | 1,055 | 836 | – | 12 | – | 12 |
| Jadrová energetická spoločnosť Slovenska, a. s. | 2,771 | 3,120 | 25 | – | 40 | (139) | (99) |
| JESS Invest, s. r. o. | 100 | – | 2 | – | – | (3) | (3) |
| Mem Enerji Elektrik Üretim Sanayi ve Ticaret A.S. | 684 | 1,277 | 1,024 | 739 | 9 | (82) | (73) |
| Mitteldeutsche Braunkohlengesellschaft mbH [1)] | 2,757 | 19,743 | 2,136 | 13,757 | 10,531 | (10,101) | 430 |
| MOL - CEZ European Power Hungary Ltd. | 192 | 337 | 259 | – | 29 | (2) | 27 |
| Sakarya Elektrik Dagitim A.S. | 3,729 | 1,137 | 1,965 | 1,118 | 17,450 | (16,632) | 818 |

[1)] Financial information for Mitteldeutsche Braunkohlengesellschaft mbH includes also the financial information for JTSD - Braunkohlebergbau GmbH.

The associate LOMY MOŘINA spol. s r.o. is not listed on any public exchange. The following table illustrates summarized financial information of the associate for the year ended December 31, 2011 (in CZK millions):

| | Total assets | Total liabilities | Equity | Revenues | Net income |
|---|---|---|---|---|---|
| LOMY MOŘINA spol. s r.o. | 437 | 65 | 372 | 230 | 8 |

The following table illustrates summarized financial information of the associate for the year ended December 31, 2010 (in CZK millions):

| | Total assets | Total liabilities | Equity | Revenues | Net loss |
|---|---|---|---|---|---|
| LOMY MOŘINA spol. s r.o. | 412 | 47 | 365 | 206 | (1) |

## 8. Cash and Cash Equivalents

**The composition of cash and cash equivalents at December 31, 2011 and 2010 is as follows (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Cash on hand and current accounts with banks | 4,721 | 5,513 |
| Short-term bank notes | 716 | 1,824 |
| Term deposits | 16,625 | 14,826 |
| Total | 22,062 | 22,163 |

At December 31, 2011 and 2010, cash and cash equivalents included foreign currency deposits of CZK 7,442 million and CZK 12,523 million, respectively.

The weighted average interest rate on short-term bank notes and term deposits at December 31, 2011 and 2010 was 1.7% and 2.1%, respectively. For the years 2011 and 2010 the weighted average interest rate was 1.8% and 1.1%, respectively.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at December 31, 2011 and 2010 (in CZK millions):

| | 2011 | 2010 |
|---|---|---|
| Cash and cash equivalents as a separate line in the balance sheet | 22,062 | 22,163 |
| Cash and cash equivalents attributable to assets classified as held for sale (Note 13) | – | 23 |
| Total | 22,062 | 22,186 |

## 9. Receivables, Net

**The composition of receivables, net, at December 31, 2011 and 2010 is as follows (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Unbilled electricity supplied to retail customers | 7,900 | 7,636 |
| Received advances from retail customers | (6,098) | (6,414) |
| Unbilled supplies to retail customers, net | 1,802 | 1,222 |
| Trade receivables | 57,726 | 42,467 |
| Taxes and fees, excluding income taxes | 3,337 | 3,224 |
| Other receivables | 7,239 | 4,848 |
| Allowance for doubtful receivables | (15,372) | (12,134) |
| Total | 54,732 | 39,627 |

The information about receivables from related parties is included in Note 29.

**At December 31, 2011 and 2010, the ageing analysis of receivables, net is as follows (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Not past due | 50,274 | 37,370 |
| Past due but not impaired [1] | | |
| Less than 3 months | 2,853 | 1,421 |
| 3–6 months | 546 | 491 |
| 6–12 months | 391 | 236 |
| more than 12 months | 668 | 109 |
| Total | 54,732 | 39,627 |

[1] Past due but not impaired receivables include net receivables, for which the Group recorded an impairment allowance based on the collective assessment of impairment of receivables that are not individually significant.

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

| | 2011 | 2010 |
|---|---|---|
| Opening balance | 12,134 | 10,173 |
| Additions | 4,794 | 4,182 |
| Reversals | (1,994) | (1,773) |
| Acquisition of subsidiaries | – | 89 |
| Currency translation differences | 438 | (537) |
| Closing balance | 15,372 | 12,134 |

## 10. Emission Rights

In 2005 an emission trading scheme was introduced in the European Union. The following table summarizes the movements in the quantity (in thousand tons) and book value of emission rights and credits held by the Group during 2011 and 2010 (in CZK millions):

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | in thousands tons | in millions CZK | in thousands tons | in millions CZK |
| **Emission rights and credits (CERs, ERUs) granted and purchased for own use** | | | | |
| Granted and purchased emission rights and credits at January 1 | 36,740 | 2,123 | 38,659 | 869 |
| Emission rights granted | 42,936 | 3,640 | 41,831 | – |
| Emission rights acquired in business combinations | – | – | 1,125 | 429 |
| Settlement of prior year actual emissions | (39,122) | (2,513) | (37,319) | (46) |
| Emission rights purchased | 2,282 | 984 | 2,585 | 1,267 |
| Emission rights sold | (5,250) | (46) | (6,300) | – |
| Emission credits purchased | 2,707 | 877 | 26 | 12 |
| Emission credits sold | (5) | (2) | (6) | (2) |
| Reclassified to emission credits held for trading | (26) | (12) | (467) | (163) |
| Reclassified from/to assets classified as held for sale | 3,394 | 241 | (3,394) | (241) |
| Currency translation differences | – | (35) | – | (2) |
| **Granted and purchased emission rights and credits at December 31** | 43,656 | 5,257 | 36,740 | 2,123 |
| **Emission rights and credits held for trading** | | | | |
| Emission rights and credits for trading at January 1 | 1,570 | 472 | – | – |
| Emission rights purchased | 2,004 | 813 | 8,231 | 3,019 |
| Emission rights sold | (2,004) | (627) | (8,231) | (3,021) |
| Emission credits purchased | 1,121 | 456 | 2,313 | 933 |
| Emission credits sold | (2,420) | (885) | (1,210) | (466) |
| Reclassified from emission credits for own use | 26 | 12 | 467 | 163 |
| Fair value adjustment | – | (202) | – | (156) |
| **Emission rights and credits held for trading at December 31** | 297 | 39 | 1,570 | 472 |

During 2011 and 2010 total emissions of greenhouse gases made by the Group companies amounted to an equivalent of 38,906 thousand tons and 39,122 thousand tons of $CO_2$, respectively. At December 31, 2011 and 2010 the Group recognized a provision for $CO_2$ emissions in total amount of CZK 3,418 million and CZK 2,592 million, respectively (see Note 2.13).

At December 31, 2011 and 2010 the balance of emission rights presented in the balance sheet includes also green and similar certificates in total amount CZK 717 million and CZK 482 million, respectively.

The following table shows the impact of transactions with emission rights and credits, green and similar certificates on income for the years ended December 31, 2011 and 2010 (in CZK millions):

| | 2011 | 2010 |
|---|---|---|
| Gain on sales of granted emission rights | 1,647 | 2,287 |
| Net gain from emission rights trading | 34 | 294 |
| Net loss from emission credits trading | (649) | (158) |
| Gain on green and similar certificates | 1,222 | 505 |
| Net gain from derivatives | 303 | 1,051 |
| Creation of provisions for emissions rights | (302) | (2,746) |
| Settlement of provisions for emissions rights | 3,089 | 1,117 |
| Remitted emission rights | (2,247) | (46) |
| Fair value adjustment | (202) | (156) |
| **Net gain related to emission rights, emission credits and green and similar certificates** | 2,895 | 2,148 |

## 11. Other Financial Assets, Net

**Other financial assets, net, at December 31, 2011 and 2010 were as follows (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Debt securities held-to-maturity | 3,166 | 401 |
| Debt securities available-for-sale | 1,021 | 593 |
| Equity securities available-for-sale | 4,538 | 3,151 |
| Derivatives | 20,844 | 12,257 |
| Total | 29,569 | 16,402 |

Derivatives balance is mainly composed of positive fair value of electricity trading contracts.

Equity securities available-for-sale comprises mainly the money market mutual funds denominated in EUR.

**Short-term debt securities at December 31, 2011 have the following effective interest rate structure (in CZK millions)**

| | Debt securities held-to-maturity | Debt securities available-for-sale | Total |
|---|---|---|---|
| Less than 3.00% | 3,166 | 149 | 3,315 |
| From 3.00% to 3.99% | – | 174 | 174 |
| From 4.00% to 4.99% | – | 698 | 698 |
| Total | 3,166 | 1,021 | 4,187 |

**Short-term debt securities at December 31, 2010 have the following effective interest rate structure (in CZK millions)**

| | Debt securities held-to-maturity | Debt securities available-for-sale | Total |
|---|---|---|---|
| Less than 3.00% | 401 | 200 | 601 |
| From 3.00% to 3.99% | – | 82 | 82 |
| From 4.00% to 4.99% | – | 207 | 207 |
| Over 4.99% | – | 104 | 104 |
| Total | 401 | 593 | 994 |

Short-term debt securities are denominated in CZK and EUR.

## 12. Other Current Assets

**The composition of other current assets at December 31, 2011 and 2010 is as follows (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Advances paid | 1,825 | 1,822 |
| Prepayments | 2,943 | 1,572 |
| Deferred variation margin on “own use” electricity futures | 11 | – |
| Total | 4,779 | 3,394 |

Deferred variation margin represents the net variation margin paid to or by Prague Energy Exchange in respect of the electricity future contracts treated as own use, which will be delivered after the balance sheet date. In 2010 this deferred variation margin is negative and therefore it is presented as part of Accrued liabilities (see Note 22).

## 13. Assets Classified as Held for Sale

At December 31, 2010 the Group classified its subsidiary Elektrárna Chvaletice a.s. as a disposal group held for sale. Elektrárna Chvaletice a.s. operates a coal fired power plant in East Bohemia. In 2010 the Group concluded a triangular agreement with Dalkia and Energetický a průmyslový holding, a.s. (EPH) to continue restructuring of its source portfolio in the Czech Republic. According to the previously reported plans it should have sold the Chvaletice power plant to EPH and acquired the heat distribution system in North Bohemia (Most and Litvínov agglomerations).

In 2011 CEZ Group reassessed this previously announced plan. Due to this decision the Group ceased to classify subsidiary Elektrárna Chvaletice a.s. as a disposal group held for sale as of July 1, 2011 and reclassified it back to production assets.

In July 2011, all relevant bodies of the Group approved the transaction in which CEZ Group plans to sell its 50% stake in the German mining company MIBRAG and a project for the construction of new coal-fired power plant Profen to Energetický a průmyslový holding, a.s., and at the same time to acquire 100% interest in Energotrans, a.s., which supplies heat from Mělník to Prague. The completion of these transactions after approval by relevant competition authorities is expected to occur in the second quarter of 2012.

The CEZ Group classified the investment in MIBRAG, including outstanding provided loan and its accessories and a project for the construction of new coal-fired power plant Profen, as assets classified as held for sale. At December 31, 2011 the Group recognized an impairment of these assets classified as held for sale of CZK 2,652 million. The impairment represents the excess of the original carrying amount over the sale price and is presented in the statement of income in the line Share of profit (loss) from associates and joint-ventures.

**The assets classified as held for sale and directly associated liabilities at December 31, 2011 and 2010 are as follows**

| | 2011 | 2010 |
|---|---|---|
| Property, plant and equipment | 1,031 | 2,071 |
| Investment in MIBRAG | 1,036 | – |
| Long-term receivables | 1,609 | – |
| Other non-current assets | – | 1 |
| Cash and cash equivalents | – | 23 |
| Receivables, net | – | 88 |
| Other current assets | 147 | 375 |
| Assets classified as held for sale | 3,823 | 2,558 |
| Long-term liabilities | – | (33) |
| Deferred tax liability | – | (257) |
| Trade and other payables | – | (29) |
| Other short-term liabilities | – | (441) |
| Liabilities directly associated with assets classified as held for sale | – | (760) |
| Net assets classified as held for sale | 3,823 | 1,798 |

The assets and results associated with the assets classified as held for sale are reported in the operating segments Power Production and Trading / Central Europe and Mining / Central Europe.

## 14. Equity

As at December 31, 2011, the share capital of the Company registered in the Commercial Register totaled CZK 53,798,975,900 and consisted of 537,989,759 shares with a nominal value of CZK 100 per share. All shares are bearer shares that are fully paid and listed.

**Movements of treasury shares in 2011 and 2010 (in pieces)**

| | 2011 | 2010 |
|---|---|---|
| Number of treasury shares at beginning of period | 4,085,021 | 4,555,021 |
| Sales of treasury shares | (210,000) | (470,000) |
| Number of treasury shares at end of period | 3,875,021 | 4,085,021 |

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

Dividends paid per share were CZK 50 and CZK 53 in 2011 and 2010, respectively. Dividends from 2011 profit will be declared on the general meeting, which will be held in the first half of 2012.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains current credit rating and healthy capital ratios in order to support its business and maximize value for shareholders. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Group primarily monitors capital using the ratio of net debt to EBITDA. The Group's goal is to keep this ratio below 2.3. In addition, the Group also monitors capital using a total debt to total capital ratio. The Group's policy is to keep the total debt to total capital ratio below 50%.

EBITDA consists of income before income taxes and other income (expenses) plus depreciation and amortization. The Group includes within total debt the long-term and short-term interest bearing loans and borrowings. Net debt is defined as total debt less cash and cash equivalents and highly liquid financial assets. Total capital is total equity attributable to equity holders of the parent plus total debt.

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

| | 2011 | 2010 |
|---|---|---|
| Total long-term debt | 183,949 | 154,826 |
| Total short-term loans | 5,500 | 9,618 |
| Total debt | 189,449 | 164,444 |
| Less: Cash and cash equivalents | (22,062) | (22,163) |
| Less: Highly liquid financial assets | (8,024) | (7,743) |
| Total net debt | 159,363 | 134,538 |
| Income before income taxes and other income (expenses) | 61,542 | 64,788 |
| Plus: Depreciation and amortization | 25,770 | 24,060 |
| EBITDA | 87,312 | 88,848 |
| Total equity attributable to equity holders of the parent | 226,713 | 221,431 |
| Total debt | 189,449 | 164,444 |
| Total capital | 416,162 | 385,875 |
| Net debt to EBITDA ratio | 1.83 | 1.51 |
| Total debt to total capital ratio | 45.5% | 42.6% |

## 15. Long-term Debt

**Long-term debt at December 31, 2011 and 2010 is as follows (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| 4.625% Eurobonds, due 2011 (EUR 154 million) [1] | – | 3,850 |
| 4.125% Eurobonds, due 2013 (EUR 500 million) | 12,863 | 12,474 |
| 5.125% Eurobonds, due 2012 (EUR 500 million) | 12,891 | 12,510 |
| 6.000% Eurobonds, due 2014 (EUR 600 million) | 15,419 | 14,954 |
| 3.005% Eurobonds, due 2038 (JPY 12,000 million) | 3,087 | 2,764 |
| 5.825% Zero Coupon Eurobonds, due 2038 (EUR 6 million) | 33 | 30 |
| 4.270% Zero Coupon Eurobonds, due 2011 (CZK 1,400 million) | – | 1,379 |
| 4.450% Zero Coupon Eurobonds, due 2011 (CZK 1,600 million) | – | 1,573 |
| 5.750% Eurobonds, due 2015 (EUR 600 million) | 15,436 | 14,980 |
| 2.845% Eurobonds, due 2039 (JPY 8,000 million) | 2,060 | 1,844 |
| 5.000% Eurobonds, due 2021 (EUR 750 million) [2] | 19,292 | 18,733 |
| 6M Euribor + 1.25% Eurobonds, due 2019 (EUR 50 million) | 1,285 | 1,248 |
| 3M Euribor + 0.45% Eurobonds, due 2011 (EUR 110 million) | – | 2,756 |
| 3M Libor + 0.70% Eurobonds, due 2012 (USD 100 million) | 1,992 | 1,871 |
| 3M Euribor + 0.50% Eurobonds, due 2011 (EUR 100 million) | – | 2,505 |
| 6M Pribor + 0.62% Eurobonds, due 2012 (CZK 3,000 million) | 2,999 | 2,998 |
| 4.875% Eurobonds, due 2025 (EUR 750 million) | 19,239 | 18,679 |
| 4.500% Eurobonds, due 2020 (EUR 750 million) | 19,119 | 18,544 |
| 2.160% Eurobonds, due 2023 (JPY 11,500 million) | 2,962 | – |
| 4.600% Eurobonds, due 2023 (CZK 1,250 million) | 1,247 | – |
| 3.625% Eurobonds, due 2016 (EUR 500 million) | 12,798 | – |
| 2.150%*IRp Eurobonds, due 2021 (EUR 100 million) | 2,580 | – |
| 4.102% Eurobonds, due 2021 (EUR 50 million) | 1,284 | – |
| 4.500% registered bonds, due 2030 (EUR 40 million) | 1,006 | 976 |
| 4.750% registered bonds, due 2023 (EUR 40 million) | 1,016 | – |
| 9.220% Debentures, due 2014 (CZK 2,500 million) [3] | 2,499 | 2,498 |
| Total bonds and debentures | 151,107 | 137,166 |
| Less: Current portion | (17,882) | (12,063) |
| Bonds and debentures, net of current portion | 133,225 | 125,103 |
| Long-term bank and other loans | | |
| Less than 2.00% p. a. | 7,892 | 6,200 |
| 2.00% to 2.99% p. a. | 14,679 | 10,609 |
| 3.00% to 3.99% p. a. | 8,980 | 44 |
| 4.00% to 4.99% p. a. | 384 | 431 |
| 6.00% to 6.99% p. a. | – | 192 |
| More than 6.99% p. a. | 907 | 184 |
| Total long-term bank and other loans | 32,842 | 17,660 |
| Less: Current portion | (1,382) | (2,723) |
| Long-term bank and other loans, net of current portion | 31,460 | 14,937 |
| Total long-term debt | 183,949 | 154,826 |
| Less: Current portion | (19,264) | (14,786) |
| Total long-term debt, net of current portion | 164,685 | 140,040 |

[1] In December 2010, the original nominal value of the issue (EUR 400 million) was reduced by bought back own bonds at a nominal value of EUR 246 million.
[2] In February 2010, the original nominal value of the issue (EUR 600 million) was increased by EUR 150 million.
[3] Since 2006 the interest rate has changed to consumer price index in the Czech Republic plus 4.20%. The interest rate as at December 31, 2011 and 2010 was 6.5% and 5.2%, respectively.

The interest rates indicated above are historical rates for fixed rate debt and current market rates for floating rate debt. The actual interest payments are affected by interest rate risk hedging carried out by the Group. For the fair values of interest rate hedging instruments see Note 16.

All long-term debt is recognized in original currencies while the related hedging derivatives are recognized using the method described in Note 2.20.

**The future maturities of long-term debt are as follows (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Current portion | 19,264 | 14,786 |
| Between 1 and 2 years | 15,260 | 18,668 |
| Between 2 and 3 years | 28,904 | 14,395 |
| Between 3 and 4 years | 17,888 | 19,137 |
| Between 4 and 5 years | 15,175 | 16,627 |
| Thereafter | 87,458 | 71,213 |
| Total long-term debt | 183,949 | 154,826 |

**The following table analyses the long-term debt at December 31, 2011 and 2010 by currency (in millions)**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Foreign currency | CZK | Foreign currency | CZK |
| EUR | 6,407 | 165,312 | 5,506 | 137,982 |
| USD | 112 | 2,233 | 115 | 2,149 |
| JPY | 33,432 | 8,610 | 22,032 | 5,086 |
| PLN | 3 | 17 | 6 | 38 |
| ALL | 406 | 76 | 508 | 89 |
| KRW | 4,942 | 85 | 4,838 | 77 |
| XDR | 6 | 170 | 6 | 173 |
| CZK | – | 7,446 | – | 9,232 |
| Total long-term debt | | 183,949 | | 154,826 |

Long-term debt with floating interest rates exposes the Group to interest rate risk. The following table summarizes long-term debt with floating rates of interest by contractual reprising dates at December 31, 2011 and 2010 without considering interest rate hedging (in CZK millions):

| | 2011 | 2010 |
|---|---|---|
| Floating rate long-term debt | | |
| with interest rate fixed for 1 month | 198 | 24 |
| with interest rate fixed from 1 to 3 months | 8,985 | 9,717 |
| with interest rate fixed from 3 months to 1 year | 29,603 | 19,821 |
| Total floating rate long-term debt | 38,786 | 29,562 |
| Fixed rate long-term debt | 145,163 | 125,264 |
| Total long-term debt | 183,949 | 154,826 |

Fixed rate long-term debt exposes the Group to the risk of changes in fair values of these financial instruments. For related fair value information and risk management policies of all financial instruments see Note 16 and Note 17.

The Group has entered into loan agreements, which contain restrictive financial covenants relating to indebtedness and liquidity. In 2011 and 2010 the Group complied with all required covenants.

## 16. Fair Value of Financial Instruments

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

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

### Cash and cash equivalents, current investments

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

### Investments

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

### Receivables and Payables

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

### Short-term loans

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

### Long-term debt

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

### Derivatives

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

**Carrying amounts and the estimated fair values of financial instruments at December 31, 2011 and 2010 are as follows (in CZK millions)**

| | | 2011 | | 2010 | |
|---|---|---|---|---|---|
| | Category | Carrying amount | Fair value | Carrying amount | Fair value |
| ASSETS | | | | | |
| Investments | | | | | |
| Restricted debt securities available-for-sale | AFS | 11,048 | 11,048 | 9,639 | 9,639 |
| Restricted debt securities held-to-maturity | HTM | 50 | 50 | 17 | 17 |
| Restricted cash | LaR | 2,205 | 2,205 | 2,309 | 2,309 |
| Financial assets in progress | LaR | – | – | 902 | 902 |
| Debt securities held-to-maturity | HTM | 107 | 123 | 109 | 119 |
| Debt securities available-for-sale | AFS | 2,465 | 2,465 | 3,999 | 3,999 |
| Equity securities available-for-sale | AFS | 15,482 | 15,482 | 15,459 | 15,459 |
| Long-term receivables | LaR | 17,424 | 18,121 | 18,425 | 19,888 |
| Current assets | | | | | |
| Receivables | LaR | 54,732 | 54,732 | 39,627 | 39,627 |
| Cash and cash equivalents | LaR | 22,062 | 22,062 | 22,163 | 22,163 |
| Debt securities held-to-maturity | HTM | 3,166 | 3,166 | 401 | 401 |
| Debt securities available-for-sale | AFS | 1,021 | 1,021 | 593 | 593 |
| Equity securities available-for-sale | AFS | 4,538 | 4,538 | 3,151 | 3,151 |
| Other current assets | LaR | 1,825 | 1,825 | 1,822 | 1,822 |
| LIABILITIES | | | | | |
| Long-term debt | AC | (183,949) | (189,486) | (154,826) | (160,268) |
| Short-term loans | AC | (5,500) | (5,500) | (9,618) | (9,618) |
| Accounts payable | AC | (51,929) | (51,929) | (40,555) | (40,555) |
| DERIVATIVES | | | | | |
| Cash flow hedges | | | | | |
| Short-term receivables | HFT | 132 | 132 | 132 | 132 |
| Long-term receivables | HFT | 1,822 | 1,822 | 554 | 554 |
| Short-term liabilities | HFT | (3,099) | (3,099) | (569) | (569) |
| Long-term liabilities | HFT | (1,541) | (1,541) | (965) | (965) |
| Total cash flow hedges | | (2,686) | (2,686) | (848) | (848) |
| Electricity, coal and gas trading contracts | | | | | |
| Short-term receivables | HFT | 17,905 | 17,905 | 10,992 | 10,992 |
| Short-term liabilities | HFT | (16,688) | (16,688) | (11,489) | (11,489) |
| Total electricity, coal and gas trading contracts | | 1,217 | 1,217 | (497) | (497) |
| Other derivatives | | | | | |
| Short-term receivables | HFT | 2,807 | 2,807 | 1,133 | 1,133 |
| Long-term receivables | HFT | 1,207 | 1,207 | 1,099 | 1,099 |
| Short-term liabilities | HFT | (6,470) | (6,470) | (6,191) | (6,191) |
| Long-term liabilities | HFT | (1,056) | (1,056) | (714) | (714) |
| Total other derivatives | | (3,512) | (3,512) | (4,673) | (4,673) |

LaR Loans and receivables
AFS Available-for-sale investments
HTM Held-to-maturity instruments
HFT Held for trading or hedging instruments
AC Financial liabilities at amortized cost

Fair value hierarchy

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

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

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

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

There were no transfers between the levels in 2011 and 2010.

As at December 31, 2011, the Group held the following financial instruments measured at fair value (in CZK millions):

**Assets measured at fair value**

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Electricity, coal and gas contracts | 17,905 | 124 | 17,781 | – |
| Cash flow hedges | 1,954 | 3 | 1,951 | – |
| Other derivatives | 4,014 | 1,479 | 2,535 | – |
| Available-for-sale restricted debt securities | 11,048 | 11,048 | – | – |
| Available-for-sale debt securities | 3,486 | 3,486 | – | – |
| Available-for-sale equity securities * | 4,538 | 4,538 | – | – |

**Liabilities measured at fair value**

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Electricity, coal and gas contracts | (16,688) | (442) | (16,246) | – |
| Cash flow hedges | (4,640) | (1,338) | (3,302) | – |
| Other derivatives | (7,526) | (1,073) | (6,453) | – |

As at December 31, 2010, the Group held the following financial instruments measured at fair value (in CZK millions):

**Assets measured at fair value**

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Electricity, coal and gas contracts | 10,992 | 144 | 10,848 | – |
| Cash flow hedges | 686 | 88 | 598 | – |
| Other derivatives | 2,232 | 214 | 2,017 | 1 |
| Available-for-sale restricted debt securities | 9,639 | 9,639 | – | – |
| Available-for-sale debt securities | 4,592 | 4,592 | – | – |
| Available-for-sale equity securities * | 3,151 | 3,151 | – | – |

**Liabilities measured at fair value**

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Electricity, coal and gas contracts | (11,489) | (35) | (11,454) | – |
| Cash flow hedges | (1,534) | (203) | (1,331) | – |
| Other derivatives | (6,905) | (87) | (6,818) | – |

* Most of the available-for-sale equity securities are carried at cost as the fair value cannot be reliably measured.

## 17. Financial Risk Management

### Risk management approach

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

Since 2005 a risk capital concept has been applied within the Group. The concept allows the setting of basic caps for partial risk limits and, in particular, the unified quantification of all kinds of risks. The value of aggregate annual risk limit (Profit@Risk) is approved by the Board of Directors based on the Risk Management Committee proposal for every financial year. The proposed limit value is derived from historical volatility of profit and revenues of the Group (the top-down method). The approved value in CZK is set on the basis of a 95% confidence level and expresses a maximum profit decrease, which is the Group willing to take in order to reach the planned annual profit.

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

Since 2009 the main Business Plan market risks are quantified (EBITDA@Risk based on MonteCarlo simulation in Y+1 to Y+5 horizon). The market risks are actively managed through gradual electricity sale in the following 3-year horizon, total CEZ Group $CO_2$ position management in NAP III allocation period context and the FX and IR risk hedging in medium-term horizon.

### Risk management organization

The supreme authority for risk management in the Group is the Risk Management Committee (the ČEZ, a. s. CEO's committee). Except for approval of the aggregate annual budget risk limit (within the competence of the ČEZ, a. s. Board of Directors), the Risk Management Committee makes decisions on the development of an integrated system of risk management, makes decisions on an overall allocation of risk capital to the individual risks and organizational units, approves obligatory rules, responsibilities and limit structure for the management of partial risks, and it continuously monitors an overall risk impact on the Group, including Group debt capacity utilization and rating requirement fulfillment.

### Overview and methods of risk management

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

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

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

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

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

- Market risks: financial (currency, interest and stock price) risks, commodity prices (electricity, emission allowances, coal, gas), volume (heat supply volume, volume of electricity buy-out produced by solar power plants)
- Credit risks: financial and business counterparty risk and electricity, gas and heat end customer risk
- Operational risks: risks of nuclear and fossil power plants operation in the Czech Republic, investment risks.

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

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

### 17.1. Qualitative description of risks associated with financial instruments

Commodity risks

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

Market financial risks (currency, interest and stock price risks)

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

Credit risks

With respect to the Group's activities managed on a centralized level, credit exposures of individual financial partners and wholesale partners are managed in accordance with individual credit limits. The individual limits are set and continuously updated according to the counterparty's credibility (in accordance with international rating and internal financial evaluation of counterparties with no international rating).

With respect to the electricity sales to end customers in the Czech Republic, the actual credibility is monitored for each business partner based on payment history (in addition, the financial standing is considered for selected partners). This credibility determines the payment conditions of partners (i.e. it indirectly determines an amount of an approved credit exposure) and also serves to quantify both the expected and the potential losses.

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

Liquidity risks

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

### 17.2. Quantitative description of risks associated with financial instruments

Commodity risks

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

- the indicator of risk associated with financial instruments is defined as the monthly parametric VaR (95% confidence) which expresses a potential change in fair value of contracts classified as derivatives under IAS 39 (the underlying commodities in the Group's derivative transactions are: electricity, EUA and CER/ERU emission allowances, gas and coal API2 and API4)
- highly probable forecasted future electricity generation sales with the delivery in the CZ power grid are included in the VAR calculation to reflect the hedging character of significant portion of the existing derivative sales of electricity with delivery in Germany
- for the calculation of volatility and correlations (between commodity prices), the SMA (Simple Moving Average) method is applied to 60 daily time series
- the source of market data is mainly EEX, PXE and ICE.

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

| | 2011 | 2010 |
|---|---|---|
| Monthly VaR (95%) – impact of changes in commodity prices | 1,307 | 752 |

### Currency risks

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

- the indicator of currency risk is defined as the monthly parametric VaR (95% confidence)
- for the calculation of volatility and internal correlations of each currency, the JP Morgan method (the parametric VaR method) is applied to 90 daily historical time series
- the relevant currency position is defined as a discounted value of foreign currency cash flows from all contracted financial instruments, from expected foreign currency operational revenues and costs expected in 2012 and from highly probable forecasted foreign currency revenues or capital expenditures that are being hedged by financial instruments
- the relevant currency positions reflect all significant foreign-currency flows of the Group companies in the monitored basket of foreign currencies
- the source of market FX and interest rate data is mainly IS Reuters and IS Bloomberg.

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

| | 2011 | 2010 |
|---|---|---|
| Monthly currency VaR (95% confidence) | 452 | 272 |

### Interest risks

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

- parallel shift of the yield curves (+10bp) was selected as the indicator of interest risk
- the P/L sensitivity is measured as an annual change of the interest income and cost resulting from the interest-sensitive positions as at December 31
- the relevant interest positions reflect all significant interest-sensitive positions of the Group companies
- the source of market interest rates is mainly IS Reuters and IS Bloomberg.

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

| | 2011 | 2010 |
|---|---|---|
| IR sensitivity * to parallel yield curve shift (+10bp) | (16) | (14) |

* Negative result denotes higher increase in interest costs than in interest revenues.

### Stock price risks

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

- monthly parametric VaR (95% confidence) was selected as the indicator of stock price risk
- the relevant stock position is defined as market value of stocks/stock options as at December 31
- the relevant stock positions reflect all significant stock-sensitive deals of the CEZ Group companies
- the relevant volatility and standard deviation is determined from risk module IS Bloomberg
- the source of market data is IS Bloomberg and ČNB data.

**Potential impact of the stock price risk as at December 31 (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Monthly stock VaR (95% confidence) | 1,129 | 1,269 |

**Credit exposure from provided guarantees at December 31 (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Guarantees provided to joint-ventures | 6,022 | 2,813 |
| Guarantees provided to external parties | 12 | 481 |
| Total | * 6,034 | 3,294 |

* Some of the guarantees could be called until March 2014 at the latest.

Liquidity risk

**Contractual maturity profile of financial liabilities at December 31, 2011 (in CZK millions)**

| | Loans | Bonds and debentures | Trade payables and other liabilities | Derivatives * | Guarantees issued ** |
|---|---|---|---|---|---|
| Less than 1 year | 7,611 | 24,974 | 52,116 | 338,258 | 6,034 |
| Between 1 and 2 years | 3,103 | 19,207 | 193 | 73,882 | – |
| Between 2 and 3 years | 11,558 | 23,730 | 82 | 15,514 | – |
| Between 3 and 4 years | 2,876 | 20,151 | 45 | 755 | – |
| Between 4 and 5 years | 2,741 | 16,623 | 58 | 748 | – |
| Thereafter | 14,550 | 97,188 | – | 13,474 | – |
| Total | 42,439 | 201,873 | 52,494 | 442,631 | 6,034 |

**Contractual maturity profile of financial liabilities at December 31, 2010 (in CZK millions)**

| | Loans | Bonds and debentures | Trade payables and other liabilities | Derivatives * | Guarantees issued ** |
|---|---|---|---|---|---|
| Less than 1 year | 12,695 | 18,363 | 40,654 | 218,730 | 3,294 |
| Between 1 and 2 years | 1,628 | 23,436 | 277 | 44,395 | – |
| Between 2 and 3 years | 2,222 | 17,805 | 25 | 3,544 | – |
| Between 3 and 4 years | 1,946 | 22,264 | 83 | 359 | – |
| Between 4 and 5 years | 1,869 | 18,759 | 40 | 342 | – |
| Thereafter | 9,106 | 85,826 | 145 | 8,336 | – |
| Total | 29,466 | 186,453 | 41,224 | 275,706 | 3,294 |

* Contractual maturities for derivatives represent contractual cash out-flows of these instruments, but at the same time the Group will receive corresponding consideration. For fair values of derivatives see Note 16.

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

### 17.3. Hedge accounting

The Group enters into cash flow hedges of future highly probable cash inflows from the sales denominated in EUR against the currency risk. The hedged cash flows are expected to occur in the period from 2012 to 2016. The hedging instruments as at December 31, 2011 and 2010 are the EUR denominated liabilities from the issued Eurobonds and bank loans in the total amount of EUR 5.6 billion and EUR 4.7 billion, respectively, and currency forward contracts and swaps. The fair value of these derivative hedging instruments (currency forward contracts and swaps) amounted to CZK (1,690) million and CZK 379 million at December 31, 2011 and 2010, respectively.

The Group also enters into cash flow hedges of future highly probable purchases of emission allowances which are expected to occur between 2012 and 2014. The hedging instruments as at December 31, 2011 and 2010 are the futures and forward contracts for the purchase of allowances equivalent to 14.5 million tons and 14.7 million tons of $CO_2$ emissions, respectively. The fair value of these derivative hedging instruments amounted to CZK (2,799) million and CZK (1,227) million at December 31, 2011 and 2010, respectively.

In 2011 the Group started to enter into cash flow hedges of highly probable future sales of electricity in the Czech Republic from 2012 to 2014. The hedging instruments are the derivative electricity sales in Germany. The fair value of these derivative hedging instruments amounted to CZK 1,803 million at December 31, 2011.

In 2011 and 2010 the amounts removed from equity in respect of cash flow hedges were recognized in profit or loss and included in the lines Sales of electricity, Gains and losses from electricity, coal and gas derivative trading, net, Emission rights, net and Other income (expenses), net. In 2011 and 2010 the Group recognized in profit or loss the ineffectiveness that arises from cash flow hedges in the amount of CZK (579) million and CZK 61 million, respectively. The ineffectiveness in 2011 and 2010 mainly relates to transactions for which the hedged items are no more highly probable to occur.

## 18. Accumulated Provision for Nuclear Decommissioning and Fuel Storage

The Company operates two nuclear power plants. Nuclear power plant Dukovany consists of one 440MW unit and three 510MW units which were put into service from 1985 to 1987 and have been refurbished and enhanced later. The second nuclear power plant, Temelín, has two 1,000MW units which have started commercial operation in 2002 and 2003. The Czech parliament has enacted a Nuclear Act (“Act”) which defines certain obligations for the decontamination and dismantling (“decommissioning”) of nuclear facilities and the disposal of radioactive waste and spent fuel (“disposal”). The Act requires that all nuclear parts of plant and equipment be decommissioned following the end of the plant’s operating life, currently 2027 for Dukovany and approximately 2042 for Temelín. A 2008 Dukovany and a 2009 Temelín decommissioning cost study estimate that nuclear decommissioning will cost CZK 17.3 billion and CZK 14.6 billion, respectively. The Company makes contributions to a restricted bank account in the amount of the nuclear provisions recorded under the Act. These restricted funds can be invested in government bonds and term deposits in accordance with the legislation and are shown in the balance sheet as part of Investments and other financial assets, net (see Note 4).

Pursuant to the Act, the Ministry of Industry and Trade established the Radioactive Waste Repository Authority (“RAWRA”) as the central organizer and operator of facilities for the final disposal of radioactive waste and spent fuel. The RAWRA centrally organizes, supervises and is responsible for all disposal facilities and for disposal of radioactive waste and spent fuel therein. The activities of the RAWRA are financed through a “nuclear account” funded by the originators of radioactive waste. Contribution to the nuclear account was stated by a government decision at 50 CZK per MWh produced at nuclear power plants. In 2011 and 2010, the payments to the nuclear account amounted to CZK 1,414 million and CZK 1,400 million, respectively. The originator of radioactive waste directly covers all costs associated with interim storage of spent fuel and disposal of radioactive waste. Actual costs incurred are charged against the accumulated provision for interim storage of spent nuclear fuel.

The Group has established provisions as described in Note 2.24, to recognize its estimated liabilities for decommissioning and spent fuel storage. The following is a summary of the provisions for the years ended December 31, 2011 and 2010 (in CZK millions):

| | Accumulated provisions | | | |
|---|---|---|---|---|
| | Nuclear Decommissioning | Spent fuel storage | | Total |
| | | Interim | Long-term | |
| Balance at December 31, 2009 | 8,415 | 6,787 | 21,950 | 37,152 |
| Movements during 2010 | | | | |
| Discount accretion and effect of inflation | 378 | 305 | 988 | 1,671 |
| Provision charged to income statement | – | 605 | – | 605 |
| Effect of change in estimate credited to income statement | – | (797) | – | (797) |
| Effect of change in estimate added to fixed assets (Note 2.24) | – | – | 519 | 519 |
| Current cash expenditures | – | (902) | (1,400) | (2,302) |
| Balance at December 31, 2010 | 8,793 | 5,998 | 22,057 | 36,848 |
| Movements during 2011 | | | | |
| Discount accretion and effect of inflation | 390 | 270 | 992 | 1,652 |
| Provision charged to income statement | – | 681 | – | 681 |
| Effect of change in estimate charged to income statement | – | 95 | – | 95 |
| Effect of change in estimate added to fixed assets (Note 2.24) | – | – | 37 | 37 |
| Current cash expenditures | – | (614) | (1,414) | (2,028) |
| Balance at December 31, 2011 | 9,183 | 6,430 | 21,672 | 37,285 |

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

In 2011 and 2010 the Company recorded the change in estimate for interim spent fuel storage due to the change in expectations of future storage cost and the change in estimate in provision for long-term spent fuel storage due to the modification of the expected output of the nuclear power plants.

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

## 19. Other Long-term Liabilities

Other long-term liabilities at December 31, 2011 and 2010 are as follows (in CZK millions):

| | 2011 | 2010 |
|---|---|---|
| Provision for decommissioning and reclamation of mines and mining damages | 6,473 | 6,648 |
| Provision for waste storage reclamation | 1,909 | 1,567 |
| Other long-term provisions | 371 | 348 |
| Deferred connection fees | 7,381 | 7,997 |
| Derivatives | 2,597 | 1,679 |
| Other | 2,990 | 2,934 |
| Total | 21,721 | 21,173 |

The following table shows the movements of provisions for the years ended December 31, 2011 and 2010 (in CZK millions):

| | Mine reclamation and damages | Waste storage |
|---|---|---|
| Balance at December 31, 2009 | 6,448 | 1,740 |
| Movements during 2010 | | |
| Discount accretion and effect of inflation | 266 | 78 |
| Provision charged to income statement | 95 | 35 |
| Acquisition of subsidiaries | – | 70 |
| Effect of change in estimate added to (deducted from) fixed assets (Note 2.25) | 382 | (244) |
| Reclassification to liabilities directly associated with assets classified as held for sale | – | (21) |
| Current cash expenditures | (543) | (91) |
| Balance at December 31, 2010 | 6,648 | 1,567 |
| Movements during 2011 | | |
| Discount accretion and effect of inflation | 284 | 66 |
| Provision charged to income statement | 70 | 15 |
| Effect of change in estimate added to (deducted from) fixed assets (Note 2.25) | (192) | 416 |
| Reclassification from liabilities directly associated with assets classified as held for sale | – | 21 |
| Current cash expenditures | (337) | (176) |
| Balance at December 31, 2011 | 6,473 | 1,909 |

The provision for decommissioning and reclamation of mines and mining damages was recorded by Severočeské doly a.s., a mining subsidiary of ČEZ. Severočeské doly a.s. operates an open pit coal mine and is responsible for decommissioning and reclamation of the mine as well as for damages caused by the operations of the mine. These provisions have been calculated using the best estimates of the expenditures required to settle the present obligation at the balance sheet date. The current cost estimates for the decommissioning and reclamation provision have been discounted using an estimated real rate of interest of 2.5%. Current cash expenditures represent cash payments for current reclamation of mining area and settlement of mining damages. Change in estimate represents change in provision as result of updated cost estimates in the current period, mainly due to changes in expected prices of reclamation activities.

## 20. Short-term Loans

**Short-term loans at December 31, 2011 and 2010 are as follows (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Short-term bank loans | 4,333 | 8,306 |
| Bank overdrafts | 1,167 | 1,312 |
| Total | 5,500 | 9,618 |

Interest on short-term loans is variable. The weighted average interest rate was 1.9% and 1.4% at December 31, 2011 and 2010, respectively. For the years 2011 and 2010 the weighted average interest rate was 1.8% and 1.5%, respectively.

## 21. Trade and Other Payables

**Trade and other payables at December 31, 2011 and 2010 are as follows (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Advances received from retail customers | 14,064 | 13,462 |
| Unbilled electricity supplied to retail customers | (11,209) | (12,829) |
| Received advances from retail customers, net | 2,855 | 633 |
| Trade payables | 45,893 | 37,183 |
| Fair value of option (see Note 4) | 4,272 | 5,606 |
| Derivatives | 21,985 | 12,643 |
| Other | 3,181 | 2,739 |
| Total | 78,186 | 58,804 |

The information about payables to related parties is included in Note 29.

## 22. Accrued Liabilities

**Accrued liabilities at December 31, 2011 and 2010 consist of the following (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Provision for $CO_2$ emissions | 3,418 | 2,592 |
| Other provisions | 3,298 | 1,818 |
| Accrued interest | 3,358 | 2,801 |
| Taxes and fees, except income tax | 1,151 | 842 |
| Unbilled goods and services | 9,039 | 7,171 |
| Contingent liabilities from acquisitions | 251 | 325 |
| Deferred variation margin on “own use” electricity futures (see Note 12) | – | 602 |
| Deferred income | 131 | 172 |
| Other | 95 | 91 |
| Total | 20,741 | 16,414 |

## 23. Revenues

**The composition of revenues for the years ended December 31, 2011 and 2010 is as follows (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Sale of electricity | | |
| Sales of electricity to end customers | 60,674 | 68,612 |
| Sales of electricity through energy exchange | 4,265 | 4,158 |
| Sales of electricity to traders | 40,202 | 36,362 |
| Sales to distribution and transmission companies | 1,136 | 1,219 |
| Other sales of electricity | 7,371 | 6,469 |
| Effect of hedging (see Note 17.3) | 2,616 | 2,464 |
| Sales of ancillary, system, distribution and other services | 65,529 | 55,993 |
| Total sales of electricity | 181,793 | 175,277 |
| Electricity, coal and gas derivative trading | | |
| Sales | 233,293 | 163,175 |
| Purchases | (228,678) | (157,741) |
| Effect of hedging (see Note 17.3) | (6) | 238 |
| Changes in fair value of commodity derivatives | 1,234 | (280) |
| Total gains and losses from electricity, coal and gas derivative trading, net | 5,843 | 5,392 |
| Sales of gas, coal, heat and other revenues | | |
| Sales of gas | 5,715 | 1,569 |
| Sales of coal | 4,550 | 4,390 |
| Sales of heat | 4,316 | 4,333 |
| Other | 7,544 | 7,887 |
| Total sales of gas, coal, heat and other revenues | 22,125 | 18,179 |
| Total revenues | 209,761 | 198,848 |

In October 2007 the Shareholder’s meeting of Elektrociepłownia Chorzów ELCHO sp. z o.o. (“ELCHO”) decided to terminate its long-term contract for the sale of electricity with Polskie Sieci Elektroenergetyczne S.A. (PSE) based on which the electricity should have originally been delivered until 2023. According to the Act on termination of long-term agreements ELCHO receives compensation in cash from an entity established by Polish state, to compensate the revenues lost (the equivalent of the difference between original contractual price and market price with the total limit of PLN 889 million). From April 2008 ELCHO started to sell the electricity on the free market. In 2011 and 2010 ELCHO recognized CZK 453 million and CZK 387 million of revenues as a result of the above mentioned compensations.

## 24. Salaries and Wages

**Salaries and wages for the years ended December 31, 2011 and 2010 were as follows (in CZK millions)**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Total | Key management personnel [1)] | Total | Key management personnel [1)] |
| Salaries and wages | (12,901) | (300) | (12,947) | (262) |
| Remuneration of the board members, including royalties | (133) | (39) | (125) | (39) |
| Share options | (73) | (73) | (100) | (100) |
| Social and health security | (4,015) | (31) | (4,072) | (29) |
| Other personal expenses | (983) | (36) | (1,473) | (28) |
| Total | (18,105) | (479) | (18,717) | (458) |

[1)] Key management personnel represent members of Supervisory Board, Board of Directors, Chief Executive Officer, divisional directors and selected managers of departments of the parent company with group field of activity. The remuneration of former members of company bodies is included in personal expenses.

At December 31, 2011 and 2010, the aggregate number of share options granted to members of Board of Directors and selected managers was 2,663 thousand and 2,365 thousand, respectively. The share option plan for members of the Supervisory Board was canceled prospectively by the decision of the shareholders on General Meeting held in June 2005.

Members of the Board of Directors and selected managers are entitled to receive share options based on the conditions stipulated in the share option agreement. Pursuant to the resolution of the May 2008 General Meeting, members of the Board of Directors and selected managers are granted certain quantity of share options each year of their tenure. The exercise price for the granted options is based on the average quoted market price of the shares on the regulated exchange in the Czech Republic during one-month period preceding the grant date each year. Options granted could be exercised at the earliest 2 years and latest 3.5 years after each grant date. Option right is limited so that the profit per share option will not exceed 100% of exercise price and the beneficent has to hold at his account such number of shares exercised through options granted which is equivalent to 20% of profit made on exercise date until the end of share option plan.

In 2011 and 2010 the Company recognized a compensation expense of CZK 73 million and CZK 100 million, respectively, related to the granted options. The Company has settled all options exercised using treasury shares. The gains or losses on the sale of treasury shares were recognized directly in equity.

The following table shows changes during 2011 and 2010 in the number of granted share options and the weighted average exercise price of these options:

| | Number of share options | | | |
|---|---|---|---|---|
| | Board of Directors '000s | Selected managers '000s | Total '000s | Weighted average exercise price (CZK per share) |
| Share options at December 31, 2009 | 1,770 | 555 | 2,325 | 1,028.03 |
| Options granted | 275 | 255 | 530 | 865.33 |
| Options exercised [1)] | (425) | (45) | (470) | 716.47 |
| Options forfeited | – | (20) | (20) | 833.32 |
| Share options at December 31, 2010 [2)] | 1,620 | 745 | 2,365 | 1,055.13 |
| Options granted | 343 | 345 | 688 | 836.56 |
| Options exercised [1)] | (120) | (90) | (210) | 806.74 |
| Options forfeited | – | (180) | (180) | 1,152.49 |
| Movements | 60 | (60) | – | 833.17 |
| Share options at December 31, 2011 [2)] | 1,903 | 760 | 2,663 | 1,011.70 |

[1)] In 2011 and 2010 the weighted average share price at the date of the exercise for the options exercised was CZK 936.76 and CZK 905.73, respectively.
[2)] At December 31, 2011 and 2010 the number of exercisable options was 1,485 thousand and 1,115 thousand, respectively. The weighted average exercise price of the exercisable options was CZK 1,142.30 per share and CZK 1,156.54 per share at December 31, 2011 and 2010, respectively.

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

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

| | 2011 | 2010 |
|---|---|---|
| Weighted average assumptions | | |
| Dividend yield | 4.4% | 5.9% |
| Expected volatility | 34.0% | 40.2% |
| Mid-term risk-free interest rate | 1.5% | 1.6% |
| Expected life (years) | 1.4 | 1.4 |
| Share price (CZK per share) | 851.5 | 848.1 |
| Weighted average grant-date fair value of options (CZK per 1 option) | 121.1 | 123.5 |

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

As at December 31, 2011 and 2010 the exercise prices of outstanding options were in the following ranges (in thousand pieces):

| | 2011 | 2010 |
|---|---|---|
| CZK 700–900 per share | 883 | 645 |
| CZK 900–1,400 per share | 1,780 | 1,720 |
| Total | 2,663 | 2,365 |

The options granted which were outstanding as at December 31, 2011 and 2010 had an average remaining contractual life of 1.6 years and 1.9 years, respectively.

## 25. Other Operating Expenses

**Other operating expenses for the years ended December 31, 2011 and 2010 consist of the following (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Services | (12,873) | (12,777) |
| Travel expenses | (232) | (247) |
| Gain on sale of property, plant and equipment | 145 | 78 |
| Gain on sale of material | 57 | 190 |
| Capitalization of expenses to the cost of assets and change in own inventory | 5,037 | 5,177 |
| Fines, penalties and penalty interest, net | 547 | 591 |
| Change in provisions and valuation allowances | (525) | 1,699 |
| Taxes and fees | (2,710) | (2,338) |
| Write-off of bad debts and cancelled investment | (510) | (1,019) |
| Gifts | (466) | (511) |
| Other, net | (2,207) | (2,666) |
| Total | (13,737) | (11,823) |

Taxes and fees include the contributions to the nuclear account (see Note 18). The settlement of the provision for long-term spent fuel storage is accounted for at the amount of contributions to nuclear account. Settlement of provision for long-term spent fuel storage is included in Change in provisions and valuation allowances.

## 26. Interest Income

**Interest income for each category of financial instruments for the years ended December 31, 2011 and 2010 is as follows (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Loans and receivables | 991 | 1,156 |
| Held-to-maturity investments | 89 | 52 |
| Available-for-sale investments | 302 | 316 |
| Bank accounts | 453 | 498 |
| Total | 1,835 | 2,022 |

## 27. Other Income (Expenses), Net

**Other income (expenses), net, for the years ended December 31, 2011 and 2010 consist of the following (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Derivative gains, net | 2,120 | 1,689 |
| Gains (losses) on sales of available-for-sale financial assets | 103 | (90) |
| Change in impairment of financial investments | – | 11 |
| Gift tax on emission allowances | (3,640) | – |
| Other, net | 1,486 | 1,501 |
| Total | 69 | 3,111 |

## 28. Income Taxes

Companies resident in the Czech Republic calculated corporate income tax in accordance with the Czech tax regulations at the rate of 19% in 2011 and 2010. The Czech corporate income tax rate for 2012 and on will be 19%. Management believes that it has adequately provided for tax liabilities in the accompanying financial statements. However, the risk remains that the relevant financial authorities could take differing positions with regard to interpretive issues, which could have a potential effect on reported income.

**The components of the income tax provision are as follows (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Current income tax charge | (10,783) | (10,750) |
| Adjustments in respect of current income tax of previous periods | (185) | 236 |
| Deferred income taxes | (231) | (1,225) |
| Total | (11,199) | (11,739) |

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

| | 2011 | 2010 |
|---|---|---|
| Income before income taxes | 51,952 | 58,680 |
| Statutory income tax rate in Czech Republic | 19% | 19% |
| "Expected" income tax expense | (9,871) | (11,149) |
| Tax effect of | | |
| Non-deductible gain from derivatives | 286 | 245 |
| Non-deductible expenses related to shareholdings | (18) | (35) |
| Goodwill impairment | (29) | (283) |
| Other non-deductible items, net | (224) | (554) |
| Non-deductible share based payment expense | (14) | (19) |
| Gift tax on emission allowances | (692) | – |
| Profit (loss) from associates and joint-ventures | (738) | 30 |
| Income already taxed or exempt | 208 | 239 |
| Tax credits | 5 | 5 |
| Adjustments in respect of current income tax of previous periods | (185) | 236 |
| Effect of different tax rate in other countries | 111 | (316) |
| Change in unrecorded deferred tax receivables | (38) | (138) |
| Income taxes | (11,199) | (11,739) |
| Effective tax rate | 22% | 20% |

**Deferred income taxes, net, at December 31, 2011 and 2010 consist of the following (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Accumulated provision for nuclear decommissioning and spent fuel storage | 5,729 | 5,729 |
| Financial statement depreciation in excess of tax depreciation | 174 | 25 |
| Revaluation of financial instruments | 1,221 | – |
| Allowances | 997 | 799 |
| Other provisions | 1,694 | 2,006 |
| Penalty payables | 1 | 4 |
| Tax loss carry forwards | 106 | 59 |
| Other temporary differences | 361 | 115 |
| Unrecorded deferred tax asset | (366) | (328) |
| Total deferred tax assets | 9,917 | 8,409 |
| Tax depreciation in excess of financial statement depreciation | (24,716) | (24,172) |
| Revaluation of financial instruments | (220) | (860) |
| Other provisions | (589) | (478) |
| Penalty receivables | (24) | (29) |
| Other temporary differences | (488) | (663) |
| Total deferred tax liability | (26,037) | (26,202) |
| Total deferred tax liability, net | (16,120) | (17,793) |
| Reflected in the balance sheet as follows | | |
| Deferred tax assets | 826 | 655 |
| Deferred tax liability | (16,946) | (18,191) |
| Deferred tax liability presented as part of liabilities directly associated with assets classified as held for sale | – | (257) |
| Total deferred tax liability, net | (16,120) | (17,793) |

**Movements in net deferred tax liability, net, in 2011 and 2010 were as follows (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Opening balance | 17,793 | 14,511 |
| Deferred tax recognized in profit or loss | 231 | 1,225 |
| Deferred tax charged directly to equity | (1,828) | 1,286 |
| Acquisition of subsidiaries | (5) | 860 |
| Currency translation differences | (71) | (89) |
| Closing balance | 16,120 | 17,793 |

At December 31, 2011 and 2010 the aggregate amount of temporary differences associated with investments in subsidiaries, for which no deferred tax liability was recognized, amounted to CZK 23,514 million and CZK 21,610 million, respectively.

**Tax effects relating to each component of other comprehensive income (in CZK millions)**

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Before tax amount | Tax effect | Net of tax amount | Before tax amount | Tax effect | Net of tax amount |
| Change in fair value of cash flow hedges recognized in equity | (7,330) | 1,393 | (5,937) | 9,156 | (1,740) | 7,416 |
| Cash flow hedges removed from equity | (2,343) | 445 | (1,898) | (2,762) | 525 | (2,237) |
| Change in fair value of available-for-sale financial assets recognized in equity | 54 | (16) | 38 | 393 | (76) | 317 |
| Available-for-sale financial assets removed from equity | (33) | 6 | (27) | (29) | 5 | (24) |
| Translation differences | (330) | – | (330) | (3,860) | – | (3,860) |
| Share on equity movements of associates and joint-ventures | 1 | – | 1 | 5 | – | 5 |
| Total | (9,981) | 1,828 | (8,153) | 2,903 | (1,286) | 1,617 |

## 29. Related Parties

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

**At December 31, 2011 and 2010, the receivables from related parties and payables to related parties are as follows (in CZK millions)**

| | Receivables | | Payables | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Akcez Enerji A.S. | 55 | 161 | 73 | 84 |
| Akenerji Elektrik Üretim A.S. | 1,414 | 761 | – | – |
| CM European Power International B.V. | 292 | – | – | – |
| CM European Power International s.r.o. | 18 | – | – | – |
| CM European Power Slovakia s.r.o. | 542 | – | – | – |
| LACOMED, spol. s r.o. | 14 | 11 | – | – |
| LOMY MOŘINA spol. s r.o. | 5 | 3 | 21 | 10 |
| MOL - CEZ European Power Hungary Ltd. | 33 | 20 | – | – |
| OSC, a.s. | – | – | 24 | 18 |
| SINIT,a.s. | 1 | 1 | 33 | 33 |
| Ústav aplikované mechaniky Brno, s.r.o. | 3 | – | 18 | 10 |
| Výzkumný a zkušební ústav Plzeň s.r.o. | – | – | 20 | 2 |
| Others | 19 | 4 | 29 | 19 |
| Total | 2,396 | 961 | 218 | 176 |

**The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year (in CZK millions)**

| | Sales to related parties | | Purchases from related parties | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Akcez Enerji A.S. | 112 | 49 | – | – |
| Akenerji Elektrik Üretim A.S. | 98 | – | 24 | – |
| CM European Power International s.r.o. | 28 | 13 | – | – |
| LACOMED, spol. s r.o. | 40 | 43 | 4 | 4 |
| LOMY MOŘINA spol. s r.o. | 16 | 24 | 175 | 151 |
| MOL - CEZ European Power Hungary Ltd. | 34 | 20 | – | – |
| OSC, a.s. | – | – | 106 | 113 |
| SINIT,a.s. | 2 | 3 | 71 | 96 |
| Others | 76 | 26 | 101 | 81 |
| Total | 406 | 178 | 481 | 445 |

Information about compensation of key management personnel is included in Note 24.

## 30. Segment Information

The Group reports its result based on operating segments which are defined with respect to geographical location of the assets with similar economic environment and characteristics, e.g. similar long-term average gross margins, similar nature of the products and services and with regard to regulatory environment.

According to geographical location, the Group distinguishes the following two regions that in combination with products and services form the reportable segments: Central Europe (CE) and South East Europe (SEE). The Central Europe region includes the Czech Republic, the Netherlands, Poland, Germany, Hungary, Ireland and Slovakia except for the Dutch company Aken B.V. which is included in the South East Europe region. The South East Europe region consists of the operations of the Group in Bulgaria, Romania, Turkey, Albania, Cyprus, Serbia, Kosovo, Bosnia and Herzegovina, Russia and the Ukraine except for trading operations that are provided at the Group headquarters and therefore presented in the Central Europe region.

According to nature of the products and services the Group distinguishes four categories as follows:
(1) The power production and trading which includes production of electricity and heat and the commodity trading activities of the Group;
(2) The distribution and sale which sells electricity to end customers through the power distribution grid and provides power distribution services;
(3) The mining that produces coal and limestone used by the power production business operations or sold to third parties; and
(4) The other business activities.

The Group has seven reportable segments as a result of the combination of geographical location and nature of products and services as follows:
- Power Production and Trading / Central Europe
- Distribution and Sale / Central Europe
- Mining / Central Europe
- Other / Central Europe
- Power Production and Trading / South East Europe
- Distribution and Sale / South East Europe
- Other / South East Europe

The accounting policies of the operating segments are the same as those described in Note 2. 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 EBITDA (income before income taxes and other income (expenses) plus depreciation and amortization).

The following tables summarize segment information by operating segments for the years ended December 31, 2011 and 2010 (in CZK millions):

| Year 2011 | Power Production and Trading CE | Distribution and Sale CE | Mining CE | Other CE | Power Production and Trading SEE | Distribution and Sale SEE | Other SEE | Combined | Elimination | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales other than intersegment sales | 69,436 | 93,793 | 4,806 | 3,274 | 3,860 | 34,567 | 25 | 209,761 | – | 209,761 |
| Intersegment sales | 49,635 | 9,946 | 6,083 | 38,050 | 706 | 353 | 2,207 | 106,980 | (106,980) | – |
| **Total revenues** | **119,071** | **103,739** | **10,889** | **41,324** | **4,566** | **34,920** | **2,232** | **316,741** | **(106,980)** | **209,761** |
| EBITDA | 55,745 | 15,996 | 4,793 | 4,996 | 2,310 | 3,551 | 88 | 87,479 | (167) | 87,312 |
| Depreciation and amortization | (14,989) | (3,453) | (1,876) | (2,170) | (937) | (2,285) | (60) | (25,770) | – | (25,770) |
| EBIT | 40,756 | 12,543 | 2,917 | 2,826 | 1,373 | 1,266 | 28 | 61,709 | (167) | 61,542 |
| Interest on debt and provisions | (6,621) | (254) | (296) | (11) | (467) | (169) | (101) | (7,919) | 963 | (6,956) |
| Interest income | 2,022 | 27 | 432 | 21 | 64 | 157 | 75 | 2,798 | (963) | 1,835 |
| Goodwill impairment | – | – | – | – | – | (292) | – | (292) | – | (292) |
| Share of profit (loss) from associates and joint-ventures | 128 | – | (2,772) | – | (612) | (424) | – | (3,680) | – | (3,680) |
| Income taxes | (7,177) | (2,281) | (542) | (642) | (80) | (517) | – | (11,239) | 40 | (11,199) |
| Net income | 43,189 | 10,044 | 193 | 2,220 | (103) | (140) | 6 | 55,409 | (14,656) | 40,753 |
| Identifiable assets | 237,266 | 67,712 | 20,128 | 15,327 | 25,859 | 28,224 | 82 | 394,598 | (7,735) | 386,863 |
| Investment in associates and joint-ventures | 4,463 | – | 190 | – | 4,800 | 1,839 | – | 11,292 | – | 11,292 |
| Unallocated assets | | | | | | | | | | 199,952 |
| **Total assets** | | | | | | | | | | **598,107** |
| Capital expenditure | 27,533 | 9,670 | 4,121 | 23,751 | 4,886 | 2,534 | 775 | 73,270 | (22,157) | 51,113 |
| Average number of employees | 7,527 | 1,481 | 3,463 | 8,548 | 552 | 8,970 | 1,264 | 31,805 | – | 31,805 |

| Year 2010 | Power Production and Trading CE | Distribution and Sale CE | Mining CE | Other CE | Power Production and Trading SEE | Distribution and Sale SEE | Other SEE | Combined | Elimination | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales other than intersegment sales | 61,860 | 91,721 | 4,688 | 3,758 | 3,524 | 33,277 | 20 | 198,848 | – | 198,848 |
| Intersegment sales | 53,378 | 6,728 | 5,850 | 41,034 | 280 | 81 | 2,181 | 109,532 | (109,532) | – |
| **Total revenues** | **115,238** | **98,449** | **10,538** | **44,792** | **3,804** | **33,358** | **2,201** | **308,380** | **(109,532)** | **198,848** |
| EBITDA | 62,031 | 13,382 | 4,273 | 4,699 | 611 | 3,690 | 103 | 88,789 | 59 | 88,848 |
| Depreciation and amortization | (14,409) | (3,221) | (1,631) | (2,044) | (428) | (2,255) | (72) | (24,060) | – | (24,060) |
| EBIT | 47,622 | 10,161 | 2,642 | 2,655 | 183 | 1,435 | 31 | 64,729 | 59 | 64,788 |
| Interest on debt and provisions | (5,559) | (294) | (289) | (14) | (87) | (151) | (23) | (6,417) | 919 | (5,498) |
| Interest income | 2,133 | 51 | 453 | 27 | 46 | 213 | 18 | 2,941 | (919) | 2,022 |
| Goodwill impairment | – | – | – | – | (1,843) | (983) | – | (2,826) | – | (2,826) |
| Share of profit (loss) from associates and joint-ventures | 83 | – | 215 | – | (137) | (14) | – | 147 | – | 147 |
| Income taxes | (8,385) | (1,850) | (505) | (452) | 57 | (589) | (15) | (11,739) | – | (11,739) |
| Net income | 43,465 | 8,035 | 3,033 | 2,331 | (2,012) | (324) | 8 | 54,536 | (7,595) | 46,941 |
| Identifiable assets | 226,502 | 61,662 | 18,065 | 16,819 | 21,407 | 27,130 | 90 | 371,675 | (9,165) | 362,510 |
| Investment in associates and joint-ventures | 4,215 | – | 3,829 | – | 6,291 | 2,592 | – | 16,927 | – | 16,927 |
| Unallocated assets | | | | | | | | | | 164,938 |
| **Total assets** | | | | | | | | | | **544,375** |
| Capital expenditure | 39,779 | 9,645 | 3,990 | 27,456 | 3,459 | 2,994 | 729 | 88,052 | (26,337) | 61,715 |
| Average number of employees | 7,398 | 1,484 | 3,466 | 8,708 | 552 | 9,940 | 1,389 | 32,937 | – | 32,937 |

Prices in certain intersegment transactions are regulated by the Energy Regulatory Office (see Note 1).

The following table shows the split of revenues according to the location of the entity where the revenues are originated (in CZK million):

| | 2011 | 2010 |
|---|---|---|
| Czech Republic | 162,318 | 152,771 |
| Bulgaria | 20,653 | 19,542 |
| Romania | 9,577 | 10,105 |
| Poland | 2,825 | 3,658 |
| Albania | 8,330 | 7,722 |
| Other | 6,058 | 5,050 |
| Total revenues | 209,761 | 198,848 |

The following table shows the split of property, plant and equipment according to the location of entity which they belong to at December 31, 2011 and 2010 (in CZK million):

| | 2011 | 2010 |
|---|---|---|
| Czech Republic | 323,631 | 303,850 |
| Bulgaria | 13,534 | 13,408 |
| Romania | 35,598 | 29,976 |
| Poland | 9,066 | 10,031 |
| Albania | 5,028 | 5,238 |
| Other | 6 | 7 |
| Total property, plant and equipment | 386,863 | 362,510 |

## 31. Net Income per Share

| | 2011 | 2010 |
|---|---|---|
| Numerator (CZK millions) | | |
| Basic and diluted | | |
| Net income attributable to equity holders of the parent | 40,756 | 47,051 |
| Denominator (thousands shares) | | |
| Basic | | |
| Weighted average shares outstanding | 534,041 | 533,811 |
| Dilutive effect of share options | 13 | 38 |
| Diluted | | |
| Adjusted weighted average shares | 534,054 | 533,849 |
| Net income per share (CZK per share) | | |
| Basic | 76.3 | 88.1 |
| Diluted | 76.3 | 88.1 |

## 32. Commitment and Contingencies

Investment Program

The Group is engaged in a continuous construction program, currently estimated as of December 31, 2011 to total CZK 225.4 billion over the next five years, as follows: CZK 64.3 billion in 2012, CZK 45.8 billion in 2013, CZK 44.3 billion in 2014, CZK 33.1 billion in 2015 and CZK 37.9 billion in 2016. These figures do not include the expected acquisitions of subsidiaries, associates and joint-ventures, which will depend on the number of future investment opportunities, for which the Group will be a successful bidder and also considering the recoverability of these investments.

The construction programs are subject to periodic reviews and actual construction may vary from the above estimates. At December 31, 2011 significant purchase commitments were outstanding in connection with the construction program.

Insurance Matters

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

The Group also maintains the insurance policies covering the assets of its fossil, hydro and nuclear power plants general third party liability insurance in connection with main operations of the Group.

## 33. Legal Disputes

In 2005 and 2006 a number of lawsuits were filed against ČEZ, a. s. relating to the realization of takeover offers and squeeze-outs of minority shareholders in the former regional electricity distribution companies, Severočeské doly a.s. and ČEZ Teplárenská, a.s. The plaintiffs challenged the share prices established by valuators nominated by courts. The information usually required by IAS 37 Provisions, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to prejudice the outcome of the litigation.

## 34. Events after the Balance Sheet Date

In January 2012 the Company accepted offers to repurchase bonds issued under the EUR 500 million issue 5.125% due in 2012 in the total nominal amount of EUR 222 million. Offers to repurchase bonds issued under the EUR 500 million issue 4.125% due in 2013 were accepted in the total nominal amount of EUR 128 million. The settlement date of the repurchase of bonds was January 20, 2012.

These financial statements have been authorized for issue on February 27, 2012.

# INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of ČEZ, a. s.:**

We have audited the accompanying financial statements of ČEZ, a. s. which comprise the balance sheet as at December 31, 2011, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details on ČEZ, a. s. see Note 1 to the financial statements.

## Management's Responsibility for the Financial Statements

Board of Directors of ČEZ, a. s. is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing as amended by implementation guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of ČEZ, a. s. as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

Ernst & Young Audit, s.r.o.
License No. 401
Represented by partner

Josef Pivoňka
Auditor, License No. 1963

February 27, 2012
Prague, Czech Republic

# ČEZ, A. S.
# BALANCE SHEET IN ACCORDANCE WITH IFRS AS OF DECEMBER 31, 2011

**(in CZK millions)**

| ASSETS | 2011 | 2010 |
|---|---|---|
| Property, plant and equipment | | |
| Plant in service | 313,006 | 305,523 |
| Less accumulated provision for depreciation | (184,124) | (172,285) |
| Net plant in service (Note 3) | 128,882 | 133,238 |
| Nuclear fuel, at amortized cost | 8,839 | 7,005 |
| Construction work in progress (Note 3) | 68,982 | 54,929 |
| Total property, plant and equipment | 206,703 | 195,172 |
| Other non-current assets | | |
| Investments and other financial assets, net (Note 4) | 192,428 | 181,973 |
| Intangible assets, net (Note 5) | 578 | 706 |
| Total other non-current assets | 193,006 | 182,679 |
| Total non-current assets | 399,709 | 377,851 |
| Current assets | | |
| Cash and cash equivalents (Note 6) | 15,930 | 16,142 |
| Receivables, net (Note 7) | 46,281 | 48,205 |
| Income tax receivable | 374 | 1,457 |
| Materials and supplies, net | 3,737 | 3,217 |
| Fossil fuel stocks | 1,359 | 883 |
| Emission rights (Note 8) | 5,007 | 2,152 |
| Other financial assets, net (Note 9) | 28,247 | 15,472 |
| Other current assets (Note 10) | 1,985 | 1,043 |
| Assets classified as held for sale (Notes 4 and 4.1) | 1,031 | 2,739 |
| Total current assets | 103,951 | 91,310 |
| TOTAL ASSETS | 503,660 | 469,161 |

| EQUITY AND LIABILITIES | 2011 | 2010 |
|---|---|---|
| Equity | | |
| Stated capital | 53,799 | 53,799 |
| Treasury shares | (4,382) | (4,619) |
| Retained earnings and other reserves | 143,183 | 140,308 |
| Total equity (Note 11) | 192,600 | 189,488 |
| Long-term liabilities | | |
| Long-term debt, net of current portion (Note 12) | 145,293 | 135,097 |
| Accumulated provision for nuclear decommissioning and fuel storage (Note 15) | 37,059 | 36,619 |
| Other long-term liabilities (Note 16) | 5,274 | 4,292 |
| Total long-term liabilities | 187,626 | 176,008 |
| Deferred tax liability (Note 24) | 8,798 | 10,533 |
| Current liabilities | | |
| Short-term loans | 3,624 | 6,455 |
| Current portion of long-term debt (Note 12) | 18,668 | 12,298 |
| Trade and other payables (Note 17) | 79,347 | 65,722 |
| Accrued liabilities (Note 18) | 12,997 | 8,657 |
| Total current liabilities | 114,636 | 93,132 |
| TOTAL EQUITY AND LIABILITIES | 503,660 | 469,161 |

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

# ČEZ, A. S.
# STATEMENT OF INCOME IN ACCORDANCE WITH IFRS FOR THE YEAR ENDED DECEMBER 31, 2011

**(in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Revenues | | |
| Sales of electricity | 97,246 | 98,894 |
| Gains and losses from electricity, coal and gas derivative trading, net | 5,904 | 5,376 |
| Sales of gas, heat and other revenues | 10,291 | 5,928 |
| Total revenues (Note 19) | 113,441 | 110,198 |
| Operating expenses | | |
| Fuel | (15,609) | (17,320) |
| Purchased power and related services | (29,540) | (18,528) |
| Repairs and maintenance | (3,431) | (3,583) |
| Depreciation and amortization | (12,840) | (13,178) |
| Salaries and wages (Note 20) | (5,951) | (6,470) |
| Materials and supplies | (1,837) | (1,740) |
| Emission rights, net (Note 8) | 3 | 1,585 |
| Other operating expenses (Note 21) | (7,386) | (5,955) |
| Total expenses | (76,591) | (65,189) |
| Income before other income (expenses) and income taxes | 36,850 | 45,009 |
| Other income (expenses) | | |
| Interest on debt, net of capitalized interest | (5,019) | (4,245) |
| Interest on nuclear and other provisions (Note 15) | (1,713) | (1,740) |
| Interest income (Note 22) | 2,608 | 2,507 |
| Foreign exchange rate gains (losses), net | (244) | (2,550) |
| Loss on sale of subsidiaries, associates and joint-ventures | – | (128) |
| Other income (expenses), net (Note 23) | 11,414 | 3,468 |
| Total other income (expenses) | 7,046 | (2,688) |
| Income before income taxes | 43,896 | 42,321 |
| Income taxes (Note 24) | (6,559) | (7,559) |
| Net income | 37,337 | 34,762 |
| Net income per share (CZK per share) (Note 27) | | |
| Basic | 69.9 | 65.1 |
| Diluted | 69.9 | 65.1 |
| Average number of shares outstanding (000s) | | |
| Basic | 534,041 | 533,811 |
| Diluted | 534,054 | 533,849 |

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

# ČEZ, A. S.
# STATEMENT OF COMPREHENSIVE INCOME IN ACCORDANCE WITH IFRS FOR THE YEAR ENDED DECEMBER 31, 2011

**(in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Net income | 37,337 | 34,762 |
| | | |
| Other comprehensive income | | |
| Change in fair value of cash flow hedges recognized in equity | (7,360) | 9,009 |
| Cash flow hedges removed from equity | (2,306) | (2,634) |
| Change in fair value of available-for-sale financial assets recognized in equity | 44 | 163 |
| Deferred tax relating to other comprehensive income (Note 24) | 1,828 | (1,242) |
| Other comprehensive income, net of tax | (7,794) | 5,296 |
| | | |
| Total comprehensive income | 29,543 | 40,058 |

# ČEZ, A. S.
# STATEMENT OF CHANGES IN EQUITY IN ACCORDANCE WITH IFRS FOR THE YEAR ENDED DECEMBER 31, 2011

**(in CZK millions)**

| | Stated capital | Treasury shares | Cash flow hedge reserve | Available-for-sale and other reserves | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| December 31, 2009 | 53,799 | (5,151) | (2,155) | 520 | 130,447 | 177,460 |
| Net income | – | – | – | – | 34,762 | 34,762 |
| Other comprehensive income | – | – | 5,163 | 133 | – | 5,296 |
| Total comprehensive income | – | – | 5,163 | 133 | 34,762 | 40,058 |
| Transaction costs related to business combinations | – | – | – | – | (211) | (211) |
| Dividends | – | – | – | – | (28,256) | (28,256) |
| Sale of treasury shares | – | 532 | – | – | (195) | 337 |
| Share options | – | – | – | 100 | – | 100 |
| Transfer of exercised and forfeited share options within equity | – | – | – | (97) | 97 | – |
| December 31, 2010 | 53,799 | (4,619) | 3,008 | 656 | 136,644 | 189,488 |
| Net income | – | – | – | – | 37,337 | 37,337 |
| Other comprehensive income | – | – | (7,829) | 35 | – | (7,794) |
| Total comprehensive income | – | – | (7,829) | 35 | 37,337 | 29,543 |
| Dividends | – | – | – | – | (26,673) | (26,673) |
| Sale of treasury shares | – | 237 | – | – | (68) | 169 |
| Share options | – | – | – | 73 | – | 73 |
| Transfer of exercised and forfeited share options within equity | – | – | – | (49) | 49 | – |
| December 31, 2011 | 53,799 | (4,382) | (4,821) | 715 | 147,289 | 192,600 |

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

# ČEZ, A. S.
# STATEMENT OF CASH FLOWS
# IN ACCORDANCE WITH IFRS
# FOR THE YEAR ENDED DECEMBER 31, 2011

**(in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Income before income taxes | 43,896 | 42,321 |
| Adjustments to reconcile income before income taxes to net cash provided by operating activities | | |
| Depreciation, amortization and asset write-offs | 12,858 | 13,201 |
| Amortization of nuclear fuel | 3,225 | 3,697 |
| Loss (gain) on fixed asset retirements, net | (68) | 45 |
| Foreign exchange rate losses (gains), net | 244 | 2,550 |
| Interest expense, interest income and dividend income, net | (13,062) | (6,340) |
| Provision for nuclear decommissioning and fuel storage | (68) | (1,300) |
| Valuation allowances, other provisions and other adjustments | 1,039 | 4,756 |
| Changes in assets and liabilities | | |
| Receivables | (10,551) | 4,105 |
| Materials and supplies | (575) | (202) |
| Fossil fuel stocks | (476) | 649 |
| Other current assets | (17,667) | 10,459 |
| Trade and other payables | 16,991 | (16,949) |
| Accrued liabilities | 1,628 | (1,026) |
| Cash generated from operations | 37,414 | 55,966 |
| Income taxes paid | (5,382) | (9,372) |
| Interest paid, net of capitalized interest | (4,446) | (3,475) |
| Interest received | 2,354 | 2,111 |
| Dividends received | 13,237 | 8,078 |
| Net cash provided by operating activities | 43,177 | 53,308 |
| INVESTING ACTIVITIES | | |
| Acquisition of subsidiaries, associates and joint-ventures | (6,470) | (6,126) |
| Proceeds (refunds) from disposal of subsidiaries, associates and joint-ventures | – | (16) |
| Additions to property, plant and equipment and other non-current assets, including capitalized interest | (23,908) | (30,883) |
| Proceeds from sale of fixed assets | 654 | 1,310 |
| Loans made | (10,787) | (33,542) |
| Repayment of loans | 18,215 | 13,881 |
| Change in restricted financial assets | (682) | (888) |
| Total cash used in investing activities | (22,978) | (56,264) |
| FINANCING ACTIVITIES | | |
| Proceeds from borrowings | 57,676 | 161,191 |
| Payments of borrowings | (49,785) | (133,640) |
| Change in payables/receivables from group cashpooling | (1,296) | 4,970 |
| Dividends paid | (26,655) | (28,234) |
| Sale of treasury shares | 169 | 337 |
| Net cash provided by (used in) financing activities | (19,891) | 4,624 |
| Net effect of currency translation in cash | (520) | (93) |
| Net increase (decrease) in cash and cash equivalents | (212) | 1,575 |
| Cash and cash equivalents at beginning of period | 16,142 | 14,567 |
| Cash and cash equivalents at end of period | 15,930 | 16,142 |
| Supplementary cash flow information | | |
| Total cash paid for interest | 6,968 | 5,671 |

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

# ČEZ, A. S.
# NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2011

## 1. Description of the Company

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

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

The average number of employees was 5,934 and 6,134 in 2011 and 2010, respectively.

The Czech Republic, represented by the Ministry of Finance and, to a small degree by the Ministry of Labor and Social Affairs, is a majority shareholder holding 69.8% of the Company's share capital at December 31, 2011. The majority shareholder's share of the voting rights represented 70.3% at the same date.

**Members of the statutory and supervisory bodies at December 31, 2011 were as follows**

| Board of Directors | | Supervisory Board | |
|---|---|---|---|
| Chair | Daniel Beneš | Chair | Martin Roman |
| Vice-chair | Martin Novák | Vice-chair | Ivo Foltýn |
| Member | Peter Bodnár | Vice-chair | Lubomír Klosík |
| Member | Pavel Cyrani | Member | Liběna Dobrovolná |
| Member | Vladimír Hlavinka | Member | Ján Dzvoník |
| Member | Michaela Chaloupková | Member | Petr Gross |
| Member | Tomáš Pleskač | Member | Lukáš Hampl |
| | | Member | Vladimír Hronek |
| | | Member | Jiří Kadrnka |
| | | Member | Jan Kohout |
| | | Member | Drahoslav Šimek |

## 2. Summary of Significant Accounting Policies

### 2.1. Basis of Presentation of the Financial Statements

Pursuant to the Accounting Law, the accompanying separate financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. IFRS as adopted by the EU which are relevant to and used by the Company do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB).

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

The Company also compiled consolidated IFRS financial statements of the CEZ Group for the same period. The consolidated financial statements were authorized for issue on February 27, 2012.

### 2.2. Presentation Currency

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

### 2.3. Estimates

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

### 2.4. Revenue Recognition

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

Revenues are recognized when it is probable that the economic benefits associated with the transaction will flow to the entity and the revenue can be reliably measured. Sales are recognized net of value added tax and discounts, if any.

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

Revenue from services is recognized when the services are rendered.

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

### 2.5. Fuel Costs

Fuel costs are expensed as fuel is consumed. Fuel expense includes the amortization of the cost of nuclear fuel. Amortization of nuclear fuel charged to fuel expense was CZK 3,225 million and CZK 3,697 million for the years ended December 31, 2011 and 2010, respectively. The amortization of nuclear fuel includes charges in respect of additions to the accumulated provision for interim storage of spent nuclear fuel (see Note 15). Such charges amounted to CZK 470 million and CZK 468 million in 2011 and 2010, respectively.

### 2.6. Interest

The Company capitalizes all interest incurred in connection with its construction program that theoretically could have been avoided if expenditures for the qualifying assets had not been made. The qualifying assets include assets, for which the construction represents a substantial period of time. Capitalized interest costs amounted to CZK 2,661 million and CZK 2,526 million and an interest capitalization rate was 4.5% and 4.5% in 2011 and 2010, respectively.

### 2.7. Property, Plant and Equipment

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

Internally developed property, plant and equipment are recorded at their accumulated cost. The costs of completed technical improvements are capitalized. Upon sale, retirement or replacement of part of an item of property, plant and equipment the cost and related accumulated depreciation of the disposed item or its replaced part are derecognized from the balance sheet. Any resulting gains or losses are included in profit or loss.

The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense when incurred. Renewals and improvements are capitalized.

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company reviews the recoverable amounts of its property, plant and equipment to determine whether such amounts continue to exceed the assets' carrying values. Identified impairment of property, plant and equipment is recognized directly in profit or loss in the line item of Other operating expenses.

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

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

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

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

| | Average life (years) |
|---|---|
| Hydro plants | |
| Buildings and structures | 48 |
| Machinery and equipment | 16 |
| Fossil fuel plants | |
| Buildings and structures | 33 |
| Machinery and equipment | 15 |
| Nuclear power plant | |
| Buildings and structures | 36 |
| Machinery and equipment | 17 |

Depreciation of plant in service was CZK 12,624 million and CZK 12,976 million for the years ended December 31, 2011 and 2010, which was equivalent to a composite depreciation rate of 4.1% and 4.3%, respectively. The tangible asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

### 2.8. Nuclear Fuel

Nuclear fuel is stated at original cost, net of accumulated amortization and presented as part of property plant and equipment. Amortization of fuel in the reactor is based on the amount of power generated.

Nuclear fuel includes capitalized costs of related provisions (see Note 2.21). At December 31, 2011 and 2010 capitalized costs at net book value amounted to CZK 0 million and CZK 114 million, respectively.

### 2.9. Intangible Assets

Intangible assets are valued at their acquisition costs and related expenses. Intangible assets are amortized over their useful lives using the straight-line method. The estimated useful life of intangible assets ranges from 3 to 10 years. The intangible assets' residual values, useful lives and methods of amortization are reviewed, and adjusted if appropriate, at each financial year end. The costs of completed technical improvements are capitalized.

Intangible assets are tested for impairment whenever facts or changes in circumstances indicate that the carrying amount could be impaired. The recoverable amount of an intangible asset not yet available for use is tested for impairment annually, irrespective of whether there is any indication that it may be impaired. Identified impairment of intangible assets is recognized directly in profit or loss in the line item of Other operating expenses. At each reporting date an assessment is made as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss in the line item of Other operating expenses.

### 2.10. Emission Rights

Right to emit greenhouse gasses (hereinafter “emission right”) represents the right of the owner of a facility, which in the course of its operation emits greenhouse gases, to emit during the calendar year equivalent of one ton of carbon dioxide. Based on the National Allocation Plan in 2011 and 2010 the Company was granted emission rights free of charge.

The Company is responsible for determining and reporting the amount of greenhouse gases produced by its facilities in the calendar year and this amount has to be audited by an authorized person. On April 30 of the following year, at latest, the Company is required to remit a number of allowances representing the number of tones of $CO_2$ actually emitted in previous year. Should the Company not fulfill this requirement and remit necessary number of emission rights, it would have to pay a penalty of EUR 100 per 1 ton of $CO_2$.

In the financial statements until 2010, the emission rights which were granted free of charge are stated at their nominal value, i.e. at zero. Since 2011 the subject of a gift tax in the Czech Republic has been the allocation of emission rights granted free of charge to an entity operating certain electricity generation facilities specified by the law. As a result, granted emission rights are initially recognized at the amount of related gift tax as of the grant date. Purchased emission rights are carried at cost (except for emission rights for trading). The Company recognizes a provision to cover emissions made which is measured at the cost of granted and purchased emission rights and credits up to the level of granted and purchased emission rights and credits held and then at the market price ruling at the balance sheet date. The amount of the gift tax on granted emission rights, which is charged to profit or loss as part of the charge of the provision, the eventual cost of emission rights sold or as part of the consumption of emission rights when the allowances are remitted from the register, is included in the line Other income (expenses), net.

The Company also holds emission rights for trading purposes. The portfolio of emission rights held for trading is measured at fair value. The changes in fair value of the emission rights held for trading are recognized directly in profit or loss.

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

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

The swaps of European emission rights (EUA) and certified emission reductions (CER or emission credits) are treated as derivatives in the period from the trade date to the maturity date. The swap is measured at fair value with any fair value changes being recognized in profit and loss. Any cash received before the EUA/CER swap matures would result in an offsetting change in the fair value of the swap. Upon the delivery of EUAs and CERs the difference between the total of cash received and the fair value of the CER received on one hand and the total of the carrying value of the EUA given up and the fair value of the EUA/CER-swap given up is recognized as a gain or loss.

### 2.11. Investments

Investments are classified into the following categories: held-to-maturity, loans and receivables, held for trading and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity other than loans and receivables originated by the Company are classified as held-to-maturity investments. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held for trading. All other investments, other than loans and receivables originated by the Company, are classified as available-for-sale.

Held-to-maturity investments and loans and receivables are included in non-current assets unless they mature within 12 months of the balance sheet date. Investments held for trading are included in current assets. Available-for-sale investments are classified as current assets if the Company intends to realize them within 12 months of the balance sheet date.

All purchases and sales of investments are recognized on the settlement date.

When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Available-for-sale and trading investments are subsequently carried at fair value by reference to their quoted market price at the balance sheet date.

Gains or losses on remeasurement to fair value of available-for-sale investments are recognized directly in other comprehensive income, until the investment is sold or otherwise disposed of, or until it is determined to be impaired. Equity securities classified as available-for-sale investments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost.

The carrying amounts of such available-for-sale investments are reviewed at each balance sheet date whether there is objective evidence for impairment. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement – is removed from other comprehensive income and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognized directly in other comprehensive income. In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

The Company evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent significantly changes to do so in the foreseeable future, the Company may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and the entity has the intent and ability to hold these assets for the foreseeable future or maturity. The reclassification to held-to-maturity is permitted only when the entity has the ability and intent to hold the financial asset until maturity.

Changes in the fair values of trading investments are included in Other income (expenses), net.

Held-to-maturity investments and loans and receivables are carried at amortized cost using the effective interest rate method.

Investments in subsidiaries, associates and joint-ventures are carried at cost. Impaired investments are provided for or written off.

Mergers with entities under common control are recorded using a method similar to pooling of interests. Assets and liabilities of the merged entities are included in separate financial statements of the Company at their book values. The difference between the cost of investment in subsidiaries and net assets merged from entities under common control is recorded directly in equity.

### 2.12. Cash and Cash Equivalents

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

### 2.13. Financial Assets Restricted in Use

Restricted balances of cash and other financial assets, which are shown under non-current financial assets as restricted funds (see Note 4.2), relate to deposits for waste storage reclamation, funding of nuclear decommissioning liabilities and financial guarantees given to transaction partners. The non-current classification is based on the expected timing of the release of the funds to the Company.

### 2.14. Receivables, Payables and Accruals

Receivables are carried at their nominal value. Ceded receivables are valued at cost. Doubtful receivables are adjusted for uncollectible amounts through a provision account. Additions to the provision account are charged to income. As at December 31, 2011 and 2010 the allowance for short-term uncollectible receivables amounted to CZK 1,750 million and CZK 1,622 million, respectively.

Trade and other payables are recorded at invoiced values and accruals are reported at expected settlement values.

### 2.15. Material and Supplies

Purchased inventories are valued at actual cost, using the weighted average method. Costs of purchased inventories comprise expenditure which has been incurred in respect of the acquisition of material and supplies, transportation costs included. When put in use, inventories are charged to income or capitalized as part of property, plant and equipment. Work-in-progress is valued at actual cost. Costs of inventories produced internally include direct material and labor costs. Obsolete inventories are reduced to their realizable value by a provision account to the income statement.

### 2.16. Fossil Fuel Stock

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

### 2.17. Derivative Financial Instruments

The Company uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value. In the attached balance sheet such derivatives are presented as part of Investments and other financial assets, net, Other financial assets, net, Other long-term liabilities and Trade and other payables.

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

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

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

#### Fair value hedge

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

#### Cash flow hedge

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are initially recognized in other comprehensive income and are presented as part of Cash flow hedge reserve in equity. The gain or loss relating to the ineffective portion is recognized in the income statement in the line item Other income (expenses), net.

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

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

#### Other derivatives

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

### 2.18. Commodity Contracts

According to IAS 39, certain commodity contracts are treated as financial instruments and fall into the scope of the standard. Most commodity purchase and sales contracts entered into by the Company provide for physical delivery of quantities intended to be consumed or sold as part of its ordinary business; such contracts are thus excluded from the scope of IAS 39.

Forward purchases and sales for physical delivery of energy are considered to fall outside the scope of application of IAS 39, when the contract concerned is considered to have been entered into as part of the normal business activity. This is demonstrated to be the case when all the following conditions are fulfilled:

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

The Company thus considers that transactions negotiated with a view to balancing the volumes between electricity purchases and sale commitments are part of its ordinary business as an integrated electric utility company and do not therefore come under the scope of IAS 39.

Commodity contracts which fall under the scope of IAS 39 are carried at fair value with changes in the fair value recognized in the income statement.

### 2.19. Income Taxes

The provision for corporate tax is calculated in accordance with the Czech tax regulations and is based on the income or loss reported under the Czech accounting regulations, increased or decreased by the appropriate permanent and temporary differences (e.g. differences between book and tax depreciation). Income tax due is provided at a rate of 19% and 19% for the years ended December 31, 2011 and 2010, respectively, from income before income taxes after adjustments for certain items which are not deductible, or taxable, for taxation purposes. The Czech corporate income tax rate for 2012 and on will be 19%.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is calculated as the product of the tax rate that is expected to apply to the year when the asset is realized or the liability is settled and temporary differences between book and tax accounting.

Deferred tax assets and liabilities are not discounted. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized.

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

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

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

### 2.20. Long-term Debt

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

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

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

### 2.21. Nuclear Provisions

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

The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels at the date of the estimate, are discounted using a long-term real rate of interest of 2.5% per annum to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the nuclear plants. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized as a component of interest expense. The estimate for the effect of inflation for the years ended 2011 and 2010 is 2.0% and 2.0%, respectively.

The decommissioning process is expected to continue for approximately a fifty-year period for Temelín power plant and sixty-year period for Dukovany power plant subsequent to the final operation of the plants. It is currently anticipated that the permanent storage facility will become available in 2065 and the process of final disposal of the spent nuclear fuel will then continue until approximately 2075 when the process should be finished. While the Company has made its best estimate in establishing its nuclear provisions, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning and fuel storage activities, the ultimate provision requirements could vary significantly from the Company's current estimates.

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

### 2.22. Treasury Shares

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

### 2.23. Share Options

Board of Directors and selected managers (and in the past also the Supervisory Board members) have been granted options to purchase common shares of the Company. Expense related to the share option plan is measured on the date of the grant by reference to the fair value of the share options granted.

In case of options which vest immediately, the expense is recognized directly in profit or loss with a corresponding increase in equity. In all other cases the expense is accrued over the vesting period of the equity instruments granted.

The expense recognized reflects the best estimate of the number of share options which will ultimately vest. In 2011 and 2010 the expense recognized in respect of the share option plan amounted to CZK 73 million and CZK 100 million, respectively.

### 2.24. Foreign Currency Transactions

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

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

Exchange rates used as at December 31, 2011 and 2010 for the translation of assets and liabilities denominated in foreign currencies were as follows:

| | 2011 | 2010 |
|---|---|---|
| CZK per 1 EUR | 25.800 | 25.060 |
| CZK per 1 USD | 19.940 | 18.751 |
| CZK per 1 PLN | 5.789 | 6.308 |
| CZK per 1 BGN | 13.191 | 12.813 |
| CZK per 1 RON | 5.969 | 5.869 |
| CZK per 100 JPY | 25.754 | 23.058 |
| CZK per 1 TRY | 10.550 | 12.105 |
| CZK per 100 ALL | 18.644 | 18.108 |

### 2.25. Non-current Assets Held for Sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

### 2.26. Adoption of New IFRS Standards in 2011

The accounting policies adopted are consistent with those of the previous financial year, except for as follows. The Company has adopted the following new or amended and endorsed by EU IFRS and IFRIC interpretations as of January 1, 2011:

- IAS 24 Related Party Disclosures (amendment) effective January 1, 2011
- IAS 32 Financial Instruments: Presentation (amendment) effective February 1, 2010
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective January 1, 2011
- IFRIC 17 Distributions of Non-cash Assets to Owners effective July 1, 2010
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments effective July 1, 2010
- Improvements to IFRSs (May 2010)

The impact of the adoption of standards or interpretations on the financial statements or performance of the Company is described below:

IAS 24 Related Party Disclosure

The amendments to IAS 24 Related Party Disclosures become effective for financial years beginning on or after January 1, 2011 and must be applied retrospectively. The revised standard simplifies the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government and clarifies the definition of a related party. As a result, such a reporting entity is exempt from the general disclosure requirements in relation to transactions and balances with the government and government-related entities. In addition, the revised standard amends the definition of a related party where the associate of an investor is now considered to be a related party to both the investor and its subsidiary whereas two associates of an entity are not regarded as related parties to each other. The Amendment does not have significant effect on the financial statements of the Company.

IAS 32 Financial Instruments: Presentation (Classification of Rights Issues)

In October 2009, the IASB issued an amendment to IAS 32 on the classification of rights issues. The amendment is effective for annual periods beginning on or after February 1, 2010. For rights issues offered for a fixed amount of foreign currency current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to an entity's all existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment has had no effect on the financial position or performance of the Company because the Company does not have these types of instruments.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Company is not subject to minimum funding requirements; therefore the amendment of the interpretation has no effect on the financial position or performance of the Company.

IFRIC 17 Distributions of Non-cash Assets to Owners

This interpretation is effective for annual periods beginning on or after July 1, 2010. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. This interpretation does not have an impact on the consolidated financial statements as the Company does not make non-cash distributions to shareholders.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

This interpretation is effective for annual periods beginning on or after July 1, 2010. The interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. This interpretation does not have an impact on the consolidated financial statements as the Company currently does not have any such transactions.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Company.

IFRS 7 Financial Instruments – Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Company reflects the revised disclosure requirements.

IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

All other standards and interpretations whose application was mandatory for the period beginning on or after January 1, 2011 have no material impact on the Company's separate financial statements.

### 2.27. New IFRS Standards and Interpretations IFRIC not yet Effective or not yet Adopted by the EU

The Company is currently assessing the potential impacts of the new and revised standards and interpretations that will be effective or adopted by the EU from January 1, 2012 or later. Standards and interpretations most relevant to the Company's activities are detailed below:

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (OCI)

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and there is no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012. The Company does not currently have any investment property as well as is not using revaluation model therefore this will not affect its financial position or performance.

IFRS 7 Financial Instruments: Disclosures (Transfers of Financial Assets)

In October 2010, IASB issued an amendment to IFRS 7, which changes the required disclosures to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position. The Company does not expect that the amendment will have an impact on the financial position or performance of the Company.

IFRS 7 Financial Instruments: Disclosures (Offsetting Financial Assets and Financial Liabilities)

In December 2011, IASB issued an amendment to IFRS 7, which requires an entity to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. The Company is currently assessing the impact of this amended IFRS.

IAS 32 Financial Instruments: Presentation (Offsetting Financial Assets and Financial Liabilities)

In December 2011, IASB issued an amendment to IAS 32, which is intended to clarify existing application issues relating to the offsetting rules and reduce level of diversity in current practise. The Company is currently assessing the impact of this amended IFRS.

IFRS 9 Financial Instruments – Classification and measurement

The IFRS 9 was issued in November 2009 and is intended to replace IAS 39 Financial Instruments: Recognition and measurement. The standard introduces new requirements for classifying and measuring financial assets and liabilities that must be applied starting January 1, 2015. According to IFRS 9 all financial assets and liabilities are initially recognized at fair value plus transaction costs. The standard also eliminates categories of financial instruments currently existing in IAS 39: available-for-sale and held-to-maturity. In October 2010 the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities and derecognition of financial assets and liabilities. Most of the requirements in IAS 39 for classification and measurement of financial liabilities and derecognition of financial assets and liabilities were carried forward unchanged to IFRS 9. The requirements related to the fair value option for financial liabilities were changed to address own credit risk. As a result, the changes in liability's credit risk will not affect profit or loss unless the liability is held for trading. The completion of this project is expected in 2012. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets and liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation - Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013 and does not have any effect on Company's separate financial statements.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities - Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 1, 2013 and does not have any effect on Company's separate financial statements.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Some of the more extensive qualitative and quantitative disclosures of IFRS 12 include: provision of summarised financial information for each subsidiary with a material non-controlling interest; description of significant judgements used by management in determining control, joint control and significant influence, and the type of joint arrangement (i.e., joint operation or joint venture); provision of summarised financial information for each individually material joint venture and associate; and description of the nature of the risks associated with an entity's interests in unconsolidated structured entities. This standard becomes effective for annual periods beginning on or after January 1, 2013 and does not have any effect on Company's separate financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

IAS 19 Employee benefits (revised)

The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The more significant changes include the following: for defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed; there are new or revised disclosure requirements which include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption; termination benefits will be recognised at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognised under IAS 37; the distinction between short-term and other long-term employee benefits will be based on expected timing of settlement rather than the employee's entitlement to the benefits. This standard becomes effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of this revised standard, but does not expect any significant impact on its financial position or performance.

IAS 28 Investments in Associate and Joint Ventures (revised)

As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013 and does not have any effect on Company's separate financial statements.

Improvements to IFRSs

In May 2010 the IASB issued improvement to IFRS 3. The improvement is effective for annual periods beginning on or after July 1, 2011.

IFRS 3 Business Combinations: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of NCI are to be measured at their acquisition date fair value.

## 3. Property, Plant and Equipment

**Net plant in service at December 31, 2011 and 2010 was as follows (in CZK millions)**

| | Buildings | Plant and Equipment | Land and Other | Total 2011 | Total 2010 |
|---|---|---|---|---|---|
| Cost at January 1 | 81,733 | 222,872 | 918 | 305,523 | 298,600 |
| Additions | 937 | 6,616 | 276 | 7,829 | 21,053 |
| Disposals | (63) | (734) | (2) | (799) | (1,530) |
| Change in capitalized part of the provision | 416 | 37 | – | 453 | 250 |
| Non-monetary contribution and other movements | 6 | (6) | – | – | (12,850) |
| Cost at December 31 | 83,029 | 228,785 | 1,192 | 313,006 | 305,523 |
| Accumulated depreciation and impairment at January 1 | (38,709) | (133,576) | – | (172,285) | (170,808) |
| Depreciation | (2,273) | (10,351) | – | (12,624) | (12,976) |
| Net book value of assets disposed | (26) | (1) | – | (27) | (49) |
| Non-monetary contribution and other movements | (4) | 4 | – | – | 10,042 |
| Disposals | 63 | 734 | – | 797 | 1,529 |
| Impairment losses recognized | 15 | – | – | 15 | (23) |
| Accumulated depreciation and impairment at December 31 | (40,934) | (143,190) | – | (184,124) | (172,285) |
| Net plant in service at December 31 | 42,095 | 85,595 | 1,192 | 128,882 | 133,238 |

At December 31, 2011 and 2010, machinery and equipment included the capitalized costs of nuclear provisions as follows (in CZK millions):

| | 2011 | 2010 |
|---|---|---|
| Cost | 19,225 | 19,188 |
| Accumulated depreciation | (6,423) | (6,037) |
| Net book value | 12,802 | 13,151 |

Construction work in progress contains mainly refurbishments performed on Ledvice, Tušimice, Počerady, Prunéřov, Dukovany and Temelín power plants.

## 4. Investments and Other Financial Assets, Net

**Investments and other financial assets at December 31, 2011 and 2010 consist of the following (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Restricted debt securities available-for-sale | 8,237 | 7,091 |
| Restricted debt securities held to maturity | – | 17 |
| Restricted cash | 909 | 1,355 |
| Total restricted financial assets | 9,146 | 8,463 |
| Equity securities and interests, net | 144,360 | 139,063 |
| Investment in Dalkia | 3,166 | 3,166 |
| Investment in Pražská teplárenská | 11,963 | 11,963 |
| Loans granted | 20,706 | 16,150 |
| Derivatives | 3,030 | 1,653 |
| Other long-term receivables, including prepayments | 57 | 82 |
| Financial assets in progress | – | 1,433 |
| Total | 192,428 | 181,973 |

The balance of long-term financial assets in progress includes amounts paid in respect of ongoing acquisitions and increases of subsidiaries' capital that was not yet registered on December 31.

In July 2011, all relevant bodies of CEZ Group approved the transaction in which CEZ Group plans to sell its 50% stake in the German mining company MIBRAG (owned through subsidiary Severočeské doly a.s.) to Energetický a průmyslový holding, a.s. As part of the assets belonging to MIBRAG the Company will also sell a project for the construction of new coal-fired power plant Profen and at the same time plans to acquire 100% interest in Energotrans, a.s., which supplies heat from Mělník to Prague. The completion of these transactions after approval by relevant competition authorities is expected to occur in the second quarter of 2012. As a result, at December 31, 2011 the Company classified project Profen of CZK 1,031 million originally included in financial assets in progress as an asset classified as held for sale.

In 2010 the Company acquired 15% equity interest in Dalkia Česká republika, a.s. The investment is classified as available-for-sale.

In 2009 the Company agreed with J&T Group and paid for the equity interest of 49% in Pražská teplárenská (Prague's major heat supplier). The Company does not exercise any significant influence and therefore the investment is classified as available-for-sale. Following the agreement between the parties from 2011, upon the completion of the acquisition of 100% stake in Energotrans, a.s., the amount will be off-set with the liability arising from this acquisition.

**Movements in impairment provisions (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Opening balance | 11,363 | 5,292 |
| Additions | 2,447 | 6,071 |
| Reversals | – | – |
| Closing balance | 13,810 | 11,363 |

In 2011, the Company created an impairment provision against the investment in CEZ Shpërndarje Sh.A. at the amount of CZK 2,330 million in connection with the goodwill impairment recorded in the consolidated financial statements.

In 2010, the Company created an impairment provision of CZK 1,137 million against the investment in CEZ Razpredelenie Bulgaria AD and an impairment provision of CZK 4,934 million against the investment in TEC Varna EAD in connection with the goodwill impairment recorded in the consolidated financial statements.

**Loans granted and other long-term receivables at December 31, 2011 and 2010 are contracted to mature in the following periods after the balance sheet date (in CZK millions)**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Loans granted | Other long-term receivables | Loans granted | Other long-term receivables |
| Due in 1–2 years | 1,909 | 55 | 1,143 | 80 |
| Due in 2–3 years | 5,530 | – | 1,275 | – |
| Due in 3–4 years | 805 | 2 | 1,201 | – |
| Due in 4–5 years | 805 | – | 1,158 | 2 |
| Due in more than 5 years | 11,657 | – | 11,373 | – |
| Total | 20,706 | 57 | 16,150 | 82 |

**Loans granted and other long-term receivables at December 31, 2011 and 2010 have following effective interest rate structure (in CZK millions)**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Loans granted | Other long-term receivables | Loans granted | Other long-term receivables |
| Less than 2.0% | – | 57 | 82 | 82 |
| From 2.0% to 2.99% | 214 | – | 118 | – |
| From 3.0% to 3.99% | 741 | – | – | – |
| From 4.0% to 4.99% | 4,283 | – | 19 | – |
| Over 4.99% | 15,468 | – | 15,931 | – |
| Total | 20,706 | 57 | 16,150 | 82 |

**Loans granted and other long-term receivables at December 31, 2011 and 2010 according to currencies (in CZK millions)**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Loans granted | Other long-term receivables | Loans granted | Other long-term receivables |
| CZK | 14,879 | 31 | 14,512 | 43 |
| EUR | 5,037 | 25 | 114 | 37 |
| PLN | 790 | – | 1,524 | 1 |
| USD | – | 1 | – | 1 |
| Total | 20,706 | 57 | 16,150 | 82 |

### 4.1. Investments in Subsidiaries, Associates and Joint-ventures

Several subsidiaries were founded or acquired during 2011:
ČEZ Energo, s.r.o. (50.10%), DOMICA FPI s.r.o. (99.92%), 3 L invest a.s. (99.64%), AREA-GROUP CL a.s. (99.61%) and ČEZ OZ uzavřený investiční fond a.s. (50%) with its registered seat in Prague and CEZ Bulgarian Investments B.V. (100%) with its registered seat in Amsterdam.

In 2011 the Company acquired non-controlling interest in Teplárna Trmice, a.s. and increased its share to 100%.

In 2011 the share capital of GENTLEY a.s., eEnergy Hodonín a.s. and NERS d.o.o. was increased by cash contribution.

In 2010 the Company classified its investment in subsidiary Elektrárna Chvaletice a.s. (100%) of CZK 2,739 million as a disposal group held for sale. Elektrárna Chvaletice a.s. operates a coal fired power plant in East Bohemia. The Company has concluded a triangular agreement with Dalkia and EPH to continue restructuring of its source portfolio in the Czech Republic. According to the previously reported plans the Company wanted to sell the Chvaletice power plant to EPH and acquire the heat distribution system in North Bohemia (Most and Litvínov agglomerations) from EPH. The sale of Elektrárna Chvaletice a.s. was expected to be finalized in 2011. In 2011 the Company reassessed this previously announced plan. Due to this decision the Company ceased to classify subsidiary Elektrárna Chvaletice a.s. as held for sale as of July 1, 2011 and reclassified it back to investments.

The following table summarizes investments in subsidiaries, associates and joint-ventures and other ownership interests:

**As at December 31, 2011**

| Company | Country | Interest in CZK millions | % interest | Dividends in CZK millions |
|---|---|---|---|---|
| ČEZ Distribuce, a. s. | Czech Republic | 32,180 | 100.00 | 5,900 |
| Severočeské doly a.s. | Czech Republic | 14,312 | 100.00 | 1,507 |
| CEZ Distributie S.A. | Romania | 13,780 | 100.00 | 1,044 |
| CEZ Finance Ireland Ltd. | Ireland | 9,025 | 100.00 | – |
| TEC Varna EAD | Bulgaria | 8,847 | 100.00 | 1,167 |
| CEZ Razpredelenie Bulgaria AD | Bulgaria | 8,688 | 67.00 | – |
| Akenerji Elektrik Üretim A.S. | Turkey | 7,580 | 37.36 | – |
| Tomis Team S.R.L. | Romania | 6,657 | 100.00 | – |
| CEZ Poland Distribution B.V. | Netherlands | 6,240 | 100.00 | 65 |
| CEZ Silesia B.V. | Netherlands | 5,788 | 100.00 | 289 |
| Teplárna Trmice, a.s. | Czech Republic | 5,700 | 100.00 | – |
| ČEZ Správa majetku, s.r.o. | Czech Republic | 4,960 | 100.00 | 844 |
| ČEZ ICT Services, a. s. | Czech Republic | 4,391 | 100.00 | 750 |
| ČEZ Teplárenská, a.s. | Czech Republic | 3,764 | 100.00 | – |
| ČEZ Bohunice a.s. | Czech Republic | 3,592 | 100.00 | – |
| CEZ Shpërndarje Sh.A. | Albania | 3,028 | 76.00 | – |
| Elektrárna Chvaletice a.s. | Czech Republic | 2,739 | 100.00 | – |
| Akcez Enerji A.S. | Turkey | 1,744 | 27.50 | – |
| Ovidiu Development S.R.L. | Romania | 1,643 | 95.00 | – |
| ČEZ Prodej, s.r.o. | Czech Republic | 1,100 | 100.00 | 1,529 |
| ŠKODA PRAHA a.s. | Czech Republic | 987 | 100.00 | 150 |
| CEZ Bulgarian Investments B.V. | Netherlands | 973 | 100.00 | – |
| CM European Power International B.V. | Netherlands | 949 | 50.00 | – |
| GENTLEY a.s. | Czech Republic | 870 | 100.00 | – |
| CEZ Vanzare S.A. | Romania | 817 | 100.00 | – |
| ČEZ Obnovitelné zdroje, s.r.o. | Czech Republic | 791 | 99.90 | – |
| ČEZ Distribuční služby, s.r.o. | Czech Republic | 728 | 100.00 | 533 |
| Energetické centrum s.r.o. | Czech Republic | 679 | 100.00 | – |
| 3 L invest a.s. | Czech Republic | 559 | 99.64 | – |
| ČEZ Energetické služby, s.r.o. | Czech Republic | 422 | 100.00 | – |
| ČEZ Energo, s.r.o. | Czech Republic | 401 | 50.10 | – |
| ŠKODA PRAHA Invest s.r.o. | Czech Republic | 389 | 100.00 | – |
| eEnergy Ralsko a.s. | Czech Republic | 348 | 100.00 | – |
| CEZ Slovensko, s.r.o. | Slovakia | 302 | 100.00 | – |
| CM European Power Slovakia s.r.o. | Slovakia | 295 | 24.50 | – |
| AREA-GROUP CL a.s. | Czech Republic | 255 | 99.61 | – |
| DOMICA FPI s.r.o. | Czech Republic | 252 | 99.92 | – |
| FVE Vranovská Ves a.s. | Czech Republic | 224 | 100.00 | – |
| PPC Úžín, a.s. | Czech Republic | 220 | 100.00 | – |
| ČEZ Měření, s.r.o. | Czech Republic | 217 | 100.00 | 179 |
| ČEZ Logistika, s.r.o. | Czech Republic | 200 | 100.00 | 504 |
| Ústav jaderného výzkumu Řež a.s. | Czech Republic | 185 | 52.46 | – |
| LOMY MOŘINA spol. s r.o. | Czech Republic | 169 | 51.05 | – |
| NERS d.o.o. | Bosnia and Herzegovina | 152 | 51.00 | – |
| eEnergy Ralsko - Kuřívody a.s. | Czech Republic | 134 | 100.00 | – |
| CEZ Romania S.A. 1) | Romania | 91 | 100.00 | – |
| eEnergy Hodonín a.s. | Czech Republic | 77 | 100.00 | – |
| Other | | 726 | – | 275 |
| Total | | 158,170 | | |
| Provision | | (13,810) | | |
| Total, net | | 144,360 | | |

**As at December 31, 2010**

| Company | Country | Interest in CZK millions | % interest | Dividends in CZK millions |
|---|---|---|---|---|
| ČEZ Distribuce, a. s. | Czech Republic | 31,386 | 100.00 | – |
| Severočeské doly a.s. | Czech Republic | 14,112 | 100.00 | 1,907 |
| CEZ Distributie S.A. | Romania | 13,780 | 100.00 | – |
| CEZ Finance Ireland Ltd. | Ireland | 9,025 | 100.00 | – |
| TEC Varna EAD | Bulgaria | 8,847 | 100.00 | 2,375 |
| CEZ Razpredelenie Bulgaria AD | Bulgaria | 8,688 | 67.00 | 683 |
| Akenerji Elektrik Üretim A.S. | Turkey | 7,600 | 37.36 | – |
| Tomis Team S.R.L. | Romania | 6,657 | 100.00 | – |
| CEZ Poland Distribution B.V. | Netherlands | 6,240 | 100.00 | – |
| CEZ Silesia B.V. | Netherlands | 5,788 | 100.00 | – |
| ČEZ Správa majetku, s.r.o. | Czech Republic | 4,960 | 100.00 | 73 |
| Teplárna Trmice, a.s. | Czech Republic | 4,845 | 85.00 | – |
| ČEZ ICT Services, a. s. | Czech Republic | 4,391 | 100.00 | 405 |
| ČEZ Teplárenská, a.s. | Czech Republic | 3,764 | 100.00 | 240 |
| ČEZ Bohunice a.s. | Czech Republic | 3,592 | 100.00 | – |
| CEZ Shpërndarje Sh.A. | Albania | 3,028 | 76.00 | – |
| Akcez Enerji A.S. | Turkey | 1,744 | 27.50 | – |
| Ovidiu Development S.R.L. | Romania | 1,643 | 95.00 | – |
| ČEZ Prodej, s.r.o. | Czech Republic | 1,100 | 100.00 | – |
| ŠKODA PRAHA a.s. | Czech Republic | 987 | 100.00 | 50 |
| CM European Power International B.V. | Netherlands | 949 | 50.00 | – |
| CEZ Vanzare S.A. | Romania | 817 | 100.00 | – |
| ČEZ Obnovitelné zdroje, s.r.o. | Czech Republic | 791 | 99.90 | – |
| ČEZ Distribuční služby, s.r.o. | Czech Republic | 728 | 100.00 | 302 |
| Energetické centrum s.r.o. | Czech Republic | 679 | 100.00 | – |
| eEnergy Ralsko a.s. | Czech Republic | 544 | 100.00 | – |
| ČEZ Energetické služby, s.r.o. | Czech Republic | 422 | 100.00 | – |
| ŠKODA PRAHA Invest s.r.o. | Czech Republic | 389 | 100.00 | 182 |
| GENTLEY a.s. | Czech Republic | 374 | 100.00 | – |
| CM European Power Slovakia s.r.o. | Slovakia | 295 | 24.50 | – |
| FVE Vranovská Ves a.s. | Czech Republic | 224 | 100.00 | – |
| PPC Úžín, a.s. | Czech Republic | 220 | 100.00 | – |
| ČEZ Měření, s.r.o. | Czech Republic | 217 | 100.00 | 287 |
| ČEZ Logistika, s.r.o. | Czech Republic | 200 | 100.00 | 496 |
| Ústav jaderného výzkumu Řež a.s. | Czech Republic | 185 | 52.46 | – |
| LOMY MOŘINA spol. s r.o. | Czech Republic | 169 | 51.05 | – |
| eEnergy Ralsko - Kuřívody a.s. | Czech Republic | 143 | 100.00 | – |
| NERS d.o.o. | Bosnia and Herzegovina | 107 | 51.00 | – |
| CEZ Servicii S.A. [1] | Romania | 87 | 100.00 | 9 |
| CEZ RUS OOO | Russia | 73 | 100.00 | – |
| VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s. | Czech Republic | 55 | 39.25 | – |
| CEZ FINANCE B.V. | Netherlands | 53 | 100.00 | 26 |
| CEZ Polska sp. z o.o. | Poland | 50 | 100.00 | – |
| CEZ Deutschland GmbH | Germany | 47 | 100.00 | – |
| STE - obchodní služby spol. s r.o. v likvidaci | Czech Republic | 47 | 100.00 | – |
| CEZ Srbija d.o.o. | Serbia | 46 | 100.00 | – |
| Other | | 338 | – | 706 |
| Total | | 150,426 | | |
| Provision | | (11,363) | | |
| Total, net | | 139,063 | | |

[1] CEZ Servicii S.A. merged with the succession company CEZ Romania S.A. with the effective date of January 1, 2011.

## 4.2. Restricted Financial Assets

At December 31, 2011 and 2010, restricted balances of financial assets totaled CZK 9,146 million and CZK 8,463 million, respectively, and represented accumulated provision for the decommissioning, reclamation and maintenance of waste storages after they are put out of services, escrow accounts securing the Company's liquidity (pursuant to contracts entered into with the respective banks) from significant financial market volatility affecting market prices of designated hedging transactions, and accumulated provision for nuclear decommissioning in compliance with the Nuclear Act. Since 2007 restricted financial assets comprise not only restricted cash balances, but also term deposits and government bonds.

At December 31, 2011 and 2010, restricted funds representing accumulated provision for waste storage and reclamation totaled CZK 436 million and CZK 446 million, respectively, while restricted funds representing accumulated provision for nuclear decommissioning totaled CZK 8,522 million and CZK 7,831 million, respectively.

## 5. Intangible Assets, Net

**Intangible assets, net, at December 31, 2011 and 2010 were as follows (in CZK millions)**

| | Software | Rights and Other | Total 2011 | Total 2010 |
|---|---|---|---|---|
| Cost at January 1 | 1,119 | 1,040 | 2,159 | 2,007 |
| Additions | 66 | 44 | 110 | 181 |
| Disposals | (24) | – | (24) | (14) |
| Other | – | (15) | (15) | (15) |
| Cost at December 31 | 1,161 | 1,069 | 2,230 | 2,159 |
| Accumulated amortization at January 1 | (999) | (611) | (1,610) | (1,436) |
| Amortization | (81) | (134) | (215) | (202) |
| Disposals | 24 | – | 24 | 14 |
| Other | – | – | – | 14 |
| Accumulated amortization at December 31 | (1,056) | (745) | (1,801) | (1,610) |
| Intangible assets, net | 105 | 324 | 429 | 549 |

At December 31, 2011 and 2010, intangible assets presented in the balance sheet included intangible assets in progress in the amount of CZK 149 million and CZK 157 million, respectively.

## 6. Cash and Cash Equivalents

**Cash and cash equivalents at December 31, 2011 and 2010 were as follows (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Cash on hand and current accounts with banks | 1,822 | 2,564 |
| Short-term securities | 660 | 1,560 |
| Term deposits | 13,448 | 12,018 |
| Total | 15,930 | 16,142 |

At December 31, 2011 and 2010, cash and cash equivalents included foreign currency deposits of CZK 4,010 million and CZK 8,953 million, respectively.

Average interest rates on term deposits at December 31, 2011 and 2010 were 1.64% and 1.97%, respectively. The weighted average interest rate for 2011 and 2010 was 1.76% and 1.04%, respectively.

## 7. Receivables, Net

**The composition of receivables, net, at December 31, 2011 and 2010 is as follows (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Trade receivables | 35,437 | 26,948 |
| Short-term loans granted | 8,266 | 21,724 |
| Taxes and fees excl. income tax | 1,253 | 184 |
| Other receivables | 3,075 | 971 |
| Allowance for doubtful receivables | (1,750) | (1,622) |
| Total | 46,281 | 48,205 |

The information about receivables from related parties is included in Note 25.

**At December 31, 2011 and 2010 the ageing analysis of receivables, net is as follows (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Not past due | 45,818 | 47,329 |
| Past due but not impaired [1] | | |
| less than 3 months | 256 | 683 |
| 3–6 months | 138 | 83 |
| 6–12 months | 69 | 36 |
| more than 12 months | – | 74 |
| Total | 46,281 | 48,205 |

[1] Past due, but not impaired receivables include net receivables, for which the Company recorded an impairment allowance based on the collective assessment of impairment of receivables that are not individually significant.

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

| | 2011 | 2010 |
|---|---|---|
| Opening balance | 1,622 | 1,774 |
| Additions | 906 | 222 |
| Reversals | (832) | (298) |
| Currency translation difference | 54 | (76) |
| Closing balance | 1,750 | 1,622 |

## 8. Emission Rights

The following table summarizes the movements and balances of emission rights and credits in measurement units (thousands of tons) in 2011 and 2010 and as at December 31, 2011 and 2010, respectively, and their valuation presented in the accompanying financial statements:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | in thousands tons | in millions CZK | in thousands tons | in millions CZK |
| Emission rights and credits (CERs, ERUs) granted and purchased for own use | | | | |
| Granted and purchased emission rights and credits at January 1 | 28,470 | 1,681 | 31,882 | 724 |
| Emission rights granted | 31,992 | 3,296 | 34,712 | – |
| Non-monetary contribution to Elektrárna Chvaletice a.s. | – | – | (2,719) | – |
| Settlement of prior year actual emissions with register | (29,829) | (1,292) | (32,595) | (38) |
| Emission rights purchased | 6,505 | 2,591 | 1,910 | 1,026 |
| Emission rights sold | (1,235) | (485) | (4,635) | – |
| Emission credits purchased | – | – | 25 | 12 |
| Emission credits sold | – | – | (6) | (2) |
| Reclassified to emission rights and credits held for trading | (2,225) | (823) | (104) | (41) |
| Granted and purchased emission rights and credits at December 31 | 33,678 | 4,968 | 28,470 | 1,681 |
| Emission rights and credits held for trading | | | | |
| Emission rights held for trading at January 1 | 1,569 | 471 | – | – |
| Emission rights purchased | 4,351 | 1,652 | 10,949 | 4,049 |
| Emission rights sold | (6,550) | (2,277) | (10,949) | (4,052) |
| Emission credits purchased | 3,822 | 1,288 | 2,675 | 1,056 |
| Emission credits sold | (5,120) | (1,716) | (1,210) | (467) |
| Reclassified from emission rights and credits for own use | 2,225 | 823 | 104 | 41 |
| Fair value adjustment | – | (202) | – | (156) |
| Emission rights and credits held for trading at December 31 | 297 | 39 | 1,569 | 471 |

In 2011 and 2010, total emissions of greenhouse gases made by the Company amounted to an equivalent of 29,840 thousand tons and 29,829 thousand tons of $CO_2$, respectively. At December 31, 2011 and 2010 the Company recognized a provision for $CO_2$ emissions in total amount of CZK 3,198 million and CZK 2,180 million, respectively (see Note 2.10).

The following table shows the impact of transactions with emission rights and credits on income for the year ended December 31, 2011 and 2010 (in CZK millions):

| | 2011 | 2010 |
|---|---|---|
| Gain on sales of granted emission rights | – | 1,628 |
| Net gain (loss) from emission rights trading | (169) | 473 |
| Net loss from emission rights purchased for own use | (265) | – |
| Net loss from emission credits sold | (649) | (158) |
| Net gain from derivatives | 303 | 1,074 |
| Remitted emission rights | (1,026) | (38) |
| Fair value adjustment | (202) | (156) |
| Creation of provisions for emission rights | (169) | (2,180) |
| Settlement of provisions for emission rights | 2,180 | 942 |
| Total gain from emission rights and credits | 3 | 1,585 |

## 9. Other Financial Assets, Net

**Other financial assets, net, at December 31, 2011 and 2010 were as follows (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Derivatives | 20,543 | 11,920 |
| Equity securities available-for-sale | 4,538 | 3,151 |
| Debt securities held-to-maturity | 3,166 | 401 |
| Total | 28,247 | 15,472 |

Derivatives balance is mainly composed of positive fair value of electricity trading contracts.

Equity securities available-for-sale comprises mainly the money market mutual funds denominated in EUR.

Debt sectirities held-to-maturity are denominated in CZK and bear an interest rate of 1–2%.

## 10. Other Current Assets

**Other current assets at December 31, 2011 and 2010 were as follows (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Prepayments | 1,633 | 774 |
| Prepaid variation margin on “own use” electricity futures | 11 | – |
| Advances granted | 341 | 269 |
| Total | 1,985 | 1,043 |

Prepaid variation margin represents the net variation margin paid to or by Prague Energy Exchange in respect of the electricity future contracts treated as own use, which will be delivered after balance sheet date. This prepaid variation margin resulted in net liability in 2010 and therefore is presented as part of Accrued liabilities (see Note 18).

## 11. Equity

As at December 31, 2011, the share capital of the Company registered in the Commercial Register totaled CZK 53,798,975,900 and consisted of 537,989,759 shares with a nominal value of CZK 100 per share. All shares are bearer shares that are fully paid and listed.

**Movements of treasury shares in 2011 and 2010 (in pieces)**

| | 2011 | 2010 |
|---|---|---|
| Number of treasury shares at beginning of period | 4,085,021 | 4,555,021 |
| Sales of treasury shares | (210,000) | (470,000) |
| Number of treasury shares at end of period | 3,875,021 | 4,085,021 |

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

In accordance with Czech regulations, joint stock companies are required to establish a non-distributable reserve fund for contingencies against possible future losses. Contributions must be a minimum of 20% of after-tax profit in the first year in which profits are made and 5% of after-tax profit each year thereafter, until the fund reaches at least 20% of stated capital. The fund can only be used to offset losses. As at December 31, 2011 and 2010, the balance was CZK 16,227 million and CZK 16,464 million, respectively and is presented as part of retained earnings. The reserve fund also includes amounts equal to the purchase price of treasury shares held by the Company. At December 31, 2011 and 2010 such balances amounted to CZK 4,382 million and CZK 4,619 million, respectively, and were recorded against distributable retained earnings.

Dividends paid per share were CZK 50 and CZK 53 in 2011 and 2010, respectively. Dividends from 2011 profit will be declared on the general meeting which will be held in the first half of 2012.

### Capital management

The primary objective of the Company's capital management is to ensure that it maintains current credit rating and healthy capital ratios in order to support its business and maximize value for shareholders. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Company primarily monitors capital using the ratio of net debt to EBITDA. The Company's goal is to keep this ratio below 2.3. In addition, the Company also monitors capital using a total debt to total capital ratio. The Company's policy is to keep the total debt to total capital ratio below 50%.

EBITDA consists of income before income taxes and other income (expenses) plus depreciation and amortization. The Company includes within total debt the long-term and short-term interest bearing loans and borrowings. Net debt is defined as total debt less cash and cash equivalents and highly liquid financial assets. Total capital is total equity attributable to equity holders of the parent plus total debt.

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

| | 2011 | 2010 (restated *) |
|---|---|---|
| Total long-term debt | 183,949 | 154,826 |
| Total short-term loans | 5,500 | 9,618 |
| **Total debt** | **189,449** | **164,444** |
| Less: Cash and cash equivalents | (22,062) | (22,163) |
| Less: Highly liquid financial assets | (8,024) | (7,743) |
| **Total net debt** | **159,363** | **134,538** |
| Income before income taxes and other income (expenses) | 61,542 | 64,788 |
| Plus: Depreciation and amortization | 25,770 | 24,060 |
| **EBITDA** | **87,312** | **88,848** |
| Total equity attributable to equity holders of the parent | 226,713 | 221,431 |
| Total debt | 189,449 | 164,444 |
| **Total capital** | **416,162** | **385,875** |
| **Net debt to EBITDA ratio** | **1.83** | **1.51** |
| **Total debt to total capital ratio** | **45.5%** | **42.6%** |

* Certain numbers shown were restated due to the final purchase price allocation of Teplárna Trmice, a.s. as of the acquisition date and do not correspond to the 2010 financial statements.

## 12. Long-term Debt

**Long-term debt at December 31, 2011 and 2010 was as follows (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| 4.625% Eurobonds, due 2011 (EUR 154 million) [1] | – | 3,850 |
| 4.125% Eurobonds, due 2013 (EUR 500 million) | 12,863 | 12,474 |
| 5.125% Eurobonds, due 2012 (EUR 500 million) | 12,891 | 12,510 |
| 6.000% Eurobonds, due 2014 (EUR 600 million) | 15,419 | 14,954 |
| 3.005% Eurobonds, due 2038 (JPY 12,000 million) | 3,087 | 2,764 |
| 5.825% Zero Coupon Eurobonds, due 2038 (EUR 6 million) | 33 | 30 |
| 4.270% Zero Coupon Eurobonds, due 2011 (CZK 1,400 million) | – | 1,379 |
| 4.450% Zero Coupon Eurobonds, due 2011 (CZK 1,600 million) | – | 1,573 |
| 5.750% Eurobonds, due 2015 (EUR 600 million) | 15,436 | 14,980 |
| 2.845% Eurobonds, due 2039 (JPY 8,000 million) | 2,060 | 1,844 |
| 5.000% Eurobonds, due 2021 (EUR 750 million) [2] | 19,292 | 18,733 |
| 6M Euribor + 1.25% Eurobonds, due 2019 (EUR 50 million) | 1,285 | 1,248 |
| 3M Euribor + 0.45% Eurobonds, due 2011 (EUR 110 million) | – | 2,756 |
| 3M Libor + 0.70% Eurobonds, due 2012 (USD 100 million) | 1,992 | 1,871 |
| 3M Euribor + 0.50% Eurobonds, due 2011 (EUR 100 million) | – | 2,505 |
| 6M Pribor + 0.62% Eurobonds, due 2012 (CZK 3,000 million) | 2,999 | 2,998 |
| 4.875% Eurobonds, due 2025 (EUR 750 million) | 19,239 | 18,679 |
| 4.500% Eurobonds, due 2020 (EUR 750 million) | 19,119 | 18,544 |
| 2.160% Eurobonds, due in 2023 (JPY 11,500 million) | 2,962 | – |
| 4.600% Eurobonds, due in 2023 (CZK 1,250 million) | 1,247 | – |
| 3.625% Eurobonds, due 2016 (EUR 500 million) | 12,798 | – |
| 2.150%*IRp Eurobonds, due 2021 (EUR 100 million) | 2,580 | – |
| 4.105% Eurobonds, due 2021 (EUR 50 million) | 1,284 | – |
| 4.500% Registered bonds, due 2030 (EUR 40 million) | 1,006 | 976 |
| 4.750% Registered bonds, due 2023 (EUR 40 million) | 1,016 | – |
| 9.220% Debentures, due 2014 (CZK 2,500 million) [3] | 2,499 | 2,498 |
| Total long term bonds and debentures | 151,107 | 137,166 |
| Less: Current portion | (17,882) | (12,063) |
| Long-term bonds and debentures, net of current portion | 133,225 | 125,103 |
| Long-term bank loans | | |
| less than 2.00% p. a. | 470 | 3,964 |
| 2.00% to 2.99% p. a. | 12,384 | 6,265 |
| Total long term loans | 12,854 | 10,229 |
| Less: Current portion | (786) | (235) |
| Long-term loans, net of current portion | 12,068 | 9,994 |
| Total long term debt | 163,961 | 147,395 |
| Less: Current portion | (18,668) | (12,298) |
| Total long-term debt, net of current portion | 145,293 | 135,097 |

[1] These Eurobonds have been issued through the subsidiary, CEZ FINANCE B.V. The Company was granted a loan by CEZ FINANCE B.V., corresponding to the nominal value of the bonds. In December 2010, the original nominal value of the issue (EUR 400 million) was reduced by bought back own bonds at a nominal value of EUR 246 million.
[2] In February 2010, the original nominal value of the issue (EUR 600 million) was increased by EUR 150 million.
[3] Since 2006 the interest rate has changed to consumer price index in the Czech Republic plus 4.20%. The interest rate as at December 31, 2011 and 2010 was 6.5% and 5.2%, respectively.

The interest rates indicated above are historical rates for fixed rate debt and current market rates for floating rate debt. The actual interest payments are affected by interest rate risk hedging carried out by the Company. For the fair values of hedging instruments see Note 13.

All long-term debt is recognized in original currencies while the related hedging derivatives are recognized using the method described in Note 2.17.

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

| | 2011 | 2010 |
|---|---|---|
| Current portion | 18,668 | 12,298 |
| Between 1 and 2 years | 14,525 | 18,149 |
| Between 2 and 3 years | 19,496 | 13,948 |
| Between 3 and 4 years | 17,014 | 18,690 |
| Between 4 and 5 years | 14,376 | 16,219 |
| Thereafter | 79,882 | 68,091 |
| Total long-term debt | 163,961 | 147,395 |

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

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Foreign currency | CZK | Foreign currency | CZK |
| EUR | 5,684 | 146,645 | 5,258 | 131,762 |
| USD | 100 | 1,992 | 100 | 1,871 |
| JPY | 31,487 | 8,109 | 19,986 | 4,609 |
| CZK | – | 7,215 | – | 9,153 |
| Total long-term debt | | 163,961 | | 147,395 |

Long-term debt with floating interest rates exposes the Company to interest rate risk. The following table summarizes long-term debt with floating rates of interest by contractual repricing dates at December 31, 2011 and 2010 without considering interest rate hedging (in CZK millions):

| | 2011 | 2010 |
|---|---|---|
| Floating rate long-term debt | | |
| with interest rate fixed from 1 to 3 months | 471 | 7,838 |
| with interest rate fixed from 3 months to 1 year | 21,159 | 16,266 |
| Total floating rate long-term debt | 21,630 | 24,104 |
| Fixed rate long-term debt | 142,331 | 123,291 |
| Total long-term debt | 163,961 | 147,395 |

Fixed rate long-term debt exposes the Company to the risk of changes in fair values of these financial instruments. For related fair value information and risk management policies of all financial instruments see Note 13 and Note 14.

The Company has entered into loan agreements, which contain restrictive financial covenants relating to indebtedness and liquidity. In 2011 and 2010 the Company has complied with all required covenants.

## 13. Fair Value of Financial Instruments

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

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

Cash and cash equivalents
The carrying amounts of cash and other current financial assets approximate fair value due to the relatively short-term maturity of these financial instruments.

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

Investments
The fair values of instruments, which are publicly traded on active markets, are estimated based on quoted market prices. For equity instruments for which there are no quoted market prices the Company considered use of valuation models and concluded that the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore unquoted equity instruments are carried at cost, the carrying amount approximates the fair value of such investments.

Receivables and payables
The carrying amounts of receivables and payables approximate fair value due to the short-term maturity of these financial instruments.

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

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

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

**Carrying amounts and the estimated fair values of financial instruments at December 31, 2011 and 2010 are as follows (in CZK millions)**

| | | 2011 | | 2010 | |
|---|---|---|---|---|---|
| | Category | Carrying amount | Fair value | Carrying amount | Fair value |
| ASSETS | | | | | |
| Investments | | | | | |
| Equity securities and interests, net | SaA | 144,360 | 144,360 | 139,063 | 139,063 |
| Restricted debt securities available-for-sale | AFS | 8,237 | 8,237 | 7,091 | 7,091 |
| Restricted debt securities held-to-maturity | HTM | – | – | 17 | 17 |
| Restricted cash | LaR | 909 | 909 | 1,355 | 1,355 |
| Other long-term financial assets, net | LaR | 35,892 | 35,892 | 32,794 | 32,794 |
| Current assets | | | | | |
| Receivables | LaR | 46,281 | 46,281 | 48,205 | 48,205 |
| Cash and cash equivalents | LaR | 15,930 | 15,930 | 16,142 | 16,142 |
| Short-term debt securities held-to-maturity | HTM | 3,166 | 3,166 | 401 | 401 |
| Short-term equity securities available-for-sale | AFS | 4,538 | 4,538 | 3,151 | 3,151 |
| Other current assets | LaR | 341 | 341 | 269 | 269 |
| LIABILITIES | | | | | |
| Long-term debt including the current portion | AC | (163,961) | (170,079) | (147,395) | (152,863) |
| Short-term loans | AC | (3,624) | (3,624) | (6,455) | (6,455) |
| Current liabilities | AC | (57,799) | (57,799) | (53,372) | (53,372) |
| DERIVATIVES | | | | | |
| Cash flow hedges | | | | | |
| Short-term receivables | HFT | 132 | 132 | 131 | 131 |
| Long-term receivables | HFT | 1,822 | 1,822 | 554 | 554 |
| Short-term liabilities | HFT | (3,093) | (3,093) | (569) | (569) |
| Long-term liabilities | HFT | (1,541) | (1,541) | (964) | (964) |
| Total cash flow hedges | | (2,680) | (2,680) | (848) | (848) |
| Electricity, coal and gas trading contracts | | | | | |
| Short-term receivables | HFT | 17,527 | 17,527 | 10,642 | 10,642 |
| Short-term liabilities | HFT | (16,257) | (16,257) | (11,192) | (11,192) |
| Total electricity, coal and gas trading contracts | | 1,270 | 1,270 | (550) | (550) |
| Other derivatives | | | | | |
| Short-term receivables | HFT | 2,884 | 2,884 | 1,147 | 1,147 |
| Long-term receivables | HFT | 1,208 | 1,208 | 1,099 | 1,099 |
| Short-term liabilities | HFT | (2,198) | (2,198) | (589) | (589) |
| Long-term liabilities | HFT | (1,056) | (1,056) | (714) | (714) |
| Total other derivatives | | 838 | 838 | 943 | 943 |

SaA Subsidiaries and associates at cost
LaR Loans and receivables
AFS Available-for-sale investments
HTM Held-to-maturity instruments
HFT Held for trading or hedging instruments
AC Financial liabilities at amortized cost

## Fair Value Hierarchy

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

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

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

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

There were no transfers between the levels in 2011 and 2010.

At December 31, 2011, the Company held the following financial instruments measured at fair value (in CZK millions):

**Assets measured at fair value**

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Electricity, coal and gas contracts | 17,527 | 124 | 17,403 | – |
| Cash flow hedges | 1,954 | 3 | 1,951 | – |
| Other derivatives | 4,092 | 1,480 | 2,612 | – |
| Available-for-sale restricted debt securities | 8,237 | 8,237 | – | – |
| Available-for-sale short-term equity securities | 4,538 | 4,538 | – | – |

**Liabilities measured at fair value**

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Electricity, coal and gas contracts | (16,257) | (442) | (15,815) | – |
| Cash flow hedges | (4,634) | (1,339) | (3,295) | – |
| Other derivatives | (3,254) | (1,072) | (2,182) | – |

At December 31, 2010, the Company held the following financial instruments measured at fair value (in CZK millions):

**Assets measured at fair value**

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Electricity, coal and gas contracts | 10,642 | 144 | 10,498 | – |
| Cash flow hedges | 685 | 88 | 597 | – |
| Other derivatives | 2,246 | 214 | 2,032 | – |
| Available-for-sale restricted debt securities | 7,091 | 7,091 | – | – |
| Available-for-sale short-term equity securities | 3,151 | 3,151 | – | – |

**Liabilities measured at fair value**

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Electricity, coal and gas contracts | (11,192) | (35) | (11,157) | – |
| Cash flow hedges | (1,533) | (203) | (1,330) | – |
| Other derivatives | (1,303) | (87) | (1,216) | – |

## 14. Financial Risk Management

Risk management approach

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

Since 2005 a risk capital concept has been applied within the Group. The concept allows the setting of basic caps for partial risk limits and, in particular, the unified quantification of all kinds of risks. The value of aggregate annual risk limit (Profit@Risk) is approved by the Board of Directors based on the Risk Management Committee proposal for every financial year. The proposed limit value is derived from historical volatility of profit and revenues of the Group (the top-down method). The approved value in CZK is set on the basis of a 95% confidence level and expresses a maximum profit decrease, which is the Group willing to take in order to reach the planned annual profit.

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

Since 2009 the main Business Plan market risks are quantified (EBITDA@Risk based on MonteCarlo simulation in Y+1 to Y+5 horizon). The market risks are actively managed through gradual electricity sale in the following 3-year horizon, total CEZ Group $CO_2$ position management in NAP III allocation period context and the FX and IR risk hedging in medium-term horizon.

Risk management organization

The supreme authority for risk management is the Risk Management Committee (the ČEZ, a. s. CEO's committee). Except for approval of the aggregate annual budget risk limit (within the competence of the ČEZ, a. s. Board of Directors), the Risk Management Committee makes decisions on the development of an integrated system of risk management, makes decisions on an overall allocation of risk capital to the individual risks and organizational units, approves obligatory rules, responsibilities and limit structure for the management of partial risks, and it continuously monitors an overall risk impact on the Group, including Group debt capacity utilization and rating requirement fulfillment.

Overview and methods of risk management

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

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

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

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

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

- Market risks: financial (currency, interest and stock price) risks, commodity prices (electricity, emission allowances, coal, gas), volume (heat supply volume, volume of electricity buy-out produced by solar power plants)
- Credit risks: financial and business counterparty risk and electricity, gas and heat end customer risk
- Operational risks: risks of nuclear and fossil power plants operation, investment risks.

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

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

**14.1. Qualitative description of ČEZ, a. s. risks associated with financial instruments**

Commodity risks

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

Market financial risks (currency and interest risks)

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

Credit risks

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

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

Liquidity risks

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

### 14.2. Quantitative description of ČEZ, a. s. risks associated with financial instruments

Commodity risks

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

- the indicator of risk associated with financial instruments is defined as the monthly parametric VaR (95% confidence) which expresses a potential change in fair value of contracts classified as derivatives under IAS 39 (the underlying commodities in the Company's derivative transactions are: electricity, EUA and CER/ERU emission allowances, gas and coal API2 and API4)
- highly probable forecasted future electricity generation sales with the delivery in the CZ power grid are included in the VAR calculation to reflect the hedging character of significant portion of the existing derivative sales of electricity with delivery in Germany
- for the calculation of volatility and correlations (between commodity prices), the SMA (Simple Moving Average) method is applied to 60 daily time series
- the source of market data is mainly EEX, PXE and ICE.

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

| | 2011 | 2010 |
|---|---|---|
| Monthly VaR (95%) – impact of changes in commodity prices | 1,330 | 743 |

Currency risks

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

- the indicator of currency risk is defined as the monthly parametric VaR (95% confidence),
- for the calculation of volatility and internal correlations of each currency, the JP Morgan method (the parametric VaR method) is applied to 90 daily historical time series
- the relevant currency position is defined as a discounted value of foreign currency cash flows from all contracted financial instruments, from expected foreign currency operational revenues and costs expected in 2012 and from highly probable forecasted foreign currency revenues or capital expenditures that are being hedged by financial instruments
- the relevant currency positions reflect all significant foreign-currency flows in the monitored basket of foreign currencies
- the source of market FX and interest rate data is mainly IS Reuters and IS Bloomberg.

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

| | 2011 | 2010 |
|---|---|---|
| Monthly currency VaR (95% confidence) | 437 | 276 |

## Interest risks

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

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

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

| | 2011 | 2010 |
|---|---|---|
| IR sensitivity * to parallel yield curve shift (+10bp) | 9 | (13) |

* Positive result denotes higher increase in interest revenues than in interest costs and vice versa.

**Credit exposure from provided guarantees at December 31 (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Guarantees provided to subsidiaries, associates and joint-ventures | 29,118 | 12,270 |
| Guarantees provided to external parties | 12 | 481 |
| Total * | 29,130 | 12,751 |

* Some of the guarantees could be called until June 2025 at the latest.

## Liquidity risk

**Contractual maturity profile of financial liabilities at December 31, 2011 (in CZK millions)**

| | Bonds and debentures | Loans | Derivatives * | Trade and other payables | Guarantees issued ** |
|---|---|---|---|---|---|
| Less than 1 year | 24,974 | 4,721 | 340,060 | 57,799 | 29,130 |
| Between 1 and 2 years | 19,207 | 1,946 | 73,918 | – | – |
| Between 2 and 3 years | 23,730 | 1,824 | 15,514 | – | – |
| Between 3 and 4 years | 20,151 | 1,785 | 755 | – | – |
| Between 4 and 5 years | 16,623 | 1,746 | 748 | – | – |
| Thereafter | 97,188 | 5,962 | 13,474 | – | – |
| Total | 201,873 | 17,984 | 444,469 | 57,799 | 29,130 |

**Contractual maturity profile of financial liabilities at December 31, 2010 (in CZK millions)**

| | Bonds and debentures | Loans | Derivatives * | Trade and other payables | Guarantees issued ** |
|---|---|---|---|---|---|
| Less than 1 year | 18,363 | 6,895 | 222,821 | 53,372 | 12,751 |
| Between 1 and 2 years | 23,436 | 975 | 44,397 | – | – |
| Between 2 and 3 years | 17,805 | 1,656 | 3,544 | – | – |
| Between 3 and 4 years | 22,264 | 1,394 | 358 | – | – |
| Between 4 and 5 years | 18,759 | 1,368 | 342 | – | – |
| Thereafter | 85,826 | 5,534 | 8,336 | – | – |
| Total | 186,453 | 17,822 | 279,798 | 53,372 | 12,751 |

* Contractual maturities for derivatives represent contractual cash out-flows of these instruments, but at the same time the Company will receive corresponding consideration. For fair values of derivatives see Note 13.
** Maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

### 14.3. Hedge accounting

The Company enters into cash flow hedges of future highly probable cash inflows from the sales denominated in EUR against the currency risk. The hedged cash flows are expected to occur in the period from 2012 to 2016. The hedging instruments as at December 31, 2011 and 2010 are the EUR denominated liabilities from the issued Eurobonds and bank loans in the total amount of EUR 5.6 billion and EUR 4.7 billion, respectively, and currency forward contracts and swaps. The fair value of these derivative hedging instruments (currency forward contracts and swaps) amounted to CZK (1,684) million and CZK 379 million at December 31, 2011 and 2010, respectively.

The Company also enters into cash flow hedges of future highly probable purchases of emission allowances which are expected to occur between 2012 and 2014. The hedging instruments as at December 31, 2011 and 2010 are the futures and forward contracts for the purchase of allowances equivalent to 14.5 million tons and 14.7 million tons of $CO_2$ emissions, respectively. The fair value of these derivative hedging instruments amounted to CZK (2,799) million and CZK (1,227) million at December 31, 2011 and 2010, respectively.

In 2011 the Company started to enter into cash flow hedges of highly probable future sales of electricity in the Czech Republic from 2012 to 2014. The hedging instruments are the derivative electricity sales in Germany. The fair value of these derivative hedging instruments amounted to CZK 1,803 million at December 31, 2011.

In 2011 and 2010 the amounts removed from equity in respect of cash flow hedges were recognized in profit or loss and included in the lines Sales of electricity, Gains and losses from electricity, coal and gas derivative trading, net, Emission rights, net and Other income (expenses), net. In 2011 and 2010 the Company recognized in profit or loss the ineffectiveness that arises from cash flow hedges in the amount of CZK (579) million and CZK 61 million, respectively. The ineffectiveness in 2011 and 2010 mainly relates to transactions for which the hedged items are no more highly probable to occur.

## 15. Accumulated Provision for Nuclear Decommissioning and Fuel Storage

The Company operates two nuclear power plants. Nuclear power plant Dukovany consists of one 440MW unit and three 510MW units which were put into service from 1985 to 1987 and have been refurbished and enhanced later. The second nuclear power plant, Temelín, has two 1,000 MW units which have started commercial operation in 2002 and 2003. Czech parliament has enacted a Nuclear Act (“Act”) which defines certain obligations for the decontamination and dismantling (“decommissioning”) of nuclear facilities and the disposal of radioactive waste and spent fuel (“disposal”). The Act requires that all nuclear parts of plant and equipment be decommissioned following the end of the plant’s operating life, currently 2027 for Dukovany and approximately 2042 for Temelín. A 2008 Dukovany and a 2009 Temelín decommissioning cost study estimate that nuclear decommissioning will cost CZK 17.3 billion and CZK 14.6 billion, respectively. The Company makes contributions to a restricted bank account in the amount of the nuclear provisions recorded under the Act. These restricted funds can be invested in government bonds and term deposits in accordance with the legislation and are shown in the balance sheet as part of Investments and other financial assets, net (see Note 4).

The Ministry of Industry and Trade established the Radioactive Waste Repository Authority (“RAWRA”) as the central organizer and operator of facilities for the final disposal of radioactive waste and spent fuel. The RAWRA centrally organizes, supervises and is responsible for all disposal facilities and for disposal of radioactive waste and spent fuel therein. The activities of the RAWRA are financed through a “nuclear account” funded by the originators of radioactive waste. Contribution to the nuclear account was stated by a government resolution at 50 CZK per MWh produced at nuclear power plants. In 2011 and 2010, respectively, the payments to the nuclear account amounted to CZK 1,414 million and CZK 1,400 million, respectively. The originator of radioactive waste directly covers all costs associated with interim storage of spent fuel and disposal of radioactive waste. Actual costs incurred are charged against the accumulated provision for interim storage of spent nuclear fuel.

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

The following is a summary of the provisions for the years ended December 31, 2011 and 2010 (in CZK millions):

| | Accumulated provisions | | | |
|---|---|---|---|---|
| | Nuclear decommissioning | Spent fuel storage | | Total |
| | | Interim | Long-term | |
| Balance at December 31, 2009 | 8,202 | 6,780 | 21,950 | 36,932 |
| Movements during 2010 | | | | |
| Discount accretion and effect of inflation | 369 | 305 | 988 | 1,662 |
| Provision charged to income statement | – | 605 | – | 605 |
| Effect of change in estimate credited to income statement | – | (797) | – | (797) |
| Effect of change in estimate added to fixed assets | – | – | 519 | 519 |
| Current cash expenditures | – | (902) | (1,400) | (2,302) |
| Balance at December 31, 2010 | 8,571 | 5,991 | 22,057 | 36,619 |
| Movements during 2011 | | | | |
| Discount accretion and effect of inflation | 386 | 270 | 992 | 1,648 |
| Provision charged to income statement | – | 688 | – | 688 |
| Effect of change in estimate charged to income statement | – | 95 | – | 95 |
| Effect of change in estimate added to fixed assets | – | – | 37 | 37 |
| Current cash expenditures | – | (614) | (1,414) | (2,028) |
| Balance at December 31, 2011 | 8,957 | 6,430 | 21,672 | 37,059 |

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

In 2011 and 2010 the Company recorded the change in estimate for interim spent fuel storage due to the change in expectations of future storage cost and the change in estimate in provision for long-term spent fuel storage due to the modification of the expected output of the nuclear power plants.

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

## 16. Other Long-term Liabilities

**Other long-term liabilities at December 31, 2011 and 2010 are as follows (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Derivatives | 2,597 | 1,678 |
| Provision for waste storage reclamation | 1,762 | 1,457 |
| Employee benefits liabilities | 915 | 1,157 |
| Total | 5,274 | 4,292 |

The following table shows the movements of the provision for waste storage reclamation for the years ended December 31, 2011 and 2010 (in CZK millions):

| | 2011 | 2010 |
|---|---|---|
| Balance at January 1 | 1,457 | 1,740 |
| Discount accretion and effect of inflation | 65 | 78 |
| Effect of change in estimate added to (deducted from) fixed assets | 416 | (270) |
| Current cash expenditures | (176) | (91) |
| Balance at December 31 | 1,762 | 1,457 |

# 17. Trade and Other Payables

**Trade and other payables at December 31, 2011 and 2010 were as follows (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Trade payables | 36,332 | 29,216 |
| Derivatives | 21,548 | 12,350 |
| Payables from Group cashpooling and similar intra-group loans | 20,383 | 23,053 |
| Other | 1,084 | 1,103 |
| Total | 79,347 | 65,722 |

# 18. Accrued Liabilities

**Accrued liabilities at December 31, 2011 and 2010 consist of the following (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Provisions | 4,844 | 2,606 |
| Deferred variation margin on “own use” electricity futures | – | 602 |
| Accrued interest | 3,256 | 2,780 |
| Unbilled goods and services | 4,642 | 2,448 |
| Taxes and fees, except income tax | 223 | 201 |
| Other | 32 | 20 |
| Total | 12,997 | 8,657 |

The Company is by law liable for damages caused by pollution and establishes a provision for environmental claims, which is based on the current estimates of its future liabilities. At December 31, 2011 and 2010, the provision totaled CZK 363 million and CZK 312 million, respectively.

In 2011 and 2010, the Company recognized provision in total amount of CZK 3,198 million and CZK 2,180 million, respectively, for insufficient amount of granted allowances to cover actual emissions (see Note 8).

In 2011 and 2010, the Company established a provision for restructuring of CZK 47 million and CZK 113 million, respectively.

# 19. Revenues

**Revenues for the years ended December 31, 2011 and 2010 were as follows (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Sale of electricity | | |
| Electricity sales – domestic | | |
| ČEZ Prodej, s.r.o. | 36,746 | 41,888 |
| Prague Energy Exchange (PXE) | 4,265 | 4,158 |
| Other | 30,108 | 34,737 |
| Total electricity sales – domestic | 71,119 | 80,783 |
| Electricity sales – foreign | 16,942 | 8,423 |
| Effect of hedging (see Note 14.3) | 2,579 | 2,336 |
| Sales of ancillary and other services | 6,606 | 7,352 |
| Total sales of electricity | 97,246 | 98,894 |
| Electricity, coal and gas derivative trading | | |
| Sales domestic | 31,724 | 22,256 |
| Sales foreign | 197,061 | 136,986 |
| Purchases domestic | (19,433) | (12,763) |
| Purchases foreign | (204,577) | (141,335) |
| Changes in fair value of commodity derivatives | 1,129 | 232 |
| Total gains and losses from electricity, coal and gas derivative trading, net | 5,904 | 5,376 |
| Sales of gas, heat and other revenues | | |
| Sales of gas | 5,715 | 1,569 |
| Sales of heat | 1,789 | 1,965 |
| Other | 2,787 | 2,394 |
| Total sales of gas, heat and other revenues | 10,291 | 5,928 |
| Total revenues | 113,441 | 110,198 |

## 20. Salaries and Wages

**Salaries and wages for the years ended December 31, 2011 and 2010 were as follows (in CZK millions)**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Total | Key management personnel 1) | Total | Key management personnel 1) |
| Salaries and wages | (4,244) | (300) | (4,274) | (262) |
| Remuneration of board members, including royalties | (39) | (39) | (39) | (39) |
| Share options | (73) | (73) | (100) | (100) |
| Social and health security | (1,306) | (31) | (1,336) | (29) |
| Other personal expenses | (289) | (36) | (721) | (28) |
| Total | (5,951) | (479) | (6,470) | (458) |

1) Members of Supervisory Board and Board of Directors, Chief Executive Officer, divisional directors and selected managers of departments with group field of activity. The remuneration of former members of company bodies is included in personal expenses.

The members of Board of Directors and selected managers were entitled to use company cars for both business and private purposes in addition to the personal expenses in 2011 and 2010.

If the Company terminates a contract with a member of Board of Directors before his/her term of office expires, the Director is entitled to a severance pay that amounts to all monthly remuneration he/she would receive until the end of the originally agreed term of office. This provision does not apply if a Director resigns.

At December 31, 2011 and 2010 the aggregate number of share options granted to members of Board of Directors, Supervisory Board members and selected managers was 2,663 thousand and 2,365 thousand, respectively.

The share option plan for members of the Supervisory Board was canceled prospectively by the decision of the shareholders on General Meeting held in June 2005.

Members of the Board of Directors and selected managers are entitled to receive share options based on the conditions stipulated in the share option agreement. Pursuant to the resolution of the May 2008 General Meeting, members of the Board of Directors and selected managers are granted certain quantity of share options each year of their tenure. The exercise price for the granted options is based on the average quoted market price of the shares on the regulated exchange in the Czech Republic during one-month period preceding the grant date each year. Options granted could be exercised at the earliest 2 years and latest 3.5 years after each grant date. Option right is limited so that the profit per share option will not exceed 100% of exercise price and the beneficent has to hold at his account such number of shares exercised through options granted which is equivalent to 20% of profit made on exercise date until the end of share option plan.

In 2011 and 2010 the Company has recognized a compensation expense of CZK 73 million and CZK 100 million, respectively, related to the granted options. The Company has settled all options exercised using treasury shares. The gains or losses on the sale of treasury shares were recognized directly in equity.

The following table shows changes during 2011 and 2010 in the number of granted share options and the weighted average exercise price of these options:

| | Number of share options | | | |
|---|---|---|---|---|
| | Board of Directors 000s | Selected managers 000s | Total 000s | Weighted average exercise price (CZK per share) |
| **Share options at December 31, 2009** | **1,770** | **555** | **2,325** | **1,028.03** |
| Options granted | 275 | 255 | 530 | 865.33 |
| Options exercised 1) | (425) | (45) | (470) | 716.47 |
| Options forfeited | – | (20) | (20) | 833.32 |
| **Share options at December 31, 2010 2)** | **1,620** | **745** | **2,365** | **1,055.13** |
| Options granted | 343 | 345 | 688 | 836.56 |
| Movements | 60 | (60) | – | 833.17 |
| Options exercised 1) | (120) | (90) | (210) | 806.74 |
| Options forfeited | – | (180) | (180) | 1,152.49 |
| **Share options at December 31, 2011 2)** | **1,903** | **760** | **2,663** | **1,011.70** |

1) In 2011 and 2010 the weighted average share price at the date of the exercise for the options exercised was CZK 936.76 and CZK 905.73, respectively.
2) At December 31, 2011 and 2010 the number of exercisable options was 1,485 thousand and 1,115 thousand, respectively. The weighted average exercise price of the exercisable options was CZK 1,142.30 per share and CZK 1,156.54 at December 31, 2011 and 2010, respectively.

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

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

| | 2011 | 2010 |
|---|---|---|
| Weighted average assumptions | | |
| Dividend yield | 4.4% | 5.9% |
| Expected volatility | 34.0% | 40.2% |
| Mid-term risk-free interest rate | 1.5% | 1.6% |
| Expected life (years) | 1.4 | 1.4 |
| Share price (CZK per share) | 851.5 | 848.1 |
| Weighted average grant-date fair value of options (CZK per 1 option) | 121.1 | 123.5 |

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

At December 31, 2011 and 2010 the exercise prices of outstanding options (in thousands pieces) were in the following ranges:

| | 2011 | 2010 |
|---|---|---|
| CZK 700–900 per share | 883 | 645 |
| CZK 900–1,400 per share | 1,780 | 1,720 |
| Total | 2,663 | 2,365 |

The options granted, which were outstanding as at December 31, 2011 and 2010 had an average remaining contractual life of 1.6 years and 1.9 years, respectively.

## 21. Other Operating Expenses

**Other operating expenses for the years ended December 31, 2011 and 2010 consist of the following (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Services | (6,687) | (6,410) |
| Change in provisions and valuation allowances | 1,792 | 3,089 |
| Taxes and fees | (1,660) | (1,697) |
| Write-off of bad debts and cancelled investment | (104) | (28) |
| Travel expense | (85) | (92) |
| Gifts | (202) | (259) |
| Gain (loss) on sale of property, plant and equipment | 34 | (8) |
| Gain (loss) on sale of material | (39) | 100 |
| Fines, penalties and penalty interest, net | 35 | 131 |
| Other, net | (470) | (781) |
| Total | (7,386) | (5,955) |

Taxes and fees include the contributions to the nuclear account (see Note 15). The settlement of the provision for long-term spent fuel storage is accounted for at the amount of contributions to nuclear account. Settlement of provision for long-term spent fuel storage is included in Change in provisions and valuation allowances.

## 22. Interest Income

**Interest income for each category of financial instruments for the years ended December 31, 2011 and 2010 was as follows (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Loans and receivables | 1,791 | 1,704 |
| Held-to-maturity investments | 87 | 35 |
| Available-for-sale investments | 302 | 316 |
| Bank accounts | 428 | 452 |
| Total | 2,608 | 2,507 |

## 23. Other Income (Expenses), Net

**Other income (expenses), net, for the years ended December 31, 2011 and 2010 consist of the following (in CZK millions)**

| | 2011 | 2010 |
|---|---|---|
| Dividends received | 15,474 | 8,078 |
| Derivative gains (losses), net | 816 | 668 |
| Gains (losses) on sale of available-for-sale financial assets | 85 | (131) |
| Gift tax on emission rights | (3,296) | – |
| Impairment of financial investments (Note 4) | (2,447) | (6,071) |
| Other, net | 782 | 924 |
| Total | 11,414 | 3,468 |

## 24. Income Taxes

The Company calculated corporate income tax in accordance with the Czech tax regulations at the rate of 19% in 2011 and 2010. The Czech corporate income tax rate for 2012 and onwards shall be 19%.

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

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

| | 2011 | 2010 |
|---|---|---|
| Current income tax charge | (6,379) | (7,340) |
| Adjustments in respect of current income tax of previous periods | (87) | 351 |
| Deferred income taxes | (93) | (570) |
| Total | (6,559) | (7,559) |

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

| | 2011 | 2010 |
|---|---|---|
| Income before income taxes | 43,896 | 42,321 |
| Statutory income tax rate | 19% | 19% |
| "Expected" income tax expense | (8,340) | (8,041) |
| Tax effect of | | |
| Non-deductible provisions and allowances, net | (414) | (1,126) |
| Non-deductible expenses related to shareholdings | (16) | (35) |
| Other non-deductible items, net | (58) | (282) |
| Non-taxable revenue from dividends | 2,996 | 1,593 |
| Non-deductible share based payment expense | (14) | (19) |
| Gift tax on emission allowances | (626) | – |
| Adjustments in respect of current income tax of previous periods | (87) | 351 |
| Income tax | (6,559) | (7,559) |
| Effective tax rate | 15% | 18% |

Deferred income tax liability, net, at December 31, 2011 and 2010 was calculated as follows (in CZK millions):

| | 2011 | 2010 |
|---|---|---|
| Accumulated provision for nuclear decommissioning and spent fuel storage | 5,729 | 5,708 |
| Other provisions | 615 | 887 |
| Allowances | 90 | 41 |
| Deferred tax recognized in equity | 1,131 | – |
| Other temporary differences | 162 | 34 |
| Total deferred tax assets | 7,727 | 6,670 |
| Tax depreciation in excess of financial statement depreciation | (16,178) | (15,965) |
| Penalty receivables | (14) | (16) |
| Deferred tax recognized in equity | (81) | (778) |
| Other temporary differences | (252) | (444) |
| Total deferred tax liability | (16,525) | (17,203) |
| Total deferred tax liability, net | (8,798) | (10,533) |

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

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Before tax amount | Tax effect | Net of tax amount | Before tax amount | Tax effect | Net of tax amount |
| Change in fair value of cash flow hedges recognized in equity | (7,360) | 1,399 | (5,961) | 9,009 | (1,712) | 7,297 |
| Cash flow hedges removed from equity | (2,306) | 438 | (1,868) | (2,634) | 501 | (2,133) |
| Change in fair value of available-for-sale financial assets recognized in equity | 44 | (9) | 35 | 163 | (31) | 132 |
| Total | (9,622) | 1,828 | (7,794) | 6,538 | (1,242) | 5,296 |

## 25. Related Parties

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

**At December 31, 2011 and 2010, the receivables from related parties and payables to related parties were as follows (in CZK millions)**

| | Receivables | | Payables | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| 3 L invest a.s. | 3,125 | 3,192 | 72 | – |
| Akcez Enerji A.S. | 55 | 161 | 73 | 84 |
| Akenerji Elektrik Üretim A.S. | 1,414 | 761 | – | – |
| AREA-GROUP CL, a.s. | 1,456 | 1,653 | 95 | – |
| CEZ Bulgaria EAD | 240 | 147 | – | – |
| CEZ Distributie S.A. | – | – | 920 | 1,802 |
| CEZ Elektroproizvodstvo Bulgaria AD | 114 | 112 | – | – |
| CEZ Finance B.V. | – | – | 47 | 4,143 |
| CEZ Hungary Ltd. | 295 | 217 | 98 | 108 |
| CEZ International Finance B.V. | – | – | 434 | 543 |
| CEZ MH B.V. | 4,469 | 11,626 | 297 | 320 |
| CEZ Romania S.A. | 48 | 51 | 904 | 874 |
| CEZ Shpërndarje Sh.A | 396 | 741 | – | – |
| CEZ Slovensko, s.r.o. | 728 | 714 | 189 | 309 |
| ČEZ Bohunice a.s. | – | – | 198 | 170 |
| ČEZ Distribuce, a. s. | 6,883 | 7,092 | 1,915 | 6,499 |
| ČEZ Distribuční služby, s.r.o. | 10 | 11 | 2,941 | 2,515 |
| ČEZ Energetické produkty, s.r.o. | 2 | 24 | 345 | 234 |
| ČEZ ICT Services, a. s. | 11 | 10 | 1,243 | 656 |
| ČEZ Logistika, s.r.o. | 8 | – | 289 | 311 |
| ČEZ Měření, s.r.o. | 1 | – | 423 | 287 |
| ČEZ Obnovitelné zdroje, s.r.o. | 1,625 | 1,985 | 97 | 101 |
| ČEZ Prodej, s.r.o. | 1,540 | 2,476 | 5,720 | 4,756 |
| ČEZ Správa majetku, s.r.o. | 5 | 7 | 267 | 743 |
| ČEZ Teplárenská, a.s. | 91 | 164 | 525 | 411 |
| ČEZ Zákaznické služby, s.r.o. | 4 | 4 | 237 | 225 |
| DOMICA FPI, s.r.o. | 968 | 1,287 | 6 | – |
| eEnergy Ralsko, a.s. | 199 | 208 | – | – |
| Elektrárna Chvaletice, a.s. | 508 | 269 | 3,163 | 1,487 |
| Elektrociepłownia Chorzów ELCHO sp. z o.o. | 1,111 | 1,893 | 4 | 1 |
| Elektrownia Skawina S.A. | 81 | 66 | 105 | 106 |
| Energetické centrum, s.r.o. | 240 | 265 | 12 | 1 |
| GENTLEY, a.s. | 1,932 | 2,616 | 58 | – |
| Ovidiu Development S.R.L. | 3,438 | 459 | 1 | – |
| Severočeské doly a.s. | 1,356 | 52 | 500 | 1,588 |
| ŠKODA PRAHA a.s. | – | – | 257 | 448 |
| ŠKODA PRAHA Invest s.r.o. | 18 | 18 | 4,305 | 3,951 |
| Taidane Limited | – | – | 2,634 | 2,559 |
| Teplárna Trmice, a.s. | 1 | 12 | 739 | 474 |
| Tomis Team S.R.L. | 209 | 3,461 | 108 | 120 |
| Ústav jaderného výzkumu Řež a.s. | – | 35 | 375 | 177 |
| Other | 2,328 | 1,191 | 1,745 | 680 |
| Total | 34,909 | 42,980 | 31,341 | 36,683 |

**The following table provides the total amount of transactions (sales and purchases), which were entered into with related parties in 2011 and 2010 (in CZK millions)**

| | Sales to related parties | | Purchases from related parties | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Akcez Enerji A.S. | 112 | 49 | – | – |
| CEZ Bulgaria EAD | 285 | 193 | – | – |
| CEZ Finance B.V. | – | – | – | 118 |
| CEZ Hungary Ltd. | 1,535 | 1,337 | 198 | 14 |
| CEZ MH B.V. | 85 | 45 | – | – |
| CEZ Romania S.R.L. | 168 | 143 | – | – |
| CEZ Shpërndarje Sh.A | 550 | 538 | – | – |
| CEZ Slovensko, s.r.o. | 3,235 | 2,228 | 1,594 | 1,001 |
| CEZ Srbija d.o.o. | 863 | 212 | 762 | 625 |
| CEZ Trade Bulgaria EAD | 35 | 41 | 239 | 169 |
| CEZ Trade Polska sp. z o.o. | 150 | 1,230 | 23 | 343 |
| CEZ Trade Romania S.R.L. | 235 | 560 | 555 | 245 |
| CEZ Vanzare S.A. | 655 | 241 | – | – |
| ČEZ Distribuce, a. s. | 601 | 595 | 146 | 99 |
| ČEZ Distribuční služby, s.r.o. | 89 | 110 | – | – |
| ČEZ Energetické produkty, s.r.o. | 15 | 21 | 1,083 | 807 |
| ČEZ Energetické služby, s.r.o. | 21 | 22 | 121 | 145 |
| ČEZ ENERGO SERVIS spol. s r.o. | 12 | 10 | 435 | 418 |
| ČEZ ICT Services, a. s. | 74 | 77 | 1,868 | 1,898 |
| ČEZ Obnovitelné zdroje, s.r.o. | 10 | 11 | 227 | 268 |
| ČEZ Prodej, s.r.o. | 40,539 | 45,255 | 7,098 | 4,430 |
| ČEZ Správa majetku, s.r.o. | 50 | 57 | 648 | 694 |
| ČEZ Teplárenská, a.s. | 1,113 | 1,199 | 165 | 72 |
| Elektrárna Chvaletice, a.s. | 2,117 | 1,072 | 4,342 | 1,910 |
| Elektrociepłownia Chorzów ELCHO sp. z o.o. | 3 | 143 | 208 | 253 |
| Elektrownia Skawina S.A. | 98 | 127 | 1,508 | 1,603 |
| LOMY MOŘINA spol. s r.o. | – | – | 175 | 148 |
| OSC, a.s. | – | – | 88 | 104 |
| SD - Kolejová doprava, a.s. | 10 | 6 | 522 | 143 |
| Severočeské doly a.s. | 63 | 64 | 5,623 | 5,518 |
| ŠKODA PRAHA Invest s.r.o. | 57 | 87 | 14,970 | 19,426 |
| TEC Varna EAD | 678 | – | 1,706 | 2 |
| Teplárna Trmice, a.s. | 63 | 19 | 505 | 262 |
| Tomis Team, S.R.L. | 98 | 89 | 704 | 273 |
| Ústav jaderného výzkumu Řež a.s. | 1 | 1 | 546 | 362 |
| Other | 767 | 438 | 195 | 179 |
| Total | 54,387 | 56,220 | 46,254 | 41,529 |

In 2010 the Company made non-monetary contributions to several subsidiaries (see Note 3 for amounts of contributed assets).

The Company and some of its subsidiaries are included in the cash-pool system. Payables to subsidiaries related to cash-pooling and similar borrowings are included in Trade and other payables (see Note 17).

## 26. Segment Information

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

## 27. Earnings per Share

| | 2011 | 2010 |
|---|---|---|
| Numerator – basic and diluted (CZK millions) | | |
| Net profit | 37,337 | 34,762 |
| Denominator (thousands shares) | | |
| Basic | | |
| Weighted average shares outstanding | 534,041 | 533,811 |
| Dilutive effect of share options | 13 | 38 |
| Diluted | | |
| Adjusted weighted average shares | 534,054 | 533,849 |
| Net income per share (CZK per share) | | |
| Basic | 69.9 | 65.1 |
| Diluted | 69.9 | 65.1 |

## 28. Commitments and Contingencies

Investment Program

The Company is engaged in a continuous construction program, currently estimated as at December 31, 2011 to total CZK 136.2 billion over the next five years, as follows: CZK 39.3 billion in 2012, CZK 30.3 billion in 2013, CZK 28.3 billion in 2014, CZK 18.3 billion in 2015 and CZK 20.0 billion in 2016. These figures do not include the expected acquisitions of subsidiaries, associates and joint-ventures, which will depend on the number of future investment opportunities, for which the Company will be a successful bidder and also considering the recoverability of these investments.

The construction programs are subject to periodic reviews and actual construction may vary from the above estimates. At December 31, 2011 significant purchase commitments were outstanding in connection with the construction program.

Insurance Matters

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

The Company also maintains the insurance policies covering the assets of its fossil, hydro and nuclear power plants general third party liability insurance in connection with main operations of the Company.

## 29. Legal Disputes

In 2005 and 2006 a number of lawsuits were filed against ČEZ, a. s. relating to the realization of takeover offers and squeeze-outs of minority shareholders in the former regional electricity distribution companies, Severočeské doly a.s. and ČEZ Teplárenská, a.s. The plaintiffs challenged the share prices established by valuators nominated by courts. The information usually required by IAS 37 Provisions, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to prejudice the outcome of the litigation.

## 30. Events after the Balance Sheet Date

In January 2012 the Company accepted offers to repurchase bonds issued under the EUR 500 million issue 5.125% due in 2012 in the total nominal amount of EUR 222 million. Offers to repurchase bonds issued under the EUR 500 million issue 4.125% due in 2013 were accepted in the total nominal amount of EUR 128 million. The settlement date of the repurchase of bonds was January 20, 2012.

These financial statements have been authorized for issue on February 27, 2012.

# IDENTIFICATION OF ČEZ, A. S.



ČEZ, a. s.
Duhová 2/1444
140 53 Prague 4
Czech Republic

Registered in the Commercial Register maintained
by the Municipal Court in Prague (part B, insert 1581)

| | |
|---|---|
| Established: | 1992 |
| Legal form: | joint-stock company |
| ID Number: | 45274649 |
| Tax ID: | CZ45274649 |
| Bankers: | KB Prague 1, account no. 71504011/0100 |
| Telephone: | +420 211 041 111 |
| Fax: | +420 211 042 001 |
| Internet: | www.cez.cz |
| E-mail: | cez@cez.cz |

Closing date of the 2011 Annual Report: April 3, 2012

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## Group structure chart
## Alphabetical list of companies – Group members